

THE KOSOVO BANKER

Exclusive interview with the
Resident Representative of the IMF
Mr. Ruud Vermeulen

Banking sector supports the financing
of Small and Medium Enterprises in Kosovo

The Impact of the Kosovo Credit
Guarantee Fund on the MSME Financing

EDITION
10

Lending to Businesses:

The Importance of Financing
Small and Medium Enterprises
in Kosovo



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SHOQATA E BANKAVE TË KOSOVËS
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The Kosovo Banking Association (KBA)

is the voice of the banking industry in Kosovo. KBA cooperates with the Government, the Central Bank of the Republic of Kosovo, the media and public opinion to support a sound banking industry which promotes long-term economic development for Kosovo. KBA facilitates cooperation between the banks by offering a single platform for joint lobbying and to discuss new initiatives; identifies and influences the legal and regulatory initiatives; coordinates joint activities for banks and promotes banking activities to the general audience. The KBA Training Center operates within KBA and it offers trainings in banking and finance.

"The Kosovo Banker" is a publication of the Kosovo Banking Association. The magazine is published twice a year with the aim to properly inform the public on the banking industry in Kosovo. Kosovo Banking Association; St Lidhja e Pejes, n.n Zona Industriale, Prishtina; 10000, Republic of Kosovo; +381 38 246 171; www.bankassoc-kos.com; contact@bankassoc-kos.com.

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- Kosovo Banking Association participated in the Forum of Physical Security in Banking and the Forum on Information Security in Tirana
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Disclaimer: The views expressed in the articles of the magazine are those of the authors and do not necessarily reflect the standpoints or policies of the Kosovo Banking Association (KBA) or the European Fund for Southeast Europe (EFSE). KBA and EFSE do not have any responsibility towards the content of the articles published on the magazine "The Kosovo Banker".

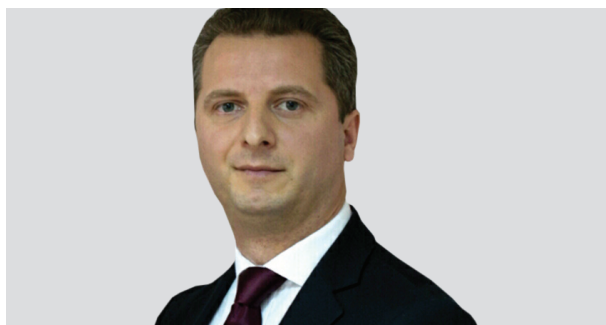


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Mr. PETRIT BALIJA
EXECUTIVE DIRECTOR
KOSOVO BANKING
ASSOCIATION

Dear readers,

I am proud to announce a very special 10th anniversary edition of *The Kosovo Banker*. It is a great milestone achieved by KBA through the help of the commercial banks of Kosovo, the authors who greatly contributed to the increase of the quality and relevance of content, the sponsors of the magazine where I would like to distinguish EFSE DF who have stayed committed to our efforts and last but not least the KBA staff who have dedicated a lot of time and effort to making this magazine a great success.

In this edition, we have had the great pleasure to have an exclusive interview with Mr. Ruud Vermeulen, the Resident Representative of IMF in Kosovo. Mr. Vermeulen has addressed some of the main questions regarding the main theme of this publication "Lending to Businesses : The Importance of Financing Small and Medium Enterprises in Kosovo" .

This topic was chosen with the intention to shed light over an issue which is very relevant to the economy of Kosovo and which is largely dependent for its development on access to finance. With the loan portfolio reaching close to 2.2 billion euro, the banking sector of Kosovo has experienced this year a great increase in lending, respectively 9.5%. This is the highest increase in the past three years which is a great contribution to economic growth in Kosovo. This is one of the greatest indicators that the banking sector is fulfilling its main role as the catalyst of economic development through financing of the real sector. Nevertheless, the largest increase of this lending was with private individuals, respectively 15.2% y/y, while only 6.8% y/y was attributed to business lending. This is not necessarily a negative development if we assume that this borrowing by households is as a result of an increase in the level of average household incomes and a general optimistic

perspective of consumers. However, this does create the opportunity to analyze whether businesses could also be more dynamic with their investments and expansion, hence with borrowing from banks. The question begs whether the real sector, specifically SMEs which comprise 90% of businesses in Kosovo, have sufficient access to financing. What are possible barriers, and what can be done to eradicate or reduce some of these barriers so that in the near future we may have a different comparative proportion of borrowing where businesses would be borrowing more than households? This and many other issues are addressed in this number and I am certain that YOU, the reader and the ultimate beneficiary of this publication, will benefit greatly from reading these articles.

I use this opportunity, on behalf of KBA and our members, to wish you Happy Holidays and Happy New Year! See you in 2017 with the next edition of *The Kosovo Banker*!!

Sincerely,

Petrit Baliija

Executive Director,
Kosovo Banking Association

Interview with Mr. Ruud Vermeulen

Resident Representative of the International Monetary Fund (IMF)

KBA: *How does the IMF assess the environment of doing business in Kosovo and the rate of economic development of Kosovo?*

Mr. Vermeulen: Kosovo has climbed up the rankings of the World Bank's Ease of Doing Business Report in the past few years, and is closing the gap with the frontier (or the best performing countries) at twice the average speed of all middle-income countries. It now ranks 60 out of 190 countries, up from 64 last year. This is a laudable accomplishment, but does not mean that Kosovo can afford to sit back and consider the job done. A lot still needs to be done to further improve Kosovo's business environment. A key bottleneck that prevents investors from flocking to Kosovo is weak governance and transparency. The perception of corruption remains high, witnessing for instance Kosovo's low score in Transparency International's corruption scorecard. In its latest report issued last month, two thirds of respondents indicate that corruption is one of the top three biggest problems facing Kosovo, one of the worst scores out of 42 countries covered by the study. Asked how their government is doing in fighting corruption, a similar percentage of respondents gave the government a negative rating. While many other international partners are focusing on strengthening the rule of law in Kosovo, our efforts have been more narrowly focused on strengthening public procurement practices, leveling the playing field and improving transparency. This entails a two-pronged strategy of (i) bringing more goods and services under centralized procurement, reducing the scope for rent seeking; and (ii) gradually rolling out electronic procurement across the public sector, and thus phasing out the less transparent "paper" bids. Other weaknesses in Kosovo's business environment revolve around judicial efficiency and contract enforcement, witnessing the significant backlog of court

Mr. RUUD VERMEULEN

RESIDENT
REPRESENTATIVE

INTERNATIONAL
MONETARY FUND (IMF)



cases. As part of the ongoing Fund-supported program, we are working closely with the authorities and other international partners to strengthen contract enforcement so as to unlock abundant credit to support the real economy. Reforms include closing legal loopholes in the Law on Enforcement Procedures, improving the fee structure of private bailiffs to incentivize collections, strengthening oversight of private bailiffs, and automatizing garnishment of debtor accounts through the central bank's unique account registry.

Turning to the rate of economic development, let me say that Kosovo has a decent growth record. Output growth has averaged more than 3 percent over the past 5 years, the highest of any country in the region. During the global financial crisis when many neighboring countries saw their economy contract, Kosovo still registered positive growth rates, supported by a steady inflow of remittances sent home by Kosovo's sizable Diaspora. Last year, the economy expanded by more than 4 percent, and we expect that this will be roughly the same this year. But here too, Kosovo cannot afford to take this growth for granted. Higher and more sustainable growth (that is, less reliant on consumption financed by remittances and more reliant on investments in the tradable sector and exports) is needed to bring incomes up to regional standards and make a significant dent

in Kosovo's unacceptably high unemployment rate. Based on the labor force survey results for the second quarter of 2016 published by the Kosovo Agency of Statistics, this is still well above 25 percent, with youth unemployment twice as high. More jobs will need to be created to absorb Kosovo's young and rapidly growing population into the labor force.

KBA: *How important is the development of SMEs to the economy of Kosovo?*

Mr. Vermeulen: Like elsewhere, SMEs provide the bulk of employment. In Kosovo, about 8 out of every 10 jobs are in the SME sector, compared to an average of two out of every 3 jobs in the rest of Europe (based on reports on SMEs by KOSME, 2014, and European Commission, 2016). Meanwhile, firms with more than 250 employees account for less than 0.1 percent of all registered firms in Kosovo. With a young and rapidly growing population, a low labor participation rate and high unemployment rate, as noted above, generating more jobs is absolutely critical for Kosovo's development. A dynamic and vibrant SME sector would help alleviate social pressures and emigration flows by providing jobs outside the public sector.

