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Role of Central Bank in the Establishment and the Development of Financial System in Post-War Kosovo

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The financial sector in Kosovo after 1999 was almost non-existent. At that time there were no banks functioning. On the 15 November on the same year has been established the Central Bank of Kosovo entitled as the Banking and Payment Authority of Kosovo (BPK). Now there are ten years past from the establishment of the Central Bank of the Republic of Kosovo and the initial functioning of Kosovo financial system. With the development of Kosovo economical environment in general and its financial system development in particular, the need for enlargement of objectives and functions of this institution showed up. As a result of this on August 24 of year 2006, BPK was transformed into Central Banking Authority of Kosovo – CBAK, through which functions were increased, contemporaneous governing was applied and "Kosovarization" process was made possible on CBAK governance. After the declaration of independence on the 17 February, by entering into force of the Kosovo Constitution on the 15 June 2008, the law on Kosovo Central Bank of Republic of Kosovo became effective, by ensuring full functional, operational, financial and personnel autonomy, by having one of the main objectives: Foster the soundness, solvency and efficient functioning of a stable market based financial system, encouraging market emergence of safe financial instruments. The objective of this paper is to explain the role of the Central Bank of the Republic of Kosovo in the establishment and the development of the ten year old post-war Kosovo financial system, how and what should be the mission and vision of CBK in function of further development of Kosovo financial system.

Keywords: *Central Bank of Kosovo, Banking Sector, Pension Funds, Insurance Companies, Micro-finance Institutions*

Introduction

The Banking and Payments Authority of Kosovo (BPK) has been established in the summer of 1999 - immediately after the War in Kosovo, after a great work done by a mixed group, consisted of both native and international experts. It marks the first steps of the financial sector in Kosovo. At that time, there were no banks functioning but only a few months later, in December 1999 the first commercial bank in Kosovo MEB (currently ProCredit Bank) was licensed. At this period of time when there were no banks to undertake the payment function, BPK used to fulfill it through its branches and sub-branches throughout the territory of Kosovo, a function which has stopped completely after the establishment of other banks in Kosovo. During the last 10 years the financial sector was built in completely new foundations and it has reached a remarkable progress.

The legal ground on establishment of the banking industry came to light with promulgation of UNMIK Regulation 1999/20[1] on Banking and Payment Authority of Kosovo (BPK). Thus, the BPK was mandated to licensing, regulation and supervision of financial institutions for further incorporation into Kosovo market. This act provided for the basic legal structure, which was sound at that time in licensing, regulation and supervision of financial institutions.

UNMIK Regulation 2001/25 [2] on Licensing, Supervision and Regulation of Insurance Companies and Intermediaries promulgated in 2001 has enabled the exercise of supervision of five insurance companies rendering motor third party liability insurance from UNMIK Pillar II. The same year, the effective supervision and licensing authority was transferred to the BPK.

[1] UNMIK Regulation 1999/20 on Banking and Payment Authority of Kosovo

[2] UNMIK Regulation 2001/25 on Licensing, Supervision and Regulation of Insurance Companies and Intermediaries

Nowadays, the Republic of Kosovo has a wide network of commercial banks, insurance companies and other intermediaries. The entire financial sector in the Republic of Kosovo is under private ownership and the majority of them under foreign ownership.

Establishment of the Central Bank of the Republic of Kosovo (CBAK)

The Banking and Payments Authority of Kosovo (BPK) was established by UNMIK in 1999 in order to supervise the implementation of the monetary and financial structure, in order to ensure an efficient and safe system of payments, and in order to support the development of a sound financial sector in the territory of Kosovo. Initially, in November of 1999, the most important objectives of BPK were the supervision of the banking sector and the conditions of payment services, which included the supply of a sufficient quantity of banknotes and currencies. Later on the role of BPK increased and broadened, including the licensing, supervision and regulation of all financial institutions (along with insurance and pension funds). In August of 2006 the Special Representative of the Secretary General (SRSG) signed a new regulation by means of which the Banking and Payments Authority of Kosovo (BPK) was transformed into the Central Bank of Kosovo (CBAK). The key objectives of CBAK according to this regulation are to:

- stimulate safety, the ability of payment and efficient functioning of a stable financial system based on the market, by encouraging the entry into the market of safe financial instruments, and
- support the general economic policies in Kosovo, with the aim of contributing to the efficient distribution of resources in accordance with the open market economy principles[3].

