



# REPUBLIC OF KOSOVO

## STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 20, 2021

Prepared By

The European Department  
(in consultation with other departments)

### CONTENTS

FUND RELATIONS	<u>2</u>
RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS	<u>6</u>
STATISTICAL ISSUES	<u>7</u>

## FUND RELATIONS

(As of November 30, 2021)

### Membership Status:

Joined: June 29, 2009; Article XIV.

General Resources Account:	SDR Million	Percent Quota
Quota	82.60	100.00
Fund holdings of currency	123.64	149.69
Reserve Tranche Position	20.07	24.29

SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	134.54	100.00
Holdings	127.74	94.45

Outstanding Purchases and Loans:	SDR Million	Percent Quota
Stand-By Arrangements	19.80	23.97
Emergency Assistance <sup>1</sup>	41.30	50.00

### Latest Financial Arrangements:

#### Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	July 29, 2015	August 04, 2017	147.50	135.40
Stand-By	April 27, 2012	December 26, 2013	90.97	78.22
Stand-By	July 21, 2010	January 20, 2012	92.66	18.76

### Outright Loans:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RFI	Apr 10, 2020	Apr 15, 2020	41.30	41.30

### Overdue Obligations and Projected Payments to Fund <sup>2</sup>

(SDR Million; based on existing use of resources and present holdings of SDRs):

<sup>1</sup> Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date of commitment, i.e. Board approval date.

<sup>2</sup> When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

	Forthcoming				
	2021	2022	2023	2024	2025
<b>Principal</b>	9.9	9.90	10.33	20.65	10.33
<b>Charges/Interest</b>		0.49	0.42	0.24	0.04
<b>Total</b>	9.9	10.39	10.75	20.89	10.37

**Implementation of HIPC Initiative: Not Applicable****Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable****Implementation of Catastrophe Containment and Relief (CCR): Not Applicable**

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

**Safeguards Assessments**

The update safeguards assessment, conducted in connection with the Rapid Financing Instrument approved in April 2020 found that the CBK continues to maintain broad operational controls and all recommendations from the previous safeguards assessment have been implemented. However, the CBK Board vacancies have resulted in the lack of a quorum since June 2020 and the absence of a functioning Board poses substantial governance and oversight risks for the central bank.<sup>3</sup> The CBK Act protects the autonomy of the central bank, and the audit mechanisms and financial reporting practices continue to be aligned with international standards. The implementation of the risk management framework is advancing.

**Exchange Arrangements**

The de jure and de facto exchange rate arrangements are no separate legal tender. Since unilateral adoption of the euro, this currency is a legal tender in Kosovo and circulates freely. Kosovo is not part of the euro area and the CBK is not part of the European System of Central Banks. Kosovo has accepted the obligations of Article VIII Section 2, 3, and 4, and maintains an exchange system that is free of multiple currency practices and restrictions on making of payments and transfers for current international transactions, except for restrictions maintained solely for reasons of international or national security, which have been notified to the Fund pursuant to Decision No. 144.

**Previous Article IV Consultation**

The last Article IV consultation was concluded on October 7th, 2020. Going forward, it is expected that Kosovo will be on a 12-month cycle.

<sup>3</sup> The quorum was restored after two (out of three) Board vacancies were filled in November 2021.

## FSAP and ROSC Participation

An FSAP mission was conducted during September 19–October 2, 2012. The FSSA included the ROSC for compliance with Basel Core Principles. Kosovo has not had a data or a fiscal transparency ROSC. A FSSR mission was completed in May 2019.

## Technical Assistance

Since 1999, the Fund has provided technical assistance and policy advice to UNMIK and, since September 2008, to Kosovo. Technical assistance has centered on the Fund's core competencies, notably in the areas of fiscal policy, the banking and payments systems, and macroeconomic statistics. Assistance has also contributed to developing key aspects of the legal and institutional framework needed for a market economy. More recently, TA has been provided on the following issues:

## Statistics

- Government Finance Statistics (November 2018; March, June and October 2019; February and November 2020);
- Monetary and Financial Statistics (August 2019);