KBA: *How is the situation with access to finance in Kosovo, in particular for SMEs?*

Mr. Vermeulen: Many firms are said to be credit-constrained, with some 45 percent of all firms in Kosovo that participated in the World Bank's Enterprise Surveys in 2013 identifying access to finance as either a "major" or "very severe" obstacle to doing business. This is the highest percentage of all emerging European countries, where on average less than one in five firms indicate to be credit-constrained. It is also high relative to neighboring countries, with the percentage of credit-constrained firms ranging from less than 7 percent in Albania to about 20 percent in Macedonia. This is not that surprising, given that credit depth, or the ratio of bank credit to GDP, in Kosovo is also the lowest in the region (only 35 percent of GDP).

Turning to SMEs, due to their specific characteristics, they tend to be more credit-constrained, displayed in higher borrowing

costs and collateral requirements. This is particularly true for SMEs in Kosovo, where the percentage of all loans requiring collateral and the value of the collateral relative to the loan are the highest in Europe. In fact, more than 90 percent of all loans require collateral against an average of 78 percent for all emerging European countries and 85 percent for Western Balkan countries. At the same time, according to the same World Bank Enterprise Surveys, the value of collateral is on average three times the size of the loan, well above the average for all emerging European countries (less than two) or for Western Balkan countries (less than two and a half). A recent study assessing SME financing needs in Kosovo and the region (EIB, 2016) identifies collateral requirements as the greatest barrier to borrowing for SMEs in Kosovo. With an average NPL ratio about twice as high as the average for all loans, it is not surprising that creditors are seeking more assurances for SME loans. In addition to a lack of collateral or proper title to pledgeable assets, other key structural constraints holding back lending to SMEs in Kosovo include widespread informality, and a lack of financial statements or credit history. This raises credit risks for banks. And a higher risk premium implies higher borrowing cost for SMEs.

Things are changing for the better though. Access to finance has improved in the past few years in part thanks to the introduction of private bailiffs and other measures to strengthen claims enforcement, improvements in banking regulation and supervision, as well as in banks' risk management. As non-performing loans have decreased sharply (at 5 percent of total loans, Kosovo has by far the lowest NPL ratio of the region), average borrowing rates have fallen from double-digits only two years ago to single digits today, while banks are asking for less collateral in response to improved collections. While the average rate of 7 percent for corporate borrowing may mask the fact that rates for SMEs are still high, perhaps too high for many firms that are thus priced out of the market, the reduction in borrowing costs has trickled down to smaller firms too. Furthermore, recent policy initiatives are also helping ease credit constraints for SMEs. For instance, support in the form of grants and subsidies to the agricultural

sector are helping small farmers finance needed capital investments, improve irrigation, and increase output, making them more “bankable”. The recently created Kosovo Credit Guarantee Fund may help lower risks for banks by providing guarantees for SME loans that cover the first loss up to 50 percent of the loan, and as such spur SME lending. The €300-400 million targeted expansion in credit to SMEs over the medium term is ambitious, but if realized would significantly ease credit constraints for Kosovo’s SMEs, and help generate thousands of jobs.

KBA: *What would be your recommendations for the increase of access to finance to SMEs?*

Mr. Vermeulen: A number of measures have been identified that are expected to improve access to finance for SMEs. This includes reducing informality, strengthening accounting and reporting standards for all firms (though less arduous for smaller firms to contain compliance costs), improving the cadastral records, developing the insurance market (for instance, introduce crops insurance for farmers), etc. From our side, we are focusing now on measures to alleviate credit constraints to all firms by gradually removing key structural

impediments to credit provision. As part of these efforts, closing legal loopholes in the Law on Enforcement Procedures that allowed debtors to walk away from their debts simply by appealing to enforcement orders that then end up in the overworked court system, is a significant step forward, and one that is expected to be completed soon.

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Banking sector supports the financing of Small and Medium Enterprises in Kosovo

Banks continue to be an important contributor to the economic development and this sector remains one of the main pillars of the development of the country.

The banking sector continues to be a success story. Kosovo now has a sound banking sector with adequate liquidity, a well-capitalized and profitable sector. The banking sector has provided wide access to financing in the entire territory of Kosovo, with an extensive network of branches and a rapid development of alternative/ electronic channels, offering 24/7 access to services.

The level of loans in the banking sector reached 2.2 billion Euros in September 2016, while over 64% of loans belong to businesses.

The credit growth trend is ongoing. Only in the last nine months (December 2015- September 2016), the total level of loans has increased by 168 million Euros, the highest growth in recent years (138 million Euros in 2015, 76 million Euros in 2014).

The majority of enterprises in Kosovo belong to the SME category, small and medium enterprises (99%), and as such directly affect the economic development of the country, as they are the main source of job creation and income generation.

Statistically, in almost all countries of the region, SMEs are the absolute dominants in the economy, and represent more than 99% of all companies, having considerable impact on the growth of the gross domestic product.

In terms of a changing economic environments, SMEs are easily adaptable and flexible in the development of their activities. They easily adapt to customer requirements, being closer



to the market. These features make SMEs more attractive to the financial sector; hence, most banks offer preferential terms on interest rates and other facilities for this category of businesses, trusting their sustainability.

An essential attribute of small and medium enterprises consists in the fact that they constitute an important source of jobs. Two-thirds of new jobs belong to the small and medium enterprise sector. This, in fact shows the importance of these businesses to the economy of the country, hence the need for a greater focus of all stakeholders towards this category of businesses.

This category of businesses is oriented towards different activities, while their development is mainly supported by the banking sector.

Most businesses in Kosovo belong to the trade sector, while the main financing needs from financial institutions in this sector are for working capital, with the aim of ensuring business continuity, capacity building, and increasing competitiveness in the market. Investments in the working capital of SMEs help ensure a regular cash flow and fill gaps that may occur during seasonality changes. These are mostly short-term financing types.

Capital project financing

In order to have a long-term sustainability of businesses, it is essential that the financial sector supports and creates more favourable conditions for businesses to increase their production capacities in fixed assets, replacement of new lines of production, replacement of existing equipment with new and more efficient ones, or building the accompanying infrastructure.

An important aspect of development and financing is obviously the agricultural sector, a sector that is in line with the strategic development plan of the country. This is an important sector in Kosovo since the largest part of the population in Kosovo live in rural areas and the mobilization of financial institutions and increased investments in this sector has led a number of imported products to be replaced by domestic products.

It is worth mentioning that a number of businesses, which in the past have been limited to financing from financial institutions due to a lack of adequate collateral, or other reasons, now with the establishment of "Kosovo Credit Guarantee Fund" will have the opportunity to be competitive in business credit applications covered by this fund. The aim of this fund is to increase lending to SMEs, creating jobs, increasing local production, thus creating opportunities for business growth that will affect the reduction of unemployment and poverty in the country.

Non-financial support, in particular business advising regarding access to finance is very important, without excluding the importance of lending to these enterprises. These meetings aim mainly at identifying business needs whether for professional support by helping break down their investment plans, increasing transparency, and raising awareness for financial statements that are considered necessary for the financial sustainability of their own businesses.

The high level of informality in small and medium enterprises remains a major challenge, which prevents fair/ loyal competition. The

inclusion of as many SMEs in the formal sector remains a challenge. The level of informality affects the confidence of SMEs and financial institutions, thus limiting their access to finance and the opportunity to be financed at the level that businesses really need. This is because businesses do not always declare their correct turnover, while banks, among other things, base the assessment for financing on the financial statements that businesses present. Hence, having a high level of informal economy, credit risks are assessed to be high.

Interest rates depend on several factors besides the cost of funds; therefore, a very important factor is the transparency and business statements.

Businesses that have audited financial statements make financing and access to finance much easier; hence, the interest rates are more favourable, because the level and risk assessment is measurable. According to CBK reports, the effective interest rate on loans has marked continuous decreases, reaching the level of 6.9% for businesses (October 2016); while for businesses that have well formalized audit reports, interest rates are even more favourable.

