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POLICY BRIEFING
KOSOVO

Joining the SEPA system – Economic benefits

By Felix Schwickert

- Draft for discussion -

Executive summary

Introduction

- » SEPA is an EU-initiative to harmonise electronic euro payments in Europe
 - Currently all EEA (EU27 + NOR, ISL, LIE) and six additional countries (GBR, CHE, AND, MCO, SMR, VAT) are members
 - All WB6 countries aim to join, are assisted through the [payments modernization project](#)

Process and status quo

- » To become SEPA members, countries must reform their legal frameworks
 - KOS has made good progress and expects to officially apply for membership in Q4-24
 - After KOS has been accepted as a new member, payment service providers (PSPs) operating in KOS can join SEPA schemes and offer SEPA services

Benefits of joining SEPA

- » **Lower costs for remittances and foreign trade payments.** According to our estimation, joining SEPA would lead in the long term to savings of EUR 55 m annually (EUR 26 m for remittances and EUR 29 m for foreign trade payments)
- » **Progress in EU-approximation.** Joining SEPA positively affects the reception of EU funds (new EU growth plan) in the medium run and EU accession prospects in the long run
- » **Increased competition.** Joining SEPA leads to more competition and thus to lower costs for domestic electronic payments. As a result, the acceptance of non-cash payments might increase, driving financial transparency and inclusion.

Structure

1. Introduction
2. Background: process to join SEPA & status quo
3. Benefits: Remittances and foreign trade payments
 - I. Estimation of savings through reduced remittance costs
 - II. Estimation of savings through reduced foreign trade payments costs
 - III. Summary
4. Additional benefits

Introduction

- » SEPA is an EU-initiative to harmonise electronic euro payments in Europe, driven mainly by
 - European Commission (EC): mandate to propose and enforce EU law relating to SEPA, establish legal requirements
 - European Central Bank (ECB): mandate to steer SEPA process through high-level boards
 - European Payments Council (EPC), an association of European payment service providers (PSP): mandate to implement SEPA and to decide about readiness of new countries and PSPs for inclusion into SEPA
- » Currently all EEA countries (the 27 EU countries plus NOR, ISL, LIE) and six other countries (GBR, CHE, AND, MCO, SMR, VAT) are members
 - All WB6 countries aim to join
 - Joining SEPA is a priority area of the EU's Growth Plan for the Western Balkans
- » The [payments modernization project](#) helps all WB6 countries to become SEPA members
 - Offers help primarily with drafting the legislation needed to be ready for SEPA
 - Also offers help in ensuring the PSPs technical readiness: according to the World Bank many PSPs in KOS will likely be ready early on, as they belong to European conglomerates already operating in SEPA countries
 - After successfully introducing SEPA, project aims at including countries in TIPS (euro instant payment infrastructure) as indirect participants
 - The project is implemented by the World Bank, in collaboration with the CEFTA Secretariat and the Regional Cooperation Council and with funding from the EC

