COSTS AND BENEFITS OF EURIZATION IN KOSOVO

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Abstract
One of the many challenges that Kosovo faced after the conflict of 1999 was the selection of a monetary structure. At the time when the United Nations undertook the administration of Kosovo (UNMIK), adoption of the monetary structure based on the utilization of the German Mark appeared as a natural solution. Utilization of a sustainable currency was important in maintaining macroeconomic stability and played a key role in the reestablishment of people's trust in the financial sector. There was an immense urgency for assuring cash currency and the abolition of the Yugoslav Dinar as a means of transaction. At the beginning of 2002 when the replacement of the inherited currency in Euro was carried out in the Eurozone countries, it was also necessary to replace the German Mark in Kosovo. In accordance with UNMIK Regulation No. 1999/4, EURO ("EUR") was adopted as an official currency in Kosovo as of January 1st 2002. EURO replaced the German Mark ("DEM") which was the measurement and reporting currency in the territory of Kosovo. The objective of this paper is to present the costs and benefits brought to the Kosovo economy by the utilization of Euro as its main currency in circulation, and to what extent are the costs acceptable compared to the advantages that were brought by the introduction of Euro in the Kosovo economy.

Keywords: *Kosovo economy, German Mark, Euro, Costs, Benefits.*

Introduction

In the ten-year period Kosovo has shifted from a post-conflict country to a country that is considered in transition. It has moved away from concentrating in the reconstruction of the country toward economic development and integration into European structures. Still, the economic development is insufficient to address the challenges that Kosovo is facing, such as the high rate of unemployment, high deficit in the trade balance and the inappropriate economic structure. During 2007 Kosovo had an increase of GDP by 3.5% and it is clear that Kosovo needs a higher degree of economic growth in order to address the challenges it faces. The trade deficit remains high whereas exports are minor due to limited production capacities for export and the inability to compete with the competition. The coverage of imports with exports still remains very low, around 8%. Based on the statistics of 2005, most of the companies registered in Kosova were concentrated in the trade/services sector (about 50% of all companies), transport and communication (10-14%), hotels and restaurants (8-10%), and construction (4-5%). The participation of production enterprises in the general number of registered enterprises was between 8% and 9%. Unemployment rates vary from about 30% (IMF, 2004) to about 40% (SOK, 2006). The largest participation in the labor market in Kosovo, by over 40% is composed of youth, between the ages of 16-24. About 28,000 new employment seekers enter the labor market on a yearly basis.

Economic integration of the world by means of exchange of goods and services, licenses and knowledge, export of capital and economic-technical as well as financial cooperation

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represents one of the main characteristics of modern economy. Reality shows that all EU member states, within the framework of this cooperation, have achieved considerable results and have benefited in every area of life. Therefore, economic interest should serve as the key incentive for countries of Western Europe, Central Europe, Southeast Europe as well as the Balkans countries, which would bring benefits for all those that cooperate, also Kosovo, as part of the Balkans which aims to become part of the EU. The abandonment of the national currency and adaptation of another currency as in the case of Europe in the Eurozone is not a process that has taken place without the feeling of having lost sovereignty by each state separately in the process of handing over this attribute toward European unilaterateration. The beginning of 2009 marks the 10th anniversary of Euro, the currency that accession of the economic and financial policies of hundreds of millions of Europeans. The countries that have the Euro now enjoy a larger and safer market with less risk of devaluation and inflation. Euro currently represents the largest currency in Europe and it is among the strongest currencies in the world. Euro provided Kosovo with a stable monetary environment; it alleviated economic transactions with the key Kosovo trade partners etc. However, it also provided a cost for the Kosovo economy such as loss of seigniorage income, loss of sovereignty over the monetary policy. However, the costs may be considered acceptable compared to the advantages that were brought to the Kosovo economy by the introduction of Euro.

1. Central Banking System in the European Monetary Union

Lawmakers in the European Parliament were the first in the EU that had promoted the single pan-European currency in the 1960's. The road toward launching was long, while the European countries hesitated to exchange their national currencies with an untested currency. In December of 1991 leaders of the EU countries signed a historic treaty in the city of Maastricht, Holland, which aimed toward monetary unification in Europe. The Maastricht treaty strategy for moving toward the monetary union in Europe was based on two principles. Firstly, the transition toward the European monetary union was seen as a gradual step that would extend for a period of several years. Secondly, entry into the Union was conditioned with meeting the convergence criteria[1]. Technically the monetary union commenced on the January 1st 1999. This was the moment when Euro started to exist and when the European Central Bank assumed control over central national banks. However, as of January 1st 1999 until December 31st 2001, euro existed only in bank passbooks and not physically. The complete monetary union started to exist on January 1st 2002, when Euro also started to exist in the physical form (banknotes and currencies) and when they moved away from using the national currencies.

