

THE KOSOVO BANKER

The Banking Sector and the
Business Environment

Overview: Bank Loan, Main Source
of Enterprise Financing in Kosovo

What Are the Achievements so
Far and What Ought to Be Done
Further in Developing the Kosovo
Payments System?

RESPONSIBLE BANKING

Ethical banks unlike conventional banks are not interested only in the customer's potential to repay the loan or lending regulatory aspects; they are interested in the impact that this credit has on economic development, society and the environment



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KOSOVO BANKERS' ASSOCIATION

THE KOSOVO BANKER

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The Kosovo Bankers' Association (KBA) is the voice of the banking industry in Kosovo. KBA cooperates with the Government, the Central Bank of Republic of Kosovo, the media and public opinion to support a sound banking industry which promotes long-term economic development for Kosovo.

KBA facilitates cooperation between the banks by offering a single platform for joint lobbying and to discuss new initiatives; identifies and influences the legal and regulatory initiatives; coordinates joint activities for banks and promotes banking activities to the general audience. The KBA Training Center operates within KBA and it offers trainings in banking and finance.

"The Kosovo Banker" is a publication of the Kosovo Bankers' Association. The magazine is published twice a year with the aim to properly inform the public on the banking industry in Kosovo. Kosovo Banker's Association; St "Bajram Kelmendi", No.15, Pristina; 10000. Republic of Kosovo; +381 38 246 171; www.bankassoc-kos.com ; contact@bankassoc-kos.com;

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Editorial



PETRIT BALIJA

EXECUTIVE DIRECTOR
KOSOVO BANKERS'
ASSOCIATION

DEAR READERS,

It is my honor to welcome you to the third issue of "The Kosovo Banker" magazine. In contrast to the two other issues, this number is solely dedicated to you, as it is distributed through the daily newspaper "Koha Ditore". As in the first two issues, the third issue of The Kosovo Banker will continue to address important topics of the banking and financial sector, in general, brought to you by professionals and experts in related fields, in order to unfold to you more accurate and comprehensive first-hand information from people directly involved in the scope of related activities.

Kosovo Bankers' Association is happy to inform you that in the wake of public information and its efforts to be closer to the general public, this time we have managed to significantly increase the edition size of your magazine.

In an open and competitive economy, in an environment dominated by free thought and different perceptions, we consider that the information, explanations and data analysis, which can be found in this issue of the Magazine, will help and contribute to a better understanding not only of the business

environment and the challenges facing the financial sector, namely the banking sector, but also the overall economic development in the country.

This issue contains articles written by renowned authors and seasoned experts, such as the International Monetary Fund (IMF) Representative for Kosovo, representatives of the Central Bank of the Republic of Kosovo, representatives of the European Fund for the Southeast Europe (EFSE), as well as other experts with noteworthy experience in the banking sector. Some of the topics you will see covered in this issue are development of the payments system in Kosovo, banking ethics, as well as several other articles on a wide range of activities of the Committees that operate within the Association.

New to this issue are a series of articles, which aim to provide information and broaden the knowledge on specific banking products as part of our objective to improve financial education.

In conclusion, I would like to thank all the authors who have been part of this issue and whose contribution enriched even more the Magazine's content.

I wish you a pleasant read!



KRESHNIK
KOSUMI

COMMITTEE
COORDINATOR AND
STATISTIC OFFICER
KOSOVO BANKERS'
ASSOCIATION

RESPONSIBLE BANKING

Responsible banking, which sometimes is referred to as ethical banking, alternative banking, or sustainable banking, takes into account the social and environmental impact of its investments.

The dynamics of technological and scientific developments have facilitated easier access to banking services for all strata of society. However, these dynamics do not guarantee that the banking business will be cautious or will assess its impact on society and the environment. The recent financial crisis has brought to light the damage that can be caused by negligent banking, and has proven once again the need for a responsible and ethical approach in the financial sector.

Responsible banking, also known as ethical banking, alternative banking, or sustainable banking, takes into account the social and environmental aspects of its investments and does not focus exclusively on maximising profits. Responsible banks apply high ethical business standards which, unlike conventional banks, do not just focus on the customer's potential to repay the loan or on the regulatory aspects of lending; they are also interested in the wider impact of their lending on economic development, society and the environment. Simply put, responsible banks concentrate on financing those projects or purposes that not only increase the capacity of borrowers to repay the loan or improve their living conditions, but which also have no negative impact on society or the environment. Therefore, responsible banking avoids promoting consumer lending, which generally reduces the financial capacity of the borrower and potentially destroys it.

Furthermore, responsible banking means avoiding projects that can have a negative impact on social development and environmental well-being. To this effect, such banks apply responsible banking practices and high ethical principles to the benefit of both clients and society as a whole. The sustainability of a bank is dependent on the environment in which it operates, and only a prosperous clientele and a developing economy can ensure this sustainability. All of which makes ethical banking more than just a moral imperative – it justifies itself when viewed over a longer



ILIR ALIU

DEPUTY CHAIRMAN
OF KBA BOARD OF
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period of time rather than just from the point of view of day-to-day business needs and quick profits.

How is responsible banking applied in practice?

This paper aims to highlight ethical banking principles, their current application within the banking sector, and the positive impacts on society and the environment which can result when they are correctly applied.

Responsible banks adhere to the same rules and regulations as conventional banks. But, beyond that, responsible banking is based on ethical principles, which are applied in their banking operations on a daily basis and which are incorporated into each and every banking service. In this way, these ethical principles guide the operations of a bank as a matter of course and best practice.

With the aim of explaining how a comprehensive model of responsible banking operates, this article is based on the current discourse on ethical banking principles, as well as on the practices applied at the institution where I work. This should not only highlight the current debate and the positive impact of responsible banking in societies where it is applied, but also the practical application of high ethical standards within the operation of a bank.

Among the many ethical banking principles, transparency and unambiguous lending policies are considered to be of particular significance.

Transparency

As already mentioned, transparency is considered to be at the forefront of ethical banking, meaning that an institution freely offers and facilitates access to transparent information to customers and the general public. In this way, a financial institution is open and uncomplicated.

Part of the business ethics of the banking industry are also initiatives designed to inform and advise clients and the wider public about the importance of not becoming



overindebted due to choosing inappropriate banking services that can worsen their financial situation.

Alongside this, financial institutions are required to be prudent and responsible, basing decisions on sound financial analysis, the economic situation of clients, business potential and capacity to repay, so that customers can benefit from most appropriate banking services, including loans. The importance of such a financial approach is further emphasised when we consider the recent problems experienced in many countries caused by aggressive lending and incomprehensible price structures. Because of this, it is vital not to promote a culture of consumer borrowing. Instead, the promotion of a culture of saving and using prudent banking services, which allow individuals and families to increase their financial security, must prevail.

Lending

Lending is the dominant activity of commercial banks, and as a result the promotion and development of lending facilities for individuals and businesses are weighted particularly highly.

Where businesses are concerned, lending should serve to support projects that have a higher return on investment than cost of financing, and banks should advise customers on the best investment options. But in the case of private clients, banks should not promote consumer loans; because by definition consumption does not improve anyone's financial capacity, it tends rather to restrict it.

Being a responsible banking institution also means being aware of the impact that investments and loans have on society and the environment. So, responsible banking deals with and takes action on the implications of its lending policies.

Banks, with their intermediation role in the economy, have an undeniable impact on the environment through projects funded by businesses finance. This role demonstrates the potential of banks to raise awareness among businesses of the impact that they have on the environment. By conscientiously declining requests for funding that would result in environmental damage, customers are made aware of the detrimental consequences their activities have on society.

Therefore, it is essential to integrate environmental standards into the lending process by assessing the potential

environmental risk associated with each loan.

Banking ethics define the standards for determining the environmental impact of loans, by ensuring that loan applications are assessed in accordance with strict environmental criteria. The inclusion of environmental issues in the loan approval process also contributes to the awareness of clients towards environmental protection.

Green loans have already been introduced by responsible banks around the world, and they are available here in Kosovo too. These are specially designed banking services to promote investments in saving energy, renewable energy and other environmentally friendly projects. For instance, eco-investment loans are disbursed for energy efficiency measures, with the aim of reducing energy consumption and to foster the use of renewable energy sources.

The financing of such investments contributes greatly to the promotion of environmentally friendly businesses and houses, and at the same time stimulates the green economy in Kosovo.

Internal performance

In addition to external environmental performance, responsible banking principles also ensure that environmental performance is taken seriously within the institution. In fact, responsible banking places equal importance on both external and internal performance. Here I would like to mention the application and management of an internal environmental system, which promotes a culture of environmental protection inside the bank itself. This includes investments in the design of bank branches to ensure the efficient use of energy, avoiding the use of plastic materials, introducing paper recycling, and more besides. An essential component in this respect is staff training and increasing awareness about saving energy, water and paper.

Practitioners of responsible banking

The debate on the wider application of responsible banking continues. But, what everyone agrees on is that a responsible bank cares about the impact that its investments and banking activities have on society and the environment. It does this by incorporating the principles of ethical banking into its internal policies and then, of course, ensures that these policies are also followed by its staff, who are the public face of responsible banking.



The Banking Sector and the Business Environment

Main idea: new country, building new institutions, including the financial sector and the major challenges to use the banking system as an engine to support growth and development of a productive private sector in Kosovo

Trends and background

Kosovo is a very young economy that faces considerable political and social challenges. Kosovo's financial sector is dominated by banks and has expanded rapidly since 2000. Financial system assets as a share of Gross Domestic Product more than doubled between 2003 and 2012. Commercial banks, account for more than 75 percent of total financial system assets and around 60 percent of GDP. The three largest locally incorporated banks are subsidiaries of European banks and together account for more than 70 percent of bank assets. One of the three medium-sized banks is also foreign-owned.