Background: SEPA process & status quo

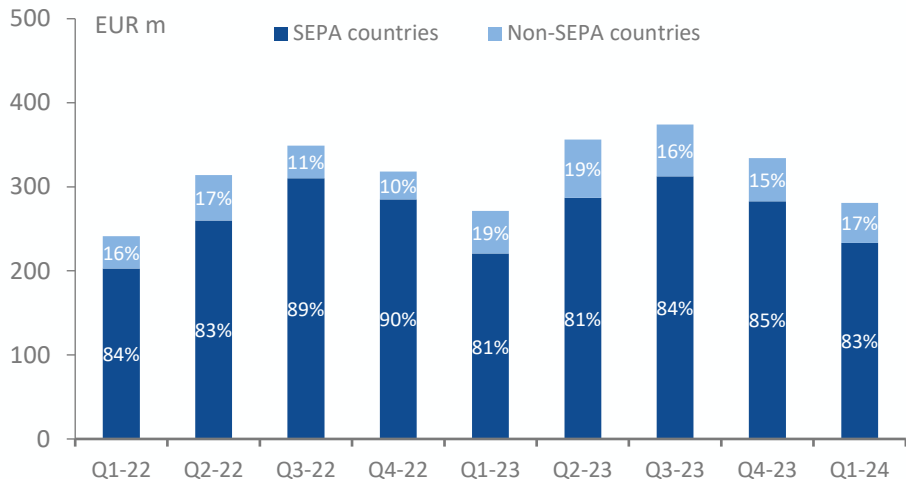
- » Kosovo's process to join SEPA can roughly be divided into the following consecutive steps
 1. The MoF and CBK prepares legislation to align Kosovo's legal framework with those of SEPA countries
 2. Parliament passes the new legislation
 3. The CBK submits Kosovo's application for SEPA inclusion to the European Payments Council (EPC)
 4. The EPC approves, Kosovo as a country is a SEPA member
 5. Payment service providers (PSPs) operating within KOS can now unilaterally or jointly submit applications to EPC to join different SEPA schemes (schemes are sets of rules for specific types of transactions, e.g. credit transfer scheme & direct debit scheme, five schemes exist)
 6. EPC approves if PSPs meet technical requirements, approved PSPs can then offer SEPA transfers
- » Kosovo is on track to submit its application to join SEPA to EPC in 2024
 - Only two more laws need to be adopted
 - Both laws are already drafted, parliament will likely adopt them in autumn
 - Once they are adopted, KOS can submit its application to the EPC
- » Other countries in the region have already submitted their application to EPC
 - ALB, MKD & MNE have already applied
 - SRB will submit application soon, BIH still has some work to do

Benefits: remittances and foreign trade payments

- » Benefits from joining SEPA will materialize gradually after local banks start operating within SEPA schemes
 - SEPA does not limit the fees that banks can request from clients
 - Instead, it creates room for fee reduction mainly by reducing the number of entities involved in a transaction
 - Joining SEPA schemes early thus gives PSPs a cost-advantage over their peers
 - Competition will exert pressure on other Kosovar PSPs to join and will lead to lower fees for cross-border transactions over time
- » Lower fees for cross-border payments will lead to a reduction in
 1. Remittance costs
 2. Costs for foreign trade payments
- » In the following slides, the total savings in remittance costs and foreign trade payment costs a SEPA inclusion would lead to are estimated
 - The analysis considers the long-run, in which all PSPs in KOS have joined SEPA schemes
 - The estimated cost-reduction can only serve as rough prediction, that necessarily involves many assumptions and is limited by a lack of data
 - A reduction in cross border payment costs is not equivalent to a pure economic benefit for KOS, since the beneficiaries include non-residents such as the Kosovar diaspora, foreign trading partners, foreign businesses operating in KOS and consumers importing goods/services from KOS

