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Trends and Characteristics of the Securities Issued by the Government of Kosovo

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Summary

The securities market in the Republic of Kosovo is in the initial phase of its establishment which is facing numerous problems and challenges. This paper will present some features of the securities market in Kosovo. This market is currently intermediated by the primary dealers, which are all commercial banks that do have the duty to develop the secondary market. The paper presents some theoretical and practical aspects of the role and importance of securities issued by the Government and other issues related to them. Their distribution among maturities and investors is shown as significant element in development of this market. The paper also presents the ratio of the Kosovo government debt against the Gross Domestic Product and bank deposit rate as the two measurement rates, in order to see the impact of government debt on economic development in developing countries.

Key words: Domestic debt, securities, treasury bills, government bonds, economic growth

JEL classification: H60, G10, O40

1. Introduction

The securities market in Kosovo is at the early stages of development. This market is currently mediated by primary dealers - all commercial banks whose task is to develop the secondary market. The distribution of securities in Kosovo continues to be narrow where over 65% of their value is kept by commercial banks, 25% is bought by the pension funds and the rest is in insurance companies and other clients. The interest rate for these securities is higher comparing the EURIBOR rates and deposit rates offered by commercial banks for the same maturity. Also the interest rates are higher than the inflation rate of the country. Taking into consideration the rates of domestic debt of Kosovo compared to the GDP is below 30% and compared to deposits in the banking sector is below the rate of 35%, and trading of government securities is increasing, the domestic debt can be expected to have a visible impact on economic growth in the future.

Usually, when one spoke about the debt of Kosovo Government before 2012, we had refer to Foreign Debt. From 2012 if we talk of the Government of Kosovo debt, we will in fact be referring to two debts - both internal and external - because since January 2012, the Kosovo Government started issuing securities to tackle the country's domestic debt.

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Fischer and Easterly (1990) have identified four ways of financing the budget deficit of the country, each associated with its own risks:

- Money printing, which could lead to increased inflation,
- Running down foreign exchange reserves, which could give indications for crisis, currency appreciation or depreciation
- Foreign Borrowing, which could end with foreign debt crisis, and
- Domestic borrowing, which can lead to the risk for the interest rates increase and could to a debt crisis.

As a recently established country, Kosovo uses the euro as currency, does not apply the first two above-mentioned items. By 2012, to finance the budget deficit or implement development projects, Kosovo used foreign debt, but since 2012 started using the domestic debt as well. Both of these are used in very controlled way and currently the rate of Gross Domestic Product (GDP) compared to total debt is 12.96% (as of December 2015), and compared to countries in the region it is much lower, posing no major risk of a possible debt crisis.

The first national or the so-called domestic debt in the world was introduced as early as in the 16th century in England. As a new country, Kosovo issuing started domestic debt in January 2012 when the first securities worth EUR 10 million were floated in the market. Now Kosovo the overall domestic debt exceeds EUR 377 million, and it is distributed among commercial banks in Kosovo, the Central Bank of Kosovo, pension funds, insurance companies and other clients.

This paper presents some theoretical and practical aspects concerning the role and importance of Government securities and other issues related to them. The paper is divided into 4 parts; the first is an introduction in which general considerations pertaining securities' characteristics and importance are laid down. The second part, "Some theoretical aspects of the role of securities issued by the state", summarizes some theoretical aspects of the role of government securities, providing definitions of securities and their impact on economic growth as well as their advantages and disadvantages. Furthermore, details are provided on the securities market in Kosovo, the functioning of primary and secondary market, the current securities structure and pricing. Particular importance is given to the possible impact of securities market on financial market in Kosovo. Finally, some recommendations are outlined on the development of securities market in Kosovo.

2. Some theoretical aspects of the role and importance of Securities issued by the Government

At the macroeconomic level, the benefits of domestic debt especially in low-income countries show an impact on the economic growth of these countries. Abbas & Chritensen (2010) in their paper show that domestic debt in developing countries do have a positive overall impact on economic growth. Authors finds that there are some evidence that, above a ratio of 35 percent of bank deposits, domestic debt begins to undermine growth, lending credence to traditional crowding out and bank efficiency concerns. Importantly, the growth contribution of domestic debt is higher if it is marketable, bears positive real interest rates, and is held outside the banking system.

