



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

Annual Report 2017

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LIST OF ABBREVIATIONS

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 Labour and Employment
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EFSE	European Fund for South-eastern 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	Great Britain Pound
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
IAIS	International Association for Insurance Supervisors
ICAAP	Internal Capital Adequacy Assessment Process
IIP	International Investment Position
IMF	International Monetary Fund
IOPS	International Organisation of Pension Supervisors
IPI	Imports Price Index
KAS	Kosovo Agency of Statistics
KEC	Kosovo Energy Corporation J.S.C
KEDS	Kosovo Energy Distribution Services J.S.C
KIB	Kosovo Insurance Bureau
KMB	Komercijalna Banka
KPSF	Kosovo Pension Savings Fund
MF	Ministry of Finance
MFI	Microfinance Institutions
MLSW	Ministry of Labour 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
NPHSO	Non-profitable Household Service Organizations
NPL	Nonperforming Loans
ODC	Other Depositing Corporations
PAK	Privatization Agency of Kosovo
PCB	Pro Credit Bank
POS	Point of Sale
pp	Percentage Point
PPI	Producer Price Index
PTK	Post and Telecommunication of Kosovo
RBK	Raiffeisen Bank Kosovo
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	South-eastern Europe
SEKN	Interbank Electronic Clearing System
SEPA	Single Euro Payment Area
SFR	Swiss Franc
SKPF	Slovenian-Kosovo Pension Fund
SRK	Accountancy Registry System
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

During 2017, the Central Bank of the Republic of Kosovo (CBK) successfully fulfilled its objectives and duties defined by the Law on Central Bank, thus contributing to the support of development and stability of the country's economy.

The CBK during 2017 as well was guided by the contemporary principles of corporate governance, which directly affected the fulfilment of its legal agenda and eventual challenges during this period. Governance based on three levels of decision-making bodies, i.e the Central Bank Board, the Executive Board and the Governor, has provided an effective system of decision-making and accountability.

During 2017, the Central Bank Board has reviewed and approved the CBK budget for 2018 and has approved various regulations that have advanced the regulatory infrastructure of the country's financial system. The advancement of regulatory infrastructure is one of the main contributions regarding the fulfilment of commitments made under the Stabilization and Association Agreement regarding the free movement of capital and payments. By exercising its role as a supervisor, the CBK Board has ensured the efficient functioning of other CBK's decision-making bodies, as well as ensured adequate functioning of the internal and external control mechanisms at CBK.

The CBK Annual Report for 2017 presents the main developments in the global economy, and presents in a detailed manner the developments in the country's economy and financial system. The report also provides a detailed overview regarding CBK's activity in meeting its objectives and tasks during this period.

Sincerely,

Flamur MRASORI



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

Foreword by the Governor

Economic conditions at the global level improved during 2017. The Euro Area Economy marked an acceleration of growth rates, mainly based on increased consumption and private investment, as well as increased external demand. The inflation rate, although approaching the target of European Central Bank, still remains below the required target. Similar developments were also experienced in the Western Balkan economies, which marked an increase in economic activity as a result of increased domestic and foreign demand. Also, increased economic activity and increase of prices in international markets resulted in an increase in the inflation rate in the Western Balkan countries. The financial intermediary activity accelerated the pace of growth, and it was marked an improvement in the quality of the loan portfolio. However, with the exception of Kosovo, the share of nonperforming loans continues to be high in most of the countries in the region.

Kosovo continued in 2017 as well to mark economic growth. Increase of government spending, along with steady growth of credit activity and steady flow of remittances, were the main factors contributing to economic growth during this year. Trade deficit in the account of goods continued to contribute negatively to economic growth, while other categories of current account such as services, primary income and secondary income were characterized with favourable developments by increasing their positive balance sheets. Price developments in international markets also reflected in Kosovo, manifested by growth of inflation rate, which however remains at a moderate level.

Kosovo's financial system marked an increase of activity and further improvement of financial health indicators. Improvement of credit provision conditions, coupled with increase of credit demand, made bank lending accelerate the pace of growth. The increase of deposits, mainly collected within the country, continues to serve as a stable source of financing for banking sector activity. Loan interest rates continued to decline, thus reflecting improvements in the global business environment, increase of competition and improvement of banks' efficiency. The financial health indicators of banking sector continue to show high level of sustainability of this sector. While capitalization and liquidity level indicators continue to stand well above the minimum rates required by the relevant regulations, and the rate of non-performing loans marked a further decline.

The pension sector marked asset growth and positive return on investment, thus increasing the value of contributors' pension contributions. The insurance sector marked an increase in activity and a very significant improvement in financial performance. For the first time since its establishment, the insurance sector ended the year with a positive net profit level. This improvement in performance largely reflects the regulatory and supervisory measures undertaken by the Central Bank of the Republic of Kosovo (CBK) to remedy the situation in this sector. Microfinance and non-bank financial institutions continued to accelerate lending activity, while their sustainability indicators marked further improvement.

During 2017, CBK continued to advance all of its functions by managing to provide a stable financial system of the country and in the function of economic development as well as efficient services for authorities and the public. The regulatory framework for the financial sector and oversight capacities of CBK continued to advance further and thus contribute to the development and stability of the financial system. During this year special attention was given to activities related to financial education aimed at enhancing the knowledge of the public about the financial system. Protection of the rights of financial service consumers represents another important field of CBK activity, and there is a separate division that effectively addresses the complaints of financial institutions' clients. Continuous financial education activities have led to an increase in

the number of received complaints, which is largely attributed to the higher degree of awareness of clients about their rights. Continued advancement of the financial infrastructure and services that CBK provides to institutions and the public continued to be a significant priority of the CBK during 2017 as well. In the field of external co-operation, the CBK has continued to increase the cooperation with all its domestic and international partners, as well as organized several international conferences and seminars with the aim of exchanging experiences on various aspects of the scope of central banks.

Below, the CBK Annual Report for 2017 will present a detailed overview of the economic and financial developments at global and Kosovo level, as well as a detailed report on CBK activities during this year.

Fehmi MEHMETI



Governor of the Central Bank
of the Republic of Kosovo

Central Bank Board and Executive Board

Central Bank Board

The activities of the Central Bank Board were focused towards successful implementation of competencies and duties set out by the Law on Central Bank of the Republic of Kosovo. Therefore, the Central Bank Board held continuous meetings, whereby it was informed and it discussed the overall developments of the financial system in Kosovo. During 2017, the Central Bank Board held a total of 12 meetings.

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

1. Regulation on the calculation of the minimum solvency margins, capital adequacy and guarantee fund for non-life insurers;
2. Regulation on investment of pension assets;
3. Regulation on arbitration tribunal procedures;
4. Amendments to the Regulation on reporting of Kosovo savings pension fund;
5. Regulation on the Amount of Pension Contributions;
6. Regulation on pension funds and valuation of pension funds;
7. Regulation on internal controls and internal audit;
8. Regulation on the licensing of insurers and branches of external insurers;
9. Regulation on Licensing of Insurance Intermediaries;
10. Regulation on the Opening and Closing Inside and Outside the Republic of Kosovo of Branch Offices and Subsidiaries of Insurers;
11. Regulation on the reporting of Payment Instruments Statistics;
12. Regulation on electronic payment instruments;
13. Regulation on issuance of licensing certificates or registration of financial institutions;
14. Regulation on Procedures for Imposing Administrative Penalties;
15. Regulation on Consolidated Supervision of Insurers Groups;
16. Regulation on funding and calculation of compensation fund.

- The Central Bank Board also approved:
- CBK annual report for 2016;
- Financial Statements of the CBK for 2016 and the Independent Auditor's Report;
- CBK budget for 2018;
- Annual Plan of the Internal Audit for 2018;
- 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 the CBK;
- Reviewing of all the reports and recommendations of the Executive Board and Governor, with the purpose of safeguarding financial stability; and
- Also the Board has exercised other duties in compliance with the Law on Central Bank of the Republic of Kosovo and other applicable legislation.

As of 31 December 2017, the Board of the Central Bank of the Republic of Kosovo was composed of the following members:

Bedri Peci, Chairman of the Central Bank Board;

Fehmi Mehmeti, Acting Governor;

Behxhet Brajshori, Member;

Nuhi Ahmeti, Member; and

1 (one) vacant position of a non-executive member of the Central Bank Board.

The Audit Committee

The Audit Committee operates in accordance with Article 62 of the Law no. 03/L-209 on the Central Bank of the Republic of Kosovo and the 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 reports.

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 2017, the Audit Committee consisted of the following members:

Prof. Dr. Bedri Peci, Head of the Audit Committee;

Prof. Dr. Arben Dermaku, External Member; and

Nuhi Ahmeti, Member.

The Audit Committee during 2017 has held a total of 8 meetings. In the Committee meetings were addressed various issues dealing with fields that are within its scope in the context of reviewing. The Audit Committee, during 2017, 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 2018, proposed for approval to the CBK Board;
- Has reviewed the results of the External Audit for 2016;
- Has continued to contribute to the process of implementing the recommendations provided by the independent external evaluators and assisted the Management in this regard; Conducted other important activities that are related to its scope.

Executive Board

Pursuant to the Law no. 03/L-209 on Central Bank of the Republic of Kosovo, Article 34 paragraph 3, the Executive Board is composed of the Governor (Chairman of the Executive Board) and Deputy Governors. On 31 December 2017, the Executive Board was composed of the following members: Fehmi Mehmeti (Acting Governor) and Lulzim Ismajli (Deputy Governor for Banking Operations).

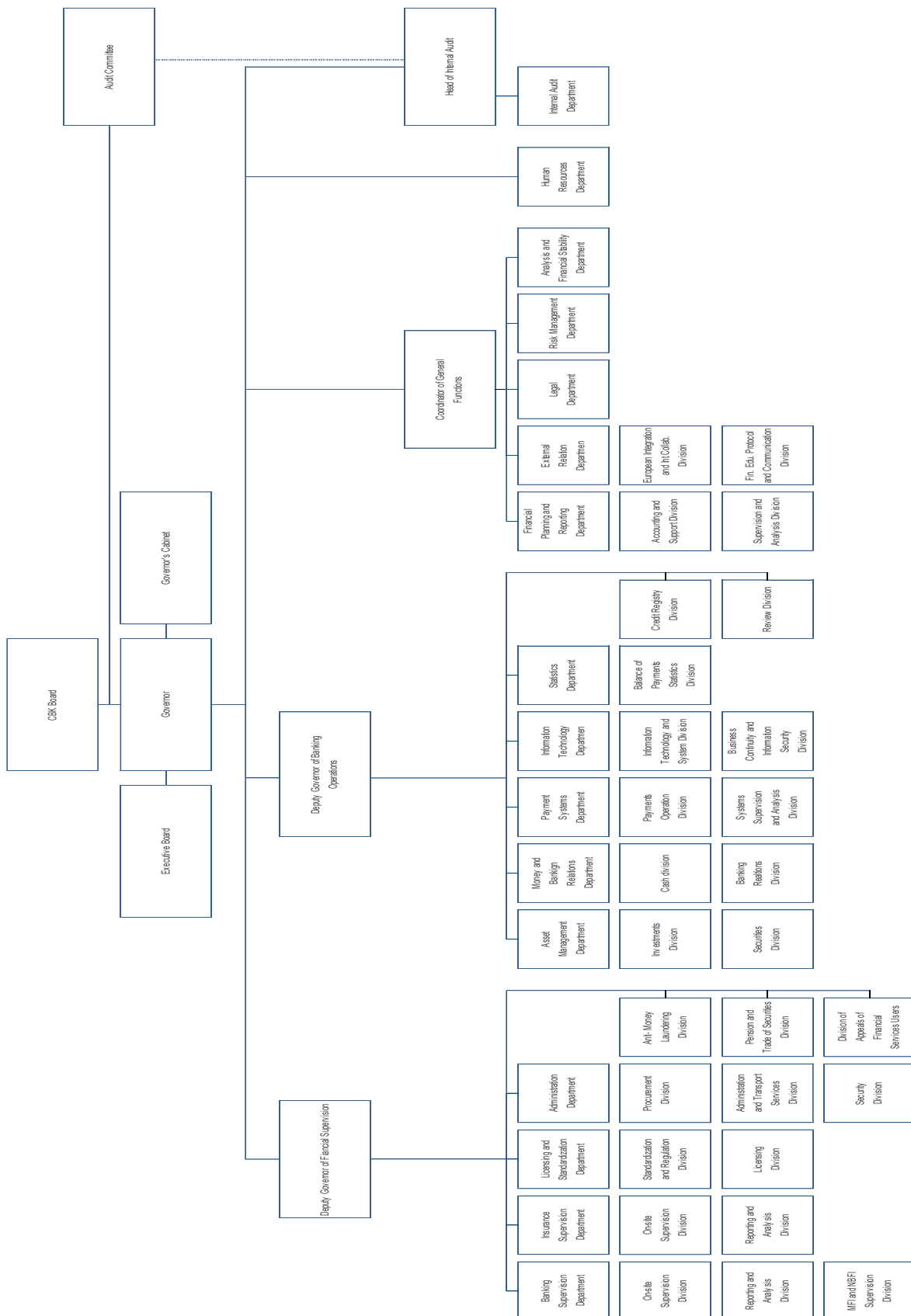
The Executive Board is tasked with administering and conducting operations of the Central Bank of the Republic of Kosovo. The competencies of the Executive Board are defined by the Law on the Central Bank of the Republic of Kosovo and by other relevant laws.

The Executive Board during 2017 held 25 meetings. Within its competences, the Executive Board during 2017 reviewed and recommended for approval to the Board of the CBK 16 regulations applicable to the country's financial system, the new organizational structure of CBK, the CBK Annual Report for 2016, the audited Financial Statements for 2016, the Quarterly Financial Statements, and the CBK Budget for 2018. In addition, during 2017 it regularly reported to the Central Bank Board on the exercise of duties and competences.

Pursuant to the applicable legislation, the Executive Board during 2017 adopted two guidelines and four guiding manuals applicable to the country's financial system. Within the same scope of competence, the Executive Board approved the registration of 6 non-bank finance institutions and microfinance institutions and issued licenses for 3 insurance intermediaries. In the area of financial supervision, the Executive Board also approved the revocation of the registration of two non-bank finance institutions and the license of one insurance intermediary. It also approved the temporary administration of an insurance company. 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.

During 2017, the Executive Board approved the issuance and amending/supplementing of 17 internal legal acts including internal policies and rules, manuals, procedures and similar documents. It also approved periodic reporting on the implementation of the CBK Strategic Plan 2015-2019 for 2016 and oversaw the reports of the relevant internal bodies on the exercise of its powers. The Executive Board has also exercised other duties in accordance with the Law on Central Bank of the Republic of Kosovo and other applicable legislation.

Organizational structure of CBK, 31 December 2017



1. Executive Summary

The global economic activity continued to improve during 2017, supported mainly by the growth in Europe and Asia. The Euro Area economy continued to grow consistently, while the inflation continues to be below the ECB's target at 1.5 percent despite the substantial increase it experienced compared to previous years. The annual growth rate of GDP for 2017 is estimated to be 2.4 percent according to Eurostat, mainly driven by private consumption and investments, as well as the improvement of net export position as a result of global economic recovery. The increase of consumption and investment was largely a result of favourable financing conditions backed by the ECB's stimulating monetary policies, optimistic expectations of economic agents and financial markets, and the decline in political uncertainty in the euro area countries.

The strengthening of domestic demand in the Euro Area during 2017 is positively reflected in the economic developments of the Western Balkan countries. During this period, economic activity in this region was characterized by growth, supported by the increase of domestic demand and the strengthening of external demand.

Kosovo's economy in 2017, according to preliminary statistics of the Kosovo Agency of Statistics, recorded an annual growth of about 3.7 percent, which was mainly generated by investment growth, as well as improvement of the net export position as a result of increased exports of goods and services. According to the production approach, the economic growth during 2017 was mainly a result of the increased added value of the activity in the financial sector, construction sector, trade sector, etc. Whereas, real decline is estimated to have been marked in public administration and other services. For 2018, CBK forecasts suggest that the real growth rate of GDP is expected to fluctuate at an interval of 4.2 to 4.4 percent.

In 2017, the rise in prices of metals, oil and energy in international markets was reflected in the rise of the price level in the Kosovo economy. The average annual inflation rate expressed by the consumer price index, reached 1.5 percent in 2017 (0.3 percent in 2016).

The fiscal sector was characterized by an increase in revenues and budget expenditures compared to the previous year. Budget revenues¹ reached a net value of euro 1.68 billion, which represents an annual growth of 5.3 percent, while budget expenditures² amounted to euro 1.74 billion representing an annual growth of 5.0 percent. Consequently, Kosovo's budget recorded a primary budget deficit of euro 59.0 million compared to the deficit of euro 61.1 million in 2016. Public debt in 2017 has reached the amount of euro 996.4 million, which is 16.8 percent higher compared to 2016. As a percentage of GDP, public debt has reached 16.6 percent from 14.6 percent in 2016.

Kosovo's external sector was characterized by a decrease in the current and capital account deficit to euro 425.1 million, namely an annual decline of 9.0 percent, mainly as a result of the increase in the positive balance of services and of primary and secondary income account. On the other hand, despite the accelerating growth of exports of goods and services during 2017, the increase in the import value was translated into annual growth of goods deficit by 7.6 percent to 2.7 billion in 2017. The remittances received in Kosovo, which also represent the largest category within the secondary income account, amounted to euro 759.2 million, representing an annual growth of 9.9 percent. Within the financial account, Foreign Direct Investment (FDI) in Kosovo marked an annual growth of 30.8 percent and amounted to euro 287.8 million.

¹ Within the budget revenues are not included the revenues from borrowing, revenues from privatization, receipts from designated donor grants and receipts from trusted deposits.

² Within budget expenditures are not included debt payments, IMF membership fees and returns from deposit funds.

In 2017, the financial system was characterized by increased activity in all sectors. The value of total assets of the Kosovo financial system amounted to euro 5.91 billion in 2017, corresponding to an annual growth of 9.7 percent. During 2017, banking sector assets marked an annual growth of 6.4, reaching the amount of euro 3.87 billion. Within the banking sector assets, the total value of loans issued by commercial banks marked an annual growth of 11.5 percent, reaching euro 2.49 billion. In the same period, the total value of deposits in the Kosovo banking sector amounted to 3.09 billion euros, which represents an annual growth of 6.8 percent.

Indicators of performance and financial health of the banking sector continue to reflect a high level of stability. Profit realized during 2017 amounted to euro 85.4 million, which is 13.1 percent higher than in the previous year. Banking sector health indicators point to a further strengthening of capitalization position of the banking sector, where the Capital Adequacy Indicator reached 18.1 percent as of December 2017 from 17.8 percent in the previous year. Also, the banking sector's exposure to credit risk declined further as a result of the decline of the share of non-performing loans to total loans to 3.1 percent, a significantly lower level compared to Western Balkan countries. Moreover, the level of coverage of non-performing loans with provisions in this period marked an increase of 149.7 percent in 2017, mainly as a result of the more pronounced decline in non-performing loans. The banking sector's liquidity position continues to be on a steady level, despite a decline recorded in the liquidity indicator as a result of accelerated lending growth. In 2017, the ratio of liquid assets to short-term liabilities stood at 37.9 percent, which is well above the regulatory minimum of 25 percent.

In 2017, total assets of insurance companies operating in the country amounted to euro 176.8 million, an annual growth of 9.2 percent. During 2017, the value of premiums written by insurance companies amounted to euro 86.7 million, an annual growth of 3.9 percent, while in the same period, the total claims paid by insurance companies and the Kosovo Insurance Bureau marked a significant annual growth of 17.8 percent, reaching the amount of 46 million euros. As a result of revenue growth versus the sharp decline in expenditures and claims incurred, the insurance sector recorded a profit of euro 6.4 million in 2017.

The microfinance sector in 2017 marked a growth in lending activity. The value of total MFI assets amounted to euro 192.4 million, which represents a significant annual growth of 28.6 percent. In 2017, the microfinance sector realized a profit of euro 7.4 million, which represents a significant annual increase compared to the 4.0 million profit realized in 2016.

Pension funds were characterized by a positive performance in 2017. The total value of assets of the pension sector amounted to euro 1.65 billion, a significant increase of assets by 16.0 percent in 2017 mainly as a result of the growth realized by new contributions and increase in the return on investment. The pension sector almost doubled the return on investment by reaching the amount of euro 103.1 million in 2017, in comparison to the return of euro 65.3 million in 2016.

In the light of the licensing activity of financial institutions, CBK during 2017 approved the registration of 1 (one) new Microfinance Institution and approved the registration of 6 non-bank financial institutions. Also, during this year, CBK has approved the licensing of 11 insurance intermediaries. In 2017, were also approved two requests for share sale/purchase, and were approved 8 requests for amendments to the statute, out of which 4 were from banks, 2 from microfinance institutions and 2 from non-bank financial institutions.

In view of a stable banking system, during 2017 were conducted examinations of commercial banks in accordance with the foreseen plan. In line with international practices in the relevant field, special attention has been paid to credit risk, liquidity risk, market risk and other risks, based on a risk-based supervision approach. In line with the CBK's objectives, respectively ensuring the sustainability of the insurance market and the protection of policyholders, CBK continued its activity during 2017 as well by continuously conducting on-site examinations of

insurers as full and focused examinations, as well as ad-hoc examinations for insurance companies and insurance intermediaries. In function of maintaining the sustainability of the financial sector, during 2017, CBK continued with regular examinations of pension funds and other financial institutions.

The Central Bank of the Republic of Kosovo, namely financial supervision, plays a key role in protecting the users of financial services in Kosovo. In this context, in the framework of internal complaint handling process, 602 complaints from financial service users (natural and legal persons) were reviewed at the CBK, with 335 complaints filed for banks, MFI, NBFi and pension funds, whereas 267 complaints have been filed for insurance companies.

During 2017, the CBK has approved a number of new regulatory acts for banking supervision and supervision of Microfinance Institutions and Non-Bank Financial Institutions with the aim of further strengthening the overall regulatory framework and harmonization with international standards. Also, in January 2016, the Law on Insurance entered into force, while in 2017 was continued with the issuance of new regulations for the implementation of this law.

Similar to previous years, also during 2017, 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. Since mid-2016, the Interbank Clearing System in the CBK has been replaced with a new system, the implementation of which constitutes one of the main steps that CBK has undertaken to strengthen the stability and increase the efficiency of the financial and banking system in particular. The new system is characterized by high reliability, security and efficiency, which has enabled timely clearing and settlement of all transactions.

Kosovo Credit Registry (KCR) has also marked progress during 2017, in which were registered 371 new users, as a result of the requests submitted by member institutions, while the number of surveys on obligations and credit history of credit applicants reached 658,672 surveys.

In 2017, all assets under CBK's management were invested in financial instruments that fall into the category of safe and liquid instruments. During this period, CBK realized positive returns on investments in financial instruments. The distribution of financial instruments of CBK's portfolio in 2017 was affected by negative rates in the Eurosystem, which narrowed down the range of adequate instruments for fund investments. The main characteristic of 2017 is the placement of longer-term assets, namely three to five year periods, mainly as a result of the unfavourable and negative rates in the currency market of euro area.

In order to achieve its objectives, the CBK has continued to pay close attention to the analysis of the overall economic developments in the country, as well as the analysis related to the assessment of financial stability and the activity of the country's financial system. During 2017, the Macroeconomic Model for Kosovo's Economy was developed, which will be used as a supplementary tool by CBK for analysing developments in the country, forecasting the main macroeconomic indicators, and in simulating possible shocks or scenarios that can be experienced by the Kosovo economy. Also, in 2017, the discussion material "Identification of Systemically Important Banks and Additional Capital in Kosovo" was published, aiming at addressing the structural and cross-sector dimension of systemic risk associated with systemically important banks.

Within the responsibility for compiling and publishing the statistics of monetary and financial sector and of the external sector, during 2017, CBK has made progress in the distribution of statistics of external sector in accordance with Eurostat requirements and has implemented the Enhanced General Data Dissemination System of International Monetary Fund (IMF), expanded the range of new statistics, increased the coverage, further improved the quality of assessments, and made progress in developing a framework for drafting financial account statistics.

During 2017, CBK continued to benefit from technical assistance provided by international financial institutions and various donors in terms of existing projects, as well as with new initiatives. Support is provided mainly from the International Monetary Fund (IMF), US Treasury, USAID, World Bank, European Bank for Reconstruction and Development, GIZ and the European Fund for Southeast Europe (EFSE).

2. External economic environment

2.1. Euro Area and Western Balkans

The Euro Area Economy continued to experience sustainable growth during 2017, while the inflation continues to be below the ECB's target despite the sharp growth it experienced in comparison to previous years. The annual GDP growth rate for 2017 was 2.4 percent, compared to 1.8 percent growth in the previous year. Economic growth was mainly driven by private consumption and investments, as well as improved net export position, as a result of global economic recovery.

Favourable financing conditions supported by the ECB's stimulating monetary policies, optimism for the brokers and financial markets prospects, and the decrease in political uncertainty were the main driving factors for consumption and investment. Continued improvement of working conditions and real estate markets, reflected in increase in salaries and household net wealth, contributed to increased consumption and private investment. In 2017, the average annual unemployment rate declined to 9.1 percent, which is the lowest since 2009, while real estate markets were characterized by increased investments and decreased household indebtedness. Prospects for the economic situation of households and enterprises reached historical records. Consumers' reliability in December 2017 reached the highest level since 2001. Business investments grew thanks to the steady growth of capacity utilization, which remained above global pre-crisis levels and thanks to favourable financing conditions. External demand, which began recovery in 2016, continued to grow reflecting constant growth of exports, despite the risk of euro appreciation in the second half of 2017.

Economic growth in the Euro Area in 2017 was more inclusive – distributed among countries and economic sectors, compared to the larger concentration of growth in some central countries in the previous year. The growth rate in some of the largest Euro Area economies is presented in table 1. The ECB's expectations are that sustainable and inclusive economic growth will continue in 2018, backed by the positive effects on the economy of easing monetary measures, positive dynamics in the labour market and economic recovery at the global level.

Table 1. Real annual GDP growth

Description	2013	2014	2015	2016	2017
Euro area	-0.3	1.3	2.1	1.8	2.4
Germany	0.5	1.9	1.7	1.9	2.2
France	0.6	1.0	1.1	1.2p	2.2p
Italy	-1.7	0.1	1.0	0.9	1.5
Austria	0.0	0.8	1.1	1.5	3.0
Spain	-1.7	1.4	3.4p	3.3p	3.1p
Greece	-3.2p	0.7p	-0.3p	-0.2p	1.4p

*p – preliminary data
Source: Eurostat (2018)

Average inflation rate in 2017 was 1.5 percent, compared to 0.2 percent in 2016 (figure 1). Inflation growth mainly reflects the rise in energy prices driven by the increase of oil price, while basic inflation³ remains moderate and has not yet shown signs of sustainable growth. Therefore, the ECB has estimated that the continuation of significant monetary easing measures is necessary to bring inflation back to the target of close to, but below 2 percent.

³ Inflation excluding energy and foods, which tend to be more volatile.

The projections for 2018 suggest that the average inflation rate is expected to be 1.5 percent, whereas the prospects of sustainable and inclusive economic growth have increased the confidence of ECB that the inflation will continue to grow gradually and reach the level set forth in the monetary objectives in the medium term.

The stimulating monetary measures of ECB will include the continuation of the net asset purchase program⁴, the reinvestment in the stock of maturing

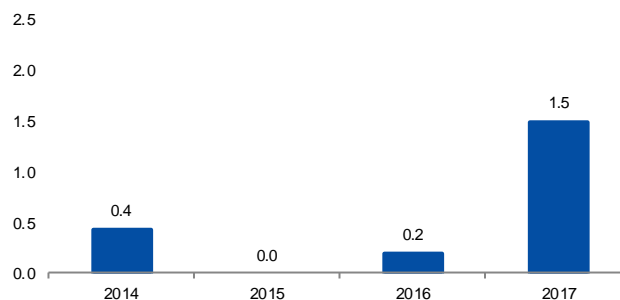
assets, and the preliminary guidance on the level of interest rates. In this context, the ECB has continued to keep the interest rate on the main refinancing operations at zero percent, that of deposits at -0.40 percent and of crediting at 0.25 percent, and suggests that they will remain as such even beyond the end of the quantitative easing or asset purchase program. Euribor 1-month and 12-month interbank lending rates continue to be in negative territory (figure 2).

Lending activity in the Euro Area continued its gradual recovery, which started in 2014 as a result of the support from both demand and supply factors. In general, lending standards were eased for all lending categories, driven by competitive pressures and positive prospects for the economy and risks. The loan demand was supported by interest rates that stand at the lowest historical levels for all credit categories and maturity periods. Moreover, banks have continued to consolidate balance sheets and have made progress in reducing non-performing loans, which, however, remain high in some countries and may pose an obstacle to lending growth.

The annual growth of lending to private sector in the Euro Area in December, 2017 was 2.8 percent, an accelerated growth compared to 2.3 percent in the previous year⁵. Households recorded faster annual growth rate of 2.8 percent from 2.0 percent in 2016, while enterprises recorded annual lending growth of 2.9 percent from 2.3 percent in 2016. Deposits continued with a steady growth trend, begun in mid-2015, mainly as a result of the ECB's stimulating monetary measures and low opportunity cost of investing in an environment with low interest rates. Households' deposits recorded an annual growth of 3.4 percent in 2017 (4.1 percent growth in 2016), while enterprise deposits recorded a higher growth of 7.7 percent (6.2 percent in 2016).

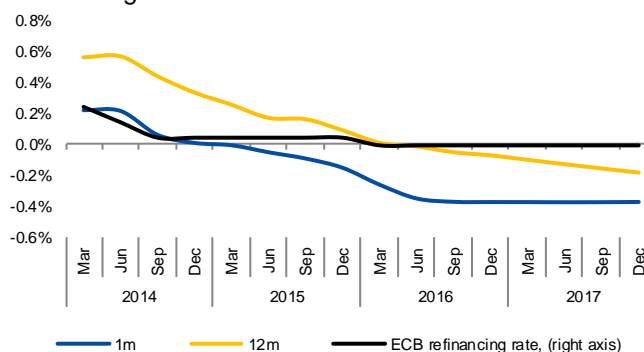
The economic activity in the Western Balkans continued to recover during 2017. Private consumption and the investments were the main supporters to the growth, alongside the improvement of the net export position that was influenced by the growth in demand in the Euro

Figure 1. Inflation rate in euro area, in percent



Source: Eurostat (2018)

Figure 2. EURIBOR interbank lending and ECB refinancing rate



Source: Euribor and ECB (2018)

⁴ On 27 October 2017, the ECB has taken a decision that the net amount of assets that will be purchased under the quantitative easing program from January 2018 to September 2018 or even further if necessary, to be halved to EUR 30 billion per month.

⁵ Data on lending rates include the "regulated rates" in order to better reflect loans to the real sector <http://www.ecb.europa.eu/press/pr/stats/md/shared/pdf/explanatorynoteonadjustedloans.en.pdf>.

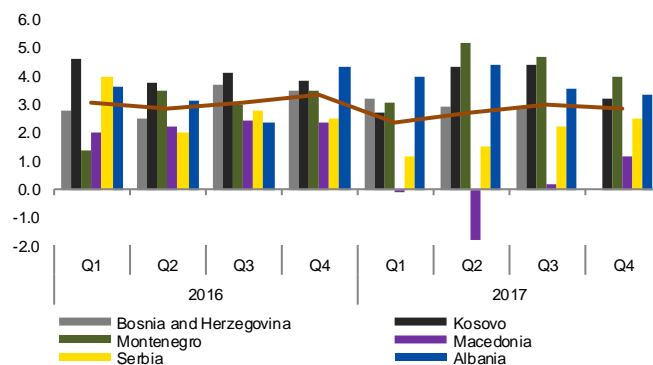
Area. Average annual GDP growth in countries of the region in 2017 was 2.8 percent (Figure 3), which in comparison to 2016 represents a decline of 0.3 percentage points. Albania and Montenegro were characterized with acceleration of economic growth, whereas other countries slowed down the activity. Macedonia is the only country that recorded decline of economic activity.

The recovery of economic activity, as well as rising prices in international markets have increased the inflationary pressures in the region, which were reflected by the rise of the average annual inflation rate in all constituent economies. In 2017, the average annual inflation rate in the region was about 1.9 percent, compared to 0.3 percent a year earlier. Bank lending continued to be an important contributor to the growth of economies of the region.

Loans recorded an acceleration of annual growth in most of the countries, with average lending growth rates almost doubling to 6.1 percent in 2017, from 3.8 percent from a year earlier. Montenegro and Kosovo marked the highest double-digit growth rate. The quality of the lending portfolio has continued to improve, but still remains high in most countries, with the exception of Kosovo having the lowest rate. The countries of the region also reported an increase in deposits, but moderately below the previous year, as a result of the slowdown in the growth rate in Albania and Serbia. Montenegro and Bosnia and Herzegovina accelerated the growth to a double-digit growth rate, while the annual average growth of deposits for the region as a whole was 6.8 percent in 2017 (7.8 percent a year earlier).

The euro currency has appreciated against the US dollar, the British pound sterling and the Swiss franc in 2017, with the appreciation being more pronounced in the second half of the year. The average exchange rate of euro against the US dollar and the Swiss franc appreciated by 2.0 percent, while against the British pound it appreciated by 7.0 percent. Strengthening of the Euro Area economy, positive trade balance and signalling 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 2.3, 1.5 percent and 0.01 percent respectively.

Figura 3. Annual real GDP growth rate in Western Balkans



Source: Statistical agencies of respective countries

3. Kosovo's economy

3.1. Real sector

3.1.1 Gross Domestic Product

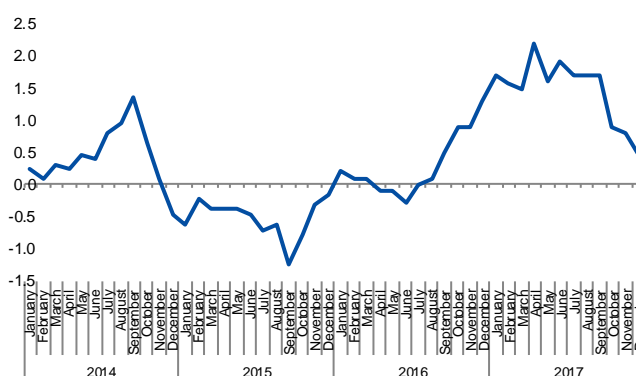
According to preliminary estimates of Kosovo Agency of Statistics (KAS) for 2017, the nominal value of GDP reached the amount of 6.3 billion euros. In real terms, Kosovo economy marked an increase of 3.7 percent. In terms of domestic demand, the overall activity in the country was supported by the strengthening of the investment position, while according to KAS, the overall consumption was characterized by a decline. The positive contribution to real GDP growth was also the net exports position, resulting from the significant annual growth which characterized the component of export of goods and services.

This growth of economic activity was generated mainly by investment growth of 10.7 percent (mainly increase of FDI and investment loans), as well as the increase in exports of goods and services of 23.8 percent, compared to the increase in imports of goods and services of 5.5 percent. In 2017, the increase of foreign demand and the increase in metal prices in international markets have been translated into an increase in the total value of the country's exports in 2017. However, in the same period, the growth of economic activity in the country, respectively, the increase of private investment has been accompanied by an increase in the value of imports of intermediate goods and capital goods. Consumption is estimated to have marked an annual decline of 1.6 percent. According to the production approach, the economic activity is estimated to have been mainly driven by the sector of construction and services, namely increase in value added by the financial sector (22.6 percent), construction sector (12.4 percent), and trade (6.2 percent). Whereas real decline is estimated to have been marked in public administration (1.6 percent) and in other services (18.4 percent).

3.1.2. Prices

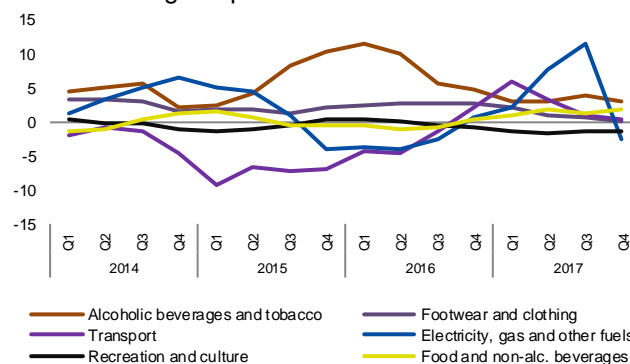
The overall level of prices in Kosovo, expressed through the consumer price index, is characterized by an average growth of 1.5 percent in 2017 (Figure 4). In terms of CPI components, an increase was marked in prices of electricity, gas and other fuels (4.5 percent), followed by prices of alcoholic beverages and tobacco (3.3 percent), as well as prices of transport services (2.7 percent). An increase of prices by 1.5 percent was also recorded for food and non-alcoholic beverages, which represent around 39.2 percent of the Kosovo consumers'

Figure 4. Inflation rate, annual change in percent



Source: KAS (2018)

Figure 5. Price movements by main components, annual change in percent

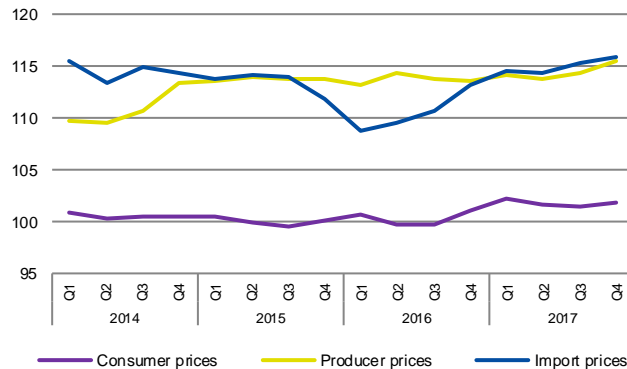


Source: KAS (2018)

basket. On the other hand, the decrease in prices was mainly recorded in recreation and culture (1.4 percent), as well as in media (0.9 percent) (Figure 5).

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. In 2017, the import price index recorded an average increase of 3.9 percent (Figure 6). Mineral products prices, which are the main category of the import price index, recorded the highest growth (12.8 percent), while paper and paper product prices recorded the highest decrease (5.9 percent). The production price index was characterized by a slight increase of 0.6 percent. With the rise in prices were characterized the extraction and production of metal ore, production of electrical appliances, electricity, etc. Meanwhile, prices of beverages production, food products processing, etc. were mainly characterized by decrease.

Figure 6. Consumer, producer and import price indices



Source: KAS (2018)

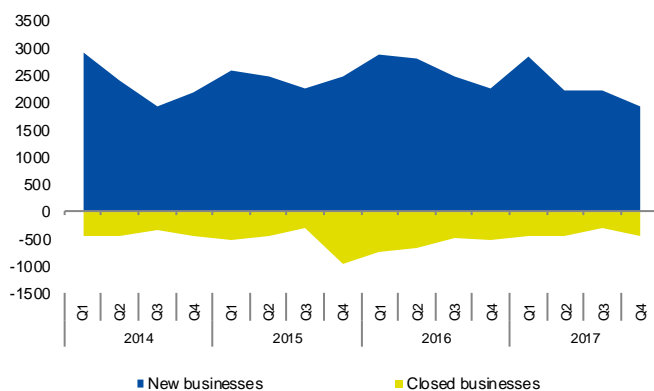
3.1.3. Business registry

In 2017 was recorded lower number of registered enterprises and also a lower number of closed enterprises. The number of new registered enterprises was 9,223 or 1,201 enterprises less than in the previous year, while 1,623 enterprises were closed or 753 enterprises less than in the previous year (Figure 7).