The nonbank sector is represented by pension funds, micro-financial institutions and insurance companies. After banks, pension funds are the largest financial intermediaries, and their investments represent about 20 percent of total financial assets. There are also 14 small microfinance institutions managed by nonprofit organizations, which are not deposit-takers. Although small, the microfinance sector is a key lender to small businesses, agriculture, and low income households, it accounts for 4 percent of the total loan



JOSE SULEMANE

RESIDENT
REPRESENTATIVE
INTERNATIONAL
MONETARY FUND

portfolio of financial institutions. Finally, the insurance sector is represented by one life and 10 non-life insurance companies that together comprise about 3 percent of total assets.

The CBK is the single supervisor for all financial intermediaries. It issues banking and insurance regulations, as well as prudential rules for the pension funds. In spite of the fact that microfinance institutions are not deposit-takers, they are also supervised by the CBK.

New country and new institutions

Kosovo is a new country and in the process of building its own domestic institutions, following international standard and good practices in the respective sectors of activity. It has been shown that part of the development process of a country is the establishment of appropriate institutions that support competitiveness, efficiency and enhance the productive sector of the country. In this regard, building new institutions is an ongoing process and they have to be established from scratch in some cases, and they will transform as the economy develops over the medium to long run.

In the context of the financial sector, establishing the legal framework for the stability of the sector (new



laws, amend existing laws, transforming UNMIK regulations into laws adjusted the current situation of the country) is of the utmost important to settle the ground for future. At the same time, there is also a need to address inconsistencies in the current regulatory framework and ensure coherence. Kosovo's legal system has been developed afresh since 2000. To quickly build the necessary institutional capacity, many public institutions have received intensive international technical assistance, including from the IMF that has been an important partner in this area. To be realistic, receiving assistance from a whole set of different international stakeholders may sometimes require more coordination and consistency to enhance synergies among them and in their role of supporting the authorities in their endeavors.

In the middle of this setting, it is important to deal with the most critical parts of the financial sector going forward, taking into account the domestic capacities to absorb and implement reforms. In this sense, the banking sector has a special systemic role, given its size and

importance for the economy, and it is placed in the authorities' agenda as key in their design of policies and reforms. Of course, other segments of the financial sector must also be looked at: insurance, pension fund, micro finance institutions, and non-banking institutions.

In the context of Kosovo, there is an additional aspect that has to be taken into account when analyzing the financial sector in general. This is linked with the choice of Euro and the implications on the role of fiscal policy and structural reforms.

Kosovo has unilaterally adopted the Euro as its legal tender in 2002. While this supports stability by providing a strong monetary anchor and has generally served the economy well, it places a premium on disciplined macroeconomic policies, makes fiscal policy the main instrument for domestic demand management, and imposes limitations on the central bank's ability to act as lender of last resort. In this regard, advancing with structural reforms to help build a strong productive and competitive sector is of the utmost importance, and the banking sector has a role to play towards that objective.

Financial Sector Assessment Program and major conclusions

In 2012, the authorities were involved, in coordination with the IMF and World Bank, in a Financial Sector Assessment Program (FSAP). Such exercise allows a periodic assessment of the status of the financial sector, and hints on the needs for future developments from short to long term measures to be undertaken for enhancing the financial sector in general.

One of the major conclusions of the FSAP is that although systemic risks appear to be manageable in Kosovo, there are pockets of vulnerability. Kosovo banks are exposed to macro-financial risks due to the openness of the economy, limited scope to diversify, and modest range of tools available to the authorities to promote macroeconomic stability. Vulnerabilities are exacerbated because of excessive name concentration.

The FSAP has concluded that the structure of the economy (small and concentrated) puts some constraints on the ability for banks to diversify their risks, coupled with the adoption of the euro, this puts limited cushions for them to compensate for potential macroeconomic constraints. In addition, banks are vulnerable to their highly concentrated portfolios and to interest rate risk.

Issues going forward

The background presented above and the main conclusions from the FSAP point us to several issues that the policy makers and the managers of the institutions in the financial sector should pay attention going forward. The first one is related to the need to diversify portfolios, but it means also that government policies towards strengthening the productive base of Kosovo are set up contributing to the diversification of the economy, improve levels of income, and advance with public sector activities and investments that complement and increase more domestic production.

Second, Kosovo is in a stage of development in which a dynamic process is still in process and in need of a diversification of the structure of its economy. In this context, it seems important that the banking system develop instruments, services and products to support start up of activities. The banking system should go beyond supporting or dealing only with existing or established companies with credit history, they should also support new businesses for potential new entrepreneurs, meaning more flexibility of agents in the banking sector and assume more risks, but with potential high payout and returns. Of course, the government

would also have to develop policies that are friendly to business and creates initiatives for them to proliferate and grow. This would be one way in which the banking sector would contribute to the development of the private sector in Kosovo.

Third, Kosovo is an economy with a relatively high level of informality. How to reduce informality and contribute to the development of the financial sector? How the banking system can contribute to reduce informality? Here it is important to stress that dealing with the informal sector should not be treated as a scourge in the economy, but rather it should be dealt with within the government's policy design and the institutional framework. Of course this requires some research to better identify the appropriate policies given the domestic setting and accordingly apply suitable measures.

Fourth, most of the registered companies in the country are in the group of small and medium enterprises (SMEs), therefore there is a need to link the development of the SMEs with more employment and consequently increased incomes, which contributes to development of a middle-class in the country, and expanding the size of the domestic market, which will affect the environment for business.

Fifth, the FSAP conclusions point to the need for more competition in the banking sector, as a way to contribute to reducing interest rates spreads.

Sixth, part of the process of building domestic institutions and enhancing more coordination among the domestic institutions, there is a need to use more coordination and training, in particular joint training of domestic institutions. One example would be joint training between staffs of the central bank and those of the judicial system, making the latter more knowledgeable of the financial sector issues and instruments. One could go even further, the possibility of staff in the judicial system to attend courses offered by the banking system to their own staff. These types of synergies would improve the understanding of major constraints in both sides and in this way enhancing the resolution of issues in a more expedite and concerted way.

In conclusion, Kosovo is still developing its institutions and the structure of the economy. In this process, the banking sector has a special role in promoting the productive private sector in conjunction with government policies in order to help build an economy that can face the challenges of the world economy.

Development Facility of the European Fund for Southeast Europe (EFSE DF)

Multiple and cross borrowing: what are your risks?

Today, customers enjoy access to more types of credit services (loans, credit cards, overdrafts) from a broader range of providers, thanks to the development of the financial sector in Kosovo. This means you can use several credit products at once to meet your financial needs, sometimes even from a variety of providers. Using different credit products should not, in theory, pose a risk to your household or business, as long as the product's features match your needs and capacity to repay. In practice, however, you risk struggling with managing multiple repayments, and even defaulting on your obligations – especially if you have multiple credits from multiple providers.

A picture of multiple and cross-borrowing in Kosovo

What is multiple borrowing? It means that a client is repaying more than one credit contract at a time. If these credits are taken from different institutions, then the client is not only multiple borrowing, but also cross-borrowing.

In close cooperation with the Central Bank of Kosovo (CBK), the EFSE DF conducted research on the risks of multiple- and cross borrowing and client over-indebtedness in Kosovo¹. The study results show that while lower-income

(micro) borrowers usually take just one credit, up to two-thirds of borrowers in higher-income segments have more than one credit obligation². Where clients multiple-borrow, cross-borrowing from different institutions is common – over half of the borrowers with more than one credit are clients of several institutions.

What are the consequences of multiple and cross-borrowing?

Remember that by taking too many debts you may become over-indebted, that you will have to spend too much of your current income on monthly repayments. It may also lower your repayment discipline, because it's a challenge to manage several (often unsynchronized) repayment schedules.

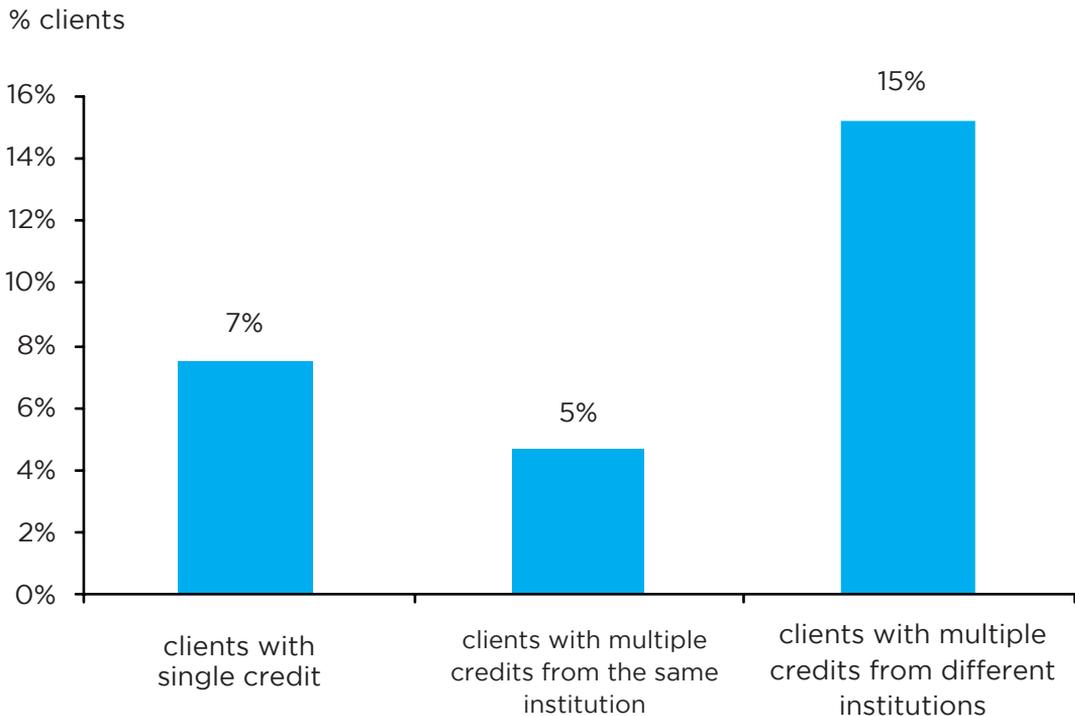
In fact, Credit Registry data show that multiple and cross-borrowers are often more than 30 days behind in their repayments. On the other hand, clients with different credits with the same institution usually have the best performance in terms of timely repayment. For example, only 5% of clients with several credits from the same institution are more than 30 days overdue, whereas you'd be three times more likely to be late with multiple credits if they were from different providers (see Figure 1).

