

Dear participants,

I am pleased to be part of this round table to discuss the economic developments that have characterized our country in the first decade as an independent state, and to discuss the way forward to strengthen economic development and to raise the level of the welfare of our citizens.

All of us in this panel represent the very important pillars of the country's economic development and I can safely say that despite the constant challenges, each of us can tell a successful story for the country's economic progress and a clear vision how we should address the challenges that await us.

In the early years of independence, when it was expected that Kosovo would have the greatest economic development, the global economy plunged into the biggest economic crisis since the Great Depression, which negatively affected Kosovo's economic prospects. However, during these 10 years, Kosovo has managed to maintain a stable economic growth and a high degree of macroeconomic stability, proving that we are a country with a good economic prospect and with the potential to generate macroeconomic development and stability.

One of the most important pillars of the country's economic journey during this ten-year period is undoubtedly the country's financial system, which developed into a sector that is effectively providing the economy with modern financial services and at the same time has become a very important source of the overall macroeconomic stability of the country.

The banking sector of Kosovo, which at the time of the declaration of independence of the country had begun to accelerate the growth rate of lending, during these 10 years became one of the main sources of financing of the domestic economy, resisting even the most unfavorable circumstances during the global crisis period. While in February 2008 the total value of bank loans was 937 million euros, currently their value has reached about 2.5 billion euros, which shows a significant increase in the level of financial intermediation in the country. The vast majority of these loans is issued to businesses, while the main source of their financing is deposits collected by households, which shows a very important channeling of these assets from depositors to investors.

Banking lending, besides being characterized by steady growth, consistently improved the financing conditions for businesses and households, thus further strengthening its role in financing the country's economic development. On this occasion, I would like to emphasize the substantial decrease in interest rates on bank loans, which have now decreased to the regional average level, promoting the demand for loans and enabling the realization of many investment projects that would not happen without bank financing. Currently, the average loan interest rate stands at 6.8 percent, compared to the average rate of 14.3 percent at the time of declaring the country's independence.

The decline in interest rates during this period reflects the results that can be achieved through sound institutional development and interaction among all relevant stakeholders to provide a more favorable environment for business development. The prudential regulatory, licensing and supervisory policies of the Central Bank of the Republic of Kosovo, in conjunction with the responsible behavior of banking institutions operating in Kosovo, have created the conditions for a sound competition in the banking market of the country bringing the economy all the benefits of a competitive market. In addition, effective co-operation between the CBK and the justice authorities in the country has provided substantial improvement in increasing the efficiency of contract enforcement for the financial system, thus leading to reduction of banks risks and consequently the interest rates decline.

To support the development of an efficient financial sector, the CBK is continuously engaged in the development and advancement of the infrastructure provided to financial institutions operating in Kosovo. In this context, I would like to emphasize that, despite being the newest country in the region, we have today the most advanced versions of the interbank payment and credit registry system, which represent very important components of financial infrastructure and have a direct impact on access to finance, efficiency and sustainability of the banking sector.

That Kosovo has made significant progress in the field of access to finance was confirmed by the World Bank's Doing Business Report, where the criterion of access to finance, lists Kosovo among the most advanced countries in the world.

In addition to contributing to the economic activity financing, the banking sector represents a very important pillar of the overall macroeconomic stability of the country due to the indicators

that rank Kosovo among the countries with the most stable banking sectors. In this case, I will mention only the non-performing loans indicator of 3.1 percent, which suffices to show the soundness of the Kosovo banking sector.

Similar positive developments have also characterized other components of Kosovo's financial system. The microfinance and non-banking financial sector is increasingly empowering its role in financing the domestic economy through micro-loans. The pension system is successfully managing the pension savings of Kosovo's citizens by increasing the value of these savings through prudent investment policies of these vehicles in the domestic market and international financial markets. The insurance companies sector, whose activity is mainly based on the provision of compulsory insurance products, is increasing the voluntary insurance activity that is very important for reducing risk and increasing activity in the insurance industry. In addition, the financial fragilities that have characterized this sector now have started to be addressed effectively and within a very near future, they will be completely overcome.

Despite the positive developments that our economy has marked over the first decade of the country's independence, we are aware that there is still much to be done to boost economic development and improve the well-being of our citizens. Unemployment and trade deficit continue to represent very important challenges for our economy and requires intensive and joint work in addressing them.

Addressing these challenges in the first place requires increased domestic production and greater competitiveness of our products in international markets. To achieve these, among many other challenges, it is also the challenge to provide businesses with even greater access and even more favorable conditions for external financing.

The current opportunities for businesses operating in Kosovo in accessing external sources of funding are almost limited to loans, while the capital market remains underdeveloped. We are aware that for a small country such as Kosovo, with a not very developed economy, it is difficult to develop a functioning capital market such as a stock exchange. However, we all need to work together to look at regional co-operation opportunities with regard to the capital market in order to provide our companies with access to these markets as a way to benefit from diversifying of their financing resources.

While the development of the capital market remains a major challenge, challenges are also present with regard to the further strengthening of the role of banking lending in support of the country's economic development. Despite the steady growth of lending during the entire period of banking system of Kosovo in relation to the size of the economy, there is still considerable room for credit growth.

Through an open but prudent licensing policy and through further advancement of financial infrastructure, the CBK is trying to create conditions for further development of competition in the country's banking market, attracting the interest of more renowned international banks to enter our market as well as enabling further development for existing banks. All this will have a positive impact on the further growth of credit offer and will further improve lending conditions.

In addition to increasing the volume of loans, a major challenge remains the need for a greater diversification of bank loans across the various economy sectors. At present, over half of bank loans are issued to the trade sector, while sectors that can produce a large benefit for the economy such as agriculture and manufacturing continue to have a relatively low approach to bank lending. However, this banking credit structure primarily reflects the structure of Kosovo's economy, which is dominated by commercial enterprises, which means that the way for addressing this challenge should not be sought solely on the side of the credit offer, but first and foremost on the loan demand side. In other words, a comprehensive institutional co-operation is required to help the recovery of these sectors with the lower access to banking lending so they can be able to generate credit demand.

Likewise, despite the remarkable improvement in recent years, the further reduction of the cost of bank financing remains a constant challenge. Our commitment to create conditions for further development of sound competition in the banking market and advancement of financial infrastructure, together with banks' activities to adopt modern technology, and engagements of all institutions to further improve the environment business in Kosovo, I am very confident that it will result in further competition and efficiency of the banking sector, thus contributing to the further reduction of loan interest rates on.

At the conclusion of my discussion, I would like to emphasize once again that during the first decade as an independent state, Kosovo has managed to prove it has an economy capable of generating macroeconomic growth and stability, but that there are still important challenges ahead for making Kosovo more developed, and to achieve this, we are required to continue our work with even greater intensity. While the first 10-years as an independent state has been dominated by issues related to the statehood, I think that now it is time to focus more on topics that lead to more economic growth. The Central Bank of the Republic of Kosovo has built modern capacities and is ready to face all the challenges in its scope to support the country's economic development.