With the entry into force of the Constitution of the Republic of Kosovo on June 15 2008, the Central Banking Authority of Kosovo has been transformed into the Central Bank of the Republic of Kosovo (CBK). On the 27 July 2010, Kosovo Assembly approved the law no. 03\L-209 on ''Kosovo Central Bank of Republic of Kosovo''.

[3] CBAK-Central Banking Authority of Kosovo, Annual Report 2007, page 86

The CBK, a successor to the Banking and Payment Authority of Kosovo and to the Central Banking Authority of Kosovo, shall be a public legal subject based on Articles 11 and 140 of the Constitution and this Law, having administrative, financial and managerial autonomy. As part of its mandate to ensure a healthy financial bank, CBK supervises and regulates the activities of banks and other institutions offering banking services. As the regulator, it drafts regulations on the establishment of banks and other institutions acting as banks, and its licenses their activity. As the supervisor, CBK follows, discusses and monitors the activities of these institutions to ensure that they are safe and that they act in compliance to the laws and rules in force.

CBK main objectives, according to the law include:

- The primary objective of the Central Bank shall be to foster and to maintain a stable financial system, including a safe, sound and efficient payment system.
- An additional objective of the Central Bank, which shall be subordinated to the primary objective of the Central Bank, shall be to contribute to achieving and maintaining domestic price stability.
- Without prejudice to attainment of these two objectives, the Central Bank shall support the general economic policies of the Government.
- The Central Bank shall act in accordance with the principle of an open market economy with free competition, favoring an efficient allocation of resources[4].

CBK as a responsible institution for licensing, supervision and regulation of financial institutions has taken measures to ensure an efficient development of financial sector in Kosovo and to ensure a competitive, sound and efficient financial sector based on the free economy. CBK maintains the financial sector stability through supervising functions based on off-site monitoring of reports submitted to CBK by financial institutions and on-site inspection of activities of financial institutions.

[4] http://www.bqk-kos.org/?cid=1,2

Bank Supervision

Through supervising activities, the bank supervision ensures that commercial banks, micro-financial institutions and other financial intermediaries exercise their activity in compliance with the applicable legal framework. Development of banking sector in Kosovo has had quite a progressive trend. With the increase of trust in banking system, citizens have constantly used banks for their savings which has an impact on the increase of liquidation and consequently in creation of more opportunities for banks to give loans from which benefits Kosovo economy.

MEB, established with the initiative of several internationally known financial institutions, led the incorporation of financial banking institutions. Establishment of financial banking entities went on further whereby after the first three years, the banking industry was extended and consolidated in dynamic manner to come to seven banks in total. Year 2009 defines the banking industry with eight (8) commercial banks with full ownership or co-ownership from Slovenia, Austria, Germany, Albania, Turkey and Serbia. Establishment of banks and development of branches and sub-branches during this period was in function of bringing the financial products and services closer to citizens.

Table below indicates in comparative manner the extraordinary progress of the financial institutions in Kosovo:

Table 1: Trend of financial growth of the financial sector (in 000 EUR)

Description		2004	2005	2006	2007	2008	2009
Deposits (banks)	Number	580,741	635,821	687,457	983,626	1,207,729	1,363,431
	Amount	697,146	839,052	923,900	1,128,557	1,443,938	1,753,405
Loans (banks)	Number	65,106	86,424	102,717	153,598	242,099	262,291
	Amount	370,492	513,876	610,016	862,658	1,158,146	1,264,987
Loans (MFI)	Number	22,286	33,119	35,541	42,825	50,127	57,485
	Amount	39,856	59,387	57,723	73,836	93,648	109,011
No. of bank offices		213	239	220	232	274	295
No. of IMF offices		50	47	47	49	53	53
No. of money transfer offices		2	4	5	5	5	5
No. of exchange agents		4	6	13	23	21	21

Source: Erdin Maloku, Politika monetare dhe Banka Qendrore e Republikës së Kosovës – avantazhet dhe disavantazhet e përdorimit të euro-s në Kosovë, Prishtinë, 2010, page 17

On the above table it is indicated clearly that loaning activity by the financial institutions has marked a growth. In addition to banks, the micro-finance and nonbanking institutions have also been incorporated in financial industry. The role of these institutions was crucial for business, mainly agricultural businesses, and their contribution was critical in extending financial support to different projects in segmented market in those parts where banks were not present.

