



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

Annual Report 2019

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Annual Report 2019

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LIST OF ABBREVIATIONS

ACH	Automated Clearing House
ATM	Automated Teller Machine
ARS	Accountancy Registry System
BEC	Broad Economic Categories
BEEP	Business Environment Enhancement
BIC	Business Identifier Code
BIS	Bank for International Settlements
BKT	Banka Kombëtare Tregtare
BPB	Banka për Biznes
CAI	Capital Adequacy Indicators
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 Southeastern Europe
ESCB	European System of Central Banks
EULEX	European Union Rule of Law Mission in Kosovo
EU	European Union
EUROSTAT	General Directorate of European Statistics
FDI	Foreign Direct Investment
GBP	Great Britain Pound
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
IECS	Interbank Electronic Clearing System
IIP	International Investment Position
IAIS	International Association for Insurance Supervisors
IMF	International Monetary Fund
ICAAP	Internal Capital Adequacy Assessment Process
IPI	Imports Price Index
IOPS	International Organisation of Pension Supervisors

KAS	Kosovo Agency of Statistics
KIB	Kosovo Insurance Bureau
KEDS	Kosovo Energy Distribution Services J.S.C.
KEK	Kosovo Energy Corporation J.S.C.
KMB	Komercijalna Banka
KPST	Kosovo Pension Savings Trust
MF	Ministry of Finance
MFI	Microfinance Institutions
MTA	Money Transfer Agencies
MLSW	Ministry of Labour and Social Welfare
MTPL	Motor Third Party Liability Insurance
NPISH	Non-profit Institutions Serving Households
NLB	Nova Ljubljanska Banka
NPL	Nonperforming Loans
NPC	National Payment Council
NFA	Net Foreign Assets
ODC	Other Depositing Corporations
PPI	Producer Price Index
PAK	Privatization Agency of Kosovo
PCB	Procredit Bank
PTK	Post and Telecommunication of Kosovo
POS	Point of Sale
pp	Percentage Point
ROAA	Return on Average Assets
ROAE	Return on Average Equity
RBK	Raiffeisen Bank of Kosovo
RWA	Risk Weighted Assets
REER	Real Effective Exchange Rate
RTGS	Real Time Gross Settlement
SEE	Southeastern Europe
SEPA	Single Euro Payment Area
SFR	Swiss Franc
SKPF	Slovenian-Kosovo Pension Fund
SDR	Special Drawing Rights
SWIFT	Society for Worldwide International Financial Telecommunication
TAK	Tax Administration Kosovo

TEB	Türk Ekonomi Bankası
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

Based on the Law on the Central Bank of the Republic of Kosovo and in order to effectively fulfil all its obligations and responsibilities, always in the spirit of the highest standards of transparency and accountability, the Central Bank of the Republic of Kosovo (CBK) has prepared the Annual Report for 2019. This report contains important data on global, regional and national economic trends, as well as important data on the country's financial system. Also, the focus of this report is a detailed presentation of the CBK's activities for 2019.

The implementation of the CBK's legal agenda aims to meet the goals and objectives set out in the CBK Law based on an on-going decision-making process that follows the standards and principles of corporate governance, legality, independence, accountability, professionalism and transparency. In this regard, the Annual Report for 2019 is the most adequate and comprehensive report on the implementation of this agenda, fully respecting the above principles and standards.

The CBK Board (Board), as the highest decision-making body, has effectively fulfilled the tasks set forth in the CBK Law and other applicable legislation. In this regard, the Board during its activities has made an important contribution to the improvement of secondary legislation, increasing transparency, accountability and implementation of tasks and responsibilities of other decision-making bodies within the CBK. The support of the Board and cooperation with other decision-making bodies in this institution had a positive impact on the effective implementation of policies and operational activities of the institution.

One of the most important activities that followed the Board in 2019 is the constant improvement of the legal infrastructure, a process influenced by two factual circumstances, one of which has to do with new developments in EU legislation and international financial institutions, while the other with the progress of the financial system. Among other things, these two circumstances particularly increased the intensity of the work of the Board (harmonization of financial legislation) and the institution in general. The Board also played a key role in supporting decision-making bodies and other bodies in the CBK with a focus on using the experiences of other countries (international cooperation and staff training), fulfilling the Stabilization and Association Agreement, implementing the recommendations of international financial institutions, etc.

Based on what has been said above, we have managed to have a stable and constantly growing financial sector both in terms of capital, number of actors, and for their services and customers. This circumstance, together with the above qualities, has directly affected the increase of competition, reducing the costs of financial intermediation and supporting the country's economy.

For these and other results that are presented in detail and argued in this Report, without a doubt the most important resource is the staff and management of the CBK whom I especially thank for the efficiency, commitment, reliability and professionalism in successfully fulfilling their duties, interpreted as a success and achievement for the CBK.

Flamur MRASORI



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

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Foreword by the Governor

The year 2019 was special not only in terms of positive developments for the economy and financial system of Kosovo, but also due to the fact that it marked the 20th anniversary of the establishment of the CBK. For this anniversary, the CBK has organized a number of activities aimed at increasing cooperation and expanding the audience outside the financial markets, including bringing other stakeholders closer together.

Kosovo's economy is estimated to have grown by 4.2 per cent in 2019, which is also the highest among the countries in the Western Balkans. This increase was mainly supported by improvements in net exports. The real increase in exports of goods and services by 10.0 per cent and the slowdown in the increase in imports of goods and services to 4.2 per cent resulted in an improvement in the trade deficit (goods and services) by 2.4 per cent in real terms.

Kosovo's economy continues to have fiscal and price stability in 2019. As a percentage of GDP, public debt in 2019 reached 17.5 per cent, which is a lower level than the maximum limit set by the fiscal rule. The general price level in Kosovo, expressed through the consumer price index, is characterized by an average increase of 2.7 per cent in 2019. Price developments in Kosovo are still largely determined by price developments in international markets, due to the high dependence of Kosovo's economy on imports.

The financial system is generally still very stable and plays a very important role in Kosovo's economic development. The banking sector continued to increase lending while maintaining a high level of liquidity and capital adequacy. Non-performing loans recorded the lowest level ever recorded in Kosovo with only 2 per cent. The microfinance and non-banking financial institutions sector continued to have a significant impact on lending to households and small businesses. In this sector, annual credit growth was 20.5 per cent and the level of outstanding loans was only 2.6 per cent.

The pension sector continued to expand the contribution collection base, while the return on investment in 2019 recorded the largest increase since 2009, namely to 8.9 per cent, recovering the negative return on investment of -5.3 per cent in 2018. The insurance sector has continued to improve, as evidenced by the increase in the use of insurance products in our economy. Reliability of financial service users is a prerequisite for a sound financial system. The CBK remains committed to protecting consumer rights and continue to address this area with high priority, carefully considering all consumer complaints and improving the financial education of the public.

Henceforth, allow me to present the CBK Annual Report 2019, which provides a detailed overview of economic and financial developments, as well as a detailed report of activities by various fields of activities within the CBK. The Report also contains the report of independent auditor and audited financial statements, which confirm the good governance and the effective and efficient management of the CBK's assets.

Note: These comments relate to CBK activities during 2019 and were completed prior to the global coronavirus pandemic (COVID-19). The economic situation and the CBK actions have been very dynamic since then. The CBK will take all necessary actions within its mandate to help Kosovo's economy overcome this crisis.

Fehmi MEHMETI



Governor of the Central Bank
of the Republic of Kosovo

Central Bank Board and Executive Board

Central Bank Board

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

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

During 2019, the Central Bank Board held 14 meetings in total, where a total of 34 decisions have been issued.

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

1. Regulation on the effective interest rate and disclosure requirements for non-bank financial institutions;
2. Regulation on credit risk management for non-bank financial institutions;
3. Regulation on credit risk management;
4. Regulation on non-performing loans and forbearance;
5. Regulation on the application of the International Financial Reporting Standard 9;
6. Regulation on the repurchase of securities within the Central Bank of the Republic of Kosovo;
7. Regulation on calculation of the minimum solvency margins, capital adequacy and guarantee fund for non-life insurers;
8. Regulation on licensing, regulation and supervision of payment system operators;
9. Regulation on directors and senior managers of banks;
10. Regulation on corporate governance of banks;
11. Regulation on transactions to bank-related persons and bank employees;
12. Regulation on default interest on credit instruments;
13. Regulation on liquidation of insurers;
14. Regulation on supplementary individual pensions;
15. Credit Registry Regulation;
16. Regulation on procedures for imposing administrative penalties;
17. Regulation on issuance of electronic money;
18. Regulation on agents and subcontracting of activities of the payment service providers;
19. Regulation on the registration of non-banking financial institutions;
20. Regulation on regulatory capital and safeguarding the funds of non-bank financial institutions' customers ;
21. Regulation on electronic payment instruments.

The Central Bank Board also adopted:

- CBK Annual Report for 2018;
- CBK Financial Statements for 2018 and Independent Auditor's Report;
- CBK budget for 2020;
- Annual Internal Audit Plan for 2020;
- Reports and periodic reports on the financial position of the CBK;
- External Audit of the CBK.

In order to fulfil the competencies established by law, the Central Bank Board performed all duties related to:

- Implementation of the nomination and appointment process within the established competencies by the CBK Law;
- Review of all reports and recommendations of the Executive Board and the Governor, in order to achieve financial stability.

Also, the Board performed other obligations that were in accordance with the Law on the Central Bank of the Republic of Kosovo and other legislation in force.

On 31 December 2019, the Board of the Central Bank of the Republic of Kosovo consisted of the following members:

Flamur Mrasori, Chairman of the Board of the Central Bank of Kosovo;

Fehmi Mehmeti, Governor;

Behxhet Brajshori, Member;

Nuhi Ahmeti, Member.

During 2019, a position of non-executive member of the Central Bank Board was vacant.

Audit Committee

The Audit Committee acts in accordance with Article 62 of 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 its responsibilities in relation to internal and external audit, internal control, business ethics and transparent management, as well as for the financial report of the CBK.

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

On 31 December 2019, the Audit Committee consisted of the following members:

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

Nuhi Ahmeti, Member; and

Prof. Dr. Arben Dermaku, External Member.

During 2019, the Audit Committee held a total of 13 meetings. At the meetings of the Committee, various issues related to the areas within its scope were discussed in terms of review. During 2019, the Audit Committee carried out a number of activities, among which:

- It reviewed the audit results presented in the quarterly and annual internal audit reports;
- It considered the Annual Internal Audit Plan for 2020 proposed for adoption by the CBK Board;
- It reviewed the results of the external audit, such as the review of the External Auditor's Report and the Management Board's letter for 2018;
- It continued to contribute to the process of implementing the recommendations made by independent external evaluators and assisted the management in this regard;
- The Committee contributed to the development of criteria and recommendations for the selection of the external auditor for the audit of the financial statements of the CBK for the period 2019-2021;
- Through external and internal audit reports, it provided reasonable assurance regarding:
 - risk assessment and management processes, internal control and accountability;
 - accounting policies and financial statements;
 - management responses regarding issues identified by the IA Department and the External Auditor, as well as;
- Performed other important activities related to its scope.

Executive Board

The CBK Executive Board consists of the Governor, who chairs the Executive Board, and the Deputy Governors. On 31 December 2019, the Executive Board consisted of Fehmi Mehmeti, Governor, Lulzim Ismajli, Deputy Governor for Banking Operations, and Sokol Havolli, Deputy Governor for Financial Supervision. The Executive Board is in charge of managing and executing the activities of the Central Bank of the Republic of Kosovo. The competencies of the Executive Board are based on the Law on the Central Bank of the Republic of Kosovo.

During 2019, the Executive Board held 34 meetings. Within its competencies, during 2019, the Executive Board reviewed and recommended for adoption to the Central Bank Board 20 applicable regulations on the country's financial system, CBK Annual Report for 2018, audited financial statements for 2018, quarterly financial statements, as well as the CBK budget for 2020. Also, during 2019, the Executive Board regularly informed the Central Bank Board about the performance of duties and given competencies.

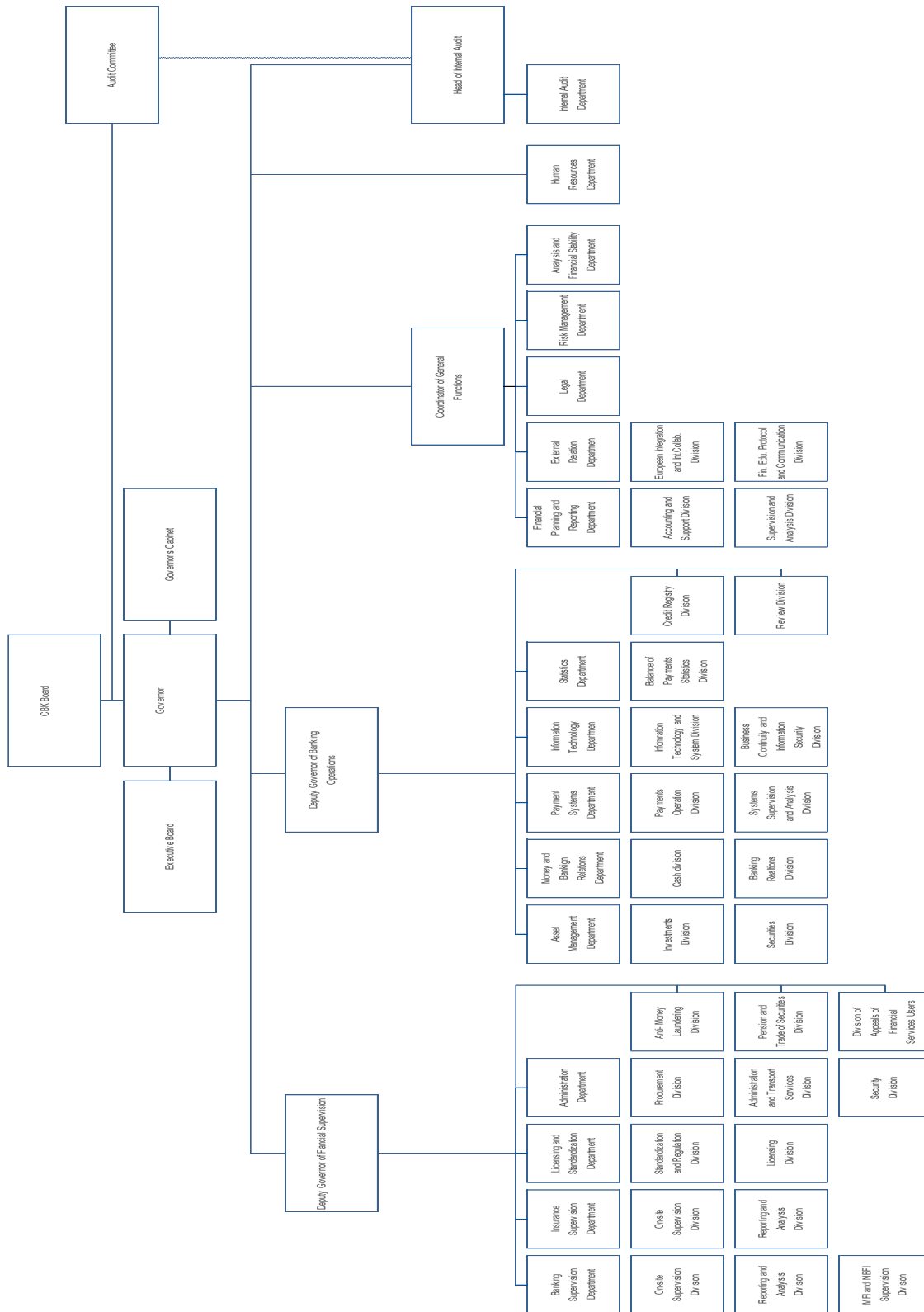
The Executive Board, in accordance with the legislation applicable during 2019 adopted five instructions and three manuals for methodological instructions that are applicable to the country's financial system. In the same sphere of competence, the Executive Board approved the licensing of two intermediaries and one entity for dealing with claims in the insurance sector, while in the non-banking financial sector it approved the registration of four institutions. Also, the Executive Board gave preliminary approval of the license for a new bank. On the other hand, in 2019, the Executive Board approved the revocation of the license of one insurer, as well as the revocation of registration of two microfinance institutions and one non-bank financial institution. In the same period, in order to achieve the objectives and on the basis of supervision performed by the responsible organizational units, in nine cases, administrative penalties were adopted against financial institutions and related parties.

In 2019, the Executive Board adopted periodic reporting regarding the implementation of the CBK's strategic plan for 2018. Also, the Executive Board adopted the issuance/amendment of six internal legal acts, which include policies and internal rules, and also supervised the reporting of relevant internal bodies for the exercise of their competencies. The Executive Board also performed other duties in accordance with the Law on the Central Bank of the Republic of Kosovo and other applicable legislation.

During 2019, the CBK worked closely with international financial institutions, such as the International Monetary Fund (IMF), the World Bank (WB), the European Central Bank (ECB), the European Banking Authority (EBA), the Crans Montana Economic Forum in Switzerland, the United States Agency for International Development (USAID), the European Commission (EC), Deutsche Bundesbank, the German Federal Supervisory Authority, the Austrian Supervisory Authority, the Bank of Turkey, the International Finance Corporation (IFC), part of the World Bank, Eurostat and other institutions.

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Organizational structure of the CBK, as of 31 December 2019



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1. Executive summary

Increased uncertainty in the external economic environment during 2019 was reflected in slower economic growth of 1.2 per cent in the Eurozone, compared to growth of 1.9 per cent in 2018. A drastic change in global risk dynamics in early 2020, the rapid spread of the COVID-19 epidemic, the declaration of a global pandemic situation and the undertaking of measures to prevent the spread of the virus are expected to have serious social/economic consequences in both developed countries and developing countries. According to the IMF, the Eurozone will be characterized by an economic decline of 7.5 per cent in 2020, although this estimate is accompanied by great uncertainties regarding the potential dynamics of the pandemic in the coming months (virus evolution and/or the second wave of potential spread in the fall) and may be subject to revision. The slowdown in economic activity during 2019 was accompanied by low inflationary pressures in the Eurozone, where the inflation rate was 1.2 per cent compared to 1.8 per cent of the inflation recorded in the previous year. Even the annual inflation rate expected in 2020 is accompanied by great uncertainty, while the IMF forecasts indicate a rate of around 0.2 per cent. Similar to the Eurozone, the countries of the Western Balkans are characterized by slower growth of economic activities during 2019, although at a different pace between countries. It is estimated that the average rate of economic growth in the countries of the region during 2019 was 3.2 per cent (3.9 per cent in 2018). IMF forecasts for 2020 suggest that Western Balkan countries will face an average economic decline of about 5.2 per cent.

In 2019, according to quarterly estimates from the Kosovo Agency of Statistics (KAS), Kosovo's economy achieved real growth of 4.2 per cent. This growth of economic activity was achieved both from domestic demands and from net exports. Prominent growth in exports of goods and services, as well as a slowdown in import growth, had a positive impact on GDP growth in 2019. Sector-wise, economic growth in 2019 was mainly due to increased activity in the financial and insurance sector, followed by the processing and manufacturing industry, as well as the construction and trade sectors. On the other hand, it is estimated that a decline in activity was recorded in the agricultural sector, the electricity supply sector and the art sector. Estimates for the increase in value added in the industrial sector are based on the recorded increase in the industrial turnover index in 2019. The increase in economic risk and the potential decline in foreign revenues, as well as the impact of closure and quarantine measures taken in March 2020 to prevent a rapid potential spread of the epidemic in the country, according to the CBK, will result in reduced economic activity, especially in April and May. The CBK's forecasts for 2020 indicate that the real rate of GDP decline is expected to be around 5.9 per cent. In 2019, the acceleration of the increase in import prices was reflected in the acceleration of the increase in consumer prices in the economy of Kosovo. The average annual inflation rate expressed by the consumer price index was 2.7 per cent (1.1 per cent in 2018). For 2020, our forecasts point to an inflation rate of around 0.8 per cent.

Kosovo labour market statistics show a high unemployment rate, but, compared to the previous year, there has been a decline in the unemployment rate. The average unemployment rate in 2019 was 25.7 per cent, which is 3.9 percentage points lower compared to the previous year. In 2019, the labour force participation rate in Kosovo was 40.5 per cent, which, compared to 2018, indicates a decrease in the labour force participation rate by 0.4 percentage points.

The fiscal sector was characterized by higher growth of budget revenues compared to expenditures. Budget revenues reached 1.89 billion euros, an annual increase of 7.5 per cent, while budget expenditures reached a net value of 2.06 billion euros, an annual growth of 7.2 per cent. Kosovo's budget recorded a budget primary deficit of 168.4 million euros compared to a deficit of 162.7 million euros in 2018. Public debt in 2019 reached 1.2 billion euros, which is 9.9

per cent higher than in 2018. As a percentage of GDP, public debt reached 17.5 per cent, compared to 16.9 per cent in 2018.

In 2019, Kosovo's external sector was characterized by a reduction in the current and capital account deficits to 410.2 million euros (5.8 per cent of GDP), an annual decline of 19.4 per cent, mainly as a result of a slowdown in the increase in the goods deficit, as well as the increase in the positive balance of services, primary and secondary incomes. The increase in exports of goods and the slowdown in the increase in imports caused the trade deficit in goods to record a slow increase of 4.5 per cent (11.6 per cent increase in 2018) and to reach about 3.1 billion euros (43.3 per cent of GDP). a). Remittances received in Kosovo, which is also the largest category in the secondary income account, reached 851.7m euros, an annual growth of 6.4 per cent. Within the financial account, foreign direct investment (FDI) in Kosovo recorded almost the same rate as the previous year of 271.8 million euros.

The financial system was characterized by an increase in activity during 2019. The annual growth of the total assets of the financial system of Kosovo of 14.8 per cent is mainly attributed to the increase in assets of the banking and pension sectors. Meanwhile, the microfinance sector and the insurance sector have made a positive contribution to the growth of the system's assets, but with less impact. The assets of the banking sector in 2019 recorded an annual growth of 13.6 per cent, reaching the amount of 4.76 billion euros. The growth of the sector's assets during 2019 is mainly attributed to the positive dynamics characterizing the lending activity, activity that was supported both by improved financing conditions by banks as well as the growth of credit demand. Among other things, the credit offer was positively influenced by competitive pressure, favourable liquidity position and continuous improvement of the loan portfolio quality. For the fourth year in a row, banking sector loans were characterized by double-digit growth in 2019. The loan portfolio expanded by 10.0 per cent in 2019, while the total value of loans reached 3.03 billion euros. In the same period, deposits in the banking sector in Kosovo reached 3.91 billion euros and recorded an annual growth of 16.2 per cent (8.7 per cent in 2018).

The performance and financial health indicators of the banking sector continue to reflect a high degree of stability. The realized profit during 2019 amounted to 86.2 million euros, which corresponds to a lower value compared to the previous year by 2.0 per cent, which is mainly attributed to the faster growth of expenditures compared to revenues. The banking sector continues to have a high quality and level of capital. However, the distribution of dividends by some banks, as well as the continuous increase in lending, contributed to higher growth of risk-weighted assets, which was reflected in the decline in capital adequacy ratio to 15.9 per cent from 17.0 per cent in the previous year, although still remaining high above the minimum regulatory level of 12 per cent. Also, the quality of the loan portfolio of the banking sector continued to improve during 2019, where the ratio of non-performing loans to total loans decreased to 2.0 per cent (2.7 per cent in the previous year). Moreover, the level of coverage of non-performing loans with commissions in this period reached 163.5 per cent as a result of improving the quality of the loan portfolio. The liquidity position of the banking sector also remains sustainable, where the ratio of liquid assets to short-term liabilities stood at 38.7 per cent, which is high above the required regulatory minimum of 25 per cent.

The pension sector in 2019 was characterized by accelerated asset growth of 17.0 per cent (2.0 per cent growth in 2018), while their total value reached 1.98 billion euros. Dynamics in the pension sector in 2019 were influenced by the positive financial results from the return on investment, while a positive contribution was also made by the contributions collected by both funds.

The level of intermediation of the insurance sector, more precisely gross subscribed premiums in relation to the country's GDP, is low, namely 1.4 per cent. The assets of the insurance sector,

which represent 2.7 per cent of the total assets of the financial sector, reached the amount of 193.9 million euros, which represents an annual growth of 10.3 per cent (a decrease of 0.6 per cent in the previous year). During 2019, the value of premiums subscribed by insurers reached 99.2 million euros, an annual increase of 7.7 per cent, while claims paid by insurers and the Kosovo Insurance Bureau (KIB) recorded an annual growth of 14.1 per cent, reaching to 55.1 million euros in 2019. The insurance sector ended 2019 with negative financial results of 2.8 million euros, unlike last year when it recorded positive financial results of 1.6 million euros. One of the main factors in the losses incurred during 2019 is the combined ratio of 102.6 per cent, which represents the ratio of claims of 54.6 per cent and the ratio of expenditures of 48.0 per cent, without including revenues from investment interests, where, according to this the insurance market ratio, 1.03 euros were spent for 1 euro earned.

In 2019, the microfinance sector recorded increase in lending activities. The total value of the assets of MFIs and NBFIs reached 306.5 million euros, which is an annual growth of 22.6 per cent. During 2019, the lending activity of the microfinance sector recorded an annual growth of 20.5 per cent, with the total value of loans reaching 221.6 million euros. As a result of the high increase in income (mainly interest income), the microfinance sector made a profit of 11.5 million euros, which indicates that it is 18.5 per cent higher compared to the previous year.

Also, during 2019, the CBK continued to improve the legal and regulatory framework in order to more effectively supervise financial institutions. The improvement of the legal framework was made on the basis of the need to improve regulatory processes and in order to harmonize with international standards and directives of the European Union as a result of the active participation of the CBK in the National Program for Implementation of the SAA for the Republic of Kosovo.

In order to ensure a stable banking system, during 2019, financial institutions were examined in accordance with the foreseen plan, including focused examinations. In accordance with international practices in the relevant field, special attention was paid to liquidity risk, credit risk, market risk and operational risk. In accordance with the goals of the CBK, i.e. ensuring insurance market stability and protection of insurance policyholders, the CBK continued its activity in 2019 by continuously performing on-site examinations of the insurers as complete and focused examinations, as well as ad-hoc examinations of policyholders and insurance intermediaries. In order to maintain the stability of the financial sector, during 2019, the CBK continued with regular examinations of pension funds and other financial institutions. As a result of continuous monitoring of financial institutions, in accordance with the legal mandate, the CBK has taken punitive measures up to revocation of the license of a number of financial institutions is revoked, all with the main goal of protecting consumers and preserving stability in the country.

Regarding the area of prevention of money laundering and financing of terrorism, after the adoption of the law and regulation related to this area, with the aim of ensuring their efficient implementation in practice, it was deemed necessary to adopt guidelines. Subsequently, in 2019, the CBK completed the amendment to the Regulation on the Prevention of Money Laundering, the Instruction on the Form of Origin of Funds and developed a draft policy on the prevention of fraud as one of the requirements for correspondent banking relationships.

The Central Bank of the Republic of Kosovo plays a key role in protecting the users of financial services in Kosovo. In this regard, as part of the internal complaint review process, during 2019, the CBK considered 1,211 complaints of financial service users (individuals and legal entities), where 706 complaints were filed for banks, MFIs, NBFIs and pension funds, while 495 complaints were filed for the insurers, and 10 were other complaints.

Similar to previous years, the CBK provided even in 2019 a qualitative and quantitative cash supply for the banking sector to enable cash transactions in the economy. Also, the payment system was characterized by the dynamics of events during 2019, both in terms of regulatory and operational functions, while progress was noted in the area of monitoring and analysis of payment systems, including reliefs in payment transactions in terms of costs.

In 2019, all funds managed by the CBK were invested in financial instruments that fall into the category of safe and liquid instruments. The continuation of the policy of negative interest rates on deposits from the European Central Bank resulted in high prices of debt instruments in the Euro system and dictated the distribution of the investment portfolio. The main feature of 2019 is the placement of funds in debt instruments with a fixed interest rate with a longer term (in periods of up to five years) as a consequence of the inability to invest with positive returns in shorter periods.

Also, the Kosovo Credit Registry (KCR) made progress during 2019, with 407 new beneficiaries registered as a result of requests submitted by member institutions, while the survey on credit applicants' liabilities and credit history reached 1,207,088 surveys.

In order to achieve its objectives, the CBK continued to pay special attention to analyses of general economic developments in the country, as well as analyses related to the assessment of financial stability and systemic and non-systemic risks. During 2019, the CBK continued to closely monitor financial stability, with a special focus on systemic risk through a macro prudential framework. Macro prudential instruments and indicators for assessing and supervising financial stability at the system level were regularly monitored and evaluated by the Macro prudence Advisory Board as a functional body authorized to regularly review the stability of the financial system by monitoring systemic risks, relationships, interdependencies, trends and their impact in the functioning of the financial system as a whole.

As part of the responsibility for compiling and publishing monetary, financial and external sector statistics, in 2019, through Eurostat technical assistance, two projects aimed at improving statistics under the jurisdiction of the CBK were completed, including: "Macroeconomic Imbalance Procedure (MIP)" and "International Trade in Services Statistics (ITSS)". During 2019, the range with new statistics was expanded, with the publication of several new tables for provision assets, exports and imports of goods by country and type of goods. The CBK continued to use technical assistance during 2019, provided by international financial institutions and various donors with both existing projects and new initiatives. Support was mainly provided by the International Monetary Fund (IMF), the US Treasury, the European Union, the World Bank, the European Bank for Reconstruction and Development and GIZ. During 2019, the CBK was subject to the Financial System Stability Review (FSSR), a review that was extremely useful for the CBK in diagnosing the state of the financial system of the Republic of Kosovo.

2. External economic environment

2.1. Eurozone and Western Balkans

According to IMF and ECB estimates, the Eurozone economy was characterized by slow growth of 1.2 per cent in 2019, a challenge largely attributed to weakening international trade and weak industrial sector performance. Tensions in the international market have been exacerbated by developments in the Eurozone's industrial sector, especially the Italian economy, which has faced slower economic growth than any other Eurozone country. In 2019, it results that Germany recorded slowest economic growth in the last six years, where fluctuations in international trade have resulted in a drop in external demand, with a special focus on the car industry. The economy of France, among other things, in 2019 faced the pressures of the so-called "Yellow Vests" protests. The weakening of the Eurozone economy preceded the health and economic crisis that would follow in 2020, with the rapid spread of the COVID-19 virus and the declaration of a pandemic in March. IMF projections point to an economic decline of 7.5 per cent in 2020, where almost all major Eurozone countries are expected to experience a significant decline in economic activity (table 1).

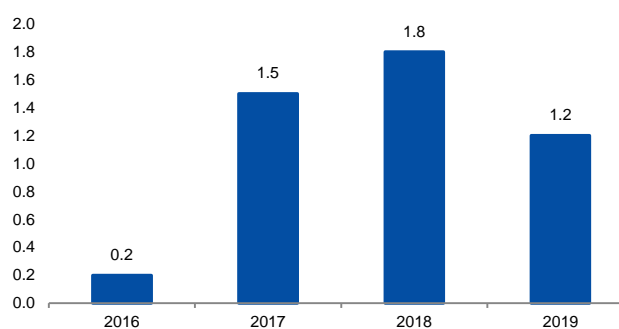
Table 1. Annual real GDP growth

Description	2016	2017	2018	2019	2020
Euro area	1.9	2.5	1.9	1.2	-7.5
Spain	3.0	2.9	2.4	2.0	-8.0
Greece	-0.2	1.5	1.9	1.9	-10.0
Austria	2.1	2.5	2.4	1.6	-7.0
France	1.1	2.3	1.7	1.3	-7.2
Germany	2.2	2.5	1.5	0.6	-7.0
Italy	1.3	1.7	0.8	0.3	-9.1

Source: IMF, WEO, April 2020

Under the influence of slower economic activity, inflation in 2019 was lower (1.2 per cent) compared to the previous year (1.8 per cent) (figure 1). An important contribution to the decline in the inflation rate in the Eurozone was the slowdown in external price pressures, but also the lower compensation of employees during 2019. Concerned about the state of inflation and doubts about the return of the inflation rate close to the target of 2.0 per cent, the Supervisory Board of the ECB, in September 2019, decided to further reduce the interest rate on deposits and resume unconventional measures under the program for quantitative easing. These measures, which were suspended by the ECB's Supervisory Board in September 2018, are aimed at purchasing assets worth 20 million euros on a monthly basis. The ECB also stated that it intends to continue reinvesting in full principal payments from maturing assets (purchased under the program) for an extended period of time, to the extent deemed necessary to provide favorable liquidity conditions in the market. Regardless of these measures

Figure 1. Inflation rate in euro area, in percent



Source: Eurostat (2020)

and in line with the outlook for the economic downturn, the downward trend in inflation is expected to continue in 2020 (0.2 per cent) and then rise to 1.0 per cent in 2021.

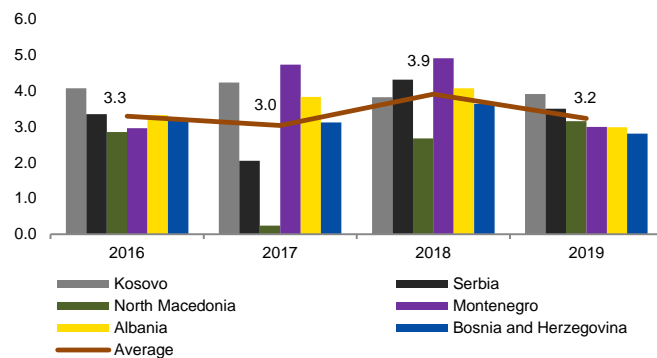
As a consequence of the weakening of the international market, the value of exports of goods and services recorded a slower growth of 2.2 per cent in 2019 (3.3 per cent in 2018). On the other hand, the rate of increase in imports of goods and services was also low (2.6 per cent), although it resulted the same as in 2018. As a consequence, net exports negatively affected the growth of economic activities during 2019.

Lending activity in the Eurozone continued its gradual recovery, based on supply and demand factors in the market. The ECB's adjusted monetary policy encouraged the expansion of lending activity, while in the meantime the demand for credit was supported by low interest rates. The annual growth of lending to households in the Eurozone recorded a growth of 3.5 per cent in 2019, which is a higher growth compared to the growth of 3.0 per cent in the previous year, while lending to companies recorded an annual growth of 2.6 per cent, which is almost at the same level as the previous year. Deposits also continued their growth trend, mainly driven by the growth of transferable and short-term deposits, as a result of the ECB's stimulus monetary measures, and low opportunity costs of maintaining monetary instruments, where a low interest rate environment encouraged increased investment in more liquid instruments. In 2019, household deposits recorded an annual growth of 5.9 per cent (5.2 per cent in 2018), while corporate deposits recorded an annual growth of 6.2 per cent (4.1 per cent in 2018).

In the countries of the Western Balkans, similar to the Eurozone, the growth of economic activities slowed down during 2019. The slowdown in economic activity was the result of a reduced contribution of investment and exports, while domestic demand, which was stimulated by public spending as well as an increase in household lending, was the main support for economic activity. It is estimated that the average rate of economic growth was 3.2 per cent in 2019 (3.9 per cent in 2018) (figure 2). It is estimated that rates higher than the average economic growth were recorded in Kosovo and Serbia, while lower economic growth rates were recorded in other countries. Similar to the Eurozone, IMF forecasts countries for the Western Balkans point to a significant decline in economic activity in 2020 as a result of the COVID-19 pandemic (5.2 per cent).

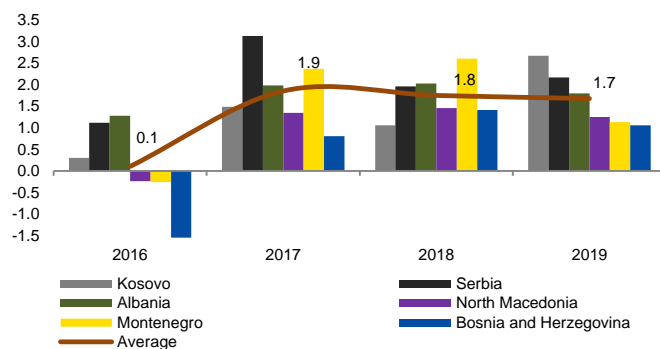
The slowdown in price growth in international markets has led to a reduction in inflationary pressures in the countries of Western Balkans, which were characterized by an average inflation rate of 1.7 per cent (1.8 per cent in 2018) (figure 3). Weaker inflationary pressures compared to

Figure 2. Annual real GDP growth rate in Western Balkans



Source: IMF, WEO (2020)

Figure 3. Annual increase of inflation in Western Balkans



Source: IMF, WEO (2020)

the previous year were present especially in Montenegro and Bosnia and Herzegovina, while in Kosovo and Serbia the inflation rate was higher.

The current account deficit in the Western Balkans increased by 6.8 per cent in 2019, while, as a percentage of GDP, it remained at the same level as in the previous year (6.9 per cent). The growth of the current account deficit is mainly attributed to the weakening of international trade, but also to the decline in external demand, which has been translated into a smaller contribution of net exports to the increase in economic activity. Exports of goods and services with an average annual growth of 6.5 per cent in 2018 decreased to an increase of 4.2 per cent in 2019. Imports of goods and services also recorded a slow increase of 4.9 per cent in 2019 (7.7 per cent in 2018).

Bank lending continued to be an important contributor to the growth of the region's economies, although growth has slowed down in most countries. The average credit growth rate in 2019 was 6.3 per cent (6.7 per cent in 2018), where Kosovo and Serbia recorded the highest credit growth rates (10.0 per cent and 9.1 per cent, respectively). The quality of the loan portfolio continued to improve in all countries in the region. The highest non-performing loan rate is maintained by the Albanian banking sector (10.6 per cent), while Kosovo's banking sector is characterized by the lowest non-performing loan ratio (2.0 per cent). Countries in the region also reported an increase in deposits, with an average growth rate similar to the previous year of 9.8 per cent. Even for deposits, the highest growth rates were recorded in Serbia and Kosovo (17.0 per cent and 16.2 per cent, respectively), followed by Northern Macedonia with 14.4 per cent, while low deposit growth rates were recorded in Montenegro and Albania (0.5 per cent and 2.0 per cent, respectively).

The Euro currency has fallen in relation to the main currencies, but also in relation to the currencies of the countries in the region. The average exchange rate of the euro against the US dollar and the Swiss franc fell by 5.2 per cent and 3.7 per cent, respectively, while in relation to the British pound, it fell by 0.8 per cent. While in relation to currencies in the region such as the Albanian lek and the Serbian dinar, the euro fell by 3.6 per cent and 0.4 per cent, respectively, while in relation to the Macedonian denar, the euro exchange rate remained the same compared to the previous year.

3. Kosovo's economy

3.1. Real sector

3.1.1 Gross domestic production

According to the quarterly estimates of the Kosovo Agency for Statistics (KAS), in 2019, the nominal value of GDP reached the value of 7.1 billion euros. In real terms, it results that the GDP for 2019 marked a growth of about 4.2 per cent (figure 4). According to KAS, the growth of economic activities is mainly supported by the financing and insurance activities sector, the manufacturing sector, the industry sector, the mineral extraction sector, the construction sector as well as the trade sector. While, it is estimated that a real decline was recorded in the agricultural sector, the electricity and gas supply sector, the art sector, etc.

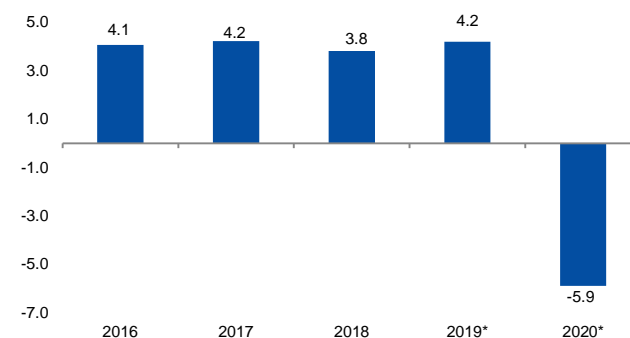
The growth of economic activity was mainly generated by the increase in investments of 5.7 per cent. A significant contribution to the increase in investments is estimated to have been the increase in bank lending of 10 per cent in 2019. An indicator of increase in investments during 2019 is the increase in imports of capital goods of 3.7 per cent. As part of the investment, government capital investment grew by only 0.2 per cent. Consumption, as the main component of domestic demand, recorded real growth of 2.3 per cent, supported by growth of private consumption of 2.1 per cent and public consumption of 3.6 per cent. Remittances, as a significant source of financing private consumption, recorded a growth of 6.7 per cent (5.4 per cent in 2018). In addition to private consumption, public consumption also recorded growth, as current government expenditures increased by 9.8 per cent.

The dynamics that characterized the external sector of the economy, especially the trade balance of goods and services, had a positive effect on real GDP growth, unlike in 2018, when the net export component negatively contributed to real GDP growth. Real growth in exports of goods and services of 10.5 per cent and a slowdown in growth in imports of goods and services of 4.6 per cent resulted in an improvement in the trade deficit (goods and services) by 0.8 per cent in real terms.

3.1.2 Prices

The general price level in Kosovo, expressed through the consumer price index, was characterized by an average growth of 2.7 per cent in 2019 (figure 5). Regarding the CPI component, a higher growth

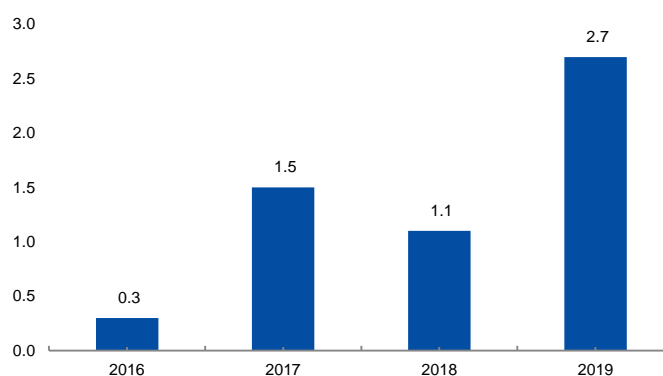
Figure 4. Real GDP growth rate



* CBK preliminar forecast

Source: KAS (2020)

Figure 5. Inflation rate, annual change in percent



Source: KAS (2020)

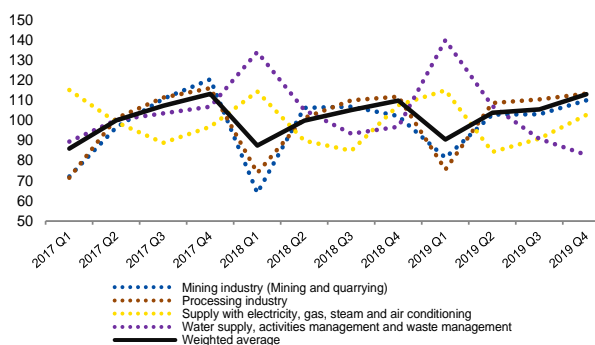
characterized the food and non-alcoholic beverage prices (5.4 per cent), prices of alcoholic beverages and tobacco (2.6 per cent), prices of restaurants and hotels (1.4 per cent), as well as prices of transportation (0.8 per cent). On the other hand, a smaller increase was recorded in the prices of electricity, gas and other fuels as well as the prices of clothing (0.1 per cent and 0.2 per cent, respectively) (figure 6).

Price developments in Kosovo continue to be largely determined by price developments in international markets, as a consequence of Kosovo's economy's high dependence on imports. The import price index recorded an average growth of 2.3 per cent (figure 7). Prices of leather and leather goods, as well as prices of mineral products, recorded the highest increase (12.9 per cent and 12.1 per cent, respectively), while prices of textiles and textile products recorded the highest decline (12.1 per cent). The producer price index was characterized by an increase of 0.9 per cent. Production of mineral products, food processing, furniture production, beverage production, etc. was characterized by a higher increase of prices. While extraction of metal ore, production of electrical equipment, production of chemical products, production of metals, etc. were characterized by a decline in prices.

3.1.3 Financial position of enterprises

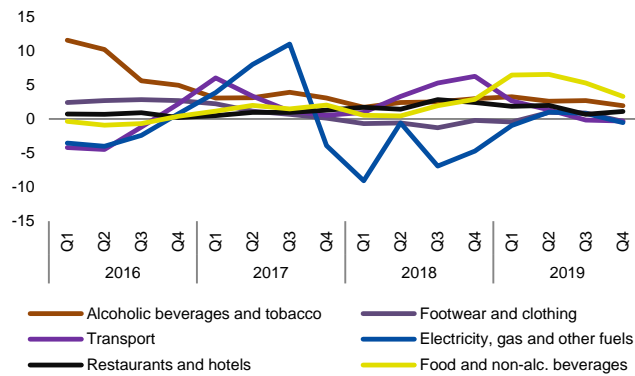
The industrial turnover index is characterized by an increase of 2.6 per cent, which is mainly influenced by the increase of the index in the extraction and processing industry (figure 8).

