

Honoured,

I am pleased to be here with you today to discuss and hear about a very important topic for our country's economy, and I would like to thank the American Chamber of Commerce for the invitation and to express my high considerations for businesses and their role in the country's economic development.

I believe that the topic of this conference is very good because it comes at a time when the banking sector has made great progress in improving the conditions for sustainable financing of the economy, namely businesses.

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Kosovo's banking sector in recent years has considerably increased its role in financing the economic growth in the country, accelerating the loan growth rate, and significantly reducing loan interest rates. Easing the lending standards and reducing the loan interest rates have served as important incentives for increasing loan demand, resulting in an annual loan growth of 11.6 per cent in October this year. This indicates that access to finance, which has long been reported by businesses as one of the main barriers to their business development, is now undergoing continuous improvement. This can be noticed by the growth in lending to the sectors of the economy which in previous periods had a more limited access to banking financing. According to the latest data of October 2018, the loans granted by the banking sector to businesses are in the amount of EUR 1.7 billion which, compared with the same period of five years ago, has increased by 45 per cent.

The lending structure by economic sectors has started to improve compared to the previous periods, although there is room for greater diversification of the loan portfolio in favour of the sectors that have the greatest potential to generate

economic growth. Currently, about 50 per cent of total loans issued to enterprises are represented by loans to the trade sector. During this year, the agricultural sector and the manufacturing sector were among the sectors with the highest increase of loans received. However, the total amount of loans granted to these sectors continues to be low. The share of manufacturing sector in total loans to enterprises in October was 13 per cent, while loans to the agriculture sector accounted for about 4 per cent of total loans.

Since today's topic is related to the role of the banking sector in the country's economic development, I would like to emphasize the fact that the greatest support to these sectors of the economy, but also to the other sectors with the greatest potential to generate economic growth, is indispensable in order to have a more sustainable economic development.

However, we are also aware that the diversification of the banking sector's loan portfolio depends not only on the loan supply but is largely dependent on the loan demand. In this context, I would like to emphasize that the banks have very high financial potential for further lending growth, have eased loan standards, and have significantly reduced the cost of access to banking finance. In October 2018, the average loan interest rate was 6.6 per cent, which represents a great improvement compared to previous years. The decline in loan interest rates is clearly visible in all sectors, including loans to the agricultural sector, where the interest rate decreased to 7.5 per cent, compared to 16.7 per cent five years ago; for the industrial sector, interest rates decreased to 5.8 per cent, compared to 12.2 per cent in the past; and also for the service sector, the average interest rate decreased to 6.3 per cent, compared to 11.1 per cent five years ago.

Improvement of the conditions for access to banking financing has also been noted with regard to other aspects, such as easing loan approval standards, reducing collateral requirements, and extending the loan maturity term.

However, in order to have a greater lending to sectors that currently have the lowest access to banking financing, improving the loan supply is not enough, rather it is also necessary that the demand of these sectors for loans be higher and of better quality. I would like to say that a more comprehensive approach is needed to identify and support the development of sectors of major importance for the country's economic development.

We believe that an important step to increase support to these sectors was undertaken when the Kosovo Guarantee Fund was established. So far, the total value of loans guaranteed by this Fund has reached EUR 71.3 million and has been distributed to 1,836 micro, small and medium enterprises.

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In order to have a banking sector which serves the sustainable financing of the country's economic development, the basic prerequisite is for the sector to be sustainable. On this occasion, I would like to confirm again that Kosovo's banking sector continues to be stable based on all the indicators of financial soundness. The main focus will be on the very good quality of the loan portfolio, which reflects the good credit risk management by banks, but which can also serve as an important indicator of the favourable economic environment for the operation of banks in Kosovo. In September this year, the non-performing loans ratio was 2.8 per cent, reflecting a very good condition of loan portfolio quality. There are numerous factors that have contributed to the good quality of the loan portfolio, but amongst the most important ones I consider the macroeconomic stability, legislative

developments over the last years, as is the case with private enforcement agents who have facilitated the execution of collateral and the implementation of contracts, prudential oversight by the CBK, adequate bank risk management by banks, and responsible behaviour of citizens of the Republic of Kosovo in meeting their contractual obligations vis-à-vis banks.

The satisfactory situation regarding the stability of the banking sector is also reflected by other indicators, such as capital adequacy and liquidity indicators, which have consistently exceeded the regulatory requirements and represent the high solvency of the banking sector.

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The Central Bank of the Republic of Kosovo, with all its capacities, is committed to supporting the sustainable development of the financial system by providing the entire necessary infrastructure to support the development of financial institutions and at the same time assuring that their activity provides financial stability. In this regard, we are providing the banking sector with the most modern standards of regulation and financial oversight, thus enabling the banks and other financial institutions in Kosovo to operate under the rules in force in all developed countries. Also, CBK provides the banking sector with a modern financial infrastructure. The interbank payment system, which is a modern, efficient and secure system, and the loan registry that provides banks with the most modern services in this area are good examples to illustrate the development of financial infrastructure in Kosovo.

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At the conclusion of my speech, I would like to emphasize once again that Kosovo's banking sector is in sound financial position and with continued growth of funding the sustainable economic development of Kosovo, nevertheless, greater

inter-institutional commitment is required to create the necessary conditions in order for this sector's support to the country's economy and to businesses to be even greater.

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### **The 100 per cent tax**

In principle, we support the development of free trade between all countries, but only when the principles of free trade apply reciprocally. In this respect, other countries should allow our businesses to have free access to their markets just like we allow them to freely access our market. Therefore, I consider it is time for other countries to reflect and apply the principles of free trade as a whole rather than on a selective basis because this is not acceptable to us.