Interestingly, repayment discipline for clients with a single credit doesn't tend to be as good as for those using a variety of credits from

¹ If you want to learn more on how people borrow in Kosovo and what drives over-indebtedness and credit defaults read the summary papers of research studies conducted by Justyna Pytkowska (MFC) on behalf of the EFSE Development Facility and in strong cooperation with the Central Bank of Kosovo in 2011 and 2012, available at www.efse.lu in the Responsible Finance Studies section.

² "Micro borrowers" are defined as clients with credits below 10,000 Euro, the two upper segments are clients with credits between 10,000 and 50,000 Euro.

Figure 1: Repayment performance of multiple- and cross-borrowers: % clients overdue for more than 30 days



one institution. This could be because financial service providers make sure that any additional products don't overstretch client's capacity to repay.

Why would you take more than one loan at the same time?

Clients often have diverse needs which can only be satisfied with different credit products. Businesses take separate loans for investment and working capital. Overdrafts can finance short-term costs or simply smooth business cash flows. Credit cards also let you make cashless payments.

The real risk begins if you take another credit when you are already over-indebted and have

a problem repaying a current credit (usually from a different institution). When this happens, multiple credits can solve an immediate difficulty, but will make your long-term problem with repayment capacity that much worse.

Why would institutions give new loans to clients with existing credits?

Banks offer a variety of different credit products to meet their current clients' diverse needs. But they also try to attract clients away from other institutions. In these cases, credit providers are more interested in "taking over" the client than whether that client is at risk of not being able to repay.

“The over indebtedness study provided by EFSE was the first one ever done in Kosovo and it was done in close cooperation with the staff from the Credit Registry of Kosovo. The results were very useful for purpose of assessing the soundness of the financial sector. The EFSE was so generous as to hand over the complete study methodology to the CBK, which will run such studies in the future. Results of these studies will help the CBK to further strengthen its risk based supervision as well as to address an important component of financial literacy—debt literacy. Definitely, people would need advice how to cope with debt stress. Empirical evidence from various countries shows that consumers often are not aware of considerable cost they pay due to financial ignorance.”

Gani Gerguri, former Governor of Central Bank of Kosovo

How can you avoid risks arising from multiple and cross-borrowing?

Multiple and cross-borrowing is risky, and can lead to poor repayment performance or even over-indebtedness. Importantly, the Credit Registry of Kosovo provides real-time, high-quality information on the credit obligations of individuals and businesses, so that credit providers can understand the scale and depth of debt for each loan applicant. However, just because this information is available doesn't necessarily prevent financial institutions from giving too many credits to one person. Providers should in the first place be more prudent in assessing the repayment capacity of cross-borrowers.

Beyond this, it's important that you as a client are aware of the risk involved in multiple- and cross-borrowing. Remember that misjudging your ability to manage multiple repayment schedules can have serious consequences.

If you want to avoid defaulting on your debt, make sure to use good financial planning of your household budget and business cash flow projections. This will help you to know whether your future income will cover your repayments, and where you might fall short. Sign up for a financial education course (typically offered to borrowers), get involved in awareness-raising campaigns, and make sure to pick up brochures and leaflets that promote good financial management and planning. You should be able to keep on top of your deadlines by running a repayment calendar.

At the end of the day, you and your financial service provider need to work together to help you avoid the risk of taking on too much debt. Your institution should adhere to responsible lending policies, especially in the case of multiple- and cross-borrowers. And you should be aware of the risks of taking on too much debt, and learn how to manage your finances (both household and business) to avoid those risks. The tools you need to do so are available – ask your financial service provider for help. By working together, both you and your bank will succeed!

If you want to learn more on how people borrow in Kosovo and what drives over-indebtedness and credit defaults read the summary papers of our research studies available at www.efse.lu in the Responsible Finance Studies section.

What Are the Achievements so Far and What Ought to Be Done Further in Developing the Kosovo Payments System?

The path of initiative towards creation and development of a new payment system in Kosovo was associated with ever-growing willingness and commitment to a better tomorrow.

The Kosovo banking system consists of an effective set of instruments and electronically-processed payment services with execution of around 23 thousand interbank transactions amounted to over 26 million Euros a day, which are successfully processed and cleared through Electronic Interbank Clearing System (EICS) of the Central Bank.

Today, thousands of salaries, bills and benefit payments of the Kosovo's citizens, invoicing for public sector suppliers, insurance companies' payments, the Kosovo Customs and KTA payments, and many other payment categories and types, are executed in a fast, safe and effective manner through the Payments System of the Central Bank of the Republic of Kosovo.

Yet, not so long ago, some thirteen years back, we started from scratch. Technical and legal infrastructure was inexistent and the number and value of transactions was equal to zero. The path of initiative towards creation and development of a new payment system in Kosovo was associated with ever-growing willingness and commitment to a better tomorrow. This was achieved in cooperation with Commercial Banks that joined the Interbank Payments System and helped in channelling transactions through bank accounts. Substantial assistance in this regard was provided by governmental institutions, in particular the Department of Treasury/Ministry of Finance, public and insurance companies, which by nurturing a climate of trust in our new banking system, simultaneously contributed to the standardisation of



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bills as well as of payment methods and instruments.

We started with a simple manual clearing system, the exchange of two to three orders on paper between the CBK (then BPK) and the two/three commercial banks initially operating in Kosovo. First important step in this path of initiation and further development of the system was the transition to the so-called Electronic Interbank Clearing System (EICS), progressing ahead with changes and unremitting achievements such as the implementation of the Bank Account Numbering System for all accounts of the banking system in Kosovo, which significantly increased the efficacy of the payments system and simultaneously opened up opportunities for other developments and reforms. In the wake of these developments and achievements, was undoubtedly the implementation of Massive Payments Scheme, which was inaugurated with payments of the Kosovo Tax Administration and advanced on with the recognition and development of yet another new scheme of payments, the "Kos-Giro". The Kosovo Energy Corporation, the Post and Telecommunications of Kosovo, the Kosovo Property Agency, the Kosovo Customs and all Insurance Companies operating in Kosovo, joined the scheme, thus making it the promoter of the standard payment processing and an automated settlement and account coordination system. Yet another achievement was the installation of the EICS in the Treasury/Ministry of Finance, which was thenceforward followed by the standardisation of the public revenues collection, respectively the "Unique Reference Number (URN)".



Kosovo	2011	2012	Difference in %	Krahasime
GDP	4.7 mil. euro		3.8%(f)	2,650 per capita
Interbank transactions value	5,086 mil. euro	5,681 mil. euro	11.70%	3,129 per capita
Client accounts	1,675,824	1,770,986	5.70%	98.00%
E-banking accounts	68,990	97,089	40.70%	5.00%
Direct-Debit accounts	2,159	2,750	27.40%	0.20%
Number of cards	637,519	708,674	11.20%	39.00%
ATM	460	483	5.00%	266 per mil inhabitants
POS	7,534	8,592	14.00%	4,734 per million inhabitants
E-banking transactions value	218,089,663.00	1,499,093,438.23	23.10%	825.67 per capita
Card transactions value	965,501,131	1,077,060,401	11.60%	593.22 per capita

In line with these achievements, and in spite of development of more effective payment methods, the implementation of the Direct Debit Scheme, for periodic payments of different values, emerged. But then again, in this regard, we still need a firm commitment and close cooperation with commercial banks, public utility companies, institutions and other businesses to locate and make it possible to increase the use of this product in the near future. More has been expected from this payment scheme and the challenge ahead of us remains to engage with banks and companies in increasing the use of this instrument, advantages of which are indisputable. The following table shows some statistical data and relevant comparisons to the payments system.

Seen from the perspective of growth within the Development Strategy of the National Payments System (NPC), we have set down the following priorities for ourselves:

- Improving the technical and legal/regulatory infrastructure to approximate the best European practices in order to increase safety and efficiency aimed at promoting the use of electronic instruments and payment systems by the public.
- Promoting the catalyst role of the CBK through interbank cooperation, aimed at cash reduction, mainly through the approximation of national legislation with the Single Euro Payments Area (SEPA) for cash-related services and electronic instruments.
- Strengthening of a yet greater supervisory role of the Central Bank over the payments system.
- Implementing the new Payment System, "Real Time Gross Settlement - RTGS", and adaption of the existing massive payments system scheme, Kos-Giro and Direct Debit, in accordance with the international standards SWIFT 20022 and SEPA.
- Implementing the Integrated System or a very sophisticated intertwining of the RTGS with the Securities System, Interbank Market, Treasury Accounting System/Ministry of Finance, and so forth.
- Implementing the System/Centre for Interbank Card Payment Transactions Clearing;

Proactive engagement of initiatives to increase the use of new means of electronic payments through the National Payments Council and the project management group for "Reducing Cash Transactions" in Kosovo. In such wise, planning together with the banking community and governmental institutions the organising of information and awareness programmes for the public; educational programmes and promotional services for non-cash payments; publications and leaflets for financial and broad-spectrum education of bank clientele, and the like.

