

## **Interview of the Governor Fehmi Mehmeti for KosovaPress**

The Governor of the Central Bank of Kosovo, Fehmi Mehmeti, announces that the CBK predicts that for this year, the economic growth rate will be 6.6 percent.

Meanwhile, he says that the easing of anti-COVID-19 measures that take place during 2021, led to a significant economic growth in the country.

Mehmeti estimates that compatriots who came to Kosovo this summer have spent over EUR 630 million, as it shows that remittances have reached EUR 651 million.

In an interview with KosovaPress, Governor Mehmeti says that the Government has a serious approach to Kosovo's membership in the Green Card, but that initially, the large number of unregistered vehicles in Kosovo remains a challenge.

Apart from the Green Card, another challenge remains the use of the internet platform for electronic payments "Paypal", as the latter does not recognize Kosovo as a state.

Speaking about economic growth, Mehmeti says that in 2020, Kosovo had an economic decline of 3 percent due to measures to prevent the spread of COVID-19.

**Governor Mehmeti:** Measures taken to prevent the COVID-19 pandemic, both worldwide and in Kosovo, significantly affected the economic activity in Kosovo, so in 2020, in real terms, according to our data, we have an economic decline of 3 percent. However, the easing of the measures that take place during 2021, not only in Kosovo, but also in the countries where the diaspora comes from, made us have a significant economic growth in the country. And we predict that economic growth in Kosovo will be 6.6 percent, although it is subject to review, taking into consideration, by the end of the year, how the issue related to the pandemic arises, given that the source of the crisis in Kosovo and globally is the pandemic and not other economic factors. Everything is related to the pandemic.

According to him, remittances from compatriots have increased by 24 percent, while their spending until July was 140 percent more than the previous year.

**Governor Mehmeti:** The easing of restrictions on the movement of compatriots from countries coming to Kosovo results in the arrival of many compatriots and in a significant increase in non-resident expenditures, which we call diaspora expenditures, which, with the July data that we have available, mark EUR 630 million or with an increase, if we compare it on an annual basis, it turns out to be 140 percent. But, even if we compare it to 2019, we have an increase of about 7 percent. Remittances continue to increase, reaching EUR 651 million or an annual increase of 24 percent.

The arrival of the diaspora, according to Mehmeti, also affected the increase of imports of goods to over 40 percent, while adding that the value of exports has increased to EUR 476 million, or 63 percent more.

**Governor Mehmeti:** This has led to an increase in domestic demand in Kosovo, which has led to an increase in imports of about 43.4 percent, reaching a value of EUR 2.9 billion. But, we also have an increase in exports, where, if expressed in percentage, there is an increase of about 63.4 percent in exports that has reached the value of EUR 476 million. This has further deepened the trade deficit, which reached EUR 2.44 billion or an annual increase of 40 percent.

The governor also spoke about the increase of prices in the country, as he says that inflation has increased from 0.2 to 1.6 percent, while foreign investments, Mehmeti says, have reached EUR 271 million.

**Governor Mehmeti:** In terms of inflation from 0.2 percent as it was a year ago, it has gone to 1.6 percent and also foreign direct investment has increased from 201 million as it was in 2020, reaching 271 million. But, we mainly have an increase in foreign direct investment in the real estate sector, where, expressed as a percentage, it falls to around 80 percent in this sector. Meanwhile, foreign direct investment in financial services remains the same as last year.

Although interest rates on loans are 6 percent and the economic crisis caused by the pandemic, during 2021 alone, commercial banks have issued new loans of EUR 974 million.

**Governor Mehmeti:** If we look at the banking sector as a key component of the financial sector, despite the risks expected during the pandemic period, during 2021 alone, it managed to issue new loans of EUR 974 million, which has made the total loans to be EUR 3.5 billion or with an annual increase of 12 percent. There continues to be an increase in assets. Assets in the banking sector amounted to EUR 5.6 billion or an annual increase of about 15 percent... Also, the banking sector continues to have high public confidence, and as a result, we have an increase in deposits that have reached EUR 4.5 billion with an increase of 14.5 percent. On the other hand, the interest rate on loans has dropped to 6 percent, which has facilitated access to finance.

