

Interview of CBK Governor, Mr. Fehmi Mehmeti for Voice of America

Voice of America: Governor, Kosovo is facing a pandemics situation that has affected the country's economy as well. What are the main concerns regarding the country's economy?

Governor Mehmeti: In fact, it is already clear that we will face economic difficulties and the economy has continued to mark a decline globally, not only in Kosovo, and all economic activities will be negatively affected both at the Kosovo level and globally. This in fact has pushed all European and global countries, including Kosovo, to correct or make possible economic forecasts, although it is difficult to make accurate macro-economic forecasts in this period, considering the fact that it is not known what the consequences of pandemics will be and how long it will last. However, there are some assessments that we as the Central Bank have made, which should be taken with caution due to the fact that we will look closely at the economic developments, taking into account the factors I mentioned earlier, and will come up with accurate forecasts. Regarding the economic growth in the country, the current forecasts are that we will have an economic decline of minus 2 to minus 4 percent, while the forecasts of the International Monetary Fund are that Kosovo will have an economic decline of minus 5 percent, but once again I repeat that these must be taken with caution considering the fact that today it is difficult to make an accurate forecast of economic growth given the effects or factors, namely we do not know how long the pandemic will last and its magnitude, and all countries are correcting their macroeconomic forecasts considering the factors I mentioned earlier. All economic activities will be affected, or it is inevitable that it will have a negative impact on budget revenues, i.e. they will be reduced, and we so far estimated a reduction of around 200 million. Remittances will also be affected because the countries from which remittances come, such as Germany, Switzerland and other countries, are affected as well, although based on an estimate we have so far, bank financial institutions dealing with payments received remittances amounting to 53 million in April 2020, while in April 2019 total revenues from remittances reached 68 million. Once again, regarding April 2020, I am talking about the revenues or remittances that have been received through non-bank financial institutions dealing with payments. However, we expect that there will be a decline in remittances. Remittances are a very important source of funding for the economy of Kosovo, taking into account the fact that they account for 12 percent of Kosovo's Gross Domestic Product. They will be affected by measures taken by the Government of Kosovo, which are similar to measures taken by all governments of other countries, namely isolation or a complete lockdown trying to prevent the virus spreading, which has led to the shutdown of many businesses, interruption of many economic activities, and at the same time has led to many people being dismissed from their jobs, permanently or temporary. An emergency package has been approved by the government of Kosovo, which we consider to be a good injection for the economy of Kosovo during this period in order to maintain liquidity and keep alive the activity of businesses affected by pandemics but we must keep in mind that it is only an emergency package and it is not enough to address the needs that the economy of Kosovo has and the challenges it faces and therefore it is required that we have a recovery plan, a clear plan that will inject sources of capital into the economy in order to maintain business liquidity and support business investment projects. This commission regarding the recovery plan already started its work yesterday and we expect that very soon we will have a concrete economic recovery plan, namely a large recovery fund that will address the needs of the Kosovo economy. However, we must keep in mind that this will affect or be mainly dedicated to investment projects in order for the economy to return to previous level. Negative effects or impacts are already started to be seen during this second quarter and according to the Central Bank's estimates

there will be negative impact felt also in the third quarter, while in the fourth quarter of this year we expect a recovery, and next year we expect to have a much better or complete recovery, also taking into account International Monetary Fund estimates which are similar to ours, namely that next year we will have an economic growth of around 7.5 percent.

Voice of America: You mentioned a recovery plan, how much do you think this amount should go to helping the economy?

