



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



# Annual Report 2018

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CENTRALNA BANKA REPUBLIKE KOSOVA  
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# Annual Report 2018



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## LIST OF ABBREVIATIONS

ACH	Automated Clearing House
ARS	Accountancy Registry System
ATM	Automated Teller Machine
BEC	Broad Economic Categories
BEEP	Business Environment Enhancement Project
BIC	Business Identifier Code
BIS	Bank for International Settlements
BKT	Banka Kombëtare Tregtare
BPB	Banka për Biznes
CAR	Capital Adequacy Ratio
CBK	Central Bank of the Republic of Kosovo
CEFTA	Central European Free Trade Agreement
CPI	Consumer Price Index
CRK	Credit Registry of Kosovo
DJI	Dow Jones Industrial Average
DLE	Department of Labor and Employment
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EFSE	European Fund for Southeastern Europe
ESCB	European System of Central Banks
EU	European Union
EULEX	European Union Rule of Law Mission in Kosovo
EUROSTAT	General Directorate of European Statistics
FDI	Foreign Direct Investments
GBP	Pound sterling
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
IAIS	International Association for Insurance Supervisors
ICAAP	The Internal Capital Adequacy Assessment Process
IECS	Interbank Electronic Clearing System
IIP	International Investment Position
IMF	International Monetary Fund
IOPS	International Organization of Pension Supervisors
IPI	Imports Price Index
KAS	Kosovo Agency of Statistics
KEDS	Kosovo Energy Distribution Services J.S.C
KEK	Kosovo Energy Corporation J.S.C
KIB	Kosovo Insurance Bureau
KMB	Komercijalna Banka
KPST	Kosovo Pension Savings Trust

MF	Ministry of Finance
MFI	Microfinance Institutions
MLSW	Ministry of Labor and Social Welfare
MTA	Money Transfer Agencies
MTPL	Motor Third Party Liability Insurance
NFA	Net Foreign Assets
NLB	Nova Ljubljanska Banka
NPC	National Payment Council
NPISH	Non-profit Institutions Serving Households
NPL	Nonperforming Loans
ODC	Other Depositing Corporations
PAK	Privatization Agency of Kosovo
PCB	ProCredit Bank
POS	Point of Sale
pp	Percentage Point
PPI	Producer Price Index
PTK	Post and Telecommunication of Kosovo
RBK	Raiffeisen Bank of Kosovo J.S.C.
REER	Real Effective Exchange Rate
ROAA	Return on Average Assets
ROAE	Return on Average Equity
RTGS	Real Time Gross Settlement
RWA	Risk Weighted Assets
SDR	Special Drawing Rights
SEE	Southeastern Europe
SEPA	Single Euro Payment Area
SFR	Swiss Franc
SKPF	Slovenian-Kosovo Pension Fund
SWIFT	Society for Worldwide International Financial Telecommunication
TAK	Tax Administration of Kosovo
TEB	Türk Ekonomi Bankasi
TPL	Third Party Liability
UNMIK	United Nations Mission in Kosovo
USAID	United States Agency for International Development
VAT	Value Added Tax
VPN	Virtual Encryption and Network Technology
WB	World Bank



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## Foreword by the Chairman of the Board

In fulfilling its legal duties based on transparency and accountability, the Central Bank of the Republic of Kosovo (CBK) has drafted the Annual Report 2018. This Report consists of relevant data related to global economic developments and developments in domestic economy and financial system, including the detailed activity of the CBK in the previous year.

The CBK activity is aimed at fulfilling its objectives and duties set out in the Law on the CBK. The abovementioned objectives and duties are fulfilled based on a decision-making process guided by the principles of legality, professionalism, independence and transparency.

The Board of the CBK (the Board), as the highest decision-making body, exercised its competencies in compliance with the Law on the CBK and other relevant legal acts in force. The activity of the Board was oriented towards fulfilling constitutional and legal obligations of the CBK, coordinating activities along with the management and supervising the management in order to implement policies and operations of the institution. By being proactive in advancing the legal framework in the financial sector, we managed to have a stable financial sector, thus impacting at the same time the increase of financial intermediation, reduction of the financial intermediation cost, increase of competition and expansion of a range of products provided to the financial services users, and generally supporting the economic development of the country.

New developments in the EU and international financial institutions legislation had an impact on the increase of the dynamics of the activity of the CBK in general, and of the Board in particular, aimed at aligning the regulatory framework with the abovementioned developments. In this regard, the Board, during 2018, was focused on advancing the financial regulatory framework in order to create an inclusive legal infrastructure and in line with the new developments in EU legislation and best international practices.

In addition to the abovementioned activities, the Board also ensured that the CBK is an active contributor to the advancement of the international cooperation and fulfilling its duties related to the implementation of the National Plan for Implementation of the Stabilization and Association Agreement and other requirements related to the European integrations.

Based on the achievements of the CBK during 2018, I express my gratitude to the management and staff of the CBK and their commitment and professionalism promises other successes in the future.

Thank you!

Flamur MRASORI



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



## Foreword by the Governor

International economic developments during 2018 were generally positive. However, the economic growth rate in euro area, although positive, resulted in the slowdown of the growth pace compared to the previous year. On the other hand, the Western Balkans economies generally marked an accelerated pace of economic growth, and general price level indicators showed stability in the inflation rate, which continues to be moderate. Lending activity in these countries continued to increase, however, lending growth pace was slower compared to the previous year.

Also in 2018, Kosovo maintained a positive economic growth rate as a result of the increase of consumption and investments in both private and public sector. Acceleration of the increase of the Government capital investments, sustainable lending growth in banking sector, and sustainable emigrants' remittances flows were important funding sources for economic growth in the country. It should be mentioned, however, that the high trade deficit, which is a result of the high discrepancies between the export values and import values, continues to adversely impact the economic growth.

Also during 2018, Kosovo economy continued to be characterized with favorable macroeconomic stability indicators. The inflation rate continued to be moderate and maintained a level similar to that of the previous year, while the fiscal and financial health indicators show that Kosovo is in much more favorable position compared to other regional countries and beyond.

Expansion of the activity of the Kosovo financial system continued even during 2018, while the financial health indicators continue to confirm the financial sector stability. Banking sector continued with the expansion of lending to private sector and remains a crucial source of consumption and investment financing.

Loan interest rates continued with the downward trend, thus further improving the conditions for access to bank financing. Credit portfolio continued to maintain its good quality, which has been a distinctive feature of the banking sector of Kosovo, and improved further compared to the previous year.

Pension sector continued to expand the basis of collected contributions, while the return on investments was characterized with fluctuations as a result of developments in international financial markets, especially during the last quarter of 2018. Insurance sector continued to have positive financial performance, thus reflecting a steady improvement of the state of this sector, whereas the use of insurance products in our economy continued to increase.

Microfinance and non-bank financial institutions remained a reliable financing source, in particular for households and small businesses, thus playing a key role in financing the economy of the country.

The role of the CBK in providing a stable financial system aimed at economic development continued to increase as a result of ongoing CBK capacities development. The advancement of regulatory framework for the financial sector and ongoing alignment with international standards, along with the ongoing development of supervising capacities, represent crucial pillars for supporting the sustainable development of the financial system.

The CBK continued to pay special attention to the protection of the rights of financial services customers, which resulted in an increase of commitment intensity in handling the complaints and increase of the number of activities related to the financial education of the public.

Henceforth, allow me to present the CBK Annual Report 2018, which provides a detailed overview of economic and financial developments, as well as a detailed report of activities by various fields of activities within the CBK. The Report also contains the report of independent auditor and audited financial statements, which confirm the good governance that characterized the CBK even during 2018.

Fehmi MEHMETI



Governor of the Central Bank  
of the Republic of Kosovo



## Central Bank Board and Executive Board

### Central Bank Board

The process of decision-making in the CBK Board is guided by the principles of legality, professionalism, independence and transparency.

Activities of the Central Bank Board have been oriented towards fulfilment of competencies and duties set out in the Law on Central Bank of the Republic of Kosovo. To this end, the Central Bank Board has held continuous meetings, where information has been provided and discussions have been held in relation to the general progress of the financial system in Kosovo.

During 2018, the Central Bank Board held 13 meetings in total, where a total of 24 decisions have been issued.

The Central Bank Board, as one of the decision-making bodies of the CBK, reviewed and approved the issuance and supplementing of the regulations in the field of financial system based on the recommendations of the Executive Board, as follows:

Regulation on licensing of insurance claims handlers;

Regulation on the Interbank Payment System;

Regulation on factoring;

Regulation on pension assets managers;

Regulation on the establishment of the supplementary individual pension by pension providers;

Regulation for the establishment of the supplementary employer pension fund;

Regulation on funding and actuarial valuation of defined benefit pensions;

Regulation on capital adequacy of banks;

Regulation on the leverage ratio;

Regulation on the internal capital adequacy assessment process;

Regulation on the external audit of non-bank financial institutions;

Regulation on internal controls and internal audit of non-bank financial institutions;

Central Bank Board also approved:

CBK Annual Report for 2017;

CBK Financial Statements for 2017 and Independent Auditor's Report;

CBK Budget for 2019;

Annual Plan of the Internal Audit for 2019;

Periodic reports and financial statements of the CBK financial position.

In order to fulfil the competences defined by law, the Central Bank Board has performed on time all the tasks related to:

Implementation of the process of nominations and appointments within the competences defined by the Law on CBK;

Reviewing of all the reports and recommendations of the Executive Board and Governor, with the purpose of safeguarding financial stability.

Also the Board has exercised other duties in compliance with the Law on Central Bank of the Republic of Kosovo and other applicable legislation.

On 31 December 2018, the Board of the Central Bank of the Republic of Kosovo was composed of the following members:

Flamur Mrasori, Chairman of the Central Bank Board;

Fehmi Mehmeti, Governor;

Behxhet Brajshori, Member;

Nuhi Ahmeti, Member.

During 2018, one position of non-executive member of the Board of the Central Bank has been vacant.

### **The Audit Committee**

The Audit Committee has been established and operates pursuant to the Article 62 of the Law No. 03/L-209 on Central Bank of the Republic of Kosovo and Statute of the Audit Committee.

The objectives of the Audit Committee are to assist the Central Bank Board in fulfilling the responsibilities in relation to the operation of the internal and external audit, internal controls, business ethics and transparent governance, as well as CBK financial report. The Audit Committee, among others, aims at ensuring that internal and external audit perform independent, objective and professional audits.

The Audit Committee is appointed by the Central Bank Board and consists of three members (two non-executive members selected among the members of the Central Bank Board and one member - external expert in the field of accounting and auditing).

On 31 December 2018, the Audit Committee was composed of the following members:

Prof. Dr. Behxhet Brajshori, Head of the Audit Committee;

Nuhi Ahmeti, Member; and

Prof. Dr. Arben Dermaku, External Member.

The Audit Committee during 2018 has held a total of 5 meetings. In the Committee meetings were addressed various issues dealing with fields that are within its scope in the context of reviewing and supervision. The Audit Committee, during 2018, has developed a number of activities, among which:

Has reviewed the audit results presented in quarterly and annual internal audit reports;

Has reviewed Annual Plan of Internal Audit for 2019, proposed for approval to the CBK Board;

Has reviewed the results of the External Audit for 2017;

Has continued to contribute to the process of implementing the recommendations provided by the independent external evaluators and assisted the Management in this regard; and

Conducted other important activities that are related to its scope.

## Executive Board

CBK Executive Board is composed of the Governor, who chairs the Executive Board and Deputy Governors. On 31 December 2018, the Executive Board was composed of Fehmi Mehmeti, Governor, Lulzim Ismajli, and Deputy Governor for Banking Operations and Sokol Havolli, Deputy Governor for Financial Supervision. Executive Board is tasked with the implementation of policies and operations of the Central Bank of the Republic of Kosovo. Competencies of the Executive Board are defined in the Law on Central Bank of the Republic of Kosovo.

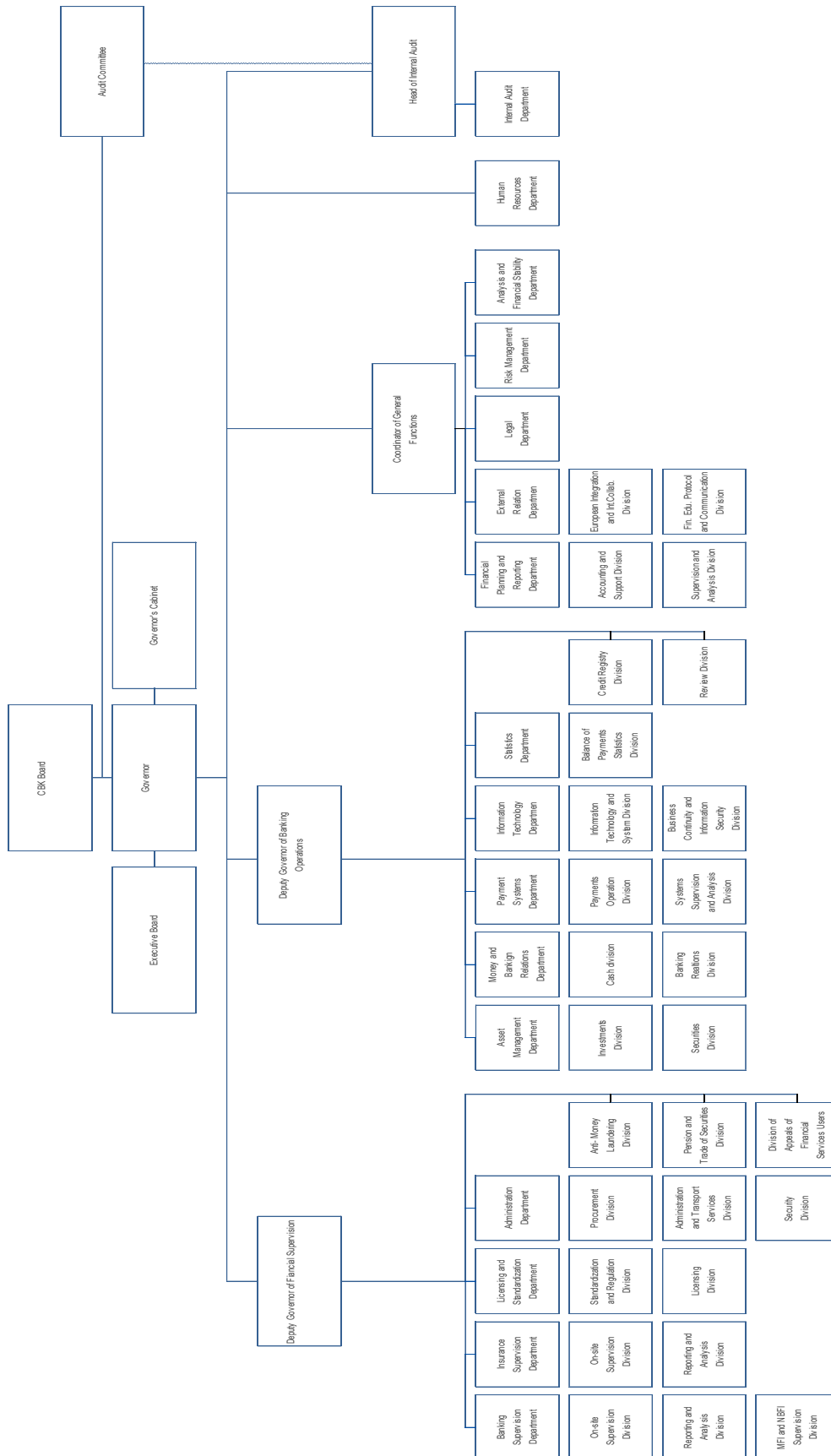
The Executive Board during 2018 held 25 meetings. Within its competences, the Executive Board during 2018 reviewed and recommended for approval to the Board of the CBK 12 regulations applicable to the country's financial system, the CBK Annual Report for 2017, the audited Financial Statements for 2017, the Quarterly Financial Statements, and the CBK Budget for 2019. In addition, during 2018 it regularly reported to the Central Bank Board on the exercise of duties and competences.

Pursuant to the applicable legislation, the Executive Board during 2018 adopted one guideline and one guiding manual applicable to the country's financial system. Within the same scope of competence, the Executive Board approved the registration of seven non-bank finance institutions and transformation of a branch of a foreign bank into a bank. In the area of financial supervision, the Executive Board has revoked the registration of two non-bank finance institutions and the licenses of four institutions in insurance sector. In the same period, in order to achieve the objectives and based on the supervisory tasks performed by the responsible organizational units, it adopted 13 administrative measures/penalties against financial institutions and related parties.

In the early 2018, the Executive Board approved the periodic reporting related to the implementation of the strategic plan of the CBK for 2017, whereas at the end of the year approved the new strategic plan for the period 2019-2021. The Executive Board also approved the issuance/amending and supplementing of 11 internal legal acts, including internal policies and rules, plans, and similar, and oversaw the reports of relevant internal bodies on the exercise of its powers. The Executive Board has also exercised other duties in accordance with the applicable legislation.



Organizational Structure of the CBK, as of 31 December 2018





## 1. Executive summary

Increased uncertainties in the external economic environment during 2018 were translated into slower economic growth in the euro area of 1.8 percent, compared to a 2.4 percent growth in 2017, while ECB projections suggest a slower economic growth even in the next three years (1.5 percent in 2021). Projections for slower growth largely rely on the potential decline in businesses and individuals' confidence in the coming periods as a result of rising uncertainties regarding future trade relations, tightening of financing conditions, and economic slowdown in China. Mainly as a result of the expansionist monetary policy, the average inflation rate in the euro area marked an increase to 1.7 percent in 2018, approaching the ECB's target of close to, but below 2 percent. The projection for the annual inflation rate for 2019 is around 1.6 percent, while prospects for an economic slowdown have led to medium-term forecasts not being very optimistic as regards achieving the level set by monetary objectives.

In Western Balkan countries, unlike the euro area, the growth of economic activity, in general, has accelerated in 2018, albeit at a different pace among the countries. The average growth rates in the countries of the region are estimated to have reached 3.4 percent in 2018, mainly driven by the increase in domestic demand. For 2019, IMF projections suggest that the economic growth rate in Western Balkan countries will be similar to 2018.

In 2018, according to quarterly estimates of the Kosovo Agency of Statistics (KAS), Kosovo's economy has marked a real growth of 3.9 percent. This growth of economic activity is mainly generated by the growth of investments and consumption. On the other hand, net exports, due to the sharp increase in imports and the export growth slowdown, negatively impacted the GDP growth. Similar to the previous year, the growth of economic activity in 2018 is estimated to have been mainly supported by the trade sector, followed by the construction sector, as well as the financial and insurance activity sector. On the other hand, a decline is estimated to have been marked in the extractive industry and the electricity, gas, water supply sector. Projections for the growth of added value in the trade sector are also supported by the turnover index of this sector, which marked an increase. On the other hand, the industrial output volume index in 2018, on average, has been characterized by a slight decline, mainly affected by the decline in the index in the extractive industry, processing industry and electricity supply. CBK projections for 2019 suggest that the real growth rate of the GDP is expected to be around 4.2 percent.

In 2018, the slowdown in the import price growth has also been reflected in the slowdown in price growth in Kosovo's economy. The average annual inflation rate, expressed through the consumer price index, was 1.1 percent (1.5 percent in 2017).

Labor market statistics in Kosovo show a high unemployment rate. However, compared to the previous year, it has been marked a slight decline. The average unemployment rate in 2018 was 29.6 percent or 0.9 percentage points lower than the previous year. On the other hand, a decrease in the rate of participation in the workforce has also been reported. In 2018, the labor force participation rate in Kosovo was 40.9 percent, which compared to 2017, indicates a decline in the labor force participation rate by 1.9 percentage points.

The fiscal sector was characterized by a higher increase in budget expenditures compared to the revenues. Budget expenditures amounted to 1.92 billion euros, representing an annual growth of 10.3 percent, while budget revenues reached a net value of 1.76 billion euros, representing an annual growth of 4.5 percent. Consequently, Kosovo's budget marked a primary budget deficit of 162.7 million euros, or 2.4 percent of the GDP, compared to the deficit of 59.0 million euros in 2017, or 0.9 percent of the GDP. Public debt in 2018 amounted to 1.1 billion euros, which is 9.7

percent higher compared to 2017. As a share of the GDP, public debt has reached 17.1 percent from 16.6 percent in 2017.

Kosovo's external sector was characterized by an increase in the current and capital account deficit to 551.7 million euros (8.2 percent of the GDP), an annual growth of 39.7 percent, mainly due to the increase in the deficit of goods and the reduction of the positive balance of services. On the other hand, the positive balance of the primary and secondary income account marked an increase. The fall in export of goods as well as the significant increase in imports has led to an increase of 11.3 percent in the goods trade deficit, amounting to 3.0 billion euros (44.6 percent of the GDP). The remittances received in Kosovo, which also represent the largest category within the secondary income account, amounted to 800.5 million euros, representing an annual growth of 5.4 percent. Within the financial account, the Foreign Direct Investment (FDI) in Kosovo marked an annual decline of 16.3 percent and amounted to 213.7 million euros.

The annual growth of Kosovo's total financial system assets of 6.9 percent in 2018 is mainly attributed to the expansion of banking sector assets, followed by the microfinance sector. Banking sector assets in 2018 marked an annual growth of 8.2 percent, amounting to 4.19 billion euros. The growth of the sector's assets during 2018 is mainly attributed to the positive dynamics that characterized the credit activity, an activity that was supported by both the improvement of the financing conditions by the banks and the increase in the demand for loans. Among other things, credit supply was positively influenced by competitive pressures, favorable liquidity position, and continuous improvement of loan portfolio quality. For the third consecutive year, the banking sector loans were characterized by double-digit annual growth of 10.9 percent in 2018 and amounted to 2.76 billion euros. In the same period, deposits in Kosovo's banking sector amounted to 3.36 billion euros and marked an annual growth of 8.7 percent (6.8 percent in 2017).

Performance and financial health indicators of the banking sector continue to reflect a high degree of stability. Profit realized during 2018 amounted to 88.0 million euros, corresponding to annual growth of 3.0 percent. The banking sector continues to have a high level and quality of capital. However, dividend distribution by some banks, as well as the constant increase in loans, contributed to the higher growth of risk-weighted assets, reflected in the declining capital adequacy ratio to 17.0 percent from 18.1 percent in the previous year, but which continues to remain well above the regulatory minimum level of 12 percent. Similarly, the credit portfolio quality of the banking sector continued to improve during 2018, where the ratio of nonperforming loans to total loans dropped to 2.7 percent. Moreover, the level of coverage of non-performing loans with provisions in this period amounted to 152.1 percent as a result of improving the credit portfolio quality. Even the banking sector's liquidity position remains stable, where the ratio of liquid assets to short-term liabilities stood at 38.5 percent, well above the required regulatory minimum of 25 percent.

The pension sector in 2018 was characterized by a slowdown in asset growth to 2.2 percent, down from 16.0 percent in the previous year, the total value of which reached 1.69 billion euros. The dynamics of the pension sector in 2018 were negatively affected by the negative financial result from investments, while a positive contribution was provided by the increase of the contributions collected from both funds.

The level of insurance sector intermediation, namely the gross written premiums in relation to the country's GDP, results to be at a low level of 1.41 percent. The assets of the insurance sector, representing 2.8 percent of total financial system assets, amounted to euro 175.7 million in 2018. The marginal decline recorded in insurance sector assets of 0.6 percent was mainly attributed to the withdrawal from the market of a life insurance company in 2018. During 2018, the amount of premiums written by insurers amounted to 92.1 million euros, an annual increase of 6.2 per cent, while damages paid by insurers and the Kosovo Insurance Bureau (KIB) marked a slowdown in



annual growth at 5.0 percent, amounting to 48.3 million euros in 2018. The insurance sector closed 2018 with positive financial results, albeit with a lower net profit compared to the previous year. The recorded profit in 2018 was 1.6 million euros, compared to the profit of 6.4 million euros in 2017.

In 2018, the microfinancial sector marked an increase in lending activity. Total value of MFI and NBFİ assets amounted to 250.0 million euros, marking an annual increase of 30.0 per cent. During 2018, the microfinancial sector lending activity recorded an annual increase of 27.7 per cent, with total loans amounting to 183.8 million euros. As a result of high revenue increase (mainly revenue from interest), the microfinancial sector realized a profit in the amount of 9.7 million euros, which results to be higher compared to the previous year for 31.0 per cent.

Similarly, during 2018 CBK drafted the legal and regulatory framework of the bank recovery and resolution process, which was made in three legislative levels with the support of EBRD technical assistance. CBK has finalized the regulation for the alignment of the country framework with the International Financial Reporting Standard (IFRS) 9, which is expected to enter into force from 1 January 2020.

During 2018, CBK has also prepared the draft of the new Law on MFI and NBFİ. The new Law was approved by the Government during 2018, and was then forwarded to Assembly of the Republic of Kosovo for approval, whereby it passed the first reading. The same is expected to be approved by the Assembly of the Republic of Kosovo during 2019.

In the function of a stable bank system, during 2018, the examinations of commercial banks were performed in compliance with the foreseen plan and focused examinations. In compliance with the international practices in the respective field, a special attention was given to the liquidity risk, credit risk, market risk and operational risk. In accordance with the CBK's objectives, respectively, ensuring the insurance market stability and the protection of policyholders, CBK continued its activity during 2018, by continuously carrying out on site full and focused examinations of the insurers, as well as ad hoc examinations for insurers and insurance intermediaries. In the function of protecting the financial sector sustainability, during 2018, the CBK continued the regular examinations of pension funds and other financial institutions as well.

In terms of preventing money laundering and financing of terrorism, following the approval of the law and regulation dealing with this field, during 2018, the CBK drafted the amendment and supplementation of the Regulation on Preventing Money Laundering and the Instruction on the source of funds form.

The Central Bank of the Republic of Kosovo plays a key role in the protection of financial services users in Kosovo. In this context, in the framework of the internal process for handling complaints, during 2018, CBK reviewed 927 complaints of the users of financial services (natural and legal persons), whereby 532 complaints have been filed for banks, MFI, NBFİ and pension funds, whereas 395 complaints have been filed for insurers.

Similarly to the previous years, during 2018, the CBK provided a qualitative and quantitative cash supply for the banking sector, in order to enable cash transactions to be carried out in the economy. Similarly, during 2018, the payment system was also characterized by a dynamic of developments, both in terms of regulatory aspect and operational functions, while progress has been made in the area of the supervision and analysis of payment systems. Kosovo Credit Registry (KCR) has also marked progress during 2018, with 463 new users registered, as a result of the requests submitted by member institutions, while the number of surveys on obligations and credit history of credit applicants reached 938,682 surveys.

In 2018 all assets under CBK's management were invested in financial instruments that fall into the category of safe and liquid instruments. The continuation of the European Central Bank's negative interest rate policy on deposits has resulted in high prices of debt instruments in the Euro system and dictated the distribution of investment portfolio. The main characteristic of 2018 is the placement of assets into debt instruments with longer-term fixed interest rates (up to five years), mainly as a result of the inability to invest with positive returns in shorter periods.

In the function of achieving its objectives, the CBK continued to pay special attention to the analyses in terms of the overall economic developments in the country, as well as the analysis dealing with the assessment of the financial stability and with the country's financial system activity.

Within the responsibility for compiling and publishing the monetary and financial sector statistics and the external sector statistics, during 2018, Kosovo has received technical assistance from Eurostat, whereby two projects aiming the improvement of the statistics under the CBK's responsibility were initiated: "Macroeconomic Imbalance Procedure (MIP)" and "International Trade in Services Statistics (ITSS)", with a deadline for meeting the tasks deriving from these two projects by September 2019. During 2018, the range of the new statistics has expanded, by publishing new tables for reserve assets, goods exports and imports by countries and types of goods.

During 2018, CBK continued to benefit from technical assistance provided by international financial institutions and various donors both in terms of existing projects and in terms of new initiatives. Support was provided mainly from the International Monetary Fund (IMF), US Treasury, European Union, World Bank, European Bank for Reconstruction and Development and GIZ.

## 2. External economic environment

### 2.1. Euro area and Western Balkans

According to the Eurostat's preliminary assessments, the euro area marked an increase of 1.8 per cent in 2018, which constitutes a slower growth compared to 2017, which marked a growth of 2.4 per cent. Slower growth of the economic activity in the euro area is mainly attributed to the weakening of international trade and the negative impact of certain temporary factors (bad weather conditions, decrease in the production of machines (especially in Q3), as well as to the very strong growth pace in 2017. All the main economies in the euro area were characterized by a slower annual growth, especially Germany and France whereby the slowdown was more pronounced (table 1). ECB's projections suggest a slower economic growth in the following three years (1.5 per cent in 2021), projections mainly supported by the potential decline in the reliability of businesses and individuals for the following periods, as a result of increase of uncertainties related to future trade relations, tightening of financing conditions and China's economic slowdown.

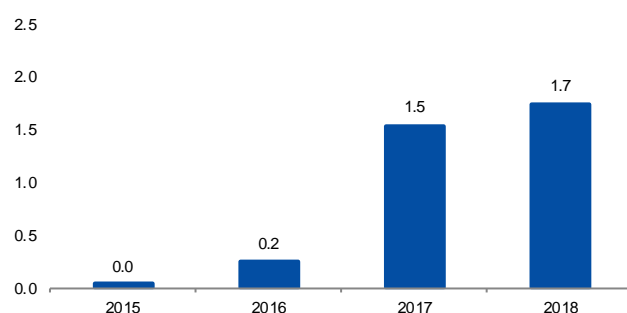
**Table 1. Real annual GDP growth**

Description	2015	2016	2017	2018
Euro area	2.1	2.0	2.4	1.8
Germany	1.5	2.2	2.5	1.5
France	1.1	1.2	2.2	1.5
Italy	0.9	1.1	1.6	0.9
Austria	1.1	2.0	2.6	2.7
Spain	3.7	3.2	3.0	2.5
Greece	-0.4	-0.2	1.5	2.1

Source: IMF, WEO (2019)

Inflation in the Euro area marked an increase in 2018, nearly meeting the ECB's objective of 2.0 per cent, but below it. The average inflation rate in 2018 reached 1.7 per cent, from 1.5 per cent in 2017 (figure 1). An important contribution to the increase of inflation rate was made by the expansionary monetary policy and unconventional measures undertaken by the ECB in the framework of quantitative easing program. In December 2018, the ECB Supervisory Board decided to end the asset purchase program, and announced that it aims to continue reinvesting in full principal payments from maturing assets (purchased in the framework of the program), for an extended time period, to the extent it will be deemed necessary to ensure favorable liquidity conditions in the market. The projection for the annual inflation rate for 2019 is about 1.6 per cent, while the prospects for an economic slowdown have led to the projections for the mid-term period not being very optimistic in terms of meeting the level set by monetary objectives.

**Figure 1. Inflation rate in euro area, in percent**



Source: Eurostat (2019)

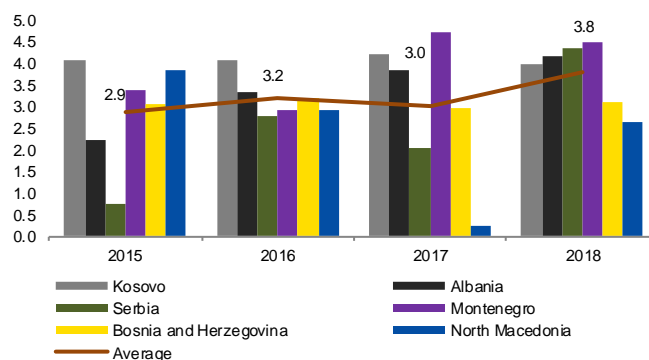
Weakening of international trade has adversely affected the euro area economies. The value of exported goods and services marked a slower growth of 3.8 percent in 2018, compared to the growth in 2017 of approximately 5.2 per cent. On the other hand, the import of goods and services is estimated to have marked an accelerated growth of about 4.0 per cent, from 3.7 per cent in 2017. As a result, in 2018 the net exports position had an adverse effect on the real GDP growth in the Euro area.

Lending activity in the Euro Area continued its gradual recovery, as a result of support by the supply and demand factors. The accommodative monetary policy has stimulated the expansion of lending activity, while the demand for loans is supported by interest rates which are at the lowest historical levels. Annual growth of lending to enterprises in the euro area marked an increase of 2.8 percent in 2018, a higher increase compared to the 1.9 per cent growth in the previous year, while lending to households recorded an annual growth of 3.0 percent, which is almost the same as the previous year. Deposits also continued to grow steadily, mainly as a result of the ECB's stimulating monetary measures and the low opportunity cost of investing in an environment with low-interest rates. Household deposits marked an annual increase of 5.2 per cent in 2018, which represents an accelerated increase compared to the previous year, when they marked an increase of 4.2 per cent. On the other hand, enterprise deposits marked an increase of 3.9 per cent, which is a lower increase compared to the increase of 8.6 per cent marked in 2017.

Compared to the euro area, the Western Balkan countries had an accelerated overall economic activity during 2018, but with a different pace between the countries (figure 2). Average economic growth rates in the countries of the region are estimated to have reached 3.8 per cent during 2018, mainly supported by increase of internal demand. The highest rates of economic growth have been recorded in Montenegro, Serbia, Albania and Kosovo, while Bosnia and Herzegovina and North Macedonia marked lower rates of economic growth. IMF projections for 2019 suggest that the economic growth rate in the Western Balkan countries will mark a slowdown compared to 2018 (3.4 per cent).

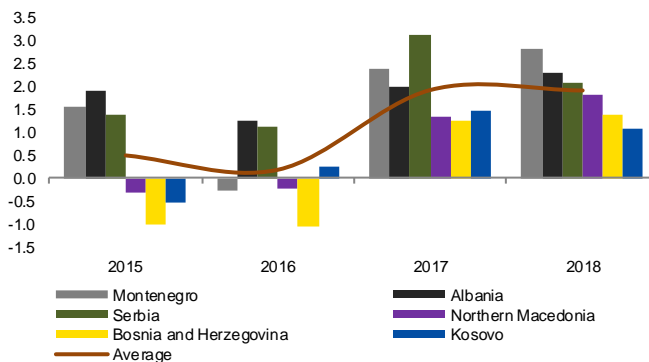
Price stability in international markets has contributed to the stabilization of inflationary pressures in the Western Balkan countries, which were characterized by an average inflation rate of 1.9 percent, which is similar to the average of 2017 (figure 3). Weaker inflationary pressures compared to the previous year were present in Kosovo (1.1 percent) and Serbia (2.1 percent), while in other countries the inflation rate was higher.

Figure 2. Annual real GDP growth rate in Western Balkans



Source: IMF, WEO (2019)

Figure 3. Annual increase of inflation in Western Balkans



Source: IMF, WEO (2019)

The current account deficit in Western Balkan countries has deteriorated in 2018, reaching an average of 7.3 percent of the GDP from 6.9 percent in 2017. The current account deficit increase was mainly attributed to the weakening of international trade but also to the downturn in foreign demand, which was translated into the lowest contribution to net exports. Export of goods and services from annual growth of 10.9 percent in 2017 was reduced to 7.1 percent in 2018. Import of goods and services is also estimated to have been characterized by an increase of 7.0 percent in 2018 (8.2 percent in 2017).

Bank lending continued to be an important contributor to the growth of the economies of the region, although a slowdown in growth was recorded in most countries. The average growth rate of lending until November 2018 was 6.0 percent (6.7 percent in the same period of 2017), where Kosovo and Montenegro recorded the highest growth rates of loans with rates of 11.1 percent and 9.9 percent respectively. Credit portfolio quality has continued to improve, but still remains high in most countries, with the exception of Kosovo, which is characterized by a very good loan quality. Countries of the region also reported deposit growth, but at a slightly lower average rate than in the previous year as a result of the slowdown in growth rates in Montenegro and Albania. Bosnia and Herzegovina and Serbia accelerated deposit growth, while the annual average growth of deposits for the region as a whole was 8.9 percent until November 2018 (9.2 percent in the same period of 2017). Kosovo has also marked accelerated growth of deposits in 2018, where the growth rate reached 8.7 percent compared to the 6.8 percent rate in 2017.

The euro currency has appreciated against the US dollar, the Swiss franc and the British pound sterling in 2018. The average exchange rate of euro against the US dollar and the Swiss franc appreciated by 4.6 respectively 3.9 per cent, while against the British pound it appreciated by 1.0 per cent. The positive trade balance and signaling from the ECB for the possible slowdown in the asset purchase program, among others, have contributed to strengthening the euro currency against these major currencies. While against the currencies of the region, such as the Albanian lek, the Serbian dinar and the Macedonian denar, the euro has depreciated by 4.9, respectively 2.6 per cent and 0.2 per cent.

### 3. Kosovo's economy

#### 3.1. Real sector

##### 3.1.1 Gross Domestic Product

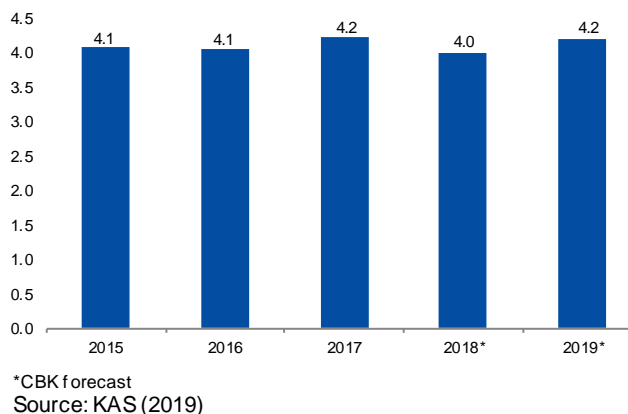
According to quarterly estimates of Kosovo Agency of Statistics (KAS) for 2018, the nominal value of GDP reached the amount of 6.5 billion euros, which in real terms represents a growth of around 3.9 per cent. Similarly, CBK projections for 2018 suggest that the economy of Kosovo was characterized by a real growth of 4.0 per cent (figure 4), a slower increase compared to the previous year, as a result of the increase in the negative contribution of net export component.

According to KAS projections, the growth

of economic activity during 2018 was mainly generated by investment growth of 14.7 percent. Capital expenditures of the Government increased by 13.4 percent (5.4 percent in 2017). A significant contribution to the growth of investments is estimated to have been the growth of banking lending, which has been characterized by double-digit growth throughout the year. Only new investment loans marked an annual growth of 20.9 percent in 2018. Also, changes in tax policy over the past years are estimated to have impacted on stimulating investments. In terms of investments, FDI's were characterized by negative dynamics, which in 2018 decreased by 16.3 percent. Consumption, as the main component of domestic demand, recorded a real growth of 3.7 percent, driven by private consumption growth of 3.8 percent and public consumption of 5.7 percent. Growth in private consumption during 2018, similar to previous years, continued to be mainly driven by increased remittances and increased banking lending. Remittances recorded a growth rate of 5.4 percent (9.9 percent in 2017). Meanwhile, new consumer loans increased by 10.4 percent (14.0 percent in 2017). In addition to private consumption, public consumption has been characterized by considerable growth, with budget spending increasing by 9.2 percent in 2018 (5.0 percent in 2017).

On the other hand, the dynamics that have characterized the external sector of the economy, especially the trade balance of goods and services, are negatively reflected in the net exports position and, consequently, in real GDP growth. Unlike in 2017 when the net export component had contributed positively to real GDP growth, in 2018 this component results to have had a negative contribution to GDP. The real growth of goods and services exports by 1.4 percent and import of goods and services by 8.1 percent resulted in deepening trade deficit (goods and services) by 22.6 percent in real terms. Similar to the previous year, the growth of economic activity in 2018 is estimated to have been mainly driven by the trade sector followed by the construction sector as well as the financial and insurance activity sector. While, a real decline is estimated to have been recorded in the extractive industry and the electricity, gas and water supply sectors, which at the same time have a lower share in the total GDP.

Figure 4. Real GDP growth rate



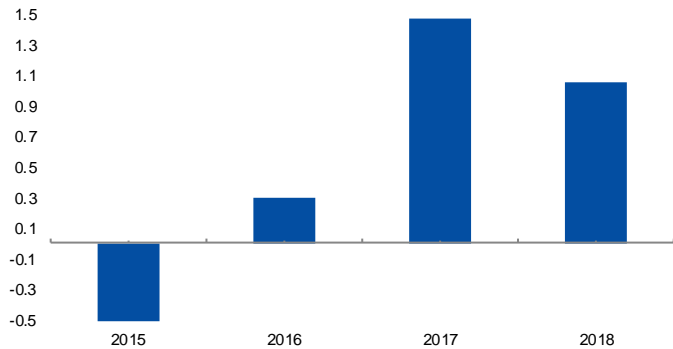
### 3.1.2 Prices

The overall level of prices in Kosovo, expressed through the consumer price index, is characterized by an average growth of 1.1 per cent in 2018 (figure 5). In terms of CPI components, an increase was marked in prices of transport (4.0 per cent), prices of alcoholic beverages and tobacco (2.4 per cent), as well as the restaurants and hotels prices (2.1 per cent). An increase of prices by 1.5 percent was also recorded for food and non-alcoholic beverages, which represent around 39.8 per cent of the Kosovo consumers' basket. On the other hand, the largest decline in prices was mainly recorded for electricity, gas and other fuels (5.5 per cent), as well as recreation and culture (1.5 per cent) (figure 6).

The movement of prices in Kosovo continues to be mainly determined by the price movements in international markets as a result of the high dependence of Kosovo's economy on imports. The import price index recorded an average increase of 2.5 per cent (figure 7).

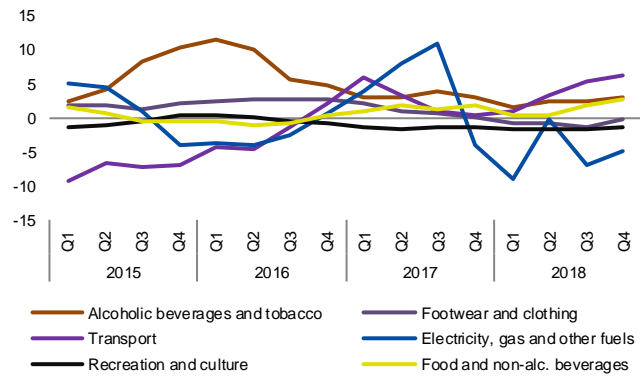
Prices of mineral products and base metals, which are the main category of the import price index, recorded the highest growth (15.1 respectively 5.6 per cent), while the prices of shoes and paper recorded the largest decline (11.5 respectively 4.5 per cent). The production price index was characterized by an increase of 1.4 per cent. Production of metal ore, production of electrical appliances, production of wood, etc. were characterized by a rise in prices. While, the extraction of metal ore, production of chemical products, production of beverages, etc. were characterized by a decrease.

Figure 5. Inflation rate, annual change in percent



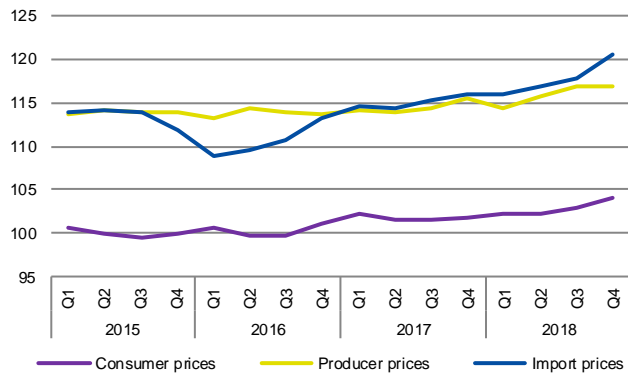
Source: KAS (2019)

Figure 6. Price movements by main components, annual change in percent



Source: KAS (2019)

Figure 7. Consumer, producer and import price indices

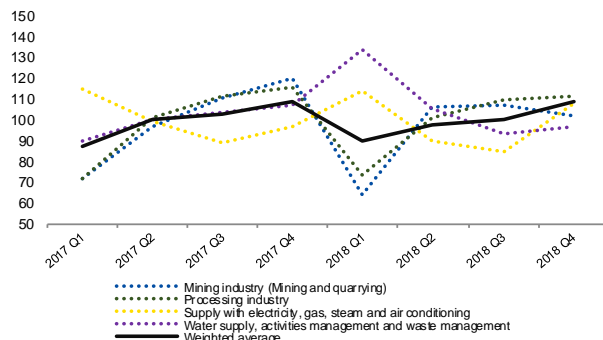


Source: KAS (2019)

### 3.1.3 Financial position of enterprises

The industrial production (volume) index, in 2018, on average was characterized by a slight decrease (-0.7 per cent), mainly affected by decline of index in extracting industry, processing industry and energy supply (figure 8).

Figure 8. Industrial production volume index(2017=100)



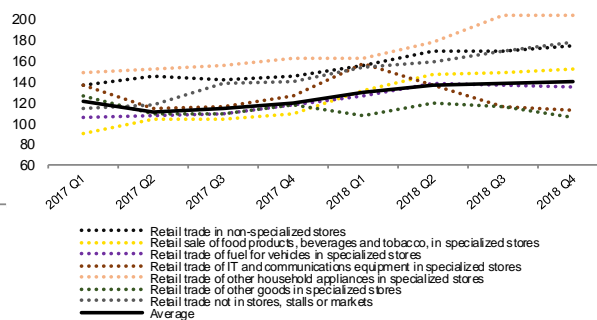
Source: KAS (2019)

The turnover index of the retail trade sector, together with the industry sector, make up the two economic sectors with the highest share in the turnover of total enterprises <sup>1</sup>, in 2018 marked an annual increase of 16.8 per cent. Almost all constituent components were characterized by an increase (figure 9).

2018 recorded the largest number of registered enterprises and the smallest number of closed enterprises. The number of newly registered companies was 9,805 or 6.3 per cent more than in the previous year, while 1,426 enterprises were closed or 12.1 per cent less than in the previous year (figure 10).

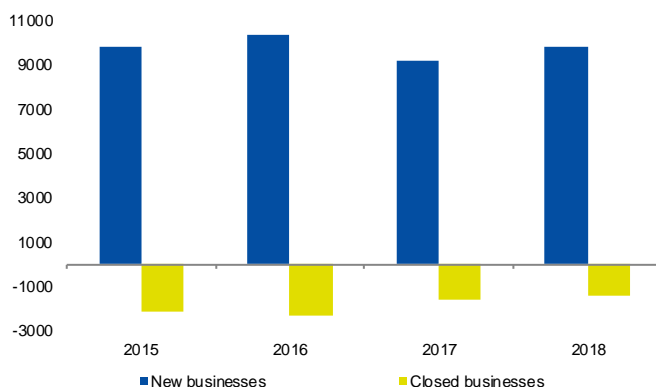
The vast number of registered enterprises continues to be concentrated in the trade sector with 25.8 per cent of total newly registered enterprises, followed by the production sector with 11.3 per cent, hotels with 10.1 per cent and construction with 9.8 per cent (figure 11). Compared to 2017, most sectors marked a larger number of registered enterprises. 219 more enterprises were registered in the production sector, 120 more enterprises

Figure 9. Retail trade turnover index (2013=100)



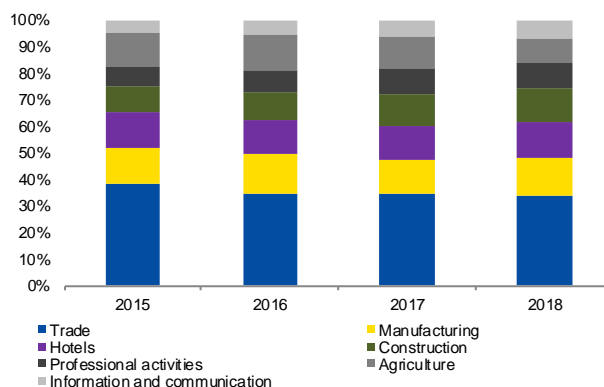
Source: KAS (2019)

Figure 10. Business registry



Source: KAS (2019)

Figure 11. Structure of new enterprises



Source: KAS (2019)

<sup>1</sup> KAS Database Data: Report 'Turnover Structure by Economic Sections for 2008-2017'.



in the construction sector, 63 more enterprises in the trade sector, etc. While, the sectors recording a lower number of registered enterprises were agriculture sector (196 less enterprises), transport (38 less enterprises), financial activities (26 less enterprises).