In conclusion, it is worth noting that the increased use of schemes, instruments and innovative services using advanced payment schemes and electronic money, is influenced not only by the safety and efficiency of payment systems, commercial banks efficient services, competition promotion and supervision, but also by the political and financial stability and overall economic development.

Overview: Bank Loan, Main Source of Enterprise Financing in Kosovo

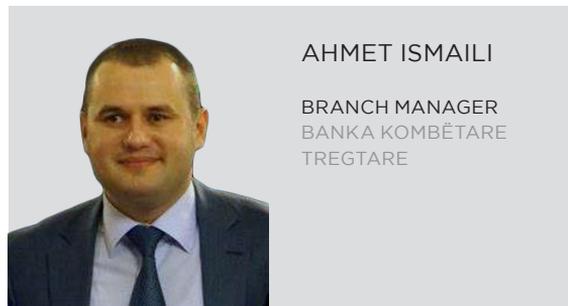
Given the lack of capital market financing opportunities, banks remain the main source of financing of enterprises in our country.

As it is well known, enterprise financing sources are internal and external ones. Internal sources include proprietary equity financing or retained earnings, while the external ones deal with borrowings from outside the company (short-term and long-term ones), including financing from banks as an outside source of high importance for the company and its operations.

Given the lack of capital market financing opportunities, banks remain the main source of financing of enterprises in our country.

It is evident that companies have different financial needs as opposed to those individual ones. The most common and typical reasons for an enterprise to address the bank loans are for fixed assets and working capital funds, such as supply with goods through a letter of credit or documentary credit that provide for payment by means of a time draft; purchase of raw materials and processing or packing materials; purchase of equipment; expansion of activity; payment of operating costs (e.g., utilities, salaries, customs, taxes), and so forth.

Hence, a business client requests a loan in order to expand the continuous circulation of his income. Here is indeed the basic difference with the individual loans (individuals wishing to use the money for personal or family purposes, without looking at creating extra income), as enterprises look at the possibility of multiplication of income, so that part of the additional income may pay interest and debt, thus creating a profit which they reinvest thenceforward in the enterprise or withdraw it in the form of dividends.



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BRANCH MANAGER
BANKA KOMBËTARE
TREGTARE

It is very important to take into account the needs of the company's fixed assets and working capital. Depending on these needs, the funding should be in line with them, mainly in terms of time. Accordingly, fixed assets should be financed with long-term loans, whereas short-term loans can work for working capital needs, credit lines or overdraft.

There are different forms of loans to enterprises, which differ in purpose, maturity, form of payment, etc. Thus, as of the manner of payment there are loans which are paid at once at the end of their maturity (Credit Line), loans in equal instalments throughout their duration, overdraft – a product that pays interest only for the days used, and so forth. A product that should be given attention is also the documentary business or financing through the provision of payment instruments, such as various types of bank guarantees or letters of credit, which have lower costs than loans and enable an efficient and secure fund, especially in the export – import relations.

One of the credit products most commonly used, especially by commercial and service enterprises, is overdraft. In cases where the bank has established a rapport of trust and has proven the solvency of the customer, it can decide to save the client from going to the bank for each and every short-term financial requirement. In such cases the parties may agree on the possibility of overdraft, i.e., the maximum extent



to which the customer can use money from his business account at the bank under particular conditions. Normally this product requires very strict procedures and monitoring in order to always being aware of the liquidity of the enterprise.

Usually, enterprise loans for certain purposes are permitted under dynamic investment plan or business plan and depending on the activity of the enterprise (e.g., manufacturing, trade, services, etc.). Depending on the nature of the activity of the loan applicant, the bank reviews and permits the loan, considering the trends and current conditions of the segment in which the client operates as very important, because, as you know, the risk of failing to credit is not the same in all economic activities. However, other loan conditions depend on the activity of the enterprise (e.g., loan term, grace period, the amount and type of interest rate, etc.), which normally along with other terms in the contract are made formal when granting the credit.

The main focus regarding enterprise loans concentrates on the purpose of the loan and creditworthiness of the company, respectively the loan applicant's ability to repay the loan on time, reaching its objectives simultaneously. It is very important that in cases of enterprises financing loan the repayment period responds to the nature of the investment, but at the same time it should be limited by the borrower's paying capacity.

Most enterprises have their own experiences in relationships with lending banks, but let us mention the

fact that it is very important to take into account the aforementioned issues before the enterprise addresses the bank loan.

In this regard, the fact of the developmental stage of the enterprise must be taken into account, namely find out whether it is in the initial or growth stage and be able to document its factual financial position and performance. In order to be able to measure the creditworthiness of the enterprise, banks require financial statements of previous periods of time (2-3 years) to see the operation of the enterprise and to assess the situation and its financial performance. Audited financial statements have become a necessity nowadays, especially when it comes to large financing.

A projection or financial planning (pro forma) would be welcome in this process, including the effect the required funding is expected to have.

By cooperating in partnership, the client and the bank must have the same goal: a cooperation that brings benefits and increases the value to the borrower and interest income for the bank. Loss and difficulties do not bring any good to any party.

In conclusion, we would like to mention that approximately 70% of the total banking system loans belongs to enterprise loans. Therefore, such funding role of banks is rather important for enterprises and their intentions in a market with ever-growing competition and where the need for investment and development is imperative.

What is FATCA?

Foreign Account Tax Compliance Act, hereinafter FATCA, is the legislation written in order to specifically address the avoidance of tax evasion by US persons through Foreign Financial Institutions. Therefore the goal of FATCA is to stop tax evasion by U.S. taxpayers using offshore (non-U.S.) bank accounts. In order to achieve this, FATCA created a new withholding regime designed to penalize Foreign Financial Institutions (FFIs) and entities that refuse to fully disclose the identities of U.S. persons holding accounts with them. Any non-U.S. bank (which qualifies as a foreign financial institution) will be invited to conclude an agreement with the U.S. Internal Revenue Service (IRS) under which it agrees to

1. identify its existing and new customers according to due diligence procedures prescribed by the IRS
2. report its identified U.S. customers and
3. withhold a 30% withholding tax on certain payments made to
 - a. U.S. customers not agreeing to disclosure (recalcitrant customers) or
 - b. FATCA Non-Compliant Foreign Financial Institutions.

"The act will increase compliance and transparency around US persons and assets whilst harshly punishing those that do not fulfill the requirements."¹

If a FATCA compliant financial institution wants to avoid the implementation of the withholding procedures, it needs to exit recalcitrant customers and non-compliant financial institutions. Moreover, should set up a process to:

- inform affected customers, and
- terminate business relation with those customers

Key FATCA Facts:

- Objective: Closing of tax-loopholes for U.S. taxable persons
- Identification of account holders and reporting of



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COMPLIANCE TEAM
LEADER AND FATCA
PROJECT MANAGER
AT RAIFFEISEN BANK
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KOSOVO

U.S. customer data including balances and independent of U.S. or non U.S. source income

- Disclosure of U.S. persons that own / are a beneficiary of foreign companies / trusts etc.
- Effective date of the FFI agreement with the IRS will be December 31, 2013.

There is potentially much complex work to be done to ensure compliance, since the time to complete a FATCA implementation could take longer than the time remaining.

The Financial Institutions must conduct deep analyses in order to evaluate the impact of FATCA into their business strategy, as well as toward the services and products they offer, customers, procedures and policies, etc.

"A senior Sponsor should be appointed to lead this work and a strong cross-functional working group should be established incorporating representation from Sales, Marketing, Operations, IT, Tax and Compliance"²

Foreign Financial Institutions should comply!

All Financial Institutions will have to comply with FATCA, even if they do not have any US clients. Moreover they will have to set up a process to prove to IRS they do not have U.S. clients or they will suffer 30% withholding tax.

¹ <http://www.worldfinancialreview.com/?p=616> - By Dana Ward and Anne Stopford

"The clock is ticking and with FATCA rapidly approaching, there is potentially much work to be done to ensure compliance."

² <http://www.bdo.uk.com/talk-shop/clock-ticking> - The clock is ticking: FATCA regulations cannot be ignored by UK financial services firms - Tim Kirk



FATCA will affect not only U.S. persons!

FATCA will place a significantly increased burden on any Financial Institution and certain NFFEs (Non Financial Foreign Entities) who must identify, document and report on U.S. accounts. Financial Institutions will broadly include every member of the investment community and as currently drafted, will encompass banks (whether retail, wholesale, investment or private); custodians, asset managers, funds, brokers and insurance companies. For FATCA purposes the term U.S. Person includes both private individuals as well as entities.

- Private Individuals can be described as persons who are citizens or residents of the United States.
- Entities that are treated as specified U.S. persons include corporations and partnerships created or organized in the United States or under the law of the United States and any estate or trust other than a foreign estate or foreign trust.

However it should be noted that not every person identified as U.S. person is at the same time FATCA relevant. One has to distinguish between specified U.S. persons and non-specified U.S. persons. While the latter ones are out-of-scope for FATCA purposes the first ones are in-scope. IRS defined several categories of entity clients which are exempt from FATCA.

Disclose!

FATCA requires to report to the IRS the personal details of the US account holder, such as the: name, address and TIN (Taxpayer Identification Number), as well as the account numbers and their balances, gross deposits or receipts and gross payments or withdrawals.

“Operational issues – Any information held on each client will have to be up to date, complete and electronically available in order to comply with reporting requirements, which may mean a laborious process of data gathering.

Compliance issues – FATCA will increase the level of US reporting to be undertaken at the end of every year by Financial Institutions. There will be issues surrounding how this information will be maintained, gathered and reported

and to what extent this may become automated.”³

Legal issues – Republic of Kosovo has legal restrictions on the disclosure of personal information to foreign governments and also the Data Protection Authorities may consider prohibiting the data processing required under FATCA.