Supervision of Insurances and Pensions

Supervision of Insurances and Pensions is also conducted by CBK as an integrated supervisor for all financial institutions. Supervision of insurance companies was transferred from UNMIK pillar to BPK in 2001, whereby 5 insurance companies supervised by UNMIK Pillar II were transferred into BPK supervision to continue with licensing, supervision and regulation of all existing and future insurance companies.

In 2006, the number of insurance companies came to nine, six of which operating mainly with foreign capital whereas three of them operating with entire local capital. The primary activity was the motor third party liability product where 71.2 % of premiums were related to this product whereas the other part was related to voluntary products[5]. Consolidation of Insurance industry continued in the upcoming years whereby we have a presence of foreign capital in insurance companies such as Joint Vienna Group, Grawe Insurance Group and UNIQA Group from Austria, and New Sava from Slovenia. During 2007, there have been district developments in legal regulative on Insurances and Pensions. A significant moment in this period was the establishment of legal framework on life insurance, which was followed by the licensing of the first company to render Life Insurance services in Kosovo.

[5] Monography of Central Bank of the Republic of Kosovo (1999-2009), Prishtina, 2010, page 17

Pension system in Kosovo was established pursuant to UNMIK Regulation 2001/35[6] ("Regulation") which entered into force on 1 March 2002. The Pension system in Kosovo according to this legal Framework is composed of three categories:

- First Category – Basic or Seniority Pension
- Second Category – Compulsory Pension (Savings Pension – Kosovo Pension Savings Trust)
- Third Category – Supplementary Employer

Pension and Supplementary Individual Pension First Category – Basic or seniority pension is supervised by the Ministry of Social Welfare, whereas the second and the third category are supervised by CBK.

With further development of market economy, there was an emerging interest to license the Private Supplementary Voluntary Funds and accordingly in 2006, CBK licensed the first Slovene-Kosovo Pension Fund as an insurer of the individual voluntary pensions and Manager of pension properties.

Registered financial institutions in Kosovo

Currently Kosovo financial system is composed of eight (8) registered banks with 296 branches, fourteen (14) micro-financial institutions, seven (7) non-banking financial institutions, twenty one (21) registered offices for currency exchange, ten (10) general insurance companies, one (1) life insurance company, one (1) provider for pension funds and Assents Management[7].

The development of financial sector in Kosovo

The trend of growth of financial sector in Kosovo has continued since its establishment, as per the number of the institutions as well as per the value of assets.

[6] UNMIK Regulation 2001/35 on Pensions in Kosovo

[7] http://www.bqk-kos.org/?cid=1,7

Table 2: Number of financial institutions

Years	Commercial Banks	Insurance Companies	Pension Funds	Financial Auxiliaries	Micro-finance institutions
2002	7	8	5	5	16
2003	7	8	6	6	18
2004	7	8	6	6	16
2005	7	8	5	10	15
2006	6	9	7	18	20
2007	7	10	2	28	16
2008	8	11	2	26	16
2009	8	11	2	26	14

Source: Annual Reports of CBK

Banking sector remains the main pillar of the Kosovo financial sector, managing around 74.8 percent of assets. On the other hand, as a result of positive returns on KPST[8] investments during 2009, the share of pension funds' assets reached at 13.3 percent of total financial sector assets. Microfinance institutions represent another pillar of the Kosovo financial sector, whose assets increased their share in the financial sector at 5.1 percent in December 2009. Insurance companies and financial auxiliaries are presented with low participation within the total financial sector assets. On the December 2009, these institutions participate by 3 percent respectively 0.1 percent on the financial sector of Kosovo.

Structure of the banking sector

In the Kosovo banking sector operate eight commercial banks and the structure of the banking system did not change with regard to ownership. The banking sector is dominated by six foreign banks accounting for 91.1 percent of total banking sector assets, while two banks are owned domestically (8.9 percent of total assets). The foreign capital mainly

[8] Kosovo Pension Savings Trust

originates from the EU countries, such as Germany, Austria and Slovenia, whereas a smaller portion originates from Turkey and Albania.

The market structure of the Kosovo banking sector remains characterized by a high degree of concentration, where three[9] largest banks manage 81.4 percent of total assets. A similar degree of concentration prevails also in the loan and deposit market. Compared to same period of the previous year, it is noticed a decline in the degree of concentration. The lower degree of concentration has primarily resulted from the faster growth of assets of smaller banks, while larger banks were characterized with a slower expansion of assets due to their more conservative lending policies in the reported period.