After the adaptation of Euro as their sole currency, the EU member states that are part of the Eurozone have abandoned their monetary sovereignty. Therefore, the Eurozone institutions have been established with the Maastricht treaty whereas the monetary policy has been entrusted to the Eurosystem. The Eurosystem is composed of the European Central Bank (ECB) and the National Central Banks (NCB) of the EU countries that have joined the European Monetary Union (EMU). Initially, in January 1999, 11 EU member countries joined the EMU (Belgium, France, Germany, Italy, Luxembourg, Holland, Ireland, Portugal, Spain, Austria, Finland), Greece joined in 2001, Slovenia in 2007, Cyprus and Malta in 2008, Slovakia in January 2009, whereas the Eurozone now contains 16 member countries.

[1] Committee on studies of Economic and Monetary Union (1989)

2. Costs and benefits of the joint currency

It is worthwhile noting that the central national banks, although part of the so-called Eurosystem, cease to undertake independent decisions on monetary policies and the exchange rates. They are there to implement the decisions undertaken by the ECB. In other words, in the complete monetary union, the central national bank either ceases to exist, or it has no real power. This means that the country that joins the monetary union will not be able to change the price of its value (with devaluation and evaluation), to determine the quantity of the national currency in circulation, or change the short-term interest rates.

It is known that various countries have various norms of economic development. Countries that usually have problems with trade balances, if they join the monetary union, would not be able to cover the deficit in the trade balance by means of devaluating the national currency, in order to make products of that country more competitive in the external market. Countries also differ due to the fact that they have different fiscal systems. These differences often compel countries to use various combinations of financing the budgetary deficit. The budgetary deficit may be financed by borrowing and emitting currency or by increasing the inflation. Therefore, countries with less developed fiscal systems, compared to the other countries of the monetary union, will face a higher cost of increasing revenues by increasing the tax norm even through it would be more favorable to increase revenues by means of inflation. However, by joining the monetary union, in case of countries with a lower inflation rate, which they have to respect, they have to increase taxes, or allow their deficit to increase furthermore.

However, utilization of the joint currency brings important benefits to the Eurozone countries such as:

- Decreasing the cost of transaction of member countries
- Improving the allocation efficiency of the price mechanism
- Higher price transparency has an impact on the increase of competition, by which means the consumer benefits
- Stimulation of integration in the other fields (financial, institutional, political)
- Positive impact on the trade flow within the Union.[2]

Elimination of the transaction cost toward another currency surely represents the most noticeable benefit from the monetary union. These costs diminish when the countries utilize the common currency. Information in various countries demonstrates that about 5% of bank revenues are fees that are paid to banks during the exchange of national currencies. Therefore, these costs diminish upon joining the monetary union.

Utilization of the joint currency brings greater price transparency, meaning that the consumers can see the prices in the same currency and make comparisons, which has an impact in the increase of competition and greater benefits for the consumers. Lower transaction costs and greater transparency, according to many supporters of Euro are considered two greatest benefits of using the common currency.

It is known that economic agents base their decisions related to production, investments and consumption on information that is provided to them by the price system. If the prices are uncertain, the number of decision for the above purposes will decrease, meaning that the price system becomes an indicator for undertaking the right economic decisions. Therefore, with the utilization of the joint currency, which as a precondition requires adherence to many criteria

[2] Paul De Grauwe, Economics of Monetary Union, 2003, page 77.

defined by the ECB, the risk of inflation decreases and this provides a signal for the individuals to undertake decisions on production or investment.

The existence of the joint currency also stimulates integration in the other fields, whether financial, institutional or political. And, surely the existence of the joint currency stimulates greater trade cooperation within the framework of the union countries.