## Fiscal Sector

- Tax Administration - Compliance Risk Management (November 2018); Review Process of Tax Administration Reform (March 2019); Tax Administration Modernization (January 2020); Tax Debt Collection (May 2020); IT Reform Implementation (September 2020); Tax Administration Reform Progress (March 2021), Tax Audit Reform, (February 2021), Developing an independent fiscal oversight options paper (January 2021); Tax Diagnostic Mission (April 2021);
- Public Financial Management - Medium-Term Expenditure Framework and Fiscal Management (February 2019; September 2020); Budget Costing and Fiscal Risk Management (November 2019); Fiscal Risk Disclosure (October 2020); Technical Assistance on Monitoring of Expenditure Arrears and Multi-Annual Commitments. (April 2021), Management of Fiscal Risks Related to Publicly Owned Enterprises (POEs) (March 2021);
- Pension System Diagnostic Assessment and Policy Advisory (March 2021);

## Monetary and Financial Sectors

- Financial Sector Stability Review (January, April and October 2019); IFRS9 Implementation (July 2020); Follow up Technical Assistance on Insurance Supervision (April 2021), Central Bank Governance, (June 2021).

**Resident Representative**

Ms. Eble from regional office for the West Balkans took up her post on June 14, 2019 and oversees Kosovo's local office.

## RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

EBRD: <https://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html?1=1&filterCountry=Kosovo>

European Investment Bank:

<http://www.eib.org/en/projects/pipelines/?d=&f=&st=&r=3&c=XK&se=>

World Bank: <https://www.worldbank.org/en/country/kosovo/overview>

## STATISTICAL ISSUES

(As of November 20, 2021)

<b>I. Assessment of Data Adequacy for Surveillance</b>
<p><b>General:</b> Data provision is adequate for surveillance. However, the Kosovo Agency of Statistics (KAS) still experiences shortages of financial and human resources.</p>
<p><b>National Accounts:</b> Through intensive TA from the European Commission (Twinning Project), improvements have been made to the national accounts, but significant weaknesses remain. Compilation methods used for annual national accounts (ANA) are broadly in line with the 2008 SNA/ESA2010. The quality and timeliness of annual nominal and real GDP data has been improved, and data on GDP by economic activity and by expenditure are now published simultaneously in an excel format on the web-site of the Kosovo Statistical Agency with a lag of 10 months. Although quarterly national accounts series provide a first estimate of the annual GDP by April every year, it would be advisable to further reduce the time lag in the dissemination of ANA. Quarterly GDP data can be inconsistent with annual data (upon publication), requiring significant revisions, and improvements in methodology are required. Kosovo needs to improve existing and develop additional high-frequency (monthly) indicators, with priority given to indicators relevant to Kosovo's economy such as wholesale and retail trade data and services.</p>
<p><b>Labor Markets:</b> Reliable labor force data is challenging given the large share of the informal economy, although quarterly labor data began to be published in 2016.</p>
<p><b>Consumer Price Index:</b> A monthly Consumer Price Index (CPI) has been produced since 2002 and is published on a monthly basis (with a lag of 13 days). The index uses a Classification of Individual Consumption according to Purpose (COICOP)-compatible item classification with 352 elementary aggregates. A new index was introduced in December 2014, with new weights largely based on National Accounts data aimed at bringing the CPI in line with the European Harmonized Index of Consumer Prices (HICP). It targets all products and services purchased by all households (resident and non-resident) in Kosovo. HICP is now available from January 2010 onward. The HICP was rebased from 2002 to 2015 in January 2016. Both CPI and HICP are used to measure consumer inflation, the latter enabling comparisons between member states within the EU. Kosovo receives TA from Eurostat.</p>
<p><b>Government Finance Statistics (GFS):</b> Monthly reports on budget execution of the general government (central government and municipalities) on a cash basis are provided five weeks after the end of each month. GFS are broadly compiled following the GFSM 2014 framework, but they still do not cover the extrabudgetary units' data. In addition, the budget classification is not consistent with the GFSM 2014 because: (i) data is on cash basis, not accrual; (ii) lending for policy purposes (similar to subsidies) is included after calculating the primary balance; (iii) capital transfers should be included in current expenditure instead of capital expenditure; (iv) memorandum of understanding (MOU) should be properly classified depending on their final</p>

purpose; (v) annual budget documents should specify both current and capital spending related to individual projects. While data is generally adequate, strengthening monitoring and disclosure of arrears will be important.