An improvement in financial reporting standards of businesses will affect the increase in the amount of financing for SMEs. Another challenge of businesses remains the management structure and level of corporate governance. A large number of businesses do not have a well-defined management structure, being involved in many aspects of work, such as finance, sales, marketing, etc. The concentration and involvement of the owners in managing the business remains a challenge for Kosovar businesses. The separation of ownership, management, and control is still perceived as difficult in Kosovo.

Moreover, an improvement in the functioning of the judicial system will increase the confidence of banks, rapid resolution of court cases, and regular enforcement processes.

The importance of financing Small and Medium Enterprises - banking perspective

One of the most important decisions for one's business in general, and also for MSMEs (Micro SMEs) businesses in particular, are financial decisions. In this part, banks in general play a key role in fulfilment of financial requirements to complete investment plans and to run daily business, hence support the businesses in their financial requirements. Commercial banks are an important source of finance and credit for trade and industry. Credit is a pillar of development. Banks are the nerve centre of trade and industry. Banks are instruments for the development of domestic trade and foreign policy.

This support, in general, is done by various financial instruments, but in particular allowing various debts to the businesses through all sorts of financing (term loans, overdrafts, agro loans, letters of credit, credit cards), is one of the most common and effective ways of approaching business needs for financing. It was proved, through different studies around the globe, that financing of MSMEs in one country brings economic growth, including entrepreneurship, economic dynamism, linkages in value chains, human capital improvement, financial market development and societal development.

We strongly believe that financing of businesses has a major importance in the proper functionality of today's businesses in general and MSMEs in particular in today's Kosovo economy.

Today's Kosovo economy can be described as being fragile and informal. There is also still a lack of proper investments in all sectors of the economy; fiscal invasion and grey economy are at a considerable scale. All these negative factors bring instability; uncertainty in future plans of business in growing and developing further. On this part, with all of its difficulties on the way, banking sector remains one of the very few industries that businesses can always rely on. Continuous financial support and keeping the stability is one of the main aims of the businesses nowadays.

A large number of MSMEs fail due to lack of financial support, therefore simply financing them is very important due to the fact that businesses manage to survive and grow their revenues and ensure competitive place in the market by being financed. In Kosovo there are a growing number of

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private businesses that need financial support, so that they can ensure their place in Kosovo's harsh business environment. The investment supported by bank's financing would influence the growth of business itself, and in this case also the increase in working places. There is no doubt that the increase in working places would have an effect of a more stable market and well-being in Kosovo. As a result of financing MSMEs, Kosovo would grow economically; therefore the possibility to export to at least neighbouring countries would grow as well.

All of the above mentioned factors contribute to have a turbulent Kosovo business market with an unfair competition that results with highly differentiated and ad-hoc requests for finance that if not supported by banks, can lead to very tough business bottle-necks that can be fatal for the business. On the other hand, the vast majority of companies in Kosovo market, and in particular MSMEs operate in trade sector, which as a sector has particular needs for occasional support with regards to seasonality of sales, bridging the receivables, immediate needs for working capital.

Foreseeing this matter, banks have created dozens of various products to support, tailored specifically to the client's ad-hoc and immediate needs in order to by-pass these obstacles that are produced by a harsh environment that they are operating in. This includes various types of loans, limits, bank guarantees, credit cards and all other products and services related to the general needs of the company for completing their plans of investment and further development in one hand and fulfilling ad-hoc gaps in working capital and other short term needs on the other.

If we have a look at the numbers, Kosovo is a very small country with a population of approximately 1.8 Mio inhabitants and a budget of around EUR 2 BN. On the other hand, Raiffeisen Bank only, has a borrowing portfolio in business of above 300 Mio alone, and representing over 1/4 of overall banks portfolio in businesses. These figures show that banking sector covers a lot of business needs in particular and market needs in general for the Kosovo economy to function properly.

Speaking in particular for Micro Sector, crediting of Micro businesses is also important due to the fact that in most cases Micro Businesses supply the market in general and specifically SMEs and Corporates with raw material and other specific materials and tools, which would be costlier for them to get each of them individually, so all the chain of businesses in a way is supported by financing firstly Micro Businesses.

By crediting family businesses, professionals and self-employed people we help them grow their businesses, and in time they will be able to grow and to employ more workers, hence contributing case by case in decreasing the unemployment and growing the overall economy of Kosovo.

Any type of financing carries itself a dosage of hazard, however financing of businesses is very sensitive and having in mind the importance of it, banks have specialized in giving the financial support in the right amount, the right tenor, the correct purpose, altogether taking care that they do not over finance or under finance the customer needs. As we now, if we over finance the business, it will be overloaded with installments which might lead to serious problems with repayments and cause serious financial problems, and on the other hand if we under finance the business, then there is a possibility that the project or the objective of the business will not be reached and again causing serious financial problems with an inability to realize the project and get the desired revenues from the new part of business. Therefore, financing is dealt with the utmost precision and accuracy to provide the correct financial support in terms of amount, tenor, and purpose.

The financial support of businesses has two sides of beneficiaries - one being the businesses and the other being the bank, where business crediting is still one of the main business flows for the banking sector. Therefore, banks are particularly interested in growing and developing together with all of their respective clients, adjusting the overall organizational structure and strategy to match the needs and the requirements of the market. Same as businesses, in this working environment, banks need to be very dynamic and flexible to be suitable and competitive, offering qualitative and vast scope of products and services following dynamic changes in the needs of clients and market conditions.

All arguments given above, state various aspects of mutual importance of financing businesses, therefore banks, in this particular case, Raiffeisen Bank, has made further steps in ensuring proper and on time support for clients in need for finance. This is done through regular client's advising on their financial future plans by our most relevant experts spread all over Raiffeisen Bank branches throughout Kosovo, insuring together that they are on the right track of financial investment, have secured enough working capital, their time frame of investment is in place and coherent with actual client's financial need and capacity. In other words, in all related topics of their future financial plans, always having in mind theirs and our success of being a successful business. On this matter, there are special programs, processes, products, advisory tools, training of staff to ensure proper and on time advising of clients on these issues. Furthermore, on this matter, there were a lot of CSR activities and customer related projects (Customer to Customer, Best Project, Meet your Customer), all with an aim of contributing even in non-financial approach in advising and coaching the clients to make correct steps in their financial and other business related plans and efforts.

Raiffeisen Bank Kosovo has also helped large agricultural sector in Kosovo in a number of ways. Raiffeisen Bank Kosovo has opened a network of branches in rural areas to provide agricultural loans. We offer financing of agriculture for marketing their products, for modernization and mechanization of their farms, for the provision of irrigation facilities, storage facilities for fruits and vegetables, and for land development. We have also provided financial assistance for farming, poultry, fishing and horticulture. This is how we have met the credit requirements for all types of companies engaged in agriculture in rural areas.

Businessmen should have certain qualities in order to do business: be fair, be prudent, be honest, observe business ethics, have general knowledge and accuracy. These qualities, so called "commercial virtues" are essential for rapid economic progress and Raiffeisen Bank Kosovo has a key role on promoting these qualities in businesses.

To summarize the topic, financing of businesses is a critical part of proper functioning of businesses in long and short term, as well as a crucial part of daily and strategic business of banking sector. We, Raiffeisen Bank Kosovo, are proud to be part of the banking system in Kosovo, giving our contribution on supporting and developing businesses in general and Kosovo's economy in particular.

What are SME's and the importance of its financing in an economy

Small and Medium Enterprises – SME's are considered key indicators for the country's economic development, generally called the engine of the economy. SME's are mainly small individual companies founded from owned family capital and developed throughout the years.

The benefits of SME's at any economy are easily measured; they include the contribution in terms of job creation, stimulator of the sectors that include innovation and efficiency, as their small size allows them a faster decision - making process. Their contribution affects also the large companies, as outsourcers and retailers of their products and services.

But, what are SME's exactly? – The definition varies, depending on the country and region; in the US any company from a small office up to a medium and large can be defined as SME. In the European Union, a firm with 50 to 250 employees, annual turnover of Euro 7 to 40 million, total assets less than Euro 27 million, and not more than 25 % ownership by a large corporation, may be classified as a SME. The International Chamber Of Commerce (ICC) defines an SME as having 100 to 2000 employees.