Figure 8. Industrial turnover index (2017=100)



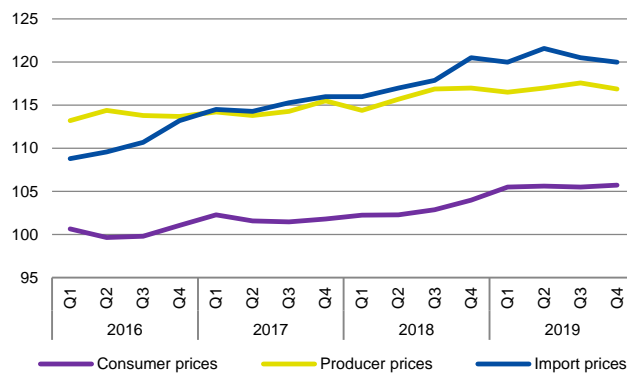
Source: KAS (2020)

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



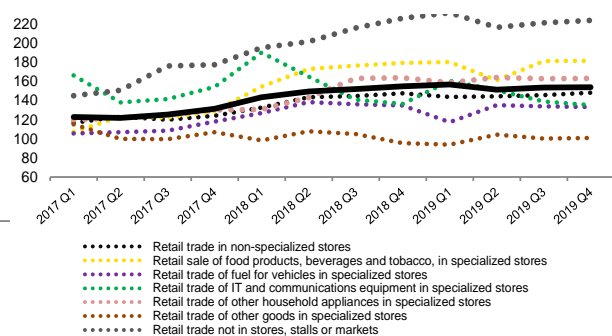
Source: KAS (2020)

Figure 7. Consumer, producer and import price indices



Source: KAS (2020)

Figure 9. Retail turnover index (2013=100)



Source: KAS (2020)

The turnover index in the retail sector, which together with the industrial sector make up the two economic sectors with the largest share in turnover of the total number of enterprises¹, recorded an average annual growth of 2.7 per cent. Most of the constituent elements were characterized by growth (figure 9).

In 2019, there was a slower growth of the number of newly registered enterprises and a higher growth of the number of closed enterprises. The number of newly registered enterprises was 10,004, or 2.0 per cent more than in the previous year, while 1,769 enterprises were closed, or 24.1 per cent more than in the previous year (figure 10).

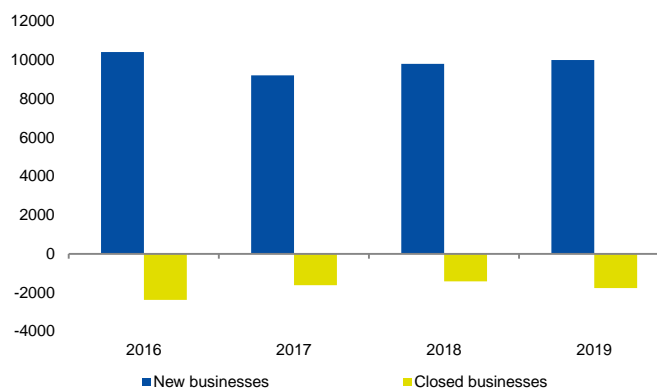
The largest number of registered enterprises is still concentrated in the trade sector, with 23.6 per cent of the total number of newly registered enterprises, followed by the industrial sector with 15.5 per cent, hospitality sector with 11.4 per cent and construction sector with 9.4 per cent (figure 11). Compared to 2018, there are 438 more enterprises registered in the manufacturing sector, 151 enterprises more in the hospitality sector, 150 enterprises more in professional activities, etc. While the sectors that marked a smaller number of registered enterprises were the sectors of agriculture (505 enterprises), trade (165 enterprises), etc.

3.1.4 Labour market²

In 2019, rate of participation in Kosovo's labour force was 40.5 per cent, which compared to 2018 indicates a decline in the rate of participation in the labour force by 0.4 percentage points. Low rate of participation in the labour force (the average rate for the region stands at around 50 per cent) is attributed to a certain degree to the relatively young population (pupils, students), as well as the category of discouraged employees, housewives, and other persons who were not actively seeking employment.

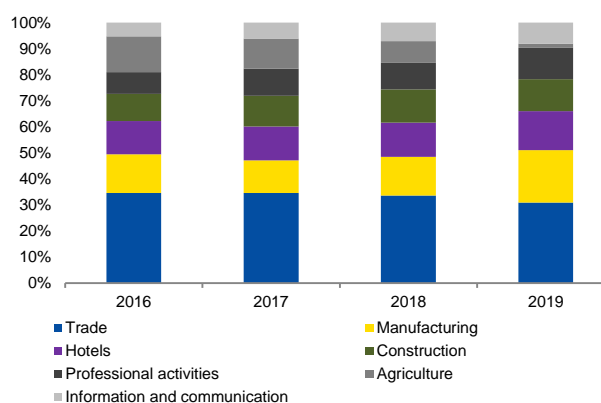
Based on the Labour Force Survey, the average employment rate³ resulted to be 30.1 per cent, which represents an increase of 1.3 percentage points compared to 2018. The employment rate resulted to be higher amongst men compared to women, where 46.2 per cent of working age men were employed against 13.9 per cent of women. According to the results of the survey,

Figure 10. Business registry



Source: KAS (2020)

Figure 11. Structure of new enterprises



Source: KAS (2020)

¹ KAS Publication: Report "Turnover structure by economic sectors for 2008-2017", and "Short-term Industry Statistics for the period Q1 2017-Q4 2019".

² The "Labour market" section is based on data from the Labour Force Survey, published by the Kosovo Agency of Statistics.

³ Employment rate represents the percentage of working-age population that is employed.

employment rate amongst women marked an increase of 1.6 percentage points compared to 2018, while the employment rate amongst men marked an increase for 0.9 percentage points compared to 2018.

According to age groups, the highest employment rate (39.3 per cent) is among the population aged between 35-44 years old, while the age group 15-24 years old has the lowest employment rate (13.1 per cent). By education level, the highest employment rate results among labour force with higher education, followed by secondary vocational education and high school. Employees with secondary vocational education were mainly employed in the private sector (private enterprises, private individuals), while the employees with tertiary education were mainly employed in the public sector.

Based on the structure of the country's economy, the employment rate results to be concentrated in the trade sector, with 17.0 per cent of total employees, followed by the construction sector with 12.6 per cent, manufacturing sector with 11.9 per cent, education sector with 10.0 per cent, etc. Compared to 2018, the data indicate that the employment in the manufacturing, construction, agriculture and other sectors marked an increase, while employment in education sector marked a decline.

Labour market statistics in Kosovo indicate that the average unemployment rate⁴ in 2019 was 25.7 per cent, and, compared to 2018, it results to be lower by 3.9 percentage points. In terms of gender, labour market in Kosovo continues to be characterized by a high unemployment rate amongst women. Unemployment rate amongst women was 34.4 per cent (22.6 per cent amongst men), whereby the highest unemployment rate (about 60.3 per cent) was amongst the age group of young women (15-24 years old). Education has improved employment perspectives in the Kosovo's labour market. According to KAS, the unemployment rate was highest amongst uneducated persons (about 49.4 per cent), while lowest for persons who have completed tertiary education (21.5 per cent).

3.2. Fiscal sector

Budget revenues⁵ in 2019 reached a net amount of 1.89 billion euros, representing an annual increase of 7.5 per cent, while budgetary expenditures⁶ amounted to 2.06 billion euros, representing an annual increase of 7.2 per cent. Consequently, Kosovo budget marked a primary budgetary deficit of 168.4 million euros (162.7 million euros was the primary deficit in 2018).

Within tax revenues, there is a higher increase of direct tax revenues which amounted to 292.3 million euros (9.3 per cent increase), while indirect tax revenues marked an increase of 5.3 per cent and amounted to 1.42 billion euros. Non-tax revenues marked an increase of 17.5 per cent and amounted to 226.6 million euros.

Expenditure growth of 7.2 per cent was slower than in 2018 when there was an increase of 10.3 per cent. The main category that contributed to the slower growth of budget expenditures was that of capital expenditures, which is only 0.1 per cent higher compared to the previous year and reached the value of 530.8 million euros. Government expenditures for wages increase by 4.1 per cent, amounting to 615.9 million euros. Government spending on goods and services (including municipal expenditures) increased by 17.5 per cent, amounting to 293.9 million euros. Subsidies and transfers increased by 12.4 per cent and reached a value of 627.3 million euros.

⁴ Unemployment rate represents the percentage of labour force that is not employed.

⁵ Budget revenues do not include revenues from borrowing, revenues from privatization, receipts from donor designated grants, and receipts from deposits in trust.

⁶ Budget expenditures do not include debt payments and returns from deposit funds.

By the end of 2019, public debt amounted to 1.2 billion euros, which is 9.9 per cent higher compared to 2018. As a share of GDP, public debt has reached 17.5 per cent, from 16.9 per cent in 2018. This increase in public debt is attributed to the growth of domestic debt of 17.0 per cent (which reached 791.9 million euros), while the public external debt declined to 409.1 million euros, which is 1.8 per cent lower compared to 2018. The share of public external debt to total public debt decreased to 34.1 per cent, from 38.1 per cent in 2018.

In 2019, based on the Schedule published by the Ministry of Finance, the number of auctions for the issuance of the securities of the Government of the Republic of Kosovo amounted to 16, while the amount announced in auctions amounted to 360.0 million euros.

During 2019, the Government of Kosovo announced a smaller number and value of treasury bills compared to the previous year. The value of issued securities in 2019 amounted to 360.0 million euros, which is 9.9 per cent lower than in the previous year. According to maturity, the structure of securities of the Government of Kosovo continues to show a tendency of shifting from short-term maturity securities to long-term maturity securities. While in the past the structure was dominated by treasury bills with a maturity of 364 days, in 2019 the main category was that of bonds with a maturity of three years.

On the other hand, the demand for investing in treasury bills and government bonds was higher than in the previous year. This was reflected in the overall ratio of demand to supply of securities, which in 2019 was 1.9 times higher, compared to 1.4 in the previous year. The average interest rate on securities of the Government of Kosovo in 2019 remained unchanged (1.8 per cent) compared to 2018.

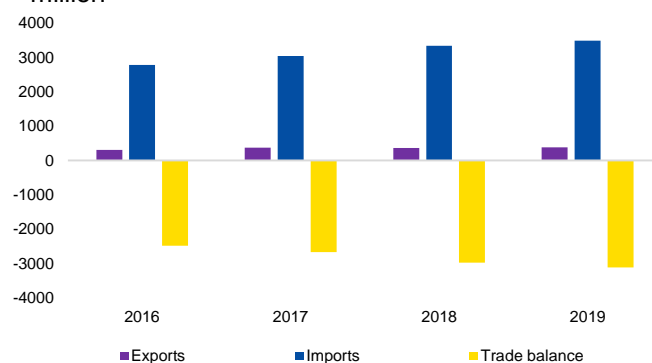
3.3. External sector

In 2019, current and capital account deficit amounted to 410.2 million euros, which is 19.4 per cent lower compared to 2018. In relation to GDP, the current and capital account deficit amounted to 5.8 per cent (7.6 per cent in 2018). The lower level of the current and capital account deficit is attributed to the increase in the positive balances of services, primary and secondary income, but also to the slowdown in the increase in the deficit of goods.

The increase of exports of goods as well as the slowdown in the increase of

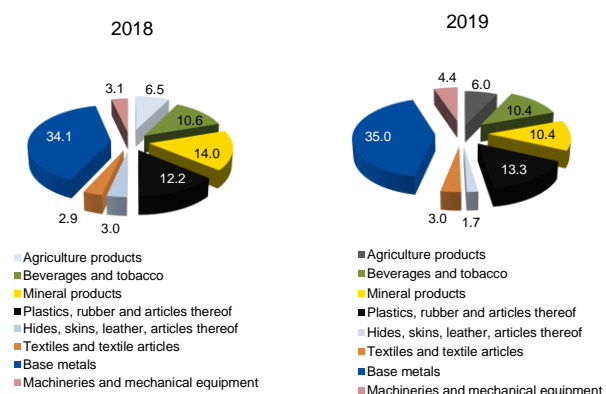
imports caused the deficit in trade in goods and to mark a slow increase of 4.5 per cent (increase of 11.6 per cent in 2018) and amount to about 3.1 billion euros. In relation to GDP, the trade deficit in goods was 43.3 per cent (44.3 per cent in 2018). The value of exports of goods reached

Figure 12. Exports, imports and trade balance, EUR million



Source: KAS (2020)

Figure 13. Structure of exports by category, in percent



Source: KAS (2020)

383.5 million euros, which matches with an annual increase of 4.4 per cent (a 2.8 per cent decline in 2018) (figure 12).⁷ The largest increase was achieved in base metals, which have the largest share in the structure of total exports of the country (about 35.0%), followed by exports of plastic and rubber products, machinery and mechanical equipment, etc. On the other hand, exports of mineral products, exports of leather and leather products, etc. were characterized by a decrease (figure 13).

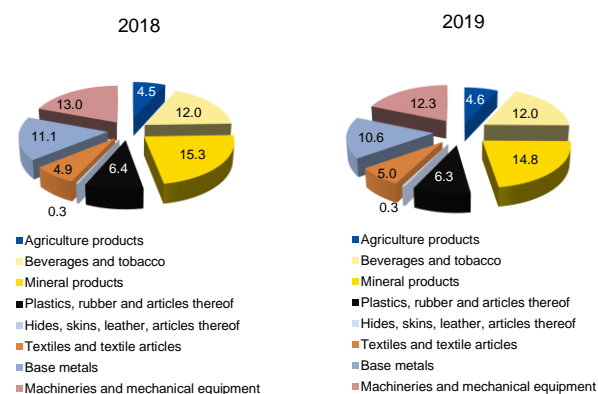
During 2019, imports of goods marked an increase of 4.5 per cent (increase of 9.8 per cent in 2018) and reached 3.5 billion euros.

The slowdown in the increase of imports of goods was mostly influenced by imports of machinery and mechanical equipment, as well as imports of base metals, while the largest increase was marked in imports of food categories, imports of vehicles, imports of textiles and textile items, etc. (figure 14).

The balance in trade in services marked the value of 0.93 billion euros, or 8.3 per cent more than in 2018. The value of exports of services marked an annual increase of 7.3 per cent, reaching 1.68 billion euros. Exports of tourist services, which account for about 78.8 per cent of total exports, amounted to over 1.3 billion euros, or 7.6 per cent more than in 2018. Also, exports of transport services and exports of computer services were characterized by an annual increase of 12.8 per cent and 22.2 per cent, respectively. On the other hand, imports of services increased by 6.2 per cent and reached the amount of 749.4 million euros. In the import of services, the largest increase was marked in the import of transport services and travel services (14.7 per cent and 8.4 per cent, respectively).

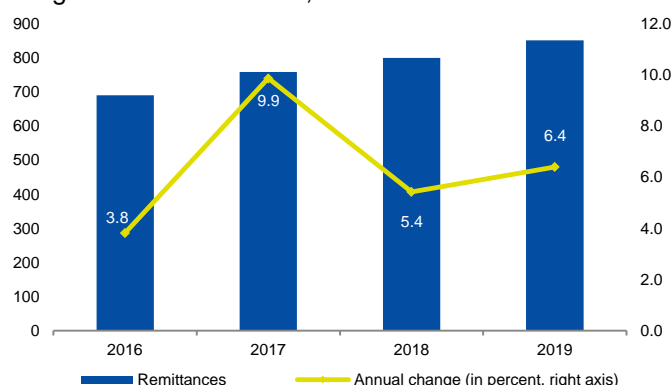
Primary income account was characterized by an increase of 31.7 per cent. Income from compensation⁸ of employees increased by 6.8 per cent. The balance of secondary income marked an increase of 6.7 per cent, mainly attributable to a higher level of remittances. Remittances received in Kosovo, which also represent the largest category within the secondary income account, amounted to 851.7 million euros, representing an annual increase of 6.4 per cent (figure 15). Remittances in Kosovo mainly come from Germany and Switzerland, as 40.7 per cent

Figure 14. Structure of imports by category, in percent



Source: KAS (2020)

Figure 15. Remittances, EUR million



Source: CBK (2020)

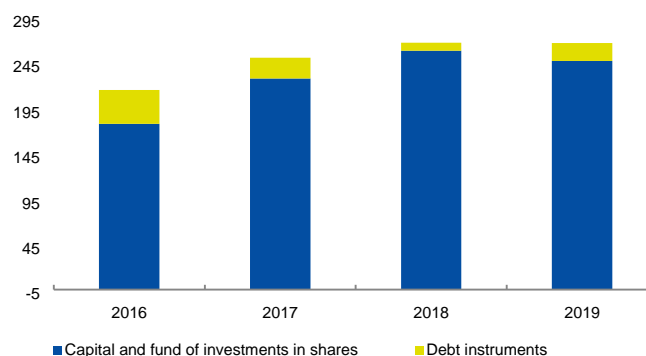
⁷ The source of data for the export and import of goods in Kosovo is the Kosovo Agency of Statistics.

⁸ Employee compensation includes salaries, wages and other benefits received by resident workers abroad. In this context, it includes seasonal workers or other short-term workers (less than a year) and border workers who have the center of economic interest in their economy.

and 20.2 per cent, respectively, of total remittances received in Kosovo come from these two countries. A significant part of remittances also comes from USA, i.e. 7.1 per cent of total remittances.

Foreign Direct Investment (FDI) reached a value of 271.8 million euros, which is almost similar to 2018 (272.1 million euros). As part of the FDI structure, investment in debt instruments doubled, while capital and fund of investment in shares declined (figure 16). The capital and fund of investment in shares amounted to 251.8 million euros, which is 4.4 per cent less than in 2018. FDIs in the form of debt instruments amounted to 20.0 million euros (8.8 million euros in 2018). Increase in FDIs was mainly marked in the real estate sector, which accounts for about 87.1 per cent of total FDIs, and the industry sector, which accounts for 3.9 per cent of total FDIs. On the other hand, the sectors that marked decline are mainly the construction and trade sectors.

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



Source: CBK (2020)

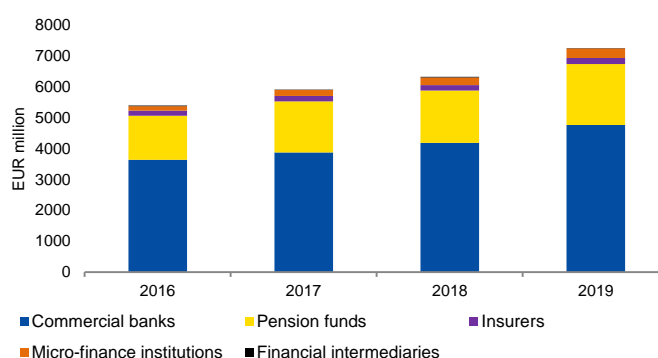
3.4. Financial sector⁹

3.4. General characteristics

The value of the total assets of the financial system of Kosovo reached 7.25 billion euros in 2019, which corresponds to an annual increase of 14.8 per cent (figure 17). The banking sector continues to be the major contributor to the expansion of the country's financial system, followed by the pension sector.

Regarding the structure of the financial system, the number of commercial banks and pension funds remained unchanged compared to last year.

Figure 17. Assets value of Kosovo's financial system



Source: CBK (2020)

Table 2. Number of financial institutions

Description	2015	2016	2017	2018	2019
Commercial banks	10	10	10	10	10
Insurers	15	15	15	14	13
Pension funds	2	2	2	2	2
Financial intermediaries	44	48	52	51	51
Microfinance institutions and non-bank financial institutions	18	16	18	22	20

Source: CBK (2020)

The number of microfinance institutions during 2019 was reduced to 20 microfinance and non-bank financial institutions, as a result of the revocation of the registration of two microfinance

⁹ The statistics are with unaudited data on the financial system and constituent sectors for 2019.

institutions. Also, the number of insurers was reduced to 13 due to the revocation of the one insurer’s license. Financial auxiliaries constitute the largest number of financial institutions, although their share in the total assets of the financial system is still only 0.2 per cent (table 2).

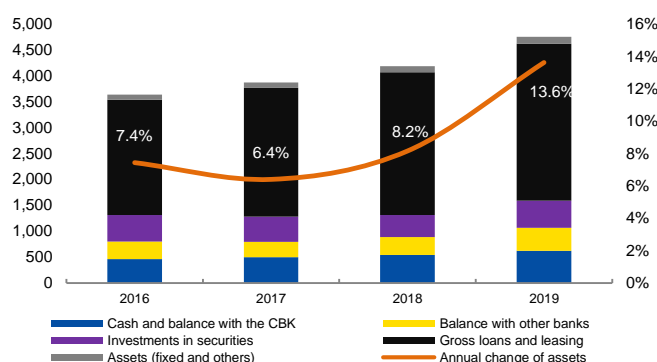
3.4.2 Banking sector

Asset

The assets of the banking sector in 2019 marked an annual increase of 13.6 percent, reaching a value of 4.76 billion Euros (figure 18). The increase in assets of the banking sector during 2019 is mainly attributed to the positive dynamics that characterized lending activity, an activity mainly supported by deposits, which account for around 82 percent of liabilities and recorded an annual increase of 16.2 percent.

Shares of securities recorded an annual increase of 22.4 percent in addition to the decline in the previous two years (a decline of 11.5 percent in 2018). The strategy of the banks to focus on lending to investments in securities in the last two years, in addition to higher investment returns, can be partly attributed to the decline in credit risk, given the increase in KCGF activities and the continuing decline in non-performing loans. Other categories within assets, such as cash and balance sheets with the CBK, as well as assets in commercial banks increased by 14.9 percent and 29.3 percent, respectively.

Figure 18. Assets of commercial banks, annual changes, EUR million



Source: CBK (2020)

Table 3. Structure of the banking sector assets

Description	2015		2016		2017		2018		2019	
	EUR million	Share (%)	EUR million	Share (%)	EUR million	Share (%)	EUR million	Share (%)	EUR million	Share (%)
Cash and balance with the CBK	491.0	14.5%	457.3	12.6%	499.4	12.9%	541.8	12.9%	622.5	13.1%
Balance with commercial banks	316.0	9.3%	342.0	9.4%	296.6	7.7%	340.8	8.1%	440.6	9.3%
Securities	473.3	14.0%	510.3	14.0%	486.4	12.6%	430.2	10.3%	526.5	11.1%
Gross loans	2,019.5	59.7%	2,230.0	61.3%	2,485.5	64.2%	2,755.5	65.8%	3,031.9	63.8%
Fixed assets	57.0	1.7%	58.5	1.6%	60.1	1.6%	79.6	1.9%	92.2	1.9%
Other assets	28.5	0.8%	39.0	1.1%	41.8	1.1%	37.5	0.9%	42.1	0.9%
Total	3,385.3	100%	3,637.1	100%	3,869.8	100%	4,185.5	100%	4,755.7	100%

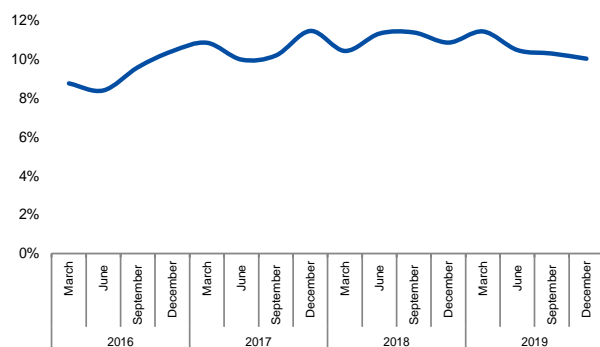
Source: CBK (2020)

Another positive development in the banking sector is the decline in the concentration of assets in the three largest banks to 56.9 percent of the weight of the sector's assets from 57.3% in the previous year. Also, the Herfindal-Hirschman index for banking sector assets fell to 1,491 from 1,499 last year.

Loans

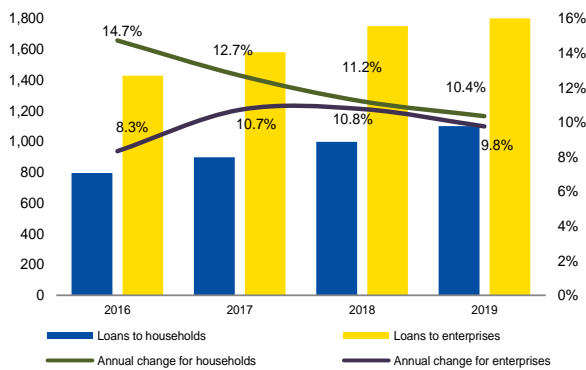
Banking sector loans for the fourth consecutive year were characterized by double-digit growth. In 2019, the loan portfolio increased by 10.0 percent (figure 19), while the value of total loans reached 3.03 billion euros. Improvement of the credit supply of banks, mainly by reducing the average interest rate on loans and extending the loan term, contributed to the increase in loans during the year.

Figure 19. Annual growth rate of loans



Source: CBK (2020)

Figure 20. Loans to enterprises and to households



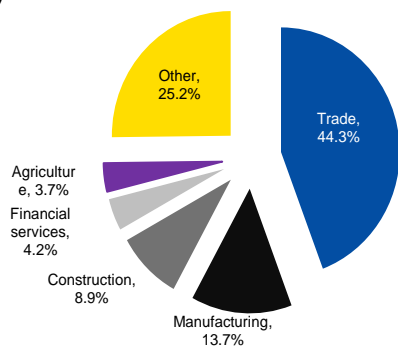
Source: CBK (2020)

Other factors that influenced the dynamics of lending were the continuous improvement of the quality of the loan portfolio, sufficient liquidity and banking competition, which have played a key role in expanding the lending activity of banks in the last three years.

Loans to companies in 2019 marked an annual increase of 9.8 percent (figure 20). Lending to almost all economic sectors increased, except for the trade sector, which recorded an annual marginal decline of 0.5 percent. The sectors that marked the most significant increase in loans during 2019 were production, financial services and construction sectors (19.9 percent, 17.2 percent and 8.7 percent, respectively) (figure 22).

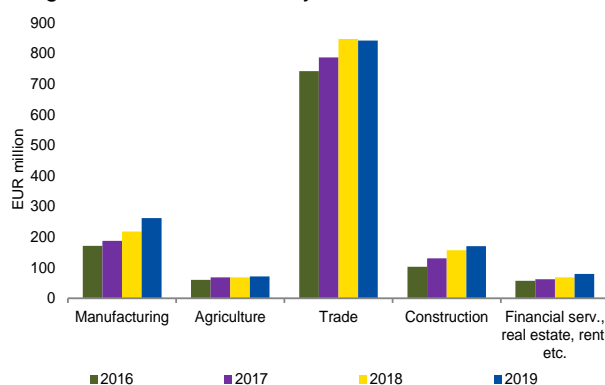
New loans to companies in 2019 marked an annual increase of 9.7 percent, with all subcategories of new loans being characterized by growth. The structure of corporate loans by economic activities is still dominated by loans to the trade sector, followed by loans for production and construction (figure 21).

Figure 21. Loans by economic sectors, in percent (2019)



Source: CBK (2020)

Figure 22. Loans stock, by economic sectors



Source: CBK (2020)

Among the factors that supported lending to small and medium-sized enterprises in 2019 was the Kosovo Credit Guarantee Fund, whose use has marked a steady growth trend. The cumulative number of banks' loans to SMEs, guaranteed by KCGF, amounted to 4.052 at the end of 2019 (2.262 at the end of 2018). The total amount of guaranteed loans in 2019 marked 156, 3 million euros, an increase compared to the guaranteed value of 87,2 million euros in the previous year.. The guaranteed loans structure is a representation of the overall structure of loans of the banking sector, whereby loans to the wholesale and retail trade sector have a dominant place, followed by services and production sectors. The agriculture, forestry and fisheries sector accounted for 10.0 percent of the total guaranteed loan portfolio, an increase of 7.0 percent in the previous year. It is expected that the positive outlook for increasing the value of KCGF and focusing on supporting certain sectors with difficult access to finance, such as the agricultural

sector, will be reflected in a further increase in credit for SMEs in general and certain sectors in particular. Loans to households, which in recent years have increased their share in the total loan stock structure (36.3% in 2019) for the fifth year in a row marked a significant double-digit growth. In 2019, loans to households recorded an annual growth of 10.4 percent, which is a slowdown in growth compared to last year (annual growth of 11.2 percent) (figure 20). The slowdown in credit growth for this category can be attributed to the decline in new loans during this period, which decreased by 1.0 percent in 2019 compared to the annual increase of 7.1 percent in 2018. The category of new consumer loans recorded an annual decline, while new mortgage loans marked a sharp increase during 2019.

Liabilities and own sources

The banking sector structure of liabilities is dominated by deposits, which in December 2019 amounted to 82.2 percent of total liabilities and own funds.

Own resources of the banking sector are characterized by an annual growth of 4.5 percent, mainly as a result of the sector’s high profitability.

Table 4. Structure of the banking sector liabilities

Description	2015		2016		2017		2018		2019	
	EUR million	Share (%)	EUR million	Share (%)	EUR million	Share (%)	EUR million	Share (%)	EUR million	Share (%)
Balance with other banks	43.4	1.3%	59.1	1.6%	67.2	1.7%	108.3	2.6%	67.0	1.4%
Deposits	2,702.9	79.8%	2,897.8	79.7%	3,094.5	80.0%	3,362.9	80.3%	3,908.1	82.2%
Other borrowings	17.6	0.5%	17.8	0.5%	16.0	0.4%	14.1	0.3%	42.1	0.9%
Other liabilities	191.8	5.7%	203.4	5.6%	184.0	4.8%	169.1	4.0%	175.0	3.7%
Subordinated debt	36.9	1.1%	38.4	1.1%	37.4	1.0%	33.5	0.8%	43.4	0.9%
Own resources	392.7	11.6%	420.6	11.6%	470.8	12.2%	497.7	11.9%	520.2	10.9%
Total liabilities and own resources	3,385.3	100%	3,637.1	100%	3,869.8	100%	4,185.5	100%	4,755.7	100%

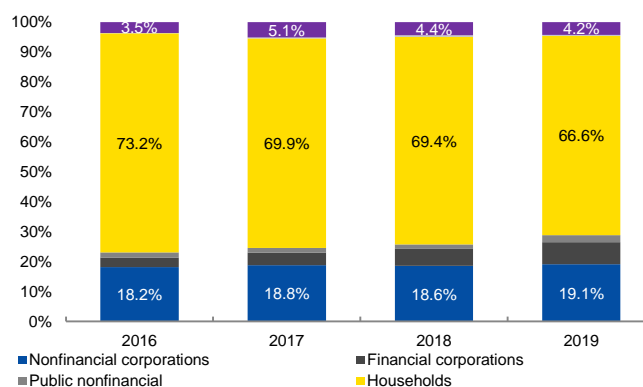
Source: CBK (2020)

Deposits

Deposits in the banking sector of Kosovo marked an accelerated annual growth of 16.2 percent in 2019, compared to an increase of 8.7 percent in 2018. The growth rate of total deposits is mainly dictated by retail deposits, a category that dominates the structure of total deposits in the banking sector, which in 2019 accelerated growth to 11.5 percent compared to 7.9 percent a year earlier (figure 23).

In the same period, corporate deposits¹⁰, also recorded a significant annual growth of 19.5 percent compared to 7.5% in previous year. The accelerated growth of deposits, especially those of households, can be attributed, among other things, to increased incomes in the economy, such as remittances and compensation of Kosovo workers with seasonal work abroad. It is worth noting that the increase in the average interest rate on deposits affected the structure of deposits, in which case time deposits increased their share in total deposits.

Figure 23. Structure of deposits, in percent



Source: CBK (2020)

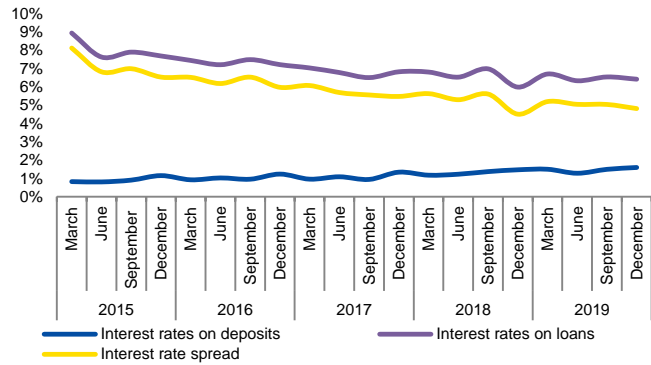
¹⁰ Non-financial private and public companies.

In December 2019, transferable deposits increased their share by 0.9 percentage points to 60.9 percent, while time deposits increased their share by 26.2 percent compared to 25.9 percent compared to the previous year.

Interest rates

The difference between the average interest rate on loans and deposits increased to 4.8 percent compared to 4.5 percent in the same period last year. The average interest rate on loans in December 2019 increased to 6.4 percent, while the average interest rate on deposits reached 1.6 percent (figure 24).

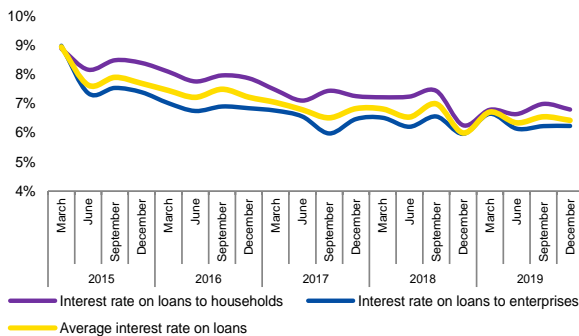
Figure 24. Average interest rate on loans and deposits



Source: CBK (2020)

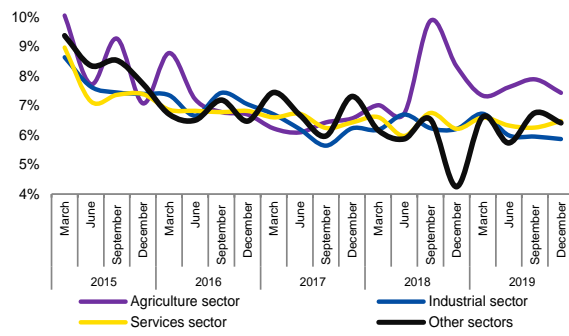
Interest rates on loans

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



Source: CBK (2020)

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



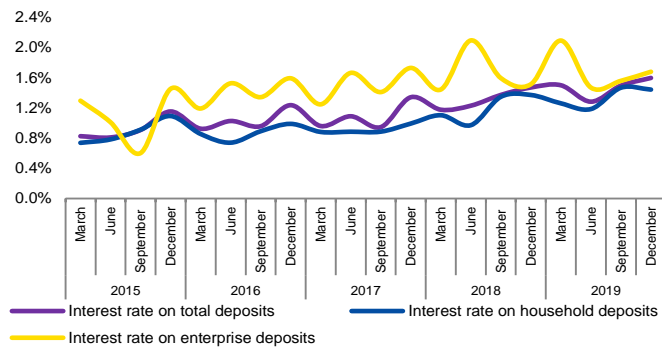
Source: CBK (2020)

The average interest rate on corporate loans rose by 6.2 percent from 6.0 percent in December 2018 (figure 25). Within this category, the interest rate on investment loans increased, while the interest rate on non-investment loans decreased at the end of the year. According to specific sectors of the economy, loans to the agricultural sector are characterized by a decline in interest rates, after an increase in the previous year, also, the average interest rate on loans to the industrial sector continued to decline. While other sectors are characterized by an increase in interest rates compared to the decline in the previous year (figure 26). Loans for family households also recorded an increase in the average interest rate to 6.8 percent, from 6.3 percent in December 2018.

Interest rates on deposits

The average interest rate on total deposits continued to rise slightly. In December 2019, the interest rates on deposits reached 1.6 percent, 0.13 percentage points more than in the same period last year (figure 27).

Figure 27. Average interest rate on deposits



Source: CBK (2020)

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

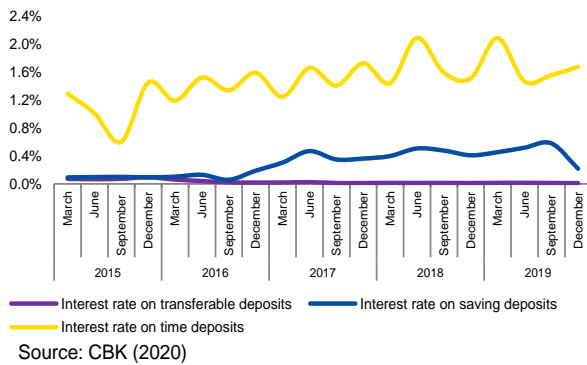
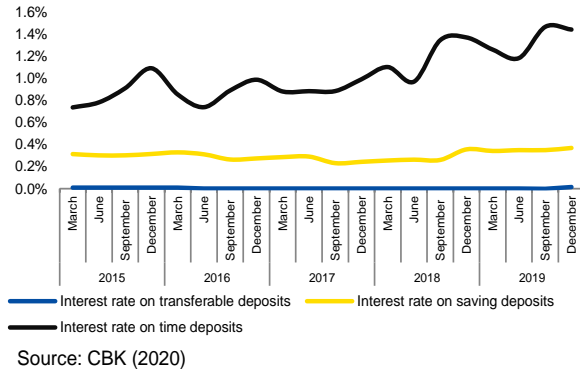


Figure 29. Average interest rate on household deposits



The average interest rate on corporate deposits increased by 0.2 percentage points to 1.7 percent, while the average interest rate on households deposits increased by a minimum of 0.07 percentage points to about 1.4 percent in December 2019 (figures 28 and 29).

Banking sector performance

Figure 30. Net profit of the banking sector, EUR million

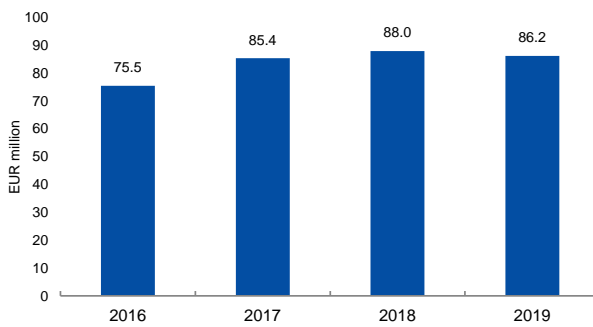
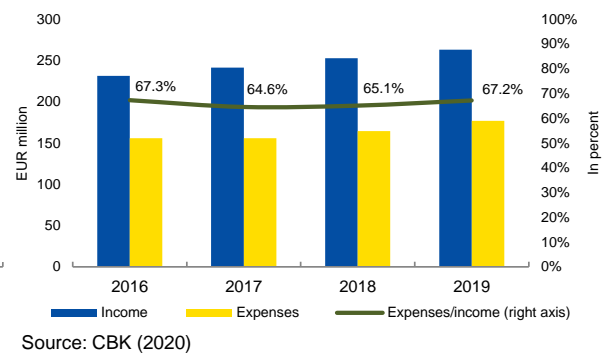


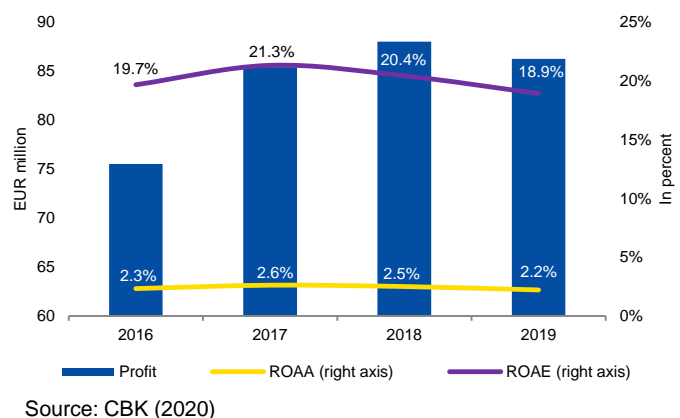
Figure 31. Income and expenditures of the banking sector



The banking sector in 2019, similarly to previous years, recorded fairly good financial results, keeping profitability levels significantly higher than the historical average. The net profit value realized in 2019 reached EUR 86.2 million, 2.0 percent lower than the previous year (figure 30).

The slight decline in the banking sector's profit during this period is mainly attributed to a larger increase in expenditures compared to a slower increase in revenues.

Figure 32. Profitability indicators of the banking sector



Revenues of the banking sector amounted to EUR 263.2 million and were characterized by an annual increase of 4.2 percent (figure 31). The main contribution to the increase in income was from interest, namely income from loans, securities and placements in other banks. However, non-interest income decreased compared to last year, i.e. other operating income fees and commissions.

Expenditures of the banking sector amounted to EUR 176.9 million and were characterized by an annual increase of 7.5 percent (figure 31). Expenditures were characterized by an increase in almost all categories, but the main attribute of the increase was the cost of fees and commissions in the context of non-interest expenses; and deposit costs as part of interest expenses.

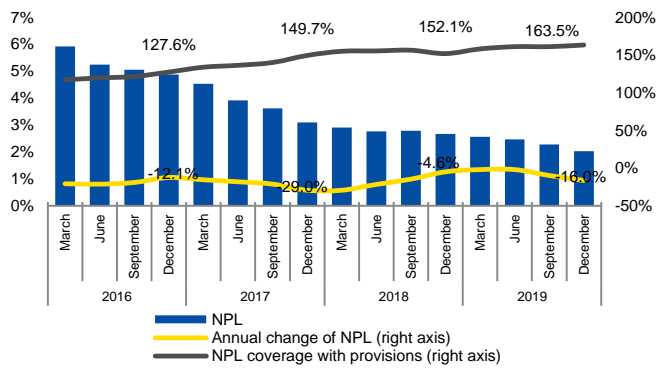
The higher increase in expenditures versus revenues has led to an increase in the ratio of expenditures to sector revenues compared to the same period of the previous year (figure 31).

Profitability indicators continue to be stable, although with a tendency of declining during the last two years. Return on Average Assets (ROAA) and Return on Average Equity (ROAE) were 2.2 per cent respectively 18.9 percent (figure 32).

Financial health indicators

The quality of the loan portfolio of the banking sector continues to improve. The ratio of non-performing loans to total loans decreased to 2.0 percent, 0.6 percentage points lower than in the previous year. This ratio of non-performing loans against total number of loans remains the lowest at the level of Western Balkans countries. The coverage ratio of non - performing loans with provisions reached 163.5 percent (figure 33).

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



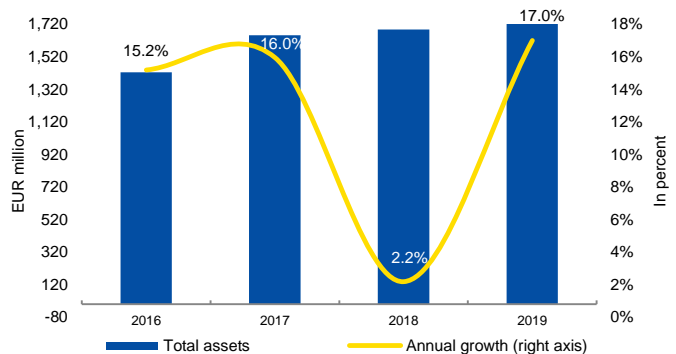
Source: CBK (2020)

The banking sector continues to have a high level and quality of capital. However, the continuous growth of lending affected the largest growth of risk - weighted assets in relation to capital growth, which was reflected in the decline of the capital adequacy ratio to 15.9 percent from 17.0 percent in the previous year (although it remains above the minimum regulatory level of 12,0 percent). The liquidity situation of the banking sector remains high. The ratio of liquid assets to short-term liabilities was 38.7 percent, which is above the required minimum regulatory requirement of 25.0 percent.

3.4.3 Pension sector

The pension sector in 2019 was characterized by accelerated asset growth compared to last year, where a significant decreasing in asset growth was recorded as a result of negative investment results in 2018. The total value of the assets of the pension sector reached EUR 1.98 billion, which corresponds to an annual increase of 17.0 percent (figure 34). The accelerated growth of assets during 2019 was influenced by positive financial result of investments, especially during the first quarter of 2019 (recovery of losses, mainly in Q4 of 2018). Meanwhile, contributions collected from contributors remain a stable source of funding for the pension sector.

Figure 34. Assets of pension sector, EUR million



Source: CBK (2020)

The value of contributions collected by the pension sector amounted to EUR 187.2 million (EUR 173.2 million in 2018), which is an annual increase of 8.1 percent. The value of SKPF collection reached EUR 186.6 million, while SKPF reached EUR 549.9 thousand.

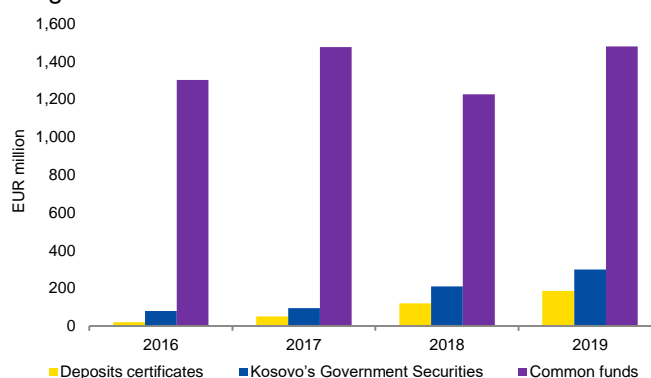
During 2019, the pension sector fully recovered investment losses that occurred in 2018. By December 2019, the pension sector achieved a positive return on investment in the amount of EUR 161.9 million (loss of EUR 84.9 million in 2018), as a result of positive developments in international financial markets. The unit price for SKPF increased to EUR 1.51 from EUR 1.39 on the last day of December 2018, while the unit price of SKPF at the end of December 2018 increased to EUR 178.7 from EUR 156.6.

The pension sector is highly dependent on oscillations in foreign markets, as about 75 percent of assets are invested in the foreign sector. The first quarter of 2019 began with the recovery of losses incurred during 2018 (losses of EUR 84.9 million) and managed to mark a return on investment of a record value ever recorded, of EUR 161.9 million.

Such high profit growth was influenced by many factors, such as a more favourable economic environment in foreign markets (mainly concentrated investments in the United States) during 2019, lower risk of economic recession, easing of trade relations between the U.S. and China, satisfactory corporate profits, etc.