In a study conducted in 155 countries where the link was measured between economic growth, productivity and domestic debt for more than 30 years (1970-2002), Afonso & Jalles (2002) present findings that indicates the impact of increased domestic debt in countries with debt ratio above 90% of GDP is much lower than in those countries where the debt ratio compared to the GDP is below 30%. Barro (1974) states that government will be perceived as net wealth only if their value exceeds the capitalization value of the implied stream of the future tax liabilities. Financing a budget deficit through taxes would not have the net effect on the national income in the long run (Mankiw, 2002). Presbítero (2012) underlines that economic growth that can come as a result of country's domestic debt is higher when these instruments are tradable, with positive interest rates and held by other non-bank investors. According to Abbas & Christensen (2010), development of local government debt markets helps in providing a standard yield curve for private lending, increasing other financial instruments that serve as assets of savings and other resources put as collateral. But these benefits are expected from government debt instrument issued in the form of Securities, not from government debt issued in capital markets or liabilities associated with debts and overdrafts.

Moreover, the banking system, which often dominates the government debt in low-income countries, in general has a strong motivation to purchase treasury bonds, given that these instruments ensure a regular flow of income and have a preferential treatment (e.g., zero credit risk) in the calculation of risk based capital adequacy requirements (Diouf & Dufresne, 2012).

Investors in low-income countries of government debt are few by nature and often in number. Domestic instruments of public debt are mainly held by commercial banks, the Central Bank, financial institutions in the non-banking system (e.g., mutual funds, pension funds, and insurance companies), and non-financial institutions (e.g., corporations and individual investors). Investors base in local financial markets is typically very narrow and highly concentrated (Arnone & Presbítero, 2010).

In a study conducted by the IMF to see the distribution of domestic debt in developing countries, it appears that major holders of government debt in developing countries are banks (and other credit institutions) and pension funds. Pension funds play a still relatively minor role, with a few exceptions in some countries. Given this element, financial intermediation is very much dependent on banks. Banks hold a portion of their assets in the government debt, which means that sustainable management of domestic debt by governments is becoming more and more critical to financial stability. Government debt in developing countries is mainly lower than in industrialized countries, which shows that banks in developing countries do not lend more, or in other words, important segments of the economy are not able to borrow, or can only get loans with great difficulty. IMF (2012).

Underdeveloped bond markets present the credit and capital risk which is more difficult to measure due to the lack of a yield curve which would be used benchmark for prices. (Yield curve). Derivatives markets cannot be developed, thus making diversification of risk exposure more difficult. An undeveloped bond market has very little chance of savings; borrowers face higher costs of loans and shorter maturities and banks become relatively much larger in the financial market.

Herring & Chatusripitak (2000) identify two main preconditions for the development of bond markets. Firstly, the legal and institutional infrastructure and, secondly, which was raised as a major concern by the World Bank and the IMF (2001), a more liquid market for government bonds. Legal problems also limit bank lending to the private sector, and clearly they do the same for bond-based lending. Although it is important to eliminate these weaknesses as elements that consume a lot of time, Securities market can be developed in parallel in order to gradually overcome the legal framework barriers. In some developing countries which have not yet addressed their legal framework effectively, development of Government securities market, however, has begun to support the private bond market, at least for some powerful borrowers that are relatively less dependent on the collateral.

Merovci S. (2008), states that securities issued by state are emitted by the State Treasury and returned in full trust and confidence by the Government of that state. As a result, market participants consider these securities issued by the State Treasury as securities with reliable value that do not bear any risk of losses (risk-free securities).

Securities issued by the state are financial instruments, similar to time deposits in banks where banks take deposits in order to finance issuance of credits, while the state mainly borrows to fund development projects.

Main source of state revenues are taxes and customs, but in certain cases when the state fails to fulfil its obligations for investments or spending, it issues securities in the market in order to absorb funds which it will return within a specific period of maturity.

Securities issued by the Government are divided into:

- Treasury bills and
- Government bonds

Treasury bills - are short-term securities that mature (end) in less than one year as of the date of their issuance. They are issued with maturity terms of three months and 6 months or one year. Treasury bills are purchased at a lower price than their nominal value at maturity; when they mature, the government pays

Table 1. Some features of securities

ISIN	*The ISIN standard is used worldwide to identify specific securities such as bonds, stocks (common and preferred), futures, warrant, rights, trusts, commercial paper and options. ISINs are assigned to securities to facilitate unambiguous clearing and settlement procedures. (https://www.isin.org/isin/)*
Par value	*(2008, CFA, Lee M, Vijay S), The par (principal) value is the amount that will be paid by the issuer to the bondholders at maturity to retire the bonds.*
Coupon rate	*(2008, CFA, Lee M, Vijay S) The coupon rate is the promised interest rate on the bond. The term "coupon rate" is used because, historically, bonds were printed with coupons attached. There was one coupon for each date an interest payment was owed, and each coupon indicated the amount owed (coupon payment). Bondholders cut (clipped) the coupons off the bond and submitted them to the issuer for payment. The use of the term "coupon rate" helps prevent confusion between the interest rate promised by the bond issuer and interest rates in the market. Coupon payments are linked to the bond's par value and the bond's coupon rate. The annual interest owed to bondholders is calculated by multiplying the bond's coupon rate by its par value. For example, if a bond's coupon rate is 6% and its par value is £100, the coupon payment will be £6. Many bonds, such as government bonds issued by the US or UK governments, make coupon payments on a semi-annual basis. Therefore, the amount of annual interest is halved and paid as two coupon payments, payable every six months. Taking the previous example, bondholders would receive two coupon payments of £3. Coupon payments may also be paid annually, quarterly, or monthly. The bond contract will specify the frequency and timing of payments.*
Maturity date	*(2008, CFA, Lee M, Vijay S) Debt securities are issued over a wide range of maturities, from as short as one day to as long as 100 years or more. In fact, some bonds are perpetual, with no pre-specified maturity date at all. But it is rare for new bond issues to have a maturity of longer than 30 years. The life of the bond ends on its maturity date, assuming that all promised payments have been made*