As for Kosova, the real definition for SME is given in laws Nr 02/L-5 and amended in Nr. 03/L-031

- Small businesses are considered companies with the yearly turnover not exceeding Euro 500,000 and their number of employees is between 10 - 49
- Medium businesses are considered companies with their yearly turnover not exceeding Euro 2,400,000 and their number of employees is between 50-249

Referring to SME's, we are witnessing every day discussions about how important are SME's for the overall Kosovo economy, but, do SME's have the real required support from the stakeholders such as government, banks and other agencies it is still a debatable issue.

Mr. MENTOR BERISHA

MANAGER, CORPORATE
& COMMERCIAL
MARKETING
DEPARTMENT

BANKA KOMBËTARE
TREGTARE



The SME's in Kosovo throughout the years face different challenges and obstacles starting from "know how in business", access to finance, lack of collateral, and up to unfair and dynamic competition.

Apart from the political approach and their support towards SME's, the role of commercial banks in their overall development, was and is of high importance.

For many years the only access to finance for SME's in Kosovo were commercial banks through traditional banking, as their own capital never fulfilled their needs in term of increasing capacities and gaining any competitive advantage.

From its beginning the banking sector has optimized their organisational structures in order to meet SME's needs and has treated them separately due to their specifications. All commercial banks have in their organisational structures a unit or department focused solely on SME. Staff members allocated for this category of crediting was and are still being trained as per the required SME advancements throughout the years.

The banking sector in Kosova managed to create flexibility in term of financing SME's, and grace periods, irregular payment plans, flexibility in the collateral requirements were always part of SME's financing. The flexibility offered to SME's by the commercial banks allowed them to overcome investments, considered as the "next step" in advancing their business through required detailed and precise analysis.

The banks are aware of the importance on financing the SME's, due to their potential and the role they play in the chain of economic development in Kosovo.

The importance of financing SME's has a wide and cluster effect, starting from their impact in the overall GDP.

Financing SME's will continue to increase its competitiveness' in the market; they will be able to invest on the resources and in modern technology so they can compete with companies from the region and global brands in terms of quality. Furthermore, they will be able to gain competitive advantage in terms of cost efficiency.

On a daily basis, we are witnessing success stories of the local SME's becoming important players in their industries; therefore their ongoing access to finance is a key element in their operational workflow.

Considering the number of the new graduate students entering in the labour market, the powerful SME market is the first place where they can utilise their knowledge and gain experience as new comers. The SME's are becoming a competitive work-place for ambitious and enthusiastic youngsters, by competing with the sectors such as banking, other corporates, as well as public sector.

The commercial banks in general put enormous efforts for easing SME financing. Numerous agreements with the international financing agencies and international organisations (EBRD, IFC, EIB, USAID) were reached to develop credit lines in benefit of SME's. Such credit lines served as elements for financing and supporting SME's with preferential terms and conditions such as: preferential interest rates, longer maturities, and easing collateral requirements.

Lately, Kosova Credit Guarantee Fund has increased lending to SME's, and as such, it has increased the lending potential which consequently will have a positive impact.

Besides the flexibility created by the commercial banks for financing SME's, still the quality of lending wasn't sacrificed. The commercial banks are producing professional credit risk assessment in order not to misuse the positive approach towards SME's.

Despite all the efforts made by commercial banks, on the SME side there is room for improvement.

It is obvious that the SME's in Kosova need to come with more innovative ideas for doing business, they need to overcome the 'copy paste' ideas of doing business and demonstrate to the banks that they are able to implement in practice their business objectives.

They should increase their transparency in the banking sector and should analyse in more analytical way their investment projects due to the dynamic and competitive market. SME's should maintain adequate financial ratios (liquidity and debt ratio), as their debt ratios are not very favourable due to their ongoing investments.

We believe that current positive conditions (interest rates and other conditions) in the lending market are a result of joint efforts by clients and banks.

There is always room for improvement and we are confident that better and promising days are coming for SME's and for Kosovo economy in general.

There is a significant improvement by Kosova SME businesses. Their competitiveness not only in the local market but also in the region has increased, with their products and services achieving to deliver superior value to customers.

We believe that current positive conditions (interest rates and other conditions) in the lending market are a result of joint efforts by clients and banks.

The Impact of the Kosovo Credit Guarantee Fund on the MSME Financing

Why does MSME financing attract so much attention? MSMEs consist of micro, small, and medium enterprises, which individually are not market players. If we look at history, not all MSMEs become corporates with a large impact on economic development and growth. In most cases, only a few blossom, while most remain micro or small businesses struggling to survive in a harsh competitive environment. And these surviving businesses are considered to be fortunate, because the others fail to reach break-even or meet their initial expectations and are forced to shut their activities; as a result, causing no positive impact to the economy. In this context, considering the high risk of MSME failure, why do policy makers, the government, and other stakeholders engage in creating opportunities for these small enterprises?

World-wide, in most economies, MSMEs account for the largest number of businesses; and while their individual contribution to the economy may seem like a 'drop in the ocean', their collective impact is substantial. Also, MSMEs are the potential for future development – only a few become corporates; the vast majority remain small. And that is precisely why, policy makers consider MSMEs critical to the economic development. MSMEs face many difficulties in their battle to survive, but the main constraint is access to finance.

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PROGRAM



The demand for money is high. MSMEs, like all businesses need money... To better understand the situation, let's briefly analyze the demand vs supply. MSMEs prospects and development depend on the level of access to finance and effective management of the finances. In most of the studies conducted recently, in Kosovo and abroad, lack of access to finance and awareness of financing opportunities remain the greatest barriers in their development... On the other hand, the supply is rather limited. Internal sources for financing the business may not be enough; assistance by government/agencies is limited both in time and amount, the only sustainable source of financing remains lending by banks or other financial institutions, who tend to proceed with caution when lending to MSMEs and this is due to the higher risks, as well as the higher costs associated with lending to small businesses. Therefore, it shouldn't come as a surprise when lending institutions express concerns/hesitate with regards to MSME sector lending.

Looking at Kosovo's case, all the above-mentioned observations are valid; MSMEs account for the largest portion of the private sector, 99.9% of businesses are small, micro, and medium, therefore, playing a crucial role in Kosovo's economic development.

MSMEs shape the dynamism, competition, and innovation in the private sector, they serve as an important engine in creating jobs and generating income. Supporting MSMEs remains one of the most important components in economic development.

The ultimate goal should not only be simply to add a large amount of money to the market (i.e. debts through loans), the aim should be to expand the opportunities for MSME financing with adequate financial products and services that fulfill their needs during the various businesses stages. MSMEs sources of financing are: internal sources (with own or family/friend's money), debt and equity financing, and grants/subventions. In developing countries, most MSMEs start with internal financial sources at the beginning, and in medium to long term rely on debt financing (i.e. loans). This usually is not enough nor suitable for their development. The aim should be to offer suitable products and services for businesses at various stages of their evolution, combined with appropriate financing (debt, equity, etc.). Nonetheless, in many developing countries, like Kosovo, where small businesses do not even have access to the basic financial instruments and services, the intervention of the policy makers becomes a must. Encouraging the banking sector and other financial institutions to lend to MSMEs remains crucial.

Based on many economic studies and in practice, the risks and costs associated with MSMEs lending are well known. The MSME sector may be the hope for economic development, but contrary to equity investors, the interest of the lending institutions is to lend securely. Therefore not only are the risks high, but the costs for lending and oversight of the loans to MSMEs is high.

Many studies have been conducted regarding interventions and finding the appropriate tools to ease the risk and lower expenses to make MSME financing more attractive to the lending institutions. One of the preferred policy options is the introduction of credit guarantee schemes; these lower the risk of

lending to MSMEs, and also make lending to this sector attractive. Kosovo recently established the Kosovo Credit Guarantee Fund (KCGF), an independent and legally established institution. The main objective of this institution is to facilitate access to finance for MSMEs, and contribute to their growth. By reducing the risks of lending, KCGF will encourage financial institutions to lend to more MSMEs, increase the amounts of lending, expand products and services available to MSMEs, and improve the terms and conditions for lending. KCGF issues portfolio loan guarantees to financial institutions to cover up to 50% of the risk for loans. The risk coverage percentage (50%) enables an equal risk sharing between the borrower and the Fund, should the loan amount not be returned. KCGF will lower the risk of the banks and other financial institutions, thus facilitating access to finance for MSMEs for short-term and long-term loans. The obstacles that KCGF helps overcome include the MSMEs not having adequate collateral or having a limited track record and credit history.