The largest number of registered enterprises continues to be concentrated in the trade sector with 2,462 new enterprises, followed by the hospitality sector with 930 enterprises, production with 890 enterprises and agriculture with 822 enterprises (Figure 8).

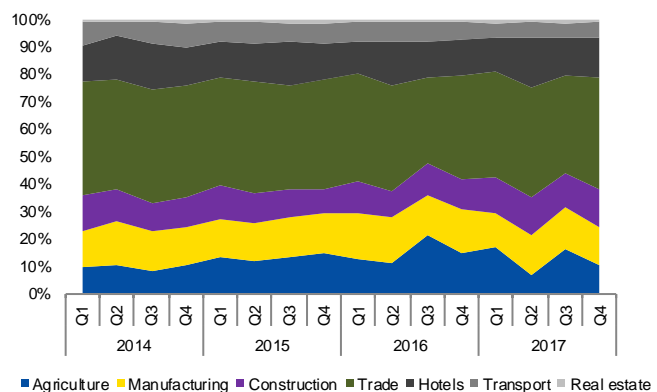
In comparison to 2016, in most sectors was marked lower number of registered enterprises. In the production sector are registered 291 less enterprises, in trade sector 276 less enterprises, in the agriculture sector 268 less enterprises, etc. Sectors that recorded the largest number of registered enterprises were the sector of professional activities (80 more enterprises), information and communication (18 more enterprises), and the construction sector (12 more enterprises).

Figure 7. Business registry, non-commulative



Source: KAS (2018)

Figure 8. Structure of new enterprises



Source: KAS (2018)

3.2. Fiscal sector

Budget revenues⁶ in 2017 reached a net amount of euro 1.68 billion, representing an annual increase of around 5.3 percent. Budgetary expenditures⁷ amounted to euro 1.74 billion, representing an annual increase of around 5.0 percent. Consequently, Kosovo budget marked a primary deficit of euro 59.0 million, compared to the deficit of euro 61.1 million in 2016, while as a share of GDP, the primary deficit has marked a decline from 1.0 percent to 0.9 percent.

With regards to the tax type, it is observed a high increase of indirect tax revenues, which reached the amount of euro 1.3 billion (an increase of 7.2 percent), while direct tax revenues marked an increase of 2.5 percent and amounted to euro 238.0 million. Non-tax revenues marked an increase of 6.0 percent and amounted to euro 185.8 million.

In 2017, all budget expenditures categories were characterized by an increase. Government expenditures for wages and salaries marked a slight increase of 1.2 percent and amounted to euro 550.0 million. Subsidies and transfers marked an increase of 6.5 percent and amounted to euro 506.4 million. Capital investments, which represent about 26.9 percent of the total budget expenditures, increased by 5.4 percent and amounted to euro 467.5 million. Government expenditures for goods and services (including utility expenditures) increased by 11.4 percent and amounted to euro 226.0 million.

Public debt in 2017 has reached euro 996.4 million, which is 16.8 percent higher compared to 2016. As a share of GDP, public debt has reached 16.6 percent from 14.6 percent in 2016. This increase in public debt is attributed to the growth of domestic debt of 19.9 per cent (which reached euro 574.3 million), as well as the public external debt, which has increased by 12.9 per cent to euro 422.2 million. The share of public external debt in total public debt decreased to 42.4 percent from 43.8 percent in 2016.

3.3. Securities market

Based on the calendar published by the Ministry of Finance, in 2017, the number of auctions for issuance of securities of Government of Kosovo resulted to be 19, while the value declared in auctions was euro 405.0 million.

During 2017, the Government of Kosovo declared a smaller number and value of treasury bonds compared to the same period of previous year. While, the number of bonds was higher compared to the previous year, and their value was also higher. With regards to the amount received, it remained the same with the value declared for both treasury bonds and bonds. Based on maturity, the structure of securities of Government of Kosovo continues to show a trend of shifting from short-term securities towards long-term securities.

The main category in the structure of securities remains the treasury bonds with maturity of 364 days, with a share of 33.3 in the total amount issued, followed by two-year maturity bonds with a share of 23.5 percent. It is worth mentioning that in 2017 were issued for the first time bonds with a maturity of 7 years, having a share of 4.9 percent in the total issued amount. Compared to the previous year, in 2017 was observed an increase in issuance of bonds, alongside the fall in treasury bills. While in 2016, were issued 38.1 percent bonds and 61.9 percent treasury bills, in 2017 this share stood at 53.1, namely 46.9 percent.

⁶ Budget revenues do not include revenues from borrowing, revenues from privatization, receipts from designated donor grants and receipts from trusted deposits.

⁷ Within budget expenditures are not included debt payments, IFN membership fees and returns from deposit funds.

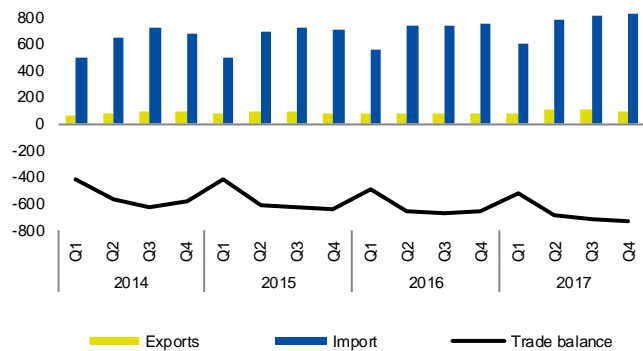
3.4. External sector

In 2017, current and capital account deficit amounted to euro 425.1 million, which is 9.0 percent lower compared to the same period of 2016. This decrease in the current and capital account deficit is attributed to growth of the positive balance of services, the primary and secondary income account. On the other hand, the account balance of goods has deteriorated.

Exports of goods marked a significant increase in 2017. The export value of goods amounted to euro 378.0 million, corresponding to an annual growth of 22.1 percent (a decline of 4.8 percent in 2016) (Figure 9).⁸ The increase in the value of exported goods during this period is mainly attributed to the growth in exports of base metals, which at the same time have the highest share in the total export structure of the country (about 35.8 percent) (Figure 10). The rise in the price of metals in international markets during 2017 resulted in an increase in the value of total exports of base metals. A growth was also marked in the export of prepared foodstuffs, plastic and rubber products, mineral exports, etc. Growth in exports of goods resulted in an increase in the export coverage ratio from 11.1 percent in December 2016 to 12.4 percent in December 2017.

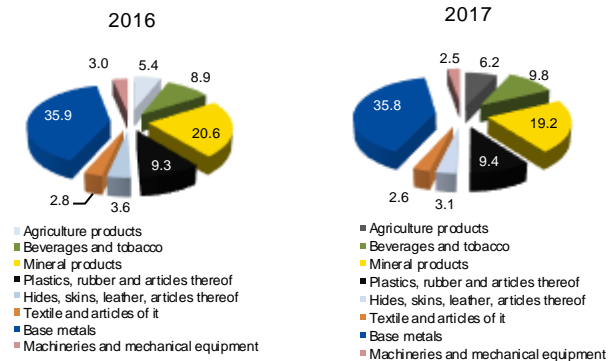
Significant growth was also recorded in imports of goods, reaching the level of euro 3.0 billion or 9.2 percent more than in the previous year. Within the import of goods, imports of mineral products, transport vehicles, base metals, prepared foodstuffs, etc. were characterized by growth. (Figure 11). The much higher level of import of goods compared to exports contributed to the deficit in commodity trade marking an increase of 7.6 percent and reaching euro 2.7 billion.

Figure 9. Exports, imports and trade balance, in millions of EUR



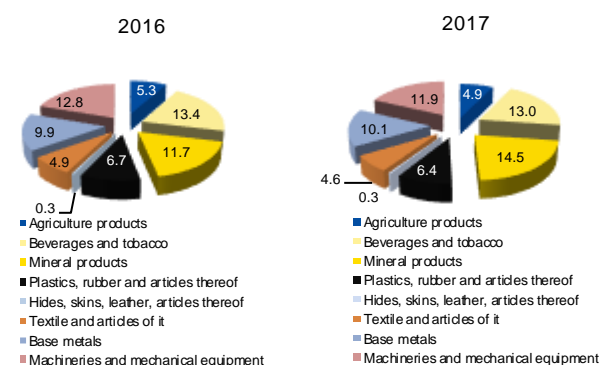
Source: KAS (2018)

Figure 10. Structure of exports by category, in percent



Source: KAS (2018)

Figure 11. Structure of imports by category, in percent



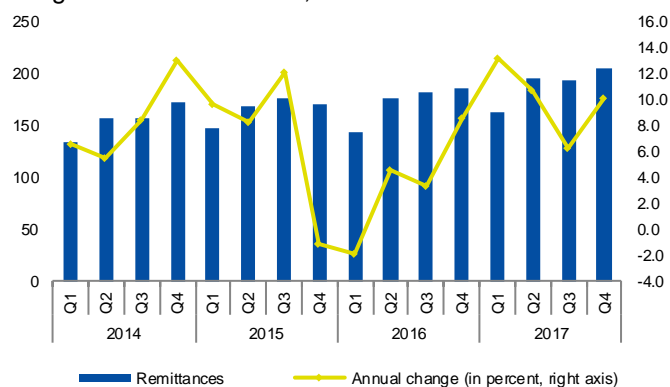
Source: KAS (2018)

⁸ Source of data on export and import of goods in Kosovo is the Kosovo Agency of Statistics.

Balance in the trade of services amounted to euro 804.2 million, an increase compared to the previous year of 25.9 percent. The value of exports of services marked an annual increase of 17.7 percent, reaching euro 1,330.9 million. On the other hand, the value of imports of services marked an increase of 7.1 percent and reached euro 526.8 million. Within exports of services, travel services and computer services were characterized by an annual increase of 19.5 and 33.5 percent respectively, while the category of construction services and manufacturing services marked an increase of 28.1 and 14.6 percent respectively. In terms of imports of services, travel services have increased by 2.7 percent, while transport services decreased by 4.7 percent. Primary income account was characterized by an increase of 14.0 per cent. Employee compensation income⁹ increased by 11.4 per cent, the balance of secondary income marked an increase of 6.0 per cent, attributable to a higher level of remittances. Remittances received in Kosovo, which also represents the largest category within the secondary income account, amounted to euro 759.2 million, representing an annual increase of 9.9 per cent (figure 12). Remittances in Kosovo mainly come from Germany and Switzerland, as 39.3 per cent, respectively 22.5 per cent of total remittances received in Kosovo come from these countries. A significant part of remittances also comes from USA, i.e. 7.0 per cent of total remittances received in Kosovo. In 2017, Foreign Direct Investment (FDI) in Kosovo amounted to euro 287.8 million, which represents an increase of 30.8 per cent compared to 2016. Within the FDI structure, the capital and fund of investments in shares were characterized by an increase in the value, while investments in debt instruments decreased (figure 13).

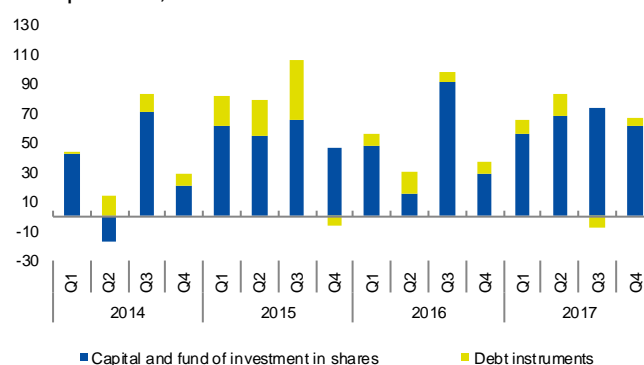
Capital and the fund of investment in shares, which accounts for about 91.9 per cent of total FDI, amounted to euro 264.5 million, which is 44.9 per cent more than in the previous year. FDIs in the form of debt instruments amounted to euro 23.2 million, or 37.9 per cent less than in the previous year. FDI growth was mainly evidenced in the financial services sector, in real estate sector and in the construction sector, whereas trade and industry sectors marked a decrease.

Figure 12. Remittances, in millions of EUR



Source: CBK (2018)

Figure 13. Structure of foreign direct investments by components, in millions of EUR



Source: CBK (2018)

⁹ Compensation of employees includes wages, salaries and other benefits received from resident employees abroad. It includes seasonal employees, includes seasonal workers or other short-term employees (who work less than one year) and border employees whose centre of economic interest is in their economy.

3.5. Financial sector

3.5.1 General characteristics

The value of total assets of Kosovo's financial system amounted to euro 5.91 billion in 2017, corresponding to an annual increase of 9.7 per cent (figure 14). The banking sector and the pension sector continue to be the main contributors to expanding the activity of the financial system in the country.

The number of commercial banks, insurance companies and pension funds has remained the same as in the previous year, unlike the number of microfinance institutions and financial auxiliaries which has increased (table 2).

Figure 14. Assets value of Kosovo's financial system

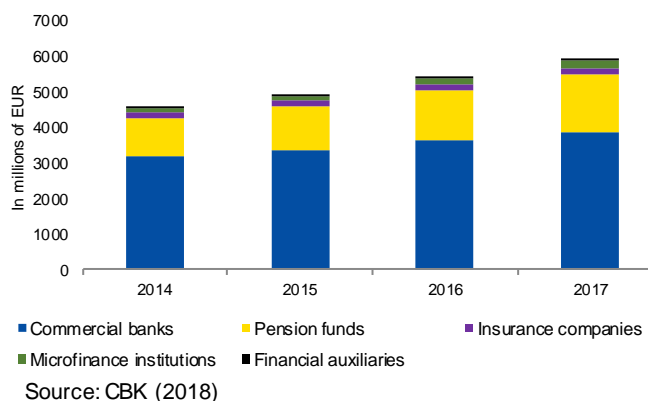


Table 2. Number of financial institutions

Description	2014	2015	2016	2017
Commercial banks	10	10	10	10
Insurance companies	14	15	15	15
Pension funds	2	2	2	2
Financial auxiliaries institutions	42	44	48	52
Microfinance institutions	18	18	16	18

Source: CBK (2018)

3.5.2 Banking sector

Assets

The banking sector assets in 2017 marked an annual increase of 6.4 per cent, thus reaching a value of euro 3.87 billion (figure 15). The expansion of the loan portfolio continued to be the largest contributor to the increase of banking sector assets. In 2017, the stock of banking sector securities was characterized by an annual decrease of 4.7 per cent, for the first time in the last nine years. The decrease in investing in securities was influenced, among other things, by banks' focus on lending to the local economy. Cash and balances with CBK marked an annual increase of 9.2 per cent, compared to the annual decrease of 6.9 per cent in the previous year. Meanwhile, assets held in commercial banks marked an annual decrease of 13.3 per cent (an increase of 8.2 per cent in the previous year).

Figure 15. Commercial banks assets, annual changes, in millions of EUR

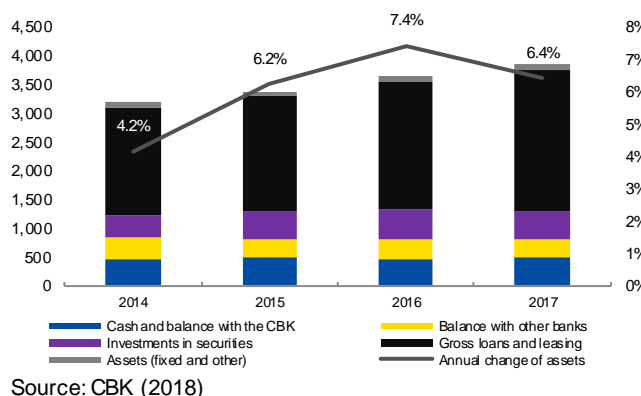


Table 3. Structure of the banking sector assets

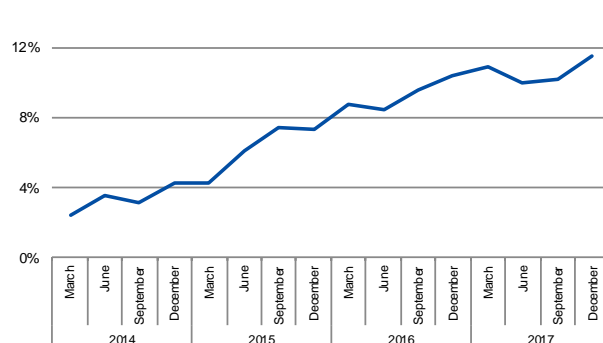
Description	2014		2015		2016		2017	
	Millions of EUR	Share (%)	Millions of EUR	Share (%)	Millions of EUR	Share (%)	Millions of EUR	Share (%)
Cash and balance with the CBK	447.1	14.0%	491.0	14.5%	457.3	12.6%	499.4	12.9%
Balance with commercial banks	390.8	12.3%	316.0	9.3%	342.0	9.4%	296.6	7.7%
Securities	383.8	12.0%	473.3	14.0%	510.3	14.0%	486.4	12.6%
Gross loans	1,882.3	59.1%	2,019.5	59.7%	2,230.0	61.3%	2,485.5	64.2%
Fixed assets	53.7	1.7%	57.0	1.7%	58.5	1.6%	60.1	1.6%
Other assets	28.8	0.9%	28.5	0.8%	39.0	1.1%	41.8	1.1%
Total	3,186.6	100%	3,385.3	100%	3,637.1	100%	3,869.8	100%

Source: CBK (2018)

Loans

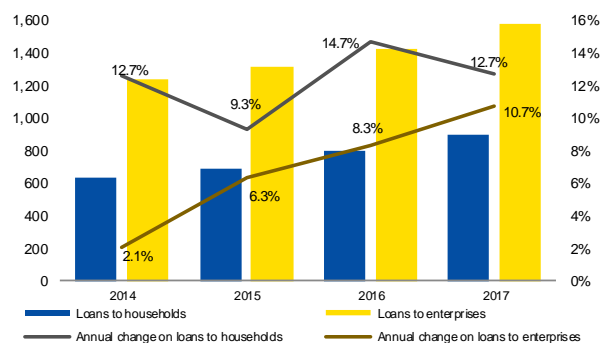
Banking sector loans accelerated annual increase to 11.5 per cent (figure 16). As of December 2017, the value of total loans reached euro 2.49 billion. Factors affecting lending increase in 2017 were the increase in the loan demand and improved lending offer from the banks mainly by reducing the average interest rate on loans and extension of the maturity of loans.

Figure 16. Growth trend of loans, in percent



Source: CBK (2018)

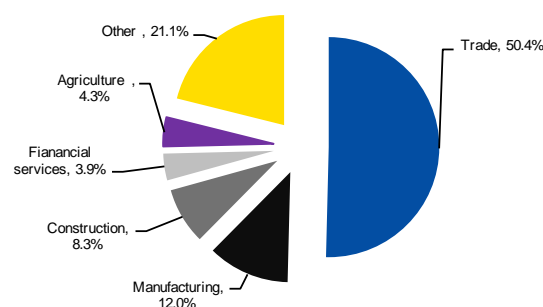
Figure 17. Loans to enterprises and to households



Source: CBK (2018)

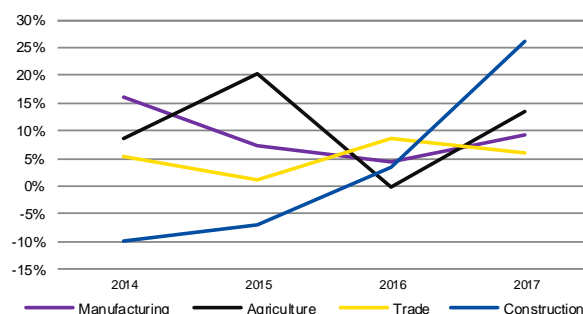
As of December 2017, lending to all economic sectors marked an increase. The sectors that marked most significant increase during 2017 were the construction, agriculture and production sectors (26.1 per cent, 13.4 per cent and 9.3 per cent) (figure 19).

Figure 18. Loans by economic sectors, in percent (Dec. 2017)



Source: CBK (2018)

Figure 19. Annual growth of loans by economic sectors



Source: CBK (2018)

The category of loans to households was the category which marked the highest annual increase rate of 12.7 per cent (figure 17). Also, new loans to households marked an annual increase of 15.0 per cent in 2017. Similar to loans to households, loans to enterprises marked a double-figure increase of 10.7 per cent in 2017 (figure 16). Also, new loans to enterprises in 2017 marked a

significant annual increase of 34.7 per cent. Structure of loans to enterprises by economic activities continues to be dominated by loans intended for trade sector, followed by those for production and construction (figure 18).

Liabilities and own sources

The structure of banking sector liabilities is dominated by deposits, which account for about 80.0 per cent of total liabilities and own sources, thus representing the main financing source of the banking sector activity. A very important integral part of the category of liabilities continues to be the category of 'other liabilities' and 'balance with commercial banks'.

Category of own sources of banking sector was characterized with an annual increase of 11.9 per cent, mainly as a result of sharp increase in the value of retained earnings at euro 103.2 million in 2017 (68.7 million in December 2016).

Table 4. Structure of the banking sector liabilities and own sources

Description	2014		2015		2016		2017	
	Millions of EUR	Share (%)	Millions of EUR	Share (%)	Millions of EUR	Share (%)	Millions of EUR	Share (%)
Balance with other banks	32.2	1.0%	43.4	1.3%	59.1	1.6%	67.2	1.7%
Deposits	2,537.5	79.6%	2,702.9	79.8%	2,897.8	79.7%	3,094.6	80.0%
Other borrowings	14.1	0.4%	17.6	0.5%	17.8	0.5%	16.0	0.4%
Other liabilities	232.8	7.3%	191.8	5.7%	203.4	5.6%	184.0	4.8%
Subordinated debt	47.3	1.5%	36.9	1.1%	38.4	1.1%	37.4	1.0%
Own resources	323.1	10.1%	392.7	11.6%	420.6	11.6%	470.6	12.2%
Total liabilities and own resources	3,186.6	100%	3,385.3	100%	3,637.0	100%	3,869.8	100%

Source: CBK (2018)

Deposits

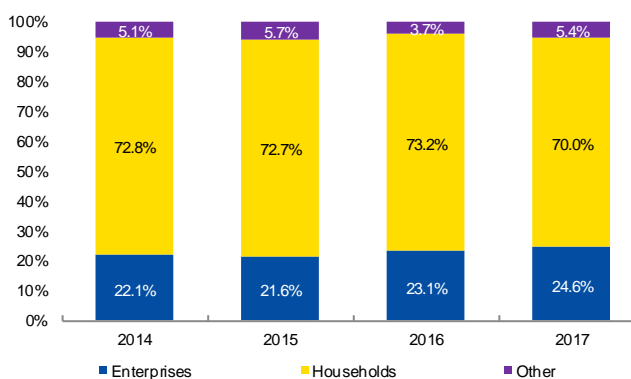
Deposits in Kosovo's banking sector marked an annual increase of 6.8 per cent in 2017, compared to a 7.2 per cent increase in 2016. By December 2017, deposits amounted to euro 3.09 billion (figure 20).

The growth pace of total deposits is mainly dictated by household deposits, the category that dominated the structure of total deposits in the banking sector, which marked an annual increase of 2.3 per cent (figure 20).

During the same period, the deposits of enterprises marked an accelerated annual increase of 13.8 per cent. This increase may have resulted from the increase in the average interest rate on enterprises deposits to 1.7 per cent (1.6 per cent in December 2016).

It is worth pointing out that overall low interest rates on deposits that prevailed during 2017 may have resulted in increased share of transferable deposits category in total deposits to 60.5 percent, from 58.0 percent in December 2016.

Figure 20. Structure of deposits, in percent



Source: CBK (2018)

Interest rates

Difference between average interest rate on loans and that on deposits was narrowed to 5.5 percent compared to the same period of the previous year (6.0 percent in 2016). Average interest rate on loans in December 2017 decreased to 6.8 percent while the average interest rate on deposits marked a slight increase to 1.3 percent (figure 21).

Interest rates on loans

Average interest rate on loans to enterprises decreased to 6.5 percent from 6.8 percent in December 2016 (figure 22). Within this category, interest rates on investment and noninvestment loans continue to show a downward trend.

In December 2017, it was observed a slighter decrease in interest rates on loans to enterprises compared to previous periods. Interest rates in all economic sectors marked a decrease, except for ‘other services’ sector (figure 23).

Loans to households also marked a decrease in the average interest rate to 7.3 percent (7.9 percent in December 2016). Within this category, average interest rate for consumer and mortgage loans continued to follow a downward trend.

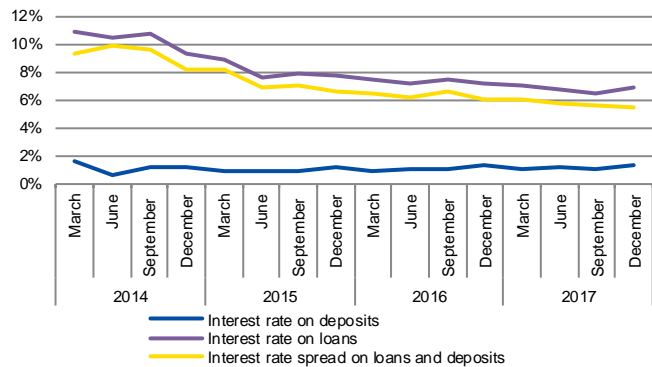
Interest rates on deposits

Average interest rate on total deposits marked a slight increase compared to the previous period, to 1.3 percent in December 2017 (figure 24).

Average interest rate on deposits of enterprises reached 1.7 percent, a slight annual increase of 0.1 percentage points. Specifically, an increase of 0.2

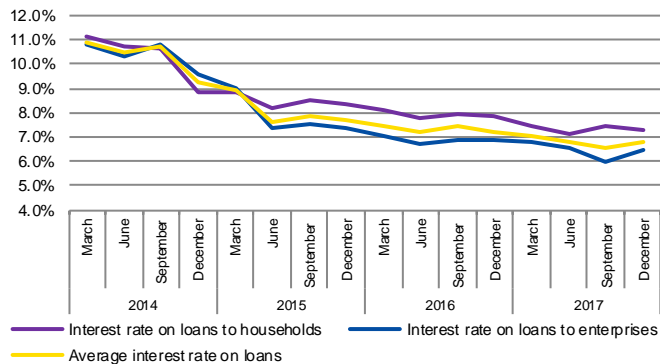
percentage points was marked in interest rates on savings deposits, and an increase of 0.1 percentage points on term deposits of enterprises (figure 25).

Figure 21. Average interest rate on loans and deposits



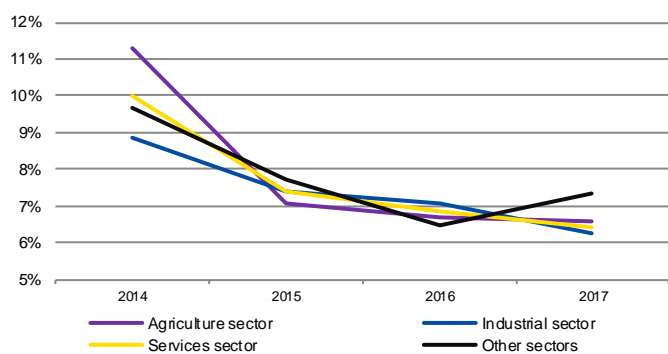
Source: CBK (2018)

Figure 22. Average interest rate on loans to households and to enterprises



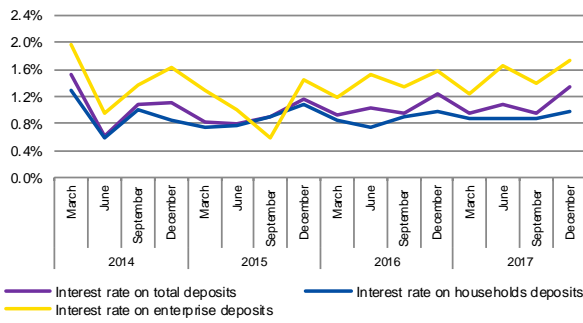
Source: CBK (2018)

Figure 23. Average interest rate on loans, by economic sectors



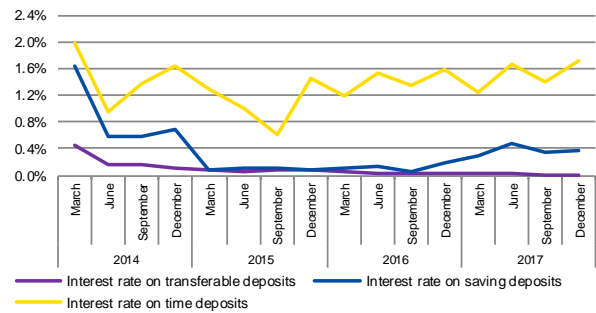
Source: CBK (2018)

Figure 24. Average interest rate on deposits



Source: CBK (2018)

Figure 25. Average interest rates on enterprise deposits, by category



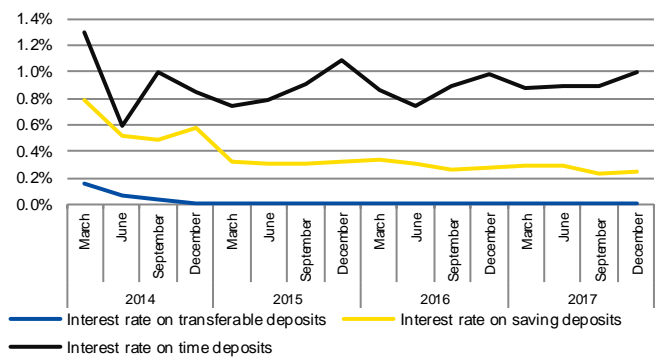
Source: CBK (2018)

On the other hand, the average interest rate remained similar to the previous year, at 1.0 percent, including the three categories of deposits (transferable, term and savings deposits), which also marked marginal changes (figure 26).

Banking sector performance¹⁰

During 2017, the banking sector continued to be characterized by good financial performance, maintaining a high level of profitability. Profit realized during 2017 was euro 85.4 million, corresponding to an annual growth of 13.1 percent (figure 27). The profit increase of the banking sector is mainly attributable to the increase in non-interest income in the form of fees and commissions and other operational revenues.

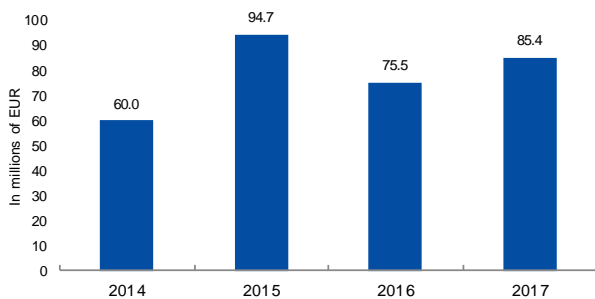
Figure 26. Average interest rate on households deposits, by categories



Source: CBK (2018)

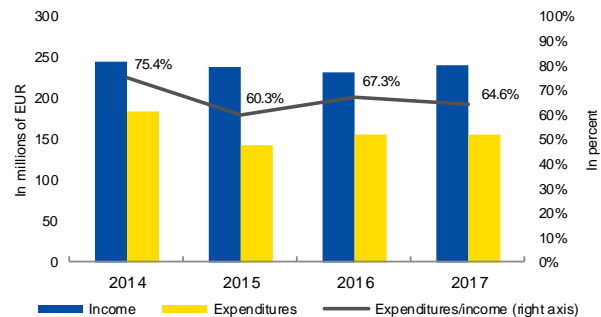
Revenues of the banking sector amounted to euro 241.2 million, and were characterized by annual increase of 4.4 percent, unlike the previous year when they marked a decrease (figure 28). The increase was mainly driven from the non-interest income, while interest income continued to decrease, mainly due to lower interest rates on loans over recent years.

Figure 27. Net profit of the banking sector, in millions of EUR



Source: CBK (2018)

Figure 28. Income and expenditures of the banking sector



Source: CBK (2018)

On the other hand, banking sector expenditures amounted to euro 155.8 and were characterized with slight annual increase of 0.1 percent (figure 28). The increase of expenditures in 2017 is

¹⁰ Based on unaudited data.

mainly attributable to the increase of administrative expenditures, as the financing services decreased by 6.3 percent. Also, non-interest expenditures in the form of provisions for potential losses from loans slightly decreased, which corresponds to the positive quality improvement of loan portfolio.

Expenditures to sector revenues ratio has improved compared to the same period of the previous year, as a result of increase of revenues in this period (figure 28).

Profitability indicators continue to remain at a high level. Return on Average Assets (ROAA) and Return on Average Equity (ROAE) increased to 2.6 percent respectively 21.3 percent, from 2.3 percent respectively 19.7 percent in the previous year (figure 29).

Financial health indicators

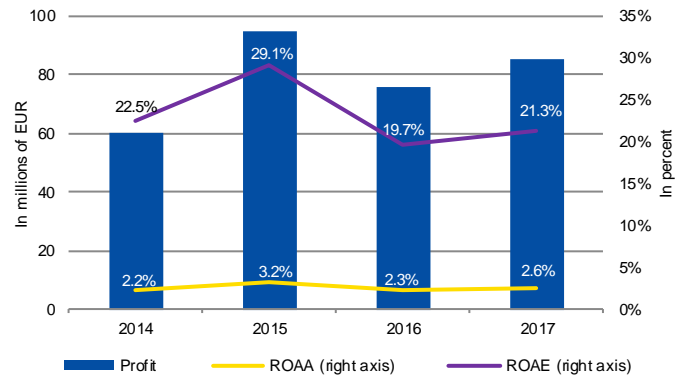
As of December 2017, banking sector posted a decrease of non-performing loans and improved coverage with provisions. Non-performing loans to total loans ratio marked a decrease to 3.1 percent from 4.9 percent, a low level compared to Western Balkans countries (figure 30). Moreover, the level of coverage of non-performing loans with provisions increased to 149.7 percent, as a result of more significant decrease of non-performing loans.

The banking sector continues to have a high level of capitalization, where capital adequacy indicator stood at 18.1 percent in December 2017. The liquidity position of the banking sector continues to be at stable level, despite accelerated growth in lending. The ratio of liquid assets to short-term liabilities stood at 37.9 percent, which is well above the regulatory minimum of 25 percent.

3.5.3 Pension sector

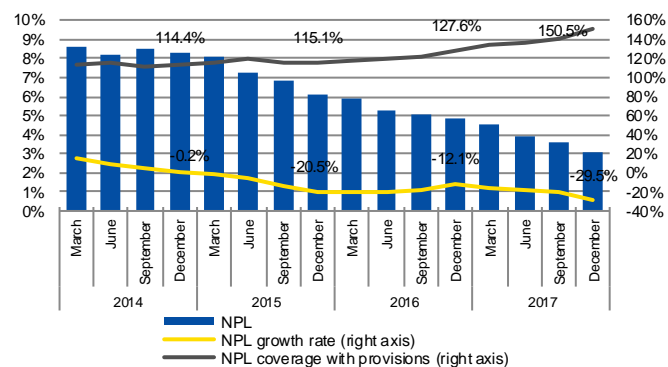
In 2017, pension sector was characterized by a significant increase of assets with 16.0 percent. Total value of pension sector assets amounted to euro 1.65 billion, making it the second largest sector in the financial system with 27.9 percent of assets (figure 31). Increase of new contributions collected by the two funds and return on investments of Kosovo Pension Saving Trust (KPST) contributed to this increase.

Figure 29. Profitability indicators of the banking sector



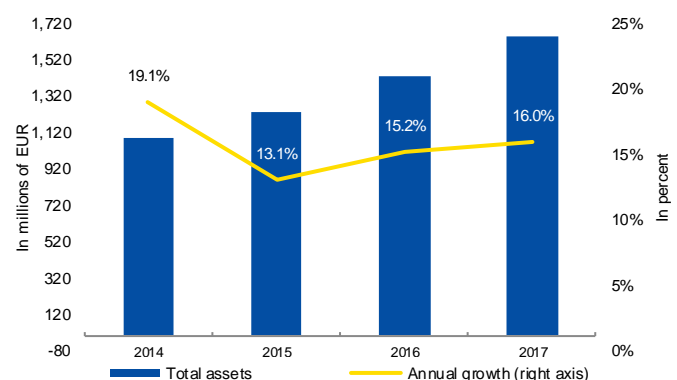
Source: CBK (2018)

Figure 30. Indicators of loan portfolio quality and NPL growth rate



Source: CBK (2018)

Figure 31. Assets of pension sector, in millions of EUR



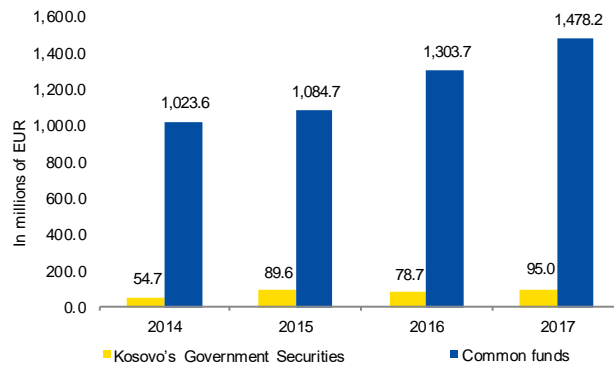
Source: CBK (2018)

Value of new collections amounted to euro 160.3 million (euro 152.0 million in 2016), representing an annual increase of 5.4 percent. Value of new collections of Kosovo Pension Savings Fund (KPSF) reached euro 159.8 million, whereas that of Slovenian – Kosovo Pension Fund (SKPF) reached euro 502.4 thousand.

Pension sector almost doubled the return on investment, reaching euro 103.1 million, as opposed to the return of euro 65.3 million in the previous year. KPSF realized a positive return on investment of euro 102.6 million, whereas SKPF euro 528.5 thousand.

KPSF, which consists of 99.5 percent of pension sector assets, marked an increase of investments on securities of the Government of Kosovo at the level of 20.8 percent, whereas investment in

Figure 32. KPSF investments



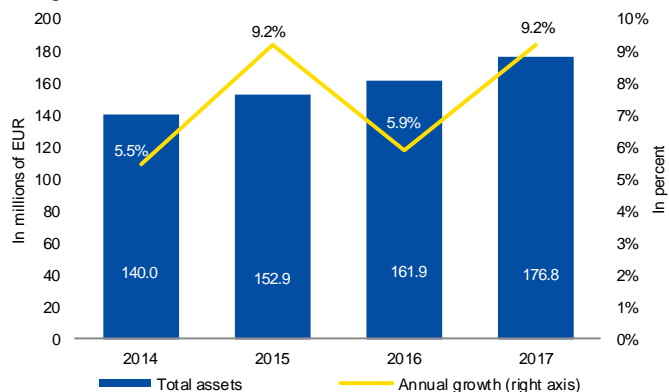
Source: KPSF (2018)

joint investment funds, which are abroad, recorded an increase of 13.4 percent (figure 32). Financial markets in USA were characterized with positive fluctuations as a result of fiscal facilities and increase of GDP beyond the projections. Government bonds market in Euro Area was characterized with a decrease of interest rates. This development was impacted from the ECB decision to extend the quantitative easing programme even during 2018, but in a reduced value, despite the fact that Euro Area marked the fastest economic increase in the last decade. However, positive developments in US and investment strategy contributed to the better performance of pension sector, ensuring an increase in the value of return on investment.

3.5.4 Insurance sector

The insurance sector, representing about 3.0 percent of total financial system assets, in December 2017 recorded an annual asset growth of 9.2 percent and reached euro 176.8 million (figure 33). One of the main contributors to asset growth was the increase in liquid assets, respectively of cash held in commercial banks, which has the highest share in the assets structure of insurance companies.