### 3.1.4 Labor market<sup>2</sup>

In 2018, participation rate in Kosovo's labor force was 40.9 per cent, which compared to 2017, indicates a decline in the participation rate of the labor force by 1.9 percentage points. Low participation rate in the labor force (the average rate for the region stands at around 50 per cent) is attributed to a certain degree to the relatively young population (pupils, students), as well as the category of discouraged employees, housewives, and other persons who were not actively seeking employment.

Based on the Labor Force Survey, the average employment rate<sup>3</sup> resulted to be 28.8 per cent, which represents a decline of 1.0 percentage points compared to 2017. The employment rate resulted to be higher in men versus women, whereby 45.3 per cent of working age men were employed v 12.3 per cent of women. According to the outcome of the survey, employment rate in women marked a slight decline (0.4 percentage points) compared to 2017, while the employment rate in men marked a decline for 1.3 percentage points compared to 2017.

According to age groups, the highest employment rate (39.1 per cent) is among the population aged between 35-44 years old, while the age group 15-24 years old has the lowest employment rate (10.0 per cent). By education level, the highest employment rate results among labor force with higher education, followed by secondary vocational education and high school. Employees with secondary vocational education were mainly employed in the private sector (private enterprises, individual private), while the employees with tertiary education were mainly employed in the public sector.

Similarly, based on the structure of the country's economy the employment rate results to be concentrated in the trade sector with 17.0 per cent of total employees, followed by the construction sector with 11.9 per cent, education sector with 11.3 per cent, production sector with 10.3 per cent, etc. Compared to 2017, the data indicate that the employment in the trade and education sector marked an increase, while sectors such as construction and production marked a decline.

Labor market statistics in Kosovo indicate that the average unemployment rate<sup>4</sup> in 2018 was 29.6 per cent, and compared to 2017, it results to be lower by 0.9 percentage points. In terms of gender, labor market in Kosovo continues to be characterized by a high unemployment rate in women. Unemployment rate in women was 33.4 per cent (28.5 per cent in men), whereby the highest unemployment rate (about 64.7 per cent) was among the age group of young women (15-24 years old). Education has improved employment perspectives in the Kosovo's labor market. According to KAS, the unemployment rate was highest in uneducated persons (about 57.8 per cent), while lowest for persons who have completed tertiary education (19.2 per cent).

<sup>2</sup> The "Labor Market" section is based on data from the Labor Force Survey, published by the Kosovo Agency of Statistics.

<sup>3</sup> The employment rate represents the percentage of the working age population that is employed.

<sup>4</sup> Unemployment rate is the percentage of non-employed workforce.

### 3.2. Fiscal sector

Budget revenues<sup>5</sup> in 2018 reached a net amount of 1.76 billion euros, representing an annual increase of 4.5 per cent. Budgetary expenditures<sup>6</sup> amounted to 1.92 billion euros, representing an annual increase of 10.3 per cent. Consequently, Kosovo budget marked a primary budgetary deficit of 59.0 million euros in 2017, while as a share of GDP, the primary deficit was 2.4 per cent.

Within revenues, there is a higher increase of direct tax revenues which amounted to 267.5 million euros (12.4 per cent increase), while indirect tax revenues marked an increase of 2.2 per cent and amounted to 1.3 billion euros. Non-tax revenues marked an increase of 3.8 per cent and amounted to 192.9 million euros.

Nearly all budget expenditures categories were characterized by an increase. Government expenditures for wages and salaries marked a slight increase of 7.6 per cent and amounted to 591.9 million euros. Government expenditures for goods and services (including utility expenditures) increased by 10.7 per cent and amounted to 250.2 million euros. Subsidies and transfers marked an increase of 10.2 per cent and amounted to 558.0 million euros. Capital investments, which represent about 27.6 per cent of the total budget expenditures, increased by 13.4 per cent and amounted to 530.0 million euros.

By the end of 2018 public debt amounted to 1.1 billion euros, which is 9.7 per cent higher compared to 2017. As a share of GDP, public debt has reached 17.1 per cent from 16.6 per cent in 2017. This increase in public debt is attributed to the growth of domestic debt of 17.8 per cent (which reached 676.6 million euros), while the public external debt marked a decline of 1.4 per cent amounting to 416.4 million euros. The share of public external debt in total public debt decreased to 38.1 per cent from 42.4 per cent in 2017.

In 2018, based on the Schedule published by the Ministry of Finance, the number of auctions for the issuance of the securities of the Republic of Kosovo amounted to 20, while the amount announced in auctions amounted to 425.0 million euros.

During 2018, the Government of Kosovo announced a smaller number and value of treasury bills compared to the previous year, versus the increase in the number and value of bonds. It is worth mentioning that with the consolidation of the securities market, for the first time since the commencement of the issuance in 2012, the first successful issuance of 10-year bonds was carried out in 2018. The value of issued securities in 2018 amounted to 399.8 million euros, by 1.3 per cent lower than in the previous year. According to maturity, the structure of securities of the Government of Kosovo continues to show a tendency of shifting from short-term maturity securities to long-term maturity securities. In 2018, the structure of securities recorded changes: while in the past the structure was dominated by treasury bills with a maturity of 364 days, in 2018 the main category was that of bonds with a maturity of five years.

In 2018, the demand for investing in treasury bills and government bonds was lower than in the previous year. In addition, in some auctions, the demand was found to be lower than the amount announced by the Ministry of Finance. This was reflected in the overall ratio of demand to supply of securities, which in 2018 was 1.4 times higher, compared to 1.6 in the previous year. In 2018, the average interest rate on the securities of the Government of Kosovo was 1.8 per cent, an

<sup>5</sup> Budget revenues do not include revenues from borrowing, revenues from privatization, receipts from donor grants, and receipts from deposits in trust.

<sup>6</sup> Within budget expenditures are not included debt payments, payments for membership in International Financial Institutions and returns from deposit funds.

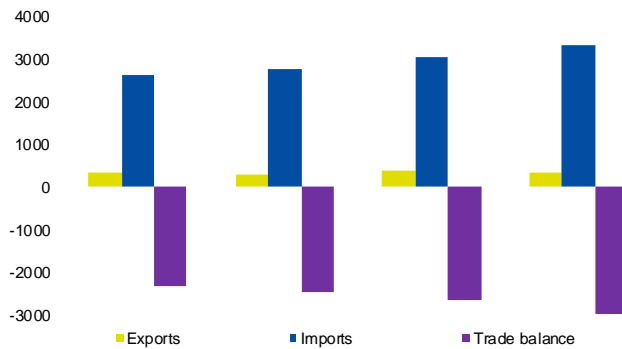
increase v the 0.8 per cent rate in 2017. The increase in average interest rates may be attributed to some extent to the increase in the frequency of the number of bonds issued, especially those 5-years or more, against the decline for issued bills.

### 3.3. External sector

In 2018, current and capital account deficit amounted to 551.7 million euros, which is 39.7 per cent higher compared to 2017. In relation to GDP, the current and capital account deficit amounted to 8.2 per cent, from 6.2 per cent in 2017. Increase in the current and capital account deficit is attributed to the increase in the deficit of goods and decline of the positive balance of services. On the other hand, the positive balance of primary and secondary income account has increased.

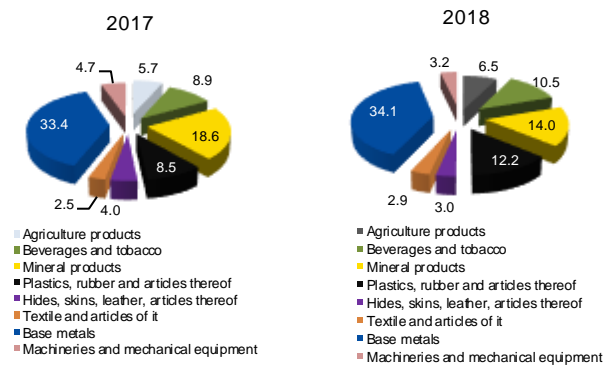
Decrease of the export of goods and the considerable increase of import affected the increase of the trade of goods by 11.3 per cent amounting to 3.0 billion euros. In relation to the GDP, the trade deficit of goods amounted to 44.6 per cent from 41.6 per cent in 2017. The value of the export of goods declined to 367.3 million euros, which corresponds to an annual decrease of 2.8 per cent (an increase of 22.1 per cent in 2017) (figure 12).<sup>7</sup> Poor performance of the export of goods may have been affected, inter alia, by the slowdown in external demand. The fall in export of goods and the increase in imports resulted in the reduction of the coverage of import with export ratio from 12.4 per cent in 2017 to 11.0 per cent in 2018. Most export categories marked a decline, while the highest decline was recorded in mineral products, followed by machinery and mechanical equipment as well as leather and leather items (figure 13). The export of base metals recorded a slight decline, which has the highest share in the country's total export structure (about 34.0 per cent). On the

Figure 12. Exports, imports and trade balance, in millions of EUR



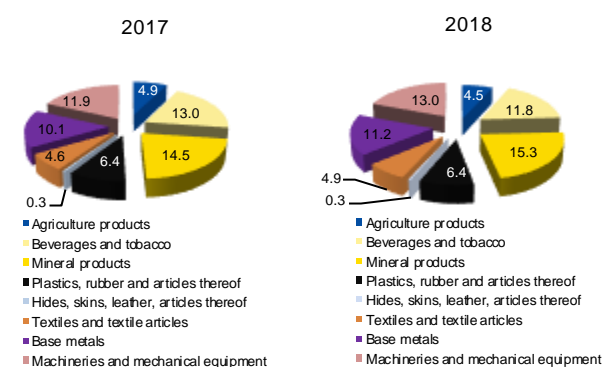
Source: KAS (2019)

Figure 13. Structure of exports by category, in percent



Source: KAS (2019)

Figure 14. Structure of imports by category, in percent



Source: KAS (2019)

<sup>7</sup> The source of data for the export and import of goods in Kosovo is the Kosovo Agency of Statistics.

other hand, the export of plastic and rubber products, prepared foodstuffs, vegetables, textiles, etc. was characterized by an increase.

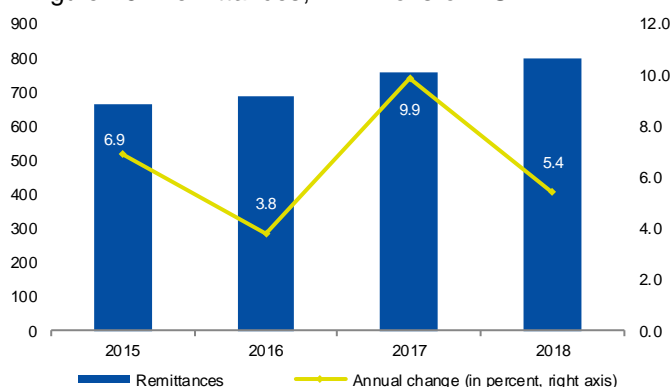
The growth of domestic demand in 2018 has impacted the increase of imports, the total value of which amounted to 3.3 billion euros and marked an annual growth of 9.6 per cent. Within the import of goods, the highest increase was recorded in imports of base metals, followed by imports of machinery and mechanical equipment, imports of textile and textile items, import of mineral products, etc. (figure 14).

The trade in services balance amounted to 770.6 million euros, a decline of 2.9 per cent compared to the previous year. The value of exports of services marked an annual increase of 5.4 per cent, amounting 1,401.9 million euros. The export of travel services, constituting about 78.0 of total exports, recorded the amount of over 1 billion euros, which is nearly the same as the previous year, while the export of computer services was characterized by an annual increase of 19.9 per cent. On the other hand, the import of services marked an increase of 17.7 per cent and amounted to 631.3 million euros. The highest increase in import of services was marked by financial services (82.8 per cent increase).

Primary income account was characterized by an increase of 26.2 per cent. Income from compensation of employees<sup>8</sup> increased by 11.2 per cent. The balance of secondary income marked an increase of 8.5 per cent, mainly attributable to a higher level of remittances. Remittances received in Kosovo, which also represent the largest category within the secondary income account, amounted to 800.5 million euros, representing an annual increase of 5.4 per cent (figure 15). Remittances in Kosovo mainly come from Germany and Switzerland, as 40.4 per cent respectively 21.7 per cent of total remittances received in Kosovo come from these two countries. A significant part of remittances also comes from USA, i.e. 6.7 per cent of total remittances.

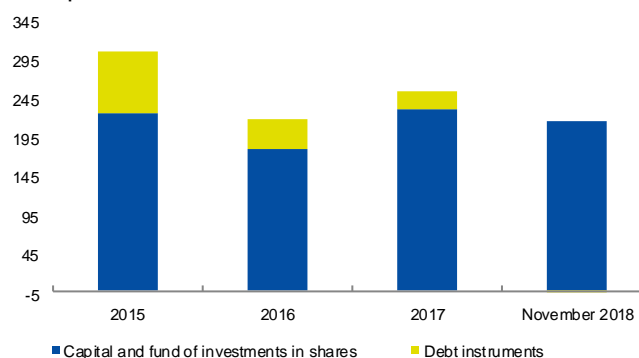
Foreign Direct Investment (FDI) in Kosovo amounted to 213.7 million euros, which represents a decline of 16.3 per cent compared to 2017. Within the FDI structure, the capital and fund of investments in shares, but also investments in debt instruments marked a decrease (figure 16). Capital and the fund of investment in shares amounted to 217.4 million euros, which is 6.6 per cent less compared to the previous year. FDIs in the form of debt instruments amounted to -3.6 million euros (22.7

Figure 15. Remittances, in millions of EUR



Source: CBK (2019)

Figure 16. Structure of foreign direct investments by components, in millions of EUR



Source: CBK (2019)

<sup>8</sup> Compensation of employees includes salaries, wages and other benefits received by resident workers abroad. In this context, it includes seasonal workers or other short-term workers (less than one year) and border workers who have centers of economic interest in their own economies.

million euros in 2017). FDI growth was mainly evidenced in the real estate sector, mining sector, electricity and trade, while financial services and constructions sector marked a decrease.

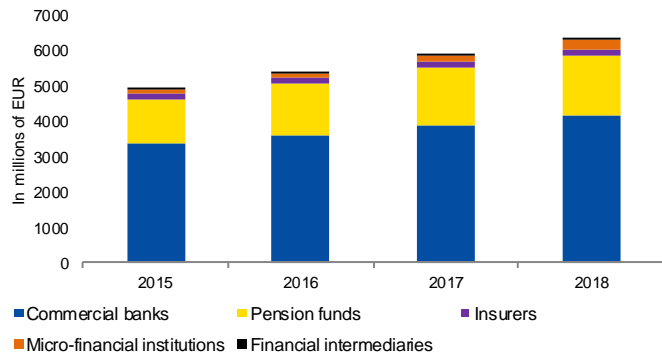
### 3.4. Financial sector

#### 3.4.1 General characteristics

The value of total assets of Kosovo's financial system amounted to 6.32 billion euros in 2018, corresponding to an annual increase of 6.9 per cent (figure 17). The banking sector continues to be the main contributor to expanding the activity of the financial system in the country, followed by the micro financial sector.

Regarding the structure of the financial system, the number of commercial banks and pension funds remained unchanged from the previous year, while the number of micro financial institutions marked an increase. Similarly, in 2018, the number of insurance companies declined to 14 due to the voluntary liquidation of an insurance company, by selling its portfolio to another company. Financial auxiliaries continue to have the highest number of financial institutions, regardless of their share of 0.3 per cent in the total financial system assets (table 2).

Figure 17. Assets value of Kosovo's financial system



Source: CBK (2019)

Table 2. Number of financial institutions

Description	2015	2016	2017	2018
Commercial banks	10	10	10	10
Insurers	15	15	15	14
Pension funds	2	2	2	2
Financial intermediaries	44	48	52	51
Microfinance and non-bank financial institutions	18	16	18	22

Source: CBK (2019)

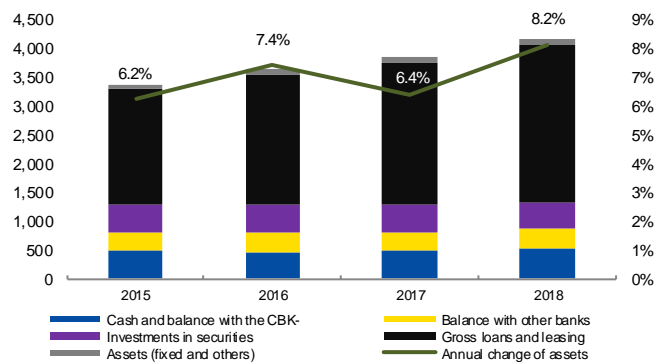
#### 3.4.2 Banking sector

##### Assets

The banking sector assets in 2018 marked an annual increase of 8.2 per cent, thus reaching a value of 4.19 billion euros (figure 18). The growth of banking sector assets during the 2018 is mainly attributed to the positive dynamics which characterized the credit activity, which was mainly supported by deposits which account for about 80.0 per cent of liabilities and recorded an annual growth of 8.7 per cent.

Loan offer was affected, inter alia by

Figure 18. Assets of commercial banks, annual changes, in millions of EUR



Source: CBK (2019)

competitive pressures, favorable liquidity position and continuous improvement of the quality of loan portfolio. Securities stock for the second consecutive year was characterized by an annual decrease (11.5 per cent in 2018). The banks' strategy of focusing on lending versus investment in securities in the last two years, in addition to higher return on investment, can be attributed to some extent to the decrease in the loan risk when considering the increase in KCGF's activity and the continuing decrease in the share of non-performing loans in total loans. Other categories within assets such as cash and balances with CBK, as well as assets held in commercial banks marked an increase of 8.5 respectively 14.9 per cent.

**Table 3. Structure of the banking sector assets**

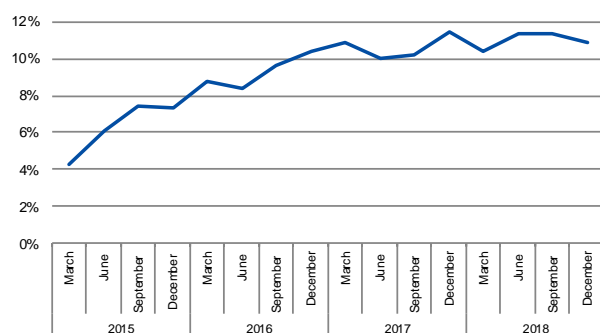
Description	2015		2016		2017		2018	
	EUR million	Share (%)	EUR million	Share (%)	EUR million	Share (%)	EUR million	EUR million
Cash and balance with the CBK	491.0	14.5%	457.3	12.6%	499.4	12.9%	541.8	12.9%
Balance with commercial banks	316.0	9.3%	342.0	9.4%	296.6	7.7%	340.8	8.1%
Securities	473.3	14.0%	510.3	14.0%	486.4	12.6%	430.2	10.3%
Gross loans	2,019.5	59.7%	2,230.0	61.3%	2,485.5	64.2%	2,755.5	65.8%
Fixed assets	57.0	1.7%	58.5	1.6%	60.1	1.6%	79.6	1.9%
Other assets	28.5	0.8%	39.0	1.1%	41.8	1.1%	37.5	0.9%
<b>Total</b>	<b>3,385.3</b>	<b>100%</b>	<b>3,637.1</b>	<b>100%</b>	<b>3,869.8</b>	<b>100%</b>	<b>4,185.5</b>	<b>100%</b>

Source: CBK (2019)

## Loans

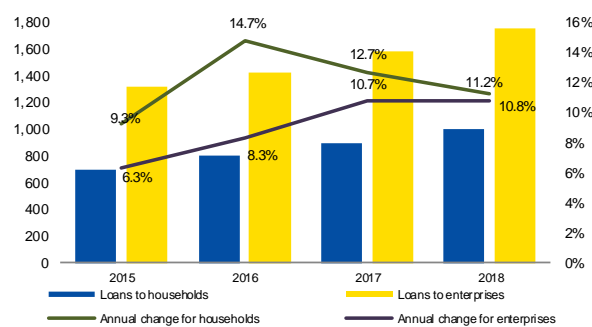
Banking sector loans for the third consecutive year were characterized by double-digit growth. In 2018, the loan portfolio expanded by 10.9 per cent (figure 19) while the total value of loans reached 2.76 billion euros. Factors contributing to the increase in lending in 2018 were the increase in demand for loans by both enterprises (most notably SMEs) and households (for consumer and mortgage loans).

Figure 19. Annual growth rate of loans



Source: CBK (2019)

Figure 20. Loans to enterprises and to households

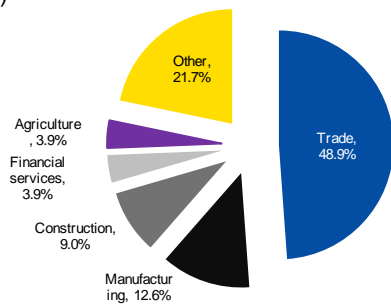


Source: CBK (2019)

Also, the improvement of loan offer from banks mainly by reducing the average interest rate on loans and the extension of the maturity of loans has resulted in an increase in the stock of total loans. Other factors influencing lending dynamics were the continuous improvement of loan portfolio quality, sufficient liquidity and bank competition that played a key role in expanding bank lending activity over the last three years.

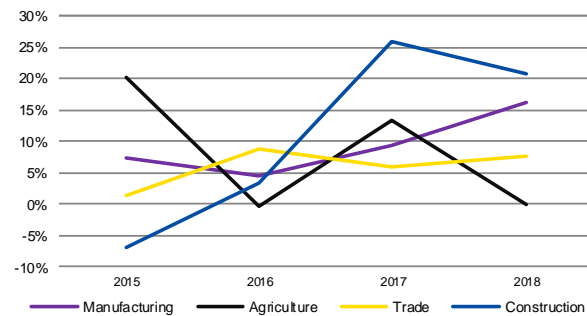
Loans to enterprises in 2018 marked an annual growth of 10.8 per cent, a double-digit growth for the second consecutive year (figure 20). In 2018, almost all sectors of the economy recorded a lending growth, with the exception of mines, which marked an annual decrease of 54.4 per cent. Sectors that recorded the most significant lending growth during 2018 were the construction, manufacturing and trade sectors (20.7 per cent, 16.3 per cent, respectively 7.6 per cent) (figure 22).

Figure 21. Loans by economic sectors, in percent (2018)



Source: CBK (2019)

Figure 22. Annual growth of loans by economic sectors



Source: CBK (2019)

While new loans to enterprises in 2018 recorded an annual increase of 4.9 per cent, excluding new loans to other sectors<sup>9</sup> that marked a decrease, all other categories of new loans were characterized by growth. Structure of loans to enterprises by economic activity continues to be dominated by the loans intended for trade sector, followed by those for production and construction (figure 21).

Among the factors that supported lending to small and medium-sized enterprises in 2018 was the Kosovo Credit Guarantee Fund, whose use has marked a steady growth trend. The cumulative number of banks' loans to SMEs, guaranteed by KCGF, amounted to 2,262 at the end of 2018 (785 at the end of 2017). The total amount of guaranteed loans in 2018 marked 87.2 million euros, an increase compared the guaranteed value of 30 million euros in the previous year. The guaranteed loans structure is a representation of the overall structure of loans of the banking sector, whereby loans to the wholesale and retail trade sector have a dominant place, followed by services and production sectors. The agriculture, forestry and fisheries sector represented 7.0 percent of total guaranteed loan portfolio. Positive prospects of increasing KCGF value and the focus on supporting specific sectors with more difficult access to finance such as the agriculture sector are expected to be reflected in further loan growth for SMEs in general and certain sectors in particular. Loans to households, which in recent years have increased their share in the total loan stock structure (about 36.0 per cent in 2018), for the fifth year in a row marked a significant growth. In 2018, loans to households recorded an annual growth of 11.2 percent, which represents a growth slowdown compared to the previous year (annual growth of 12.7 percent) (figure 22). The slowing pace of growth in loans to this category can be attributed to the slower growth of new loans during this period, which increased by 7.1 per cent in 2018 compared to the annual growth of 15.0 per cent in 2017. Both important categories of new loans to households, consumer and mortgage ones marked a growth slowdown in 2018.

**Liabilities and own sources**

The structure of banking sector liabilities is dominated by deposits, which in December 2018 accounted for 80.3 percent of total liabilities and own sources.

Own sources of the banking sector were characterized by annual growth of 5.7 per cent, mainly due to the sector's high profitability.

<sup>9</sup> Excluding new loans to the agriculture, industry and services sector.

**Table 4. Structure of the banking sector liabilities**

Description	2015		2016		2017		2018	
	EUR million	Share (%)	EUR million	Share (%)	EUR million	Share (%)	EUR million	Share (%)
Balance with other banks	43.4	1.3%	59.1	1.6%	67.2	1.7%	108.3	2.6%
Deposits	2,702.9	79.8%	2,897.8	79.7%	3,094.5	80.0%	3,362.9	80.3%
Other borrowings	17.6	0.5%	17.8	0.5%	16.0	0.4%	14.1	0.3%
Other liabilities	191.8	5.7%	203.4	5.6%	184.0	4.8%	169.1	4.0%
Subordinated debt	36.9	1.1%	38.4	1.1%	37.4	1.0%	33.5	0.8%
Own resources	392.7	11.6%	420.6	11.6%	470.8	12.2%	497.7	11.9%
<b>Total liabilities and own resources</b>	<b>3,385.3</b>	<b>100%</b>	<b>3,637.1</b>	<b>100%</b>	<b>3,869.8</b>	<b>100%</b>	<b>4,185.5</b>	<b>100%</b>

Source: CBK (2019)

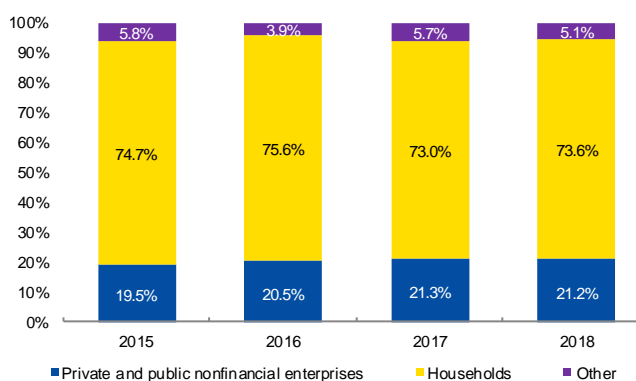
## Deposits

Deposits in Kosovo's banking sector marked an accelerated annual growth of 8.7 per cent in 2018, compared to 6.8 per cent in 2017. The growth rate of total deposits is dictated mainly by household deposits, the category dominating the total deposit structure in the banking sector, which in 2018 accelerated growth to 7.7 per cent from 2.1 per cent a year ago (figure 23).

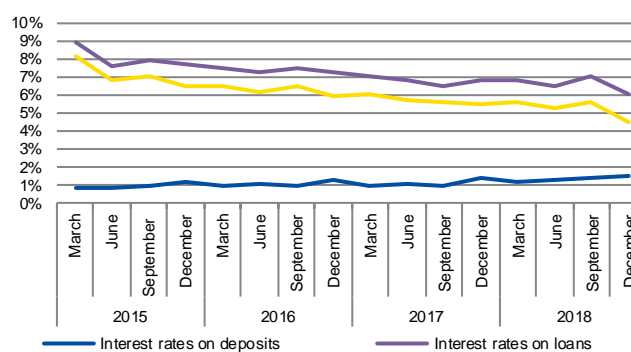
In the same period, deposits of enterprises<sup>10</sup> also marked an annual growth, namely a slower growth of 6.1 per cent from 9.8 per cent a year earlier. The accelerated growth of deposits in particular of households, among other things, can be attributed to the increase in the average deposit interest rate in 2018. It is worth mentioning that the increase in the average interest rate on deposits has affected the structure of deposits, whereby transferable deposits have halted the increase marked over the years in addition to the reduction in the share of time and saving deposits, resulting from the low-interest rate environment. In December 2018, transferable deposits reduced the share by 0.4 percentage points to 60.0 percent, while time deposits increased their share to 26.1 percent from 24.2 percent a year earlier.

## Interest rates

Difference between the average interest rate on loans and that on deposits was narrowed to 4.5 per cent compared to 5.5 per cent in the same period of the previous year. Average interest rate on loans in December 2018 decreased to 6.0 per cent, while the average interest rate on deposits reached 1.5 per cent (figure 24).

**Figure 23. Structure of deposits, in percent**

Source: CBK (2019)

**Figure 24. Average interest rate on loans and deposits**

Source: CBK (2019)

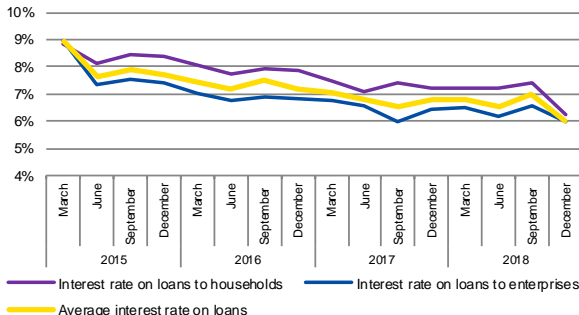
<sup>10</sup> Private and public non-financial enterprises



### Interest rates on loans

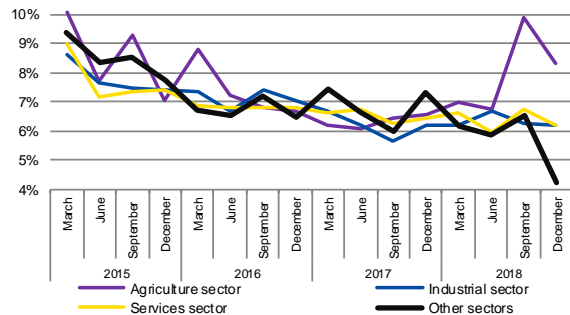
Average interest rate on loans to enterprises decreased to 6.0 percent from 6.5 percent in December 2017 (figure 25).

Figure 25. Average interest rate on loans to households and enterprises



Source: CBK (2019)

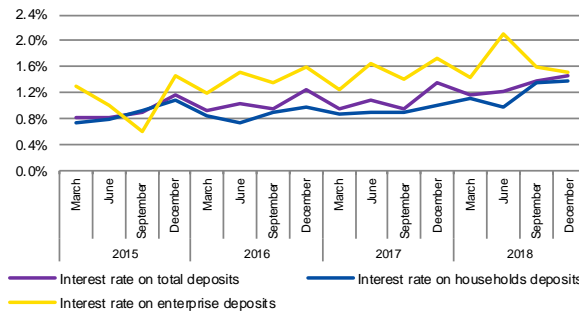
Figure 26. Average interest rate on loans, by economic sectors



Source: CBK (2019)

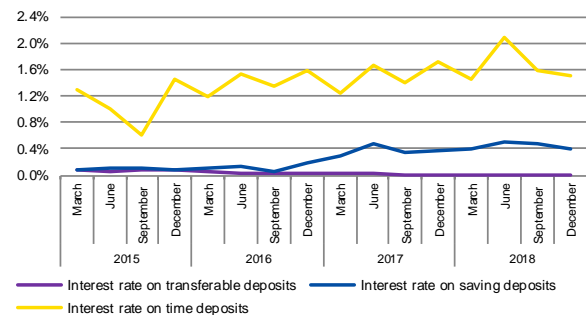
Within this category, the interest rate on investment loans declined, while interest rates on non-investment loans showed an upward trend at the end of the year.

Figure 27. Average interest rate on deposits



Source: CBK (2019)

Figure 28. Average interest rates on enterprise deposits, by category



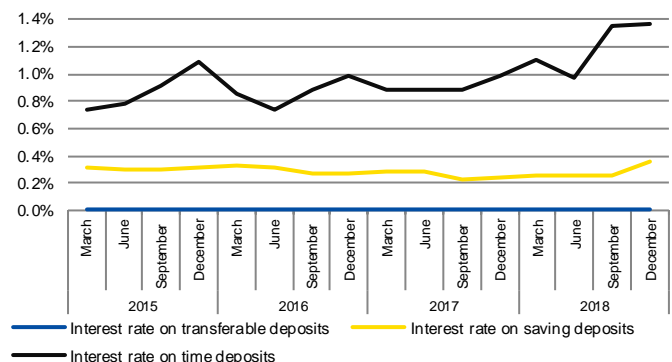
Source: CBK (2019)

According to the special sectors of the economy, loans to the agricultural sector were characterized by an increase in the interest rates, after many years of decline. While other sectors continued to be characterized by decreasing interest rates but at a slower pace compared to the previous periods, excluding the "other services" sector for which the interest rate decreased sharply at the end of the year (figure 26). Loans to households also marked a decrease in the average rate of interest to 6.3 percent from 7.3 percent in December 2017.

### Interest rates on deposits

Average interest rate on total deposits continued to increase slightly. In December 2018, interest on deposits reached 1.5 per cent, 0.13 percentage points higher than in the same period of the previous year (figure 27). The average interest rate on deposits of enterprises decreased by 0.2 percentage points to 1.5 per cent, while the average interest rate on

Figure 29. Average interest rate on household deposits, by category



Source: CBK (2019)

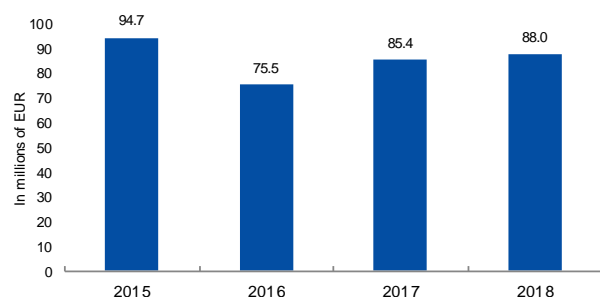
household deposits increased by 0.4 percentage points to 1.4 per cent in December 2018 (figure 27 and 28).

### Banking sector performance

During 2018, the banking sector continued to be characterized by good financial performance, maintaining a high level of profitability. The net profit amounted to euro 88.0 million, corresponding to an annual growth of 3.0 percent (figure 30). The banking sector's profit growth during this period is mainly attributed to the increase in interest income, which was characterized by growth for the first time since 2013.

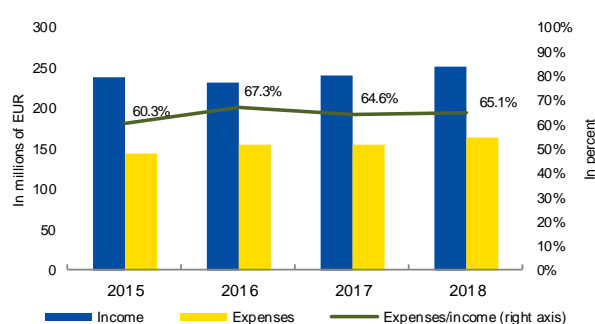
Banking sector revenues amounted to euro 252.5 million and were characterized by annual growth of 4.7 per cent (figure 31). The main categories of revenues marked an increase, but the largest contribution was the increase in interest revenues on loans, which was mainly affected by the increased volume of loans.

Figure 30. Net profit of the banking sector, in millions of EUR



Source: CBK (2019)

Figure 31. Income and expenses of the banking sector



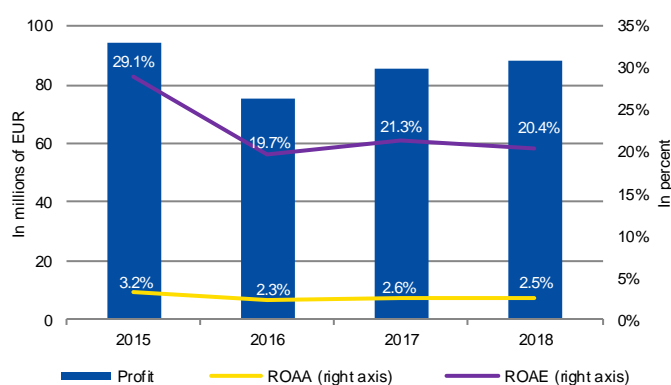
Source: CBK (2019)

Banking sector expenditures amounted to euro 164.5 million and were characterized by annual increase of 5.6 percent (figure 31). Expenditures were characterized by an increase in almost all categories, but the main contribution to the increase were the non-interest expenditures in the form of provisions for potential losses from loans, as well as the fees and commission expenses.

The higher increase in expenditures versus revenues has led to an increase in the ratio of expenditures to sector revenues compared to the same period of the previous year (figure 31).

Profitability indicators continue to be stable. Return on Average Assets (ROAA) and Return on Average Equity (ROAE) were 2.5 per cent respectively 20.4 per cent (figure 32).

Figure 32. Profitability indicators of the banking sector



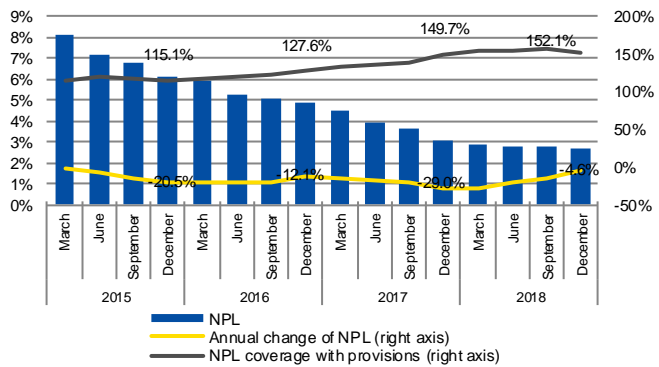
Source: CBK (2019)

### Financial health indicators

The quality of the loan portfolio of the banking sector continued to improve. The ratio of nonperforming loans to total loans decreased to 2.7 percent, down 0.4 percentage points from the previous year. The ratio of nonperforming loans to total loan stock remains the lowest at the Balkan countries level. The coverage ratio of nonperforming loans with provisions reached 152.1 percent (figure 33).

The banking sector continues to have high level and high quality of capital. However, dividend distribution by some banks, as well as continued lending growth, contributed to the higher growth of risk-weighted assets, reflected in the decline of capital adequacy ratio to 17.0 per cent from 18.1 per cent in the previous year, but which continues to remain well above the regulatory minimum level of 12.0 per cent. The liquidity position of the banking sector remains stable. The ratio of liquid assets to short-term liabilities stood at 38.5 per cent, which is above the required regulatory minimum of 25.0 per cent.

Figure 33. Indicators of credit portfolio quality and NPL growth rate



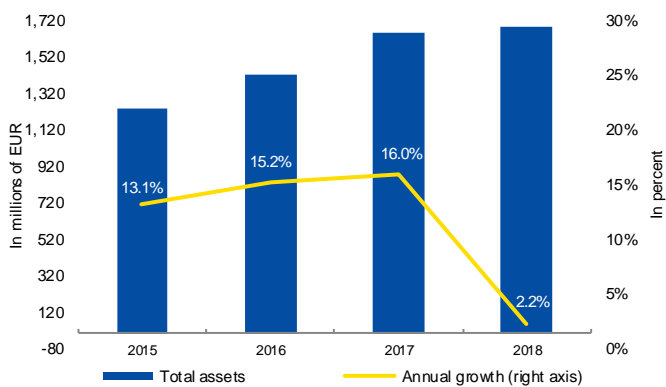
Source: CBK (2019)

The ratio of liquid assets to short-term liabilities stood at 38.5 per cent, which is above the required regulatory minimum of 25.0 per cent.

### 3.4.3 Pension sector

In 2018, pension sector was characterized by a slowdown in growth, with annual asset growth decreasing to 2.2 per cent from 16.0 per cent in the previous year. Total value of pension sector assets amounted to euro 1.69 billion (figure 34). The main contributor to the slowdown of asset growth in the reporting period was the negative financial result from investments, while a positive contribution was provided by the increased contributions collected from Kosovo Pension Savings Trust (KPST) and Slovenian-Kosovo Pension Fund (SKPF).

Figure 34. Assets of pension sector, in millions of EUR



Source: CBK (2019)

The value of the collected contributions from the pension sector reached euro 173.2 million (euro 160.3 million in 2017), representing an annual increase of 8.1 percent. Value of KPST collections amounted to euro 172.7 million, whereas that of the SKPF amounted to euro 515.3 thousand.

In 2018, the pension sector for was characterized by a decline in the value of investments of euro 84.9 million, as a result of developments in international financial markets. The unit price for KPST decreased to 1.39 from 1.46 euro in December 2017, and the unit price of the SKPF dropped to 156.6 euros from 165.5 euros in December 2017.

2018 in financial markets in the US was characterized as a year of extreme volatility. Key indexes on the one hand reached positive record financial results from investments during September and October while on the other hand, at the end of the year they marked a sharp decline.

This decline at the end of the year was influenced by the huge sale of financial instruments, by investors and securities traders, driven by insecurity as a result of trade disputes between the US and China, indications of global economic slowdown, further growth in the base rate from the Federal Reserve, the uncertainty in relation to the potential increase of inflation and the political

situation within the US as well as abroad (BREXIT's impact on Great Britain and Europe, and China's economic slowdown).

These developments and the high exposure of the pension sector with asset investments abroad contributed to the negative gross financial result from investments at the end of 2018.

KPSF which dominates the pension sector assets with a share of 99.6 percent, increased investment in securities of the Government of Kosovo which reached the value of euro 209.0 million (euro 95.0 million in December 2017), or expressed as a share of total

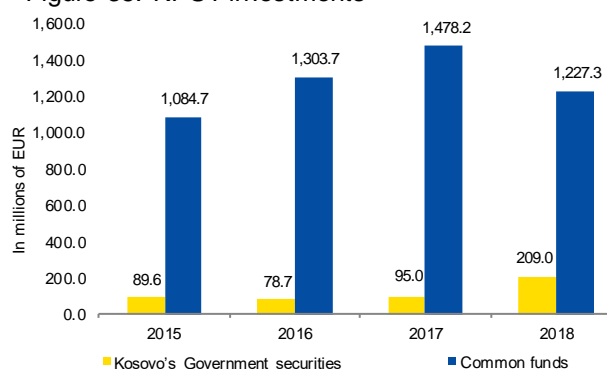
sector assets at 12.4 percent from 5.8 percent in December 2017. At the same time, the value of investments in joint investment funds abroad went down to 1.23 billion euros, representing 73.0 percent of total sector assets compared with 89.8 percent in December 2017, or in the amount of euro 1.48 billion (figure 35).

### 3.4.4 Insurance sector

Although still in the early development stage, the insurance sector has the potential for further development. Penetration rate (intermediation) of the sector, namely gross written premiums in relation to the country's GDP, is at a low rate of 1.4 per cent. While the density rate, which represents the written premiums per capita, although low in comparison to the countries of the region, has gradually increased over the years to 51.2 euros from 48.2 euros per capita in December 2017.

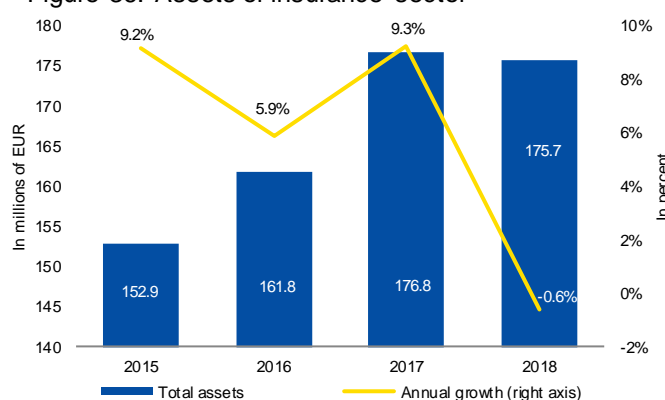
The insurance market in Kosovo is characterized by a low concentration, which is a prerequisite for the functionalization of a larger competition in the market. Herfindahl Index<sup>11</sup> calculated for the gross written premiums (GWP) for 2018 shows 870 points (2017 - 875). While the same index calculated on the basis of the insurance market assets shows lower values, respectively 808 points for 2018 from 765 in 2017. At the same time, the CR5 index<sup>12</sup> for 2018, calculated in relation to GWP for the insurance sector results in 52.8 per cent (2017 - 53.2 per cent), while calculated in relation to assets results in 49.8 per cent (2017 - 47.7 per cent). According to the sectors, the concentration is higher in the life insurance sector, as a result of the smaller number of insurers in this sector.

Figure 35. KPST investments



Source: KPST (2019)

Figure 36. Assets of insurance sector



Source: CBK (2019)

<sup>11</sup> The Herfindahl index is calculated with the following formula:  $HI = \sum_{i=1}^n (s_i)^2$ , where S is the share of company in total assets (gross written premiums) of the insurance market, n is the total number of institutions in the respective sector. If the index ranges between 1,000 to 1,800 units, the level of concentration in the insurance sector is considered acceptable.

<sup>12</sup> The CR5 index combines the market share of 5 companies with the highest asset values in relation to the total assets of the sector and the GWP to the total GWP of the sector.

The insurance sector assets, representing 2.8 per cent of total financial system assets, in December 2018 decreased to 175.7 million euro, marking a marginal annual decline of 0.6 per cent, versus the 9.3 per cent increase in the previous year (figure 36). The decrease of the insurance sector's assets was affected by the withdrawal from the market of one of the life insurance companies during 2018. While the items that marked annual growth within assets were investments in Securities of the Government of Kosovo, as well as receivables from insured persons. While deposits held in commercial banks marked a decrease, suggesting investment of funds in instruments with higher returns. However, deposits held in commercial banks remain the dominant category in the balance sheet of the insurance sector with a share of 49.6 per cent.

Non-life insurance, which at the same time has the highest share of total sector assets (90.8 per cent), recorded an annual growth of 2.7 per cent in 2018. Within the non-life insurance assets, liquid assets continued to dominate with a share in total assets of 62.6 per cent (2017 - 64.2 per cent), and the same recorded a marginal annual growth of 0.2 per cent. Liquid assets consisted mainly of deposits in commercial banks and investments in Securities of the Government of Kosovo. Meanwhile, life insurance, comprising the remainder of the assets, marked a significant annual decrease of 24.8 per cent as a result of the voluntary liquidation of one of the life insurers in 2018.

Regarding the sector's liabilities, technical and mathematical reserves account for the largest share with a total of 70.8 per cent, followed by equity with 25.0 per cent and other liabilities with 7.6 per cent. The total value of insurers' capital decreased by 6.1 per cent and dropped to 44.0 million euros, 2.8 million euros less compared to 2017.

The decline in capital is attributed to the decline in life insurers capital, which compared to the previous year marked an annual decrease of 20.7 per cent as a result of the withdrawal from the market of one of life insurers. At the level of total capital of the insurance market, nearly 78.8 per cent of the capital was comprised of non-life insurance and 21.2 per cent of life insurance. Within equity, in 2018, revaluation reserves recorded an annual growth of 30.7 per cent compared to the previous year, while accumulated losses (negative value of retained earnings) decreased by 11.9 per cent. Whereas the net profit for the period was reduced by 75.3 per cent compared to 2017.

Technical provisions, which make up the bulk of insurers' liabilities during 2018 recorded annual growth of 4.0 per cent compared to the previous year (2017). Mainly, the increase in technical provisions was positively influenced by the annual growth of 5.6 percent in provisions for premiums of the non-life insurance sector. Also, mathematical reserves marked an increase of 17.8 per cent compared to 2017.