Additionality is the foundation of the KCGF. It means that a financial institution would not have made a loan to an MSME without the guarantee in place – hence the “addition” of a new client, adding to economic growth. The KCGF will achieve additionality by stimulating new lending to target groups, resulting in an estimated increased number of new loans, money in economy, and job creation. KCGF enhances opportunities for underserved economic sectors and populations including women, minorities, farmers, entrepreneurs, and youth.

The impact of the Kosovo Credit Guarantee Fund in Kosovo's economy is high: KCGF contributes to economic development through creating jobs, increasing local production, and reducing poverty, while unlocking the excess liquidity of Kosovo's banks, an estimated amount of 600 million Euros, that remain unutilized due to the high level of risks and economic instability. MSME development is a complex issue requiring the intervention

of many stakeholders, among them policy makers, governmental institutions, as well as the business community. The KCGF is not the solution to all the MSME difficulties, rather it is a piece of the puzzle. As mentioned above, the aim is not to add amounts of money to the market, rather the goal is to offer adequate financial products and services to fulfill MSME needs.

About Kosovo Credit Guarantee Fund

The Kosovo Credit Guarantee Fund (KCGF) is an independent financial institution, established by law. The enabling Law on the Establishment of the Kosovo Credit Guarantee Fund was initiated by the Ministry of Trade and Industry, and supported by USAID|Kosovo through the EMPOWER Credit Support Program. The law

was approved in the National Assembly and signed by the President of Kosovo. It was published in the Official Gazette on January 8, 2016 and came into effect on January 23, 2016.

Kosovo Credit Guarantee Fund is governed by a Board of Directors consisting of seven (7) members. KCGF will operate as self-sustaining entity following the conclusion of the USAID EMPOWER Credit Support (ECS) Program. It reports to the Central Bank of Kosovo. Efforts to capitalize the KCGF are underway with funding commitments from the Government of Kosovo, through the Ministry of Trade and Industry, and other international donor agencies, including the United States Agency for International Development (USAID), KfW Development Bank.



Digitization of banking services is on the right track in Kosovo

On behalf of the Development Facility of the European Fund for South East Europe - EFSE DF)

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The banking system in Kosovo has undergone a rapid development, considering that after the war in 1999 there was not even a single bank or teller left. The banking industry rapidly resumed in the year 2000 and thanks to the confidence that people had in the banking and microfinance system and the diligence they showed in their investment policies, the financial industry progressed significantly in the following decade. In a post-conflict country such as Kosovo, microfinance institutions proved to be crucial as they improved access to credit for microenterprises and underserved households. At first, the Kosovo microfinance institutions were donor driven and then rapidly evolved into financially-sustainable microcredit organizations (MCOs) and banks.

As time went by and the economy developed, the flow of goods increased in volume and banks started to feel the need to modernize their services and facilitate the procedures for banking transactions. The introduction of ATMs and points of sale and the establishment of the Electronic Interbank Clearing System (EICS) was a first step in this process. The EICS is a web-based platform which allows interbank payments, providing clearing and settlement of interbank payment transactions. This contributed to promoting money transfers executed through points of sale, ATMs, and later on, cable channels, internet, mobile phones and stored-value cards.

In 2005, all of the 10 commercial banks in Kosovo, licensed by the Central Bank of Kosovo (CBK), have introduced e-banking and m-banking services - defined as the execution of banking services through the use of mobile phones or tablets and payments via internet - and all are showing good results. According to the study "Digital Banking

Services in Kosovo" conducted by the Center for Strategic and Social Research (STRAS) and PHB Development with the support of the EFSE DF in cooperation with the Kosovo Banking Association in April 2016, some banks have transacted a significant part of their turnover through e-banking. Indeed, digitalisation represents a unique opportunity to gain more revenues (with increased product holding and transactions frequency) while significantly decreasing transaction costs. Mc Kinsey estimates that the cost of a transaction executed through e-Banking is 43 times lower than a transaction at a branch. This motivates banks that are lagging in digital investments to consider adopting the latest trends in electronic banking services.

According to Ibrahim Rexhepi, the Executive Director of STRAS, e-banking is on the rise in Kosovo, with increasing number of users and transactions. There were about 188,000 active e-banking accounts in 2015, which represents a 18% increase compared to 2014 and a 42.5% increase compared to 2013. This can, however, be considered rather marginal considering the total population of 1.8 million people. Hence, e-banking services still have a long way to go to meet their full potential. This is even more true for businesses, as less than 20% of e-banking accounts are business accounts¹. The domination of the "culture of cash" remains a big obstacle to the process of digitization. Hopefully, the quality of internet access and the over one million internet users may transform into a catalyst to the development of digital finance.

¹ "Digital Banking Services in Kosovo", PHB Development and STRAS, April 2016.

The Central Bank of Kosovo is also doing its part to improve the country's banking environment. In 2009 it introduced a strategy for developing a National Payment System which should introduce new electronic payment instruments such as priority payments, individual and mass payments, KOS-GIRO (through which customers can pay their bills) and direct debit. To support this, the CBK has been working on establishing a National Agency of Payment Processing, which should shorten the transactions processing time and reduce the costs. In parallel, financial institutions continue to invest in expanding their delivery channels through digital technologies to impulse the use of electronic payment channels. This seems to be working, as the number of cards with electronic services is increasing: at the end of 2015, cards with a credit function increased by 67.5% compared to 2014². Financial stakeholders and banks are also putting efforts in training clients on e-banking services. The Kosovo Banking Association, which is the voice of the banking industry in Kosovo, cooperates with the government, the Central Bank of Kosovo, international organizations and the civil society to support the banking system, open-up to fair competition and promote financial education and literacy for banking clients.

To improve in the field of digital finance, Kosovo could learn from its neighbours. As a matter of fact, Southern and Eastern European countries are mostly mature mobile banking markets, with plenty of digital initiatives and opportunities for growth. A good example would be the digital success story in Poland of mBank. Established in 2000, mBank introduced a complete digital transformation of insurance delivery to retail and SMEs. It offers an omni-channel environment, accessible through internet, mobile, phone or video. The entire process can be handled electronically. Another example would be Opportunity Bank Serbia, which successfully implemented a Digital Field Application: the Android application, installed on tablets – that allows loan officers to capture client and loan details directly onsite.

In Central and Southern Europe, partnerships between banks and mobile telecom operators (MNO) are increasingly happening to address relatively low adoption rates of online and mobile banking. For example, Telenor Banka and Asseco SEE (the largest operator in

Southeast Europe) have teamed up to develop a customized loan offer created from data derived from two different companies, a complete end-to-end solution for banking and a fully automated process to support the development of new products.

These success stories show how going digital can benefit financial institutions and their clients. However, we need to be careful, as efforts and investments in digital channels are not the only key to success. The banking sector has to increase the diversity and personification of products, services, and also improve their credit activity. A deep understanding of customers and macro trends is a condition to be able to unlock the benefits of digitalisation. Nowadays, adopting a customer/human centric approach (i.e. putting the customer first in the design process) is also considered as a best practice. This needs to be accompanied by further efforts on behalf of the banks to familiarize people with digital services. An option to support this effort would be to establish digital financial education programs in coordination with universities. The Government could encourage these initiatives by supporting internship positions for university students in banking institutions. Furthermore, work by the Central Bank to provide an enabling regulation, such as promoting the interoperability of banking cards, would be an important stepping stone to encourage commercial banks to improve their information technology systems to make digital payments more accessible to their clients and increase overall usage.

From a technological perspective, banks have to take into account a few other success factors, such as investing in (cyber)security, assessing new security means (such as crypto technologies or e-identification), leveraging big data and advanced analytics to inform their credit decision. Finally, as shown in this article, seeking alliances and/or partnerships with FinTech companies and start-ups would help "traditional" financial institutions to be on the hedge of technological development and innovations.

² Publication of the Kosovo Banking Association, Banking periodic – Overview of the financial sector in Kosovo, December 2015.

Professional Receivables Collection

In the last thirty years in Europe and all over the world, companies of different industries and sectors (banks, financial institutions, public utility companies, telecommunications companies, commercial enterprises and SME) are delegating their receivables collection activities to professional specialized companies for receivables collection (collection agencies).

