



TECHNICAL ASSISTANCE REPORT

REPUBLIC OF KOSOVO

Financial Sector Stability Review - Follow-up

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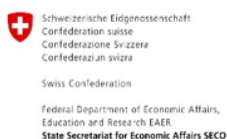
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Glossary

Acronym	Definition
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ARA	Assessing Reserve Adequacy (IMF metric)
BCP	Basel Core Principles
BBMs	Borrower-Based Measures
BSD	Banking Supervision Department
CAMEL	Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk
CBK	Central Bank of Kosovo
CCB	Capital Conservation Buffer
CCyB	Countercyclical Capital Buffer
CD recipient	Capacity Development recipient
D-SIBs	Domestic Systemically Important Banks
DFSEA	Department of Financial Stability and Economic Analysis
DIFK	Deposit Insurance Fund / Deposit Insurance Fund of Kosovo
DTs	Deposit Takers
ECL	Expected Credit Loss
EBA	European Banking Authority
ECB	European Central Bank
ELA	Emergency Liquidity Assistance
EU	European Union
FSC	Financial Stability Committee
FSI	Financial Soundness Indicators
FSSF	Financial Sector Stability Fund
FSSR	Financial Sector Stability Review
FSR	Financial Stability Review
FX	Foreign Exchange
GDP	Gross Domestic Product
HQLA	High-quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
ICPs	Insurance Core Principles
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRRBB	Interest Rate Risk on the Banking Book
IT	Information Technology
KAS	Kosovo Agency of Statistics
KCG	Kosovo Credit Guarantee Fund
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LOLR	Lender of Last Resort

LR	Leverage Ratio
MCM	IMF's Monetary and Capital Markets Department
MFB	Microfinance Bank
MFIs	Microfinance Institutions
MoF	Ministry of Finance
MOU	Memorandum of Understanding
MPAC	Macroprudential Policy Advisory Committee
MPP	Macroprudential Policy
NBFIs	Non-Bank Financial Institutions
NFCs	Non-financial Corporations
NPL	Non-Performing Loans
NSFR	Net Stable Funding Ratio
O-SIIs	Other Systemically Important Institutions
PD	Probability of Default
pnCCyB	Positive Neutral Countercyclical Capital Buffer
RBM	Results-Based Management
RBS	Risk-Based Supervision
RAS	Risk Assessment System
RoA	Return on Assets
RoE	Return on Equity
RWA	Risk Weighted Assets
SCAAK	Society of Certified Accountants and Auditors of Kosovo
SEM	Supervisory Engagement Model
SREP / SRP	Supervisory Review and Evaluation Process / Supervisory Review Process
STA	IMF's Statistics Department
ST	Stress Testing
TA	Technical Assistance
TARM	Technical Assistance Roadmap
WB	World Bank

Preface

At the request of the Central Bank of Kosovo (CBK), an IMF Financial Sector Stability Review (FSSR) Follow-up mission visited Pristina and held meetings with the authorities from Kosovo during September 8 to 19, 2025. The mission was led by Mr. Sebastien Clanet of the Monetary and Capital Markets Department (MCM) and included Ms. Julia Otten (MCM); as well as Ms. Rita Tam (MCM short-term expert).

The scope of the mission, which was agreed with the CBK based on the results of an FSSR impact assessment mission implemented in December 2024. The perimeter focused on two workstreams, for which continued technical assistance (TA) needs were anticipated past the end of the previous FSSR Phase I project at end December 2024: financial system regulation and supervision; and macro-prudential policy and financial stability.

The mission met with Mr. Ahmet Ismaili (Governor of the CBK) and CBK senior management. It also met with CBK technical staff and government officials from the Ministry of Finance (MoF); senior executives of three commercial banks, and one insurance company; an external auditor, staff from the Society of Certified Accountants and Auditors of Kosovo (SCAAK); and representatives of the Credit Guarantee Fund (KCG) and the Deposit Insurance Fund (DIFK). The mission wishes to thank the staff of the CBK for their collaboration, cooperation and productive discussions. The mission also expresses its thanks to the IMF local staff at the resident representative office in Pristina and Vienna for their support.

Executive Summary

The FSSR follow-up mission conducted a diagnostic review of the financial system and is proposing a TA Roadmap (TARM), to support the authorities' efforts to strengthen the ability to detect risks and vulnerabilities in the financial system and build capacity in financial sector oversight. The FSSR follow-up focused on the financial stability module, centered on areas agreed with the CBK after the previous FSSR project's impact assessment: financial sector oversight and macroprudential framework and policy. The financial sector statistics module was not included in the scope of this FSSR follow-up, following consultations with the IMF's Statistics Department (STA).

Kosovo has emerged as one of the fastest-growing economies in the Western Balkans and its financial system remains broadly sound. It is sizable relative to Kosovo's economy, with total assets reaching 120 percent of GDP, dominated by foreign-owned banks and a growing footprint of non-bank lenders. Banks are well-capitalized with a capital adequacy ratio of 15–16 percent, comfortably above the 12 percent minimum, and a low non-performing loan ratio of approximately 2 percent as of mid-2025. Liquidity buffers have consistently remained above regulatory requirements, enabling the system to withstand recent shocks, including the pandemic and the European economic slowdown, relatively well. Since the 2019 FSSR, the CBK has strengthened risk-based banking supervision, advanced stress testing, and activated macroprudential tools, yet significant gaps in the regulatory framework and institutional capacity remain to be addressed.

Key vulnerabilities identified by the mission include Kosovo's heightened exposure to external shocks, rapid and uneven credit expansion, funding pressures to support lending, and institutional limitations in crisis preparedness. As a small and open economy, Kosovo remains vulnerable to geopolitical disruptions and economic fluctuations in major EU economies, with household consumption and investment heavily reliant on remittances. Political uncertainty continues to generate temporary delays in reform implementation. Credit growth has surged, lifting the credit-to-GDP ratio to 64 percent, though data gaps and overreliance on consumer loans obscure the true risk profile, even if real estate is identified as a key sector to monitor. Microfinance lending is expanding rapidly among vulnerable households, while credit risk remains contained and financial deepening continues.

Structural risks persist due to high banking sector concentration and weakening provisioning buffers. Liquidity ratios, though above regulatory thresholds, are declining amid short-term deposit reliance and delayed external disbursements. Reported liquidity positions may overstate resilience due to the inclusion of government securities for which only a very shallow market exists, and the absence of a domestic lender of last resort amplifies systemic vulnerabilities. The CBK's reliance on preventive tools underscores the need for robust supervision, forward-looking macroprudential policies, and a fully operational crisis management framework. Progress has been made in aligning with international standards, including Basel III implementation and the draft Law on Banks, but macroprudential coverage remains incomplete and resolution capacity constrained.

Key Findings

The CBK has significantly strengthened financial sector oversight, but targeted enhancements are needed to address structural gaps and operational bottlenecks. As Kosovo's sole financial sector regulator, the CBK operates a unified supervisory model covering banks, insurance, pension funds, and

microfinance. Since 2019, it has aligned banking regulations with international standards, introducing the Leverage Ratio, LCR, NSFR, and a combined buffer framework. A new Banking Law, expected in 2026, will further enhance the framework by incorporating Basel III elements and establishing a Recovery and Resolution regime. The CBK's risk-based supervision and growing expertise provide a solid foundation for transitioning to a Supervisory Review Process (SRP), enabling Pillar 2 capital add-ons. However, securing sufficient exchange of information and collaboration with the home supervisor of local subsidiaries of foreign groups sometimes faces challenges. Additionally, non-bank oversight remains less developed. While SRP development has accelerated, particularly in automating data analysis and scoring, organizational and staffing constraints in the Banking Supervision Department continue to hinder implementation. Supervisory capacity is stretched by reform demands and emerging risks, with suboptimal allocation between off-site and on-site teams, limiting the effectiveness of SRP rollout.

Kosovo has made important strides in establishing macroprudential oversight, but critical legal, institutional, and data gaps continue to limit its effectiveness. The CBK has progressively built the foundations for macroprudential oversight. Following a 2024 reorganization, the Department of Financial Stability and Economic Analysis (DFSEA) - responsible for systemic risk monitoring and macroprudential policy advice - now reports directly to the Governor and serves as both chair and secretariat of the Macroprudential Policy Advisory Committee (MPAC). In the same year, the CBK implemented its first macroprudential capital measures, designating three Domestic Systemically Important Banks and imposing additional capital buffer requirements, alongside introducing a Countercyclical Capital Buffer (CCyB) of 2 percent. Despite these advances, Kosovo lacks a formal legal mandate for macroprudential policy and a dedicated interagency forum for information sharing and risk monitoring. Systemic risk monitoring is constrained by major data gaps, including the absence of a real estate price index and incomplete household debt data outside the banking sector, compounded by severe resource limitations. To date, the capital buffers introduced in 2024 remain the only activated and calibrated measures addressing systemic risk. Borrower-based measures apply only to mortgages and are suboptimally calibrated from a macroprudential perspective, imposing stricter limits on safer loans.

Recommendations

The CBK should reinforce banking supervision through full implementation of risk-based practices, improved organizational structure, and expanded technical capacity. To operationalize the SRP - a key medium-term project already supported by MCM - the CBK should revise its Supervisory Manual and reorganize responsibilities between on-site and off-site teams to support a dynamic Supervisory Engagement Model (SEM). Reviewing ICAAP submissions will help assess Pillar 2 risks and set bank-specific capital add-ons. Consolidated supervision should be enhanced, especially for foreign-owned banks, through stronger cooperation with home supervisors and access to group-level data. Crisis preparedness would benefit from requiring and reviewing recovery plans for larger banks and formalizing internal crisis protocols. As banks grow and innovate, supervisory capacity should be expanded in areas such as credit file reviews, provisioning, IT and cyber risk, IRRBB, and liquidity risk through targeted training and external expertise. To improve supervisory intrusiveness, the CBK should establish risk-focused examination cycles and strengthen on-site inspection procedures. Finally, the risk-based approach should be extended to non-bank sectors, notably insurance (with gradual adoption of IFRS 17 and Solvency II), but on a longer timeline to reflect the sector's limited absorption capacity.

Upgrading Kosovo's macroprudential framework requires a comprehensive overhaul of its legal mandate, institutional coordination, operational procedures, and analytical capacity to ensure effective systemic risk oversight. The CBK should be explicitly empowered to conduct macroprudential policy through codification of its authority in the Central Bank Law (CBL). A high-level interagency forum - comprising the MoF and DIFK and chaired by the Governor - should be established to facilitate information sharing and crisis preparedness. Internal procedures for macroprudential decision-making need refinement to maintain a clear focus on systemic risk. Enhancing accountability and transparency as part of the contents of its regular reporting to Parliament, systematic evaluations of policy effectiveness, and clear public communication are essential. Adequate resourcing of the DFSEA is critical to meet its expanding responsibilities. Strengthening data and analytical capacity should include developing a real estate price index with the Statistics Agency (KAS) and leveraging forthcoming granular loan-level data to improve analysis of household vulnerabilities and real estate risks. The macroprudential toolkit requires review and proactive use in response to rapid credit growth: recalibrating the positive neutral countercyclical buffer (pnCCyB), developing indicators for its adjustment, and reassessing borrower-based measures (such as loan-to-value and debt-to-income limits) from a macroprudential perspective, including their extension to consumer loans and lending by non-banks.

The mission's diagnostic supports a TA plan. The key recommendations are summarized in Table 1 and the comprehensive TA Roadmap is provided in Annex I.

Table 1. Kosovo: Table of Recommendations

Recommendation	Time Frame ¹	Priority	Authority
Financial Regulation and Supervision			
Adapt the organization of the Banking Supervision Department by revising the responsibility and resources allocated to the off-site and on-site supervision teams, with the aim to ensure autonomy of the off-site function to perform ongoing supervision and scoring of banks.	MT	High	CBK
Review the Supervisory Engagement Model (SEM), processes and tools to optimize allocation of BSD resources, offsite and onsite interaction, and supervisory cycle design.	ST	High	CBK
Strengthen technical capacity and offsite/onsite expertise on prevalent and emerging risks (credit risk, challenge to IFRS9 provisioning models, liquidity risk: examining survival period, counterbalancing capacity beyond LCR, IRRBB, IT risks and Cybersecurity).	LT	Medium	CBK
Improve the Risk Assessment System (RAS) following the SRP risk taxonomy, supported by more objective scoring criteria, to support consistency of evaluation outcome, with a view of ultimately implementing individual Pillar 2 capital requirements.	LT	High	CBK
Identify the missing structural data needed to deepen risk assessments and establish a plan to bridge such data gaps.	ST	Medium	CBK
Integrate ICAAP assessment into SRP, by defining an assessment methodology on the adequacy of capital level to cover pillar 2 risks and to reflect the findings into risk scores and SRP decisions.	MT	High	CBK
Intensify the collaboration and exchange of information with home supervisors, especially for locally systemic subsidiaries of foreign banks.	MT	Medium	CBK
Require and assess recovery plans for banks, prioritizing systemic institutions.	MT	High	CBK
Implement progressively IFRS17, followed by the Solvency 2 regulation, based on a timeline taking into account the low absorption capacity of the insurance sector.	LT	Medium	CBK

Macroprudential Policies and Systemic Risk Analysis			
Enshrine a clear macroprudential mandate in the CBK Law.	MT	High	CBK
Establish an inter-agency framework for information sharing and crisis coordination and formalize CBK procedures to focus decision-making on system-wide risks.	MT	Medium	CBK, MoF, DIFK
Strengthen accountability and transparency, and enhance communication, including through the disclosure of macroprudential decisions supported by underlying risk assessments.	ST	High	CBK
Secure adequate resourcing for the CBK macroprudential policy function, by strengthening the Financial Stability Division of the DFSEA.	ST	High	CBK
Address data gaps and strengthen systemic risk monitoring tools, particularly for the real estate sector.	MT	High	CBK, KAS
Develop a clear framework for the CCyB, including its positive-neutral setting, and review the adequacy of existing liquidity measures.	LT	Medium	CBK
Review the BBM toolkit, including recalibrating existing instruments and addressing potential regulatory leakages.	LT	Medium	CBK
¹ Time Frame: ST , short-term, less than six months; MT , medium-term, with results around 18 months; LT , long-term, with results around 30 months.			