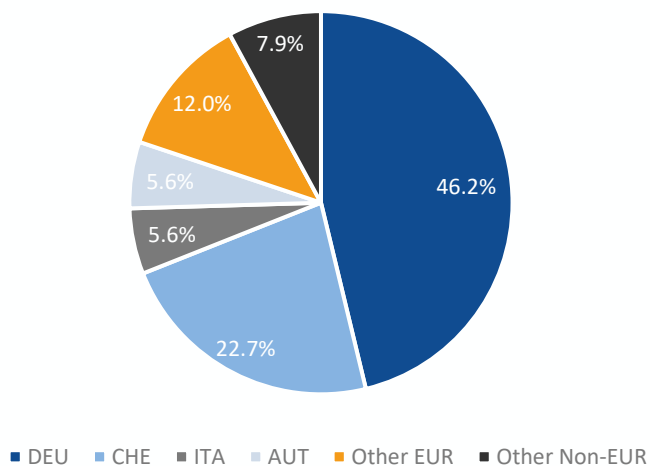
Remittances: volume and structure

Volume of remittances



Source: Central Bank of Kosovo

Remittances from SEPA countries by country of origin



Source: Central Bank of Kosovo, Note: data from 2023

Volume of remittances

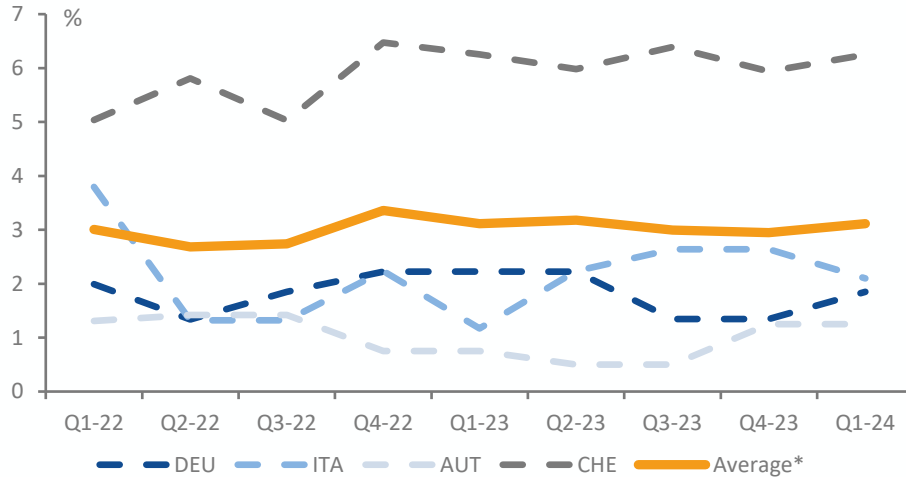
- » The cost of remittances sent from SEPA countries will decrease following an inclusion of KOS into the SEPA system
- » In 2023, KOS received EUR 1.3 bn in remittances from its diaspora
 - EUR 1.1 bn (83%) was sent from SEPA countries

Structure of remittances

- » 80% of all remittances from SEPA countries came from DEU, CHE, AUT and ITA in 2023
- » DEU was by far the most important country of origin
 - 46% of remittances from SEPA countries came from DEU
- » The exact origin of remittances is important for the calculation of weighted average remittance costs (next slide)

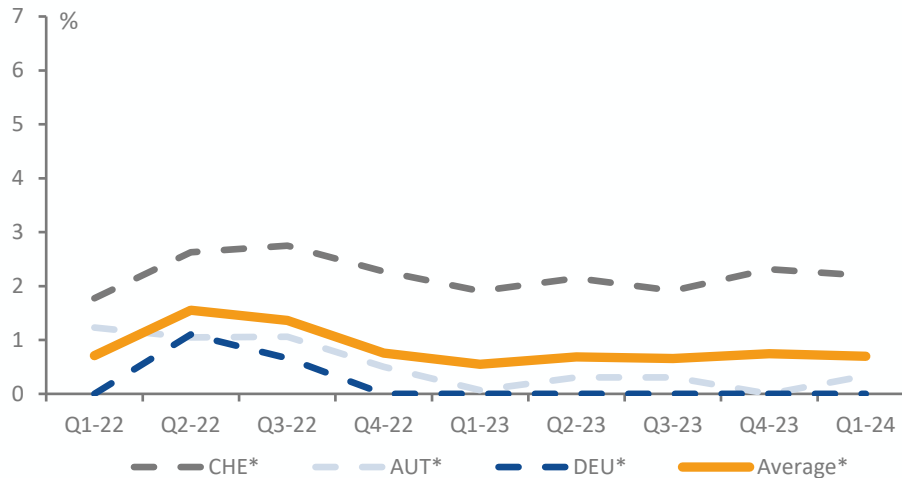
Remittances: costs (in %)

Remittance costs before SEPA inclusion (in %)



Source: World Bank's Remittance Prices Worldwide; Notes: *own estimation

Remittance costs after SEPA inclusion (in %)



Source: World Bank's Remittance Prices Worldwide; Note: *own estimation

Remittance costs before SEPA inclusion

- » Remittance costs consist of a transaction fee and a FX margin (for non-EUR countries)
- » The graphs on the left depict remittance costs by country of origin
- » The estimated weighted average “pre-SEPA” remittance cost was 3.05% in 2023
 - The exact methodology used for deriving average costs is explained in the annex