The successful management and execution of the collection process should involve dedication of a variety of human and technical resources, as well as implementation of adequate collection systems and implementation of training activities for continuous development and generation of new knowledge and practices in the field of receivables collection. For best possible and successful collection process, the decision for entrusting the collection activities to an external agency should be supported by the decision for selection of the real partner in the process, or, for selection of the most adequate professional collection agency. The market conditions in most countries allow for relaxed procedures for setting up of companies that deal with receivables collection, but this does not necessarily mean that they provide services at the quality level adequate for sensitive industries as the banking, telecommunications or the commercial industry. The experience in the field shows that the collection process is very sensitive and requires the highest level of professional treatment of the clients and their respective overdue clients, in order to achieve the goal, yet at the same time ensure the maintenance of positive relations among the involved parties. The work of a serious receivables collection agency must be based on the highest moral and ethical standards of conduct, in compliance with the legal regulations of the country in which it operates.

In the process of selection of a professional collection agency the basic characteristics that should be recognized are the following:



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BOSEVSKA**

MANAGING DIRECTOR

EOS MATRIX L.L.C.
KOSOVO BRANCH

* The agency should be a part of international company so that it can build up and rely on the stability and knowledge from the international environment and the understanding of the receivables collection topic

* It should work in accordance with the laws, regulations, rules and client requirements regarding data protection, which is supported by the implementation of the relevant standards as ISO 20000-1 : 2011; ISO 27001 : 2013

* It should have a long-term accumulated 'know how', which enables fast and efficient implementation of the process and establishing of the best collection practices, fully aligned with the Client's policies

* It should have strong organizational structure, which involves the required work positions for quality implementation of the required activities as the following:

- Strong operating structure of dedicated resources dedicated solely to the receivables collection activity, that is, trained staff with specific knowledge in the field of communication and negotiations,
- Analytics unit that ensures adequate responsiveness in the provision of the required reports and analyses,
- Strong IT support and stable database which includes a system for monitoring and registering of the collection process and successful implementation of the defined operating strategies,

- Mechanisms for monitoring and training/retraining of the agent structure and the management team,
- System for implementation and control of the existing code of conduct and operation.

In EOS Matrix L.L.C. all activities are directed towards professional receivables collection. As member of the EOS Group that is a leading brand in the field of professional receivables management our company in Kosovo offers its' clients complete satisfaction of their needs for modern and effective collection of their receivables based on most recent models.

We are operating in three main areas as our key focus:

By ongoing collection we are processing collection of secured and unsecured receivables owned by our clients.

By debt purchase we undertake the receivables from our clients, thus also fully undertaking the risk of non-collection.

Based on the model Business Process Outsourcing, the clients decide to fully assign the receivables collection process to EOS in order to focus on their core functions and business expansion.

The receivables collection process is specifically designed for each client individually, in accordance with the specifics and characteristics of the relevant portfolio, the nature of the relevant receivable, its age, the client's preferences, and all in the direction of carrying out a successful collection process. The procedures undertaken by EOS are consolidated with the clients' procedures with the aim of collecting the receivables, at the same time raising the awareness of the users that are overdue in the servicing of their obligations about the importance of observing the deadlines, as well as about the benefits of the timely repayment of their debts, in order to keep their client status with our clients. Successful operating practices and processes for collection of receivables are constantly being implemented, in a fully controlled work environment, with continuous monitoring of all work activities.

Acting as a professional collection agency our ultimate goal is realization of successful collection percentages for our Clients, at the same time minimizing the negative effects of the collection process (possible criticism, dealing with complaints etc.).

We are convinced that banking, telecommunications and insurance sector, together with the public utility companies in Kosovo are searching for a reliable partner with extensive experience in receivables management.



The state and prospects of the euro area recovery

Speech by Mario Draghi, President of the ECB, at the European Banking Congress, Frankfurt, 18 November 2016

Since the onset of the global financial crisis, 2016 has been the first full year where GDP in the euro area has been above its pre-crisis level. It has taken around 7.5 years to get there.

The economy is now recovering at a moderate, but steady, pace. Employment has grown by more than four million since its trough in 2013. And the recovery has become more broad-based, with less difference in economic performance across countries.

What we have now to ask is what are the factors that have allowed the recovery to gather steam, and whether we have reason to believe that they are sufficient to deliver a sustained adjustment in the path of inflation.

We have witnessed many encouraging developments, not least the healing of the euro area banking sector, which has allowed credit

growth to turn positive again and monetary policy transmission to strengthen. This is a necessary condition for a full return to macro-economic and price stability.

But despite the uplift to prices provided by the gradual closing of the output gap, a sustained adjustment in the path of inflation still relies on the continuation of the current, unprecedented financing conditions. It is for this reason that we remain committed to preserving the very substantial degree of monetary accommodation, which is necessary to secure a sustained convergence of inflation towards level below, but close to, 2% over the medium-term.

What I would like to do in my remarks today is explain these perspectives – the factors that have put the euro area economy on a stronger footing, but also the reasons why we cannot yet drop our guard.

Growth rates of real GDP and employment in the euro area since 1999



Sources: Eurostat and ECB calculations.

New factors making the euro area economy more robust

The first development that gives us comfort is the improving solvency of the banking sector.

We need a strong banking sector to support the economy through the recovery. But if there is one lesson we can draw from the past decade, it is that to be genuinely robust, the banking sector must be well-regulated. Indeed, there is a widespread agreement that one of the main causes of the global financial crisis was the excessive deregulation of the financial sector in the previous two decades.

The financial origins of the crisis explain in turn the slowness of the economic recovery. Banks that overextended credit in the upswing had to clean up their balance sheets and strengthen their capital. Firms and households that took on excessive debt had to deleverage. And that combination depressed both credit supply and demand.

So the re-regulation of the financial sector is in fact a part of the growth agenda. And major progress has now been made in redressing the mistakes of the pre-crisis era.

The global regulatory agenda, steered by the G-20, has made the sector considerably more robust in terms of capital, leverage, funding and risk-taking. Common Equity Tier 1 ratios in the euro area have improved substantially, rising from less than 7% for significant banking groups in 2008 to more than 14% today. Leverage ratios are now close to 4% for large banks. The Liquidity Coverage Ratio was implemented last year, and most euro area banks are already complying with the Net Stable Funding Ratio ahead of its implementation in 2018.

It is true that this regulatory agenda, which has evolved profoundly in its design over the past eight years, may also have created some uncertainties, for instance over steady state

capital levels, which are reflected in bank share prices. Indeed, uncertainty over future capital requirements can give rise to a risk premium, which weighs on banks' cost of finance and acts as a deterrent to expanding activities or supplying credit to the economy.

So now is the time to finalise the regulatory agenda and enter a period of stability. The focus should be on implementation, not on new design. Regulatory measures should be implemented in a balanced way that ensures a level playing-field globally. And while marginal adjustments are possible, there should be no rolling back on what has been decided.

Re-regulation has led to welcome improvements in bank solvency. Meanwhile, asset quality has also improved. The non-performing loan (NPL) ratio has been decreasing in the euro area, even if modestly. Critical in this context was the Comprehensive Assessment of bank balance sheets – including an asset quality review of great depth – which encouraged banks to frontload the strengthening of their balance sheet. While NPLs remain high in some countries, the problem today is more related to profitability than to the robustness of balance sheets, since coverage ratios are close to 50% and much of the remainder is collateralised.

All this progress has gone hand-in-hand with a steady economic recovery. Increased banking sector resilience has helped shield the recovery from external shocks and sustain its internal momentum. The banking system has been able to weather, among other things, the crisis in emerging market economies, the collapse in oil and commodity prices, and the consequences of the UK referendum. And healthier banks have provided the necessary supply of credit to maintain the pace of the recovery.

The easing in credit supply conditions has been visible in both lending rates and lending volumes. Since mid-2014, bank lending rates

have fallen by almost 100 basis points for both euro area households and corporates. Small and medium-sized enterprises have benefitted from even larger declines. Lending volumes, in turn, have posted positive growth rates for households since end-2014, and for non-financial corporations since the last quarter of 2015, following multi-year declines.

And financing conditions have improved in capital markets too, which has been followed by a pick-up in corporate bond issuance.

This credit reversal has in turn supported a second benign characteristic of the recovery: the fact that it has become increasingly driven by domestic sources of growth.