During 2018, the value of premiums written by insurers amounted to 92.1 million euro, an annual growth of 6.2 per cent. The written premiums structure is headed by non-life insurance premiums, which represent 96.8 per cent of total written premiums. Their value during this period of 89.1 million euros is 5.8 per cent higher than in 2017. Out of the total of 12 non-life insurers this year, 8 of them recorded an increase in the level of gross written premiums, while 4 other insurers recorded a decrease in the premiums compared to 2017. Moreover, non-life insurance continues to be dominated by compulsory insurance with a share of 61.7 per cent in total gross written premiums, while voluntary insurance accounts for 38.3 per cent of total gross written premiums. Meanwhile, the value of premiums written by life insurance has amounted to 3.0 million euros, which is up 16.6 per cent.

Ratio of premiums retained to the total gross written premiums continues to be high with a share of 87.7 per cent (89.5 per cent in December 2017), while reinsurance premiums share stood at 12.3 per cent (10.5 per cent in December 2017).

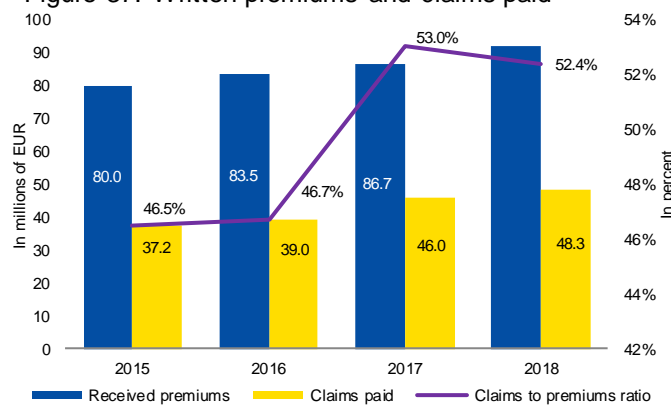
**Table 5. Non-life insurance premiums (in millions of euros)**

Activity	2017	2018	Change in %	Share 2017	Share 2018
Compulsory insurance	54.3	55.0	1.3%	64.5%	61.7%
Voluntary insurances	29.9	34.1	14.1%	35.6%	38.3%
Total non-life insurance	84.2	89.1	5.8%	100.0%	100.0%

Source: CBK (2019)

During 2018 compulsory insurance products marked a growth of 1.3 per cent, while their share in total gross written premiums decreased to 61.7 per cent from 64.4 per cent in 2017 (table 5). The decrease in compulsory insurance share was affected by "MTPL" products and "Border Insurance". Meanwhile, voluntary insurance increased by 14.1 per cent, while their share in total gross written premiums increased to 38.3 per cent from 35.5 per cent in 2017. The increase in voluntary insurance share in total gross written premiums was influenced by increased premiums for products such as "Loans and Guarantees", "Casco", "Property Insurance", "Accident and Health" and other products that recorded a slight increase (table 6).

Claims paid by the insurance sector, including insurance companies and the Kosovo Insurance Bureau (KIB) claims, marked a slowdown in annual growth of 5.0 per cent reaching 48.3 million euros in 2018, compared to the 17.9 per cent increase in 2017. Out of the total amount of claims paid, 42.8 million euros (41.2 million euros in December 2017) were claims paid by insurers, while 5.4 million euros (4.8 million euros in December 2017) were claims paid by KIB. Claims paid by reinsurers account for only 10.0 per cent of the total amount of claims paid for 2018.

**Figure 37. Written premiums and claims paid**

Source: CBK (2019)

The increase in the level of claims paid in 2018 was mainly due to the payment of claims on behalf of other voluntary insurance products. During 2018 the amount of voluntary insurance claims paid amounted to 16.0 million euro or 8.3 per cent more than in 2017. Unlike voluntary insurance, compulsory insurance claims paid, though with a larger share in total portfolio, in 2018 marked an increase of 2.6 per cent. This increase in compulsory insurance claims paid was influenced by the "internal motor liability" product.

While, the amount of life insurance claims paid decreased to euro 552 thousand from euro 777 thousand in 2017, marking an annual decrease of 28.9 per cent.

The higher growth of premiums written during this period, versus the smaller increase of the paid claims, resulted in a decrease in the ratio of total paid claims to written premiums (figure 37).

**Table 6. Gross written premiums, by business class (in millions of EUR)**

Activity	2017	2018	Change	Share 2017	Share 2018
Accident and health	17.0	18.0	6.1%	19.6%	19.6%
Border insurance	7.2	7.4	2.7%	8.3%	8.1%
Casco	3.9	4.5	16.4%	4.4%	4.9%
Loans and guarantees	2.5	3.6	43.7%	2.9%	3.9%
Property insurance	4.6	5.4	16.3%	5.3%	5.8%
Insurance on financial losses	0.8	1.0	17.8%	1.0%	1.1%
Liability insurance	1.1	1.6	42.6%	1.3%	1.7%
Navy and transport	0.0	0.1	191.2%	0.0%	0.1%
MTPL	44.9	45.3	0.9%	51.7%	49.2%
TPL+	2.2	2.3	4.8%	2.5%	2.5%
Total non-life	84.2	89.1	5.8%	97.1%	96.8%
Total life	2.5	3.0	16.6%	2.9%	3.2%
Total market	86.7	92.1	6.2%	100.0%	100.0%

Source: CBK (2019)

#### 3.4.4.1 Performance of the insurance sector

The insurance sector closed this year with a positive financial result, although with a lower net profit compared with previous year. Profit recorded in 2018 was euro 1.6 million compared to euro 6.4 million in 2017. Within this realized profit, non-life insurers operated with a profit of euro 1.0 million, whereas life insurers with euro 0.6 million. This financial result reflects the highest increase in claims incurred of 39.5 per cent against the growth of net income from premiums of 5.8 per cent and at the same time the annual decrease of sector expenditures of 3.4 per cent.

**Table 7. Financial result, in millions of euro**

Description	2017	2018	Change
Non-life insurance	6.2	1.0	-84.0%
Life insurance	0.2	0.6	194.1%
Total market	6.4	1.6	-75.3%

Source: CBK (2019)

One of the key factors in the realization of the positive financial result is the combined ratio of 97.7 per cent, which represents the claims ratio of 50.6 per cent and the expenditures ratio of 47.1 per cent, excluding the revenues from investment interests, where according to this ratio the insurance market for 1 euro earned has spent 0.98 cents.

Based on the Regulation on investment of assets covering technical and mathematical provisions and the investment of the founder capital of insurers, insurers are obliged to hold sufficient assets to cover the technical and mathematical provisions not less than the gross value of the technical respectively mathematical provisions. The coverage of technical provisions with liquid assets ratio in 2018 for non-life insurance stood at 100.6 per cent (120.6 per cent in 2017). Meanwhile, the coverage ratio of technical provisions with liquid assets in 2018 for life insurance was 137.4 per cent.

The annual decline in cash and cash equivalents of 3.1 per cent, along with 4.0 per cent increase in technical reserves of the insurance sector contributed to the decrease of the liquidity level. The cash and cash equivalents to reserves ratio decreased to 97.2 per cent in 2018 from 104.3 per cent

in 2017, also cash and cash equivalents to total liabilities ratio decreased to 87.3 per cent (91.3 per cent in 2017).

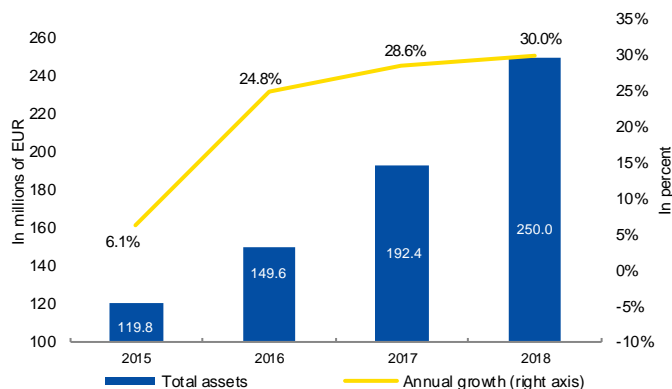
### 3.4.5 Micro-financial sector

#### Assets

During 2018, micro-financial sector assets reached euro 250.0 million, marking an annual increase of 30.0 per cent (figure 38).

The growth of microfinance sector assets in 2018 is mainly attributable to the growth of gross loans, an activity largely financed by external sector borrowing. The structure of microfinance sector assets continues to be dominated by gross loans (73.5 per cent), followed by leasing (15.2 per cent).

Figure 38. Assets of microfinance sector



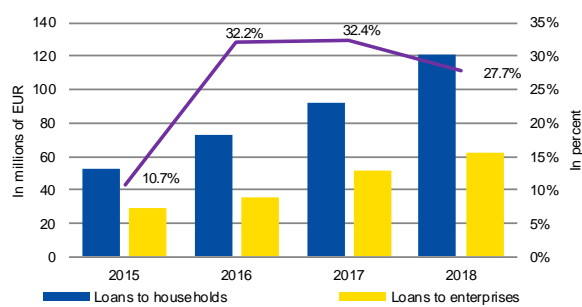
Source: CBK (2019)

#### Loans

The lending activity of the microfinance sector during 2018 marked an annual increase of 27.7 per cent, with the value of loans reaching the amount of euro 183.8 million (figure 36).

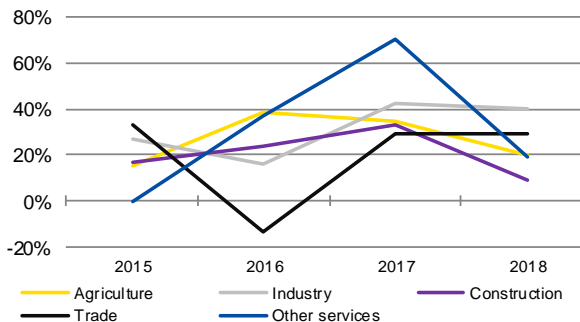
Dynamics in the sector's lending activity developments mainly reflected the positive performance of lending to households, as a category with a share of 66.0 per cent in total sector lending. Loans to households recorded an annual growth of 31.7 per cent, reaching the amount of euro 121.4 million. While loans to enterprises, with a 34.0 per cent share in total sector loans, increased by 20.6 per cent, reaching the amount of euro 62.4 million.

Figure 39. The value of loans to households and loans to enterprises, annual growth of loans



Source: CBK (2019)

Figure 40. Growth rate of loans to enterprises, by economic sectors



Source: CBK (2019)

Loans to all economic sectors grew, but the growth rate was lower compared to the previous year (figure 40). The highest growth was the loans dedicated to the industry sector followed by loans to the trade and agriculture sector.

#### Leasing

Leasing, as the second-largest category by share in the structure of assets of the microfinance sector, marked an annual growth of 43.2 per cent in 2018 and amounted to euro 38.1 million (figure 41).

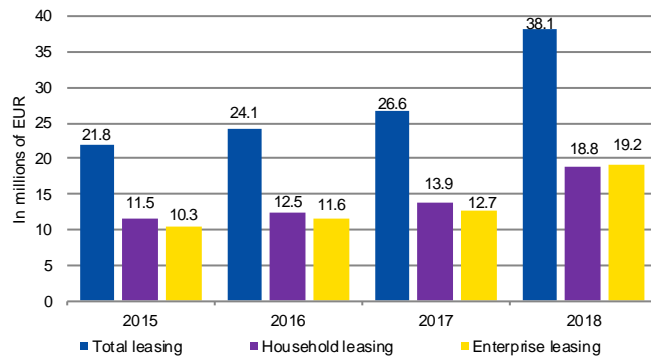


In the growth of leasing also contributed the growth of "other leasing" and mortgage leasing, which recorded an annual growth of 39.3 and 25.8 per cent, which also dominate the sector's leasing structure.

**Interest rates**

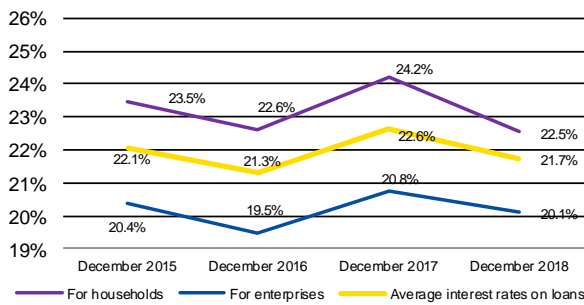
The average interest rate on microfinance sector loans in December 2018 dropped to 21.7 per cent from 22.6 per cent in December 2017. The interest rate on loans to households decreased by 1.7 percentage points, while the interest rate on loans to enterprises recorded a decrease of 0.6 percentage points (figure 42).

Figure 41. Leasing of microfinance sector (in percent)



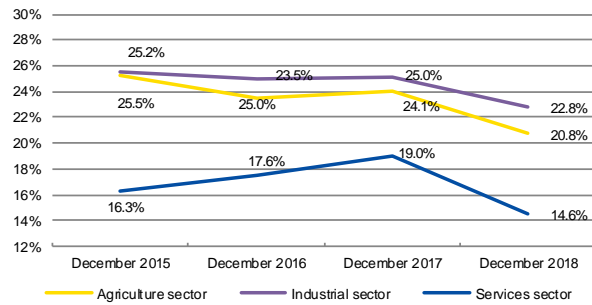
Source: CBK (2019)

Figure 42. Average interest rate on microfinance sector loans



Source: CBK (2019)

Figure 43. Average interest rate on loans, by economic sectors



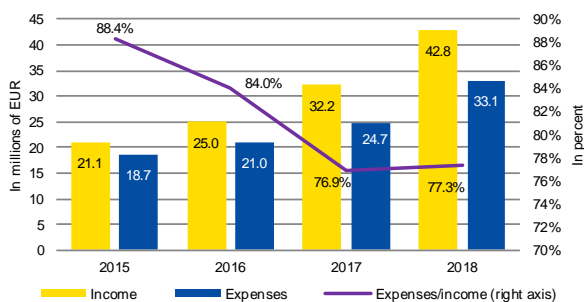
Source: CBK (2019)

Within loans to enterprises, average interest rates marked a decrease for all sectors. The service sector resulted to have the lowest rate of interest on loans; moreover, it marked the largest decrease of 4.5 percentage points. Meanwhile, loans to the industry sector continue to have the highest interest rates, although falling by 2.2 percentage points compared to the previous year (figure 43).

**Performance of the microfinance sector**

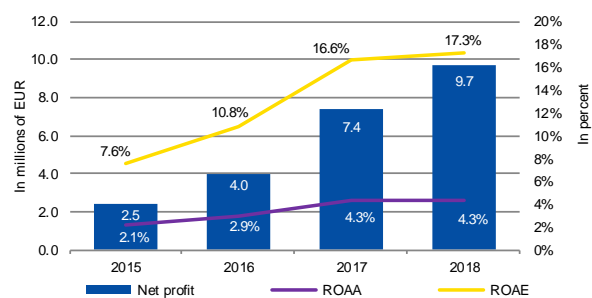
During 2018, the microfinance sector realized a profit of euro 9.7 million, which represents an annual increase of 31.0 per cent against the profit realized in 2017.

Figure 44. Microfinance sector income and expenses



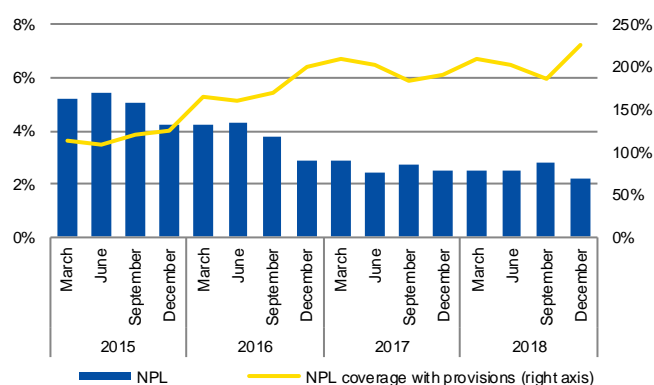
Source: CBK (2019)

Figure 45. Profitability indicators of microfinance sector



Higher income growth (mainly interest income) was a key contributor to profit growth of 2.3 million euros (figure 44). On the other hand, the acceleration of sector expenditure growth, mainly administrative and personnel expenses, which may have been influenced by the increase in the number of employees in this sector, has led to lower sector profit growth compared to the previous year (increase of 85.9 per cent). As a result of the positive financial result during 2018, profitability indicators increased (figure 45). The level of non-performing loans in relation to total loans in 2018 was reduced by 0.6 percentage points, down to 2.2 per cent, the lowest level in recent years. Moreover, the level of coverage of non-performing loans with provisions continued to be high, at a level of 226.0 per cent (figure 46).

Figure 46. Indicators of credit portfolio quality



Source: CBK (2019)

### 3.5. Macroeconomic projections for 2019

CBK projections for 2019 suggest that Kosovo's economy is expected to be characterized with a real growth of 4.2 percent. Consumption, as the main component of internal demand, is expected to mark a real growth of 3.4 percent, based on the expectations that the private consumption will be increased by 3.0 percent and public consumption by 5.8 percent. The increase of remittances and loans are among factors expected to affect the growth of private consumption. Remittances are expected to mark an annual growth of around 5.6 percent. Moreover, household loans, which increased significantly in recent years (11.2 percent in 2018 and 12.7 percent in 2017), are expected to continue this trend also in 2019.

Investments in 2019 are expected to mark a real growth of 11.6 percent, based on projections for significant growth of public investments (19.9 percent) and private investments (8.8 percent). Private investment growth in 2019 is expected to continue to be supported from bank lending, an activity characterized with a rapid growth in recent years. Moreover, changes in the tax policy during the past years are expected to support private investments in the country. The increase of FDI in 2019 is expected to contribute to the growth of general investment position as well, such investments are expected to mark an increase of around 12.7 percent.

Unlike 2018 when there was an increase on internal demand and consequently, an increase of negative contribution of the net exports position when considering the financing of a part of increased economic activity through imports, in 2019 projections suggest a slowdown of the components of internal demand and decrease of negative contribution of net exports. Export of goods is expected to mark a nominal increase of around 4.8 percent, whereas import 4.5 percent. Projections for not-so-high increase of the export of goods in 2019 rely upon the assumption that the external demand is expected to be lower and prices (mainly metal prices) in international market are expected to decrease slightly. The slower growth of the general demand in the country, and decrease of import prices is expected to affect a slower growth in the import value of goods in 2019. The difference between high-level imports of goods against export will result in deepening the trade deficit of goods by around 4.5 percent in nominal terms. On the other hand, the positive trade balance within the services is expected to be increased by 6.2 percent. Export and import of services are expected to mark an increase of around 4.5 percent, namely 2.3 percent. The increase of services exports is expected to be generated by the increase of travel

service exports (mainly emigrant expenditures during their stay in Kosovo) and communication services. Meanwhile, the increase of service imports in 2019 is expected to be generated mainly by the increased imports of travel and transport services.

As regards inflation, the average rate is expected to reach about 2.3 percent which is a higher level compared to 1.1 percent in 2018. This increase of inflation rate is in line with projections for a slight increase of inflation at the global level but also increase of economic activity in the country.

The annual growth rate of lending activity in 2019 is expected to be around 11.0 percent, an assumption supported by the easing of lending standards by banks, decrease of interest rates on loans, and increase of economic activity. CBK projections regarding the increase of lending are also in line with banks' reporting under the bank lending survey, results of which suggest that there will be an increase of lending activity during the upcoming periods. Deposits are also expected to continue the growing trend they were characterized with recently. In 2019, deposits are expected to increase by around 7.0 percent. The expected deposit flow is related to national available incomes, which are expected to grow by 7.0 percent in 2019.

## 4. Licensing and regulation of financial system

Under the Law on CBK, its primary objective is promoting and maintaining a stable financial system. CBK is committed to achieving this objective by fulfilling duties and responsibilities as a responsible authority for licensing, supervision, and regulation of financial institutions operating in the Republic of Kosovo.

CBK, pursuant to its legal responsibilities as licensing, regulating, and supervisory authority of financial institutions in the country, engages in:

- Regulating the market entry of potential investors, setting the licensing criteria for financial institutions and institutions possessing sufficient capital for supporting foreseen activities, presenting proper preparations for risk assessment and monitoring, adequate policies and procedures on its control, as well as administrators with a high level of qualification, professionalism, and ethics.
- Drafting and maintaining a regulatory framework composed of a set of minimum criteria and regulatory requirements applicable to financial institutions, in line with primary legislation, European Directives, and international standards;
- Developing an effective supervisory process, by implementing risk-based supervisory principles through on-site examinations, as well as analyzing, assessing, and interpreting the financial institutions' data, assessment of future financial trends; and undertaking remedial measures to solve various problems.
- Cooperation with financial institutions licensed and supervised by the CBK, and with foreign banking supervisory authorities operating in the territory of the Republic of Kosovo.

In order to perform its supervisory functions, CBK aims at the highest levels of integrity, professionalism, efficiency, transparency, and continuous development of its supervisory capacities.

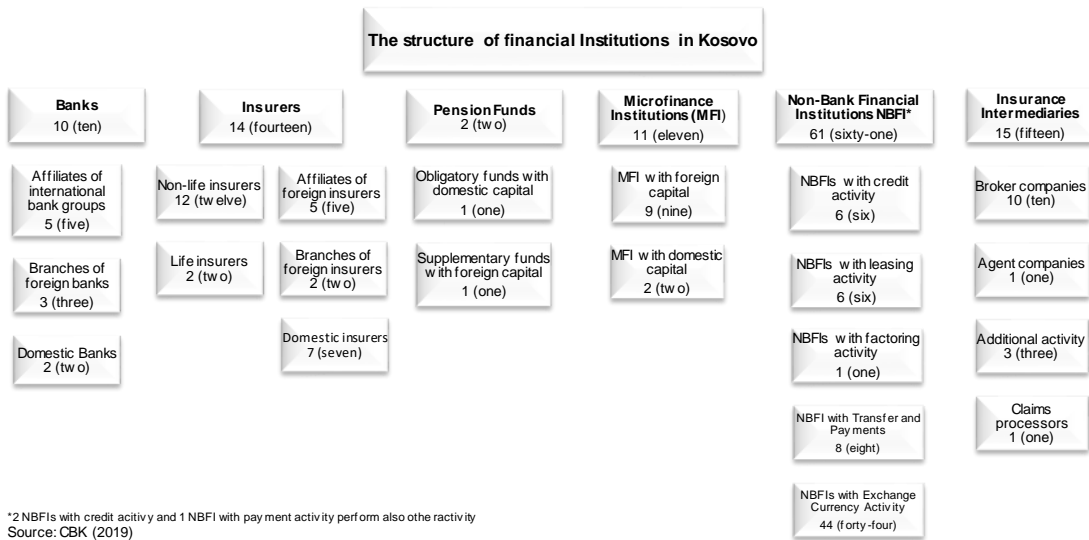
### 4.1. Licensing

According to the Law on CBK, the Central Bank of the Republic of Kosovo is the sole authority responsible for regulation, licensing/registration, and supervision of financial institutions in the Republic of Kosovo.

CBK intends to provide a transparent and comprehensive licensing process, which helps to ensure a safe, sustainable, and competitive financial environment established based on the principle of justice, honesty, and equality. Licensing terms and conditions are of supervisory character and are not intended to set barriers toward investors, whether they are internal or external. The entry of foreign investor into the Kosovo market, particularly in the financial sector, demonstrates the open CBK policy towards foreign investments, without violating legal requirements.

The financial system structure at the end of 2018, by the type of licensed and registered financial institutions providing financial services in Kosovo, based on the applicable legislation in the Republic of Kosovo and CBK's applicable regulatory framework, ranked by their weight in the system, is presented in figure 47.

Figure 47. Structure of financial institutions in Kosovo

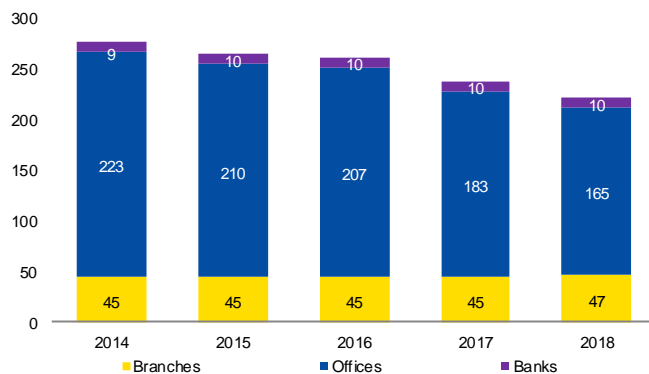


The financial system structure is composed of a total of 113 financial institutions, which are licensed and registered and exercise their activity in Kosovo based on the applicable legislation in the Republic of Kosovo and CBK's applicable regulatory framework.

#### 4.1.2 Financial System Network

By the end of 2018, banks exercised their activity in a total of 47 branches and 165 offices within the country's territory (figure 48). During this year, banks with CBK's approval have opened 2 branches and 3 sub-branches, have relocated 15 branches and offices and closed 21 offices. Narrowing of the physical network of branches and offices has been performed mainly based on the assessment of their performance and efficiency, and as a result of the expansion of automated services such as: e-banking, ATMs, sale terminals, mobile banking, etc.

Figure 48. Banks network, by number of branches/offices



Source: CBK (2019)

The geographical distribution of the banking network includes almost all of the country's territory, despite the marked shrinking in relation to the number of branches and offices (table 8). However, there still continues to be observed a greater concentration of branches and offices in the region of Prishtina (33.0 percent), where the concentration of population is higher (28.0 percent) as seen in figure 49.

**Table 8. Geographical distribution of banks branches and offices**

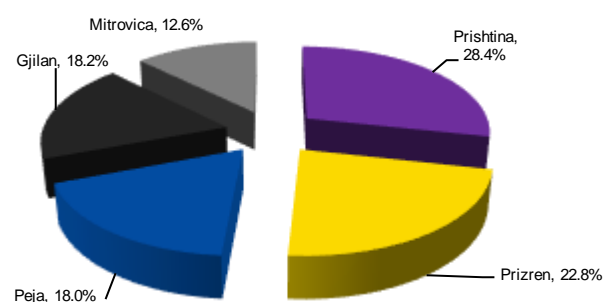
Description	Prishtina region		Prizren region		Peja region		Gjilan region		Mitrovica region		Total
	No.	%	No.	%	No.	%	No.	%	No.	%	
2014	97	35%	45	16%	46	17%	55	20%	34	12%	277
2015.	93	35%	40	15%	45	17%	52	20%	35	13%	265
2016	95	36%	38	15%	42	16%	52	20%	35	13%	262
2017	83	35%	37	16%	39	16%	47	20%	32	13%	238
2018	74	33%	35	16%	38	17%	44	20%	31	14%	222

Source: CBK (2019)

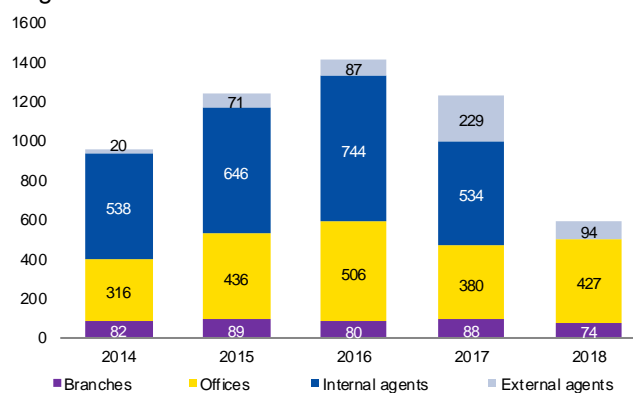
The five-year trend suggests a consistent bank strategy regarding geographical focus of bank network, considering that there is no significant change over this period, in relation to the percentage of bank branches and offices, because the network shrinking has been made in proportional manner in all regions.

Insurers exercise their activity through 74 branches, 427 offices and 94 external agents within the country's territory (see figure 50). During 2018, there was a shrinking of the general network of insurers in the country, which reflects the cost reduction strategy pursued by the insurers. The decrease of the number of agents, inter alia, reflects the fact that since the entry into force of Regulation on Licensing of Insurance Intermediaries, internal agents of insurers are no longer subject to CBK approval.

The geographical distribution of insurers' network includes almost all of the country's territory; however, it does not match with the geographical distribution of the population. While the largest concentration of the population is in the region of Prishtina (28.0 percent, see figure 49) the concentration of insurers' network is in the region of Peja, which is one of the least populated regions in the country (see figure 49), and this structure is consistent over the last five years (table 9).

**Figure 49. Distribution of population in Kosovo, by region**

Source: CBK (2019)

**Figure 50. Insurers network**

Source: CBK (2019)

**Table 9. Network of insurers, by geographical distribution**

Years	Prishtina region		Prizren region		Peja region		Gjilan region		Mitrovica region		Total
	No.	%	No.	%	No.	%	No.	%	No.	%	
2014	10	15.9%	10	15.9%	16	25.4%	17	27.0%	10	15.9%	63
2015	15	17.4%	41	47.7%	14	16.3%	7	8.1%	9	10.5%	86
2016	11	15.3%	11	15.3%	21	29.2%	18	25.0%	11	15.3%	72
2017	13	17.8%	11	15.1%	20	27.4%	19	26.0%	10	13.7%	73
2018	14	18.9%	11	14.9%	20	27.0%	19	25.7%	10	13.5%	74

Source: CBK (2019)

Pension funds conduct their activity only through central offices located in Prishtina.

Microfinance institutions, by the end of 2018, conducted their activity through 130 offices distributed within the country's territory. In 2018 the opening of 12 offices and relocation of 13 offices of MFIs were approved. The geographical distribution of Microfinance institution offices is concentrated only in two regions of the country's territory, namely in the region of Prishtina and Peja (table 10).

**Table 10. Network of MFIs, by geographical distribution**

Description	Prishtina region		Prizren region		Peja region		Total
	No.	%	No.	%	No.	%	
2014	7	57%	2	14%	4	29%	13
2015	7	54%	2	15%	4	31%	13
2016	7	54%	1	15%	3	31%	11
2017	8	64%	0	9%	3	27%	11
2018	8	73%	0	0%	3	27%	11

Source: CBK (2019)

At the end of 2018, non-bank financial institutions conducted their activity in a total of 700 offices and agents distributed within the country's territory. The geographical distribution of branches and offices of non-bank financial institutions is concentrated in almost all of the country's territory, excluding the region of Mitrovica (table 11).

**Table 11. Network of NBFIs, by geographical distribution**

Description	Prishtina region		Prizren region		Peja region		Gjilan region		Total
	No.	%	No.	%	No.	%	No.	%	
2014	17	36%	6	13%	12	26%	12	26%	47
2015	17	35%	7	14%	12	24%	13	27%	49
2016	18	35%	8	15%	12	23%	14	27%	52
2017	22	39%	10	18%	12	21%	12	21%	56
2018	26	43%	9	15%	13	21%	13	21%	61

Source: CBK (2019)

#### 4.1.3 Licensing Activity

In fulfilling the function of licensing and normal functioning of financial activities, CBK during 2018 has reviewed a total of 632 requests, out of which 12 were applications for licensing/registration and 620 were requests of financial institutions for transaction approval,

which, according to the applicable legislation, require prior approval by the CBK (table 12). This does not include: i) reviewed and carried forward requests for decision-making in 2019; ii) expression of interest for licensing/registration, iii) requests assessed but not subject to CBK's approval, and iv) questions, notices and other assessments reviewed by the CBK.

In 2018, similar to the previous year, CBK received mainly requests for registration of MFIs, NBFIs, and insurance intermediaries.

In general, the structure of licensing requests remains similar, and the slight increase recorded compared to the previous years reflects higher number of requests for registration of NBFIs.

**Table 12. Structure of financial system requests approved/rejected by the CBK**

Transactions	2017						2018					
	Banks	Pension funds	MFI & NBFi	Insurers	Insurance intermediaries	Total	Banks	Pension funds	MFI & NBFi	Insurers	Insurance intermediaries	Total
Applications	0	0	6	0	11	17	1	0	8	1	2	12
Main shareholders and changes in equity	1	0	1	3	1	6	1	0	0	1	0	2
Directors and senior managers	40	0	22	30	3	95	29	0	28	22	2	81
External auditor	10	1	24	16	7	58	10	3	28	18	10	69
Changes in inception and/or status	4	0	4	4	2	14	5	0	5	1	2	13
Income from capital interest and transferring of portfolio	0	0	0	1	0	1	0	0	0	0	0	0
Expansion of financial activities	0	0	0	3	0	3	1	0	2	5	0	8
Opening, moving and closing of branches and offices in the country and abroad	44	0	46	86	6	182	46	0	109	60	9	224
Licensing and registration of agents/brokers	0	0	70	61	91	222	0	0	69	21	26	116
Revocation of licensing/registration	0	0	96	0	1	97	0	0	76	16	13	105
Other	40	0	9	1	0	50	0	0	0	1	1	2
<b>Total</b>	<b>139</b>	<b>1</b>	<b>278</b>	<b>205</b>	<b>122</b>	<b>745</b>	<b>93</b>	<b>3</b>	<b>325</b>	<b>146</b>	<b>65</b>	<b>632</b>

Source: CBK (2019)

Within these 12 applications for licensing/registration, CBK in 2018 rendered decisions for approving the transformation of Banka Kombëtare Tregtare - Branch in Kosovo into a subsidiary, registration of Leasing Alberti (with leasing activity), Pro Finance Home (with lending activity), Hyseni L.L.C., Exchange Office, Lisi L.L.C., and Naimi L.L.C., (with currency exchange activity), as non-bank financial institutions. Three applications for non-bank financial institutions and one application for registering as an agent company withdrew from the licensing/registration process before the CBK took the final decision. Within the applications reviewed in 2018, are included also the applications of Grawe Insurance Company and L.I.F.E Kosova Insurance Intermediary for voluntary liquidation.

In the licensing process, CBK has paid special attention to the implementation of the basic principles and rules for accountable and effective governance of banks, assessing their organizational structures, management, and division of responsibilities. Based on the applicable regulation, CBK reviewed (approved/rejected) the requests of banks for 29 new members of the board of directors, external members (experts) of Audit Committee, and senior managers. Among insurers, CBK has approved/rejected 22 members of the board of directors and senior managers of insurers. At the same time, CBK has reviewed (approved/rejected) similar requests also for Microfinance institutions, non-bank financial institutions, and insurance intermediaries. During this period, 30 members of the board of directors and senior managers of microfinance institutions, non-bank financial institutions, and insurance intermediary companies were approved.

In 2018, there were approved two requests for change of shareholders and 13 requests for the change of statute, 5 of which were among banks, 1 from insurers and 5 from microfinance institutions and non-bank financial institutions, and 2 from insurance intermediary companies.

The review of requests for licensing/registration of individual agents as insurance intermediaries, and NBFi agents, is presented in individual transactions to avoid possible confusions given their



very high number. As presented in table 12, in 2018 CBK has approved/rejected 116 such requests. However, comparing to the previous year, there is a significant decrease of this type of request, mainly because since August 2017 internal agents of insurers are no longer subject to CBK's approval. Similar to licensing and registration of agents, withdrawal of agent licensing/registration is also a frequent request for approval, indicating a volatility of financial system network in relation to agents. In this regard, there is a similar suggestion from the data on the approval of openings, relocations, and closing of branches and offices of financial institutions in the country. In 2018, 224 such requests have been reviewed, mainly of banks, FMIs, NBFIs, which overall represents a slight decrease compared to the previous year.

In 2018, CBK reviewed also the applications for approval of periodic transactions that require the CBK's approval pursuant to the legal and regulatory framework in force, such as the approval of external auditors for all types of financial institutions.

## **4.2. Regulation**

### **4.2.1 Regulatory Framework of Financial System**

CBK has established a regulatory framework for licensing, regulation, and supervision of financial institutions based on best international practices and continuously supported from well-known international institutions such as the World Bank, International Monetary Fund, USAID, US Treasury, KfW, GIZ, European Central Bank, European Bank for Reconstruction and Development, and other international institutions. The regulatory framework has been drafted in compliance with the European directives addressing the regulation of financial institutions, such as international standards and best practices on regulation and supervision of financial institutions. Also, CBK has commenced a gradual process toward approximation with basic principles on supervision of banks issued by BIS – Bank for International Settlements and basic principles on the supervision of insurers issued by IAIS – International Association for Insurance Supervision. Since the directives, international standards and abovementioned principles on the regulation of financial institutions and the field of their activity are of a dynamic character, this makes the drafting process of the legal framework a continuous and complex process, since it requires the amendment and supplement of the existing legal and regulatory framework, and requires an adequate approach, in order to carefully study specific circumstances of Kosovo, for an adequate adaptation of such international legal instruments to the needs of financial sector in Kosovo.

When preparing regulations and any regulatory instrument, CBK closely cooperates with other institutions and industry through meetings and continuous communication with regulated entities, mainly through respective associations, such as Kosovo Banking Association, Insurance Association, Association of Microfinance Institutions, but also with other local institutions in dealing with issues that also affect other fields related to financial sector. This process continuously helped in clarifying specific issues addressed by regulation and their fair regulation, taking into account their impact in Kosovo's financial system stability and country's economic development.

### **4.2.2 Regulatory Framework for Banks**

In order to further develop the regulatory framework for regulation of banks, the following activities were implemented in 2018.

#### 4.2.2.1 New Law on Banks

In 2018, CBK has prepared the draft of the new Law on Banks, which includes also the comments received by the Banking Association based on the current law. The new Law has been restructured in line with the European directives, regional legal framework, and international banking standards. Its drafting was supported from international banking experts engaged within the US Treasury and European Bank for Reconstruction and Development (EBRD). The new law, after being reviewed by the Executive Board of the CBK, is expected to be forwarded in 2019 to the Government of Republic of Kosovo, and then to the Assembly of the Republic of Kosovo for review and approval.

#### 4.2.2.2 Recovery, Resolution, and Liquidation of Banks

During 2018 CBK has also drafted the legal and regulatory framework on the recovery and resolution of banks, which has been carried out in the three legislative levels with the support of the EBRD's technical assistance. Initially, the regulation was made within the new Law on Banks through a specific chapter addressing the bank recovery, resolution, and liquidation. Upon the approval of the new Law on Banks, during 2019 it is planned the adoption of the following regulations that are being drafted and deriving from the new drafted part in the law, regulating the bank recovery and liquidation process based on the European Directive. These regulations shall define how this process will be developed, main stakeholders during this process, qualifications of persons appointed as official administrators or liquidators and any other necessary and required process in compliance with the new Law on Banks. There are a total of 12 regulations foreseen as necessary to meet the new requirements of the bank recovery and resolution process:

Regulation on Qualifications of Official Administrators;

Regulation on the methods and conditions for valuation of bank assets and liabilities (for the purpose of enforcing the part of bank recovery and liquidation of the new Law on Banks);

Regulation on recovery plans;

Regulation on intra-group financing agreements;

Regulation on terms of appointment, functions and responsibilities of special managers (liquidators);

Regulation on resolution plans and notification procedure;

Regulation on resolution tools;

Regulation on write down and conversion of capital instruments of banks;

Regulation on protective measures of agreements during the resolution;

Regulation on minimum requirements for capital and eligible liabilities (MREL),

Regulation on National Resolution Fund;

Regulation on resolution and resolvability of groups and holdings.

With the adoption of the secondary legal framework, there will also be approved the tertiary legislation, which is in the process of development by the CBK with the support of the EBRD, which incorporates the operational manual of bank recovery, resolution, and liquidation, regulating the process at a technical and operational level by transposing the European Union

Directive and relevant regulations, and advancing banking regulation in parallel with the countries of the region and developed European countries.

#### **4.2.2.3 Alignment with Basel Standards**

With the aim of alignment with the Standardized Approach of the First and Second Pillar of the Basel Capital Framework and EU regulatory requirements (Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms), the Board of CBK, on 29 November 2018, approved the regulations below, which shall enter into force on 1 January 2020:

- Regulation on Bank Capital Adequacy;
- Regulation on Leverage Indicators; and
- Regulation on the Internal Capital Adequacy Assessment Process.

For the implementation of the aforementioned regulations, the drafts of instructions and reporting forms have been compiled, which are expected to be finalized and approved in 2019. For the purposes of clarification and transfer of knowledge regarding such regulations, a workshop was organized for the CBK staff.

#### **4.2.2.4 Alignment with International Financial Reporting Standard (IFRS) 9 - Financial Instruments**

In 2018, CBK has drafted a regulatory framework that aligns the country's framework with the International Financial Reporting Standard (IFRS) 9 - Financial Instruments. The same is under the approval process and is foreseen to become effective on 1 January 2020.

#### **4.2.2.5 Regulatory Framework on Appraisal of Immovable Properties**

During 2018, CBK continued the project on the revision of the regulatory framework for appraisal of immovable property, in order to update the requirements to improve appraisal practices of immovable property by financial institutions in compliance with the new European standards (European Valuation Standards - EVS 2016). This project is being developed under the support of US Treasury Advisor, a long-time expert in the field of immovable property valuation for the needs of banks. Within this project, the Regulation on Appraisal of Immovable Properties is being amended, which shall be approved by the Board of CBK in 2019.

#### **4.2.2.6 Regulation on Factoring**

For the purpose of regulating the financial activity of factoring, the working group of CBK, with the support of experts engaged by EBRD, has drafted the Regulation on Factoring, which is approved by the Board of the CBK on 29 October 2018.

#### **4.2.2.7 Instruction on Consumer Credit Information Form**

Pursuant to the obligation deriving from Article 85 and 86 of the Law on Consumer Protection, the Instruction has been drafted, with the attached Annex and Key Facts Form and Guarantor Information Sheet. This Instruction and its annexes have been forwarded for approval to decision-making bodies of the CBK.

### **4.3. Regulatory framework on microfinance institutions and non-bank financial institutions**

In order to further develop the regulatory framework on regulation of Microfinance institutions and non-bank financial institutions, during 2018 were realized the supplementations presented below 2018.

#### **4.3.1 Law on MFIs and NBFIs**

During 2018, CBK has prepared the draft of new Law on MFIs and NBFIs, which was developed within an inter-institutional working group and includes also comments received from industry. The new Law was approved by the Government during 2018 and was then forwarded to the Assembly of the Republic of Kosovo for approval, where it passed the first reading. The same shall be approved in 2019 by the Assembly of the Republic of Kosovo.

#### **4.3.2 Approved regulations on MFIs and NBFIs**

In order to advance the regulatory framework of MFIs and NBFIs, Regulations on NBFIs were drafted and finalized/approved, as follows:

Regulation on Credit Risk Management;

Regulation on External Audit;

Regulation on Internal Control and Internal Audit;

Regulation on Effective Interest Rate and Disclosure Requirements.

#### **4.3.3 Regulation on credit risk management for NBFIs**

In 2018 CBK has drafted the Regulation on Credit Risk Management for NBFIs, which stipulates the establishment and mandatory enforcement of the minimum requirements and standards of credit risk management in non-bank financial institutions with financial leasing and/or lending activity, including the establishment of minimum standards of credit risk assessment and a classification system for all credit exposures and the minimum provisioning requirements. The same shall be approved by the Board of the CBK during 2019.

#### **4.3.4 Regulation on effective interest rate and disclosure requirements for NBFIs**

The Regulation on Effective Interest Rate and Disclosure Requirements for NBFIs was drafted in 2018, which stipulates the unified methodology for calculation and disclosure of the effective interest rate on credit granted and the minimum disclosure requirements in order to provide the customers with full and accurate information on products and services of the non-bank financial institutions. The same shall be approved by the Board of the CBK during 2019.

#### **4.3.5 Regulatory framework for licensing, regulation and supervision of electronic money institutions and payment system operators**

In order to approximate the regulatory legal framework of CBK with that of European Union, the current Regulation on Registration, Supervision, and Activities of Non-Bank Financial Institutions was reviewed, and the Regulation on Licensing of Payment System Operators, Regulation on the Activity of Issuing Electronic Money, and Regulation on Agents have been drafted, which are seen as necessary to advance the regulatory framework for electronic money institutions and payment system operators. These four Regulations are planned to be approved in 2019 by the Board of CBK.

-Regulation on Agents of Payment Service Providers and Electronic Money;

- Regulation on Issuance and Use of Electronic Money;
- Regulation on Licensing, Regulation, and Supervision of Payment System Operators;
- Regulation on Registration of Non-Bank Financial Institutions.

#### **4.4. Regulatory framework on insurers and insurance intermediaries**

In order to further develop the legal framework on regulation of insurers and insurance intermediaries, in 2018 were realized the supplementations presented below.

##### **4.4.1 Law on compulsory motor liability insurance**

In 2018, CBK has been engaged through working groups, regarding amending and supplementing the Law on Compulsory Motor Liability Insurance, by including comments of the Insurance Association. Draft Law on Compulsory Motor Liability Insurance has been amended following the review by the Board of CBK during 2019, and it is expected to be forwarded to the Government of the Republic of Kosovo and Assembly of the Republic of Kosovo for review and approval.

##### **4.4.2 Regulation on the licensing of insurance claims adjusters**

In 2018, CBK drafted and approved the Regulation on the Licensing of Insurance Claims Adjusters, which stipulates conditions, requirements, procedures, and terms to be followed for applying and granting the license of insurance claims adjusters based on the Law no. 05/L-045 on Insurance.

##### **4.4.3 Regulation on fine penalties for insurers, insurance intermediaries, and insurance claims handlers**

In 2018, CBK has drafted the Regulation on Fine Penalties for Insurers, Insurance Intermediaries, and Insurance Claim Handlers, which shall apply Article 125 of the Law on Insurance in order to determine fine penalties that can be imposed by CBK, in cases when institutions and/or individuals representing them do not meet the requirements of the Law on Insurance and/or sub-legal acts in its implementation. The same shall be approved in 2019 by the Board of CBK.

##### **4.4.4 Instruction on selling insurance products**

CBK has drafted the Instruction on Selling Insurance Products, which stipulates the status of insurance employees dealing with the sale of insurance products and minimum criteria on their engagements, and defines the method of selling insurance products. The need to issue this instruction has arisen due to amendments to the Regulation on Licensing of Insurance Intermediaries; replacement of the Order no. 016/2016 of 27 June 2006, issued by the Banking and Payments Authority (predecessor to the CBK) and the need to regulate the method of selling the compulsory motor liability insurance. The same shall be approved in 2019 by the Executive Board of CBK.

##### **4.4.5 Instruction on risk category classification in groups and classes of insurance activity**

In 2018, CBK commenced the drafting of the Instruction that regulates the risk category classification in groups and classes of insurance activity including insurance activity groups and sub-groups, insurance classes within the insurance activity groups, as well as type of risks within the insurance classes. The need to issue this instruction has arisen due to many requests from

insurers for clarifications on various products and their classes. The same shall be finalized in 2019.

#### **4.4.6 Regulation on corporate governance of insurers**

In 2018, CBK commenced drafting the Regulation on Corporate Governance of Insurers based on principles defined in the Insurance Core Principles, issued by the International Association of Insurance Supervisors in order to approximate the CBK's regulatory framework with the European regulatory framework and best international practices. This regulation is planned to be approved in 2019.

#### **4.5. Regulatory framework on pension funds**

In order to further develop the regulatory framework on regulation of pension funds, the following regulations have been drafted and approved in 2018 by the CBK:

- Regulation on the Establishment of the Supplementary Individual Pension by Pension Providers;
- Regulation on Funding and Actuarial Valuation of Defined Benefit Pensions;
- Regulation on Managers of Pension Assets;
- Regulation for the Establishment of the Supplementary Employer Pension Fund;

## 5. Supervision of financial system

In order to reflect its activity in the field of financial system supervision, in line with the requirements deriving from the relevant primary and secondary legislation, the following presents the financial supervision activity by nature of financial institutions.

