

***CBK's Governor Mr. Bedri Hamza hold a speech of the occasion in the Conference "Building bridges to a prosperous future" organized by the World Bank in Kosovo***

Pristina, December 2015

Dear Minister Hoti

Dear Ms. Goldstein,

Dear Mayors of Municipalities Mrs.Kusari Lila and Mr. Ahmeti,

Dear Mr. Olters,

Dear representatives of the Kosovo institutions, academia and international institutions,

Distinguished guests,

I am pleased to hold this speech on the occasion and sincerely thank Mr. Olters for organizing this forum with a welcoming format but with a content of a particular importance to Kosovo - that of economic development.

In today's environment, when development agendas face continuous challenges of financial crises and socio-economic ones, the issue of economic perspective occupies a key role in the agenda of countries globally. Moreover, this can be noticed when talking about the countries of Southeast Europe and their development model in the spirit of European integration with the fundamental goal of economic development through economic growth, creating jobs, building vital infrastructure and sustainable development for the region and Kosovo.

Allow me to share with you some views on the opportunities and challenges, the region and Kosovo shall face in this regard. Kosovo is a potential member country of the EU with a small but very dynamic economy and with privileged access to the *European Common Market* with over 500 million consumers.

Kosovo together with the region are on the way to finalizing the transition path for the functioning of a free market economy until the end of full integration into the European Union. Stabilization and Association Agreement signed this year will be a powerful guide for Kosovo in

the process. Relevant reform agenda is complex and time-consuming, but important steps have been taken to transform the main obstacles to development options and economic opportunities. Kosovo proved resistance, and as a result has grown and developed each year by facing the effects of the global financial crisis and the one of the Eurozone. Actions taken in recent years on development policies have given Kosovo a solid foundation, on the basis of which the country can develop services and products that are competitive not only locally but also in the Common European Market. To our country, the privileged access to European consumers is a huge benefit for companies operating in Kosovo, representing a significant potential to develop a private sector oriented to exports. We need to be aware and take full advantage of this opportunity.

These are markets of high-income countries with substantial purchasing power and of countries that are under development. Especially in Central and Northern Europe, currently the most dynamic EU countries, where there is a strong presence of Kosovo diaspora and a unique opportunity to open the doors of these attractive markets. The drawback for goods and services "made in Kosovo" is not the access to markets but the remaining challenges of the transition process towards a functioning market economy, here I would emphasis on the requirements for standards of quality in order for Kosovo goods and services shall meet in order to be competitive in markets abroad.

With time, the importance of the geographical position is decreasing, while the factors that are becoming more important in the context of decisions that investors consider in developing their economic activity include:

- A sustainable political and economic environment, including continuous and secure supply of affordable and clean electric power;
- Sound financial system;
- Skilled workforce, and
- Effective legal system;

CBK's contribution to create a good investment environment in Kosovo includes promoting and maintaining a financial system, especially the banking system healthy and sustainable through effective supervision and based on the highest international standards. The financial sector continues to be a sector that has the highest level of foreign direct investment.

The role of the financial system in supporting the country's economic development has continued to grow, mainly due to developments within the banking sector activity. Lending of the banking

sector rose significantly by increasing the level of lending to over 2 billion euros, with an annual growth rate of 8.2 percent, while in the same period of last year loans had recorded an annual growth rate of just 3.1 percent. The category that mostly contributed to the growth of total loans was the category of loans on enterprises, which recorded an annual growth of 5.9 percent.

It is worth mentioning that within the loans on enterprises, the highest growth was marked by sectors that have a lower share in the total loans of the banking sector, which indicates that banks are starting to think more about the need for diversification of their portfolios and greater support to sectors that are of great importance for the economic development of the country. More specifically, the sectors that recorded the highest growth of loans were the manufacturing sector with an annual growth of 16.7 percent and the agriculture sector by with an annual growth 11.8 percent in October 2015.