Domestic demand has now replaced foreign demand as the main driver of growth. Over the past two years, domestic demand has on average added more than a percentage point to GDP growth, supported by very accommodative financing conditions. By contrast, net exports, which were a key growth engine for most of the crisis period, have barely contributed to GDP growth since end-2013 as the global environment has deteriorated.

This shift in the composition of growth is important, from an inflation perspective, since it makes the recovery in the euro area less vulnerable to external shocks. Indeed, domestic strength has helped insulate the euro area against recent global weakness, which otherwise would have dragged the recovery off track – and with it, the expected pick-up in the path of inflation.

The domestic picture is also contributing to a third encouraging development: the strong rebound in employment. This has been driven by a striking reconnection between GDP and employment growth in recent years.[1] The temporary post-Lehman rebound in 2010-11 was essentially a jobless recovery. The current recovery, however, has reduced the unemployment rate from more than 12%

in 2013 to 10% today. And, besides lower unemployment, the overall labour force has expanded as well in recent years, reflecting increasing labour participation rates.[2]

A faster return to full employment – or what economists call the “non-accelerating inflation rate of unemployment” – is clearly supportive of price stability, since it heralds a tighter labour market and stronger wage pressures. And while those pressures might be somewhat offset by the increasing number of people entering the labour force as the recovery strengthens, a larger workforce will ultimately support both supply – by raising potential growth – and demand.

With strengthening labour market prospects, existing employees can be reassured of their earnings prospects and revive their spending plans with greater confidence; and new recruits can satisfy some of the pent-up demand they accumulated while unemployed. The elasticity of aggregate consumption to new hires is particularly large. As such, these labour market trends represent a key factor in preserving growth and inflation momentum in conditions where global demand may become a less dependable engine of growth.

Factors warranting prudence

We have therefore every reason to be more confident in the strength of the recovery than we were one year ago. But we cannot be sanguine over the economic outlook.

Besides the geopolitical risks that remain prevalent, there are indeed three factors that warrant caution: the profitability of euro area banks, the relative weakness of inflation dynamics, and the dependence of the recovery on accommodative monetary policy.

Even though the euro area banking system is today more resilient, its profitability remains a challenge – one that is weighing on bank

share prices and raising the cost banks face when raising equity. There has in fact been a negative gap between euro area banks' return on equity and their cost of equity since the 2008 financial crisis. While the level of bank equity prices is not per se a matter for policymakers, insofar as it raises financing costs for banks, it could ultimately curtail lending to the real economy and hold back the recovery.

One of the factors weighing on profitability is the low growth and low inflation environment, which translates into lower levels of policy interest rates. But legacy and structural challenges are also at play, which banks and policymakers can and should address.

Where the legacy stock of NPLs is depressing profitability, key is to create an environment where the resolution of bad loans can be accelerated. And where profitability is being affected by structural issues, such as overcapacity and inefficient cost structures, rationalisation and consolidation must form part of the answer. Indeed, such inefficiencies may have been exposed by the low interest rate environment, but they have certainly not been created by it.

A second reason to remain alert is that despite the recovery in growth and employment, the persisting output gap is still keeping inflation dynamics weak. The October inflation rate stood at 0.5%. While this marks the highest level recorded in almost two years, it remains far below the ECB's objective. And while we expect headline inflation to continue rising over the coming months, much of this increase will be driven by statistical factors related to the mechanical unwinding of the extreme oil price declines a year ago. We do not yet see a consistent strengthening of underlying price dynamics.

Our objective is – and will remain – a rate of inflation below, but close to, 2% over the medium term. Going forward, our assessment will depend on whether we see a sustained

adjustment in the path of inflation towards that objective. And that means that inflation convergence towards 2% is durable, even with a reduction in monetary accommodation. Inflation dynamics, in other words, need to be self-sustained.

And this brings me to the third factor which calls for prudence over the outlook: the fact that the euro area recovery still relies to a considerable degree on accommodative monetary policy. The recovery in credit is being facilitated by a more resilient banking sector, but the impetus comes from our monetary policy.

Our measures and their effective transmission underpin our outlook for growth and inflation. According to staff estimates, our measures will raise the inflation rate by more than half a percentage point, on average, over 2016 and 2017. And they will contribute to increasing real euro area GDP growth by more than one and a half percentage points cumulatively between 2015 and 2018. In other words, monetary policy remains a key ingredient in the reflation scenario we foresee for the euro area in the coming years.

Conclusion

So even if there are many encouraging trends in the euro area economy, the recovery remains highly reliant on a constellation of financing conditions that, in turn, depend on continued monetary support. The ECB will continue to act, as warranted, by using all the instruments available within our mandate to secure a sustained convergence of inflation towards a level below, but close to 2%.

We also have to recognise that we operate under a still significant degree of uncertainty. Whether the economic recovery becomes more solid, and how quickly inflation dynamics become more self-sustained, depends not just on the current monetary policy stance, but

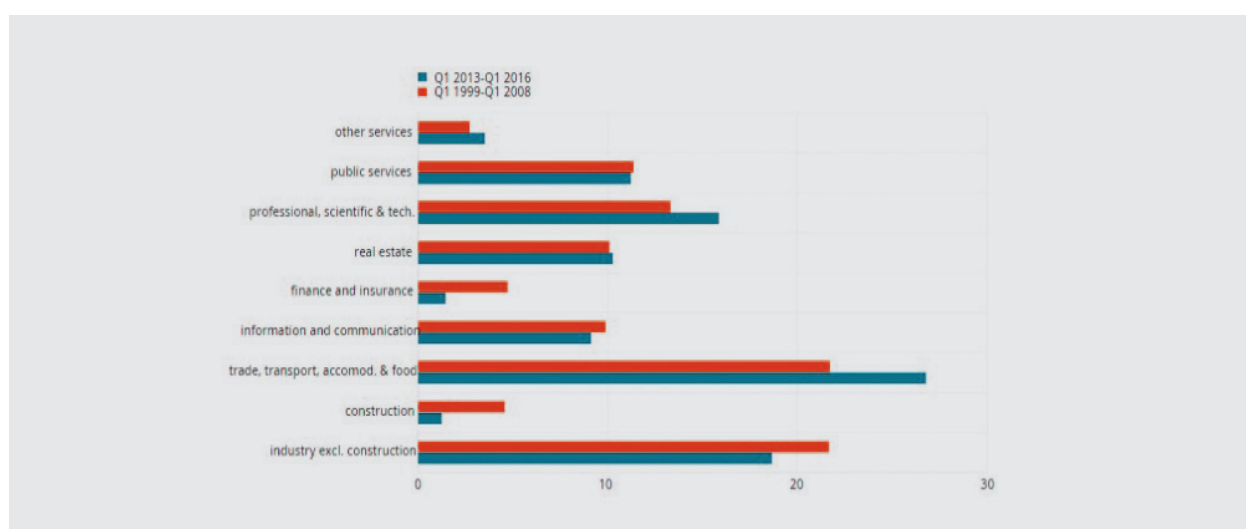
also on other policies, as I have discussed on several other occasions. Restoring a sense of direction – and therefore confidence – would be the simplest and yet most powerful way to deliver economic stimulus.

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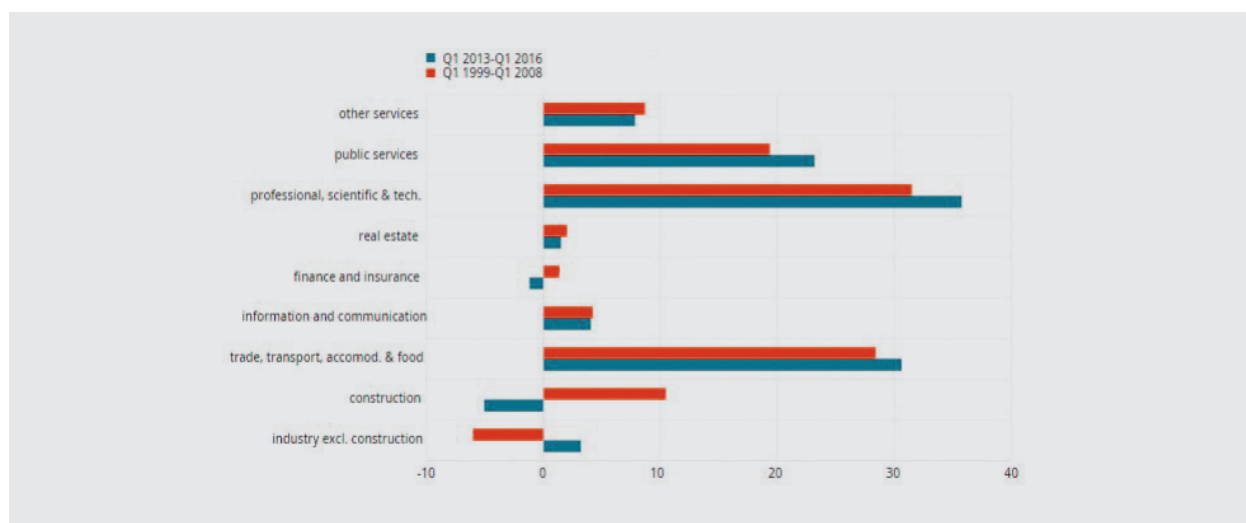
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Cumulative value added growth by sector over the recovery and pre-crisis



Source: Eurostat and ECB calculations.