their nominal value. Effectively, the interest received from them presents the difference between the purchase price and nominal price that the Government pays on the maturity date. In the international financial market government treasury bills that are ranked at the top security level recently, and in particular from 2015, are also being issued with a premium, that is, higher than nominal prices, which means that they have negative revenues (e.g., investor pays EUR 101,000.00 whereas at the maturity receives EUR 100,000.00, that is 1,000 EUR less).

Government bonds - are long-term securities that mature for term longer than one year. When investors buy securities, they actually lend to the state, from which investors receive periodic interest (in one or more specified dates during the year) in the form of interest coupons (fixed periodic payments). While on the bond maturity date, investors get the full amount initially invested. (AMF 2010 Financial Super Oversight Authority - educational materials).

Each bond issued by the state contains some elements that characterize financial instruments.

State issued securities or internal debt of a country is issued on the market for various reasons.

- To finance budget deficit when government is unable to pay its obligations.
- To implement monetary policy operating in an open market.
- To develop the financial market.

(Handbook, World Bank, 2001), Securities Market Development is quite complex and depends on the financial system and market development of any country. It includes endless challenges for many governments, since problems obstructing the development of securities market come from different sectors of economy. Lack of an open market with a clear supply and demand can lead to conduct of auction that can mature early. The small number of institutional investors, lower rates on savings and low interest of international investors can lead to small groups of homogeneous investors, whereas an efficient and developed market requires the group of investors to be heterogeneous and much bigger. Moreover, economic instability is fed by high fiscal deficits, rapid growth of money supply and a deterioration of exchange rate, which could weaken investors trust and increase risks related to development of government securities market.

In every country when the Government begins to issue Securities it starts by issuing short term Securities known as Treasury Bills, in order to build the trust among investors by guaranteeing safe return and over time while building the trust among investors it starts increasing the maturity.

Internal government debt structure and price is as reference point measurement for private sector in order for this sector to think about issuing securities called “Corporate Bonds”. In developed economies, large corporations issue corporate bonds in the market in order to create alternative funding to develop capital projects.

The maturity of government debt is important for investors in order to distribute the assets portfolio so that there is a balance between deadlines of liabilities and assets. This means that for the investor it is very important to have a compatibility between the maturity of investment in securities (considered as assets by the investor), with the maturity of borrowed debt through loans, or any other form (considered as a liability from investor’s perspective). This is because it creates consistency with the time of return of investment in securities and debt payment.

Also, long-term government debt of a country is essential to building the “yield curve” as an instrument for measuring the price of other financial instruments in the market. For example, if inflation is high and confidence in long-term securities is low.

Government issued securities should always be connected with a maximum value expressed as a percentage of revenue or nominal value, which shows that total government debt of that State should not exceed that amount or percentage. This limit is considered legal part of the regulation governing the management of state debt, or part of country's fiscal policy.

3. Trends and some features of Securities issued by the Government of Kosovo

The aim of the paper is to give the information about:

- General information related to the current trends of the Government Securities market in Republic of Kosovo.
- How much could be the role of the Government Securities in the economy taking into consideration the level of those instruments in report to the GDP and total banking sector deposit.
- Needs for the future development of the Securities Market in Republic of Kosovo.

3.1. Background of Securities issued by the Government of Kosovo

The global financial crisis did not have a significant impact on Kosovo's economy because the state wasn't been too exposed to the world capital and stock markets. In Kosovo, there is a stable financial market where banks enjoy a high confidence. There are ten banks operating in Kosovo, eight of which are with foreign capital. Assets of banks in Kosovo are constantly growing; in 2014 there was an increase of 7.3 % compared to the previous year, while by June 2015 they increased by 2.7%. A large portion of this comes from increased investments in securities and the other part from commercial banks and loans. (CBK, 2015, Quarterly Economic Assessment Nr.11 Q2 2015).