Growth in lending to these sectors undoubtedly represents a significant development for the economy, given the potential of these sectors in increasing domestic production and thus directly affect in addressing two key challenges to the economy of Kosovo, which are high unemployment rate and a large trade deficit. Banking finance for these sectors is expected to increase further after the establishment of the Kosovo Credit Guarantee Fund, which represents a very important development for both businesses benefiting from the credit guarantee, as well as banks that will face lower potential losses that may result from credit risk.

Besides the fact that we have accelerated the pace of lending, it is important the fact that the bulk of new loans issued in the period January-October 2015 is released for investment purposes to enterprises. Within the total new loans issued to enterprises during this period, investment loans had a share of 64.3 percent.

With the continuous growth of competition in the banking market, and increased maturity of this sector, the costs and bank financing conditions also continued to decline, respectively showing improvement. The average interest rate on loans in October 2015 was 8.2 percent, compared with a rate of 10.4 percent in October 2014 and 11.4 percent in October 2013.

This level of interest rates has now made the cost of bank financing in Kosovo be approximately at the same level of financing of other countries in the region, posing significant improvement in one of the areas that consistently has been reported by businesses as an obstacle to the development of their activity. Within loans to enterprises it's in particular worth mentioning the pronounced reduction of interest rate for agricultural loans, which in October 2015 had an

average of 9.0 percent, while about two years ago the average interest rate on these loans was 20 percent.

The overall level of sustainability of the banking sector continues to be high, based on all indicators of financial health. Liquidity and capitalisation position increased further and are significantly above the level required by the Central Bank. The satisfactory stability of the banking sector is reflected in the good quality of the loan portfolio. The already low level of nonperforming loans decreased further, falling to 6.8 percent in October 2015 from 8.7 percent in October 2014. This rate of non-performing loans represents the lowest level recorded since June 2012 and continues to make Kosovo as the country with the lowest rate of non-performing loans in the region.

CBK will continue to provide the already existing financial stability. The role of banks in particular but also of other financial institutions in general is very important and there is still plenty of room for this role to further advance in order for its influence in the development of Kosovo's economy and the further development of banking system be even greater. When I say the promotion of the role of the banking system, I have in mind the proactivity of the banks in three main directions:

- Improving the risk assessment (often perceived) in Kosovo's economy in order to adjust the investment strategy with the economic circumstances of Kosovo.
- Orienting of their investment strategy towards less credit sectors in the economy of Kosovo, and
- Further increase efficiency in the banking system so that the costs of funding continue the trend of decline.

Creating conditions for increasing the efficiency of the banking system is one of the key priorities of the Central Bank of the Republic of Kosovo, which is continuously committed to improve the necessary infrastructure in order to achieve this. Above all, I consider that in order to have an attractive environment for foreign investments (which are important in improving productivity on the key sectors of the economy) we first need to create such an environment for entrepreneurs and local investments. To address the issues that I raised above, of course, in addition to the Central Bank and commercial banks, is required a comprehensive commitment by all stakeholders in the country's economy, in order to compare the views and find the best way

how the financial sector and the banking system shall continue to develop further and be much more in function to the economic development of the country.

Finally, I can conclude that we must continue to focus all our efforts in this direction in order to position Kosovo at a competitive level in regional and European markets. When we reach at this level, Kosovo will manage to present its economy to a cycle of higher productivity and accelerated economic growth.

Up to here we can come only by a continuous cooperation and support from all partners and friends of Kosovo, one of which hosts this forum today Mr. Olters with whom we have developed, shared and debated issues of mutual interest in these four years. I am sure that our ways of cooperation will intersect in the future also, but what I need to express honestly today is respect for the hard work and admiration for the comprehensive institutional approach, which Mr. Olters has always reflected while addressing issues of joint interest to our country. Mr. Olters, I would like to wish you further success in your professional and personal life path in the future.

Thank you!