

Interview of CBK Governor, Mr. Fehmi Mehmeti for Albanian Telegraphic Agency

ATA: The Government of Kosovo has presented a financial package for the support of citizens and businesses. Will that be enough or a clear recovery plan is needed?

Governor Mehmeti: The developments so far are making it clear that our economy will face difficulties even after the current measures of restricting the movement of citizens and the activity of various business categories are terminated. Therefore, measures of state institutions to help the recovery of the economy are necessary. In addition to the various fiscal and financial relief efforts that have been undertaken and may be undertaken in the future, a clear plan is needed to inject funds into the economy in order to facilitate the liquidity of businesses and their ability to finance investment projects. The emergency package presented by the Kosovo Government is expected to play a very important role in alleviating the financial difficulties that businesses are facing. However, this is an emergency package, which is intended to serve as short-term support to help businesses survive during this period. The package, as such, contains many direct government expenditures, which the state budget may not easily cope with in the long-term period. Therefore, we consider that after passing the emergency phase, we should start with the recovery phase, in which the financial system would have the main burden of financing the economy, as the Central Bank of the Republic of Kosovo and the Government of Kosovo have a very important indirect role in increasing funding sources.

ATA: Are the lending conditions in Kosovo favourable for business and does the CBK have the necessary potential to meet the requirements?

Governor Mehmeti: Kosovo's financial system consists mainly of the banking sector, which is a very important source of financing for Kosovo's economy. Bank loans have marked a continuous growth throughout the operation of this sector in Kosovo, while financing conditions, especially in recent years, have marked a significant improvement. Kosovo's banking sector has a very high credit potential to further increase lending and meet the requirements of the country's economy for financing.

ATA: What are the measures that the CBK is expected to undertake in order to facilitate lending to business in these conditions?

Governor Mehmeti: Given the difficulties that our economy may face in the upcoming period, CBK has carefully reviewed the instruments available to further increase the lending potential of banks, but without compromising the sustainability of this sector. Measures that the CBK could undertake in such a situation include regulatory easing for banks, such as reducing the required reserve and reducing the capital requirements (considering reducing the risk-weighted assets for some exposures in certain categories), which increases the capacity of banks available to lend and enables credit increase without the need to increase capital. Through the 'stress-test' analysis, CBK has set limits on how far these regulatory requirements can be eased, without compromising the sustainability of the banking sector. However, it should be borne in mind that the effectiveness of financial intermediation depends not only on the supply of credit, but also on the demand for credit. Therefore, despite the fact that our banking sector has a very large lending potential, there are several factors that can challenge banking sector lending during an economic crisis. The first factor I would like to point out is the risk of decline of credit demand due to many reasons, such as the possible failure of a number of businesses, then the uncertainty of businesses to invest in capacity expansion, as well as the decline in aggregate demand in the economy. Another factor may be the decline in banks' trust in the economy. At a time of crisis,

although banks may have the potential to increase lending, they may face a decline in the quality of credit requests, as well as uncertainty about future business performance. In this context, as was the case during the recent global economic crisis, we may face a situation where banks are more reserved in handling credit applications.

ATA: What measures can be undertaken in case of such a situation?

Governor Mehmeti: In such a situation, the Government of Kosovo could play a very important role in supporting the increase of funding and improvement of the financing conditions for businesses through the Kosovo Credit Guarantee Fund (KCGF). The Government of Kosovo may increase the KCGF's capital to enable the increase in the volume of bank loans guaranteed by this institution, thus enabling the provision of loans, which may not have been granted in the absence of the KCGF's guarantee. The Government can also take action (including possible legal changes) to develop new instruments within the KCGF in order to help the funding and recovering of businesses. These instruments could include subsidizing interest rates on business loans or direct lending to businesses by the KCGF without interest and/or with a certain grace period. Any instrument related to the direct funding of businesses by the KCGF should be developed only on the basis of very clearly specified criteria on the conditions that a business must meet in order to qualify for such support.

ATA: What are the advantages of financial support through KCGF?

Governor Mehmeti: Indirect government financial support for businesses, i.e. through KCGF, has a number of advantages compared to direct government financial support for businesses. The increase in KCGF's capital by the government could contribute to the financing of more businesses compared to the situation when the government finances businesses directly. The government is spared the need to increase human capacity for the administration of a complex process of direct injection of funds into businesses. The selection of businesses receiving financial assistance from the government is based on the financial expertise of KCGF and commercial banks, which is necessary to ensure the achievement of the objectives of such financial assistance.