The introduction of the euro in January 2002 is considered to have driven down the inflation rate and to have boosted macroeconomic stability in Kosovo. The use of the euro in Kosovo has given the country an advantage over the neighbouring countries with regard to foreign investments and foreign trade due to the fact that it eliminates exchange rates and the risk of currency devaluation. Given that Kosovo is a new country with a recently established financial market, the latter is a traditional market in which banks take deposits and grant loans. The use of financial market instruments is almost at the initial stage. The first securities in the world were issued as early as 16th century, whereas in Kosovo government securities were first issued on 17 January 2012 (MEF, 2015 annual Bulletin 2015).

The securities issued by the overnment of Kosovo are subject to the constant supervision of the United States Treasury expert and International Monetary Fund.

Initially, in 2012 and the first half of 2013, in order to build trust among investors, the Kosovo Government issued "treasury bills" with a maturity between 91 and 182 days. In 2013, the government issued twice securities of a one-year maturity. On 29 March 2015, for the first time government bonds with a two-year maturity were introduced, and on 29 May 2015, three-year maturity bonds were introduced, and on 31 August 2015 - five-year ones. In its Securities Development Strategy 2016-2018, the Kosovo Government envisages that, in the period between 2016 and 2018, bonds with maturity exceeding five years should be issued. (MEF 2015, State Debt Program 2016-2018).

Securities development structure from the first issuance through the end of 2015 is as follows:

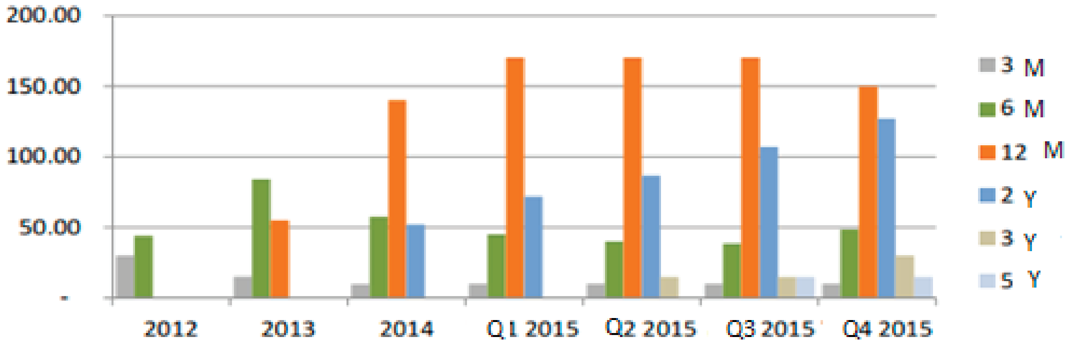

Fig. 1. Structure of securities according to the instrument
Source: Ministry of Finance of Kosovo – Public Debt Reports

Kosovo Government internal debt currently is involving only securities issued in the market, and this debt is increasing continuously.

Currently, Kosovo's public debt as per December 2015 is EUR 748.95 million. The total ratio of public debt to the GDP is 12.96%, with ratio of international debt to GDP being 6.35%, while ratio of government debt to GDP is 6.46%.

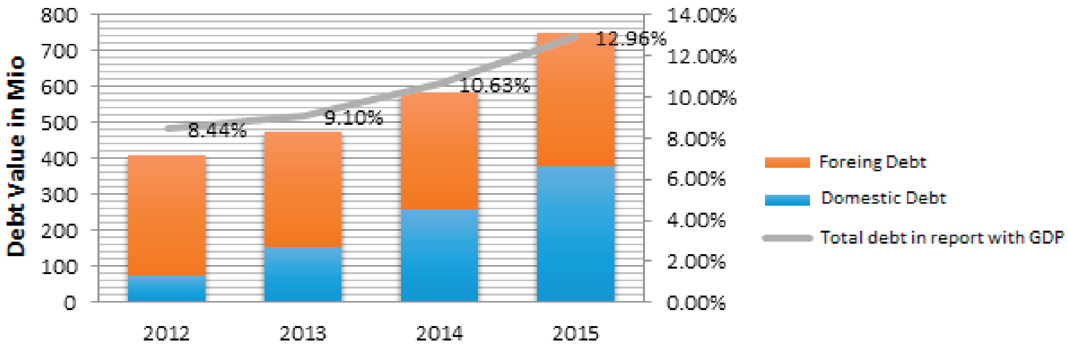

Fig. 2. The ratio of state debt in Kosovo to the GDP.
Source: Ministry of Finance of Kosovo – Public Debt Reports

3.2. The Functioning of Primary and Secondary Securities Market in Kosovo

(2008, CFA, Lee M, Vijay S) At issuance, investors buy bonds directly from an issuer in the primary market. The primary market is the market in which new securities are issued and sold to investors. The bondholders may later sell their bonds to other investors in the secondary market. In the secondary market, investors trade with other investors. When investors buy bonds in the secondary market, they are entitled to receive the bonds' remaining promised payments, including coupon payments until maturity and principal at maturity.