Figure 33. Assets of insurance sector



Source: CBK (2018)

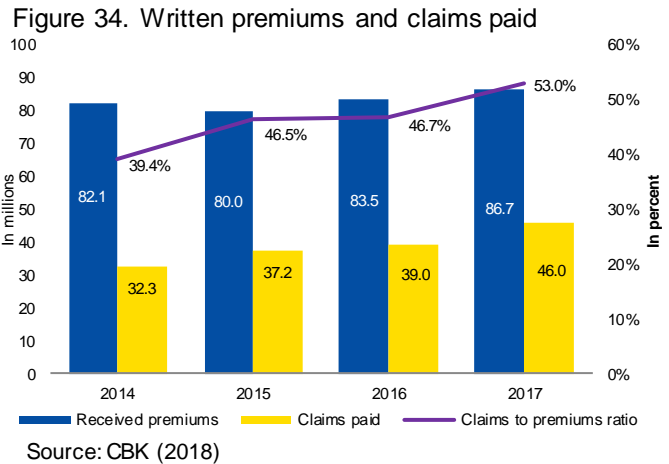
Non-life insurance, which at the same time has the highest share in the total sector assets (about 87.8 percent), recorded an annual growth of 6.7 percent in 2017. In the meantime, 'life' insurance constituting the remaining part of assets marked an annual growth of 31.5 percent.

During 2017, the value of premiums written by insurance companies amounted to euro 86.7 million, an annual increase of 3.9 percent. The structure of written premiums is lead by non-life insurance premiums, which represent 97.1 percent of total written premiums. Their value of euro 84.2 million during this period is 4.1 percent higher than in 2016. Meanwhile, the value of

written life insurance premiums amounted to euro 2.5 million, which is 3.4 percent lower than in the previous year.

Claims paid by the insurance sector, including insurance companies and the Kosovo Insurance Bureau (KIB) claims, recorded a significant annual increase of 17.8 percent in 2017 (an increase of 4.9 percent in 2016).

The higher increase in claims paid during this period along with the smaller increase in written premiums, resulted in a slight increase in the ratio of total claims paid to written premiums (figure 34).



Performance of insurance sector

Insurance sector closed this year with a positive financial result, unlike last year. Net revenues from insurance sector premiums in 2017 marked an annual increase of 4.7 percent, while in the same period, expenditures were characterized with an annual decrease of 7.1 percent, as well as claims incurred marked a significant annual decrease of 47.1 percent. As a result of increase of revenues against the significant decrease of expenditures and claims incurred, insurance sector recorded a profit of euro 6.4 million.

Measures taken from CBK through the entry into force of Regulation for sale of compulsory motor liability insurance and management of insurers' expenses in the beginning of 2017 resulted to be effective in reducing and limiting expenditures considering the significant decrease of expenditures of the whole insurance sector during this year.

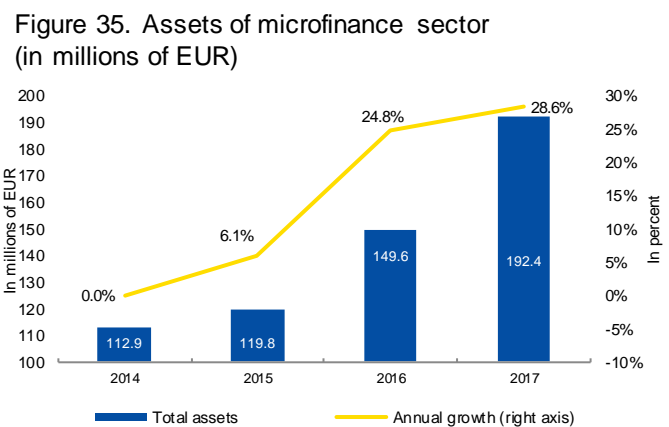
Also, the positive financial result realized during 2017 was impacted also by the increase of claims payment from several non-life insurance companies, as well as amendment of CBK secondary legislation in compliance with legal frameworks, with regards to Compensation Fund Regulation. These steps impacted the decrease of technical reserves, resulting in the decrease of expenditures and consequently in realization of profit.

The annual increase of cash and cash equivalents of 8.3 percent, in addition to the decrease of 5.7 percent of the technical reserves of the insurance sector impacted the improvement of liquidity level. The cash and its equivalents to reserves ratio increased to 104.3 percent in 2017 from 90.7 percent in 2016; also, the ratio of cash and its equivalents to total liabilities increased to 91.3 percent (83.1 percent in 2016).

3.5.5 Micro-financial sector

Assets

During 2017, micro-financial sector assets reached euro 192.4 million, marking a significant annual increase of 28.6 percent (figure 35).

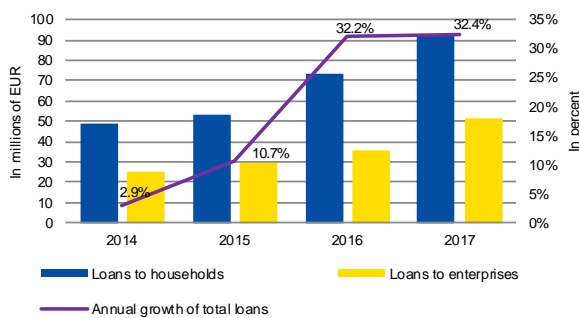


The growth of microfinance sector assets in 2017 is mainly attributable to the growth of gross loans, an activity largely financed by external sector borrowing. The structure of microfinance sector assets continues to be dominated by gross loans (74.8 percent), followed by leasing (13.8 percent).

Loans

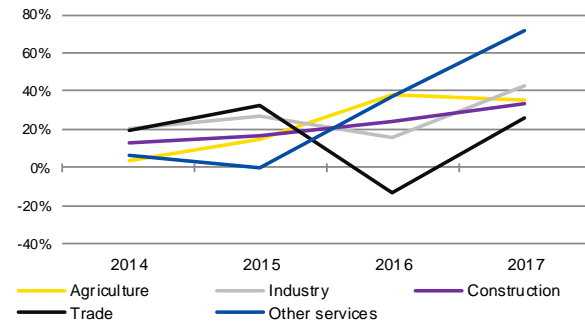
The lending activity of the microfinance sector during 2017 marked a significant improvement, where the value of loans reached the amount of euro 143.9 million, marking an annual increase of 32.4 percent (figure 36).

Figure 36. The value of loans to households and loans to enterprises, annual growth of loans



Source: CBK (2018)

Figure 37. Growth rate of loans to enterprises, by economic sectors



Source: CBK (2018)

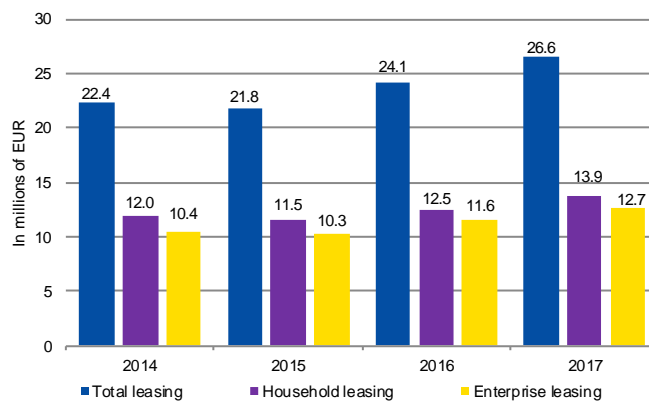
Household loans category had the largest contribution to credit growth (64.0 percent of total sector loans), which amounted to euro 92.1 million and marked an annual growth of 26.2 percent. Loans to enterprises, representing 36.0 percent of total sector loans, also contributed significantly to total loans growth which reached euro 51.8 million, representing an annual growth of 44.1 percent.

Regarding loans issued to the economic sectors, all sectors were characterized with growth. The highest growth was in loans dedicated for “Other sectors”, followed by loans for industrial and construction sector. Loans for trade, which in the previous year marked a decrease, this year were characterized with an increase (figure 37).

Leasing

Leasing, as the second-largest category by share in the structure of assets of the microfinance sector, marked an annual growth of 10.2 percent in 2017 and amounted to euro 2.6 million (figure 38).

Figure 38. Microfinance sector leasing



Source: CBK (2018)

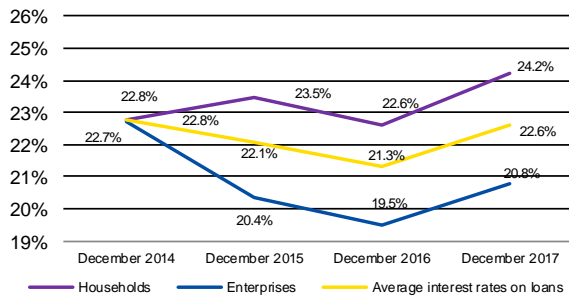
The main contributor to the growth in leasing was the growth of 'other leasing' and mortgage leasing, which recorded an annual growth of 17.9 percent and 7.1 percent respectively.

Interest rates

The average interest rate on micro-finance sector loans in December 2017 changed direction and put an end to the downward trend of two previous years, marking an increase to 22.6 percent from 21.3 percent in December 2016. The interest rate on loans to households marked an

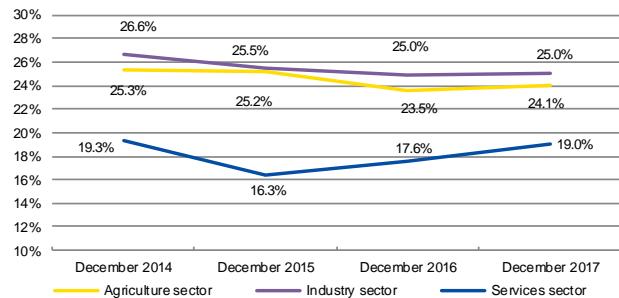
increase of 1.6 percentage points, whereas interest rate on loans to enterprises marked an increase of 1.3 percentage points (figure 39).

Figure 39. Average interest rate on microfinance sector loans



Source: CBK (2018)

Figure 40. Average interest rate on loans, by economic sectors



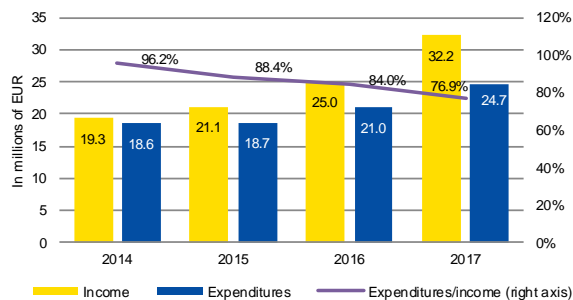
Source: CBK (2018)

In terms of loans to enterprises, the service sector resulted to have the lowest interest rate on loans. Meanwhile, the industry sector continues to have the highest interest rate on loans (figure 40).

Performance of the microfinance sector

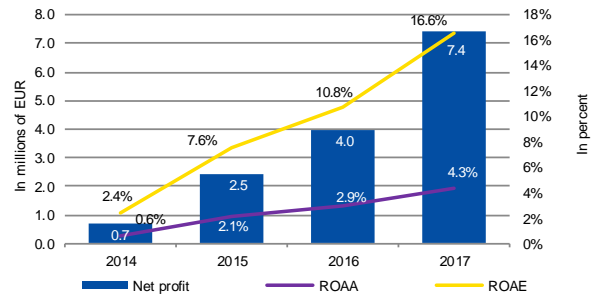
During 2017, the microfinance sector realized a profit of euro 7.4 million, which represents a significant annual increase in comparison to a profit of euro 4.0 million in 2016.

Figure 41. Income and expenditures of microfinance sector



Source: CBK (2018)

Figure 42. Profitability indicators of microfinance sector

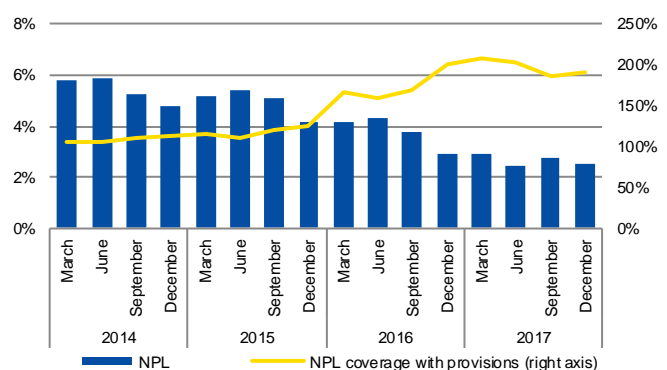


Source: CBK (2018)

The main contributor to this growth was higher growth of revenues (mainly from interest) of 28.8 percent, along with increase of expenditures of 17.9 percent (figure 41). As a result of positive financial result during 2017, profitability indicators marked an improvement (figure 42).

The level of non-performing loans in relation to total loans in 2017 decreased by 0.3 percentage points, representing the lowest level in recent years, and decreased to 2.5 percent.

Figure 43. Indicators of credit portfolio quality



Source: CBK (2018)

Moreover, the level of coverage of non-performing loans with provisions continued to be high at a ratio of 190.3 percent (figure 43).

3.6. Macroeconomic projections for 2018

CBK projections for 2018 suggest that Kosovo's economy will be characterized with a real growth which is expected to fluctuate from 4.2 to 4.4 percent. This growth is expected to be generated by domestic demand, whereas net exports are expected to have a negative impact on the GDP. Consumption, as the main component of internal demand, is expected to mark a real growth of 3.5 percent, based on expectations that the private consumption will mark an increase of 3.3 percent and the public consumption of 4.5 percent. Factors that are expected to have an impact on the increased private consumption are, among others, increased remittances and increased loans. By the end of 2018, remittances are expected to mark an annual increase of around 8.0 percent. In addition, loans to households, which in recent years have marked a considerable increase (12.7 percent in 2017 and 14.7 percent in 2016), are expected to continue with the growing trend also in 2018.

Investments in 2018 are expected to mark a real growth of 10.1 percent, based on projections for significant public investment growth (25.8 percent) but also private investment (5.0 percent). An important contribution to the increase of the private investments will continue to be provided by bank lending, which is characterized by a rapid increase and lower interest rates. In addition, changes in taxation policy in the recent years are expected to encourage private investments. The increase of FDIs is also expected to contribute to the growth of investments general position.

Net exports of goods and services in 2018 are expected to have a higher negative contribution to GDP compared to the previous year, an assumption largely based on the forecasts for stabilisation of metal prices that are expected to affect a slower growth of exports. In terms of goods, exports are foreseen to increase by 6.9 percent in real terms, whereas imports are expected to mark an increase of around 6.5 percent. Consequently, the trade deficit of goods is expected to mark a slight increase of 6.4 percent in real terms. On the other hand, the positive trade position within services is expected to grow by about 6.1 percent in real terms.

The trend of prices in Kosovo is mainly in line with the price movements in international markets, especially the prices of food and oil products. Both these categories of products, which account for about 50 percent of the Kosovo consumer basket, were characterized by increasing prices in 2017 and are expected to stabilise in 2018. Consequently, Kosovo's economy, which was characterized by an inflation of 1.5 percent in the previous year, is expected to be characterized by an almost same level of inflation rate (around 1.6 percent in 2018).

The bank lending growth rate for 2018 is expected to mark an increase of 9.3 percent. CBK projections for lending growth are also in line with the bank reports as part of the bank lending survey, the findings of which suggest that there will be an acceleration of lending activity over the coming periods. Specifically, banks expect acceleration of credit activity through the easing of lending standards, decrease in interest rates on loans and improvement of credit conditions. Likewise, credit activity will also be affected positively by credit demand. Deposits are expected to continue with the increasing trend with which were characterized in the recent years. Deposits are expected to mark an increase of 8.4 percent during 2018. The expected flow of deposits is related to national disposable income, which is expected to increase by 6.5 percent in 2018.

4. Supervision, regulation and licensing of financial institutions

4.1. Adapting the Basel Capital Framework

Financial supervision has chosen a gradual and secure approach towards approximation with international standards, with special focus on relevant EU directives for the supervision of banks, which regulate the activities of credit institutions and determine the requirements for their capital. This is a well-analysed process in order to assess the applicability and impact of any changes in the further improvement of the conditions for the financial sector and its users. Particularly during this period, new amendments and supplements have been envisaged, considering that after the recent financial crisis of 2008, the international standards known as the Basel Capital Framework have changed in order to review issues that are considered as factors driving financial crisis, as well as considering the development and needs of the banking system in Kosovo.

In this regard, in September 2014, the CBK launched a specific project for adapting and implementing the regulatory framework known as Basel Capital Framework. As a long-term objective of Kosovo to join the EU and as one of the key strategic goals, CBK has started this project with the strong support of the German Institution for International Cooperation (GIZ). Within this project, the CBK continued in 2017 with the amendment of existing regulations and the adoption of some new regulations to address a number of requirements for banks in accordance with the Basel Capital Framework. However, the complete harmonization of the existing regulations for the supervision and regulation of banks with Basel Capital Framework and European Directives is a long-term project, which with the CBK strategy is planned to be finalized during the period 2015 - 2019.

During 2017, in view of the adoption of the Basel Capital Framework Standards, we continued the preparation of amendments to the Bank's Capital Adequacy Regulation, which lays down the requirements for capital to address requirements for capital against credit risk through the harmonization of certain risk weighting for different asset classes, for the adaptation of credit risk mitigation techniques, capital requirements for market risk and operational risk. The Basel Capital Framework has also been adopted by the EU through Regulation no. 575/2013 on prudential requirements for credit institutions and investment firms and Directive no. 2013/36, known as the Capital Requirements Directive (CRD IV) known under the name "The Single Rulebook". These changes mainly include reviewing requirements for capital and components of capital in order to increase quality, setting requirements for liquidity risk monitoring purposes, leverage ratio, etc.

According to the CBK plan for alignment of the regulation with the Basel Capital Framework and the EU Regulation, it is foreseen that during 2017 and the first half of 2018 to further continue with the completion of the regulatory framework to adopt necessary requirements drawn by these standards with particular focus on complete adaptation of the first pillar and further advancement regarding adoption of the second pillar of Basel Capital Framework. These changes provide for a complete adaptation of the standardized method for risk-weighted exposures, expanding the number of exposure classes to reflect developments in the banking market in Kosovo, as well as adapting more sophisticated principles and rules for calculating risk-weighted exposures for each exposure class; principles and methods of recognition of mitigating techniques of credit risk.

During 2017, it has been worked towards adapting capital requirements to cover market risk with particular emphasis on capital requirements for tradable debt instruments, tradable capital instruments, positions in commodities and foreign exchange positions. Also during 2017, it has

been worked towards the adaptation of the Capital Definition under the global regulatory framework for banks and more resilient banking system known as Basel III. This enables banks' exposures to be covered by higher-quality capital through financial instruments that have greater absorbing possibilities for losses. In addition to the capital definition, at the same time, work was carried out towards harmonizing the regulatory requirements with the Basel III document on the leverage indicator. The leverage indicator aims at limiting the growth of bank balance and off-balance sheet exposures through excessive debt instrument issuance. This indicator is simple to calculate and not risk-based, acting as an additional credit measure to risk-based capital requirements.

Regarding drafted regulations, meetings were held with banks within the Banking Association, and assessments were carried out on the impacts that these regulations may have for each individual bank as well as in the banking sector in general. Another important step of this project is the adaptation of the requirements of the Second Pillar of the Basel Capital Framework, known as the Internal Capital Adequacy Assessment Process: ICAAP, or the adaptation of the internal process of capital adequacy assessment by the banks themselves, as well as the process of the review by the supervisor of this internal process of banks for assessing capital needs. In the framework of the Second Pillar of the Basel Capital Framework, the risks that are not covered in the First Pillar are addressed, such as: interest rate risk in the bank's book, risk, concentration risk, counterparty risk, reputational risk, model risk, risk of profitability, strategic risk and other risks that the bank may have during business.

Regarding the adaptation of the requirements of the Second Pillar of the Basel Capital Framework and ICAAP in particular, during 2017, work was carried out on the drafting of the ICAAP regulation in addition to the Advisory Paper for ICAAP, which was published by the CBK in August 2016. Also, work was done towards capacity building of the CBK through the organization of the workshop, through technical assistance from the Bank of Slovenia, where besides the staff of the CBK, the staff from the Central Banks of the Region were also participants in this workshop, such as from Albania and Macedonia, and it is planned that full adaptation and implementation of ICAAP will be carried out during 2018.

Also, with the entry into force of new capital requirements, the minimum requirements for information disclosure by banks will be reviewed and updated, which will enhance transparency for stakeholders and are known as requirements of the Third Pillar of the Basel Framework aiming to establish market discipline through disclosure requirements and increased transparency.

4.2. Support of Government of Kosovo in improving the legal infrastructure related to financial system

CBK also during 2017 has provided support to the improvement of legal infrastructure to further advance the legal framework in addressing issues related to financial services and harmonization with EU directives and international good standards, by providing concrete substantial contribution to the amendment and preparation of the following laws:

Law on Microfinance Institutions and Non-Bank Financial Institutions – in May 2017, with the decision of the Ministry of Finance, the responsible team for drafting the draft law on Microfinance Institutions and Non-Bank Financial Institutions was established. Two representatives of the CBK have been appointed in this team, one of whom has been assigned as the responsible official for drafting this draft law. The final draft by the responsible team was drafted and the same was processed by the Ministry of Finance at the end of October 2017. The purpose of this Law is to regulate licensing, activity and supervision of microfinance institutions and non-bank financial institutions.

The new Draft Law on Consumer Protection – CBK has played a key role in drafting the new Law on Consumer Protection, which transposes the EU Directive on Credit Agreements for Consumers (Directive 2008/48 EC); transposes the EU Directive concerning the distance marketing of consumer financial services (Directive 2002/65 EC); and addresses and regulates issues that have so far caused problems in the implementation of the Law in force: a) granting credit to the Limited Public which in practice has posed dilemmas in the manner of understanding and implementation; and b) through this draft amendment was clarified the issue of the competence (of the institutions) regarding the taking of administrative measures in case of violation of the provisions of the law. Although as a draft it has been prepared during 2016, however, after the provision of broader cooperation by the Ministry of Trade with the Banking Association, in 2017, the part of the draft law has been reviewed related to consumer credit and the distance provision of financial services, where apart from the meetings held, all the comments and proposals given by the Banking Association have been addressed. The law is expected to enter into force in the near future.

CBK's involvement within the inter-institutional working groups for the preparation and amendment of the abovementioned laws, but also for the preparation of the action plan for the implementation of the SAA and certain groups for harmonization of the legislation with the EU directives in the field of free movement of services and capital, demonstrates CBK's contribution to the improvement and further advancement of legal infrastructure, and in the support of other institutions, for building and maintaining a sound and sustainable financial system as a prerequisite for economic development of the country.

4.3. Regulatory framework of real estate appraisal

During 2017, the CBK has started with a review of the regulatory framework for real estate appraisal, in order to update the requirements to improve real estate appraisal practices by financial institutions in line with the new standards of Europe (European Valuation Standards - EVS 2016). This project is being developed with the support of the US Treasury Advisor, Mr. Lewis Allen, an expert in the area with long experience in the area of real estate appraisal for the needs of banks. In the framework of this project, in 2017 it was begun with the amendment of the regulation for the program of licensing real estate appraisers, organized by the Ministry of Finance in cooperation with the Chamber of Commerce, in order to adapt the requirements necessary for the implementation of the quality control, based on the abovementioned standards, in order to develop the necessary framework for improving the quality of real estate appraisals. This process is expected to continue in 2018.

4.4. Cooperation with international institutions

During 2017 a number of visits and activities were held in order to enhance the cooperation with international institutions related to the field of oversight of financial institutions.

CBK also signed a cooperation agreement with EBA (European Banking Authority) this year and was also invited for the first time to participate in regular meetings of this institution, together with the supervisory authorities of the countries of the region (Western Balkans).

4.5. Regulatory framework

4.5.1 Regulatory framework of financial institutions

Central Bank of Kosovo, with the continuous support of recognized international institutions such as World Bank, International Monetary Fund, USAID, US Treasury, KfW, GIZ, European Central Bank, European Bank for Reconstruction and Development, and other international

financial institutions, developed a regulatory framework for regulation and supervision of financial institutions, based on international standards and best practices. The regulatory framework has been drafted in accordance with European directives addressing the regulation of financial institutions, as the best international standards and practices for regulating and overseeing financial institutions. Also, CBK has started a gradual process towards approximation with the Basic Principles for the Supervision of Banks issued by BIS- Bank for International Settlements, Basic Principles for the Supervision of Insurers issued by the IAIS - International Association of Insurance Supervisors, as well as the principles for pension supervision issued by IOPS - International Organisation of Pension Supervisors. Since the directives, international standards and the abovementioned principles regarding the regulation of financial institutions and their scope of activity are of a dynamic character, this affects the drafting of the legal framework to be a continuous and complex process as it requires the completion and amendment of the existing legal and regulatory framework, and requires an adequate approach to carefully study the specific circumstances of Kosovo, for an adequate adaptation of these international legal instruments for the needs of the financial sector in Kosovo.

Regulations on financial supervision (banks, microfinance institutions, non-banking financial institutions, insurance companies and pension funds) are drafted and revised by working groups consisting of representatives of respective departments, such as the department of banking supervision, licensing, insurance and pension, the legal department and other departments depending on the area that is addressed and its link to relevant departments of CBK. During preparation of regulations or any other regulatory instrument, CBK cooperates closely with other institutions and with the industry through meetings and continuous communication with regulated subjects, mainly through respective institutional associations, such as the Kosovo Banking Association, the Insurance Association of Kosovo and the Association of Microfinance Institutions of Kosovo, but also with other domestic institutions in addressing issues that affect other areas related to the financial sector. This process has continuously facilitated clarification of specific issues regulated with regulations and their appropriate regulation, considering their impact on the stability of Kosovo's financial system and economic development.

4.5.2 Supplement of the regulatory framework for supervision of banks¹¹, microfinance institutions and non-bank financial institutions

The following presents the supplements of the regulatory framework for the supervision of banks, microfinance institutions and non-bank financial institutions during 2017:

The regulatory framework for factoring - during 2017, a working group within the CBK was established to draft the factoring regulatory framework. For this purpose, assistance from the EBRD is also provided. The finalization of this legal framework is expected to take place during the first six months of 2018.

Regulatory Framework for Liquidation of Banks - During 2017 a working group within the CBK was established to draft a regulatory framework for bank liquidation. This framework will be designed to ensure compliance with Directive 2014/59/EU - rules for the recovery and resolution of credit institutions and investment firms. For this purpose, assistance from the EBRD is also provided. The finalization of this regulatory framework is expected to take place in 2018.

The Regulation on Late Payment following the Law on Late Payment in Commercial Transactions - The LSD, in cooperation with BSD, has finalized the draft regulation including addressing comments and discussions with the Banking Association. All comments and

¹¹ Regulatory activities related to the Adaptation of Basel Framework for Bank Capital are described above in point 3.1 of this report.

discussions have been completed for this draft regulation and it is only awaiting approval by the CBK Board.

Regulation on Requirements for Disclosure and Advertising of Financial Services - this Regulation was originally prepared by the World Bank team within the framework of the Consumer Protection Project during 2014. The draft was thoroughly reviewed by the CBK staff and finalized in coordination with the WB team and financial institutions during 2015. Further processing is planned during 2018 when it is foreseen that this draft will be further processed to address disclosure and advertising requirements and to include all financial services. The finalization of this regulation is expected to take place at the end of 2018.

Also, during 2017, the drafting of sub-legal acts for MFIs and NBFIs continued. Finalization and proceeding for approval to the CBK Board will take place after the entry into force of the Law on MFIs and NBFIs.

4.5.3 Supplement of the regulatory framework for supervision of insurers

The Law 05/L-045 on Insurance entered into force in January 2016, whereby almost all the existing insurance supervision rules have been amended during 2016, which have been transformed into regulation. During 2017 has continued the issuance of new regulations for the implementation of this law as well as drafting of other regulations that are still in process of finalization to then be proceeded for decision-making. The following shows in detail the supplements to the insurance regulatory framework during 2017:

Regulation on Capital Adequacy; (Regulation on calculation of the minimum solvency margins, capital adequacy and guarantee fund for non-life insurers) (approved by the CBK Board on 23 February 2017) - this regulation sets out the ways of calculating the minimum solvency margin, capital adequacy and the guarantee fund for non-life insurers, as well as the deadlines, format, content and reporting method to CBK.

Regulation on Licensing of the Insurance Companies and Branches of Foreign Insurance Companies: (approved by CBK Board on 31 August 2017) – the purpose of this regulation is to determine the terms, requirements, procedures and deadlines to be followed for the application and granting of a license for an insurer/reinsurer or a foreign branch of insurer/reinsurer.

Regulation on Licensing of Insurance Intermediaries (approved by CBK Board on 31 August 2017) – The purpose of this Regulation is to determine the criteria, procedures and deadlines for licensing insurance and reinsurance intermediaries.

Regulation on the Establishing and Closing Insurers' Branches and Subsidiaries within Kosovo and abroad: (approved by CBK Board on 31 August) – This Regulation determines the conditions, requirements, procedures and terms to be followed for establishing and closing insurers' branches in the Republic of Kosovo and establishing insurer branches and subsidiaries outside the Republic of Kosovo.

Regulation on Consolidated Supervision of Insurers Groups; (approved by the CBK Board on 30 November 2017) – the purpose of this regulation is to determine the consolidated supervision of insurance groups.

Regulation on Arbitration Tribunal Procedures (approved by CBK Board on 30 March 2017) – the aim of this regulation is to establish procedures for the functioning of the Arbitration Tribunal.

Regulation on Calculation and Financing of the Compensation Fund; (approved by the CBK Board on 28 December 2017). This regulation determines the way of financing, calculation and investment of the Compensation Fund.

Furthermore, during 2017, final drafts of the **Regulation on Licensing of claim handlers in insurance, Regulation on Determining Violations and Penalties for Insurers and Instruction on the Status of Insurers Employees dealing with the sale of Insurance Products and the Way of sale of compulsory insurance from motor liability insurance,** have been prepared which are expected to be approved during the first quarter of 2018.

4.5.4 Supplement of the regulatory framework for supervision of pension funds

During 2017, the amendment of the regulatory framework for supervision of pension funds continued in compliance with the requirements of the Law on Pension Funds and Law no. 05/L-116 on amending and supplementing the Law no. 04/L-101 on pension funds of Kosovo, amended and supplemented by the law no. 04/L-115 and Law no. 04/L-168 in order to address issues related to the supervision of pension funds which are deemed necessary to be addressed through secondary legislation.

During 2017, the following regulations were prepared and approved:

Regulation on the Value of Pension Contributions - (approved by the CBK Board on 27 April 2017). This regulation establishes the minimum criteria for determining the value that may be contributed for the complementary pension program.

Regulation on Pension Assets and Valuation of Pension Assets - (approved by the CBK Board on 29 June 2017). The aim of this Regulation is to define the method and principles for pension assets valuation and the manner and time limitations for the Custodian to submit required reports to the Kosovo Pension Saving Trust, to the Pension Fund and to the Pension Provider as well as to the Central Bank of Republic of Kosovo.

Regulation on Internal Controls and Internal Audit of the Insurers - (approved by CBK Board on 29 June 2017). The purpose of this regulation is to define basic principles on the organization and operation of internal controls and the function of internal audit for pension funds.

Regulation on Reporting by the Kosovo Pension Savings Trust - (approved by the CBK Board on 30 March 2017). the purpose of this regulation is to define the terms and rules for reporting by the Kosovo Pension Savings Trust to the CBK and to the Kosovo Assembly.

Regulation on Investment of Pension Assets - (approved by the CBK Board on 23 February 2017). The purpose of this Regulation is to define the terms and principles of investment of pension assets in accordance with the Law no. 04/L-101 on Pension Funds of Kosovo.

4.5.5 Other regulatory instruments

Regulation on Issuance of Licensing or Registration Certificates for Financial Institutions - (approved on 31 August 2017). The purpose of this Regulation is to determine the form and content of licensing or registration certificates for financial institutions, as well as regulate the procedure of issuing and/or replacing them.

Regulation on Electronic Payment Instruments - (approved by the CBK Board on 31 august 2017). The Regulation determines the conditions, criteria and procedures for issuance and use of electronic payment instruments as well as means of reporting of information during the use of these electronic payment instruments, by banks and institutions authorized by the Central Bank

of the Republic of Kosovo (CBK) to provide electronic payment instrument services. This regulation is drafted in cooperation with the Payment Department.

Regulation on Internal Complaints Handling - (approved by the CBK Executive Board on 26 December 2017). This regulation establishes the procedures and deadlines for reviewing the complaints of users of financial services by the CBK.

4.5.6 Legal and regulatory support of the Financial Supervision Pillar

CBK has given a continuous contribution to the preparation of the regular reports related to the Stabilization and Association Agreement with the European Union and the preparation of an action plan for the implementation of the obligations arising from this agreement as regards the field of oversight of financial institutions.

Furthermore, the Standardization and Regulation Division within the LSD has consistently provided legal support to the departments and other financial oversight divisions. Interpretations of the CBK regulatory instruments as well as various legal opinions are mainly provided for internal needs in the framework of licensing and oversight activities. At the same time, legal opinions and continuous interpretations have been provided to financial institutions (banks, insurance, MFIs, NBFIs, insurance mediators and Pension Funds) and other state institutions regarding the legal and regulatory framework in force for supervision of financial institutions.

4.6. Licensing

4.6.1 Policy and Licensing Procedures

According to Law no. 03/L-209 on the Central Bank of the Republic of Kosovo, the sole authority responsible for regulation, licensing/ registration and supervision of financial institutions in the Republic of Kosovo is the Central Bank of the Republic of Kosovo. The Law no. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions, Law no. 05/L-045 on Insurances, Law No. 04/L-155 on Payment System, Law No. 04/L-101 on Pension Funds of Kosovo as well as sub-legal acts issued by CBK define the criteria and conditions to be fulfilled by applicants for obtaining license/registration for conducting financial activities by banks, insurers, pension funds and other entities that exercise financial activities in the Republic of Kosovo.

In the context of licensing and registration, the overall objective of the CBK is to provide a comprehensive and transparent process that helps ensure a safe, sustainable and competitive financial environment. In pursuit of this objective, through increasing transparency and encouraging efficiency and competitiveness, LSD has reviewed the policies, procedures and licensing and registration practices of financial institutions, specifically for banks, microfinance institutions, non-bank financial institutions, insurers and insurance intermediaries in order to provide a dynamic, efficient and structured framework for licensing and financial registration, through the drafting of manuals and licensing procedures during 2017 which were subsequently approved by the CBK Board.

Banking Licensing Manual and Procedures; (approved by the CBK Board on 14 July, 2017). The Manual and the procedures have detailed all the procedures to be followed in the cases of reviewing the licensing requirements of banks, starting from the stage of expression of interest for licensing by the parties until the issuance of the final license. An integral part of the manual is also the various forms that must be completed by the parties applying for licensing.

Manual and Procedures for Licensing of Microfinance Institutions and Non-Bank Financial Institutions - (approved by the CBK Board on 14 July 2017). The Manual and the

procedures detail all procedures to be followed in the case of reviewing applications for registration of Microfinance Institutions and Non-Bank Financial Institutions, starting from the stage of expression of interest for registration by the parties until its approval. An integral part of the manual is also the various forms that must be completed by the parties applying for registration.

Manual and Procedures for Insurers Licensing- (approved by the CBK Board on 27 October 2017). The Manual has detailed all procedures to be followed in the case of reviewing licensing requirements for insurers, starting from the stage of expression of interest for licensing by the parties until the final license is issued. Also integral parts of the manual are the various forms that must be completed by the parties applying for licensing.

Manual and Procedures for Insurance Intermediaries Licensing - (approved by the CBK Board on 27 October, 2017). The Manual details all the procedures to be followed in the case of reviewing requirements for licensing insurance intermediaries (both individual and as intermediary companies), starting from the phase of expression of interest for licensing by the parties to the issuance of the license. An integral part of the manual is also the various forms that must be completed by the parties applying for licensing as intermediary companies.

In order to increase transparency and encourage efficiency and competitiveness, **the CBK has published licensing and registration manuals** as they serve as a guide for all potential parties interested in the establishment of financial institutions. **The CBK has also drawn up a selection of the most frequently asked questions about the licensing and financial registration** process received over the years from those interested in licensing, media and the general public, which are also published on the CBK web site and the same will be updated on a continuous basis.

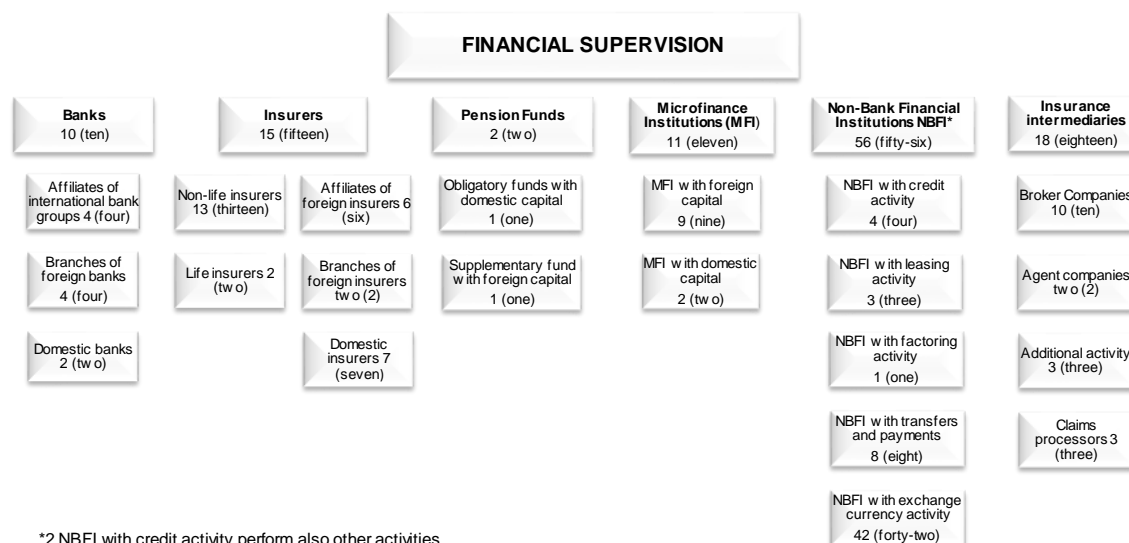
4.6.2 Financial System Structure in Kosovo

The licensing criteria set out in the legal and regulatory framework in force aim at ensuring a fair and regulated financial market through a process built on the principles of justice, fairness and equality. The licensing conditions and criteria are of a supervisory character and are not intended to set barriers to investors whether internal or external. The entry of foreign investors into the Kosovo market, especially in the financial sector, demonstrates CBK's open policy to foreign investors, without prejudice to legal requirements.

The structure of the financial system at the end of 2017, by type of financial institutions licensed and registered that provide financial institutions in Kosovo based on applicable legislation in the Republic of Kosovo and regulatory framework in force of the Central Bank of the Republic of Kosovo, ranked by their weight in the system, is presented in Figure 44.

The structure of the financial system consists of a total of 112 institutions that are licensed and registered and exercise their activity in Kosovo based on the applicable legislation in the Republic of Kosovo and under the applicable regulatory framework of the Central Bank of the Republic of Kosovo. However, the structure of the financial system is dominated by banks, pension funds and insurers considering that together they manage 96.5% of total assets of financial system despite the fact that in number they are much less than MFIs, NBFIs and insurance intermediaries altogether. The largest share of the financial system in the country belongs to the ten banks, which by the end of 2017 accounted for 65.5% of the total assets of financial system.

Figure 44. Structure of the financial system in Kosovo



Banks are followed by two pension funds which together manage 27.9% of the financial system assets. Insurers in the country are ranked third by weight, considering that by the end of 2017 they accounted for 3.0% of the sector's assets. The remaining share of 3.6% is managed by MFIs, NBFIs and insurance auxiliaries.

4.6.3 The ownership structure of the financial system by sectors

The structure of financial sector assets at the end of 2017 is dominated by banks, which manage 65.5% of total assets in this sector. Pension funds are ranked second by weight as they manage 27.9% of total system assets. Insurers manage 3.0% of total system assets and are ranked at third position. The remaining share of financial sector assets in Kosovo is managed by microfinance institutions (2.5%) and non-bank financial institutions and other financial auxiliaries (1.0%).