Financial intermediation activity

Assets of banking sector in Kosovo reflected a growing trend during the entire period under analysis, but by a slow rhythm in 2009. In December 2009, banking sector assets reached at euro 2.1 billion (56 percent of GDP), indicating an annual growth of 21.5 percent.

The growth in financial intermediation during 2009 can be shown by the growth of loans and deposits. In December 2009, total loans extended by the banking sector reached at euro 1.3 billion (33.7 percent of GDP), an annual increase of 9.2 percent. However, the growth rate of loans over this period was lower compared to the same period of the previous year when loans grew by 33.9 percent. The lower growth rate of lending activity reflects new circumstances in the domestic economy as a consequence of the global crisis. In this context, banks applied more conservative lending policies, especially with regard to enterprise lending.

Deposits at the banking sector recorded an annual growth of 21.4 percent, amounting at euro 1.8 billion or 43.3 percent of GDP. The growth rate of deposits until December 2009 was lower compared to the same period of the previous year. The reduction of some important sources of finance for the Kosovo economy (e.g. remittances) had a negative impact on the level of national savings. Bearing in mind that the commercial banks' lending activity in Kosovo is mainly financed from domestic deposits, a

[9] ProCredit Bank, Raiffeisen Bank and NLB Prishtina

further slowdown in deposit growth might lead to further credit tightening. The growth rate of deposits during this period was higher than the growth rate of loans. The continuous increase in deposit interest rates may have contributed positively to this outcome. Nevertheless, a greater inter-institutional cooperation aimed at reducing the informality in the domestic economy would contribute to the decrease of cash transactions, with positive implications for the level of deposits at the banking sector. This in turn would facilitate further expansion of banking sector lending.

Banking Sector Balance Sheet

Within the structure of assets of banking sector, loans continue to compose the largest part of the assets by a percentage of 56.7. Participation of securities has continued to decrease and on the December 2009 was only at 2.5 percent. The decline of investments in securities started to take place at a larger scale early 2008 as a result of the partial shift of investments from securities towards the credit to the domestic economy – characterized with higher returns. Whereas, the recent decline in these investments is mainly attributed to the negative developments in the international financial markets. A growing trend is noticed on the participation of the external commercial banks in December 2009 presented 21.5 percent of the total assets.

Table 3: Structure of assets

Description	2004	2005	2006	2007	2008	2009
Cash and balances with CBK	14.6%	13.7%	12.8%	13.8%	12.6%	15.4%
Balance with commercial banks	23.3%	23.0%	22.1%	15.2%	17.8%	21.5%
Securities	14.1%	8.6%	9.0%	5.8%	1.1%	2.5%
Loans and lease financing	44.6%	51.1%	52.6%	60.1%	64.1%	56.7%
Fixed assets	2.0%	1.8%	2.0%	1.9%	2.2%	2.0%
Other assets	1.4%	1.8%	1.4%	2.9%	2.3%	2.0%

Source: Annual Reports of CBK

The exposure of banking sector assets to the external sector is equivalent to 11 percent of GDP. The banking sector assets that are invested abroad mostly comprise deposits at commercial banks and investments in securities. Whereas, the major part of banking sector assets (89 percent of total) is invested in the domestic economy. As a result, the Kosovo banking sector was less sensitive to the turmoil that occurred in the international financial system.

The structure of banking sector liabilities has not undergone substantial changes compared to the previous periods. Deposits continued to constitute the largest part of the liabilities, accounting for 83.7 percent of total liabilities or euro 1.8 billion. The second largest category of banking sector liabilities are own resources, which account for 9.8 percent of the total. The increase of the value of subordinated debt from euro 7 million in December 2008 to euro 24 million in December 2009 represents a more fundamental change in the structure of banking sector liabilities. One explanation for the increase in the value of the subordinated debt may be that commercial banks are taking advantage of the decline in the cost of funds abroad. However, this could also be a response of banks to the slowdown in the growth rate of deposits. Deposits continue to represent the main source of finance for the banking sector, hence the exposure of commercial banks to the fluctuations in the cost and supply of capital in international market is considered as low.