Kosovo Central Bank plays the role of intermediary in Securities trading between the Government of Kosovo and primary dealers. In accordance with the Regulation on Primary and Secondary Market for issuance of Government Securities of the Republic of Kosovo, the Central Bank of Kosovo has licensed all banks operating in

Kosovo to operate as the primary dealers. The duty of these primary dealers is to develop the market and facilitate access of potential investors to these instruments. Currently access for purchasing securities is as follows:

Through Primary Market, where securities are emitted and in this market customers can buy securities directly from the Treasury of the Republic of Kosovo.

Through Secondary Market, if someone else wants to trade in the secondary market securities that were previously purchased or customers may sell in the secondary market securities that purchased in advance.

The entire trading is channelled through an electronic platform called DepoX, which is maintained by the Central Bank of Kosovo. The steps are followed as below:

1. Firstly, Ministry of Finance through the public notice (newspapers, web), a week before the auction day, announces the auction with characteristics like ISIN, maturity, value, date of the auction, interest calculation method, etc.
2. The Central Bank of Kosovo, on the auction day posts on electronic platform called DepoX securities with the above mentioned features,
3. On the auction day, primary dealers (in the case of Kosovo, all banks) submit their bids (for themselves and their clients), during the time interval 8:00 to 11:00.
4. Auction closes at 11 am, and at 12:30 results are announced and winners are declared.
5. The issued securities can be traded by commercial banks and customers who own them (i.e., any holders of securities can sell them in the secondary market). Purchase/sale of securities is conducted through the same platform (Central Bank of Kosovo settles the transactions).

There have been almost four years that the Securities market is active in Kosovo through treasury bonds of the Republic of Kosovo, but so far it has been more of a side show, which was not given great importance. Although the primary market actors are required by mandate to develop an active secondary market, they did not promote it as opportunity to other investors.

Legal challenges are the biggest inhibitors to the development of secondary market, such as lack of sufficient explanation for investment opportunities and constraints of financial institutions and state-owned or publically owned institutions. By mid-2015 the Government has explained to other financial institutions, like insurance companies and micro-financial institutions, possibility to participate in the market. The

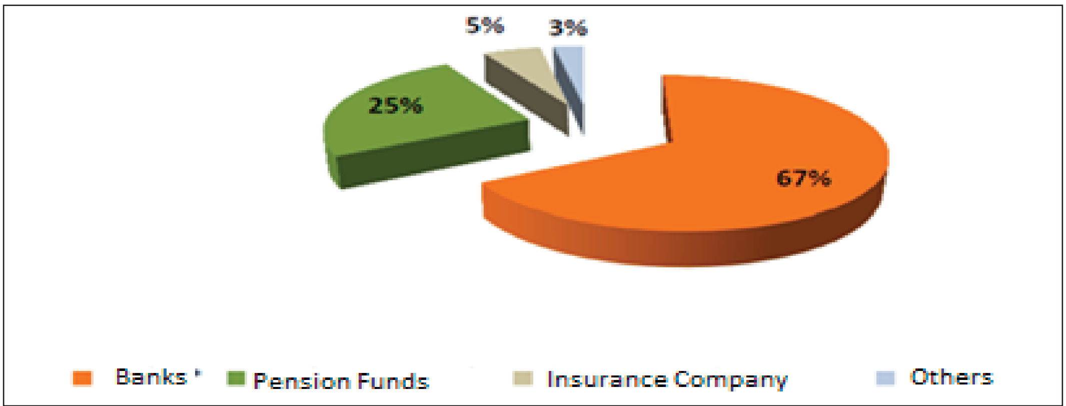

Fig. 4. Domestic debt distribution – December 2015
Source: Ministry of Finance of Kosovo – Public Debt Reports

introduction of new clients in the market has increased direct participation and has influenced directly in price reduction due to the competition.

3.3. The structure of Kosovo's domestic debt

Kosovo's domestic debt was initially distributed only to primary stakeholders, and to the Kosovo Pension Fund (TRUST). This is due to definitions deriving from the trading regulation where insurance companies have been excluded from participation, and also due to the lack of detailed explanation in regulation for trading in the secondary market.

The value of domestic debt increased in the last four years. While at the end of 2012 the value of internal debt was EUR 74 million, at the end of 2015 it reached at EUR 377 million. The structure of clients who own this debt began to change in 2014, when other clients began to participate, and in 2015 insurance companies entered the market, which influenced in the diversity of clients.