Governor Mehmeti: Based on a survey with the businesses, about 40 percent of businesses in total are completely closed and their activity has marked a decline, and we should make a proper analysis to see what the economic impact of the pandemic has been on these businesses and other businesses that have been largely affected, in order to come to an accurate figure. Our advice as the Central Bank is, as I have revealed to the working group for the drafting of the economic recovery plan, it would be a good idea to go through the Credit Guarantee Fund, namely for the government to indirectly support the economy through the Credit Guarantee Fund and increase its budget, and this has many advantages. First, a larger number of businesses will have the opportunity to benefit from this fund, and second, I believe and hope that it is really necessary to create a kind of COVID window within this fund that will be dedicated to businesses that are affected by COVID-19. This will also represent an opportunity for crediting and supporting manufacturing businesses and those that aim at creating jobs and sectors that receive less loans, we consider the manufacturing and agriculture sectors to be the promoters of economic development and generators of new jobs. Also, channelling funds through the government and other funds through this Credit Guarantee Fund will also enable the granting of two-year term loans at very low interest rates and subsidised interest rates and these are our proposals that should be presented, and I believe that they will find support from the working group when the plan of economic recovery is drafted.

Voice of America: A matter that has been undertaken by the Central Bank of Kosovo is the deferral of loan payments by citizens and businesses. How many individuals and businesses have applied for this so far and what will be the deferral period?

Governor Mehmeti: We have been very proactive with this situation and on 16 March we have taken a decision together with the bank association to initially have deferred payments for the period to 30 April. However, later, at the request of banks, we took the decision to have deferred payments for a period of three months, namely the period to 30 June. Now, what I would like to inform the public about is that regular interest will still be calculated; however the same will not be paid immediately. The interest will be split at a minimum for the next 6 months, while, up until now, the number of requests made for the postponement of loan repayment amounts to around 45 thousand. 12 thousand of them are legal persons and 98 percent of requests have been approved while the rest belongs to natural persons where around 86 percent have been approved. The ones not approved or the ones still under review consist of requests that have been submitted by people who are employed in the public sector including the Central Bank of Kosovo and who do not have the right to request deferral of the loan repayment considering that the crisis has not affected them financially and they continue to receive their salaries regularly as before.

Voice of America: You oversee the banking and insurance systems, what was the effect of the pandemic on these two sectors, and do you expect them to have liquidity problems?

Governor Mehmeti: We have a cut-off date as to when the pandemic started in Kosovo and which is 16 March, and from that date we are daily following the liquidity ratio as well as reporting to the IMF on a daily basis. The liquidity ratio was 35 percent on 15 March, while according to the current data the ratio at the moment is 35.7 percent, thus representing an increase of 0.7 percent, meaning that the current ratio of liquidity is better than at the beginning of the pandemic which ultimately leads to the conclusion that we have a liquid sector. Another aspect is the capital adequacy ratio which stands at 16 percent, well above the required regulatory minimum; therefore, we can state that we have a stable, liquid and well capitalised financial system. The worst affected sector during this crisis has been the insurance sector where we have a decrease in gross premiums written. If we take only March of this year, namely up until 15 March, there were 2 million Euros realised as gross premiums written or as revenue for insurance companies. While, from 16 March until 31 March this amount is 920 thousand. If we compare this to March 2019, the revenues of insurance companies should have amounted to 5 million Euros. On the other hand, these companies had to pay damages of around 10 million Euros although they have not had revenues or have had revenues of up to 50% of what they initially planned. I would like to encourage citizens who possess vehicles to insure their vehicles using online services, and they have also been provided the opportunity to drive their vehicles using only their insurance policy for the period the vehicle registration centres are closed.

Voice of America: Kosovo will have to borrow from abroad to face this economic crisis. Can Kosovo afford to get into debt?

Governor Mehmeti: It is the assessment of all international experts in the field of economy and finance of the IMF and the World Bank that the countries that have low public debt will be able to overcome the crises. Kosovo is part of the countries that have low public debt. The public debt to GDP ratio stands at 17.4 percent, namely we have a very low public debt compared to the other countries of the region and beyond, and increasing the amount of public debt is necessary and must be done. However, what we need to take into account is what we are getting into debt for. The debt must be dedicated to activities that add value to the economy. Therefore, the public debt is not high as long as it has an added value to the economy. The public debt is high when it doesn't have added value and is used for something that doesn't have added value to the economy. We have low public debt and we can and there is a need to increase this debt; however, we must know what we are using it for in order to dedicate it to activities that have added value to the economy.