FATCA requires that these are waived by each client where necessary and then, if refused, the business relationship with the client should be terminated. In this respect, ‘account holders’ consent to waive from data protection rules might not be considered as been “freely given”. Therefore, to enable the local Financial Institutions to fully comply with the obligations foreseen under FATCA, the national law has to be adopted. For this reason most EU Countries are negotiating an Intergovernmental Agreement (IGA).

Intergovernmental Agreements (IGA)

To improve Tax Compliance and to implement FATCA, following its enactment, U.S. Treasury has published 2 Models of the Intergovernmental Agreement.

Governments in Europe and all around the world announced agreements to develop and pilot multilateral tax information exchange arrangements.

The FATCA Final Regulation includes a step-by-step process for U.S. account identification, information reporting, and withholding by Financial Institutions.

The main difference between IGA Model 1 and 2 is:

IGA Model 1 requires Financial Institutions to report information about U.S. accounts to their own local tax authorities who then exchange information with the IRS, whereas under Model 2 of the agreement, Financial Institutions must register with the IRS and report the required FATCA data directly to the IRS. Either way, the IRS receives information about U.S. account holders.

Another advantage of such an IGA is that specific institutions and products which pose a low risk of tax evasion can effectively be exempted from FATCA requirements.

Currently Republic of Kosovo is among the countries that have not started negotiations of an intergovernmental agreement with the U.S.!

3 <http://www.worldfinancialreview.com/?p=616> - By Dana Ward and Anne Stopford

SME Development through Innovation

While infancy stage of establishment requires the SME to set up an ad hoc structure and manage the system at the given – found conditions the transformation process to the modern corporate structure requires advanced model of development

The importance of SME development is worldwide accepted to be of utmost importance especially in transition economies like the one in Kosovo. However, it is also globally proven that the development of SMEs is preconditioned with the enabling business environment that a country can offer which naturally differs from country to country. On the other side, significant number of development factors lies with the SMEs itself considering that SMEs are most adoptable business entities to different economic conditions that are used to “swim” in complex waters and find a way for opportunity exploration.

The transformation process and accepting the changes of the dynamic development systems is not an easy activity, nor it is possible to happen at the SMEs that do not pursue the normal acceptance process to those changes. While infancy stage of establishment requires the SME to set up an ad hoc structure and manage the system at the given – found conditions the transformation process to the modern corporate structure requires advanced model of development that brings the company to the more controlled mode.

Being able to drive the company through the transformation as well as grab the market opportunities is an issue that SMEs in Kosovo needs to be focused at this point of time. In a very interesting trend although highly influenced by the development of the post war



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economy SMEs tend to copy each other without a thorough analyzes of the business potential, overall market output and required expertise to exploit the copied opportunity. This copy paste inclined engagement of SMEs produces multiple negative direct and indirect effects with a long term casualties starting from exhausting huge amounts of very precious and expensive capital into activities that will not produce long term returns, killing other activities that might have been chosen instead with much more potential and are not enlivened due to lack of this particular investment, miss-orientation of the young workforce into those activities that will not absorb the same due to lack of productive capacities and development potential up to harming the profit margins of the existing SMEs already dealing with the same activities thus bringing those down to bankruptcy and contributing to increasing unemployment and all other side effects coming out of this process. Kosovo has much more investment potentials than opening a supermarket, swimming pool, shopping centers or restaurant. It is an unexplored market of many other activities in services and production units that will create a better income for the shareholders and a value added to the society as ultimate goals of a business entity. Sectors like internet based trading or specialized services and manufacturing industries offer a wide range of business opportunities that SMEs in Kosovo have to consider. Young workforce and an army of unemployed people have to be used to a “different” business opportunities that allows companies to utilize so far unutilized opportunities.



Impairment of non-financial assets in the case of economic slowdown

The recent economic storm has affected many aspects of financial reporting, among which, one of the most important, the impairment of non-financial assets. As part of non-financial assets, this paper mainly focuses on non-current tangible assets (PPE) and intangible assets (Intangibles), including goodwill.

The question that usually arises during the preparation of financial statements is whether there is indication of impairment.

The management must address such a question on an annual basis when preparing the financial statements since it is a mandatory requirement under IAS 36 - "Impairment of Assets" and Kosovo Accounting Standards (KAS) 3 - "Property, plant and equipment".

The existence of such indications obliges the management to test the entities tangible and intangible assets for impairment.

On the other hand, with regard to goodwill testing and other assets with a useful and unlimited economic life, such an impairment test at the end of each reporting period is mandatory and does not depend on the existence of these indicators.

Without listing in detail possible indicators of impairment of non-financial assets, it can be concluded that the current economic "storm" is a strong indica-

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tor of possible impairment of certain assets of companies or cash-generating units within the total assets of the company.

Which entities are affected?

There are numerous examples of how entities can be influenced by deteriorating economic conditions in Kosovo and abroad. For example, a construction company that started construction of a residential apartment complex 3 years ago, it may be currently confronted with the harsh reality of a drastic decline in sales and a lack of financing from banks.

A company that has launched a significant investment in networks for the provision of Internet services, telephony and television can face the reality of the

lack of liquidity and banks' reluctance to finance. It is also possible that the projects undertaken by this entity are no longer realistic and need change and innovation, i.e. to review the selling prices of products since the economic slowdown resulted in reduced sales prices and future cash inflows from the project are expected to be lower.

Furthermore, a firm that has invested in a mine to extract raw materials for export may face the reality of the low market prices for that commodity for a long period of time.

A very unfortunate case would be if a Kosovar entity with local and foreign shareholders starts to invest in a project in the field of health system and suddenly realize that the foreign shareholders can not increase the capital due to economic difficulties in their country of origin.

This entity will be forced to borrow funds in the banking market with interest rates that are higher than the cost of capital which would normally be added by foreign shareholders. In such a situation, although expectations on project investment inflows into the health system remain positive, the cost of financing will already be high and the value in use of the project assets, measured as the Net Present Value of the future net cash flows from use of these assets will be lower.

What are the most common problems of impairment?

The determination of the discount rate. Determining the discount rate is an important factor in deciding whether to recognize the impairment loss or not. We must be careful to avoid the use of illogical discount rates and any changes in the discount rates should be analyzed sceptically by comparing and evaluating trends in the market.

A common misconception is the assumption that a decline in interest rates of risk-free short-term financial instruments, such as the treasury bills emitted by the Government of Kosovo, will result in lower discount rates used in the impairment test.

The short term risk free rates for Government T-Bills in Kosovo have slightly fallen recently. Nevertheless, the investors required returns are also affected by their assessment of credit risk and other risk premiums, which might have increased.

To find the discount rate in an impairment test it is advisable to use the weighted average cost of capital model (WACC); which equation can be expressed as follows, according to the Association of Chartered Accountants (ACCA) of the UK:

$$WACC = KE (E/ E+B) + Kb (E/ E+B)$$

In the above equation:

Ke = cost of equity (all equity or equity)

Kb = cost of debt

E = market value of equity (equity) of the company

D = market value of debt taken by the company

The above equation takes into account that an economic entity can be funded through two forms: shareholder equity or debt.

The cost of capital can be found using the CAPM model, where $Ra = rf + (rm - rf) \times \beta$

Rm = the expected rate of return from the market in general

Rf = rate of return on risk-free instruments (risk free)

β = rate that measures the variability of returns from an action or project compared with the return that the market offers

For an action or project /investment, β measures the variability of return on this investment compared to the variability in the overall market return. Hence, depending on the industry, if the expected return from the market increases by 2%, the expected return on investment of a company operating in this industry may grow by less than 2%, 2%, or more than 2 %.

This sensitivity is measured by β . If the shares of a certain company Alba J.S.C have a β of 1.5 when the risk free rate of the investment is 2%, represented by Kosovo Government bonds and the expected return from the market is 13% (i.e. retail trade), then the expected returns from the investment in shares of Alba J.S.C would exceed the expected return on risk free investment $(13-2) \times 1.5 = 16.5\%$, thus making the expected total return from the investment in shares of Alba J.S.C be $(2 + 16.5) = 18.5\%$.

Despite the decline in the rates of return on risk free investments, the increase in market premiums and credit risk has resulted in larger factor $(rm - rf)$ and therefore in higher discount rates used in impairment tests.

This is expected since the discount rates are intended to measure the internal risk of the assets tested for impairment.

Value in use (VIU) and pre-tax discounted rates

To perform the calculation of VIU, IAS 36 requires that companies use pre-tax cash flows and a pre-tax

discount rate. However, in practice most companies use after tax cash flows and after-tax discount rates to determine the rates of VIU cash-generating units. In accordance with the standard, companies must disclose the pre-tax discount rate that is applied to calculate the VIU. The identification of pre-tax discount rates is not just a matter of presenting the gross discount rates after increasing for the effective tax rate; hence, the companies should consider the timing of cash flows, useful lives of cash generating units and estimates of future cash outflow from taxation.

Presentation

Entities that do not recognize impairment in the statement of comprehensive income when the market value of their assets is below the carrying value of assets must be able to convincingly explain their position to parties interested as becoming shareholders, investors, or other related parties.

Conclusion

Considering the recession and the long declines of market activities especially in certain industries, more companies are expected to record impairment losses in the current reporting periods. However, some companies will need to consider whether any impairment loss, for example property or machinery from prior periods should be reversed due to favourable unexpected changes that have occurred in their working environment. For example, let's say that a company recognized an impairment loss as it expected that the price of its products to fall in a medium term. However, the market has expanded and now resulted in an increase in demand (and a rising price) for products per unit. In this case, managers will need to assess whether initial impairment losses recognised, other than goodwill, should be reversed.