The distribution of this debt among primary dealers, primary participants and other clients is in following percentage:

With the increase of domestic debt value and increase of competition, the rate to be paid by the Government for this debt has begun to decline. This decline was mainly impacted by the reduction of bank deposit rates in Kosovo, and decline of interest rates in the international market.

The change of customer structure which led to increased competition and development of secondary market will also enable the growth of securities market which could be followed with possible initiatives of large corporations that would become interested to issue corporate bonds that would have an impact in increasing their sources of funding, and would be in the interest of citizens who will have more investment opportunities in Kosovo.

3.4. The Price of Securities Issued by the Government of Kosovo

The price mechanism and allocation for Treasury Bonds by the Government is done as follows:

(MEF, CBK, 2014 Regulation), Ministry of Finance in collaboration with the Central Bank of Kosovo (CBK) may select one of the following price mechanisms:

- Single-price auction – Cut-off price;
- Single price auction - weighted average; and
- Multiple price auctions.

Minister of Finance take a decision and determines the price mechanism to be used in the respective auctions.

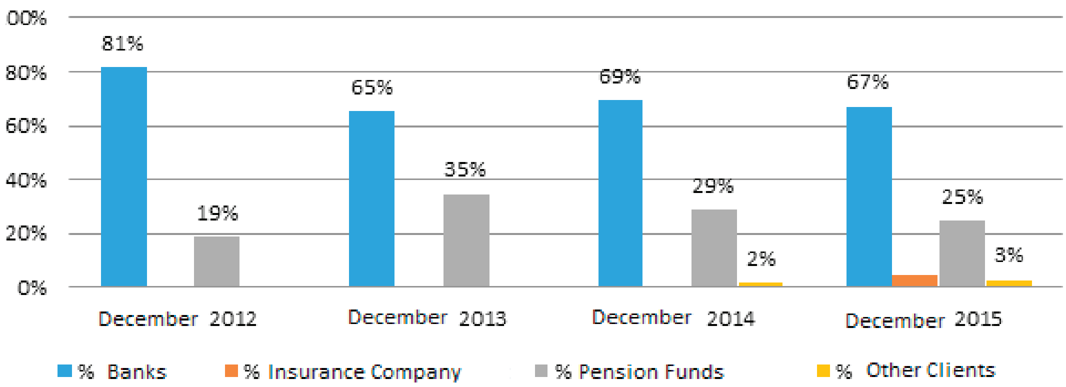

Fig. 5. Distribution of % of domestic debt among investors
Source: Ministry of Finance of Kosovo – Public Debt Reports

All bids are uploaded into an electronic platform which selects bids proportionally to price cutting. Electronic trading platforms of the auction in the CBK may select proportionally a competitive bid in an auction of Treasury Bills in accordance with minimum and maximum limitations outlined in this regulation. Calculations of proportional selections are based on the time of submission and based on the descending values from highest to the lowest.

Currently, the price mechanism applied by the Ministry of Finance is multiple prices, which means that winning bidders get their bid prices.

Explanation, on auction day organized by the Ministry of Finance for a value of EUR 10 million are submitted bids in total EUR 16 million with the rates below. The electronic system selects bidders from the lowest to the highest price. At the moment when the value of EUR 10 million is reached, which is the cut-off price, in this case at 1.8%. Any bidder below the cut-off price will not be winner of securities.

restrictions for investment in Kosovo, and Kosovo as a country does not have any investment grade, entire exposure based on international accounting standards (IFRS) is considered risk weighted at 100%, even though according to the Central Bank rules and laws investment in securities issued by state of Kosovo are risk weighed "0" risk. This non-assessment makes the return rate of these instruments much higher than the international rates considering the concept "higher risks, higher returns."

Below you can see the difference, e.g., of EURIBOR 12 months, with the price of bonds issued by the Government of Kosovo for this maturity.

Comparison with regional countries cannot be relevant, considering that all countries in the region (Albania, Macedonia, and Serbia) have their own legal tender and over 90% of the issued debt is in their own currency. Normally, Eurobond rarely issues them and if it does, they are only with maturity exceeding five years.

Table 1. Price application system

Bidder	Bid value	Rate	Winner
Client 8	**500,000.00**	**1.00%**	Winners
Client 7	**1,000,000.00**	**1.20%**	
Client 1	**1,000,000.00**	**1.30%**	
Client 2	**2,000,000.00**	**1.40%**	
Client 5	**2,000,000.00**	**1.50%**	
Client 3	**3,500,000.00**	**1.80%**	
Client 4	3,000,000.00	2.00%	Non-winners
Client 6	3,000,000.00	3.00%	
Average auction rate		**1.51%**	

Source: Calculation by the authors

The Ministry publishes the minimum (1%) and maximum bid price (3%) and at the same time indicates the price of the security is 1.51% (weighted average of accepted rates). For secondary market it presents the reference sale/ purchase price.