Remittance costs after SEPA inclusion

- » “Post-SEPA” costs for remittances are counterfactual and thus had to be estimated (see appendix)
- » The estimated weighted average “post-SEPA” cost amounts to 0.67%
- Joining SEPA would lead to an estimated reduction of 2.39 pp in remittance costs

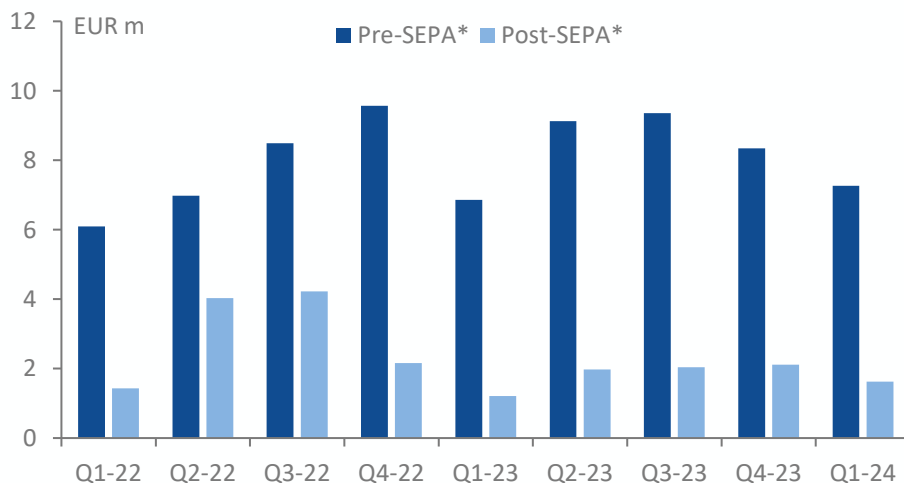
Remittances: costs and savings (in EUR)

Calculation of remittance costs and savings (in EUR)

| | Calculation | Annually |
|---------------------------------------|------------------|----------|
| Remittances from SEPA countries (EUR) | | 1.1 bn |
| Pre-SEPA costs (%) | See annex | 3.05% |
| Post-SEPA costs (%) | See annex | 0.67% |
| Cost-reduction (%) | 3.05% – 0.67% | 2.39 pp |
| Cost-reduction (EUR) | 1.1 bn x 2.39 pp | 26.3 m |

Source: own calculation, Note: all figures are estimates based on 2023 data

Remittance costs before and after joining SEPA (in EUR)



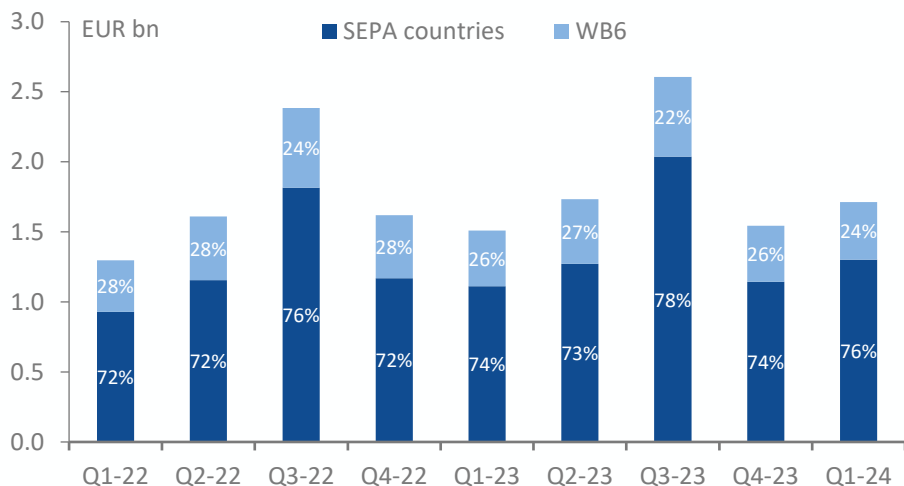
Source: own calculation; Note: *own estimation