The banking sector's capital structure continues to be dominated by foreign capital, where by the end of 2017, eight (8) out of ten (10) licensed banks operating in the country are foreign-owned and account for 90.2% of total sector capital, showing no major change compared to the previous year.

Table 5. Structure of financial institution assets

Transactions	2013		2014		2015		2016		2017	
	Value € ('000)	Share %	Value € ('000)	Share %	Value € ('000)	Share %	Value € ('000)	Share %	Value € ('000)	Share %
Banks	3,059.28	72.3%	3,186.62	70.2%	3,385.34	69.0%	3,637.05	67.5%	3,877.46	65.5%
Pension Funds	918.93	21.7%	1,094.08	24.1%	1,237.33	25.2%	1,425.44	26.5%	1,653.00	27.9%
Insurers	132.52	3.1%	139.98	3.1%	152.68	3.1%	161.89	3.0%	177.31	3.0%
Microfinance institutions	73.54	1.7%	74.08	1.6%	82.21	1.7%	110.03	2.0%	147.36	2.5%
Non-Bank Financial Institutions and other financial auxiliaries	46.98	1.1%	47.68	1.0%	48.41	1.0%	52.24	1.0%	62.00	1.0%
Total	4,231.25	100.0%	4,542.44	100.0%	4,905.97	100.0%	5,386.65	100.0%	5,917.12	100.0%

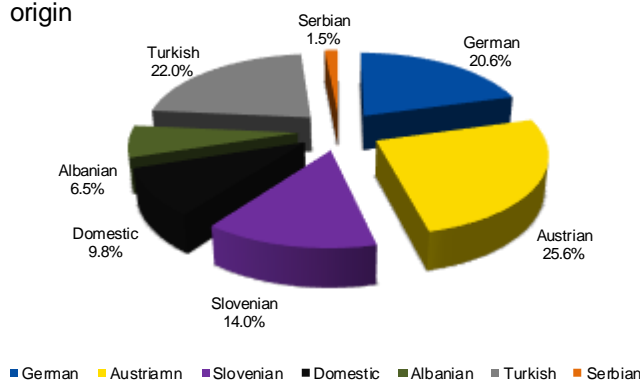
Source: CBK (2018)

The largest bank in the country, accounting for 25.6% of total sector capital (figure 45), is from Austria, while the second is from Germany and represents 20.6% of total sector capital. Turkey is represented with three banks in Kosovo (two of which in the form of foreign banks branches)

which account for 22.0% of total sector capital. Slovenia continues to be represented with one bank in the market, which is ranked third in terms of size with a share of 14.0% in total banking sector capital. Two domestic banks represent 9.8% of total capital, by marking a slight increase in sector share compared to the previous year. Albania continues to be represented with a bank operating in the form of a branch, with a share of 6.5% in the sector's capital, which has slightly reduced its share compared to 2016. A bank from Serbia continues to operate on the market in the form of a branch and has a share of 1.5% of total banking sector capital.

The ownership structure of insurance sector is dominated by non-life insurers that manage 87.8% of total insurance market assets as shown in Table 6. However, the five-year trend of the sector development shows a gradual increase in life insurance share in total assets of the sector. Domestic insurers for the first time in 2017 dominate the non-life insurance by taking into account that they manage about 52.17% of the total assets of this part of the sector and 58% of total assets of insurance sector. This change in the ownership structure

Figure 45. Capital structure of banking sector by origin



Source: CBK (2018)

comes as a result of the transfer of ownership by a foreign insurer to a domestic insurer in the first half of 2017. On the other hand, the total assets of life insurance continue to be entirely managed by foreign insurers.

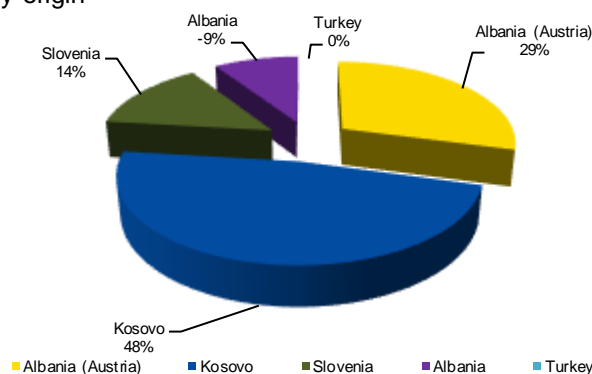
Table 6. Structure of the insurance market

Description	2013	2014	2015	2016	2017
Total assets (in millions of EUR)	132.7	140.4	152.7	161.9	177.3
Share by percent					
Non-life	90.00%	90.00%	90.00%	89.88%	87.83%
Domestic	39.00%	36.00%	31.50%	42.27%	52.17%
Abroad	61.00%	64.00%	68.50%	57.73%	47.83%
Life	10.00%	10.00%	10.00%	10.12%	12.17%
Domestic	0.00%	0.00%	0.00%	0.00%	0.00%
Abroad	100.00%	100.00%	100.00%	100.00%	100.00%

Source: CBK (2018)

The origin of the capital of foreign insurers is shown in Figure 46. Four insurers who manage 36% of the assets of the sector originate from Albania (indirect shareholder from Austria). Slovenia continues to be represented with two market insurers who manage 17% of total sector assets. Albania is represented by two insurers in the insurance sector in the country which, if they were in compliance with the legal and regulatory requirements, would be ranked fourth in terms of share, yet both remain below the regulatory capital requirements. With

Figure 46. Structure of capital in insurance sector, by origin



Source: CBK (2018)

the transfer of ownership in the first half of 2017, Turkey is no longer present in the insurance market in the country.

The structure of ownership of the pension sector is dominated by the domestic mandatory pension fund, which manages 99.5% of total pension market assets as seen in table 7. The supplementary fund with combined domestic and Slovenian capital manages 0.6% of total sector assets.

Table 7. Structure of pension sector

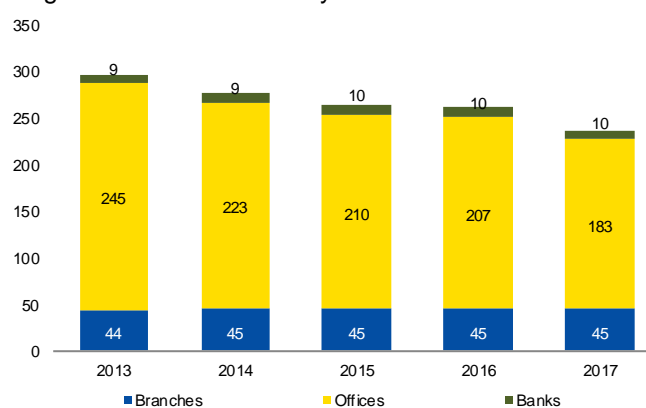
Description	2013	2014	2015	2016	2017
Total assets (in millions of EUR)	918.9	1094.1	1237.3	1425.4	1653.0
Share by percent					
Obligatory fund (domestic)	99.4%	99.5%	99.5%	99.5%	99.5%
Supplementary fund (foreign-domestic)	0.6%	0.6%	0.6%	0.6%	0.6%

Source: CBK (2018)

4.6.4 Financial system network by sectors

Banks, by the end of 2017, exercised their activity in a total of 55 branches and 183 offices within the country's territory (Figure 47). During this year, banks with CBK's approval have opened 2 sub-branches, have relocated 16 branches and offices and have closed 26 offices. The shrinking of the branch and office network is mainly done based on their performance and efficiency assessment as well as due to the expansion of automated services such as e-banking, ATMs, sales terminals, mobile banking etc.

Figure 47. Bank network by number of branches/offices



Source: CBK (2018)

The geographic 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 (35%) where the concentration of the population is also higher (28%), as shown in Figure 48.

Table 8. Geographic distribution of bank branches and offices

Description	Prishtina region		Prizren region		Peja region		Gjilan region		Mitrovica region		Total
	No.	%	No.	%	No.	%	No.	%	No.	%	
2013	102	34%	47	16%	52	17%	62	21%	35	12%	298
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

Source: CBK (2018)

The five-year trend suggests a consistent bank strategy regarding the geographic focus of the bank network, taking into account that there is no significant change over this period in relation

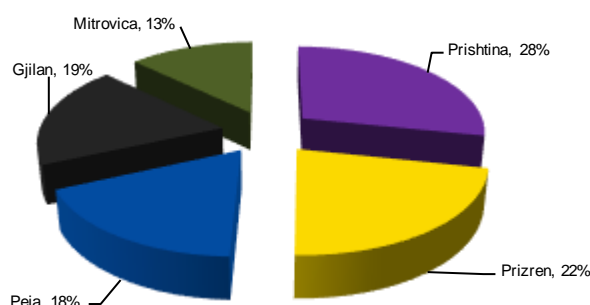
to the percentage of bank branches and offices, despite the changes in relation to number of branches and offices, because the network shrinking has been made in proportional manner in all regions.

Insurers exercise their activity through 88 branches, 380 offices, 534 internal agents and 229 external agents within the country's territory (Figure 49). During 2017, we observed narrowing down of overall network of insurers in the country, with the exception of external agents whose number has increased. The decrease in the number of offices reflects the strategy of insurers to reduce the costs, while the decline in the number of agents, among others, reflects the fact that with the adoption of the Regulation on the Licensing of Insurance Intermediaries, the internal agents of insurers are no longer subject to CBK approval from 15 September 2017.

The geographic distribution of the network of insurers includes almost all of the country's territory, however, it does not match with the geographic distribution of the population.

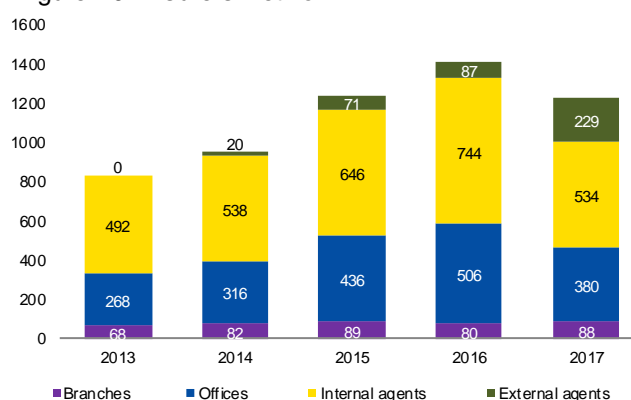
While the largest population concentration is in the region of Prishtina (28%, Figure 48), the largest concentration of the network of insurers is in the region of Peja, which is one of the least populated regions in the country (see Figure 48) and this structure is consistent over the last five years (Table 9).

Figure 48. Distribution of Kosovo's population, by region



Source: CBK (2018)

Figure 49. Insurers network



Source: CBK (2018)

Table 9. Network of insurers by geographical distribution

Years	Prishtina region		Prizren region		Peja region		Gilan region		Mitrovica region		Total
	No.	%	No.	%	No.	%	No.	%	No.	%	
2013	10	16.9%	10	16.9%	15	25.4%	15	25.4%	9	15.3%	59
2014	10	15.9%	10	15.9%	16	25.4%	17	27.0%	10	15.9%	63
2015	15	20.5%	41	56.2%	14	19.2%	7	9.6%	9	12.3%	86
2016	11	15.1%	11	15.1%	21	28.8%	18	24.7%	11	15.1%	72
2017	13	17.8%	11	15.1%	20	27.4%	19	26.0%	10	13.7%	73

Source: CBK (2018)

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

The geographic distribution of microfinance institutions' offices is concentrated in only two regions of the country's territory, specifically in the regions of Prishtina and Peja, after the closure of the last branch/office in region of Prizren during 2017 (Table 10). Microfinance institutions, by the end of 2017, exercised their activity through 118 offices distributed within the

country's territory. During 2017, the opening of 8 offices was approved, as well as the relocation of 8 other MFI offices.

Table 10. Network of MFI by geographical distribution

Description	Prishtina region		Prizren region		Peja region		Total
	No.	%	No.	%	No.	%	
2013	8	57%	2	14%	4	29%	14
2014	7	54%	2	15%	4	31%	13
2015.	7	54%	2	15%	4	31%	13
2016	7	64%	1	9%	3	27%	11
2017	8	73%	0	0%	3	27%	11

Source: CBK (2018)

The geographic distribution of branches and offices of non-bank financial institutions is concentrated in almost the entire territory of the country with the exception of the region of Mitrovica (Table 11). The non-bank financial institutions by the end of 2017 exercised their activity in a total of 719 offices and through agents distributed within the territory of the country.

Table 11. Network of NBFi by geographic distribution

Description	Prishtina region		Prizren region		Peja region		Gjilan region		Total
	No.	%	No.	%	No.	%	No.	%	
2013	16	37%	6	14%	12	28%	9	21%	43
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

Source: CBK (2018)

4.6.5 Licensing activity in the financial system

In the framework of fulfilling the function of licensing and normal functioning of financial activities, the Central Bank of the Republic of Kosovo, pursuant to the requirements deriving from Law No. 03/L-209 on Central Bank of the Republic of Kosovo, Law No. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions, Law No. 05/L-045 on Insurance, Law No. 04/L-155 on Payment System, Law No. 04/L-101 on Pension Funds of Kosovo and the other regulatory framework of CBK, during 2017 handled 745 requests, from which 17 applications for licensing/registration and 728 requests of financial institutions for approval of transactions, which according to the legislation in force, require previous approval of CBK (Table 12), not including: i) handled requests, transferred for decision-making in 2018; ii) expresses of interest for licensing/registration, ii) requests that are assessed but are not subject to CBK approval, and iv) questions, notices and other assessments handled by the Division of Licensing within LSD.

The licensing and registration during 2017 of 17 new institutions to conduct financial activity in the country, which fulfil the licensing criteria set out in the legal and regulatory framework in force, proves the open policy applied by the CBK to foreign investment, without prejudice to legal requirements. During 2017, similar to the previous year, the CBK received mainly requests for registration of MFIs, NBFIs and insurance brokers. Generally, the structure of requests for licensing remains the same; the slight increase recorded compared to the previous year reflects the greater number of requests for registration of NBFIs.

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

Transactions	2016						2017					
	Bank	Pension funds	MF&NBF	Insurers	Insurance intermediaries	Total	Bank	Pension funds	MF&NBF	Insurers	Insurance intermediaries	Total
Applications	0	0	4	0	10	14	0	0	6	0	11	17
Main shareholders and changes in equity	1	0	2	3	2	8	1	0	1	3	1	6
Directors and senior managers	19	0	21	49	12	101	40	0	22	30	3	95
External auditors	10	1	22	15	8	56	10	1	24	16	7	58
Changes in inception and/or status	4	0	5	4	0	13	4	0	4	4	2	14
Income from capital interest and transferring of portfolio	0	0	0	0	0	0	0	0	0	1	0	1
Expansion of financial activities	0	0	1	5	0	6	0	0	0	3	0	3
Opening, moving and closing of branches and offices in the country and abroad	22	0	74	114	6	216	44	0	46	86	6	182
Licensing and registration of agents	0	0	63	176	68	307	0	0	70	61	91	222
Revocation of licensing/registration	0	0	19	0	1	20	0	0	96	0	1	97
Other	40	0	9	1	0	50	40	0	9	1	0	50
Total	96	1	220	367	107	791	139	1	278	205	122	745

Source: CBK (2018)

Within these 17 applications, during 2017 the CBK rendered decisions for approving the registration of “IuteCredit Kosova” J.S.C as micro-finance institution, as well as approved the registration of TimiInvest (with lending and leasing activity), BiCredit (with lending and payment service activity), SaintMatthew Merchant (with payment service activity), Euro Mani SH.P.K., Goni SH.P.K. and Arttin SH.P.K (with currency exchange activity), as non-bank financial institutions. Licenses have been approved for 3 companies carrying out activities of insurance brokerage, as: Pro Insurance Broker J.S.C (Brokerage Company), Premium Broker L.L.C (Brokerage Company) and the activity of insurance intermediation as additional activity was approved for NLB Bank. The rest of applications handled and approved/rejected during 2017 comprise the licensing of 7 individual brokers as insurance brokers for policyholders.

In the licensing process, the CBK paid a special importance to the implementation of basic principles and rules for an accountable and effective management of banks, assessing their organizational structures, management, as well as allocation of responsibilities. Based on the regulation in force, the CBK handled (approved/rejected) the requests of banks for 40 new members of Board of Directors, foreign members (experts) of the Audit Committee, as well as senior managers. Among insurers, the CBK (approved/rejected) 30 members of the Board of Directors and senior managers of insurers. At the same time, the CBK handled (approved/rejected) similar requests also for micro-financial institutions, non-bank financial institutions and insurance brokers. During this period, 25 members of the board of directors and senior managers of micro-finance institutions, non-bank financial institutions and insurance brokers have been approved.

In 2017, two requests (BPB and AGC Faktor) have been approved for the purchase/sale of shares, as well as transfer of shares of IC “Kosova e Re” J.S.C. During this year, 14 requests for change of statute have been approved, 4 of which were from banks, 4 from insurers, as well as 4 from micro-financial institutions and non-bank financial institutions, as well as 2 from insurance intermediary companies.

Handling requests for licensing/registration of individual agents as insurance intermediaries, as well as NBF agents, has been presented in individual transaction in order to avoid possible confusions given their very large number. As it can be seen in Table 12, during 2017 the CBK approved/rejected 222 such requests by licensing and registering agents in the transaction with the highest frequency. However, compared to the previous year, there is a significant decrease of this type of request mainly given the fact that since August 2017, internal agents of insurers are no longer subject to the CBK approval. Similar to the licensing and registering of agents, withdrawal of licensing/ registration of agents is also a high frequency approval request, indicating a volatility of financial system network in relation to agents. In this regard, the same

is suggested even by the data for approval of opening, relocation and closure of branches and offices of financial institutions in the country. During 2017, 182 such requests, mainly of banks, MFIs and NBFIs, have been handled, which in general presents a slight decrease from the previous year; however, in relation to the type of institutions, the number of such requests from banks has doubled and the number of such requests from MFIs and NBFIs has nearly halved.

Even during 2017 the CBK has handled requests for approving periodic transaction requiring the CBK approval according to the legal and regulatory framework in force, as approvals of external auditors for all types of financial institutions.

During 2017, the CBK revoked the licence/registration of Exchange Office "Beni" and N.SH. "Blujona" registered with the CBK as non-bank financial institutions with the activity of currency exchange, as well as "Safe Life" L.L.C. licensed by CBK as agent company.

4.7. Complaints of the users of financial services

The main responsibility of the Complaints Division of Financial Service Users (hereinafter Complaints Division) is the receiving, collation and review of complaints of financial service users.

The Complaints Division aims at implementing and developing policies, best practices for reviewing complaints in terms of customer protection.

Within the duties and responsibilities assigned to its function, the Complaints Division has continued with the implementation of activities foreseen in the 2017 annual plan, where it has almost entirely implemented the annual plan. Even during this year, this division has received, collated and reviewed complaints of financial service users in accordance with the approved regulation, where, apart from general duties and responsibilities, the complaints division continued with regular reporting to the European Commission through the Integration Office at CBK. It reported on the activities for handling complaints of financial service users on a quarterly basis. Also, the complaints division held meetings 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 2017, it has contributed to the following activities:

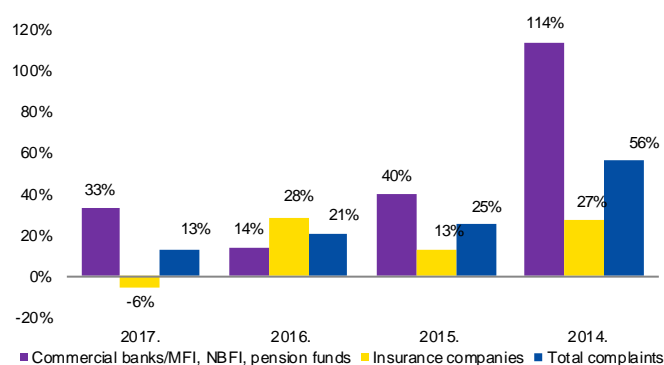
- a) Review of the complaints on a daily basis – the Complaints Division has received, systematized and reviewed complaints on a daily basis by financial service users. All complaints received were reviewed on time, depending on their complexity. Also, the complaints review process has affected the conduct of on-site examinations within Financial Supervision at financial institutions which resulted with administrative measures being taken against financial institutions and has affected the regulation of practices of financial services /products provision.
- b) Complaints report – the Complaints Division maintains a database on the number and type of complaints reviewed, and prepares reports on them upon request. The Division has also started regular weekly reporting of the number of complaints per sector and institutions individually.
- c) Contribution to financial education and consumer protection – during 2017, the Central Bank of the Republic of Kosovo in cooperation with the international organization Child & Youth Finance International Youth, European Fund for Southeast Europe (EFSE) and Kosovo Banking Association, held the third meeting of the Regional Working Group on Financial Education of Young People and Financial Inclusion in South Eastern Europe, where the staff of the complaints division also participated. The Division has also contributed to the round table titled "Draft Law on Consumer Protection" organized by MTI.

During 2017, 602 complaints of financial service users (natural and legal persons) have been reviewed):

a) Total number of complaints against commercial banks, MFIs, NBFIs and pension funds addressed to the CBK for 2017 was 335, 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.

b) The total number of complaints against insurance companies addressed to CBK for 2017 was 267. 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 with the extrajudicial agreements and non-compensation of medical expenses from health insurance.

Figure 50. Number of complaints by years, in



Source: CBK (2018)

Table 13. Number of complaints by institutions

Financial industry	Number of complaints by years			
	2017	2016	2015	2014
Commercial banks/MF, NBF, pension funds	335	252	221	158
Insurance companies	267	283	221	195
Total	602	535	442	353

Source: CBK (2018)

The table above presents the number of complaints reviewed by the complaints division of users of financial services over the years, while in Figure 50 we note an upward trend in the number of complaints over the years.

In 2017, compared to 2016, we have an increase of 13% in the total number of complaints handled (figure 50). Complaints against commercial banks, MFIs, NBFIs and pension funds have increased by 33% in 2017 compared to 2016, while claims against insurance companies marked a negative trend, namely 6% less complaints compared to 2016, as shown in Figure 50.

Table 14. Number of complaints by status of settlement

Financial industry	Number of complaints	Resolved against financial institutions	Resolved against financial Institutions users
Commercial banks/MFI, NBF, pension funds	335	28.66%	71.34%
Insurance companies	267	47.57%	52.43%
Number of complaints	602	37.15%	62.85%

Source: CBK (2018)

The increase in the number of complaints filed by the policyholders, depositors/borrowers and users of all services and products of licensed financial institutions regulated and supervised by the CBK can be clearly seen in Table 14, below. This increase mainly reflects the awareness of

financial users on their right to file a complaint. In Table 14, we note that 37.15% of total complaints have been resolved in favour of financial service users. Regarding industry, it is noted that 28.66% of complaints against commercial banks, MFIs, NBFIs and pension funds have been settled in favour of the parties, while 47.57% of complaints against insurance companies have been resolved in favour of the parties. Mostly, complaints are rejected or not resolved in favour of the parties because they do not have a legal basis for handling.

4.8. Banking supervision

During 2017, as in previous years, a priority was given to the implementation of the annual bank examination plan, by continuing the application of a risk-based supervision approach, by focusing on risk-based bank examination, which has enabled good planning of timing and human resources in examinations. The types of examination were determined in conformity to the risks assessed by the risk matrix and the bank performance monitoring by the CBK.

During 2017, a total of 14 examinations were conducted, of which 2 complete examinations and 12 focused examinations, which shows that the main focus on examinations has been the application of a proactive approach to banks focusing on risks. The on-site examinations were performed by assessing the following issues, such as: risk profile of banks, verification of the status of fulfilment of recommendations deriving from the previous CBK examinations, and by giving relevant recommendations for the implementation. Examination reports were prepared based on the types of bank risks, such as: credit risk, liquidity risk, market risk and operational risk as well as the application of the current rating system.

Also, examinations included assessment of internal controls, compliance with the applicable CBK legal framework, respectively the compliance with banking regulations, best banking practices, assessment of the capital, assessment of policies and procedures, management, earnings and examination of the field of information technology. Even during 2017, the credit risk continues to be the main risk within the banking sector. From the examinations conducted, it results that banks are sound and stable, and generally have been in compliance with CBK legal framework.

During 2017, the banking sector continued with the further development of electronic client service delivery channels, which continue to be associated with an increasing degree of exposure to operational risk.

Banks are observing regulatory requirements that are set out in the Regulation on Operational Risk Management, by focusing on the further development of their systems for better management of operational risk, which shows increased risk awareness.

In 2017, during bank examinations, in accordance with the objectives of the examination was also examined the field of operational risk in banks, by focusing on the assessment of this risk, the manner of its management, the status of fulfilment of recommendations from previous CBK examinations, and were provided relevant recommendations for implementation. The examinations found that the banks have taken measures to address the recommendations of the preliminary examination and in reducing the operational risk.

During the examinations in banks, it was also examined the field of information technology, by focusing on the bank's risk assessment in this field, the overall security of information technology systems, and the creation and compliance of security measures of information technology systems, the status of meeting the recommendations from the CBK's preliminary examinations for this field. Based on the assessment of the examination for this field, were also given the respective recommendations for implementation.

4.9. On-site insurance supervision

In accordance with the CBK objectives, namely ensuring the sustainability of the insurance market and the protection of policyholders, the CBK during 2017 has continued its activity by consistently conducting on-site examinations of insurers, such as complete and focused examinations, as well as ad-hoc examinations of insurance companies and insurance intermediaries. The purpose of the examinations was to assess the overall situation of the respective institutions in relation to compliance with CBK laws and regulations, in order to protect policy holders and maintain 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, claims of policyholders in 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.

As a result, in 2017, a total of 16 examinations were conducted, of which eight were complete examinations and eight were focused examinations.

The purpose of complete examinations was to assess the general state of the insurers, including assessment of the effectiveness of the functioning of internal controls, implementation of recommendations from past examinations, compliance with the CBK laws and regulations, evaluation of management and supervision of the companies by governing bodies, practices of the insurers, evaluation of policies and procedures for risk management, all this in function of protecting the policyholders and maintaining the financial stability of insurers.

On the other hand, the eight focused examinations resulted from legislative amendments and regulatory oversight, which were carried out with a focus on assessing the implementation of the Regulation for sale of compulsory motor liability insurance and the management of insurers' expenses, which entered into force on January 2017.

On-site examinations of insurers have, in some cases, identified non-compliance with the CBK legal framework as well as unsound practices, such as: lack of active governing role of the companies' governing board, lack of an effective system of internal controls, poor level of internal audit, delays in treatment and payment of claims and the high number of pending claims, non-compliance with the international standards for some positions in the financial statements, poor and unsound practises of company's assets management, deficiencies and poor practices of transactions with related parties, underestimation of technical reserves etc. Also, based on regular reports of insurers to the CBK were identified cases of non-compliance with legal requirements in relation to the minimum level of capital and assets for covering technical provisions.

For all conducted examinations were prepared reports, wherein were raised and addressed issues identified during the examination, along with the relevant recommendations. The companies in question have continued to report on a monthly basis to the CBK for taking the necessary actions for elimination/correction of deficiencies identified in the CBK examination reports.

Also, as a result of findings from the conducted examinations and not good financial performance, the CBK issued decisions in which it imposed administrative measures in line with applicable legislation.

4.10. Supervision of microfinance and non-bank financial institutions

The supervision conducted in microfinance institutions and non-bank financial institutions has focused on increasing the accountability of such institutions in the implementation of adequate operational practices. In this regard, during 2017, a supervision was carried out where the objective of the examinations was mainly the risk management assessment, compliance with CBK legislation and their internal policies, as well as the status of fulfilment of the recommendations from preliminary examinations of CBK, thus providing relevant recommendations for implementation.

Also, during the examinations in microfinance institutions and non-bank financial institutions, information technology was also examined, assessing the risk in the field of information technology, with particular focus on the overall security of Information Technology Systems and the creation and completion of the security measures of the IT systems.

Based on the given space allocated to the examination of microfinance institutions and non-bank financial institutions during the period of 2017, eight (8) institutions, respectively six (6) non-bank financial institutions and two (2) microfinance institutions were examined, where some of them were accompanied by decisions on administrative measures. In addition to performing the full examinations mentioned above, focused examinations were also carried out in thirty-two currency exchange bureaus. As a result of the examination carried out in the currency exchange bureaus, an action was taken to withdraw the registration of two currency exchange bureaus.

Moreover, as a result of the on-site examination, a non-bank financial institution has increased its capital and as such it resulted in complying with the applicable regulations in CBK.

Based on relevant examinations carried out in microfinance institutions and non-bank financial institutions, it has been noted in general that such institutions have made progress in enforcing the regulations in force as well as strengthening the risk management.

Consequently, the positive reflections in their position in conformity with the applicable regulations, as well as the other progress highlighted above with regard to the microfinance and non-banking industry, are an indicator of the CBK's successful steps towards adequate oversight and pro-active approach.

4.11. Supervision of pensions and securities market

The pension system during 2017 continues to have the same number of operators. In the pension industry, there were two pension funds in operation, which administered the pension assets, respectively the Kosovo Pension Saving Fund established by the Kosovo Assembly with an exclusive mandate to administer compulsory pension contributions (second pillar) and Slovenian-Kosovo Pension Fund, licensed by the Central Bank of the Republic of Kosovo to administer only voluntary pension funds (third pillar).

Pension system in Kosovo continued to grow in 2017, while maintaining the sustainability of constituent components, pension savings security, investment diversity, positive return on investment and liquidity.

Total assets of the pension system in 2017 amounted to euro 1,653 million or an increase of 16% compared to 2016. The asset growth is attributed mainly to the increased unit price in global markets during 2017. In the growth of pension assets in 2017, the main contribution was provided by KPSF with euro 1,646 million or 99.56%, followed by the SKPF with euro 7.325 thousand or 0.44% of total pension assets.

Compulsory contributions, respectively second pillar pension funds, remain the main source of funding in the pension sector. In addition, compulsory contributions are under the exclusive management of the KPSF, accounting for 99.56% of total liabilities of the pension sector, followed by SKPF with 0.44% of total liabilities of the pension sector, with voluntary contributions, respectively the third pillar.

The gross return on investments in the pension sector during 2017 is attributed to the KPST with euro 102,558 thousand, followed by the SKPF with euro 535 thousand.

The main contributors to this KPSF and SKPF investment performance were investments in the financial market outside Kosovo, contributing to a large degree also in the total return from investments.

4.11.1 Pension Assets of Pension Funds

4.11.1.1 Kosovo Pension Saving Fund

The Pension Assets under the management of KPSF, by the end of 2017 amounted to euro 1,646 million. In 2017, assets under management have increased by euro 227 million or 16%, while in the previous year assets under management have increased by euro 189 million. It is worth mentioning that since the establishment of the KPSF until the end of 2017, pension assets have marked a steady growth.

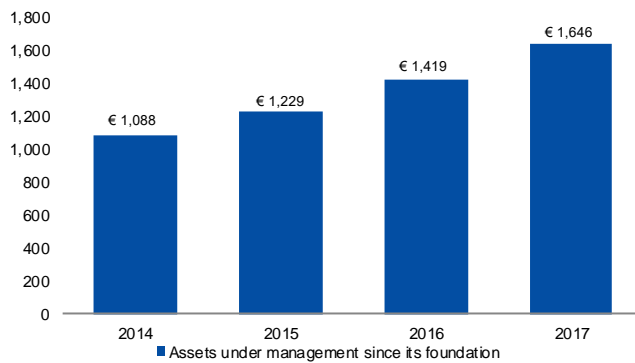
Over the thirteen years period, a more pronounced increase was recorded in the period 2014-2017, in the amount of euro 558 million, followed by the period 2010-2013, in the amount of euro 418 million, while the preliminary period 2006-2009 recorded an increase of euro 166 million.

4.11.1.2. Performance of return on investment under the management of KPSF

Investment performance for Pension Assets under the management of KPST, since its establishment until 2017, is considered optimal performance of return on investments, which was mainly realized through exposure to the stock market in developed countries. The good performance of global financial markets and investments in the securities market in Kosovo has enabled a gross return on investments in the last three years in the amount of euro 197 million.

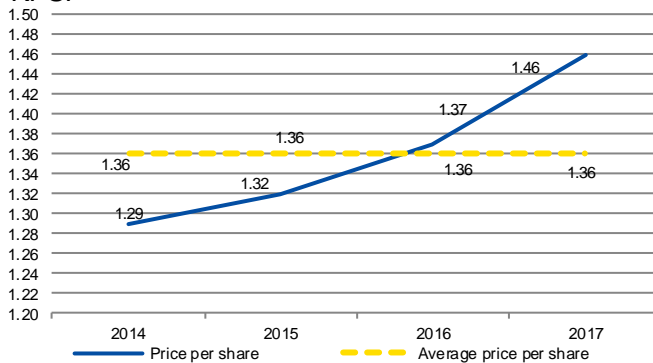
The value of the unit price of KPST, on 31 December 2017 amounted to euro 1.4648, by recording an annual growth of 6.48% compared to the previous year.

Figure 51. Assets under KPSF management, in millions of EUR



Source: CBK (2018)

Figure 52. Price and average price per share of KPSF



Source: CBK (2018)

4.11.2 Slovenian – Kosovo Pension Fund

Pension assets under the management of SKPF, since its establishment until 2017, amount to euro 7,326 thousand.

During the nine-year development period, the most significant increase was recorded in the period 2010-2013 amounting to euro 2,087 thousand, followed by the period 2014-2017, amounting to euro 1,839 thousand.

4.11.2.1 Return on investment performance under the management of SKPF

Investment performance for pension assets managed by SKPF, since its establishment until 2017, is estimated to be a good return on investments performance, which was mainly realized through investments in global financial markets. The global financial markets performance of gross return on investment in 2017 was euro 713 thousand.

The value of the unit price of SKPF, as of December 31, 2017 amounted to euro 1.65, marking an annual growth of 4.5%.

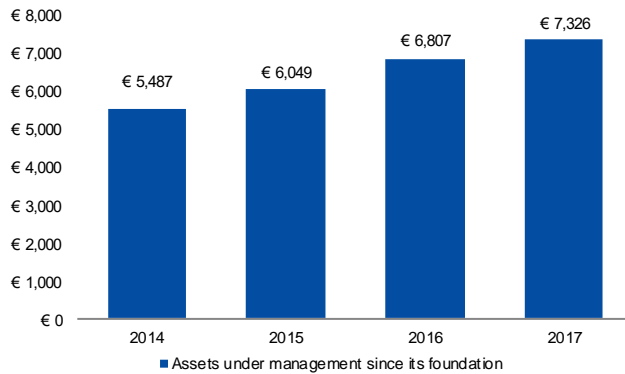
4.11.3 Collected contributions and contributors' accounts in the pension system

Collected contributions and contributors' accounts in the pension industry continued to grow at a fairly satisfactory percentage.

During 2017, collected contributions reached the amount of euro 161 million, which compared to the previous year is an increase of euro 8 million or 5.5 percent. The main contributor to the increase of pension contributions collection was KPST with euro 160 million or 99.5%, followed by SKPF with 0.5%.

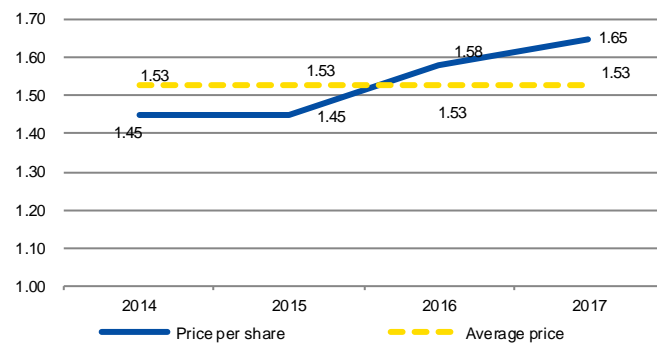
Net pension assets under the management of pension funds operating in the Kosovo market, as of 31 December 2017, amounted to euro 1,653 million, recording an increase of euro 227 million, or 16%. While the

Figure 53. Assets under SKPF management, in thousands of EUR



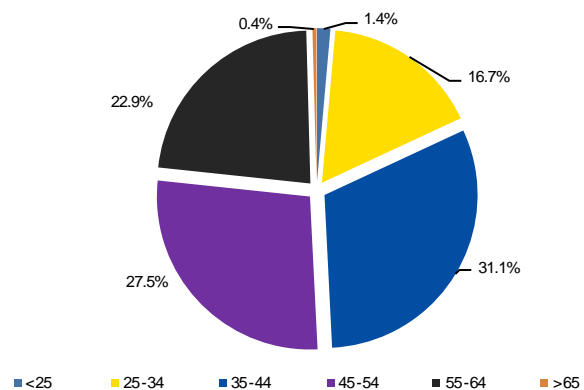
Source: CBK (2018)

Figure 54. Price and average price per share of SKPF



Source: CBK (2018)

Figure 55. Share of contributors by age, net assets



Source: CBK (2018)

number of contributors in 2017 reached 595 thousand contributors, which represents an increase of 9.1% compared to the previous year.

The structure of pension assets distributed by age group of pension contributors is considered to be highly conducive to the development of long-term investment policy.

As of December 31, 2017, the share of contributors by age, in net assets is represented as follows: the age group up to 25 years represents the amount of euro 23 million or 1.4%, followed by the age group of 25-34 years, amounting to euro 273 million or 16.7%, whereas the age group of 35-44 years represents the amount of 510 million or 31%, the age group 45-57 reaches euro 450 million or 27.5%, whereas the age groups 55-64 represents the amount of euro 375 million or 23%, while age groups over 65 years represent the amount of euro 7 million. Distribution by age group reflects a good structure reflecting multilevel in the capacity building of all stakeholders from these financial means.

4.11.4 Pension Fund Investment Structure in the Pension Sector

Investments abroad dominate the structure of assets in the pension sector. As of December 31, 2017, investments abroad had a share of 89.79% in total assets. The remaining consists of investments in Treasury bonds of the Government of Kosovo with a share of 8.88% of total assets, as well as cash in CBK and commercial banks, with a share of 0.84% of the total assets of the pension sector.

Pension assets invested in Kosovo are dominated by investments in instruments issued by the Treasury of the Republic of Kosovo.

Share of Pension Funds in Government Securities Market, as of December 31, 2017- the KPST share in Government Securities was at a nominal value of euro 103,130 thousand or 17.94%, while the SKPF share was euro 970 thousand or 0.16%.

4.11.5 Pension Sector Investment Strategy

During 2017, pension funds have conducted the investment process in harmony and full implementation of the provisions of the law in order to maximize return on investment, and to the benefit of contributors and beneficiaries.

Within the pension industry, pension savings investments have been realized based on the basic principles of pension assets security, diversification of investments, maintenance of maximum returns for the level of risk undertaken, and maintenance of adequate liquidity.