Given that all primary dealers, in particular banks with foreign capital face

Looking at the bond prices and government securities since the start, prices expose a downward trend which results from increased money supply from the government, a reduction in interest rates on deposits in the international and domestic market, as well as increased demand from other investors.

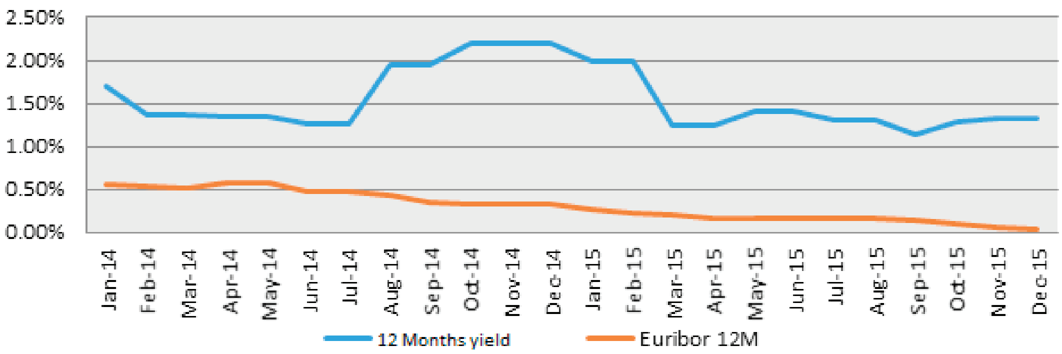

Fig. 6. EURIBOR 12 months compared to Kosovo bonds return rate with 12 month maturity
Source: Ministry of Finance, 2015, Debt register, Euribor - rates, Authors

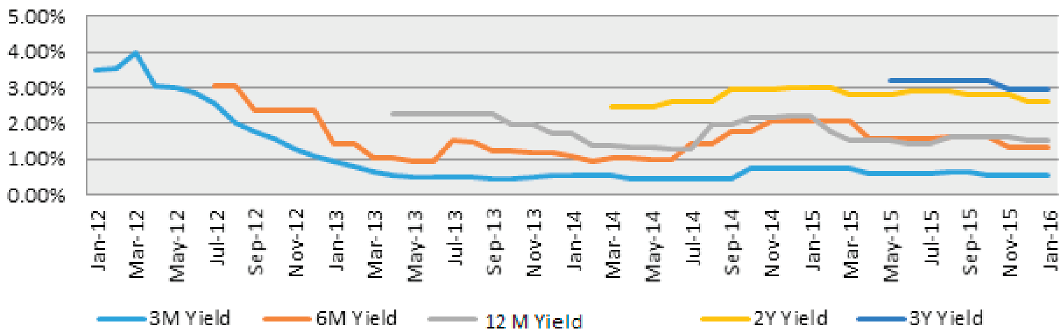

Fig. 7. Trend of Kosovo securities return rate
Source: Ministry of Finance, 2015, Debt register, re-calculation by the authors

Most of Kosovo's citizens have limited knowledge of Securities Markets taking into consideration that it is a rather new market and less developed. Similarly, access to the international stock exchange has been impossible, so the people are allegedly isolated from this market. Taking into account types of product (although currently only Bills and Bonds are available), customers prefer bonds because of the simplicity of product, and because of the profit they contracted through a fixed rate of return.

Securities market in Kosovo should have a dynamic perspective, especially now with the increase of number of customers who are expressing interest to invest in these products. Also, considering that interest rates on deposits in Kosovo have fallen to the lowest possible level, and, on the other hand, the trend of increase of loans is not even half of the value of deposit increase in Kosovo, an increase of interest to invest in higher interest products in Kosovo should be expected. The Kosovo Government based on the strategy for development of domestic debt announced that over the period 2016-2018 would issue long-term maturity bonds of 7 and 10 years. (MEF, 2015 "Medium-term debt strategy 2016-2018")

These products are currently one of the most attractive financial products in Kosovo, considering the fact that interest rates for these products are higher than bank deposits and also exceed the inflation rate in Kosovo.

