

Governor's Speech on the Occasion of the 15th Anniversary of the CBK

I have the honor and pleasure to welcome you to the 15th anniversary of the establishment of the Central Bank of the Republic of Kosovo. Such events, besides serving for recalling the beginnings where we were, represent a good opportunity to see the achievements and progress made during this period and, on this basis, to prepare and be ready the challenges that await us in the future.

Central Bank of the Republic of Kosovo, originally known as Banking and Payments Authority of Kosovo and then as the Central Banking Authority of Kosovo, was founded 15 years ago, when Kosovo institutional development had just begun, while the postwar situation presented great demand.

In the past, in other circumstances and in the context of a different social order, Kosovo had its financial system, which was completely destroyed during the nineties of the last century. Therefore, did not inherited almost nothing from the past, that in the early days of its activity, in addition to large commitments to its internal organization and evolution of its resources, where everything started from scratch, CBK began to commit to building the financial infrastructure, including the construction of the payment system, the formulation of regulatory framework

for the financial sector and the development of other functions necessary for the development of the financial sector.

The start of operations of CBK came at a time when most countries in the region were at the end of the process of transition, in which concessions at the beginning of this process influenced the transition to be long and difficult. These difficulties were reflected in the development of financial and banking system in transition countries. CBK was attentive to learn from the difficulties they crossed the central banks in the region and chose the model, which has proven successful for the development of an efficient financial sector and sustainable. In this way, the CBK decided basics of a financial system based on private ownership and, since the beginning, opened the doors for the entry of foreign financial institutions. In fact, there were foreign financial institutions, particularly banks, the first to start their activity in Kosovo, bringing contemporary experiences of the financial industry and restored local public confidence in the financial system.

Also, the CBK has consistently pursued a sound policy of licensing, which served as the basis for developing of sound financial system in Kosovo. In this case, taking advantage of this anniversary, a retrospective presentation of the summary of financial system development in Kosovo, best illustrates the progress that has been achieved in this sector.

(They say that sometimes a picture says more than 1000 words, so all the following figures that will be given are included in the relevant graph which is displayed on the monitor.)

The banking sector started its development in 2000, with a capital of commercial banks of 6.2 million euros. From the earliest beginnings to the present day capital of commercial banks has increased steadily, reaching 230.4 million in 2010 and 316.9 million in 2014, respectively, increasing to 38 percent in the past four years. At the same time, while the assets of commercial banks in 2000 were 103.1 million Euros, in 2010 they amounted to 2 billion 455 million Euros, while today they have reached 2 billion and 956 million Euros, increasing to nearly 20% in four years. Regarding the depository and credit activity of banks, it is important to note that in 2000 deposits at commercial banks were at the level of 93 million Euros. Further, we have a continuous trend towards maximization of deposits in commercial banks. Thus, in 2010 they had reached 1 billion and 936 million, while today deposits in commercial banks have reached 2 billion and 500 million, rising to 29% in the past four years. This steady increase in deposits is the best indicator that Kosovo citizens have fully restored confidence in the banking system of the country, after the bad experiences they had in the past. On the other hand, the commercial bank loans have been steadily increasing. While all that was started in 2000, with the level of credit of 3.3 million Euros, since then the trend of credit

growth has continued at high levels. In 2010, the total amount of loans of commercial banks had reached 1 billion and 458 million Euros, while in 2014 the level of loans has reached 1 billion and 839 million, respectively, increasing to 26% in the past four years.

Regarding the interest rates for loans, although it can be said that for a period they were high, currently we are witnessing a downward trend continuing. By 2014, the average interest rate has reached 10.4 percent, while this year end gives clear indication that interest rates on loans already have fallen to single digits. We are convinced that, very soon, these rates will be at the regional level. To achieve this goal, we are working closely with all stakeholders, to avoid all potential factors, which may negatively impact the level of interest rates and are confident that within a short period of time, will meet all the prerequisites, which will directly affect the further decline of interest rates on loans. First of all, it is required a further improvement of operational efficiency of the banks and the general business environment in the country. In this regard, I wish to lay special emphasis on the need to increase the efficiency of the judiciary as regards the banks cases. Further drop in interest rates is our primary goal, since we consider that the financial sector should be in direct support of the real sector, because we believe that the development and growth of the financial sector and the real sector should be complementary to each-other. Here, just to mention that the interest on deposits,

although in the past have been relatively at high levels, recently they have had a fall, which is an indication of sufficient liquidity in the banking sector. In general, the banking sector, as the main component of Kosovo financial system continued to expand lending to the domestic economy, and serving as a stable source of funding. Deposits collected within the country, continue to be the most important source of funding for banks and their steady growth has led to lending banks have low sensitivity to changing financing conditions in foreign markets. Prudent behavior of banks, together with the arrangement and close supervision by the CBK, and overall macroeconomic stability in the country, has brought Kosovo's banking system to a satisfactory level of stability against all aspects of banking risks. Therefore, today we can talk about a banking sector with steady growth of loans and deposits, high level of capitalization and strong liquidity position and good quality loan portfolio.