Figure 56. Investments structure of pension funds

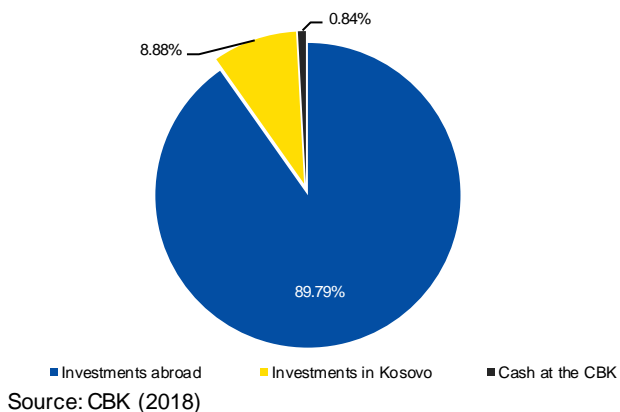
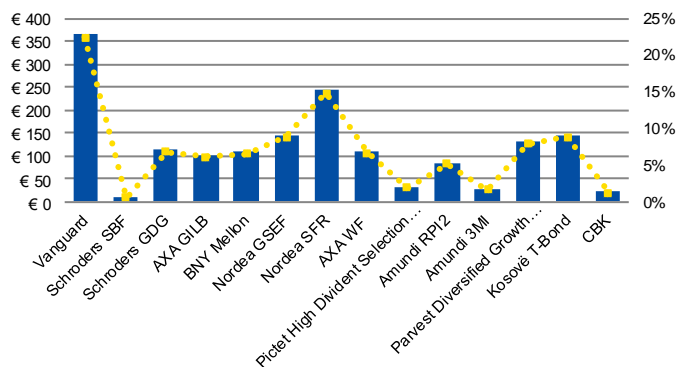


Figure 57. Assets allocation by asset managers, in millions of EUR



It is worth mentioning that the KPST in implementing the diversified policy / strategy has added new investment funds. The investment strategy through the new framework has applied the determining of minimum and maximum limits that defines the limits of asset allocation by class and investment strategy of pension assets under the KPST administration.

Table 15. KPSF Pension Asset Allocation Limits

Limits of allocations by investing strategies		Limits of allocations by investing strategies	
Drejtimitoret	24% - -60%	Shares	27% - 56%
Managed risk	32% - -68%	Multi assets	25% - 55%
Income	10% - 25%	Debt instruments (bonds loans)	7% - 34%
		Cash trade and Kosovo's Treasury	1% - 12%

Source: CBK (2018)

An important challenge of the investment strategy remains the assessment of the areas for more investment risk growth/decline, by setting the investment limits in the "managed risk" strategy and the "return / dividend" strategy, i.e. high risk investment.

Whereas the Slovenian-Kosovar Pension Fund has all the pension assets invested through a single investment fund.

4.11.6 On-site examinations of pension funds

In view of maintaining the stability of the financial sector, during 2017 were conducted complete examinations on pension funds in accordance with the annual plan. Pension supervision has been consistent with international practices in the respective field, supporting a risk-based approach. Special emphasis has been paid to funds administration, investment strategy, and effectiveness of internal controls, maintaining adequate liquidity and other risks.

During 2017, Pension Supervision conducted 2 complete examinations on pension funds, in order to apply more close supervision of funds. On-site examinations of funds were carried out in accordance with the 2017 annual plan, aiming at assessing the overall state of pension funds, namely the assessment of the governance of the funds, policies and procedures, management, investment performance, efficiency of the functioning of internal controls, implementation of recommendations from past examinations, and compliance with CBK laws and regulations.

In addition, the on-site examinations included the assessment of internal controls, compliance with the applicable CBK legal framework, respectively compliance with pension fund regulations, policy and procedures assessment, management, pension assets performance, and examinations of the information technology field.

During the examination of pension funds, the examination of the information technology field has been carried out, focusing on the risk assessment of funds in this field, the overall security of information technology systems, and the creation and completion of security measures of the technology information systems. Based on the examination assessments for this field, the respective recommendations for implementation were also given.

For all the examinations, reports have been prepared in which the issues identified during the examination have been raised and addressed, together with the relevant recommendations.

4.11.7 Development of legal-regulatory framework

In order to advance the legal framework in the area of the pension system, the Central Bank of the Republic of Kosovo has further strengthened the regulatory and supervisory framework. In this regard, certain regulations on the supervision of pension funds have been finalized and approved, which regulate the oversight of the respective functions, and the requirements of the Law on Kosovo Pension Funds, which derived from the last amendment.

Also, during 2017 the "Law no. 05/L-116 on amending and supplementing the Law no. 04/L-101 on Kosovo Pension Funds has entered into force, as amended and supplemented by Law no. 04/L-115 and Law No. 04/L-168, Official Gazette of the Republic of Kosovo/ no. 3/17 January 2017."

4.11.8 Transparency and public relations in the pension system

In terms of transparency to the public, Kosovo Pension System develops a genuine information process, followed by timely updates. During 2017, the pension industry continued its commitment to public transparency and relations.

In accordance with the Law on Pension Funds of Kosovo and CBK regulations, pension providers publish/offer public access to key information on pension fund operations to the public. Contributors and the general public, on a quarterly basis, are informed by quarterly published reports on the last statement on investments for the quarter covered, information on the share price, and information on the assets under management.

In addition, contributors can at any time access the online pension savings account through relevant websites, to view the balance of the account, receive information on the contributions paid on his/her behalf, update contact notes, such as marital status and ethnicity, update demographic records, such as address, phone number, select the method of accepting the individual statement as well as other services and information.

Information is provided in the official languages according to the Kosovo Constitution, providing easy access also for non-majority communities.

4.11.9 Membership in international organizations

The Central Bank of the Republic of Kosovo is a member of the International Organisation of Pension Supervisors (IOPS). CBK continuously supports its staff in participating in activities organized by the International Organization of Pension Supervisors. Participation in these activities consists in expanding and deepening cooperation with other relevant organizations and pension supervisory authorities by exchanging experiences and professional knowledge while attending conferences and seminars organized by IOPS.

4.12. Prevention of Money laundering

Annual Report 2017 presents the sector's state of play, namely the situation of banks, microfinancial institutions and non-banking financial institutions along with the measures taken in the field of preventing money laundering and financing of terrorism.

During 2017, the Division for Prevention of Money Laundering (PML), regarding its operation and performance of activities in fulfilling its operational mandate, had as a referral point for its activity the Strategic Plan of the Central Bank of the Republic of Kosovo, the annual plan for

financial supervision, the annual plan and the strategy and action plan of the Division for Prevention of Money Laundering.

Since the new Law on Prevention of Money Laundering and Combating Terrorism Financing and the Regulation are already in force, in view of a more effective implementation in practice, it has been estimated as necessary to analyse the need of issuing instruction acts by the Division. Following the finalization of the Regulation on Money Laundering Prevention and Terrorism Financing, in 2017 two other sub-legal acts, respectively two instructions were drafted: 1) Instruction on filling in the declaration of the source of funds and 2) Instruction on identification of beneficial owners.

During 2017, the Division has managed to carry out the technical adaptation with the payment systems managed by the Central Bank, through which this division created the platform and database by generating, analysing and monitoring as needed, the categories of certain transactions estimated with potential risk.

The fulfillment of this objective has implied increased cooperation with divisions and other departments that are not part of the financial supervision and adoption of the information technology systems.

14.12.1 Supervision of financial institutions from PML perspective

The on-site supervision of financial institutions was focused in protecting their systems, through the implementation of standards and legislation to prevent and combat Money laundering and terrorism financing. The Division's main focus within this reporting period was to carry out the examination of banks and financial institutions in the field of PML/FT. These activities are foreseen even without the division's strategic plan and the main purpose was to obtain on-site information regarding the level of measures that financial institutions have undertaken to prevent Money laundering and terrorism financing.

During 2017, a total of 10 examinations were carried out in the field of prevention of money laundering. Examinations have included banks, microfinance institutions and non-banking financial institutions. In this regard, examinations of 6 banks, 2 microfinance institutions and 2 non-banking financial institutions were carried out. (NBFI).

Due to the implementation of a considerable number of examinations, this year, the follow-up of recommendations and their fulfillment by the financial institutions examined has intensified. Follow-up of recommendations and measures was identified through evaluation forms (tables), which were an integral part of the subsequent activity of each examination. In this regard, within 2017, the division received 20 feedback from financial institutions, of which 13 were from banks and the rest from non-banking financial and microfinance institutions. In analysing the content of this feedback, a focus is noted on the structure and appointment of compliance officers, as this was a new legal requirement and banks undertook the most steps in this regard.

Key points of assessment during respective examinations at financial institutions were legal and regulatory obligations and responsibilities of financial institutions, aiming at preventing money laundering and terrorist activities financing according to the best standards and best practice in the field. Banks have developed policies and procedures that create opportunities for effective measures in PML/FT. Foreign-owned banks have created these policies and procedures also with the help of parent banks, which have been approved by the board of directors. Examined financial institutions have continued undertaking measures to increase human and technical capacity within the institution by recruiting special staff for compliance with PML/FT and making it significantly independent from the internal control function. Measures undertaken and activities, this year the division has received proactively from banks on a continuing basis.

Also, financial institutions have undertaken significant measures toward increased monitoring efficiency, customer identification procedures and opening new accounts and defining the beneficial owner.

14.12.2 Internal and external co-operation

In addition to the internal activity to strengthen the supervision of the PML/FT in the financial sector, the division has also carried out co-operation activities with authorities and other institutions outside the CBK. Inter-institutional cooperation is also one of the strategic objectives of Division's and Financial Supervision annual plan, where various activities have been marked within this period.

Special Inter-institutional Cooperation is highlighted with the Financial Intelligence Unit, towards drafting various sub-legal acts in the area of PML/FT and in terms of exchanging information of interest, in accordance with the agreement in force on bilateral co-operation. The PML Division has also represented the CBK in various projects regarding the presentation of achievements in terms of strengthening the supervision of PML/FT. In this regard, the PML Division reported on a quarterly basis to the National Coordinator against Economic Crime and to the Secretariat of the National Strategy against Organized Crime.

The Division for Prevention of Money Laundering was also an active part of the project funded by the European Union and the Council of Europe, "The Project Against Economic Crime", which in cooperation with other law enforcement institutions such as Kosovo Police, Financial Intelligence Unit, Prosecution, Tax Administration of Kosovo, Kosovo Customs etc., provided its input on a continuous basis whenever required.

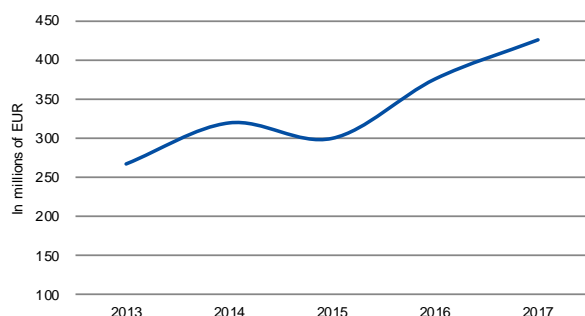
5. Services provided to the authorities, the financial community and the public

5.1. 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 2017 as in the previous years were related to euro currency since this is the official currency used in Kosovo.

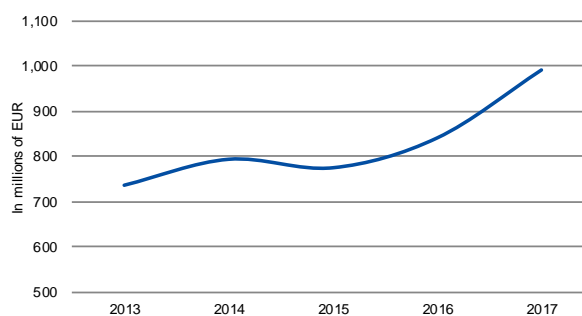
During 2017, CBK provided a quantitative and qualitative offer of euro banknotes and coins for the banking sector for the purpose of transactions settlement in cash of economy and citizens. Consequently, the function of providing an adequate supply of banknotes and coins for the cash transactions in the economy has been successfully fulfilled by the CBK.

Figure 58. Supply with cash (value), in millions of EUR



Source: CBK (2018)

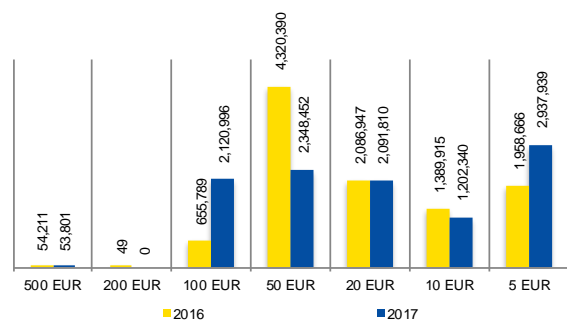
Figure 59. Cash admission (value), in millions of EUR



Source: CBK (2018)

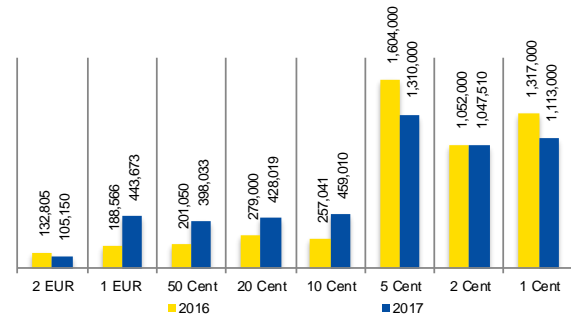
The total value of cash supply in 2017 increased by 13.6 percent compared to 2016. Structure of cash supplied by denominations, which is primarily determined by the banking sector requirements, did not show any significant changes from 2016 to 2017. Regarding euro banknotes, volumes of request for supply during 2017 marked an increase of 2.8 percent compared to 2016 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 2017, requests for volumes of denominations in the value of 100 Euros increased significantly compared to the previous year, while the request for denomination volume in value of 50 Euros marked a slight decline.

Figure 60. Supply with EUR banknotes, by denominations (number of pieces)



Source: CBK (2018)

Figure 61. Supply with EUR coins, by denominations (number of pieces)



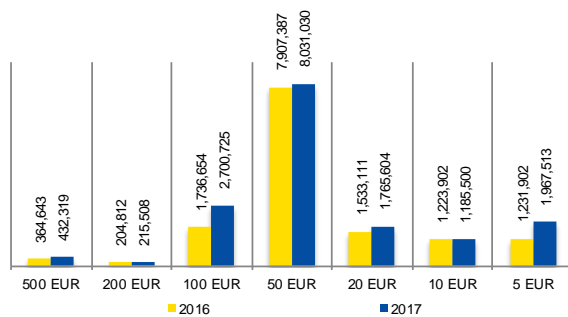
Source: CBK (2018)

As shown in figures below, during 2017, CBK supplied banking sector with approx. 10.8 million pieces of euro banknotes (in the amount of approx. euro 425 million) and over 5 million pieces of euro coins (in the amount of about euro 1.1 million).

Volumes of requests for supply of coins in 2017 marked an increase of about 5.4 percent compared to 2016. Requests for the supply of euro coins, in 2017, same as in 2016 was mainly dominated by small-value coins from 1 to 5 euro cents. The volumes of requests for supply with small denominations in the value of 5 euro cent, 2 euro cent and 1 euro cent, during 2017, 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.

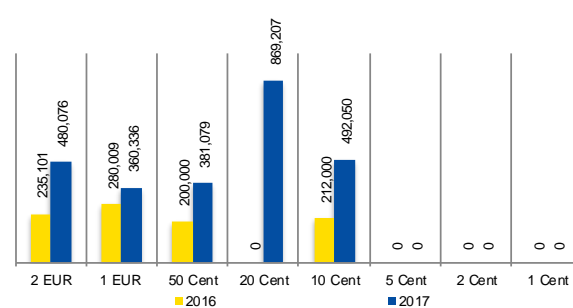
The total value of cash received as deposits marked an increase of 17.9 percent in 2017 compared to the previous year. CBK received around 16.3 million pieces of euro banknotes (on average about 65,000 pieces of banknotes per day) and about 2.6 million pieces of euro coins (on average about 10,000 pieces of coins per day) as cash deposits from the banking sector. Expressed in value, these deposits reached approximately the amounts of 987.9 million Euro banknotes and 1.7 million Euro coins, respectively. The structure of euro banknotes received during 2017, as seen in figure below, did not have any major difference from the previous year, while the structure of received coins during 2017 marked an increase for denominations of coins of 20 cents compared to previous year.

Figure 62. EUR banknotes received, by denominations (number of pieces)



Source: CBK (2018)

Figure 63. EUR coins received by denominations (number of pieces)



Source: CBK (2018)

During 2017, similar to previous years, net deposited cash¹² were in higher value than the supplied cash. In fact, reaching about euro 567.7 million, such a change was higher than in the previous year which was approximately euro 468 million. This increase was mainly due to the increase of deposit from the banking sector.

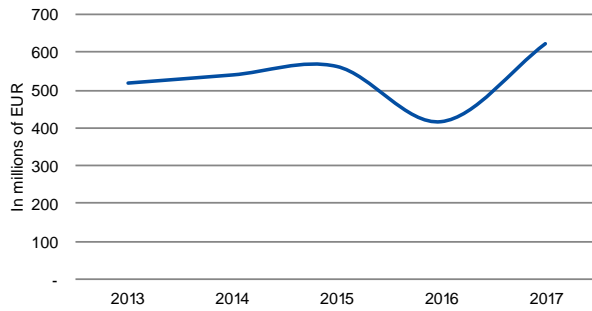
Since CBK keeps only the optimum required level of cash, to perform operations, the surpluses are sent in the Euro area, which then are used for international payments, and through investments are returned to interest-earning assets. Cash net remittances¹³ abroad in 2017 amounted to euro 529.8 million, namely 61.6 percent higher than the previous year when they were euro 327.8 million. This increase in net remittances in 2017 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.

Cash operations continued to be carried out through modern processing equipment and in accordance with the standard rules and procedures. All cash received by the commercial banks and other institutions were processed (nearly 16.3 million euro pieces of euro banknotes and 2.6 million euro pieces of euro coins) and were classified according to the level of adequacy.

¹² Deposits minus cash withdrawals.

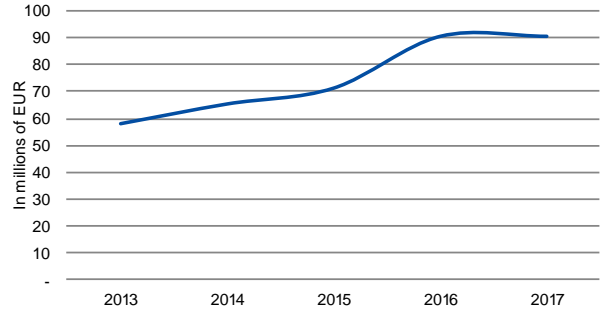
¹³ Imports minus Exports of cash.

Figure 64. Export of cash (value), in millions of EUR



Source: CBK (2018)

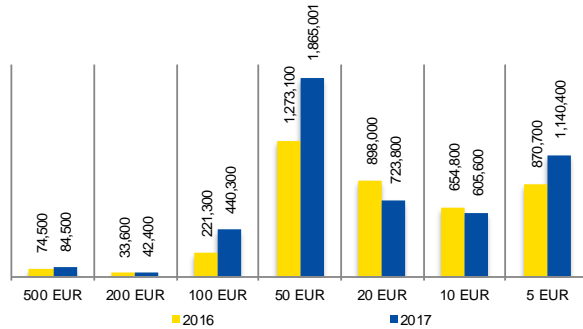
Figure 65. Import of cash (value), in millions of EUR



Source: CBK (2018)

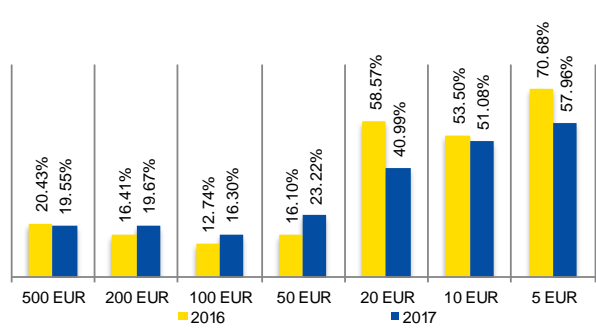
Approximately 4.9 million pieces of euro banknotes (30.1 percent of total euro banknotes deposited by the banking sector) during 2017 were classified as unfit for recirculation (highly outdated/damaged) and were removed from circulation and sent to euro area banks. Such a considerable volume of unfit 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 88.4 percent of unfit banknotes for recirculation due to their higher rate of circulation from hand to hand by citizens.

Figure 66. Outdated banknotes withdrawn from circulation (number of pieces)



Source: CBK (2018)

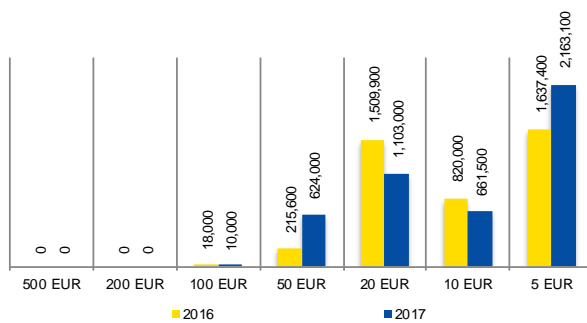
Figure 67. The ratio of outdated banknotes withdrawn from circulation to total received ones



Source: CBK (2018)

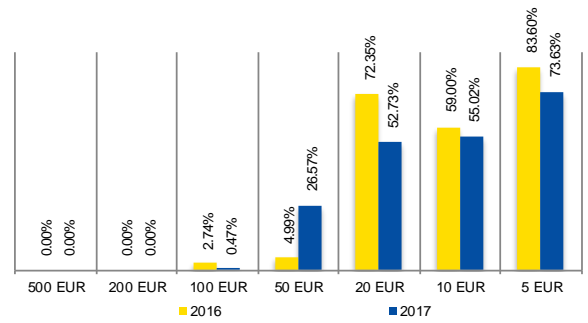
Quality of cash in circulation was also improved through the supply of banking sector with completely new euro banknotes, which were brought from the euro area. During 2017, CBK supplied the banking sector with more than 4.5 million pieces of new euro banknotes (42.4 percent of the total supplied euro banknotes).

Figure 68. Supply with new EUR banknotes (number of pieces)



Source: CBK (2018)

Figure 69. The ratio of new banknotes induced into circulation to total supplied ones

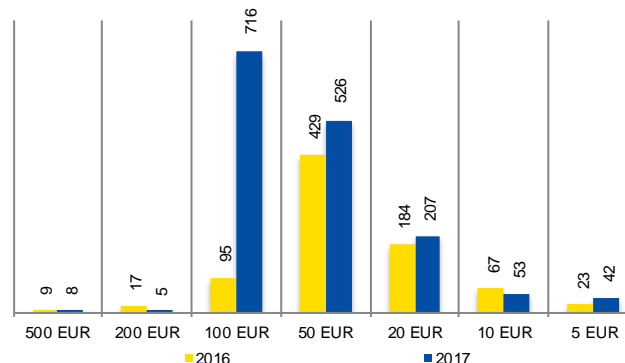


Source: CBK (2018)

Around 86.1 percent of new banknotes supplied during 2017 were low denomination banknotes (20, 10 and 5 euro), with which were mainly supplied the commercial banks for the purpose of equipping their ATMs. Then, also all used supplied euro banknotes were of a high quality standard (appropriate quality for recirculation).

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 website¹⁴ 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 70. Counterfeit banknotes seized in Kosovo (number of pieces)



Source: Kosovo Forensic Agency (2018)

5.2. 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. In 2017, similar with the previous years, these services consisted primarily on maintenance of accounts and payment transactions.

Table 16. Amount of transactions by main types of payments (in thousands of EUR)

Type of transactions	2013	2014	2015	2016	2017
Transactions with cash	+470,786	+475,752	+476,310	+467,362	+563,570
Deposits with cash	737,524	794,989	776,195	842,240	989,618
Cash withdrawals	266,738	319,237	299,885	374,878	426,048
Domestic transfers	+581,797	+839,345	+942,520	+1,041,198	+1,131,645
Incoming domestic transfers	1,554,535	1,615,753	1,677,024	1,712,605	1,861,640
Outgoing domestic transfers	972,738	776,408	734,504	671,407	729,995
International transfers	-321,676	-714,099	-441,312	-580,656	-432,050
Incoming international transfers	653,710	404,473	538,375	970,941	1,081,879
Outgoing international transfers	975,386	1,118,572	979,687	1,551,597	1,513,929

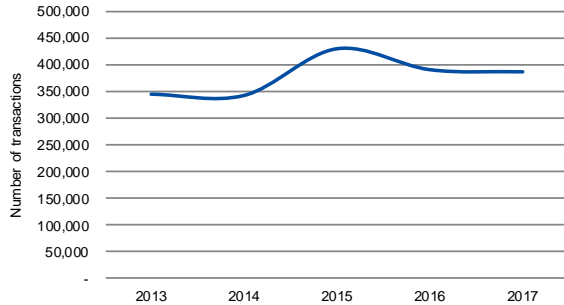
Source: CBK (2018)

CBK supported the advancement of transaction processes and agreements of the Ministry of Finance and Privatization Agency of Kosovo. Forms of payment and ways of communication are adapted to their requirements. It is worth mentioning the full digitalization of international order transfers of the Ministry of Finance. During 2017 all international payments were realized through SWIFT network whereas all domestic payments were realized through the ATS system, and thus shortening the time and increasing the processing efficiency.

¹⁴<http://bqk-kos.org/?id=31>

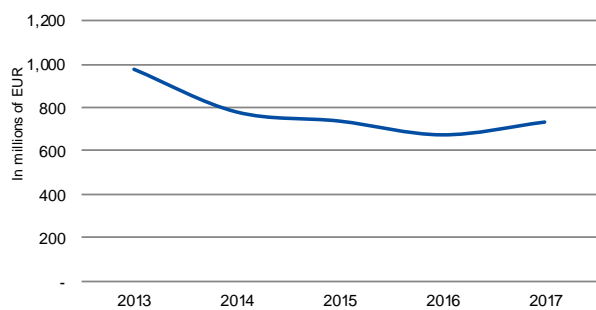
While most of cash operations of the CBK in 2017 were carried out on behalf and for the benefit of commercial banks, most of domestic payments of the CBK are conducted on behalf and for the benefit of the Treasury¹⁵.

Figure 71. The volume of domestic outgoing transactions



Source: CBK (2018)

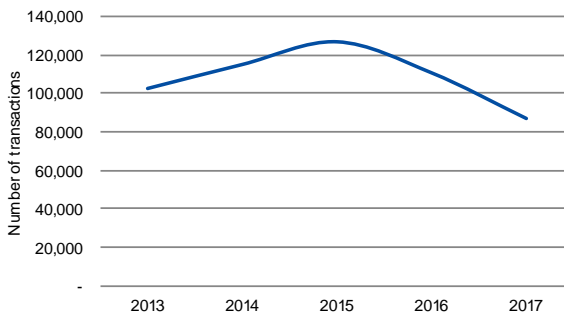
Figure 72. The value of domestic outgoing transactions, in millions of EUR



Source: CBK (2018)

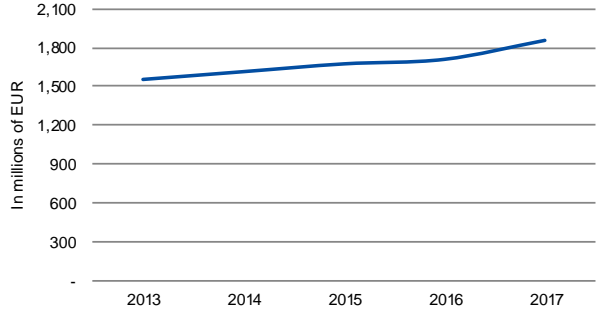
CBK has processed on behalf of its clients over 386 thousand domestic outgoing payment orders (a decrease of 1% compared to the previous year), and has received on their account close to 87¹⁶ thousand incoming payment orders (a decrease of 21 percent compared to the previous year).

Figure 73. The volume of domestic incoming transactions, number



Source: CBK (2018)

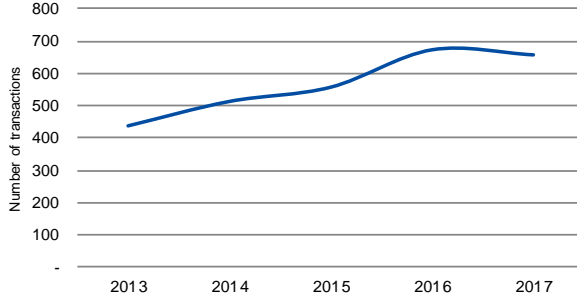
Figure 74. The value of domestic incoming transactions, in millions of EUR



Source: CBK (2018)

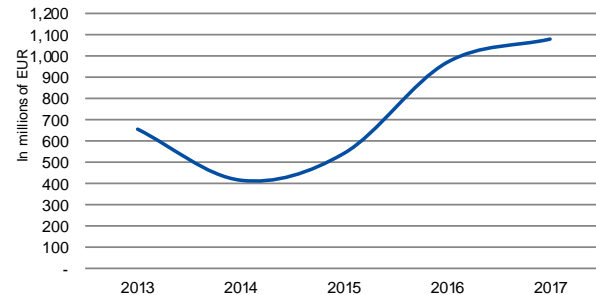
Expressed in value, domestic outgoing payment orders amounted to over euro 730 million (an increase of 8.8% compared to the previous year) and domestic incoming payment orders amounted to over euro 1.86 billion (an increase of 8.7 percent compared to the previous year).

Figure 75. The volume of international incoming transactions, number



Source: CBK (2018)

Figure 76. The value of international incoming transactions, in millions of EUR



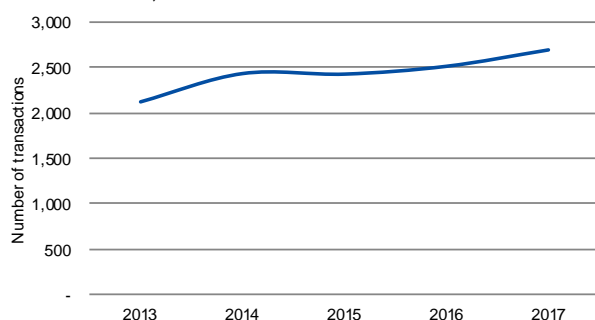
Source: CBK (2018)

¹⁵ Treasury– Ministry of Finance

¹⁶ Most of the incoming payments with the implementation of ATS are accepted by the CBK as grouped payments

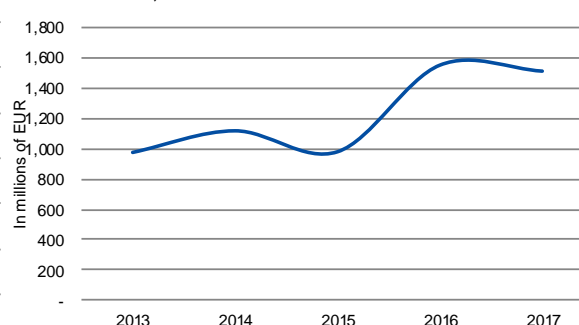
The largest number and amount of domestic transactions was conducted by the CBK by order of and for the Treasury.

Figure 77. The volume of international outgoing transactions, number



Source: CBK (2018)

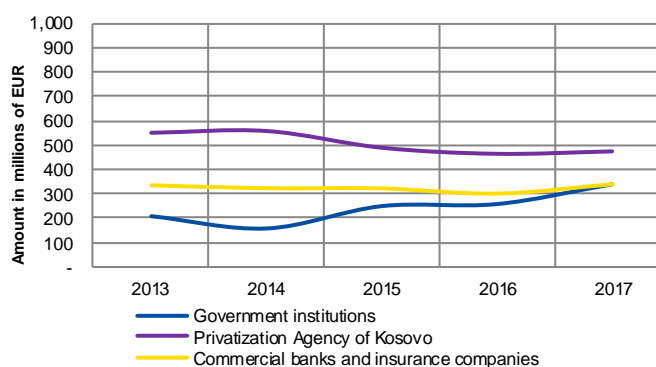
Figure 78. The value of international outgoing transactions, in millions of EUR



Source: CBK (2018)

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 accountholders of CBK use payment services provided by the CBK in a limited way, since all of them have accounts in commercial banks. 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 79. Deposits trend of CBK main clients, in millions of EUR



Source: CBK (2018)

As of 31 December 2017, deposits of the institutions of the Government of Kosovo amounted to euro 339.9 million, whereas those of the PAK amounted to euro 471.3 million. Together, the deposits of the Kosovo Government institutions and PAK accounted for about 65.4 percent of the total deposits held at the CBK at the end of 2017.

Table 17. Level of deposits of the key costumers (in thousands of EUR)

Accounts statement	2013	2014	2015	2016	2017
Total	1,324,296	1,082,519	1,135,559	1,074,458	1,239,730
Government institutions	206,838	155,481	248,780	257,393	339,906
Privatization Agency of Kosovo	550,328	557,801	486,819	460,961	471,299
Commercial banks and insurance companies	332,798	321,670	320,934	301,051	336,732
Other	234,332	47,567	79,025	55,053	91,793

Source: CBK (2018)

Among other account holders, commercial banks and insurance institutions 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 claims and obligations. They

accounted for 27.2 percent of total deposits held at CBK by the end of 2017. As of 31 December 2017, commercial bank and insurance company deposits amounted to euro 336.7 million.

5.3. Payment system

In view of the further advancement of the payment system and continuous improvement of services as one of the CBK's primary objectives, during 2017, it has been continued with the development of the regulatory framework, based on the applicable standards in the European Union, as well as the advancement of the operational processes, in order to increase the efficiency of the payment system.

During 2017, the new payment system has been fully functionalized, which started implementation in July 2016. The new system has been characterized by high reliability, security and efficiency, which has enabled timely clearing and settlement of all transactions.

In the framework of strengthening of the legal basis, during 2017, two regulations related to the payment system were approved, the Regulation on payment instrument statistics and the Regulation on electronic payment instruments. In addition, work has been done on the strengthening of the regulatory framework for the supervision of payment systems, based on the BIS principles for the financial market infrastructure.

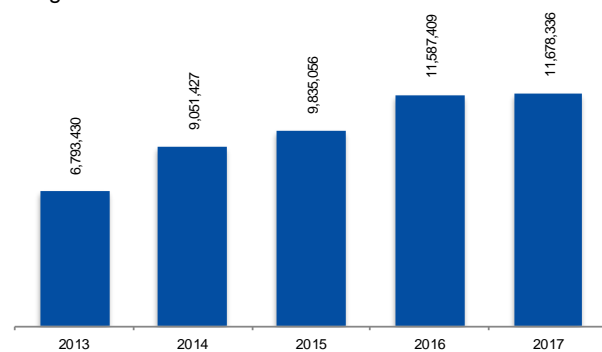
During 2017, it has been continued with the advancement of the Bank Accounts Register, in order to adapt the new requirements arising from the amendment of the Law on Enforcement Procedure. Based on these requirements, the functions of this register are expanded, whereby the entire implementation process 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 2018.

5.3.1 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:

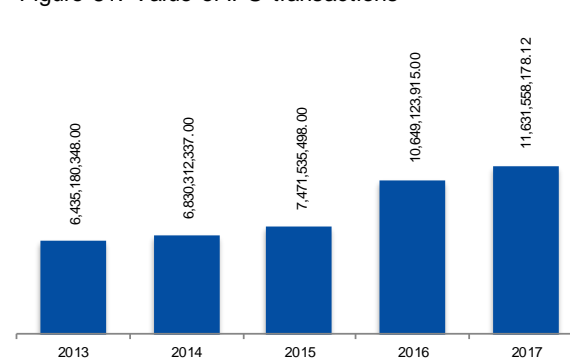
Statistical indicators of IPS activity reflected an increase in the volume and the value of transactions as presented below:

Figure 80. Number of IPS transactions



Source: CBK (2018)

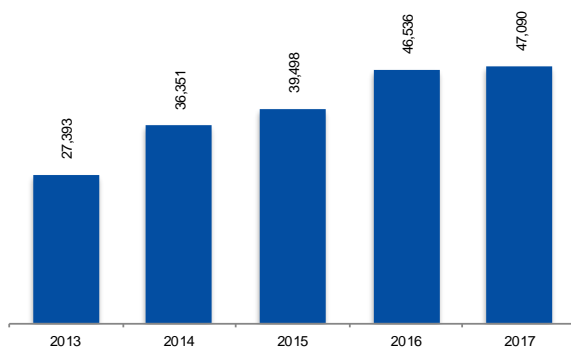
Figure 81. Value of IPS transactions



Source: CBK (2018)

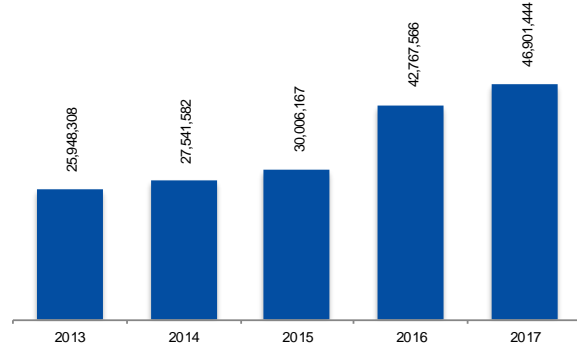
Around 11.7 million transactions were processed in the total value of approximately euro 11.6 billion. When compared to the IPS transactions of the previous year, transaction volume is increased by 0.78% and the value of transactions was increased by 9.23%.

Figure 82. Daily average of IPS transactions number



Source: CBK (2018)

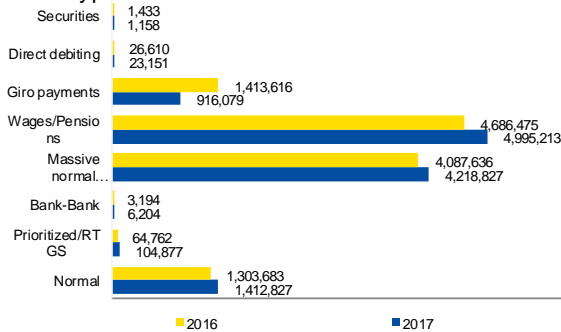
Figure 83. Daily average of IPS transactions value



Source: CBK (2018)

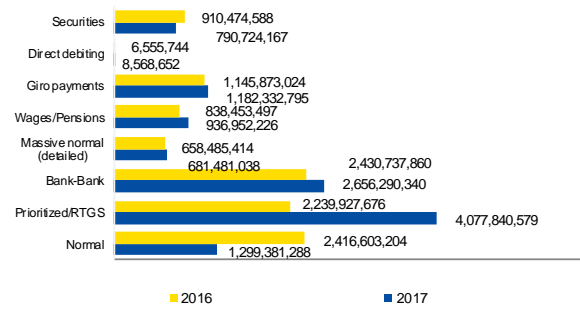
The constant increase in volume and value of IPS interbank transactions reflects the relative increase of non-cash payments and increase of confidence in the banking system. Within the IPS, the payments are realised through two components.

Figure 84. Annual volume of IPS transactions, by their type



Source: CBK (2018)

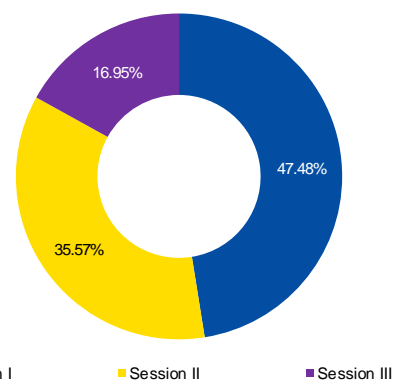
Figure 85. Annual value of IPS transactions, by their type



Source: CBK (2018)

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 realised in real time, whereas in the ACH component are realised all the payments with the value of under 10,000 € and including these types of payments: regular payments (individual and massive), payments and pensions, Kos-Giro payments and Direct Debit. The level of increase, both in terms of the volume and value of the category of these payments for 2016 and 2017 is presented in the following figures:

Figure 86. Number of IPS transactions, by sessions



Source: CBK (2018)

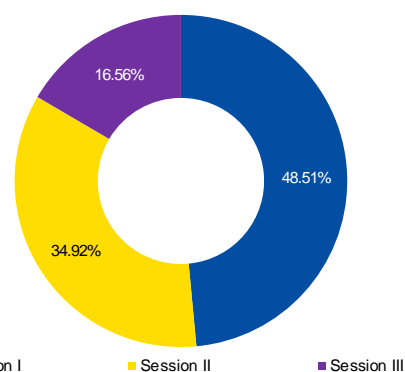
Regular payments (individual and massive) make up around 48.2% of the volume and 17% of the value of IPS transactions.