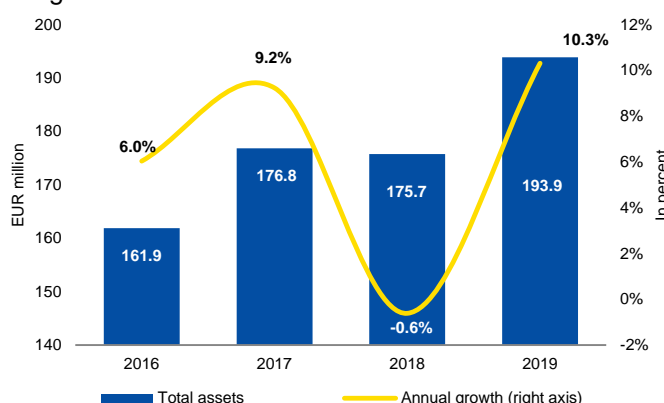
The SKPF, which dominates the assets of the pension sector with a share of 99.6 percent, has increased its investment in securities of the Government of Kosovo, which amounted to EUR 299.2 million (EUR 209.0 million in 2018), or expressed as a share in the total assets of the sector from 15.2 percent to 12.4 percent in 2018. At the same time, the value of investments in mutual funds abroad increased to EUR 1.48 billion, which represents a 75.2 percent of the total sector assets compared to 73.0 percent in 2018, or in the amount of EUR 1.23 billion (figure 35). Also, investments in certificates of deposit in the banking sector in recent years have increased and reached the value of EUR 185.7 million the end of December 2019, or a share of 9.4 percent in total assets of the sector.

Figure 35. KPST investments



Source: KPSF (2020)

Figure 36. Assets of insurance sector



Source: CBK (2020)

3.4.4 Insurance sector

The level of penetration (intermediation) in the insurance sector, more precisely gross written premiums in relation to the country's GDP, remains at a relatively low level of 1.4 percent. Meanwhile, the level of density representing written premiums per capita rose to EUR 55.2 in 2019 from EUR 51.3 a year ago, but is low compared to countries in the region despite a gradual increase over the years.

The insurance market in Kosovo is characterized by a lower degree of concentration compared to other sectors of the financial system of Kosovo. However, compared to last year, the rate of market concentration in this sector increased as a result of the liquidation of “non-life” insurance company during 2019. Herfindahl index¹¹ calculated for gross written premiums (GWP) for 2019 shows 930 points (for 2018 it was 870 points).

Whereas, the same index calculated taking into account the assets of the insurance market shows lower values, i.e. 854 points for 2019 than 808 points in 2018. Meanwhile, the CR5 index¹² for 2019, calculated in relation to GWP for the insurance sector, resulted in 54, 7% (in 2018 it was 52.8%), while it was calculated in relation to assets 50.9% (in 2018 49.8%). According to the sectors, the concentration is higher in the life insurance sector, which is a consequence of the smaller number of insurers in this sector.

Table 5. Assets of the insurance sector (in million euros)

Description	2018	2019	Annual change	Share 2018	Share 2019
Cash deposits at the CBK	4.7	8.8	88.0%	2.7%	4.6%
Deposits at commercial banks	87.1	88.3	1.4%	49.6%	45.6%
Securities	23.2	27.6	19.3%	13.2%	14.2%
Borrowings and receivables	18.1	21.0	16.0%	10.3%	10.8%
Part of insurers for technical reserves	10.8	13.0	20.2%	6.2%	6.7%
Investments in properties	12.1	12.2	1.4%	6.9%	6.3%
Other assets	19.8	22.8	15.5%	11.2%	11.8%
Total market	175.7	193.9	10.3%	100.0%	100.0%

Source: CBK (2020)

In 2019, insurance assets represented 2.7 percent of the total assets of the financial system. The value of total assets was EUR 193.9 million, an annual increase of 10.3 percent, compared with a decline of 0.6 percent in the previous year (as a result of the voluntary withdrawal of one life insurer from the market) (figure 36). Within assets, cash and deposits with the Central Bank were characterized by a significant increase, followed by investments in securities of the Government of Kosovo and the category of loans and collectables (table 5).

Table 6. Liabilities and capital of the insurance sector (in million euros)

Description	2018	2019	Annual change	Share 2018	Share 2019
Technical reserves	118.3	128.4	8.6%	67.3%	66.2%
Loans and liabilities from independent securities	0.1	0.1	51.9%	0.0%	0.1%
Other payable accounts	10.4	13.8	32.5%	5.9%	7.1%
Other liabilities	2.9	3.4	16.7%	1.7%	1.8%
Total shareholders capital	44.0	48.1	9.2%	25.0%	24.8%
Total market	175.7	193.9	10.3%	100.0%	100.0%

Source: CBK (2020)

“Non-life” insurance, which also has the highest share in the total assets of the sector (90.8 percent), recorded an annual growth of 10.5 percent in 2019. “Life” insurance, which makes up

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

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

the rest of the assets, recorded a significant annual increase of 8.5, a decrease of 24.8 percent, as a result of the voluntary liquidation of one of the insurers of “life” during 2018).

Regarding the liabilities of the sector, technical and mathematical reserves constitute the largest part with a total of 66.2 percent, followed by capital with 24.8 percent and other liabilities with 9.0 percent (table 6). The value of the total capital of insurers increased by 9.2 percent, to EUR 48.1 million, by EUR 4.1 million more compared to the previous year.

The increase in capital is mainly attributed to the increase in paid-in capital, which increased by EUR 10.2 million compared to the previous year to EUR 84.1 million. Whereas, the value of accumulated losses over the years reached EUR 39.0 million, thus neutralizing the further increase in total capital, together with the net losses that occurred during 2019.

The value of written premiums from insurers in 2019 amounted to EUR 99.2 million, which is an annual growth of 7.7 percent. At the head of the structure of written premiums is the “non-life” insurance premium, which represents 96.5 percent of total written premiums. Their value in this period of EUR 95.7 million is higher by 7.4 percent compared to 2018. Out of a total of 11 “life” insurers during this year, 10 of them recorded an increase in the level of gross written premiums, while only one insurer was characterized by an annual decline in written premiums. In addition, “life insurance continues to be dominated by compulsory insurance with 59.9 percent of total gross written premiums “non-life”, while voluntary insurance accounts for 40.1 percent of total gross written premiums “non-life”. While, the value of calculated “life” insurance premiums reached EUR 3.5 million euros, which is higher by 17.0 percent compared to 2018.

Table 7. “Non-life” insurance premiums (in million euros)

Activity	2018	2019	Change in %	Share 2018	Share 2019
Compulsory insurance	55.0	57.4	4.4%	61.7%	59.9%
Voluntary insurances	34.1	38.4	12.3%	38.3%	40.1%
Total non-life insurance	89.1	95.7	7.4%	100.0%	100.0%

Source: CBK (2020)

During 2019, compulsory insurance products recorded an annual increase of 4.4 percent, while their share in total gross written premiums decreased compared to 2018 (table 7). The decline in the share of compulsory insurance was influenced by the product “MTPL” and “Border Insurance”. While voluntary insurance recorded a growth of 12.3 percent, at the same time, their share in the total gross written premiums increased.

Table 8. Gross written premiums, by business classes (EUR million)

Activity	2018	2019	Change	Share 2018	Share 2019
Accident and health	18.0	19.6	8.6%	19.6%	19.8%
Border insurance	7.4	8.0	7.0%	8.1%	8.0%
Casco	4.5	5.4	21.4%	4.9%	5.5%
Loans and guarantees	3.6	4.5	25.0%	3.9%	4.5%
Fire and other damages in property	5.4	5.3	-1.1%	5.8%	5.3%
Overall liabilities	2.7	3.5	31.5%	2.9%	3.6%
MTPL	45.3	47.0	3.7%	49.2%	47.3%
TPL+	2.3	2.5	9.5%	2.5%	2.5%
Total non-life	89.1	95.7	7.4%	96.8%	96.5%
Total life	3.0	3.5	17.0%	3.2%	3.5%
Total market	92.1	99.2	7.7%	100.0%	100.0%

Source: CBK (2020)

The increased share of voluntary insurance in total gross written premiums was influenced by the growth of premiums for products such as “Loans and Guarantees”, “Casco”, “Accident and Health” and other products that recorded a slower growth (table 8).

Ratio of premiums retained to the total gross written premiums continues to be high with a share of 86.8 percent (87.7 percent in 2018), while the share of reinsured premiums remained at 13.2 percent (12.3 percent in 2018).

Claims paid by the insurance sector, which includes claims from social security and the Kosovo Insurance Bureau (KIB), recorded an accelerated annual increase of 14.1 percent, reaching EUR 55.1 million in 2019, parallel to the growth of 5.0 percent in 2018. Of the total amount of claims paid, EUR 48.0 million (EUR 42.8 million in 2018) were claims paid by insurers, while EUR 7.1 million (EUR 5.4 million in 2018) were claims paid by the KIB. Claims paid by reinsurers account for only 15.5 percent of the total claims paid for 2019.

The increase in the level of claims paid during 2019 was influenced by the payment of claims on behalf of voluntary insurance products and compulsory insurance products. During 2019, the amount of damages paid by voluntary insurance reached the amount of EUR 18.5 million or 15.6 percent more than in the previous year. This increase in the paid damage from voluntary insurance was influenced by the product “Fire and other property damage”. Unlike voluntary insurance, paid claims from compulsory insurance, which have the largest share in the total portfolio of paid claims, in 2019 recorded an annual increase of 9.2 percent. This increase in damage paid by the compulsory insurance was influenced by the product “MTPL”.

So far, the amount of paid damage from “life” insurance has increased to EUR 718.3 thousand from EUR 552.4 thousand as it was in 2018, which is an annual decline of 30.0 percent.

A larger increase in claims paid during 2019, in addition to a smaller increase in written premiums, resulted in an increase in the ratio of total claims paid to written premiums (figure 37).

3.4.4.1 The performance of the insurance sector

The insurance sector ended this year with a positive financial result of EUR 2.8 million, unlike the previous year when it recorded positive financial results of EUR 1.6 million (table 9). “Life” insurers continue to create positive financial results, of EUR 460.5 thousand compared to EUR 584.4 thousand in 2018, while, “non-life” insurers recorded losses in the amount of EUR 3.3 million, compared to the profit of EUR 1.0 million in 2018. This financial result reflects the largest increase in claims incurred of 11.5 percent compared to an increase in net premium income by 3.3 percent and at the same time an annual increase in operating costs of the sector by 5.4 percent.

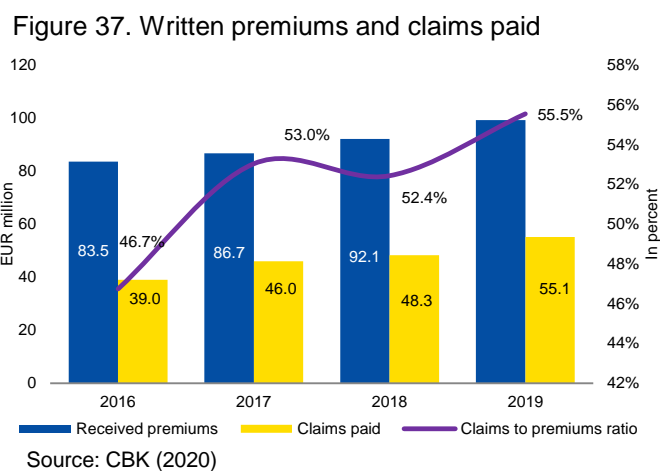


Table 9. Financial result (EUR million)

Description	2018	2019	Change
Non-life insurance	1.0	-3.3	-430.4%
Life insurance	0.6	0.5	-21.2%
Total market	1.6	-2.8	-278.6%

Source: CBK (2020)

One of the main factors in the realization of the loss during 2019 is the combined ratio of 102.6 percent, which is a damage ratio of 54.6 percent and a cost ratio of 48.0 percent, excluding income from investment interest, where according to this ratio the market insurance for 1 earned euro spent 1.03 euros.

Based on the Regulation on investing funds in covering technical and mathematical commissions and investing the founding capital of insurers, insurers are obliged to keep sufficient funds to cover technical and mathematical commissions not less than the gross value of technical, i.e. mathematical commissions. The ratio between cash and its equivalents to reserves remained at 97.2 percent in 2019, similar to last year. This was due to the annual growth of cash and cash equivalents for 8.5 percent, with an equivalent increase in technical reserves of the insurance sector of 8.6 percent, while the ratio between cash and cash equivalents to total liabilities decreased to 85.6 percent (87.3 percent in 2018).

3.4.5 Microfinance sector

Assets

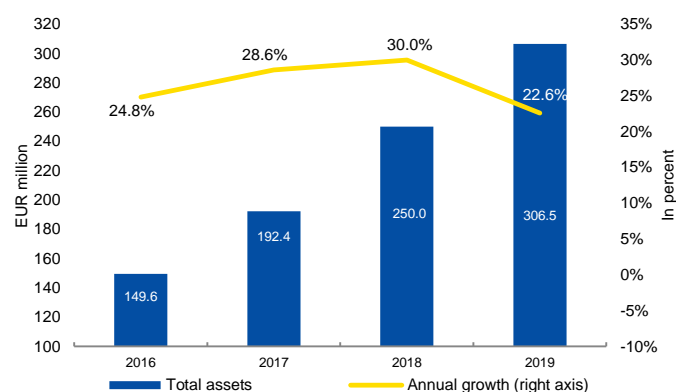
During 2019, microfinance sector assets reached the amount of EUR 306.5 million and recorded an annual growth of 22.6 percent (figure 38).

The structure of the microfinance sector assets is still dominated by gross loans (72.3 percent) followed by leasing (17.2 percent). Therefore, the growth of microfinance sector assets in 2019 can be mainly attributed to the growth of gross loans, an activity that is mainly financed by borrowing in the external sector.

Loans

The lending activity of the microfinance sector during 2019 recorded an annual growth of 20.5 percent, with the value of loans reaching EUR 183.8 million (figure 39). The dynamics of the lending activity of the sector mainly reflected the positive flows of lending to households as a category with a share of 67.5 percent of the total lending to the sector.

Loans to households recorded an annual growth of 23.3 percent, reaching an amount of EUR 149.6 million, while loans to companies, with a share of 32.5 percent in total loans to the sector, increased by 15.3 percent, reaching the amount of EUR 72.0 million.

Figure 38. Assets of microfinance sector

Source: CBK (2020)

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

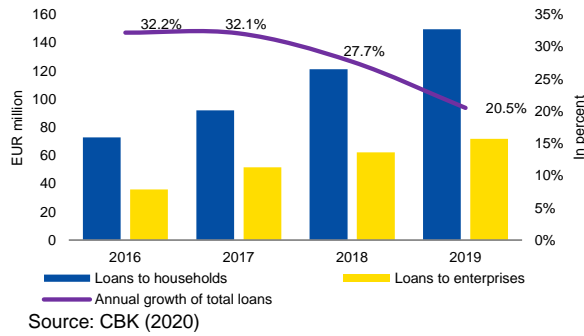
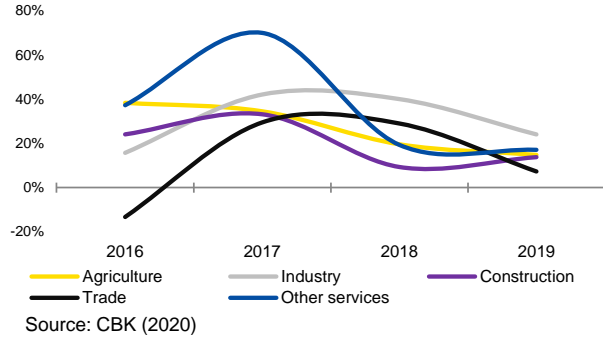


Figure 40. Growth rate of loans to enterprises, by economic sectors

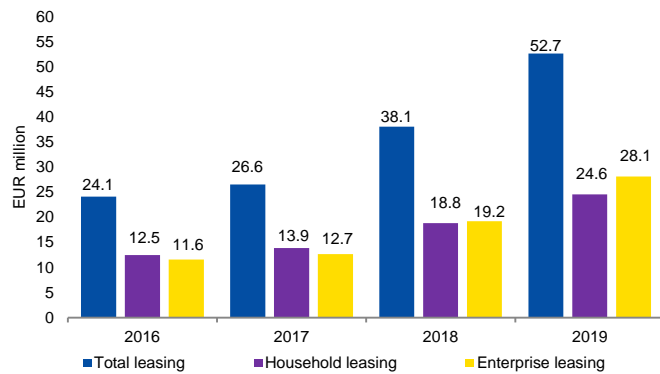


Loans to all economic sectors recorded growth, but the growth rate was slower than in the previous year (figure 40). The largest growth was achieved by loans to the industry sector, followed by loans to the trade and construction sector.

Leasing

Leasing, as the second category by weight in the structure of assets of the microfinance sector, recorded an annual growth of 38.5 percent in 2019 and amounted to 52.7 million euros (figure 41). The growth of leasing was contributed by the growth of “other leasing” and mortgage leasing, which recorded an annual growth of 8.5 million euros and 2.6 million, respectively, which also dominate the structure of the leasing sector.

Figure 41. Microfinance sector leasing (in percent)



Interest rates

The average interest rate on loans in the microfinance sector in December 2019 decreased by 20.5 percent compared to 21.0 percent in December 2018.

Figure 42. Average interest rate on microfinance sector loans

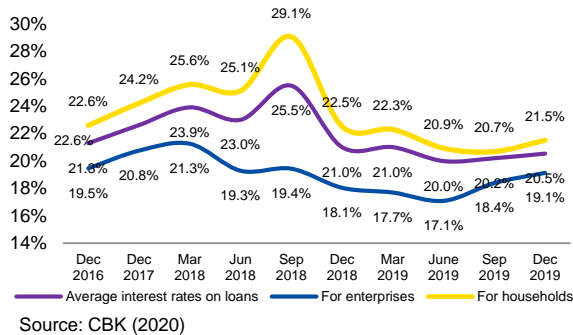
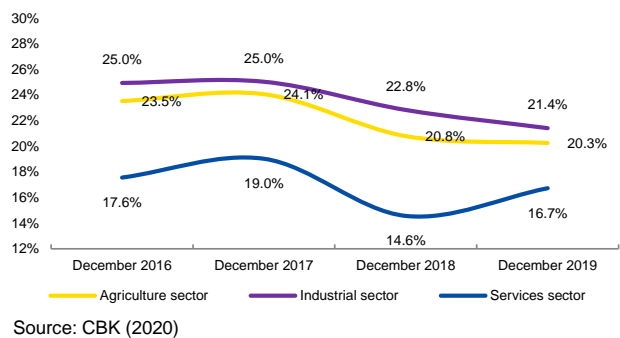


Figure 43. Average interest rate on loans, by economic sectors



The interest rate on loans to households decreased by 1.0 percentage points, while the interest rate on loans to companies decreased by 1.1 percentage points (figure 42).

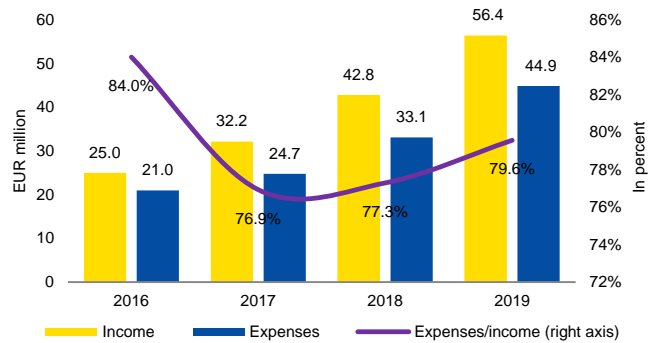
Within corporate loans, average interest rates for the agricultural and construction sectors declined, while it increased for the services sector, which has the highest interest rates on loans. Loans for the industrial sector continue to have the highest interest rate on loans of 21.4 percent, although it declined by 1.4 percentage points, unlike the previous year (figure 43).

Performance of the microfinance sector

During 2019, the microfinance sector made a profit of EUR 11.5 million, which is an annual growth of 18.5 percent compared to the profit made in 2018.

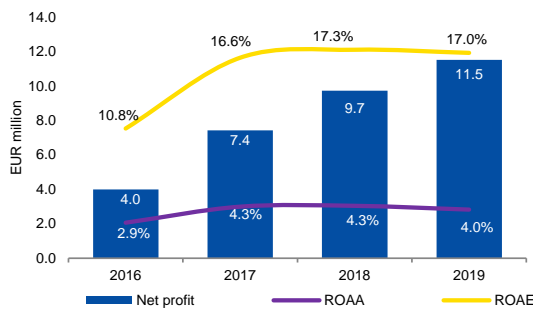
The highest revenue growth (mainly interest income) was a key contribution to profit growth of EUR 1.8 million (figure 44). However, profit growth was the lowest during this year due to higher non-interest expenses that could be affected by the increased number of employees in this sector, as well as the increase in commissions set aside for possible loan losses, as a result of accelerated lending.

Figure 44. Microfinance sector income and expenses



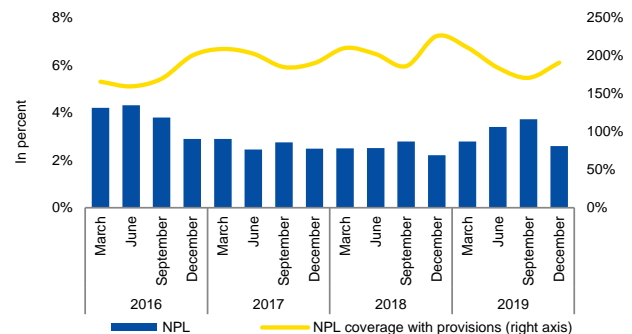
Source: CBK (2020)

Figure 45. Profitability indicators of microfinance sector



Source: CBK (2020)

Figure 46. Indicators of credit portfolio quality



Source: CBK (2020)

Positive financial results during 2019 were also reflected in profitability indicators, which continue to be ranked high, despite a slight decline compared to the previous year (figure 45). The level of non-performing loans in relation to total loans in 2019 increased by 0.4 percentage points¹³ reaching 2.6 percent. On the other hand, the level of coverage of non-performing loans with provisions continued to be high, at the level of 190.9 percent (figure 46).

3.5. Macroeconomic projections for 2020

The change in risk dynamics since March 2020 has resulted in a reduction in economic activity, especially in April and May, a reduction largely attributed to the impact of restrictive measures implemented by country institutions in the fight against COVID-19. Now, two months after the outbreak of the pandemic in Kosovo and the measures taken against potential spreading, initial forecasts suggest that the economy of Kosovo is expected to decline by 5.9 percent in 2020. However, building and updating macroeconomic scenarios may be subject to revision at a later

¹³ This NNK report does not include data on two non-banking microfinance and financial institutions closed on 6 December 2019.

stage, given the high uncertainties surrounding the end of the health crisis and the continuation of economic recovery.

Domestic demand is expected to decline, while net exports are expected to have a smaller trade deficit. Consumption, as the main component of domestic demand, is expected to mark a real decline of 2.9 percent, based on expectations that private consumption will decline by 3.0 percent and public consumption by 2.5 percent. The uncertainty caused by COVID-19 and the measures taken by the Government (avoiding gatherings of people, dismissals from jobs, etc.) are expected to affect revenue generation at lower levels. It is expected that remittances as an important source of consumption financing is expected to decline (-4.7%). The decline in remittances is expected to occur due to declining of economic activity in the main countries where immigrants are accommodated and restrictions on movement (it is known that a significant amount of remittances are carried in the pockets of immigrants, and it is expected that this year there will be fewer immigrants in Kosovo).

Investments are projected to decline by 12.1 percent, based on predictions of a significant decline in private investment (9.0 percent) and public investment (22.1 percent). Government capital expenditures are expected to have a low implementation rate due to: late adoption of the budget by the Assembly of Kosovo; expectations for a decline in budget revenues as a result of the ban on the activities of a large number of companies and the decline in imports; expectations that part of the capital expenditures will be used for other purposes, giving priority to mitigating the negative effects on the economy of COVID-19; as well as political uncertainties after a no-confidence motion against the Government was adopted. A complete shrinking or cessation of activities in the services sector is expected to affect the decline in private investment. The slowdown in production as a result of supply difficulties as well as the restriction of movement will have the effect of higher operating costs, while the tightening of credit may occur. Also, a decline in foreign direct investment is expected (10.1 percent).

Exports of goods and services are expected to decline by about 13.7 percent, while exports in goods is expected to decline by 12.1 percent and exports in services is expected to decline by 14.1 percent. Predictions for decline of exports in goods are based on the fact that external demand and prices in international markets (mainly metal prices) are declining, while many companies have been forced to suspend production or operate at reduced capacities. In terms of export in services, the decline is expected to be greatest in exports of tourism services (mainly the costs of immigrants during their stay in Kosovo) and transport services due to border closures. Imports of goods and services are expected to decline by 7.9 percent in real terms, and imports of goods are expected to decline by 6.1 percent, while import in services is expected to decline by 16.4 percent. The decline in general demand in the country, as well as the decline in import prices (especially oil prices), is expected to result in lower levels of imports of goods. As a result of this significant decline, especially of import in goods, the trade deficit is expected to be 2.5 percent lower.

When it comes to inflation, the average rate is expected to be around 0.8 percent, which is the lowest level compared to 2019, when the inflation rate was 2.7 percent. This slowdown in inflation is in line with inflation forecasts in the Eurozone, price developments in international markets and the weakened level of economic activity in Kosovo.

4. Licensing and regulation of financial system

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

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

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

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

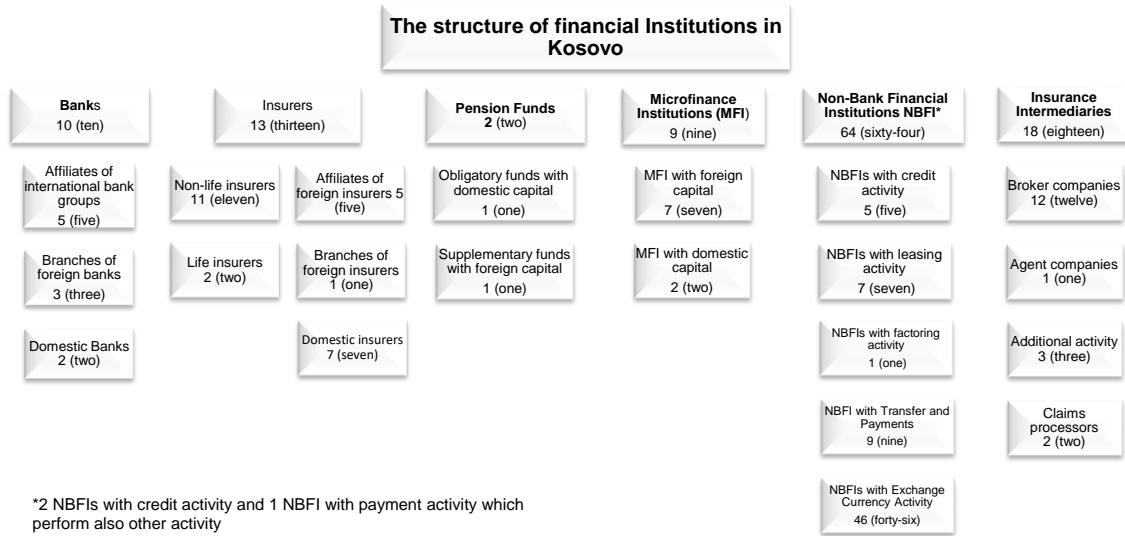
4.1. Licensing

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

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

The financial system structure at the end of 2019, by the type of licensed and registered financial institutions providing financial services in Kosovo, based on the applicable legislation in the Republic of Kosovo and CBK's applicable regulatory framework, ranked by their weight in the system, is presented in figure 47.

Figure 47. Structure of financial system in Kosovo

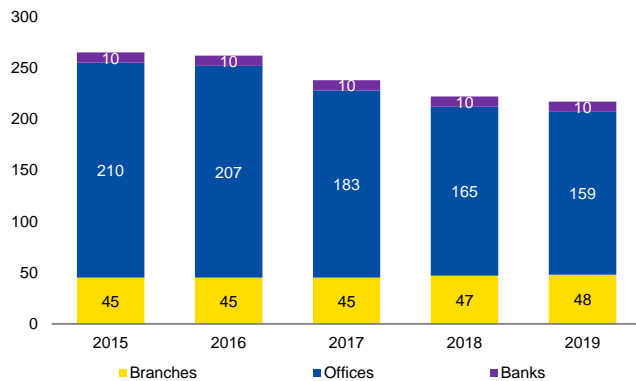


The structure of the financial system is composed of a total 113 financial institutions, which are licensed and registered and exercise their activity in Kosovo under the applicable legislation in the Republic of Kosovo and CBK's applicable regulatory framework.

4.1.2 Financial System Network

By the end of 2019, banks exercised their activity in a total of 48 branches and 159 offices within the country's territory (figure 48). During this year, banks with CBK's approval have opened 1 branch and closed 6 offices. Narrowing of the physical network of offices has been performed mainly based on the assessment of their performance and efficiency, and as a result of the expansion of automated services such as: e-banking, ATMs, sale terminals, mobile banking, etc.

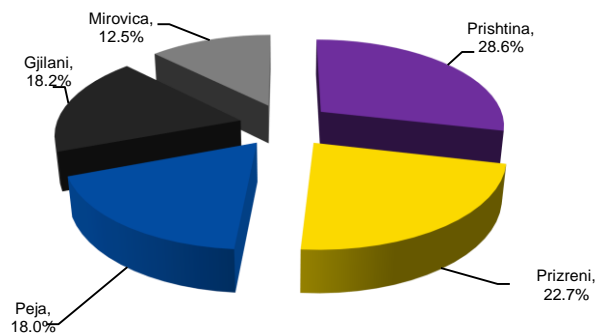
Figure 48. Network of banks by number of branches/offices



Source: CBK (2020)

The geographical distribution of the banking network includes almost all of the country's territory, despite the marked shrinking in relation to the number of branches and offices (table 10). Nevertheless, it still continues to be observed a greater concentration of branches and offices in the region of Prishtina (33.0 percent), where the concentration of population is higher (28.6 percent) as shown in figure 49.

Figure 49. Spread of Kosovo's population, by region



Source: CBK (2020)

The five-year trend suggests a consistent bank strategy regarding geographical focus of bank network, considering that there is

no significant change over this period, in relation to the percentage of bank branches and offices, despite the changes in relation to the number of branches and offices, because the network shrinking has been made in proportional manner in all regions.

Table 10. Geographical distribution of banks branches and offices

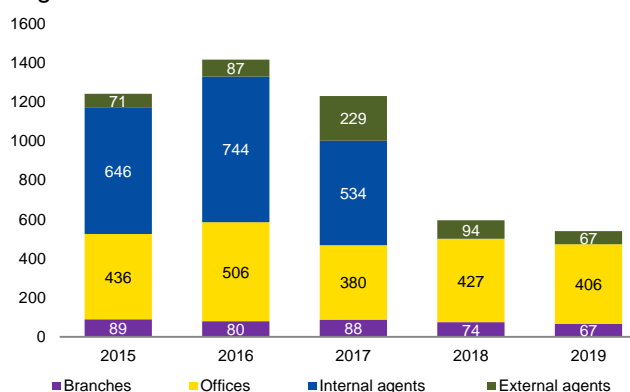
Description	Prishtina region		Prizren region		Peja region		Gjilan region		Mitrovica region		Total
	No.	%	No.	%	No.	%	No.	%	No.	%	
2015	93	35%	40	15%	45	17%	52	20%	35	13%	265
2016	95	36%	38	15%	42	16%	52	20%	35	13%	262
2017	83	35%	37	16%	39	16%	47	20%	32	13%	238
2018	74	33%	35	16%	38	17%	44	20%	31	14%	222
2019	71	33%	35	16%	37	17%	44	20%	30	14%	217

Source: CBK (2019)

Insurers exercise their activity through 67 branches, 406 offices and 67 external agents within the country's territory (see figure 50). During 2019, there was a shrinking of the general network of insurers in the country, which reflects the cost reduction strategy pursued by the insurers.

The geographical distribution of insurers' network includes almost all of the country's territory; however, it does not match with the geographical distribution of the population. While the largest concentration of the population is in the region of Prishtina (28.6 percent, see figure 49) the concentration of insurers' network is in the region of Peja, which is one of the least populated regions in the country (see figure 49), and this structure is consistent over the last five years (table 11).

Figure 50. Network of insurers



Source: CBK (2019)

Table 11. Network of insurers, by geographical distribution

Years	Prishtina region		Prizren region		Peja region		Gjilan region		Mitrovica region		Total
	No.	%	No.	%	No.	%	No.	%	No.	%	
2015	15	17.4%	41	47.7%	14	16.3%	7	8.1%	9	10.5%	86
2016	11	15.3%	11	15.3%	21	29.2%	18	25.0%	11	15.3%	72
2017	13	17.8%	11	15.1%	20	27.4%	19	26.0%	10	13.7%	73
2018	14	18.9%	11	14.9%	20	27.0%	19	25.7%	10	13.5%	74
2019	13	19.4%	10	14.9%	18	26.9%	17	25.4%	9	13.4%	67

Source: CBK (2019)

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

Microfinance institutions, by the end of 2019, conducted their activity through 134 offices distributed within the country's territory. In 2019 the opening of 12 offices and relocation of 6 offices of MFIs were approved. The geographical distribution of Microfinance institution offices is concentrated only in two regions of the country's territory, namely in the region of Prishtina and Peja (table 12).

Table 12. Network of MFIs, by geographical distribution

Description	Prishtina region		Prizren region		Peja region		Gjilan region		Mitrovica region		Total
	No.	%	No.	%	No.	%	No.	%	No.	%	
2015	24	24%	24	24%	23	23%	17	17%	11	11%	99
2016	27	26%	24	23%	23	22%	19	18%	12	11%	105
2017	29	26%	26	23%	24	21%	20	18%	14	12%	113
2018	32	27%	28	23%	24	20%	22	18%	14	12%	120
2019	37	29%	30	23%	24	19%	23	18%	14	11%	128

Source: CBK (2019)

At the end of 2019, non-bank financial institutions conducted their activity in a total of 698 offices and agents distributed within the country's territory. The geographical distribution of branches and offices of non-bank financial institutions is concentrated in almost all of the country's territory, excluding the region of Mitrovica (table13).

Table 13. Network of NBFIs (offices and agents) by geographical distribution

Description	Prishtina region		Prizren region		Peja region		Gjilan region		Mitrovica region		Total
	No.	%	No.	%	No.	%	No.	%	No.	%	
2015	108	30%	67	19%	74	20%	77	21%	36	10%	362
2016	128	30%	79	19%	89	21%	89	21%	41	10%	426
2017	149	31%	88	18%	97	20%	102	21%	52	11%	488
2018	172	31%	103	19%	109	20%	116	21%	53	10%	553
2019	213	32%	118	18%	126	19%	145	22%	65	10%	667

Source: CBK (2019)

4.1.3 Licensing Activity

In fulfilling the function of licensing and normal functioning of financial activities, CBK during 2019 has reviewed a total of 579 requests, out of which 8 were applications for licensing/registration and 571 were requests of financial institutions for transaction approval, which, according to the applicable legislation, require prior approval by the CBK (table 14). This does not include: i) reviewed and carried forward requests for decision-making in 2020; ii) expression of interest for licensing/registration, iii) requests assessed but not subject to CBK's approval, and iv) questions, notices and other assessments reviewed by the CBK.

In 2019, similar to the previous year, the CBK received mainly requests for registration of MFIs, NBFIs, and insurance intermediaries.

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

Table 14. Structure of financial system requests approved/rejected by the CBK

Transactions	2018						2019					
	Banks	Pension funds	MFI & NBFI	Insurers	Insurance intermediaries	Total	Banks	Pension funds	MFI & NBFI	Insurers	Insurance intermediaries	Total
Applications	1	0	8	1	2	12	1	0	5	0	2	8
Main shareholders and changes in equity	1	0	0	1	0	2	0	0	3	0	1	4
Directors and senior managers	29	0	28	22	2	81	24	0	29	40	8	101
External auditor	10	3	28	18	10	69	11	2	32	18	11	74
Changes in inception and/or status	5	0	5	1	2	13	4	0	6	2	0	12
Income from capital interest and transferring of portfolio	0	0	0	0	0	0	0	0	0	0	0	0
Expansion of financial activities	1	0	2	5	0	8	0	0	0	3	0	3
Opening, moving and closing of branches and offices in the country and abroad	46	0	109	60	9	224	21	0	68	44	5	138
Licensing and registration of agents/brokers	0	0	69	21	26	116	0	0	116	4	32	152
Revocation of licensing/registration	0	0	76	16	13	105	0	0	72	10	2	84
Other	0	0	0	1	1	2	0	0	0	3	0	3
Total	93	3	325	146	65	632	61	2	331	124	61	579

Source: CBK (2019)

Within these 8 applications for licensing/registration, CBK in 2019 rendered decisions for approving the licensing of Bank Credins Kosovo, registration of Mogo L.L.C. as non-bank

financial institution for performing financial leasing activities, registration of IBAS as non-bank financial institution for performing financial activities, registration of Nekom L.L.C. and Euro Bina L.L.C. as non-bank financial institution for performing exchange office activities. Regarding insurance intermediaries during 2019, the CBK approved the registration of Alberti Broker L.L.C. and Link Insurance Broker L.L.C.

In the licensing process, CBK has paid special attention to the implementation of the basic principles and rules for accountable and effective governance of banks, assessing their organizational structures, management, and division of responsibilities. Based on the applicable regulation, the CBK reviewed (approved/rejected) the requests of banks for 24 new members of the board of directors, external members (experts) of Audit Committee, and senior managers. Among insurers, CBK has approved/rejected 35 members of the Board of Directors and senior managers of insurers. At the same time, CBK has reviewed (approved/rejected) similar requests also for Microfinance institutions, non-bank financial institutions, and insurance intermediaries. During this period, 31 members of the board of directors and senior managers of microfinance institutions, non-bank financial institutions, and insurance intermediary companies were approved.

In 2019, 4 requests were approved for change of shareholders and 12 requests for the change of statute, 4 of which were among banks, 2 from insurers and 6 from microfinance institutions and non-bank financial institutions.

The review of requests for licensing/registration of individual agents as insurance intermediaries, and NBFIs agents, are presented in individual transactions to avoid possible confusions given their very high number. As presented in table 14, in 2019 CBK has approved/rejected 152 such requests. However, comparing to the previous year, there is a significant increase of this type of request. Similar to licensing and registration of agents, withdrawal of agent licensing/registration is also a frequent request for approval, indicating a volatility of financial system network in relation to agents. In this regard, there is a similar suggestion from the data on the approval of openings, relocations, and closing of branches and offices of financial institutions in the country. In 2019, 138 such requests have been reviewed, mainly of banks, FMIs, NBFIs, which overall represents a slight decrease compared to the previous year.

In 2019, CBK also reviewed the applications for approval of periodic transactions that require CBK's approval pursuant to the legal and regulatory framework in force, such as the approval of external auditors for all types of financial institutions.

4.2. Regulation

4.2.1 Regulatory Framework of Financial System

CBK has established a regulatory framework for licensing, regulation, and supervision of financial institutions based on best international practices and continuously supported from well-known international institutions such as the World Bank, International Monetary Fund, USAID, US Treasury, KfW, GIZ, European Central Bank, European Bank for Reconstruction and Development, and other international institutions. The regulatory framework has been drafted in compliance with the European Directives addressing the regulation of financial institutions, such as international standards and best practices on regulation and supervision of financial institutions. Also, CBK has commenced a gradual process toward approximation with basic principles on supervision of banks issued by BIS – Bank for International Settlements and basic principles on the supervision of insurers issued by IAIS – International Association for Insurance Supervision. Since the directives, international standards and abovementioned

principles on the regulation of financial institutions and the field of their activity are of a dynamic character, this makes the drafting process of the legal framework a continuous and complex process, since it requires the amendment and supplement of existing legal and regulatory framework, and requires an adequate approach, in order to carefully study specific circumstances of Kosovo, for an adequate adaptation of such international legal instruments to the needs of financial sector in Kosovo.

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

4.2.2 Regulatory Framework for Banks

In order to further develop the regulatory framework for regulation of banks, the following activities were implemented in 2019.

4.2.2.1 New Law on Banks

In 2019, CBK has prepared the draft of the new Law on Banks, which includes also the comments received by the Banking Association based on the current law. The new Law has been restructured in line with the European directives, regional legal framework, and international banking standards. Its drafting was supported from international banking experts engaged within the US Treasury and European Bank for Reconstruction and Development (EBRD), but also revised by the legal experts of the International Monetary Fund. The new law has been forwarded to CBL's Executive Board for reviewing and deciding on some strategic points for the banking industry and it is expected to be proceeded to the Government of the Republic of Kosovo during 2020 and then sent to the Assembly of Republic of Kosovo for review and approval.

4.2.2.2 Regulatory Framework for Recovery, Resolution and Liquidation of Banks

The Working Group of CBK has also drafted new chapters in the new Law on Banks, addressing the recovery, resolution and liquidation of banks, with the support of the EBRD's technical assistance. Upon the approval of the new Law on Banks, during 2020 it is planned the adoption of the following regulations that are being drafted by working group and deriving from the new drafted part in the law, regulating the bank recovery and liquidation process based on the European Directive for the same process. The primary objectives of this framework are: preservation of financial stability, continuity of critical functions, far-sighted (predicative) - preventive supervision, determination of early intervention measures, protection of depositors and non-use of public support, except in emergency situations. These regulations shall define how this process will be developed, main stakeholders during this process, qualifications of persons appointed as official administrators or liquidators and any other necessary and required process in compliance with the new Law on Banks.

As a supplementary part of the primary legislation or new chapters of the new Law on Banks, secondary legislation or the thirteen regulations listed above, the CBK's Internal Manual on Bank Recovery, Reorganization and Liquidation has also been prepared, the adoption of which is planned after the entry into force of laws and regulations.

4.2.2.3 Alignment with Basel Standards

Within the project for the implementation of the Basel Standards, activities related to the development and completion of instructions for implementation of the planned regulations from this project continued. During 2019, the following instructions were completed as part of this project:

- Methodological instruction for the implementation of the Regulation on capital adequacy of banks; and
- Methodological instruction for the implementation of the Regulation on leverage indicators;

These regulations and instructions were drafted with the aim of alignment with the Standardized Approach of the First and Second Pillar of the Basel Capital Framework and EU regulatory requirements (Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms).

The instructions were adopted during 2019 and will enter into force on 1 January 2020.

4.2.2.4 Alignment with International Financial Reporting Standard (IFRS) 9 – Financial Instruments

In 2019, the CBK has drafted and approved a regulatory framework that aligns the country's framework with the International Financial Reporting Standard (IFRS) 9 - Financial Instruments. The same will enter into force on 1 January 2020. The following regulations have been drafted and adopted within this regulatory framework:

- Regulation on credit risk management of banks;
- Regulation on non-performing exposures and restructuring;
- Regulation on the application of the international financial reporting standard 9.

4.2.2.5 Regulatory Framework on Appraisal of Immovable Properties

During 2019, CBK continued the project on the revision of the regulatory framework for appraisal of immovable property, in order to update the requirements to improve appraisal practices of immovable property by financial institutions in compliance with the new European standards (European Valuation Standards - EVS 2016). This project is being developed under the support of US Treasury Advisor, a long-time expert in the field of immovable property valuation for the needs of banks. Within this project, the Regulation on Appraisal of Immovable Properties is drafted, which shall be approved by the Board of CBK in 2020.

4.2.2.6 Instruction on Consumer Credit Information Form

Pursuant to the obligation deriving from Article 85 and 86 of the Law on Consumer Protection, the Instruction has been approved, with the attached Annex and Key Facts Form and Guarantor Information Sheet.

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

In order to further develop the regulatory framework on regulation of Microfinance institutions and non-bank financial institutions during 2019, the following laws and bylaws have been drafted.

4.3.1 Law on MFI and NBFi

This draft law was drafted by an inter-institutional working group, which included the CBK. This draft was adopted by the Government during 2018, and then forwarded to the Assembly of the Republic of Kosovo for adoption, where it passed the first reading. It is expected that it will be adopted by the Assembly of the Republic of Kosovo during 2020.

4.3.2 Approved regulations on MFIs and NBFIs

In order to advance the regulatory framework of MFIs and NBFIs, and to harmonize the regulatory legal framework of the CBK with that of the European Union, Regulations on NBFIs were drafted and finalized/approved, as follows:

- Regulation on Credit Risk Management;
- Regulation on External Audit;
- Regulation on Internal Control and Internal Audit;
- Regulation on Effective Interest Rate and Disclosure Requirements.
- Regulation on agents of electronic payment and money service providers;
- Regulation on issuing electronic money;
- Regulation on licensing, regulation and supervision of payment system operators;
- Regulation on registration of non-banking financial institutions; and
- Regulation on regulatory capital and preservation of NBFi funds (applicable to NBFIs with electronic money payment and issuance activities).

4.4. Regulatory framework on insurers and insurance intermediaries

In order to further develop the legal framework on regulation of insurers and insurance intermediaries, in 2019 have been drafted the following laws and bylaws.

4.4.1 Law on compulsory motor liability insurance

During 2019, the drafting of amendments to the Law on Compulsory Motor Liability Insurance was completed. It is planned to be forwarded to the responsible institutions for adoption in 2020.

4.4.2 Regulation on the liquidation of insurers

During 2019, the CBK drafted and adopted a Regulation on the liquidation of insurers, which sets out the criteria and procedures for the liquidation of insurers in order to preserve financial stability in the country and ensure adequate protection of the rights of insurance policyholders. This Regulation was issued in accordance with Chapter XVIII of Law no. 05 / L-045 on insurance.

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

In 2019, CBK has drafted the Regulation on Fine Penalties for Insurers, Insurance Intermediaries, and Insurance Claim Handlers, in accordance with Article 125 of the Law on Insurance in order to determine fine penalties that can be imposed by CBK, in cases when institutions and/or individuals representing them do not meet the requirements of the Law on Insurance and/or sub-legal acts in its implementation. The same regulation is forwarded to the CBK responsible bodies for approval

4.4.4 Instruction on selling insurance products

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

4.4.5 Instruction on classes of insurance

During 2019, the CBK completed the development of the Instruction regulating the classification of types of risks in insurance classes, as well as types of risks within insurance classes. The need to issue this instruction arises from the numerous requests of insurers for explanations of the various products and the classes to which they belong. It is expected that it will be adopted during 2020.

