

Interview of CBK Governor, Mr. Fehmi Mehmeti for Telegrafi

Mr. Mehmeti, what measures has the CBK undertaken after the emergence of the COVID-19 pandemic?

Governor Mehmeti: In order to mitigate the consequences of this crisis for our economy, we as the Central Bank of the Republic of Kosovo have been proactive in taking a range of measures aimed at ensuring the normal functioning of the financial system and mitigating the impact of the crisis on our economy. We have also continuously monitored the developments at the regional, EU and international levels, and have had regular communication with our international partners, such as the IMF, the World Bank, the EBRD, and the chambers of commerce in Kosovo, and we all share the same concerns about the situation, and in particular the consequences that we may have in case of continuation of this situation. And of course, within the constitutional mandate of the CBK we have coordinated actions with all institutions of Kosovo in order to deal as effectively as possible with the situation created. Realizing the difficulties faced by some businesses and employees, the CBK, together with lending institutions, have decided to allow a period of non-payment for loan instalment payments starting from 16 March 2020 to 30 April 2020 and depending on how the situation develops this period may be extended. This aims to alleviate the financial burden for all borrowers who are facing difficulties in realizing revenues as a result of the pandemic crisis. During this period, no credit rating deterioration measure will apply to borrowers. The CBK, through its credit register measures, has taken all necessary legal measures to prevent the classification of loans, to not require additional provisions and to not classify them as non-performing loans in the Credit Register. During this period, the CBK has ensured a regular functioning of the payment system throughout Kosovo, including the affected areas, which have been isolated for a certain period of time. The CBK has started and continues to regularly disinfect all the money with which it supplies the market, as a protective measure for cash users. The CBK has established the Work Continuity Team and the Inter-Institutional Committee between the CBK, the Treasury and the Banking Association in order to ensure the normal functioning of the financial system in the country.

Could there be an economic crisis in Kosovo after the pandemic situation?

Governor Mehmeti: According to the CBK forecasts, in 2020 the economy of Kosovo will stop the economic expansion that was characterized by an average annual growth of 3.6 percent in the last ten years.

Coronavirus will affect the country's economic downturn. What level of downturn are we expecting?

Governor Mehmeti: Assuming that economic shocks in Kosovo's economy will be felt more in the first and second quarters and partly in the third quarter of the year, our preliminary forecasts suggest a real economic downturn in the range -2% to -4% for 2020. However, these forecasts are preliminary and therefore should be taken with great caution. We will closely follow the developments in our economy and in the global economy and in view of these developments we will review our macroeconomic forecasts.

Country institutions have restricted many work activities during pandemics and emergency packages have been approved. What do you think about this?

Governor Mehmeti: The package approved by the Government of Kosovo a few days ago is expected to provide a necessary injection of funds to the economy. However, the conditions through which the country's economy is going through will not leave public finances unchallenged.

What are the sectors that can be most affected by the consequences of COVID-19 pandemic?

Governor Mehmeti: The Covid-19 pandemic has disrupted activity in many sectors of the economy, leaving businesses without revenues, while the liabilities of these businesses continue to be active, which risks their solvency and may push them to failure. At the same time, employees of these businesses run the risk of being partially or even completely left without any income, thus negatively affecting the purchasing power of consumers. In these conditions, when the demand for credit declines and also the uncertainty for the future increases, it is expected that there will be a decline in lending by financial institutions, thus reducing a very important source of financing of consumption and investments. Another important channel to hit the Kosovo's economy due to the pandemic crisis may be the external sector. Kosovo has a very high dependence on remittances, receiving an amount of over 10% of GDP on an annual basis. The decline in economic activity in developed countries is undoubtedly expected to affect the reduction of this very important resource for financing consumption in our country. Despite the steady flow of remittances to Kosovo, they had marked a decline during the recent global economic crisis, i.e. in 2009, 2010, 2011, so it remains to be seen how the effects of the pandemic crisis will manifest in economies, where our diaspora is concentrated, in order to have a more concrete assessment of remittance inflow during this year. One of the sectors expected to be hit by Covid-19 pandemic is exports, thus affecting the further increase of the effects of the crisis on the economy of Kosovo, while the inability to carry out economic activity under normal conditions, as well as uncertainty about future developments, is expected to directly affect the decline in foreign direct investment. Meanwhile, the category which is expected to maintain more stability during this period are public expenditures, the flow of which in the economy is expected to mitigate to some extent the negative effects from the aforementioned channels.

There has been uncertainty about some decisions regarding the payment of monthly instalments to banks - what has been suspended, who can benefit from the suspension of the instalment, what are the reliefs and will there be additional payments for individuals and companies?

Governor Mehmeti: The Central Bank of the Republic of Kosovo together with the Kosovo Banking Association, have jointly decided that businesses and individuals, who due to Covid-19 and the situation created in the country, as well as the decline in the level of their revenue, be allowed to have the payment of loan instalments suspended. In the case of suspension of loan payments, credit-related penalty interests will not be applied in this period. So, according to the joint decision, banks can in no way and should not apply penalty interests related to these loans. Also, the interest rate on these loans will not increase. Each bank will individually review applications for suspension of loan instalment payments on a case-by-case basis, as banks have information about their clients, regarding the decline in the revenue levels and the impact of pandemics on business and individuals revenue levels. Borrowers who continue to have regular revenue as before the created situation, must continue to pay the loan instalments as before. The Central Bank of the Republic of Kosovo has encouraged and encourages borrowers to exercise this right in the most rational way possible, as the efficient functioning of the financial system is vital and essential in the circumstances that the country and the world are going through.

Will this pandemic affect the economic growth and remittances from the diaspora?

Governor Mehmeti: As I mentioned earlier, our preliminary forecasts suggest a real economic decline in the range -2% to -4% for 2020. I repeat, Kosovo has a very high dependence on remittances, with participation of over 10% of GDP on an annual basis. The decline in economic activity in developed countries is undoubtedly expected to affect the reduction of this very important source for financing consumption in our country. Despite the steady flow of remittances to Kosovo, they had declined during the recent global economic crisis, i.e. in 2009, 2010, 2011, so it remains to be seen how the effects of the pandemic crisis will manifest in economies where our diaspora is concentrated, in order to have a more concrete assessment of remittances behaviour during this year. the performance of insurers.