Kos-Giro transactions represent a specific type of regular transactions which are also processed through clearing and are settled on net basis. During 2017, the number of Kos-Giro payments decreased by 35.2%, while their value marked an increase of about 3.2%.

RTGS transactions are processed and settled during the working hours on real time and gross basis. During 2017, their number accounted for about 0.9% of the total number of IPS transactions, while their value for about 35% 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. Thus during 2017, this type of transactions represented a total of less than 1% of the volume and value of IPS transactions.

Figure 87. Value of IPS transactions, by sessions



Source: CBK (2018)

The overview of payments processed through the ACH system by sessions, during 2017, 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 minimises additional risks within the functioning of the payment system.

Number and value of transactions by sessions has been presented in Figure 86 and Figure 87:

The total value of transactions settled in IPS during 2017 was € 11,631,558,178, where the first three institutions with the higher value of initiated transfers comprise 60.62% of the total value, while all other institutions comprise 39.38%. Regarding the number of initiated transfers, out of their total number of 11,678,336, the three first institutions with the largest number of initiated transfers comprise 73.63% of the total number, while all other institutions comprise 26.37%.

A detailed overview of concentration indicators of the participation of more active institutions in IPS during 2017, against the total activity in this system is presented in the following table:

Table 18. Concentration indicators for the transactions initiated/delivered in IPS

IPS system	Volume	Value
3 banks	73.63%	60.62%
7 other banks	26.37%	39.38%
Total	11,678,336	11,631,558,178

Source: CBK (2018)

5.3.2 Supervision and analysis of payment systems

As part of the supervision function and analysis of payment systems, during the reporting period, the Regulation on Payment Instruments Statistics was amended in accordance with the Regulation of the European Central Bank - ECB no. 1409/2013 on Payment Statistics. According to this Regulation, the periodic reporting of payment instruments will be carried out by applying new reporting forms, based on the standards and criteria established by the ECB, which are essential for the identification and monitoring of developments in the payment markets and to assist the promoting of better functioning payment systems.

In August 2017, the CBK board approved the Regulation on Electronic Payment Instruments with the aim of determining the conditions, requirements and procedures for the issuance and use of electronic payment instruments, as well as means of reporting of information during the use of these electronic payment instruments. Through this regulation, requirements for

enhancing customer transparency and customer protection rules have been adapted. This regulation lays down the obligations to issuers and holders for the issuance and the way of use of electronic payment instruments. Likewise, this regulation addresses the electronic money instrument, which sets out the terms and requirements based on European Union standards.

In order to increase the level of security and efficiency of payment instruments reporting, in the fourth quarter of 2017, the CBK has prepared the infrastructure and has developed the agreement to automate the reporting of payment statistics through the electronic reporting system. This system will have an impact on the increase of the security level when exchanging information, allowing automatic consolidation of all reports from reporting units into a single report, which will affect the shortening of time, will serve for archival purposes and may, in the future, be developed for advanced analytical purposes, as needed.

Significant developments from the priorities in the field of supervision are the Regulation on the Oversight of Systemically Important Payment Systems and the Assessment Methodology for Payment Systems. Both of these documents were prepared in a draft form, based on the relevant documents of the European Central Bank and the Principles for financial market infrastructures of the Bank for International Settlements for the Oversight and Evaluation of Systemically Important Payment Systems, which are expected to be finalized and commence implementation during this year.

During 2017 it has been continued with the publication of regular analysis and reports on payment system developments, such as:

- Analysis on the use of cards in Kosovo - an annual analysis reflecting the socio-demographic distribution of cards used by the citizens of Kosovo, as well as analysing the factors that have influenced such a distribution of cards;
- Analysis on the use of payment instruments in Kosovo - published on quarterly basis, reflecting statistics related to the IPS process, with special emphasis on the number and value of interbank transactions, bank account number, number and function of ATM and POS terminals, the number of cards per function and card transactions.

Similarly, periodic reports were drafted and published regularly on the CBK official website:

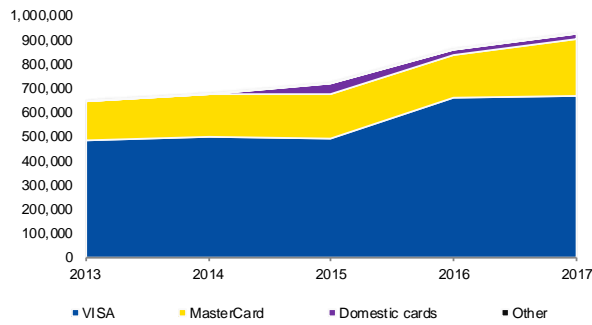
- Monthly report on the number and values of IPS payments;
- Monthly report on commercial bank deposits and reserves;
- Monthly report on cash and non-cash instruments;
- Annual report on commercial bank deposits and reserves;
- Comparative annual report on electronic instruments.

5.3.3 Payment instruments and banking infrastructure for payment services

Banking reports on payment instruments indicate that by the end of December 2017 the number of debit cards amounted to 926,209, while the number of credit cards amounted to 164,740. Compared to the previous year, it is determined that the number of debit cards increased by 8.1%, while the number of credit cards has increased by 5.3%.

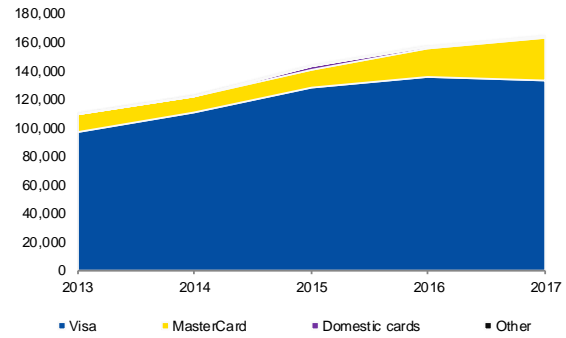
With regard to the ATM (automated teller machine) and POS (point of sale) terminal infrastructure provided by commercial banks in Kosovo, it is noted a constant increase in the number of POS terminals (11,501), while the ATM terminals were characterised by a slight decrease during this year (512).

Figure 88. Number of debit accounts, by their type



Source: CBK (2018)

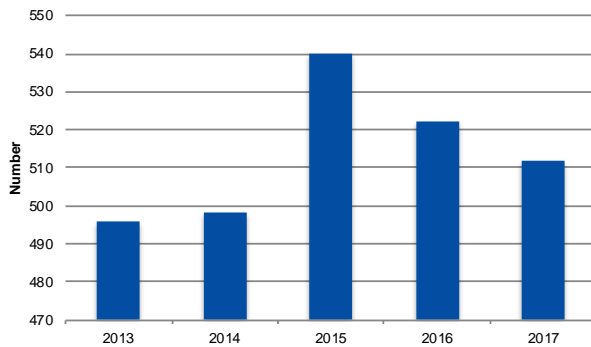
Figure 89. Number of credit accounts, by their type



Source: CBK (2018)

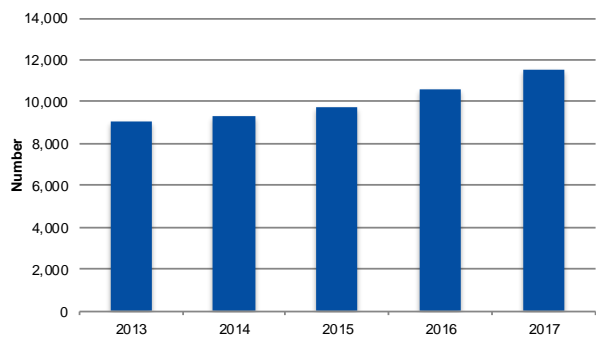
In addition to the increase in the number of terminals and payment instruments, the statistical data indicate that 2017 was characterised by an increased use of electronic payment instruments.

Figure 90. Number of ATMs



Source: CBK (2018)

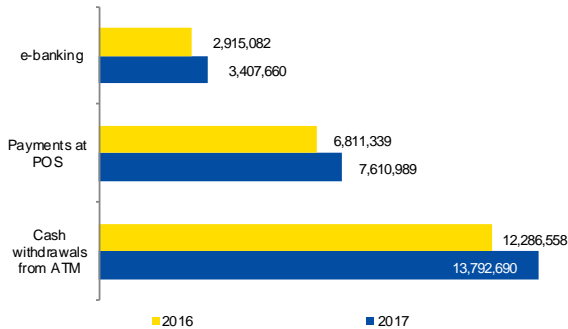
Figure 91. Number of POSs



Source: CBK (2018)

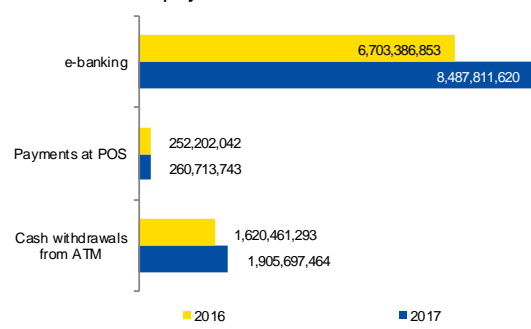
The number of payments via e-banking amounted to 3.4 million transactions, which compared to the previous year present an increase of 16.9%, while their value amounted to euro 8.5 billion, with an annual increase of 26.6%.

Figure 92. Annual transactions volume of electronic payment instruments



Source: CBK (2018)

Figure 93. Annual transactions value of electronic payment instruments



Source: CBK (2018)

2017 was also characterised by an increasing trend in the use of electronic payment instruments. The number of POS terminal payments was increased by 11.7%, while their value decreased by 3.4%. Likewise, ATM terminal withdrawals were characterised by an increase. The number of ATM withdrawals during 2017 increased by about 17%, while the value of withdrawals increased by 26.6%.

Based on bank reports, it results that by the end of 2017, the total number of customers' bank accounts was around 1.97 million, which marks an increase of 4.95% compared to the end of 2016. Around 98.45 % of accounts belong to residents, while around 1.55% to non-residents.

Out of the total accounts, by the end of 2017, around 357.3 thousand accounts had "online" access to make payments or to check account balance, marking an increase of 54.7% compared to 2016.

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 19. Number of accounts

Description of accounts	Total number of clients' accounts			Accessible from the Internet		
	2015	2016	2017	2015	2016	2017
Clients' accounts (1+2)	1,886,644	1,875,091	1,967,755	187,297	230,905	357,320
1-Residents' accounts (a+b) (%)	98.37%	98.45%	98.40%	97.22%	97.86%	98.51%
a-Individual (%)	93.18%	92.85%	93.10%	79.66%	79.68%	84.26%
b-Company (%)	6.82%	7.15%	6.90%	20.34%	20.32%	15.74%
2-Non-residents' accounts (c+ d) (%)	1.63%	1.55%	1.60%	2.78%	2.14%	1.49%
c-Individual (%)	96.60%	96.99%	97.48%	91.99%	91.54%	91.85%
d-Company (%)	3.40%	3.01%	2.52%	8.01%	8.46%	8.15%

Source: CBK, Bank reports according to the "Methodology of reporting payment instruments"

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 neighbouring countries.

Table 20. Comparative table of payment instruments and terminals¹⁷

Description	Inhabitants	ATM per millions of inhabitants	POS per millions of inhabitants	Credit Cards per millions of inhabitants	Debit Cards per millions of inhabitants	E-banking per millions of inhabitants
Kosovo	1.77	295	5,982	88,382	484,021	130,454
Albania	2.89	277	2,461	29,736	301,596	72,372
Czech Republic	10.55	446	14,066	187,922	951,556	-
Turkey	78.74	615	22,177	746,704	1,486,813	-
Slovenia	2.06	814	-	56,267	1,249,059	-
Bulgaria	7.15	804	14,614	170,065	878,315	-
Hungary	9.83	508	12,319	137,940	772,029	-
Bosnia	3.52	430	7,478	-	-	109,023
Montenegro	0.62	626	20,692	63,924	680,106	177,400
Croatia	4.19	1,084	25,318	33,680	1,640,330	-
Macedonia	2.07	502	16,896	181,475	697,112	335,855

Source: CBK (2018) and central banks or supervisory authorities of the respective countries

5.3.4. Reduction of cash payments

Developments in improving the legal and regulatory framework, as well as other developments in infrastructure, have contributed to increased use of payments through electronic instruments.

From the statistical data for 2017, it is observed an increase in the number and value of credit card transfers, which represents an alternative to non-cash payments. Significant increase was

¹⁷ The data in the table is from 2016 since most of the countries in the region have not yet published data for 2017

marked in payments through electronic instruments such as: transactions through debit card, credit card and e-banking, affecting the reduction of cash payments.

When comparing 2016 and 2017, it may be emphasised that in 2017 the number of card transactions increased by 9.5%, while their value marked an increase of 30.7%, continuing with the upward trend observed in recent years. In addition, e-banking transactions increased by 17.7% compared to the previous year. The ever-increasing trend of using e-banking is also closely related to infrastructure upgrading, as well as the ability to access e-banking even through mobile phone applications.

In order to increase the efficiency of card transactions, in the function of the increase of use of electronic payment instruments, the CBK is analysing the possibilities for the implementation of a card interbank payment system, in order to provide interoperable functionality between card issuers, in order to unify the POS and ATM terminals, which would allow cost reduction and the further expansion of the network. In this context, during 2018 a project will be developed with the support of the World Bank, in order to find the most suitable solution for the establishment of this system.

5.4. Asset management

Asset Management Department is in charge of the placement of financial means under the management of the Central Bank of the Republic of Kosovo (CBK), as well as the operation of depository system and electronic platform for trading the securities of the Government of the Republic of Kosovo. In particular, the task of managing international reserves is specified within the Law on Central Bank of the Republic of Kosovo.

5.4.1. Investments management

According to the Investment Policy approved by the CBK Executive Board, the main objectives set forth during the asset management are: security, liquidity and return on investment.

During 2017, all assets were invested in financial instruments that fall in the category of safe, liquid instruments and with adequate credit rating.

Categories of financial instruments in which the assets were invested are:

- Term bank deposits with maturity up to one year, namely Euro and US dollar deposits, with commercial banks of Euro Area countries and the USA Federal Reserve;
- Government, supranational or state agencies' bonds issued in Euro, with a maturity up to five years;
- State bonds, issued by the Government of Kosovo, traded in the secondary market of securities, with a maturity up to five years.

The distribution of investment portfolio by type of instrument, maturity and amount is determined in accordance with the developments in financial markets and CBK's foreseen liquidity needs. The key characteristic of 2017 is the placement of longer term assets, respectively with a period of three to five years. Such a placement comes as a result of unfavourable and negative rates in the Euro Area money market.

The distribution of CBK portfolio financial instruments in 2017 was affected by negative rates in the Eurosystem, which have narrowed the range of adequate instruments for fund investment. Euro money market instruments marked negative return rates during the whole year, while the positive return rates for state bonds and those guaranteed by state provided positive return rates only for the periods over 5 years. Therefore, for the purpose of more effective distribution of

investing portfolio and realisation of returns on investments, investment placements have been realised in state agencies' bonds and supranational bonds, as well as in other currencies other than Euro, such as US dollar.

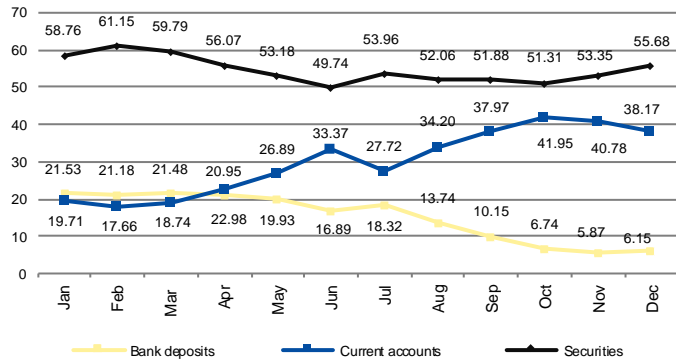
The distribution of CBK portfolio in main categories of financial instruments presented in the figure 94 shows a higher focus in debt instruments, respectively government securities. Throughout the year the distribution was kept below the total of 70 percent of the portfolio in securities as a criterion set out in the Investment Policy. Likewise, the other limitation of maximum 60 percent in bank deposits, as well as the maturity time limit was adhered to.

The management of investment portfolio over longer time periods has been balanced by retaining a significant part of liquid assets to meet the needs of its depositors for the execution of payments. Consequently, 38.17 percent of the available funds are secured in cash in the CBK's external accounts.

Securities issued by the Euro area countries, supranational state agencies, as well as securities issued by the Government of Kosovo constitute the key instruments for participation in portfolio of 55.68 percent of the total available funds for investment. The stable growth of securities during the months, presented in Figure 94, comes as a result of the allocation of investments from foreign markets to the domestic market. Securities issued by the Government of Kosovo are among the main instruments that have raised the exposure in the category of the security market instruments.

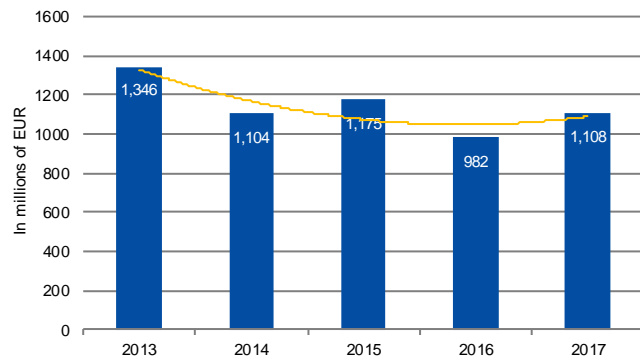
Compared to 2016, the year 2017 is characterised by a higher amount of available investment assets. This increase in the total portfolio investment assets comes as a result of incoming payments in CBK's favour, as well as the higher concentration of cash assets in the treasury to avoid negative rates applied by the European Central Bank (ECB) under the deposit rate policy (-0.40%).

Figure 94. Ratio of the CBK portfolio investments spread, in percent



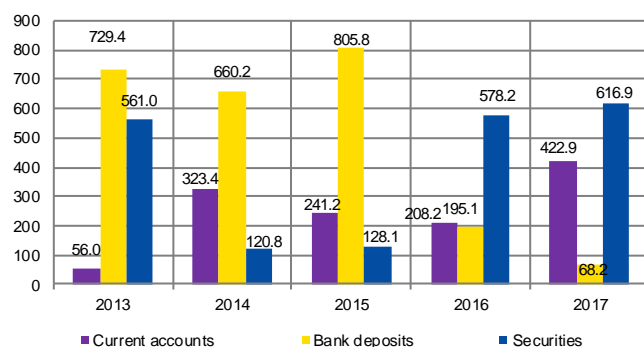
Source: CBK (2018)

Figure 95. The ending balance of funds invested by the CBK as of 31 December of the respective year



Source: CBK (2018)

Figure 96. Distribution of portfolio investments, end of the year



Source: CBK (2018)

The higher share of securities, as explained above, can be seen in the figure 96, where the investment portfolio is reflected according to categories of financial instruments for 2017 compared to the previous years.

5.4.1.2. Portfolio performance for 2017

Negative interest rates in Euro area reached historic levels in 2017. Also, during 2017, the CBK continued to mitigate the liquidity situation in the Eurosystem with expansionist policies, by directly continuing the program for the purchase of assets and mitigated the re-purchase procedures in the secondary market. This has brought a short positive impact in the interbank Euro market, even though the rates have continued to remain in the negative territory.

Other volatilities in the Euro area market were triggered by political developments in the UK, Italy and France.

Despite the volatility in the financial market, the CBK has achieved positive returns on investments in financial instruments. At the same time, during this period no deposits were made with European banks which have had legal problems and an adequate level of liquidity has been maintained.

Figure 97 represents the returns realised

by investments in euro and US dollar deposits. Investments in US dollar have realised positive return on investment, while the investments in Euro marked record low rates as a result of developments in the Eurosystem, as described above.

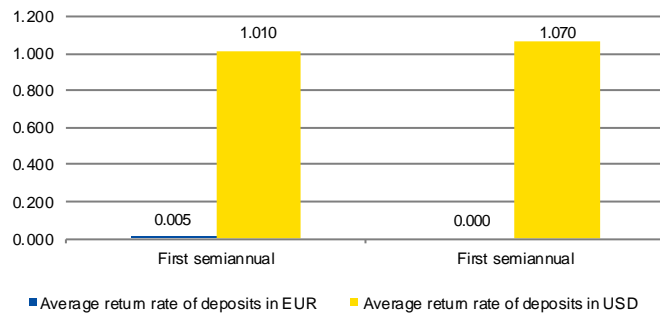
The time horizon structure also varies for bank deposits as opposed to the securities, as presented in the figure 98; the short term horizon in deposits (4 days) comes as a result of investments in daily time periods in dollars, which have decreased the average total placements in deposits.

5.4.2. Risk management

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

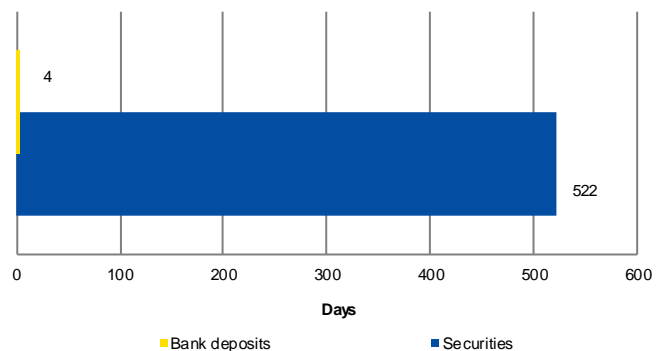
Financial risks during the investment of assets by CBK are: credit risk, interest rate risk, liquidity risk, currency risk and operational risk.

Figure 97. Return on investments rate in portfolio from EUR and USD deposits for two semi-annuals of 2017 (%)



Source: CBK (2018)

Figure 98. Time horizon average expressed by days up to maturity for two placements categories



Source: CBK (2018)

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, such as the case of negative interest rates with P-3/A-3 for short-term and Baa3/BBB- (Moody’s/S&P) for long term.

Interest rate risk – is measured by comparing the return on investment rate from the investments in the CBK portfolio with 1 month EURIBOR rate (average rate of interbank lending for Euro currency) as a comparative rate.

Liquidity risk – investments were mainly conducted in compliance with time horizon determined by Investment Policy. The instruments in which it was mainly invested are short-term instruments as bank deposits, treasury bills and state bonds.

Currency risk - appears as a result of exchange rate movements that imply the value of currencies in the financial market, where the return or loss as a result of exchange rate changes may arise. The CBK had a low level of exposure to foreign exchange risk during 2017. By the end of 2017, investment portfolio was only exposed in Euro and US dollar currency.

Operational risk – this risk exists in all activities and in order to minimize the operational risk, the investments were carried out accurately by being subject to the effective control for each transaction.

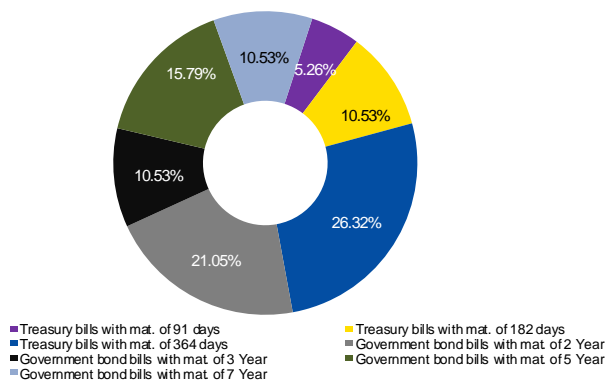
5.4.3 Kosovo Government Securities

Pursuant to the Law on Public Debts, the CBK acts as a fiscal agent for the Ministry of Finance (MoF).

In accordance with the Kosovo Government Securities’ Issuance Calendar, 19 auctions were conducted in 2017 through the electronic platform: 1 auction for treasury bills with maturity of 91 days, 2 auctions for treasury bills with a maturity of 182 days, 5 auctions for treasury bills with a maturity of 364 days, 4 auctions for government bonds with a maturity of two years, 2 auctions for government bonds with a maturity of three years and 3 auctions for government bonds with a maturity of 5 years.

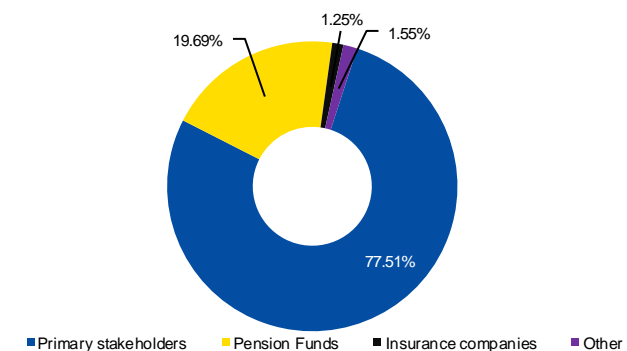
For the first time in 2017 were conducted 2 auctions for government bonds with a maturity of 7 years.

Figure 99. Structure of securities by maturity



Source: CBK (2018)

Figure 100. Structure of auction participants



Source: CBK (2018)

Figure 99 shows the structure of securities of the Government of Kosovo, expressed in percentage according to maturity.

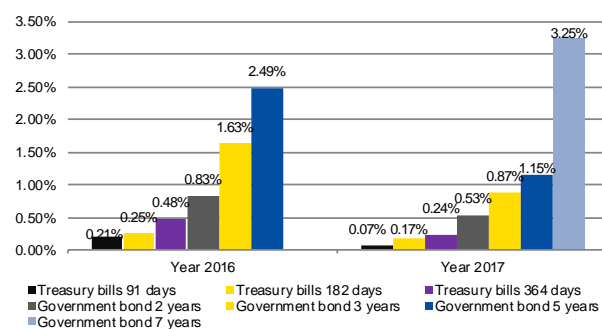
Figure 100 shows the structure of the participating institutions in the auctions of securities of the Republic of Kosovo.¹⁸

Compared to the previous year, as a result of the increased market demand for Kosovo government securities, the average annual rate of return for treasury bills with a maturity of 91 days marked a decrease of 65 %, for treasury bills with a maturity of 182 days, a decrease of 30% was marked, while for the treasury bills with a maturity of 364 days a decrease of 50% was marked. The annual return rate for government bonds with a maturity of 2 years, in 2017, marked a decrease of 36%, for government bonds of 3 years maturity an increase of 46% was marked, while for government bonds of 5 years maturity a decrease of 54% was marked. The average return rate for government bonds of 7 years maturity for 2017 was 3.25% (Figure 101).

Figure 102 presents all the auctions, where it can be seen that the highest market demand was for treasury bills of 364 days and treasury bills of two years.

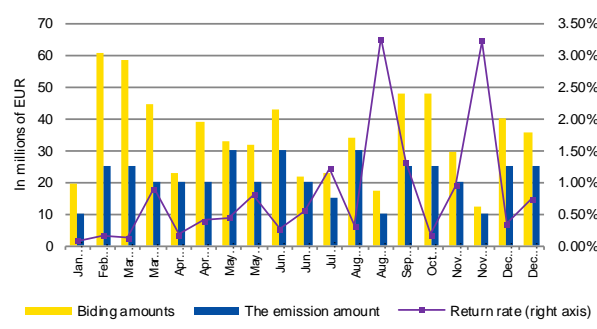
Compared to the previous year, the activities in the secondary market of Government of Kosovo securities have continued with a lower intensity, due to the decline in return rates in the primary market.

Figure 101. Annual average rate returns for 2016 and 2017, in percent



Source: CBK (2018)

Figure 102. Auctions of Government securities for 2017



Source: CBK (2018)

5.5. Credit Registry of Kosovo

Based on the Law on the Central Bank of the Republic of Kosovo, the CBK may operate, regulate, licence, 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.

¹⁸ Participants in the Government security market were primary stakeholders (commercial banks), the Kosovo pension saving fund as a primary participant, insurance companies and other participants through primary stakeholders.

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 licensed banks and micro-financial institutions, as well as those non-banking financial institutions and insurance companies licensed to deal with special credit activities.

Based on the CRK system data, currently there are 1575 active users from lending institutions, dominated by users from banking institutions with 1239 active users, followed by micro-financial and non-banking institutions with 304 users and finally insurance companies with 32 active users of the CRK system. During 2017, the Credit Registry has registered 371 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 2017 reached 658,672 investigations.

An overview of this activity by years, for the years 2013, 2014, 2015, 2016 and 2017 is shown in figure 103.

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 guidance issued by the CBK.

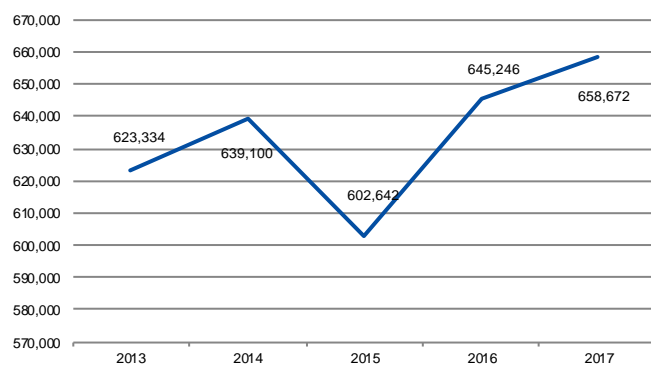
During 2017, based on the CRK system data, 217,965 disbursed loans were reported, including loans, credit cards, overdrafts, residential mortgage loans, credit lines, guarantees, leasing, factoring and other credit assets.

The ratio of the number of approved loans, according to lending institutions for 2013, 2014, 2015, 2016 and 2017 is shown in Figure 104.

In June 2017, the CBK implemented the new CRK system, through which new information was added regarding the reporting from lending institutions for supervision, statistical and analyses purposes.

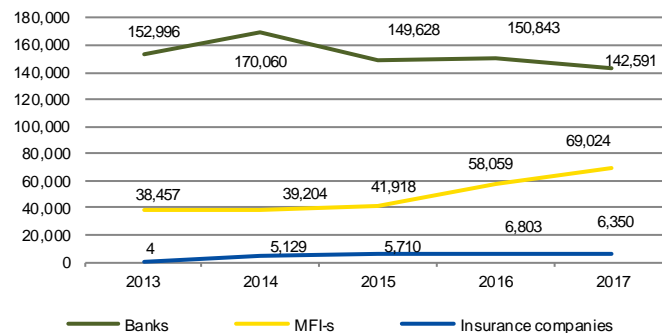
Among new information reported by the lending institutions is the data from the Kosovo Credit Guarantee Fund.

Figure 103. Number of surveys in CRK system



Source: CBK (2018)

Figure 104. Number of loans approved in CRK system



Source: CBK (2018)

Figure 105 presents the number of requests for the borrowers' individual credit report (natural/legal) based on the Credit Registry system data for 2013, 2014, 2015, 2016, and 2017.

The Credit Registry during 2017 directly contributed on the data collected from the World Bank (WB) for the Doing Business ranking.

World Bank Doing Business Report 2018, published on 31 October 2017, ranks Kosovo in the 12 position, for the indicator "Getting Credit", with an improvement of 8 positions compared to the previous report. According to the summary in the Doing Business Report 2018, Kosovo has strengthened its position with regard to the Getting Credit indicator, by adopting the Law on Bankruptcy that establishes clear priority rules inside bankruptcy for secured creditors and clear grounds for relief from a stay for secured creditors in reorganization procedures.

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

Figure 106 shows the ranking of the Republic of Kosovo on the indicator "Getting Credit" in comparison to the countries of the region.

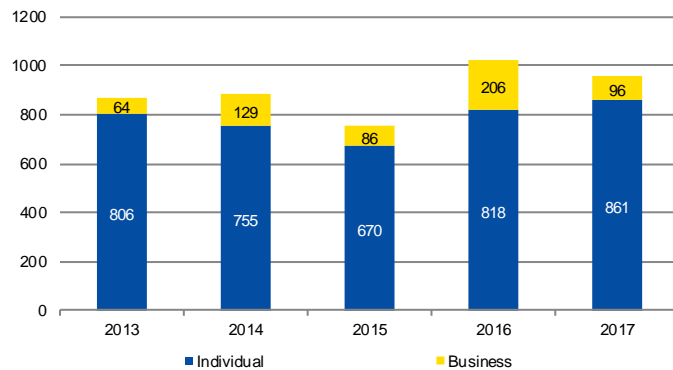
5.6. Activity in the field of Economic Analysis and Financial Stability

In order to achieve its objectives, the CBK has continued to pay a special attention to the analyses of general economic developments in the country and analyses related to the assessment of financial stability and the activity of the country's financial system. Much of these analyses are published on a periodic basis within CBK publications, thereby serving as an important source of information for policy making authorities, the business sector (including the financial industry itself), and the general public.

One of the most important periodic publications is the Financial Stability Report, which started to be published twice a year since 2014. Financial Stability Report reflects stability of the financial system by analysing general economic developments along with other activity developments, performance and stability of all components of financial system in country.

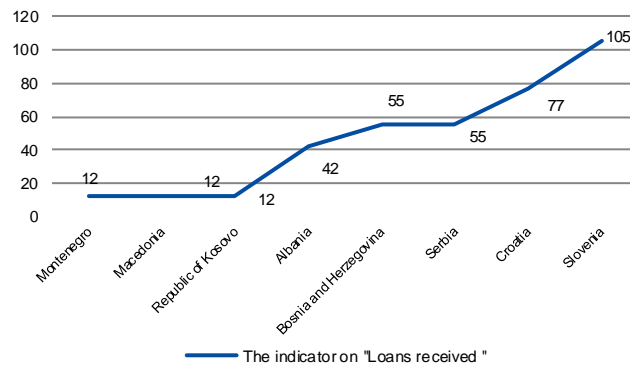
To provide the public with a faster access on information about developments in the country's economy, the CBK has continued to publish on a regular basis the Quarterly Economic Assessment. Moreover, CBK continues to publish Monthly Financial Sector Information Report, which presents a summary of key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

Figure 105. Number of requests for credit reports



Source CBK (2018)

Figure 106. Kosovo's ranking in doing business in 2018



Source: Doing Business 2018

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.

During 2017, the construction of the Macroeconomic Model for Kosovo's Economy was completed, which is the first of its kind in the CBK. This model provides a simplified picture of economic reality in Kosovo by describing the main functional links of the economy. For this reason, the model will be used as a supplementary tool by the CBK in analysing developments in the country, forecasting key macroeconomic indicators, and simulating various shocks or scenarios that Kosovo's economy may experience. It is aimed its full functionalization and broad use in 2018 in various economic/financial analyses and its regular update.

Additionally, in 2017, the discussion material "Identifying Systemically Important Banks and Additional Capital in Kosovo" has been published, aiming at addressing the structural and cross-sector dimension of systemic risk associated with systemically important banks. In this paper, the model for identifying the SIBs for the Kosovo banking sector has been advanced in line with the standards of the European Banking Authority and for the first time the macro-prudential policy instrument has been calibrated for addressing these systemically important financial institutions, thus contributing to operationalization of the CBK Macroprudential policy.

During 2017, in view of the risk-based supervision of banking institutions, specific analyses were compiled reflecting macroeconomic developments and those related to financial stability, as well as potential macroeconomic risks the financial stability in the country may face. During this year, the frequency of compiling the internal analysis on the financial system was also increased, especially the compilation of banking sector analyses, such as the analysis of banking risks and the performance of non-performing loans. In the same period, work was carried out in advancing the methodology for compiling the stress test model.

The Macroprudential Framework

During 2017, the Macroprudential Advisory Committee (MPAC) has held regular periodic meetings in accordance with the terms of reference in Macroprudential Policy approved by the CBK Executive Board in 2016. Moreover, the meetings have been held with the core and extended membership, examining the current state of affairs and developments trends in the financial system.

The main objective of this Macroprudential Policy is to help maintain the stability of the financial system by reducing the accumulation of systemic risk and by strengthening the financial system's resilience. While the intermediate objectives of this policy are reducing and preventing excessive credit and leverage growth, reducing and preventing excessive discrepancy and maturity, reducing and preventing non-liquidity, limiting the concentration of credit exposures, limiting the systemic impact of incentives that aim at reducing moral hazard and strengthening the sustainability of financial infrastructure.

Instruments as an integral part of the Macroprudential Supervision Policy are designed to ensure the achievement of the abovementioned objectives. These instruments have a preventive character towards reducing the likelihood of occurrence and expansion of an unstable financial situation.

According to the terms of reference during 2017, MPAC has held 4 regular meetings where quarterly macroprudential status was presented through analytical reports with

macroprudential indicators (Report on key indicators of the financial sector, market conditions and systemic risks), reports on risk profile of banking supervision and insurance and discussed on the macroeconomic environment in general.

During, 2017 MPAC evidenced a general stable macroeconomic environment accelerating economic activity in the country, mainly driven by the marked increase in the investment position and the improvement of the net export position. Based on the overall analysis of the banking sector's health indicators as a selected macroprudence indicator, Kosovo results with a very sustainable financial stability and without any risk that would require additional attention from the CBK.

The MPAC has reported, after each meeting, the findings, assessments and recommendations relevant to the state of affairs and developments in the financial system, to the CBK Executive Board for informed and timely decision-making.

5.7. Main activities in the field of statistics during 2017

CBK is the official producer of statistics in Kosovo. Based on responsibilities, CBK collects, compiles and publishes monetary and financial sector statistics (MFS) and external sector statistics (ESS). Duties and responsibilities of the Department of Statistics are defined by the Law on CBK, and supplemented by the regulations approved by the CBK Board.

During 2017, the CBK has made significant progress in the dissemination of external sector statistics (ESS) in line with the requirements of the European Union and further extending the range of data distributed to Eurostat; CBK has successfully coordinated the implementation of *Enhanced General Data Dissemination System* of the International Monetary Fund (IMF). During 2017, CBK has also expanded the range of new statistics; increased coverage; further improved the quality of the assessments; and has advanced in establishing the framework for compiling the financial account statistics.

From the beginning of January 2017, CBK has started sending ESS to Eurostat for further publication, making a very important step in the development of Kosovo's statistical system. Kosovo statistics for datasets: (1) balance of payments; (2) international investment position (IIP), (3) international trade in services, and (4) foreign direct investment - were published for the first time by Eurostat at the beginning of this year. The compilation of these statistics is in full compliance with the reporting requirements for European Union (EU) countries. In addition to the regular commencement of reporting in Eurostat, the CBK has prepared for publication the time series for the past years (thirteen years time series for the statement of balance of payments, ten years for IIPs, two years time series for trade in services, and two years for direct investments. Since January 2017, these data have been sent to Eurostat in accordance with the previous calendar of Eurostat publications.

In May 2017, Kosovo has implemented the Enhanced General Data Dissemination System (e-GDDS), a system recommended by IMF. In this way Kosovo has pledged to meet a series of stringent requirements for the production, distribution and documentation of published statistics. Reliable statistics, published on time and in accordance with international standards, present an essential information in the policy making process. Participation in e-GDDS proves the transparency of Kosovo's national statistical system and contributes essentially to ensuring Kosovo's attractiveness as a business and financial country. As part of the e-GDDS system, the National Summary Data Page (NSDP) was developed for all sectors of the economy. This NSDP version posted on the CBK website contains statistical data and published methodologies for compiling this data. This site is intended to serve as a real time tool for publishing key macroeconomic data, providing real time access and transparent information for all users and

also providing readable formats as per the previous release calendar. Kosovo is one of the first countries in the region to implement the e-GDDS.