### Banking sector

In 2018, CBK developed the activity of focused examination of banks in the country, in particular regarding the monitoring of fulfilment of recommendations from prior examinations and managing of risks by banks. A full examination has been carried out in 2018 as well, based on the approach applied under the Risk-Based Bank Supervision Manual. Altogether, eleven bank examinations were conducted, followed by the relevant recommendations disclosed in the examination reports.

**Table 13. Number of banks examinations**

Institutions	Type of Examination
Banks	1 full examinations
	10 focused examinations

Source: CBK (2019)

Full examination reports have been prepared according to the type of banking risks such as: liquidity risk, credit risk, market risk and operational risk, while focused examinations aimed at assessing the fulfilment of recommendations from prior examination related to verifying the reasonableness of setting fees for banking products and services that generate non-interest revenues. The examination of banks by CBK is performed in line with the Risk-Based Bank Supervision Manual.

The sector of microfinance institutions and non-bank financial institutions has been characterized with a continuous increase during 2018, where eight examinations were carried out in this sector, respectively four microfinance institutions and four non-bank financial institutions were examined.

**Table 14. Number of MFIs and NBFIs examinations**

Institutions	Type of Examination
MFIs and NBFIs	7 full examinations
	1 focused examination

Source: CBK (2019)

In order to be proactive in the supervision process, even during 2018, from banks, microfinance institutions and non-bank financial institutions with lending activities were requested their strategic plans and financial projections for the period of 2019-2021, with a view to assessing these business plans, and expectations on the developments in the banking sector, microfinance institutions and non-bank financial institutions during this period. Strategies shall be continuously monitored and analyzed for the purpose of identifying potential deviations and risk profile measurement.

During 2018, in addition to examinations and preparation of periodic reports and financial analysis, other activities have been carried out in this field for drafting and amending the laws

and regulations, reviewing the requirements for large exposures, dividend payment and other bank requirements.

Based on the examinations conducted and the nature of recommendations, during 2018 a part of the recommendations to banks was monitored by the CBK through analyses, while the other part through complete and focused examinations.

For the purpose of closer cooperation with the banking sector, CBK has developed a supervisory dialogue with banks. This activity continued during 2018 through meetings held both for specific fields, and for more general ones. Banks have been recommended and instructed to notify the regulator of any regulatory or similar uncertainty, in view of a proactive approach to keeping the banking sector stable.

In view of further advancing the risk-based supervision approach for banks, The CBK has also worked in drafting/adopting the manual for off-site supervision of banks. The purpose of this manual is to provide information and guidance for bank off-site supervisors and detail the workflow between the on-site and off-site examination functions.

### Insurance sector

Also, the CBK has continued its activity in implementing the examinations and other duties and responsibilities in function of a prudent oversight for the insurance sector. Consequently, full and focused examinations have been conducted, as well as ad-hoc examinations for insurers and other entities operating in the insurance market. The purpose of the examinations is to assess the overall situation of the respective institutions regarding compliance with the laws and regulations of the CBK, in function of protecting policyholders and maintaining the financial stability of institutions.

The classification of insurers to be subject to examinations is based on several factors ranging from the analysis of financial indicators from regular reporting to the CBK, the external auditor opinion on the financial statements, prior periods of conducted examinations, policyholder complaints to CBK, and other relevant factors. This has affected the application of selective approach to prioritization of institutions at higher risk to be subject to examination by the CBK, and thus, increasing the level of effective supervision.

**Table 15. Number of insurance sector examinations**

Institutions	Type of Examination
Insurers	9 full examinations 3 focused examinations

Source: CBK (2019)

At the same time, in addition to on-site supervision, the CBK performs supervision activity through a system of monitoring and analysis of financial reports, as well as other data reported by insurers and insurance intermediaries.

The online reporting system at the CBK enables the receipt of detailed information for the entire insurance sector. The data received from insurers enable the advancement of effective oversight and the identification of early warning indicators for insurers.

### Pension funds

During 2018, regarding the supervision of pension funds, two full examinations were conducted in order to evaluate the general situation of pension funds for the financial year 2017, assessing compliance with relevant laws and CBK regulations, the effectiveness of the functioning of



internal controls, the implementation of the recommendations established in the CBK Examination Reports, with the aim of protecting pension funds saved by contributors and maintaining the financial stability of funds.

Also, during this year the Manual for on-site pension supervision has been drafted, which serves as a guide/framework for monitoring, evaluation of pension funds, reflecting on increasing the effectiveness of the supervision of pension funds. This Manual promotes the application of a risk-based approach through identification, assessing and reviewing the potential risks faced by pension funds. At the same time, the pension funds reporting manual was drafted and approved.

**Table 16. Number of examinations**

Institutions	Type of Examination
Pension funds	2 full examinations

Source: CBK (2019)

### Prevention of money laundering

With regard to the area of prevention of money laundering and terrorist financing, after the adoption of the law and the regulations dealing with this field, in order to ensure their effective implementation in practice, it was considered necessary to issue guiding acts. In this light, the CBK in 2018 has drafted a supplement-amendment to the Regulation on Prevention of Money Laundering and Instruction on the origin of funds form.

In order to strengthen cooperation and increase care for the financial sector, necessary meetings were held with the Compliance Committee within the Banking Association, in which meetings were reviewed the requirements related to the legal and operational framework of the field.

Because new forms of products and services have emerged, associated with information technology advancements, a challenge in 2018 was also the addressing of risks of money laundering and terrorist financing from the operation of other forms of transactions related to technical-technological innovations. In this sense, communication with the sectors within the institution has been intensified and there is enhanced monitoring in activities during bank and financial institutions examinations and communication with other law enforcement institutions.

**Table 17. Number of examinations**

Institutions	Type of Examination
Banks, Insurers, MFIs and NBFIs	3 full examination 10 focused examinations

Source: CBK (2019)

### Complaints of the users of financial services

During 2018, complaints from financial service users were received, systematized and reviewed in accordance with the relevant regulation. Reporting was carried out on the activities for handling complaints of financial service users on a quarterly basis. Also, meetings were held with the officials of the Ministry of Trade and Industry (MTI), where work was done on the Draft Law on Consumer Protection, as CBK was part of the working group.

During 2018, 927 complaints of financial service users (natural and legal persons) have been reviewed.

Total number of complaints against commercial banks, MFIs, NBFIs and pension funds addressed to the CBK for 2018 was 532, while the most common complaints were related to loans (such as: categorization in the credit registry, prepayment of loans etc.), issues related to accounts (ex. blocking the account) and a part of complaints have been related to the increase of bank tariffs/fees.

The total number of complaints against insurance companies addressed to CBK for 2018 was 395. The most common complaints were related to: non-compensation on time of material and non-material damages from motor liability insurance TPL, failure to respect the deadlines for payment from extrajudicial agreements and non-compensation of medical expenses from health insurance.

**Table 18. Number of complaints, by institutions**

Financial industry	Number of complaints by years			
	2018	2017	2016	2015
Commercial banks/MFI, NFBI, pension funds	532	335	252	221
Insurance companies	395	267	283	221
Total	927	602	535	442

Source: CBK (2019)

The table above presents the number of complaints reviewed by the Complaints division of users of financial services over the years.

In 2018, compared to 2017, there is a significant increase in the number of complaints handled, namely an increase of 54.0 percent. Complaints against commercial banks, MFIs, NBFIs and pension funds marked an increase of 59% in 2018 compared to 2017, while complaints against insurance companies marked an increase of 48.0%.

**Table 19. Number of complaints, by institutions**

Financial industry	Number of complaints	Resolved against financial institutions	Resolved against financial institutions users	In process
Commercial banks/MFI, NFBI, pension funds	532	41.77%	69.13%	50.00%
Insurance companies	395	58.23%	30.87%	50.00%
Number of complaints	927	42.61%	56.96%	0.43%

Source: CBK (2019)

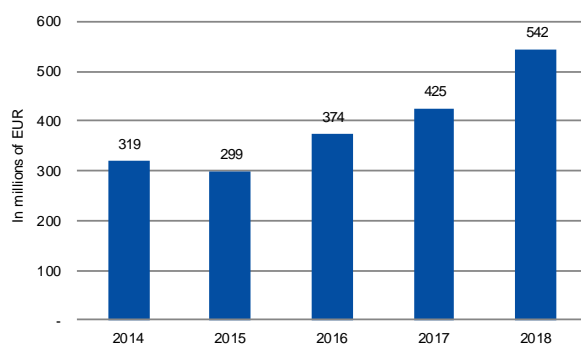
## 6. Services provided to the authorities, financial community and to the public

### 6.1. Operations and cash management

The Central Bank of Kosovo (CBK) is responsible for providing an adequate supply of the domestic economy with euro banknotes and coins. CBK performs this function indirectly through the banking sector, which is directly linked to businesses and citizens. CBK's responsibilities related to operations and cash management during 2018 as in the previous years were related to euro currency since this is the official currency used in Kosovo.

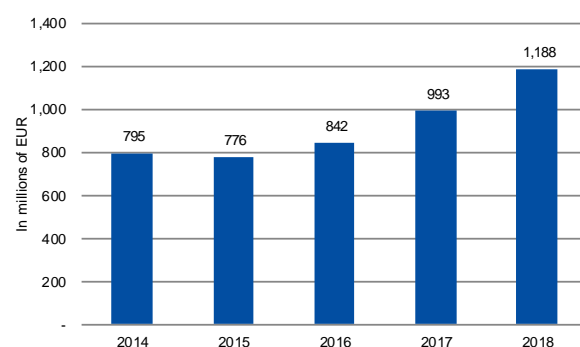
CBK's function to supply the country with the right quantity and quality of euro banknotes and coins for settlement of cash transactions, as in the previous years, also during 2018 has been successfully fulfilled.

Figure 51. Supply with cash (value)



Source: CBK (2019)

Figure 52. Cash admission (value)



Source: CBK (2019)

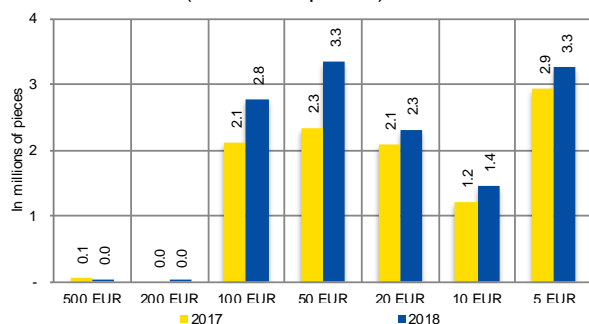
The total value of cash supply in 2018 increased by 27.6 percent compared to 2017. Structure of cash supplied by denominations, which is primarily determined by the banking sector requirements, did not show any significant changes from 2017 to 2018. Regarding euro banknotes, volumes of request for supply during 2018 marked an increase of 22.4 percent compared to 2017 and continued to dominate the requests for supply with denominations - 5, 10, 20, 50 and 100 Euros, while request for denomination volumes of 200 and 500 Euros remained significantly lower. During 2018, requests for volumes of denominations in the value of 50 Euros increased significantly compared to the previous year, while the request for denomination volume in value of 20 and 5 Euros marked a slight decline.

As shown in figures below, during 2018, CBK supplied banking sector with approx. 13.17 million pieces of euro banknotes (in the amount of approx. euro 542.46 million) and over 6.79 million pieces of euro coins (in the amount of about euro 1.6 million).

Volumes of requests for supply of coins in 2018 marked an increase of about 28.0 percent compared to 2017. Requests for the supply of euro coins, in 2018, same as in 2017 was mainly dominated by small-value coins from 1, 2 and 5 euro cents. Regarding the structure, compared to the previous year the requirements for denominations in the value of 5 euro cent, 2 euro cent and 1 euro cent, marked a group decrease of about 12.6 percent whereas the requests for supply with denomination of 1 euro, 50 euro cent, 20 euro cent and 10 euro cent marked a group increase of about 86.8 percent which represents a significant increase compared to the previous year.

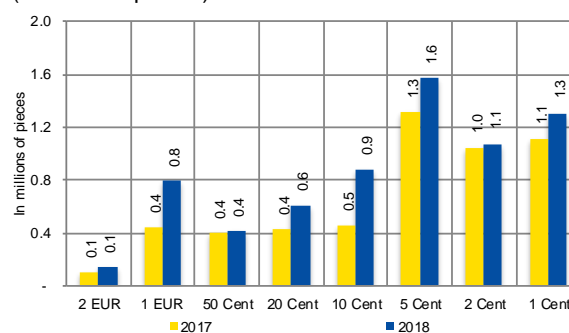
The total value of cash received as deposits marked an increase of 19.7 percent in 2018 compared to the previous year. CBK received around 22.26 million pieces of euro banknotes (on average about 85,600 pieces of banknotes per day) and about 2.57 million pieces of euro coins (on average about 9,900 pieces of coins per day) as cash deposits from the banking sector.

Figure 53. Supply with EUR banknotes, by denominations (number of pieces)



Source: CBK (2019)

Figure 54. Supply with EUR coins, by denominations (number of pieces)

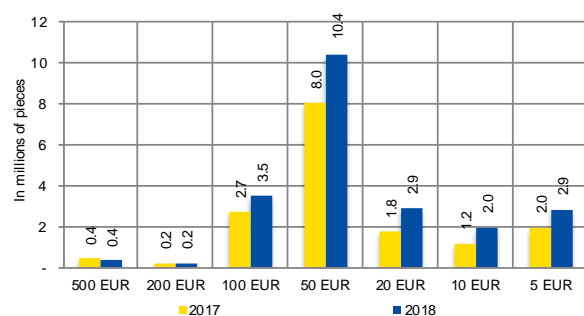


Source: CBK (2019)

Expressed in value, cash deposits reached the amounts of around 1.19 billion Euro banknotes and 1.15 million Euro coins, respectively. The volumes of banknotes received during 2018 marked an increase of about 36.6 percent compared to 2017, while volumes of coin deposits marked a slight decrease of about 0.6 percent compared to 2017.

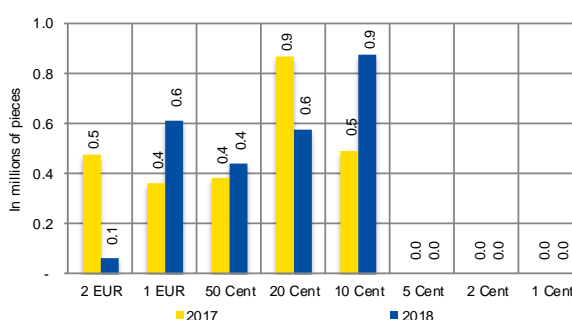
The structure of euro banknotes received during 2018, as seen in figure below, did not have any major difference from the previous year, while the structure of received coins marked an increase for denominations of 1 euro 10 cents.

Figure 55. Received EUR banknotes, by denominations (number of pieces)



Source: CBK (2019)

Figure 56. Received EUR coins, by denominations (number of pieces)



Source: CBK (2019)

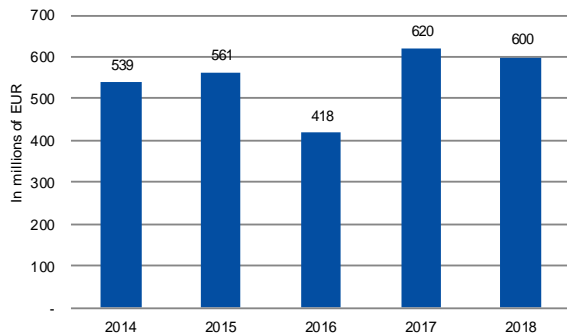
During 2018, similar to previous years, net deposited cash were in higher value than the supplied cash. In fact, reaching about euro 645.43 million, such net change <sup>13</sup> was higher than in the previous year which was approximately euro 567.75 million. This increase was mainly due to the increase of deposit from the banking sector.

Since CBK keeps only the optimum required level of cash, to perform operations, the surpluses are sent in the Euro area, which then are used for international payments, and through investments are returned to interest-earning assets. Cash net remittances<sup>14</sup> abroad in 2018 amounted to euro 547 million, namely 3.2 percent higher than the previous year when they were euro 529.82 million. This increase in net remittances in 2018 came as a result of the increase of deposits from the banking sector. Trends of cash exports and imports in the recent years are presented in the following two figures.

<sup>13</sup> Deposits minus cash withdrawals

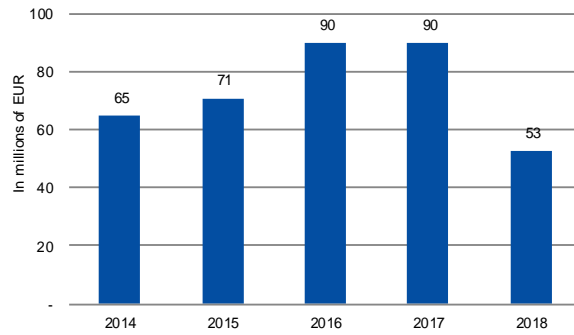
<sup>14</sup> Imports minus Exports of cash

Figure 57. Export of cash (value)



Source: CBK (2019)

Figure 58. Import of cash (value)

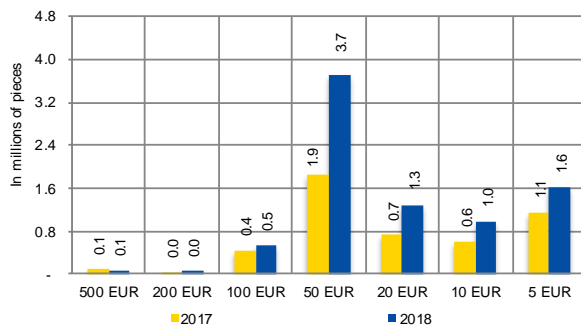


Source: CBK (2019)

During 2018, all cash received by the commercial banks and other institutions were processed by being checked for authenticity and were classified according to the level of adequacy (nearly 22.26 million euro pieces of euro banknotes and 2.57 million euro pieces of euro coins).

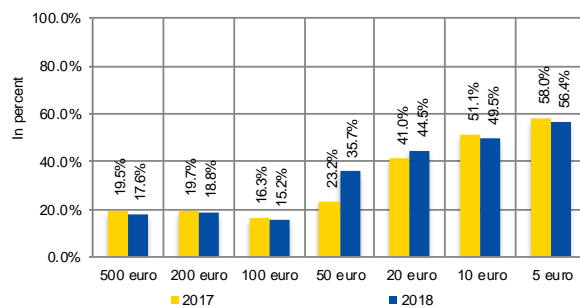
Approximately 8.25 million pieces of euro banknotes (37.0 percent of total euro banknotes deposited by the banking sector) during 2018 were classified as unfit for recirculation (highly outdated/damaged) and were removed from circulation and sent to euro area banks. Such a considerable volume of unfit euro banknotes removed from circulation contributed significantly in improving the quality of cash in circulation in the Republic of Kosovo. Similar to previous years, banknotes which were mostly classified as unfit for circulation, were those of denominations of euro 50, 20, 10 and 5. They represented about 92.2 percent of unfit banknotes for recirculation due to more frequent use by citizens.

Figure 59. Outdated banknotes withdrawn from circulation (number of pieces)



Source: CBK (2019)

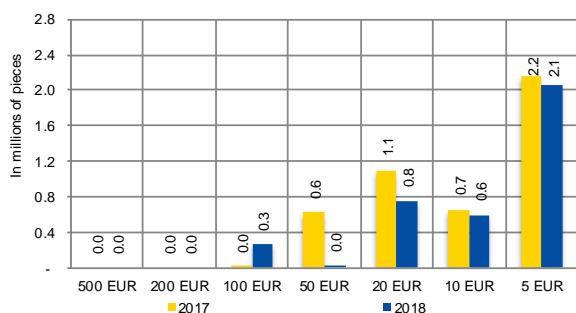
Figure 60. The ratio of outdated banknotes withdrawn from circulation to total received ones



Source: CBK (2019)

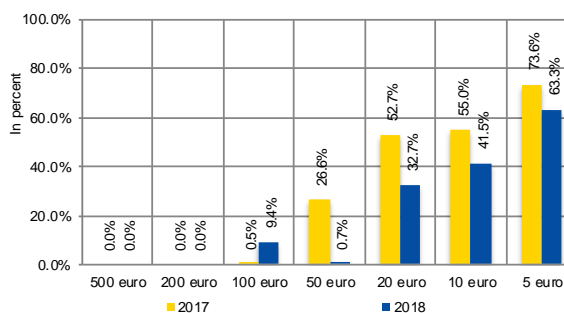
Quality of cash in circulation was also improved through the supply of banking sector with completely new euro banknotes, which were brought from the euro area. During 2018, CBK supplied the banking sector with more than 3.70 million pieces of new euro banknotes (28.12 percent of the total supplied euro banknotes). Around 92.3 per cent of new banknotes supplied during 2018 were low denomination banknotes (20, 10 and 5 euro), with which were mainly supplied the commercial banks for the purpose of settling cash transactions. Then, also all used supplied euro banknotes were of a high-quality standard (appropriate quality for recirculation).

Figure 61. New banknotes put into circulation (number of pieces)



Source: CBK (2019)

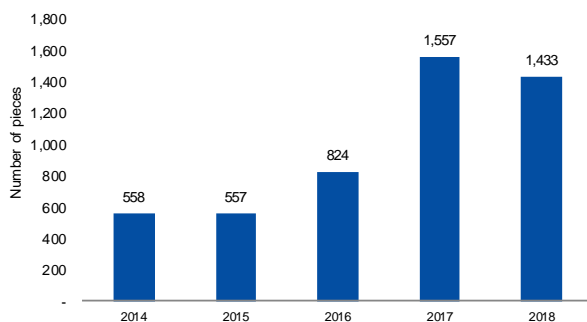
Figure 62. The ratio of new banknotes put into circulation to total supplied ones



Source: CBK (2019)

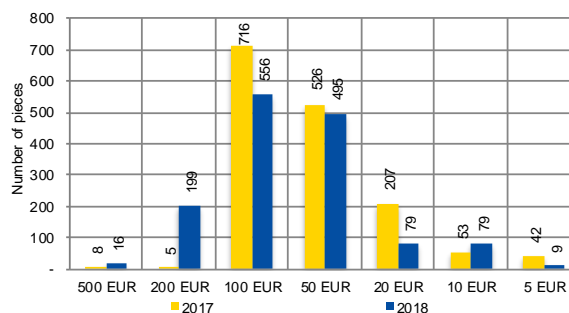
As in previous years, during 2018, regarding measures against counterfeiting, CBK has continued to cooperate with authorities for advancing the reporting of cash suspected as counterfeited. CBK together with Forensic Laboratory published on the CBK website<sup>15</sup> statistics on counterfeited money in the Republic of Kosovo. Furthermore, educational materials were published with the aim to inform the public about the security features of Europa series of banknotes.

Figure 63. Counterfeit seized EUR banknotes, by years



Source: Kosovo Forensic Agency (2019)

Figure 64. Counterfeit seized EUR banknotes, by denominations



Source: Kosovo Forensic Agency (2019)

## 6.2. Accounts maintenance and transactions

CBK provides banking services for the Government of the Republic of Kosovo, Privatization Agency of Kosovo (PAK) and other institutions such as banks and other financial institutions, public entities, foreign banks, central banks, international financial institutions (International Monetary Fund, World Bank), and international organizations, as specified in Article 9 of the Law No. 03/L-209 on CBK.

CBK supported the advancement of transaction processes. Even during 2018, as in previous years, all international payments were realized through SWIFT network whereas all domestic payments were realized through the ATS system, thus shortening the time and increasing the processing efficiency.

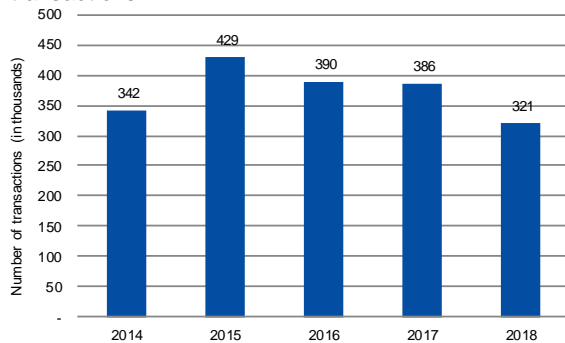
<sup>15</sup> <http://bqk-kos.org/?id=31>

**Table 20. Amount of transactions by main types of payments (in thousands of EUR)**

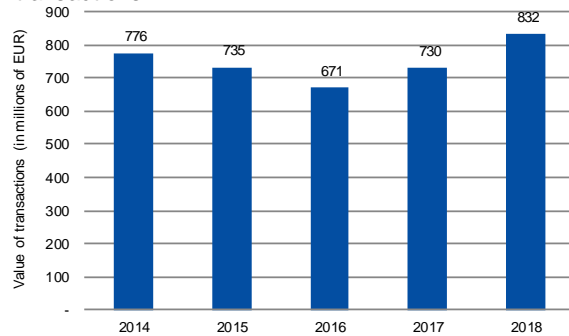
Type of transactions	2014	2015	2016	2017	2018
<b>Transactions with cash</b>	<b>+475,752</b>	<b>+476,310</b>	<b>+467,362</b>	<b>+563,570</b>	<b>+643,831</b>
Deposits with cash	794,989	776,195	842,240	989,618	1,187,889
Cash withdrawals	319,237	299,885	374,878	426,048	544,057
<b>Domestic transfers</b>	<b>+839,345</b>	<b>+942,520</b>	<b>+1,041,198</b>	<b>+1,131,645</b>	<b>+1,050,203</b>
Incoming domestic transfers	1,615,753	1,677,024	1,712,605	1,861,640	1,882,670
Outgoing domestic transfers	776,408	734,504	671,407	729,995	832,467
<b>International transfers</b>	<b>-714,099</b>	<b>-441,312</b>	<b>-580,656</b>	<b>-432,050</b>	<b>-642,864</b>
Incoming international transfers	404,473	538,375	970,941	1,081,879	1,054,765
Outgoing international transfers	1,118,572	979,687	1,551,597	1,513,929	1,697,629

Source: CBK (2019)

While most of cash operations of the CBK in 2018 were carried out on behalf and for the benefit of commercial banks, most of (798.44 million euro or 97.14% of the number) outgoing domestic payments of the CBK were conducted on behalf and for the benefit of the Treasury<sup>16</sup>.

**Figure 65. The volume of outgoing domestic transactions**

Source: CBK (2019)

**Figure 66. The value of outgoing domestic transactions**

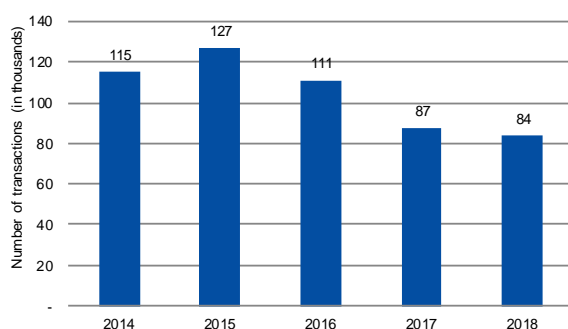
Source: CBK (2019)

CBK, during 2018 has processed on behalf of its clients over 321 thousand domestic outgoing payment orders (a decrease of 16.8% compared to the previous year), and has received on their account close to 84 thousand<sup>17</sup> incoming payment orders (a decrease of 4.2 percent compared to the previous year). Expressed in value, domestic outgoing payment orders amounted to over euro 832.45 million (an increase of 14.0% compared to the previous year) and domestic incoming payment orders amounted to over euro 1.88 billion (a moderate increase of 1.1 percent compared to the previous year). The largest number and amount of domestic transactions was conducted by the CBK by order of and for the Treasury.

Regarding the outgoing domestic payments, it should be noted that all commercial banks generate them themselves, whereas insurance institutions process the largest number of payments through commercial banks. In fact, all other account holders of CBK use payment services provided by the CBK in a limited way, since all of them have accounts in commercial banks.

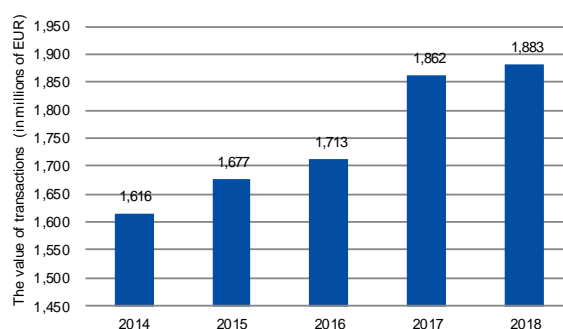
<sup>16</sup> Treasury– Ministry of Finance<sup>17</sup> Most of the incoming payments with the implementation of ATS are accepted by the CBK as grouped payments

Figure 67. The volume of incoming domestic transactions



Source: CBK (2019)

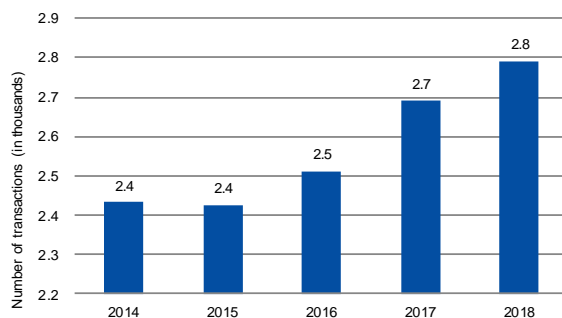
Figure 68. The value of incoming domestic transactions



Source: CBK (2019)

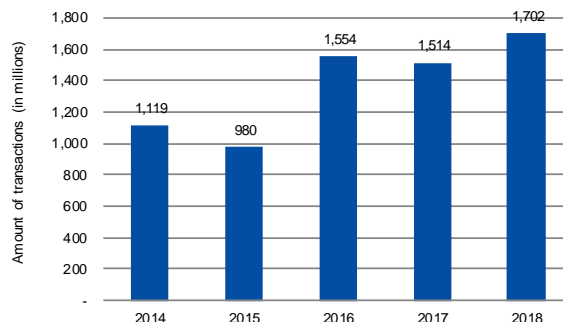
Regarding international transactions, the largest number of such transactions was performed by CBK with the order of the Treasury. On the other hand, considering their value, most of international transactions conducted by the CBK are related to the transfers of commercial banks funds. Annual data on international transactions are presented in the following four figures.

Figure 69. The volume of international outgoing transactions



Source: CBK (2019)

Figure 70. The value of international outgoing transactions



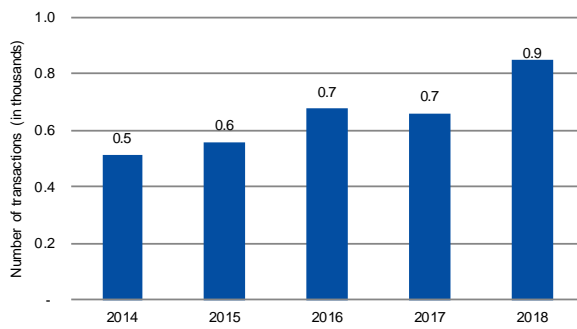
Source: CBK (2019)

CBK during 2018 has processed on behalf of its clients nearly 2,800 outgoing international payment orders (a moderate increase of 3.8 percent compared to the previous year), and has received for their account close to 852<sup>18</sup> international payment orders (an increase of 29.3 percent compared to the previous year). Expressed in value, outgoing international payment orders amounted to over € 1.70 billion (an increase of 12.4 percent compared to the previous year) while incoming international orders amounted to over 1.05 billion euros (a moderate decrease of 2.5 percent compared to the previous year).

<sup>18</sup> Most incoming payments relate to the transfer of commercial bank funds

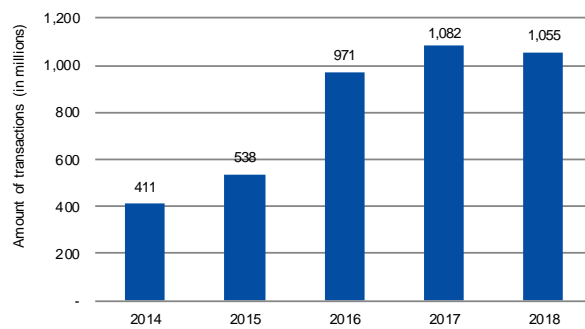


Figure 71. The volume of international incoming transactions



Source: CBK (2019)

Figure 72. The value of International incoming transactions



Source: CBK (2019)

As of 31 December 2018, deposits of the institutions of the Government of Kosovo amounted to euro 374.66 million, whereas those of the PAK amounted to euro 388.12 million. Together, the deposits of the Kosovo Government institutions and PAK accounted for about 62.6 percent of the total deposits held at the CBK at the end of 2018.

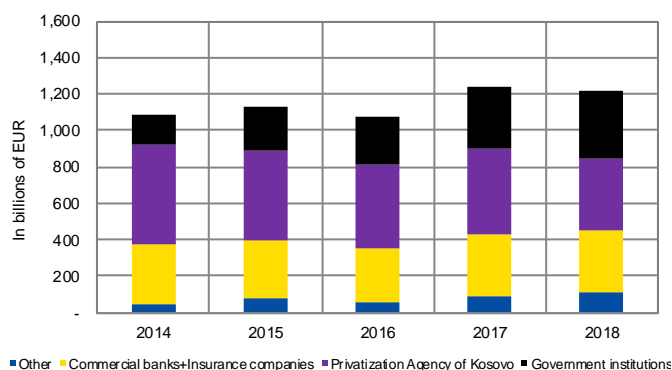
Table 21. Level of deposits of the main costumers (in thousands of EUR)

Accounts statement	2014	2015	2016	2017	2018
<b>Total</b>	<b>1,082,518</b>	<b>1,135,558</b>	<b>1,074,458</b>	<b>1,239,730</b>	<b>1,217,914</b>
Government institutions	155,481	248,780	257,393	339,906	374,663
Privatization Agency of Kosovo	557,801	486,819	460,961	471,299	388,116
Bankat Komerciale + Kompanitë e Sigurimeve	321,670	320,934	301,051	336,732	347,931
Other	47,566	79,025	55,053	91,793	107,205

Source: CBK (2019)

Among other account holders, commercial banks and insurers are the most important in terms of the level of deposits held in the CBK. Commercial bank and insurance institution deposits held in the CBK, mainly relate to legal and regulatory claims and obligations. They accounted for 28.57 percent of total deposits held at CBK by the end of 2018. As of 31 December 2018, commercial bank and insurance company deposits amounted to euro 347.93 million.

Figure 73. Deposits trend of the CBK main clients



Source: CBK (2019)

### 6.3. Payment system

The payment system during 2018 was characterized by a dynamic of developments, both in terms of regulatory aspects and also operational functions. During this period, the main goals of the year have been met in improving the regulatory framework, based on applicable international standards. In this regard, in June 2018, the CBK Board approved the Regulation on Interbank Payment System, which broadly sets out the rules and procedures for the functioning of the Interbank Payment System. The Regulation defines the organization, arrangement, management, operation and supervision of the interbank payment system, as well as in the

function of increasing electronic transfers, limits the application of fees for incoming domestic interbank transfers.

Significant developments during this period are also noted in the infrastructure for monthly reporting of payment statistics through the advancement of the electronic reporting system.

During this reporting period, the interbank payment system continued to operate with the highest level of stability, security and efficiency, which has enabled the timely clearing and settlement of all payment and securities transactions. Also, during this year, preparations were completed and there was commenced the project for advancing the connection between the Ministry of Finance/Treasury Department, as a direct participant in the interbank payment system.

Within these developments, together with the Ministry of Internal Affairs/Kosovo Police, work was carried out on improving the process of automatic notification when making payments for traffic fines for timely settlement and elimination of difficulties in data harmonization.

Year 2018 has also been characterized by commitments to find solutions in improving the infrastructure of small value payment systems and providing the appropriate instruments of these types of payments to citizens. In this regard, with the support of the World Bank, a financial feasibility study was carried out for the establishment of a center for processing card payments and other electronic form payments within Kosovo. Within this cooperation, meetings of the National Payments Council and various local and international companies were held, and were clarified common stances on the need for unification of POS terminals in order to increase the efficiency of payments by means of cards. Also with the support of the World Bank, the project for the study of the cost of small value payments on the supply and demand side, to identify key factors affecting the cost of small value payments, with a view to building a national strategy for addressing these factors.

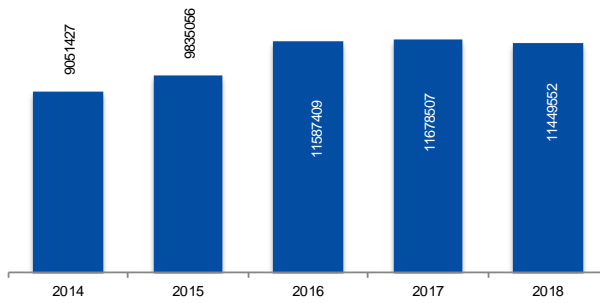
During 2018, it has been continued with the advancement of the Bank Accounts Register, in order to adapt the new requirements arising from the amendment of the Law on Enforcement Procedure. Based on these requirements, the functions of this register are expanded, whereby the entire implementation process of the enforcement decisions is currently enabled to be performed automatically through the exchange of enforcement decisions between enforcement bodies and banks in electronic form. These amendments have raised the need to revise the Instruction on Bank Account Register, in order to adapt these requirements to the Law on Enforcement Procedure, which is in the process of being amended and is expected to be finalized during 2019.

### **6.3.1 Interbank Payment System Operation**

Interbank Payment System (IPS) enables processing of a range of payment instruments, interbank clearing and settlement of securities. The following figures represent the number and value of transactions performed through the IPS for the respective periods.

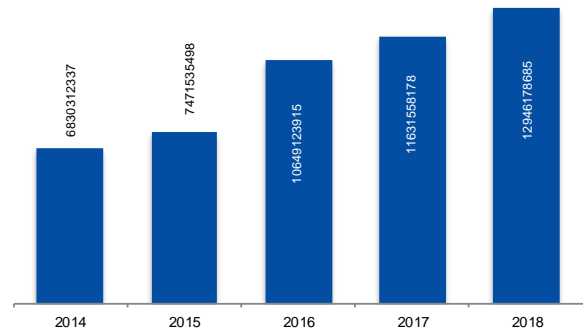
Statistical indicators of IPS activity reflected an increase in the volume and the value of transactions as presented below:

Figure 74. IPS transactions number



Source: CBK (2019)

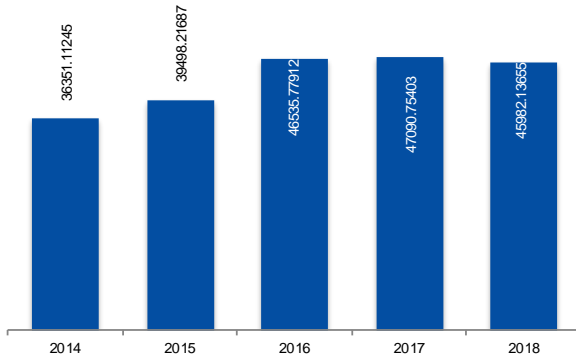
Figure 75. IPS transactions value



Source: CBK (2019)

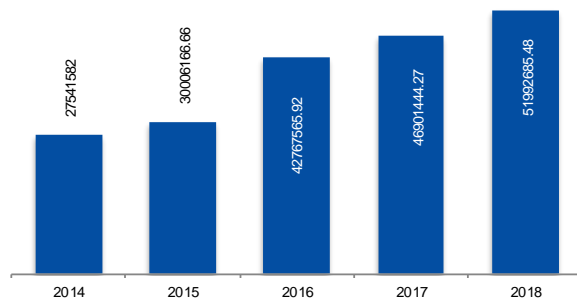
Figures 74 and 75 show that during 2018, around 11.5 million transactions were processed in the total value of approximately euro 13 billion. When compared to the IPS transactions of the previous year, transaction volume is increased by 2.0% and the value of transactions was increased by 11.3%.

Figure 76. Daily average of IPS transactions number



Source: CBK (2019)

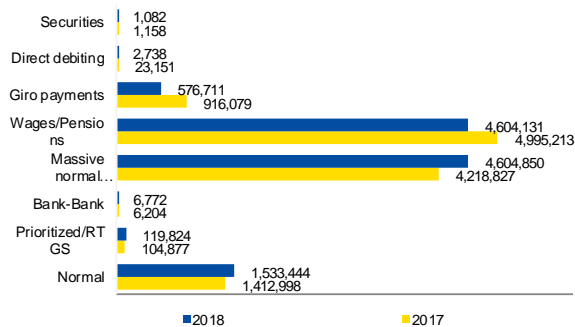
Figure 77. Daily average of IPS transactions value



Source: CBK (2019)

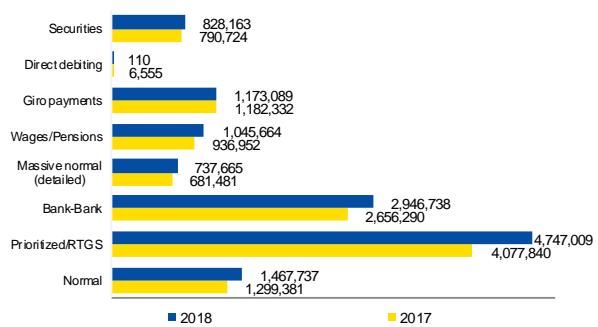
Within IPS payments are made through two components RTGS (Real-Time Gross Settlement) and ACH (Automated Clearing House). In the RTGS component, all the payments with the value of over 10,000 €, as well as all the payments ordered with priority by costumers are realized in real time, whereas in the ACH component are realized all the payments with the value of under 10,000 € and including these types of payments: regular payments (individual and massive), payments and pensions, KosGiro payments and Direct Debit.

Figure 78. Annual transactions volume of IPS, by their type



Source: CBK (2019)

Figure 79. Annual transactions value of IPS, by their type (in thousands)



Source: CBK (2019)

The level of increase, both in terms of the volume and value of the category of these payments for 2017 and 2018 is presented in the following figures:

Regular payments (individual and massive) make up around 53.6 % of the volume and 17% of the value of IPS transactions.

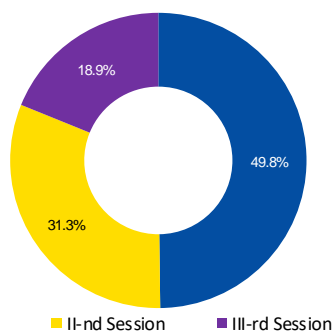
Kos-Giro transactions represent a specific type of regular transactions which are also processed through clearing sessions and are settled on net basis. During 2018, the number of Kos-Giro payments decreased by 37.0%, while their value marked an increase of about 0.8%.

RTGS transactions are processed and settled during the working hours in real-time and on a gross basis. During 2018, their number accounted for about 1.0% of the total number of IPS transactions, while their value for about 36.6% of the value of transactions through IPS.

Direct Debit as a payment instrument is not being used yet to the extent of other payment instruments. While in 2017 this type of transaction represented less than 1.0 percent of the volume and value of IPS transactions, in 2018 there is a more pronounced decrease, representing only 0.02 percent of the volume and value of IPS transactions.

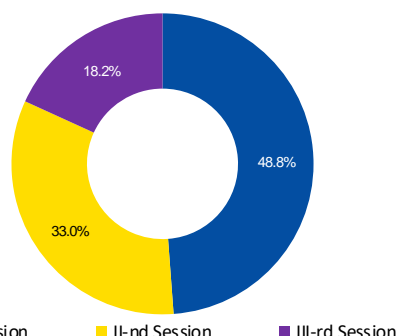
The overview of payments processed through the ACH system by sessions, during 2018, shows a more significant concentration in the first clearing session, compared to the other two sessions. Avoiding overload in payment flows over the last clearing session minimizes additional risks within the functioning of the payment system.

Figure 80. IPS transactions number, by sessions



Source: CBK (2019)

Figure 81. IPS transactions value, by sessions



Source: CBK (2019)

The total value of transactions settled in IPS during 2018 was euro 13 billion, where the first three institutions with the higher value of initiated transfers comprise 62.5% of the total value, while all other institutions comprise 37.5%. Regarding the number of initiated transfers, out of their total number of euro 11 million, the three first institutions with the largest number of initiated transfers comprise 74.3% of the total number, while all other institutions comprise 25.8%.

A detailed overview of concentration indicators of the three most active banks in IPS during 2018, against the total activity in this system is presented in the following table (according to the HHI index<sup>19</sup>):

The high level of concentration regarding the number of transactions delivered to the IPS is related to the delivery of transactions of non-bank financial institutions through commercial banks, which are mainly small value payments and thus have not affected the level of concentration of transaction value as with the transactions volume.

<sup>19</sup> Classification of the concentration level through the HHI index referring to the US Department of Justice (1992) shows a low concentration for  $HHI < 0.10$ , a moderate concentration for  $0.10 < HHI \leq 0.18$  and a high concentration level for  $HHI > 0.18$ .

**Table 22. Concentration indicators for the transactions initiated/delivered in IPS**

IPS System	Volume of transactions	Value of transactions
3 more active banks (HHI)	0.21	0.13
Total	11,449,552	12,946,178,685 €

Source: CBK (2019)

Within the operational functions of the CBK, the Bank Account Register also plays an important role. The Bank Accounts Register represents a database infrastructure which enables reporting of bank accounts data by account data providers (commercial banks); and use of these data in order to implement the execution of final enforcement decisions by enforcement authorities and other competent authorities under the provisions of the Law on Enforcement Procedure.

The Bank Accounts Register during 2018 was accessed by 43 private enforcement agents, 91 officials from the Kosovo Judicial Council, as well as 18 officials from the Tax Administration of Kosovo, through which they exchanged about 22,000 enforcement procedure decisions with commercial banks. In this register are reported data of over 1,590,000 resident and non-resident entities (natural and legal persons).

### 6.3.2 Supervision and analysis of payment systems

In the area of supervision and analysis of payment systems during 2018, processes have been developed that have affected the improvement of the technical infrastructure and the regulatory framework. In the first quarter, the project for automation of monthly reporting for payment instruments by commercial banks was finalized and implemented. The new monthly reporting system is designed with a high level of security and enables the processing of reports from each commercial bank in a consolidated format and according to time periods for payment statistics, facilitating work and at the same time increasing efficiency and eliminating possible errors during data processing. The functionalization of the electronic reporting process has also stimulated other developments in the field of reports and analysis, resulting in the revision and standardization of monthly reports intended for publication.

In December 2018, the Methodology was adopted for the assessment of systemically important payment systems, which is broadly in line with the ECB's Methodology for assessment of systemically important payment systems, as well as the Principles for Financial Market Infrastructures developed by the Bank for International Settlements (BIS).

Based on this methodology, systemically important payment systems will be determined and their assessment will be carried out regarding compliance with the principles established under international standards.

During 2018, the annual analysis on the use of cards in Kosovo was reviewed, which has been expanded to include other analytical indicators and standardized into a more comprehensive document. In addition to information related to the socio-demographic distribution of cards used by Kosovo citizens and relevant factors that have affected the distribution of such cards, the document extensively includes information about the types of cards, the use of "contact" and "contactless" cards, the use of online cards, etc. Annual analysis on the use of cards in Kosovo is published on the CBK official website during Q4.

Also, within the framework of the quarterly analysis on the use of payment instruments in Kosovo, was published the analysis for the first quarter, reflecting the statistics related to the IPS process with a special emphasis on the number of bank accounts, number and function of ATM and POS terminals, number of cards by function and card transactions.