I. Introduction

A. SCOPE OF WORK

1. **This report was prepared in the context of the Financial Sector Stability Review (FSSR) follow-up mission, which held meetings with the Kosovar authorities from September 8 to 19, 2025.** The mission was preceded by preparatory exchanges with the CBK and other relevant stakeholders in June and July 2025. Building on the impact assessment of the 2019 FSSR and the implementation status of its TA roadmap, the follow-up mission focused on a targeted diagnostic. Unlike a full-fledged FSSR, typically covering several thematic modules, the follow-up mission was designed to concentrate on two priority workstreams: financial system supervision and regulation, and macroprudential policy and financial stability. These areas were identified jointly with the CBK as the most critical for deepening institutional capacity and addressing residual vulnerabilities in the financial system.

B. OVERVIEW OF THE FINANCIAL SYSTEM

2. **Kosovo has been one of the fastest growing economies in the West Balkan region.** Since 2019, Kosovo's economy has grown rapidly, recovered from the pandemic shock, and maintained strong momentum. Growth remains consumption-driven, but with rising contributions from services and investment. In 2024, Kosovo's real GDP grew by 4.4 percent, on the back of a decrease in the unemployment rate and rising real net incomes. In 2025, growth is projected to slightly moderate to its potential of 4 percent. Fiscal policy has been managed prudently, underpinned by low public debt levels and supported by the successful completion of the IMF's Stand-By Arrangement in May 2025.

3. **The country has adopted the euro as its legal tender, with broadly stable inflation dynamics.** The adoption of the euro as legal tender has de facto resulted in the delegation of monetary policy control to the European Central Bank (ECB). This arrangement contributes to lower trade and transaction costs with euro area trade partners while allowing Kosovo to benefit from the ECB's monetary policy credibility. As a result, inflation has largely been stable, with the exception of an increase during 2022-23, mirroring global developments. However, this also severely constrains the CBK's ability to act as lender of last resort (LOLR).

4. **Despite recent progress, Kosovo's income levels remain below regional peers, and structural challenges persist, including political instability and a rising dependency ratio.** At USD 7,026 in 2024, Kosovo's GDP per capita remains well below the regional average, reflecting an income gap of approximately 35 percent. Challenges in forming a stable government continue to jeopardize the timely execution of essential reforms. Demographic trends are also concerning: continued brain drain, and low fertility rates point to long-term labor market pressures. Meanwhile, formal sector unemployment remains high, at around 20 percent.

5. **Kosovo's financial system is sizable relative to its economy and remains predominantly bank based.** Financial sector development has played a crucial role in Kosovo's economic transformation. Since end-2019, total financial sector assets have grown by almost 75 percent, reaching 120 percent of GDP at end-2024. As of July 2025, banks accounted for 66.3 percent of total assets, with the sector largely dominated by foreign-owned institutions, which hold approximately 84 of total banking

sector assets. An additional 26 percent of financial sector assets are held by the mandatory pension funds. The footprint of non-bank lenders, including microfinance institutions, has grown markedly, now accounting for about 5.1 percent of financial system assets and close to 9 percent of private sector credit. Insurance coverage is limited, with insurers holding just 2.6 percent of financial system assets, and corporate bond or equity markets are still in early stages of development.

Table 2. Financial Sector Structure (as of July 2025)

Subsector	No. of institutions	No. of institutions under liquidation	No. of foreign-owned institutions	Asset size (in millions of Euro)	Share of total system assets
Commercial banks	11	1	8	8,854.8	66.3%
MFIs & NBFIs	9 MFIs & 23 NBFIs	1 MFI & 1 NBFI	7 MFIs & 5 NBFIs	680.5	5.1%
Insurance companies	12	2	6	348.4	2.6%
Pension funds	2			3479.5	26.0%
Total (banks and non-banks)				13,363.2	100.0%
Central Bank of Kosovo					1789.7

Source: CBK

6. **Financial inclusion has improved in recent years, though it still lags behind peer countries.** As labor market formalization advances, a growing share of households and firms are gaining access to formal financial services. The proportion of the population with a formal account rose to 64 percent in 2024, up from 58 percent in 2021, yet remains below the levels observed in regional peers. Cash remains the dominant payment instrument, and the informal economy - though declining - still accounts for an estimated 30 percent of activity. At the same time, electronic payments are expanding rapidly, with card and e-money transactions rising by 34 and 35 percent, respectively, in 2024.

7. **The banking sector has remained highly profitable, well capitalized, and liquid amid the implementation of strengthened regulatory requirements.** As of July 2025, profitability stayed strong, with a return on assets (RoA) of 2.3 percent and a return on equity (RoE) of 17.6 percent, supported by robust private-sector credit growth of 18 percent in real terms. Capital adequacy remained robust, with the regulatory capital-to-risk-weighted-assets (RWA) ratio at 17.4 percent. The sector has successfully operationalized the newly implemented capital buffer framework, which became effective on July 1, 2025. All banks complied with the enhanced requirements, including a countercyclical capital buffer (CCyB) set at a positive neutral rate of 2 percent and capital surcharges for other systemically important institutions (O-SIIs) currently ranging from 0.38 to 1.13 percent. Liquidity conditions also remain satisfactory, with the loan-to-deposit ratio at 90.7 percent, a system-wide liquidity coverage ratio (LCR) of 205 percent, and liquid assets covering about 27 percent of short-term liabilities. However, liquidity has tightened in Q1 2025, with loan growth outpacing deposit mobilization, pushing up funding costs amid stronger competition for savings. More recent data point toward signs of normalization, which remain to be confirmed.

8. **The CBK is the sole regulator and supervisor of the financial sector, but its capacity to provide liquidity support in times of stress is limited, like the rest of the safety net.** As a fully euroized economy, Kosovo does not conduct independent monetary policy, making financial stability the central mandate of the CBK. It holds exclusive responsibility for oversight of the financial sector, including

regulation, supervision, and licensing of all financial institutions (banks, insurance, pension funds, microfinance, and other non-bank entities). Since Kosovo does not issue its own currency, CBK's ability to act as lender of last resort is inherently constrained. While it can provide emergency liquidity through its Emergency Liquidity Assistance (ELA) framework - drawing on central bank reserves and a Special Reserve Fund managed by the Treasury - these resources are limited in size and scope. The ELA is calibrated primarily to address liquidity shortfalls at a few smaller banks, not systemic stress. The ECB's €100 million repo line extension offers only a temporary buffer during an extended crisis. Moreover, coverage from the DIFK remains low, currently capped at €5,000 per depositor per bank. Even the planned increase to €10,000 - though not yet fully funded - would still leave coverage low. The Kosovo Credit Guarantee Fund supports SME financing by providing partial risk guarantees to banks; however, its role within the broader financial safety net remains limited.

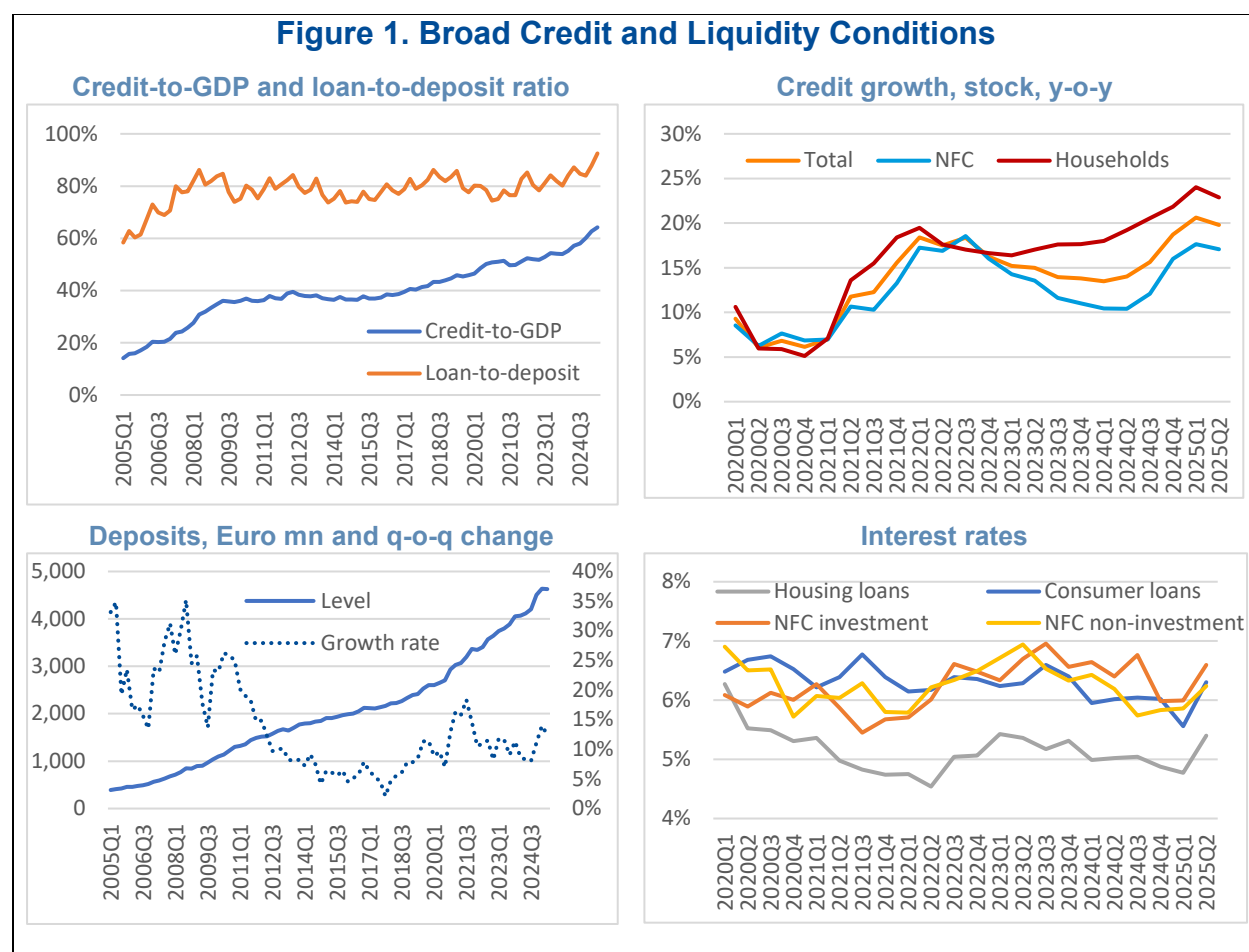
C. MACROFINANCIAL VULNERABILITIES

9. **Kosovo's economy is exposed to external and political risks.** As a small and open economy, it remains vulnerable to geopolitical shocks that could disrupt commodity markets and weigh on tourism, which is largely driven by the diaspora from Germany and Switzerland. Its growing integration into European supply chains increases sensitivity to fluctuations in foreign direct investment and economic slowdowns in major EU economies. At the same time, household consumption and – to a lesser degree investment – continues to depend heavily on remittances from abroad, with a remittances-to-consumption ratio of around 16 percent. As of September 2025, ongoing delays in government formation prolong political uncertainty and highlight institutional weaknesses that hinder the enactment of planned reforms and effective policy implementation in the near term.

10. **Rapid credit growth in Kosovo, including in real estate, requires close monitoring of household overindebtedness and is raising concerns about data limitations.** As of June 2025, credit to firms and households expanded by 16.5 and 22.8 percent year-on-year, respectively, lifting the credit-to-GDP ratio to 64 percent from 46 percent at end-2019. The real estate market's rapid expansion is a notable driver of household credit growth, and to a lesser extent corporate lending. Proper estimation of this impact, however, remains tentative given significant data gaps in the sector, especially on prices and level of households' overindebtedness. Furthermore, consumer loans dominate housing-related credit, with only about one third of new lending issued as mortgages, reflecting reported difficulties in registering new apartments and houses with the Cadaster Agency.