Regarding the compilation of new statistical information, the CBK has made significant progress by preparing several new statistical tables that have been published for the first time. The range of new statistics has multiplied with the start of the publication of external sector statistics in Eurostat. For instance, balance of payment statistics by country, or direct investment by NACE classification. Moreover, on the CBK website were published new data on Direct Investments; effective interest rates of other financial intermediaries; financial sustainability indicators; the insurance companies' success rate; bank loans by term to maturity; bank deposits by term to maturity; as well as bank borrowings - by original maturity. Moreover, in June 2017, the CBK has, for the first time, sent to Eurostat two new questionnaires on the data on Direct Investment Income (annual data for 2015) and Direct Investment Positions (annual data for 2015).

Regarding the quality improvement of published data, in August 2017, CBK conducted a survey with non-residents visiting Kosovo, with a focus on Kosovo Diaspora to assess the level and structure of Diaspora expenditures in Kosovo. Based on the results of this research, at the end of 2017, balance of payments statistics were revised, including the time series for the last two years. New data have contributed to improving the accuracy of estimates made in the balance of payments statement. CBK has made progress in improving the timeframe of publication of CBK statements from 25 days after the end of the reference month to 15 days.

In addition, the CBK has updated the manual *Methodology for the Compilation of the Balance of Payments and International Investment Position Statistics*. This manual published under the 'Statistics' menu is now fully compliant with a format used by EU countries, which is published by the European Central Bank (ECB). Published methodology is of the same format with that published in countries of Euro Area for readers to have easier comparison, and for Kosovo to be in step with EU countries. In addition, the CBK has published for the first time the methodological manual for compiling Trade Statistics in Services, which is fully in line with the manuals used by EU countries.

In order to improve the dissemination and data publication practises, the CBK has made some changes in the "Statistics" menu, by reorganizing the statistical tables published within the Time Series. This page contains the statistical tables published on the monetary and financial sector and the external statistics sector.

The CBK has advanced the data processing system and has automated many processes related to data processing and reporting generation. With the help of new statistical software, all financial sector data is collected through an online platform that enables reporters to directly load reports into the system and validate data in advance. The new software is used by many departments within the CBK. Consequently, in 2018, it is planned to improve efficiency and shorten publication deadlines for statistics that are in the CBK domain.

During July 2017, Kosovo's statistical system has undergone a review process from a Eurostat experts' mission. This mission has visited Kosovo for the first time to carry out a broad assessment of the statistical system in Kosovo. CBK as one of the producers of national statistics has fulfilled its obligations arising from this process. The Eurostat mission in their report concluded that the compilation of statistics is in accordance with international standards.

Cooperation with international organizations, central banks in the region and relevant local institutions in the field of statistics continued throughout 2017. Regular periodic data are sent to the IMF, the World Bank, Eurostat, the European Central Bank (ECB) for publication purposes. CBK participated in regular meetings at the Monetary, Financial and Balance of Payments Statistics Committee, organized by Eurostat and the ECB. The Department of Statistics

conducted a visit to the Central Bank of Macedonia to increase cooperation and exchange experiences in the field of statistics.

5.8. Review of financial institutions requirements supervised by the CBK

During 2017, the Review Division received requests for review from financial institutions supervised by the CBK, such as:

- Request of the microfinance institution “Atlantic Capital Partners” dated 25 January 2017.
- Request of the financial institution “Turkiye İş Bankası” (hereinafter: ISB) Kosovo branch, dated 8 March 2017,
- Request of the actuary of the Insurance Company “Kosova e Re” dated 29 March 2017
- Request of the financial institution “Banka KombëtareTregtare” Kosovo branch, dated 21 April 2017,
- Request of the financial institution, TEB J.S.C. bank, dated 20 June 2017,
- Request of NBFİ MONETA L.L.C. dated 8 August 2017,
- (at the EU's request - this request has been reviewed).
- Request of the microfinance institution “Qelim Kosova” dated 6 October 2017,
- Request of the microfinance institution “Iner-Expertise L.L.C.” dated 04.12.2017.

All requests were reviewed with professional and legal care and conclusions have been drawn that address the relevant recommendations which were sent to the CBK Executive Board for decision-making.

The Review Division has contributed to the development of the Alfresco project (project for the information management system - IMS in the CBK), providing necessary information and description of the process for the work the division conducts and the procedures it pursues, in order to clarify the procedure for *determining the diagram of the information management process* in the Review Division.

The Review Division has reviewed and initiated the amendment of the Regulation on *Procedures for Imposing Administrative Penalties*, which was amended during 2017.

The Review Division has contributed to the identification of risk indicators and has reported the risk self-assessment within the CBK risk management, identified the documents that should be included in the CBK's *visual asset list* for the creation of a manual of CBK symbols for visual assets. The Review Division has also performed other work at the request of the senior management of the CBK.

6. Internal Developments

6.1. Internal Audit

The Internal Auditor (hereafter IA) in institutional practices is an independent body within the institution, but is considered one of the key links in the internal controls established by the institution. Internal Audit, together with the external audit, completes the chain of accountability within each institution.

Pursuant to the Law on CBK, Head of Internal Audit is the function representing the internal audit in CBK. The law and other regulatory acts of CBK provide IA with full authority and unlimited access in order to conduct audit engagements. IA provides recommendations to improve internal processes, operations or controls carried out in CBK. These recommendations are addressed for the best economic, efficient and effective management of the budget and property, and value added of the institution. This framework makes the IA responsible for performing the duties professionally and reporting on the commitments undertaken and the performance shown.

IA during 2017 has provided audit services based on the Annual Audit Work Plan reviewed by the Audit Committee and approved by the CBK Board. The plan has been compiled based on the Risk Assessment Methodology in order to support the so-called risk-based approach, a model adapted from the practices of European Central Bank and other international banks with advanced audit system. Audits conducted were of financial, compliance, operational and information technology nature.

IA function during 2017, in addition to the audit engagements under the plan, is characterized with several other activities that impact the increase of service performance and awareness-raising on the importance of this function.

This year, the Office of the Head of IA marked for the first time the month for raising-awareness on audit, which event has been traditionally carried out in many countries around the world. In the light of audit occupation promotion, it has organized the roundtable with the title "Role and importance of internal audit". This month has been announced by the Global IA Institute (USA) as an internationally recognized event in the countries with advanced audit. At the global level, the event aims at advancing the recognition of the essential role played by IA in organizational governance, internal control and effective risk management. This will help in raising awareness of institutions about the IA role and importance.

IA's scope has been oriented towards improving and advancing systems and processes that help the Management and that affect the further enhancement of corporate governance.

In accordance with the CBK Law and the Internal Audit Statute, the Head of IA has reported regularly in quarterly and annual periods during 2017 at the Audit Committee and the CBK Board regarding 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 the issues have been addressed to the Executive Management for further handling. Through them, the IA has also reported regarding the fulfilment level of the recommendations given in the previous periods. Head of IA has also informed CBK Board and executive senior management for other daily engagements of IA.

Activities have continued in view of fulfilling recommendations provided by external assessments (World Bank; European Central Bank; IMF and USAID in relation to the improvement and advancement of the quality of audit work in line with international standards and professional audit practice.

IA has prepared the Audit Strategy for the three-year period 2017-2019. On the basis of this Strategy, the IA's Annual Work Plan for 2018 has been prepared. The plan prepared by IA after being reviewed and discussed with the Audit Committee was approved by the CBK Board.

On the basis of requirement under the agreement between the Government of Kosovo, the CBK and the International Monetary Fund, two independent audits of the reconciliation of government accounts were conducted on a six-month basis.

In addition to the planned engagements of functional character, IA also carried out other supporting activities that help in increasing the work efficiency and effectiveness. In order to provide information for functionalising the Information Management System, IA continued to provide contribution in this regard.

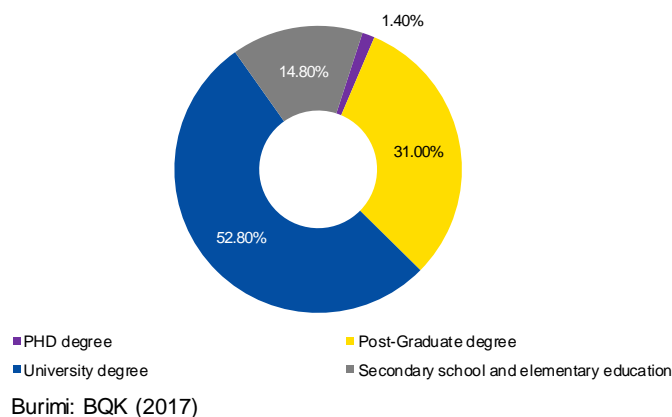
In view of advancing professional knowledge and technical experience, during 2017 IA continued to pay importance to the ongoing professional development of the staff by participating in several international and national events, as follows: online course organized by IMF "Financial Market Analysis (FMAx)" which has been successfully completed by two (2) senior auditors; the workshop titled "Strengthening of IA and Role of Audit Committee" organized by the Centre of Excellence in Finance of Ljubljana and supported by the Bank of Slovenia. In this event, invited by the organizer, the Head of IA presented the recent developments and experiences of internal audit function in CBK. Also, IA staff participated in seminars related to the internal audit practices in Central Banks, internal control, and those for risk management.

6.2. Human resources

At the end of 2017, the number of employees in the CBK was 216 employees. The average age of employees was 40.93 years. Out of the total number of employees, 110 employees or 50.93 % are female and 106 employees or 49.07 % are male.

In the general structure of education three employees or 1.4 % have doctoral degrees, 67 employees or 31.0 % with postgraduate education, 114 employees or 52.8 % with university education, 29 employees or 13.4 % with secondary education and 3 employees or 1.4 % with basic education (Figure 107).

Figure 107. Structure of employees by education



The Central Bank of the Republic of Kosovo considers its staff as one of the most important resources and continuously engages to provide them with the appropriate knowledge, adequate skills and expertise to fulfil the duties and responsibilities with the highest standards in achieving their full potential through courses, seminars, trainings, etc.

Out of the total number employees, 96 employees or 44.65 % of them participated in vocational training, 17 of which were held in the country and 79 were held abroad and were mainly organized by the European Central Bank, IMF, JVI, Deutsche Bundesbank, the Bank of Netherlands, the Bank of Poland, the Kosovo Banking Association and the "Centre of Excellence in Finance - CEF".

Also, CBK has continuously provided opportunities for students from universities/colleges both from the country and from abroad for internship in order to provide them the unique opportunity to gain practical experience in various fields of the functions and operations of the CBK. In 2017

a total of 15 students attended the internship program at the CBK. 7 of them, organized/trained by representatives of the statistical department during July and August conducted the task of field surveyors in collecting information at three Kosovo border points regarding the level and structure of emigrants' expenditures during their stay in Kosovo.

6.3. CBK legal activity

The Central Bank of the Republic of Kosovo during 2017 continued with the implementation of the existing legal infrastructure of the financial sector in Kosovo and has worked towards advancing the same, always aiming to be in compliance with the legislation in force and harmonized with the legislation of the European Union, as well as the best international standards and practices.

During this year, there were two amendments to the applicable laws. In January 2017, was amended and supplemented Law 04/L-101 on Pension Funds of Kosovo, amended and supplemented by the Law 04/L-115 and Law 04/L-168. The purpose of amending this law was to further increase the security related to administration and management of pension assets. In March 2017, Law No. 03/L-209 on Central Bank of the Republic of Kosovo was amended and supplemented, thus further improving the CBK governing and controlling framework in accordance with EU legislation and best international practices for central banks.

Whereas, as regards the fulfilment of 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 and confirmed. More specifically, the regulatory framework of financial institutions activity has been advanced with the aim of harmonization with the new and existing legislation.

In addition, the legal activity has continued with the conclusion of cooperation agreements with local and foreign institutions in order to perform more efficient tasks related to issues within the areas of mutual competencies of respective institutions.

In the process of legal activity, 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 follow up of new legal and technological developments and take the necessary steps to meet all the objectives and the duties set by law, in order to ensure a stable, secure and sustainable financial system.

6.4. Information Technology

During 2017, the CBK has advanced IT systems, by updating and enhancing security through the implementation of controls in line with international standards. Services were supported and provided, according to requests from businesses.

Some of the key projects implemented include: finalizing the system for dual authentication, redesigning the computer networks, adapting security requirements according to specific system features and remote access for CBK staff. Also, in 2017, full test of the Business Continuity Centre and Business Plan was carried out. The Business Continuity Management Team has simulated the situation where the CBK's main building is not accessible and has continued its work at the Business Continuity Centre in Prizren.

6.5. Risk Management Function

Operational Risk Management and avoidance of potential losses from operational activities have enjoyed significant attention during 2017. In this area is continued with the increase of the level

of risk management integration across all process carriers for the reporting framework and operational risk recognition parameters.

Special attention has been paid to the adequacy of key risk indicators development and reporting on emergency risks. The evaluation of the adequacy of risk management has been weighed against the strategic objectives of the work units set out in the strategic plan of the CBK and the operational responsibilities of each working unit.

Significant activities in this reporting period are the advancement of the regulatory framework by adding reporting lines, assessment and monitoring of risks reported by operational risk self-assessment templates, operational risk assessment for organizational units and quarterly risk management reporting.

The Risk Management Department has coordinated control and evaluation activities with other protection lines, in particular co-ordination with Internal Audit, with which it has closely cooperated by providing information from operational risk assessments per organizational units.

The CBK is oriented towards building of a strong Risk Management culture, built on ethical practices and integrity of work. Priority for 2018 will be the completion of the regulatory framework, the promotion of risk measurement instruments and the operational risk assessment for the operational nature organizational units in accordance with the 2018 annual plan.

7. External relations and international cooperation

7.1. International cooperation

The Central Bank of the Republic of Kosovo (CBK), in compliance with its responsibilities, continued to develop functional relations and cooperation with the main financial international institutions such as: International Monetary Fund (IMF), USAID, the World Bank (WB), the European Central Bank (ECB) and the European Banking Authority (EBA) and other institutions. This cooperation has also been manifested in meetings and round tables with European financial and central institutions and central banks of different countries.

In the spirit of this cooperation, in 2017, the Central Bank of the Republic of Kosovo, in cooperation with the Oesterreichische Nationalbank (OeNB) and the European Investment Bank (EIB) has organized the international conference on the topic "Access to Finance, Bank lending and the Banking Sectors in Central, Eastern and South-eastern Europe" where senior officers from numerous international financial institutions, central banks and commercial banks participated.

In 2017, the CBK was active in reaching new international agreements, where it is worth mentioning the cooperation agreement in the field of management of assets and investments between the Central Bank of the Republic of Kosovo and the Federal Reserve Bank of New York.

The Central Bank of the Republic of Kosovo has also participated in numerous meetings, conferences and roundtables and forums organized in the region and beyond. CBK participated in regular spring and annual meetings of IMF and WB, which have taken place in Washington D.C. During these events, the CBK delegation held meeting with senior officers of International Monetary Fund and World Bank, officers of American Department of Treasury and with representatives of other international financial institutions.

During 2017, the CBK expanded cooperation with the National Bank of Sweden (Sveriges Riksbank), where the delegation of CBK, headed by the Chairman of the Board and collaborators, met with the Chair of the General Council in Riksbank, Mrs. Susanne Eberstein, Deputy Chair of the General Council, Mr. Michael Lundholm, Governor, Mr. Stegan Ingves and Deputy Governor, Mr. Henry Ohlsson. On this occasion the representatives of the National Bank of Sweden promised CBK delegation support for electronic payment project called "Swish" that was developed by this bank some time ago.

With regards to the international representation events, the senior management of Central Bank of the Republic of Kosovo participated in:

- Dubrovnik Forum organized by the National Bank of Croatia and IMF. This high level forum, in addition to the governors and ministers of finances of states of Central, East and South-East Europe, was also attended by the IMF Managing Director, Christine Lagarde, with whom the CBK Governor held a meeting.
- Meeting of Governors in Umag, organized by the National Bank of Croatia and Croatian Magazine "Lider".
- Summit of Governors of Central Banks, Ministers of Finance and Directors of Tax Administration of the Region, which was held in Bečić, Montenegro, on the topic "Regional Financial Stability in the New Global Environment".
- Annual conference of Bank of Albania and South East European Studies Centre of the University of Oxford.

- Annual meeting of the EFSE (European Fund for Southeast Europe) in Split, Croatia, titled “Enabling Financial Inclusion, Start-ups and Entrepreneurship”.
- Event on the occasion of publication of the report “Risks and Returns: Managing Financial Trade-Offs for Inclusive Growth in Europe and Central Asia” of World Bank in Vienna, Austria.
- Meetings of the Constituency of International Monetary Fund and World Bank in Ljubljana, Slovenia.

In the framework of the cooperation with international institutions, CBK, represented by the Governor, conducted an official visit to the financial institution in Germany, whereby receiving promises for continuing the cooperation, as well as possibility for expanding fields of inter-institutional cooperation.

During 2017, delegations and senior officers of international financial institutions, ambassadors accredited to Kosovo and other senior officers of relevant institutions paid a visit to the Central Bank of the Republic of Kosovo.

During 2017, the CBK hosted visits and meetings were held with IMF senior officers and at this level of cooperation, the Governor of the Central Bank of the Republic of Kosovo met with the delegation from the International Monetary Fund chaired by Mr. Jacques Miniane, outgoing IMF Chief of Mission for Kosovo and Mrs. Stephanie Eble, New Chief of Mission for Kosovo. The Central Bank of Kosovo has hosted officers of the Federal Reserve Bank of New York, whereby discussing, among others, the cooperation in the field of management of assets and investments.

Also, Mr. Fadil Bajrami, Vice Governor in the National Bank of the Republic of Macedonia, visited CBK, where he was hosted by the CBK management.

The Central Bank of the Republic of Kosovo has been represented by the Deputy Governor of CBK in the annual ceremony for certification of new actuaries in Tirana, where the Deputy Governor gave a speech and participated in the handing over of diplomas for new actuaries.

In addition to the organization of the traditional end-year conference of the Governor with media, the CBK management appeared even in domestic and international media and presented the CBK objectives and activities, with a special emphasis on financial system developments in the country.

7.2. Financial education

In line with the CBK's primary objective of maintaining and ensuring financial stability, the Department of Foreign Relations has continued to advance financial knowledge through advancing the field of financial education.

The Executive Board of the CBK in April 2017 has adopted the Financial Education Program which establishes the basis and the framework of activities and developments in this field.

DER has continued to prepare and develop events and educational activities by targeting different levels and groups of the public. In the framework of these activities, for the fourth consecutive year, Banks and Financial Institutions worldwide organized the Global Money Week. Within this week, many activities have been conducted, such as:

- Lectures at private and public universities from the senior management of CBK.
- Visits to elementary schools and organization of financial education activities during these visits.

- In cooperation with the Kosovo Banking Association and the Kosovo Museum, DER organized educational activities at the Kosovo Museum throughout the week with students of various schools, including students with special needs and minority students.

In order to advance and enhance financial education in Kosovo, DER (in cooperation with EFSE and the Kosovo Banking Association) has organized the Third Meeting of the Regional Working Group for Youth Financial Education and Financial Inclusion for South-Eastern Europe, where representatives from 24 local and international institutions participated. Within this International Conference, the achievements and development in the area of financial education from 10 countries in the region and beyond were presented. In order to improve the information and knowledge about this field, CBK has invited participants from the main financial institutions in the country. CBK during this conference has launched the Financial Literacy and Training Center in Prizren which was visited by conference participants. This Centre will have a significant impact on the organization of educational activities with local and international institutions.

In the framework of financial education DER has marked the World Savings Day, organizing a coin exhibition at the CBK, and invited primary school students to visit this exhibition, where games and educational activities were conducted, in accordance with the age of students participating in these activities.

During 2017, DER hosted visits by students and pupils of educational institutions, universities, primary and secondary schools who were closely informed of the role and functions of CBK.

Also during this period DER has prepared brochures and educational material that were distributed to pupils or students at various events and activities organized by CBK.

7.3. Technical Assistance

During 2017, CBK continued to benefit from technical assistance provided by international financial institutions and various donors.

The assistance was mainly provided by the International Monetary Fund, the U.S. Treasury, USAID, World Bank, the European Bank for Reconstruction and Development, GIZ and European Fund for South-East Europe (EFSE).

These institutions continued the provision of support for project implementation, with a special emphasis on the capacity building of CBK in the advancement and drafting of the regulatory framework in compliance with European directives. The US Treasury continued to support the CBK with expertise in development policy of financial sector, macro prudence field and corporate governance.

Support has been provided in the field of macro prudence and statistics, where on this occasion the CBK institution was assisted in implementing the Macro Prudence Framework and advancement of statistics by experts of International Monetary Fund. Support has also been provided in the field of insurance company supervision by the IMF Technical Assistance Mission. During 2017, assistance has been provided by EBRD in drafting the factoring regulatory framework, as well as for drafting the regulatory framework for liquidation of banks to ensure compliance with EU directives.

During 2017, specifically Department of Insurance Supervision during September hosted a mission of IMF Technical Assistance aimed at monitoring the implementation of 2016 recommendations. This mission known as "Technical Assistance – Mission for Diagnostic Review of the Supervision and Regulatory Framework of the Insurance Sector" stayed in CBK during the period 19-26 September 2017. A mission of the Department of Statistics of International

Monetary Fund (IMF) visited Prishtina during the period 6-13 April 2017 to assist authorities in the implementation of the Enhanced General Data Dissemination System (e-GDDS) approved by the Executive Board in May 2015. The mission supported the upgrade of current National Summary Data Page (NSDP). Since May 2017, the new version continues to be posted in the website of the Central Bank of the Republic of Kosovo, presenting the main macro-economic data under the standard required by IMG, SDMX. NSDP website contains links to the statistics published by the official data producers, namely Central Bank of the Republic of Kosovo, Kosovo Agency of Statistics and Ministry of Finance in Kosovo.

The Division for Prevention of Money Laundering benefited in two projects within the funds of Instrument of Pre-accession Assistance IPA, where it is a part along with other Kosovo institutions. These projects are: 1) "Project against Economic Crime" funded by the European Council and European Union Office, 2) "Further Support to Kosovo Institutions in the Fight against Organized Crime, Corruption and Violent Extremism". The benefit from these projects was mainly in the form of training sessions and awareness-raising, as well as drafting the legislation in the relevant field.

During the previous year, the Department of Foreign Relations has been supported by EFSE for organizing activities and developing the financial education programme. Based on these supports, the CBK, in view of advancing the financial education function, with the support of the European Fund for South-Eastern Europe (EFSE) and support of other donors will continuously engage in building capacities for development of this important component.

The Central Bank of the Republic of Kosovo will remain devoted and grateful for all the support which is provided by international financial institutions and various donors.

7.4. European integration

The Central Bank of the Republic of Kosovo during the year reported to the institutions with which it cooperates in the field of reporting related to the processes of integration field. An important role in this field has the cooperation with the Ministry of European Integration, which is responsible for the European Integration process. Also, it has cooperated with other ministries, such as Ministry of Finance and Ministry of Trade and Industry, as well as EU Office in Prishtina.

During 2017, it has been reported for the first input of institutions of the Republic of Kosovo, as a new form of reporting (ex Progress Report) and it should be emphasized that this year is the first time of reporting through the country questionnaire, using this universal reporting approach similar to all Western Balkan countries. This form of reporting has taken place twice during 2017.

The CBK participated in the legislation screening process in order to finalize the Legislative Review Table in the project organized by the Ministry of Trade and Industry in cooperation with the Legal Office of the Prime Minister. Also, it has been reported in the Sub-committees of the European Commission, where the CBK actively participates in two sub-committees: sub-committee for economy, financial issues and statistics, as well as sub-committee for internal market, competitiveness and consumer protection (both these reporting meetings have taken place in Brussels). The CBK has fulfilled its duties in continuity, resulting in high level of NPISAA implementation.

At the end of 2017, a review of the NPISAA for 2018 was carried out, whereby planning short-term legislative and implementing measures to be carried out during 2018.

Basic duties and obligations of CBK deriving from SAA are:

Title V Establishment, Supply of Services and Capital;

Chapter I – Establishment, Chapter II - Supply of Services, Chapter IV - Current payments and movement of capital, Chapter V – General Provisions;

Title VI – Approximation of Kosovo’s Law to the EU Acquis, Law Enforcement and Competition Rules (Article 81 – Consumer Protection);

Title VII – Freedom, Security and Justice, Article 89 Money laundering and financing of terrorism;

Title VIII – Cooperation Policies;

Title IX – Financial Cooperation (Annex VI, Article 50 Financial Services);

Annex IV, Article 50.

8. CBK Financial Statements



Central Bank of the Republic of Kosovo
Financial Statements
as at and for the year ended 31 December 2017

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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 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2017, 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 2017, and its financial performance and its cash flows for the year ended 31 December 2017 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 d.p.k.

Deloitte Kosova L.L.C.
Str. Lidhja e Pejës, No. 177
Prishtina, Republic of Kosovo
Registration No.: 80452632
30 April 2018

Central Bank of the Republic of Kosovo

Statement of financial position

At 31 December 2017

<i>In thousands of EUR</i>	Note	2017	2016
Assets			
Cash on hand	7	188,547	154,800
Current accounts with non-resident banks	8	422,009	207,742
Treasury bills	9	592,712	572,375
Deposit accounts with non-resident banks	10	68,178	195,049
Assets related with IMF	11	325,764	275,561
Property and equipment	12	5,329	4,484
Intangible assets	13	2,065	2,271
Other assets	14	9,101	1,284
Total assets		1,613,705	1,413,566
Liabilities			
Due to domestic banks	15	331,826	296,399
Due to IMF related accounts	16	318,616	283,009
Due to governmental institutions	17	811,341	718,435
Due to public and commercial entities	18	95,807	58,867
Borrowings	19	2,266	2,133
Other liabilities	20	2,047	2,040
Total liabilities		1,561,903	1,360,883
Capital and reserves			
Authorized capital	21	30,000	30,000
Reserve fund	21a	22,683	21,023
Revaluation reserve		-	-
Retained earnings		(881)	1,660
Total capital and reserves		51,802	52,683
Total liabilities, capital and reserves		1,613,705	1,413,566

These financial statements set out on pages 5 to 45 were approved by the management of CBK on April 30, 2018 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 2017

<i>In thousands of EUR</i>	Note	2017	2016
Interest income			
Interest income		2,002	1,640
Interest expense		(1,036)	(362)
Net interest income	22	966	1,278
Fee and commission income			
Fee and commission income		2,101	1,962
Fee and commission expense		(370)	(294)
Net fee and commission income	23	1,731	1,668
Regulatory and other operating activities income			
Regulatory activity income	24	4,178	4,046
Grant income	25	106	80
Other operating income	26	6	517
Foreign exchange net profit / loss	29	(1,225) ¹	(22)
Operating revenue		5,762	7,567
Operating expenses			
Personnel expenses	27	(4,453)	(3,991)
Depreciation and amortization	12,13	(978)	(713)
General and administrative expenses	28	(1,212)	(1,203)
Operating expenses		(6,643)	(5,907)
Profit / loss for the year		(881)¹	1,660
Other comprehensive income		-	-
Total comprehensive income for the year		(881)	1,660

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

¹ The profit / loss for 2017, 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 2017.

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 2017 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 2017

	Capital	Reserve fund	Revaluation fund	Retained Earnings	Total
<i>In thousands of EUR</i>					
Balance at 1 January 2017	30,000	21,023	-	1,660	52,683
Transfer to reserve fund	-	1,660	-	(1,660)	-
Total transactions required by law	-	1,660	-	(1,660)	-
Profit for the year	-	-	-	(881)	(881)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(881)	(881)
Balance at 31 December 2017	30,000	22,683	-	(881)	51,802
Balance at 1 January 2016	30,000	20,171	164	688	51,023
Transfer to reserve fund	-	852	(164)	(688)	-
Total transactions required by law	-	852	(164)	(688)	-
Profit for the year	-	-	-	1,660	1,660
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	1,660	1,660
Balance at 31 December 2016	30,000	21,023	-	1,660	52,683

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 2017

<i>In thousands of EUR</i>	Note	2017	2016
Cash flows from operating activities			
Profit for the year		(881)	1,660
<i>Adjustments for:</i>			
Depreciation	12	615	464
Amortization	13	363	249
Grant revenue	25	(106)	(80)
Profit on sale of equipment		-	-
Interest income	22	(2,002)	(1,640)
Interest expense	22	1,036	362
		(975)	1,015
Change in treasury bills		(25,441)	(438,693)
Change in deposit accounts with non-resident banks		135,000	610,027
Change in assets with IMF		(49,880)	(7,255)
Change in other assets		(7,817)	(387)
Change in due to domestic banks		35,427	(20,007)
Change in due to IMF related accounts		35,288	9,084
Change in due to governmental institutions		92,905	(17,309)
Change in due to public and commercial entities		36,941	(23,782)
Change in borrowings		133	1,453
Change in Other liabilities		109	171
		251,690	114,317
Interest received		(2,344)	1,787
Interest paid		(717)	(331)
Net cash generated from/used in operating activities		248,629	115,773
Cash flows from investing activities			
Proceeds from sale of equipment		-	-
Purchase of equipment	12	(1,461)	(2,576)
Purchase of intangible assets	13	(157)	(968)
Net cash used in investing activities		(1,618)	(3,544)
Cash flows from financing activities			
Proceeds from grants		5	149
Net cash generated from financing activities		5	149
Net increase / decrease in cash and cash equivalents		247,016	112,378
Effect of exchange rate		-	-
Cash and cash equivalents at 1 January		371,711	259,333
Cash and cash equivalents at 31 December	30	619,728	371,711

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 2017

(in thousands of EUR, unless otherwise stated)

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 four² 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 2017, the Board of the Central Bank of Kosovo comprised of the following members:

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

As at 31 December 2017, 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.

² A non-executive member is vacant.

Banka Qendrore e Republikës së Kosovës

Shënimet mbi Pasqyrat Financiare për vitin e mbyllur më 31 dhjetor 2017

(në mijë Euro, nëse nuk është theksuar ndryshe)

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 2017

(in thousands of EUR, unless otherwise stated)

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 2017

(in thousands of EUR, unless otherwise stated)

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 2017

(in thousands of EUR, unless otherwise stated)

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 2017

(in thousands of EUR, unless otherwise stated)

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 2017

(in thousands of EUR, unless otherwise stated)

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:

	2017	2016
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 2017

(in thousands of EUR, unless otherwise stated)

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 2017

(in thousands of EUR, unless otherwise stated)

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:

- **Amendments to IAS 7 “Statement of Cash Flow”** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017)
- **Amendments to IFRS 12 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 12 are to be applied for annual periods beginning on or after 1 January 2017).

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 2017

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

p) Changes in accounting policies and disclosures (continued)

ii) Standards and Interpretations in issue not yet adopted

Standards and interpretations issued but not yet in effect until the date of issuance of the bank's financial statements are discussed below. The company intends to adopt these standards, if applicable, upon their entry into force.

In July 2014, the IASB published the final version of IFRS 9 Financial Instruments replacing IAS 39 Financial Instruments: Recognition and Measurement and all previous versions. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

- **IFRS 9 Financial Instruments**

Classification – Financial Assets:

IFRS 9 contains a new classification and measurement method for financial assets that reflect the business model in which assets and their cash flow characteristics are managed.

IFRS 9 includes three main categories of classification for financial assets: measured at amortized cost, FVOCI³ and FVTPL⁴. It eliminates the existing categories of IAS 39 held at maturity, loans and receivables and available for sale.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not defined as in the FVTPL:

- it is kept within a business model whose objective is to retain funds to collect contractual cash flow; and
- its contractual terms bring to the specified dates cash flows which are solely principal and interest payments (SPPI) to the principal outstanding amount.

A financial asset is measured in FVOCI only if it meets both of these conditions and is not defined as in FVTPL:

- it is kept within a business model, whose objective is achieved by collecting cash flows and selling financial assets; and
- its contractual terms result in specified dates of cash flows, which are only principal and interest payments for the principal outstanding amount.

For initial recognition of a non-trading capital investment, the Company may opt irrevocably to present subsequent changes to fair value in OCI⁵. These choices are made on an investment basis.

All financial assets that are not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. In addition, at initial recognition, the Company may irrevocably determine a financial asset that meets other requirements to be measured at amortized cost or FVOCI as in FVTPL, if it does so substantially eliminates or reduces an accounting mismatch that would be born differently. A financial asset is classified into one of these categories at initial recognition.

³ FVOCI – method according to Fair Value through Other Comprehensive Income.

⁴ FVTPL – method according to Fair Value through Profit or Loss.

⁵ OCI – Other comprehensive income.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2017

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

p) Changes in accounting policies and disclosures (continued)

ii) Standards and Interpretations in issue not yet adopted (continued)

- IFRS 9 Financial Instruments (continued)

Impact Assessment

The Standard will affect the classification and measurement of financial assets held on 1 January 2018, as follows.

— Trade assets and derivative financial assets held for risk management that are classified as held for trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.

— Loans and advances to banks and customers classified as loans and receivables and measured at amortized cost under IAS 39 will be measured at amortized cost under IFRS 9.

— Investment securities held to maturity and measured at amortized cost under IAS 39 will generally be measured at amortized cost under IFRS 9.

— Debt securities that are classified as available for sale under IAS 39 may be measured under IFRS 9 at amortized cost, FVOCI and FVTPL, depending on the particular circumstances.

— Loans and advances to customers and investment securities that are designated as at FVTPL under IAS 39 will continue to be measured at FVTPL under IFRS 9.

Given the nature of the Bank's financial instruments, the Management expects no significant impact on the statement of financial position or equity in applying the classification and measurement requirements of the IFRS 9. It is expected that the amortized cost measurement will continue for all financial assets currently held at amortized cost.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2017

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

p) Changes in accounting policies and disclosures (continued)

ii) Standards and Interpretations in issue not yet adopted (continued)

- **IFRS 15 “Revenue from Contracts with Customers”** and further amendments (effective for annual periods beginning on or after 1 January 2018)
- **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 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”** - The application of IFRS 9 “Financial Instruments” to IFRS 4 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” applies for the first time),
- **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 his Contributor or Joint Venture and further amendments (effective date is postponed for an indefinite period until the research project on the equity method has been completed),
- **Amendments to IAS 19 “Employee Benefits”** – Amendment of plan, reduction 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 an associate and joint venture (effective for annual periods beginning on or after 1 January 2019),
- **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),
- **Amendments to various standards “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),
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018),
- **IFRIC 23 “Uncertainty over Income Tax Treatments”** (effective for annual periods beginning on or after 1 January 2019).

The institution (the Bank) has chosen not to adopt these standards, revisions and interpretations prior to their effective dates. The Bank provides that the adoption of such standards, revisions and interpretations will not have a material impact on the financial statements during the initial application period.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2017

(in thousands of EUR, unless otherwise stated)

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 2017

(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 2016 and 31 December 2017, 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 to 1 year	3 mon. to 1 year	1 year to 5 years	over 5 years
31 December 2017							
<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	-	-	-	-
		1,560,612	1,397,562	-	4,171	157,066	1,813
31 December 2016							
<i>Non-derivative liabilities</i>							
Due to domestic banks	15	296,399	296,399	-	-	-	-
Due to IMF related accounts	16	283,009	181,518	12,469	17,348	71,674	-
Due to governmental institutions	17	718,435	718,435	-	-	-	-
Due to public and commercial entities	18	58,867	58,867	-	-	-	-
Due to borrowings	19	2,133	-	-	-	226	1,907
Other liabilities	20	756	756	-	-	-	-
		1,359,599	1,255,975	12,469	17,348	71,900	1,907

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Notes to the financial statements for the year ended 31 December 2017

(in thousands of EUR, unless otherwise stated)

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 2017

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk – non-trading portfolios

	Note	Amount carried forward	Less than 3 months	3-6 months	6-12 months	1-5 years	Over 5 years
31 December 2017							
Current accounts with non-resident banks	8	422,009	422,009	-	-	-	-
Securities (Bonds and 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	-
Total		1,327,236	513,734	2,999	82,990	727,513	-
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)
Due to Other liabilities	20	(756)	(756)	-	-	-	-
Total		(1,486,018)	(1,322,968)	-	-	(160,784)	(2,266)
Gap		(158,782)	(809,234)	2,999	82,990	566,729	(2,266)
31 December 2016							
Current accounts with non-resident banks	8	207,742	207,742	-	-	-	-
Securities (Treasury bills)	9	572,375	9,406	25,550	5,496	531,923	-
Deposit accounts with non-resident banks	10	195,049	-	-	195,049	-	-
Assets in IMF related accounts	11	188,376	86,885	12,469	17,348	71,674	-
Total		1,163,542	304,033	38,019	217,893	603,597	-
Due to domestic banks	15	(296,399)	(296,399)	-	-	-	-
Due to IMF related accounts	16	(203,258)	(101,767)	(12,469)	(17,348)	(71,674)	-
Due to governmental institutions	17	(718,435)	(718,435)	-	-	-	-
Due to public and commercial entities	18	(58,867)	(58,867)	-	-	-	-
Due to borrowings	19	(2,133)	-	-	-	-	(2,133)
Other liabilities	20	(756)	(756)	-	-	-	-
Total		(1,279,848)	(1,176,224)	(12,469)	(17,348)	(71,674)	(2,133)
Gap		(116,306)	(872,191)	25,550	200,545	531,923	(2,133)

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 2017

(in thousands of EUR, unless otherwise stated)

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:

2017

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

2016

	100 pb Increase	100 pb Decrease
Estimated profit (loss) effect	1,163	(1,163)

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:

2017

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

2016

	100 pb Increase	100 pb Decrease
Estimated profit (loss) effect	149	(149)

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2017

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

31 December 2017	EUR	USD (Equivalent in EUR)	SDR (Equivalent in EUR)	Total
Assets				
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
Total	1,272,729	8,399	325,183	1,606,311
Liabilities				
Due to domestic banks	331,826	-	-	331,826
Due to IMF related accounts	581	-	318,035	318,616
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
Total	1,243,868	-	318,035	1,561,903
Net foreign currency position	28,861	8,399	7,148	44,408

31 December 2016	EUR	USD (Equivalent in EUR)	SDR (Equivalent in EUR)	Total
Assets				
Cash on hand	154,800	-	-	154,800
Current accounts with non-resident banks	207,742	-	-	207,742
Treasury bills	572,375	-	-	572,375
Deposit accounts with non-resident banks	195,049	-	-	195,049
Assets with the IMF related accounts	257	-	275,304	275,561
Other assets	4,484	-	-	1,284
Total	1,245,210	-	275,304	1,406,811
Liabilities				
Due to domestic banks	296,399	-	-	296,399
Due to IMF related accounts	193,719	-	89,547	283,266
Due to governmental institutions	718,435	-	-	718,435
Due to public and commercial entities	58,867	-	-	58,867
Due to borrowings	2,133	-	-	2,133
Other liabilities	2,040	-	-	2,040
Total	1,271,594	-	89,547	1,361,141
Net foreign currency position	(26,384)	-	72,054	45,670

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2017

(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 2017 and 2016 were as follows:

	2017	2016
	EUR	EUR
1 SDR	1.18747	1.27534
1 USD	0.83380	0.94870

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 2017

(in thousands of EUR, unless otherwise stated)

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

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(in thousands of EUR, unless otherwise stated)

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 2017

(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
31 December 2017						
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
		936,320	660,890	-	1,597,210	1,597,402
Due to domestic banks	15	-	-	331,826	331,826	331,826
Due to IMF related accounts	16	-	-	318,616	318,616	318,616
Due to governmental institutions	17	-	-	811,341	811,341	811,341
Due to public and commercial entities	18	-	-	95,807	95,807	95,807
Due to borrowings	19	-	-	2,266	2,266	2,266
Other liabilities	20	-	-	756	756	756
		-	-	1,560,612	1,560,612	1,560,612
31 December 2016						
Cash on hand	7	154,800	-	-	154,800	154,800
Current accounts with non-resident banks	8	207,742	-	-	207,742	207,742
Treasury bills	9	-	572,375	-	572,375	567,381
Deposit accounts with non-resident banks	10	-	195,049	-	195,049	195,049
Assets related with IMF	11	275,561	-	-	275,561	275,561
		638,103	767,424	-	1,405,527	1,400,533
Due to domestic banks	15	-	-	296,399	296,399	296,399
Due to IMF related accounts	16	-	-	283,009	283,009	283,009
Due to governmental institutions	17	-	-	718,435	718,435	718,435
Due to public and commercial entities	18	-	-	58,867	58,867	58,867
Due to borrowings	19	-	-	2,133	2,133	2,133
Other liabilities	20	-	-	756	756	756
		-	-	1,359,599	1,359,599	1,359,599

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2017

(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:

	2017	2016
Deutsche Bundesbank	62,776	-
Raiffeisen Zentralbank	44,800	29,421
Banque Centrale du Luxembourg	39,846	-
Deutsche Bank	195,262	97,408
Commerzbank AG	499	79,913
Bayerische Landesbank	78,599	1,000
Federal Reserve Bank (FED-NY)	227	-
Total	422,009	207,742

All current accounts of the above banks have credit ratings of A-2u/P-2, as per 2017 rankings by Standard & Poors/Moody's. The decrease compared to the 2016 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 2017 (while in 2016: 0.008% up to 1.716% p.a.).