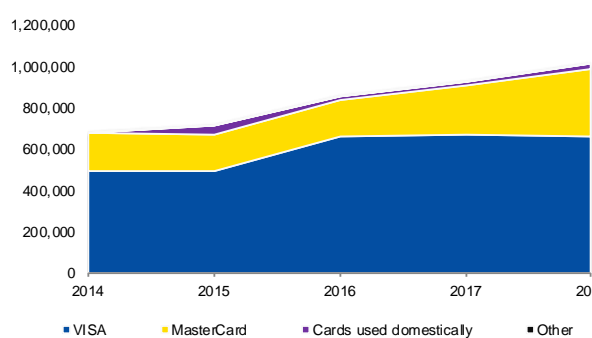
Periodic reports were drafted and published regularly on the CBK official website:

- Monthly report on the number and value of IPS payments;
- Monthly report on commercial bank deposits and reserves;
- Monthly report on cash and non-cash instruments;
- Annual report on commercial bank deposits and reserves;
- Comparative annual report on electronic instruments.

### 6.3.3 Payment instruments and banking infrastructure for payment services

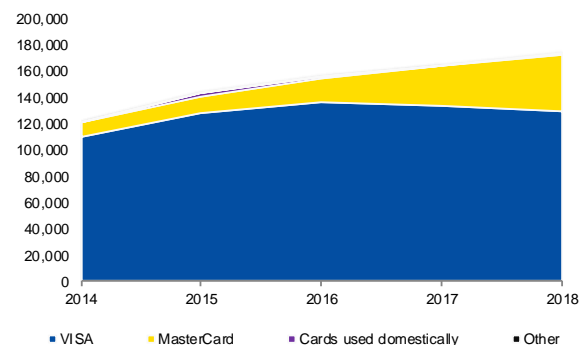
Banking reports on payment instruments indicate that by the end of December 2018 the number of debit cards amounted to 1,011 thousand, while the number of credit cards amounted to 173 thousand. Compared to the previous year, it is determined that the number of debit cards increased by 9.2 percent, while the number of credit cards has increased by 5.3 percent.

Figure 82. Number of debit cards, by their type



Source: CBK (2019)

Figure 83. Number of credit cards, by their type

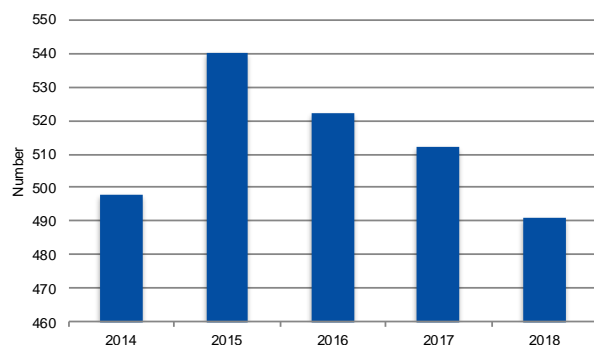


Source: CBK (2019)

With regard to the ATM (automated teller machine) and POS (point of sale) terminal infrastructure provided by commercial banks in Kosovo, it is noted a constant increase in the number of POS terminals (13,183), while the ATM terminals were characterized by a slight decrease during this year (491).

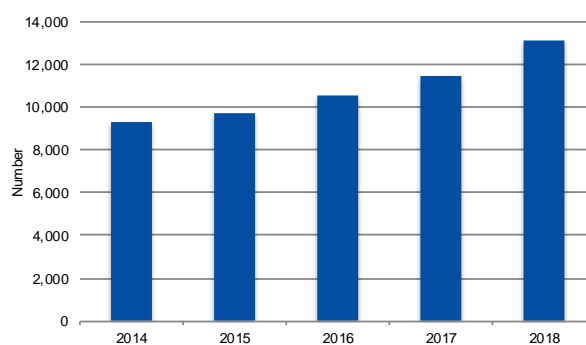
Along with the increase in the number of terminals and payment instruments, the statistical data indicate that 2018 was characterized by an increased use of electronic payment instruments.

Figure 84. Number of ATM terminals



Source: CBK (2019)

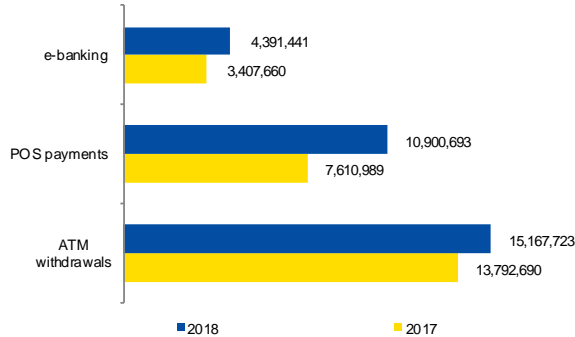
Figure 85. Number of POS terminals



Source: CBK (2019)

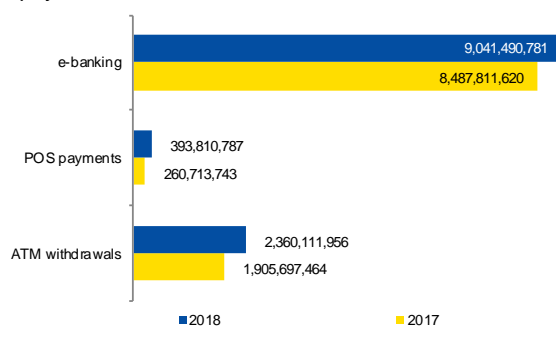
The number of payments via e-banking amounted to 4.4 million transactions, which compared to the previous year present an increase of 28.8 percent, while their value amounted to euro 9 billion, with an annual increase of 6.5 percent.

Figure 86. Annual transactions volume of electronic payment instruments



Source: CBK (2019)

Figure 87. Annual transactions value of electronic payment instruments



Source: CBK (2019)

2018 was also characterized by an increasing trend in the use of electronic payment instruments. The number of POS terminal payments was increased by 43.2 percent, while their value increased by 51.0 percent. Likewise, ATM terminal withdrawals were characterized by an increase. The number of ATM withdrawals during 2018 increased by about 10.0 percent, while the value of withdrawals increased by 23.8 percent.

Based on bank reports, it results that by the end of 2018, the total number of customers' bank accounts was around 2.05 million, representing an increase of 4.4 percent compared to the end of 2017. Around 98.4 percent of accounts belong to residents, while around 1.6 percent to non-residents.

Out of the total accounts, by the end of 2018, around 250.7 thousand accounts had "online" access to make payments or to check account balance, or around 15.0 percent of accounts.

With the entry into force of the "Regulation on the reporting of payment instrument statistics" from 2018, the methodology of reporting the number of accessible accounts from the Internet has also changed. This number represents the number of current accounts that have access to e-banking, whereas according to the previous methodology all accounts have been reported, including current, savings and termination accounts. Based on the statistical data, infrastructure development resulted with a faster pace of development. The rapid growth trend in the use of electronic payment instruments remains encouraging.

Table 23. Number of accounts

Description of accounts	Total client accounts			Internet accessible accounts		
	2016	2017	2018	2016	2017	2018
Client accounts (1+2)	1,875,091	1,967,755	2,054,799	230,905	301,841	250,733
1-Resident accounts (a+b)(%)	98.45%	98.40%	98.43%	97.86%	98.22%	97.96%
a-Individual (%)	92.85%	93.10%	92.98%	79.68%	82.46%	82.95%
b-Business (%)	7.15%	6.90%	7.02%	20.32%	17.54%	17.05%
2-Non-resident accounts (C+ D)(%)	1.55%	1.60%	1.57%	2.14%	1.78%	2.04%
C-Individual (%)	96.99%	97.48%	98.70%	91.54%	91.75%	91.40%
D-Business (%)	3.01%	2.52%	1.30%	8.46%	8.25%	8.60%

Source: CBK, Bank reports according to the "Regulation on the reporting of payment instrument statistics"

Regarding the comparison of Kosovo to regional countries, it is noted that the rapid trend of development in the recent years has impacted Kosovo's improved position compared to neighboring countries.

**Table 24. Comparative table of payment instruments and terminals<sup>20</sup>**

Description	Inhabitants	ATM per million of inhabitants	POS per million of inhabitants	Credit Cards per million of inhabitants	Debit Cards per million of inhabitants	E-banking per million of inhabitants
Kosovo	1.79	286	6,425	92,034	517,435	168,626
Albania	2.91	257	2,507	33,097	314,130	110,803
Czech Republic	10.55	473	15,119	138,098	970,965	-
Turkey	80.42	620	20,604	776,593	1,636,327	-
Slovenia	2.07	795	16,747	60,134	1,255,930	-
Bulgaria	7.05	813	18,016	163,078	908,640	-
Hungary	9.79	473	15,065	143,047	787,745	-
Bosnia	3.79	406	7,038	-	-	129,514
Montenegro	0.63	638	19,389	61,379	718,827	112,954
Croatia	4.21	1,174	28,176	31,719	1,646,620	-
Northern Macedonia	20.8	496	15,407	180,083	695,877	37,041

Source: CBK (2019) and central banks or supervisory authorities of the respective countries

#### 6.3.4. Project for small-value payment cost study

In 2018, the CBK, with the support of the World Bank (under SECO - State Secretariat for Economic Affairs financing) has started the Remittances and Payments Program aimed at increasing access to and use of bank accounts, enabling accounts for transactions and further development of electronic payment instruments, through improving conditions and increasing the efficiency of local small-value payments as well as international remittances. In addition, this program aims to strengthen the role of oversight of payment systems in the country, as well as to prepare a national strategy for the advancement of small-value payments in cooperation with all participants in the payment ecosystem in Kosovo.

During 2018, within this program, the CBK, with the support of the World Bank, has started conducting a study to evaluate the costs of small-value payment services. This study will evaluate the costs on the supply side, which implies costs for infrastructure providers and payment services, as well as on the demand side, which implies costs for payment service users, in this case government institutions, businesses and households. This project is expected to be finalized during 2019-2020 and aims to present the cost of various payment instruments (cash, debit and credit cards, credit transfers and direct debit) to the country's economy, as well as identify the factors that have greater impact on the level of these costs. The data extracted from this study enables orientation of CBK, banks and other institutions' joint actions in order to reduce the costs of small-value payments and increase the efficiency and security of electronic payment instruments in view of the reduction of use and costs arising from the use of cash for the society.

#### 6.4. Assets management

The Central Bank of Kosovo carries out the investment of reserves as well as the operation of the depository system for the trading of Securities of the Government of the Republic of Kosovo. The international reserve management duties are specified in the Law on Central Bank of the Republic of Kosovo.

<sup>20</sup> The data in the table is from 2017 since most countries in the region have not yet published 2018 data.



### 6.4.1. Investments management

The Central Bank manages its reserves to achieve the Investment Policy objectives approved by the Executive Board, where the security and liquidity of the assets are a priority over return on investment.

#### Instruments

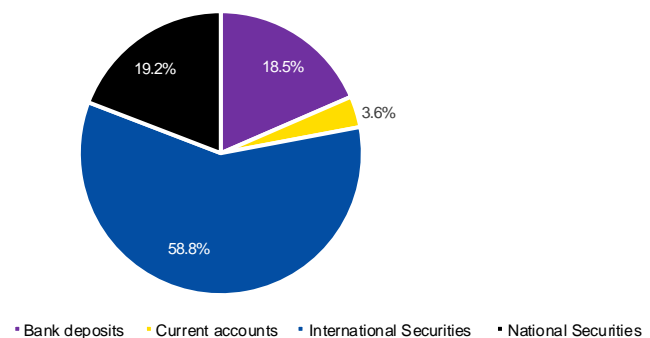
The general portfolio of reserves consists of liquid portfolio and investment portfolio instruments. The liquid part of reserves is maintained to provide sufficient means for making payments and transfers according to the needs of the CBK and its depositors. Whereas the investment part consists of safe financial instruments with an investment credit rating.

The composition of the CBK reserve portfolio as of 31 December 2018, is shown in figure 88, where we see a high concentration on the maintenance of liquid assets of 3.5 percent of the portfolio and investments in national and international securities that can easily be converted into liquidity.

CBK reserve is comprised of the following financial instruments:

- fixed-term bank deposits with a maturity of up to one year, i.e. deposits in euro and US dollar with EU countries banks with investment credit rating or with US Federal Reserve;
- international securities, respectively government, supranational or state agency bonds in euro with a maturity up to five years;
- state bonds issued by the Government of Kosovo traded on the secondary market of securities with a maturity of up to five years.

Figure 88. Portfolio of CBK reserves, as of 31 December 2018



#### Currencies

Euro is the main currency in the CBK's investment portfolio with over 99.0 percent of assets denominated and paid in euro currency. Less than 1 percent of the reserves portfolio is held in US dollar invested in daily placements with the interest rate quoted by repurchase agreements with the US Federal Reserve. The distribution of assets in the two respective currencies is made on the basis of CBK's reserve content by its depositors, which mainly come and are held in euro currency.

#### Distribution

The continuation of the deposit facility rate policy by the European Central Bank which has resulted in high prices of debt instruments in the Euro system, has dictated the distribution of investment portfolio. The main feature of 2018 is the placement of assets into fixed interest rate debt instruments with longer terms, respectively periods of up to five years, as a result of inability to invest with shorter terms positive returns.

As shown in figure 89, bank deposits constitute a financial instrument with low share in the CBK portfolio, which has helped to reduce credit risk. As a result of unfavorable investment rates in this category of financial instruments, the CBK has decided to maintain this level of exposure. The second half of 2018 was characterized by improved returns on investments in bank deposits and as a result CBK used the opportunity to increase its bank deposits exposure from 2.53 percent in January to 18.5 percent in December. At the same time, there is decline in the high level of liquidity (cash) kept of 43.9 percent in January to 3.6 percent in December in order to avoid negative rates on current accounts. Simultaneously, a sufficient liquidity level has been maintained.

National and international securities are the most favorable instrument in the CBK portfolio and consequently exposure in this category of financial instrument, as shown in figure 89 has arisen from 53.5 percent at the beginning of the year to 78.0 percent of the portfolio at the end of the year.

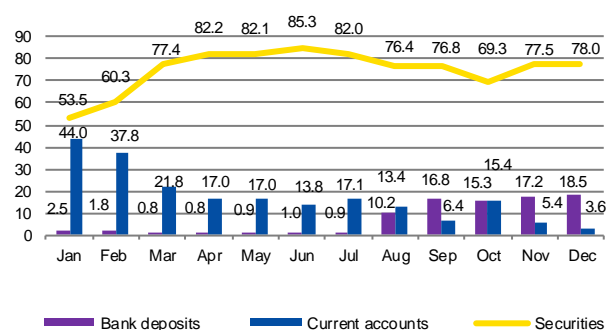
In particular, Securities issued by the Government of the Republic of Kosovo constitute the highest return instrument in the investment portfolio. However, international securities still represent the financial instrument with the highest share in the CBK portfolio, respectively 58.80 percent of the portfolio, as can be seen in figure 88.

The deposit facility rate effect (-0.40%) imposed by the CBK has had an impact in keeping less total reserves of the depositors in CBK, where a decline in their total since 2016 has been noted, as shown in figure 90.

In figure 90, the lowest level of available reserves for investments in 2018 compared to the previous one is deliberately set by adjusting the cash holdings in treasury to avoid paying the negative rates imposed by commercial and central banks of the Euro system to the external accounts of the CBK. In this way, the CBK has avoided losses from negative rates.

In parallel with maintaining a lower level of general investment reserves in 2018 according to figure 91, we see higher concentration in securities for the current year compared with the previous years. The growth of exposure in securities as the most favorable and safest instrument in the portfolio has enabled the reduction of credit risk at the investment portfolio level, which before 2016 was relatively higher due to the high participation of bank deposits in the total portfolio. The reduction of credit risk in the portfolio is one of the main performances of changes in the portfolio structure by asset categories, whereby concentration on securities of central and supranational government debt has also improved liquidity considering that these securities are easily tradable and convertible into cash.

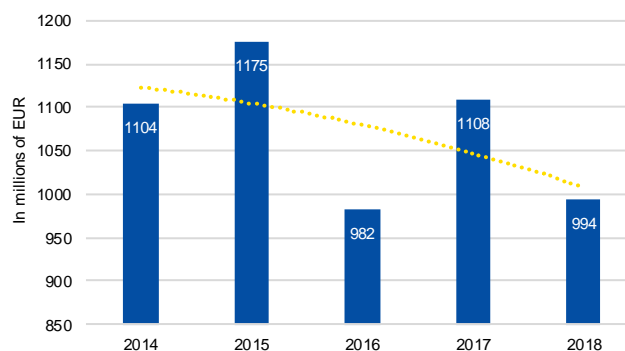
Figure 89. Ratio of the CBK portfolio investments spread (in percent)



Source: CBK (2019)

a

Figure 90. The ending balance of funds invested by the CBK as of 31 December of the respective year



Source: CBK (2019)

### 6.4.2. Portfolio performance for 2018

European Central Bank continued its monetary policy during 2018 keeping the rates unchanged. In addition, it has continued with lower intensity the program for the purchase of assets to inject liquidity into the market. This liquidity and high demand for debt instruments of the Euro system has made rates of return on these instruments to be extremely low and negative for issuers with higher credit rating and maturities up to 7 years.

In 2018, 2.2 million euros of gross income were generated from all investment categories, of which 189 thousand euros are from placements in US dollars.

### 6.4.3. Risk management

Assets are invested in securities issued by most credible Euro area states, agencies and supranational institutions, with investment credit rating, according to the ratings of International Credit Agency: Standard&Poor's and Moody's.

Financial risks during the investment of assets by CBK are: credit risk, interest rate risk, liquidity risk, currency risk and operational risk.

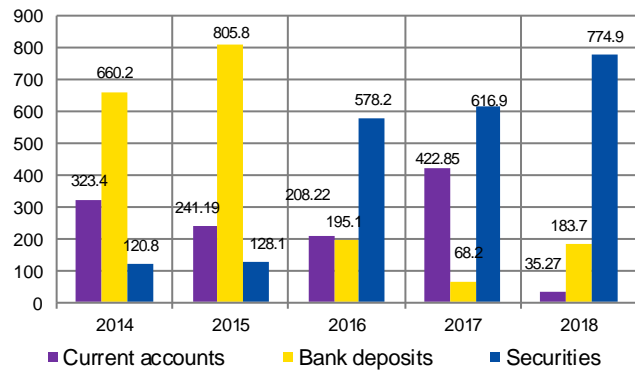
**Credit risk** - Investment portfolio is distributed in order to keep the credit risk at a low level. All investments are realized in relation to the criteria of short-term and long-term credit ranking, set forth in the Investment Policy P-2/A-2 (Moody's/S&P) for short-term and Baa2/BBB- (Moody's/S&P) for long-term, as well as in extraordinary cases on the market, with P-3/A-3 for short-term and Baa3/BBB- (Moody's/S&P) for long term.

**Interest rate risk** – Interest rate risk management by the CBK versus interest rate change limit is supplemented by monitoring the sensitivity of CBK assets and liabilities to different standard and non-standard interest rate scenarios.

**Liquidity risk** – is the risk in timely fulfilment of the obligations from its financial liabilities. CBK's position on liquidity management is to ensure that there is consistently sufficient liquidity to meet timely obligations both in normal and disadvantaged conditions, without incurring unacceptable losses or risking damage to the reputation of the CBK.

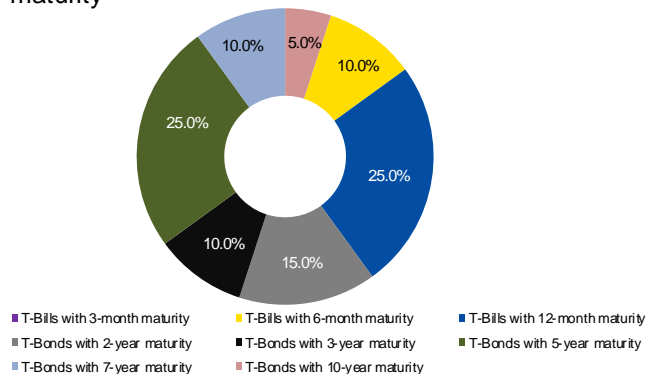
**Currency risk** - appears as a result of exchange rate movements that implicate the value of currencies in the financial market, where the return or loss as a result of exchange rate changes may arise;

Figure 91. Distribution of portfolio investment, end of the year



Source: CBK (2019)

Figure 92. Structure of Government securities by maturity



Source: CBK (2019)

**Operational risk** - it is the risk of fulfillment that has to do with deposit placement, securities trading and their timely payment.

#### 6.4.4. Kosovo Government securities

Pursuant to the Law on Public Debt, the CBK acts as a fiscal agent for the Ministry of Finance in the process of Government Securities issuance.

In accordance with the Securities Issuance Calendar published by the Ministry of Finance, in 2018, 20 auctions in total were conducted through the electronic platform: 2 auctions for treasury bills with maturity of 6 months, 5 auctions for treasury bills with a maturity of 12 months, 3 auctions for government bonds with a maturity of two years, 2 auctions for government bonds with a maturity of three years, 5 auctions for government bonds with a maturity of five years and 2 auctions for government bonds with a maturity of seven years.

On 30 July 2018, for the first time, was conducted the auction for issuance of government bonds with a maturity of ten years.

Figure 92 shows the structure of securities of the Government of Kosovo, expressed in percentage according to original maturity.

Figure 93 shows the participation by investor category in the auctions of securities of the Government of Kosovo.<sup>21</sup>

Compared to the previous year, the average annual return rate for treasury bills with a maturity of 6 months marked an increase of 18 base points, whereas for treasury bills with maturity of 12 months was marked an increase of 24 base points. The average annual return rate for Government bonds with a maturity of 2 years in 2018 marked an increase of 86 base points, for 3-year government bonds was marked an increase of 67 base points, for 5-year government bonds was marked an increase of 142 base points, while for 7-year government bonds was marked an increase of 53 base points. The average return rate for 10-year government bonds for 2018 resulted with annual return rate of 5.3 percent (figure 94).

Figure 92. Structure of Government securities, by maturity

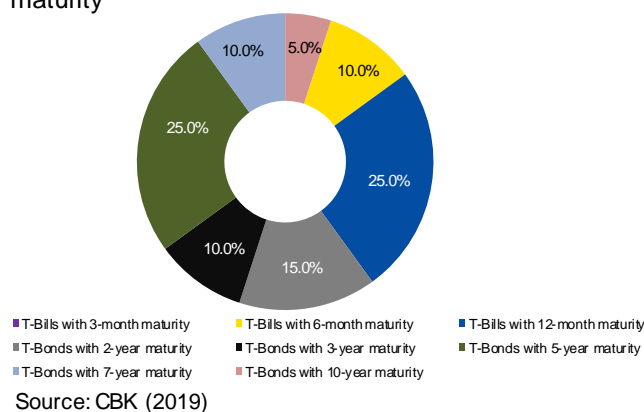
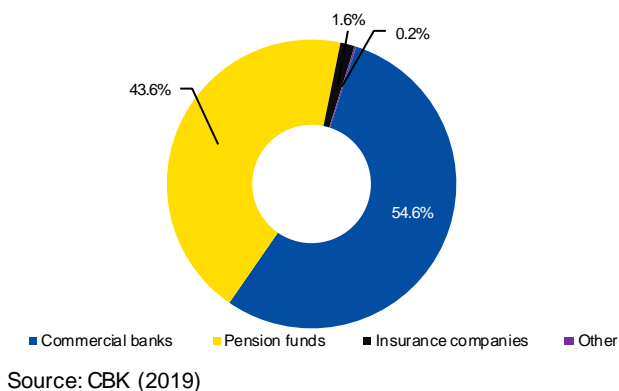
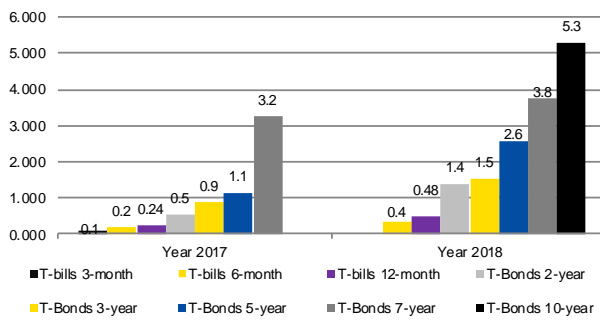


Figure 93. Structure of participants at auctions



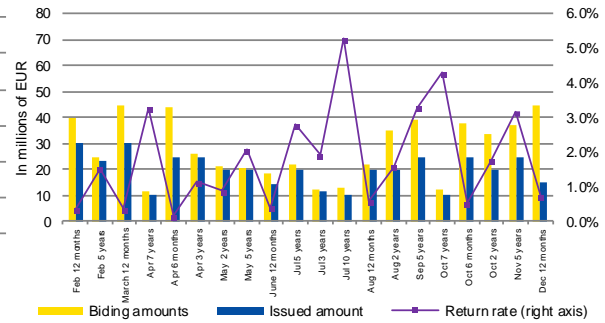
<sup>21</sup> Participants in the Government securities market were commercial banks, the Kosovo pension saving fund, insurance companies and other participants through commercial banks (Primary Stakeholders).

Figure 94. Annual average return rates for 2017 and 2018



Source: CBK (2019)

Figure 95. Auctions of Government Securities, in 2018



Source: CBK (2019)

Figure 95 presents all the auctions, where it can be seen that the highest market demand was for treasury bills with maturity of 6 months and 12 months and for government bonds with maturity of two years.

Trading activities in secondary market taking into consideration the number of the Government of Kosovo Securities transactions, compared to the previous year, continued with higher intensity. Market participants were investors, such as commercial banks, insurers, natural persons and public institutions. The annual trading volume in the secondary market of government securities during 2018 was euro 78.6 million, while in 2017, it was euro 143.7 million, a decrease of 45.2 percent. The annual number of transactions for 2018 was 81, which is 30.6 percent higher compared to 62 transactions conducted in 2017. During December 2018, transactions for the short-term liquidity needs between commercial banks, through government securities repurchase agreements, have been conducted for the first time.

### 6.5. Information technology

The CBK has continued the enhancement of the service level, technology advancement and enhancement of the information system security. One of the most important projects implemented this year is that of system security assessment and testing. With this project, CBK demonstrates the utmost commitment to having safest and most advanced IT systems in order to ensure the greatest possible level of security, data integrity and communication with the financial sector. Also, in the light of overall advancement in payment systems, the CBK has also advanced the international payment system, which is fully in line with SWIFT requirements.

During 2018, investment in staff and security and monitoring equipment has continued in order to further increase the internal capacities.

### 6.6. Credit registry of Kosovo

Based on the Law on the Central Bank of the Republic of Kosovo, the CBK may operate, regulate, license, register and supervise credit information systems, in order to collect and disseminate credit information between financial institutions, and may issue regulations for its implementation.

Based on this objective, since 2006, the Credit Registry System (CRK) is under CBK's management, which functions as an Internet-based application and aims at collecting and disseminating positive and negative information of natural and legal persons, with the aim of improving the client credit rating process, as well as the performance of CBK supervisory function.

From a general economic perspective, the Credit Registry facilitates the lending in terms of volume and costs, as well as contributes to the financial stability in general, by helping lenders to make a fair decision-making, within a shorter time, in a more accurate and objective manner.

Based on the Credit Registry Regulation, members of the CRK system comprise all the financial institutions designated by the CBK to be credit providers, including; all commercial banks, microfinancial institutions, non-banking financial institutions and insurance companies licensed to deal with special credit activities.

Based on the CRK system data, currently there are 1689 active users from lending institutions, dominated by users from banking institutions with 1303 active users, followed by micro-financial and non-banking institutions with 355 users and finally insurance companies with 31 active users of the CRK system. During 2018, the Credit Registry has registered 463 new users.

The Credit Registry system is designed to provide an advanced infrastructure for the functioning of credit market by presenting an important tool for lending institutions in credit risk assessment.

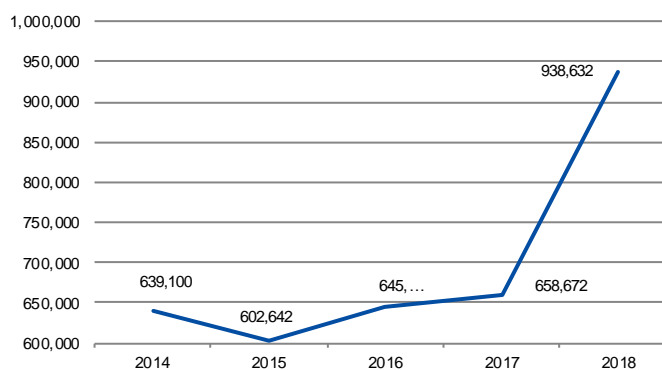
The CRK system is an internet-based application and may be accessed directly and in real time by the lending institution staff.

Lending institutions in the CRK system investigate on the credit applicants' credit history, where according to the statistics emerging from the CRK system, the number of investigations during 2018 reached 938,682 investigations.

An overview of this activity by years, for the years 2014, 2015, 2016, 2017 and 2018 is shown in figure 97.

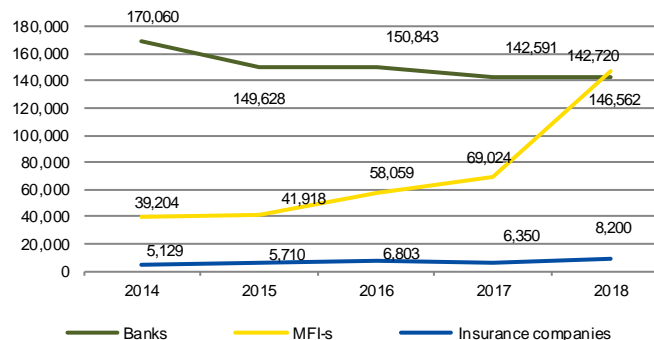
All loan providers are obliged to report to the CRK, all loan applications and the loans issued to their clients, in accordance with the terms of the relevant instruction issued by the CBK.

Figure 96. Number of surveys in CRK system



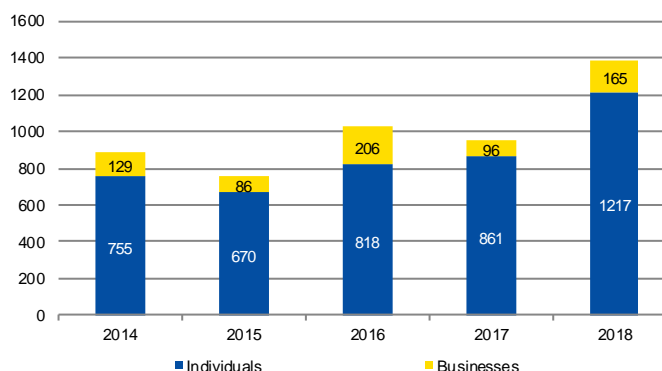
Source: CBK (2018)

Figure 97. Number of approved loans in CRK system



Source: CBK (2018)

Figure 98. Number of requests for credit reports



Source: CBK

During 2018, based on the CRK system data, 297,482 approved loans were reported, including loans, credit cards, overdrafts, residential mortgage loans, credit lines, guarantees, leasing, factoring and other credit assets.

The ratio of the number of approved loans, according to lending institutions for 2014, 2015, 2016, 2017 and 2018 is shown in figure 98.

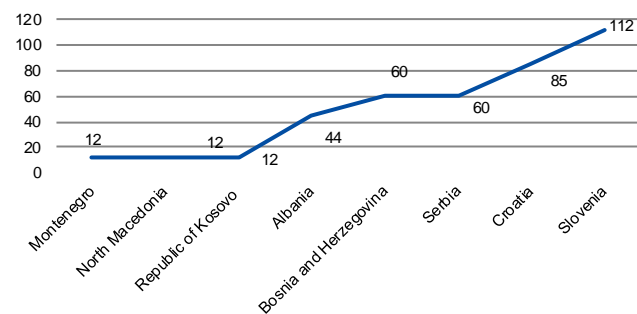
Figure 98 presents the number of requests for the borrowers' individual credit report (natural/legal) based on the Credit Registry system data for 2014, 2015, 2016, 2017 and 2018.

The Credit Registry during 2018 directly contributed on the data collected from the World Bank (WB) for the Doing Business ranking.

World Bank Doing Business Report 2019, published on 31 October 2018, ranks Kosovo in the 12 position for the second year in a row, for the indicator "Getting Credit".

If a comparison is made to the countries of the region, Kosovo stands on the same level with the two other countries Montenegro and North Macedonia, as the countries with the best ranking in the region on the "Getting Credit" indicator".

Figure 99. Kosovo's ranking in "Doing Businesses report 2019"



Source: Doing Business 2019

Figure 99 shows the ranking of the Republic of Kosovo on the indicator "Getting Credit" in comparison to the countries of the region.

## 6.7. Activity in the field of economic analysis and financial stability

In order to achieve its primary objective, namely maintaining financial stability through regular monitoring of systemic risk, CBK, inter alia, continuously performs identification, monitoring and analysis of the systemic risk. In this context, identification of potential risks is done through continuous monitoring of cyclical and macroeconomic structural developments and the financial system. On the other hand, risk assessments and their potential impact on financial stability and, consequently, overall macroeconomic stability, is done through regular qualitative and quantitative analysis, including the analysis of the high-frequency economic and financial indicators performance, forecasts on key macroeconomic indicators and the application of models that address the cyclical, structural and cross-sectoral dimension of systemic risk.

The CBK continued to focus on increasing the volume and quality of analysis that examine the main macroeconomic developments in the country and those focusing on the financial stability assessment. Through the identification and assessment of the risks threatening the financial system and its infrastructure, with a perspective of risk-based analysis, the CBK aims not only to inform the public on the situation of the financial system but also to increase transparency and promote professional debate over developments and challenges of the country's financial system and its infrastructure.

In addition to various periodic analysis and regular monitoring of key developments indicators in the relevant sectors of the economy, CBK has developed and adapted several risk assessment models, such as Financial Stability Map model (which analyzes developments through eight risk dimensions to financial stability), Stress Testing model (one of the key tools for identifying current vulnerabilities in the banking sector and potential systemic risks for the upcoming year),

the model for identifying systemically important banks (a typical macro-prudential policy instrument that assesses the risk of spillover of a systemic institution's negative effects to the whole system), as well as the model of Countercyclical capital buffer (a typical model of macro prudential policy).<sup>22</sup>

In 2018 for the first time after 12 volumes was entirely reviewed in content and analysis quality one of the most important periodic publications, Financial Stability Report (FSR). The report has been restructured in its entirety in order to provide a more thematic and comprehensive perspective on the main risks and challenges to financial stability, always in view of ensuring the CBK's primary objective, maintaining financial stability through identification and assessment of risks that threaten the financial system and its infrastructure. This FSR edition is complemented by revised models for systemic risk assessment such as stress- test analysis and the model for assessing the countercyclical capital requirements for the Kosovo banking sector.

Also, for the first time in 2018, the CBK published the study material labelled Macro-Econometric Model of the Central Bank of the Republic of Kosovo (KMM). This material presents the Macro-Econometric Model of Kosovo's Economy (KMM), a model built during the period 2016-2017 by the Department of Economic Analysis and Financial Stability. Being a model that is still in the process of full operationalization in 2019, the results generated by the model in the forecasting and simulation process for quarterly estimates, in combination with other analytical tools and high-frequency indicators monitored, have enabled increasing the quality of regular qualitative and quantitative analysis at CBK.

To provide the public with a faster access to information about developments in the country's economy, the CBK has continued to publish on a regular basis the Quarterly Assessment, which reports provide an overview on key macro-economic developments and developments in all components of financial system of the economy on quarterly basis. Moreover, CBK continues to publish Monthly Financial Sector Information Report, which presents a summary of key indicators for all components of Kosovo financial system and which is published every month.

The CBK continued to conduct Bank Lending Survey with commercial banks, whereby collecting important information on factors affecting the lending activity of banks in Kosovo as well as expectations for future lending activity. Information obtained from this survey, which is conducted twice a year, apart from assisting in better understanding of the banking sector development, serve as a significant input for forecasting economic growth and other macroeconomic aggregates.

## 6.8. Main activities in the field of statistics during 2018

Within the responsibility of compilation and publication of monetary and financial sector statistics (MFS) and external sector statistics (ESS), CBK has made significant progress in further advancing of statistics system and application of the most recent international standards in the area of statistics. The compilation and publication of statistics has been properly done and in accordance with international standards. CBK has met all the statistical requirements necessary for oversight of financial institutions and monitoring of key macroeconomic developments in Kosovo's economy. Progress has been made on further alignment of ESS with Eurostat requirements, extension of the range with new statistics and progress has been made in the establishment of a framework for compiling financial account statistics.

In the effort to increase the quality of statistics, during the summer 2018 for the third time surveys were conducted with non-residents visiting Kosovo during this period. Unlike the past

<sup>22</sup> More detailed information on methodology and model analysis is presented in the Financial Stability Report No.13



two years, this time the survey was completed using a highly advanced system borrowed from the World Bank, which has enabled increased data collection efficiency and improved quality. The data collected were used to calculate the estimates of the expenditures of migrants in Kosovo, which have a significant impact on the statistics of travel services and other categories related to the impact of migrants in Kosovo.

During 2018 Kosovo has received a technical assistance by Eurostat, whereby two projects were initiated aiming at improving the statistics that are the CBK's responsibility; "Macroeconomic Imbalance Procedure (MIP)" and "International Trade in Services Statistics (ITSS)". These projects are funded under the multi-beneficiary IPA 2015 program by the European Commission and are intended to increase the quality of relevant statistics and their alignment with the acquis requirements. The deadline for fulfilling the tasks for these two projects is until September 2019.

In 2018 Kosovo has led CEFTA meetings. In the meeting held in November 2018, CBK has led the first part of the meeting. Within the responsibilities as a member of CEFTA, statistics that are CBK's responsibility have been reported within the deadline and according to the data collection requirements for CEFTA members.

The Department of Statistics, in its effort to advance the statistical system, in the second part of 2018, in cooperation with the Department of Information Technology (DTI), has engaged in building an online data collection site by surveyors for the non-financial corporate sector called DCSES (Data Collection System for Enterprise Survey).

During 2018, the range of new statistics has expanded, publishing several new tables on reserve assets, exports and imports of goods by countries and types of goods. Significant progress has been made in advancing the data processing system from the final application, enabling automated generation of some reports and building validation rules.

The CBK has commenced building a framework for compiling financial account statistics (FAS). Initially, an assessment was conducted of existing data sources necessary to compile statistics on financial accounts. Then, the missing data was identified. At the same time, the way of data processing and compilation of statistics for Kosovo financial accounts was defined.

## **6.9. Review of the requests of financial institutions supervised by the CBK**

CBK during the exercise of its oversight powers, acting in accordance with Article 67, paragraph 4 of the Law no. 03/L-209 on Central bank of the Republic of Kosovo, before imposing administrative penalties, provides a detailed statement to the person against whom the penalty is to be imposed describing the facts and the law supporting the existence of a violation, and shall give such person a full opportunity to provide facts and arguments as to why the penalty should not be imposed.

In the document / statement sent by the CBK (Notification for the purpose of imposing Administrative Penalties), the legal advice is provided, whereby the institution is informed with the right to submit a request, within 15 calendar days from the day of receipt of this statement, for review by the Review Division.

Institutions overseen by the CBK after having received such a statement, and having the opportunity to re-examine the punitive measure, if they decide to complain, address the request to the Review Division.

Based on the above said, the Review Division during 2018 has received for review a number of requests from the financial institutions overseen by the CBK.

All requests were reviewed with professional care and in compliance with the legal framework, addressed in the form of recommendations and forwarded to the Executive Board of CBK for decision-making.

The Review Division has identified the changes necessary in the regulation with the purpose of regulating and advancing certain issues with direct effect on oversight and regulation issues.

In this context, the Review Division has reviewed the regulation and at the request of CBK Executive Board of Directors, initiated the amending and supplementing of the Regulation on Procedures for Imposing Administrative Penalties.

## 7. Internal developments

### 7.1. Internal audit

The Internal Audit (hereinafter: IA) is one of the key links of independent Internal Controls, designed and established by the institution. IA together with the external audit completes the chain of accountability within the CBK.

The CBK legal framework has formally provided a full mandate to the IA to independently conduct audit activities in order to provide Management with recommendations for the best economic, efficient and effective management of the budget and property as well as the increase of the value of the operations and their improvement. IA provides security to senior non-executive oversight mechanisms, such as the CBK Board and the Audit Committee that processes, internal controls, operations and other activities within the CBK are effectively functioning.

During 2018, the Internal Audit has conducted numerous activities based on the Annual Work Plan of IA for 2018, approved by the CBK Board. The annual plan is compiled based on the risk assessment methodology, a model adapted from the practice of the European Central Bank. Preparation of the Annual Plan was preceded by the Audit Universe prepared for the three-year period 2017-2019. The plan prepared by the IA, after review and discussions with the Audit Committee, has been approved by the CBK Board. With the same methodology, IA's Annual Work Plan was prepared for 2019, as well.

Auditing activities carried out during 2018 were of financial, compliance, operational and information technology nature. It should be noted that for the first time during this year, IA has carried out 'integrated-type' audits that included a combination of financial and regularity audits accompanied by IT audits.

IA's scope has continued to be oriented towards improving and advancing systems and processes that create functional security and help Management in further improving and advancing corporate governance and achievement of CBK objectives.

In accordance with the CBK Law and the Internal Audit Statute, the Head of IA has reported regularly in quarterly and annual periods during 2018 at the Audit Committee and the CBK Board. In these reports, from the audit level were addressed the findings of the auditor, recommendations and actions taken to address them. Reports have been discussed in advance in the Audit Committee and the CBK Board and then issues to be further dealt with, which require measures for implementation have been addressed to the Executive Management. Through such reporting, IA has reported regarding the fulfilment level of the recommendations given in the previous periods.

In view of fulfilling recommendations provided by external assessments (World Bank; European Central Bank; IMF - Safeguard Assessment and USAID), IA continued with activities that had an impact in this regards. Recommendations are related to improvement and advancement of the quality of audit work in line with International Standards on Professional Internal Audit Practice published by the International Internal Audit Standards Board.

During 2018, IA continued to carry out auditing activities set out in the Annual Work Plan 2017-2018. By the time of reporting, a total of eighteen (18) audit engagements were carried out. The main areas that were audited in 2018 are related to: Cash, financial oversight, asset investment, physical security, review of financial statements, review of functions and other processes in accordance with estimated risks. Within the planned audits, based on the request under the agreement between the Government of Kosovo, CBK and IMF, on a six-month basis, two (2)

"independent audits of the government accounts reconciliation" were conducted. Reports were sent to IMF through the resident representative at the time stipulated in the Agreement.

During 2018 IA continued activities related to the continuous professional development of staff, through participation in several international and national events. The IA staff has attended several trainings, conferences and workshops for further education and professional development.

Whereas, during 2018, an IA staff has been certified in CRISC (Certified in Risk and Information Systems Control)<sup>23</sup> organized by ISACA<sup>24</sup>.

## 7.2. Human resources

In implementing the strategic objectives of the Central Bank of the Republic of Kosovo and human resource management policies, the CBK has continuously been focused on acquiring and implementing the best human resource management practices applied in similar institutions.

Effective human resource management attaches particular importance to adapting the institution's regulatory infrastructure to the best standards, and also provides opportunities for development and promotion for all employees, aiming at increasing the professionalism, performance and motivation of employees.

By the end of 2018 the number of employees in the Central Bank of the Republic of Kosovo was 218. The average age of employees was 41.53 years. Gender representation at the level of specialists and heads is balanced. The ratio of women to men is 51.8 percent - 48.2 percent, while this ratio at the management level is 46.2 percent - 53.8 percent.

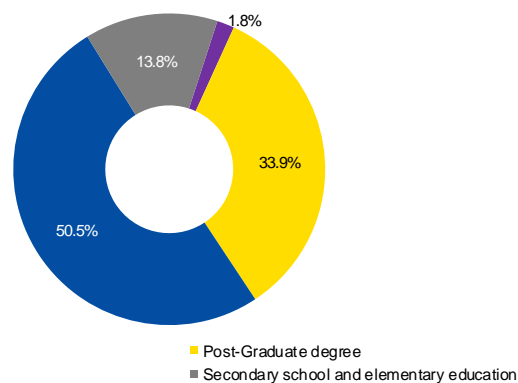
In the general structure of the Central Bank of the Republic of Kosovo 4 employees or 1.8 percent hold PhD

degrees, 74 employees or 33.9 percent with postgraduate education, 110 employees or 50.5 percent with university education, 27 employees or 12.4 percent with secondary education and 3 employees or 1.4 percent with basic education (figure 100).

The Central Bank of the Republic of Kosovo acknowledges the staff as one of the most important resources and continuously engages in their support to provide them with adequate knowledge, skills, expertise and adequate professional development to fulfill their duties and responsibilities according to the highest standards, and to achieve their full potential, creating conditions for postgraduate studies and participation in conferences, trainings, courses, seminars, etc.

Of the overall number of employees, 99 employees or 46.1 percent of them participated in vocational training that were mainly organized by the European Central Bank, the IMF, the Joint Vienna Institute - JVI, Deutsche Bundesbank, the Netherlands Bank, The Bank of Poland, the Bank of France, the Bank of Italy, the Bank of Czech Republic, the Istanbul School of Central Banking, the Kosovo Banking Association and the Center of Excellence in Finance - CEF".

Figure 100. Structure by education



Source: CBK (2019)

<sup>23</sup> Certified in Risk and Information Control Systems

<sup>24</sup> The Association of Global Information Systems Professionals dedicated to audit, control and information security

During 2018 a total of 29 students finished the internship program at the Central Bank of the Republic of Kosovo. The main purpose of this program was that professional staff of the Central Bank of the Republic of Kosovo shares its experiences with distinguished students and carry out a research for assessing the expenses of our fellow countrymen during their stay in Kosovo in the summer season.

Seven students were involved in carrying out a study project for assessing the level and structure of expenditures of emigrants during their stay in Kosovo. Under the project, students conducted field surveys at selected border crossing points in Kosovo during July - August 2018, key results were derived from this questionnaire and finally a brief report with the main findings was produced.

### **7.3. CBK legal activity**

The Central Bank of the Republic of Kosovo during 2018 continued with the alignment and advancement of the existing legal infrastructure of the financial sector, with the main aim that the regulation are in line with the latest developments in EU legislation and international standards.

During this year, work has been done to supplement / amend the applicable laws such as Law no. 04/L-018 on Compulsory Motor Liability Insurance 04/L-018, as well as the Law no. 04 / L-093 on Banks, Microfinance Institutions and Non-Banking Financial Institutions. The purpose of amending/supplementing these laws is the harmonization with European Union legislation and best international practices and standards in order to achieve CBK objectives for maintaining and preserving financial stability as well as protecting the interests of policyholders and depositors. Law no. 04/L-018 on Compulsory Motor Liability Insurance 04/L-018 has been amended and supplemented in function of the approximation of this Law with the European directives and best practices of the countries in the region, as well as the specification of the provisions where difficulties have been encountered in their implementation in practice, while the Law on Banks, Microfinance Institutions and Non-Bank Financial Institutions no. 04 / L-093 has been advanced by dividing it into two separate laws: the Law on Banks and the Law on Microfinance Institutions and Non-Banking Financial Institutions. The Draft Law on Microfinance Institutions and Non-Bank Financial Institutions is currently at the competent governmental bodies for further approval proceeding.

Also, with the aim of fulfilling the objectives and tasks of the Central Bank, a number of sub-legal acts have been adopted by the decision-making bodies which, prior to their approval, have been legally reviewed. More specifically, the regulatory framework of financial institutions activity has been advanced with the aim of implementation of legal framework in force and harmonization with the new and existing legislation.

CBK has also been engaged in the conclusion of cooperation agreements with local and international institutions in order to perform more efficient tasks related to issues within the areas of mutual competencies of respective institutions.

In accordance with the legal authorizations and objectives set out in the legislation in force, the Central Bank of the Republic of Kosovo will continue with the further development of a modern legal regulation in the area of financial sector in order to ensure a stable, secure and sustainable financial system.