The beginning of 2009 marks the 10th anniversary of euro, the currency that approached the economic and financial policies of hundreds of millions of Europeans. With the joining of Slovakia, which undertook the status of the 16th Eurozone member, now Euro is used by 330 million people with a GDP of more than 4 billion Euros. Euro countries now enjoy a larger and safer market with less risk from devaluation and inflation. Euro is now the largest currency in Europe and among the strongest currencies in the world. The EU Commissioner on monetary issues, Joaquin Almunia, made a positive balance of the utilization of Euro since the initial moment of its utilization until today: “Because of Euro, the European Union and in particular the Eurozone today is a very integrated economic zone with a high trade volume, with many opportunities and effective markets. Euro provides protection against international monetary turmoil and has led toward the decrease of inflation”.[3]

While the chief of the European Central Bank, Jean-Claude Trichet, speaking to the European Parliament, stated that the decline and the banking crisis have demonstrated the weaknesses of Euro, by stating that “If we were not to have a joint currency, then we would be unable to act expeditiously and efficiently”. According to him “In times of turmoil it is better to be in a single larger and more sustainable ship than in a small boat”.

It is worth noting that now in the wave of financial crisis; those who have resisted the Euro, such as Denmark, Sweden and even the Great Britain are starting to reconsider their contradiction. Some EU countries, outside the Eurozone, such as Lithuania and Hungary have seen their national currencies decrease in value and were forced to request international funding in order to save their economies. Whereas Iceland, which is not a member of the EU, is also keen on joining the 27 member block and will apply for the utilization of Euro. [4] Therefore, the low inflation, inexistent currency risk, low transaction cost and greater transparency have made the Euro a success. Moreover, according to Professor Michael Boskin from Stanford University, Euro could soon serve as an alternative currency to the American Dollar, or even replace it in the world markets, as a strong currency supported by the competency of the European Central Bank in terms of inflation control.

3. Establishment of the Central Bank of Kosovo (CBAK)

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

[3] http://www.kohajone.com/artikull.php?idm=24955
[4] Newspaper “Koha Dotore”, January 14 2009, Prishtina , page 37, according to: AP, January 13 2009, Strassbourg

which the Banking and Payments Authority of Kosovo (BPK) was transformed into the Central Bank of Kosovo (CBAK). The key objectives of CBAK according to this regulation are to:

- stimulate safety, the ability of payment and efficient functioning of a stable financial system based on the market, by encouraging the entry into the market of safe financial instruments, and

- support the general economic policies in Kosovo, with the aim of contributing to the efficient distribution of resources in accordance with the open market economy principles.[5]

With the entry into force of the Constitution of the Republic of Kosovo on June 15 2008, the Central Banking Authority of Kosovo has been transformed into the Central Bank of Kosovo (CBAK).

After the conclusion of the conflict in 1999 in Kosovo, bearing in mind the great urgency for the availability of cash and the removal of the Yugoslav Dinar as a means of transactions, it was not surprising that in September of 1999, by means of one of the first regulations "On the allowed currency in use in Kosovo", UNMIK made the use of the German Mark as well as other foreign currencies in Kosovo official. In fact it was the Kosovo population that had adopted the German Mark as its joint currency. The UNMIK Regulation merely identified the German Mark as the currency with which budgets, financial information as well as the accounts of public organizations, agencies and institutions, as well as the accounts of UNMIK itself were established. Concurrently, this regulation provided the parties with freedom to nominate such a transaction in a currency that is generally accepted by them in carrying out any contract or transaction.

The German Mark was unilaterally adopted as a de facto legal currency in Kosovo, and there were no negotiations with the Bundesbank or the European Central Bank at the time. The adaptation of the German Mark and subsequently the adaptation of Euro was not a coincidence. It followed two decades of extreme monetary inconsistency, coupled with a high rate of unofficial use of the German Mark as a reserve currency and means of exchange in Kosovo. In the period before the conflict, the German Mark was the most widely used currency in Kosovo. The population was familiar with this currency. Remittances from the Kosovo Diaspora had caused a regular and considerable movement of funds into Kosovo for several years. Almost all of these revenues were in the form of physical cash. After the conclusion of the conflict, due to lack of banking services in Kosovo, most of the direct foreign assistance in Kosovo was also carried out in the form of physical cash.