Analytical disclosure of securities by type and by issuing countries:

As per countries:

	2017	2016
France	10,036	-
Netherlands	-	50,248
Italy	359,513	368,853
Slovenia	22,840	23,542
EuroFima-Switzerland	6,253	-
Kosovo	194,070	129,733
Total	592,712	572,375

As per type:

	2017	2016
Treasury bills	20,970	40,452
Government bonds	571,742	531,923
Total	592,712	572,375

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2017

(in thousands of EUR, unless otherwise stated)

9. Securities (treasury bills and government bonds) – continued

Credit rating for financial instruments that CBK has invested for the year ended on 31 December 2017 was BBB and Baa2, according to Standard & Poor's /Moody's.

The increase compared to 2016 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).

10. Deposit accounts with non-resident banks

Deposit accounts with non-resident banks are composed as

follows:

	2017	2016
Term deposits		
Raiffeisen Zentralbank	60,000	195,000
Federal Reserve Bank (FED-NY)	8,171	-
	68,171	195,000
Interest accrued on term deposits		
Raiffeisen Zentralbank	6	49
Federal Reserve Bank (FED-NY)	1	-
	7	49
Total	68,178	195,049

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% (2016: 0.020% up to 0.460% annual) and have original maturities from 1 to 368 days (2016: from 3 to 368 days). All deposits have minimum credit ratings of A-2/P-2, according to the ratings for 2017 by Standard & Poors/Moody's.

Comparing the end of the year 2016, there is a decrease of the position at the end of 2017 compared to 2016, 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 2017

(in thousands of EUR, unless otherwise stated)

11. Assets related with IMF

	2017	2016
IMF quota	98,085	105,343
SDR Holdings	66,314	56,001
Accrued interest	581	257
IMF	164,980	161,601
Government		
Due from the Government for the use of IMF funds (SBA)	160,784	113,960
Total	325,764	275,561

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 2017 ranging from 0.241% to 0.742% p.a. (2016: 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 2016, 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 2017 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 2017 annually fluctuates from 1.247% to 1.752% (in 2016 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 2017

(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
Cost						
At 1 January 2016	2,064	1,804	1,398	320	157	5,743
Acquisitions	356	202	546	-	1,472	2,576
Transfer from/to	-	-	122	-	(122)	-
Transfer from/to (adjustment)	-	-	-	-	-	-
Disposals	-	(2)	-	-	-	(2)
At 31 December 2016	2,420	2,004	2,066	320	1,507	8,317
At 1 January 2017	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)
At 31 December 2017	2,873	2,203	2,133	320	2,248	9,777
Depreciation						
At 1 January 2016	677	1,470	1,021	203	-	3,371
Depreciation of the year	113	111	211	29	-	464
Transfer from/to (adjustment)	-	-	-	-	-	-
Disposals	-	(2)	-	-	-	(2)
At 31 December 2016	790	1,579	1,232	232	-	3,833
At 1 January 2017	790	1,579	1,232	232	-	3,833
Depreciation of the year	131	153	302	29	-	615
Transfer from/to (adjustment)	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At 31 December 2017	921	1,732	1,534	261	-	4,448
Carrying amounts						
At 1 January 2016	1,387	334	377	117	157	2,372
At 31 December 2016	1,630	425	834	88	1,507	4,484
At 31 December 2017	1,952	471	599	59	2,248	5,329

There are no assets pledged as collateral as at 31 December 2017 (31 December 2016: nil).

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2017

(in thousands of EUR, unless otherwise stated)

13. Intangible assets

Intangible assets are composed as follows:

	Software under development	Software	Total
Cost			
Balance at 1 January 2016	483	2,291	2,774
Acquisitions	-	968	968
Transfers (from)/to	(483)	483	-
Transfers (from)/to (adjustments)	-	-	-
Disposals	-	(25)	(25)
Balance at 31 December 2016	-	3,717	3,717
Balance at 1 January 2017	-	3,717	3,717
Acquisitions	89	68	157
Transfers (from)/to	-	-	-
Transfers (from)/to (adjustments)	-	-	-
Disposals/write offs	-	-	-
Balance at 31 December 2017	89	3,785	3,874
Amortization			
Balance at 1 January 2016	-	1,222	1,222
Amortization for the year	-	249	249
Disposals	-	(25)	(25)
Balance at 31 December 2016	-	1,446	1,446
Balance at 1 January 2017	-	1,446	1,446
Amortization for the year	-	363	363
Disposals/write offs	-	-	-
Balance at 31 December 2017	-	1,809	1,809
Amounts carried forward			
Balance at 1 January 2016	483	1,069	1,552
Balance at 31 December 2016	-	2,271	2,271
Balance at 31 December 2017	89	1,976	2,065

14. Other assets

Other assets are composed as follows:

	2017	2016
Accrued fee income	1,129	1,059
Accounts receivables and prepayments	7,972	225
Total	9,101	1,284

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 2017

(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.

Due to domestic banks	2017	2016
ProCredit Bank Kosovo	31,884	31,764
Raiffeisen Bank Kosovo	35,811	35,625
NLB Prishtina	19,852	4,306
Banka Ekonomike	8,086	7,404
Banka për Biznes	7,551	5,629
Banka Kombëtare Tregtare (Prishtina branch)	10,911	8,945
Banka Ekonomike Turke (TEB)	16,099	15,227
Komercijalna Banka – Mitrovica branch	2,854	2,630
Turkiye is Bankasi a.s.	2,587	2,085
T.C. Ziraat Bankasi A.S. – Kosovo branch	505	190
Banka Kreditore e Prishtinës	-	-
Total required reserve	136,140	113,805
Additional amount on the required reserve		
ProCredit Bank Kosovo	15,853	13,154
Raiffeisen Bank Kosovo	20,932	34,019
NLB Prishtina	46,581	37,553
Banka Ekonomike	22,468	29,463
Banka për Biznes	26,447	21,619
Banka Kombëtare Tregtare (Prishtina branch)	12,316	17,100
Banka Ekonomike Turke (TEB)	33,899	16,761
Komercijalna Banka – Mitrovica branch	2,767	2,563
Turkiye is Bankasi a.s.	13,593	9,270
T.C. Ziraat Bankasi A.S. –Kosova branch	822	916
Banka Kreditore e Prishtinës	8	176
Total addition on current account	195,686	182,594
Total amount on current account	331,826	296,399

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2017

(in thousands of EUR, unless otherwise stated)

16. Due to IMF related accounts

	2017	2016
IMF Account no. 1	245	264
IMF Account no. 2	6	6
IMF Security Account	234,797	193,450
IMF SDR - Allocation	65,748	70,613
Accrued interest	581	261
Total due to IMF	301,377	264,594

Due to Government

IMF – Paid proportion of Government quota	17,239	18,415
Total due to Government	17,239	18,415
Total	318,616	283,009

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. 2017 (2016: 0.050% - 0.243% p.a.).

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2017

(in thousands of EUR, unless otherwise stated)

17. Due to Governmental institutions

Due to Governmental institutions comprise current accounts as follows:

Current accounts	2017	2016
Treasury – Ministry of Finance	339,906	257,393
Privatization Agency of Kosovo	471,299	460,961
Interim administration institutions	136	81
Total	811,341	718,435

The effective annual interest rate for current accounts for the year ended on 31 December 2017 is zero (for the year ended on 31 December 2016: zero).

18. Due to public and commercial entities

	2017	2016
Current accounts		
Insurance companies	4,906	4,652
Other public institutions	90,899	54,213
Licensed Pension Funds	-	-
Other	2	2
Total	95,807	58,867

The effective interest for current accounts as at 31 December 2017 and 2016 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

	2017	2016
Borrowing/s	2,266	2,133
Total	2,266	2,133

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 2017

(in thousands of EUR, unless otherwise stated)

20. Other liabilities

	2017	2016
Safe custody accounts	756	756
Deferred grant income	591	691
Other deferred income	5	5
The reserve fund	162	162
Sundry creditors	533	426
	2,047	2,040

The change comes from the normal flow of activities within the group in the report with the disclosure dates.

As of 31 December 2017 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 2017 and 2016 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 2016	375	247	622
Grants received during the year	11	138	149
Grants recognized as revenue for the year	(69)	(11)	(80)
Deferred grant revenue at 31 December 2016	317	374	691
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)
Deferred grant revenue at 31 December 2017	258	333	591

21. Authorized capital

The CBK statutory fund as at 31 December 2017 and 2016 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 2017

(in thousands of EUR, unless otherwise stated)

22. Net interest income

Net interest income is composed as follows:

	2017	2016
Interest income		
From deposit accounts	108	655
From treasury bills	1,020	731
From current accounts	342	44
From negative rates in deposits	532	210
	2,002	1,640
Interest expense		
On current accounts from non-banking entities	359	57
To nostro accounts with correspondent banks	657	296
On term deposits	0	0
From borrowings	20	9
	1,036	362
Net interest income	966	1,278

23. Net fee and commission income

Net fee and commission income is composed as follows:

	2017	2016
Fee income		
From cash deposits	583	471
From foreign incoming transfers	76	71
From foreign outgoing transfers	305	345
From the inter-bank clearing system	973	915
From the credit registry system	127	126
Other fees	37	34
	2,101	1,962
Fee expenses		
For cash transportation	326	254
For correspondent bank transactions	44	40
	370	294
Net fee and commission income	1,731	1,668

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 2017

(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:

	2017	2016
Fee charged to commercial banks	2,636	2,501
Fee charged to insurance companies	1,303	1,346
Fee from non-bank financial institutions	212	175
Fee charged to pension fund institutions	27	24
Total	4,178	4,046

25. Grant income

Grant income is composed as follows:

	2017	2016
Treasury – Ministry of Finances (ICU portfolio)	64	69
World Bank	42	11
Total	106	80

26. Other operating income

Operating income:

	2017	2016
Other income (extraordinary)	6	517
Total	6	517

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 2017

(in thousands of EUR, unless otherwise stated)

27. Personnel expenses

Personnel expenses are composed as follows:

	2017	2016
Wages and salaries	3,528	3,132
Pension contributions	547	497
Health insurance costs	167	167
Staff training	91	77
Central Bank Board expenses	95	93
Other	25	25
Total	4,453	3,991

The number of employees that actively affected the cost disclosed for 2017 is 222 (2016: 215). As it can be seen from the Note above personnel expenses have increased in 2017 compared to 2016, and this is affected from the increase in the number of personnel and partially from the effect of work experience.

28. General and administrative expenses

General and administrative expenses are as follows:

	2017	2016
Insurance expenses	266	233
Repairs and maintenance	58	52
Software maintenance	275	267
Communication expense (telephone, telex and internet)	35	29
Utilities	105	86
Audit and consulting expense	16	11
Security and guard services	69	66
Travel and transportation	142	137
Vehicle operating expenses	21	32
Stationery	6	7
Representation expenses *	65	119
Other representation expenses *	12	14
Cafeteria expenses	41	39
Computer and other consumables expense	10	13
Consumable expenses for equipment	4	9
Publication and literature expenses	17	14
Technical professional assistance and other external services	6	3
Membership in professional organizations **	35	39
Other	29	33
Total	1,212	1,203

* Other Representation expenses are mainly representative lunches/dinners of the Bank, Representation expenses include: *conferences during 2017, 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 2016, 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 2017

(in thousands of EUR, unless otherwise stated)

29. Foreign exchange net profit/loss

Net loss from foreign exchange is 1,225 thousand Euro for the year ended 31 December 2017, (while in 2016: 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 2017	
		Assets	Liabilities
10	USD	10,072	-
11,16	SDR	273,844	267,825

		31 December 2016	
		Assets	Liabilities
10	USD	-	-
11,16	SDR	215,867	221,704

The effect of exchange rate variation on inclusive income

	31 December 2017	31 December 2016
from USD	(876)	-
from SDR	(349)	(22)
	(1,225)	(22)

The loss from the "exchange rate" change is a temporary non-operating position, deriving from foreign currency items (USD and SDRs disclosed above), which at the reporting date have to be reported in the euro equivalent, according to the foreign exchange rate at the reporting date. With the change of the foreign exchange rate, the difference (whether profit or loss) is derived, which as such only equates the financial items-the equivalent values, but which are not actual realizations (in our case there are no actual losses).

This has also affected the financial outcome "*total comprehensive income for*" 2017 to be negative. If this effect is excluded (respectively the amount of 1,225 thousand Euros as a non-factual loss), operating financial result for 2017 is about **344 thousand Euros**.

The US dollar position is with the Federal Reserve Bank of New York (FED) and is held for the purpose of managing portfolio investment activities within asset management. This activity has started since the second quarter of 2017.

The position of SDR – Special Drawing Rights is disclosed under the Note 11 and 16.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2017

(in thousands of EUR, unless otherwise stated)

30. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

	Note	2017	2016
Cash on hand	7	188,547	154,800
Current accounts with non-resident banks	8	422,009	207,742
Treasury bills with maturity up to three months	9	-	9,169
Deposit accounts with non-resident banks with maturity up to three months	10	8,171	-
Total		618,727	371,711

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 2017, however due to professional care, the CBK has estimated and recorded a provision disclosed under other liabilities, even though during 2017 this provision has not increased compared to the prior year.

Credit Related Commitments

As at 31 December 2017, the CBK had commitments to place deposits in the amount of 20 million Euro (31 December 2016, the CBK had commitments to place deposits in the total amount of 0 /zero/ million Euro).

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2017

(in thousands of EUR, unless otherwise stated)

31. Commitments and Contingencies (continued)

Credit Related Commitments (continued)

Other Commitments

Other commitments are composed as follows:

	2017	2016
Service contracts	168	139
Contracts for renovation of building	118	1,037
Equipment contracts	80	30
Total	366	1,206

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 2017 was 645 thousand and in 2016 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:

	2017	2016
Compensation to Central Bank Board members	75	78
Compensation to Audit Committee	9	9
Compensation to Key Management Personnel	186	192
Total	270	279

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.

9. 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	of which: Loans			
	Monetary gold and SDR	Deposits	Securities other than shares	of which:		Assets and other equities	Claims on central government		Liabilities to central government	of which:						
				IMF Quota						Other non-financial corp.	Households					
2007	1,622.4	1,704.6	—	955.0	408.9	—	175.4	82.3	124.5	-853.3	—	853.3	977.8	965.9	765.1	200.6
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	1,837.9	-305.3	454.3	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	2,091.3	-289.0	452.5	742.3	2,381.1	2,354.7	1,552.3	799.1
2017	2,784.3	3,449.0	66.3	723.0	639.8	98.1	1,483.0	664.8	2,367.6	-317.8	520.3	838.1	2,685.4	2,650.9	1,747.8	900.3

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

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 deposits	of which:			Other deposits	of which:			Net equity of households in pension funds		Payment of premiums and reserves				
		Public non-financial corp.	Other financial corp.	Households		Public non-financial corp.	Other non-financial corp.	Households							
2007	1,110.9	386.1	49.6	133.5	187.5	724.8	188.4	43.8	489.3	...	316.1	286.2	29.9	273.8	46.0
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	77.3
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	73.6
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	-31.3
2017	2,886.1	1,777.9	59.2	491.6	1,189.8	1,108.2	32.2	92.8	978.7	...	1,771.4	1,653.0	118.4	620.2	-125.8

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

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	of which:			Claims on central government	Minus: liabilities to central government	Loans	of which:				
					Other non-financial corp.	Households	Other non-financial corp.				Households				
2007	1,377.5	1,426.1	145.3	955.0	308.2	—	48.6	39.1	-853.3	—	853.3	892.4	892.1	691.3	200.6
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	650.7	-802.7	22.1	824.8	1,452.3	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	1,614.6	-405.7	353.9	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	1,841.8	-389.1	353.2	742.3	2,230.9	2,229.6	1,419.2	799.1
2017	1,418.2	1,952.7	357.1	714.7	637.6	98.1	534.5	2,060.7	-434.0	404.1	838.1	2,494.7	2,484.9	1,577.0	900.3

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

2.2. Deposit 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 non-financial corp.	of which:			Other deposits	Other financial corp.	Public non-financial corp.	of which:					
			Other non-financial corp.	Households	Other non-financial corp.				Households					
2007	1,126.6	413.7	27.7	49.6	133.5	187.5	712.8	40.3	188.4	41.8	439.0	53.7	186.4	49.8
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	1,746.2	672.6	53.1	83.8	218.6	303.5	1,073.6	85.2	30.2	73.5	883.7	138.2	278.5	84.4
2011	1,899.8	702.9	37.8	77.2	208.1	360.9	1,196.9	91.0	49.2	71.7	979.9	175.8	302.9	90.6
2012	2,035.1	757.8	41.9	31.2	257.5	407.2	1,277.3	100.4	49.8	70.5	1,053.1	206.2	321.1	128.5
2013	2,386.8	1,094.7	226.5	39.1	299.6	506.6	1,292.1	62.2	43.7	92.3	1,088.9	209.7	329.0	151.5
2014	2,285.8	1,193.0	60.8	21.1	338.4	743.5	1,092.7	67.2	39.4	50.2	930.6	208.7	373.8	150.6
2015	2,434.4	1,475.2	96.9	11.1	413.8	919.0	939.6	37.4	7.8	55.0	838.9	252.2	444.4	84.9
2016	2,639.1	1,700.3	70.2	24.7	456.0	1,116.1	938.7	50.5	20.1	56.4	811.3	243.3	474.1	-21.5
2017	2,805.7	1,866.9	89.0	59.2	491.6	1,189.8	938.8	68.2	20.0	70.0	776.1	260.5	525.1	-112.4

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

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	Liabilities to ODC
	Claims on non-residents							Minus: liabilities to non-residents	of which:				
	SDRs	Cash	Deposits	of which:		SDR allocations	IMF account						
				Securities other than shares	IMF Quota								
2007	1,057.6	1,057.6	—	63.8	759.0	229.3	—	...	—	—	-849.4	0.3	113.6
2008	1,110.7	1,110.7	—	39.7	529.0	541.3	—	...	—	—	-870.5	0.3	137.2
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	233.2
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	203.6
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	209.7
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	302.1
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	333.2
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	315.9
2015	1,046.4	1,302.6	65.1	15.3	1,046.3	100.2	75.1	256.1	70.5	184.8	-626.2	1.1	316.4
2016	895.2	1,161.7	56.0	154.8	402.7	438.4	105.3	266.5	70.6	193.7	-622.8	1.4	296.4
2017	939.5	1,242.6	66.3	188.5	491.1	394.3	98.1	303.2	65.7	235.0	-667.7	9.6	331.8

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**Table 3.2. CBK survey - Liabilities**

(In millions of EUR: End of period)

Description	Deposits included in broad money								Deposits included in the monetary base			Capital and other			Other items (net)
	Transferable deposits					Other deposits			Other non-financial corporations	Local government	Capital	Profit loss of the year			
	Other financial corporations	Local government	Public non-financial corporations	Other financial corporations	Other financial corporations	Other financial corporations									
2007	57.2	46.7	22.4	3.2	21.1	...	10.6	10.6	—	—	—	33.8	20.0	9.2	3.9
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	...	—	—	—	—	—	53.3	30.0	0.0	-6.2

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

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 non-residents			Minus: Liabilities to non-residents			Loans	Public nonfinancial corp.			of which:				
	Cash	Deposits	Securities other than shares	Deposits	Loans	Other non-financial corp.					Households				
2007	319.9	368.5	81.5	196.0	78.9	48.6	17.9	30.7	107.5	-3.9	892.1	892.1	0.2	691.3	200.6
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	478.8	710.1	168.6	223.7	243.4	231.3	115.6	113.4	330.7	233.7	2,484.9	2,484.9	2.4	1,577.0	900.6

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

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 non-financial corporations	Households			
	Other financial corp.	Public non-financial corp.	Other non-financial corp.	Households	Other financial corp.	Public non-financial corp.	Other non-financial corp.	Households								
2007	1,069.3	367.1	5.3	28.5	133.5	187.5	702.3	29.8	188.4	41.8	439.0	53.7	2.0	50.3	152.7	39.8
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	1,073.6	85.2	30.2	73.5	883.7	138.2	9.9	112.2	230.4	85.7
2011	1,862.8	665.9	10.1	67.9	208.1	360.9	1,196.9	91.0	49.2	71.7	979.9	175.8	8.0	149.7	252.8	102.2
2012	1,985.3	708.0	9.6	13.8	257.5	407.2	1,277.3	100.4	49.8	70.5	1,053.1	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	2,709.2	1,770.4	36.3	16.0	491.6	1,189.8	938.8	68.2	20.0	70.0	776.1	260.5	22.7	202.6	471.7	86.9

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

Table 5.1. OFC survey – net foreign assets and domestic claims

(In millions of EUR: End of period)

Description	Net foreign assets						Claims on depositor 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							
2007	244.9	278.5	100.7	175.4	33.6	33.6	72.8	32.9	22.4	10.6	39.8	6.2	33.6	—	85.4	73.8
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	1,366.1	1,496.3	2.1	1,483.0	130.2	130.2	178.5	18.6	18.6	...	159.9	47.8	112.1	116.1	195.6	170.8

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

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 for 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			
2007	...	316.1	...	286.2	29.9	87.4	62.1	20.1	1.7	3.5	-0.4	9.6	10.0	...
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	5.5	1,771.4	...	1,653.0	118.4	95.1	111.0	-30.4	3.5	11.0	-15.7	22.5	38.2	...

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

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					
2007	1,094.3	6.5	39.0	3.1	5.5	28.3	0.4	1.6	386.2	215.5	170.7	647.0	631.9	15.1	15.6
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	2,953.8	11.7	133.8	6.9	10.9	59.7	52.6	3.7	615.1	48.1	567.0	2,084.7	2,045.9	38.8	108.5

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

Table 6.2. ODC deposits - non euro deposits

((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 non-financial corporations		Other non-financial corporations	Households			NPISH				
									Transferable deposits	Saving deposits	Other deposits					
2007	53.3	0.5	—	...	0.1	0.4	8.1	1.5	6.6	44.3	44.2	16.2	—	28.0	0.1	0.4
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

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

Table 6.3. ODC loans – main institutional sectors

((In millions of EUR: End of period))

Description	Total loans															Loans in non-euro currency	
	Financial corporations	of which:			Non-financial corporations	of which:					Other domestic corporations	of which:					Non residents
		Other financial intermediaries	Insurance companies	Public non-financial 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					
2007	892.1	—	—	—	691.5	0.2	691.3	174.0	517.3	-	200.6	200.6	24.0	176.6	-	—	—
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

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

Table 6.4. ODC loans-main economic sectors

(In million 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	
2007	691.5	29.0	4.1	24.9	144.5	33.9	110.6	518.0	149.5	368.5
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	1,564.7	55.6	7.5	48.1	385.6	90.3	263.5	1,123.5	250.6	821.8

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

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			
NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS									
2007	3.3	2.4	2.8	4.2	3.5	2.3	2.7	0.2	1.9
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
Non-financial corporations									
2007	.	2.6	3.0	4.2	3.6	4.4	4.6	0.5	1.9
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
Households									
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

Note: For more detailed information about this table please visit the link: http://www.bkg-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 favourable conditions	Other loans							
				Agricultural	Industrial	Services	Other sectors				
NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS											
2007	14.6	13.0	12.6	.	.	.	.	.	.	14.8	13.0
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
Non-financial corporations											
2007	.	.	.	.	.	.	.	.	.	14.8	13.0
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
Households											
2007	.	13.0	12.6	.	.	.	.	.	.	.	.
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	.	.	.	9.1	.

Note: For more detailed information about this table please visit the link: http://www.bqk-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 million 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									
2007	-197.4	-213.9	-1354.4	112.2	186.3	842.0	16.5	5.8	-431.0	34.5	108.1	294.3	203.2
2008	-450.5	-460.9	-1644.7	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	-1646.3	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	-1741.6	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	-2047.1	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	-2050.1	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	-1995.6	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	-2058.6	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	-2109.3	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	-2290.8	638.8	74.5	1,096.1	14.2	-199.1	-177.2	343.6	-264.0	-101.5	268.1
2017	-425.1	-413.2	-2464.2	804.2	84.9	1,161.9	-11.8	-330.0	-249.9	14.7	-164.7	69.8	95.0

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

7.2. Current Account

(In million EUR)

Description	Balance					Credit					Debit				
	Goods	Services	Primary income	Secondary income		Goods	Services	Primary income	Secondary income		Goods	Services	Primary income	Secondary income	
2007	-213.9	-1,354.4	112.2	186.3	842.0	1,720.9	164.1	382.5	239.2	935.1	1934.9	1,518.5	270.3	52.91	93.12
2008	-460.9	-1,644.7	146.6	164.0	873.2	1,813.8	211.3	396.9	233.3	972.3	2274.7	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	2358.2	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	2663.3	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	3028.4	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	2907.2	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	2857.4	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	3052.0	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	3125.5	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	1130.6	212.8	1,171.6	3304.3	2,598.7	491.8	138.34	75.44
2017	-413.2	-2,464.2	804.2	84.9	1,161.9	3,169.8	378.4	1330.9	230.1	1,230.4	3583.0	2,842.6	526.8	145.12	68.46

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

7.3.1 Primary income

(In million 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			
2007	186.3	154.9	31.4	-	239.2	155.6	83.6	0.0	52.9	0.8	52.2	-
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	84.9	217.3	-128.4	-3.9	230.1	222.6	5.8	1.7	145.1	5.3	134.2	5.6

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

7.3.2 Secondary income

(In million 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			
2007	842.0	245.1	596.9	935.1	251.4	683.8	93.1	6.3	86.8
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	1,161.9	201.8	960.1	1,230.4	201.8	1,028.5	68.5	-	68.5

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

7.4 Remittances - by countries

(In percentage)

Description	Germany	Switzerland	Italy	Austria	Belgium	USA	Sweden	France	Norway	Canada	England	Denmark	Finland	The Netherlands	Slovenia	Other
2009	37.45	21.075	10.35	5.725	3.05	2.75	3.225	3.775	2.75	1.875	1.375	0.9	1.05	1.15	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	4.8
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	4.9

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/32%20Remittances-by%20country.xls

8.1. Direct Investments – by geographic criteria

(In million EUR: State on 31 December 2017)

Country	Total incoming direct investments			Total outgoing direct investments			
		Equity	Other capital transactions		Equity	Other capital transactions	
European Union		1,180.1	908.1	272.1	115.7	109.0	6.8
AT	212.1	169.6	42.4	6.9	6.2	0.7	0.7
BE	23.3	22.1	1.2	3.3	3.2	0.1	0.1
BG	34.2	5.1	29.1	0.6	0.6	...	-
CY	7.9	2.0	5.9	19.6	19.6	...	-
FR	23.7	22.8	0.9	4.1	4.1	...	-
DE	374.7	348.4	26.3	35.0	34.2	0.9	-
GR	9.0	8.2	0.7	2.1	2.1	...	-
IT	32.0	26.1	5.9	5.6	5.6	...	-
NL	81.8	68.7	13.1	10.2	5.1	5.1	1.9
RO	2.8	2.8	0.0	0.3	0.3	...	-
SI	218.4	92.0	126.5	9.7	9.7	0.0	-
SE	46.5	46.2	0.3	1.8	1.8	...	-
GB	68.4	53.8	14.6	10.4	10.4	...	-
Other EL countries	45.4	40.3	5.1	6.1	6.1	...	-
Other European Countries		976.1	764.7	211.4	155.1	144.1	11.0
AL	130.6	68.4	62.3	74.3	69.4	4.8	4.2
HR	8.6	7.0	1.6	4.9	4.9	...	-
MK	13.3	8.4	4.8	21.9	21.6	0.3	0.2
NO	25.6	24.4	1.2	1.5	1.5	...	-
RS	13.0	11.2	1.8	6.8	6.8	...	-
CH	352.9	326.7	26.2	20.1	19.8	0.3	0.3
TR	492.5	388.1	104.4	12.2	5.8	6.4	0.0
Other Eu countries	23.0	18.8	4.1	20.6	19.9	0.7	0.4
Other Countries		213.6	154.5	59.1	21.1	20.7	0.4
US	139.7	110.8	28.9	12.1	11.9	0.2	0.2
AE	28.9	7.9	21.0	1.7	1.7	...	-
Other countries	44.9	35.8	9.1	7.3	7.1	0.2	0.1
Other Countries (not allocated)		1,067.5	936.1	131.4	...	...	...
ZZ Not specified	1,067.5	936.1	131.4	...	...	...	...
Total		3,520.6	2,851.7	669.0	299.0	279.3	19.7

Note: For more detailed information about this table please visit the link: http://www.bqk-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 million EUR: State on 31 December 2017)

Description	Country	Equity	Total debt securities		Total	
			Long-term debts securities	Long-term debts securities		
AT	Austria	-	33.0	-	33.0	
BE	Belgium	-	0.1	-	0.1	
BG	Bulgaria	-	0.1	0.1	0.1	
DE	Germany	0.8	32.9	12.4	33.7	
FR	Franca	114.5	20.2	19.1	134.8	
GB	Great Britain	-	0.0	0.0	0.0	
GR	Greece	-	0.0	0.0	0.0	
IE	Ireland	477.1	-	-	477.1	
IS	Island	-	0.1	0.1	0.1	
IT	Italy	-	161.1	161.1	161.1	
LU	Luxemburg	887.7	47.1	47.1	934.8	
NL	Netherland	-	10.3	-	10.3	
PL	Poland	-	14.0	14.0	14.0	
RO	Rumania	-	0.2	0.1	0.2	
SE	Sweden	-	6.6	-	6.6	
SI	Slovenia	-	9.8	9.7	9.8	
SK	Slovak Republic	-	1.0	1.0	1.0	
US	USA	2.8	82.7	77.7	85.5	
ZZ	Other	-	2.5	2.5	2.5	
Total value of portfolio investments		1,483.0	421.8	345.0	76.8	1,904.8

Note: For more detailed information about this table please visit the link: http://www.bqkko.org/repository/docs/time_series/34%20Portfolio%20Investments%20Position.xls

10.1. International investments position – main components

(In million EUR: End of period)

Description	Net	Assets				Liabilities				
		Direct investments	Portfolio investments	Other investments	Reserve assets	Direct investments	Portfolio investments	Other investments		
2007	1,254.2	2,397.2	15.2	444.4	1,285.6	652.0	1,143.0	924.5	0.0	218.6
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	406.7	3,234.8	96.6	693.8	1,821.0	623.4	2,828.0	1,971.0	0.0	857.0
2011	113.5	3,304.7	102.0	740.2	1,897.9	564.5	3,191.2	2,326.1	0.0	865.1
2012	135.8	3,592.0	117.8	986.6	1,704.1	783.5	3,456.3	2,524.3	0.0	931.9
2013	258.0	3,996.9	147.5	1,192.6	1,910.4	746.4	3,738.8	2,816.4	0.0	922.4
2014	195.6	4,174.9	174.6	1,274.7	2,030.6	695.0	3,979.3	2,961.4	0.0	1,017.9
2015	-44.3	4,364.6	211.5	1,383.3	2,063.5	706.4	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	-120.1	4,824.4	299.0	1,904.8	1,937.1	683.4	4,944.4	3,520.6	0.0	1,423.8

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

10.2. International investments position – by sectors

(In million EUR: End of period)

Description	Net international investments position												
	Total	The Central Bank of the Republic of Kosovo			Banks			Government			Other sectors		
		Assets	Liabilities		Assets	Liabilities		Assets	Liabilities		Assets	Liabilities	
2007	1,254.2	1,057.6	1,057.6	0.0	319.9	368.5	48.6	0.0	0.0	0.0	-123.3	971.1	1,094.4
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	406.7	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	113.5	1,094.4	1,160.8	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	1,303.8	65.0	458.0	633.6	175.6	-336.5	0.0	336.5	-1,224.5	1,654.7	2,879.3
2013	258.0	1,391.5	1,453.6	62.1	540.2	748.3	208.1	-321.8	0.0	321.8	-1,351.9	1,794.9	3,146.9
2014	195.6	1,145.6	1,211.9	66.3	481.6	715.8	234.2	-326.4	0.0	326.4	-1,105.2	2,247.1	3,352.3
2015	-44.3	1,173.5	1,244.1	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	-120.1	1,102.5	1,168.4	65.9	418.9	710.1	291.2	-422.2	0.0	422.2	-1,219.3	2,945.9	4,165.2

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

10.3.1 International investments position – assets

(In million EUR: End of period)

Description	Net IIP	Kosovo's international assets								
		Equities				Debt				
			Investments abroad	Equity securities		Investments abroad	Equity securities	Other investments	Reserve assets	
2007	1,254.2	2,397.2	174.1	15.2	158.9	2,223.1	0.0	285.5	1,285.6	652.0
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	406.7	3,234.8	280.6	86.4	194.2	2,954.2	10.2	499.6	1,821.0	623.4
2011	113.5	3,304.7	398.0	102.0	296.0	2,906.7	0.0	444.3	1,897.9	564.5
2012	135.8	3,592.0	784.2	117.8	666.3	2,807.9	0.0	320.3	1,704.1	783.5
2013	258.0	3,996.9	786.2	135.4	650.8	3,210.6	12.1	541.7	1,910.4	746.4
2014	195.6	4,174.9	1,186.3	161.9	1,024.4	2,988.6	12.6	250.3	2,030.6	695.0
2015	-44.3	4,364.6	1,284.9	198.6	1,086.3	3,079.8	13.0	296.9	2,063.5	706.4
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	-120.1	4,824.4	1,762.3	279.3	1,483.0	3,062.0	19.7	421.8	1,937.1	683.4

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

10.3.2 International Investment Position – Liabilities

(In million 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	
2007	1,254.2	1,143.0	621.2	621.2	0.0	521.8	303.2	0.0	218.6
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	406.7	2,828.0	1,455.3	1,455.3	0.0	1,372.8	515.8	0.0	857.0
2011	113.5	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	258.0	3,738.8	2,129.9	2,129.9	0.0	1,608.9	686.5	0.0	922.4
2014	195.6	3,979.3	2,241.4	2,241.4	0.0	1,737.9	720.0	0.0	1,017.9
2015	-44.3	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	-120.1	4,944.4	2,851.7	2,851.7	0.0	2,092.8	669.0	0.0	1,423.8

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

11.1. External debt - gross position

(In million EUR: State on 31 December 2017)

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	Short-term	Long-term					
2008	736.6	-	-	-	-	-	-	-	-	-	-	-	736.6	83.2	83.2		-	245.6	194.5	51.1	407.8
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	2015.1	444.6	373.8	-	373.8	70.9	0.1	70.8	-	-	-	-	1570.5	235.9	235.9	-	541.9	353.1	188.8	792.7
2017	2091.6	493.3	422.2	-	422.2	65.9	0.1	65.8	5.3	-	5.3	-	1598.3	291.2	291.2	-	638.1	416.6	221.5	669.0

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/34i%20Gross%20External%20Debt%20Position.xls

11.2. Public sector external debt service payment schedule

(In million EUR: State on 31 December 2017)

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	27.8	-	0.9	9.4	4.1	13.5	55.7	25.7	30.0	90.4	77.5	37.9	110.8	67.0	76.7
Principal	19.3	-	0.1	5.8	3.4	9.9	47.8	21.7	26.1	83.6	72.2	33.7	96.7	63.3	76.7
Interest	8.5	-	0.7	3.6	0.7	3.5	7.9	4.0	3.8	6.7	5.3	4.2	14.1	3.8	-
External debt of private sector guaranteed by the Government	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	27.8	-	0.9	9.4	4.1	13.5	55.7	25.7	30.0	90.4	77.5	37.9	110.8	67.0	76.7
Principal	19.3	-	0.1	5.8	3.4	9.9	47.8	21.7	26.1	83.6	72.2	33.7	96.7	63.3	76.7
Interest	8.5	-	0.7	3.6	0.7	3.5	7.9	4.0	3.8	6.7	5.3	4.2	14.1	3.8	-

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/34i%20Public%20Sector%20Debt%20Service%20Payment.xls

11.3. Gross External Debt – By Creditors

(In million EUR: State on 31 December 2017)

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	226.5	226.5	160.8	65.8	-	-	-
World Bank	199.4	199.4	199.4	-	-	-	-
IBRD	158.3	158.3	158.3	-	-	-	-
IDA	41.1	41.1	41.1	-	-	-	-
Other creditors	1,665.7	996.7	61.9	0.1	291.2	643.4	669.0
Total Debt	2,091.6	1,422.6	422.2	65.9	291.2	643.4	669.0

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-%20bv%20creditors.xls

11.4. Net External Debt Position

(In million EUR: State on 31 December 2017)

Description	Gross external debt (1)	External assets in debt instruments (2)	Gross external debt (3)=(1)-(2)
General Government	422.2	-	422.2
Short-term			
Long-term	422.2	-	422.2
Special Drawing Rights (SDRs), allocations			
Currency and deposit			
Debt securities			
Loans	422.2	-	422.2
Trade credits and advances			
Other debt instruments			
Central Bank	65.9	1,168.4	(1,102.5)
Short-term	0.1	684.0	(683.8)
Currency and deposit	0.1	684.0	(683.8)
Debt securities	-	-	-
Loans			
Trade credits and advances			
Other debt instruments			
Long-term	65.8	484.4	(418.7)
Special Drawing Rights (SDRs), allocations	65.8	90.1	(24.4)
Currency and deposit			
Debt securities	-	394.3	(394.3)
Loans			
Trade credit and advances			
Other debt instruments			
Depository corporations except the Central Bank	291.2	710.1	(418.9)
Short-term	291.2	710.1	(418.9)
Currency and deposit	175.5	392.3	(216.8)
Debt securities	-	243.4	(243.4)
Loans	113.4	68.8	44.6
Trade credit and advances	-	-	-
Other debt instruments	2.4	5.7	(3.3)
Long-term			
Other sectors	643.4	1,163.9	(520.5)
Short-term	416.6	19.7	396.9
Currency and deposit			
Debt securities			
Loans	219.8	-	219.8
Trade credit and advances	196.9	19.6	177.2
Other debt instruments	-	-	-
Long-term, of which::	226.8	1,144.2	(917.4)
Currency and deposit	-	1,143.2	(1,143.2)
Debt securities	-	1.0	(1.0)
Loans	226.8	-	226.8
Direct investments: Intercompany lending	669.0	19.7	649.3
Debt liabilities of direct investment enterprises to direct investors	-	13.2	(13.2)
Debt liabilities of direct investors to direct investments enterprises	659.0	6.5	652.5
Debt liabilities to fellow enterprises	10.0	-	10.0
NET external debt (3)	2,091.6	3,062.0	(970.4)

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.

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