### **7.4. Risk management function**

Risk Management in the Central Bank of the Republic of Kosovo is oriented towards achievement of CBK objectives as stipulated by the Law.

Risk Management is a general process of identifying, analyzing, assessing, reporting and monitoring the risk, and as such is carried out at the Central Bank of the Republic of Kosovo according to the Risk Management Policy. Based on this regulatory framework and its strategy, CBK's activities related to risk management have aimed at:

- Maintaining and further developing of the risk management framework to ensure the achievement of CBK strategic objectives;
- Advancing the process of identification, assessment, reporting and monitoring of operational risk by further developing risk assessment methodology and developing instruments that will help implement the methodology; and
- Integration at all levels of the Central Bank's organizational structure;

The CBK has assessed and monitored the risks reported by the risk self-assessment process from all its organizational units. Also, CBK has carried out risk assessment activity for certain organizational units, which have significant activities and complex operations. The result of operational risk assessments and the overall level of risk is reported quarterly to the Executive Board.

For the purpose of continuous professional development, CBK staff has joined international professional organizations such as the Operational Risk Management Institute - ORMI, Risk Management Institute - IRM, Institute of Internal Auditors - The IIA and ISACA, which promote the development of risk management in general, and operational risk in particular.

Also, the Central Bank of the Republic of Kosovo joined IORWG, International Working Group on Operational Risk. This organization is open to all Central Banks and Monetary / Supervisory Authorities and has 95 members presently. CBK, as part of this Group, will benefit from active participation in working groups and the adoption of advanced operational risk management practices that the Group conducts for the central banks industry.

## 8. External relations and international cooperation

### 8.1. International cooperation

The Central Bank of the Republic of Kosovo (CBK), within its functions and responsibilities, has intensively continued to advance international co-operation.

Headed by the Governor Mehmeti, CBK has conducted productive meetings and collaborations with the international financial institutions: International Monetary Fund (IMF), World Bank (WB), the European Central Bank (ECB) and the European Banking Authority (EBA), United States Agency for International Development (USAID), European Commission (EC), Deutsche Bundesbank, German Federal Supervisory Authorities, Austrian Supervisory Authority, Turkish Bank and other institutions.

The CBK representatives led by the Governor Mehmeti were part of the delegation of the Republic of Kosovo at regular meetings such as the IMF and WB Spring Meetings, and annual meetings of the Board of Governors of these institutions, held in Washington and Bali, Indonesia. The delegation led by Governor Mehmeti, representing the Republic of Kosovo at IMF, held meetings with senior officials of the International Monetary Fund and the World Bank, officials from the US Treasury Department, and representatives of other international financial institutions. During these events, the delegation also attended a series of meetings with the counterparts from the Central Banks of different countries of the world.

In the framework of international cooperation, the CBK has advanced bilateral agreements with international institutions during 2018, where two memorandums of cooperation have been signed with the European Central Bank and the Turkish Bank.

During this year, Governor Mehmeti paid a visit to Germany where he held meetings with senior officials of the Bundesbank, discussing the latest economic and financial developments of the two countries. Also during this visit, Governor Mehmeti also met with the President of the Federal Financial Supervisory Authority (BaFin).

Governor Mehmeti also participated in the Central and Eastern European Forum, organized by the Euro Money Center in Vienna, attended by governors, finance ministers and representatives of financial institutions. Within this Forum, special meetings were held with the Managing Director of the European Bank for Reconstruction and Development (EBRD), and representatives of the highest level of Raiffeisen Bank International in Vienna.

During 2018, the Central Bank of the Republic of Kosovo was also represented in activities organized by counterpart banks such as:

- Meetings of the Regional Governors and Heads of Financial Sector, held on 26-27 March 2018 in Rovinj, Croatia, with discussions related to the focus on monetary policy challenges, the challenges of the economy related to the normalization of monetary policy and the solving of the problem of accumulated non-performing loans. In this meeting, Governor Mehmeti was part of the Governors' Panel.
- The seventh annual research conference, held on 12-13 April 2018 in Ohrid, North Macedonia, and organized by the National Bank of the Republic of North Macedonia, titled: "Around a Decade after the Crisis – Heading to the New Global Cycle and normalization of monetary policy", where the governor Mehmeti was part of the Governors' Panel, as a key speaker.
- Summit of the Finance Ministers, Governors of Central Banks and Directors of Tax Administration, held on 13-15 June 2018, organized by the Central Bank of Montenegro.

Governor Mehmeti was part of the Panel in this Summit, in which the topic of discussion was “Regional Financial and Monetary Stability, ten years after the global financial crisis”.

- The eighth Conference on “The Mystery of Low Productivity Growth in Europe”, held on 26 October 2018 in Poland, organized by the Bank of Poland, represented by the Deputy Governor for Banking Operations, Mr. Ismajli.
- Annual conference organized on 1 November 2018 by the Bank of Albania and London School of Economics and Political Science with the topic Monetary Policy, Economic Integrity and “New Normality”, where the CBK was represented by the Deputy Governor for Financial Oversight, Mr. Havolli.

During this period, the CBK was visited by delegations and senior officers of local and international financial institutions, ambassadors accredited to Kosovo and other senior officers of relevant institutions.

Among other things, CBK was an important part of the economic and financial events organized in Kosovo by various local institutions, such as:

- On 15 February 2018, on the occasion of the 10th Anniversary of Independence of the Republic of Kosovo, Governor Mehmeti participated in the conference “Developing the Accounting and Auditing Profession in the First Decade of Independence”, organized by the Society of Certified Accountants and Auditors of Kosovo (SCAAK).
- On 16 February 2018, Governor Mehmeti attended the Economic Forum “10<sup>th</sup> Anniversary of Economic Independence of Kosovo” organized by the Kosovo Chamber of Commerce, in which the Governor Mehmeti was part of the main Panel of this event.
- On 5 December 2018, Governor Mehmeti also attended the Annual Conference of Kosovo Banks organized by the Kosovo Banking Association with the topic “Financing Development: Banks for a Sustainable Economic Development of Kosovo”.

## 8.2. Communication and financial education

The Central Bank of the Republic of Kosovo, within its functions and responsibilities, continued to inform the general public in a transparent and continuous manner about its activities and developments in the financial sector. The CBK in cooperation with the local media has informed the citizens through various activities such as: publishing press releases on its website and sub-site; answers to journalists' questions; answers to citizens' questions; participation in TV shows and debates, radio representations; organization of press conferences; as well as posts on social networks and official channel on you tube. Through these channels, during 2018, the CBK has responded to the media and citizens' requests.

Information and cooperation with the public has continued to be conducted through the CBK official web site [www.bqk-kos.org](http://www.bqk-kos.org), publishing economic and financial information and data on the CBK's role and contribution and economic and financial developments in the country. In the context of the expansion of communication, CBK has also advanced and increased the level of communication through channels like Facebook and you tube.

In the framework of financial education program, CBK has engaged in, and expanded, its financial education activities targeting various groups of the public, with a special focus on young people and children. In order to increase economic and financial knowledge, the CBK aims to present the CBK's main role and functions and advance information and knowledge on financial sector products and services.



In the framework of cooperation with the institution Child and Youth Finance International (CYFI), numerous activities have been organized within the framework of the Global Money Week 2018. The week was marked in cooperation with the Kosovo Banking Association, with different activities and age groups. During this week, educational activities and lectures were delivered, held by the Governor, the Deputy Governor and other members of the senior management of CBK. The activities started with pupils of the lower level of education and continued with the lectures at various Universities on the "Role and Functions of the Central Bank of the Republic of Kosovo", at "Kadri Zeka" University in Gjilan, "Financial Markets and Securities Market" at the UBT College, as well as a lecture at the "Haxhi Zeka" University in Peja. During the year, other activities and lectures were also held in different colleges and universities.

The CBK has also launched the CBK Financial Education Platform <https://bqk-kos.org/edu/>, which contains information for various groups of the public: pupils, young people, students and consumers of financial products / services. The platform will continue to be complemented with additional educational materials and activities.

During this period, two seminars were held with journalists, a seminar in cooperation with Kosovo Banking Association and a two-day seminar with representatives of all local media.

In the framework of Pan-National Year of Skanderbeg, Central Bank of the Republic of Kosovo in cooperation with the Bank of Albania organized a 3 day exhibition "Gjergj Kastrioti Skënderbeu in Albanian coin and banknote". In addition to the numismatic treasury, the exhibition also introduced the financial education products of both central banks, thus presenting a merger of numismatics, history and education. The exhibition was visited by citizens, students and high-level state personalities from Kosovo, Albania and North Macedonia.

In order to encourage researches among young Kosovo economists, CBK awarded the traditional "Young Economists" prize for the best research from the financial sector and economic development domain in Kosovo.

During 2018, CBK hosted visits by students and pupils of educational institutions, who were closely informed of the role and functions of CBK and for whom various presentations, depending on their requests, were delivered.

The World Savings day is an annual activity which was also marked this year by the CBK, through educational activities and pupil visits to the CBK. During this year, CBK also was present in several TV programs by introducing various issues of Financial Education. The CBK has also prepared brochures and educational material that were distributed to pupils or students at various events and activities organized by CBK.

### **8.3. Technical assistance**

CBK continued to have cooperation with the International Financial Institutions and central Banks and Regulatory Agencies both at regional and international level. Mainly during 2018 a more intensive cooperation was conducted with international institutions such as: IMF, WB, ECB, US Treasury, EBRD, GIZ etc.

#### **World Bank (WB)**

In the framework of cooperation and support from the World Bank in 2018, the support to CBK has been focused on reviewing the legal / regulatory framework for facilitating licensing and regulation of institutions and electronic money activities and the review of legal framework on functioning of agents in order to create facilities and achieve a wider distribution of payment/remittances services through agents.

The Feasibility Study for the Establishment of a national SWITCH / Operator for Processing Card Payments and other forms (by mobile phone) inside Kosovo (National Payment Card SWITCH) was also a joint CBK - WB cooperation project.

The WB has supported the CBK in training the staff in regards to the application of principles of PFMI – IOSCO/BIS PFMI – BIS/IOSCO (Principles for Financial Market Infrastructures Bank for International Settlements and International Organization of Securities Commissions) on assessing payment systems of systemic importance.

A study was also conducted on cost-assessment on small value payments for payment service providers (CBK, banks, NBFIs for payments) and for payment service users (Government institutions, businesses, consumers).

#### **European Bank for Reconstruction and Development – (EBRD)**

The EBRD has supported CBK with technical assistance with regard to numerous ongoing projects, and during 2018 this support was mainly focused on: Drafting the legal and regulatory framework for bank recovery and resolution, and Drafting the regulatory framework on factoring activity.

#### **US Treasury (UST)**

Since the establishment of CBK, the US Treasury has provided assistance and support to the CBK both through technical assistance and in the implementation of specific projects. During 2018 this assistance was mainly focused on supporting the drafting of the new law on banks.

Also, within the support received from the US Treasury for strengthening the legal and institutional framework for advancing the appraisal of immovable property in Kosovo, CBK was supported by the US Treasury through technical assistance regarding the amendment of the Regulation on appraisal of immovable property.

#### **European Union (EU)**

During 2018, the CBK became part of two projects under the IPA Funds "Project Against Economic Crime (PECK II)" funded by the Council of Europe and the European Union Office, and the project "Further Support to Kosovo institutions in the fight against organized crime, corruption and violent extremism". Project benefits were mainly in training and awareness, as well as in drafting relevant legislation.

#### **GIZ (Gesellschaft fuer Internationale Zusammenarbeit GmbH – Kosovo)**

During 2018, GIZ provided support to the CBK on the organization of a workshop of international character with the participation of banking officers of the region and experts from the European Central Bank, the International Monetary Fund, BAFIN, the Deutsche Bundesbank, the Single Resolution Board and experts from several banks of other EU member states. The workshop supported by GIZ on the topic "Western Balkans: Reform and Implementation of Banking Regulation - Challenges Ahead" was held in Prevala on 6 and 7 September 2018.

### **8.4. European integration**

With a view to realizing the country's prospects for membership in the European Union (EU), the Central Bank of the Republic of Kosovo has continued to fulfill its obligations within the European integration process.

Monitoring of key legislative developments and supervisory practices, respectively alignment of CBK's legislation with the ACQUIS, as well as recent macroeconomic developments have been

reported continuously through reporting documents as well as meetings with local and international stakeholders involved in the European integration process of Kosovo.

The Central Bank of the Republic of Kosovo throughout the year 2018 has cooperated with the relevant institutions providing continuous support to advance the European integration process in Kosovo. An important role in this area is the cooperation with the Ministry of European Integration, which is the bearer of the European integration process of Kosovo.

CBK has also cooperated with other ministries and institutions, such as the Ministry of Foreign Affairs, Ministry of Finance, Ministry of Trade and Industry, and the EU Office in Prishtina.

CBK, throughout the year 2018, has continued regular reporting with the aim of implementation of conclusions under the Stabilization and Association structures.

During this period, CBK reported under the Sub-committee on Internal Market and Consumer Protection as well as the Sub-committee on Economy, Financial Issues and Statistics.

The CBK also reported on the Stabilization and Association Council meeting, reporting to the Government of the Republic of Kosovo. These documents are part of the state Position Paper, which presents progress and achievements in specific areas (including the financial sector).

In addition to the joint structures with the European Commission, the CBK has reported on a regular basis also within the National Plan for the Implementation of the Stabilization and Association Agreement (NPISAA). In this context, the CBK has reported on the component parts of the NPISAA aimed at implementing the reforms required by the Stabilization and Association Agreement (SAA): the Movement of Capital and the Financial Services Chapter.

Other chapters in which the CBK has consistently contributed are as follows: Chapter of the right of establishment of companies and freedom of service provision, Chapter of economic and monetary policy, Chapter of statistics, Chapter of freedom, security and justice (Article 89 Money Laundering and Financing of Terrorism), as well as the Financial Control Chapter.

The CBK has prepared the Input for the European Commission (EC) Report, and the inputs required by this Commission have been provided in line with the foreseen deadlines. Inputs are a uniform reporting format for all candidate and potential candidate countries, covering specific developments throughout the year, where major legal developments are reported through a questionnaire drafted by the European Commission on all areas of political and ACQUIS criteria.

At the end of the year, the NPISAA consolidated draft was prepared, in which CBK has made a summary of the primary legislation and secondary acts that are expected to be approved during the following year. Legislative proposals derive from the requirements of meetings with members of the European Commission. Based on this, the NPISAA draft contains primary and secondary legislation transposing directives or containing specific suggestions by the European Commission.

EC Country Reports have assessed the contribution of the Central Bank of the Republic of Kosovo in terms of consolidating macroeconomic stability, maintaining financial stability, improving supervisory practices and improving the payment system in the Republic of Kosovo. CBK remains further committed to implementing priority structural reforms that will further contribute to achieving the standards required by the European Union. At the same time, the CBK continues to play an important role contributing to the realization of the European Integration Agenda of the Republic of Kosovo.



## 9. CBK financial statements





**Central Bank of the Republic of Kosovo**  
**Financial Statements**  
**as at and for the year ended 31 December 2018**

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## INDEPENDENT AUDITOR'S REPORT

**To the Management of Central Bank of Republic of Kosovo**

### **Opinion**

We have audited the financial statements of Central Bank of Republic of Kosovo ("the Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the attached financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year ended 31 December 2018 in accordance with International Financial Reporting Standards (IFRS).

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the financial statements in Kosovo, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of the Management and of those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.



## Auditor's Responsibilities for the Audit of the Financial Statements

Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users of financial statements taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the financial report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Deloitte Kosova sh.p.k.*

Deloitte Kosova sh.p.k.  
Str. Lidhja e Pejës no.177  
Prishtina, Republic of Kosova  
Unique Identification No.: 810468373  
May 20, 2019



*Arta Limani*

Engagement Partner  
Arta Limani

# Central Bank of the Republic of Kosovo

## Statement of financial position

At 31 December 2018

<i>In thousands of EUR</i>	Note	2018	2017
<b>Assets</b>			
Cash on hand	7	285,376	188,547
Current accounts with non-resident banks	8	34,797	422,845
Treasury bills	9	758,890	592,712
Deposit accounts with non-resident banks	10	183,734	67,342
Assets related with IMF	11	326,051	325,764
Property and equipment	12	5,016	5,329
Intangible assets	13	1,790	2,065
Other assets	14	1,411	9,101
<b>Total assets</b>		<b>1,597,065</b>	<b>1,613,705</b>
<b>Liabilities</b>			
Due to domestic banks	15	343,394	331,826
Due to IMF related accounts	16	321,854	318,616
Due to governmental institutions	17	762,901	811,341
Due to public and commercial entities	18	110,863	95,807
Borrowings	19	2,266	2,266
Other liabilities	20	1,797	2,047
<b>Total liabilities</b>		<b>1,543,075</b>	<b>1,561,903</b>
<b>Capital and reserves</b>			
Authorized capital	21	30,000	30,000
Reserve fund	21a	21,802	22,683
Revaluation reserve		-	-
Retained earnings		2,188	(881)
<b>Total capital and reserves</b>		<b>53,990</b>	<b>51,802</b>
<b>Total liabilities, capital and reserves</b>		<b>1,597,065</b>	<b>1,613,705</b>

These financial statements set out on pages 5 to 44 were approved by the management of CBK on May 20, 2019 and signed on its behalf by:

  
Fehmi Mehmeti  
Governor

  
Faton Ahmetaj  
Director of Financial Planning and  
Reporting

The accompanying notes from 1 to 33 are an integral part of these financial statements

# Central Bank of the Republic of Kosovo

## Statement of comprehensive income

At 31 December 2018

<i>In thousands of EUR</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>Interest income</b>			
Interest income		2,826	2,002
Interest expense		(982)	(1,036)
<b>Net interest income</b>	22	<b>1,844</b>	<b>966</b>
<b>Fee and commission income</b>			
Fee and commission income		2,252	2,101
Fee and commission expense		(332)	(370)
<b>Net fee and commission income</b>	23	<b>1,920</b>	<b>1,731</b>
<b>Regulatory and other operating activities income</b>			
Regulatory activity income	24	4,451	4,178
Grant income	25	98	106
Other operating income	26	11	6
Foreign exchange net profit / loss	29	527	(1,225) <sup>1</sup>
<b>Operating revenue</b>		<b>8,851</b>	<b>5,762</b>
<b>Operating expenses</b>			
Personnel expenses	27	(4,407)	(4,453)
Depreciation and amortization	12,13	(1,029)	(978)
General and administrative expenses	28	(1,227)	(1,212)
<b>Operating expenses</b>		<b>(6,663)</b>	<b>(6,643)</b>
<b>Profit / loss for the year</b>		<b>2,188</b>	<b>(881)<sup>1</sup></b>
Other comprehensive income			-
<b>Total comprehensive income for the year</b>		<b>2,188</b>	<b>(881)</b>

The accompanying notes from 1 to 33 are an integral part of these financial statements

<sup>1</sup> The profit / loss for 2018, not including the effect of the loss from the change in the foreign exchange rate (i.e. the amount of EUR 1,225 thousand), is EUR 344 thousand. This also represents the actual operating profit for 2018.

The loss from the "foreign exchange rate" change is a temporary non-operating position arising from non-Euro currency (USD and DVT-SDR) items, which, at the reporting date, have to be reported in their Euro equivalent according to the foreign exchange rate at the reporting date. The foreign exchange rate change result in the difference (either profit or loss), which as such only equates the items of statement of financial position with the equivalent values but are not factual realizations (in our case the non-factual loss/expense for 2018 is the sum of EUR 1,225 thousand). A more analytical disclosure will be reflected in note 29 on page 43.

# Central Bank of the Republic of Kosovo

## Statement of changes in equity

For the year ended 31 December 2018

	Capital	Reserve fund	Revaluation fund	Retained Earnings	Total
<i>In thousands of EUR</i>					
<b>Balance at 1 January 2018</b>	<b>30,000</b>	<b>22,683</b>	-	<b>(881)</b>	<b>51,802</b>
Transfer to reserve fund	-	(881)	-	881	-
	-	<b>(881)</b>	-	<b>881</b>	-
<b>Total transactions required by law</b>					
Profit for the year	-	-	-	2,188	2,188
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	-	<b>2,188</b>	<b>2,188</b>
<b>Balance at 31 December 2018</b>	<b>30,000</b>	<b>21,802</b>	-	<b>2,188</b>	<b>53,990</b>
<b>Balance at 1 January 2017</b>	<b>30,000</b>	<b>21,023</b>	-	<b>1,660</b>	<b>52,683</b>
Transfer to reserve fund	-	1,660	-	(1,660)	-
	-	<b>1,660</b>	-	<b>(1,660)</b>	-
<b>Total transactions required by law</b>					
Profit for the year	-	-	-	(881)	(881)
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	-	<b>(881)</b>	<b>(881)</b>
<b>Balance at 31 December 2017</b>	<b>30,000</b>	<b>22,683</b>	-	<b>(881)</b>	<b>51,802</b>

The accompanying notes from 1 to 33 are an integral part of these financial statements

# Central Bank of the Republic of Kosovo

## Statement of cash flows

For the year ended 31 December 2018

<i>In thousands of EUR</i>	Note	2018	2017
<b>Cash flows from operating activities</b>			
Profit for the year		2,188	(881)
<i>Adjustments for:</i>			
Depreciation	12	657	615
Amortization	13	372	363
Grant revenue	25	(98)	(106)
Profit on sale of equipment		-	-
Interest income	22	(2,826)	(2,002)
Interest expense	22	982	1,036
		<b>1,274</b>	<b>(974)</b>
Change in treasury bills		(162,114)	(25,441)
Change in deposit accounts with non-resident banks		(114,999)	135,000
Change in assets with IMF		(147)	(49,880)
Change in other assets		7,690	(7,817)
Change in due to domestic banks		11,568	35,427
Change in due to IMF related accounts		3,093	35,288
Change in due to governmental institutions		(48,439)	92,905
Change in due to public and commercial entities		15,055	36,941
Change in borrowings		-	133
Change in Other liabilities		(152)	109
		(287,171)	251,691
Interest received		(1,372)	(2,344)
Interest paid		(837)	(717)
<b>Net cash generated from/used in operating activities</b>		<b>(289,380)</b>	<b>248,630</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of equipment		-	-
Purchase of equipment	12	(364)	(1,461)
Purchase of intangible assets	13	(77)	(157)
<b>Net cash used in investing activities</b>		<b>(441)</b>	<b>(1,618)</b>
<b>Cash flows from financing activities</b>			
Proceeds from grants		-	5
<b>Net cash generated from financing activities</b>		<b>-</b>	<b>5</b>
<b>Net increase / decrease in cash and cash equivalents</b>		<b>(289,821)</b>	<b>247,017</b>
Effect of exchange rate		-	-
Cash and cash equivalents at 1 January		<b>618,728</b>	<b>371,711</b>
<b>Cash and cash equivalents at 31 December</b>	30	<b>328,907</b>	<b>618,728</b>

The accompanying notes from 1 to 33 are an integral part of these financial statements

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

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### 1. Reporting entity

The Central Bank of the Republic of Kosovo (hereinafter "CBK" or "the Bank"), the successor to the Central Banking Authority of Kosovo, is an independent juridical entity with full capacity as a legal person under the law applicable in the Republic of Kosovo. CBK is a distinct public entity with the authority to license, supervise and regulate financial institutions in the Republic of Kosovo. The Bank acts in accordance with Law No.03/L-209 "Law on Central Bank of the Republic of Kosovo" hereafter referred to as ("the CBK Law"). As per this law, the principal objectives of CBK are to:

- Foster and maintain a stable financial system, including a safe, sound and efficient payment system.
- Contribute to achieving and maintaining domestic price stability.
- Support the general economic policies of the Government.

As prescribed in the Law, CBK shall act in accordance with the principles of an open market economy with free competition, favouring an efficient allocation of resources.

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

Str. Garibaldi, No. 33

Prishtina, Kosovo.

### Central Bank Board, Executive Board and Governor

The decision-making bodies of CBK are the Central Bank Board, the Executive Board, and the Governor. As per Article 34, paragraph 2, and the provisional provision of Article 79, paragraph 2 of the CBK Law, the Central Bank Board comprises of the Governor, and four<sup>2</sup> non-executive members, and is charged with the supervision of the implementation of the policies, and the supervision of the administration and the operations of CBK.

As at 31 December 2018, the Board of the Central Bank of Kosovo comprised of the following members:

- Flamur Mrasori – Chairman of the Board (non-executive)
- Fehmi Mehmeti – Acting Governor
- Behxhet Brajshori – Member (non-executive)
- Nuhi Ahmeti – Member (non-executive)

As at 31 December 2018, the Executive Board comprised of the Governor, who shall be the Chairperson, and two Deputy Governors, and shall be charged with the implementation of the CBK's policies and its operations.

### 2. Basis of preparation

#### a) Statement of compliance

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

#### b) Basis of measurement

The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies in note 3 below.

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<sup>2</sup> A non-executive member is vacant.

# Banka Qendrore e Republikës së Kosovës

## Shënimet mbi Pasqyrat Financiare për vitin e mbyllur më 31 dhjetor 2018

(në mijë Euro, nëse nuk është theksuar ndryshe)

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### 2. Basis of preparation (continued)

#### c) Functional and presentation currency

These financial statements are presented in Euro (“EUR”), which is CBK’s functional currency unless otherwise stated in any analytical note. If not otherwise stated, financial information that is presented in Euro has been rounded to the nearest thousand.

#### d) Use of estimates and judgments

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

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

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

### 3. Significant accounting policies

#### a) Foreign currency transactions

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

#### b) Interest

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

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

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

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



# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### c) Fees and commission

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

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

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

#### d) Employee benefits

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

#### e) Taxation and profit allocation

CBK is exempt from income tax according to Law no. 03/L-209, approved on 22 July 2010. See Note 4 (f) on how CBK allocates its profit.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### f) Financial assets and liabilities

The Bank classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and liabilities, held-to-maturity financial assets and available-for-sale financial assets. This classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

#### Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into the “financial assets at fair value through profit or loss category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking, or if so designated by management.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Bank intends to sell in the short term or that it has designated as at fair value through profit or loss or available for sale. Loans and receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Provisions for impairment of loans and receivables are established when there is objective evidence that the Bank will not be able to collect all amounts due according to their original terms. The bank has no assets classified in this category.

#### Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables that the Bank’s management has the positive intention and ability to hold to maturity. These assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of debt securities held to maturity is established when there is objective evidence that the Bank will not be able to collect all amounts due according to their original terms.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. The Bank has no assets classified in this category.

#### i. Recognition

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

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### 3. Significant accounting policies (continued)

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

##### ii. Derecognition

CBK derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial assets that is created or retained by CBK is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative profit or loss that had been recognized in other comprehensive income is recognized in profit or loss.

CBK derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

##### iii. Offsetting

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

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

##### iv. Amortized cost measurement

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

##### v. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the CBK measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the CBK establishes fair value using a valuation technique. Valuation techniques include the use of recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to CBK, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. CBK calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

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### 3. Significant accounting policies (continued)

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

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

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

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

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset if applicable, continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

#### g) Cash and cash equivalents

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

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

#### h) Investment securities

Investment securities, consisting of Treasury Bills, are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for as held-to-maturity investment.

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

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

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### i) Property and equipment

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

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses from the change in value.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

##### *ii. Subsequent costs*

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

##### *iii. Depreciation*

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

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

	2018	2017
Leasehold improvements	20 years	20 years
Equipment	5 years	5 years
Computers	3 years	3 years
Vehicles	5 years	5 years

The other equipment useful life is assessed on case by case basis. Depreciation methods, useful lives and residual values are reassessed at the reporting date.

#### j) Intangible assets

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

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of each software is based on assessment of the use of that software without any large need of upgrade, currently from 3 to 10 years.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### k) Impairment of non-financial assets

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

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

#### l) Financial liabilities

CBK's sources of funding are deposits from international, governmental, public, banking and other financial institutions. Financial liabilities are measured at their amortized cost using the effective interest rate method.

#### m) Grant revenue

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

#### n) Donor funded salaries

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

#### o) Provisions

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

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

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### p) Changes in accounting policies and disclosures

##### (i) Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board are effective for the current reporting period:

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 “Revenue from Contracts with Customers”** and further amendments (effective for annual periods beginning on or after 1 January 2018)
- **Amendments to IFRS 2 “Share-based Payment”** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 “Insurance Contracts”** - Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),
- **Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 due to “Improvements to IFRSs (cycle 2014-2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Bank’s financial statements.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### p) Changes in accounting policies and disclosures (continued)

##### ii) Standards and Interpretations in issue not yet adopted

At the date of authorization of these financial statements the following standards, amendments to existing standards and new interpretation were in issue, but not yet effective:

- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019),
- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 “Business Combinations”** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period)
- **Amendments to IFRS 9 “Financial Instruments”** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”** - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 19 “Employee Benefits”** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020),
- **IFRIC 23 “Uncertainty over Income Tax Treatments”** (effective for annual periods beginning on or after 1 January 2019).

The Company has elected not to adopt these standards, amendments to existing standards and new interpretations in advance of their effective dates. The Management anticipates that the adoption of these standards amendments to existing standards and new interpretations will have no material impact on the financial statements of the Company in the period of initial application.



# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

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### 4. Financial Risk Management

#### a) Introduction and Overview

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

- Credit risk
- Operational risk
- Liquidity risk
- Market risk

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

#### *Risk Management Framework*

The Central Bank Board has overall responsibility for the establishment and oversight of CBK's risk management. CBK management reports regularly through CBK's Executive Board to the Central Bank Board on risk management practices. The Executive Board and Investment Committee have obligations for developing and monitoring CBK risk management policies. These policies are implemented by the respective organizational units.

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

CBK's Audit Committee is responsible for monitoring and reviewing compliance with risk management policies and procedures, as well as for reviewing the adequacy of the risk management framework related to the risks faced by the CBK. CBK's Audit Committee is assisted in these functions by the Internal Audit Department. Internal audit undertakes both regular and ad-hoc audits of risk management controls and procedures, the results of which are reported through the Chief Internal Auditor to the Audit Committee.

#### b) Credit risk

Credit risk is the risk of financial loss to the CBK if a contracting party to financial instruments fails to meet its contractual obligations, and may arise mainly from CBK's investments in securities and deposits (in money markets or current account) in other banks.

#### *Management of Credit Risk*

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

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

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

### 4. Financial Risk Management/ Management of credit risk (continued)

#### ii. Exposure towards credit risk

The highest exposure to credit risk as at 31 December 2017 and 31 December 2018, is presented by is represented by the carried forward amount of the current accounts with non-resident banks, treasury bills and money market placements with non-resident banks. For details regarding the exposure, please refer to the Notes 8, 9 and 10.

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

#### c) Liquidity risk

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

#### Management of liquidity risk

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

Policies to monitor and address liquidity risk are set by the Bank Executive Board. The CBK manages its liquidity risk by investing in short term deposits with non-resident banks and holding adequate amounts of cash in its vaults. Liquidity management policies are set to ensure that even under adverse conditions, the CBK is able to meet its obligations. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the CBK management. Monthly reports covering the liquidity position of the CBK are regularly submitted to the Investment Committee members by the Asset Management Department.

#### Exposure to liquidity risk

#### Residual contractual maturities of financial liabilities, excluding future interest payments

	Note	Amount carried forward	Less than 1 month	1-3 months	3 mon. to 1 year	1 year to 5 years	over 5 years
<b>31 December 2018</b>							
<i>Non-derivative liabilities</i>							
Due to domestic banks	15	343,394	343,394	-	-	-	-
Due to IMF related accounts	16	321,854	161,711	4,265	25,590	130,288	-
Due to governmental institutions	17	762,901	762,901	-	-	-	-
Due to public and commercial entities	18	110,863	110,863	-	-	-	-
Due to borrowings	19	2,266	-	-	-	680	1,586
Other liabilities	20	756	756	-	-	-	-
		<b>1,542,034</b>	<b>1,379,625</b>	<b>4,265</b>	<b>25,590</b>	<b>130,968</b>	<b>1,586</b>
<b>31 December 2017</b>							
<i>Non-derivative liabilities</i>							
Due to domestic banks	15	331,826	331,826	-	-	-	-
Due to IMF related accounts	16	318,616	157,832	-	4,171	156,613	-
Due to governmental institutions	17	811,341	811,341	-	-	-	-
Due to public and commercial entities	18	95,807	95,807	-	-	-	-
Due to borrowings	19	2,266	-	-	-	453	1,813
Other liabilities	20	756	756	-	-	-	-
		<b>1,560,612</b>	<b>1,397,562</b>	<b>-</b>	<b>4,171</b>	<b>157,066</b>	<b>1,813</b>

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

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### 4. Financial risk management (continued)

#### c) Liquidity risk (continued)

The previous table shows the undiscounted cash flows of CBK's financial liabilities on the basis of their earliest possible contractual maturity. In order to manage the liquidity risk arising from financial liabilities, the CBK holds liquid assets comprising cash and cash equivalents and securities for which there is an active and liquid market.

#### d) Market risk

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

#### *Management of market risks*

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

Risk management activities are aimed at optimizing net interest income, based on market interest rate levels consistent with the CBK's operations strategies. CBK's exposure to market risk is related only to non-trading portfolios.

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

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

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

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

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

31 December 2018	Note	Amount carried forward	Less than 3 months	3-6 months	6-12 months	1-5 years	Over 5 years
Current accounts with non-resident banks	8	34,797	34,797	-	-	-	-
Securities (Bonds and Treasury bills)	9	758,890	-	-	5,998	752,892	-
Deposit accounts with non-resident banks	10	183,734	8,734	-	175,000	-	-
Assets in IMF related accounts	11	242,849	82,706	-	-	160,143	-
<b>Total</b>		<b>1,220,270</b>	<b>126,237</b>	<b>-</b>	<b>180,998</b>	<b>913,035</b>	<b>-</b>
Due to domestic banks	15	(343,394)	(343,394)	-	-	-	-
Due to IMF related accounts	16	(245,441)	(85,298)	-	-	(160,143)	-
Due to governmental institutions	17	(762,901)	(762,901)	-	-	-	-
Due to public and commercial entities	18	(110,863)	(110,863)	-	-	-	-
Due to borrowings	19	(2,266)	-	-	-	-	(2,266)
Due to Other liabilities	20	(756)	(756)	-	-	-	-
<b>Total</b>		<b>(1,465,621)</b>	<b>(1,303,212)</b>	<b>-</b>	<b>-</b>	<b>(160,143)</b>	<b>(2,266)</b>
<b>Gap</b>		<b>(245,351)</b>	<b>(1,176,975)</b>	<b>-</b>	<b>180,998</b>	<b>752,892</b>	<b>(2,266)</b>

31 December 2017	Note	Amount carried forward	Less than 3 months	3-6 months	6-12 months	1-5 years	Over 5 years
Current accounts with non-resident banks	8	422,009	422,009	-	-	-	-
Securities (Treasury bills)	9	592,712	-	2,999	22,984	566,729	-
Deposit accounts with non-resident banks	10	68,178	8,172	-	60,006	-	-
Assets in IMF related accounts	11	244,337	83,553	-	-	160,784	-
<b>Total</b>		<b>1,327,236</b>	513,734	2,999	82,990	727,513	<b>-</b>
Due to domestic banks	15	(331,826)	(331,826)	-	-	-	-
Due to IMF related accounts	16	(244,022)	(83,238)	-	-	(160,784)	-
Due to governmental institutions	17	(811,341)	(811,341)	-	-	-	-
Due to public and commercial entities	18	(95,807)	(95,807)	-	-	-	-
Due to borrowings	19	(2,266)	-	-	-	-	(2,266)
Other liabilities	20	(756)	(756)	-	-	-	-
<b>Total</b>		<b>(1,486,018)</b>	<b>(1,322,968)</b>	<b>-</b>	<b>-</b>	<b>(160,784)</b>	<b>(2,266)</b>
<b>Gap</b>		<b>(158,782)</b>	<b>(809,234)</b>	2,999	82,990	566,729	<b>(2,266)</b>

Non-interest bearing financial assets and liabilities have not been included in the table above.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

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### 4. Financial risk management (continued)

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

Overall non-trading interest rate risk is managed by the Asset Management Department, which uses investment securities and deposits with banks to manage the overall risk arising from the CBK's non-trading activities.

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

#### 2018

	100 pb Increase	100 pb Decrease
Estimated profit (loss) effect	2,454	(4,454)

#### 2017

	100 pb Increase	100 pb Decrease
Estimated profit (loss) effect	1,588	(1,588)

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

CBK has an exposure to SDR related to its IMF assets and liabilities, which it monitors on an on-going basis. CBK's exposure to foreign currency risk is as follows:

#### 2018

	100 pb Increase	100 pb Decrease
Estimated profit (loss) effect	26	(26)

#### 2017

	100 pb Increase	100 pb Decrease
Estimated profit (loss) effect	3	(3)

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

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

31 December 2018	EUR	USD (Equivalent in EUR)	SDR (Equivalent in EUR)	Total
<b>Assets</b>				
Cash on hand	285,376	-	-	285,376
Current accounts with non-resident banks	34,574	223	-	34,797
Treasury bills	758,890	-	-	758,890
Deposit accounts with non-resident banks	175,000	8,734	-	183,734
Assets with the IMF related accounts	722	-	325,329	326,051
Other assets	1,411	-	-	1,411
<b>Total</b>	<b>1,255,973</b>	<b>8,957</b>	<b>325,329</b>	<b>1,590,259</b>
<b>Liabilities</b>				
Due to domestic banks	343,394	-	-	343,394
Due to IMF related accounts	725	-	321,129	321,854
Due to governmental institutions	762,901	-	-	762,901
Due to public and commercial entities	110,863	-	-	110,863
Due to borrowings	2,266	-	-	2,266
Other liabilities	1,797	-	-	1,797
<b>Total</b>	<b>1,221,946</b>	<b>-</b>	<b>321,129</b>	<b>1,543,075</b>
<b>Net foreign currency position</b>	<b>34,027</b>	<b>8,957</b>	<b>4,200</b>	<b>47,184</b>

31 December 2017	EUR	USD (Equivalent in EUR)	SDR (Equivalent in EUR)	Total
<b>Assets</b>				
Cash on hand	188,547	-	-	188,547
Current accounts with non-resident banks	421,782	227	-	422,009
Treasury bills	592,712	-	-	592,712
Deposit accounts with non-resident banks	60,006	8,172	-	68,178
Assets with the IMF related accounts	581	-	325,183	325,764
Other assets	9,101	-	-	9,101
<b>Total</b>	<b>1,272,729</b>	<b>8,399</b>	<b>325,183</b>	<b>1,606,311</b>
<b>Liabilities</b>				
Due to domestic banks	331,826	-	-	331,826
Due to IMF related accounts	581	-	318,036	318,617
Due to governmental institutions	811,341	-	-	811,341
Due to public and commercial entities	95,807	-	-	95,807
Due to borrowings	2,266	-	-	2,266
Other liabilities	2,047	-	-	2,047
<b>Total</b>	<b>1,243,868</b>	<b>-</b>	<b>318,036</b>	<b>1,561,904</b>
<b>Net foreign currency position</b>	<b>28,861</b>	<b>8,399</b>	<b>7,147</b>	<b>44,407</b>

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

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

CBK mainly carries out operations with Euro, while foreign currencies that CBK deals are mainly “Special Drawing Rights” (“SDRs”). The exchange rates used for translation on 31 December 2018 and 2017 were as follows:

	<b>2018</b>	<b>2017</b>
	<b>EUR</b>	<b>EUR</b>
1 SDR	1.21424	1.18747
1 USD	0.87336	0.83380

SDRs are supplementary foreign Exchange/transaction reserve assets defined and maintained by the International Monetary Fund (IMF). Although the SDR itself is not a currency, it represents a potential claim on the currencies of IMF member states for which they may be exchanged. SDRs were created in 1969 to alleviate a shortage of preferred foreign exchange reserve assets, namely the US dollar and gold, the value of the SDRs is defined as a mean currency basket of four major currencies, the Euro, the US Dollar, the British Pound, and the Japanese Yen.

SDRs are current account and overnight deposit (such as repo) assets with Federal Reserve New York.

#### (e) Operational risk

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

CBK’s objective is to manage operational risk, as well as to balance the avoidance of financial losses and damage to CBK’s reputation by effective cost management.

The main responsibility for the development and implementation of controls in order to monitor operational risk is assigned to managerial staff within each organizational unit. This responsibility is supported by the observance of overall CBK standards for the management of operational risk in the following areas:

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

Compliance with CBK standards is supported by a program of periodic reviews undertaken by Internal Audit. The findings of Internal Audit reviews are discussed with management of the organizational unit to which they relate, with summaries submitted to the Audit Committee and CBK management.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

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### **4. Financial risk management (continued)**

#### **(f) Capital management**

In accordance with the Law, CBK shall establish and maintain a general reserve. The general reserve may not be used except for the purposes of covering losses sustained by the CBK. In addition, CBK shall establish unrealized revaluation reserve accounts to account for unrealized profit and losses owing to its positions with the SDR.

Pursuant to the Law no. 03/L-209, the net profits or losses of the Central Bank shall be determined in conformity with the International Financial Reporting Standards (IFRS).

The earnings available for distribution shall be determined as follows:

- by deducting from the net profits the total amount of unrealized revaluation profits, and by allocating an equivalent amount to the respective unrealized revaluation reserve account; and
- by deducting from the appropriate unrealized revaluation reserve account and adding to the distributable earnings the amount of any unrealized profit that was deducted from the net profits for one or more previous years and was realized during the current financial year.

Unrealized revaluation losses will be transferred to the respective unrealized revaluation reserve accounts until such time as these revaluation reserve accounts have a zero balance, after which these losses shall be covered by the current year's profit, then by the general reserve account and subsequently by the authorized capital account.

All distributable earnings will first be applied to the general reserve fund until the aggregate amount of initial capital and general reserves equals five percent (5%) of the Central Bank's monetary liabilities.

50% of the distributable earnings remaining after fulfilling the 5% criteria mentioned above is required to be transferred to the Ministry of Finance. While the remaining 50% percent will be allocated to the general reserve fund of the Central Bank.

#### **(g) Asset management**

In accordance with the Law no. 03/L-209 and Law no. 03/L-048, the CBK is assigned the responsibility for making and managing authorized investments on behalf of the Ministry of Finance.



# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

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### 5. Use of estimates and judgments

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

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

#### Key sources of estimation uncertainty

##### Allowances for credit losses

Assets accounted for at amortized cost are evaluated for impairment on a basis described in accounting policy 3(f)(VI). The specific component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and an estimate of cash flows considered recoverable is independently approved.

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

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

##### Financial asset and liability classification

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

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

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

### 6. Financial assets and liabilities (Accounting classifications and fair values)

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

<i>In thousands of EUR</i>	Note	Loans and receivables	Held-to-maturity	Other amortized cost	Total amount carried forward	Fair value
<b>31 December 2018</b>						
Cash on hand	7	285,376	-	-	285,376	285,376
Current accounts with non-resident banks	8	34,797	-	-	34,797	34,797
Treasury bills	9	-	758,890	-	758,890	758,682
Deposit accounts with non-resident banks	10	-	183,734	-	183,734	183,734
Assets related with IMF	11	326,051	-	-	326,051	326,051
		<b>646,224</b>	<b>942,624</b>	-	<b>1,588,848</b>	<b>1,588,640</b>
		-	-	343,394	343,394	343,394
Due to domestic banks	15	-	-	321,854	321,854	321,854
Due to IMF related accounts	16	-	-	762,901	762,901	762,901
Due to governmental institutions	17	-	-	110,863	110,863	110,863
Due to public and commercial entities	18	-	-	2,266	2,266	2,266
Due to borrowings	19	-	-	756	756	756
Other liabilities	20	-	-	-	-	-
		-	-	<b>1,542,034</b>	<b>1,542,034</b>	<b>1,542,034</b>
<b>31 December 2017</b>						
Cash on hand	7	188,547	-	-	188,547	188,547
Current accounts with non-resident banks	8	422,009	-	-	422,009	422,009
Treasury bills	9	-	592,712	-	592,712	592,904
Deposit accounts with non-resident banks	10	-	68,178	-	68,178	68,178
Assets related with IMF	11	325,764	-	-	325,764	325,764
		<b>936,320</b>	<b>660,890</b>	-	<b>1,597,210</b>	<b>1,597,402</b>
		-	-	331,826	331,826	331,826
Due to domestic banks	15	-	-	318,616	318,616	318,616
Due to IMF related accounts	16	-	-	811,341	811,341	811,341
Due to governmental institutions	17	-	-	95,807	95,807	95,807
Due to public and commercial entities	18	-	-	2,266	2,266	2,266
Due to borrowings	19	-	-	756	756	756
Other liabilities	20	-	-	-	-	-
		-	-	<b>1,560,612</b>	<b>1,560,612</b>	<b>1,560,612</b>

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

### 7. Cash on hand

Cash on hand is all denominated in EUR.

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

These accounts were held at the following banks:

	2018	2017
Deutsche Bundesbank	500	62,776
Raiffeisen Zentralbank	9,920	44,800
Banque Centrale du Luxembourg	24,133	39,846
Deutsche Bank	1	195,262
Commerzbank AG	10	499
Bayerische Landesbank	10	78,599
Federal Reserve Bank (FED-NY)	223	227
<b>Total</b>	<b>34,797</b>	<b>422,009</b>

All current accounts of the above banks have credit ratings of A-2u/P-2, as per 2018 rankings by Standard & Poors/Moody's. The decrease compared to the 2017 is a normal flow of daily activities, and at the same time this increase in current accounts is related with the decrease in the Note 10 (money market).

### 9. Securities (treasury bills and government bonds)

Both categories are debt securities issued by governments of European Union countries. Treasury bills disclosed below have maturity up to one year, while the bonds up to 5 years. All of them are denominated in EUR and had effective annual interest rates ranging from 0.008% to 2.696% in 2018 (while in 2017: 0.008% up to 1.716% p.a.).

Analytical disclosure of securities by type and by issuing countries:

#### As per countries:

	2018	2017
Germany	67,126	-
France	10,030	10,036
Netherlands	12,772	-
Italy	176,834	359,513
Slovenia	22,138	22,840
Luxemburg	90,244	-
EuroFima-Switzerland	6,040	6,253
Austria	79,463	-
Irlande	105,390	-
Kosovo	188,853	194,070
<b>Total</b>	<b>758,890</b>	<b>592,712</b>

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

### 9. Securities (treasury bills and government bonds) – continued

#### As per type:

	2018	2017
Treasury bills	5,998	20,970
Government bonds	752,892	571,742
<b>Total</b>	<b>758,890</b>	<b>592,712</b>

Credit rating for financial instruments that CBK has invested for the year ended on 31 December 2018 was BBB and Baa2, according to Standard & Poor's / Moody's.

The increase compared to 2017 derives mainly from the transfer between categories i.e. Note 10 has decreased and the amounts in the Notes 7 and 9 have increased, as well as from the increase of total deposits in the liabilities (see Note 15-18).

# Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

## 10. Deposit accounts with non-resident banks

Deposit accounts with non-resident banks are composed as

follows:

	2018	2017
<b>Term deposits</b>		
Raiffeisen Zentralbank	-	60,000
Deutsche Bank	175,000	-
Federal Reserve Bank (FED-NY)	8,733	8,171
	<b>183,733</b>	<b>68,171</b>
<b>Interest accrued on term deposits</b>		
Raiffeisen Zentralbank	-	6
Deutsche Bank	-	-
Federal Reserve Bank (FED-NY)	1	1
	<b>1</b>	<b>7</b>
<b>Total</b>	<b>183,734</b>	<b>68,178</b>

Deposits placed with non-resident banks are denominated in EUR and earn interest at effective annual interest rates ranging from 0.005% to 1.460% (2017: 0.020% up to 0.460% annual) and have original maturities from 1 to 368 days (2017: from 3 to 368 days). All deposits have minimum credit ratings of A-2/P-2, according to the ratings for 2018 by Standard & Poors/Moody's.