Remittance costs and savings (in EUR)

- » Using the volume of remittances and their pre- and post-SEPA costs (in %) derived earlier, costs (in EUR) can be calculated
 - Estimated pre- and post-SEPA costs (in EUR) can then be used to calculate how much a SEPA inclusion could save
- » In 2023, remittance costs amounted to EUR 33.7 m
- » Based on data from 2023, we estimate annual remittance costs to be around EUR 7.3 m after SEPA-inclusion
- » Saving remittance costs likely benefits both the diaspora (senders) and KOS residents (receivers)
 - Remittance costs can generally be borne by senders, receivers or shared between both
- » SEPA inclusion would save remittance costs of around EUR 26 m per year

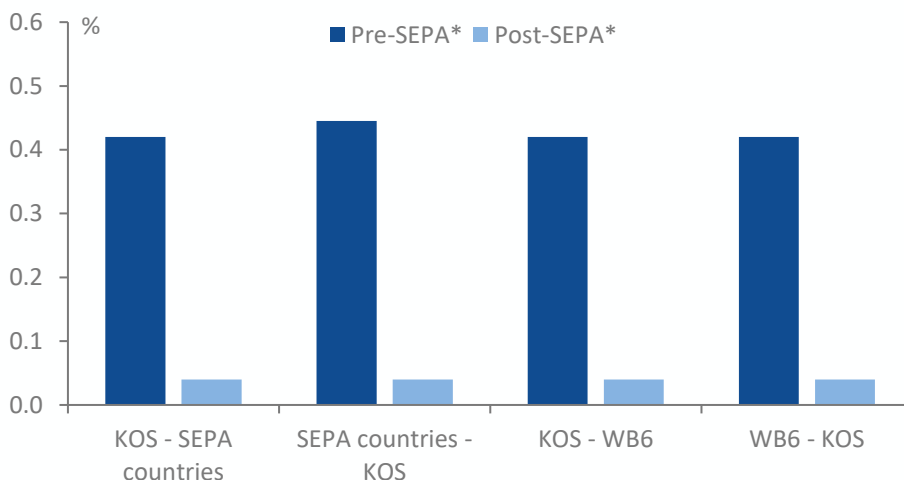
Foreign trade payments: volume and costs (in %)

Volume of foreign trade with WB6 and SEPA-countries



Source: Central Bank of Kosovo, Kosovo Agency of Statistics

Costs of foreign trade payments (in %)



Source: World Bank; Note: *own estimation based on B2B data from H1 2023

Volume of foreign trade payments

- » The volume of foreign trade is the sum of all
 - Payments received for exporting goods and services
 - Payments made for importing goods and services
- » Payment costs for trade with current and future (WB6) SEPA countries will decrease following a SEPA inclusion
- » In 2023, foreign trade payments of EUR 7.4 bn were made between KOS and current/future SEPA countries

Costs of foreign trade payments (in %)

- » Both pre- and post-SEPA costs are estimations (see appendix)
- » We expect costs to decrease from 0.43% to 0.04% following SEPA inclusion
- » Joining SEPA would lead to a reduction of 0.39 pp of foreign trade payment costs

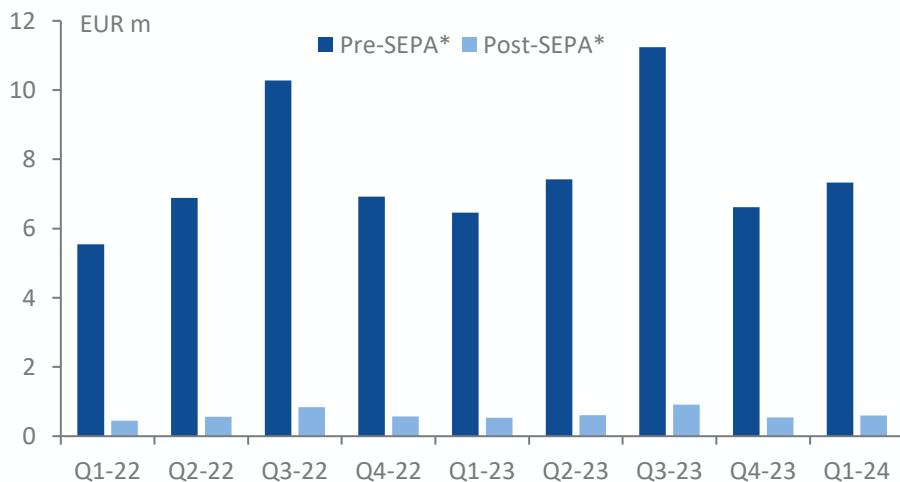
Foreign trade payments: costs and savings (in EUR)

