



REPUBLIC OF KOSOVO

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 20, 2022

Prepared By

The European Department
(in consultation with other departments)

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FUND RELATIONS

(As of November 30, 2022)

Membership Status:

Joined: June 29, 2009; Article XIV.

General Resources Account:	SDR Million	Percent Quota
Quota	82.60	100.00
Fund holdings of currency	103.84	125.71
Reserve Tranche Position	20.07	24.29
SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	134.54	100.00
Holdings	127.04	94.43
Outstanding Purchases and Loans:	SDR Million	Percent Quota
Emergency Assistance ¹	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 Fund²

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

	Forthcoming				
	2022	2023	2024	2025	2026
Principal		10.33	20.65	10.33	
Charges/Interest		1.69	1.05	0.34	0.21
Total		12.02	21.70	10.66	0.21

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

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

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 last safeguards assessment was conducted in January 2021 and found that while the CBK continued to maintain broad operational controls, Board vacancies which resulted in the lack of a quorum posed substantial governance and oversight risks for the central bank. These vacancies were filled in December 2021 and June 2022. The CBK Act protects the autonomy of the central bank, and the external audit mechanisms and financial reporting practices continue to be aligned with international standards. The implementation of the remaining recommendations including strengthening the reserve management practices, risk management and internal audit capacity is progressing.

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. 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 January 11th, 2022. Going forward, it is expected that Kosovo will be on a 12-month cycle.

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; May 2021; March 2022);
- Monetary and Financial Statistics (August 2019).

Fiscal Sector

- Tax Administration - Tax Administration Modernization – Progress Review (March 2020, March 2021 and February 2022), Strategic planning (Jun 2021 and Jun 2022) and Developing Key Performance Indicators (August 2020); Strengthening Tax Audit Capacity - Modernizing Audit Operations (January 2019), Improving the Tax Audit Program (February and September 2019), The Way Forward with Tax Audit Reform (March 2021) and Audit Function (Feb 2022, Sep 2022); Modernizing Large Taxpayer Compliance (May 2019); Enhancing Tax Compliance Risk management – Developing Segmented Compliance Strategies (January 2019), Construction Sector–Tax Compliance Project (May 2019), Implementing Compliance Risk Management (January 2020, January and October 2021), Additional “risk clusters” and use of third-party data (November 2022); Tax Debt Management - Consolidating Collection Enforcement (August 2019) and Collection Offices (January 2020 and November 2022), Strengthening Collection (August 2020) and Arrears Management (October 2022); Managing IT Modernization - Reform Implementation (September 2020), IT System Implementation (April 2021, May-September 2021, Feb 2022, November 2022); TADAT assessment (November 2022).
- Public Financial Management - Medium-Term Expenditure Framework and Fiscal Management (February 2019; September 2020); Budget Costing and Fiscal Risk Management (November 2019; March 2022); 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; July 2022); Fiscal Risk Management (March 2022).
- Pension System Diagnostic Assessment and Policy Advisory (March 2021).
- Government Finance (March 2022); Assess and Strengthen Functions of Budget Department (November 2022).

Monetary and Financial Sectors

- Financial Sector Stability Review (January, April and October 2019); IFRS9 Implementation (July 2020); Reserve Management (September 2020); Follow up Technical Assistance on Insurance

Supervision (April 2021; June 2022); Central Bank Governance, (July 2021; April 2022); Supervisory Methodologies and Manual (September 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 TO 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: [Kosovo and the EIB](#)

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

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision is adequate for surveillance. However, the Kosovo Agency of Statistics (KAS) still experiences shortages of financial and human resources.

National Accounts: 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 website 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.

Labor Markets: Reliable labor force data is challenging given the large share of the informal economy, although quarterly labor data began to be published in 2016. The publication of quarterly labor market statistics experienced a significant lag (by more than 12 months) in 2021 and 2022.

Prices: A monthly consumer price index (CPI) is released within two weeks from the end of the reference month. In 2014 the CPI was reorganized to align with the European Harmonized Index of Consumer Prices (HICP). The index uses a Classification of Individual Consumption according to Purpose (COICOP)-compatible item classification with 420 elementary aggregates. It targets all products and services purchased by all households (resident and non-resident) in Kosovo. Weights for the CPI are updated annually. A quarterly producer price index (PPI) covering industrial activities is compiled. The current PPI weights are from 2020. Kosovo receives price statistics TA from Eurostat.

Government Finance Statistics (GFS): 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. Authorities also provide annual data for publication in the GFSY database. GFS are broadly compiled following the GFSM 2014 framework, however data are reported on a cash basis and policy lending is included after calculating the primary balance. Data for extrabudgetary units are also not provided and annual budget documents should specify both current and capital spending related to individual projects. The establishment of an MOU between the statistics authorities (KAS), central bank (CBK) and the Ministry of Finance has been outstanding for several years. GFS technical assistance missions have been supporting the authorities to move to accrual basis and drafting the MOU. 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 data on several series and indicators of the Financial Access Survey, including mobile and internet banking, mobile money, gender-disaggregated data, and 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 according to the 2019 *FSIs Compilation Guide*. 15 core FSIs (out of 17 in the 2019 *Guide*) and 9 additional (out of 12 in the 2019 *Guide*) for deposit takers are available through the IMF's FSIs 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 c) the Quarterly External Debt Statistics. Direction of trade data are available on a monthly basis. The data are largely consistent in particular there is a very close alignment between IIP and CDIS. Inward and outward Direct Investments have steadily grown across all countries since the series began in 2011. Overall, the accuracy, periodicity, and timeliness of external sector statistics have improved in recent years. However, the IMF has not yet received the international reserves and foreign currency liquidity template (IRFCL).

II. Data Standards and Quality

Kosovo participates in the enhanced General Data Dissemination System (e-GDDS) and a National Summary Data Page regularly disseminates the data recommended by the e-GDDS 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 30, 2022)

	Date of Latest Observation	Date Received/ Reported Online	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷
Exchange Rates	Nov/2022	Nov/2022	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Oct/2022	Nov/2022	M	M	M
Reserve/Base Money	Oct/2022	Nov/2022	M	M	M
Broad Money	Oct/2022	Nov/2022	M	M	M
Central Bank Balance Sheet ¹	Oct/2022	Nov/2022	M	M	M
Consolidated Balance Sheet of the Banking System	Oct/2022	Nov/2022	M	M	M
Interest Rates ²	Oct/2022	Nov/2022	M	M	M
Consumer Price Index	Oct/2022	Nov/2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	Q2/2022	Sep/2022	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Oct/2022	Nov/2022	D	D	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Q3/2022	Oct/2022	Q	Q	Q
External Current Account Balance	Aug/2022	Oct/2022	M	M	M
Exports and Imports of Goods	Sep/2022	Oct/2022	M	M	M
GDP/GNP ⁸	Q2/2022	Sep/2022	Q	Q	Q
Gross External Debt	Q2/2022	Sep/2022	Q	Q	Q
International Investment Position ⁶	Q2/2022	Sep/2022	Q	Q	Q

¹ 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.

² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary and extra budgetary funds) and local governments (municipalities).

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I), and not available (NA).

⁸ GNDI data not available.