Comparing the end of the year 2017, there is a decrease of the position at the end of 2018 compared to 2017, which derives mainly from the normal activity of portfolio management, also described in Notes 8 and 9, related to the movements in portfolio and the movements between the categories, within the Notes 7, 8, 9 and 10 for a better management of funds.

# Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

## 11. Assets related with IMF

	2018	2017
IMF quota	100,296	98,085
SDR Holdings	64,890	66,314
Accrued interest	722	581
<b>IMF</b>	<b>165,908</b>	<b>164,980</b>
<b>Government</b>		
Due from the Government for the use of IMF funds (SBA)	160,143	160,784
<b>Total</b>	<b>326,051</b>	<b>325,764</b>

The assets listed above are related to the admission of Kosovo to the IMF in June 2009. CBK acts as depository and fiscal agent in relation to Kosovo's membership in the IMF. This is in accordance with the Law no. 03/L-209 on the Central Bank of the Republic of Kosovo and Law no. 03-L-152 on Membership of the Republic of Kosovo in the International Monetary Fund and World Bank Group Organizations.

IMF Quota represents the subscription amount determined at the time of admission of Kosovo into the IMF and is expressed in SDR. The increase represents the increase of quota from 59 million SDR to 82.6 million (while disclosed above in the Note 11 in Euro) and the amounts are determined based on the rules and regulations of IMF decisions.

SDR Holdings represents assets approved by the IMF Board of Governors as per allocations of SDRs to IMF's member countries (decisions made on 28 August 2009 and 9 September 2009). SDR holding assets bear annual interest rates in 2018 ranging from 0.241% to 0.742% p.a. (2017: 0.044% up to 0.243% p.a.).

Due from the Government for the use of IMF funds, represents an amount due from the Government as per IMF and Kosovo Stand-by Arrangement signed in July 2010, April 2012 and July 2017, through which the Government of Kosovo obtained from IMF a line for use of funds in accordance with Standby Arrangements, while the outstanding as of 31 December 2018 is 135.4 million SDR (or, 160.8 million Euro). The interest rate of this arrangement \_\_ is tied to IMF's market-related interest rate, known as basic rate of charge, which is itself linked to the SDRs interest rate. The interest rate for 2018 annually fluctuates from 1.247% to 1.752% ( in 2017 it fluctuated from 1.050% to 1.249% p.a.).

CBK acts as depository institution for the Government of Kosovo. To regulate the Stand-By Arrangement with IMF, CBK and the Government of Kosovo entered into an agreement for each Standby Arrangement "on the Procedure for Request, Acceptance, Service and Repurchase of the Funds from the IMF in terms of the Stand -By Arrangement". Based on this arrangement CBK withdraws the SDRs from IMF, on behalf of the Government and credits them to the Government's account.

# Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

## 12. Property and equipment

Property and equipment are composed as follows:

	Leasehold improvements	Equipment	Computers	Vehicles	Assets in process of capitalization	Total
<b>Cost</b>						
<b>At 1 January 2017</b>	2,420	2,004	2,066	320	1,507	8,317
Acquisitions	182	199	68	-	1,012	1,461
Transfer from/to	271	-	-	-	(271)	-
Transfer from/to (adjustment)	-	-	-	-	-	-
Disposals	-	-	(1)	-	-	(1)
<b>At 31 December 2017</b>	<b>2,873</b>	<b>2,203</b>	<b>2,133</b>	<b>320</b>	<b>2,248</b>	<b>9,777</b>
<b>At 1 January 2018</b>	2,873	2,203	2,133	320	2,248	9,777
Acquisitions	100	228	36	-	-	364
Transfer from/to	2,228	-	-	-	(2,228)	-
Transfer from/to (adjustment)	-	-	-	-	(20)	(20)
Disposals	-	-	(3)	-	-	(3)
<b>At 31 December 2018</b>	<b>5,201</b>	<b>2,431</b>	<b>2,166</b>	<b>320</b>	<b>-</b>	<b>10,118</b>
<b>Depreciation</b>						
<b>At 1 January 2017</b>	790	1,579	1,232	232	-	3,833
Depreciation of the year	131	153	302	29	-	615
Transfer from/to (adjustment)	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
<b>At 31 December 2017</b>	<b>921</b>	<b>1,732</b>	<b>1,534</b>	<b>261</b>	<b>-</b>	<b>4,448</b>
<b>At 1 January 2018</b>	921	1,732	1,534	261	-	4,448
Depreciation of the year	232	175	220	30	-	657
Transfer from/to (adjustment)	-	-	-	-	-	-
Disposals	-	-	(3)	-	-	(3)
<b>At 31 December 2018</b>	<b>1,153</b>	<b>1,907</b>	<b>1,751</b>	<b>291</b>	<b>-</b>	<b>5,102</b>
<b>Carrying amounts</b>						
<b>At 1 January 2017</b>	<b>1,630</b>	<b>425</b>	<b>834</b>	<b>88</b>	<b>1,507</b>	<b>4,484</b>
<b>At 31 December 2017</b>	<b>1,952</b>	<b>471</b>	<b>599</b>	<b>59</b>	<b>2,248</b>	<b>5,329</b>
<b>At 31 December 2018</b>	<b>4,048</b>	<b>524</b>	<b>415</b>	<b>29</b>	<b>-</b>	<b>5,016</b>

There are no assets pledged as collateral as at 31 December 2018 (31 December 2017: nil).

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

### 13. Intangible assets

Intangible assets are composed as follows:

	Software under development	Software	Total
<b>Cost</b>			
<b>Balance at 1 January 2017</b>	-	3,717	3,717
Acquisitions	89	68	157
Transfers (from)/to	-	-	-
Transfers (from)/to (adjustments)	-	-	-
Disposals	-	-	-
<b>Balance at 31 December 2017</b>	<b>89</b>	<b>3,785</b>	<b>3,874</b>
<b>Balance at 1 January 2018</b>	89	3,785	3,874
Acquisitions	-	77	77
Transfers (from)/to	(89)	89	-
Transfers (from)/to (adjustments)	-	20	20
Disposals/write offs	-	-	-
<b>Balance at 31 December 2018</b>	<b>-</b>	<b>3,971</b>	<b>3,971</b>
<b>Amortization</b>			
<b>Balance at 1 January 2017</b>	-	1,446	1,446
Amortization for the year	-	363	363
Disposals	-	-	-
<b>Balance at 31 December 2017</b>	<b>-</b>	<b>1,809</b>	<b>1,809</b>
<b>Balance at 1 January 2018</b>	-	1,809	1,809
Amortization for the year	-	372	372
Disposals/write offs	-	-	-
<b>Balance at 31 December 2018</b>	<b>-</b>	<b>2,181</b>	<b>2,181</b>
<b>Amounts carried forward</b>			
<b>Balance at 1 January 2017</b>	-	2,271	2,271
<b>Balance at 31 December 2017</b>	<b>89</b>	<b>1,976</b>	<b>2,065</b>
<b>Balance at 31 December 2018</b>	<b>-</b>	<b>1,790</b>	<b>1,790</b>

### 14. Other assets

Other assets are composed as follows:

	2018	2017
Accrued fee income	1,280	1,129
Accounts receivables and prepayments	131	7,972
<b>Total</b>	<b>1,411</b>	<b>9,101</b>

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



# Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

## 15. Due to domestic banks

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

<b>Due to domestic banks</b>	<b>2018</b>	<b>2017</b>
ProCredit Bank Kosovo	29,834	31,884
Raiffeisen Bank Kosovo	35,665	35,811
NLB Prishtina	23,162	19,852
Banka Ekonomike	8,351	8,086
Banka për Biznes	8,689	7,551
Banka Kombëtare Tregtare (Prishtina branch)	12,261	10,911
Banka Ekonomike Turke (TEB)	18,672	16,099
Komercijalna Banka – Mitrovica branch	3,214	2,854
Turkiye is Bankasi a.s.	2,842	2,587
T.C. Ziraat Bankasi A.S. – Kosovo branch	764	505
Banka Kreditore e Prishtinës	-	-
<b>Total required reserve</b>	<b>143,454</b>	<b>136,140</b>
<b>Additional amount on the required reserve</b>		
ProCredit Bank Kosovo	10,764	15,853
Raiffeisen Bank Kosovo	9,635	20,932
NLB Prishtina	46,755	46,581
Banka Ekonomike	47,518	22,468
Banka për Biznes	30,532	26,447
Banka Kombëtare Tregtare (Prishtina branch)	20,278	12,316
Banka Ekonomike Turke (TEB)	18,790	33,899
Komercijalna Banka – Mitrovica branch	3,144	2,767
Turkiye is Bankasi a.s.	11,580	13,593
T.C. Ziraat Bankasi A.S. –Kosova branch	915	822
Banka Kreditore e Prishtinës	29	8
<b>Total addition on current account</b>	<b>199,940</b>	<b>195,686</b>
<b>Total amount on current account</b>	<b>343,394</b>	<b>331,826</b>

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

### 16. Due to IMF related accounts

	2018	2017
IMF Account no. 1	251	245
IMF Account no. 2	6	6
IMF Security Account	235,825	234,797
IMF SDR - Allocation	67,231	65,748
Accrued interest	725	581
<b>Total due to IMF</b>	<b>304,038</b>	<b>301,377</b>

#### Due to Government

IMF – Paid proportion of Government quota	17,816	17,239
<b>Total due to Government</b>	<b>17,816</b>	<b>17,239</b>
<b>Total</b>	<b>321,854</b>	<b>318,616</b>

These positions are related to the admission of Kosovo to the IMF in June 2009.

Accounts No.1 and No.2 are IMF accounts with CBK opened according to IMF's rules and regulations.

IMF Security Account represents a promissory note, which the Government of Kosovo has to pay upon IMF's request. This amount represents the liability of the CBK to IMF and is matched by a corresponding claim of the CBK to the Government of Kosovo.

IMF paid portion of Government quota represents the amount paid by the Government to the IMF regarding the IMF quota.

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

SDR Allocations and Paid portion of quota are interest-bearing with annual interest rates for quarterly averages ranging from 0.241% - 0.734% p.a. 2018 (2017: 0.050% - 0.243% p.a.).

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

### 17. Due to Governmental institutions

Due to Governmental institutions comprise current accounts as follows:

<b>Current accounts</b>	<b>2018</b>	<b>2017</b>
Treasury – Ministry of Finance	374,663	339,906
Privatization Agency of Kosovo	388,116	471,298
Interim administration institutions	122	137
<b>Total</b>	<b>762,901</b>	<b>811,341</b>

The effective annual interest rate for current accounts for the year ended on 31 December 2018 is zero (for the year ended on 31 December 2017: zero).

### 18. Due to public and commercial entities

	<b>2018</b>	<b>2017</b>
<b>Current accounts</b>		
Insurance companies	4,537	4,906
Other public institutions	106,324	90,900
Licensed Pension Funds	-	-
Other	2	1
<b>Total</b>	<b>110,863</b>	<b>95,807</b>

The effective interest for current accounts as at 31 December 2018 and 2017 is zero. The change in the group comes from the withdrawal of assets held in the current account of one public institution based on their operating goals in their own account in CBK.

### 19. Due to borrowings

	<b>2018</b>	<b>2017</b>
Borrowing/s	2,266	2,266
<b>Total</b>	<b>2,266</b>	<b>2,266</b>

The above amounts represent the borrowing from the World Bank. The Bank has used the opportunity of borrowing with favourable terms (the low interest rates and repayment period of principal up to 10 years). The borrowing is related to the project for payments system within the country in terms of their real time processing and for the project for the centre of continuity of work.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

### 20. Other liabilities

	2018	2017
Safe custody accounts	756	756
Deferred grant income	492	591
Other deferred income	4	5
The reserve fund	162	162
Sundry creditors	383	533
	<b>1,797</b>	<b>2,047</b>

The change comes from the normal flow of activities within the group in the report with the disclosure dates.

As of 31 December 2018 the safe custody accounts include the amount of 756 thousand Euros, which is related to the current accounts of the Kosovo Insurance Company, which was liquidated on April 2010. Consequently, this amount remained as safe custody account and as of 31 December 2018 and 2017 it has the above balance.

The movement in deferred grant revenue was as follows:

	Ministry of Finance	World Bank	Total
Deferred grant revenue at 1 January 2017	317	374	691
Grants received during the year	5	-	5
Grants recognized as revenue for the year	(64)	(41)	(105)
<b>Deferred grant revenue at 31 December 2017</b>	<b>258</b>	<b>333</b>	<b>591</b>
Deferred grant revenue at 1 January 2018	258	333	591
Grants received during the year	-	-	-
Grants recognized as revenue for the year	(60)	(39)	(99)
<b>Deferred grant revenue at 31 December 2018</b>	<b>198</b>	<b>294</b>	<b>492</b>

### 21. Authorized capital

The CBK statutory fund as at 31 December 2018 and 2017 is 30,000 Euro, pursuant to the Law no. 03/L-209 adopted on 22 July 2010.

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

#### 21a. Reserve fund and revaluation reserve

The reserve fund and revaluation reserve is regulated by Law no. 03/L-209 on the Central Bank of the Republic of Kosovo. The profit of each financial year is allocated as described in the Note 4 (f) in accordance with this law.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

### 22. Net interest income

Net interest income is composed as follows:

	2018	2017
<b>Interest income</b>		
From deposit accounts	156	108
From treasury bills	1,607	1,020
From current accounts	611	342
From negative rates in deposits	452	532
	<b>2,826</b>	<b>2,002</b>
<b>Interest expense</b>		
On current accounts from non-banking entities	622	359
To nostro accounts with correspondent banks	346	657
On term deposits	0	0
From borrowings	14	20
	<b>982</b>	<b>1,036</b>
<b>Net interest income</b>	<b>1,844</b>	<b>966</b>

### 23. Net fee and commission income

Net fee and commission income is composed as follows:

	2018	2017
<b>Fee income</b>		
From cash deposits	665	583
From foreign incoming transfers	72	76
From foreign outgoing transfers	294	305
From the inter-bank clearing system	1,016	973
From the credit registry system	166	127
Other fees	39	37
	<b>2,252</b>	<b>2,101</b>
<b>Fee expenses</b>		
For cash transportation	277	326
For correspondent bank transactions	55	44
	<b>332</b>	<b>370</b>
<b>Net fee and commission income</b>	<b>1,920</b>	<b>1,731</b>

This group of income is derived from the services offered to bank's clients (institution), for payments, deposits, for the credit registry platform and maintenance of accounts and items in storage.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

### 24. Income from regulatory activity

Regulatory activity income mainly comprises fees charged to financial institutions in Kosovo as part of the issuance or renewal of licenses, as well as other statutory fees related to their activities for which the CBK has regulating legal power.

Income from regulatory activity:

	2018	2017
Fee charged to commercial banks	2,822	2,636
Fee charged to insurance companies	1,327	1,303
Fee from non-bank financial institutions	276	212
Fee charged to pension fund institutions	26	27
<b>Total</b>	<b>4,451</b>	<b>4,178</b>

### 25. Grant income

Grant income is composed as follows:

	2018	2017
Treasury – Ministry of Finances (ICU portfolio)	60	64
World Bank	38	42
<b>Total</b>	<b>98</b>	<b>106</b>

### 26. Other operating income

Operating income:

	2018	2017
Other income (extraordinary)	11	6
<b>Total</b>	<b>11</b>	<b>6</b>

Within other income are included extraordinary income related to Note 26, which are not related with the ordinary activity of the Bank and any other balance disclosed in a separate Note.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

### 27. Personnel expenses

Personnel expenses are composed as follows:

	2018	2017
Wages and salaries	3,471	3,528
Pension contributions	540	547
Health insurance costs	166	167
Staff training	95	91
Central Bank Board expenses	115	95
Other	20	25
<b>Total</b>	<b>4,407</b>	<b>4,453</b>

The number of employees that actively affected the cost disclosed for 2018 is 218 (2017: 222).

### 28. General and administrative expenses

General and administrative expenses are as follows:

	2018	2017
Insurance expenses	298	266
Repairs and maintenance	56	58
Software maintenance	310	275
Communication expense (telephone, telex and internet)	34	35
Utilities	85	105
Audit and consulting expense	16	16
Security and guard services	96	69
Travel and transportation	128	142
Vehicle operating expenses	20	21
Stationery	5	6
Representation expenses *	36	65
Other representation expenses *	9	12
Cafeteria expenses	41	41
Computer and other consumables expense	15	10
Consumable expenses for equipment	3	4
Publication and literature expenses	16	17
Technical professional assistance and other external services	9	6
Membership in professional organizations **	29	35
Other	21	29
<b>Total</b>	<b>1,227</b>	<b>1,212</b>

\* Other Representation expenses are mainly representative lunches/dinners of the Bank, Representation expenses include: *conferences during 2018, financial education program, representation in regional sport competitions, children's gifts for the end of the year, ceremonies and gifts for retired staff, gifts for 8 march and alike. In 2017, the CBK was the organiser and the host of sports competitions of regional Central Banks, in which the CBK participated only as a guest, in the previous years.*

\*\* Memberships in professional organizations relates to the expenses for international memberships fees for insurance supervisions, pension supervisions, credit registry, internal audit and financial reporting standard regulatory.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

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### 29. Foreign exchange net profit/loss

Net loss from foreign exchange is 1,225 thousand Euro for the year ended 31 December 2018, (while in 2017: profit of 22 thousand), and it represents the unrealised foreign exchange losses in relation to foreign exchange differences resulting upon translation of the USD and SDR assets and liabilities to the equivalent amounts in Euro, disclosed in the CBK's books.

Within the non-Euro currencies, there are the respective positions:

Note:		31 December 2018	
		Assets	Liabilities
10	USD	10,255	-
11,16	SDR	267,928	264,468

		31 December 2017	
		Assets	Liabilities
10	USD	10,072	-
11,16	SDR	273,844	267,825

### The effect of exchange rate variation on inclusive income

	31 December 2018	31 December 2017
from USD	403.00	(876)
from SDR	124.00	(349)
	<b>527.00</b>	<b>(1,225)</b>



# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

### 30. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

	Note	2018	2017
Cash on hand	7	285,376	188,547
Current accounts with non-resident banks	8	34,797	422,009
Treasury bills with maturity up to three months	9	-	-
Deposit accounts with non-resident banks with maturity up to three months	10	8,734	8,172
<b>Total</b>		<b>328,907</b>	<b>618,728</b>

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

### 31. Commitments and Contingencies Liabilities

#### Legal cases

There are several open legal cases against the CBK as at the reporting date of these financial statements. It is the management's opinion that the final outcome of these cases will not have a significant effect on the financial statements of the CBK, as at and for the year ending 31 December 2018, however due to professional care, the CBK has estimated and recorded a provision disclosed under other liabilities, even though during 2018 this provision has not increased compared to the prior year.

#### Credit Related Commitments

As at 31 December 2018, the CBK had commitments to place deposits in the amount of 0/zero/ million Euro (31 December 2017, the CBK had commitments to place deposits in the total amount of 20 /twenty/ million Euro).

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2018

(in thousands of EUR, unless otherwise stated)

### 31. Commitments and Contingencies (continued)

#### Credit Related Commitments (continued)

##### *Other Commitments*

Other commitments are composed as follows:

	2018	2017
Service contracts	11	168
Contracts for renovation of building	37	118
Equipment contracts	146	80
<b>Total</b>	<b>194</b>	<b>366</b>

In 2009, Kosovo became a member of the World Bank Group organizations – International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), and the Multilateral Investment Guarantee Agency (MIGA). In relation to this membership, the CBK acts as depository. This is in accordance with the Law no. 03/L-209 on the Central Bank of the Republic of Kosovo and Law no. 03-L-152 on Membership of the Republic of Kosovo in the International Monetary Fund and World Bank Group Organizations.

In June 2009, the Government of Kosovo issued promissory notes to make payments concerning membership subscription to the abovementioned World Bank agencies, upon their requests and payment instructions. The total balance at 31 December 2018 was 645 thousand and in 2017 the total amount of these promissory notes was 645 thousand Euro.

### 32. Related party transactions

Related parties include Key Management and the Central Bank Board. Their compensations are presented below:

	2018	2017
Compensation to Central Bank Board members	90	75
Compensation to Audit Committee	9	9
Compensation to Key Management Personnel	115	186
<b>Total</b>	<b>214</b>	<b>270</b>

### 33. Subsequent events

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

## 10. Statistical appendix



## 1.1. Financial Corporation survey - assets

(In millions of EUR: End of period)

Description	Net foreign assets								Domestic claims							
	Claims on non-residents							Liabilities to non-residents	Claims on central government			Claims on other sectors	Loans			
	Monetary gold and SDR	Deposits	Securities other than shares	of which:		IMF Quota	Assets and other equities		Claims on central government	Liabilities to central government	of which:		Other nonfinancial corp.	Households		
2008	1,593.1	1,726.7	—	795.1	661.6	—	128.2	133.6	419.6	-871.8	—	871.8	1,291.5	1,276.8	995.7	281.0
2009	1,700.5	2,036.2	60.3	910.1	724.5	64.3	144.3	335.7	571.5	-846.3	—	846.3	1,417.8	1,396.1	1,052.3	343.5
2010	1,935.4	2,365.6	64.0	1,235.7	525.2	68.5	269.3	430.2	788.9	-802.7	22.1	824.8	1,591.6	1,568.3	1,127.7	434.2
2011	2,047.3	2,425.6	65.1	1,338.9	230.0	70.1	533.1	378.2	998.8	-778.0	20.5	798.4	1,776.8	1,750.8	1,233.1	514.6
2012	2,224.1	2,660.4	63.3	1,147.7	486.0	68.8	666.5	436.3	1,195.5	-651.7	186.8	838.5	1,847.2	1,819.4	1,271.3	546.3
2013	2,452.7	2,908.3	59.6	1,037.9	818.7	65.9	651.2	455.6	1,369.1	-515.0	258.9	774.0	1,884.2	1,859.9	1,291.1	567.7
2014	2,546.6	3,011.6	62.5	1,313.0	315.7	70.4	1,024.4	465.0	1,609.0	-386.7	349.2	735.9	1,995.8	1,971.5	1,345.5	625.3
2015	2,610.3	3,133.4	65.1	1,271.6	351.3	75.1	1,086.3	523.2	1,864.8	-278.4	481.2	759.6	2,143.2	2,114.8	1,416.3	697.7
2016	2,705.6	3,249.5	56.0	648.0	712.5	105.3	1,307.4	543.9	2,221.0	-160.1	582.2	742.3	2,381.1	2,354.7	1,552.3	799.1
2017	2,785.4	3,442.4	66.3	715.9	639.8	98.1	1,483.0	657.0	2,560.6	-124.1	714.1	838.1	2,684.6	2,650.8	1,747.6	900.4
2018	2,610.9	3,288.9	64.9	602.2	740.6	100.3	1,231.8	677.9	3,048.5	47.7	838.7	791.0	3,000.8	2,970.2	1,965.0	1,018.2

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/01%20Financial%20Corporations%20Survey.xls](http://www.bqk-kos.org/repository/docs/time_series/01%20Financial%20Corporations%20Survey.xls)

## 1.2. Financial corporation survey – liabilities

(In millions of EUR: End of period)

Description	Deposits									Loans	Insurance technical reserves			Assets and other equities	Other items (net)
	Transferable (net) deposits	of which:				Other deposits	of which:				Net equity of households in pension funds	Payment of premiums and reserves			
		Public nonfinancial corp.	Other financial corp.	Households	Public nonfinancial corp.		Other nonfinancial corp.	Households							
2008	1,351.9	390.9	15.4	176.0	186.2	961.0	250.1	51.4	656.7	...	288.6	256.3	32.3	311.1	61.1
2009	1,444.3	483.2	50.1	184.0	237.7	961.0	73.9	82.9	801.9	...	422.3	380.8	41.5	326.1	77.7
2010	1,744.2	621.2	83.8	218.6	303.5	1,123.1	42.8	83.4	995.9	...	540.5	493.7	46.8	361.0	74.0
2011	1,933.6	658.4	68.1	208.1	360.9	1,275.1	60.8	79.7	1,129.6	...	647.8	593.3	54.5	389.7	76.5
2012	2,076.6	700.2	13.8	257.5	407.2	1,376.5	61.8	78.2	1,232.9	...	814.9	745.1	69.8	399.2	128.9
2013	2,275.3	848.0	16.4	299.6	506.6	1,427.3	55.7	98.2	1,268.4	...	990.3	919.0	71.3	403.9	152.4
2014	2,353.7	1,133.9	21.1	338.4	743.5	1,219.8	51.6	58.0	1,104.8	...	1,173.8	1,094.1	79.7	453.2	175.8
2015	2,514.6	1,378.4	11.1	413.8	919.0	1,136.3	20.6	68.3	1,046.8	...	1,329.6	1,237.3	92.3	530.5	100.4
2016	2,739.7	1,630.1	24.7	456.0	1,116.0	1,109.6	32.2	70.8	1,006.2	...	1,546.0	1,425.4	120.6	542.4	98.4
2017	2,888.4	1,780.2	59.2	491.6	1,191.8	1,108.2	35.1	89.9	978.7	...	1,766.5	1,652.8	113.8	621.0	70.0
2018	3,118.2	1,962.6	80.5	527.0	1,316.1	1,155.6	30.2	98.4	1,018.2	...	1,807.2	1,689.0	118.2	658.6	75.4

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/01%20Financial%20Corporations%20Survey.xls](http://www.bqk-kos.org/repository/docs/time_series/01%20Financial%20Corporations%20Survey.xls)

## 2.1. Deposit corporations' survey- net foreign assets and domestic claims

(In millions of EUR: End of period)

Description	Net foreign assets							Domestic claims							
	Claims on non-residents						Minus: liabilities to non-residents	Net claims on central government				Claims on other sectors			
	Cash	Deposits	Securities other than shares	IMF Quotas	Claims on central government	Minus: liabilities to central government		Loans	of which:		Other nonfinancial corp.	Households			
2008	1,436.1	1,512.0	121.1	794.9	581.8	—	75.9	311.9	-871.8	—	871.8	1,183.8	1,183.4	901.7	281.0
2009	1,531.9	1,782.4	111.4	910.0	626.7	64.3	250.6	442.9	-846.3	—	846.3	1,289.3	1,289.0	942.9	343.5
2010	1,594.1	1,935.0	164.3	1,235.7	372.7	68.5	340.9	654.9	-802.7	22.1	824.8	1,453.3	1,452.9	1,006.6	434.2
2011	1,583.3	1,879.9	124.9	1,338.8	227.0	70.1	296.6	888.2	-777.9	20.5	798.4	1,666.1	1,665.6	1,130.6	514.6
2012	1,616.7	1,989.7	141.4	1,147.6	482.7	68.8	373.1	1,075.9	-665.7	172.9	838.5	1,741.6	1,740.9	1,172.9	546.3
2013	1,859.7	2,252.6	157.9	1,037.8	815.3	65.9	392.9	1,219.0	-568.2	205.8	774.0	1,787.2	1,786.0	1,196.7	567.7
2014	1,579.0	1,982.2	160.4	1,312.9	311.6	70.4	403.2	1,441.6	-441.4	294.5	735.9	1,883.0	1,881.9	1,248.7	625.3
2015	1,581.8	2,042.3	190.6	1,271.5	347.4	75.1	460.5	1,641.4	-378.9	380.7	759.6	2,020.3	2,019.2	1,312.0	697.7
2016	1,493.1	1,936.8	316.7	647.9	709.5	105.3	443.7	1,971.5	-259.4	482.9	742.3	2,230.9	2,229.6	1,419.2	799.1
2017	1,419.6	1,945.7	357.2	707.6	637.6	98.1	526.1	2,254.7	-240.2	597.9	838.1	2,495.0	2,485.1	1,577.1	900.4
2018	1,421.7	1,931.4	483.8	482.2	738.3	100.3	509.7	2,572.8	-184.6	606.4	791.0	2,757.4	2,755.1	1,743.2	1,000.8

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/02%20Depository%20Corporations%20Survey.xls](http://www.bqk-kos.org/repository/docs/time_series/02%20Depository%20Corporations%20Survey.xls)

## 2.2. Depository corporations' survey - Liabilities

(In millions of EUR: End of period)

Description	Deposits included in broad money											Deposits excluded from broad money	Assets and other equities	Other items (net)
	Transferable deposits					Other deposits								
	Other financial corp.	Public nonfinancial corp.	of which:			Other financial corp.	Public nonfinancial corp.	of which:						
Other nonfinancial corp.			Households	Other nonfinancial corp.	Households									
2008	1,393.0	454.6	63.7	15.4	176.0	186.2	938.3	47.6	250.1	44.2	593.8	74.9	233.8	46.4
2009	1,548.5	621.4	138.2	50.1	184.0	237.7	927.0	60.7	73.9	71.7	718.5	98.1	249.1	79.1
2010	1,747.9	674.3	53.1	83.8	218.6	305.1	1,073.6	85.2	30.2	73.5	883.7	138.2	278.5	84.4
2011	1,902.2	705.3	37.8	77.2	208.1	363.3	1,196.9	91.0	49.2	71.7	979.9	175.8	302.9	90.6
2012	2,036.8	759.5	41.9	31.2	257.5	408.9	1,277.3	100.4	49.8	70.5	1,053.1	206.2	321.1	128.5
2013	2,389.2	1,097.1	226.5	39.1	299.6	509.0	1,292.1	62.2	43.7	92.3	1,088.9	209.7	329.0	151.5
2014	2,287.4	1,194.7	60.8	21.1	338.4	745.2	1,092.7	67.2	39.4	50.2	930.6	208.7	373.8	150.6
2015	2,415.6	1,476.0	97.6	11.1	413.8	919.0	939.6	37.4	7.8	55.0	838.9	252.2	444.4	111.7
2016	2,639.1	1,700.3	70.9	24.7	456.0	1,116.0	938.7	50.5	20.1	56.4	811.3	243.3	474.1	108.3
2017	2,806.9	1,869.2	89.8	59.2	491.6	1,191.8	937.7	68.2	22.9	66.3	775.8	261.6	523.3	82.5
2018	3,030.0	2,047.4	84.9	80.5	527.0	1,316.1	982.6	126.7	17.5	60.8	768.9	329.3	552.2	83.0

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/02%20Depository%20Corporations%20Survey.xls](http://www.bqk-kos.org/repository/docs/time_series/02%20Depository%20Corporations%20Survey.xls)

**Table 3.1. CBK Survey - net foreign assets and domestic claims**

(In millions of EUR: End of period)

Description	Net foreign assets										Net claims on central government	Claims on other sectors
	Claims on non-residents							Minus: liabilities to non-residents	of which:			
	SDRs	Cash	Deposits	Securities other than shares	IMF Quota	SDR allocations	Use of IMF funds					
2008	1,110.7	1,110.7	—	39.7	529.0	541.3	—	...	—	—	-870.5	0.3
2009	1,088.3	1,198.5	60.3	21.8	522.3	529.7	64.3	110.2	60.3	49.1	-681.5	0.2
2010	1,085.9	1,224.8	64.0	60.2	832.3	199.2	68.5	138.9	64.2	73.0	-791.0	0.5
2011	1,074.1	1,214.2	65.1	13.5	1,038.8	25.0	70.1	140.1	65.7	73.7	-776.7	0.5
2012	1,125.7	1,356.0	63.3	16.8	921.0	286.0	68.8	230.3	64.6	165.3	-724.8	0.7
2013	1,286.3	1,504.3	59.6	27.4	790.5	560.8	65.9	218.0	61.9	155.8	-667.5	1.2
2014	1,044.7	1,266.4	62.5	29.2	983.5	120.5	70.4	221.6	66.1	155.2	-628.8	1.1
2015	1,046.4	1,302.6	65.1	15.3	1,046.3	100.2	75.1	256.1	70.5	184.8	-599.4	1.1
2016	895.2	1,161.7	56.0	154.8	402.7	438.4	105.3	266.5	70.6	193.7	-493.1	1.4
2017	939.4	1,242.6	66.3	188.5	491.0	394.3	98.1	303.2	65.7	235.0	-473.6	9.7
2018	933.9	1,239.6	64.9	285.4	219.0	565.5	100.3	305.7	67.2	236.1	-431.6	2.1

 Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/03%20CBK%20Survey.xls](http://www.bqk-kos.org/repository/docs/time_series/03%20CBK%20Survey.xls)
**Table 3.2. CBK survey - Liabilities**

(In millions of EUR: End of period)

Description	Deposits included in broad money								Deposits excluded from monetary base			Capital and other			Other items (net)
	Transferable deposits					Other deposits			Other nonfinancial corporations	Local government	of which:				
	Other financial corporations	Local government	Public nonfinancial corporations	Other financial corporations	Other financial corporations	Capital	Profit loss of the year								
2008	63.9	56.7	49.9	5.3	1.5	...	7.2	7.2	...	...	...	41.4	30.0	7.5	-2.0
2009	130.8	130.8	129.7	...	1.1	...	...	...	...	...	...	44.9	30.0	3.7	-2.0
2010	45.6	45.6	43.9	...	0.0	...	...	...	...	...	...	48.0	30.0	3.1	-1.8
2011	39.5	39.5	36.8	...	0.2	...	...	...	...	...	...	50.0	30.0	1.5	-1.3
2012	51.5	51.5	49.8	...	0.0	...	...	...	...	...	...	50.4	30.0	0.3	-2.4
2013	239.0	239.0	236.6	...	0.0	...	...	...	...	...	...	50.5	30.0	0.2	-2.7
2014	53.0	53.0	40.5	...	10.9	...	...	...	...	...	...	50.8	30.0	0.4	-2.7
2015	83.4	83.4	82.3	...	0.3	...	...	...	...	...	...	51.6	30.0	0.7	-3.3
2016	59.6	59.6	51.2	...	7.7	...	...	...	...	...	...	53.3	30.0	1.6	-5.8
2017	96.6	96.6	52.7	...	43.1	...	...	...	...	...	...	52.4	30.0	-0.9	-5.3
2018	111.6	111.6	49.3	...	61.6	...	...	...	...	...	...	54.5	30.0	2.2	-5.1

 Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/03%20CBK%20Survey.xls](http://www.bqk-kos.org/repository/docs/time_series/03%20CBK%20Survey.xls)

Table 4.1. ODC Survey - Net Foreign Assets and Domestic Claims

(In millions of EUR: End of period)

Description	Net foreign assets								Claims on CBK	Net claims on central government	Claims on other sectors				
	Claims on residents	on non-residents of which:			Minus: Liabilities to non-residents	of which:		Loans			Public nonfinancial corp.	of which:		House holds	
		Cash	Deposits	Securities other than shares		Deposits	Loans					Other nonfinancial corp.	House holds		
2008	325.4	401.3	81.4	265.9	40.5	75.9	42.0	33.7	136.8	-1.3	1,183.4	1,183.4	0.1	901.7	281.0
2009	444.0	583.9	89.6	387.7	97.0	140.0	65.5	74.5	233.1	-164.9	1,289.0	1,289.0	0.3	942.9	343.5
2010	507.6	709.8	103.5	403.5	173.4	202.2	85.5	116.7	203.4	-11.6	1,457.5	1,452.7	6.3	1,006.6	434.2
2011	509.2	665.7	111.5	300.0	202.0	156.5	64.8	90.5	220.0	-1.2	1,666.1	1,664.1	1.5	1,130.6	514.6
2012	490.9	633.7	124.6	226.6	196.7	142.8	87.6	50.3	301.1	59.2	1,741.6	1,740.5	1.4	1,172.9	546.3
2013	573.4	748.3	130.6	247.3	254.4	174.9	90.4	82.4	332.8	99.4	1,786.0	1,786.0	0.2	1,196.7	568.6
2014	534.3	715.8	131.2	329.4	191.1	181.5	90.6	87.8	315.9	187.3	1,881.9	1,881.8	0.6	1,248.7	625.3
2015	535.7	740.0	175.5	225.2	247.2	204.3	116.0	85.9	315.7	220.7	2,019.0	2,019.0	0.6	1,324.1	685.6
2016	597.9	775.1	161.9	245.2	271.1	177.2	74.1	95.9	295.4	233.7	2,229.6	2,229.6	2.9	1,419.2	799.1
2017	480.2	703.1	168.7	216.6	243.4	222.9	117.9	102.5	330.7	233.4	2,485.10	2,485.1	2.4	1,577.1	900.8
2018	487.8	691.8	198.5	263.2	172.8	204.0	108.6	91.9	343.3	247.0	2,755.2	2,755.2	4.0	1,743.2	1,001.2

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/03%20CBK%20Survey.xls](http://www.bqk-kos.org/repository/docs/time_series/03%20CBK%20Survey.xls)

Table 4.2. ODC survey- Liabilities

(In millions of EUR: End of period)

Description	Deposits included in broad money										Deposits excluded from broad money	of which:		Share capital and other	Other items (net)	
	Transferable deposits					Other deposits						Other nonfinancial corporations	House holds			
	of which:				House holds	of which:										
Other financial corp.	Public nonfinancial corp.	Other nonfinancial corp.	House holds	Other financial corp.		Public nonfinancial corp.	Other nonfinancial corp.	House holds	Other financial corp.	Public nonfinancial corp.	Other nonfinancial corp.	House holds	Other nonfinancial corporations	House holds	Share capital and other	Other items (net)
2008	1,329.0	397.9	13.8	13.8	176.0	186.2	931.1	40.4	250.1	44.2	593.8	74.9	7.3	63.0	192.3	48.1
2009	1,417.6	490.6	8.5	48.9	184.0	237.7	927.0	60.7	73.9	71.7	718.5	98.1	11.2	83.5	204.6	81.0
2010	1,702.2	628.6	9.2	83.8	218.6	303.5	1,074.1	85.2	30.2	73.5	884.2	138.2	9.9	112.2	230.4	85.7
2011	1,863.3	665.9	10.1	67.9	208.1	360.9	1,197.4	91.0	49.2	71.7	980.2	175.8	8.0	149.7	252.8	102.2
2012	1,986.0	708.0	9.6	13.8	257.5	407.2	1,278.0	100.4	49.8	70.5	1,053.0	206.2	7.8	179.8	270.7	129.8
2013	2,149.5	857.3	11.8	16.4	299.6	506.6	1,292.2	62.2	43.7	92.3	1,088.9	209.7	5.9	179.4	277.8	154.4
2014	2,234.4	1,141.7	20.4	10.2	338.4	743.5	1,092.7	67.2	39.4	50.2	930.6	208.7	7.8	174.2	323.0	153.3
2015	2,349.6	1,392.0	14.5	10.9	413.8	919.1	957.5	37.6	12.8	54.3	852.3	232.7	13.9	193.1	393.8	115.0
2016	2,579.4	1,640.7	19.0	17.0	456.0	1,116.0	938.7	50.5	20.1	56.4	811.2	243.3	14.3	195.0	420.9	113.3
2017	2,710.3	1,772.7	36.3	16.0	491.6	1,191.8	937.7	68.2	22.9	66.3	775.8	261.6	23.6	202.9	471.0	86.7
2018	2,918.4	1,935.8	34.8	18.9	527.0	1,316.1	982.6	126.7	17.5	60.8	768.9	329.3	37.6	249.3	497.7	88.0

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/04%20Other%20Depository%20Corporations%20Survey.xls](http://www.bqk-kos.org/repository/docs/time_series/04%20Other%20Depository%20Corporations%20Survey.xls)



Table 5.1. OFC survey – net foreign assets and domestic claims

(In millions of EUR: End of period)

Description	Net foreign assets						Claims on depository corporations						Net claims on central government	Claims on other sectors	Loans	
	Claims on non-residents	of which:			Minus: Liabilities to non-residents	Loans	CBK			Other depository corporations						
		Securities other than shares	Share capital and other				Transferable deposits	Other deposits		Transferable deposits	Other deposits					
2008	157.0	214.7	79.8	128.2	57.7	57.7	113.0	57.1	49.9	7.2	55.9	7.9	48.0	—	108.3	94.0
2009	168.6	253.8	97.9	144.3	85.1	85.1	200.0	129.7	129.7	...	70.3	7.4	62.9	—	130.8	109.4
2010	341.3	430.5	152.5	269.3	89.2	89.2	142.8	43.9	43.9	...	98.8	8.2	90.6	—	139.7	116.9
2011	464.0	545.7	3.2	533.1	81.7	81.7	138.1	27.7	27.7	...	110.4	7.3	103.1	—	128.1	102.5
2012	607.6	670.8	3.3	666.5	63.2	63.2	154.0	32.4	32.4	...	121.6	9.7	111.9	13.9	125.5	98.3
2013	593.0	655.8	3.5	651.2	62.7	62.7	313.0	213.9	213.9	...	99.1	14.6	84.5	53.1	117.5	94.4
2014	967.6	1,029.4	4.0	1,024.4	61.8	61.8	119.5	15.7	15.7	...	103.7	13.6	90.1	54.7	119.9	96.8
2015	1,028.4	1,091.1	3.9	1,086.3	62.7	62.7	162.8	55.4	55.4	...	107.3	21.8	85.6	100.5	131.6	104.2
2016	1,212.5	1,312.7	3.0	1,307.4	100.2	100.2	136.6	20.6	20.6	...	116.0	26.3	89.7	99.3	158.1	133.1
2017	1,365.8	1,496.7	2.1	1,483.0	130.9	130.9	178.4	18.6	18.6	...	159.8	47.2	112.1	116.2	194.5	170.5
2018	1,189.2	1,357.5	2.2	1,231.8	168.3	168.3	235.4	10.8	10.8	...	224.6	73.8	150.8	232.3	250.2	221.9

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/05a%20Other%20Financial%20Intermediaries%20Survey.xls](http://www.bqk-kos.org/repository/docs/time_series/05a%20Other%20Financial%20Intermediaries%20Survey.xls)

Table 5.2. OFC survey– liabilities

(In millions of EUR: End of period)

Description	Loans	Insurance technical reserves				Share capital and other					Other items			
		Net equity of households in life insurance reserves	Net equity of households in pension funds	Prepayment of premiums and res. against cum. claims.		Funds contributed by owners	Retained earnings	General and special reserves	Annual Profit/Loss		Other liabilities	Minus: other assets	Plus: consolidation adjustments	
2008	1.0	288.6	...	256.3	32.3	77.4	54.0	12.7	7.4	3.4	11.3	24.2	12.9	...
2009	2.9	422.3	...	380.8	41.5	77.0	53.4	19.4	7.2	-3.1	-2.7	13.1	15.8	...
2010	2.9	540.5	...	493.7	46.8	82.5	59.7	13.6	7.2	2.0	-2.1	20.9	23.1	...
2011	3.3	647.8	...	593.3	54.5	85.4	60.4	13.3	10.8	0.9	-6.3	16.1	22.4	...
2012	7.2	814.9	...	745.1	69.8	78.1	63.5	9.8	10.7	-6.4	0.7	29.0	28.4	...
2013	6.8	990.3	...	919.0	71.3	75.6	64.2	1.3	11.1	-1.0	3.9	29.8	25.9	...
2014	3.2	1,173.8	...	1,094.1	79.7	78.5	64.3	-0.5	14.4	0.3	6.1	30.9	24.8	...
2015	1.0	1,329.5	...	1,237.3	92.1	86.1	76.9	-2.7	17.3	-5.4	6.4	31.2	24.8	...
2016	2.1	1,546.0	...	1,425.4	120.6	68.3	94.9	-9.5	3.8	-20.9	-10.0	21.0	31.0	...
2017	5.8	1,766.5	...	1,652.8	113.8	97.7	107.3	-27.0	3.8	13.6	-15.1	21.8	36.9	...
2018	3.0	1,807.2	...	1,689.0	118.2	106.4	106.0	-16.1	5.0	11.5	-9.5	30.6	40.1	...

