

Interview of the Governor Fehmi Mehmeti for Klan Kosova

Klan Kosova: What was the impact of the million-euros economic packages introduced into the economy by the Government and also the withdrawal of 10 percent of funds from the Pension Savings Trust?

Governor Mehmeti: Certainly, the economic packages and the withdrawal of 10 percent of the funds from the Pension Savings Trust are considered to have mitigated the adverse effects on the economy caused by the Covid-19 pandemic.

Klan Kosova: What is the loan interest rate at present in Kosovo and what is the number of financial institutions operating in the country?

Governor Mehmeti: Loan Interest rates continued their downward trend, declining to 6.0 percent from 6.4 percent in the same period last year, which indicates a continuous easing of access to bank financing. The structure of the financial system consists of a total of 121 financial institutions, which are licensed and registered, and which operate in Kosovo based on the applicable legislation in the Republic of Kosovo and the applicable regulatory framework of the CBK.

Klan Kosova: According to official reports, the 2020 recorded 7.2 percent of economic downturn. How did the 2021 start in terms of economy, will the economy manage to recover during this year and what can be the maximum economic growth this year?

Governor Mehmeti: Estimates so far have shown an economic decline of 7.2% during 2020. However, these estimates are under review, given the large influx of visits from our diaspora during the end-year holiday season, which may have improved the situation to some extent compared to the initial forecasts. As for 2021, unfortunately the issues with the pandemic are still ongoing, but the economy is generally open, so if it continues at this pace, we can say that a more positive year for the economy is expected as opposed to the previous year. Furthermore, easing access to finance for the private sector through the credit guarantee scheme is also expected to play an important role in boosting economic activity. However, the performance of the economy this year will be closely linked to the developments related to the pandemic. Thus, the sooner we overcome the issues with the pandemic, the sooner the economy will return to normal and grow.

Klan Kosova: Given the situation with the pandemic, what was the performance of the financial system in the country?

Governor Mehmeti: The economic crisis found the banking sector of Kosovo in a quite sound condition, characterized by a high degree of liquidity, a high level of capitalization and an excellent quality of the loan portfolio with a share of just over 2 percent of non-performing loans. This made the banking sector not only manage to withstand the increased risks, but also take on a key role in the economic recovery process. The contribution of the banking sector to support the economy was indispensable in terms of continued lending, despite the increase in the level of risks faced by banks. During 2020, the value of new loans issued by the banking sector was EUR 1.47 billion, whereas the total value of active loans in the banking sector in December 2020 was EUR 3.246 billion, which represents an annual increase of 7.1% percent.

Currently, despite having taken all these extraordinary measures for a banking sector and with an economy which is in a recession phase, the banking sector of Kosovo continues to have a high level of sustainability and is ready to play its key role in the economic recovery process. The economic recovery package approved by the Assembly of Kosovo in December last year envisages a very important role of the banking sector. A very important part of this package is based on credit guarantee schemes and interest rate subsidies, which will facilitate and improve the flow of bank financing towards the country's economy.

Total assets of the banking sector have continued the growing trend during this year, reaching the value of EUR 5.35 billion, which represents an annual increase of 12.6 percent. The banking sector continues to enjoy high level of public trust, which is also translated into continuous growth of deposits. In December 2020, the total value of deposits amounted to approx. EUR 4.36 billion, which represents an annual increase of 11.5 percent. Loan Interest rates continued their downward trend, declining to 6.0 percent from 6.4 percent in the same period last year, which indicates a continuous easing of access to bank financing. Financial health indicators continued to show a high level of sustainability of this sector in all aspects. It is worth noting the good quality of the loan portfolio with a non-performing loan rate of only 2.7 percent, which marked an increase compared to last year when it was 2.0 percent. The coverage of non-performing loans with loan loss provisioning remains at high levels of 141.4 percent, which indicates adequate levels of provisioning in the banking sector.

The banking sector continues to have a high capital adequacy ratio of 16.5 percent in October 2020, compared to 15.9 percent in the previous year, which continues to remain significantly above the minimum regulatory level of 12.0 percent. The liquidity position of the banking sector remains high. The ratio of liquid assets to short-term liabilities in December 2020 was 39.8 percent, which was high above the required regulatory minimum of 25.0 percent.

Klan Kosova: What is the amount of foreign direct investment in the last 3 years and what is their impact on our economy?

Governor Mehmeti: The total amount of foreign direct investment over the last three years has been EUR 848.5 million. It is worth noting that despite the difficult situation with the pandemic, foreign direct investments last year had an upward trend, recording an amount of EUR 321.7 million compared to EUR 254.6 million in the previous year. Foreign investments have an important role in the economic development of any country, but their value in Kosovo still remains relatively low and mainly concentrated in the real estate sector.