11. **Signs of credit moderation are emerging, but macroprudential tools remain insufficiently calibrated to contain systemic risks.** While aforementioned developments may point to a credit boom, survey data from 2021 indicate that only 40 percent of respondents are indebted, suggesting that rapid credit growth also reflects continued financial deepening and a gradual broadening of the formal economy. Moreover, credit risk remains contained, with the NPL ratio declining to 2.0 percent in June 2025 (from 2.2 percent a year earlier). Finally, new loan issuance slowed sharply in the second quarter to 0.4 percent, compared with 15.0 percent a year earlier. Although the persistence and extent of the moderation remain uncertain, the CBK's Bank Lending Survey indicates that banks have started to tighten lending conditions, including through higher interest rates, as part of a self-correction from previously overly accommodative lending practices. The introduction of a 2-percent CCyB in July 2025, after a phase-in period, seems to have had little impact on banks' behavior so far, reflecting both

conservative calibration and their implementation after much of the credit expansion was already underway. The calibration of existing borrower-based measures (BBMs) is not effectively constraining mortgage growth and excludes consumer loans, which account for the bulk of bank-financed investment.



Source: CBK.

12. **Structural and profitability risks merit monitoring.** The system is characterized by a high degree of concentration – assets of the three largest banks account for 53.5 percent of total banking sector assets as of May 2025 – alongside limited diversification in funding and lending activities. Such concentration amplifies both bank-specific and system-wide risks. Meanwhile, buffers against credit risk have weakened: the provisioning coverage ratio declined to 124.4 percent from 145.8 percent a year earlier, due to both a decrease in provisions and a faster increase in nonperforming loans. The Q2 Bank Lending Survey suggests the slowdown in lending was largely supply-driven, reflecting tighter liquidity and funding conditions amid intensified competition for deposits.

13. **Liquidity and funding risks have emerged, peaking in Q1 2025, despite currently strong headline indicators.** While liquidity ratios remain above regulatory thresholds, they have gradually declined amid rapid credit growth. The banking sector depends heavily on short-term financing, with approximately 80 percent of deposits maturing within one year, heightening vulnerability to shifts in depositor behavior. Anecdotal evidence suggests the recent lending slowdown reflects a liquidity squeeze driven primarily by the earlier credit boom and, to a lesser extent, delayed external disbursements due to

the ongoing parliamentary impasse. Additional pressures – including weaker diaspora investment and consumption, increased local capital outflows, and slowing remittance growth – could further strain liquidity in the medium term. Reported liquidity positions may overstate true resilience as they include domestic government securities with only a very shallow secondary market and cannot be readily monetized during stress episodes, limiting their effectiveness as liquidity buffers. Excluding government securities, the narrow liquidity ratio, covering cash, equivalents, current accounts, and placements, declined to 27.0 percent from 27.6 percent a year earlier, with liabilities growing faster than liquid assets. Some small banks have high uninsured deposits and the CBK provides liquidity via repos against government securities. In a foreign dominated, euroized banking system, the central bank relies on support from parent banks; while banks' funding relies mainly on local deposits¹, sudden repatriation of liquidity by foreign groups during stress events could still sharply tighten domestic funding conditions. Although sovereign exposures stand at a moderate 15 percent of total bank assets, the absence of a domestic lender of last resort means that even this moderate nexus could rapidly translate into liquidity stress if fiscal confidence deteriorates. Overall, the most recent liquidity data points toward an easing of the liquidity tensions following credit growth deceleration, after a peak in Q1 2025, but this moderating trend remains to be confirmed.

14. In the absence of a fully effective LOLR function, the CBK must rely heavily on preventive measures to safeguard financial stability – tools that remain underdeveloped in important areas.

This underscores the importance of robust supervision, forward-looking macroprudential policies – such as adequate liquidity buffers – and a well-functioning crisis management framework. Significant progress has been made in aligning regulatory practices with international standards, particularly in the area of liquidity management, and in advancing the implementation of the Basel III capital framework. The draft Law on Banks, which includes first provisions for a recovery and resolution regime, marks an important step forward. At the same time, macroprudential measures do not yet provide comprehensive coverage. Furthermore, the operationalization of the resolution regime has to account for the high proportion of foreign banks' subsidiaries in the sector, as well as current understaffing of the Resolution Department.

D. PREVIOUS MCM TECHNICAL ASSISTANCE

15. MCM has maintained a consistent TA engagement with Kosovo over the past six years, anchored in the recommendations of the 2019 Financial Sector Stability Review (FSSR). The 2024 impact assessment of the FSSR confirmed that substantial progress had been made in strengthening the CBK's governance, enhancing supervisory practices, and improving macroprudential oversight. It also underlined that there is ample room to further support identified areas where TA is needed to consolidate gains and address residual gaps. These findings informed the scope of the 2025 FSSR follow-up mission, which will result in a refreshed TA workplan aligned with the Results-Based Management (RBM) framework. This workplan will serve as the foundation for future MCM engagement and donor-funded TA projects, ensuring that Kosovo's financial sector reform agenda remains on track and responsive to emerging risks.

¹ The systemwide loan-to-deposit ratio has now reached 90 percent, so any sustained strong credit growth in the future would have to rely mainly on external funding.

II. Diagnostic Review and Main Recommendations

A. FINANCIAL SECTOR REGULATION AND SUPERVISION

Diagnostics: Banking sector

16. **Significant progress has been made by the CBK in broadening the supervisory toolkit.** Between 2019 and 2024, the CBK introduced regulations to align the local framework with EU standards, including a 3% minimum leverage ratio in 2020 and minimum LCR and Net Stable Funding Ratio (NSFR) requirements since 2023. These measures have established solid foundations for a risk-based supervisory framework, supported by an expanded regulatory set, knowledgeable staff, comprehensive supervisory guidance for risk assessments, and structured prudential data collection processes.
17. **The CBK has laid out the groundwork for Pillar 2 implementation and supervisory review, but further progress hinges on resource mobilization and procedural enhancements.** Legislation empowers the CBK to impose Pillar 2 requirements and collect ICAAP submissions, yet these tools remain underutilized due to limited supervisory capacity and the need to strengthen operational practices. The Banking Supervision team is currently revising its Supervisory Manual and working to automate prudential data processing. In parallel and with MCM support, the CBK has presented a well-structured and realistic Supervisory Review Process (SRP) implementation plan, with clear priorities and milestones aligned with available resources. While integrating Pillar 2 into banks' risk ratings will require a multi-year effort, the CBK is well-positioned to deliver on this objective, supported by existing expertise and a robust prudential data analytics framework.

Organization and Capacity in Supervision

18. **The Banking Supervision Department (BSD) still faces staffing constraints, with 11 on-site supervisors and 5 off-site supervisors responsible for overseeing 10 banks.** Despite a recent internal reorganization relieving the department from NBFIs supervision responsibilities, this remains below the benchmark when compared with other regional supervisory authorities. Next to their standard supervisory engagements, supervisors are currently managing additional resource-intensive projects due to the implementation of new regulations and compliance examinations. The planned adoption of a full SRP will further increase this workload, necessitating more frequent meetings with bank senior management, auditors, and key executives (ideally at least once per supervisory cycle). However, such meetings currently occur irregularly and are not held annually for all deposit-taking institutions (DSIFs). A budget is approved to hire 5 supervisors in 2025 and 2026 to bring the size of BSD to 21 supervisors.
19. **The allocation of responsibilities between on-site and off-site teams is suboptimal and does not align with best practices.** The off-site team focuses primarily on regular financial monitoring and horizontal risk analysis. Meanwhile, on-site examiners are tasked with both conducting examinations and supporting off-site to assign risk scores. Both teams dedicate also a significant part of their time to working on the revision of the supervisory manual and establishing SRP processes. There is a lack of clear delineation of responsibility between the two teams. On-site supervisors cannot fully concentrate on their main task to perform on-site inspections. The number of on-site inspections remains relatively low

considering the on-site team headcount, with about three to four examinations conducted annually. Enhancing supervisory effectiveness through a better allocation of responsibility is critical to be able to address timely all material risks present in the financial system.

20. **There is no formalized approach to modulating supervisory intensity based on the size and risk profile of individual banks.** Annual supervisory plans are developed based on past findings or sector developments. Due to limited resources, some supervisory activities have been postponed, potentially leading to insufficient scrutiny and delayed detection of emerging risks. According to internal procedures, the frequency (every six months to every 3 years) and depth of risk assessments depend on the risk score (ranging from 1 to 5) assigned to banks in previous reviews. However, there is no formalization of a supervisory work plan to ensure that all risk dimensions are updated according to a regular cycle.

Implementation of Risk-based Supervision

21. **The CBK is transitioning from a traditional CAMELS-based approach to a more granular, risk-sensitive supervisory framework aligned with EU standards.** The current scoring system, long based on CAMELS, lacks uniform quantitative thresholds, making outcomes heavily reliant on supervisory judgement. Each risk category is assessed using defined elements and graded from 1 to 5, followed by classification into low, medium, or high-risk levels, including residual risk and trend assessments. To enhance consistency and objectivity, the CBK is revising its supervisory manual and shifting toward a risk-based structure aligned with EBA SREP Guidelines. This will enable separate scoring for operational risk, interest rate risk in the banking book (IRRBB), and market risk from securities portfolios, marking a significant step toward modernizing supervisory practices.

22. **Due to existing data gaps, efforts are underway to improve the quality and granularity of prudential data to support an effective risk scoring system based on Key Risk Indicators (KRIs).** Automation of data collection for operational risk, concentration risk, market risk, and IRRBB is a priority. The CBK plans to harmonize prudential reporting with EU standards, by preparing banks to report financial data (Profitability, balance sheet data) using EBA's FINREP tables by mid-2026 and a subset of COREP reporting (on capital and risk data) by January 2027, with the support of the World Bank. Significant progress was made in 2025 toward automating prudential data aggregation for monitoring individual banks and the broader banking sector. Despite this positive evolution, continuous enhancements to the prudential reporting system and data granularity are still needed to improve risk data coverage and to enable the CBK to deepen its assessments on IRRBB, operational risk, liquidity risk and concentration risk.

23. **Although banks have been required to submit Internal Capital Adequacy Assessment Process (ICAAP) files annually since 2020, the CBK has yet to review them.** The current supervisory manual does not provide guidance on how to integrate ICAAP information into Risk Based Supervision. The ICAAP files are crucial for assessing the adequacy of banks' governance, risk management, and capital sufficiency to cover Pillar 2 risks. In addition, banks anticipate timely feedback from supervisors on their ICAAP process and documentation.

Accounting Standards

24. **The adoption of IFRS 9 since 2020 introduced more discretion in loan classifications and provisions, leading to divergent practices and questions on the conservatism of provisioning level.** Most foreign banks replicate their parent companies' modelling practices, which can vary significantly, use different data sets for calibration purposes, and introduce modelling risk. The CBK conducted examinations on the implementation of IFRS 9 concerning the classification and provisioning of loans and other financial instruments. Special attention was given to assessing banks' ability to detect early signs of credit quality deterioration, establish adequate provisions, and manage loan arrears and non-performing loans.

25. **Assessment of proper loan classification remains a top supervisory priority.** The CBK has issued regulations on Credit Risk Management and on Non-Performing Exposures and Forbearance that align closely with EU standards. During 2023, supervisory examinations increasingly focused on credit risk and the identification of related parties. Still, no minimum provisioning targets are currently established for Stage 2 (S2) and Stage 3 (S3) loans. Banks therefore currently exercise significant discretion, resulting in varied levels of conservatism. Implementing more stringent and harmonized provisioning practices through additional on-site inspections and credit file reviews would enhance confidence that banks recognize and provision for deteriorating credit in a timely manner, especially given the substantial credit risk and uncertain legal efficiency regarding collateral foreclosure.

Prudential Standards

26. **Since 2012, the Banking Law has mandated the CBK to establish policies that ensure financial stability and to impose capital requirements on domestic banks.** The CBK issues secondary regulations outlining technical standards and detailed expectations aligned with Basel standards. It also holds specific powers to impose additional regulatory capital requirements and set leverage ratios. According to the Regulation on Capital Adequacy, banks must maintain a minimum Common Equity Tier 1 (CET1) capital ratio of 4.9 percent plus a 2.5 percent conservation buffer on total risk-weighted assets. The Tier 1 capital requirement stands at 9.0 percent, with a total capital requirement (Tier 1 plus Tier 2) of 12.0 percent, calculated using the standardized approach. Banks are prohibited from using internal models for regulatory capital calculations.