Banking sector performance

The slowdown of the banking sector lending had a direct impact on the profits[10]. The net profit of the banking sector in December 2009 amounted at euro 25 million, which is for 30.4 percent lower compared to the same period of the previous year. This decline resulted from the lower growth rate of revenue. The income of the banking sector recorded an annual increase of 9 percent. On the other hand, banking sector expenditures were less responsive to the slowdown in the lending activity, recording an annual growth rate of 29 percent. As a consequence of the lower profit, the profitability indicators of the banking sector recorded a substantial decline.

[10] Financial sector bulletin, Prishtina, 2010, Pg.17

In this context, the Return on Average Assets (ROAA) declined to 1.5 percent (annualized) for year 2009 from 2.4 in 2008. The Return on Average Equity (ROAE), which is also an important profitability indicator, stood at 12.8 percent compared to 20.2 percent in the same period of the previous year. The decline in the value of ROAE is primarily attributed to the lower level of profit before tax compared to the previous year. The lower profitability of the banking sector was primarily driven by the decline of the banking sector profit margin, which is a consequence of banking sector income increasing at a lower rate compared to expenditures. Another negative impact on the profitability of the banking sector was posed by the decline of the risk level, which reflects the slowdown in credit by the banking sector. Even though the decline of the risk level had negative impact on the profitability, the overall impact on the stability of the banking sector may be positive, since it suggests that banks are undertaking lower risks.

The lower growth rate of banking sector is income is mainly attributed to the lower rate of income from interest, and specifically to the lower growth rate of interest income on loans. In addition, the decline of the EURIBOR rate led to a lower level of income from the placements with banks abroad. A lower growth rate was recorded also in other sources of the banking sector income, such as fees and commissions. The main source of the banking sector income continues to be represented by interest income on loans, which in December 2009 accounted for 81 percent of total banking sector income. The high reliance on this source of income reflects the overall structure of the Kosovo banking sector assets, where loans account for the largest share.

Table 4: Banking sector income statement, in millions of euro

Description	2004	2005	2006	2007	2008	2009
Income	74,199	95,356	115,025	155,697	193,859	200,762
Interest income	54,562	72,223	88,805	117,692	155,708	163,230
Non-interest income	19,637	23,133	26,220	38,005	38,151	37,533
Expenditure	64,167	82,376	94,859	122,625	157,490	175,462

Interest expenditure	9,717	15,432	19,910	25,826	38,097	52,174
Non interest expenditure	13,684	14,388	13,713	20,308	22,203	32,643
General and administrative expenses	37,137	49,274	54,839	68,443	86,002	87,087
Net income before tax	13,661	16,262	26,562	41,120	47,557	28,858
Provisions for tax	3,629	3,282	6,396	8,048	11,188	3,560
Net profit /loss for period	10,032	12,980	20,166	33,072	36,369	25,298

Source: Erdin Maloku, Politika monetare dhe Banka Qendrore e Republikës së Kosovës – avantazhet dhe disavantazhet e përdorimit të euro-s në Kosovë, Prishtinë, 2010, page 27

Similar to the previous periods, interest expenditures have continued to grow, resulting from the increase in deposits as well as the increase in deposit interest rates. A growth has been occurred in the non-interest rate spending in December 2009 there was a participation by 19 percent of total spending of banking sector. The increase of non-interest expenditures is mainly attributed to provisions for loan losses, which in December 2009, increased annually by 47 percent, as a result of the potential increase of non-performing loans. The higher growth rate of banking sector expenditures compared to the growth rate of income led to a cost-to-income ratio of 86.3 percent in September 2009 compared to 73.1 percent in September 2008, implying lower banking sector efficiency during this period.

Banking sector indicators suggest that the Kosovo banking system continues to have a high level of sustainability. Capital Adequacy Ratio (CAR) is important indicators, which determine the bank's capacity in terms of meeting liabilities and cover the potential losses from credit risk. This indicator is expressed as a ratio between the banks' capital and risk-weighted assets. In December 2009, the CAR for the banking sector was 17.9 percent, exceeding the minimal requirement of 12 percent. All banks operating in Kosovo are well capitalized with no difficulties meeting minimum requirement for CAR.