On the other hand, non-performing loans (bad loans), even after the end of the moratorium which was a period of restructuring, still remain low, thus marking 2.6 percent.

Governor Mehmeti also showed the way of profit of banks in the first half of this year that have reached EUR 55 million.

**Governor Mehmeti:** According to June data, around EUR 55 million is the profit of banks. Banks continue to maintain the rate of profit they actually have over the years, and in reality, this is not as a result of rising interest rates, but as a result of better cost management or cost reduction that banks are incurring. Now, one thing we have not only as Kosovo, but also globally, is that something good comes out of the crisis. Since this case, we have been very careful in moving the digitalization of the banking sector. However, the pandemic accelerated this process. Now the move towards digitalization has reduced costs, increased efficiency for customers, but also for banks.

Regarding the insurance sector, Mehmeti says that this sector has managed to consolidate and be profitable. On the other hand, the governor adds that in order for Kosovo to join the Green Card, the number of unregistered vehicles must be reduced, which has reached 30 percent.

Mehmeti also said that they are waiting for the completion of the CBK board, which has not been functional for 15 months now.

**Governor Mehmeti:** They continue to have an increase in the payment of damages, the annual basis around 24 percent, not because there are more damages than in the past, but as a result of the close supervision that we, the CBK, are doing to this sector. This sector has finally managed to consolidate and be profitable... We are already waiting for the completion of the Board, and I believe that when the CBK

Board is completed, because it has been 15 months that we do not have a functional board, we will approve this Regulation and move towards liberalization of the insurance market in the compulsory insurance segment... The Government has issued a decision and a Working Group has been established, which will deal only with the issue of the Green Card, and within this Group, of this inter-institutional team, also participate CBK and MIA. Other relevant actors also should be part of this Group, and I believe that very soon this issue will be addressed, given that we are seeing that we have a serious approach of the Government in this regard. Therefore, first the issue of uninsured (or unregistered) vehicles, that are quite common in Kosovo, should be addressed, and then start with the application to the Council of Bureaus.

Mehmeti added that inter-institutional coordination is required in order for Kosovo to have access to the electronic payment system in "Paypal", while emphasizing that the CBK has taken the initiative in this regard, despite the fact that the internet platform "Paypal" does not recognize Kosovo as a state.

**Governor Mehmeti:** Kosovo, as a new state, has had and continues to have difficulties in accessing Internet platforms. This was initially also an obstacle that for a while we did not have the phone code. Then, we still do not have our state domain. Despite this, many internet platforms have included Kosovo in its lists as a state, but some of them did not, in this case is also "Paypal", then, we have Samsung Pay, Google Pay. We as the Central Bank have made efforts to bring this payment system in Kosovo, such as Paypal, Google Pay, and Samsung Pay, and so on. We have approved a regulation on registrations, which deals with non-bank financial institutions that deal with electronic money.

Regarding non-bank microfinance and financial institutions, Mehmeti says that there are such institutions, which have the statute of an NGO, while adding that they function as financial institutions based on the legislation in force.

Mehmeti says with full responsibility that there is no problem in terms of law enforcement that has to do with the field related to the regulation and supervision of these financial institutions.

Whereas, he emphasizes that in the future, the issue of the statute of the NGO should be addressed, and it should be regulated by the law of the NGO.

In this sector, loans have reached up to EUR 220 million, with an annual increase of 5-7 percent, despite the fact that interest rates in this sector remain high.

Governor Mehmeti said that it is a sector that needs to be further regulated in the legislative sense, and given this, the CBK has forwarded the draft law to the Assembly regarding issues related to payments, electronic money and other issues that are of interest.