27. **The CBK aims to align its regulatory and supervisory standards closely with those established by EU countries.** Since 2019, new regulations have been introduced to this effect, including the implementation of a 3 percent minimum leverage ratio in 2020 and minimum Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) requirements since 2023. The regulatory framework also empowers the CBK to require banks to hold additional capital and impose restrictions on dividend distributions. Banks need to obtain authorization from CBK before proceeding with dividend distributions. Banks requested approval for relatively high payout ratios in the past. The pressure on capital margins remains a concern for CBK. This may be mitigated by imposing Pillar 2 capital add-ons further to SRP assessments of capital adequacy.

28. **A draft Law on Banks introducing a recovery and resolution framework is approved by the Parliament of Kosovo but not enacted due to legal procedure under examination by the Constitutional Court.** The suggested draft provides, inter alia, for an establishment of a new, functionally independent department for banking recovery and resolution. In anticipation, the CBK has already

created a Resolution Department and aims at expanding the available resources to be able to discharge its function. Drafting on the recovery and resolution regulations is also under way.

Cross-border Cooperation in Supervision

29. **Proper oversight of local subsidiaries of foreign banks is a priority for the CBK.** Kosovo's banking sector is predominantly composed of foreign banking institutions that play a vital role in financing the domestic economy and safeguarding customer deposits. There are no domestically owned banks with subsidiaries operating abroad, and the structure of local banks is straightforward, lacking significant subsidiary **operations**.

30. **The adequacy of governance frameworks and business models of foreign entities requires targeted monitoring.** The CBK has advocated for a subsidiarization model, leading foreign banks to restructure their operations by either merging branches with domestically licensed banks or converting them into local subsidiaries.

31. **The CBK has established Memoranda of Understanding (MOUs) with other supervisory authorities to facilitate collaboration, but information exchange remains limited for some key supervisory colleges.** Given the domestic systemic banks are owned by foreign banking groups, it is crucial for the CBK to proactively engage in regular dialogue with home authorities to monitor developments within parent banks and to enhance its crisis management preparedness.

Diagnostics: Non-banking sector

Insurance

32. **Kosovo's insurance sector remains underdeveloped and faces structural corporate governance and profitability challenges, with limited capacity to absorb upcoming regulatory reforms.** Representing less than 3 percent of financial sector assets, the market includes 12 licensed insurers, though only two offer life insurance. Unlike the banking sector, the insurance market is relatively fragmented, with the top three firms holding 35 percent of market share. However, profitability remains low, particularly in the Motor Third-Party Liability (MTPL) segment, due to intense competition and weak demand. The absence of mandatory property insurance for bank-financed assets and limited uptake of voluntary coverage further constrain growth. Asset expansion slowed in 2025, and the prospect of implementation of IFRS 17 and Solvency II is expected to exert additional pressure on margins. Smaller insurers, in particular, lack the capacity to comply with these requirements, underscoring the need for targeted support and very gradual regulatory sequencing.

33. **The CBK employs 12 FTEs (9 on-site and 3 off-site) for the supervision of these entities.** The allocation of tasks for on-site and off-site is similar to BSD in terms of risk examination and financial reporting monitoring. For 2025, 8 inspections are planned and 6 are completed. As recommended from the 2019 FSSR mission, CBK has defined and integrated a ladder of interventions in the supervisor manual and can be activated depending on the risk level.

34. **Despite some progress in recent years, corporate governance and risk management practices in the insurance sector remain weak.** The CBK has revoked the license of two companies due to poor governance and insufficient resources to compensate policyholders. Some smaller local

players remain fragile and more stringent requirements may trigger a dynamic of consolidation and improve the resilience of the insurance sector.

Other Non-bank Institutions

35. **The asset quality and risk profile of other non-bank institutions do not raise particular concerns, but their evolution should be further monitored in the future.** A small number of Micro Finance Institutions (MFIs) and Non-Bank Financial Institutions (NBFIs) are currently active locally and represent 5.1% of the financial sector's total assets. Non-performing loans remain low at 1.9% as of August 2025. The sector is well covered with loan-loss reserves, with general provisions equal to 279.8% of NPLs. Profitability remains stable, with returns on assets above 3.3% and returns on equity around 11.7%.

36. **The CBK will further enhance the existing risk-based supervision of MFIs, NBFIs, Payment Institutions (PIs), and Electronic Money Issuers (EMIs).** A new department dedicated to the supervision of these entities was created in December 2024. Its mandate also covers the supervision of crypto-assets, FinTech institutions, and innovation developments. The department is composed of two experienced supervisors transferred from the BSD.

Recommendations

37. **Reorganizing supervisory responsibilities is critical to strengthen off-site capacity and support a dynamic risk-based supervision model.** The CBK should progressively restructure its divisions by clearly delineating mandates between on-site and off-site. Task allocation must ensure that off-site supervisors have sufficient capacity to conduct both quantitative and qualitative risk assessments aligned with a predefined SRP cycle. This reorganization can be phased alongside planned recruitment over the next two fiscal years. The objective is to build off-site expertise and autonomy to independently perform scoring under the SRP, reducing reliance on on-site teams and bank visits.

38. **Defining a structured supervisory engagement model is essential to ensure proportional, risk-based oversight and efficient resource allocation.** The CBK should establish minimum interaction frequencies and review depth across the supervisory cycle, tailored to each bank's risk profile and systemic classification. Criteria for setting supervisory priorities and intensity should be clearly documented in internal procedures and formally approved by CBK's Executive Board. The engagement model should apply the principle of proportionality, balancing supervisory intrusiveness with the materiality of risks and available resources.

39. **The CBK must strengthen supervisory resources in the short term to ensure effective oversight and enforcement of new regulations.** The CBK should step up its resources and capacity to monitor banks' practices, ensure compliance with newly introduced regulations, and fully utilize its supervisory toolkit to promote sound risk management across local banks. The current supervisory headcount is significantly lower than that of regional peer authorities, limiting CBK's ability to conduct regular supervisory work. With the recent alignment of its regulatory framework to international standards, the already stretched resources must now also accommodate onsite examinations to verify compliance with applicable regulations.

40. **The CBK should embed objective, bottom-up assessment criteria to ensure consistency in SRP outcomes.** To promote harmonized SRP decisions, the CBK should incorporate objective scoring mechanisms into its supervisory manual. This will enhance consistency in risk assessments and support the planned introduction of additional capital requirements beyond Pillar 1.

41. **The CBK should perform an analysis to identify the missing structural data needed from banks to deepen risk assessments and to establish a plan to bridge such data gaps.** This is crucial to build up the capacity in the medium term to perform a comprehensive risk assessment on all relevant SRP risks and sub-risks categories. More granular data are needed to better assess sectorial concentration, the breakdown of market risk elements, stressed yield curve scenarios, and their impacts on economic value on equity for the assessment of IRRBB.

42. **The authorities are recommended to systematically assess ICAAPs to ensure capital adequacy beyond Pillar 1 risks.** The CBK must analyze and provide feedback on ICAAPs submitted by banks, ensuring that capital levels adequately cover risks not addressed by Pillar 1. The revised supervisory manual should include ICAAP assessment criteria and guidance on integrating findings into the Risk Assessment System (RAS) and SRP decisions. ICAAP documentation is a critical source for evaluating banks' internal governance, risk appetite frameworks, Pillar 2 risk identification and measurement, and capital planning.

43. **The CBK should enhance cooperation with home supervisors to monitor foreign banks' risk evolution.** Given the systemic importance of subsidiaries of foreign banks in Kosovo, the CBK should reinforce collaboration with home supervisory authorities through regular information exchange. In the absence of supervisory colleges, the CBK should hold at least annual meetings with home supervisors to stay informed of parent group risk developments and management practices.

44. **Priority should be given to improve crisis preparedness through robust recovery planning and cross-border coordination.** To strengthen its crisis management framework, the CBK should require annual recovery plans from banks, challenge them and assess the feasibility of recovery options, particularly for systemically important institutions. Coordination procedures with home supervisors should be established to prepare for cross-border crisis scenarios. Given the limited mechanisms currently in place to manage bank failures, identifying realistic recovery options and testing crisis protocols are essential to mitigate systemic risks and reduce the likelihood of failure.

45. **Strengthening risk management in Kosovo's insurance sector will require a phased and carefully sequenced implementation of international standards, notably IFRS 17 and Solvency II, given the significant costs and technical expertise required.** The CBK is encouraged to progressively adopt these frameworks to enhance transparency, comparability, and prudential oversight, in line with global best practices. However, the reform timeline should reflect the sector's limited absorptive capacity and be calibrated over a five-year horizon, rather than three, to ensure sustainable adoption.

B. MACROPRUDENTIAL FRAMEWORK AND POLICIES

46. **Since the 2019 FSSR review, the CBK has made solid progress in strengthening the macroprudential framework and policies.** During the program's first years, the authorities gave limited priority and follow-up with the previous FSSR recommendations on the macroprudential framework was limited. Over the past two years, however, the CBK has renewed its interest in macroprudential policy and

is keen to address remaining gaps. The draft Law on Banks, currently under Constitutional Court review, will introduce additional provisions for macroprudential policy. Since an internal reorganization in 2024, the DFSEA reports directly to the Governor and serves as both the chair and Secretariat of the Macroprudential Policy Advisory Committee (MPAC). Efforts to close data gaps, in particular more efficient use of the credit registry, and improvements in modeling frameworks with the support of ICD and MCM are in progress. The CBK has also expanded its toolkit by introducing liquidity measures as well as additional capital buffers.

Diagnostics

47. **A well-designed institutional setup is the foundation of sound macroprudential policymaking.** A strong institutional framework is critical for effective macroprudential policy and can be assessed along three key principles. First, the willingness to act requires a clear mandate, accountability, and communication to counteract inaction bias. Second, the ability to act depends on legal authority, data access, a comprehensive toolkit, and operational independence. Third, effective coordination among domestic and international agencies is essential for robust risk assessment and policy consistency. The following assessment applies these principles to evaluate Kosovo's macroprudential framework.

Willingness to Act

48. **The CBK has a clear mandate for financial stability but the specific mandate for macroprudential policy is not yet enshrined in primary legislation.** Kosovo's Central Bank Law (CBL) establishes the primary objective of the central bank as to "foster and maintain a stable financial system including a safe, sound and efficient payments system." No other institution holds a formal financial stability mandate. As the CBK has no independent monetary policy, price stability is only a secondary mandate. Although the objectives, scope, and instruments of macroprudential policy, in the form of an official Macroprudential Policy Strategy (MPS), have been approved by the Executive Board in 2016 under the general financial stability mandate, primary legislation does not establish an explicit macroprudential mandate.

49. **The CBK has adopted broad macroprudential objectives within a publicly available strategy, but the framework remains insufficiently tailored to Kosovo's specific context.** The MPS outlines the CBK's broad contours of its macroprudential approach and is accessible on its website. Recognizing that financial stability cannot be defined in terms of a single operational target, the CBK follows the European Systemic Risk Board's (ESRB) model of translating this overarching goal into a set of intermediate objectives. While this structure provides useful guidance, the strategy does not adequately reflect Kosovo's unique characteristics – most notably, its full euroization and the resulting absence of an independent monetary policy and effective LOLR function, which pose distinct financial stability challenges.

50. **The decision-making process has improved but the focus on systemic risk needs strengthening.** In 2024, the process has been reorganized to reflect the primacy of the financial stability mandate. The DFSEA monitors systemic risks, conducts analysis, and proposes instrument calibrations, reporting quarterly to the MPAC, established in 2016, which it now also chairs and serves as Secretariat. The MPAC – composed of directors from supervisory, regulatory, and operational departments, with participation of the Governor or Deputy Governors – reviews risks and recommends policy responses; its non-binding recommendations, adopted by majority vote, are submitted to the CBK Executive Board. The

Board then takes these recommendations into account and formally adopts measures when warranted by risk assessments. While the new process – used for the first time to recommend and implement additional capital buffers – has materially enhanced the efficiency and timeliness of macroprudential decisions, stakeholder contributions still tend to emphasize individual risks rather than systemic vulnerabilities.

51. **Macroprudential communication and accountability remain limited, with narrow disclosures, limited public engagement, and no ex-post evaluation.** Although the MPS calls for timely public disclosure, the CBK's communication is underdeveloped. Policy actions are shared only bilaterally with banks, and the Financial Stability Report (FSR) is delayed and lacks broader context or links to policy decisions. The CBK plans to improve transparency via a dedicated macroprudential section on its website, detailing policy stance, MPAC's role, regulations, and decisions. However, the strategy's narrow view of accountability (focused mainly on communication) misses key aspects. Crucially, the CBK does not conduct ex-post evaluations, which are vital for learning and credibility, as noted in the Central Bank Transparency Code review. The Governor's annual report to Parliament centers on macroeconomic forecasts but could place greater emphasis on financial stability issues. Media engagement—currently limited to a year-end press conference—could better highlight financial stability issues and occur more regularly.