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/05a%20Other%20Financial%20Intermediaries%20Survey.xls](http://www.bqk-kos.org/repository/docs/time_series/05a%20Other%20Financial%20Intermediaries%20Survey.xls)

Table 6.1. ODC deposits in euro – according to initial maturity, main sectors

(In millions of EUR: End of period)

Description	Total deposits in euro														
	Government	Financial corporations							Non-financial corporations			Other domestic sectors		Non residents	
		Other depository corporations	Other financial intermediaries	Insurance companies	Pension funds	Financial auxiliaries	Public nonfinancial corporations	Other nonfinancial corporations	Households	NPISH					
2008	1,366.8	1.4	62.8	5.0	6.5	31.5	19.4	0.4	479.7	263.8	215.9	785.0	774.5	10.5	37.9
2009	1,639.7	165.0	77.8	6.1	5.9	43.1	22.2	0.4	371.5	121.6	249.9	962.2	948.8	13.4	63.2
2010	1,827.7	11.7	102.0	7.2	7.8	47.6	38.6	0.6	414.9	122.3	292.5	1,220.0	1,206.1	14.0	79.1
2011	1,982.4	2.7	117.5	9.9	6.8	57.2	43.1	0.5	406.6	128.5	278.1	1,395.6	1,373.4	22.1	60.0
2012	2,162.7	0.7	120.0	3.8	6.2	64.3	45.3	0.4	401.7	75.6	326.1	1,558.6	1,535.4	23.2	81.7
2013	2,314.0	1.8	88.1	2.5	7.4	72.3	5.7	0.3	455.6	72.1	383.5	1,685.1	1,658.7	26.4	83.4
2014	2,426.6	8.8	104.4	2.6	5.1	79.3	17.1	0.3	449.7	61.8	388.0	1,781.6	1,751.1	30.6	82.1
2015	2,579.9	5.9	73.2	3.3	5.0	59.0	4.8	1.1	499.9	31.4	468.5	1,895.5	1,862.3	33.2	105.3
2016	2,779.6	5.6	96.6	5.6	6.9	59.0	23.7	1.1	560.4	49.0	511.5	2,053.4	2,021.5	31.9	63.7
2017	2,960.4	11.7	133.6	6.7	10.9	59.7	52.6	3.7	615.1	51.0	564.1	2,087.0	2,047.9	39.0	113.0
2018	3,221.6	15.6	204.5	14.0	8.4	55.5	124.9	1.7	659.0	49.1	609.8	2,236.0	2,193.8	42.1	106.5

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/08%20Deposits%20at%20ODC%20-%20deposits%20in%20euro.xls](http://www.bqk-kos.org/repository/docs/time_series/08%20Deposits%20at%20ODC%20-%20deposits%20in%20euro.xls)

Table 6.2. ODC deposits in euro – according to initial maturity, main sectors

(In millions of EUR: End of period)

Description	Non euro deposits															
	Financial corporations	of which:					Nonfinancial corporations	of which:			Other domestic sectors					Non residents
		CBK	Other depository corporations	Other financial intermediaries	Insurance companies	Public nonfinancial corporations		Other nonfinancial corporations	Households			NPISH				
									Transferable deposits	Saving deposits	Other deposits					
2008	81.9	0.9	—	...	...	0.9	11.6	0.1	11.5	68.4	68.2	22.9	—	45.2	0.3	1.0
2009	112.0	2.0	—	1.1	...	0.9	18.3	1.3	17.0	91.1	90.9	29.7	—	61.1	0.2	0.7
2010	113.7	3.1	—	2.9	...	—	13.6	4.3	9.3	93.8	93.3	33.1	25.9	34.3	0.5	3.1
2011	131.4	0.3	—	0.3	...	—	9.8	0.1	9.7	117.5	117.0	46.5	31.7	38.9	0.4	3.8
2012	120.9	1.6	—	1.2	0.2	—	9.6	...	9.6	104.9	104.7	45.7	27.0	32.0	0.2	4.8
2013	136.9	0.7	—	...	0.4	—	14.2	...	14.2	116.7	116.2	59.6	29.6	27.0	0.5	5.2
2014	113.0	0.3	—	...	0.3	—	8.5	...	8.5	97.8	97.2	63.2	21.5	12.6	0.6	6.5
2015	124.3	0.2	—	0.2	...	—	13.5	...	13.5	102.8	102.2	76.6	19.3	6.2	0.6	7.8
2016	128.8	0.8	—	—	0.7	—	15.8	0.2	15.6	101.9	100.8	78.3	17.4	5.1	1.1	10.4
2017	148.1	0.6	—	—	0.5	—	17.6	0.1	17.5	122.9	122.6	99.3	17.0	6.2	0.3	7.0
2018	170.9	6.1	—	5.4	0.4	—	15.6	—	15.6	140.8	140.4	116.8	17.1	6.4	0.4	8.2

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/09%20Deposits%20at%20ODC%20-%20deposits%20in%20non-euro.xls](http://www.bqk-kos.org/repository/docs/time_series/09%20Deposits%20at%20ODC%20-%20deposits%20in%20non-euro.xls)

Table 6.3. ODC loans – main institutional sectors

(In millions of EUR: End of period)

Description	Total loans																
	Financial corporations				Nonfinancial corporations						Other domestic corporations				Non residents	Loans in non-euro currency	
		of which:				of which:				of which:							
		Other financial intermediaries	Insurance companies			Public nonfinancial corporations	Other non-financial corporations				Households						
						Up to 1 year	Over 1 year and up to 5 years	Over 5 years		Up to 1 year	Over 1 year and up to 5 years	Over 5 years					
2008	1,183.4	0.6	—	0.6	901.8	0.1	901.7	191.0	710.7	-	281.0	281.0	20.9	260.1	-	—	—
2009	1,289.0	2.3	1.2	1.1	943.2	0.3	942.9	215.7	727.2	-	343.5	343.5	27.0	316.6	-	—	—
2010	1,458.6	9.9	6.8	3.0	1,010.3	6.2	1,004.1	255.2	493.8	255.1	434.3	434.2	26.5	232.5	175.1	1.6	2.5
2011	1,698.1	16.4	14.7	1.7	1,129.7	1.5	1,128.2	298.8	563.7	265.7	512.4	510.9	44.0	256.7	210.2	32.3	7.3
2012	1,763.4	19.8	16.3	3.5	1,171.2	1.4	1,169.8	313.4	586.5	269.9	542.9	542.6	52.2	256.2	234.2	22.5	6.9
2013	1,805.8	20.4	17.3	3.1	1,194.7	0.2	1,194.5	378.0	569.0	247.5	564.7	563.9	65.4	253.6	244.9	19.8	6.1
2014	1,882.2	7.1	5.8	1.3	1,247.0	0.6	1,246.4	380.7	590.5	275.2	621.8	621.6	55.9	285.0	280.7	0.4	6.0
2015	2,019.3	8.7	7.4	1.1	1,322.2	0.6	1,321.6	306.9	671.5	343.2	682.2	682.0	58.2	280.7	343.1	0.3	5.9
2016	2,230.0	7.9	7.5	0.3	1,420.8	2.9	1,417.9	405.9	638.2	373.8	796.5	796.2	56.1	307.2	432.8	0.4	4.2
2017	2,485.3	4.9	4.5	0.1	1,577.1	2.4	1,574.7	366.8	702.9	505.0	897.6	897.2	48.9	319.3	529.0	0.4	5.3
2018	2,755.5	6.9	5.4	0.1	1,745.7	4.0	1,741.7	311.1	817.8	612.8	998.5	998.2	50.2	326.9	621.1	0.3	4.1

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/12%20ODC%20loans%20-%20by%20economic%20sectors.xls](http://www.bqk-kos.org/repository/docs/time_series/12%20ODC%20loans%20-%20by%20economic%20sectors.xls)

Table 6.4. ODC loans - main economic sectors

(In millions of EUR: End of period)

Description	Total									
	Agriculture			Industry, energy and construction				Services		
		Up to 1 year	Over 1 year		Up to 1 year	Over 1 year		Up to 1 year	Over 1 year	
2008	902.4	37.4	4.1	33.3	160.2	28.1	132.0	704.8	126.4	578.4
2009	945.5	38.2	3.8	34.4	236.7	53.3	183.4	670.5	113.2	557.3
2010	1,022.8	38.2	1.7	36.5	269.3	77.1	192.2	715.3	192.8	522.4
2011	1,149.5	40.5	0.8	39.7	284.7	82.3	202.4	824.4	235.7	588.6
2012	1,194.2	43.6	3.0	40.6	290.4	74.1	216.2	860.2	262.4	597.8
2013	1,217.4	45.8	3.3	42.5	291.4	95.8	195.6	880.2	321.2	559.0
2014	1,256.4	49.8	4.1	45.7	300.0	92.4	207.6	906.6	319.1	587.5
2015	1,333.4	59.9	4.6	55.3	300.6	79.1	221.6	972.9	285.6	687.2
2016	1,410.1	59.7	9.1	50.6	324.8	93.7	231.2	1,025.5	322.2	703.4
2017	1,563.7	67.7	10.7	57.1	371.5	100.1	271.5	1,124.4	254.8	869.6
2018	1,734.3	67.7	18.4	49.3	428.5	93.6	335.0	1,238.1	249.1	989.0

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/12%20ODC%20loans%20-%20by%20economic%20sectors.xls](http://www.bqk-kos.org/repository/docs/time_series/12%20ODC%20loans%20-%20by%20economic%20sectors.xls)

Table 6.5. Effective interest rates on ODC deposits

(Annual average, in percentage)

Description	New deposits							Transferable deposits	Saving deposits
	Up to 1 month	Over 1 month up to 3 months	Over 3 months up to 6 months	Over 6 months up to 1 year	Over 1 year up to 2 years	Over 2 years			
<b>NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS</b>									
2008	4.2	3.1	3.7	5.2	4.3	3.2	3.0	0.3	2.5
2009	4.3	3.3	3.7	5.6	4.7	2.4	3.2	0.5	2.8
2010	3.8	2.8	3.0	3.6	4.5	4.7	5.3	0.5	2.3
2011	3.5	2.5	3.1	3.1	4.2	4.6	5.1	0.7	2.1
2012	3.6	2.3	3.2	3.0	4.3	4.5	5.2	0.7	2.0
2013	3.4	2.0	2.7	2.7	3.7	4.4	4.8	0.6	1.7
2014	1.1	0.5	0.6	0.5	1.2	1.4	1.9	0.1	0.7
2015	0.9	0.4	0.8	0.4	0.7	1.0	1.9	0.0	0.3
2016	1.0	0.5	0.5	0.4	0.9	1.0	2.0	0.0	0.3
2017	1.0	0.7	0.4	0.4	0.1	1.1	1.6	0.0	0.3
2018	1.3	0.6	0.5	0.4	1.2	1.3	1.9	0.0	0.4
<b>Non-financial corporations</b>									
2008	.	3.3	3.9	5.2	4.4	5.0	5.2	0.5	2.7
2009	.	3.3	3.9	5.6	5.0	...	5.7	0.8	2.9
2010	3.9	2.9	3.2	4.3	5.2	4.6	5.2	0.9	2.4
2011	3.5	2.4	3.7	3.8	5.0	5.0	5.3	1.0	2.2
2012	3.5	2.1	3.8	3.7	5.0	4.9	5.3	0.9	2.1
2013	3.5	1.5	2.8	2.7	3.7	4.6	4.8	0.7	2.0
2014	1.3	0.6	0.8	0.5	1.4	1.2	1.9	0.2	0.8
2015	1.1	0.7	1.0	0.3	1.0	1.0	1.9	0.1	0.1
2016	1.4	0.6	0.5	0.4	1.4	1.4	1.8	0.0	0.1
2017	1.4	0.9	0.9	0.8	1.3	1.5	1.9	0.0	0.3
2018	1.6	1.0	1.1	1.2	1.6	1.7	2.4	0.0	0.4
<b>Households</b>									
2007	.	2.1	2.5	...	3.3	4.3	4.6	...	2.0
2008	.	2.9	3.4	...	4.2	4.7	5.1	0.1	2.4
2009	.	3.2	3.5	...	4.4	4.8	5.4	0.2	2.6
2010	3.7	2.8	2.8	3.4	4.4	4.6	5.3	0.3	2.3
2011	3.6	2.5	2.6	2.9	4.2	4.5	5.1	0.4	2.1
2012	3.6	2.4	2.5	2.8	4.2	4.5	5.2	0.5	2.0
2013	3.5	2.1	2.3	2.6	3.7	4.3	4.8	0.6	1.6
2014	1.1	0.5	0.6	0.4	1.0	1.3	1.9	0.1	0.7
2015	0.9	0.4	0.6	0.4	0.7	0.9	1.9	0.0	0.3
2016	0.9	0.5	0.5	0.4	0.7	1.0	2.0	0.0	0.3
2017	0.9	0.7	0.4	0.4	0.8	1.1	1.6	0.0	0.3
2018	1.2	0.3	0.4	0.4	1.1	1.2	1.8	0.0	0.3

Note: For more detailed information about this table please visit the link: [http://www.bgk-kos.org/repository/docs/time\\_series/13a%20ODC%20effective%20interest%20rates%20on%20deposits.xls](http://www.bgk-kos.org/repository/docs/time_series/13a%20ODC%20effective%20interest%20rates%20on%20deposits.xls)

Table 6.6. Effective interest rates on ODC loans

(Annual average, in percentage)

Description	New loans									Overdrafts	Credit lines
	Consumer loans	Mortgage loans	Loans with favorable conditions	Other loans							
					Agricultural	Industrial	Services	Other sectors			
<b>NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS</b>											
2008	14.7	14.1	11.7	.	.	.	.	.	.	16.6	14.1
2009	14.3	13.1	10.6	.	.	.	.	.	.	16.2	14.6
2010	14.4	13.9	11.8	6.6	16.5	25.7	15.2	15.5	15.3	12.9	14.0
2011	13.8	13.9	11.5	7.9	14.5	23.7	13.9	13.9	16.1	12.1	13.2
2012	12.7	12.4	10.6	7.4	13.2	20.7	12.5	13.2	16.0	10.7	11.6
2013	11.8	11.6	10.1	7.6	12.3	17.4	12.3	11.9	13.7	9.3	11.4
2014	10.6	10.9	9.1	4.6	10.6	13.2	10.4	10.7	10.9	9.5	11.3
2015	8.3	9.0	7.4	4.7	8.2	9.8	8.0	8.1	8.9	8.2	9.5
2016	7.5	8.3	6.5	3.7	7.0	8.3	7.0	7.1	6.8	7.1	8.6
2017	6.8	7.8	5.9	3.6	6.5	7.7	6.4	6.5	6.6	6.7	7.9
2018	6.6	7.5	6.0	2.9	6.3	9.2	6.1	6.4	6.3	6.7	6.8
<b>Non-financial corporations</b>											
2008	.	.	.	.	.	.	.	.	.	13.9	14.1
2009	.	.	.	.	.	.	.	.	.	14.6	14.6
2010	16.5	.	.	6.9	16.5	25.7	15.2	15.5	15.3	12.5	14.0
2011	14.4	.	.	7.6	14.4	24.2	13.9	13.9	16.1	11.8	13.2
2012	13.2	.	.	7.5	13.2	21.1	12.5	13.2	16.0	10.5	11.6
2013	12.3	.	.	7.0	12.3	17.6	12.3	11.9	13.7	9.1	11.4
2014	10.6	.	.	5.5	10.6	13.2	10.4	10.7	10.9	9.3	11.3
2015	8.1	.	.	2.9	8.1	9.3	8.0	8.1	8.9	7.9	9.5
2016	7.0	.	.	3.0	7.0	7.7	7.0	7.1	6.8	6.8	8.6
2017	6.4	.	.	3.6	6.4	7.2	6.4	6.5	6.6	6.5	7.9
2018	6.3	.	.	2.9	6.3	7.7	6.1	6.4	6.3	6.5	6.8
<b>Households</b>											
2008	.	14.1	11.7	.	.	.	.	.	.	19.2	.
2009	.	13.1	10.6	.	.	.	.	.	.	17.7	.
2010	13.5	13.9	11.8	6.4	25.0	25.0	.	.	.	22.3	.
2011	13.4	13.9	11.5	8.2	22.4	22.4	.	.	.	18.9	.
2012	12.2	12.4	10.6	7.0	19.8	19.8	.	.	.	15.2	.
2013	11.3	11.6	10.1	6.8	16.4	16.4	.	.	.	14.7	.
2014	10.6	10.9	9.1	3.9	15.4	15.4	.	.	.	13.6	.
2015	8.7	9.0	7.4	5.1	13.3	13.3	.	.	.	13.1	.
2016	8.0	8.3	6.5	3.9	12.0	12.0	.	.	.	12.8	.
2017	7.4	7.8	5.9	2.9	12.5	12.5	.	.	.	13.7	.
2018	7.2	7.5	6.0	2.9	11.0	11.0	.	.	9.24	16.4	.

Note: For more detailed information about this table please visit the link: [http://www.bgk-kos.org/repository/docs/time\\_series/13%20ODC%20effective%20interest%20rates%20on%20loans.xls](http://www.bgk-kos.org/repository/docs/time_series/13%20ODC%20effective%20interest%20rates%20on%20loans.xls)

**Table 7.1 Balance of Payments of Kosovo – main components**

(In millions of EUR)

Description	Balance from current and capital account							Balance from financial account					Errors and omissions
	Current account						Capital account	Direct investments	Portfolio investments	Other investments	Reserve assets		
	Goods	Services	Primary income	Secondary income									
2008	-450.5	-460.9	-1,644.7	146.6	164.0	873.2	10.4	-288.1	-341.5	109.9	-74.8	18.2	162.4
2009	-273.4	-373.7	-1,646.3	227.4	61.8	983.4	100.3	-109.0	-276.9	124.4	138.3	-94.8	164.4
2010	-494.8	-516.1	-1,741.6	176.0	67.0	982.5	21.3	-297.2	-331.1	48.6	-57.4	42.7	197.6
2011	-569.4	-611.4	-2,047.1	395.7	111.2	928.8	42.0	-377.5	-378.9	57.8	4.8	-61.2	191.8
2012	-280.2	-293.1	-2,050.1	499.6	153.6	1,103.7	13.0	-232.4	-213.3	185.7	-420.5	215.8	47.8
2013	-144.3	-179.0	-1,995.6	520.0	121.5	1,175.0	34.7	-132.2	-250.2	139.3	14.4	-35.7	12.1
2014	-363.4	-384.6	-2,058.6	459.9	113.8	1,100.3	21.2	-145.0	-123.8	13.3	22.6	-57.0	218.4
2015	-471.4	-497.3	-2,109.3	457.1	92.6	1,062.4	25.8	-312.3	-271.8	18.6	-132.8	73.6	159.1
2016	-467.2	-481.4	-2,290.8	638.8	74.5	1,096.1	14.2	-199.1	-177.2	343.6	-264.0	-101.5	268.1
2017	-395.0	-383.2	-2,464.2	793.5	126.6	1,161.0	-11.8	-284.3	-212.0	14.7	-156.9	69.8	110.7
2018	-551.7	-540.6	-2,730.9	770.6	159.7	1,260.0	-11.1	-267.2	-169.6	-199.9	15.5	86.8	284.5

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/26%20Balance%20of%20payments%20-%20main%20components.xls](http://www.bqk-kos.org/repository/docs/time_series/26%20Balance%20of%20payments%20-%20main%20components.xls)

**7.2. Current Account**

(In millions of EUR)

Description	Balance					Credit					Debit				
	Goods	Services	Primary income	Secondary income		Goods	Services	Primary income	Secondary income		Goods	Services	Primary income	Secondary income	
2008	-460.9	-1,644.7	146.6	164.0	873.2	1,813.8	211.3	396.9	233.3	972.3	2,274.7	1,856.0	250.3	69.32	99.08
2009	-373.7	-1,646.3	227.4	61.8	983.4	1,984.5	172.5	521.7	183.5	1,106.8	2,358.2	1,818.8	294.3	121.72	123.41
2010	-516.1	-1,741.6	176.0	67.0	982.5	2,147.2	299.2	574.3	186.3	1,087.4	2,663.3	2,040.8	398.3	119.24	104.96
2011	-611.4	-2,047.1	395.7	111.2	928.8	2,417.0	316.5	820.3	239.0	1,041.3	3,028.4	2,363.7	424.5	127.77	112.46
2012	-293.1	-2,050.1	499.6	153.6	1,103.7	2,614.1	281.9	894.5	230.0	1,207.7	2,907.2	2,332.0	394.8	76.42	103.92
2013	-179.0	-1,995.6	520.0	121.5	1,175.0	2,678.4	291.5	875.1	227.5	1,284.3	2,857.4	2,287.0	355.1	105.96	109.28
2014	-384.6	-2,058.6	459.9	113.8	1,100.3	2,667.3	324.3	928.6	215.8	1,198.7	3,052.0	2,382.9	468.7	102.01	98.40
2015	-497.3	-2,109.3	457.1	92.6	1,062.4	2,628.2	322.5	951.5	221.7	1,132.5	3,125.5	2,431.8	494.4	129.07	70.16
2016	-481.4	-2,290.8	638.8	74.5	1,096.1	2,822.9	307.9	1,130.6	212.8	1,171.6	3,304.3	2,598.7	491.8	138.34	75.44
2017	-383.2	-2,464.2	793.5	126.6	1,161.0	3,166.5	378.4	1,329.8	230.1	1,228.2	3,549.6	2,842.6	536.3	103.50	67.20
2018	-540.6	-2,730.9	770.6	159.7	1,260.0	3,370.9	375.8	1,401.9	264.3	1,328.8	3,911.5	3,106.7	631.3	104.7	68.8

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/26a%20Current%20account.xls](http://www.bqk-kos.org/repository/docs/time_series/26a%20Current%20account.xls)

### 7.3.1 Primary income

(In millions of EUR)

Description	Balance			Credit			Debit					
	Compensation of employees	Investment income	Other primary income	Compensation of employees	Investment income	Other primary income	Compensation of employees	Investment income	Other primary income			
2008	164.0	175.4	-11.4	233.3	176.2	57.1	0.0	69.3	0.8	68.5	-	
2009	61.8	168.7	-106.9	183.5	169.7	13.9	0.0	121.7	1.0	120.8	-	
2010	67.0	171.6	-104.6	186.3	176.1	10.1	0.0	119.2	4.5	114.7	-	
2011	111.2	208.1	-96.9	239.0	221.2	17.8	0.0	127.8	13.1	114.7	-	
2012	153.6	214.3	-60.6	230.0	219.9	10.1	0.0	76.4	5.6	70.8	-	
2013	121.5	218.9	-97.4	227.5	223.2	4.3	0.0	106.0	4.3	101.6	-	
2014	113.8	200.4	-85.9	-0.7	215.8	206.5	8.0	1.3	102.0	6.1	93.9	2.0
2015	92.6	205.7	-112.0	-1.0	221.7	210.3	9.6	1.8	129.1	4.6	121.6	2.8
2016	74.5	194.2	-116.7	-3.0	212.8	199.9	11.3	1.6	138.3	5.7	128.0	4.6
2017	126.6	217.3	-86.8	-3.9	230.1	222.6	5.8	1.7	103.5	5.3	92.6	5.6
2018	159.6	237.0	-75.0	-2.5	264.2	247.6	14.1	2.5	104.7	10.6	89.0	5.0

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/28%20Primary%20Income.xls](http://www.bqk-kos.org/repository/docs/time_series/28%20Primary%20Income.xls)

### 7.3.2 Secondary income

(In millions of EUR)

Description	Secondary income		Credit		Debit				
	Government	Financial corporations, non-financial corporations, households and NPISHs	Government	Financial corporations, non-financial corporations, households and NPISHs	Government	Financial corporations, non-financial corporations, households and NPISHs			
2008	873.2	223.5	649.7	972.3	223.5	748.8	99.1	-	99.1
2009	983.4	322.9	660.5	1,106.8	322.9	783.9	123.4	-	123.4
2010	982.5	319.5	662.9	1,087.4	319.5	767.9	105.0	-	105.0
2011	928.8	322.2	606.6	1,041.3	322.2	719.1	112.5	-	112.5
2012	1,103.7	401.6	702.2	1,207.7	401.6	806.1	103.9	-	103.9
2013	1,175.0	369.7	805.3	1,284.3	369.7	914.6	109.3	-	109.3
2014	1,100.3	291.9	808.4	1,198.7	291.9	906.8	98.4	-	98.4
2015	1,062.4	202.9	859.5	1,132.5	202.9	929.6	70.2	-	70.2
2016	1,096.1	207.2	888.9	1,171.6	207.2	964.3	75.4	-	75.4
2017	1,161.0	199.7	961.3	1,228.2	199.7	1,028.5	67.2	-	67.2
2018	1,260.0	226.1	1,033.9	1,328.8	226.1	1,102.7	68.8	-	68.8

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/29%20Secondary%20Income.xls](http://www.bqk-kos.org/repository/docs/time_series/29%20Secondary%20Income.xls)

## 7.4. Remittances - by countries

(In percentage)

Description	Germany	Switzerland	Italy	Austria	Belgium	USA	Sweden	France	Norway	Canada	England	Denmark	Finland	Netherlands	Slovenia	Other
2009	37.5	21.1	10.4	5.7	3.1	2.8	3.2	3.8	2.8	1.9	1.4	0.9	1.1	1.2	1.3	2.2
2010 Q1	34.8	21	8.8	5.7	2.6	3.9	3.1	3.5	2.8	1.3	1.5	0.9	1.1	1.2	3.4	4.4
Q2	34.7	20.7	7.9	3.9	2.9	4.7	3.1	3.6	3.1	2	1.7	0.7	0.7	1	3.7	5.9
Q3	33.2	21.4	7	6.5	2.5	4.8	3.4	4	2.5	2.3	1.6	0.6	0.9	1	5.6	2.7
Q4	34.1	21.6	7.2	5.5	2.9	3.1	3.7	4.1	2.6	1.9	1.3	0.6	0.7	1	4.5	5.3
2011 Q1	32.7	23.7	7.5	5.6	2.8	4.6	3.9	3.8	2.8	1.5	1.5	0.7	0.8	1.2	3.9	3
Q2	32.8	23	7	5.5	2	4	3.1	3.7	2.8	2.1	1.3	0.9	1	1	3.9	6.1
Q3	33.8	23.4	6.2	5.5	2.9	2.3	3.6	4.2	2.6	2	1.2	0.6	0.8	1	3.3	6.7
Q4	33.7	22.1	7.4	5.5	2.7	3.9	3.4	3.8	2.8	1.9	1.4	0.7	0.9	1.1	4	4.9
2012 Q1	30.9	23.7	4.8	6	1.1	6.3	3.6	2.8	4.9	0.7	3.2	0.8	0.7	0.5	5	5
Q2	37.4	26.3	8.4	6.4	6.6	3.9	0.8	0.4	1.3	0.1	1.9	0.1	0.1	0.1	5.4	0.8
Q3	34.6	22.6	7.9	5.9	3.2	3.9	3.1	3.2	2.8	1.5	1.8	0.7	0.8	0.8	3.6	3.7
Q4	34.5	21	8.5	6.2	2.6	3.8	3.3	3.3	2.3	1.9	1.8	0.5	0.8	...	3.7	5.9
2013 Q1	33.6	22.5	7.5	5.8	2.7	4.2	3.4	3.5	3	1.6	1.8	0.7	0.9	1	3.7	4.3
Q2	33.3	25.5	5.9	5.7	2.5	4.6	2.5	1.4	2.3	1.3	4	0.8	0.9	1	5.3	3.1
Q3	33.6	24.4	6.6	7.8	2.5	4.3	3.5	4.5	2.3	0.4	1.9	0.7	0.8	0.9	4.9	1.1
Q4	35.3	22.7	10.6	4.6	1.6	4.4	2.1	5	2.7	1.8	1.7	0.5	0.6	1.5	0.5	4.2
2014 Q1	36.7	21.4	5.9	3.8	2.3	6	3.1	4.1	2.3	1.5	3.1	0.4	0.6	1.1	0.8	7
Q2	36.6	23.7	5.4	4.5	2.1	6.4	2.7	3.2	2.4	1.3	3.3	0.4	0.6	0.6	1.5	5.6
Q3	35.5	23.9	4.6	3.6	2.1	6.5	3.4	3.5	2.6	1.9	3	0.5	0.7	0.7	1.1	6.5
Q4	36.8	21.1	3.8	3.1	4	6.1	2.4	2.4	5.5	0.7	3.1	1	0.3	0.1	2.2	7.3
2015 Q1	35.2	21.8	5	3.9	3.3	8.1	2.9	3.6	3.1	1.6	1.6	0.4	0.7	0.9	0.8	7.2
Q2	36.9	21.6	3.6	3.5	2.3	8.2	2.5	1.6	4	3.5	3.7	0.2	0.6	0.7	0.5	6.6
Q3	35.9	23.8	5.6	3.4	2.1	7.4	3.2	3.7	2.1	1.5	3.3	0.3	0.6	0.6	0.7	5.8
Q4	38.8	22.2	5.1	3.3	2.2	8.4	2.9	3.3	1.8	1.5	3	0.4	0.6	0.7	1.3	4.4
2016 Q1	37.8	21.3	5.9	3.8	2.4	7.6	3.2	3.7	1.7	1.5	3.3	0.4	0.7	0.8	0.7	5.2
Q2	37.6	21.8	5.2	3.7	2.2	6.4	3	3.5	1.8	1.4	3.1	0.5	0.6	0.8	1.7	6.5
Q3	35.1	24	5.6	3.3	2.2	6.6	4.2	3.9	2.5	1.8	2.5	0.3	0.7	0.5	1.5	5.2
Q4	38.0	23.5	4.3	3.6	2.4	6.9	3.1	4.0	2.1	1.5	2.8	0.3	0.7	0.7	0.5	5.9
2017 Q1	38.5	22.8	4.5	3.9	2.5	7.7	3.3	3.9	1.9	1.5	3.0	0.4	0.9	0.6	0.5	4.3
Q2	39.9	22.5	4.2	3.8	2.8	6.9	3.3	3.8	1.9	1.5	3.1	0.4	0.7	0.6	0.4	4.2
Q3	39.3	22.8	4.5	3.8	2.7	6.1	3.6	4.3	2.0	1.7	2.4	0.4	0.7	0.5	0.5	4.7
Q4	39.4	21.8	4.5	3.7	2.6	7.1	3.5	4.3	1.7	1.6	2.5	0.4	0.9	0.6	0.6	4.8
2018 Q1	39.8	21.5	5.0	4.0	2.6	6.4	3.2	4.4	1.6	1.5	2.6	0.3	0.8	0.6	0.4	5.3
Q2	41.1	20.5	4.6	4.1	2.5	6.5	3.5	4.2	2.1	1.4	2.4	0.3	0.6	0.5	0.5	5.2
Q3	38.8	21.9	5.0	4.0	2.3	6.7	3.5	4.3	2.1	1.2	2.1	0.4	0.8	0.5	0.5	5.9
Q4	42.1	22.8	4.9	4.2	2.5	7.4	3.3	4.4	1.8	1.4	2.2	0.3	0.8	0.6	0.6	0.7

Note: For more detailed information about this table please visit the link: [http://www.bak-kos.org/repository/docs/time\\_series/32%20Remittances-by%20country.xls](http://www.bak-kos.org/repository/docs/time_series/32%20Remittances-by%20country.xls)



## 8.1. Direct Investments – by geographic criteria

(In millions of EUR: as of 31 December 2018)

Country	Total incoming direct investments			Total outgoing direct investments		
		Equity	Other capital transactions		Equity	Other capital transactions
<b>European Union</b>	1,343.0	1,074.8	268.2	133.1	123.5	9.6
AT Austria	222.4	184.1	38.3	7.9	7.0	0.9
BE Belgium	29.9	27.7	2.1	3.7	3.7	0.1
BG Bulgaria	36.3	6.5	29.8	0.7	0.7	...
CY Cyprus	9.2	2.0	7.2	19.6	19.6	...
FR France	29.2	25.8	3.4	4.3	4.3	...
DE Germany	434.1	396.3	37.7	43.1	39.5	3.6
GR Greece	8.1	7.3	0.7	2.1	2.1	...
HR Croatia	8.2	7.6	0.6	4.9	4.9	...
IT Italy	34.7	33.5	1.2	6.0	6.0	...
NL Netherlands	86.5	66.2	20.2	10.2	5.2	5.0
RO Rumania	0.2	1.7	-1.5	0.3	0.3	...
SI Slovenia	210.8	112.5	98.3	10.1	10.1	0.0
SE Sweden	58.0	57.7	0.3	2.4	2.4	...
GB Great Britain	100.5	77.4	23.2	11.3	11.3	...
Other EU countries	74.9	68.3	6.6	6.4	6.4	...
<b>Other European Countries</b>	1,087.9	883.2	204.7	194.0	172.2	21.8
AL Albania	152.3	78.8	73.5	94.9	87.6	7.3
MK Macedonia	15.0	10.7	4.3	23.7	23.3	0.4
ME Montenegro	9.2	8.0	1.2	19.6	18.8	0.8
NO Norway	30.7	29.4	1.2	1.5	1.5	...
RS Serbia	13.4	11.4	2.0	7.5	7.5	...
CH Switzerland	423.8	387.7	36.2	21.4	21.2	0.3
TR Turkey	425.2	342.7	82.5	19.3	6.3	13.0
Other European countries	18.3	14.6	3.7	6.2	6.2	...
<b>Other Countries</b>	231.5	167.7	63.8	22.0	21.3	0.7
US United States	153.5	116.1	37.4	12.5	12.0	0.4
AE United Arab Emirates	26.1	9.0	17.1	2.1	2.1	...
Other countries	51.9	42.6	9.3	7.5	7.2	0.3
<b>Other Countries (not allocated)</b>	935.4	935.4	...	...	...	...
ZZ Not specified	935.4	935.4	...	...	...	...
<b>Total</b>	3,597.8	3,061.1	536.7	349.1	317.0	32.1

Note: For more detailed information about this table please visit the link: [http://www.bkg-kos.org/repository/docs/time\\_series/34a%20Direct%20investment%20in%20Kosovo%20by%20geographical%20breakdown.xls](http://www.bkg-kos.org/repository/docs/time_series/34a%20Direct%20investment%20in%20Kosovo%20by%20geographical%20breakdown.xls)

## 9.1. Assets in form of portfolio investments by countries

(In millions of EUR: as of 31 December 2018)

Country	Equity	Total debt securities			Total
			Long-term debt securities	Short-term debt securities	
AT Austria	-	46.8	46.8	-	46.8
BE Belgium	-	0.0	0.0	-	0.0
BG Bulgaria	-	0.1	0.1	-	0.1
DE Germany	1.0	51.6	51.6	-	52.7
FR France	162.6	3.8	3.8	-	166.4
GB Great Britain	-	0.0	0.0	-	0.0
GR Greece	-	0.0	0.0	-	0.0
IE Ireland	508.9	38.2	38.2	-	547.1
IS Iceland	-	0.1	0.1	-	0.1
IT Italy	-	66.8	66.8	-	66.8
LU Luxembourg	556.7	18.1	18.1	-	574.8
NL Netherlands	-	4.5	4.5	-	4.5
PL Poland	-	22.7	22.7	-	22.7
RO Romania	-	0.2	0.2	-	0.2
SE Sweden	-	6.9	6.9	-	6.9
SI Slovenia	-	8.3	8.3	-	8.3
US United States	2.6	65.7	46.9	18.8	68.2
CH Switzerland	-	9.7	9.7	-	9.7
ZZ Other	-	37.8	37.8	-	37.8
<b>Total value of portfolio investments</b>	<b>1,231.8</b>	<b>381.5</b>	<b>362.7</b>	<b>18.8</b>	<b>1,613.3</b>

Note: For more detailed information about this table please visit the link:

[http://www.bgkkos.org/repository/docs/time\\_series/34f%20Portfolio%20Investments%20Position.xls](http://www.bgkkos.org/repository/docs/time_series/34f%20Portfolio%20Investments%20Position.xls)

## 10.1. International investments position – main components

(In millions of EUR: End of period)

Description	Net	Assets				Liabilities				
		Direct investments	Portfolio investments	Other investments	Reserve assets	Direct investments	Portfolio investments	Other investments		
2008	912.4	2,537.1	43.8	463.9	1,359.1	670.3	1,624.6	1,294.3	0.0	330.3
2009	484.2	2,816.9	59.1	622.0	1,559.4	576.5	2,332.7	1,589.8	0.0	742.9
2010	406.8	3,234.8	96.6	693.8	1,832.0	612.5	2,828.0	1,971.0	0.0	857.0
2011	113.6	3,304.8	102.0	740.2	1,908.2	554.4	3,191.2	2,326.1	0.0	865.1
2012	135.8	3,592.0	117.8	986.6	1,760.6	726.9	3,456.3	2,524.3	0.0	931.9
2013	258.6	3,997.4	147.5	1,192.6	1,963.2	694.1	3,738.8	2,816.4	0.0	922.4
2014	196.5	4,175.8	174.6	1,274.7	2,081.5	645.0	3,979.3	2,961.4	0.0	1,017.9
2015	-43.0	4,366.0	211.5	1,383.3	2,063.5	707.8	4,409.0	3,254.4	0.0	1,154.6
2016	-81.0	4,547.7	261.2	1,789.3	1,892.2	605.1	4,628.7	3,405.4	0.0	1,223.3
2017	-115.1	4,829.9	304.5	1,904.8	1,937.2	683.4	4,944.9	3,526.0	0.0	1,418.9
2018	-310.9	4,763.4	349.1	1,613.3	2,031.7	769.3	5,074.4	3,597.8	0.0	1,476.6

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/34b%20International%20Investments%20Position.xls](http://www.bqk-kos.org/repository/docs/time_series/34b%20International%20Investments%20Position.xls)

## 10.2. International investments position – by sectors

(In millions of EUR: End of period)

Description	Net international investments position												
	Total	The Central Bank of the Republic of Kosovo			Banks			Government			Other sectors		
		Assets	Liabilities		Asset	Liabilities		Asset	Liabilities		Asset	Liabilities	
2008	912.4	1,110.7	1,110.7	0.0	318.1	401.3	83.2	0.0	0.0	0.0	-516.4	1,025.0	1,541.4
2009	484.2	1,089.3	1,149.6	60.3	427.3	583.9	156.7	-249.0	0.0	249.0	-783.3	1,083.4	1,866.7
2010	406.8	1,106.9	1,172.8	65.9	488.0	709.8	221.8	-260.0	0.0	260.0	-928.1	1,352.2	2,280.3
2011	113.6	1,094.5	1,161.0	66.4	479.1	675.5	196.4	-253.6	0.0	253.6	-1,206.4	1,468.4	2,674.8
2012	135.8	1,238.8	1,303.7	65.0	458.0	633.6	175.6	-336.5	0.0	336.5	-1,224.5	1,654.7	2,879.3
2013	258.6	1,392.1	1,454.2	62.1	540.2	748.3	208.1	-321.8	0.0	321.8	-1,351.9	1,794.9	3,146.9
2014	196.5	1,146.5	1,212.9	66.3	481.6	715.8	234.2	-326.4	0.0	326.4	-1,105.2	2,247.1	3,352.3
2015	-43.0	1,174.9	1,245.5	70.6	480.9	740.0	259.1	-371.2	0.0	371.2	-1,327.6	2,380.5	3,708.1
2016	-81.0	1,011.1	1,082.0	70.9	539.2	775.1	235.9	-373.8	0.0	373.8	-1,257.6	2,690.6	3,948.2
2017	-115.1	1,102.5	1,168.4	65.9	429.7	710.1	280.3	-422.2	0.0	422.2	-1,225.2	2,951.4	4,176.6
2018	-310.9	1,096.3	1,163.7	67.4	426.2	691.9	265.6	-416.2	0.0	416.2	-1,417.3	2,907.9	4,325.2

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/34c%20International%20Investment%20Position%20-%20by%20sectors.xls](http://www.bqk-kos.org/repository/docs/time_series/34c%20International%20Investment%20Position%20-%20by%20sectors.xls)

### 10.3.1 International investments position – assets

(In millions of EUR: End of period)

	Net IIP	Kosovo's international assets								
		Equities				Debt				
			Investments abroad	Equity securities		Investments abroad	Equity securities	Other investments	Reserve assets	
2008	912.4	2,537.1	152.9	40.4	112.5	2,384.2	3.4	351.4	1,359.1	670.3
2009	484.2	2,816.9	191.7	51.6	140.1	2,625.2	7.4	481.9	1,559.4	576.5
2010	406.8	3,234.8	280.6	86.4	194.2	2,954.3	10.2	499.6	1,832.0	612.5
2011	113.6	3,304.8	398.0	102.0	296.0	2,906.8	0.0	444.3	1,908.2	554.4
2012	135.8	3,592.0	784.2	117.8	666.3	2,807.9	0.0	320.3	1,760.6	726.9
2013	258.6	3,997.4	786.2	135.4	650.8	3,211.2	12.1	541.7	1,963.2	694.1
2014	196.5	4,175.8	1,186.3	161.9	1,024.4	2,989.5	12.6	250.3	2,081.5	645.0
2015	-43.0	4,366.0	1,284.9	198.6	1,086.3	3,081.1	13.0	296.9	2,063.5	707.8
2016	-81.0	4,547.7	1,550.4	243.1	1,307.4	2,997.3	18.1	481.9	1,892.2	605.1
2017	-115.1	4,829.9	1,762.3	279.3	1,483.0	3,067.5	25.2	421.8	1,937.2	683.4
2018	-310.9	4,763.4	1,548.9	317.0	1,231.8	3,214.5	32.1	381.5	2,031.7	769.3

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/34e%20IIP%20Assets%20and%20Liabilities.xls](http://www.bqk-kos.org/repository/docs/time_series/34e%20IIP%20Assets%20and%20Liabilities.xls)

### 10.3.2 International Investment Position – Liabilities

(In millions of EUR: End of period)

Description	Net IIP	Liabilities							
		International equity				International debt			
			Direct investments	Equity and shares of investing funds		Direct investments	Debt instruments	Other investments	
2008	912.4	1,624.6	886.5	886.5	0.0	738.1	407.8	0.0	330.3
2009	484.2	2,332.7	1,139.4	1,139.4	0.0	1,193.3	450.4	0.0	742.9
2010	406.8	2,828.0	1,455.3	1,455.3	0.0	1,372.8	515.8	0.0	857.0
2011	113.6	3,191.2	1,760.7	1,760.7	0.0	1,430.5	565.4	0.0	865.1
2012	135.8	3,456.3	1,938.4	1,938.4	0.0	1,517.8	585.9	0.0	931.9
2013	258.6	3,738.8	2,129.9	2,129.9	0.0	1,608.9	686.5	0.0	922.4
2014	196.5	3,979.3	2,241.4	2,241.4	0.0	1,737.9	720.0	0.0	1,017.9
2015	-43.0	4,409.0	2,476.3	2,476.3	0.0	1,932.7	778.2	0.0	1,154.6
2016	-81.0	4,628.7	2,612.7	2,612.7	0.0	2,016.0	792.7	0.0	1,223.3
2017	-115.1	4,944.9	2,855.3	2,855.3	0.0	2,089.6	670.7	0.0	1,418.9
2018	-310.9	5,074.4	3,061.1	3,061.1	0.0	2,013.2	536.7	0.0	1,476.6

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/34e%20IIP%20Assets%20and%20Liabilities.xls](http://www.bqk-kos.org/repository/docs/time_series/34e%20IIP%20Assets%20and%20Liabilities.xls)

## 11.1. External debt - gross position

(In millions of EUR: as of 31 December 2018)

Description	Total gross external debt																		
	Public debt and guaranteed public debt											Private sector non- guaranteed debt						Direct investments: crediting between companies	
	Government				Central bank of the Republic of Kosovo			Public non-financial corporations				Deposit-taking corporations, except the Central Bank			Other sectors				
	Short-term		Long-term		Short-term	Long-term		Short-term		Long-term		Short-term	Long-term		Short-term	Long-term			
2008	736.6	-	-	-	-	-	-	-	-	-	-	736.6	83.2	83.2	-	245.6	194.5		51.1
2009	1,191.4	309.3	249	-	249	60.3	0.8	59.5	-	-	-	882.1	156.7	156.7	-	275	221.2	53.8	450.4
2010	1,371.5	325.9	260	-	260	65.9	1.7	64.2	-	-	-	1,045.6	221.8	221.8	-	308	232.7	75.4	515.8
2011	1,428.4	320	253.6	-	253.6	66.4	0.7	65.7	-	-	-	1,108.4	196.4	196.4	-	346.6	259.8	86.8	565.4
2012	1,517.3	401.4	336.5	-	336.5	65	0.4	64.6	-	-	-	1,115.9	175.6	175.6	-	354.4	321	33.5	585.9
2013	1,608.2	383.9	321.8	-	321.8	62.1	0.3	61.9	-	-	-	1,224.3	208.1	208.1	-	329.7	281.1	48.5	686.5
2014	1,737.1	392.8	326.4	-	326.4	66.3	0.3	66.1	-	-	-	1,344.3	234.2	234.2	-	390.1	294.8	95.3	720
2015	1,931.8	441.8	371.2	-	371.2	70.6	0.1	70.5	-	-	-	1,490.0	259.1	259.1	-	452.8	313.8	139	778.2
2016	2,015.1	444.6	373.8	-	373.8	70.9	0.1	70.8	-	-	-	1,570.5	235.9	235.9	-	541.9	353.1	188.8	792.7
2017	2,088.5	499.3	422.2	-	422.2	65.9	0.1	65.8	11.3	-	11.3	1,598.3	280.3	280.3	-	638.1	416.6	221.5	670.7
2018	2,011.8	498.1	416.2	-	416.2	67.4	0.1	67.2	14.6	-	14.6	1,517.0	265.6	217.5	48.1	714.7	477.6	237.1	536.7

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/34j%20Gross%20External%20Debt%20Position.xls](http://www.bqk-kos.org/repository/docs/time_series/34j%20Gross%20External%20Debt%20Position.xls)

## 11.2. Public sector external debt service payment schedule

(In millions of EUR: as of 31 December 2018)

Description	One year or less (several months)					Over one year up to two years				Third year	Fourth year	Fifth year	Over 5 years up to 10 years	Over 10 years up to 15 years	Over 15 years
	Immediate	0 - 3	4-6	7 - 9	10 - 12	13 - 18	19 - 24								
								External Debt of Public Sector	20.3						
Principal	15.0	-	0.1	5.7	0.2	9.0	49.4	22.3	27.1	86.7	75.7	35.7	99.0	56.0	80.6
Interest	5.3	-	-	2.7	-	2.6	8.0	4.1	3.9	6.8	5.1	3.8	12.0	2.2	-
External debt of private sector guaranteed by the Government	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	20.3	-	0.1	8.4	0.2	11.6	57.4	26.5	31.0	93.6	80.8	39.4	111.0	58.2	80.6
Principal	15.0	-	0.1	5.7	0.2	9.0	49.4	22.3	27.1	86.7	75.7	35.7	99.0	56.0	80.6
Interest	5.3	-	-	2.7	-	2.6	8.0	4.1	3.9	6.8	5.1	3.8	12.0	2.2	-

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/34j%20Public%20Sector%20Debt%20Service%20Payment.xls](http://www.bqk-kos.org/repository/docs/time_series/34j%20Public%20Sector%20Debt%20Service%20Payment.xls)

### 11.3. Gross External Debt – By Creditors

(In millions of EUR: as of 31 December 2018)

Description	Total gross external debt						
	Gross external debt excluding direct investments						Direct investments: Crediting between companies
		Government	Central Bank of the Republic of Kosovo	Deposit-taking Corporations, except the Central Bank	Other sectors		
International Monetary Fund	227.4	227.4	160.1	67.2	-	-	-
World Bank	196.5	196.5	196.5	-	-	-	-
IBRD	147.0	147.0	147.0	-	-	-	-
IDA	49.5	49.5	49.5	-	-	-	-
Other creditors	1,587.9	1,051.3	59.5	0.1	265.6	726.0	537.7
<b>Total Debt</b>	<b>2,011.8</b>	<b>1,475.1</b>	<b>416.2</b>	<b>67.4</b>	<b>265.6</b>	<b>726.0</b>	<b>537.7</b>

Note: For more detailed information about this table please visit the link: [http://www.bqk-kos.org/repository/docs/time\\_series/34h%20Gross%20External%20Debt%20Statistics%20-%20by%20creditors.xls](http://www.bqk-kos.org/repository/docs/time_series/34h%20Gross%20External%20Debt%20Statistics%20-%20by%20creditors.xls)

## 11.4. Net External Debt Position

(In millions of EUR: as of 31 December 2018)

Description	Gross external debt (1)	External assets in debt instrument (2)	Gross external debt (3)=(1)-(2)
General Government	416.2	-	416.2
Short-term	-	-	-
Long-term	416.2	-	416.2
Special Drawing Rights (SDRs) allocations	-	-	-
Currency and deposit	-	-	-
Debt securities	-	-	-
Loans	416.2	-	416.2
Trade credits and advances	-	-	-
Other debt instruments	-	-	-
Central Bank	67.4	1,163.7	(1,096.3)
Short-term	0.1	508.9	(508.8)
Currency and deposit	0.1	508.9	(508.8)
Debt securities	-	-	-
Loans	-	-	-
Trade credits and advances	-	-	-
Other debt instruments	-	-	-
Long-term	67.2	654.8	(587.5)
Special Drawing Rights (SDRs) allocations	67.2	89.3	(22.0)
Currency and deposit	-	-	-
Debt securities	-	565.5	(565.5)
Loans	-	-	-
Trade credits and advances	-	-	-
Other debt instruments	-	-	-
Depository corporations except the Central Bank	265.6	691.9	(426.2)
Short-term	217.5	691.9	(474.4)
Currency and deposit	172.8	461.7	(288.9)
Debt securities	-	172.8	(172.8)
Loans	41.3	51.8	(10.4)
Trade credits and advances	-	-	-
Other debt instruments	3.4	5.6	(2.2)
Long-term	48.1	0.0	48.1
Other sectors	726.0	1,206.9	(514.5)
Short-term	477.6	23.0	454.6
Currency and deposit	-	-	-
Debt securities	-	-	-
Loans	264.9	-	264.9
Trade credits and advances	212.7	23.0	189.7
Other debt instruments	-	-	-
Long-term of which:	248.4	1,184.0	(935.6)
Currency and deposit	-	1,182.9	(1,182.9)
Debt securities	-	1.1	(1.1)
Loans	248.4	-	248.4
Direct investments: Intercompany lending	536.7	32.1	504.6
Debt liabilities of direct investment enterprises to direct investors	-	19.3	(19.3)
Debt liabilities of direct investors to direct investments enterprises	536.7	12.7	523.9
Debt liabilities to fellow enterprises	-	-	-
NET external debt (3)	2,011.8	3,094.5	(1,082.7)

Note: For more detailed information about this table please visit the link: [http://www.bgk-kos.org/repository/docs/time\\_series/34g%20Net%20External%20Debt%20Position.xls](http://www.bgk-kos.org/repository/docs/time_series/34g%20Net%20External%20Debt%20Position.xls).





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Anual Report 2018 / Banka Qendrore e Republikës së Kosovës. - Prishtinë : Banka Qendrore e Republikës së Kosovës, 2019. - 169 f. : ilustr. ; 24 cm.

**ISBN 978-9951-8977-3-0**

ISBN 978-9951-8977-3-0



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