Another important indicator for the assessment of the banking sector soundness is the quality of loan portfolio. The Kosovo banking sector traditionally was characterized with low levels of non-performing loans (NPL). The share of NPL to total loans averaged at 3.4 percent for the period

2006 - 2009. However, the weaker performance of the real sector and slowdown in lending, to some extent, reflected negatively in quality of loans, thus increasing the share of NPLs to total banking sector loans at 4.3 percent in December 2009. The commercial banks operating in Kosovo and the Central Bank continuously applied a more conservative approach with regard to the coverage of non-performing loans by provisions for loan losses. This may well describe the risk-aversion of the commercial banks and the Central Bank. As a consequence, NPLs have continuously been covered by more than 100 percent with provisions, while this ratio reached at 140 percent in December 2009. Moreover, the results from the stress-test exercise conducted by the central bank based on different scenarios suggest that the banking sector in Kosovo is capable of sustaining even higher levels of non-performing loans.

Table 5: Non-performing loans and loan loss provisions

Description	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Problematic loans\loans	6.5%	7.1%	6.7%	4.8%	4.7%	6.60%
Non-performing loans\loans	2.4%	3.5%	4.1%	4.1%	3.3%	4.30%
Loan loss reserves\Non-performing loans	204.1%	121.0%	124.0%	118.3%	136.8%	140.80%

Source: Annual Reports of CBK

From the data as of December 2009 it can be observed that the Kosovo banking sector has a satisfactory liquidity position. Deposits, as the main source of liquidity for banks, have continued to increase at a higher rate than loans. The loan-to-deposit ratio in December 2009 was 72.1 percent, which is lower than the ratio of 80 percent recommended by the Central Bank, suggesting strong liquidity position of the banking sector.

Table 6: Liquidity indicators

Description	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Loan\Deposit	53.9%	61.2%	65.9%	76.4%	80.2%	72.10%
Liquid assets\Assets	50.2%	43.4%	42.6%	35.0%	31.5%	39.4%
Liquid Assets\Deposits	57.7%	49.8%	50.7%	42.2%	37.6%	47.1%
Liquid Assets\liabilities	54.7%	47.0%	47.0%	39.4%	35.4%	43.6%

Source: Annual Reports of CBK

The improvement in the liquidity position of the banking sector is also shown by the share of liquid assets to total assets, which in December 2009 reached at 39.4 percent. The improvement of banking sector liquidity position was mainly driven by the lower growth rate of loans. However, also the anticipation of the withdrawal of PTK deposits, which from October 2009 were transferred to the Government of Kosovo as dividends, might have pressured banks to strengthen their liquidity position. The withdrawal of these deposits can limit the banking sector capacity to expand lending activity. Despite the turmoil in the external financial sector, all the banks operating in Kosovo have had a good state of liquidity during the time when global crisis evolved, servicing all their liabilities without difficulties.

Pension funds

The pension system of Kosovo continues to operate as a modern scheme, which is organized on three main pillars. The first pillar refers to the basic pension provided by the Government of Kosovo, which is paid to all individuals over the age of 65. The second pillar is managed by the Kosovo Pension Savings Trust (KPST) and consists of the mandatory contributions, which are paid by the employer and the employee, each contributing by 5 percent of the employee's salary. The third pillar represents the voluntary pension scheme where, in addition to the KPST, also the Slovenian-Kosovo Pension Fund operates.

Among the financial institutions operating in Kosovo, the KPST was mostly affected by the global crisis. The impact of the crisis on the KPST was mainly manifested with the decline of its share prices on the investments abroad. In February 2009, the unit price of the KPST shares reached the lowest level accounting for 0.796 euro per unit. The fluctuations in the value of KPST investments were in line with the general developments in the global financial markets.

The performance of the global markets began to improve after the second quarter of the 2009. This improvement also reflected in the performance of KPTS shares. As a consequence, by September 2009, the value of the KPST share increased to 0.95 euro per unit. Positive developments continued to take place also during the remainder of the year. As a result, the KPST investments recorded positive returns on, which in September 2009 reached the value of euro 35.6 million.

Insurance companies

In the insurance market of Kosovo currently operate eleven companies, of which eight have foreign ownership and three are domestically owned. The insurance companies' assets continued to grow, reaching euro 80.1 million in December 2009. The structure of the assets continues to be dominated by the deposits that compose 67 percent of total assets. The liability structure is dominated by the shareholders' capital, which recorded an annual growth of 13 percent in December 2009 and represented 51 percent of total liabilities. Another important category of liabilities consists of the technical reserve which represents 44 percent of total liabilities.