Ability to Act

52. **The CBK holds broad regulatory and information powers, but they rest solely on its general financial stability mandate.** The CBK is Kosovo's sole financial sector regulator, overseeing banks, insurance companies, microfinance institutions, and pension funds under a comprehensive legal framework. It possesses strong powers to collect data and shares information with government agencies via Memoranda of Understanding. While the Executive Board can activate and adjust a wide range of macroprudential tools to preserve financial stability, these powers derive solely from a general mandate and lack a dedicated legal foundation. Most instruments cited in the Macroprudential Strategy were originally designed as microprudential tools under the Law on Banks, with only reserve requirements and liquidity measures explicitly covered in the Central Bank Law. To date, only the CCyB and O-SII buffers have been deployed for macroprudential purposes with MPAC involvement in 2024.

Effective Coordination

53. **Institutional coordination on financial stability remains limited, though the CBK is gradually aligning with European best practices.** Despite past proposals, domestic cooperation in Kosovo is minimal, with the CBK solely responsible for monitoring financial stability and macroprudential decision-making. Efforts to establish a Financial Stability Committee (FSC) in 2019 - comprising key financial authorities - were not realized, as the supporting Memorandum of Understanding was never enacted. Currently, coordination is restricted to ad hoc bilateral exchanges with the Ministry of Finance and the Kosovo Agency of Statistics, while the Ministry's seat on the Deposit Insurance Fund of Kosovo's Board has remained vacant since 2022. Nonetheless, the CBK is making steady progress toward international standards, particularly through the DFSEA's collaboration with the Bank of Slovenia under the Western Balkans central bank capacity-building program. This partnership, along with regional engagement with the Bank of Albania and the National Bank of the Republic of North Macedonia, is helping to build macroprudential expertise and align practices with the EU countries.

Operational Capacity

54. **The DFSEA still faces resource constraints amid the expanding macroprudential policy agenda of the CBK.** The DFSEA, comprising Economic Analysis and Research and the Financial Stability Division, plays a central role in the expanding macroprudential mandate, with responsibilities including systemic risk monitoring, stress testing, credit registry analysis, and providing macroprudential recommendations. However, with only three senior and two junior staff, the division currently remains understaffed, limiting its effectiveness due to gaps in analytical expertise. While the DFSEA benefits from the CBK's top management support to address the issue, recruitment challenges persist, as two recent vacancies remain unfilled despite the implementation of a reformed salary and benefits scheme. This suggests that the reformed package remains insufficiently competitive to attract scarce talent with the required skill set from the private sector for very specific positions.

55. **Strengthening macro-financial surveillance in Kosovo hinges on closing persistent data gaps, though ongoing initiatives are beginning to address them.** Key shortcomings include the absence of robust real estate price indicators – despite the sector's growing relevance in macro-financial risk assessments – along with limited coverage of private sector financial accounts, insufficiently detailed credit portfolio data, and the lack of maturity ladder information needed for effective liquidity risk analysis. Data quality is further hampered by structural breaks and short time series. To address these gaps, the CBK has revised the Kosovo Credit Registry (KCR) reporting guidelines, effective July 2025, and is developing new supervisory reporting forms. In parallel, the Statistics Department has initiated work on compiling Financial Accounts, while the Kosovo Agency of Statistics is constructing a Residential Real Estate Price Index, following IMF technical assistance. Furthermore, the DFSEA is working with the IMF country team to improve analysis on credit risk, liquidity risk, and the real estate sector.

56. **The DFSEA has enhanced its systemic risk monitoring and stress-testing capabilities, but further methodological refinement is needed to support forward-looking macroprudential policy.** To assess broad-based and liquidity risks, the DFSEA monitors a comprehensive set of indicators, with the credit-to-GDP gap playing a central role in calibrating the CCyB. Recognizing the limitations of this metric in transition economies, it is complemented by a Financial Stability Map covering eight dimensions, soon to be replaced by a more forward-looking Risk and Stability Dashboard. These broad-based tools are supported by sector-specific indicators for added granularity. In parallel, the DFSEA has adopted a new macroprudential stress-testing framework structured around three pillars: macro-financial scenario design, satellite models to project probabilities of default (PDs) and net interest income (NII), and a feedback loop to dynamically assess capital impacts. Supported by IMF technical assistance in 2023–24, the framework remains under development and requires deeper integration of macro-financial linkages to strengthen banking sector resilience. While the satellite models and the capital engine block have been completed, the scenario block, which serves as the main input provider for the satellite models, remains to be developed.

Macroprudential Policy Settings

57. **The CBK has strengthened its macroprudential framework with the introduction of a 2-percent CCyB but lacks a robust strategy to guide its use.** Since 2017, the CBK has maintained a CCyB framework aligned with Basel guidelines, applying the buffer on top of the Capital Conservation Buffer, which – unlike standard practice – is included in the 12 percent minimum capital requirement. Due

to the limitations of the Basel credit gap in transition economies, the framework did not signal a need for a positive CCyB for an extended period. Following the Covid-19 pandemic, the DFSEA warned of excessive credit growth and weakening voluntary buffers. Based on this assessment, the MPAC proposed a 2 percent CCyB, approved by the Executive Board in September 2024 and phased in from October 1, 2024, to June 30, 2025. Although designated as positive-neutral, its rationale was mainly cyclical, and no framework currently guides decisions to raise or release the buffer.

58. **Since 2016, the CBK has applied higher risk weights and BBMs to mortgages, but BBMs are not appropriate from a macroprudential perspective.** Risk weights are set at 35 percent for Qualifying Residential Mortgage Loans, Category A (QRML-A, the safest category), 50 percent for Category B (QRML-B), and 75 percent for other loans. These are complemented by loan-to-value (LTV) caps of 60, 80, and 90 percent, respectively, and debt service-to-income (DSTI) limits, with stricter thresholds applied to QRMLs. As a result, less risky loans end up facing stricter limits, which is undesirable from a macroprudential perspective. Moreover, the calibration of limits – especially for non-qualifying loans – appears relatively lax.

59. **The CBK has strengthened its liquidity risk framework.** Since January 2023, the CBK has applied Basel III liquidity standards, requiring banks to maintain an LCR and a NSFR of at least 100 percent, including separate reporting when non-euro liabilities exceed 5 percent of total liabilities. These measures enhance liquidity risk management, while longstanding FX exposure limits cap open positions at 15 percent of Tier 1 capital per currency and 30 percent in aggregate.

60. **The CBK has introduced targeted measures to mitigate risks from systemically important institutions, interconnected exposures, and sovereign concentrations.** To address risks from systemically important institutions (SIIs) and interconnectedness, the CBK introduced an O-SII buffer effective October 2024, set up to 1.5 percent of risk-weighted assets depending on banks' systemic importance, in line with EBA guidelines. The five identified systemically important banks are required to meet this buffer in full with CET1 capital by June 2025. In addition, limits on large exposures to financial institutions have been in place since 2016, with the same restrictions applying to exposures to sovereigns, thereby mitigating concentration risks and strengthening the resilience of the banking system.

Recommendations

61. **The authorities should enshrine a clear macroprudential mandate in the CBL.** While the new Banking Law grants the CBK powers to set macroprudential policies for banks, it remains essential – consistent with the 2019 FSSR recommendation – to amend the CBK Law to establish an explicit mandate. This would firmly anchor the CBK's authority to deploy macroprudential instruments, even in the face of potential political or public resistance. A broad and clear mandate would allow the CBK to extend macroprudential measures to MFIs and NBFIs, which are currently outside its scope, supported by appropriate secondary legislation on BBMs.

62. **The authorities should set up an inter-agency framework to enhance information sharing, complemented by CBK efforts to formalize internal procedures that anchor macroprudential decision-making in system-wide risks.** The authorities should establish an inter-agency institutional framework, as originally envisaged with the FSC, to facilitate regular information sharing and risk monitoring among the CBK, MoF, and DIFK. Meeting at least quarterly, the FSC would serve as an advisory body to the MPAC in normal times by enhancing information exchange on systemic risks and

strengthening preparedness, while shifting its focus to crisis coordination in times of stress. In parallel, the CBK should review and formalize internal procedures for macroprudential decision-making to ensure that stakeholder inputs are firmly anchored in system-wide risks rather than individual perspectives. These procedures should require the DFSEA to circulate concise overviews of key systemic risks in advance, enabling MPAC members to provide complementary, targeted inputs focused solely on systemic risk considerations. In a parallel manner, a crisis coordination framework supported by all agencies should also be established, with clear delineation of roles and responsibilities, so that crisis mitigation measures can be preventively defined and implemented should the need arise.

63. The CBK should strengthen accountability and transparency, including enhanced communication. Accountability can be improved through periodic reporting to Parliament on systemic risk mitigation and evaluating macroprudential measures' effectiveness, as highlighted in the recent Transparency Code Review. Appropriate media engagements by the Governor should aim to foster broader public understanding and acceptance of implemented measures. The introduction of additional capital buffers offers a first opportunity for such assessments. Macroprudential communication should be expanded, particularly toward the public, and be part of overall communication on financial stability. The MPS should be revised to reflect Kosovo's unique circumstances – especially euroization – and include explicit accountability, risk-to-instrument mapping, and communication strategies. DFSEA should publish macroprudential actions alongside tool mappings, while the FSR should be streamlined to present key risks clearly, justifying policy decisions.

64. The CBK should ensure adequate resources for the DFSEA's Financial Stability Division to fulfill its expanding macroprudential responsibilities. Current staffing levels fall short of what is required, underscoring the need to allocate sufficient personnel and strengthen expertise in line with the expanding mandate. Building up the DFSEA's Financial Stability Division with the necessary capacity will be key to ensuring an effective macroprudential framework. In the near term, at least two additional staff should be recruited – ideally one to support macroprudential stress testing and another to advance the expanding scope of Key Control Risk (KCR) analysis.

65. The authorities should continue addressing identified data gaps and further enhance systemic risk monitoring tools. In collaboration with the KAS, the CBK should prioritize improvements in real estate statistics, including prices, transactions, and construction activity, and develop affordability indicators. Efforts should also focus on expanding coverage of commercial real estate, such as CRE-related loans, supply, vacancies, and profitability. The CBK should seek more granular data on banks' loan portfolios, distinguishing, for example, between consumer and mortgage lending. The planned implementation of FINREP and COREP reporting is expected to help address existing data quality issues. To maximize these benefits, the CBK Statistics Department must ensure all departments have access to validated datasets via a centralized database, which would also reduce the reporting burden on banks currently facing overlapping data requests from different CBK units. The newly introduced categories in the updated Kosovo Credit Registry (KCR) should be utilized to deepen household vulnerability analysis. Additionally, initiatives by the DFSEA on credit risk modeling, liquidity systemic risk assessments, and real estate analytics will be critical to achieving a comprehensive understanding of key risks.

66. The CBK should develop a clear calibration framework for the pnCCyB, covering both structural and cyclical risks, and review the adequacy of existing liquidity measures. The pnCCB framework requires comprehensive calibration, building on the prior alignment of Pillars 1 and 2 and the

Capital Conservation Buffer (CCoB) with international best practices, with a view to producing a coherent capital stacking order. The pnCCB's neutral level should be calibrated to capture structural risks not directly tied to the financial cycle, with stress testing informing this process; in Kosovo's context, euroization represents a key structural risk. A clear framework is needed to guide decisions on when to raise the CCyB above its neutral level in response to rising cyclical risks, as well as indicators to determine when to release or revert the buffer to its neutral setting. Unlike the standard CCyB, which is only increased during periods of heightened cyclical risk, the pnCCB is designed to revert promptly once profitability and voluntary buffers permit. In the light of limited LOLR capacity and illiquid government bonds, the CBK should also evaluate the appropriateness of existing liquidity measures. Should further analysis confirm the need for additional liquidity tools, options could include tightening the LCR and NSFR or introducing an LTD cap.

67. **The CBK should review its BBM toolkit, including recalibrating existing instruments and addressing regulatory leakages.** Given mounting pressures in the real estate sector, the CBK should reassess the design of BBMs from a macroprudential perspective, including the potential introduction of a debt-to-income (DTI) limit. BBMs should also be extended to consumer credit products and applied to non-banks as well as microfinance institutions, to prevent regulatory arbitrage and future leakages. With the broader range of data now available from the KCR, the CBK has an opportunity to establish a more robust framework for monitoring household vulnerabilities and calibration of BBMs. Given persistent constraints on data quality, a prudent approach would be to anchor regulatory limits closely to banks' existing internal practices, thereby providing insurance against a potential future loosening of lending standards. Should this prove insufficient, the limits could be tightened progressively over time.

Annex I: TA Roadmap (TARM)

The TARM proposes TA to build capacity in the authorities to address risks and vulnerabilities in the financial system. Based on the analysis of the risks and vulnerabilities and existing gaps, the TARM develops a prioritized set of actions that need to be taken by the authorities to address these vulnerabilities and to strengthen the financial system in the next three years. It presents, in one integrated table, the main strategic recommendations and the supporting TA to address the main risks and capacity gaps identified by the baseline diagnostic review. The TA Activities in the TARM are grouped by workstreams and objectives of MCM's results-based management (RBM) logframe catalog.

