

## **Interview of CBK Governor, Mr. Fehmi Mehmeti for Radio Free Europe**

**Radio Free Europe: Mr. Mehmeti, how stable is the financial and banking sector in Kosovo?**

**Governor Mehmeti:** We have a very stable financial sector, it is liquid, well capitalized. If we see the trends in the banking sector as one of the most important sectors within the financial system, it is characterized by positive developments. Lending increased by 11 % (per cent) annually, loans amounted to about EUR 3 billion, deposits also increased by 12.2 per cent and their value reached EUR 3.5 billion. The increase in deposits indicates that the banking sector, ie commercial banks in Kosovo are well capitalized. Positive developments have also been made in the context of facilitating access to finance, thus lowering the interest rate on loans to 6.3 percent. This has made it easier to access finance. In addition to its role, the banking sector has also contributed to economic growth.

**Radio Free Europe: Economic growth in Kosovo has not reached more than 4 per cent over the years, which is considered by experts to be insufficient to address the economic and social problems that country is facing. How likely is this growth to be higher?**

**Governor Mehmeti:** Economic growth for 2018 in Kosovo has been 4 percent. It is funded mainly by three activities that are key to financing the country's economic growth, which in this case are bank lending, public expenditure growth and remittances. Our forecasts as the Central Bank are that, in 2019 the economic growth will be about 4.2 percent, which will mainly be financed by the ones I mentioned earlier. If we look at the countries of the region it is a solid growth, it is an increase to be assessed, but it is not enough even 4 and 4.2 percent to address the challenges that Kosovo has, in this case unemployment is at 29.6 percent and the high trade deficit. Therefore, in order to address these challenges, it is required to have a larger economic growth of 6-7 percent, which is not difficult to do. With the Government's focus in the future mainly in the area of economics, I say it can easily achieve economic growth to 6-7 percent.

**Radio Free Europe: Compared to deposits, the value of loans is lower. Do you think that the current level of lending is sufficient to serve economic growth?**

**Governor Mehmeti:** Lending is one of the main factors or indicators that has influenced the economic growth in the country. Credit Guarantee Fund, a fund established by the Government of Kosovo and donors, has had a significant impact here, which this year has increased the value of this fund by 20 million euros. Some over € 100 million have been guaranteed by this fund and to a large extent this has led to less credited sectors being credited. There are many, but we are taking agriculture, it is a project that is starting to grow and is supported, especially by new businesses, which have no history and the banks are reluctant to lend, then this fund guarantees them and the emphasis has been on increasing and facilitating access to finance for new businesses, which we consider as promoters of economic development and job creation.

**Radio Free Europe: Kosovo's total public debt has exceeded the value of 1.1 billion euros. The World Bank in Kosovo has warned the Government that public debt in Kosovo by 2025 could reach up to 30 percent of Gross Domestic Product. Do you see any risk of this debt rising?**

**Governor Mehmeti:** Public debt is a fact that is 1.1 billion euros. If we look at the first quarter of 2019 and make a comparison with the first quarter of 2018 there is an increase of 8.5 percent. In relation to gross domestic product, public debt stands at 16.3 percent, which is far above the legal requirements, as

the law allows public debt to be up to 40 percent in relation to gross domestic product. Therefore, there is still room for public debt to rise, and I also advise that there is a need to increase this debt, but that public debt growth must be carefully increased, invested where value is created rather than where value is not created. We all agree that without debt, you cannot develop the economy, but it must be done in order to have added value to the investment that has been made.

**Radio Free Europe: The number of Kosovo citizens involved in social and pension schemes has steadily increased and tends to continue to increase. The state of Kosovo pays about 400 million euros for these social schemes. Could this create a fiscal crisis in the future?**

**Governor Mehmeti:** Budget funds that go for social schemes are planned in the budget. As Governor, I can say that the social scheme is well managed. When talking about war veterans, it was first necessary to know the exact number and then determine the amount or percentage of how much to pay. I do not consider it a risk, but it is a burden on the Kosovo budget. Both the Government of Kosovo and all of us are interested in supporting social schemes, but those cases that really belong to the social scheme. The case of war veterans should have been better managed as a process, as the number has been significantly increased, which is a burden on the Kosovo budget, but I do not consider it to affect.

**Radio Free Europe: From 4.8 million as allocated in the budget of Kosovo for state reserves, which are expended in the event of a natural disaster, the Government of Kosovo has spent about two million for various activities, but not for the purpose for which are dedicated. Given these expenditures made in this way, do you think there is a lack of budget discipline in Kosovo?**

**Governor Mehmeti:** If we look at all the budget trends, we can say that Kosovo has macro-fiscal stability and that the budget deficit has been maintained, the balance of payments has improved significantly and I cannot say that there is mismanagement. There are positive trends in all areas regarding macro-fiscal stability in Kosovo. There is good budget management in this government and past governments.