Calculation of foreign trade payment costs and savings (in EUR)

| | Calculation | Annually |
|--|------------------|----------|
| Volume of foreign trade with (future) SEPA countries | | 7.4 bn |
| Pre-SEPA costs (%) | See annex | 0.43% |
| Post-SEPA costs (%) | See annex | 0.04% |
| Cost-reduction (%) | 0.43% – 0.04% | 0.39 pp |
| Cost-reduction (EUR) | 7.4 bn x 0.39 pp | 29.1 m |

Source: own calculation; Note: all figures are estimates based on 2023 data

Foreign trade payment costs before and after SEPA-inclusion



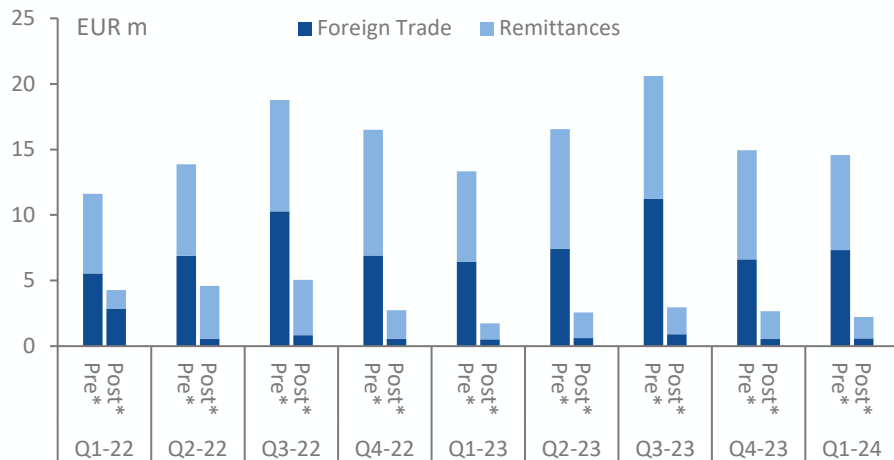
Source: own calculation; Note: *own estimation

Costs and savings (in EUR)

- » Foreign trade payment costs (in EUR) are calculated analogous to remittance costs
- » In 2023, costs of payments in foreign trade with current/future SEPA countries amounted to EUR 31.7 m
- » We estimate annual post-SEPA inclusion costs to be around EUR 2.6 m, based on 2023 data
- » These savings benefit businesses and citizens in KOS but also their trading partners abroad
- » The benefit for KOS is therefore twofold
 - Direct savings from reduced payment costs for imports into KOS
 - Indirect benefit through increased competitiveness of exports from KOS
- SEPA inclusion would save around EUR 29 m in foreign trade payment costs annually