Table 3. Kosovo FSSR TA Roadmap

Capacity Gap	Recommendation	Expected Result	TA Activity	Agency	Time frame ¹	Priority
FINANCIAL SECTOR REGULATION AND SUPERVISION						
Develop/strengthen banks' regulation and supervision frameworks						
Lack of formalized approach in modulating supervisory intensity to ensure regular risk assessment cycles by the Banking Supervision Department (BSD).	Review the Supervisory Engagement Model (SEM), processes and tools to optimize allocation of BSD resources, review offsite and onsite interaction, and stabilize supervisory cycle design.	Institutional structure and operational procedures for RBS enhanced/developed, to enable more timely identification of banks' shortcomings.	Review of SEM and supporting methodologies, processes, and procedures. Recommendations on optimal staff allocation within the BSD, interaction between offsite and onsite, and stabilization of the onsite supervisory cycle with balanced prioritization.	CBK	ST	High
Develop specialist skills amongst the bank supervisors of the BSD	Strengthen technical capacity and offsite/onsite expertise on prevalent and emerging risks (loan classification and provisioning, liquidity risk, IRRBB, IT and Cybersecurity).	Development and training of lead experts in the assessment of specialist risk types	Capacity building missions, training, attachments, and provision of guidance in the development of the relevant supervisory guidelines.	CBK	MT	Medium
Lack of recovery plans in systemic institutions	Require and assess recovery plans for banks, prioritizing systemic institutions.	Recovery plans submitted by banks and effectively assessed by supervisors.	TA on assessing recovery plans submitted by banks.	CBK	MT	High
Implement an RBS system and upgrade other supervisory processes						
Need to upgrade the risk assessment system (RAS) to support bottom-up risk assessments according to Basel risk taxonomy.	Reassess the current Risk Assessment System (RAS) framework to transition to a more granular approach leading to risk sensitive scores and definition of individual Pillar 2 capital requirements, building on the enhanced CBK prudential data infrastructure.	Consistent SRP evaluation and forward-looking assessment of banks' risk resulting in more risk-based individual capital requirements.	Review the new version of the Supervisory Manual, which should integrate more granular indicators, elaborate on ICAAP assessment principles and risk scoring methodology.	CBK	MT	High
Key data missing to support comprehensive risk assessments,	Perform a data gap analysis and establish a plan to embed these data into EWS and SRP.	KRIs are defined to measure credit concentration risk, market risk, IRRBB.	Review the gap analysis and provide recommendations on the plan.	CBK	ST	Medium
ICAAP reviews are not yet integrated into the risk assessment cycle.	Develop supervisors' capacity to define ICAAP expectations	Supervisors regularly evaluate banks' ICAAP reports and assess	Provide feedback on the first ICAAP reviews by the CBK, providing guidance on how	CBK	MT	High

Capacity Gap	Recommendation	Expected Result	TA Activity	Agency	Time frame ¹	Priority
	and to assess capital adequacy taking into account Pillar 2 risks.	their capital adequacy regarding banks' risk profiles.	to review, challenge and strengthen banks' ICAAP approaches.			
Lack of process for assessment of additional Pillar II individual capital requirements over the minimum Pillar 1 requirements.	Develop supervisory processes, guidelines, and tools for assessment of banks additional capital requirements over Pillar 1 that considers their individual risk profile and risk management capacity.	Level of banks' capital that reflects their risk profile, business strategy and risk management capacity	Provision of support in the development of relevant guidelines and risk quantification tools, and capacity building on Pillar 2 process	CBK	LT	High
Develop/Strengthen consolidated and cross border supervision						
Incomplete coordination and exchange of information with home supervisors of locally systemic subsidiaries of foreign banks.	Undertake at minimum an annual exchange with home supervisors for regular dialogue and crisis preparation. Establish updated Memorandums of Understanding where appropriate.	Supervisors have proper access to information to monitor the activities of the parent companies and affiliates to determine their impact on the safety of the supervised banks.	Review the existing regulatory provisions and practices for consolidated supervision and cross-sector risks monitoring. Develop/strengthen the enforcement and cooperation framework	CBK	MT	Medium
Develop/strengthen insurance companies' regulation and supervision frameworks						
Lack of alignment with applicable international standards (IFRS17 and Solvency II).	Gradually implement IFRS17 accounting standards, followed by Solvency 2 recalibration of capital adequacy assessment model, according to a timeline based on the low absorption capacity of the domestic insurance sector.	Implementation of the relevant aspects of IFRS17, followed by Solvency 2 in Kosovo.	Recalibration of capital adequacy model according IFRS17 and Solvency 2.	CBK	LT	High
MACROPRUDENTIAL FRAMEWORK						
Strengthen institutional arrangements in support of macroprudential policies						
No explicit reference to macroprudential policies or systemic risk in the CBK Law or sectoral legislation	Embed the CBK's mandate for macroprudential policy in CBK legislation	CBK Law amended to establish CBK's macroprudential mandate	Legal review of amendments to provide for macroprudential policy in the CBK Law	CBK	MT	High
Inter-agency communication is ad hoc and not tailored to systemic risk monitoring	Establish and enact MoU on inter-agency framework for information sharing and crisis coordination	Inter-agency forum for information sharing and coordination of crisis-mitigation measures among the CBK (chair), MoF, and DIFK	Review of MoU or secondary legislation to establish role, responsibilities and governance of inter-agency framework and forum.	CBK, MoF, DIGF	MT	Medium

Capacity Gap	Recommendation	Expected Result	TA Activity	Agency	Time frame ¹	Priority
MPAC discussions not focused on systemic risks	Formalize CBK procedures to focus decision-making on system-wide risks	DFSEA circulates overview of key systemic risks, MPAC members provide complementary, targeted inputs focused on systemic risk considerations	Bridge capacity gap by internal change of practices.	CBK	MT	Low
Enhance accountability and transparency						
CBK accountability is narrowly defined, focusing only on limited communication	Strengthen accountability and transparency by adopting a broader definition	DFSEA evaluates macroprudential measures' effectiveness ex post, Governor reports to Parliament on systemic risk and macroprudential measures	TA on ex-post evaluation of macroprudential measures	CBK	LT	Low
Limited communication on systemic risks and macroprudential policy	Enhance communication, including disclosure of macroprudential decisions based on risk assessments	The MPS is revised; macroprudential actions are published alongside tool mappings on website; the FSR is streamlined to present key risks clearly; a short macroprudential report is published quarterly	TA on macroprudential policy communication	CBK	ST	High
Strengthen systemic risk analysis						
The DFSEA faces severe resource constraints amid the expanding macroprudential agenda	Secure adequate resourcing for the CBK macroprudential policy function, by strengthening the Financial Stability Division of the DFSEA	At least two additional staff are recruited – ideally one to support macroprudential stress testing and another to advance the expanding scope of KCR analysis	Bridge capacity gap through dedicated HR push on recruitment.	CBK	MT	High
Absence of robust real estate price indicators along limited coverage of private sector financial accounts, insufficiently detailed credit portfolio data, and the lack of maturity ladder information	Address identified data gaps, in particular in the real estate sector	Data on real estate is available, including the CRE sector; granular data on banks' loan portfolios are available; validated data is collected in centralized database, managed by the Statistics Department.	Bridge capacity gap by spurring inter-agency cooperation to gather, compile and disseminate required data.	KAS, CBK	MT	High
Owing to data limitations, the analysis on household vulnerabilities is currently limited, and there is no analysis on real estate risks	Expand household vulnerability analysis and initiate a framework to monitor risks in the real estate market	The DFSEA has a good view of the share and characteristics of vulnerable households	TA on credit registry analysis and wider real estate market monitoring frameworks	CBK	MT	High

Capacity Gap	Recommendation	Expected Result	TA Activity	Agency	Time frame ¹	Priority
No framework for monitoring systemic credit and liquidity risks, except for stress testing	Advance work on credit and liquidity systemic risk models	Frameworks for monitoring systemic credit and liquidity risks complement stress testing	TA credit and liquidity systemic risk models	CBK	MT	Medium
Develop a strategy and capacity to guide the use of macroprudential policies						
Although labeled positive-neutral, the 2 percent CCyB was calibrated on cyclical grounds, and no framework currently guides its adjustment above neutral or release in a downturn	Develop a clear calibration framework for the pnCCyB, covering both structural and cyclical risks, and establish framework the vary the CCyB with cyclical risks	The neutral level is calibrated to capture structural risks; a framework to guide decisions on when to raise the CCyB above its neutral level and indicators to determine when to release or revert the buffer to its neutral setting is in place	TA on pnCCyB calibration and framework	CBK	LT	Medium
Reported liquidity positions may overstate resilience in light of limited LOLR capacity and illiquid government bonds	Review the adequacy of existing liquidity measures	Appropriateness of existing liquidity measures is established through additional analysis, or additional measures have been taken	TA on liquidity measures	CBK	LT	Medium
Calibration of BBMs is loose and not in line with risk profile of loan categories	Reassess the design of BBMs from a macroprudential perspective, including the potential introduction of a DTI limit. BBMs should be extended to consumer credit products and applied to non-banks, to prevent regulatory arbitrage and future leakages.	A new household monitoring framework guided the redesign of the BBM package, expanding coverage to consumer loans and non-banks	TA on BBM calibration	CBK	LT	Medium

¹ Timeframe: **ST**, short-term, less than six months; **MT**, medium-term, with results around 18 months; **LT**, long-term, with results around 30 months.

Annex II: Recent MCM TA to Kosovo

Lead Division	Dates	TA Mission Title	Status
FY26			
MCMFR	H1 2026(TBD)	Crypto asset regulation: operationalization of supervision	Planned
MCMFS	H2 2025	Alternative macro scenario building tool	Planned
MCMCO	May-June 2025 and further	TA on CBK cybersecurity; first desk review then field TA mission later in the year.	Ongoing
MCMCO LEG	June 2025	Review of draft CBK Law	Completed
MCMFR	June 2025	Crypto asset regulation: desk Review	Completed
MCMFR	May 2025	Supervisory Review Process	Completed
FY25			
MCMFR	11/25-29, 2024	Supervisory Review Process	Completed
MCMFR	08/12-14, 2024	Cyber Risk Regulation and Supervision	Completed
MCMFS	06/10-14, 2024	Stress Testing / Network Analysis Follow-Up	Completed
FY24			
MCMFR	01/09-12, 2024	Insurance Regulation and Supervision	Completed
MCMCO	01/08-03/08, 2024	Central Bank Risk Management	Completed
MCMCO	07/26-27, 2023	Central Bank Board Workshop	Completed
FY23			
MCMFS	01/10-20, 2023	Stress Testing	Completed
MCMFR	06/20, 2022	FSSR Follow-Up Mission	Completed
FY22			
MCMCO	04/20-30, 2022	Central Bank Governance	Completed
MCMFR	09/16-10/04, 2021	Risk-Based Supervision	Completed
MCMCO	06/01-08/17, 2021	FSSR Follow-Up (Central Bank Governance)	Completed

Annex III: Kosovo Macprudential Instruments

Instrument	Scope	Key Requirement	Effective Date
Broad-based Tools			
Countercyclical Capital Buffer	All banks	2% CET1 of RWAs (positive neutral)	Jul 2025
Capital Conversation Buffer	All banks	2.5% CET1 of RWAs	Jan 2020
Leverage Ratio	All banks	Min. 3%	Jan 2020
Forward-looking Loan-loss Provisioning	All banks	IFRS 9 / Basel Expected Credit Loss framework	Jan 2020
Household Sector Tools			
Capital Requirements	Mortgages	Risk weights: 35% (QRML-A), 50% (QRML-B), 75% (non-qualifying)	Apr 2016
Loan-to-Value (LTV) cap	Mortgages	Max LTV: 60% (QRML-A), 80% (QRML-B), 90% (non-qualifying)	Jan 2016
Debt-Service-to-Income caps	Mortgages	Payment-to-income $\leq 50\%$ / Debt-obligations-to-income $\leq 60\%$ (QRMLs); Payment-to-income $\leq 60\%$ / Debt-obligations-to-income $\leq 70\%$ (non-qualifying)	Jan 2016
Liquidity Tools			
Liquidity Coverage Ratio (LCR)	All banks	$\geq 100\%$	Jan 2023
LCR by Currency	All banks	Separate reporting if $\geq 5\%$ of liabilities	Jan 2023
Net Stable Funding Ratio (NSFR)	All banks	$\geq 100\%$	Jan 2023
NSFR by Currency	All banks	Separate reporting if $\geq 5\%$ of liabilities	Jan 2023
Net FX Positions	All banks	$\leq 15\%$ per currency, $\leq 30\%$ aggregate (Tier 1)	Dec 2012
Systemic Institutions & Interconnectedness			
Capital Surcharge for O-SIIs	5 banks	CET1 buffer up to 1.5% RWAs	Jul 2025
Large Exposures to FIs	All banks	Limits applied to all external parties	Oct 2016

Other Systemic Risk Tools			
Sovereign Exposure Limits	All banks	Same limits as for FIs	Oct 2016

Note: Residential mortgage loans are classified by prudential risk profile: (i) Qualifying Residential Mortgage Loans (QRMLs), with Category A (QRML-A) subject to the strictest criteria and a 35% risk weight, and Category B (QRML-B) subject to less stringent criteria and a 50% risk weight; and (ii) non-qualifying loans, which do not meet QRML standards and are assigned a 75% risk weight. In Kosovo, the payment-to-income ratio is defined as monthly housing costs (mortgage principal and interest, property taxes, and insurance) relative to qualifying income, while the debt-obligations-to-income ratio extends this measure to include all monthly debt obligations.