**Monetary and Financial Statistics:** Monetary data are compiled broadly consistent with the IMF's *Monetary and Financial Statistics Manual and Compilation Guide 2016 (MFSMCG)*. The CBK reports monetary data on a monthly and timely basis, using Standardized Report Forms for the central bank, other depository corporations, and other financial corporations, which are published in the *International Financial Statistics*. Due to difficulties with obtaining adequate source data needed for estimation of Euro currency in circulation, the CBK ceased compiling currency in circulation in 2006, underreporting broad money.

The CBK reports some series of the Financial Access Survey, including the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (commercial bank branches per 100,000 adults and ATMs per 100,000 adults).

**Financial Sector Surveillance:** The CBK reports Financial Soundness Indicators (FSIs) monthly prior to 2019 and quarterly thereafter, according to the *Financial Soundness Indicators Compilation Guide*. 7 core FSIs and 10 encouraged FSIs for deposit takers are available through the IMF's FSI webpage.

**External Sector Statistics:** CBK provides to STA quarterly balance of payments and international investment position data following the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* starting with 2013: Q1 reference data. Authorities also participate in: a) the Coordinated Direct Investment Survey with inward and outward data starting with 2010; b) the Coordinated Portfolio Investment Survey with annual data starting from December 2010 and semiannual data starting from June 2013, including encouraged items (currency of denomination, sector of the holder, sector of the issuer, and cross-sector classification); and the Quarterly External Debt Statistics. Direction of trade data are available on a monthly basis. Overall, the accuracy, periodicity, and timeliness of external sector statistics have improved due to authorities' efforts and with technical assistance from STA. The authorities are currently working towards reporting the international reserves and foreign currency liquidity template.

## II. Data Standards and Quality

The country participates in the enhanced General Data Dissemination System (e-GDDS) and a National Summary Data Page regularly disseminates e-GDDS data to the public since May 11, 2017.

Kosovo has not had a Data ROSC.



**Kosovo—Table of Common Indicators Required for Surveillance**  
(As of November 20, 2021)

	Date of Latest Observation	Date Received/ Reported Online	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of Publication <sup>7</sup>
Exchange Rates	N/A	N/A	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	Oct/2021	Nov/2021	M	M	M
Reserve/Base Money	Oct/2021	Nov/2021	M	M	M
Broad Money	Oct/2021	Nov/2021	M	M	M
Central Bank Balance Sheet <sup>1</sup>	Oct/2021	Nov/2021	M	M	M
Consolidated Balance Sheet of the Banking System	Sep/2021	Oct/2021	M	M	M
Interest Rates <sup>2</sup>	Sep/2021	Oct/2021	M	M	M
Consumer Price Index	Oct/2021	Nov/2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —General Government <sup>4</sup>	Q2/2021	Sep/2021	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —Central Government	Nov/2021	Nov/2021	D	D	M
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	Q3/2021	Oct/2021	Q	Q	Q
External Current Account Balance	Aug/2021	Oct/2021	M	M	M
Exports and Imports of Goods	Aug/2021	Oct/2021	M	M	M
GDP/GNP <sup>8</sup>	Q2/2021	Nov/2021	Q	Q	Q
Gross External Debt	Q3/2021	Oct/2021	Q	Q	Q
International Investment Position <sup>6</sup>	Q3/2021	Sep/2021	Q	Q	Q
<p><sup>1</sup> CBK's NFA and GIR data have been revised for the period 09/2015 - 07/2018 to exclude the CBK's holdings of Kosovar government securities. CBK balance sheet and survey data have been revised for the period 09/2015 - 07/2018 to reclassify the CBK's holdings of Kosovar government securities as claims on the central government.</p> <p><sup>2</sup> Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.</p> <p><sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.</p> <p><sup>4</sup> The general government consists of the central government (budgetary and extra budgetary funds) and local governments (municipalities).</p> <p><sup>5</sup> Including currency and maturity composition.</p> <p><sup>6</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents.</p> <p><sup>7</sup> Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I), and not available (NA).</p> <p><sup>8</sup> GNDI data not available.</p>					