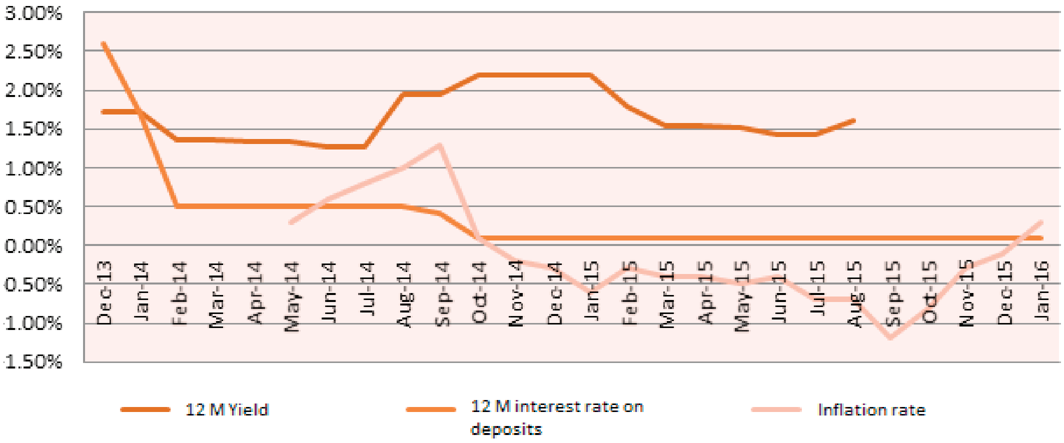

Fig. 8. Interest rates of |Treasury Bills in Kosovo vs. Deposit Rates and Inflation rate
Source: Ministry of Finance, 2015, Debt Register, CBK, re-calculation by author

Likewise, if we look at different maturity rates of treasury bills and bank deposits we can see their difference and their attractiveness.

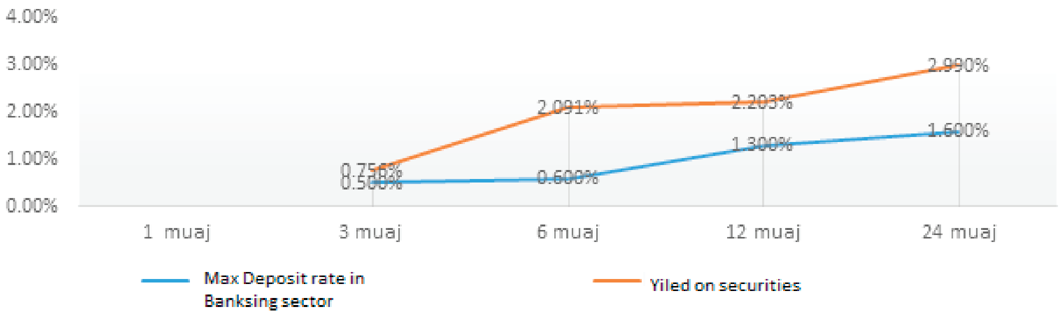

Fig. 9. The Government securities return rate against deposit rate for different maturities
Source: Ministry of Finance, Kosovo Banking Association

Due to the fact that no income tax is applied for securities issued by the Government, currently the investment in securities remains financial investment that brings the highest interest.

4. Conclusion

Taking into consideration that securities issued by the Government of Kosovo have been traded in the market for only four years, it is too early to assess their role in Kosovo's economy. Given that these securities have only recently begun to be traded in the secondary market, and that the country's domestic debt comprises a share of less than 30% of GDP and less than 35% of bank deposits, boosting economic growth through this market is yet expected to be seen.

This paper has shown that the government securities market plays a crucial role in creating the infrastructure for trading financial instruments, while at the same time it serves as a gauging device for other financial instruments. The newly emerged and yet underdeveloped capital and securities market in Kosovo has left most households and businesses unaware of these market developments.

In Kosovo as a new country, the development of the bond market is essential, considering that the price of bond instruments can be used as a measure to assess credit and capital risk. The bond market is also highly relevant as it creates new options for savings by various investors.

Recently the government of Kosovo started to issue long-term government debt, and this will be crucial to building the “yield curve” which is a price gauging device for other financial instruments traded in the market. For example, if inflation is high, the confidence in long-term securities will accordingly be low.

Kosovo currently is at the beginning stage of financial market development. This market should be further developed so that it is in line with international market. Its development should be ensured by providing continuous information and education of households and businesses with regard to financial instruments and their trading, either through different lectures, trainings, practical approaches to functioning, brochures and many methods that could maximally contribute to improving public knowledge of financial products. Unquestionably, the biggest contributors in this area should be government authorities, academic institutions and universities, the Central Bank and primary dealers in Kosovo.

The establishment of a Security Exchange (SE) in Kosovo may boost the flow of business information, in particular by providing information about the most productive industries and hence stimulate profitable investments. Also, SE will help develop the secondary market of Bonds and T-Bills, which could in turn raise banks’ awareness of the market price of their investments. SE could also raise the price awareness of the Joint Stock Company potentially listed at SE and facilitate their registration when they decide to sell or buy shares.

As result, a stock exchange will necessarily be established, where the aforementioned products could be traded. Furthermore, these developments will undoubtedly boost trading in equities and in other financial instruments so that Kosovo keeps up with developments of global financial and capital markets.

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