The insurance sector continues to show positive results, both in terms of the number of insurance policies sold and the value of premiums received. In December 2009, the number of insurance policies sold reached 404 thousand, which represents an annual increase of 8 percent. Whilst the value of premiums received increased to euro 53 million in December 2009. The increase of the value of premiums received was also supported by the development of life insurance products. The value of premiums generated by the life insurance products reached at euro 15 million in 2009 from euro 7 million in 2008. Nevertheless, the largest share of premiums received continued to be generated by the insurance of motor vehicles through the Third Party Liability (TPL) policies, which represented 53 percent of total premiums received. The value of premiums received from TPL policies in December 2009 amounted at euro 29 million, which is for 1.5 percent lower than in December 2008. Another source of income for the insurance companies comprises of border insurance policies. The value of premiums generated by this type of policies amounted at euro 10 million in December 2009 (euro 9 million in December 2008).

The value of claims paid by the insurance companies reached at euro 23 million in December 2009, which represents a decline of 2 percent compared to the same period of the previous year. This resulted primarily from the decline in the value of claims paid to the holders of TPL policies, which in December 2009 amounted at euro 12 million that is for 12 percent lower than in December 2008. As a consequence, the ratio between claims paid and premiums received declined at 24 percent in December 2009 from 40 percent in December 2008.

Micro-Finance Institutions

The micro-finance institutions (MFI) represent an important sector in the Kosovo financial system, and are continuously increasing both in terms of the number of institutions and in terms of the value of assets. In December 2009, the number of micro-finance institutions operating in the Kosovo financial sector increased at 19 from 16 that were operating at the same period of the previous year.

The total value of MFI assets reached at euro 134 million, which represents an annual increase of 35 percent. The structure of assets is dominated by loans, which in December 2009 accounted for 81 percent of the total assets. The amount of loans extended by MFI reached at euro 109 million euro in December 2009, which represents an annual growth of 22 percent. Loans issued by MFI are predominantly small loans, a substantial part of which is dedicated to the financing of agriculture projects. The growth trend of loans issued by MFI was similar to the previous periods. As a result, the share of loans issued by MFI to the total amount of financial sector loans increased at 8 percent in December 2009 from 7 percent in December 2008. The main source of finance for the MFI activity continues to be represented by credit lines received from abroad, which in December 2009 reached at euro 80 million or 54 percent of total liabilities.

Conclusions

The Central Bank of the Republic of Kosovo, a successor to the Banking and Payment Authority of Kosovo and to the Central Banking Authority of Kosovo, is an independent juridical entity with full capacity as an legal person under the law applicable in the Republic of Kosovo.

The CBK enjoys operational and administrative autonomy and function outside the framework of the Kosovo governmental structures and the Kosovo Civil Service. The CBK and the members of its decision-making bodies are independent and are not bound by its instructions of the government or any other authorities in carrying out their legally defined tasks, nor may they seek their guidance or direction. The CBK is responsible for the maintenance of the Euro currency, which is in use as the legal tender in the Republic of Kosovo. The CBK manages and oversees the banknote and coin circulation in line with the best practices and standards.

The CBK maintains its financial independence through consistent earnings with respect to cost efficiency of its activities and operations. Since the CBK does not generate income through monetary operations, its earnings are market determined. The CBK sets fees and charges related to the provision of its services according to the best standards and practices. The primary objective of the CBK is to preserve the value of its financial assets and maintain its capacity to support the liquidity of the financial sector jointly with the Treasury of the Ministry of Economy and Finance.
The mission of the CBK is to safeguard the financial and monetary stability, to ensure an efficient payment system, and the supply with cash, to provide economical advises to public entities through development of the financial market, and to contribute to the sustainable economic development of Kosovo.

The vision of the CBK should be to offer particular and valuable contribution to development and sustainability of the financial sector in Republic of Kosovo, in order to be on the group of the efficient and effective national banks and to contribute on the process of full membership of republic of Kosovo in the institutions of European Union. In all of its fields, it should make efforts to achieve the highest level of excellency, competency, integrity, efficiency and transparency.

In compliance to the vision and it mission, the CBK should build and implement strategies, which enable to promote and ensure financial stability and to contribute to the growth and successful economic development of Republic of Kosovo in the future. The objectives of this strategy should be:

- To promote and foster financial stability in the Republic of Kosovo
- To support general economic policies to achieve sustainable economic growth in the Republic of Kosovo
- To ensure development of contemporary interbank systems and to provide effective banking services to customers
- To promote sound development of the financial sector in the Republic of Kosovo
- To contribute to the processes for integration into European Union and other international institutions

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