At the time when the United Nations assumed the administration of Kosovo, the adaptation of the monetary structure based on the utilization of the German Mark appeared as a natural selection. The utilization of a stable currency had great importance in the maintenance of macroeconomic stability and played a key role in the reestablishment of people's trust in the financial sector. It was also ascertained in order to ensure considerable support for the development of a strategy that was managed abroad, which was a necessity, bearing in mind the size of the internal market.[6]

4. Adoption of Euro in Kosovo

When at the beginning of 2002 the replacement of inherited currencies into Euro was conducted in the Eurozone countries, it was also necessary to replace the German Mark in Kosovo. The BPK was entrusted with the management of this project with the aim of ensuring an

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

[6] Fifth conference of the Bank of Albania, 24-25 March 2005(Michel Svetchine, Experience of Kosovo with the Euroization of its economy), *page 251-253*

undisturbed and safe transition toward Euro, and eventually with the lowest cost possible. The unlimited support in this project from UNMIK and EU ensured the necessary and strong assistance in the amendment and endorsement of the basic legislation. The legalization of its widespread use and the transition toward Euro was carried out in cooperation with the European Central Bank as well as some central national banks in the Eurozone. The special circumstances that the Kosovo authorities were facing presented numerous challenges in the preparations for the withdrawal of the German Mark and the injection of Euro. The high level of orientation toward cash in the economy meant that there was no direct method to assess the volume of the German Mark that was in circulation, and consequently, its distribution according to denominations.

CBAK always tries to implement financial policies, which will in a near future be part of the system of the European Central Bank (ECB). Euro is an official currency in Kosova since February 2002 but Kosova is not member of Eurozone since as a precondition for a country to get included in ECB, as well as in Euro System is joining of such a country into the European Union (EU). The fact that ECB monitors and supervises the flow of money, transfers, payments, and loans in Kosova means in a way that CBAK is member of ECB although by not having equal rights (for example it has not the right to emit money). In addition to Kosova, there are some countries, such as Andorra, San Marino, Monaco, Vatican, Montenegro etc. in which Euro is in use as official currency, but these countries made a consensual or unilateral Euroization and therefore they do not have rights and obligations that member's state EMU has. This means that Euro should be announced as legal currency in Kosova, although Kosova has not become part of EMU. But one-sided Euroization will not be a possibility for side-skipping foreseen steps by Tractate for adoption of Euro.

Main characteristics of Euroization or joining to a monetary union are the following:

- Renunciation of monetary sovereignty. Monetary policies, including the human resources for realizing this policy and used strategies and instruments become European.

- Monetary union is realized to last for a period of time. Turndown of such a decision would have an unimaginable economic and political cost.

- Eurozone differs from all other monetary zones, which are usually defined as a zone of a solely sovereign country. Although they have a common monetary policy, Eurozone members states follow decentralized policies when dealing with fiscal matters, such as budget, tax and social policies. This would mean that a country protects independence in drafting and realizing fiscal and budgetary policies but it does this within a certain frame of limitations set in Treaties (such as size of budget deficit and of general debt and of limitations in direct financing the deficit by monetary authority.[7]

5. Kosova's benefits from Euro

a) Support to financial sector development

Euroization supported the development of the Kosova Financial Sector, which had to be established from scratch after the conflict. Initially, there were no banks in Kosova and all transactions were practically carried out in cash. For nearly two years the sole financial entity in Kosova was Micro Enterprise Bank (MEB), which was specialized in micro-loans. However, two other years show an explosive development of the banking sector in Kosova. During the period of March – November 2001 six (6) banks were established, which created the necessary competition in this sector.

[7] http://www.kohajone.com/artikull.php?idm=12077

In 2002 and 2003, seven trade banks in Kosova got significantly enlarged. Bearing in mind the low level of economic development in Kosova and negative experience with the banks in the past, the Banking System in Kosova is characterized with great participation of foreign banks. Domination of foreign banks is evident with regards to their number and the entire participation with funds in the banking sector. In 2007, foreign banks represented seven (7) of nine (9) commercial banks that operated in Kosova which make up 90.9% (71.3% in 2006) of overall funds in banking sector. It is imported to be pointed out that the Banking sector in Kosova is continuously widening its activities. This is shown through continuous increase of contribution to Gross Domestic Production (GDP). The participation of the Banking sector Funds to GDP has increased to 58.5% in 2007, from 49.0% in 2006. The Banking sector Funds has achieved an amount of €1,4 billion in 2007, which represents an increase of 23.5% compared to 2006. In volume, loans were increased to 40.0%, and were financed mainly by the increase of deposits. It is characteristic to point out that allocated loans to economic section have increased their participation from 54.8% in 2006 to 62.2% in 2007. Of a total amount of allocated loans by the Banking sector, 22.5% were absorbed by households, which present a lower participation comparing with regional states (41.9% in the region in 2006). Low level of allocated loans to households is mainly due to a high level of unemployment and low salaries. It is to be mentioned that all banks in Kosova achieved to meet, and large part of them exceed minimal amount of required capital of € 5 billion by bringing it in line with EU Instructions.