4.4.6 Regulation on corporate governance of insurers

In 2019, CBK finalized drafting the Regulation on Corporate Governance of Insurers based on principles defined in the Insurance Core Principles, issued by the International Association of Insurance Supervisors in order to approximate the CBK's regulatory framework with the European regulatory framework and best international practices. This regulation is planned to be approved in January 2020.

4.5. Regulatory framework on pension funds

In order to further develop the regulatory framework on regulation of pension funds during 2019, the following regulations have been drafted:

- Regulation on Pension Benefits, applicable individual supplementary pension schemes; (adopted during September 2019);
- Regulation on the value of pension benefits applicable to the employer's supplementary pension fund;
- Regulation on keeping records on pension funds and pension insurers.
- Regulation on the transfer and disbursement of benefit transfer payments.

4.6. Other regulatory framework on financial services

During 2019, the following bylaws were issued that are applicable to financial services.

4.6.1 Regulation on advertising of financial services - this regulation is drafted to determine the general and special conditions of advertising of financial services, obligations and responsibilities of financial service providers in relation to advertising messages and other issues related to this type of advertising and regulates advertising that directly promotes the financial service provider and / or all of its activities, not just the individual financial services it provides. The same was adopted in January 2020.

4.6.2 Regulation on default interest on credit instruments - this regulation was drafted in order to determine the procedure that will be carried out by credit financial institutions to collect default interest, as well as how to determine and calculate the amount of default interest on overdue credit instruments. It was approved during 2019 and is applicable to all financial institutions that issue credit licenses from the CBK.

4.6.3 Regulation on electronic payment instruments - the regulation was drafted in order to determine the conditions, requirements and procedures for the issuance and use of electronic payment instruments, as well as to determine the manner of communicating information when using these electronic payment instruments.

5. Supervision of financial system

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

Banking sector

During 2019, the activity of bank examinations has continued, through on site examinations of banks, through the application of risk-based supervision approach according to the Bank-based risk monitoring manual. During the complete on-site inspections of banks, the risk profile of banks, management methods, banks' appetite to take risks, the system they set up for risk management were assessed, followed and met with recommendations arising from the CBK's preliminary controls.

During 2019, the following controls were performed in banks:

Table 15. Number of banks examinations

Institutions	Type of Examination
Banks	4 full examinations
	1 focused examination

Source: CBK (2020)

Full examination reports have been prepared according to the type of banking risks such as: liquidity risk, credit risk, market risk and operational risk. On the other hand, from the examination focused on the bank, recommendations were given with deadlines for implementation. Their fulfilment by banks was continuously monitored, where it was checked whether these recommendations were met in accordance with the set deadlines.

Table 16. Number of examinations in MFIs

Institutions	Type of Examination
MFI	5 full examinations
	1 focused examination

Source: CBK (2020)

The sector of microfinance institutions and non-bank financial institutions has been characterized with a continuous increase during 2019, where during 2019 following examinations were performed:

Table 17. Number of examinations in NBFIs

Institutions	Type of Examination
NBFi	2 full examinations
	1 focused examination
Exchange bureaus	42 focused Intraday examinations

Source: CBK (2020)

As a result of relevant controls, as well as on the basis of information obtained outside this industry, two institutions registered as MFIs - NBFIs at the end of 2019 were deprived of their registration from the CBK, and in that case proceedings for their liquidation were initiated.

In line with the relevant objectives, on-site supervision of microcredit institutions and non-banking financial institutions during 2019 was redirected to risk management assessment, with special emphasis on credit risk, compliance with CBK legislation and their policies, as well as with the status of fulfilling the requirements and recommendations from the preliminary examinations of the CBK. Also, during the examinations in microfinance institutions and non-banking financial institutions, the risk in the field of information technology was examined and assessed, where special attention was paid to the general security of the system, as well as the creation and completion of security measures for proper functioning of information technology.

In order to be proactive in the supervision process, from banks, microfinance institutions and non-bank financial institutions with lending activities were requested their strategic plans and financial projections for the period of 2020-2022, with a view to assessing these business plans, and expectations on the developments in the banking sector, microfinance institutions and non-bank financial institutions during this period. Strategies shall be continuously monitored and analyzed for the purpose of identifying potential deviations and risk profile measurement.

Insurance sector

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

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

Table 18. Number of insurance sector examinations

Institutions	Type of Examination
Insurers	9 full examinations
	3 focused examinations

Source: CBK (2020)

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

During 2019, in order to harmonize with modern principles of insurance supervision and to spread and promote early identification of insurers' risks, as well as to make prudent supervision recommendations in order to maintain financial security and stability of insurers, the CBK adopted the *Risk-Based Supervision Manual for Insurers*, which represents an advanced conceptual framework related to supervision.

Tariff increase for MTPL

On October 31, 2019, the Central Bank of the Republic of Kosovo adopted Decision no. 60-272019 on the change of tariffs for the compulsory motor third party liability insurance premium for subcategory 1 - passenger vehicles. The last time MTPL tariffs were set was in 2001, and no review of those tariffs has been made since. Meanwhile, insurance coverage has been increased from 300,000 euros to 1 million euros for a single event.

Since 2012, the Bonus-Malus system has been applied, which rewards responsible traffic participants, which has resulted in insurance companies' revenues from the sale of these policies having decreased by 19% since 2012. In the meantime, the average paid damage increased from 800 euros in 2006 to around 1,300 euros in 2019. As a result of the growth in the number of vehicles in traffic, the number of damages also increased, from about 10,000 in 2006 to about 19,000 in 2019. Another reason is the increase in the number of accidents of uninsured vehicles, whose damage is transferred to the Compensation Fund, which is financed by insurance companies, according to the Law on Motor Third Party Liability Insurance.

However, one of the main reasons for the increase in compulsory motor third party liability insurance premiums is inflation, where, according to the data of the Kosovo Agency of Statistics, from 2002 to 2018, inflation recorded an increase of 31.63%. In July 2019, the Law on Corporate Income Tax was amended, which does not oblige insurance companies to pay sales tax of 5%, so the value of inflation of 31.63% was reduced by 5% and resulted in an increase for subcategory 1 - passenger vehicle in the value of 26.63%.

Revocation of the license of the insurance company "Insig" JSC, branch in Kosovo

On April 26, 2019, the Executive Board of the CBK decided to revoke the license of the insurer "Insig" JSC, a branch in Kosovo, because there were financial difficulties in meeting the legal requirements of the CBK regarding capital adequacy and ability to pay - solvency. At the request of the CBK, the board and management of insurers failed to meet legal requirements and improve the company's financial condition. The unwillingness of shareholders to meet capital requirements has seriously jeopardized the ability of insurers to meet their obligations to policyholders and other creditors. Therefore, in order to protect insurance policyholders and prevent the increase of negative impact on the insurance market and financial system in general, the CBK, based on the duties and responsibilities arising from the CBK Law and the Insurance Law, was forced to decide to revoke the license of insurer. According to Chapter 18 of Law no. 05/L-045 on insurance, the CBK initiated the procedure of compulsory liquidation of insurers by appointing a liquidator, who is in the process of liquidation of insurer "Insig", providing fair and equal treatment, always in accordance with applicable legal requirements, to all creditors. The liquidator is available to review all claims, primarily for insurance policy holders as well as other creditors. The Liquidator reports monthly to the CBK on progress in meeting its obligations to creditors. The revocation of Insig's license did not jeopardize the stability of the insurance sector in Kosovo. Kosovo's financial system, since its inception, has had a sustainable development, which has served as an important source of macroeconomic stability in the country.

Pension funds

In order to preserve the sustainability of the financial sector, in 2019, examinations were performed on pension funds and commercial banks according to the annual plan. Pension supervision is in line with international practice in the relevant field, supporting a risk-based approach, special attention is paid to fund management, investment strategy, and efficiency of internal controls, preservation of adequate liquidity and other risks.

Regarding the supervision of pension funds, during 2019, two complete examinations in pension funds and two focused examinations in commercial banks were conducted to assess the general condition of pension funds for the financial year 2018, assessing compliance with relevant laws and regulations of the CBK, efficiency of functioning of internal control, implementation of recommendations proposed in CBK examinations reports, in order to protect pension funds saved by contributors and preserve financial stability of funds.

Also, during this year, the Manual for on-site supervision of pension funds was implemented, which serves as a guide / framework for monitoring, evaluation of pension funds, reflecting the growth of the efficiency of pension fund supervision. This handbook has ensured the application of a risk-based approach through the identification, assessment and consideration of potential risks faced by pension funds.

Table 19. Number of examinations

Institutions	Type of Examination
Pension funds	2 full examinations
Banks	2 focused examinations

Source: CBK (2020)

Prevention of money laundering

With regard to the area of prevention of money laundering and terrorist financing, after the adoption of the law and the regulations dealing with this field, in order to ensure their effective implementation in practice, it was considered necessary to issue guiding acts. In this light, the CBK in 2019 has drafted a supplement-amendment to the Regulation on Prevention of Money Laundering and Instruction on the origin of funds form and drafted a fraud prevention policy as one of the conditions for correspondent banking.

In order to strengthen cooperation and increase care for the financial sector, the necessary meetings were held with the Compliance Commission within the Association of Banks, where the requirements related to the legal and operational framework of the area were discussed. In addition, communication with sectors within the institution has been intensified and monitoring of activities during inspections of banks and financial institutions and communication with other law enforcement institutions has increased.

Table 20. Number of examinations

Institutions	Type of Examination
Banks, Insurers, MFIs and NBFIs	4 full examinations
	3 focused examinations

Source: CBK (2020)

Complaints of the users of financial services

During 2019, complaints from financial service users were received, systematized and reviewed in accordance with the relevant regulation. Reporting was carried out on the activities for handling complaints of financial service users on a quarterly basis to the European Commission.

During March 2019, the CBK marked the World Consumer Rights Day, where a conference entitled "The Role of the CBK in the Field of Consumer Protection" was organized.

Also, during this year, an online platform for submitting complaints was developed, which will be publicly available from January 1, 2020.

During 2019, 1211 complaints of users of financial services (individuals and legal entities) were considered):

- a) The total number of complaints for commercial banks addressed to the CBK for 2019 was 550, while the most common complaints related to various issues related to the loan (such as categorization in the loan register, loan repayment, etc.); credit card issues; as well as various account issues (such as account blocking, account maintenance tariffs);
- b) The total number of complaints for microfinance institutions (MFIs) and non-banking financial institutions (NBFIs) addressed to the CBK for 2019 was 156, while the most common complaints related to high loan costs, namely 34% of total complaints for MFIs and NBFIs referred to the high tariffs applied to the loan.
- c) A total of 495 complaints against insurance companies were filed with the CBK during 2019. The most common complaints related to non-compensation of material and non-material damage from TPL's auto liability insurance, non-compliance with deadlines for payment of out-of-court agreements, as well as lack of compensation for medical expenses from health insurance.

Table 21. Number of complaints, by institutions

Financial industry	Number of complaints by years		
	2019	2018	2017
Commercial banks	550	471	298
MF/NBFI	156	54	34
Insurance companies	495	395	267
Other claims	10	4	3
Total	1,211	926	602

Source: CBK (2019)

The table above presents the number of complaints reviewed by the Complaints division of users of financial services over the years. In 2019, compared to 2018, we have a significant increase in the number of processed complaints, or 31%, with complaints against commercial banks growing by 17%, complaints against insurance companies growing by 25%, while complaints against MFIs and NBFIs recorded significant growth of 189% (as a result of increased lending activities of two institutions, such as IuteCredit and Monego).

Table 22. Number of complaints, by status of complaint

Financial industry	Number of complaints	Supported	Rejected
Commercial banks	550	19.7%	25.8%
MF/NBFI	156	5.8%	7.1%
Insurance companies	495	24.7%	16.2%
Other claims	10	0.0%	0.8%
Total	1,211	50.1%	49.9%

Source CBK (2019)

The increase in the number of complaints filed by insurance policyholders, depositors / borrowers and users of all services and products of financial institutions licensed, regulated and monitored mainly reflects the awareness of financial users of their right to file a complaint. In table 22 we can see that 50.1% of the total number of complaints was resolved in favor of the users of financial services, so the results were legally grounded. It is worth noting that appeals are generally dismissed or not resolved in favor of the parties, as they have no legal basis for consideration.

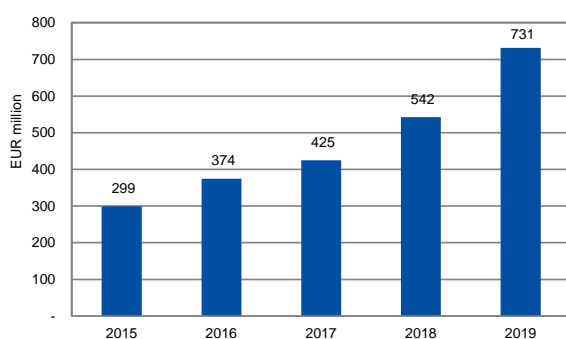
6. Services provided to the authorities, financial community and to the public

6.1. Operations and cash management

The CBK, as part of its cash management operations, ensures that the domestic economy is supplied with the appropriate amount and quality of euro banknotes and coins. For the realization of this function, it maintains and manages monetary reserves, regulates and determines the standards of financial institutions in the field of cash transactions related to the control and circulation of banknotes and coins, the obligation to withdraw from circulation money suspected of being counterfeit and unfit for re-circulation, as well as criteria for exchanging damaged money.

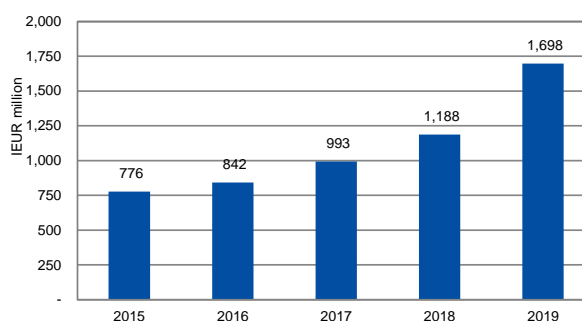
During 2019, the CBK successfully completed the supply of the domestic economy with the appropriate quantity and quality of euro banknotes and coins.

Figure 51. Supply with cash (value), EUR million



Source: CBK (2020)

Figure 52. Cash admission (value), EUR million



Source: CBK (2020)

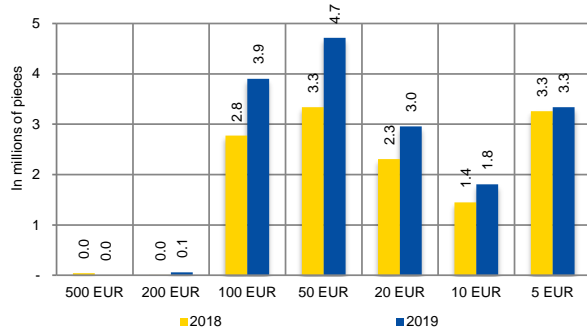
The total value of cash supply in 2019 increased by 34.81 percent compared to 2018. Structure of cash supplied by denominations, which is primarily determined by the banking sector requirements, did not show any significant changes from 2018 in 2019. Regarding euro banknotes, the amount of demand for delivery during 2019 increased by about 27.47 percent, compared to 2018, and continued to dominate the demand for delivery of denominations of 5, 10, 20, 50 and 100 euros. During 2019, the demand for denomination quantities of 200 euros recorded a significant increase due to the fact that from January 27, 2019, the issuance of denominations of 500 euros was suspended based on the decision of the European Central Bank. Also, the demand for the amount of denominations in the amount of 100 and 50 euros recorded a group growth of about 4.88 percent compared to last year, while the demand for the amount of denominations in the amount of 20, 10 and 5 euros recorded a group decline of 4, 70 percent.

As shown in figures below, during 2019, CBK supplied banking sector with approx. 16.78 million pieces of euro banknotes (in the amount of approx. euro 731.31 million) and over 7.23 million pieces of euro coins (in the amount of over euro 1.32 million).

Volumes of requests for supply of coins in 2019 marked an increase of about 6.49 percent compared to 2018. Requests for the supply of euro coins, in 2019, same as in 2018 was mainly dominated by small-value coins from 1, 2, 5 and 10 euro cents.

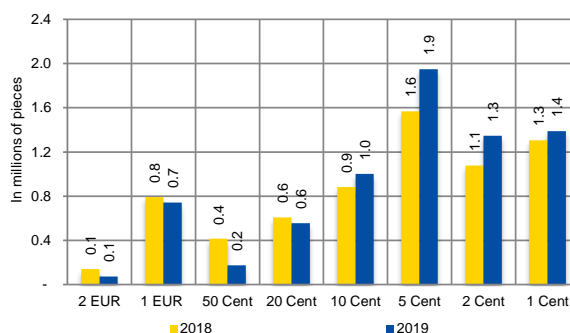
Compared to the previous year, the demand for denominations of 10, 5, 2 and 1 euro cents recorded a group growth of 17.61 percent, while the demand for the delivery of denominations of 2, 1 euro, 50 and 20 euro cents recorded a group decline of 20.98 percent compared to the previous year.

Figure 53. Supply with EUR banknotes, by denominations



Source: CBK (2020)

Figure 54. Supply with EUR coins, by denominations

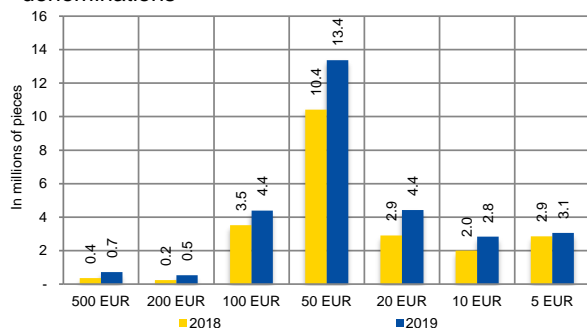


Source: CBK (2020)

The total value of cash received as deposits marked an increase of 42.90 percent in 2019 compared to the previous year. CBK received around 29.29 million pieces of euro banknotes (on average about 117.000 pieces of banknotes per day) and about 0.67 million pieces of euro coins (on average about 2.700 pieces of coins per day) as cash deposits from the banking sector. Expressed in value, cash deposits reached the amounts of around 1.70 billion Euro banknotes and 0.89 million Euro coins, respectively. The volumes of banknotes received during 2019 marked an increase of about 31.55 percent compared to 2018, while volumes of coin deposits marked a significant decrease of about 73.90 percent compared to 2018.

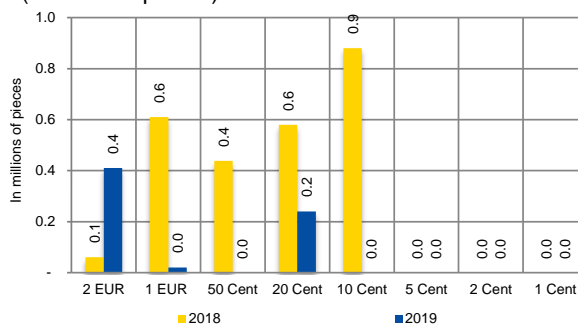
The structure of euro banknotes received during 2019, as shown in the figure below, has not changed much since the previous year, while the structure of coin deposits was dominated by denominations of 2 euros and 20 euro cents.

Figure 55. Supply with received EUR banknotes, by denominations



Source: CBK (2020)

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



Source: CBK (2020)

Similar to previous years, during 2019, the received cash was higher in relation to the delivered cash. In fact, reaching about 966.24 million euros, such a net change ¹⁴ was higher than in previous years, amounting to about 645.43 million euros. This growth is mainly due to the growth of deposits in the banking sector.

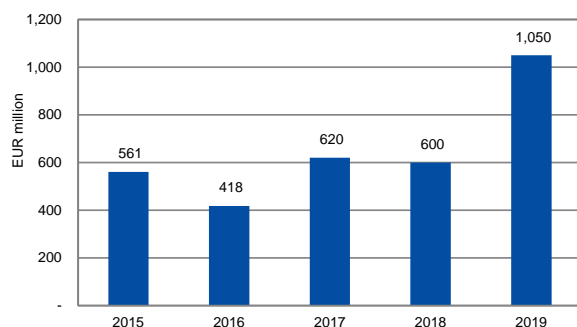
Since CBK keeps only the optimum required level of cash, to perform operations, the surpluses are sent in the Euro area, which then are used for international payments, and through investments are returned to interest-earning assets. Cash net remittances ¹⁵ abroad in 2019 amounted to euro 950 million, namely 73.7 percent higher than the previous year when they were euro 547 million. This increase in net remittances in 2019 came as a result of the increase

¹⁴ Deposits minus cash withdrawals.

¹⁵ Imports minus Exports of cash.

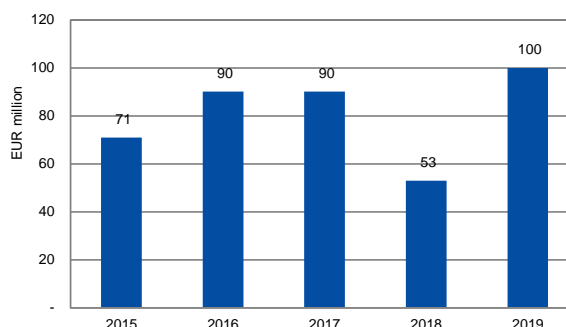
of deposits from the banking sector. Trends of cash exports and imports in the recent years are presented in the following two figures.

Figure 57. Export of cash (value), EUR million



Source: CBK (2020)

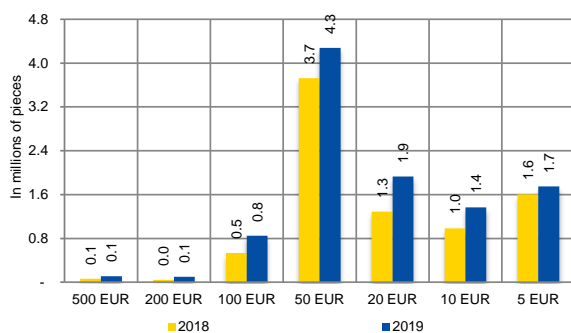
Figure 58. Import of cash (value), EUR million



Source: CBK (2020)

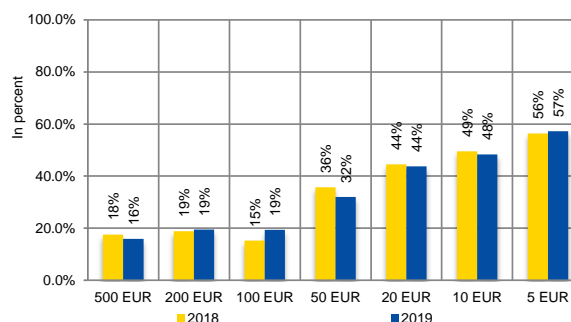
During 2019, all cash received from the banking sector was processed by authentication and classified according to the degree of eligibility (close to 29.29 million euro banknotes and 0.67 million pieces of euro coins).

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



Source: CBK (2020)

Figure 60. Outdated banknotes withdrawn from circulation from total received ones (in percent)



Source: CBK (2020)

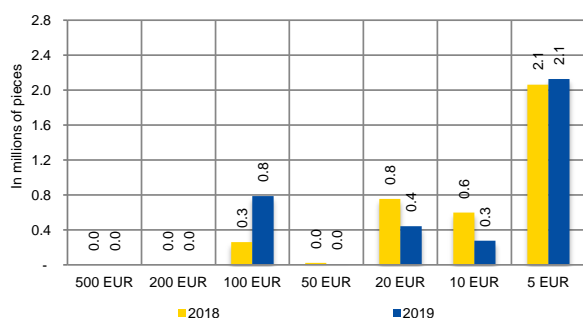
About 10.39 million euro banknotes (35.46 percent of the total number of euro banknotes deposited by the banking sector) during 2019 were classified as unfit for re-circulation (extremely obsolete / damaged) and were withdrawn from circulation by sending to banks Eurozone. Such a significant amount of ineligible euro banknotes withdrawn from circulation has contributed to improving the quality of cash in circulation in the Republic of Kosovo. Similar to previous years, banknotes that were generally classified as unfit for re-circulation were denominations of 50, 20, 10 and 5 euros. They make up about 89.76 percent of unfit banknotes for re-circulation due to more frequent use by citizens.

The quality of cash in circulation has also improved through the delivery of brand new euro banknotes to the banking sector, brought from the Eurozone. During 2019, the CBK delivered more than 3.65 million pieces of new euro banknotes to the banking sector (21.72 percent of the total number of delivered euro banknotes). Approximately 78.09 percent of the new banknotes delivered during 2019 were low-denomination banknotes (20, 10 and 5 euros), which were delivered to commercial banks for the purpose of repaying cash transactions. Moreover, all euro banknotes suitable for re-circulation that were delivered were of high quality (suitable for re-circulation).

As in previous years, during 2018, regarding measures against counterfeiting, CBK has continued to cooperate with authorities for advancing the reporting of cash suspected as

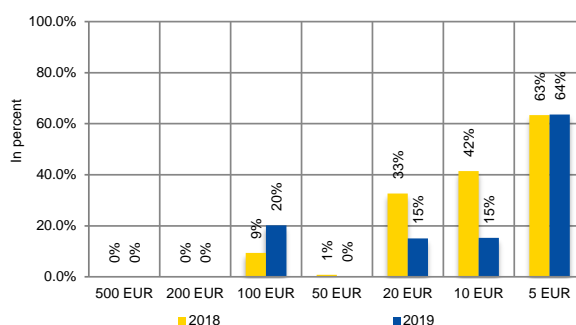
counterfeited. CBK together with Forensic Laboratory published on the CBK website statistics on counterfeited money in the Republic of Kosovo.

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



Source: CBK (2020)

Figure 62. New banknotes put into circulation to total supplied ones ratio (in percent)

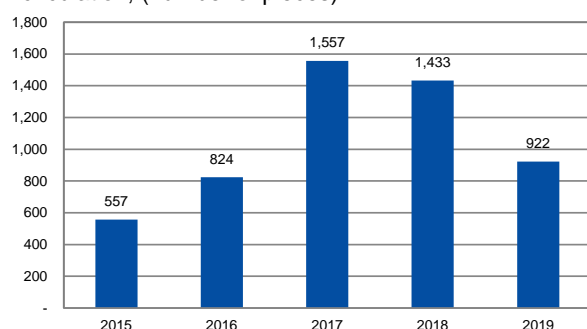


Source: CBK (2020)

During 2019, the number of 922 banknotes and 2,323 counterfeit coins was identified. Most of these banknotes and coins were seized by financial institutions during their regular activities.

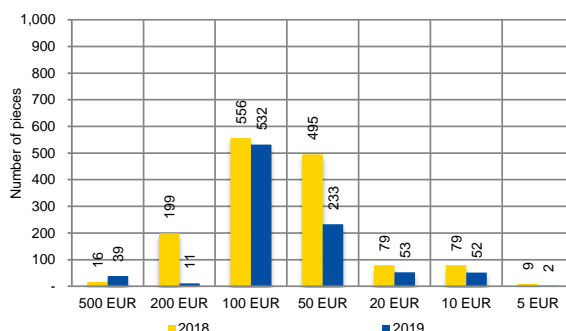
Similar to the previous year, in 2019, the most counterfeit banknotes were in denominations of 50 and 100 euros, which accounted for about 83 percent of all counterfeit banknotes withdrawn from circulation.

Figure 63. Counterfeit banknotes seized from circulation, (number of pieces)



Source: Kosovo Agency Forensic (2020)

Figure 64. Counterfeit banknotes seized from circulation, by denominations (no. of number of pieces)



Source: Kosovo Agency Forensic (2020)

As for coins in 2019, as in the previous year, the most counterfeited coins were denominations of 2 euros and one euro, which accounted for about 91.4 percent of the total number of counterfeit coins withdrawn from circulation.

6.1.1 Accounts maintenance and transactions

CBK provides banking services for the Government of the Republic of Kosovo, Privatization Agency of Kosovo, banks and other institutions such as 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.

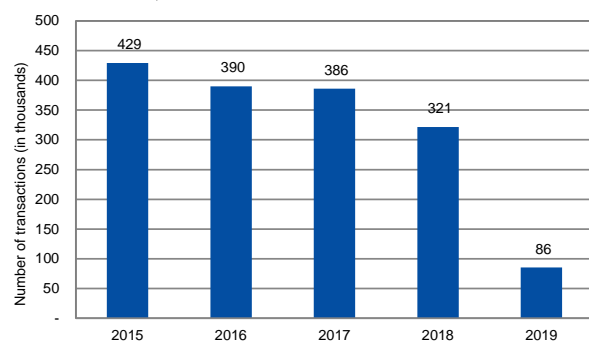
The CBK has supported the improvement of the transaction execution and distribution process of the Ministry of Finance and the Kosovo Privatization Agency. During 2019, as in previous years, all international payments were made via the SWIFT network, and all domestic payments via the ATS system, which shortened processing time and increased processing efficiency.

Table 23. Amount of transactions, by main types of payments (EUR thousands)

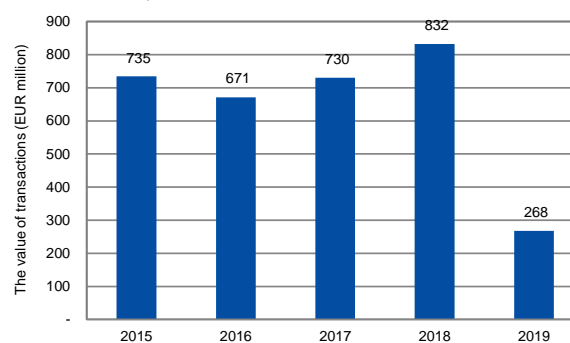
Type of transactions	2015	2016	2017	2018	2019
Transactions with cash	+476,310	+467,362	+563,570	+643,831	+965,364
Deposits with cash	776,195	842,240	989,618	1,187,889	1,697,993
Cash withdrawals	299,885	374,878	426,048	544,057	732,629
Domestic transfers	+942,520	+1,041,198	+1,131,645	+1,050,203	+425,715
Domestic incoming transfers	1,677,024	1,712,605	1,861,640	1,882,670	693,428
Domestic outgoing transfers	734,504	671,407	729,995	832,467	267,714
International transfers	-441,312	-580,656	-432,050	-642,864	-954,036
International incoming transfers	538,375	970,941	1,081,879	1,054,765	1,971,668
Outgoing international transfers	979,687	1,551,597	1,513,929	1,697,629	2,925,705

Source: CBK (2020)

While most CBK cash transactions in 2019 were made in the name and to the account of commercial banks, most CBK domestic payments were made in the name and to the Treasury account¹⁶ although starting from May 1, 2019, all Treasury accounts are directly linked with the KIPS payment system.

Figure 65. The volume of domestic outgoing transactions, number

Source: CBK (2020)

Figure 66. The value of domestic outgoing transactions, EUR million

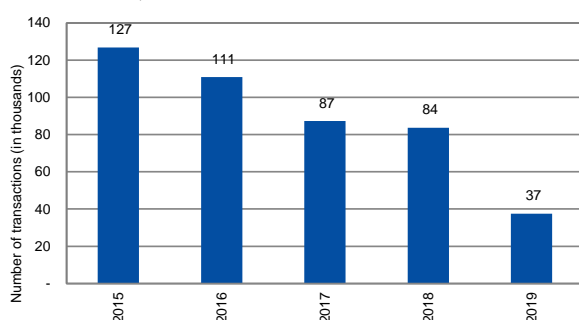
Source: CBK (2020)

During 2019, the CBK processed over 85.5 thousand domestic outgoing payment orders on behalf of its clients (a decrease of 73.37 percent compared to the previous year) and received close to 37.4¹⁷ thousand incoming payment orders on their behalf (a decrease of 55.25 percent compared to the previous year). Expressed in value, outgoing domestic payment orders amounted to over 267.71 million Euros (a decrease of 67.84 percent compared to the previous year), while domestic payment orders amounted to over 693.42 million Euros (a decrease of 63.17 percent compared to the previous year). The largest number and amount of domestic transactions were performed by the CBK with an order for the Treasury as well. The decline in the volume of transactions during 2019 is explained by the fact that from May 2019, all Treasury accounts are directly connected to the KIPS payment system.

As for domestic outgoing payments, it should be noted that all commercial banks generate them themselves, while insurance companies make most of their payments through commercial banks. In fact, all other CBK account holders use the payment services provided by the CBK in a limited way, as they all have accounts in commercial banks. In terms of international transactions, most of them were executed by the CBK on behalf of the Treasury.

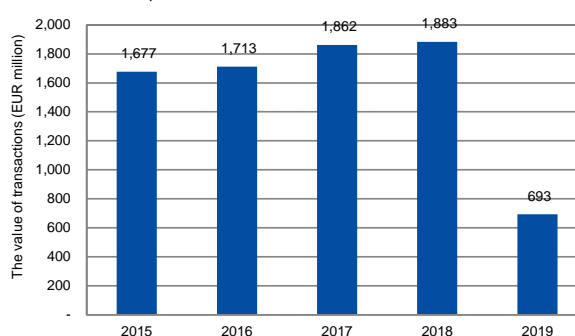
¹⁶ Treasury – Ministry of Finance.¹⁷ Most incoming payments using the ATS system are accepted by the CBK as grouped.

Figure 67 The volume of domestic incoming transactions, number



Source: CBK (2020)

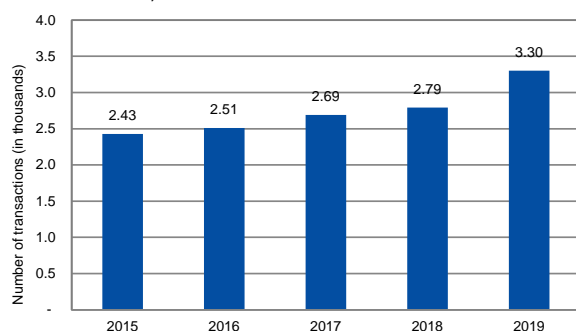
Figure 68. The value of domestic incoming transactions, EUR million



Source: CBK (2020)

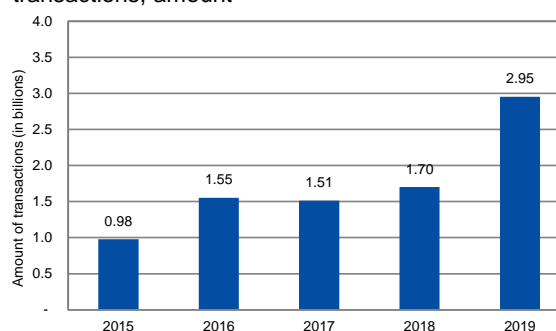
On the other hand, taking into account their value, most of the international transactions carried out by the CBK were related to the transfer of funds from commercial banks and the Kosovo Pension Fund. Annual data on international transactions are presented in the following four figures.

Figure 69. The volume of international outgoing transactions, number



Source: CBK (2020)

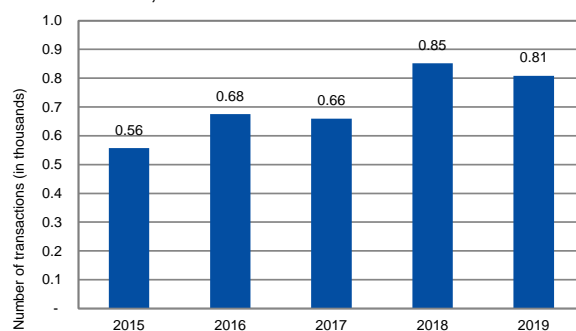
Figure 70. The value of International outgoing transactions, amount



Source: CBK (2020)

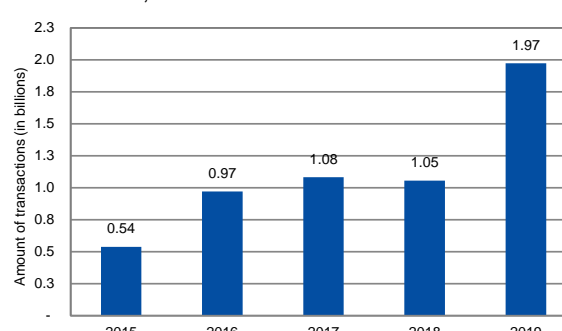
During 2019, CBK processed close to 3,300 international outgoing payment orders on behalf of its clients (moderate increase of 18.27 percent compared to the previous year) and received close to 808¹⁸ international payment orders (a decrease of 5.16 percent compared to the previous year).

Figure 71. The volume of international incoming transactions, number



Source: CBK (2020)

Figure 72. The value of international incoming transactions, amount



Source: CBK (2020)

Expressed in value, international outgoing payment orders amounted to over 2.95 billion Euros (an increase of 73.44 percent compared to the previous year), while international incoming payment orders amounted to over 1.97 billion Euros (an increase of 86, 93 percent compared to

¹⁸ Most incoming payments relate to transfers of funds from commercial banks.

the previous year). Deposits of institutions of the Government of Kosovo on 31 December 2019 reached the amount of 444.30 million Euros, while deposits of PAK reached the amount of 275.16 million Euros. Together, deposits from Kosovo Government Institutions and PAK accounted for about 60.58 percent of term deposits with the CBK at the end of 2019.

Table 24. Level of deposits of the main costumers (in thousands of EUR)

Accounts statement	2015	2016	2017	2018	2019
Total	1,135,558	1,074,458	1,239,730	1,217,914	1,187,685
Government institutions	248,780	257,393	339,906	374,663	444,301
Privatization Agency of Kosovo	486,819	460,961	471,299	388,116	275,160
Commercial banks and Insurers	320,934	301,051	336,732	347,931	419,659
Other	79,025	55,053	91,793	107,205	48,566

Source: CBK (2020)

Among other account holders, commercial banks and insurers are the most important in terms of the level of deposits held in the CBK. Commercial bank and insurance institution deposits held in the CBK, mainly relate to legal and regulatory claims and obligations. They accounted for 35,33 percent of total deposits held at CBK by the end of 2019. As of 31 December 2019, commercial bank and insurance company deposits amounted to EUR 419,66 million.

6.2. Payment system

Within the payment system, during 2019, several activities were carried out in order to further improve the operation of the system managed by the CBK, as well as in the area of supervision and further improvement of the regulatory framework. The purpose of these events is to increase the security, quality and efficiency of payment services by establishing the necessary regulatory framework for the expansion of types and possibilities of providing electronic payment services by non-banking financial institutions - (*hereinafter*: NBFi).

During this reporting period, the interbank payment system continued to operate with the highest level of stability, security and efficiency, which has enabled the timely clearing and settlement of all payment and securities transactions. A special development is the improvement of the connection of the Treasury/Ministry of Finance system with the interbank payment system, through the transition as a direct participant in the system. Through these changes, all government expenditures/payments are transferred to commercial banks in real time, directly from Treasury staff, and direct access to transaction data is provided, allowing for accurate and faster settlement and management of budget revenues.

During 2019, 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 developments have increased enforcement efficiency, significantly saving time and costs required to process enforcement cases for all parties involved.

As part of a World Bank-supported project known as the „Remittances and Payments Program“ (*hereinafter* RPP), the CBK benefited from the organization of training for personnel in the area of payment system oversight, and on that occasion training was provided to assess payment systems from the system importance for compliance with the principles of financial market infrastructure published by the BIS (*Bank for International Settlements*). Also, during the reporting year, CBK staff attended trainings under the program called "Improving Economic Governance and Competition", funded by the EU to support central banks from the Western

Balkans, organized by the Bank of Italy and the Croatian National Bank in the field of payments.

Regarding the development of the regulatory framework, with the support of World Bank experts and on the basis of relevant EU directives, within the RPP, the CBK has developed and reviewed a number of regulations that create space for the provision of new services. These regulations include, but are not limited to, establishing criteria, procedures, and conditions for authorizing the NBFIs for the provision of payment services and the issuance of electronic money, as well as conditions for the use of agents and subcontracting activities by payment service providers. Aiming at consumer protection, the CBK, by a special regulation, took care to establish requirements for the safekeeping of clients' funds by registered NBFIs for the provision of payment services and the issuance of electronic money.

By drafting these regulations, the CBK aims to improve payment services in the country, enabling and encouraging payment service providers to provide new instruments for performing electronic payment services, as well as encouraging competition in this industry that would increase efficiency in providing payment services by citizens.

6.2.1 Interbank Payment System Operation

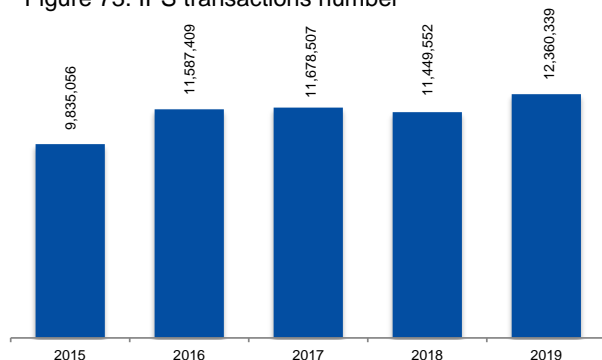
Interbank Payment System (IPS) enables processing of a range of payment instruments, interbank clearing and settlement of securities. The following figures represent the number and value of transactions performed through the IPS for the respective periods.

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

Figures 74 and 75 show that during 2019, around 12.4 million transactions were processed in the total value of over 14 billion Euros. When compared to the IPS transactions of the previous year, transaction volume is increased by 7,9 % and the value of transactions was increased by 9,1 %.

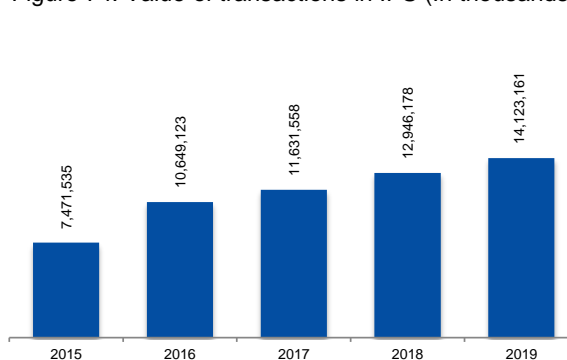
Within the IPS, payments are made through two components, RTGS (Real-Time Gross Settlement) and ACH (Automated Clearing House).

Figure 73. IPS transactions number



Source: CBK (2020)

Figure 74. Value of transactions in IPS (In thousands)

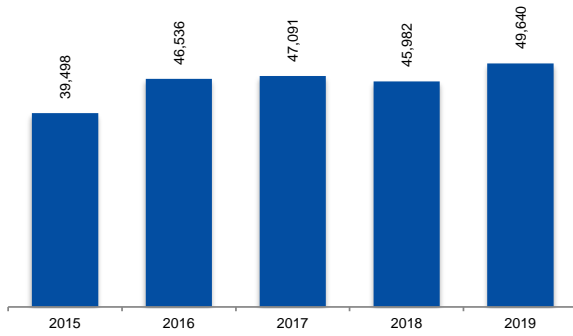


Source: CBK (2020)

In the RTGS component all payments over 10,000 Euros are made in real time, as well as all payments ordered by costumers with priority, while in the ACH component all payments are made in the amount of less than 10 thousand Euros, and include these types of payments: regular payments (individual and mass), salaries and pensions, Kos-Giro payments and Direct Debit.

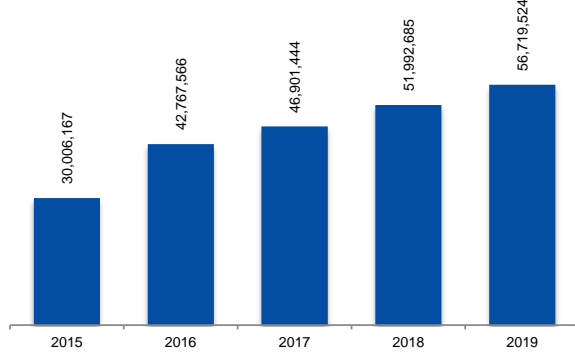
The level of increase or decrease, both in terms of volume and value of these payment categories for 2018 and 2019, are shown in the following figures:

Figure 75. Daily average of transactions number in IPS



Source: CBK (2020)

Figure 76. Daily average of transactions value in IPS

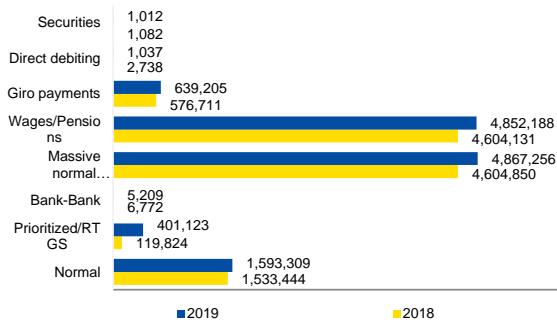


Source: CBK (2020)

Regular payments (single and massive) account for about 52.3 percent of the volume and 16.8 percent of the value of IPS transactions.

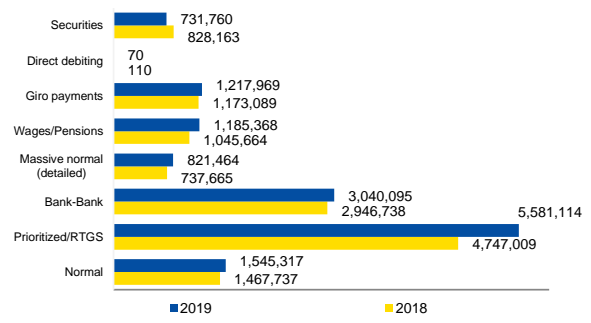
Kos-Giro transactions are a special type of regular transactions that are also processed through clearing sessions and settled on a net basis. During 2019, the number of Kos-Giro payments increased by 10.9 percent, while their value by 3.8 percent.