Annex IV: Detailed 2019 FSSR Impact Assessment

Table 1. FSSR Strategic Objectives, Related Key Recommendations, and Priorities			Current Status	Likely implementation if not implemented (period)
Enhance Central Bank Governance	Priority ¹	Timeframe ²		
Restart the process to appoint a fourth non-executive member to the CBB in accordance with the CBL. (¶26) ¹	H	ST	Implemented. The last non-executive member of the CBK Board was appointed during this period, thereby completing the composition of the Board.	Q1 - Q2 2023
Review the effectiveness of the operation of the CBB. (¶27)	MH	MT	Implemented: On November 29th, 2023, the CBK board approved the Rules of Procedure in accordance with the recommendation in FSSR and Safeguard Assessment.	Q4 2023
Enhance the composition of the Executive Board and review its effectiveness. (¶29–30)	H	ST	Implemented: With the completion of the CBK Board, the new Governor was appointed in August 2023, paving the way for the appointment of other Executive Board members.	Q3 2023 - Q1 2024
Review and update the organizational structure of the CBK and refresh documented roles and responsibilities to ensure the structure is clear to all staff, at all levels. (¶28)	H	ST	Implemented: Based on the recommendation, the new organizational structure, along with the description of roles and responsibilities, was approved in November 2023.	Q4 2023
Review the effectiveness of other decision-making structures and committees. (¶24)	MH	MT	Implemented: The Executive Board has reviewed the Terms of the Macprudential Committee and has established the Risk Committee for the first time, in accordance with the recommendations	Q1 2024

¹ The number in brackets refers to the page number in the original FSSR 2019 Report.

Embed risk management within the CBK and its governance arrangements. (¶31)	MH	MT	Implemented: By decision of the Executive Board, the Risk Committee was established on April 3, 2024. With the assistance of an IMF expert and a technical assistance (TA) session conducted in Q1 2024 by the Director of the Risk Department at Banco de Portugal, the Committee's terms were reviewed, and its role and functions were defined. The decision outlines the composition of the Committee members, its functions, and duties, as well as the reporting structure. The Committee has also held its first meeting. To strengthen the Risk Management Department (DMR), a new Director has been recruited, possessing the necessary qualifications and expertise in this field. The decision outlines the composition of the Committee members, its functions and duties, as well as the reporting structure. The first meeting of the committee has also been held. In order to strengthen the Risk Management Department (DMR), a new Director has been recruited with the necessary qualifications and expertise in this field.	Q1 - Q2 2024
Effective and Efficient Financial Supervision and Regulation				
Banking sector				
Undertake an in-depth analysis of the staffing requirements that are currently needed and will be needed in day-to-day supervision and policy. (¶36, 53)	H	IM	The CBK has consolidated the human resources capacity in the Banking Supervision Department with the appropriate skills and competencies. Four colleagues were hired with relevant skills and experience: three senior bank supervisors and one bank supervisor, along with two internal transfers and two hires from the banking sector. Job advertisements were published on October for the remaining vacant positions in the department, in accordance with the 2024 budget, and the CBK aims at recruiting qualified staff to further strengthen and consolidate the department.	Q1-Q4 2024
Remove any remaining doubt concerning the protection of staff against the costs of defending their actions and/or omissions made while discharging their duties in good faith. (¶38, 54)	H	IM	Although the CBK Law defines the institution's obligation to protect its staff in this aspect, the internal processes could be revised to ensure that financial support is automatically approved once the criteria are met, without being subject to any discretionary approval.	to be determined
As part of the ongoing review of the list of Regulations, ensure that necessary risks and issues are dealt with (e.g., country and transfer risks, cyber risk, and certain aspects of market risk) and re-examine existing ones to ensure that they reflect the latest thinking. (¶39, 54)	MH	ST	Implemented: On 30 April 2024 Regulation on Country and Transfer Risk Management Principles has been approved.	Q2 2024

In relation to the applications for banking licenses, require full details of the business and professional history of directors and senior management, as well as for principal shareholders of the proposed bank. (¶41, 54)	MH	ST	Addressed with the changes in the Banking Law.	2024
Intensify efforts with the ECB to participate in the Raiffeisen supervisory college and to be party to its resolution and recovery plans. (¶42, 54)	H	IM	Ongoing: Efforts have been intensified through certain meetings also at the management level. CBK has managed to sign a memorandum of understanding with European Banking Authority, which indirectly includes cooperation with the Austrian regulator.	Ongoing efforts
Introduce a formal regime for regular meetings with the banks' external auditors. (¶44, 54)	MH	ST	Completed. Regular meetings are taking place.	Continuous process
Integrate stress tests exercises with the financial stability area and communicate the results to the banks. (¶54, 99, 107)	H	MT	Implemented: Stress test integration is concluded. Close cooperation with DAESF is established. The integration of the stress test between DAESF and DMB took place during the year 2021, but it is necessary to advance the inclusion of DMB in the process of compiling the stress test, where the issue of governance with a stress test model is part of the IMF's technical assistance.	Q2 2024
Establish supervisory procedures that would be required during periods of stress and conduct periodic tests on the operational procedures for granting of ELA. (¶47, 54)	H	ST	In Process: The inter-departmental working group established by the Executive Board is developing the Crisis Management Framework, which includes the revision of the Regulation on emergency liquidity support, the establishment of the Committee for the Supervision and Coordination of the Implementation of Emergency Liquidity Support and the definition of the terms of the reference of this committee, the compilation of the internal procedure for emergency support for liquidity, determining the solvency test and deductions (haircuts) for collateral and the compilation of the internal communication strategy in case of crises. The ELA framework will be finalized during the Q4 2024.	Q4 2024
Develop tools for a more thorough assessment of credit risk, based on granular data from the CR. (¶48, 54)	MH	MT	In Process: The CBK has amended its Credit Register methodology, which will require financial institutions to report a number of new data points. These new data will complement the current database and provide additional sources for thorough assessments of credit risk. The amended methodology has been sent to financial institutions for comment, and the CBK is currently reviewing and revising the methodology for data collection to enhance it.	In process
Require banks to define scenarios forecasting disturbances to payment and settlement systems, for the purpose of operational risk management. (¶46, 54)	H	IM	DSP has begun to provide information on the use of the intraday liquidity facility on a quarterly basis for DMB	Continuous process

Improve offsite monitoring tools for a better comprehension of banks' exposure to liquidity risk. (¶50, 54)	H	IM	Completed. Liquidity risk remain also high in our supervisory agenda. We intensified our supervisory activities in closely monitoring of this risk. We collect the weekly data on the deposit movements and their compositions in relation to the concentration in large deposits, LCR calculation, data related to the loans, loan to deposit ratio, etc.	
Finalize the implementation of repo (repurchase agreement) facilities between the CBK and financial institutions, maturing over the intraday lag. (¶52, 54)	H	IM	Completed. Regulation on the Repurchase of Securities with the Central Bank of the Republic of Kosovo was approved and entered into force on 25 April 2019. Meanwhile, the regulation Following the approval, there were continuous REPO transactions in the market, executed through the Central Securities Deposit system (CSD). The CBK can provide the list REPO and Intraday transactions in the market.	Q2 2019
Implement Basel III liquidity standards. (¶49, 54)	H	ST	Completed: Following the approval of the Regulation on Liquidity (LCR and NSFR), the CBK is now in line with Basel III requirements. The respective regulations will enter into force on January 1, 2023.	Q1 2023
Insurance sector				
Update the premium rate pricing of the mandatory motor third-party liability (MTPL) product and develop a process to regularly review the pricing as risk factors evolve. (¶59, 71)	H	ST	The CBK in cooperation with the World Bank, has initiated a project to review the current methodology and assessment risk exposure for the MTPL. The current plan and methodology is to introduce additional risk factors that will potentially become mandatory for the non-life insurance companies to take into account when calculating the risk exposure of individuals and based on these factors calculate the premium. This approach is in line with a semi-liberalized model and will serve as a foundation towards a fully liberalized MTPL market. The CBK has in its plan updating the data by the end of 2024 that will facilitate the testing of the risk factor-based premium model.	Q4 2024 - 2025
Assess the viability for the insurance industry of continuing to apply the taxes and fees, and obligations to pay for claims related to uninsured drivers. (¶70–71)	H	ST	This recommendation is expected to be implemented after the changes of the amendment of the VAT law, CBK will raise this issue again in the Ministry of Finance	2027-2028
Enhance the supervision of the market conduct of insurance companies by ensuring the CBK has adequate powers and resources to implement effective market-conduct supervision. (¶62, 64, 71)	MH	MT	The CBK has recently established a new Consumer Protection Department to enhance oversight and support for financial consumers. Within this department, a dedicated division focused on market conduct has been created.	Q2 2024
Develop a framework of escalating supervisory actions for the insurance sector from preventative and corrective measures to enforcement. (¶55)	H	ST	An IMF on-site technical assistance (TA) mission was conducted from 9 to 12 January. The TA was designed to assist the CBK in making progress in its transition to a risk-based supervisory approach. The mission reviewed the updated risk-based supervision manual, presented, and developed some examples of supervisory guidance for the manual, and provided a proposed intervention ladder.	Ongoing

Reconsider crisis management processes for the insurance industry, particularly the practice of installing CBK employees as administrators and liquidators. (¶61, 71)	MH	MT	CBK has appointed its employees as administrators and liquidators mainly due to the lack of necessary profiles in the market. CBK has tried in the past to recruit liquidators from the market, but the interested candidates did not meet the required conditions. Therefore, CBK is committed to implement the recommendation in a longer period, but in cases where potential candidates from abroad will not meet the required criteria, it will continue to use internal resources. CBK considers that first the maximum period that a company can be centrally under administration should be limited and then the possibility of engaging external administrators should be examined. The CBK has already issued an Expression of Interest (EOI). We now have a list of professionals who are interested in, or are seeking to become, administrators or liquidators.	Q2 2023
Implement the risk-based supervision (RBS) manual that has been developed. (¶68, 71)	MH	ST	Manual is currently being used in examinations. An IMF on-site technical assistance (TA) mission was conducted from 9 to 12 January. The TA was designed to assist the CBK in making progress in its transition to a risk-based supervisory approach. The mission reviewed the updated risk-based supervision manual, presented and developed some examples of supervisory guidance for the manual, and provided a proposed intervention ladder.	Continuous process
Enhance onsite supervision practices for insurance. (¶67, 71)	H	ST	The issue of expense management has been addressed through the regulation on expense management in insurance companies that was changed at the beginning of 2020, which limited the level of expenses for DIFKferent categories	Q1 2023
Develop a program for the implementation of Solvency II that takes into account the circumstances of the insurance industry in Kosovo and the resources and resource needs of the CBK. (¶75)	M	LT	The CBK has received have received a Roadmap to Solvency II from the World Bank. However, given the complexity of the regulations and the detailed requirements involved, the CBK has requested their assistance in implementing these measures. As it appears increasingly likely that the World Bank will decline carrying out this TA due to budget constraints and lack of further funding, the CBK has issued a similar demand to MCM.	2025-2030
Improved Monitoring of Systemic Risks and Enhanced Financial Stability Governance				
Review the CBK's institutional arrangements and governance in support of financial stability and macroprudential policy. (¶95, 101)	H	ST	Financial Stability and Economic Analysis department, with the new organizational structure in place since 2024, reports directly to the Governor, a member of the Executive Board. Furthermore, since April 2024, the department chairs the Macroprudential Advisory Committee (MAC) and holds the Secretariat of the MAC.	Q4 2023 and Q2 2024
Amend the CBL to strengthen the legal basis for CBK's macroprudential policy powers. (¶93, 103)	MH	LT	Macroprudential supervision is addressed existing provisions in the new draft law on Banks, but the legal foundation needs to be reinforced further, possibly through the revision of the Central Bank Law, which is at an earlier stage of revision completion.	Q4 2024

