

**Speech of the CBK's Governor Mr. Bedri Hamza at the conference organized by the American Chamber of Commerce on "The Impact of Banking Sector in the Development of the Private Sector"**

Allow me first to congratulate the American Chamber of Commerce for organizing this conference, which enables all of us to see those who are the main carriers of the economic development in the country and those who also carry a very important burden, which is financing economic development of the country.

Economic development cannot be achieved without a developed private sector. Private sector development requires a financial system able to ensure sustainable funding and with favourable conditions for businesses. On the other hand, a developed financial sector requires the presence of successful businesses; their activity contributes to the development of the financial system itself. Based on this, we consider that effective cooperation between these two sectors represents one of the main preconditions for economic development of the country; however, this interaction cannot be effective without a proper cooperation between the two sectors in order to overcome together the challenges that hinder the further advancement of intercourse between the financial system and businesses.

Therefore, conferences like this one today are of great importance as they enable an open discussion between banks and businesses, where can be discussed various issues that are necessary to enhance further the role of the banking sector in the economic development of the country.

\*\*\*

Kosovo's economy during 2015 was characterized by accelerated growth rate, generated mainly by an increase in domestic demand. The annual growth rate at the end of 2015 is expected to reach about 3.5 percent. The growth of new consumer loans and remittances have had a significant impact on increasing the disposable income of citizens and, consequently, growth of

private consumption; whereas, public consumption also increased. Significant contribution to economic growth this year was given also by investments, where besides local investment there has had a significant increase in foreign direct investment. On the other hand, despite export growth rate was higher, significantly higher level of imports of goods has affected the trade deficit of goods increase by 2.7 percent up to October 2015. Exports of goods during this period recorded an annual increase of 4.0 percent, while imports of goods increased by 2.9 percent.

\*\*\*

The dynamics of banking sector activity undoubtedly has been one of the main determinants of the dynamics of the overall economic activity in the country. During 2015, lending activity of the banking sector has recorded the highest growth rate in the recent years. At the same time, interest rates on loans have declined sharply, as well as other credit conditions improved. All this show a significant improvement in financing conditions of the economy in the country, which are reflected in the increase of overall economic activity.

\*\*\*

Total value of active loans in the banking sector in October 2015 amounted to 2 billion euros, representing an annual growth of 8.2 percent, while in the same period last year loans had recorded an annual growth rate of only 3.1 percent. The category that contributed the most to the growth of total loans was the category of loans for 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 who 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 granted were the manufacturing sector with an annual growth of 16.7 percent and the agriculture sector which increased by 11.8 percent in October 2015.

Besides the fact that we have an accelerated 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.

\*\*\*

The trend of the banking system in view of the further development of the system itself, as well as toward the economic development of the country, was noticed also in the structure of loans to households, where was recorded a higher pace of development of the mortgage market. During January-October 2015, the value of new mortgage loans was 55.8 million euros, which represents an annual increase of 36.6 percent.

\*\*\*

In addition to the increase in the volume of lending, the year 2015 was also characterized by a substantial improvement in credit conditions. The average interest rate on loans in October 2015 was 8.2 percent, compared to 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 at approximate level to the cost of financing in other countries in the region, posing significant improvement in one of the areas that has consistently been reported by businesses as an obstacle to the development of their activity. Within loans to enterprises, in particular is worth mentioning the pronounced reduction in 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.

\*\*\*

Given that interest rates on loans to a large extent are determined from costs beard by banks, then by the risk they face, as well as the conditions of competition in the market, than we can

conclude that developments in all these areas during the latest period have had an important role in reducing the interest rate.

- Low cost of funding for banks, mainly expressed in interest rates on deposits, which in October 2015 had an average of 0.9 percent, represents one of the main contributors to the decrease in the interest rate on loans.
- Credit risk has further declined during 2015. The already low rate of non-performing loans in October 2015 was reduced even further declining to 6.8 percent compared with the rate of 8.7 percent recorded in October 2015. This rate of non-performing loans represents the lowest level recorded since June 2012 and continues to keep Kosovo as the country with the lowest rate of non-performing loans in the region.
- Regarding developments in the field of competition, the Central Bank of the Republic of Kosovo has continuously worked to ensure the development of competitive conditions in the financial system of Kosovo. In this context, the continuing increase number of banks licensed to operate in Kosovo has resulted in a higher competition in the banking market, which has driven the development of new products and increased efficiency in the sector. As an indicator of increased competition in the banking sector can also serve the indicator of the degree of concentration of the banking market which, though still at high levels, is declining continuously.

\*\*\*

Based on what I presented so far, I appreciate the great and still growing role of the banking sector in the economic development of the country. However, despite the continuous growth of lending, the ratio between loans and Gross Domestic Product remains at about 35 percent, this ratio is lower compared with other countries in the region and economically more developed countries. This shows that the economy of the country, taking into account its size, has the capacity to absorb further expansion of bank lending.

The way how we can come up to a higher degree of credit certainly we could hear more from the representatives of commercial banks invited to this conference and also by representatives of businesses here in the audience. However, I would like to emphasize that the need to increase the level of financial intermediation should not be seen only by the aspect of supply of credit, because of equally importance is also the demand for loans, in which case is required by businesses submit projects of quality when applying for loans and to increase transparency through financial reporting objective. Moreover, credit growth should not be seen only in terms of lending to existing borrowers, special attention should be payed to their potential risk of debt overload. In this context, it is necessary that the expansion of financial intermediation is done through the expansion of banking customer by providing a higher degree of involvement of citizens and businesses with access to banking services.

In this regard, the Central Bank of the Republic of Kosovo considers as very important financial education of the wide public, a field in which we are intensively engaged through various activities.

\*\*\*

At the end, I wish to express the willingness and commitment of the Central Bank of the Republic of Kosovo to ensure a stable financial system and help the further development of this system so that the economy of the country shall enjoy efficient and safe financial services.

I wish you a pleasant day with the confidence that the discussions which will be made at this conference will contribute to further advance the role of the banking sector in the country's economic development.