Figure 77. Annual transaction volume of IPS, by their type



Source: CBK (2020)

Figure 78. Annual transaction value of IPS, by their type (in thousands)



Source: CBK (2020)

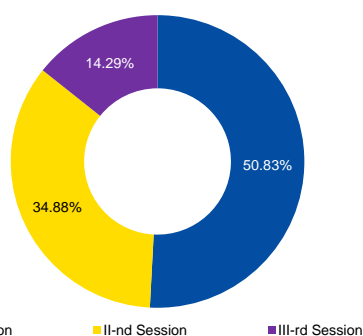
RTGS transactions are processed and settled during the working hours in real-time and on a gross basis. During 2019, their number accounted for about 3.3% of the total number of IPS transactions, while their value for about 39.5% of the value of transactions through IPS.

Direct Debit as a payment instrument is not being used yet to the extent of other payment instruments. During 2018, this type of transaction represented only 0.02 percent of the volume and value of IPS transactions, in 2019, the number of transactions through Direct Debit is even smaller.

An overview of payments processed through the ACH system during 2019 by sessions shows a more pronounced concentration in the first clearing session, compared to the other two sessions. Avoiding overloading of payment flows during the last clearing session minimizes additional risks in the functioning of the payment system.

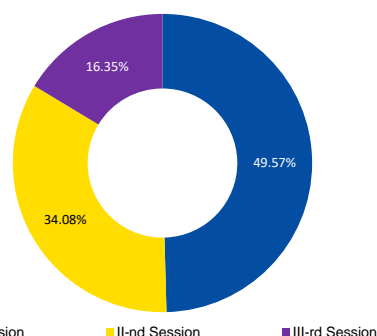
The total value of settled transactions in IPS during 2019 amounted to over 14 billion Euros, of which the first three institutions with the highest value of initiated transfers accounted for 60.2 percent of the total value, while all other institutions accounted for 39.8 percent. When it comes to the number of initiated transfers, out of their total number of 12.4 million Euros, the first three institutions with the largest number of initiated transfers accounted for 73.2 percent of the total, while all other institutions accounted for 26.8 percent.

Figure 79. IPS transactions number by sessions



Source: CBK (2020)

Figure 80. IPS transactions value, by sessions



Source: CBK (2020)

Measured by the HHI index, the concentration of participants in the IPS during 2019 shows a high concentration, so that it amounted to 2240 points in relation to the number of transactions, while their value was a moderate concentration, 1620 points. Compared to 2018, there is a slight decreasing trend in the concentration of participants in the system.¹⁹

Table 25. Concentration of IPS participants for initiated/delivered transactions

IPS System	Volume of transactions	Value of transactions
HHI - 2019	2240	1620
HHI - 2018	2275	1730

Source: CBK (2020)

The high level of concentration in terms of the number of transactions submitted to the IPS refers to the delivery of transactions of non-banking financial institutions through commercial banks, which are mainly small value payments and therefore did not affect the level of concentration of transactions as in the volume of transactions.

Within operational functions, the Register of Bank Accounts plays an important role. The Bank Accounts Register is a database infrastructure that enables the reporting of bank account data by account data providers (commercial banks); as well as the use of this data for the implementation of final decisions for execution by executive bodies and other competent institutions in accordance with the provisions of the Law on Enforcement Procedure.

Table 26. Decisions processed in RLLB

Status of cases	2018	2019	Increase/Decrease (%)
Opened	19,835	24,540	23.72
Closed	9,373	13,903	48.33

Source: CBK (2020)

During the reporting year, 43 private enforcement agents, 91 employees of the Kosovo Judicial Council, and 21 employees from the Tax Administration of Kosovo had access to the Bank Accounts Register, through which they exchanged 24,540 decisions on enforcement proceedings with commercial banks, of which 13,903 were completed.

During 2019, there was a significant increase in decisions on enforcement proceedings, which were exchanged through the Bank Accounts Register:

¹⁹ HHI up to 1,000 indicates that there is no market concentration; 1,000-1,800 shows moderate concentration; over 1,800 high concentrations.

6.2.2 Supervision and analysis of payment systems

In the area of supervision and analysis of payment system, processes have been implemented that have influenced the improvement of the technical infrastructure and regulatory framework. During 2019, the process of assessing the systemically important payment system (SIPS) was started for the first time in accordance with the methodology for assessing the systemically important payment system. The evaluation process is supported by the World Bank team within the RPP, and will continue during 2020.

As part of the field control developments to verify compliance with the regulations, together with the Banking Supervision Department, several controls were carried out in commercial banks regarding the application of the Regulation on Reporting on Payment Instruments Statistics.

During 2019, the annual analysis on the use of cards in Kosovo was reviewed. In addition to information related to the socio-demographic distribution of cards used by Kosovo citizens and relevant factors that have affected the distribution of such cards, the document extensively includes information about the types of cards, the use of "contact" and "contactless" cards, the use of online cards, etc. Annual analysis on the use of cards in Kosovo is published on the CBK official website during the third quarter.

In order to increase the use of cards and the efficiency of payment services, as well as in order to adapt to EU standards, during 2019, the regulation on electronic payment instruments was amended. The new changes limit the tariffs that banks apply to their clients in the case of using their cards to pay for goods and services through POS terminals of other banks. These changes are expected to affect the growth of card use by citizens, as there will be no difference in the price of goods and services regardless of the instrument they use to pay, in this case cash or card and regardless of which financial institution the used POS terminal belongs to.

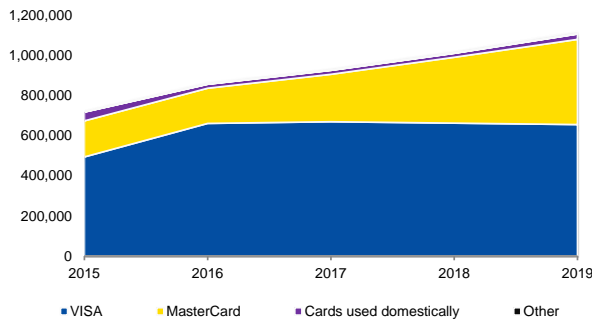
Also, within the preparation of analyses and reports on payment statistics, regular annual and monthly reports on the number and value of payments of the interbank payment system, on deposits of commercial banks and reserves, on cash and non-cash instruments and a comparative report on electronic instruments are prepared, which are published in electronic form on the CBK website.

6.2.3 Payment instruments and banking infrastructure for payment services

Bank reports on payment instruments show that by the end of December 2019, the number of debit cards reached 1,108 thousand, while the number of credit cards reached 184 thousand. Compared to the previous year, it was determined that the number of debit cards increased by 9.53 percent, while the number of credit cards increased by 6.5 percent.

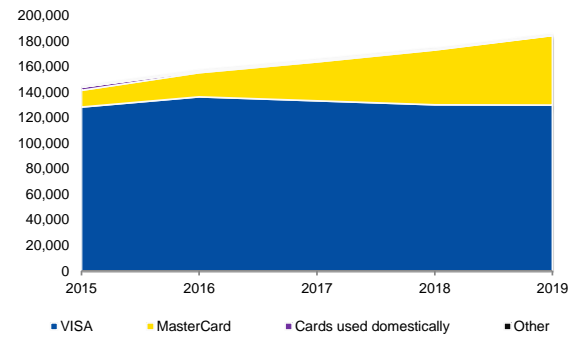
Regarding the infrastructure of ATM terminals (Automated Teller Machines) and POS terminals (points of sale) offered by commercial banks in Kosovo, it can be seen that there has been a steady increase in the number of POS terminals (13,769), as well as a slight increase in ATM terminals during 2019 (497), from a declining trend over the last four years. This change in terms of ATM terminals is important, given that compared to other countries, it has been observed that Kosovo has space to increase the number of ATMs in relation to the population (see table 27), despite the fact that interest in greater card use and reduced need to withdraw cash.

Figure 81. Number of debit accounts, by their type



Source: CBK (2020)

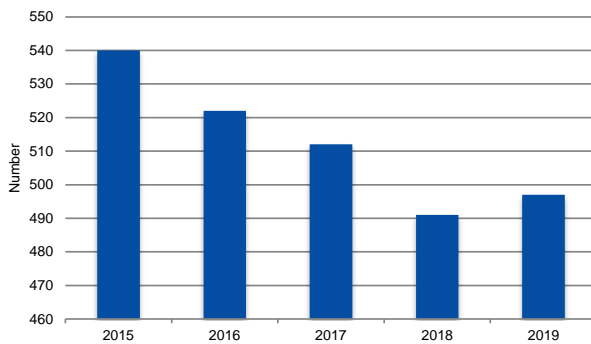
Figure 82. Number of credit accounts, by their type



Source: CBK (2020)

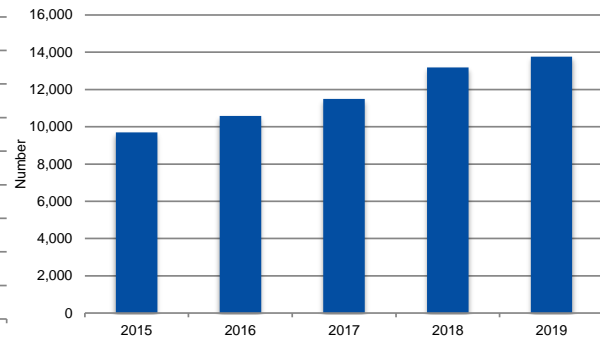
Along with the growth in the number of payment terminals and instruments, statistical data show that 2019 was also characterized by an increase in the use of electronic payment instruments.

Figure 83. Number of ATM terminals



Source: CBK (2020)

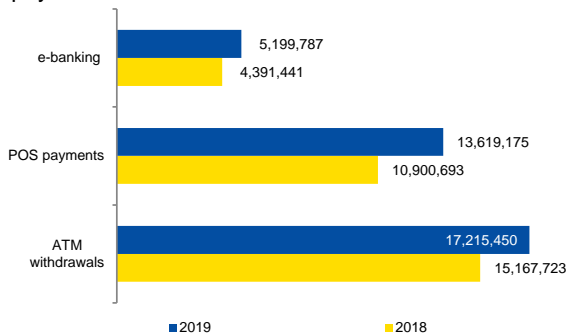
Figure 84. Number of POS terminals



Source: CBK (2020)

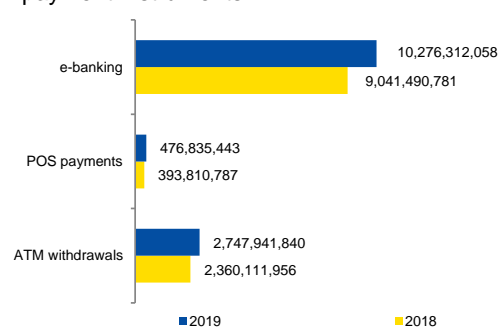
The number of payments made through the e-banking service reached 5.2 million transactions, which is 18.4 percent higher than the previous year, while their value reached 10.3 billion Euros, with an annual growth of 13.7 percent.

Figure 85. Annual transactions volume of electronic payment instruments



Source: CBK (2020)

Figure 86. Annual transactions value of electronic payment instruments



Source: CBK (2020)

The year of 2019 was also characterized by a growing trend in the use of electronic payment instruments. The number of payments at POS terminals increased by 25 percent, while their value increased by 21.1 percent. Also, withdrawals in ATM terminals are characterized by growth. The number of ATM withdrawals increased by about 13.5 percent, while the value of withdrawals increased by 16.4 percent.

Bank reports show that at the end of 2019, the total number of bank accounts of customers amounted to about 2.15 million, which is an increase of 4.7 percent compared to the end of 2018. About 98.5 percent of the accounts are residents, while about 1.5 percent are non-residents.

Of the total number of accounts at the end of 2019, over 303 thousand accounts had "online" Internet access for making payments or checking account balances, as a percentage of about 17.4 percent of current accounts.

Based on statistical data, the development of infrastructure has resulted in a faster pace and the rapid growth trend in the use of electronic payment instruments remains encouraging.

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

Table 27. Number of accounts

Description of accounts	Total clients' accounts			Internet accessible accounts		
	2017	2018	2019	2017	2018	2019
Clients' accounts (1+2)	1,967,755	2,054,799	2,152,128	301,841	250,733	303,602
1-Resident accounts (a+b)(%)	98.40%	98.43%	98.49%	98.22%	97.96%	97.82%
a-Individual (%)	93.10%	92.98%	92.77%	82.46%	82.95%	84.16%
b-Business (%)	6.90%	7.02%	7.23%	17.54%	17.05%	15.84%
2-Non-resident accounts (C+ D)(%)	1.60%	1.57%	1.51%	1.78%	2.04%	2.18%
C-Individual (%)	97.48%	98.70%	98.68%	91.75%	91.40%	92.49%
D-Business (%)	2.52%	1.30%	1.32%	8.25%	8.60%	7.51%

Source: CBK, Bank reports according to the "Regulation on the reporting of payment instrument statistics" (2020)

During 2019, the CBK organized several meetings with banks to discuss the possibility of unifying POS and ATM terminals and to encourage banks in this regard. As a result of these meetings, the Association of Banks of Kosovo organized workshops focused on the unification of POSs, in which various technical solutions of companies operating in Kosovo and in the region in the field of payment processing and delivery of terminals were presented.

Table 28. Comparative table of payment instruments and terminals²⁰

Description	Inhabitants	ATM per million of inhabitants	POS per million of inhabitants	Credit Cards per million of inhabitants	Debit Cards per million of inhabitants	E-banking per million of inhabitants
Kosovo	1.78	276	7,406	97,456	568,476	140,681
Albania	3.05	237	2,861	34,569	313,083	130,856
Czech Republic	10.68	480	17,170	150,971	1,005,684	-
Turkey	81.25	639	19,529	816,057	1,801,543	-
Slovenia	2.1	752	16,808	58,333	1,296,444	-
Bulgaria	7.05	795	13,533	175,826	877,854	-
Hungary	9.82	480	15,838	130,734	819,998	-
Bosnia	3.84	412	7,354	-	-	173,841
Montenegro	0.61	810	26,710	53,385	651,389	109,072
Croatia	4.27	1,206	26,782	30,378	1,555,879	-
North Macedonia	2.11	493	14,981	176,418	686,844	183,469

Source: CBK (2020) and central banks or supervisory authorities of the respective countries

It is expected that during this year the activities of the banking sector will be intensified in that direction and the CBK is ready to provide support in the development of the unification of POS and ATM terminals, as well as other developments that increase the efficiency and quality of low value payment services.

²⁰ The data in the table are from 2018, because most countries in the region have not yet published data for 2019.

6.2.4. Research activities in the field of payments

As part of the RPP, the CBK is conducting a study on the cost of low-value payments for payment service providers and users. During 2019, part of the study on costs for payment service providers was completed, and part of the study on costs from the aspect of demand also began. This includes surveying businesses and households on their costs for payment services performance. This project started during the fourth quarter of 2019, and is expected to be completed in the first half of 2020.

The results of this study aim to identify the costs of different payment instruments (cash, debit and credit cards, credit transfers and direct borrowing) for providers and their users, which are obtained as total costs in relation to the country's economy. Also, the study aims to identify the factors that have the greatest impact on the level of these costs. The data from this study allow the orientation of joint actions of the CBK, banks and other relevant institutions in the field of payments in order to reduce the costs of low value payments and increase the efficiency and security of electronic payment instruments to reduce the use and costs for the country's economy incurred by the use of cash.

A Working Group established by the CBK Executive Board to monitor international developments in the regulation of virtual money, with a focus on their treatment by regulators in the EU and countries in the region, continued its research activities during 2019.

One of the most important developments during this period in terms of legal addressing of virtual money within the European Union, was the new EU Directive no. 2018/843 on "preventing the use of the financial system for money laundering or terrorist financing" (known as: AMLD5) which is expected to be transposed into the legislation of EU member states during 2020. This and all developments in the field of virtual money regulation will continue to be monitored, so that Kosovo can follow the steps of the EU and other regulators in the treatment of virtual money.

6.3. Assets management

The Central Bank of Kosovo implements the investment of national reserves, as well as the operation of the central depository system for trading of Securities issued by the Republic of Kosovo. Duties of national reserve management are specified in the Law on the Central Bank of the Republic of Kosovo, i.e. Article 15 of the Law no. 03/L-209.

6.3.1. Investment management

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

Instruments

The reserve portfolio consists of instruments in the liquid portfolio and those in the investment portfolio. The liquid part of the reserves is maintained to provide sufficient funds to make payments and transfers in accordance with the needs of the CBK and its depositories, in accordance with the objectives of the Investment Policy. The investment part consists of safe financial instruments with a credit assessment with an appropriate degree of investment.

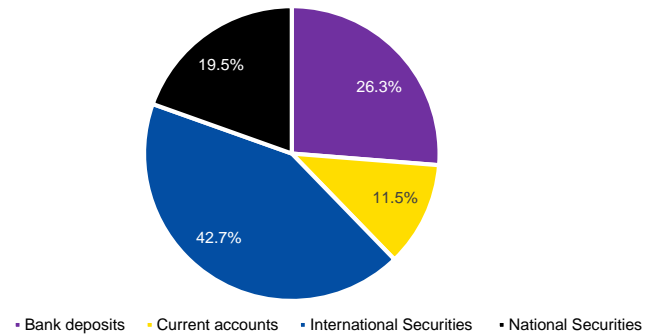
The composition of the CBK reserve portfolio is shown in figure 87 as of December 31, 2019, in which we see a significant concentration in the maintenance of liquid assets. To achieve the

liquidity objective as a priority objective in reserve management, 11.5 percent of the portfolio is held in current accounts, 19.5 percent in national securities and 42.7 percent in international securities, instruments that are categorized as liquid and easily converted into cash. The remaining 26.3 percent was placed in bank deposits to ensure adequate distribution by instrument.

These financial instruments represent the investment portfolio of the CBK reserves:

- bank deposits with a fixed or unlimited term, i.e. term Euros and US dollars placed with banks of EU countries with a credit assessment of the degree of investment or the US Federal Reserve;
- international securities, i.e. government, supranational bonds, government agencies or credit institutions in Euros with a maturity of up to seven years
- state bonds issued by the Government of Kosovo traded on the secondary market of securities with a maturity of up to seven years.

Figure 87. Portfolio of the CBK reserves, as of 31 December 2019



Source: CBK (2020)

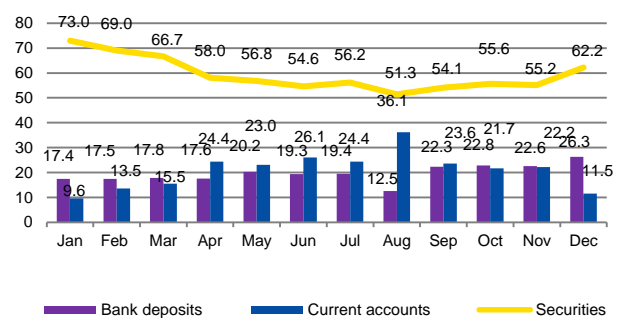
Currencies

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

Distribution

In accordance with the objectives of the Investment Policy of the CBK, the placement of reserve investments is focused on safe and liquid financial instruments, i.e. debt instruments or bonds with a maximum maturity of up to seven years and an adequate credit rating. As shown in figure 88, securities are the main instruments with the largest share in the CBK portfolio, despite a slight decrease in concentration in this investment category during the year.

Figure 88. Distribution of the CBK portfolio investments (in percent)



Source: CBK (2020)

The trend of investment portfolio allocation in these three categories is relatively stable in 2019, except for the lower distribution of funds on current accounts and a slight increase in deposits, as shown in figure 88.

The placement of the CBK’s portfolio in securities was also dictated by the prices of bonds on the market and the market offer of government, supranational bonds, agencies and credit institutions, issued and paid in Euros, interest rates that decline significantly after the ECB announced the resumption of its asset purchase program in September. Extremely limited supply for this category of instruments and deeply negative rates of return prevented new purchases of these bonds from the CBK. However, the CBK maintained a satisfactory level of securities allocation during 2019, ensuring that the restrictions were in line with the restrictions set out in the Investment Policy.

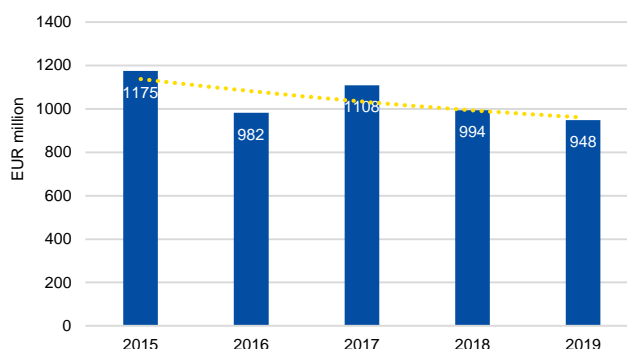
The continuation of the ECB's monetary policy with negative deposit rates resulted in a lower level of total reserve assets in the CBK and, consequently, a reduction in the overall level of the portfolio. As can be seen in figure 89, the available reserves in the CBK were affected by the CBK depositors, who maintained a lower level of funds during 2019 in order to avoid the costs applied to liquidity in Euros.

Compared to previous years, figure 90 shows a lower concentration in securities for the current year compared to the previous two years, a higher concentration with funds in current accounts compared to the previous year, but lower compared to other years. A similar trend as for funds in current accounts was observed with bank deposits, which are higher in the last two years. The increase in exposure to bank deposits arises as a result of the possibility of placing indefinite deposits and variable interest rates as an alternative to avoiding negative rates applied to current account funds.

6.3.2 Portfolio performance

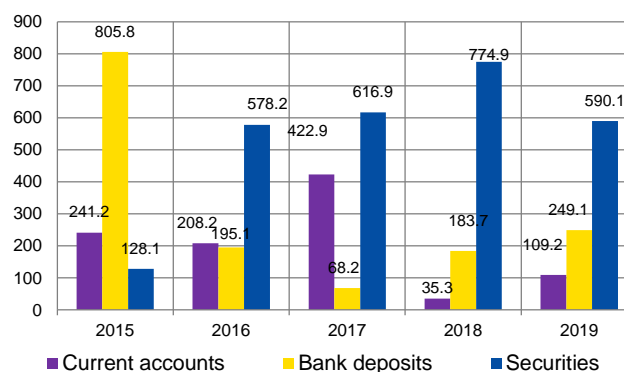
Taking into account the currency distribution of the CBK’s portfolio with 99% of reserves in Euro and the negative rates prevailing in the Eurosystem during 2019, the instruments in the CBK’s portfolio had a good performance with EUR 2.68 million gross income from all investment categories, or with EUR 1.99 million net income after interest expense, while income from placements in US Dollars amounted to EUR 198 thousand. Despite the high uncertainties in financial markets during 2019, the reserves in the CBK’s portfolio have performed well with an adequate distribution, which has enabled maintenance of a sufficient level of liquidity and at the same time protection of reserves from high costs of negative deposit rates.

Figure 89. The ending balance of funds invested by the CBK as of 31 December of the respective year



Source: CBK (2020)

Figure 90. Distribution of portfolio investment, end of the year



Source: CBK (2020)

6.3.3 Risk management

Investment of funds is done both in securities of the Government of Kosovo, as well as in securities issued by the most credible Eurozone governments and agencies, as well as supranational institutions. All external issuers of securities have an investment credit rating according to ratings of International Credit Agencies: Standard & Poor's and Moody's.

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

Credit risk – Investment portfolio is distributed in order to keep the credit risk at a low level.

All investments are realized in relation to the criteria of short-term and long-term credit ranking, set forth in the Investment Policy P-2/A-2 (Moody's/S&P) for short-term and Baa2/BBB- (Moody's/S&P) for long-term, as well as in extraordinary cases on the market, with P-3/A-3 for short-term and Baa3/BBB- (Moody's/S&P) for long term

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

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

Currency risk- appears as a result of exchange rate movements that implicate the value of currencies in the financial market, where the return or loss as a result of exchange rate changes may arise. Currency risk is minimized due to low exposure to non-euro currencies.

Operational risk- it is the risk of fulfilment of operations that are related to deposit placement, securities trading and their timely payment. Operational risk is managed through the use of modern technology and platforms.

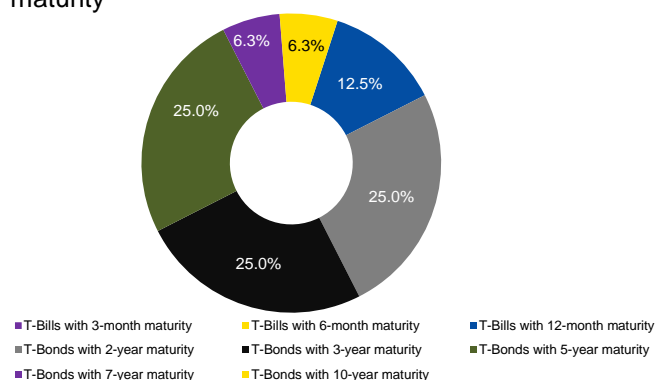
6.3.4. Kosovo Government securities

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

In accordance with the Securities Issuance Calendar published by the Ministry of Finance, in 2019, 16 auctions in total were conducted through the electronic platform: 2 auctions of government bonds with a maturity of 12 months, 4 auctions of government bonds with a maturity of two years, 4 auctions for government

bonds with a maturity of three years, 4 auctions for government bonds with a maturity of five years, 1 auction for government bonds with a maturity of seven years and 1 auction of government bonds with a maturity of ten years. figure 91 shows the structure of securities of the Government of Kosovo expressed as a percentage by maturity.

Figure 91. Structure of Government securities, by maturity

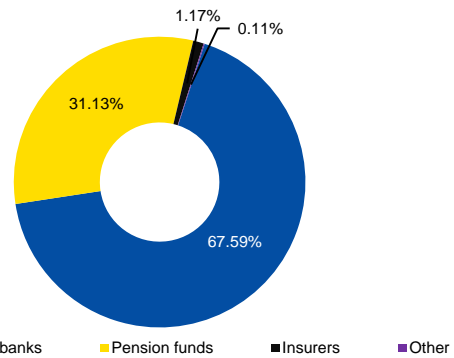


Source: CBK (2020)

Figure 92 shows the participation by category of investors in the securities auctions of the Government of Kosovo in the primary market.²¹

Compared to the previous year, figure 93 shows the average annual rate of return on government bonds with a maturity of 12 months in 2019, which increased by 6 basis points. The average annual rate of return for government bonds with a maturity of 2 years decreased by 3 basis points, for government bonds 3 years decreased by 8 basis points, for government bonds 5 years decreased by 17 basis points, for government bonds 7 years there was a decrease of 136 basis points, and for government bonds for 10 years there was a decrease of 94 basis points.

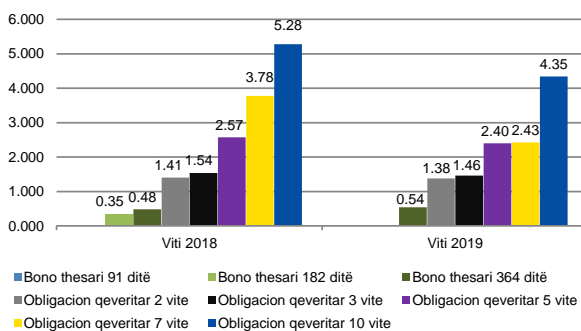
Figure 92. Structure of participants at auctions



Source: CBK (2020)

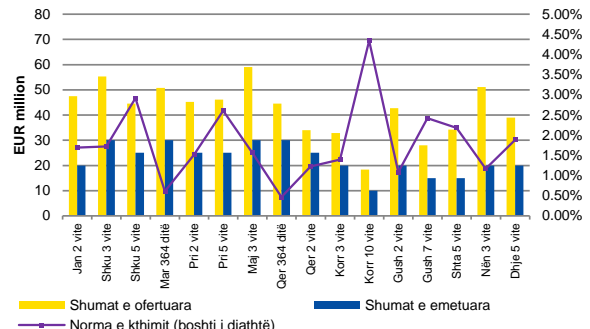
Figure 94 shows all auctions indicating that the highest market demand was for government bonds with maturities of 2 years, 3 years and 5 years.

Figure 93. Annual average interest rate returns for 2018 and 2019, in percent



Source: CBK (2020)

Figure 94. Auctions of Government securities in 2019



Source: CBK (2020)

Purchasing activities on the secondary market, taking into account the number of transactions and the volume of trading in securities of the Government of Kosovo compared to the previous year, continued with greater intensity. The annual number of transactions for 2019 was 91, which is 12.4 percent higher than in 2018, during which 81 transactions were realized.

The annual volume of trading on the secondary market of government securities during 2019 was EUR 103.8 million, while in 2018 it was EUR 78.6 million, with a growth of 32 percent. Commercial banks, public institutions and individuals participated in the trading.

During the reporting year, interbank liquidity transactions continued to be realized in the amount of EUR 6.1 million, through short-term lending supported by government securities collateral.

During 2019, the Regulation on the Purchase of Securities with the CBK was adopted in order to enable the banking sector to manage liquidity more efficiently.

²¹ Participants in auctions of government securities are commercial banks, pension funds, insurers and individuals through commercial banks.

6.4. Information technology

During 2019, the Department of Information Technology successfully completed numerous projects that will facilitate the work of the financial sector, but also citizens in general. Among these completed projects, it is worth mentioning advancement of the basic banking system, a system that will support the latest advancements in the field of payment systems, including the latest message formats, based on the ISO 20022 standard.

The Credit Registry System has progressed to adapt to the development of the Kosovo Business Registration Agency (KBRA), enabling reporting based on the Unique Business Registration Identification Number.

Also, during 2019, other systems were improved in order to comply with the International Financial Reporting Standard IFRS 9, a standard adopted by the CBK for financial institutions in the country. Another important progress is the establishment of a modern electronic platform for complaints from users of financial services, which allows citizens to file complaints online, as well as informing complainants about the status of the case until the conclusion by returning a response.

During this period, great progress was made in other internal systems, which provide greater guarantees in the confidentiality, integrity and availability of data.

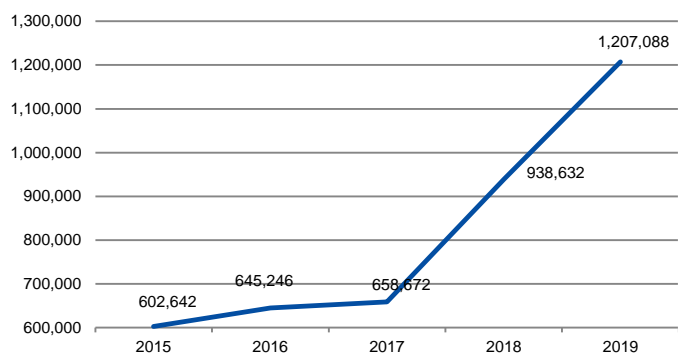
6.5. Credit registry of Kosovo

Pursuant to the Law on the Central Bank of the Republic of Kosovo, the CBK may operate, regulate, license, register and monitor credit information systems for the purpose of collecting and distributing credit information among credit institutions, and may also issue regulations for relevant application.

Based on this goal, since 2006, the CBK has managed the Credit Registry System (CRS), which functions as an Internet application and aims to collect and distribute positive and negative information about individuals and legal entities, in order to improve the process of assessing credit clients, as well as exercising the supervisory function of the CBK.

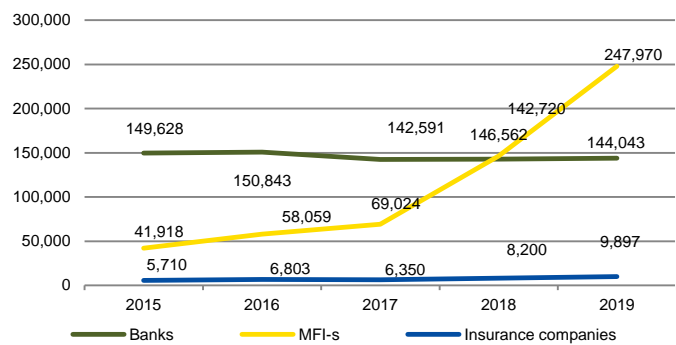
From a general economic perspective, the Credit Registry facilitates loan approval in terms of volume and cost, and generally contributes to financial stability by helping lenders make the right decisions, in the short term, accurately and objectively.

Figure 95. Number of surveys in CRK system



Source: CBK (2020)

Figure 96. Number of approved loans in CRK system



Source: CBK (2020)

Pursuant to the Credit Registry Regulation, all financial institutions designated by the CBK as lenders are members of the CRS system, including all licensed microfinance institutions and banks, as well as non-banking financial institutions and insurance companies licensed to perform certain lending activities.

Based on the CRS system, there are currently 1,937 active users of credit institutions, dominated by the number of users from banking institutions with 1,409 active users, followed by microfinance and non-banking institutions with 435 users, and finally insurance companies with 30 active users of the CRS system. During 2019, the Credit Registry registered 407 new users.

The credit registry system is designed to provide an advanced infrastructure for the functioning of the credit market, representing an important tool for credit institutions in credit risk assessment.

The CRS system is an application based on the Internet and can be accessed directly and in real time by the staff of credit institutions.

Credit institutions in the CRS system are researching the credit history of credit users, where according to statistical data derived from the CRS system, the number of surveys during 2019 reaches the figure of 1,207,088 surveys.

An overview of this activity, on an annual basis, is shown below in figure 95.

All lenders are required to report to the CRS, on all loan applications and loans granted to their clients in accordance with the terms of the relevant instruction issued by the CBK.

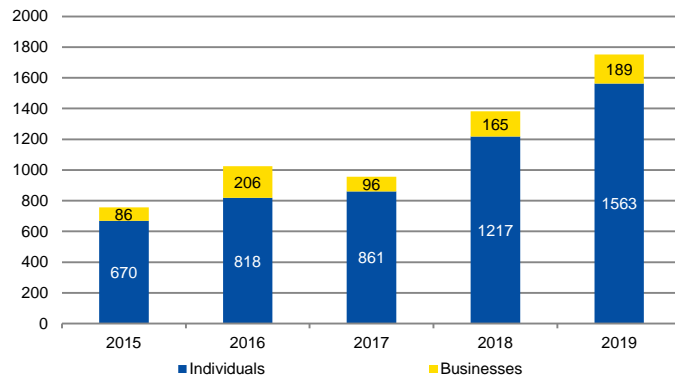
During 2019, based on the CRS system data, 401,910 approved loans were reported, including loans, credit cards, overdrafts, housing mortgages, credit lines, guarantees, leasing, factoring and other credit assets.

The ratio of the number of approved loans to the type of credit institution for 2015, 2016, 2017, 2018 and 2019 is shown below through figure 96.

Figure 97 shows the number of requests for an individual loan relationship of the loan beneficiary (individual/legal entity) based on the data of the credit registry system for 2015, 2016, 2017, 2018 and 2019.

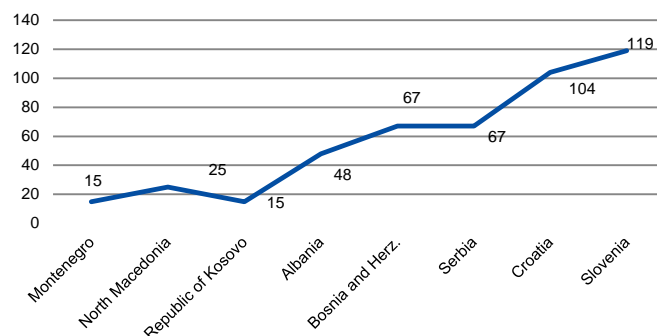
The Credit Registry during 2019 directly contributed to the data collected by the World Bank (WB) for doing business assessment.

Figure 97. Number of requests for credit reports



Source: CBK (2020)

Figure 98. Kosovo's ranking in Doing Businesses report 2020



Source: Doing Business (2020)

World Bank Doing Business Report 2020, published on October 24, 2019, praised Kosovo for “Getting Credit” indicator from the 15th position.

If compared to the countries of the region, Kosovo is on the same level with Montenegro as the country with the best rating in the region for the indicator - Getting Credit.

Figure 98 shows the ranking of the Republic of Kosovo on the indicator “Getting Credit” in comparison to the countries of the region.

6.6. Activities in the field of economic analysis and financial stability

In order to achieve its primary goal of preserving financial stability through regular monitoring of systemic risk, the CBK, among other things, continuously identifies monitors and analyses systemic risk. In this context, the identification of potential risks is done by constantly monitoring cyclical and structural macroeconomic developments, as well as the financial system. While risk assessment and their potential impact on financial stability and consequently overall macroeconomic stability are performed by regular qualitative and quantitative analyses, including performance analysis of high-frequency economic and financial indicators, forecasts of key macroeconomic indicators and application of cyclical, structural and cross-sectoral risk models.

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

In addition to various periodic analysis and regular monitoring of key developments indicators in relevant sectors of the economy, CBK has developed and adapted several risk assessment models, such as Financial Stability Map model (which analyses developments through eight risk dimensions to financial stability), Stress Testing model (one of the key tools for identifying current vulnerabilities in the banking sector and potential systemic risks for the upcoming year), banking system identification model (a typical macro prudential policy instrument that assesses the risk of spreading the negative effects of a systemic institution throughout the system), as well as the model of Countercyclical capital buffer (a typical model of macro prudential policy).²²

One of the most important periodicals, which continue to be published twice a year, is the Financial Stability Report. This report reflects the sustainability of the financial system, analysing general economic trends, together with the development of activities, performance and sustainability of all components of the country's financial system.

In order to provide the public with the fastest possible access to information on developments in the country's economy, the CBK continued to publish Quarterly Assessment Reports, reports that provide an overview of key macroeconomic developments and developments in all components of the financial system on a quarterly basis. Moreover, the CBK continues to publish a Monthly Report on Financial System Information, which is a summary of key indicators for all components of Kosovo's financial system and is published monthly.

The CBK continued to conduct a Bank Lending Survey with commercial banks, gathering important information on factors affecting banks' lending activity in Kosovo, as well as

²² More detailed information on the methodology and analysis of the model is presented in the Financial Stability Report no. 13.

expectations for lending activity in the coming period. The information from this biennial survey, in addition to helping to better understand developments in the banking sector, also serves as an important contribution to economic growth projections and other macroeconomic aggregates. An additional development in the Bank Lending Survey is the extension of the survey by assessing inflation expectations from banks. As a result, as of the third quarter of 2019, ABK has been enriched with additional questions addressing commercial banks' expectations of price developments in the country, helping and supplementing our analysis in terms of analysis, modelling and projection. In addition to the statement of banks on the expectations they have for the inflation rate in the fourth quarter of 2019, the questionnaire also deals with the expectations of banks for 2020. The survey also serves as a means of identifying specific factors that could potentially affect banks' expectations for a certain level of inflation. Given that the survey on banks' inflation expectations is in the initial stages of implementation, the available time series is limited and does not allow for comparative analysis at this stage.

6.7. Main activities in the field of statistics during 2019

One of the tasks of the Central Bank of Kosovo in meeting its objectives is to collect and publish statistics. This is defined in Article 8 of the CBK Law. The responsibility of the CBK for the collection and publication of statistics under this law is further regulated by the regulations on statistical information: *'Regulation on Monetary and Financial Statistics and Financial Accounts'* and *'Regulation on Balance of Payments Statistics and International Investment Position'*. These two regulations clearly define which companies have reporting obligations to the CBK; what are the statistical obligations; addressing the reporting period; application forms; as well as confidentiality guaranteed by the CBK. The Law on Official Statistics of the Republic of Kosovo also specifies that the CBK is a producer of official statistics. The CBK is responsible for publishing statistics on monetary, financial and external statistics of the Kosovo economy.

Statistics are published through various channels, mainly in electronic form, which are published on the website. Statistical publications are available in Albanian, English and Serbian. Reporting is done regularly in monthly, quarter and annual basis, various statistics on international organizations, including the International Monetary Fund (IMF), Eurostat, the World Bank, the European Central Bank, etc.

During 2019, the CBK undertook several projects to improve the statistical system, high harmonization of statistics in accordance with the requirements of the European Union (EU) and increase the quality of statistics. Among the most important are the project of collecting financial accounts statistics, the development of indicators for the procedure of economic inequality (MFA), the development of a platform for online reporting of companies in the CBK, high harmonization of the methodology for compiling statistics for international services with EU requirements, as well as increase of the quality of statistics.

In the area of financial account statistics (SFR), the CBK has for the first time published several financial sector tables for which data are available. The seven published tables include annual data, with time series for the last 13 years. SFRs are compiled in accordance with the *European System of National Accounts Manual* (ESA 2010). The data are a matrix of assets and financial liabilities of financial corporations and contain the distribution of financial instruments by sectors of the economy, in the from-whom-to-whom format. They are currently published as experimental financial accounts statistics, with the aim of providing users with an early overview of financial trends and the opportunity to comment on this stage of SFR development.

Financial accounts are an important pillar of statistical information needed in the process of monetary policy-making and financial stability. During 2019, progress was made in building a framework for collecting statistics on financial accounts. Initially, a staff was recruited who was

responsible for financial account statistics; missing data were identified and a two-year plan was prepared to provide that data; a review has been made on a legal basis that needs to be improved in order to provide adequate information and clarify responsibilities (for both reporting and publishing information); a database has been created; as well as data on the financial sector for the last ten years 2006-2018. This database will also be used to compile some indicators for the MFA.

The MFA is a system for monitoring economic policies and detecting possible damages for the proper functioning of the economy of a member state of the European Union. It aims to identify potential macroeconomic risks early, prevent the emergence of harmful macroeconomic inequalities and correct existing inequalities. The indicators are presented in tabular form and have indicative thresholds, which serve as an alarm level. The MFA is part of the EU *acquis*, which candidate countries must approve by the day of accession. In 2019, the CBK and the Kosovo Agency of Statistics (KAS) intensified their efforts and made an assessment regarding the identification of data that are available and those that are missing, but which should be provided in the future, in order to prepare these indicators. Some indicators were compiled over a twelve-year period and reported to Eurostat. Therefore, the CBK reported on these indicators: *current account balance; net international investment position; balance of exports of goods and services; current account balance; direct investments (shares and transactions); indicators of the banking sector: assets, liabilities, capital, loan-to-equity ratio; as well as an indicator of external debt*. In the coming years, much remains to be done, especially to develop indicators for the private sector (enterprises and households).

In an effort to improve the reporting system, the CBK has continued to work on developing an online platform for collecting and processing data reported by non-financial corporations. This project started in 2018 and is now in the final phase of implementation. Its finalization will be done at the beginning of 2020. This project will increase functionality, efficiency and data protection.

Regarding external sector statistics (ESS), we continued to publish the ESS on the CBK website and to report to international organizations. The ESS has been compiled in accordance with the latest international standards, mainly those recommended by the IMF and Eurostat. *The International Transaction Reporting System (ITRS)* guide, which is one of the main sources of information for compiling the ESS, has been updated. The new version of the guide enables the improvement of the quality of ESS statistics and adaptation to new developments in international financial transactions. In order to increase the transparency of the ESS, the *ESS Methodology* published on the CBK website has been updated. Following efforts to increase the quality of the ESS, the CBK conducted a survey in the summer of 2019 with Kosovo emigrants who crossed border crossings in Kosovo to assess the level and structure of their remittance spending in Kosovo. The results were used to improve estimates in some components of the balance of payments, including remittances, costs during the stay in Kosovo, direct investments, etc.

As part of EU financial support to assist the statistical systems of countries planning to join the EU (IPA 2015 Multi-beneficiary Program), the CBK has implemented two projects. Project "Statistics of trade in services" and project "Data sources required for calculation of IIF indicators". The CBK has performed all contract assignments for the two projects. Completed tasks in the first project enabled more advanced harmonization of the ESS with the requirements of the *acquis*, while the second project enabled the identification of sources of information needed to calculate the main and auxiliary indicators of the IIF; at the same time, it identified shortcomings that exist for calculating these indicators. Eurostat praised the progress made by the CBK and promised support during 2020.

Also in the area of Monetary and Financial Statistics (MFS), the CBK regularly collected the necessary data, compiled, published on the CBK website and reported to the relevant international MFS organizations. The MFS includes statistics on the CBK, commercial banks, other financial institutions, securities of the Government of Kosovo, the payment system and the online register of financial institutions. During the period 5-16 August 2019, the IMF technical assistance mission visited the CBK to assess whether the compilation of the MFS and reporting to the IMF is in accordance with the recommendations from the latest IMF manual for the MFS. The mission found that the IMF is reported to the IMF in accordance with the latest IMF handbook, while making some recommendations for strengthening the statistical system. IMF Mission requests CBK to Increase Staff in Department of Statistics to Develop Financial and Balance Sheet Statistics. The CBK cooperates with relevant local institutions in the field of statistics for the collection of statistical data, in particular with KAS and the Ministry of Finance. It also works closely with the authorities of other countries and with international organizations. In order to improve cooperation with local institutions and facilitate data exchange, the CBK has drafted a tripartite CBK-KAS-MoF Cooperation Agreement, which is expected to be completed by 2020. This agreement will apply to reciprocal access to data. Moreover, the CBK belongs to a number of bodies working with Kosovo statistics, including the Council of Kosovo Agency of Statistics and a group of experts on the Extended Migration Profile. During 2019, the CBK participated in meetings organized by the CEFTA Secretariat and reported on data arising from the CEFTA agreement.

6.8. Review of the requests of financial institutions supervised by the CBK

CBK during the exercise of its oversight powers, acting in accordance with Article 67, paragraph 4 of the Law no. 03/L-209 on Central Bank of the Republic of Kosovo, before imposing administrative penalties, provides a detailed statement to the person against whom the penalty is to be imposed describing the facts and the law supporting the existence of a violation, and shall give such person a full opportunity to provide facts and arguments as to why the penalty should not be imposed. In the document / statement sent by the CBK (Notification for the purpose of imposing Administrative Penalties), the legal advice is provided, whereby the institution is informed with the right to submit a request, within 15 calendar days from the day of receipt of this statement, for review by the Review Division. Institutions overseen by the CBK after having received such a statement, and having the opportunity to re-examine the punitive measure, if they decide to complain, address the request to the Review Division.