● KONTABILITET

- Raportim financiar sipas IFRS dhe standardeve tjera
- Mbatja e librave kontabël
- Buxhetime
- Regjistrime kontabël
- Raportime periodike

● TATIME

- Deklarime tatimore sipas ligjeve në fuqi
- Përfaqësime në konteste tatimore
- Përgatitje dhe këshilla rreth procedurave të ATK-së

● KONSULENÇË

- Planifikim, analizë dhe vlerësim të investimeve
- Vlerësim të pasurive dhe biznesit
- Dizajnim i modeleve të kosotos së produkteve dhe shërbimeve
- ProjekSION financiare
- Plane biznesi
- Procedura dhe politika për kontroll të brendshëm
- Rekrutim dhe trajnim në vendin e punës për stafin e financave
- Dizajnim i modeleve për kompensime në bazë të performancës

● TRAJNIME

- Trainime specifike për provime të ACCA dhe të ngjashme
- Trainime në kontabilitet financiar dhe menaxherial
- Trainime specifike sipas nevojës

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The Treasury Committee: Overview and Recent Developments

The Treasury Committee of the Kosovo Bankers Association was established in 2011 and its core operations and tasks are meeting the needs of its member banks in regards to financial markets' operations, establishment and functioning of the interbank market, functioning of the government debt markets, and so forth. In this respect, the Treasury Committee strives to build a position to strengthen the reputation of the banking sector of Kosovo both locally and abroad. Such an orientation implies an active and proactive approach towards all operations within the Association, in order to maximally use the high level of expertise in various fields the Institution has in its ranks. One of the first operations of the Treasury Committee was the establishment of the internal market between the banks operating in Kosovo. For many years, banks in Kosovo had very little cooperation with one another and in meeting their needs they usually exploited the partner banks abroad. Considering it as a very advantageous occasion to all market participants, the Treasury Committee agreed to establish an electronic platform for money market in Kosovo. The main objective was to develop a suitable information management platform on supply and demand for liquid funds of banks in Kosovo. It aims to accelerate access to funds in Kosovo and allocation of these funds in the most efficient manner. This type of market allows banks to lend and borrow with the rates set by the interbank market. This type of loan in the money market is usually short-termed one and can last up to three months and is mostly used to help banks in meeting the mandatory reserve requirements or acquiring different indicators that banks may have within the rules of the Central Bank or its internal management. From the moment of initiation and functionalisation of this market, as well as the functionalisation of the electronic platform, all commercial banks in Kosovo have repeatedly used the services provided, and it is hoped to expand the range of transactions in the future, in order for the interbank market to reach levels that are found in all developed countries of the world. The upward trend of changes in the banking sector of Kosovo has also contributed to the need for a more sophisticated approach regarding various problems. Establishment of the primary market of treasury bills issued by



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the Government of the Republic of Kosovo has contributed to the Treasury Committee to actively engage in all the stages, from initial ideas to issuance of first bonds. The Treasury Committee continues to be active in monitoring the functioning of the treasury bills market and also offers various suggestions and observations for faster functionalisation of the secondary market, which is expected to happen soon. The market of treasury bills and bonds is a very important segment for development of the country.

Treasury bills are securities with maturity up to one (1) year. They are issued and guaranteed by the Government of the Republic of Kosovo. They are sold through auctions organised by the Central Bank of Kosovo. Treasury bills for the first time in Kosovo were issued on 17th of January 2012 and are domestic debt instruments. In Kosovo, these securities are denominated in the currency of euro (EUR) with maturity equal to three (3), six (6) and twelve (12) months. As of the applicable regulation, only commercial banks can be participants in the primary market, while various individuals and companies can buy treasury bills through commercial banks.

Treasury bills are issued in electronic form, so they have no physical outline. The ownership-related evidence is held at the Central Bank of Kosovo. Treasury bills are sold at discount of the par value, which means that the difference between the purchase price and face value represents the interest earned from this valuable paper. Investors pay the discounted price at the acquisition date and receive the face value upon maturity.

The Treasury Committee also covers other important areas of financial operations and its purpose is to build capacity to provide high quality services in this area, in order to facilitate banking operations and affect their growth and development. Services offered by the Treasury Committee include: activities related to providing assistance to the banks and governmental institutions in the field of management of the interbank market and risk associated with these markets; implementation of the international standards set by the Basel Committee on Banking Supervision; implementation of the International Accounting Standards; and introduction of the compliance function.

The Security Committee in the Kosovo Bankers' Association



XHANAN KARQA

HEAD OF THE SECURITY COMMITTEE IN THE KOSOVO BANKERS' ASSOCIATION

DIRECTOR OF THE SECURITY SERVICE IN NLB PRISTINA
J.S.C

The Security Committee of the Kosovo Bankers' Association (KBA) operates since 2009 with its members being representatives of all member banks of the Association in charge for the security field in the banking sector.

The Committee comprises of eight members. The Committee consists of the Chair and Vice-Chair who are elected for a term of one (1) year.

Ever since its establishment, the Committee meets at least four times a year, and more frequently as it deems necessary.

In principle, the Committee deals with identification and analysis of security issues, such as security and protection of people, property and confidentiality of information in the banking sector, thus contributing to the creation, respectively improving the security system for an efficient functioning of commercial banks in the country, this being a continuing challenge for the activities of the Committee. One of the activities of the Committee is to review documents that regulate specific issues related to the banking sector security.

In line with these activities has been also the initiative taken by the Committee to examine the possibility of connecting the alarm system of the banking units with the Kosovo Police (KP). Since 2010, a series of meetings were held, where discussions evolved around the draft regulation on criteria for installation in the Kosovo Police of the alarm system of banks and other institutions, as well as on technical specifications for bank alarms, documents which have been compiled by the Police. As discussed, the initial phase would have been the launching of a pilot project in the Pristina region. But, unfortunately, neither an agreement nor something supplementary has developed in this regard, so the issue remains open.

The Committee aims to facilitate the exchange of information between the member banks of the Association and other institutions involved in secu-

rity issues and the banking sector.

As a concrete example of good cooperation between the banks that are members of the Association, it is noteworthy the exchange of information in cases of skimming attacks on ATMs we have had last year, attacks that have affected almost all the banks in Kosovo. Thanks to the Kosovo Police, suspects in this organised crime, Bulgarian and Macedonian citizens, have been arrested. Without a doubt there is still room for improvement in this regard, so that the cooperation and exchange of information of interest to all the banks is not random but is built on regular basis.

Although the Security Committee within the KBA cooperates with the CBK and KP, it is worth mentioning that a greater commitment on the part of the aforementioned structures is required, namely the Security Committee anticipates more support from them and all this intensification is sought in terms of the role of the CBK and KP in promoting and advancing of the banking sector security:

- The role of the CBK in this regard would be the promotion and adoption of international standards governing the security in certain areas, which will be mandatory for commercial banks operating in Kosovo.
- On the other hand, the Kosovo Police, with the creation of a specialised unit dedicated to the banking sector, would help prevent crime, but also in cases such as robbery, theft or breakage, and so forth, and with a specialised team that will manage the situation, we would have a faster response and the number of resolved cases would be higher.

We remain hopeful that all relevant factors will contribute even more to raise the level of security, so that the banks provide services in a safe and secure environment to its customers.

Corporate Training – Necessity of Modern Labour Market

In the wake of efforts of the Training Centre at Kosovo Bankers' Association (KBA), the year 2013 has until now, the month of June, been marked with numerous successes in organising training courses and achieving the organisation's goals in training the staff of banking and financial sectors.

Among them worth mentioning is the training course on International Financial Reporting Standards (IFRS) with Robert Hall as trainer, who in addition to the subject-matter knowledge carried an extensive experience in banking and finance from different parts of the world. The twenty-five (25) participants who attended the training came mostly from Kosovo's commercial banks and microfinance institutions, mainly from finance departments. Upon the completion of the three-day training, participants reported to be very satisfied with the content and new subjects they had learned during the training, and some of them even stated that they had only come to refresh their knowledge on the subject-matter.

Discussions with the Association's members in particular and financial sector in general led to the organising of the training course on Financial Analysis with instructor William Donovan, an expert from the U.S. Treasury. The training had a high and active participation by the banking staff, where participants had the opportunity to learn about business assessment through their financial statements. The training course was tailored in such a time wise manner so that the participants had the opportunity to practice the lessons learned in their daily work. Participants came mainly from departments of Risk, Credit Analysis and Credit Risk Measurement, Internal Control and Auditing, and Finance.

Prevention of Money Laundering and Terrorism Financing is another training which was followed with great deal of interest. Participants came from departments Prevention of Money Laundering and CBK's departments for supervision of commercial banks, insurance companies and microfinance institutions. Europe-



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KOSOVO BANKERS'
ASSOCIATION

wide known Flemish expert on the topic, Marco Zwick, led participants along the training by analysing various aspects and practical cases and comparing these experiences with the Kosovo's legislation for Prevention of Money Laundering and Terrorism Financing.

In the month of June, banks' front office staff attended the Customer Service training with Emotional Intelligence Approach. Instructor Florentina Dushi, psychologist and consultant with experience in the field of Organisation Development, led the participants along the training, advising them to consider the emotional aspects when communicating with customers and how to apply them in different occasions. Participants expressed their satisfaction as this was the first time they had heard about the emotional aspects and different personality traits within Customer Service.

Meanwhile, fifteen (15) candidates are in the final phase of the preparatory course for European Foundation Certificate in Banking (EFCB), who will undergo testing in July. During the 110 hours of preparatory course, participants learned about Monetary Policy of the EU, the European Central Bank, different bank clients and their various needs for financing, Treasury Management, Risk Management, Microfinances, Ethics, Marketing, Human Resources and General Management in Banking. All candidates who pass the test will receive certificates issued by the European Banking and Financial Services Training Network (EBTN), by which Kosovo Bankers' Association is an accredited institution and an associate member. Certificates are accepted in



all European countries and in some other countries of the world.