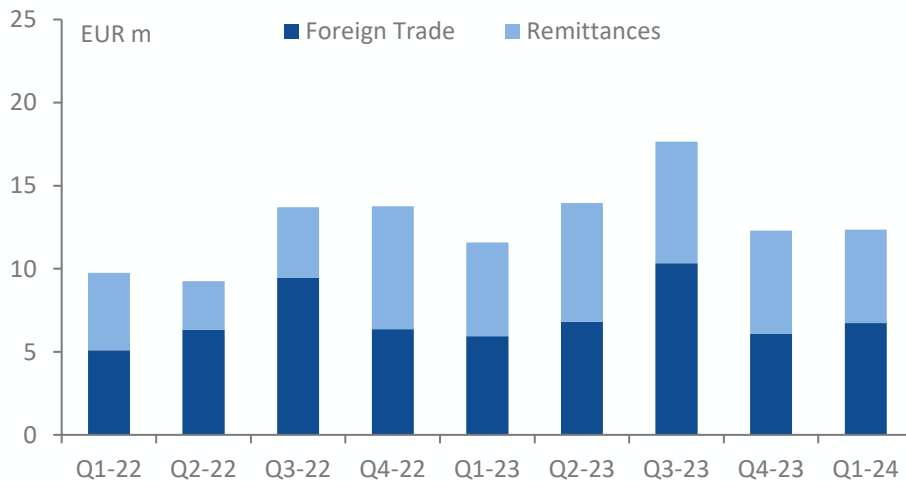
Summary: remittances and foreign trade payments

Costs before and after SEPA inclusion (in EUR)



Source: own calculation; Note: *own estimation

Estimated savings through SEPA-inclusion (in EUR)



Source: own calculation

Costs before SEPA inclusion

- » In 2023, pre-SEPA costs for remittances and foreign trade payments amounted to ca. EUR 65 m
 - Remittance costs: EUR 34 m
 - Foreign trade payments costs: EUR 32 m

Costs after SEPA inclusion

- » Based on 2023, we estimate annual costs of around EUR 10 m after SEPA inclusion
 - Remittance costs: EUR 7 m
 - Foreign trade payments costs: EUR 3 m
- SEPA inclusion would save around EUR 55 m annually in costs for remittances and foreign trade payments

Additional benefits

- » The full long-term economic implications of SEPA inclusion will likely go beyond a reduction in cross-border payment costs
 1. Joining SEPA positively affects the reception of funds from the new EU Growth Plan in the medium term
 2. Joining SEPA positively affects Kosovo's EU accession prospect in the long term
 3. Joining SEPA may lead to increased competition on the domestic PSP market, reducing the costs of domestic bank transfers as well
 4. A reduction in the costs of domestic bank transfers may lead to increased acceptance of non-cash payment methods, which would in turn:
 - substantially reduce the costs for domestic retail payments in KOS, for which the big share of payments in cash is the largest driver
 - lead to more transparency and a decrease in the informal economy
 - enhance the access to the financial market for KOS residents
 5. A reduction in the costs of sending remittances via bank transfer would lead to an increase in the use of formal remittance channels
 - Currently, a large share of remittances are sent in cash, causing high transaction costs
- » These additional benefits cannot be quantified ex-ante, but are relevant to consider

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

CONTACT

Felix Schwickert, Project Manager Kosovo
schwickert@berlin-economics.com

German Economic Team

c/o BE Berlin Economics GmbH
Schillerstraße 59 | 10627 Berlin
Tel: +49 30 / 20 61 34 64 41

info@german-economic-team.com
www.german-economic-team.com

Our publications are available under
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Annex: detailed calculation steps

1. Extract volume of remittances from SEPA countries from CBK
2. Estimate quarterly pre-SEPA remittance-costs (in %) by sender country
 - » Use World Bank's Remittance Prices Worldwide dataset
 - It lists ca. 10 remittance services and their prices for sending USD 200 and USD 500 for a number of channels (e.g. DEU to KOS) for each quarter
 - Calculate SmaRT-average costs for sending USD 200 and USD 500 for each channel and quarter
 - Calculate average over costs of sending USD 200 and USD 500 to obtain a single estimated cost (in %) per channel and quarter
 - » Costs for remittances from DEU, AUT, ITA and CHE to KOS can be derived as detailed above
 - Remittance costs from other SEPA countries have to be approximated
 - » Approximate costs of other SEPA countries that use EUR as currency
 - Proxy: average over previously calculated costs from DEU, AUT, ITA
 - » Approximate costs of other SEPA countries that use currency other than EUR
 - Proxy: previously calculated cost from CHE
3. Estimate quarterly weighted average pre-SEPA remittance-cost (in %)
 - » Take share of total remittances sent in a given quarter as weight for each SEPA country
 - » Calculate weighted average remittance-cost per quarter