Based on the above said, the Review Division during 2019 has received 6 requests for re-review from the financial institutions overseen by the CBK. All requests were reviewed with professional care and in compliance with the legal framework, addressed in the form of recommendations and forwarded to the Executive Board of CBK for decision-making. The Review Division has identified the changes necessary in the regulation with the purpose of regulating and advancing certain issues with direct effect on oversight and regulation issues. In this context, the Review Division, within the objectives set out in the Three-year Development Plan (2019-2021), has reviewed the regulations and at the request of the CBK Executive Board, initiated and drafted amendments of the Regulation on Procedures for Imposing Administrative Penalties (adopted by the CBK Executive Board on December 29, 2019), which clarifies the processes to be followed and addresses responsibilities during the execution of tasks and their fulfilment, both for individuals and for organizational units within the CBK.

7. Internal developments

7.1. Internal audit

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

The CBK legal framework has provided a full mandate to the IA to independently conduct audit activities in order to provide Management with recommendations for the best economic, efficient and effective management of the budget and property as well as added value in the institution.

During 2019, the Internal Audit has performed audit engagements based on the Annual Work Plan of IA for 2019, approved by the CBK Board. The IA Annual Work Plan for 2019 was compiled on the basis of the Risk Assessment Methodology, according to the risk-based approach. This model is adapted to the practice of the European Central Bank.

The preparation of the Annual Work Plan was preceded by the Audit Universe prepared for the three-year period 2020-2021. The plan prepared by the IA, after review and discussions with the Audit Committee, has been approved by the CBK Board.

Auditing activities carried out during 2019 were of financial, compliance, operational and information technology nature.

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

In accordance with the CBK Law and the Internal Audit Statute, the Head of the IA has reported regularly in quarterly and annual periods during 2019 at the Audit Committee and the CBK Board regarding (audit results) the findings of the auditor, recommendations and actions taken to address them. The reports were previously discussed with the Audit Committee and the CBK Committee, and then issues to be further dealt with, which require measures for implementation, have been addressed to the Executive Management.

Through such reporting, IA has regularly reported regarding the fulfilment level of the recommendations given in the previous periods. Moreover, in certain periods, administrative reports were prepared for the Governor related to the day-to-day engagements of the IA.

In view of fulfilling recommendations provided by external assessments: World Bank, European Central Bank, IMF - Safeguard Assessment and USAID related to improvement and advancement of the quality of audit work in line with International Standards and Professional Internal Audit Practices, IA has continued with activities that have influenced this direction.

During 2019, IA continued to carry out auditing activities set out in the Annual Work Plan 2018-2019. In addition to planned audits, based on the request under the agreement between the Government of Kosovo, CBK and International Monetary Fund, in the first six-month period, independent audits of the government accounts reconciliation was conducted. Report was sent to IMF through the resident representative at the time stipulated in the Agreement. An *ad hoc* audit was conducted at the request of senior management.

During 2019, IA continued its activities related to the continuous professional development of staff, through participation in several events such as: trainings, seminars and forums. The Internal Audit Department is included in the program for strengthening the capacity of central banks in the Western Balkans in order to integrate into the European system of central banks, organized by the Deutsche Bundesbank, which will continue to be implemented in 2020.

7.2. Human resources

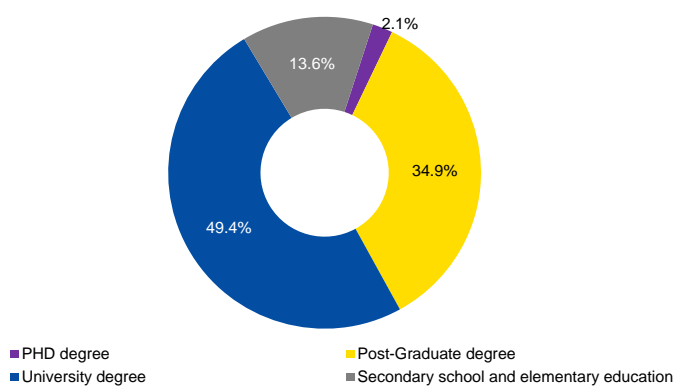
In accordance with the strategic objectives of the Central Bank of the Republic of Kosovo and human resource management policies, the CBK has continuously been focused on acquiring and implementing the best human resource management practices applied in similar institutions.

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

By the end of 2019 the number of employees in the Central Bank of the Republic of Kosovo was 235. The average age of employees was 41 years. Gender representation at the level of specialists and managers is balanced. The ratio of women to men is 53.6% - 46.4%, while this ratio at the management level is 52.4%- 47.6%.

In the general structure of the Central Bank of the Republic of Kosovo 5 employees or 2.1% hold PhD degrees, 82 employees or 34.9% with post university education, 116 employees or 49.4% with university education, 29 employees or 12.3% with secondary education and 3 employees or 1.3% with basic education (figure 99).

Figure 99. Structure by education



Source: CBK (2019)

The Central Bank of the Republic of Kosovo acknowledges the staff as one of the most important resources and continuously engages in their support to

provide them with adequate knowledge, skills, expertise and adequate professional development to fulfil their duties and responsibilities according to the highest standards, and to achieve their full potential, creating conditions for postgraduate studies and participation in conferences, trainings, courses, seminars, etc.

Of the overall number of employees, 120 employees or 51.1% of them participated in vocational training that were mainly organized by the European Central Bank, the International Monetary Fund-IMF, the Joint Vienna Institute - JVI, Deutsche Bundesbank, the Netherlands Bank, the Bank of Poland, the Bank of France, the Bank of Italy, the Bank of Czech Republic, the Istanbul School of Central Banking, the Kosovo Banking Association and the “Center of Excellence in Finance – CEF”.

During 2019 a total of 31 students finished the internship program at the Central Bank of the Republic of Kosovo. The main purpose of this program was that professional staff of the Central Bank of the Republic of Kosovo shares its experiences with distinguished students and carry out a research for assessing the expenses of our fellow countrymen during their stay in Kosovo in the summer season.

From the group in question, 7 students were involved in carrying out a study project for assessing the level and structure of expenditures of emigrants during their stay in Kosovo. Within this project, students conducted field surveys at selected border crossing points in Kosovo during July - August 2019, key results were derived from this questionnaire and finally a brief report with the main findings was produced.

7.3. CBK legal activities

In accordance with the objectives and duties of the Central Bank, the CBK legal activity during 2019 is focused on improving and updating the regulatory framework of the financial sector in accordance with relevant European Union legislation and international standards.

In particular, the legal activity of the CBK during 2019 is focused on amending/supplementing the primary and secondary legislation in the area of the financial sector. During this process, a new draft law on banks was drafted, as well as a draft law on compulsory motor third party liability insurance, laws that are in the process of being finalized by the CBK, before being forwarded to the competent authorities. Also, the draft law on microfinance institutions and non-banking financial institutions is already available to the competent authorities for further approval. The purpose of amendments to these laws is to harmonize with the legislation of the European Union, as well as best international practices and standards, in order to achieve the objectives of the CBK to maintain and preserve financial stability and protect the interests of policyholders and depositories.

In order to meet the objectives of the Central Bank, as well as in line with the dynamics of recent developments in the financial sector, the decision-making bodies of the CBK during this year continued to issue a number of bylaws, which were previously, prior to their adoption, subject to legal consideration to ensure compliance with the applicable legal framework.

CBK has also been committed to reaching agreements on cooperation with domestic and international institutions, in order to effectively perform duties related to issues in the field of mutual competence of relevant institutions. In this regard, agreements were signed:

- Cooperation Agreement in corporate governance of banks, signed with central banks of five Western Balkan countries;
- Cooperation Agreement with the Ministry of Internal Affairs, Police Directorate of Kosovo and the Association of Banks, which aims to improve cooperation in order to raise the level of security in the banking sector;
- Cooperation Agreement on the Financial Stability Board, between the CBK, the Ministry of Finance and the Deposit Insurance Fund of Kosovo;
- Cooperation Agreement on the Exchange of Information in the Field of Credit Guarantees, between the CBK and the Kosovo Credit Guarantee Fund;
- Cooperation Agreement between the CBK and the Health Insurance Fund;
- Cooperation Agreement on the Exchange of Information and Cooperation between the CBK and the Deposit Insurance Fund of Kosovo;
- Cooperation Agreement with the Ministry of Education, Science and Technology in order to advance cooperation in the field of financial education, and
- Cooperation Agreement with the Football Federation of Kosovo, which aims to promote mutual cooperation in the field of financial education of young athletes.

The main objective of the Central Bank of the Republic of Kosovo is to continuously focus on the progress and development of the regulatory framework in accordance with applicable law, EU legislation, as well as international standards and best practices, in order to continue safe, stable and sustainable functioning of the financial sector in Kosovo.

7.4. Risk management function

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

Risk Management is a general process of identifying, analysing, assessing, reporting and monitoring the risk, and as such is carried out at the Central Bank of the Republic of Kosovo according to the Risk Management Policy. Risk management activities were in the function of increasing the maturity of the risk management process:

- Maintaining and further developing of the risk management framework;
- Developing a culture of risk in the institution;
- Integrating risk management in all functions of the institution; and
- Advancing the process of identification, assessment, reporting and monitoring of operational risk by further developing risk assessment methodology and developing instruments that will help implement the methodology.

Risk management processes are designed to serve the central bank's strategic objectives by highlighting potential opportunities and risks. To achieve this, a link has been established between strategic objectives, work processes that help achieve those objectives, and the risks that may jeopardize their achievement. For each phase of the risk management cycle, procedures, patterns and tools have been developed to facilitate the identification, assessment, reporting and monitoring of risk levels in the institution. During 2019, a database of work processes and sub-processes has been created at the CBK level, supported by descriptive details for each process/sub process element. During this year, the Risk Register was established, as a basis for very critical data for an institution of a dynamic nature, where it should be constantly updated by updating the status of current risks or even adding new risks. The controls within the work processes that are necessary to be effective in order to provide assurance that the strategic goals will be achieved have been identified.

The assessment of the overall risk is based on a number of components that have subsequently undergone quantitative and qualitative analyses in order to more accurately determine the level of risk and recommend actions for its management. It should be noted that the data collected for each reporting period were subjected to an independent validation procedure. For this reason, tools that help in this process are constantly being developed. To categorize the type of risk, the taxonomy was developed as a coherent and unique set of definitions to better cover the categories and subcategories of operational risk. The taxonomy helps to facilitate the risk identification process and then serves to perform a structured risk assessment, accurately describe the risk, and prioritize risk management actions. Action plans have been developed and monitored to address risk levels. In the meantime, in order to monitor the level of risk and ensure that this level remains within the tolerance to risk, forms have been designed to monitor the level of risk through which measures have been taken. In addition, 24 key risk indicators have been developed for different processes for monitoring reported risks. Key risk indicators give a signal to management in the event of an increase in certain risks that may affect the achievement of strategic objectives of the institution, as well as allow the identification of potential losses before they occur and act as an indicator of changing operational risk profile.

8. External relations and international cooperation

8.1. International cooperation

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

During 2019, led by Governor Mehmeti, various meetings and cooperation were held with international financial institutions, such as: International Monetary Fund (IMF), World Bank (WB), European Central Bank (ECB), European Banking Agency (EBA), Crans Montana Economic Forum in Switzerland, United States Agency for International Development (USAID), European Commission (EC), Deutsche Bundesbank, German Federal Supervisory Authorities, Austrian Supervisory Authority, Bank of Turkey, International Finance Corporation (IFC), part of the World Bank, Eurostat and other institutions.

The CBK's senior management, headed by Governor Mr. Fehmi Mehmeti, with the participation of the Chairman of the CBK Board, Mr. Flamur Mrasori, Deputy Governor Mr. Lulzim Ismajli and Mr. Sokol Havolli was part of the delegation of the Republic of Kosovo at the regular meetings of the spring session of the IMF and the World Bank, as well as at the annual meetings of the Board of Governors of these institutions, held in Washington.

During these official participation visits, a delegation led by Governor Mehmeti, representing Kosovo at the IMF, held the meetings with the top officials of the International Monetary Fund and the World Bank, US Treasury officials, and representatives of other international financial institutions. During these events, the delegation also attended a series of meetings with the counterparts from the Central Banks of different countries of the world.

During 2019, Governor Mehmeti visited Turkey, where the Governor of the Central Bank of the Republic of Turkey, Murat Çetinkaya, pledged to support the CBK membership in the Club of Governors of Central Asia, the Black Sea Region and the Balkans.

Also, Governor Mehmeti, together with the Chairman of the CBK Board, Mr. Flamur Mrasori, participated in the 30th session of the Crans Montana Forum, whose works were held in Geneva, Switzerland.

During 2019, the Central Bank of the Republic of Kosovo was also represented in activities organized by other peer banks and international financial institutions, such as:

- Summit of the Finance Ministers, Governors of Central Banks and Directors of Tax Administration, held in Bečići, Montenegro;
- Conference organized by the International Monetary Fund and the Croatian Central Bank entitled "Demography, Employment and Growth: Towards the Future of Central, Eastern and South-eastern Europe";
- 8th High Level Conference, organized by the European Central Bank on the topic: The response of the countries of Central, Eastern and South-Eastern Europe to changes in the trade and financial field, and
- Annual conference of the Bank of Albania with topic "A Brave New World? The Future of Banking in Emerging Europe: Rethinking Size, Structure, Ownership, Policies and Incentives". At this international conference, the CBK was represented by Mr. Sokol Havolli, Deputy Governor for Financial Supervision.

An event of special significance in 2019 was the celebration of the 20th anniversary of the founding of the CBK and on this occasion the organization of the International Conference under

the auspices of the Governor of the CBK, Mr. Fehmi Mehmeti, and on that occasion, the governors of the central banks of Kosovo, Northern Macedonia, Albania, Montenegro and the director of the Banking Agency of the Federation of Bosnia and Herzegovina signed a Memorandum of Cooperation in corporate governance of banks. This memorandum is a regional initiative, which was developed under the leadership of the Central Bank of the Republic of Kosovo and in cooperation with the central banks of 5 countries of the Western Balkans. This initiative is the first of its kind in the region and relates to the corporate governance practices of commercial banks, which operate in our countries and the quality of governance mechanisms presented by commercial banks.

8.2. Communication and financial education

During 2019, the Central Bank of the Republic of Kosovo further improved its transparency and public awareness of its work and increased its activities in the field of communication, information and financial education.

The CBK has paid special attention to public information through transparent dissemination of information on the achievements and results of activities, through various communication channels, within its functions and responsibilities.

As part of the information, citizens were informed through various activities such as: publishing numerous materials, press releases on its website and on the sub-site; answers to journalists' questions; answers to citizens' questions; participation in TV shows and debates, radio representations; organization of press conferences; as well as posts on social media and the official Youtube channel. These channels served as a bridge of connection to respond to the media and the demands of the citizens.

As part of the Financial Education Program, the CBK continued to conduct various activities, visits and projects, to organize events in order to increase the economic and financial knowledge of the general public.

World Money Week 2019 was held from 25 to 30 March 2019 and was opened by the organization of the Conference, which was attended by numerous local and international institutions, such as: Ministry of Education, Embassy of Switzerland, World Bank, Finance in Motion (EFSE) and representatives of the entire financial sector in Kosovo. At this conference, a Memorandum of Understanding was signed with the Ministry of Education, Science and Technology in order to improve cooperation between the two institutions in the field of financial education.

Several projects supported by international institutions were launched at the conference:

- Greenback Project - supported by the World Bank and the Swiss State Secretariat for Economic Affairs (SECO)
- Book set preparation project - for students from 1st to 5th grade that will be supported by EFSE (Finance in Motion), and
- Project to build a platform for comparing interest rates, which will be supported by EFSE (Finance in Motion).

At the end of the conference, awards were given to the winners of the children's competition "Learn, Save, Earn".

The week continued with other activities in municipalities and various institutions intended for children and youth, such as: activities with students of the elementary school "Naim Frashëri" from Vushtrri, with students of the elementary school "Faik Konica", lectures at the Faculty of Economics, University of Pristina, at University "Isa Boletini" in Mitrovica, University of

Applied Technical Sciences in Ferizaj and AAB University in Prishtina, as well as lectures at the CBK with young bankers of Bankës për Biznes.

During 2019, in order to expand its activities throughout Kosovo, the CBK organized lectures and activities with students of primary and secondary schools, universities and colleges.

Other activities organized during 2019 were also with primary school students in Prishtina; Gjakova; Podujeva, as well as numerous children of the Summer Academy, organized by the American University Counselling Center.

In addition to lectures organized during JNP 2019, lectures were held with students of universities and colleges, such as: UBT University, International Summer University in Pristina, University “Haxhi Zeka” in Peja, University of Applied Sciences in Ferizaj, and University “Isa Boletini” in Mitrovica.

Within activities in the field of financial education, the CBK also marked the World Savings Day. This year was marked through a competition with students from 6th to 9th grade of primary schools in Kosovo for the selection of the best essay on savings and finances. The winning students were awarded with symbolic gifts and letters of thanks from the Central Bank, which were distributed by Governor Mehmeti during the celebration of World Savings Day.

The CBK continued the traditional “Young Economist” Award, which is given to encourage research among young economists in Kosovo.

Also, in 2019, the CBK organized a series of events to mark the 20th anniversary of the establishment of the CBK, such as: the Conference on Consumer Protection, the Conference on World Money Week and the High-Level International Conference to mark the 20th anniversary of the CBK. The conference marking the 20th anniversary of the establishment of the CBK was held in November 2019, and was attended by representatives of state institutions of the highest level of the Republic of Kosovo and representatives of the highest level of international financial institutions from around the world.

8.3. Technical assistance

The CBK continued to have cooperation with the International Financial Institutions and Central Banks and Regulatory Agencies, both at regional and international level. Mainly during 2019 a more intensive cooperation was conducted with international institutions, such as: IMF, WB, ECB, US Treasury, EBRD, EFSE, SECO, etc.

World Bank (WB)

In the framework of cooperation and support from the World Bank, during 2019, support continued in projects, such as: a joint program funded under the program funded by SECO for remittances and payments – RPP.

This program continued with a view to:

- Training of TSO staff and other CBK units regarding the application of the PFMI - IOSCO / BIS principles for the assessment of payment systems of systemic importance.
- Support in considering the legal / regulatory framework for enabling the licensing of electronic money institutions and regulating electronic money activities, as well as considering the legal framework for the function of agents in order to facilitate and more efficiently distribute a wide range of payment / remittance services through agents.
- Study related to the assessment of costs for small value payments for payment service providers (CBK, banks, NBFIs for payments) and for payment service users (government institutions, companies, consumers).

- The Greenback project, CBK supported by the World Bank and the Swiss State Secretariat for Economic Affairs (SECO), is a project that aims to increase remittance efficiency, by innovative approach, and to encourage increased information for migrants through financial education activities.

United States Treasury (US Treasury)

The US Treasury has provided support and assistance to the CBK since its establishment, either through technical assistance or the implementation of special projects. As part of the support received from the US Treasury to strengthen the legal and institutional framework for improving real estate appraisal in Kosovo, Counsellor Mr. Lewis Allen, during a two-week visit in February provided assistance, which contributed to:

- completion of preparation of the Regulation on real estate appraisal and training of supervisory staff, regarding the implementation of new changes, and
- Support to the Working Group established by the Ministry of Finance in the preparation of the Regulation for the Supervisory Board for licensing of real estate appraisers based on the latest amendments to the Law on Property Tax.

During 2019, the CBK was also supported by the US Treasury with additional technical assistance mainly aimed at supporting drafting to strengthen the CBK's legal framework.

Programs funded by the European Union (EU)

During 2019, the CBK, through donor assistance programs, the Grand Duchy of Luxembourg and the Kingdom of Norway, became a beneficiary of projects supporting the Government of the Republic of Kosovo to meet the requirements of the Stabilization and Association Agreement (SAA) between the European Union (EU) and Kosovo. To this end, the Human Capacity Development Mechanism (HCDF) has been established to support the implementation of the SAA. On that occasion, the CBK also signed a letter of intent, which serves as a legal basis for the implementation of capacity development activities that will benefit the Central Bank of the Republic of Kosovo (CBK) and other designated agencies, in accordance with the relevant implementation plans. The project is funded by the Government of Luxembourg in the amount of EUR 1.685 million and Norway in the amount of EUR 1.466 million, both of which cover different chapters of ACQUIS, while the CBK is part of the funding from the Government of Norway.

The CBK is a signatory to the Agreement with the European System of Central Banks, “Program for Strengthening the Central Bank Capacities in the Western Balkans with a view to the integration to the European System of Central Banks”, which includes specialist staff training, high-level professional workshops, staff professional practice programs, as well as bilateral cooperation measures with central banks of EU countries.

The CBK has also been involved in two IPA projects this year, among many other institutions, such as the Financial Intelligence Unit, the Kosovo Police, the Ministry of Finance, Kosovo Customs, the Kosovo Tax Administration, etc. These projects are:

- “Project against Economic Crime (PECK II)”, funded by the Council of Europe and the Office of the European Union, and
- “Further support to Kosovo institutions in their fight against organized crime, corruption and violent extremism”. The benefits of these projects have been mainly in training and awareness rising, as well as in drafting legislation in the relevant field.

EFSE Finance in Motion

- Book set preparation project - CBK supported by the Office of Finance in Motion (EFSE) in Kosovo. Through this project, a set of 5 books will be prepared for primary school students in Kosovo, from 1st to 5th grade. The project will continue in 2020, when the printing and distribution of books throughout Kosovo will be completed.
- Interest Rate Comparison Project - CBK supported by the Office of Finance in Motion (EFSE) in Kosovo, is a project that aims to contribute to the transparency of the financial market in Kosovo on effective interest rates and prices of financial products and services, so that clients of the financial sector make informed and responsible decisions about the use of financial products and services.

8.4. European Integration

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

Monitoring of key legislative developments and supervisory practices, respectively alignment of CBK's legislation with the *Acquis*, as well as recent macroeconomic developments have been reported continuously through reporting documents as well as meetings with local and international stakeholders involved in the European Integration process of Kosovo.

The Central Bank of the Republic of Kosovo throughout the year 2019 has cooperated with the relevant institutions providing continuous support to advance the European integration process in the Republic of Kosovo.

An important role in this area plays cooperation with the Ministry of European Integration, which is the main coordinator of the European integration process in the Republic of Kosovo.

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

CBK, throughout the year 2019, has continued regular reporting with the aim of implementation of conclusions under the Stabilization and Association structures.

The CBK reported on the meeting of the Stabilization and Association Council, reporting on the inputs requested by the Government of the Republic of Kosovo. These inputs are part of the official state stand (Position Paper), which represents progress and achievements in certain areas (including the financial sector).

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

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

Under the SAA, there are obligations for the Central Bank of Kosovo (CBK) in the field of financial services, such as:

- right to decide and the freedom to provide banking services;
- freedom to provide insurance and other services in the financial field, and

- alignment and implementation of the legal and regulatory framework with the legislation of the European Union, the Statute of the European Central Bank and the European System of Central Banks.
- Other requirements include development from:
- **Free movement of capital:** EU legislation also includes rules on cross-border payment and execution of securities transfer orders. Obligations arising in connection **with any payment** or transfer to the balance of payments / current account capital between the EU and Kosovo.
- Free movement of capital in connection with **trade transactions** between Kosovo and the EU;
- **In the field of banks and financial conglomerates:** (authorizations, functioning and careful supervision of credit institutions, requirements for calculating the capital of credit institutions and investment firms, international standards Basel III);
- In the field of **employment insurance and pensions:** European directives laying down rules on the approval, operation and supervision of life and non-life insurance and business reinsurance;
- In the field of **securities market and investment services:** Directive 2004/39/EC on markets in financial instruments (MiFID).

In the field of European Integration, in meetings with the European Commission, the CBK regularly reported on key developments in the above mentioned areas. Other chapters in which the CBK has consistently contributed are as follows: Chapter of the right of establishment of companies and freedom of service provision, Chapter of economic and monetary policy, Chapter of statistics, Chapter of freedom, security and justice (Article 89 Money Laundering and Financing of Terrorism), as well as the Financial Control Chapter.

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

The CBK is a beneficiary institution under the donor assistance program of the Grand Duchy of Luxembourg and the Kingdom of Norway, which supports the efforts of the Government of the Republic of Kosovo and its institutions to meet the requirements of the Stabilization and Association Agreement (SAA) between the European Union (EU) and Kosovo. To this end, a Human Capacity Building Mechanism (HCDF) has been established to support the implementation of the SAA. At the end of the year, the NPISAA consolidated draft was prepared, in which CBK has made a summary of the primary legislation and secondary acts that are expected to be approved during 2020. Legislative proposals derive from the requirements of meetings with members of the European Commission. Based on this, the NPISAA draft contains primary and secondary legislation transposing directives or containing specific suggestions by the European Commission.

The CBK remains committed to addressing the findings of the Country Report (formerly – the Progress Report), resulting in a significant number of findings from the 2018 EC report, which are addressed to be implemented during 2019. EC Country Reports have positively considered the contribution of the Central Bank of the Republic of Kosovo in terms of consolidating macroeconomic stability, maintaining financial stability, improving supervisory practices and improving the payment system in the Republic of Kosovo. CBK remains further committed to implementing priority structural reforms that will further contribute to achieving the standards required by the European Union. At the same time, the CBK continues to play an important role contributing to the implementation of the European Integration Agenda of the Republic of Kosovo.

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9. Financial Statements of the CBK

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Central Bank of the Republic of Kosovo
Financial Statements
as at and for the year ended 31 December 2019
with Independent Auditor's Report

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Independent Auditor's Report

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To the Board of the Central Bank of the Republic of Kosovo

Opinion

We have audited the financial statements of the Central Bank of the Republic of Kosovo (hereinafter the “Central Bank”), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (hereinafter “IFRSs”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (hereinafter “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 Central Bank in accordance 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 and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statements of the Central Bank of the Republic of Kosovo as of and for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion in their report on 20 May 2019.

Responsibilities of Management and 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 Central 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 Central Bank or to cease operations, or has no realistic alternative but to do so.

The Board of the Central Bank of the Republic of Kosovo is responsible for overseeing the Central Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are 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 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 Central 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 Central 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 our auditor's report. However, future events or conditions may cause the Central 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 the Board of the Central Bank of the Republic of Kosovo 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.

Grant Thornton LLC
Prishtina,
12 June 2020



Suzana Stavrikj
Statutory auditor

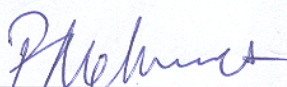
Central Bank of the Republic of Kosovo

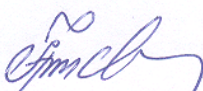
Statement of financial position

At 31 December 2019

<i>In thousands of EUR</i>	Note	2019	2018 Restated
Assets			
Cash on hand	7	302,166	285,376
Current accounts with non-resident banks	8	108,863	34,797
Securities (Treasury Bills and Bonds)	9	576,616	758,207
Deposit accounts with non-resident banks	10	248,864	183,576
Assets related with IMF	11	298,345	326,051
Property and equipment	12	4,967	5,016
Intangible assets	13	1,945	1,790
Other assets	14	1,700	1,411
Total assets		1,543,466	1,596,224
Liabilities			
Due to domestic banks	15	414,942	343,394
Due to IMF related accounts	16	297,236	321,854
Due to governmental institutions	17	719,819	762,901
Due to public and commercial entities	18	52,167	110,863
Borrowings	19	2,266	2,266
Other liabilities	20	1,778	1,797
Total liabilities		1,488,208	1,543,075
Capital and reserves			
Authorized capital	21	30,000	30,000
Reserve fund	21a	22,622	21,215
Revaluation reserve	21a, 29	527	-
Retained earnings		2,109	1,934
Total capital and reserves		55,258	53,149
Total liabilities, capital and reserves		1,543,466	1,596,224

These financial statements were approved by the Board of the Central Bank of the Republic of Kosovo on 12 June 2020 and signed on its behalf by:


Fehmi Mehmeti
Governor


Faton Ahmetaj
Director of Financial Planning and
Reporting Directorate

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 2019

<i>In thousands of EUR</i>	Note	2019	2018 Restated
Interest income			
Interest income		3,529	2,826
Interest expense		(1,599)	(982)
Net interest income	22	1,930	1,844
Fee and commission income			
Fee and commission income		2,798	2,252
Fee and commission expense		(576)	(332)
Net fee and commission income	23	2,222	1,920
Regulatory and other operating activities income			
Regulatory activity income	24	4,956	4,451
Grant income	20, 25	120	98
Other operating income	26	8	11
Foreign exchange net profit / loss	29	248	527
Operating revenue		9,484	8,851
Operating expenses			
Personnel expenses	27	(4,989)	(4,407)
Depreciation and amortization	12,13	(1,041)	(1,029)
General and administrative expenses	28	(1,451)	(1,227)
Operating expenses		(7,481)	(6,663)
Financial result before provision for expected credit losses		2,003	2,188
Provisions for expected credit losses, net decrease / (increase)		106	(254)
Net profit for the year		2,109	1,934
Other comprehensive income		-	-
Total comprehensive income for the year		2,109	1,934

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

Central Bank of the Republic of Kosovo

Statement of changes in equity

For the year ended 31 December 2019

	Capital	Reserve fund	Revaluation fund	Retained Earnings	Total
<i>In thousands of EUR</i>					
Balance at 1 January 2018	30,000	22,683	-	(881)	51,802
Impact of adopting IFRS 9	-	-	-	(587)	(587)
Restated balance at 1 January 2018	30,000	22,683	-	(1,468)	51,215
Transfer from reserve fund	-	(1,468)	-	1,468	-
Total transactions required by law	-	(1,468)	-	1,468	-
Profit for the year (restated)	-	-	-	1,934	1,934
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	1,934	1,934
Restated balance at 31 December 2018	30,000	21,215	-	1,934	53,149
Transfer to reserve and revaluation funds	-	1,407	527	(1,934)	-
Total transactions required by law	-	1,407	527	(1,934)	-
Profit for the year	-	-	-	2,109	2,109
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	2,109	2,109
Balance at 31 December 2019	30,000	22,622	527	2,109	55,258

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 2019

<i>In thousands of EUR</i>	Note	2019	2018 Restated
Cash flows from operating activities			
Profit for the year		2,109	1,934
<i>Adjustments for:</i>			
Depreciation	12	645	657
Amortization	13	396	372
Grant revenue	25	(120)	(99)
Provisions for expected credit losses		(106)	254
Interest income	22	(3,529)	(2,826)
Interest expense	22	1,599	982
		994	1,274
Change in securities		180,657	(162,114)
Change in deposit accounts with non-resident banks		(65,000)	(114,999)
Change in assets with IMF		27,520	(147)
Change in other assets		(289)	7,690
Change in due to domestic banks		71,548	11,568
Change in due to IMF related accounts		(24,434)	3,093
Change in due to governmental institutions		(43,082)	(48,439)
Change in due to public and commercial entities		(58,696)	15,055
Change in other liabilities		80	(152)
		89,298	(287,171)
Interest received		4,814	(1,372)
Interest paid		(1,783)	(837)
Net cash generated from/(used in) operating activities		92,329	(289,380)
Cash flows from investing activities			
Purchase of equipment	12	(596)	(364)
Purchase of intangible assets	13	(551)	(77)
Net cash used in investing activities		(1,147)	(441)
Cash flows from financing activities			
Proceeds from grants		21	-
Net cash generated from financing activities		21	-
Net increase / (decrease) in cash and cash equivalents		91,202	(289,821)
Cash and cash equivalents at 1 January		328,907	618,728
Cash and cash equivalents at 31 December	30	420,109	328,907

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 2019

(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 CBK 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 acts 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 four¹ 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 2019, the Board of the Central Bank of Kosovo comprised of the following members:

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

As at 31 December 2019, the Executive Board comprised of the Governor, who is the Chairperson, and two Deputy Governors, is in 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.

¹ One non-executive member position is vacant.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2019

(in thousands of EUR, unless otherwise stated)

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 income and expenses

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 2019

(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.

f) Financial assets and liabilities

Classification of financial assets and financial liabilities

The CBK has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018.

Additionally, the CBK adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2019 and to the comparative period.

IFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets, and
- 3) General hedge accounting.

Details of these new requirements as well as their impact on the CBK's financial statements are described below.

The CBK has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets and financial liabilities

The date of initial application (i.e. the date on which the CBK has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the CBK has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2019

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

The financial assets of CBK included in these financial statements are classified as financial instruments at amortized cost (hold to collect model) and comprise of cash and cash equivalents, securities, deposit accounts with non-resident banks, assets related with IMF and other assets.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL (Fair Value through Profit Loss):

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The CBK classifies all its financial liabilities as measured at amortised cost using the effective interest rate method. Interest income or interest expense from financial liabilities measured at amortised cost is recognised in profit or loss.

Financial liabilities measured at amortised cost include due to domestic banks, governmental institutions, public and commercial entities, due to IMF, borrowings and other financial liabilities.

i. Recognition

On initial recognition, a financial asset is classified as measured at: amortised cost (AC), fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

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 on issue.

As mentioned above, the CBK has in its books only financial instruments at amortized cost, which meet the criteria of hold to collect model.

ii. Reclassification

The CBK financial assets are not reclassified subsequent to their initial recognition, except in the period after the CBK changes its business model for managing financial assets.

iii. Derecognition

The CBK derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the CBK neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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 derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income ('OCI') is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the CBK is recognised as a separate asset or liability.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2019

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

The CBK enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the CBK neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the CBK continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The CBK derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

iv. Modifications of financial assets and financial liabilities

If the terms of a financial asset are modified, the CBK evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the CBK recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

The CBK derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss.

v. 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 CBK of similar transactions.

vi. 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.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2019

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

vii. 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.

viii. Impairment

The CBK recognizes loss allowances for expected credit losses "ECL" for financial assets that are debt instruments and are not measured at FVTPL. The CBK measures loss allowances at an amount equal to lifetime ECL except for the following for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

The CBK considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

The ECL impairment model is a probability-based measurement and includes the impact of different possible outcomes. Operationally, this can be difficult to implement and selecting relevant economic scenarios can be challenging.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2019

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

For detailed implementation of ECL we used the simple method that utilizes the explicit probability of default approach which is:

$$\text{Expected credit losses (ECL)} = \text{Exposure at default (EAD)} \times \text{Loss given default (LGD)} \times \text{Probability of default (PD)}.$$

EAD - Exposure at default is the gross carrying amount at financial assets that fall within the model.

LGD - Loss given default, we used based on our internal judgment and perception of this value, also based on some Basel risk approach for borrowers' default.

PD – Probability of default, is the most sensitive variable

ECL are a probability-weighted estimate of credit losses and are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the CBK in accordance with the contract and the cash flows that the CBK expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying.

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 and Bonds, are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for as amortized cost/hold to collect investment using the effective interest rate method.

Amortized cost/hold to collect 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.

i) Deposits and borrowings

Deposits and borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2019

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

j) 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, if any.

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:

	2019	2018
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.

k) Intangible assets

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

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 2019

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

l) 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.

m) 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.

n) 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.

o) 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.

p) Provisions

A provision is recognised 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 2019

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

q) Changes in accounting policies and disclosures

(i) Standards and Interpretations effective in the current period

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

- **IFRS 16 "Leases"** (effective for annual periods beginning with or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** - Fees for prepayment with negative compensation (effective for annual periods that started on or after January 1, 2019),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Change, Reduction or Solution (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Joint Stock Companies and Enterprises"** - Long-term Interests in Joint Stock Companies and Enterprises (effective for annual periods beginning on or after 1 January 2019),
- **Changes in various standards due to "IFRS Improvements (2015-2017 cycle)"** resulting from the annual SNRF improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) mainly for the purpose of removal of discrepancies and clarification of the effective wording for the annual periods that started on or after 1 January 2019),
- **IFRIC 23 "Insecurity on the Treatment of Income Taxes"** (effective for annual periods beginning with or after 1 January 2019).

The application of these standards, amendments and interpretations has no significant impact on the financial statements of the Central Bank in the current period.

ii) Standards and Interpretations in issue not yet adopted

As at the date of authorization of these financial statements the following standards, revisions and interpretations have been published by the IASB, but are not yet effective and have not been adopted early by the Central Bank:

- **Amendments to IFRS 3 "Business Combinations"** - Defining a Business (effective for business combinations for which the purchase date is on or after the start of the first annual reporting period starting on or after January 1, 2020 and for purchases of assets that occur in or after the start of that period).
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Joint Stock Companies and Enterprises"** - Sale or Contribution of Assets between an Investor and His Partner or Joint Venture and Further Changes (effective date postponed to one indefinite time until the capital method is completed),
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material (effective for annual periods beginning on or after 1 January 2020)
- **Changes in References in the Conceptual Framework to IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021).

The Central Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Central Bank anticipates that the adoption of these standards, revisions and interpretations will not have a significant impact on the financial statements of the Central Bank.

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Notes to the financial statements for the year ended 31 December 2019

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3. Significant accounting policies (continued)

q) Change in accounting policy

The CBK has initially adopted IFRS 9 (see (I)) and IFRS 15 (see (II)) from 1 January 2018 in these financial statements. As of 01 January 2018, a number of other new standards were also effective but they did not have a material effect on the CBK's financial statements. The effect of initially applying these standards is limited to IFRS 9 and mainly attributed to the following:

- changes in classification and measurement categories of financial assets and liabilities (see note 3(f));
- impairment losses recognized on financial assets (see note 9); and
- additional disclosures related to IFRS 9 (see notes 9 and 10).

Except for the changes below, the CBK has consistently applied the accounting policies as set out in Note 3 to all periods presented in these financial statements.

Impact of IFRS 9 in year 2018

Statement of financial position

	As previously presented	Adjustment for Expected credit losses	Restated
31-Dec-18			
Securities	758,890	(683)	758,207
Deposit accounts with non-resident banks	183,734	(158)	183,576

Statement of profit and loss

	As previously presented	Adjustment for Expected credit losses	Restated
Net profit for the year	2,188	(254)	1,934

In thousands of euro	Statutory fund	Reserve fund	Revaluation reserve	Retained Earnings	Total
Balance at 1 January 2018	30,000	22,683	-	(881)	51,802
Impact of IFRS 9	-	-	-	(587)	(587)
Restated balance at 1 January 2018	30,000	22,683	-	(1,468)	51,215
Transfer to reserve fund	-	(1,468)	-	1,468	-
Restated Transactions required by law	-	(1,468)	-	1,468	-
Profit for the year	-	-	-	2,188	2,188
Impact of IFRS 9	-	-	-	(254)	(254)
Restated of Total comprehensive income for the year	-	-	-	1,934	1,934
Restated balance at 31 December 2018	30,000	21,215	-	1,934	53,149

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Notes to the financial statements for the year ended 31 December 2019

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

q) Change in accounting policy

I. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the CBK has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method.

Additionally, CBK has adopted consequential amendments to IFRS 7 Financial Instruments. The key changes to CBK's accounting policies resulting from its adoption of IFRS 9 are summarised below.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the CBK classifies financial assets under IFRS 9, see note 3(f).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. For an explanation of how the CBK classifies financial liabilities under IFRS 9, see note 3(f).

The following tables present the reconciliation of the original classification under IAS 39 and new classification under IFRS 9 for each class of financial assets and financial liabilities of the CBK as at 1 January 2018.

1 January 2018				
Financial asset	Measurement category under IAS 39	Measurement category under IFRS 9	Carrying amount under IAS 39	Carrying amount under IFRS 9
Cash on hand	Loans and receivables	Amortised cost	188,547	188,547
Current accounts with non-resident banks	Loans and receivables	Amortised cost	422,845	422,845
Securities (Treasury Bills and Bonds)	Held-to-maturity	Amortised cost	592,712	592,159
Deposit accounts with non-resident banks	Loans and receivables	Amortised cost	68,178	67,591
Assets related with IMF	Loans and receivables	Amortised cost	325,764	325,764
Other financial assets	Loans and receivables	Amortised cost	7,927	7,927
TOTAL FINANCIAL ASSETS			1,605,973	1,604,833

1 January 2018				
Financial liabilities	Measurement category under IAS 39	Measurement category under IFRS 9	Carrying amount under IAS 39	Carrying amount under IFRS 9
Due to domestic banks	Amortised cost	Amortised cost	331,826	331,826
Due to IMF related accounts	Amortised cost	Amortised cost	318,617	318,617
Due to governmental institutions	Amortised cost	Amortised cost	811,341	811,341
Due to public and commercial entities	Amortised cost	Amortised cost	95,807	95,807
Borrowings	Amortised cost	Amortised cost	2,266	2,266
Other liabilities	Amortised cost	Amortised cost	2,047	2,047
TOTAL FINANCIAL LIABILITIES			1,561,904	1,561,904

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Notes to the financial statements for the year ended 31 December 2019

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3. Significant accounting policies (continued)

q) Change in accounting policy (continued)

I. IFRS 9 Financial Instruments (continued)

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the CBK applies the impairment requirements of IFRS 9, see Note 3(f).

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Periods before 01 January 2018 have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in reserves as at 1 January 2018.
- The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the CBK has assumed that credit risk on the asset had not increased significantly since its initial recognition.

II. IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The CBK initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the CBK's fee and commission income was not impacted by the adoption of IFRS 15.

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Notes to the financial statements for the year ended 31 December 2019

(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. For credit risk management reporting purposes, the CBK considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of Credit Risk

i. Investments and exposure of CBK's Credit Risk

CBK limits its exposure to credit risk by investing only in securities and in deposits with foreign banks that have investment grade and whose short term liabilities are rated by internationally recognized credit rating agencies. Given the investment credit ratings, the management does not expect any contracting party to fail to meet its obligations as per our credit risk appetite.

The management of the risk is performed through:

- Limiting the scope and duration of financial instruments,
- Limiting the counterparties issuers, by acceptable credit rating on investment grade and above,
- Limit the maximum amount and concentration with the counterparties,

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2019

(in thousands of EUR, unless otherwise stated)

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

ii. Exposure towards credit risk

The highest exposure to credit risk as at 31 December 2018 and 31 December 2019, is represented by the carrying amount of the current accounts with non-resident banks, treasury bills, and bonds 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. There is a substantial change in the credit risk management policies from previous years, as a result of applying the IFRS 9. As per that we switch to the ECL – Expected credit loss model from the incurred credit as it was from the IFRS 9. CBK does not hold any collateral or other credit enhancements against its exposure to credit risk.

Expected credit loss measurement:

The financial assets that fall under the scope of expected credit loss with the CBK are:

- Current accounts and deposits with foreign banks
- Securities,
- Other receivables that are linked to above two elements, if any.

The basic criteria of defining the exposure is credit rating. The credit rating is taken from credit rating agencies.

Our floor for our exposure is investment grade. As of that we don't invest below that grade.

Model of impairment of financial assets defines three stages of credit levels, at the initial recognition and changes in credit quality after initial recognition. Those stages can be summarized as below:

1. Stage 1 of exposure distribution - financial assets which are treated as the low or medium risk exposure, all of them which fall within this are allocated to the Stage 1 at initial recognition. According to our internal procedure we are not allowed to invest in the higher credit risk exposure. Based on this each investment at initial recognition is allocated to Stage 1 of exposure.
2. Stage 2 of exposure distribution - if we have a significant increase since initial recognition the financial asset which is located in stage 1 moved to stage 2.
3. Stage 3 of exposure distribution - the criteria that moves financial assets to stage 3 is determined from default status of the financial assets.

The evaluation is done on initial recognition and at the date of the reporting period. The model used for the stage 1 of distribution is 12 months basis of the life time, but it could be depending to the composite credit exposure level if we have the significant change on increase on credit risk and on credit impaired of the financial assets portfolio.

Significant change in increase of the credit risk as criteria to move from stage 1 to stage 2, when it goes from investment grade to the non-investment grade of the composite credit rating of a portfolio.

Definition of the default:

Default criteria should be based on the objective evidence of:

- Debtors, significant financial difficulties
- When it is coming to breach of contractual obligations, in regards to the principal and interest,
- When it happens to any restructuring the existing terms of servicing the obligation from a financial instrument,
- Clear evidence/probability that debtor is going to the bankruptcy and/or liquidation,
- Signs of not being active in the trading market.

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Notes to the financial statements for the year ended 31 December 2019

(in thousands of EUR, unless otherwise stated)

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

	2019			2018		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Current accounts with non-resident banks	108,863	-	-	34,797	-	-
Securities	577,135	-	-	758,890	-	-
Money market placements	249,080	-	-	183,734	-	-
Gross carrying amount	935,078	-	-	977,421	-	-
Loss allowance	(735)	-	-	(841)	-	-
Net Carrying amount	934,343	-	-	976,580	-	-

	2019			
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019				841
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL charge of the year	(106)	-	-	(106)
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognised in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2019	735	-	-	735

	2018			
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2018	-	-	-	-
Impact of IFRS 9 adoption as of 1 January	587	-	-	587
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL charge of the year	254	-	-	254
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognised in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	841	-	-	841

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4. Financial Risk Management (continued)

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 unfavorable conditions, without incurring unacceptable losses or risking damage to CBK's reputation.

Policies to monitor and address liquidity risk are set by the CBK 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	Net carrying amount	Less than 1 month	1-3 months	3 mon. to 1 year	1 year to 5 years	over 5 years
31 December 2019							
<i>Non-derivative liabilities</i>							
Due to domestic banks	15	414,942	414,942	-	-	-	-
Due to IMF related accounts	16	297,236	173,308	20,917	37,494	65,517	-
Due to governmental institutions	17	719,819	719,819	-	-	-	-
Due to public and commercial entities	18	52,167	52,167	-	-	-	-
Borrowing	19	2,266	-	-	-	907	1,359
Other liabilities	20	756	756	-	-	-	-
		1,487,186	1,360,992	20,917	37,494	66,424	1,359
31 December 2018							
<i>Non-derivative liabilities</i>							
Due to domestic banks	15	343,394	343,394	-	-	-	-
Due to IMF related accounts	16	321,854	161,711	4,265	25,590	130,288	-
Due to governmental institutions	17	762,901	762,901	-	-	-	-
Due to public and commercial entities	18	110,863	110,863	-	-	-	-
Borrowing	19	2,266	-	-	-	680	1,586
Other liabilities	20	756	756	-	-	-	-
		1,542,034	1,379,625	4,265	25,590	130,968	1,586

Non-interest bearing financial liabilities are not included in the table above.