b) Reduction of physical cash in circulation

Reduction of physical cash in circulation was one of the main objectives of the CBAK. This change ensured a unique possibility in order to achieve this objective and, at the same time, helped in consolidating the Banking System. The CBAK planned to exchange family amounts up to DM 1,000 for each person free of charge, and levied a tariff of 2% for amounts between DM 1,000 to 10,000. This was also the maximal allowed cash amount for exchange. Amounts exceeding DM 10,000 had to be deposited in Euro as bank deposits.[8]

Introducing maximal limits on exchanged amounts and determining clearly the final term of double circulation of currency encouraged very much holders of cash to deposit their money in banks instead of risking by not exchanging their funds in due time. This strategy was stimulated by banks, which had already improved and increased their services in order to attract new clients to open bank accounts. Implementation of this project was not that simple and it was followed by some problems. The greatest problem certainly was the continuous lack of trust in the banking system. In earlier times, trade banks of Kosova had only 24 offices at their disposal, while CBAK was operating through a network of 23 offices, of which more than a half were small local agencies, which opened only during limited working hours, and seven (7) mobile groups of banks. However, a three months period, prior to replacement of cash currency, had marked an increase of about € 300 million in bank deposits. The amount of deposits in the banking sector in 2007 reached to € 1.14 billion, which was 23.5% more than in 2006.

Introducing Euro in circulation was completed successful in 28 February 2002. So, as of this moment Kosovo economy got “Euroized” completely and efficiently. Euroization is often defined as adoption of Euro to be a legal and official currency by a country outside the Eurozone. This means that Kosova does not maintain independent monetary policies and it also does not control interest rates. It is a country that has accepted Euro as its own official currency but it is still not member of the European Monetary Union.

[8] Ibid, page 256

c) Monetary stability

At the time when Kosova had chosen Euro, annual inflation was over 40%. Its official currency (Dinar) was completely devaluated and its use was almost inexistent. UNMIK was not simply replacing a national devaluated currency but was placing a healthy monetary foundation necessary for economic, social and political reestablishment for the coming years.

Inflation in Kosova did not disappear immediately after introducing the DM and later Euro. In 2000-2001, Kosova marked double digits of inflation in spite of being helped by foreign donations and private revenues. As a result of this, inflation was evidently deferred and it is currently under the Eurozone inflation percentage. Certainly, there are other contributory factors in addition to Euroization, such as, for example, high level of unemployment and low economic activities. In 2007, inflation in Kosova reached 4.4%, which was much higher than in 2006 (0.6%). The reason for this lies in the global increase of oil prices, which affected the increase of other prices, especially of food items in Kosova.

In general, adoption of Euro as a national currency established monetary stability in Kosova. Risk of devaluation of the national currency disappeared. KCB, which acts as a fiscal agency to local administration, does not take exchange risks while administrating official reserves. These reserves are being invested mainly in Eurozone countries, in central banks and financial institutions. In the same manner, Euroization in Kosova has hindered the possibility of having double norms of exchange of currency, legal and informal. This in fact should lead to a lower cost of borrowings and to an increase of investments, encouraging improvement of economy and social welfare.

