

The financial sector in the region has played and is playing a significant role in economic growth. Consumption continues to be the main instigator of the economic activity in the Western Balkan countries, stimulated by higher public spending and approximately double-digit growth in household lending.

Banks and other loan institutions have always been very important for economic growth in our region, as they provide access to finance to the private sector and governments as well. I think it is clear, that a stable financial sector contributes to economic growth and this role remains significant.

In the case of Kosovo, a safe and sound financial sector is a prerequisite for sustainable economic growth. A solid and well-functioning financial sector is the powerful engine of economic growth. This sector generates savings within the country, which then enable investment in the country's businesses.

Good financial sector performance means more capital available for investment and the more efficient the financial sector becomes, the more likely it is that Kosovo's economic resources will be directed towards more productive use, thus causing the economic growth to reach its full potential.

The fact that we have had double-digit growth as regards lending in recent years, is an indicator that the financial sector is playing its expected role in financing economic growth and has even more potential in this regard. Furthermore, banks have effectively channelled private remittances and therefore the financial sector provides the basis for employment and economic growth.

Economic growth, on the other hand, creates more favourable conditions for the development of the financial sector and will increase the opportunities of the financial sector, which, if utilized, will lead to an even greater contribution to economic development.

Economic growth will attract even more capital and investments in the financial sector, which will provide a broader basis for its further development and growth. Economic growth will enable the development of financial instruments and markets as it will also require financial intermediaries to cooperate more and this will result in reduced costs and increased efficiency.

The key role of central banks is to govern monetary policy in order to achieve price stability (low and stable inflation) and to help manage economic fluctuations. Kosovo has adopted Euro as its currency and is limited in terms of monetary policy instruments.

Due to the limited monetary policy means, the Central Bank of the Republic of Kosovo will enhance the growth and financing relationship by ensuring financial stability and enhancing macro-prudential supervision by orienting the regulatory framework towards a macro-prudential perspective.

Until now, micro-prudential regulation was intended to increase the safety and soundness of individual financial institutions. The macro-prudential approach will focus on the well-being of the financial system as a whole, which, as I said earlier, is a prerequisite for economic growth.

Systemic risk, as we all know, can have very damaging effects if it materializes. Economic growth and citizen welfare will be largely affected by the decline of financial products and services of the financial system.

These effects have been seen in the financial crisis that began in 2007. Economic recessions have affected some countries in developed economies.

Macro-prudential policies need to be developed in order to promote financial stability. If we have a stable and sound financial system we will be in a better

position to deal with the shocks of the economic crisis and to avoid the greater consequences of the financial crisis.

In order to promote financial stability in Kosovo, macro-prudential policy will focus on strengthening the banking system so that it can withstand negative movements in loan and property prices and other macroeconomic shocks. Macro-prudential policies should be forward-looking in order to reduce systemic risk as it may lead to financial distress.

CBK has chosen to follow the practices of the European Systemic Risk Board (ESRB) in decomposing this high-level objective into a set of intermediate and tangible objectives.

Within the framework of the ESRB, each of these intermediate objectives is aligned with a set of risk indicators and policy instruments that have mitigating potential with the aim to prevent excessive growth in lending and leverage, limiting the concentration of credit exposures in direct and indirect manner and reducing the possibility for systemically important banks to adopt and follow inappropriate strategies.

Macro-prudential policy will address risks that are not covered by micro-prudential supervision or other parts of the policy. If we have financially sound individual banks, this does not make the financial sector sound as well, as joint actions of banks can create imbalances within the economy and make the financial sector sensitive toward economic shocks.

Recent developments, particularly technological advancements and innovations and the introduction of FinTech companies have increased the financial integration and interconnection between banks and the real economy with the financial sector.

Moreover, it has also increased cross-border integration and is significantly expanding the scope of not only banks but also financial markets in general.

These developments emphasize and enhance the importance of macro-prudential supervision and cross-border cooperation between supervising authorities. New technologies could lead to new financial scope that could move financial services to unregulated or less regulated areas.

This is a new challenge for financial stability and requires a new approach to macro-prudential supervision in order to measure and supervise existing and emerging risks regardless of where they are generated from in the financial system.

CBK has taken important steps towards operationalizing the macro-prudential policy framework. The amending of the law for the purpose of strengthening CBK's legal basis as regards macro-prudential policy is still in process.

In the performance of its supervision duties, CBK, together with the Ministry of Finance, has established the Financial Stability Committee with the aim of Preparing for Crisis and ensuring Financial Stability.