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Notes to the financial statements for the year ended 31 December 2019

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4. Financial risk management (continued)

c) Liquidity risk (continued)

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

d) Market risk

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

Management of market risks

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

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

Exposure to interest rate risk – non-trading portfolios

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

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Notes to the financial statements for the year ended 31 December 2019

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4. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk – non-trading portfolios

	Note	Net carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	Over 5 years
31 December 2019							
Current accounts with non-resident banks	8	108,863	108,863	-	-	-	-
Securities (Bonds and Treasury bills)	9	576,616	-	100	150	486,309	90,057
Deposit accounts with non-resident banks	10	248,864	9,080	20,000	219,784	-	-
Assets in IMF related accounts	11	214,090	81,480	-	-	132,610	-
Total		1,148,433	199,423	20,100	219,934	618,919	90,057
Due to domestic banks	15	(414,942)	(414,942)	-	-	-	-
Due to IMF related accounts	16	(219,664)	(95,736)	-	-	(123,928)	-
Due to governmental institutions	17	(719,819)	(719,819)	-	-	-	-
Due to public and commercial entities	18	(52,167)	(52,167)	-	-	-	-
Borrowing	19	(2,266)	-	-	-	-	(2,266)
Due to Other liabilities	20	(756)	(756)	-	-	-	-
Total		(1,409,614)	(1,283,420)	-	-	(123,928)	(2,266)
Gap		(261,181)	(1,083,997)	20,100	219,934	494,991	87,791
31 December 2018							
Current accounts with non-resident banks	8	34,797	34,797	-	-	-	-
Securities (Treasury bills)	9	758,207	-	-	5,998	752,209	-
Deposit accounts with non-resident banks	10	183,576	8,734	-	174,842	-	-
Assets in IMF related accounts	11	242,849	82,706	-	-	160,143	-
Total		1,219,429	126,237	-	180,840	912,352	-
Due to domestic banks	15	(343,394)	(343,394)	-	-	-	-
Due to IMF related accounts	16	(245,447)	(85,304)	-	-	(160,143)	-
Due to governmental institutions	17	(762,901)	(762,901)	-	-	-	-
Due to public and commercial entities	18	(110,863)	(110,863)	-	-	-	-
Borrowing	19	(2,266)	-	-	-	-	(2,266)
Other liabilities	20	(756)	(756)	-	-	-	-
Total		(1,465,627)	(1,303,218)	-	-	(160,143)	(2,266)
Gap		(246,198)	(1,176,981)	-	180,998	752,892	(2,266)

As of 31 December 2019 and 2018 there are no non-interest bearing financial assets and liabilities.

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Notes to the financial statements for the year ended 31 December 2019

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4. Financial risk management (continued)

(d) Market risks (continued)

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

Management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the CBK'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 ("bps") parallel fall or rise in all yield curves. An analysis of the CBK'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:

2019

	100 bps Increase	100 bps Decrease
Estimated profit (loss) effect	(2,612)	2,612

2018

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

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:

2019

	100 bps Increase	100 bps Decrease
Estimated profit (loss) effect	(56)	56

2018

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

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Notes to the financial statements for the year ended 31 December 2019

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

31 December 2019	EUR	USD (Equivalent in EUR)	SDR (Equivalent in EUR)	Total
Assets				
Cash on hand	302,166	-	-	302,166
Current accounts with non-resident banks	108,615	248	-	108,863
Treasury bills	576,616	-	-	576,616
Deposit accounts with non-resident banks	239,784	9,080	-	248,864
Assets with the IMF related accounts	535	-	297,810	298,345
Other assets	1,700	-	-	1,700
Total	1,229,416	9,328	297,810	1,536,554
Liabilities				
Due to domestic banks	414,942	-	-	414,942
Due to IMF related accounts	541	-	296,695	297,236
Due to governmental institutions	719,819	-	-	719,819
Due to public and commercial entities	52,167	-	-	52,167
Borrowing	2,266	-	-	2,266
Other liabilities	1,778	-	-	1,778
Total	1,191,513	-	296,695	1,488,208
Net foreign currency position	37,902	9,328	1,115	48,345

31 December 2018	EUR	USD (Equivalent in EUR)	SDR (Equivalent in EUR)	Total
Assets				
Cash on hand	285,376	-	-	285,376
Current accounts with non-resident banks	34,574	223	-	34,797
Treasury bills	758,207	-	-	758,207
Deposit accounts with non-resident banks	174,842	8,734	-	183,576
Assets with the IMF related accounts	722	-	325,329	326,051
Other assets	1,411	-	-	1,411
Total	1,255,132	8,957	325,329	1,589,418
Liabilities				
Due to domestic banks	343,394	-	-	343,394
Due to IMF related accounts	724	-	321,130	321,854
Due to governmental institutions	762,901	-	-	762,901
Due to public and commercial entities	110,863	-	-	110,863
Borrowing	2,266	-	-	2,266
Other liabilities	1,797	-	-	1,797
Total	1,221,945	-	321,130	1,543,076
Net foreign currency position	33,186	8,957	4,199	46,343

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2019

(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 2019 and 2018 were as follows:

	2019	2018
	EUR	EUR
1 SDR	1.23588	1.21424
1 USD	0.89015	0.87336

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 five major currencies, the Euro, the US Dollar, the British Pound, Japanese Yen and Chinese Renminbi.

US Dollar 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 2019

(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

Notes to the financial statements for the year ended 31 December 2019

(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 2019

(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.

31 December	Note	2019		2018	
		Amortised cost	Fair value	Amortised cost	Fair value
Cash on hand	7	302,166	302,166	285,376	285,376
Current accounts with non-resident banks	8	108,863	108,863	34,797	34,797
Securities	9	576,616	579,894	758,207	592,904
Deposit accounts with non-resident banks	10	248,864	248,864	183,576	183,576
Assets related with IMF	11	298,345	298,345	326,051	326,051
Other Assets	14	142	142	131	131
		1,534,996	1,538,274	1,588,138	1,422,835
Due to domestic banks	15	414,942	414,942	343,394	343,394
Due to IMF related accounts	16	297,236	297,236	321,854	321,854
Due to governmental institutions	17	719,819	719,819	762,901	762,901
Due to public and commercial entities	18	52,167	52,167	110,863	110,863
Borrowing	19	2,266	2,266	2,266	2,266
Other liabilities	20	756	756	756	756
		1,487,186	1,487,186	1,542,034	1,542,034

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(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:

	2019	2018
Deutsche Bundesbank	71,230	500
Raiffeisen Zentralbank	9,900	9,920
Deutsche Bank London AG	24,169	24,133
Banque centrale du Luxembourg	1,827	1
Commerzbank AG	499	10
Bayerische Landesbank	990	10
Federal Reserve Bank (FED-NY)	248	223
Total	108,863	34,797

The increase compared to the 2018 is a normal flow of daily activities, and at the same time this increase in current accounts is reflected almost in a balanced form with changes within the notes 7, 9 and 10 (cash, securities and placements in the money market).

9. Securities (treasury bills and bonds)

Both categories are debt securities issued by governments of European Union countries or multinational corporates. Treasury bills disclosed below have maturity up to one year, while the bonds up to 6 years. All of them are denominated in EUR and had effective annual interest rates ranging from 0.019% to 3.021% in 2019 (while in 2018: 0.008% up to 3.020% p.a.).

Analytical disclosure of securities by type and by issuing countries:

	2019			2018		
	Carrying amount	Impairment for expected credit loss	Net carrying amount	Carrying amount	Impairment for expected credit loss	Net carrying amount
Germany	66,652	(60)	66,592	67,126	(60)	67,066
France	10,023	(9)	10,014	10,030	(9)	10,021
Netherlands	12,556	(11)	12,543	12,772	(11)	12,761
Italy	-	-	-	176,834	(159)	176,675
Slovenia	21,435	(19)	21,416	22,138	(20)	22,118
Luxemburg	89,313	(80)	89,233	90,244	(81)	90,163
EuroFima-Switzerland	5,827	(5)	5,822	6,040	(5)	6,035
KommuneKredit-Denmark	6,052	(5)	6,047	-	-	-
Austria	77,099	(69)	77,030	79,463	(72)	79,391
Irlande	104,335	(96)	104,239	105,390	(96)	105,294
Kosovo	183,845	(165)	183,680	188,853	(170)	188,683
Total	577,137	(519)	576,617	758,890	(683)	758,207

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Notes to the financial statements for the year ended 31 December 2019

(in thousands of EUR, unless otherwise stated)

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

As per type:

	2019			2018		
	Carrying amount	Adjusted value	Net carrying amount	Carrying amount	Adjusted value	Net carrying amount
Treasury bills	150	-	150	5,998	(5)	5,993
Government bonds	576,985	(519)	576,466	752,892	(678)	752,214
Total	577,135	(519)	576,616	758,890	(683)	758,207

The movements of corresponding ECLs for the debt securities at Amortized Costs are, as follows:

	2019			
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January	683	-	-	683
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL charge of the year	(164)	-	-	(164)
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognised in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December	519	-	-	519

	2018			
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January	-	-	-	-
Impact of IFRS 9 adoption, 1 January	533	-	-	533
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL charge of the year	150	-	-	150
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognised in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December	683	-	-	683

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Notes to the financial statements for the year ended 31 December 2019

(in thousands of EUR, unless otherwise stated)

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

Credit rating for financial instruments that CBK has invested for the year ended on 31 December 2019 was from AAA to BBB+ / Aaa to Baa1, according to Standard & Poor's / Moody's.

The reduction compared to year 2018 is mainly due to the transfer between categories / items 7,8,9 and 10 (i.e. note 9 has been decreased and the amounts in 7, 8 and 10 have been increased).

10. Deposit accounts with non-resident banks

Deposit accounts with non-resident banks are composed as follows:

	2019			2018		
	Gross carrying amount	Impairment for expected credit loss	Net carrying amount	Gross carrying amount	Impairment for expected credit loss	Net carrying amount
Term deposits						
Deutsche Bank	240,000	(216)	239,784	175,000	(158)	174,842
Federal Reserve Bank (FED-NY)	9,079	-	9,079	8,733	-	8,733
	249,079	(216)	248,863	183,733	(158)	183,576
Interest accrued on term deposits						
Deutsche Bank	-	-	-	-	-	-
Federal Reserve Bank (FED-NY)	1	-	1	1	-	1
	1	-	1	1	-	1
Total	249,080	(216)	248,864	183,735	(158)	183,576

The movements of corresponding ECLs for the deposit accounts with non-resident banks at Amortized Costs are, as follows:

	2019			
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	158	-	-	158
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL charge of the year	58	-	-	58
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognised in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2019	216	-	-	216

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Notes to the financial statements for the year ended 31 December 2019

(in thousands of EUR, unless otherwise stated)

10. Deposit accounts with non-resident banks (continued)

	2018			Total
	Stage 1	Stage 2	Stage 3	
ECL as at 1 January	-	-	-	-
Impact of IFRS 9 adoption, 1 January	54	-	-	54
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL charge of the year	104	-	-	104
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognised in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December	158	-	-	158

Deposits placed with non-resident banks are denominated in EUR and earn interest at effective annual interest rates ranging from 0.000% to 5.370% (2018: 0.000% up to 3.040% annual) and have original maturities from 1 to 367 days (2018: from 1 to 367 days). All deposits have minimum credit ratings of A3/BBB+, according to the ratings for 2019 by Standard & Poors/Moody's.

Comparing the end of the year 2018, there is an increase of the position at the end of 2019, 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.

11. Assets related with IMF

	2019	2018
IMF quota	102,084	100,296
SDR Holdings	63,116	64,890
Accrued interest	535	722
IMF	165,735	165,908
Government		
Due from the Government for the use of IMF funds (SBA)	132,610	160,143
Total	298,345	326,051

The assets listed above are related to the admission of Kosovo to the International Monetary Fund ("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

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2019

(in thousands of EUR, unless otherwise stated)

11. Assets related with IMF (continued)

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 2019 ranging from 0.738% to 1.148% p.a. (2018: 0.758% up to 1.117% p.a.).

Due from the Government for the use of IMF funds, represents an amount due from the Government as per IMF and Kosovo Stand-by Arrangement signed in July 2010, April 2012 and July 2017, through which the Government of Kosovo obtained from IMF a line for use of funds in accordance with Standby Arrangements, while the outstanding as of 31 December 2019 is 107.3 million SDR (or, 132.61 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 2019 annually fluctuates from 1.744% to 2.157% (in 2018 it fluctuated from 1.769% to 2.126% 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 (SBA)". 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 2019

(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 2018	2,873	2,203	2,133	320	2,248	9,777
Acquisitions	100	228	36	-	-	364
Transfer from/to	2,228	-	-	-	(2,228)	-
Transfer from/to (adjustment)	-	-	-	-	(20)	(20)
Disposals	-	-	(3)	-	-	(3)
At 31 December 2018	5,201	2,431	2,166	320	-	10,118
At 1 January 2019	5,201	2,431	2,166	320	-	10,118
Acquisitions	113	102	99	69	213	596
Transfer from/to	-	-	-	-	-	-
Transfer from/to (adjustment)	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At 31 December 2019	5,314	2,533	2,265	389	213	10,714
Depreciation						
At 1 January 2018	921	1,732	1,534	261	-	4,448
Depreciation of the year	232	175	220	30	-	657
Transfer from/to (adjustment)	-	-	-	-	-	-
Disposals	-	-	(3)	-	-	(3)
At 31 December 2018	1,153	1,907	1,751	291	-	5,102
At 1 January 2019	1,153	1,907	1,751	291	-	5,102
Depreciation of the year	265	172	175	34	-	646
Transfer from/to (adjustment)	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At 31 December 2019	1,418	2,079	1,926	325	-	5,748
Carrying amounts						
At 1 January 2018	1,952	471	599	59	2,248	5,329
At 31 December 2018	4,048	524	415	29	-	5,016
At 31 December 2019	3,896	454	339	64	213	4,967

There are no assets pledged as collateral as at 31 December 2019 (31 December 2018: nil).

According to the Law on CBK, the Central Bank shall, for its official business, utilize and administer the property and facilities, including moveable and immovable property, located at Garibaldi Street 33, Pristina.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2019

(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 2018	89	3,785	3,874
Acquisitions	-	77	77
Transfers (from)/to	(89)	89	-
Transfers (from)/to (adjustments)	-	20	20
Disposals	-	-	-
Balance at 31 December 2018	-	3,971	3,971
Balance at 1 January 2019	-	3,971	3,971
Acquisitions	508	43	551
Transfers (from)/to	-	-	-
Transfers (from)/to (adjustments)	-	-	-
Disposals/write offs	-	-	-
Balance at 31 December 2019	508	4,014	4,522
Amortization			
Balance at 1 January 2018	-	1,809	1,809
Amortization for the year	-	372	372
Disposals	-	-	-
Balance at 31 December 2018	-	2,181	2,181
Balance at 1 January 2019	-	2,181	2,181
Amortization for the year	-	396	396
Disposals/write offs	-	-	-
Balance at 31 December 2019	-	2,577	2,577
Net carrying amounts			
Balance at 1 January 2018	89	1,976	2,065
Balance at 31 December 2018	-	1,790	1,790
Balance at 31 December 2019	508	1,437	1,945

14. Other assets

Other assets are composed as follows:

	2019	2018
Accrued fee income	1,558	1,280
Accounts receivables and prepayments	142	131
Total	1,700	1,411

Accrued fee income represents the estimated license renewal fees and other fees for the fourth quarter for local financial institutions.

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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	2019	2018
ProCredit Bank Kosovo	29,070	29,834
Raiffeisen Bank Kosovo	41,973	35,665
NLB Prishtina	28,123	23,162
Banka Ekonomike	9,818	8,351
Banka për Biznes	10,336	8,689
Banka Kombëtare Tregtare (Prishtina branch)	15,203	12,261
Banka Ekonomike Turke (TEB)	22,243	18,672
Komercijalna Banka – Mitrovica branch	3,886	3,214
Turkiye is Bankasi a.s.	3,294	2,842
T.C. Ziraat Bankasi A.S. – Kosovo branch	2,315	764
Banka Kreditore e Prishtinës	-	-
Total minimum required reserve	166,261	143,454
Additional amount on the required reserve		
ProCredit Bank Kosovo	26,882	10,764
Raiffeisen Bank Kosovo	18,958	9,635
NLB Prishtina	53,539	46,755
Banka Ekonomike	32,026	47,518
Banka për Biznes	31,733	30,532
Banka Kombëtare Tregtare (Prishtina branch)	25,576	20,278
Banka Ekonomike Turke (TEB)	32,635	18,790
Komercijalna Banka – Mitrovica branch	3,737	3,144
Turkiye is Bankasi a.s.	16,013	11,580
T.C. Ziraat Bankasi A.S. –Kosova branch	7,582	915
Banka Kreditore e Prishtinës	-	29
Total addition on current account	248,681	199,940
Total amount on current account	414,942	343,394

The applied interest rate as of 31 December 2019 was -0.60% (subsequently -0.40% for 31 December 2018) for the deposits above the reserve required. The required reserve is calculated as per rule of required reserve.

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16. Due to IMF related accounts

	2019	2018
IMF Account no. 1	255	251
IMF Account no. 2	6	6
IMF Security Account	209,641	235,825
IMF SDR - Allocation	68,429	67,231
Accrued interest	541	725
Total due to IMF	278,872	304,038

Due to Government

IMF – Paid proportion of Government quota	18,364	17,816
Total due to Government	18,364	17,816
Total	297,236	321,854

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 0.740% - 1.153% p.a. 2019 (2018: 0.764% - 1.121% p.a.).

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17. Due to Governmental institutions

Due to Governmental institutions comprise current accounts as follows:

Current accounts	2019	2018
Treasury – Ministry of Finance	444,301	374,663
Privatization Agency of Kosovo	275,160	388,116
Interim administration institutions	358	122
Total	719,819	762,901

The effective annual interest rate for current accounts for the year ended on 31 December 2019 is zero (for the year ended on 31 December 2018: zero).

18. Due to public and commercial entities

	2019	2018
Current accounts		
Insurance companies	4,717	4,537
Other public institutions	47,448	106,324
Licensed Pension Funds	-	-
Other	2	2
Total	52,167	110,863

The effective interest for current accounts as at 31 December 2019 and 2018 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. Borrowings

	2019	2018
Borrowing/s	2,266	2,266
Total	2,266	2,266

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 repayment of interest has started from the starting of the disbursement in 2014, but the repayment of the principal will start from October 2021. The final maturity will be 15 April 2031. 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 2019

(in thousands of EUR, unless otherwise stated)

20. Other liabilities

	2019	2018
Safe custody accounts	756	756
Deferred grants	393	492
Other deferred income	11	5
Provision for litigations	162	162
Sundry creditors	456	382
	1,778	1,797

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

As of 31 December 2019 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 2019 and 2018 it has the above balance.

The movement in deferred grants was as follows:

	Ministry of Finance	World Bank	European Central Bank	Total
Deferred grant at 1 January 2018	258	333	-	591
Grants received during the year	-	-	-	-
Grants recognized as revenue for the year	(60)	(39)	-	(99)
Deferred grant at 31 December 2018	198	294	-	492
Deferred grant at 1 January 2019	198	294	-	492
Grants received during the year	-	-	21	21
Grants recognized as revenue for the year (note: 25)	(60)	(39)	(21)	(120)
Deferred grant at 31 December 2019	138	255	-	393

The Ministry of Finance grant was their project for establishment the application of the Kosovo government security deposits, once the project was completed they granted to us the application. The World Bank grant was for application of off-site supervision and the ECB grant is the regional project for training the regional central bank, part of that program was the CBK as well.

21. Authorized capital

The CBK statutory fund as at 31 December 2019 and 2018 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 2019

(in thousands of EUR, unless otherwise stated)

22. Net interest income

Net interest income is composed as follows:

	2019	2018
Interest income		
From deposit accounts	198	156
From treasury bills and bonds	1,983	1,607
From current accounts	642	611
From negative rates in deposits ²	706	452
	3,529	2,826
Interest expense		
On current accounts from non-banking entities	683	622
To nostrum accounts with correspondent banks	901	346
On term deposits	0	0
From borrowings	16	15
	1,600	983
Net interest income	1,930	1,844

23. Net fee and commission income

Net fee and commission income is composed as follows:

	2019	2018
Fee income		
From cash deposits	873	665
From foreign incoming transfers	70	72
From foreign outgoing transfers	352	294
From the inter-bank clearing system	1,279	1,016
From the credit registry system	199	166
Other fees	25	39
	2,798	2,252
Fee expenses		
For cash transportation	529	277
For correspondent bank transactions	47	55
	576	332
Net fee and commission income	2,222	1,920

This group of income is derived from the services offered to CBK's clients (institution), for payments, deposits, for the credit registry platform and maintenance of accounts and items in storage.

² Negative interest is applied to Commercial banks and Kosovo Pension Saving Trust fund.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2019

(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:

	2019	2018
Fee charged to commercial banks	3,137	2,822
Fee charged to insurance companies	1,491	1,327
Fee from non-bank financial institutions	300	276
Fee charged to pension fund institutions	28	26
Total	4,956	4,451

25. Grant income

Grant income is composed as follows:

	2019	2018
Treasury – Ministry of Finances (ICU portfolio)	60	60
World Bank	39	39
European Central Bank	21	-
Total	120	99

26. Other operating income

Operating income:

	2019	2018
Other income	8	11
Total	8	11

Other income is income which is not related with the ordinary activity of the CBK 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 2019

(in thousands of EUR, unless otherwise stated)

27. Personnel expenses

Personnel expenses are composed as follows:

	2019	2018
Employee benefits		
Wages and salaries	3,892	3,471
Pension contributions	609	540
Health insurance costs	189	166
	4,690	4,177
Other personnel expenses		
Staff training	164	95
Central Bank Board expenses	116	115
Other	19	20
	299	230
Total	4,989	4,407

The number of employees that actively affected the cost disclosed for 2019 is 236 (2018: 218).

28. General and administrative expenses

General and administrative expenses are as follows:

	2019	2018
Insurance expenses	296	298
Repairs and maintenance	76	56
Software maintenance	333	310
Communication expense (telephone, telex and internet)	38	34
Utilities	82	85
Audit and consulting expense	13	16
Security and guard services	111	96
Travel and transportation	153	128
Vehicle operating expenses	19	20
Stationery	5	5
Representation expenses *	122	36
Other representation expenses *	9	9
Cafeteria expenses	42	41
Computer and other consumables expense	15	15
Consumable expenses for equipment	4	3
Publication and literature expenses	10	16
Technical professional assistance and other external services	56	9
Membership in professional organizations **	28	29
Other	39	21
Total	1,451	1,227

* Other Representation expenses are mainly representative lunches/dinners of the CBK, Representation expenses include: *conferences and activities of the 20th CBK establishment, 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.* The main increase is dedicated to the 20th conference and research activities for the establishment of the CBK.

** 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 2019

(in thousands of EUR, unless otherwise stated)

29. Foreign exchange net profit/loss

Net profit from foreign exchange is 248 thousand Euro for the year ended 31 December 2019, (while in 2018: profit of 527 thousand), and it represents the unrealised foreign exchange profit 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 2019	
		Assets	Liabilities
10	USD	10,479	-
11,16	SDR	240,969	240,067

		31 December 2018	
		Assets	Liabilities
10	USD	10,255	-
11,16	SDR	267,928	264,468

The effect of exchange rate variation on inclusive income

	31 December 2019	31 December 2018
from USD	172	403
from SDR	76	124
	248	527

Profit / Loss from the change of "exchange rate" is a temporary non-operating position derived from foreign currency items (USD and DVT-SDR disclosed above), which on the reporting date must be reported in Euros their equivalents according to the exchange rate of the reporting date. With the change of the exchange rate, there is also a difference (whether profit or loss), which as such only equates financial items - equivalent values but which are not actual realizations.

This effect in 2019 has been positive and has increased *"the total comprehensive income for the year"*. If we exclude this effect (respectively amounts of 248 thousand and 527 thousand euros as unrealized profits), the financial operating result for 2019 is **1,861 thousand euros** and for 2018 is **1,407 thousand euros**.

The position in USD (US Dollar) is with the Federal Reserve Bank New York (FED) and is held for the purpose of managing the activities of the investment portfolio in the framework of asset management. This activity started in the second quarter of 2018.

Position in DVT - The special rights of withdrawal are set out in notes 11 and 16.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2019

(in thousands of EUR, unless otherwise stated)

30. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

	Note	2019	2018
Cash on hand	7	302,166	285,376
Current accounts with non-resident banks	8	108,863	34,797
Deposit accounts with non-resident banks with original maturity up to three months	10	9,080	8,734
Total		420,109	328,907

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 2019, however due to professional care, the CBK has estimated and recorded a provision disclosed under other liabilities, even though during 2019 this provision has not increased compared to the prior year.

Credit Related Commitments

As at 31 December 2019, the CBK had commitments to place deposits in the amount of 0/zero/ million Euro (31 December 2018, 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 2019

(in thousands of EUR, unless otherwise stated)

31. Commitments and Contingencies (continued)

Credit Related Commitments (continued)

Other Commitments

Other commitments are composed as follows:

	2019	2018
Service contracts	172	11
Contracts for renovation of building	339	37
Equipment contracts	123	146
Total	634	194

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 2019 was 645 thousand and in 2018 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:

	2019	2018
Compensation to Central Bank Board members	78	90
Compensation to Audit Committee	10	9
Compensation to Key Management Personnel	149	147
Total	237	246

33. Subsequent events

There are no important or large impact of subsequent events after the reporting date, that would require either adjustments or additional disclosures in these financial statements. This includes also, our evaluation and assessments of financial effect in the financial statements of the Central Bank for pandemic situation of covid-19.

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10. Statistical Appendix

1.1. Financial Corporation survey - assets

(EUR million: End of period)

Description	Net foreign assets								Domestic claims							
	Claims on non-residents							Liabilities to non-residents	Claims on central government			Claims on other sectors	Loans			
	Monetary gold and SDR	Deposits	Securities other than shares	of which:			Claims on central government		Liabilities to central government	of which:	Other nonfinancial corp.		Households			
				IMF Quota	Assets and other equities											
2009	1,700.5	2,036.2	60.3	910.1	724.5	64.3	144.3	335.7	571.5	-846.3	—	846.3	1,417.8	1,396.1	1,052.3	343.5
2010	1,935.4	2,365.6	64.0	1,235.7	525.2	68.5	269.3	430.2	788.9	-802.7	22.1	824.8	1,591.6	1,568.3	1,127.7	434.2
2011	2,047.3	2,425.6	65.1	1,338.9	230.0	70.1	533.1	378.2	998.8	-778.0	20.5	798.4	1,776.8	1,750.8	1,233.1	514.6
2012	2,224.1	2,660.4	63.3	1,147.7	486.0	68.8	666.5	436.3	1,195.5	-651.7	186.8	838.5	1,847.2	1,819.4	1,271.3	546.3
2013	2,452.7	2,908.3	59.6	1,037.9	818.7	65.9	651.2	455.6	1,369.1	-515.0	258.9	774.0	1,884.2	1,859.9	1,291.1	567.7
2014	2,546.6	3,011.6	62.5	1,313.0	315.7	70.4	1,024.4	465.0	1,609.0	-386.7	349.2	735.9	1,995.8	1,971.5	1,345.5	625.3
2015	2,610.3	3,133.4	65.1	1,271.6	351.3	75.1	1,086.3	523.2	1,864.8	-278.4	481.2	759.6	2,143.2	2,114.8	1,416.3	697.7
2016	2,705.6	3,249.5	56.0	648.0	712.5	105.3	1,307.4	543.9	2,221.0	-160.1	582.2	742.3	2,381.1	2,354.7	1,552.3	799.1
2017	2,784.8	3,442.4	66.3	715.9	639.8	98.1	1,483.0	657.0	2,560.6	-124.1	714.1	838.1	2,684.6	2,650.8	1,747.6	900.4
2018	2,610.2	3,288.9	64.9	602.2	740.6	100.3	1,231.8	677.9	3,049.2	48.5	838.7	791.0	3,000.8	2,970.2	1,965.0	1,018.2
2019	2,869.3	3,574.8	63.7	511.5	723.8	102.1	1,485.3	705.4	3,513.2	181.2	931.7	750.6	3,332.0	3,298.3	2,189.5	1,104.7

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

(EUR million: End of period)

Description	Deposits								Loans	Insurance technical reserves			Assets and other equities	Other items (net)	
	Transferable (net) deposits	of which:				Other deposits	of which:			Net equity of households in pension funds	Payment of premiums and reserves				
		Public nonfinancial corp.	Other financial corp.	Households			Public nonfinancial corp.	Other nonfinancial corp.				Households			
2009	1,444.3	483.2	50.1	184.0	237.7	961.0	73.9	82.9	801.9	...	422.3	380.8	41.5	326.1	77.7
2010	1,744.2	621.2	83.8	218.6	303.5	1,123.1	42.8	83.4	995.9	...	540.5	493.7	46.8	361.0	74.0
2011	1,933.6	658.4	68.1	208.1	360.9	1,275.1	60.8	79.7	1,129.6	...	647.8	593.3	54.5	389.7	76.5
2012	2,076.6	700.2	13.8	257.5	407.2	1,376.5	61.8	78.2	1,232.9	...	814.9	745.1	69.8	399.2	128.9
2013	2,275.3	848.0	16.4	299.6	506.6	1,427.3	55.7	98.2	1,268.4	...	990.3	919.0	71.3	403.9	152.4
2014	2,353.7	1,133.9	21.1	338.4	743.5	1,219.8	51.6	58.0	1,104.8	...	1,173.8	1,094.1	79.7	453.2	175.8
2015	2,514.6	1,378.4	11.1	413.8	919.0	1,136.3	20.6	68.3	1,046.8	...	1,329.6	1,237.3	92.3	530.5	100.4
2016	2,739.7	1,630.1	24.7	456.0	1,116.0	1,109.6	32.2	70.8	1,006.2	...	1,546.0	1,425.4	120.6	542.4	98.4
2017	2,888.4	1,780.2	59.2	491.6	1,191.8	1,108.2	35.1	89.9	978.7	...	1,766.5	1,652.8	113.8	621.0	70.0
2018	3,118.2	1,962.6	80.5	527.0	1,316.1	1,155.6	30.2	98.4	1,018.2	...	1,807.2	1,689.0	118.2	658.6	75.4
2019	3,490.5	2,261.8	61.5	657.3	1,496.9	1,228.7	29.0	90.3	1,105.0	...	2,106.6	1,976.5	130.2	697.4	87.9

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

(EUR million: End of period)

Description	Net foreign assets							Domestic claims							
	Claims on non-residents						Minus: liabilities to non-residents	Net claims on central government				Claims on other sectors			
	Cash	Deposits	Securities other than shares	IMF Quotas	Claims on central government	Minus: liabilities to central government		Loans	of which:						
							Other nonfinancial corp.		Households						
2009	1,531.9	1,782.4	111.4	910.0	626.7	64.3	250.6	442.9	-846.3	—	846.3	1,289.3	1,289.0	942.9	343.5
2010	1,594.1	1,935.0	164.3	1,235.7	372.7	68.5	340.9	654.9	-802.7	22.1	824.8	1,453.3	1,452.9	1,006.6	434.2
2011	1,583.3	1,879.9	124.9	1,338.8	227.0	70.1	296.6	888.2	-777.9	20.5	798.4	1,666.1	1,665.6	1,130.6	514.6
2012	1,616.7	1,989.7	141.4	1,147.6	482.7	68.8	373.1	1,075.9	-665.7	172.9	838.5	1,741.6	1,740.9	1,172.9	546.3
2013	1,859.7	2,252.6	157.9	1,037.8	815.3	65.9	392.9	1,219.0	-568.2	205.8	774.0	1,787.2	1,786.0	1,196.7	567.7
2014	1,579.0	1,982.2	160.4	1,312.9	311.6	70.4	403.2	1,441.6	-441.4	294.5	735.9	1,883.0	1,881.9	1,248.7	625.3
2015	1,581.8	2,042.3	190.6	1,271.5	347.4	75.1	460.5	1,641.4	-378.9	380.7	759.6	2,020.3	2,019.2	1,312.0	697.7
2016	1,493.1	1,936.8	316.7	647.9	709.5	105.3	443.7	1,971.5	-259.4	482.9	742.3	2,230.9	2,229.6	1,419.2	799.1
2017	1,419.6	1,945.7	357.2	707.6	637.6	98.1	526.1	2,254.7	-240.2	597.9	838.1	2,495.0	2,485.1	1,577.1	900.4
2018	1,421.7	1,931.4	483.8	482.2	738.3	100.3	509.7	2,572.8	-184.6	606.4	791.0	2,757.4	2,755.1	1,743.2	1,000.8
2019	1,576.9	2,085.6	509.8	723.1	632.3	102.1	508.7	2,885.7	-146.7	603.9	750.6	3,032.4	3,030.9	1,915.2	1,104.7

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. Depository corporations' survey - – Liabilities

(EUR million: 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								
	of which:					of which:								
	Other financial corp.	Public nonfinancial corp.	Other nonfinancial corp.	Households	Other financial corp.	Public nonfinancial corp.	Other nonfinancial corp.	Households						
2009	1,548.5	621.4	138.2	50.1	184.0	237.7	927.0	60.7	73.9	71.7	718.5	98.1	249.1	79.1
2010	1,747.9	674.3	53.1	83.8	218.6	305.1	1,073.6	85.2	30.2	73.5	883.7	138.2	278.5	84.4
2011	1,902.2	705.3	37.8	77.2	208.1	363.3	1,196.9	91.0	49.2	71.7	979.9	175.8	302.9	90.6
2012	2,036.8	759.5	41.9	31.2	257.5	408.9	1,277.3	100.4	49.8	70.5	1,053.1	206.2	321.1	128.5
2013	2,389.2	1,097.1	226.5	39.1	299.6	509.0	1,292.1	62.2	43.7	92.3	1,088.9	209.7	329.0	151.5
2014	2,287.4	1,194.7	60.8	21.1	338.4	745.2	1,092.7	67.2	39.4	50.2	930.6	208.7	373.8	150.6
2015	2,415.6	1,476.0	97.6	11.1	413.8	919.0	939.6	37.4	7.8	55.0	838.9	252.2	444.4	111.7
2016	2,639.1	1,700.3	70.9	24.7	456.0	1,116.0	938.7	50.5	20.1	56.4	811.3	243.3	474.1	108.3
2017	2,806.9	1,869.2	89.8	59.2	491.6	1,191.8	937.7	68.2	22.9	66.3	775.8	261.6	523.3	82.5
2018	3,030.0	2,047.4	84.9	80.5	527.0	1,316.1	982.6	126.7	17.5	60.8	768.9	329.3	552.2	83.0
2019	3,393.4	2,338.2	76.4	61.5	657.3	1,496.9	1,055.2	201.0	16.0	56.5	777.3	438.9	576.5	53.8

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/02%20Depository%20Corporations%20Survey.xls

Table 3.1. CBK Survey - net foreign assets and domestic claims

(EUR million: End of period)

Description	Net foreign assets										Net claims on central government	Claims on other sectors
	Claims on non-residents							Minus: liabilities to non-residents	of which:			
	SDRs	Cash	Deposits	Securities other than shares	IMF Quota	SDR allocations	Use of IMF funds					
2009	1,088.3	1,198.5	60.3	21.8	522.3	529.7	64.3	110.2	60.3	49.1	-681.5	0.2
2010	1,085.9	1,224.8	64.0	60.2	832.3	199.2	68.5	138.9	64.2	73.0	-791.0	0.5
2011	1,074.1	1,214.2	65.1	13.5	1,038.8	25.0	70.1	140.1	65.7	73.7	-776.7	0.5
2012	1,125.7	1,356.0	63.3	16.8	921.0	286.0	68.8	230.3	64.6	165.3	-724.8	0.7
2013	1,286.3	1,504.3	59.6	27.4	790.5	560.8	65.9	218.0	61.9	155.8	-667.5	1.2
2014	1,044.7	1,266.4	62.5	29.2	983.5	120.5	70.4	221.6	66.1	155.2	-628.8	1.1
2015	1,046.4	1,302.6	65.1	15.3	1,046.3	100.2	75.1	256.1	70.5	184.8	-599.4	1.1
2016	895.2	1,161.7	56.0	154.8	402.7	438.4	105.3	266.5	70.6	193.7	-493.1	1.4
2017	939.4	1,242.6	66.3	188.5	491.0	394.3	98.1	303.2	65.7	235.0	-473.6	9.7
2018	933.9	1,239.6	64.9	285.4	219.0	565.5	100.3	305.7	67.2	236.1	-431.6	2.1
2019	938.2	1,219.1	63.7	302.2	357.9	393.3	102.1	281.0	68.4	209.9	-421.4	1.4

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

(EUR million: End of period)

Description	Deposits included in broad money							Deposits excluded from monetary base			Capital and other			Other items (net)
	Transferable deposits				Other deposits			Other nonfinancial corporations	Local government	of which:				
	Other financial corporations	Local government	Public nonfinancial corporations	Other financial corporations	Other financial corporations	Capital	Profit loss of the year							
2009	130.8	130.8	129.7	...	1.1	...	...	...	...	...	44.9	30.0	3.7	-2.0
2010	45.6	45.6	43.9	...	0.0	...	...	...	...	...	48.0	30.0	3.1	-1.8
2011	39.5	39.5	36.8	...	0.2	...	...	...	...	...	50.0	30.0	1.5	-1.3
2012	51.5	51.5	49.8	...	0.0	...	...	...	...	...	50.4	30.0	0.3	-2.4
2013	239.0	239.0	236.6	...	0.0	...	...	...	...	...	50.5	30.0	0.2	-2.7
2014	53.0	53.0	40.5	...	10.9	...	...	...	...	...	50.8	30.0	0.4	-2.7
2015	83.4	83.4	82.3	...	0.3	...	...	...	...	...	51.6	30.0	0.7	-3.3
2016	59.6	59.6	51.2	...	7.7	...	...	...	...	...	53.3	30.0	1.6	-5.8
2017	96.6	96.6	52.7	...	43.1	...	...	...	...	...	52.4	30.0	-0.9	-5.3
2018	111.6	111.6	49.3	...	61.6	...	...	...	...	...	54.5	30.0	2.2	-5.1
2019	52.9	52.9	51.0	...	1.1	...	...	...	...	...	56.1	30.0	1.8	-5.8

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 4.1. ODC Survey - Net Foreign Assets and Domestic Claims

(EUR million: End of period)

Description	Net foreign assets							Claims on CBK	Net claims on central government	Claims on other sectors					
	Claims on non-residents	of which:			Minus: Liabilities to non-residents	of which:				Loans	of which:				
		Cash	Deposits	Securities other than shares		Deposits	Loans				Public nonfinancial corp.	Other nonfinancial corp.	House holds		
2009	444.0	583.9	89.6	387.7	97.0	140.0	65.5	74.5	233.1	-164.9	1,289.0	1,289.0	0.3	942.9	343.5
2010	507.6	709.8	103.5	403.5	173.4	202.2	85.5	116.7	203.4	-11.6	1,457.5	1,452.7	6.3	1,006.6	434.2
2011	509.2	665.7	111.5	300.0	202.0	156.5	64.8	90.5	220.0	-1.2	1,666.1	1,664.1	1.5	1,130.6	514.6
2012	490.9	633.7	124.6	226.6	196.7	142.8	87.6	50.3	301.1	59.2	1,741.6	1,740.5	1.4	1,172.9	546.3
2013	573.4	748.3	130.6	247.3	254.4	174.9	90.4	82.4	332.8	99.4	1,786.0	1,786.0	0.2	1,196.7	568.6
2014	534.3	715.8	131.2	329.4	191.1	181.5	90.6	87.8	315.9	187.3	1,881.9	1,881.8	0.6	1,248.7	625.3
2015	535.7	740.0	175.5	225.2	247.2	204.3	116.0	85.9	315.7	220.7	2,019.0	2,019.0	0.6	1,324.1	685.6
2016	597.9	775.1	161.9	245.2	271.1	177.2	74.1	95.9	295.4	233.7	2,229.6	2,229.6	2.9	1,419.2	799.1
2017	480.2	703.1	168.7	216.6	243.4	222.9	117.9	102.5	330.7	233.4	2,485.10	2,485.1	2.4	1,577.1	900.8
2018	487.8	691.8	198.5	263.2	172.8	204.0	108.6	91.9	343.3	247.0	2,755.2	2,755.2	4.0	1,743.2	1,001.2
2019	639.2	866.5	207.6	365.1	239.1	227.2	119.4	106.0	414.9	274.7	3,030.9	3,030.9	3.4	1,915.2	1,105.4

Note: For more detailed information about this table please visit the link: http://www.bak-kos.org/repository/docs/time_series/03%20CBK%20Survey.xls

Table 4.2. ODC survey- Liabilities

(EUR million: End of period)

Description	Deposits included in broad money										Deposits excluded from broad money	of which:		Share capital and other	Other items (net)	
	Transferable deposits					Other deposits						Other nonfinancial corporations	House holds			
	of which:				House holds	of which:										
Other financial corp.	Public nonfinancial corp.	Other nonfinancial corp.	House holds	Other financial corp.		Public nonfinancial corp.	Other nonfinancial corp.	House holds	Other financial corp.	Public nonfinancial corp.	Other nonfinancial corp.	House holds	Share capital and other	Other items (net)		
2009	1,417.6	490.6	8.5	48.9	184.0	237.7	927.0	60.7	73.9	71.7	718.5	98.1	11.2	83.5	204.6	81.0
2010	1,702.2	628.6	9.2	83.8	218.6	303.5	1,074.1	85.2	30.2	73.5	884.2	138.2	9.9	112.2	230.4	85.7
2011	1,863.3	665.9	10.1	67.9	208.1	360.9	1,197.4	91.0	49.2	71.7	980.2	175.8	8.0	149.7	252.8	102.2
2012	1,986.0	708.0	9.6	13.8	257.5	407.2	1,278.0	100.4	49.8	70.5	1,053.0	206.2	7.8	179.8	270.7	129.8
2013	2,149.5	857.3	11.8	16.4	299.6	506.6	1,292.2	62.2	43.7	92.3	1,088.9	209.7	5.9	179.4	277.8	154.4
2014	2,234.4	1,141.7	20.4	10.2	338.4	743.5	1,092.7	67.2	39.4	50.2	930.6	208.7	7.8	174.2	323.0	153.3
2015	2,349.6	1,392.0	14.5	10.9	413.8	919.1	957.5	37.6	12.8	54.3	852.3	232.7	13.9	193.1	393.8	115.0
2016	2,579.4	1,640.7	19.0	17.0	456.0	1,116.0	938.7	50.5	20.1	56.4	811.2	243.3	14.3	195.0	420.9	113.3
2017	2,710.3	1,772.7	36.3	16.0	491.6	1,191.8	937.7	68.2	22.9	66.3	775.8	261.6	23.6	202.9	471.0	86.7
2018	2,918.4	1,935.8	34.8	18.9	527.0	1,316.1	982.6	126.7	17.5	60.8	768.9	329.3	37.6	249.3	497.7	88.0
2019	3,340.5	2,285.3	24.6	60.4	657.3	1,496.9	1,055.2	201.0	16.0	56.5	777.3	438.9	33.8	327.7	520.3	60.0

Note: For more detailed information about this table please visit the link: http://www.bak-kos.org/repository/docs/time_series/04%20Other%20Depository%20Corporations%20Survey.xls

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

(EUR million: End of period)

Description	Net foreign assets						Claims on depository corporations						Net claims on central government	Claims on other sectors	Loans	
	Claims on non-residents	of which:			Minus: Liabilities to non-residents	Loans	CBK	Other depository corporations			Transferable deposits	Other deposits				
		Securities other than shares	Share capital and other					Transferable deposits	Other deposits							
2009	168.6	253.8	97.9	144.3	85.1	85.1	200.0	129.7	129.7	...	70.3	7.4	62.9	-	130.8	109.4
2010	341.3	430.5	152.5	269.3	89.2	89.2	142.8	43.9	43.9	...	98.8	8.2	90.6	-	139.7	116.9
2011	464.0	545.7	3.2	533.1	81.7	81.7	138.1	27.7	27.7	...	110.4	7.3	103.1	-	128.1	102.5
2012	607.6	670.8	3.3	666.5	63.2	63.2	154.0	32.4	32.4	...	121.6	9.7	111.9	13.9	125.5	98.3
2013	593.0	655.8	3.5	651.2	62.7	62.7	313.0	213.9	213.9	...	99.1	14.6	84.5	53.1	117.5	94.4
2014	967.6	1,029.4	4.0	1,024.4	61.8	61.8	119.5	15.7	15.7	...	103.7	13.6	90.1	54.7	119.9	96.8
2015	1,028.4	1,091.1	3.9	1,086.3	62.7	62.7	162.8	55.4	55.4	...	107.3	21.8	85.6	100.5	131.6	104.2
2016	1,212.5	1,312.7	3.0	1,307.4	100.2	100.2	136.6	20.6	20.6	...	116.0	26.3	89.7	99.3	158.1	133.1
2017	1,365.8	1,496.0	1.5	1,483.0	130.9	130.9	178.4	18.6	18.6	...	159.8	47.2	112.1	116.2	194.5	170.5
2018	1,188.4	1,356.7	1.5	1,231.8	168.3	168.3	235.4	10.8	10.8	...	224.6	73.8	150.8	232.3	250.2	221.9
2019	1,292.5	1,489.2	1.4	1,485.3	196.7	196.7	306.5	7.7	7.7	...	298.8	80.7	218.1	327.9	306.6	274.3

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

(EUR million: End of period)

Description	Loans	Insurance technical reserves				Share capital and other					Other items			
		Net equity of households in life insurance reserves	Net equity of households in pension funds	Prepayment of premiums and res. against cum. claims.		Funds contributed by owners	Retained earnings	General and special reserves	Annual Profit/Loss	Other liabilities	Minus: other assets	Plus: consolidation adjustments		
2009	2.9	422.3	...	380.8	41.5	77.0	53.4	19.4	7.2	-3.1	-2.7	13.1	15.8	...
2010	2.9	540.5	...	493.7	46.8	82.5	59.7	13.6	7.2	2.0	-2.1	20.9	23.1	...
2011	3.3	647.8	...	593.3	54.5	85.4	60.4	13.3	10.8	0.9	-6.3	16.1	22.4	...
2012	7.2	814.9	...	745.1	69.8	78.1	63.5	9.8	10.7	-6.4	0.7	29.0	28.4	...
2013	6.8	990.3	...	919.0	71.3	75.6	64.2	1.3	11.1	-1.0	3.9	29.8	25.9	...
2014	3.2	1,173.8	...	1,094.1	79.7	78.5	64.3	-0.5	14.4	0.3	6.1	30.9	24.8	...
2015	1.0	1,329.5	...	1,237.3	92.1	86.1	76.9	-2.7	17.3	-5.4	6.4	31.2	24.8	...
2016	2.1	1,546.0	...	1,425.4	120.6	68.3	94.9	-9.5	3.8	-20.9	-10.0	21.0	31.0	...
2017	5.8	1,766.5	...	1,652.8	113.8	97.7	107.3	-27.0	3.8	13.6	-15.1	21.8	36.9	...
2018	3.0	1,807.2	...	1,689.0	118.2	106.4	106.0	-16.1	5.0	11.5	-9.5	30.6	40.1	...
2019	8.0	2,106.6	...	1,976.5	130.2	121.0	114.9	-6.9	6.5	6.5	-2.2	45.4	47.6	...