Similar progress has been made in other components of the financial system of Kosovo. The insurance sector has grown consistently and has shown satisfactory to cover obligations to insurance policyholders. However, we consider that there is plenty of room for further development of the sector, increasing the range of services and making security services have a higher degree of penetration in the domestic economy.

Satisfactory performance demonstrates the pension sector, in which the value of contributions continues to grow, while the good performance of investments is bringing increased value of pension savings.

In terms of microfinance institutions, they have continued to represent an alternative source of credit financing on Kosovo's economy, especially for smaller customers, such as households and small enterprises.

In general, currently in Kosovo there are 10 banks, which are licensed by the CBK and of these ten banks, eight are foreign owned banks and two local banks. In the field of insurance, we have 14 companies, which are licensed by the CBK, of which 9 are companies with foreign capital and 5 are local capital. Also, financial market operate 2 pension funds, as well as a number of microfinance institutions and non-banking financial activities which are operational and which complement the variety of financial services to the citizens of Kosovo. The presence of big number of companies with foreign capital, is an indication that the financial sector has received considerable foreign direct investments, which are a strong indication that foreign investors have been and remain ready to invest Kosovo market, considering it economically viable.

Our work so far, above all, is crowned with a sound financial system, which with its rapid pace of development, has become one of the main promoters of economic

development and stability of Kosovo. The contribution of financial system stability in Kosovo in the overall macroeconomic stability in the country, was clearly observed especially during the recent global financial crisis. Unlike many countries, in which financial institutions were heavy burden on public finances, Kosovo's financial system proved stable and even managed to mitigate the effects of other economic sectors, which were most affected by the crisis.

Today, after 15 years, the achievements of our institution are considered to be significant and, therefore, firstly, I would like to express my gratitude to all employees of the CBK, who with a high enthusiasm and dedication have achieved the CBK to be transformed into a modern institution, able to serve the prosperity and economic stability. During this period, the CBK has made progress in all pillars of its activity, reaching to build a modern system of payments and providing efficient supply of cash to the economy. Currently, CBK has a financial regulatory framework in line with international standards and advanced supervisory capacity, quality statistics and economic and financial analysis, they provide decision-making authorities and the public a correct understanding of developments in the national economy, and has consistently shown high efficiency in the provision of banking services to the Government.

With a special dedication, let me emphasize that these achievements would not have been possible if it was not for the comprehensive and generous support of our

international friends, who with their experience and desire for help, facilitated our way to be faster and less exhausting. On this occasion, I would like to express special gratitude to the international institutions, such as the Department of Treasury of US, USAID, European Commission, International Monetary Fund, World Bank, European Central Bank, GIZ and other institutions, who have given and continue to give valuable contribution to the development of our institution. With taxes of citizens of their countries, these institutions have contributed directly to build and develop our institutional capacity and for this I use the opportunity of this podium to express our deep gratitude to the taxpayers of our friendly countries who helped in this.

As a result of its work, CBK is reaching a level comparable to the region and continues to be one of the most valued institutions in the country, which is clear from international reports, among which may be mentioned the Progress Report the European Commission, which marks the undeniable achievements and financial system stability in Kosovo. Also, the work of the CBK in the construction and maintenance of financial infrastructure and financial sector development in general, is also reflected in the World Bank report "Doing Business in 2015", in which the indicator for "taking credit" ranks Kosovo in 23rd place in the global ranking, which represents a very satisfactory level.

All that introduced so far, I think that is a good basis to conclude that the Central Bank of the Republic of Kosovo has spent fifteen successful years, during which managed to become a modern institution and developed a financial system able to help the prosperity and stability of the economy.

However, we are aware that the dynamics which is developing the financial industry at a global level presents new challenges for central banks. Therefore, we are committed to continuing to work with higher rates for the further development of the CBK, serving our ongoing objectives of the Law on the Central Bank of the Republic of Kosovo. In this context, we developed a detailed strategic plan of CBK for the period 2015-2019. This strategic plan, along with a newly started project with the European Central Bank to identify the needs of the CBK for achieving standards of Euro zone central banks, provides a clear path for further development of the CBK. While walking along this path, obviously, will face different challenges, but I have confidence that the achievements to date, commitment and high professionalism of our staff, together with the continued support of local and international institutions, are indicators for continued successful development of the CBK and Kosovo financial system in general.

Finally, I would like once again to thank you for your ongoing contribution to our development and for participating in celebrating this important anniversary

Thank you!