From the month of September 2013 until the beginning of 2014, the Banking Training Centre in KBA has planned a series of training courses and priority certification for the banking sector, which will also be lectured and instructed by renowned experts in the relevant fields.

- Payment Card Industry Data Security Standards (PCI DSS) will certify the bank staff for international standards of card data storage and will offer insights on best practices being applied to these safety standards.
- Basel II is intended to inform candidates on the regulation derived from the Basel Committee and its implications in our banks, given that Kosovo has embraced this regulation and is implementing it in our system.
- Advanced Negotiation Skills training which is intended to give candidates a deeper knowledge about the specifics and different aspects of negotiation. The programme is being developed together with experts with extensive and successful international experience in negotiation.
- Operational Risk Management will be held later this year and will contain the procedures and

rules on best management of Operational Risk and its mitigation, the implications of technology and human nature in operational errors. Training is supported by the World Bank under the Financial Technical Assistance Project.

- Human Resources Management, within its three-day programme, includes notions, practices and case studies for one of the main causes of the success of a business, the Human Resources. Training is supported by the KBA's partner in training, namely the Agency for Financial Technology Transfer (ATTF) in Luxembourg.
- E-banking will provide participants with knowledge on how to use technology for banking services and as a distribution channel for banks, important aspects of risk and safety of data, as well as how it is gradually being moved from direct services to electronic services. E-banking is another training supported by ATTF in Luxembourg.
- In the month of October, all interested individuals to make a career in banking or to get promoted to higher positions, will have the opportunity to attend a preparatory course and be certified in EFCB which is becoming one of the most internationally recognised banking certification. In Europe

Current developing trends in



IT HAS BEEN SO FAR FEASIBLE TO MAINTAIN THE BALANCE BETWEEN SECURITY AND BUSINESS MAKING

AFRIM GËRGURI

HEAD OF CARDS AND E-BUSINESS OPERATIONS UNIT,
PROCREDIT BANK KOSOVO

1) What is the level of security with bank cards?

Banks in Kosovo have made extensive investments in technology, implementing very advanced security systems in the bank cards' sector as well as in electronic services in general. To this aim, several national and international specific factors have contributed. Banks in Kosovo have begun to operate in times when card industry has taken great momentum in development and the most advanced platforms are being applied. Also, banks have been very cautious in terms of security, avoiding products and methods that could be easily misused. Eventually it has been so far feasible to maintain the balance be-

tween security and business making, by supporting and securing the clients. Another fact that has affected the level of security of bank cards has to do with national and international regulations and standards, which we are bound to apply. So, besides the central regulator, namely the Central Bank of the Republic of Kosovo, banks are licensed by the international payment systems VISA and MasterCard and are obliged to operate by their rules and standards. Moreover, compared with other regions, these standards for our country and region are much stricter on the level of technology and in terms of general regulations. Based on these arguments, development

of the bank cards industry and electronic banking services in Kosovo is followed by a very high level of security. Nonetheless, since the beginning of this industry, we are aware of the tendencies to abuse through various schemes. Card users also contribute and have a key role in the level of security. Customers, through the correct use of these products, complement and complete the security chain. In the card industry, this is of particular importance and is known as the application of "best practices".

2) What has your bank done to prevent potential fraud?

ProCredit was the first bank to issue first bank

cards in the post-war Kosovo, more precisely since the beginning of 2002, when we also founded the Card Personalisation and Processing Centre. Since then, ProCredit Bank has been applying very high security systems based on advanced technologies and standards. Our success in preventing possible fraud schemes is achieved by focusing on several areas, which represent our strategy:

- The use and monitoring of advanced technologies and professional training,
- We are the first implementers of '3D Secure' technology in Kosovo – for internet transactions with iPIN or password,
- Implementation of additional security systems that include de-

n the banking system

“We make every effort to always be up-to-date with new technologies and security standards. It is very important to enhance the level of cooperation between institutions, including joint projects and programmes for public opinion information and education, by engaging electronic and print media.”

tection and prevention,
- Standards and best practices of action,
- Information, education and collaboration with customers,
- Coordination with other parties, among which is the cooperation with the Bankers' Association (Card Anti-Fraud Committee), VISA & MasterCard, cooperation with security and law authorities, media, and so forth.

3) What can be done in the future to minimize cases of fraud with cards?

We make every effort to always be up-to-date with new technologies and security standards. It is very important to enhance the level of cooperation between institutions, including joint projects and programmes for pub-

lic opinion information and education, by engaging electronic and print media.

It should be noted that the cooperation with security authorities (Police competent units) is in a very good level, crowned with successful cases of fraud prevention. Within the Card Anti-Fraud Committee of the Bankers' Association, this year too, we are planning to organise education and information training for judges and prosecutors in the field of cards security. We believe that this correspondence will help to handle possible cases in the best possible manner and henceforth the court decisions will have greater impact in the fight against such fraud cases. In general, the work

on raising the level of awareness for all participants in the card business should continue, with particular emphasis on the customers and the general public.

It is important that customers, whether individuals, or companies, are informed and aware of the responsibility to carry out a payment. This is not only for 'sensitive' data storage of banking products but also for the methods of using and handling the cards or other electronic devices.

Therefore, it is very important to inform and notify customers about the risk if a means of payment (e.g., card) enjoys no special care and is not used according to the rules suggested by the bank. Let us take a simple

example of a house provided with all possible security techniques. But, if the master leaves the key at the door for anyone to use, then how can one talk about this house's security?

In many cases, the key to success in preventing fraud and misuse is the application of best practices for the use of the cards by the customers themselves (the processing of transactions).

Therefore, close and mutual cooperation between all the parties is crucial for a successful strategy.

In conclusion, cards and other electronic products have values and provide advanced options compared to cash, where the security aspect is certainly always on the cards and electronic services.



UP TO 30,000 EUR WITHOUT HAVING THE NEED FOR THE BUSINESS TO BE REGISTERED

SHPEND NURA

HEAD OF MICRO ENTERPRISES SEGMENT,
RETAIL BANKING DIVISION, RAIFFEISEN
BANK, KOSOVO

1) What are the general criteria for application for an agricultural loan?

General criteria for agricultural loan applications are simple and flexible. The applicant is required to be a legal resident of Kosovo, have active operations in Kosovo, refer to any of the Raiffeisen Bank branches and hence in cooperation with agricultural loan officer the application process begins, where the form with the applicant's information is filled and list of pledge is compiled (work equipment, supplies, etc.). Agricultural loans can be financed up to 30,000 EUR without having the need for the business to be registered, whereas any amount that exceeds this figure requires a registered business in Kosovo.

2) What is the maturity time for an agricultural loan?

Agricultural loan maturity date is up to 84 months. Long-term loans are mainly dedi-

cated to finance capital investments, purchase of equipment, construction of facilities, and so forth, while the short-term ones are mainly aimed at financing the purchase of goods, seasonal planting depending on customer requirements.

3) What is the grace period for these agricultural loans?

In the case of payments based on seasonality a grace period of up to 12 months is provided. This is a good opportunity for activities that have sales periods only during certain seasons of the year, and the possibility of adapting in full the applicant's requests exists.

4) What are the challenges that businesses face with regard to agricultural loans?

Certainly, in the environment and circumstances that characterise the market in which we operate, there are different challenges for businesses. We are

committed to continuously provide support to overcome them. Some of the challenges that can be mentioned are collateral coverage, lack of data on sales, market guarantee, insurance in case of damage from natural disasters, and so on.

5) What is the cooperation of banks with institutions for the development of agriculture?

Raiffeisen Bank Kosovo has had a continuous cooperation with all local and international institutions regarding the development of agriculture. On this occasion, I would like to mention the on-going cooperation with various organisations representing farmers, municipal departments and, in particular, we want to emphasise the recent agreement between the Ministry of Agriculture and Rural Development and USAID, agreement that will directly bring about yet greater support of the agricultural sector in Kosovo.



Raiffeisen Bank Kosovo, Committed to Supporting Socially Conscious Activities

Corporate Social Responsibility is an integral part of Raiffeisen Bank's strategy. It is Raiffeisen Bank's intent to be a responsible bank, fair partner and citizen-dedicated corporate anywhere the bank operates. The focus on support of various projects and organisations has shown that the Bank's commitment is serious and persistent.

Projects supported by the Bank are of an overarching character, in fields such as education, culture, sports and social welfare. One of the projects supported by Raiffeisen Bank Kosovo is the "ATOM" Project, developed by the Centre for Psychological and Social Studies and Services, ENCOMPASS. The "ATOM" is aimed to identify students with exceptional intelligence. The project also reached out to all secondary schools in Kosovo and all interested were eligible to apply. Project implementers, with internationally-recognised tests, screened the schoolchildren and the best 50 were selected. For outstanding students the summer school was developed, where schoolchildren had the opportunity to organise meetings and workshops with professors in different topics of interest to them.

In one of the meetings of the project implementers present were also colleagues from Raiffeisen Bank who gave a presentation on Human Resources, a topic selected together with the project implementers. In addition to the summer school, monitoring and consulting hours were provided for the outstanding schoolchildren.

Cooperation between ENCOMPASS Centre and Raiffeisen Bank is on-going also in the second edition of the Project. The Bank's aim to support young people and their education will remain one of its primary goals.



Social Responsibility, Unremitting Priority for BKT

For Banka Kombëtare Tregtare (BKT) social responsibility has been and remains its unremitting priority. As a result, the Bank has continuously been developing projects related to the environment and community, in order to contribute to the development of society and promote greater awareness on environmental preservation.