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

(EUR million: 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					
2009	1,639.7	165.0	77.8	6.1	5.9	43.1	22.2	0.4	371.5	121.6	249.9	962.2	948.8	13.4	63.2
2010	1,827.7	11.7	102.0	7.2	7.8	47.6	38.6	0.6	414.9	122.3	292.5	1,220.0	1,206.1	14.0	79.1
2011	1,982.4	2.7	117.5	9.9	6.8	57.2	43.1	0.5	406.6	128.5	278.1	1,395.6	1,373.4	22.1	60.0
2012	2,162.7	0.7	120.0	3.8	6.2	64.3	45.3	0.4	401.7	75.6	326.1	1,558.6	1,535.4	23.2	81.7
2013	2,314.0	1.8	88.1	2.5	7.4	72.3	5.7	0.3	455.6	72.1	383.5	1,685.1	1,658.7	26.4	83.4
2014	2,426.6	8.8	104.4	2.6	5.1	79.3	17.1	0.3	449.7	61.8	388.0	1,781.6	1,751.1	30.6	82.1
2015	2,579.9	5.9	73.2	3.3	5.0	59.0	4.8	1.1	499.9	31.4	468.5	1,895.5	1,862.3	33.2	105.3
2016	2,779.6	5.6	96.6	5.6	6.9	59.0	23.7	1.1	560.4	49.0	511.5	2,053.4	2,021.5	31.9	63.7
2017	2,960.4	11.7	133.6	6.7	10.9	59.7	52.6	3.7	615.1	51.0	564.1	2,087.0	2,047.9	39.0	113.0
2018	3,221.6	15.6	204.5	14.0	8.4	55.5	124.9	1.7	659.0	49.1	609.8	2,236.0	2,193.8	42.1	106.5
2019	3,760.3	14.9	298.3	9.3	21.2	89.0	176.5	2.3	821.9	89.4	732.5	2,511.2	2,462.5	47.7	114.0

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 in euro – according to initial maturity, main sectors

(EUR million: End of period)

Description	Non euro deposits															
	Financial corporations	of which:					Nonfinancial corporations	of which:			Other domestic sectors					Non residents
		CBK	Other depository corporations	Other financial intermediaries	Insurance companies	Public nonfinancial corporations		Other nonfinancial corporations	Households			NPISH				
									Transferable deposits	Saving deposits	Other deposits					
2009	112.0	2.0	...	1.1	...	0.9	18.3	1.3	17.0	91.1	90.9	29.7	—	61.1	0.2	0.7
2010	113.7	3.1	...	2.9	...	...	13.6	4.3	9.3	93.8	93.3	33.1	25.9	34.3	0.5	3.1
2011	131.4	0.3	...	0.3	...	...	9.8	0.1	9.7	117.5	117.0	46.5	31.7	38.9	0.4	3.8
2012	120.9	1.6	...	1.2	0.2	...	9.6	...	9.6	104.9	104.7	45.7	27.0	32.0	0.2	4.8
2013	136.9	0.7	...	...	0.4	...	14.2	...	14.2	116.7	116.2	59.6	29.6	27.0	0.5	5.2
2014	113.0	0.3	...	...	0.3	...	8.5	...	8.5	97.8	97.2	63.2	21.5	12.6	0.6	6.5
2015	124.3	0.2	...	0.2	...	...	13.5	...	13.5	102.8	102.2	76.6	19.3	6.2	0.6	7.8
2016	128.8	0.8	...	...	0.7	...	15.8	0.2	15.6	101.9	100.8	78.3	17.4	5.1	1.1	10.4
2017	148.1	0.6	...	...	0.5	...	17.6	0.1	17.5	122.9	122.6	99.3	17.0	6.2	0.3	7.0
2018	170.9	6.1	...	5.5	0.5	...	15.7	...	15.6	140.8	140.4	116.9	17.1	6.4	0.4	8.3
2019	165.6	6.0	...	5.0	0.7	...	15.0	...	15.0	138.9	138.5	115.2	16.0	7.2	0.5	5.5

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

(EUR million: End of period)

Description	Total loans																
	Financial corporations				Nonfinancial corporations						Other domestic corporations				Non residents	Loans in non-euro currency	
		of which:			Public nonfinancial corporations	of which:			Households								
		Other financial intermediaries	Insurance companies			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						
2009	1,289.0	2.3	1.2	1.1	943.2	0.3	942.9	215.7	727.2	-	343.5	343.5	27.0	316.6	-	—	—
2010	1,458.6	9.9	6.8	3.0	1,010.3	6.2	1,004.1	255.2	493.8	255.1	434.3	434.2	26.5	232.5	175.1	1.6	2.5
2011	1,698.1	16.4	14.7	1.7	1,129.7	1.5	1,128.2	298.8	563.7	265.7	512.4	510.9	44.0	256.7	210.2	32.3	7.3
2012	1,763.4	19.8	16.3	3.5	1,171.2	1.4	1,169.8	313.4	586.5	269.9	542.9	542.6	52.2	256.2	234.2	22.5	6.9
2013	1,805.8	20.4	17.3	3.1	1,194.7	0.2	1,194.5	378.0	569.0	247.5	564.7	563.9	65.4	253.6	244.9	19.8	6.1
2014	1,882.2	7.1	5.8	1.3	1,247.0	0.6	1,246.4	380.7	590.5	275.2	621.8	621.6	55.9	285.0	280.7	0.4	6.0
2015	2,019.3	8.7	7.4	1.1	1,322.2	0.6	1,321.6	306.9	671.5	343.2	682.2	682.0	58.2	280.7	343.1	0.3	5.9
2016	2,230.0	7.9	7.5	0.3	1,420.8	2.9	1,417.9	405.9	638.2	373.8	796.5	796.2	56.1	307.2	432.8	0.4	4.2
2017	2,485.3	4.9	4.5	0.1	1,577.1	2.4	1,574.7	366.8	702.9	505.0	897.6	897.2	48.9	319.3	529.0	0.4	5.3
2018	2,755.5	6.9	5.4	0.1	1,745.7	4.0	1,741.7	311.1	817.8	612.8	998.5	998.2	50.2	326.9	621.1	0.3	4.1
2019	3,031.9	7.0	6.8	0.1	1,916.9	3.4	1,913.5	294.5	921.7	697.3	1,102.8	1,102.0	49.8	331.9	720.3	0.8	4.3

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

(EUR million: 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	
2009	945.5	38.2	3.8	34.4	236.7	53.3	183.4	670.5	113.2	557.3
2010	1,022.8	38.2	1.7	36.5	269.3	77.1	192.2	715.3	192.8	522.4
2011	1,149.5	40.5	0.8	39.7	284.7	82.3	202.4	824.4	235.7	588.6
2012	1,194.2	43.6	3.0	40.6	290.4	74.1	216.2	860.2	262.4	597.8
2013	1,217.4	45.8	3.3	42.5	291.4	95.8	195.6	880.2	321.2	559.0
2014	1,256.4	49.8	4.1	45.7	300.0	92.4	207.6	906.6	319.1	587.5
2015	1,333.4	59.9	4.6	55.3	300.6	79.1	221.6	972.9	285.6	687.2
2016	1,410.1	59.7	9.1	50.6	324.8	93.7	231.2	1,025.5	322.2	703.4
2017	1,563.7	67.7	10.7	57.1	371.5	100.1	271.5	1,124.4	254.8	869.6
2018	1,734.3	67.7	18.4	49.3	428.5	93.6	335.0	1,238.1	249.1	989.0
2019	1,904.1	70.6	10.6	60.0	493.0	107.6	385.3	1,238.1	163.5	1,074.6

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									
2009	4.3	3.3	3.7	5.6	4.7	2.4	3.2	0.5	2.8
2010	3.8	2.8	3.0	3.6	4.5	4.7	5.3	0.5	2.3
2011	3.5	2.5	3.1	3.1	4.2	4.6	5.1	0.7	2.1
2012	3.6	2.3	3.2	3.0	4.3	4.5	5.2	0.7	2.0
2013	3.4	2.0	2.7	2.7	3.7	4.4	4.8	0.6	1.7
2014	1.1	0.5	0.6	0.5	1.2	1.4	1.9	0.1	0.7
2015	0.9	0.4	0.8	0.4	0.7	1.0	1.9	0.0	0.3
2016	1.0	0.5	0.5	0.4	0.9	1.0	2.0	0.0	0.3
2017	1.0	0.7	0.4	0.4	0.1	1.1	1.6	0.0	0.3
2018	1.3	0.6	0.5	0.4	1.2	1.3	1.9	0.0	0.4
Non-financial corporations									
2009	.	3.3	3.9	5.6	5.0	...	5.7	0.8	2.9
2010	3.9	2.9	3.2	4.3	5.2	4.6	5.2	0.9	2.4
2011	3.5	2.4	3.7	3.8	5.0	5.0	5.3	1.0	2.2
2012	3.5	2.1	3.8	3.7	5.0	4.9	5.3	0.9	2.1
2013	3.5	1.5	2.8	2.7	3.7	4.6	4.8	0.7	2.0
2014	1.3	0.6	0.8	0.5	1.4	1.2	1.9	0.2	0.8
2015	1.1	0.7	1.0	0.3	1.0	1.0	1.9	0.1	0.1
2016	1.4	0.6	0.5	0.4	1.4	1.4	1.8	0.0	0.1
2017	1.4	0.9	0.9	0.8	1.3	1.5	1.9	0.0	0.3
2018	1.6	1.0	1.1	1.2	1.6	1.7	2.4	0.0	0.4
Households									
2009	.	3.2	3.5	...	4.4	4.8	5.4	0.2	2.6
2010	3.7	2.8	2.8	3.4	4.4	4.6	5.3	0.3	2.3
2011	3.6	2.5	2.6	2.9	4.2	4.5	5.1	0.4	2.1
2012	3.6	2.4	2.5	2.8	4.2	4.5	5.2	0.5	2.0
2013	3.5	2.1	2.3	2.6	3.7	4.3	4.8	0.6	1.6
2014	1.1	0.5	0.6	0.4	1.0	1.3	1.9	0.1	0.7
2015	0.9	0.4	0.6	0.4	0.7	0.9	1.9	0.0	0.3
2016	0.9	0.5	0.5	0.4	0.7	1.0	2.0	0.0	0.3
2017	0.9	0.7	0.4	0.4	0.8	1.1	1.6	0.0	0.3
2018	1.2	0.3	0.4	0.4	1.1	1.2	1.8	0.0	0.3
2019	1.3	0.2	0.3	0.6	1.2	1.3	1.8	0.0	0.3

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/13a%20ODC%20effective%20interest%20rates%20on%20deposits.xls

Table 6.6. Effective interest rates on ODC loans

(Annual average, in percentage)

Description	New loans									Overdrafts	Credit lines
	Consumer loans	Mortgage loans	Loans with favorable conditions	Other loans							
				Agricultural	Industrial	Services	Other sectors				
NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS											
2009	14.3	13.1	10.6	.	.	.	.	.	.	16.2	14.6
2010	14.4	13.9	11.8	6.6	16.5	25.7	15.2	15.5	15.3	12.9	14.0
2011	13.8	13.9	11.5	7.9	14.5	23.7	13.9	13.9	16.1	12.1	13.2
2012	12.7	12.4	10.6	7.4	13.2	20.7	12.5	13.2	16.0	10.7	11.6
2013	11.8	11.6	10.1	7.6	12.3	17.4	12.3	11.9	13.7	9.3	11.4
2014	10.6	10.9	9.1	4.6	10.6	13.2	10.4	10.7	10.9	9.5	11.3
2015	8.3	9.0	7.4	4.7	8.2	9.8	8.0	8.1	8.9	8.2	9.5
2016	7.5	8.3	6.5	3.7	7.0	8.3	7.0	7.1	6.8	7.1	8.6
2017	6.8	7.8	5.9	3.6	6.5	7.7	6.4	6.5	6.6	6.7	7.9
2018	6.6	7.5	6.0	2.9	6.3	9.2	6.1	6.4	6.3	6.7	6.8
Non-financial corporations											
2009	.	.	.	.	.	.	.	.	.	14.6	14.6
2010	16.5	.	.	6.9	16.5	25.7	15.2	15.5	15.3	12.5	14.0
2011	14.4	.	.	7.6	14.4	24.2	13.9	13.9	16.1	11.8	13.2
2012	13.2	.	.	7.5	13.2	21.1	12.5	13.2	16.0	10.5	11.6
2013	12.3	.	.	7.0	12.3	17.6	12.3	11.9	13.7	9.1	11.4
2014	10.6	.	.	5.5	10.6	13.2	10.4	10.7	10.9	9.3	11.3
2015	8.1	.	.	2.9	8.1	9.3	8.0	8.1	8.9	7.9	9.5
2016	7.0	.	.	3.0	7.0	7.7	7.0	7.1	6.8	6.8	8.6
2017	6.4	.	.	3.6	6.4	7.2	6.4	6.5	6.6	6.5	7.9
2018	6.3	.	.	2.9	6.3	7.7	6.1	6.4	6.3	6.5	6.8
Households											
2009	.	13.1	10.6	.	.	.	.	.	.	17.7	.
2010	13.5	13.9	11.8	6.4	25.0	25.0	.	.	.	22.3	.
2011	13.4	13.9	11.5	8.2	22.4	22.4	.	.	.	18.9	.
2012	12.2	12.4	10.6	7.0	19.8	19.8	.	.	.	15.2	.
2013	11.3	11.6	10.1	6.8	16.4	16.4	.	.	.	14.7	.
2014	10.6	10.9	9.1	3.9	15.4	15.4	.	.	.	13.6	.
2015	8.7	9.0	7.4	5.1	13.3	13.3	.	.	.	13.1	.
2016	8.0	8.3	6.5	3.9	12.0	12.0	.	.	.	12.8	.
2017	7.4	7.8	5.9	2.9	12.5	12.5	.	.	.	13.7	.
2018	7.2	7.5	6.0	2.9	11.0	11.0	.	.	9.24	16.4	.
2019	6.8	7.0	5.7	2.9	10.6	10.6	.	.	.	16.4	.

Note: For more detailed information about this table please visit the link: http://www.bokk-kos.org/repository/docs/time_series/13%20ODC%20effective%20interest%20rates%20on%20loans.xls

Table 7.1 Balance of Payments of Kosovo – main components

(EUR million)

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									
2009	-273.4	-373.7	-1,646.3	227.4	61.8	983.4	100.3	-109.0	-276.9	124.4	138.3	-94.8	164.4
2010	-494.8	-516.1	-1,741.6	176.0	67.0	982.5	21.3	-297.2	-331.1	48.6	-57.4	42.7	197.6
2011	-569.4	-611.4	-2,047.1	395.7	111.2	928.8	42.0	-377.5	-378.9	57.8	4.8	-61.2	191.8
2012	-280.2	-293.1	-2,050.1	499.6	153.6	1,103.7	13.0	-232.4	-213.3	185.7	-420.5	215.8	47.8
2013	-144.3	-179.0	-1,995.6	520.0	121.5	1,175.0	34.7	-132.2	-250.2	139.3	14.4	-35.7	12.1
2014	-363.4	-384.6	-2,058.6	459.9	113.8	1,100.3	21.2	-145.0	-123.8	13.3	22.6	-57.0	218.4
2015	-471.4	-497.3	-2,109.3	457.1	92.6	1,062.4	25.8	-312.3	-271.8	18.6	-132.8	73.6	159.1
2016	-467.2	-481.4	-2,290.8	638.8	74.5	1,096.1	14.2	-199.1	-177.2	343.6	-264.0	-101.5	268.1
2017	-395.0	-383.2	-2,464.2	793.5	126.6	1,161.0	-11.8	-284.3	-212.0	14.7	-156.9	69.8	110.7
2018	-551.7	-540.6	-2,730.9	770.6	159.7	1,260.0	-11.1	-267.2	-169.6	-199.9	15.5	86.8	284.5
2019	-419.1	-410.2	-2,840.2	926.9	148.9	1,354.2	-8.9	-180.5	-205.9	59.0	-128.8	95.2	238.6

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

(EUR million)

Description	Balance					Credit					Debit				
	Goods	Services	Primary income	Secondary income		Goods	Services	Primary income	Secondary income		Goods	Services	Primary income	Secondary income	
2009	-373.7	-1,646.3	227.4	61.8	983.4	1,984.5	172.5	521.7	183.5	1,106.8	2,358.2	1,818.8	294.3	121.72	123.41
2010	-516.1	-1,741.6	176.0	67.0	982.5	2,147.2	299.2	574.3	186.3	1,087.4	2,663.3	2,040.8	398.3	119.24	104.96
2011	-611.4	-2,047.1	395.7	111.2	928.8	2,417.0	316.5	820.3	239.0	1,041.3	3,028.4	2,363.7	424.5	127.77	112.46
2012	-293.1	-2,050.1	499.6	153.6	1,103.7	2,614.1	281.9	894.5	230.0	1,207.7	2,907.2	2,332.0	394.8	76.42	103.92
2013	-179.0	-1,995.6	520.0	121.5	1,175.0	2,678.4	291.5	875.1	227.5	1,284.3	2,857.4	2,287.0	355.1	105.96	109.28
2014	-384.6	-2,058.6	459.9	113.8	1,100.3	2,667.3	324.3	928.6	215.8	1,198.7	3,052.0	2,382.9	468.7	102.01	98.40
2015	-497.3	-2,109.3	457.1	92.6	1,062.4	2,628.2	322.5	951.5	221.7	1,132.5	3,125.5	2,431.8	494.4	129.07	70.16
2016	-481.4	-2,290.8	638.8	74.5	1,096.1	2,822.9	307.9	1,130.6	212.8	1,171.6	3,304.3	2,598.7	491.8	138.34	75.44
2017	-383.2	-2,464.2	793.5	126.6	1,161.0	3,166.5	378.4	1,329.8	230.1	1,228.2	3,549.6	2,842.6	536.3	103.50	67.20
2018	-540.6	-2,730.9	770.6	159.7	1,260.0	3,370.9	375.8	1,401.9	264.3	1,328.8	3,911.5	3,106.7	631.3	104.7	68.8
2019	-410.2	-2,840.2	926.9	148.9	1,354.2	3,754.5	393.2	1,676.3	277.7	1,407.2	4,164.7	3,233.5	749.4	128.8	53.1

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

(EUR million)

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			
2009	61.8	168.7	-106.9	-	183.5	169.7	13.9	0.0	121.7	1.0	120.8	-
2010	67.0	171.6	-104.6	-	186.3	176.1	10.1	0.0	119.2	4.5	114.7	-
2011	111.2	208.1	-96.9	-	239.0	221.2	17.8	0.0	127.8	13.1	114.7	-
2012	153.6	214.3	-60.6	-	230.0	219.9	10.1	0.0	76.4	5.6	70.8	-
2013	121.5	218.9	-97.4	-	227.5	223.2	4.3	0.0	106.0	4.3	101.6	-
2014	113.8	200.4	-85.9	-0.7	215.8	206.5	8.0	1.3	102.0	6.1	93.9	2.0
2015	92.6	205.7	-112.0	-1.0	221.7	210.3	9.6	1.8	129.1	4.6	121.6	2.8
2016	74.5	194.2	-116.7	-3.0	212.8	199.9	11.3	1.6	138.3	5.7	128.0	4.6
2017	126.6	217.3	-86.8	-3.9	230.1	222.6	5.8	1.7	103.5	5.3	92.6	5.6
2018	159.6	237.0	-75.0	-2.5	264.2	247.6	14.1	2.5	104.7	10.6	89.0	5.0
2019	148.9	257.1	-104.1	-4.1	277.7	264.5	10.3	2.9	128.8	7.4	114.4	7.0

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/28%20Primary%20Income.xls

7.3.2 Secondary income

(EUR million)

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			
2009	983.4	322.9	660.5	1,106.8	322.9	783.9	123.4	-	123.4
2010	982.5	319.5	662.9	1,087.4	319.5	767.9	105.0	-	105.0
2011	928.8	322.2	606.6	1,041.3	322.2	719.1	112.5	-	112.5
2012	1,103.7	401.6	702.2	1,207.7	401.6	806.1	103.9	-	103.9
2013	1,175.0	369.7	805.3	1,284.3	369.7	914.6	109.3	-	109.3
2014	1,100.3	291.9	808.4	1,198.7	291.9	906.8	98.4	-	98.4
2015	1,062.4	202.9	859.5	1,132.5	202.9	929.6	70.2	-	70.2
2016	1,096.1	207.2	888.9	1,171.6	207.2	964.3	75.4	-	75.4
2017	1,161.0	199.7	961.3	1,228.2	199.7	1,028.5	67.2	-	67.2
2018	1,260.0	226.1	1,033.9	1,328.8	226.1	1,102.7	68.8	-	68.8
2019	1,354.2	236.6	1,117.6	1,407.2	236.6	1,170.6	53.1	-	53.1

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	Netherlands	Slovenia	Other
2009	37.5	21.1	10.4	5.7	3.1	2.8	3.2	3.8	2.8	1.9	1.4	0.9	1.1	1.2	1.3	2.2
2010 Q1	34.8	21	8.8	5.7	2.6	3.9	3.1	3.5	2.8	1.3	1.5	0.9	1.1	1.2	3.4	4.4
2011 Q1	32.7	23.7	7.5	5.6	2.8	4.6	3.9	3.8	2.8	1.5	1.5	0.7	0.8	1.2	3.9	3
Q2	32.8	23	7	5.5	2	4	3.1	3.7	2.8	2.1	1.3	0.9	1	1	3.9	6.1
Q3	33.8	23.4	6.2	5.5	2.9	2.3	3.6	4.2	2.6	2	1.2	0.6	0.8	1	3.3	6.7
Q4	33.7	22.1	7.4	5.5	2.7	3.9	3.4	3.8	2.8	1.9	1.4	0.7	0.9	1.1	4	4.9
2012 Q1	30.9	23.7	4.8	6	1.1	6.3	3.6	2.8	4.9	0.7	3.2	0.8	0.7	0.5	5	5
Q2	37.4	26.3	8.4	6.4	6.6	3.9	0.8	0.4	1.3	0.1	1.9	0.1	0.1	0.1	5.4	0.8
Q3	34.6	22.6	7.9	5.9	3.2	3.9	3.1	3.2	2.8	1.5	1.8	0.7	0.8	0.8	3.6	3.7
Q4	34.5	21	8.5	6.2	2.6	3.8	3.3	3.3	2.3	1.9	1.8	0.5	0.8	...	3.7	5.9
2013 Q1	33.6	22.5	7.5	5.8	2.7	4.2	3.4	3.5	3	1.6	1.8	0.7	0.9	1	3.7	4.3
Q2	33.3	25.5	5.9	5.7	2.5	4.6	2.5	1.4	2.3	1.3	4	0.8	0.9	1	5.3	3.1
Q3	33.6	24.4	6.6	7.8	2.5	4.3	3.5	4.5	2.3	0.4	1.9	0.7	0.8	0.9	4.9	1.1
Q4	35.3	22.7	10.6	4.6	1.6	4.4	2.1	5	2.7	1.8	1.7	0.5	0.6	1.5	0.5	4.2
2014 Q1	36.7	21.4	5.9	3.8	2.3	6	3.1	4.1	2.3	1.5	3.1	0.4	0.6	1.1	0.8	7
Q2	36.6	23.7	5.4	4.5	2.1	6.4	2.7	3.2	2.4	1.3	3.3	0.4	0.6	0.6	1.5	5.6
Q3	35.5	23.9	4.6	3.6	2.1	6.5	3.4	3.5	2.6	1.9	3	0.5	0.7	0.7	1.1	6.5
Q4	36.8	21.1	3.8	3.1	4	6.1	2.4	2.4	5.5	0.7	3.1	1	0.3	0.1	2.2	7.3
2015 Q1	35.2	21.8	5	3.9	3.3	8.1	2.9	3.6	3.1	1.6	1.6	0.4	0.7	0.9	0.8	7.2
Q2	36.9	21.6	3.6	3.5	2.3	8.2	2.5	1.6	4	3.5	3.7	0.2	0.6	0.7	0.5	6.6
Q3	35.9	23.8	5.6	3.4	2.1	7.4	3.2	3.7	2.1	1.5	3.3	0.3	0.6	0.6	0.7	5.8
Q4	38.8	22.2	5.1	3.3	2.2	8.4	2.9	3.3	1.8	1.5	3	0.4	0.6	0.7	1.3	4.4
2016 Q1	37.8	21.3	5.9	3.8	2.4	7.6	3.2	3.7	1.7	1.5	3.3	0.4	0.7	0.8	0.7	5.2
Q2	37.6	21.8	5.2	3.7	2.2	6.4	3	3.5	1.8	1.4	3.1	0.5	0.6	0.8	1.7	6.5
Q3	35.1	24	5.6	3.3	2.2	6.6	4.2	3.9	2.5	1.8	2.5	0.3	0.7	0.5	1.5	5.2
Q4	38.0	23.5	4.3	3.6	2.4	6.9	3.1	4.0	2.1	1.5	2.8	0.3	0.7	0.7	0.5	5.9
2017 Q1	38.5	22.8	4.5	3.9	2.5	7.7	3.3	3.9	1.9	1.5	3.0	0.4	0.9	0.6	0.5	4.3
Q2	39.9	22.5	4.2	3.8	2.8	6.9	3.3	3.8	1.9	1.5	3.1	0.4	0.7	0.6	0.4	4.2
Q3	39.3	22.8	4.5	3.8	2.7	6.1	3.6	4.3	2.0	1.7	2.4	0.4	0.7	0.5	0.5	4.7
Q4	39.4	21.8	4.5	3.7	2.6	7.1	3.5	4.3	1.7	1.6	2.5	0.4	0.9	0.6	0.6	4.8
2018 Q1	39.8	21.5	5.0	4.0	2.6	6.4	3.2	4.4	1.6	1.5	2.6	0.3	0.8	0.6	0.4	5.3
Q2	41.1	20.5	4.6	4.1	2.5	6.5	3.5	4.2	2.1	1.4	2.4	0.3	0.6	0.5	0.5	5.2
Q3	38.8	21.9	5.0	4.0	2.3	6.7	3.5	4.3	2.1	1.2	2.1	0.4	0.8	0.5	0.5	5.9
Q4	42.1	22.8	4.9	4.2	2.5	7.4	3.3	4.4	1.8	1.4	2.2	0.3	0.8	0.6	0.6	0.7
2019 Q1	40.7	20.4	5.3	4.1	2.4	7.1	3.0	4.2	1.6	1.3	2.2	0.3	1.0	0.5	0.5	5.3
Q2	41.8	19.3	4.9	3.9	2.6	7.1	3.1	4.3	1.7	1.4	2.1	0.4	0.8	0.5	0.5	5.6
Q3	39.2	20.8	4.8	4.1	2.2	6.8	3.1	4.4	1.9	1.5	2.0	0.4	0.9	0.5	0.6	6.9
Q4	41.2	20.4	4.7	3.9	2.4	7.3	2.6	4.3	1.5	1.3	2.2	0.3	0.8	0.6	0.6	5.9

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

8.1. Direct Investments – by geographic criteria

(EUR million: as of 31 December 2019)

Country		Total incoming direct investments			Total outgoing direct investments		
			Equity	Other capital transactions		Equity	Other capital transactions
European Union		1,529.9	1,254.8	275.1	138.5	129.7	8.7
AT	Austria	235.4	196.8	38.6	8.5	7.6	0.9
BE	Belgium	43.0	37.7	5.4	4.0	3.9	0.1
BG	Bulgaria	37.3	6.8	30.5	0.7	0.7	...
CY	Cyprus	12.1	3.4	8.7	19.7	19.6	0.1
FR	France	32.7	29.2	3.5	4.7	4.7	...
DE	Germany	502.9	461.2	41.7	47.9	43.8	4.1
GR	Greece	7.9	7.0	0.9	2.3	2.3	...
HR	Croatia	9.1	9.0	0.1	6.4	6.3	0.1
IT	Italy	41.5	39.1	2.3	6.2	6.2	...
NL	Netherlands	33.8	20.9	12.9	6.4	3.0	3.4
RO	Rumania	0.3	1.7	-1.5	0.5	0.5	...
SI	Slovenia	213.9	123.3	90.6	10.4	10.4	...
SE	Sweden	70.1	69.7	0.3	2.5	2.5	...
GB	Great Britain	188.9	172.2	16.8	11.6	11.5	0.1
	Other EU countries	101.1	76.8	24.3	6.8	6.8	...
Other European Countries		1,209.1	982.6	226.4	251.2	225.7	25.5
AL	Albania	179.5	115.6	63.9	121.4	109.6	11.8
MK	Macedonia	17.3	12.5	4.8	25.7	24.9	0.8
ME	Montenegro	10.9	9.4	1.5	27.5	26.3	1.3
NO	Norway	35.6	34.3	1.2	1.6	1.6	...
RS	Serbia	13.8	11.6	2.2	8.7	8.7	...
CH	Switzerland	482.6	441.7	40.9	23.5	23.0	0.5
TR	Turkey	449.3	341.3	108.1	18.5	7.4	11.1
	Other European countries	20.0	16.2	3.8	24.2	24.2	...
Other Countries		284.7	209.7	75.0	24.9	23.8	1.1
US	United States	190.5	146.2	44.4	15.3	14.2	1.1
AE	United Arab Emirates	30.1	10.6	19.5	2.3	2.3	...
	Other countries	64.1	52.9	11.1	7.4	7.4	...
Other Countries (not allocated)		936.0	936.0	...	...	...	...
ZZ	Not specified	936.0	936.0	...	...	...	...
Total		3,959.7	3,383.1	576.5	414.5	379.2	35.3

Note: For more detailed information about this table please visit the link: http://www.bkg-kos.org/repository/docs/time_series/34a%20Direct%20investment%20in%20Kosovo%20by%20geographical%20breakdown.xls

9.1. Assets in form of portfolio investments by countries

(EUR million: as of 31 December 2019)

Country	Equity	Total debt securities		Total	
		Long-term debt securities	Short-term debt securities		
AT Austria	-	65.6	65.6	-	65.6
BE Belgium	-	0.0	0.0	-	0.0
BG Bulgaria	-	0.0	0.0	-	0.0
DE Germany	-	1.5	1.5	-	1.5
FR France	1.2	27.6	27.6	-	28.8
GB Great Britain	-	1.6	1.6	-	1.6
GR Greece	359.6	12.4	12.4	-	372.0
IE Ireland	-	0.6	0.6	-	0.6
IS Iceland	490.8	27.5	27.5	-	518.3
IT Italy	-	0.0	0.0	-	0.0
LU Luxembourg	-	-	-	-	-
NL Netherlands	583.1	41.6	41.6	-	624.6
PL Poland	-	13.5	13.5	-	13.5
RO Romania	-	22.5	22.5	-	22.5
SE Sweden	-	0.2	0.2	-	0.2
SI Slovenia	-	7.2	7.2	-	7.2
US United States	-	6.1	5.9	0.2	6.1
CH Switzerland	50.7	68.0	55.9	12.0	118.6
ZZ Other	-	48.2	48.2	-	48.2
Total value of portfolio investments	1,485.3	344.0	331.8	12.2	1,829.3

Note: For more detailed information about this table please visit the link:

http://www.bgkkos.org/repository/docs/time_series/34f%20Portfolio%20Investments%20Position.xls

10.1. International investments position – main components

(EUR million: End of period)

Description	Net	Assets				Liabilities				
		Direct investments	Portfolio investments	Other investments	Reserve assets	Direct investments	Portfolio investments	Other investments		
2009	484.2	2,816.9	59.1	622.0	1,559.4	576.5	2,332.7	1,589.8	0.0	742.9
2010	406.8	3,234.8	96.6	693.8	1,832.0	612.5	2,828.0	1,971.0	0.0	857.0
2011	113.6	3,304.8	102.0	740.2	1,908.2	554.4	3,191.2	2,326.1	0.0	865.1
2012	135.8	3,592.0	117.8	986.6	1,760.6	726.9	3,456.3	2,524.3	0.0	931.9
2013	258.6	3,997.4	147.5	1,192.6	1,963.2	694.1	3,738.8	2,816.4	0.0	922.4
2014	196.5	4,175.8	174.6	1,274.7	2,081.5	645.0	3,979.3	2,961.4	0.0	1,017.9
2015	-43.0	4,366.0	211.5	1,383.3	2,063.5	707.8	4,409.0	3,254.4	0.0	1,154.6
2016	-81.0	4,547.7	261.2	1,789.3	1,892.2	605.1	4,628.7	3,405.4	0.0	1,223.3
2017	-115.1	4,829.9	304.5	1,904.8	1,937.2	683.4	4,944.9	3,526.0	0.0	1,418.9
2018	-310.9	4,763.4	349.1	1,613.3	2,031.7	769.3	5,074.4	3,597.8	0.0	1,476.6
2019	-401.6	5,162.7	414.5	1,829.3	2,055.1	863.7	5,564.3	3,959.7	0.0	1,604.6

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

10.2. International investments position – by sectors

(EUR million: End of period)

Description	Net international investments position												
	Total	The Central Bank of the Republic of Kosovo		Banks		Government		Other sectors					
		Assets	Liabilities	Asset	Liabilities	Asset	Liabilities	Asset	Liabilities				
2009	484.2	1,089.3	1,149.6	60.3	427.3	583.9	156.7	-249.0	0.0	249.0	-783.3	1,083.4	1,866.7
2010	406.8	1,106.9	1,172.8	65.9	488.0	709.8	221.8	-260.0	0.0	260.0	-928.1	1,352.2	2,280.3
2011	113.6	1,094.5	1,161.0	66.4	479.1	675.5	196.4	-253.6	0.0	253.6	-1,206.4	1,468.4	2,674.8
2012	135.8	1,238.8	1,303.7	65.0	458.0	633.6	175.6	-336.5	0.0	336.5	-1,224.5	1,654.7	2,879.3
2013	258.6	1,392.1	1,454.2	62.1	540.2	748.3	208.1	-321.8	0.0	321.8	-1,351.9	1,794.9	3,146.9
2014	196.5	1,146.5	1,212.9	66.3	481.6	715.8	234.2	-326.4	0.0	326.4	-1,105.2	2,247.1	3,352.3
2015	-43.0	1,174.9	1,245.5	70.6	480.9	740.0	259.1	-371.2	0.0	371.2	-1,327.6	2,380.5	3,708.1
2016	-81.0	1,011.1	1,082.0	70.9	539.2	775.1	235.9	-373.8	0.0	373.8	-1,257.6	2,690.6	3,948.2
2017	-115.1	1,102.5	1,168.4	65.9	429.7	710.1	280.3	-422.2	0.0	422.2	-1,225.2	2,951.4	4,176.6
2018	-310.9	1,096.3	1,163.7	67.4	426.2	691.9	265.6	-416.2	0.0	416.2	-1,417.3	2,907.9	4,325.2
2019	-401.6	1,072.5	1,141.8	69.3	568.1	866.5	298.4	-409.1	0.0	409.1	-1,633.0	3,154.4	4,787.4

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

(EUR million: End of period)

	Net IIP	Kosovo's international assets								
		Equities				Debt				
			Investments abroad	Equity securities		Investments abroad	Equity securities	Other investments	Reserve assets	
2009	484.2	2,816.9	191.7	51.6	140.1	2,625.2	7.4	481.9	1,559.4	576.5
2010	406.8	3,234.8	280.6	86.4	194.2	2,954.3	10.2	499.6	1,832.0	612.5
2011	113.6	3,304.8	398.0	102.0	296.0	2,906.8	0.0	444.3	1,908.2	554.4
2012	135.8	3,592.0	784.2	117.8	666.3	2,807.9	0.0	320.3	1,760.6	726.9
2013	258.6	3,997.4	786.2	135.4	650.8	3,211.2	12.1	541.7	1,963.2	694.1
2014	196.5	4,175.8	1,186.3	161.9	1,024.4	2,989.5	12.6	250.3	2,081.5	645.0
2015	-43.0	4,366.0	1,284.9	198.6	1,086.3	3,081.1	13.0	296.9	2,063.5	707.8
2016	-81.0	4,547.7	1,550.4	243.1	1,307.4	2,997.3	18.1	481.9	1,892.2	605.1
2017	-115.1	4,829.9	1,762.3	279.3	1,483.0	3,067.5	25.2	421.8	1,937.2	683.4
2018	-310.9	4,763.4	1,548.9	317.0	1,231.8	3,214.5	32.1	381.5	2,031.7	769.3
2019	-401.6	5,162.7	1,864.5	379.2	1,485.3	3,298.2	35.3	344.0	2,055.1	863.7

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

(EUR million: 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	
2009	484.2	2,332.7	1,139.4	1,139.4	0.0	1,193.3	450.4	0.0	742.9
2010	406.8	2,828.0	1,455.3	1,455.3	0.0	1,372.8	515.8	0.0	857.0
2011	113.6	3,191.2	1,760.7	1,760.7	0.0	1,430.5	565.4	0.0	865.1
2012	135.8	3,456.3	1,938.4	1,938.4	0.0	1,517.8	585.9	0.0	931.9
2013	258.6	3,738.8	2,129.9	2,129.9	0.0	1,608.9	686.5	0.0	922.4
2014	196.5	3,979.3	2,241.4	2,241.4	0.0	1,737.9	720.0	0.0	1,017.9
2015	-43.0	4,409.0	2,476.3	2,476.3	0.0	1,932.7	778.2	0.0	1,154.6
2016	-81.0	4,628.7	2,612.7	2,612.7	0.0	2,016.0	792.7	0.0	1,223.3
2017	-115.1	4,944.9	2,855.3	2,855.3	0.0	2,089.6	670.7	0.0	1,418.9
2018	-310.9	5,074.4	3,061.1	3,061.1	0.0	2,013.2	536.7	0.0	1,476.6
2019	-401.6	5,564.3	3,383.1	3,383.1	0.0	2,181.1	576.5	0.0	1,604.6

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/34e%20IIP%20Assets%20and%20Liabilities.xls

11.1. External debt - gross position

(EUR million: as of 31 December 2019)

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				
2009	1,191.4	309.3	249	-	249	60.3	0.8	59.5	-	-	-	882.1	156.7	156.7	-	275	221.2		53.8	450.4
2010	1,371.5	325.9	260	-	260	65.9	1.7	64.2	-	-	-	1,045.6	221.8	221.8	-	308	232.7	75.4	515.8
2011	1,428.4	320	253.6	-	253.6	66.4	0.7	65.7	-	-	-	1,108.4	196.4	196.4	-	346.6	259.8	86.8	565.4
2012	1,517.3	401.4	336.5	-	336.5	65	0.4	64.6	-	-	-	1,115.9	175.6	175.6	-	354.4	321	33.5	585.9
2013	1,608.2	383.9	321.8	-	321.8	62.1	0.3	61.9	-	-	-	1,224.3	208.1	208.1	-	329.7	281.1	48.5	686.5
2014	1,737.1	392.8	326.4	-	326.4	66.3	0.3	66.1	-	-	-	1,344.3	234.2	234.2	-	390.1	294.8	95.3	720
2015	1,931.8	441.8	371.2	-	371.2	70.6	0.1	70.5	-	-	-	1,490.0	259.1	259.1	-	452.8	313.8	139	778.2
2016	2,015.1	444.6	373.8	-	373.8	70.9	0.1	70.8	-	-	-	1,570.5	235.9	235.9	-	541.9	353.1	188.8	792.7
2017	2,088.5	499.3	422.2	-	422.2	65.9	0.1	65.8	11.3	-	11.3	1,598.3	280.3	280.3	-	638.1	416.6	221.5	670.7
2018	2,011.8	498.1	416.2	-	416.2	67.4	0.1	67.2	14.6	-	14.6	1,517.0	265.6	217.5	48.1	714.7	477.6	237.1	536.7
2019	2,179.4	499.0	409.1	-	409.1	69.3	0.4	69.0	20.6	-	20.6	1,680.4	298.4	206.8	91.6	805.5	546.3	259.1	576.5

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

11.2. Public sector external debt service payment schedule

(EUR million: as of 31 December 2019)

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	34.3	-	3.5	10.2	3.6	16.9	100.3	54.5	45.8	76.9	29.1	27.6	115.3	57.2	89.5
Principal	29.4	-	3.5	7.7	3.6	14.5	95.8	52.2	43.6	72.8	25.5	24.4	105.4	56.1	89.5
Interest	4.9	-	-	2.5	-	2.4	4.5	2.3	2.2	4.1	3.6	3.2	9.9	1.0	-
External debt of private sector guaranteed by the Government	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	34.3	-	3.5	10.2	3.6	16.9	100.3	54.5	45.8	76.9	29.1	27.6	115.3	57.2	89.5
Principal	29.4	-	3.5	7.7	3.6	14.5	95.8	52.2	43.6	72.8	25.5	24.4	105.4	56.1	89.5
Interest	4.9	-	-	2.5	-	2.4	4.5	2.3	2.2	4.1	3.6	3.2	9.9	1.0	-

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

11.3. Gross External Debt – By Creditors

(EUR million: as of 31 December 2019)

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	201.6	201.6	132.6	69.0	-	-	-
World Bank	196.2	196.2	196.2	-	-	-	-
IBRD	135.6	135.6	135.6	-	-	-	-
IDA	60.5	60.5	60.5	-	-	-	-
Other creditors	1,781.7	1,205.1	80.3	0.4	298.4	826.0	576.5
Total Debt	2,179.4	1,602.9	409.1	69.3	298.4	826.0	576.5

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

11.4. Net External Debt Position

(EUR million: as of 31 December 2019)

Description	Gross external debt (1)	External assets in debt instrument (2)	Gross external debt (3)=(1)-(2)
General Government	409.1	-	409.1
Short-term	-	-	-
Long-term	409.1	-	409.1
Special Drawing Rights (SDRs) allocations	-	-	-
Currency and deposit	-	-	-
Debt securities	-	-	-
Loans	409.1	-	409.1
Trade credits and advances	-	-	-
Other debt instruments	-	-	-
Central Bank	69.3	1,141.8	-1,072.5
Short-term	0.4	660.1	-659.7
Currency and deposit	0.4	660.1	-659.7
Debt securities	-	-	-
Loans	-	-	-
Trade credits and advances	-	-	-
Other debt instruments	-	-	-
Long-term	69.0	481.7	-412.8
Special Drawing Rights (SDRs) allocations	69.0	88.4	-19.5
Currency and deposit	-	-	-
Debt securities	-	393.3	-393.3
Loans	-	-	-
Trade credits and advances	-	-	-
Other debt instruments	-	-	-
Depository corporations except the Central Bank	298.4	866.5	-568.1
Short-term	206.8	866.5	-659.6
Currency and deposit	190.6	572.8	-382.2
Debt securities	-	239.1	-239.1
Loans	14.4	49.3	-34.9
Trade credits and advances	-	-	-
Other debt instruments	1.8	5.3	-3.5
Long-term	91.6	0.0	91.6
Other sectors	826.0	1,254.5	-428.5
Short-term	546.3	21.1	525.2
Currency and deposit	-	-	-
Debt securities	-	0.2	-0.2
Loans	319.1	-	319.1
Trade credits and advances	227.2	20.9	206.3
Other debt instruments	-	-	-
Long-term of which:	279.7	1,233.5	-953.7
Currency and deposit	-	1,232.5	-1,232.5
Debt securities	-	1.0	-1.0
Loans	279.7	-	279.7
Direct investments: Intercompany lending	576.5	35.3	541.2
Debt liabilities of direct investment enterprises to direct investors	-	16.4	-16.4
Debt liabilities of direct investors to direct investments enterprises	576.5	18.5	558.0
Debt liabilities to fellow enterprises	0.0	0.3	-0.3
NET external debt (3)	2,179.4	3,298.2	-1,118.8

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

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