

Governor's speech at the Conference "Initiative on the implementation of the second pillar of the Basel regulatory framework" ICCAP/SREP Introduction and Practical Examples

Your Excellency, Ambassador Viets,

Dear Mr. Macbeth,

Dear Mr. Christiansen (Tod Kristiansen)

Dear participants,

Ladies and gentleman,

It gives me a great pleasure to welcome you to *the Conference on the implementation of the second pillar of the Basel regulatory framework*, which we organized in cooperation with GIZ.

On behalf of the Federal Ministry of the Republic of Germany for Economic Cooperation and Development, GIZ, is no doubt one of the biggest supporters in strengthening of the Central Bank of the Republic of Kosovo (CBK) capacity. On this occasion, I would like to express my special thanks to the staff and the committed partners of GIZ.

We are honoured with the participation of banking supervision experts from the European Central Bank and from different competent institutions of the European Union countries. I would also like to express my gratitude to the representatives of the central banks of the region participating in this conference.

This project is in the course of the ongoing institutional support to the CBK from international donors such as the US and EU countries, and in this case from Germany.

The organization of this conference aims to provide a roundtable discussion, which will help aligning with the international standards for banking

sector regulation in terms of capital adequacy in proportion to the risk profile, with the focus on the assessment by banks themselves and the review by the supervisory authority.

In the contemporary global economic and financial environment, the adoption of these standards is becoming inevitable for any country. For the countries of our region, through the achievement of these standards, it is supported not only the sustainable development of the banking sector but also accomplishment of a very important package of the criteria required in the European Union integration process.

The Central Bank of Kosovo since its establishment, regarding the banking supervision field has been oriented to the international best standards and practices. The beginning of the CBK functioning corresponded with a period when other post-socialist countries of Europe managed to normalize the situation in their banking sectors after considerable transition process, during which omissions made at the beginning of this process made the transition long and difficult. Easy licensing criteria for local financial institutions, foreign banks entry delays and the lack of adequate institutional capacity, including deficiencies in the regulatory and supervisory capacities of central banks, were among the main causes of problems faced by the banking sectors of these countries.

Lessons learned from the experiences of the central banks of the region as well as international best practices served as a strong base for the development of the CBK and for building a financial system that didn't inherit anything from the past system.

Therefore, with the help of international partners, the CBK was determined to develop its operations following the contemporary international

standards, through which we managed to build a modern financial system based on the free-market economy principles.

This way, the CBK set the foundation for a financial system based on private ownership and since the beginning has opened the doors for the entry of foreign financial institutions. Indeed, there were foreign financial institutions, particularly banks, which first began operations in Kosovo, bringing a contemporary experience in the financial industry.

Currently, Kosovo's financial system is characterized by a high share of foreign capital, with a special emphasis to the banking sector, where about 90 percent of sector's assets are managed by foreign-owned banks.

The CBK has consistently followed a sound policy of financial institutions licensing with a continuous improvement of the regulatory framework, in line with international standards, being committed to continuous development of supervisory capacities, building thus a strong foundation for the development of financial system in Kosovo. These achievements came to the fore particularly during the recent global financial crisis, when the Kosovo financial system and in particular the banking sector managed to maintain the stability and continued to support the overall macroeconomic stability of the country.

Kosovo's banking sector is currently a very important contributor in funding the country's economy and enjoys a very good financial health based in all relevant indicators. The loan portfolio quality that was pretty good has marked further improvement during 2015. At the end of the year, the rate of non-performing loans decreased to 6.2 percent compared to 8.3 percent as it was a year ago. The banking sector continues to have a high level of capitalization, with capital adequacy indicator at around 19 percent, which is significantly higher than the regulatory minimum required. The liquidity continues to be

satisfactory, with the indicator at about 43 percent, which is significantly higher than the regulatory minimum requirement of 25 percent.

However, despite these achievements, we are aware that the dynamics of the financial industry development at the global level present ongoing challenges for financial regulators. Therefore, we are committed to closely follow the developments in the financial industry as well as developments in the field of financial regulation standards. In this regard, in the current strategic plan of the CBK, which contains medium term development priorities, a special attention was paid to the advancement of the regulatory framework in line with international standards and EU legal acts. It is also worth mentioning that last year we received a very significant contribution from the European Central Bank, which through the cooperation program for facilitating European integration has identified the CBK development needs in various activity fields, including banking supervision and financial stability.

As the result, it is built a clear path to be followed for the further development of the CBK supervisory competences. Walking along this path we will undoubtedly face different challenges, but I am confident that the achievements to date, commitment and high professionalism of our staff together with an ongoing support of local and international institutions guarantee a successful goal achievement.

I see this conference as part of the path and I want to express my gratitude to all conference participants who with their presentations and discussions will contribute its progress. I hope we will have the opportunity to see more often such events, with wide participation of experts, in Kosovo and in the region.

Thank you