Annex: detailed calculation steps

4. Estimate post-SEPA remittance-costs (in %) by sender country and quarter
 - » Since this is a counterfactual scenario, all figures have to be estimates
 - » For DEU and AUT: estimate future costs for remittances to KOS with current costs for remittances to HRV
 - Rationale: since HRV adopted the EUR as currency in Jan-23, costs from EUR countries to HRV exemplify costs of remittances between SEPA countries that do not involve foreign exchange
 - » For other EUR-countries: take average of current costs of remittances from DEU and AUT to HRV
 - » For CHE and other non-EUR countries: estimate future costs for remittances to KOS with current costs for remittances to HUN
 - Rationale: costs from non-EUR countries to HUN exemplify costs of remittances between SEPA countries that involve foreign exchange
5. Estimate weighted average post-SEPA remittance cost (in %) per quarter
 - » Again, use share of total remittances sent in a given quarter as weight for each SEPA country
6. Estimate reduction of remittance costs (in %) due to SEPA-inclusion per quarter
 - » Subtract post-SEPA costs from pre-SEPA costs for each quarter
7. Estimate annual reduction of remittance costs (in EUR)
 - » Multiply volume of remittances from SEPA countries with cost-reduction (in %) for each quarter
 - » Take the sum of all four quarters in 2023 to derive an annual estimate

Annex: detailed calculation steps

8. Extract volume of payments related to trade with current/future SEPA countries per quarter
 - » The cost of payments to/from the WB6-countries will also decrease following SEPA inclusion of the WB6-countries
 - » Relevant data: Volume of imports and exports of services and goods from/to (future) SEPA countries
9. Approximate pre-SEPA and post-SEPA costs for foreign trade payments (in %) with business 2 business (B2B) payment costs
 - » Rationale: Payment costs (in %) are dependent on the amount sent. The amount sent when paying for imports is much higher than that for remittances, since most goods/services are imported on a large scale by businesses.
 - » [A World Bank report](#) lists the average costs of sending EUR 5,000 and EUR 20,000 between EU countries and the WB6 countries
 - Estimate B2B payment costs for each channel: Take the average over sending EUR 5,000 and EUR 20,000 for each channel

- Use these proxies:

| Approximated payment cost | Pre-SEPA proxy | Post-SEPA proxy |
|-----------------------------|---------------------------------------|-------------------------------------|
| Imports from SEPA countries | Cost for B2B payments from WB6 to EU | |
| Exports to SEPA countries | Cost for B2B payments from EU to WB6 | Cost for B2B payments from EU to EU |
| Imports from WB6 countries | Cost for B2B payments from WB6 to WB6 | |
| Exports to WB6 countries | | |

Annex: detailed calculation steps

10. Estimate quarterly pre-SEPA payment costs (in EUR)
 - » Multiply volume of imports from current SEPA countries with pre-SEPA proxy for payment costs for imports from current SEPA countries for each quarter
 - » Multiply volume of imports from WB6 countries with pre-SEPA proxy for payment costs for imports from WB6 countries for each quarter
 - » Multiply volume of exports to current SEPA countries with pre-SEPA proxy for payment costs for exports to current SEPA countries for each quarter
 - » Multiply volume of exports to WB6 countries with pre-SEPA proxy for payment costs for exports to WB6 countries for each quarter
 - » Sum up all of these costs for each quarter
11. Estimate quarterly post-SEPA payment costs (in EUR)
 - » Repeat the steps above using post-SEPA proxies for each quarter
12. Estimate annual cost-reduction in foreign trade payment costs (in EUR)
 - » Subtract post-SEPA payment costs (in EUR) from pre-SEPA payment costs (in EUR) for each quarter
 - » Sum up quarterly cost-reductions to annual cost reduction for 2023
13. Estimate total annual savings from reduction in costs for remittances and foreign trade payments (in EUR)
 - » Add reduction in remittance costs (in EUR) to reduction in foreign trade payment costs (in EUR)