Compared to differences of norms of inflation between Kosova and Eurozone, interest rates of loans in Kosova remain higher. Interest rates of loans move around 9 to 14% and are higher than in most parts of countries in Europe. According to KCB data, interest rates of loans in general in 2007 stopped at 14.63%, which shows a decrease of 10 basic points comparing to 2006. In the meantime, norms of deposits in 2007 have reached 3.61%, which shows an increase of 34 basic points compared to 2006.

d) Reduction of transaction costs

Introducing Euro simplified and greatly reduced transaction costs, especially when taking into account importance of trade within the Kosova economy. Neighboring countries (Republics of the former Yugoslavia) and some European countries remained main partners of Kosova Trade. However, the Euro, similarly as the German Mark (DM) prior to 2002, is widely used in the region. High deficit of trade balance keeps being a great challenge for the economy of Kosova. High import rates have and an impact on the trade deficit in 2007 which was at €1.4 billion (45.4% of GDP), while coverage of imports with exports was merely 9.3%. As in previous years, the deficit was mainly covered by remittances of Kosovans working abroad and by the donor sector.

e) Macro-economic stability

Euroization in Kosova also had some long-term policy objectives. It is expected that Euroization in Kosova will take care of economic stability, and will solve the problem of credibility as well as mainly improve the fiscal discipline by eliminating the possibility of emission of money in order to cover budgetary deficits. Following a long period of time, when other conditions are met, all these factors should have an impact in attracting direct foreign investments for Kosova. Also, it was thought that joining a strong international currency shall result with a reduction of interest norms, by making investments more attractive, which would result positively by developing the local economy.

6. Euroization costs for Kosova

Although Euroization, as outlined above, had a positive impact in Kosova's economy, it also created costs. However, such costs may be considered as resistible compared to its advantages. The following are considered more evident costs to Kosova's economy:

a) Lost of seigniorage incomes

Seigniorage means incomes benefited by difference created between nominal value of emitted money and real production costs of such emission. In the case of one-sided introduction of Euro, countries shall lose the right to benefit of seigniorage incomes because they do not represent any more an emitter of official currency being used in the country. It is known that budget surplus may be financed by taking loans and by emitting money or by increasing monetary basis (by increasing inflation). When a country joins a monetary union, it should naturally maintain the inflation norm within limits determined by the Union. Hence, if less developed countries join a union of more developed countries then they have to reduce their inflation norms since developed countries maintain a low inflation.

b) Loss of sovereignty over monetary policy

Adoption of a currency by a country, which is different from the national one, makes the Central Bank of such a country not to maintain its monetary policy since in this case this function shall be transferred to the European Central Bank, which is responsible for keeping stable prices in the Eurozone. But, some years ago, the CBAK had initiated a dialogue with the European Central Bank, which resulted in signing a Memorandum of Understanding (MoU) concluded between these two institutions. By means of this MoU the CBAK was exempted of a part of financial obligations dealing with transportation of Euro banknotes and currencies in circulation in Kosova.

c) Loss of "regulative powers" of national policies

Countries that apply completely free currency exchange rates and do not belong to the monetary union have the possibility, based on their policies, to devaluate their currency in order to generate possible benefits based on the expansion of trade. When a country faces loss of competitiveness of the local products, then it will, through devaluation of local currency, influence in increase of competitive capabilities of local products by creating possibilities to increase exports.

Conclusions

Finally, it may be concluded that if use of Euro has not solve all financial problems in Kosova and if the use of Euro has created limitations in managing an independent monetary policy, its advantages are undoubtedly greater than compared to weaknesses as the use of Euro has influenced the stability of the financial sector in Kosova. Therefore, the Banking sector is the sector which has mostly attracted foreign investors, and it is still the most successful investment sector in Kosova. Currently some strong international banks are carrying their activities in Kosova, and as such they present a basis of banking and financial sector development in Kosova. In general, insurance companies are also secure and they are all solvent. Their financial strength is different, depending on their business success.

Interest rates for loans allocated to citizens and businesses are still considered to be high. They are higher than those applied in regional countries and Europe, but we think that by introducing new banks in the market and based on growth of competition within the banking sector, and especially following new circumstances created after Kosova got its independence and got internationally recognized, after which it is expected for CBAK to become a member of the international financial institutions, such as the World Bank and International Monetary Fund, interests rates will be further reduced. In addition to support given to the development of the financial sector, adoption of Euro as a national currency also created monetary stability in Kosova. The risk of devaluation of the national currency disappeared. By introducing Euro transaction costs were simplified and decreased evidently, especially bearing in mind the importance of trade, concretely importance of imports for the Kosova economy. In the future, it will be expected for Euroization to have a positive impact on macroeconomic indicators.

Greater costs for Kosova economy from Euroization are considered to be the following: Loss of income of seigniorage, loss of sovereignty over the monetary policy and loss of "regulative power" of national policies.

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