Dedicate more resources to EAFSD for financial stability analysis, and “streamline” the deliverables, including the Financial Stability Report. (¶102)	H	IM	Recruitment of the adequate skills for FSAED proved challenging, given the increased competition in the market - against a low competitive power of the CBK. Efforts to ensure adequate resources for the key functions such as FSDEA are ongoing, and CBK's initiative in revising its compensation scheme relative to the market could prove more effective.	Continuous process
Complete a full review of macroprudential data gaps and develop a strategy to close them. (¶98, 104)	H	ST	Data gaps and data issues were identified through the process undertaken since 2022 by the FSEAD, in advancing the two core frameworks in the department, Macroprudential Stress-Test and the Macroeconomic Model. While the closure of some of the data gaps is underway, though the revised of the Credit Registry Regulation and Supervisory Regulatory Framework (FinRep and CoREP), the department plans to build its own databases for systemic risk monitoring, in line with increased capacities.	Continuous process
Establish an Interagency Real Estate Working Group to close the information gaps around real estate in Kosovo. (¶104)	MH	ST	KAS undertook the project of constructing the index of the Real Estate Residential Prices, with the assistance of an IMF TA. The CBK played an important supportive role (SD).	Continuous process
More closely monitor developments in nonfinancial sector balance sheets, including by cooperating with the KAS on the use of surveys. (¶98, 106)	M	MT	Various institutional initiatives are under way to close the data gap on Private Sector balance sheets and income statements. CBK is in its final stage of consolidating the Financial Accounts unit in Statistics Department. Meanwhile, FSEAD plans to design and conduct regular surveys with the private sector, in its efforts to properly assess risks.	Continuous process
Explore ways to better harness Credit Registry (CR) data for macroprudential policy purposes. (¶105)	MH	ST	DFSEA regularly assess indebtedness and lending patterns. Moreover, the department also calculates PD's and derives disaggregated exposures for stress-testing purposes. The active use of CRK data by the department have contributed to the identification of data improvements needed, which have been reflected into the new CRK regulation underway.	Continuous process
Deepen CBK's stress testing competency and network analysis. (¶99, 107–108)	MH	MT	The IMF's focused assistance for the recalibration of the stress test model and the enhancement of the CBK's capacities in this field began on January 10, 2023. At the end of 2022, meetings were held between the IMF team and DAESF, during which data and information were exchanged that served as a basis for the start of work. This assistance aimed to provide coverage not only for the stress test model but also potentially included the governance aspect of the process, both inside and outside the CBK. It required significant commitment throughout 2023.	Completed
Consider the use of macroprudential policies, including LTV and DSTI for consumer and mortgage lending. (¶109)	H	IM	CBK is proposing the activation of the Countercyclical Capital Buffer (CCyB) and the Capital Surcharge for Other Systemically Important Institutions (O-SII) as specific macroprudential policy measures. Going forward, with the enhancement in the CRK database, the CBK plans in exploring the use of borrower-based measures.	Q3 2024
Develop Securities Markets				

Ask the Government to establish a cross-agency task force on the development of capital markets in Kosovo. (¶83)	M	MT	Completed: A working group comprising the Ministry of Finance, CBK, the Ministry of Trade and Industry, and USAID experts engaged in drafting the concept note for the development of the Capital Market. USAID provided support in drafting and designing the concept note. The engagements of the working group have been completed, and the drafting of the concept document has been concluded.	Q3 2024
Provide assistance to the MoF in drafting key pieces of capital markets legislation in order to provide a sound framework. (¶84)	M	LT	In Process: The drafted concept document is currently under review by the Ministry of Finance and has been sent to institutions for comments. The internal consultation process has been finalized, and the concept document will be sent for public consultation in the last quarter of 2024.	Q4 2024
Increase expertise and knowledge on capital markets at CBK. (¶85)	M	MT	The CBK has strengthened its cooperation with the EBRD, specifically with the Capital Markets Department, to enhance the capacities and knowledge of CBK employees in capital markets. As part of this collaboration, the EBRD has granted 16 certifications to CBK staff in capital markets, aimed at building their expertise and understanding in this critical area.	Continuous process
Ensure existence of pre-conditions for capital markets activity. (¶87)	M	LT	The CBK has upgraded its Central Securities Depository (CSD) system, which is also integrated with its clearing and payments system. The CSD can support the issuance and trading of new instruments. In addition, the CBK will continue to upgrade its existing infrastructure to provide the necessary conditions for pre-trade and post-trade processes.	Continuous process

Financial Inclusion and Deepening (Impact on Financial Stability)				
Establish a National Strategy on Financial Inclusion. (¶119, 126)	H	ST	The establishment of the national strategy on financial inclusion is a process that involves multiple institutions. The CBK has already taken measures by incorporating financial inclusion as a specific objective in its Strategic Plan for 2024–2028. Additionally, in November 2023, it established the Consumer Protection Department through its organizational review, with the aim of creating mechanisms that can improve market conduct and financial inclusion. Furthermore, the CBK is finalizing a new online platform on its website for comparing interest rates, where data on financial products and interest rates will be publicly available in one place. This is expected to contribute to financial literacy, consumer protection, and inclusion. In addition, CBK is finalizing the new online platform in its webpage for the comparison of interest rates where data on financial products and interest rates will be publically available in one platform. This is expected to contribute in financial literacy, consumer protection and inclusion.	Continuous process
Further enhance data collection by the CR and utilize credit history data for financial stability purpose. (¶128)	MH	MT	CBK is amending its Credit Register methodology, which will require financial institutions to report a number of new data points. These new data will complement the current database and provide additional sources for thorough assessments of credit risk. The amended methodology has been sent to financial institutions for comment, and the CBK is currently reviewing and revising the methodology for data collection to enhance it. In addition, CBK has engaged with the IFC for the project of enhancing the digital financial services, where an important component is to enhance the data collection from the CRK.	Q1 2025
Advance the regulation and technical readiness for mobile payment and electronic signature. (¶122, 129)	MH	MT	Since 2021, Kosovo has adopted the Law on Electronic Identification and Trust Services in Electronic Transactions, along with sub-legal acts regulating the trust mark for qualified trust services and identification schemes for specific security levels. In order to comply with best practices and international standards, the CBK has included in its strategic plan the issuance of guidelines on remote onboarding, specifying the policies and procedures that financial institutions should have in place when offering remote onboarding solutions to their customers. New draft law of the CBK Law on Payment Services is sent to the Government for approval and the approval depends on the Government and the Assembly of Kosovo. The new Law establishes the legal basis for Open Banking and for the adaptation of rules for more advanced (strong) customer identification in accessing electronic payment services. Also, CBK is in process to approve Instruction for QR Code. The standardization of QR code specifications will help promote wider use of mobile retail payments in Kosovo through interoperability and the provision of a consistent user experience for merchants and consumers.	2024 - 2025

Reconcile the laws regarding MFIs' legal status and address the issue of Nongovernmental Organizations (NGO) MFIs' conversion. (¶124, 131)	H	ST	Ongoing: In cooperation with the IFC, CBK a working group has been established to review the Law on Microfinance Institutions. The issue of MFIs legal status will be addressed with the new law.	2025 - 2026
Enhanced Financial Statistics for Financial Stability Monitoring and Analysis				
Harmonize reporting of FSIs and address remaining methodological issues. (Annex I)	MH	ST	Ongoing: The responsibility for reporting Financial Soundness Indicators (FSI) was transferred to DS at the end of 2021, while the migration to the new FSI forms occurred at the beginning of 2022. These new forms have improved quality and alignment with the methodology outlined in the 2019 FSI Guide. However, some recommended—such as the exclusion of government securities from liquid assets, the consolidation basis for commercial banks, and the denominator used for NPL calculations—cannot be implemented by DS because the necessary data comes from BSD. Additionally, the historical review of indicators is affected by this limitation. Discrepancies between the FSI indicators and those reported in the Monthly Information Report published by FSEAD, due to the use of resources processed with different methodologies. The revision of the metadata is currently underway and is expected to be completed by the end of 2024.	Continuous process
Ensure methodological consistencies of monetary statistics with the international standards. (Annex I)	MH	MT	Implemented: The publication of monetary and financial statistics for other depository corporations, the central bank, pension funds, and microfinance institutions is in full compliance with international standards. However, for the insurance sector to achieve full compliance, additional data is needed to meet the recommendation on reclassifying unearned premiums by sub-sector (life and non-life insurance) and by economic sector (NFCs, households, and non-residents). This data is currently unavailable from this industry.	Continuous process
¹ Priority: High (H); Medium High (MH); Medium (M)				
² Timeframe: Immediate (IM) <6 months; Short-Term (ST) <12 months;				
Medium-Term (MT) 12–24 months; Long-Term (LT) 24–48 months.				

Annex V: Kosovo Financial Sector Statistics

Kosovo: Selected Financial Soundness Indicators, 2019–25

(percent, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	Jul-25
Total Assets (% GDP) 1/	67.5	79.1	74.9	76.0	77.9	83.0	79.0
Capital adequacy							
Regulatory capital to risk weighted assets	15.9	16.5	16.1	15.5	16.5	17.4	17.1
Tier 1 capital to risk weighted assets	14.2	14.7	14.4	13.5	14.6	15.5	15.2
Capital to assets	11.2	11.7	11.1	9.4	10.4	11.1	10.6
Asset quality							
NPL to total loans	1.9	2.5	2.1	1.9	1.9	1.9	2.0
NPL net of provisions to capital	1.5	4.6	3.4	3.4	3.2	3.3	4.2
Large exposures to capital	81.8	89.5	89.8	78.2	61.7	56.4	59.4
Liquidity							
Liquid assets to total assets	28.8	30.1	28.8	26.8	25.1	23.8	21.7
Deposits to loans	129.2	133.9	130.9	127.9	124.8	119.0	110.0
Liquid assets to short-term liabilities	38.7	40.4	37.2	36.5	34.7	32.7	29.0
Profitability							
Return on average assets	2.1	1.7	2.1	2.6	2.5	2.6	2.3
Return on average equity	17.2	14.0	17.3	20.7	19.8	19.7	17.3
Interest margin to gross income	80.6	79.2	76.5	76.4	79.4	80.6	82.7
Non-interest expense to gross income	48.1	46.1	45.4	43.8	44.0	45.7	46.3
Market risk							
Net open currency position to capital	4.7	3.5	1.5	1.8	0.6	0.4	0.6

Source: Central Bank of the Republic of Kosovo, KAS and IMF staff calculations.

1/ Includes all other depository corporations.

Kosovo: Central Bank and Commercial Banks Survey, 2019-24

(Millions of Euros, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024
Central Bank						
Net foreign assets	937	969	1,061	1,147	1,283	1,280
Foreign assets	1,219	1,223	1,371	1,449	1,449	1,452
Foreign liabilities	281	254	310	302	167	172
Net domestic assets	-237	-211	-335	-353	-348	-401
Net claims on central government	-238	-213	-347	-355	-351	-423
Claims on central government	500	314	280	248	180	171
Government securities	184	201	216	197	180	173
Liabilities to central government	738	527	626	604	531	594
PAK (privatization) fund	275	191	185	166	166	179
Government deposits	444	317	423	420	345	395
IMF subscription	18	18	18	18	19	19
Claims on other sectors	2	2	12	3	2	22
Monetary base	468	706	667	726	831	761
Liabilities to other depository corporations	415	566	589	594	591	656
Deposits included in broad money	53	139	78	132	241	105
Other items, net 1/	232	52	59	68	103	118
Commercial Banks						
Net foreign assets	639	843	836	1,023	1,272	1,165
Assets	866	1,117	1,107	1,337	1,587	1,619
Liabilities	-227	-274	-271	-315	-316	-454
Net domestic assets	3,629	3,909	4,463	4,956	5,484	6,422
Claims on the CBK	415	566	589	594	590	657
Net claims on the central government	275	240	297	251	193	210
Claims on central government	287	254	312	265	224	233
Liabilities to central government	-13	-14	-15	-14	-31	-23
Net claims on other public entities	-88	-140	-170	-235	-207	-250
Claims on other public entities	3	4	0	0	0	0
Liabilities to other public entities	-92	-143	-170	-235	-207	-250
Credit to private sector	3,028	3,242	3,747	4,347	4,909	5,806
Deposits of the private sector	3,688	4,091	4,597	5,183	5,767	6,505
Demand deposits	2,225	2,597	3,090	3,370	3,760	4,166
Time deposits	1,463	1,493	1,508	1,813	2,007	2,339
Other items, net 2/	580	661	702	797	989	1,083
Memorandum items:						
Broad money (12-month percent change)	12.0	15.3	12.1	11.3	10.7	12.9
Gross international reserves, excl. PAK and KPST deposits at CBK	863	900	1,100	1,176	1,131	1,261
Deposits of the private sector (12-month percent change)	15.5	10.9	12.4	12.7	11.3	12.8
Credit to the private sector (12-month percent change)	10.0	7.1	15.6	16.0	12.9	18.3
Deposits of the private sector (percent of GDP)	52.3	60.4	57.8	58.3	59.6	63.1
Credit to the private sector (percent of GDP)	42.9	47.9	47.1	48.9	50.7	56.3
Excess reserves of commercial banks	302	302	285	248	234	246

Sources: Central Bank of the Republic of Kosovo, KAS, and IMF staff calculations.

1/ Includes shares and other equity.

2/ Includes shares, other equity, and deposits from central government, local governments and POEs.