

**EXECUTIVE
BOARD
MEETING**

SM/22/285
Correction 1

January 26, 2023

To: Members of the Executive Board
From: The Secretary
Subject: **Republic of Kosovo—Selected Issues**

Board Action: The attached correction to SM/22/285 (12/22/22) has been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

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Questions: Mr. Di Bella, EUR (ext. 37483)
Mr. Guo, EUR (ext. 34705)
Ms. Ozturk, EUR (ext. 39940)

B. How Did Central Banks Absorb the Shock of Lower Interest Income?

6. A large part of the decline in net interest income was compensated by increases in fees, commissions, and regulatory income. In 2021, the sum of net fees, commissions and other regulatory income represented more than 100 percent of the operating expenses at the CBK and CBCG, and about 60 percent at the CBBH. The increases in fees, commissions and regulatory income reflected both the increases in unit rates and financial deepening in these economies.

7. Negative remuneration on excess reserves also led to additional central bank income. Remuneration rates were set broadly in line with short-term interest rates in the euro area, which were negative between 2014 and mid-2022. From a central bank's perspective, the income from negative remuneration could only offset the negative return on foreign reserves funded by excess reserves, while the negative return on foreign reserves funded by mandatory reserves and government deposits still had to be borne by the central bank.³

Central Bank Personnel Costs					
	Year	Unit	Bosnia and Herzegovina	Kosovo	Montenegro
Total Personnel Costs	2014	% GDP	0.07	0.07	0.19
	2019	% GDP	0.05	0.07	0.17
Change in Total Personnel Costs	2014-19	%	-2	40	26
Change in the Number of Employee	2014-19	%	4	17	5
Change in Personnel Costs per Employee	2014-19	%	-5	19	20
Change in Nominal GDP per Capita	2014-19	%	30	34	43
Nominal Personnel Costs per Employee	2019	euro	27,166	21,138	22,618
Nominal GDP per Capita	2019	euro	5,136	3,959	7,959

Sources: Central bank financial statements and IMF staff calculations.

8. Both the CBK and CBCG accrued interest income from domestic government securities. Interest spreads of these securities over German government bonds averaged 280 bps (Kosovo) and 420 bps (Montenegro) during 2018–22. The CBK started to hold Kosovo government securities in 2015. As of end-2021, government securities only represented 13 percent of total assets, but generated 2/3 of the CBK's gross interest income.

Central Bank (Monetary Authority) Personnel Costs in 2019 (Percent of GDP)	
No separate legal tender	
El Salvador	0.07
Kosovo	0.07
Montenegro	0.17
Ecuador	0.22
San Marino	0.43
Currency board	
Bulgaria	0.04
Bosnia and Herzegovina	0.05
Hong Kong SAR	0.07
Brunei	0.09

Sources: Fitch; Haver Analytics and IMF staff calculations.

³ Although negative remuneration on excess reserves have been implemented by many central banks in Europe, central banks usually pay zero or positive interest rates on mandatory reserves and government deposits.