The concept of Banka Kombëtare Tregtare (BKT) for social responsibility under the motto "Contributing to Society" has served to provide quality products and services, creating employment opportunities, continuing sponsorship of cultural activities, sports and education.

For three years now, the BKT has been the general sponsor of the Kosovo Basketball Super League, as well as a participating sponsor in several gala evenings, where the money raised went directly in support of seriously ill children; sponsor of the Association of the Blind; education sponsor of schoolchildren with highest scores in the "Mehmet Akif" College; sponsor in support of the "Let's Clean Kosovo Up" initiative, and so forth.

Ever-growing development of the BKT in Kosovo, which currently operates with 24 branches, is based on its strategic goal to become the number one bank in the provision of financial products, by continuing growth in market share, maintaining the leading position in a variety of products, new technologies, innovative strategies and interests provided.

Several Hundred Employees of ProCredit Bank, Part of "Let's Do It Kosovo" Initiative

ProCredit Bank has enthusiastically accepted the invitation of the civic initiative "Let's Do It Kosovo", by cleaning all public spaces in cities of Kosovo where it operates.

Several hundred employees of the bank have filled in hundreds of waste bags and sacks, conveying the message that a clean environment is each and everyone's responsibility.

ProCredit Bank strongly supports the idea of this initiative that littering in the designated areas and preservation of the environment is everyone's responsibility.

For the second year in a row, we have had the pleasure together as a team of ProCredit Bank to make our civic contribution for a Kosovo with cleaner environment, and to put across the awareness message



of keeping our country clean.

We hope that the location we cleaned this year will turn into a clean public space, as it was case last year when ProCredit Bank cleaned the park and railroad in the Arbëria neighbourhood, in the city of Prishtina.

Contrary to last year, this year we managed to divide the collected waste into plastics, cans and paper.

Likewise, ProCredit Bank has helped this environmental initiative in spreading the message to all the people to come out on May 24th and clean our neighbourhood, village, city and the country.

ProCredit Bank's contribution to a cleaner and greener environment is one of the main pillars of our social responsibility and an integrated value in our work.



ProCredit Bank Supports the International Half Marathon Prishtina

With the slogan "Run for Peace and Tolerance", for the twelfth year in a row, Prishtina hosted the International Half Marathon on May 12, 2013. ProCredit Bank is a traditional supporter of this important sporting event in the country, which contributes to the image of Kosovo sports. More than 860 runners participated in the half-marathon this year.

News from the banks

Free E-banking Service, Only with Banka Kombëtare Tregtare

Banka Kombëtare Tregtare (BKT), seeing continuous growth trend in the use of e-banking, as support channel for banking transactions nowadays, has come to provide its customers with this free service and best quality possible.

Through this service, Banka Kombëtare Tregtare enables its customers to perform a very large part of their banking needs from home, without having to physically go near a bank branch and thereby lose their valuable time.

Owing to this service, individual customers can open accounts, check account history, raise deposits, keep track of their deposits, view their credit history (time, instalment, interest rate, etc.), conduct foreign exchange in different currencies, follow up the exchange rate, make transfers between personal accounts and other banks in Kosovo, obtain information about their credit cards, make card payment obligation, get cash advance from their credit card to their current account, apply for credit card, make a connection between the debit card and oth-

er personal accounts, obtain information about debit cards, have the possibility to set and change the contact information (e-mail address) and change personal information (address of residence).

On the other hand, business services offered are transfers within the BKT, raise of deposits, transfers to other banks in Kosovo, transfer within their own accounts in the BKT, foreign currency operations (purchase and sale), opening of accounts and account statement generation, to name few.

E-banking service is being offered free of charge only in the BKT to all individuals and businesses till month of September.

Cash Deposit Service in ProCredit Bank Automated Teller Machines (ATMs)



Cash deposit in ATMs is a new service from ProCredit Bank, which enables customers to deposit money easy and fast to their current accounts 24 hours a day, seven days a week, without any limitations on weekends or holidays.

Cash deposit in ATMs facilitates money management and all that is needed is for the client to possess a debit card of ProCredit Bank.

This service is provided in ATMs that are located in the Self-Service Corners within the bank's branches.

Workshop “Small Hydro Power Plants – Opportunities for Banking Sector in Kosovo”



The Kosovo Bankers Association, in cooperation with the International Finance Corporation (IFC), organised a workshop on “Small Hydro Power Plants – Opportunities for Banking Sector in Kosovo”, on May 29, 2013. Representatives of commercial banks in

Kosovo, counsellors and other speakers from the International Finance Corporation, to name few, were present at the workshop.

Also, products of advisory services and investments of the International Finance Corporation, which have been developed to support banks in financing renewable energy projects, were exhibited on this occasion.

At the conclusion of the workshop, it was estimated that investments in renewable energy represent a new area of investment in the sector with great potential in economic development of the country.

Third Albanian National Card Forum



The Kosovo Bankers’ Association, in cooperation with the Anti Card Fraud Committee, has participated in the Third Albanian National Card Forum, with the topic: “Towards a dynamic future of business”, organised by

the Albanian Association of Banks, on May 17, 2013, in Tirana. The Forum was attended by the representatives of the commercial banks of Albania and Kosovo, Bank of Albania, Visa and Master Card, Albanian and Kosovo police officers, as well as representatives of subjects providing services in the field of information technology.

This year, the Kosovo Bankers’ Association was represented by Mr Modest Morina, Head of Anti Card Fraud Committee, and his presentation was focused on recent developments that have taken place in the card industry in Kosovo.

In general, an analysis of the market situation, exchange of experiences between the two countries and the challenges ahead for the future were part of the Forum.

Finally, the Forum was regarded as a very good place where one can discuss and share experiences, assess the best ways of cooperation between institutions within the country and abroad, as well as a very good way to help prevent fraud and reduce the informal economy by encouraging greater use of electronic payment instruments.



Conference “Banking Sector in South-eastern Europe: Opportunities and Challenges”

The Kosovo Bankers’ Association has participated in the regional conference organised by The Banks Association of Turkey, in Istanbul, on May 8, 2013, titled “Banking Sector in South-eastern Europe: Opportunities and Challenges”. Participating in this event were the governors of the central banks of Turkey, Albania, Macedonia, Bosnia and Herzegovina, Serbia and Kosovo as well as representatives of the bank associations of the aforementioned countries.

All participants at the conference presented recent developments that have been made in their respective countries in the banking sector, with focus on opportunities these countries offer and the challenges they face. Kosovo was represented by Mr Gani Gërguri, who appreciated that Kosovo although a newly formed state has a good financial sustainability with a steady annual growth and, being a new market with an open economy, Kosovo presents a good opportunity for foreign investments.



Finance Fair 2013

The Finance Fair is one of the most important events in the finance sector. This event brings together main players from the finance and banking sector, and visitors of different backgrounds who are interested in finance products. The Finance Fair provides an opportunity for the banks and the finance sector to present their products and communicate with clients, policymakers, the media, and different investors. The main part of this fair, with the exception of exhibitions, is comprised of various conferences organized during the fair which cover important topics relating to the finance sector, and industry experts discuss on issues related to the economy in general. This year the Finance Fair will be held in September 2012. You can express interest to participate in the fair by writing to this e-mail address: panairifinanciar@bankassoc-kos.com

GDP

GDP or Gross Domestic Product is the total value of all products and services produced or sold within a given country and at a certain time. Gross Domestic Product is vital for a country because it shows the basic level of a country's economy, respectively it is a successful indicator of the economy of a given country. GDP can be calculated in three ways, and they are:

1. The product approach,
2. The expenditure approach, and
3. The income approach.

GDP is measured annually and hence information is updated every year. Very often, the expenditure approach is used to measure GDP and the formula for GDP by the expenditure method is:

GDP = Private Consumption (C) + Gross Investments (I) + Government Spending (G) and Net Exports (X - M), that automatically leads to the formula:

$$\text{GDP} = \text{C} + \text{I} + \text{G} + \text{NX}$$

Table below shows the 15 countries with the largest GDP.

1	United States	\$ 15,660,000,000,000	2012 est.
2	European Union	\$ 15,630,000,000,000	2012 est.
3	China	\$ 12,380,000,000,000	2012 est.
4	India	\$ 4,784,000,000,000	2012 est.
5	Japan	\$ 4,525,000,000,000	2012 est.
6	Germany	\$ 3,123,000,000,000	2012 est.
7	Russia	\$ 2,504,000,000,000	2012 est.
8	Brazil	\$ 2,362,000,000,000	2012 est.
9	United Kingdom	\$ 2,323,000,000,000	2012 est.
10	France	\$ 2,253,000,000,000	2012 est.
11	Italy	\$ 1,834,000,000,000	2012 est.
12	Mexico	\$ 1,761,000,000,000	2012 est.
13	Korea, South	\$ 1,611,000,000,000	2012 est.
14	Canada	\$ 1,446,000,000,000	2012 est.
15	Spain	\$ 1,409,000,000,000	2012 est.
16	Indonesia	\$ 1,212,000,000,000	2012 est.
143	Kosovo	\$ 13,560,000,000	2012 est.

Source: CIA World FactBook, <https://www.cia.gov/library/publications/the-world-factbook//rankorder/2001rank.html>

“Rule of 70”

“Rule of 70” shows the years by which a specific country can manage to double its economic growth. In fact, “Rule of 70” indicates for how many years can the GDP of a country double, based on current economic growth. For instance, Kosovo has a growth rate of 4% per year. If we would like to know in how many years Kosovo's economy would double, we would just take the number 70 and divide it by the current economic growth which is 4%, namely $70/4$, which means that Kosovo would manage to double its own economy for 17 or 18 years.

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Për më shumë informata rreth regjistrimit apo programit, kontaktoni Qendrën e Trajnimeve në Shoqatën e Bankave të Kosovës:

- 038 246 171
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