Cumulative employment growth by sector over the recovery and pre-crisis



Source: Eurostat and ECB calculations.

A two-day workshop session: “Workshop on the possibility of involvement of stakeholders in financial education” was held from CBK in collaboration with CYFI and KBA



The Central Bank of Kosovo in cooperation with the international organization Child El Youth Finance International and Kosovo Banks Association is holding a two-day workshop with the theme: “Workshop on the possibility of involvement of stakeholders in financial education”, in which are participating all financial institutions and various public institutions in Kosovo. In this workshop, strengthening financial literacy is considered useful not only for citizens, for consumers, groups of interest, pupils, students and other categories, but also to the countries’ long-term interests and economic growth.

Governor of the CBK, Mr. Bedri Hamza, thanked the participants for their presence and cooperation, stressed out that one of the strategic objectives of CBK is to promote a sound development of the financial system in Kosovo and further develop the function of financial education in order to create a proper financial culture, which would help all stakeholders to take the appropriate decisions.

He stressed that the issue of financial education occupies a special role in the agenda of regulators and financial institutions. “The sector of financial services has a powerful role in creating new jobs, easing the vital infrastructure and in bringing sustainable economic development and sustainable economic growth of the country,” said Governor Hamza.

“Building a safe and proper environment for provision of financial services is one of the main strategic goals of the CBK, which has developed

its own strategy for consumer protection, that focuses on providing assistance to users of financial services to take decisions by being informed correctly and in time to protect their rights”, added Hamza.

Services and products of financial sector affect the lives of every citizen of Kosovo, therefore CBK encourages all financial institutions in building a financial market that treats customers fairly, encourages financial inclusion, but also helps citizens in the effective use of financial services. “Good management of finances is not good only for the citizens, but has also a positive effect on the long-term interests of the country and has an impact on economic growth. CBK is committed to contribute to economic growth and to work towards increasing the quality of the entire financial sector and above all to contribute to consumer protection,” said Governor Hamza. Petrit Balija, chairman of the Kosovo Banking Association (KBA), spoke about a study conducted jointly with the World Bank from which has resulted that citizens of Kosovo are good money savers.

“A positive indication of this survey is that 71 percent of respondents showed to be interested in financial education and receiving trainings and more knowing about financial education,” said Balija. According to him, Kosovo Banking Association has held a financial education activity including a two-year project with the World Bank, which aims to educate about 3 thousand citizens through various seminars.

Karina Avakyan, representative of the Child and Youth Finance International Organization (CYFI), stressed that such trainings for financial education are eligible. Expressing her appreciation for this collaboration among others she said "I am glad that your children are already receiving such trainings".

"These trainings have started at different times, in different countries and is expected to bring a better economic future", she stressed.

During the two-day workshop many different topics were discussed on financial education manners such as: Principles of national financial education strategy, international examples of financial education programs for youth and adults, youth finances, the involvement of institutions, etc. At the end of the workshop all participants received a certificate.

The conference "Digitalization of banking services" supported by the EFSE DF was held



A study shows that Kosovo's banks have applied international best practices to their ongoing digitalization process to vastly improve retail services, resulting in quick, easy, cost-free and 24-hour access to accounts and allowing customers to conduct transactions wherever they have internet access.

The study was unveiled at "The Digitization of Banking Services in Kosovo", a conference organized by the Kosovo Banking Association (KBA) in cooperation with the Development Facility of the European Fund for Southeast Europe (EFSE DF). The KBA initiated the study, which was sponsored by the EFSE DF and conducted by the Center for Strategic and Social Research (STRAS) and PHB Development.

The conference featured representatives from the Government of Kosovo, the Central Bank of the Republic of Kosovo and commercial banks,

microfinance institutions, non-banking organizations and various business and industry associations.

The study's findings on sector digitalization and its effects serves as a reminder of how the application of information technology in the banking system creates opportunities and advantages for banks and their clients, the residents of Kosovo.

In his opening remarks, Petrit Balija, executive director of the KBA, emphasized that commercial banks in Kosovo are making continuous investments to increase and facilitate access to banking services. This is becoming possible due to the great support of many stakeholders who have drafted developmental strategies that are leading to the reduction of the use of cash and the increased use of digital and electronic banking services in Kosovo. In particular, he expressed special thanks to the EFSE DF for supporting the study and cooperating in the organization of the event.

Central Bank of Kosovo Deputy Governor Fehmi Mehmeti told attendees the banking system in Kosovo continues to be stable and liquid. He explained that the growth in the credit sector has been encouraging and shows the involvement of banks in supporting economic growth.

Ilir Aliu, Chairman of the Board of Directors of KBA presented an overview of the current situation in the financial system. According to Mr. Aliu the significant growth of all indicators, such as deposits, lending is very important but also the rapid decline in interest rates on loans.

"It must be said that the great profit that banks have, has not been achieved at the expense of clients, but by reducing costs and overall expenses and increasing the volume of services", emphasized Mr. Aliu.

Additional presenters reveal further findings from the study, and a panel of experts discussed the developments. Ibrahim Rexhepi, the Executive Director of the Center for Strategic and Social Research (STRAS), served as moderator, and panellists included Robert Wright from the banking sector, Kosovo Central Bank Deputy Governor Fehmi Mehmeti, Deputy-Minister Besa Zogaj-Gashi from the Ministry of Economic Development, ProCredit Bank Kosovo Board Member Eriola Bibolli, and Venera Hoxha a representative of Finance in Motion, which advises the EFSE DF.

Rexhepi presented one part of the study showing that Kosovar banks are successfully keeping up with development trends in digitalization despite having less experience than other countries. This trend was visible mainly in the improvement of bank services, which are focused on easy and unlimited account access for clients.

"All banks have already engaged in digitalization and offer clients mobile banking services through mobile applications and text banking. To reach this level, banks have prepared the entire legal and institutional framework, as well as a high level of monitoring," Rexhepi explained.

To illustrate this development, he noted that in Kosovo, there are nearly 188,000 active e-banking accounts -18 per cent more than in 2014 - through which 2.3 million transactions are made. This represents a 5.7 billion euro turnover which comparing to a year ago is 36.5 percent more.

Of the more than one million cards in the market, almost 835,000 are debit cards, according to the KBA. In 2015, 16 million retail transactions were completed; most were withdrawals from ATMs and payments through POS terminals.

In the panel discussion, Robert Wright, Vice Chairman of the Board of Directors of KBA said

that initially should ask whether Kosovo is ready for these services. Several years must past until the society will fully accept digital services, as it is a serious challenge.

"The digitization of banking services brings revolutionary changes. I think that Kosovo is ready for this process, said Wright.

Then, Fehmi Mehmeti, Deputy Governor CBK provided a response to the formation of National Agency for processing and the commitment of the CBK to advance banking services.

"CBK has taken the initiative to establish National Agency for processing, which will reduce the cost of services and it will cut the cost of transactions, namely payment. We will continue further in this direction, since very soon we will have the tender for this matter," said z. Mehmeti.

Deputy-Minister Besa Zogaj-Gashi, from MED introduce the efforts being made by the Government in the development of information technology, which has great influence in promoting banking services.

"We have developed a strategy for information technology, but also we have the government program, which gives special importance to this issue. This is important, since businesses are oriented towards its use, we have new-aged population, every day more and more people are trained for advanced markets, but we also have a high degree of internet penetration and a large number of users, said Deputy Minister Zogaj-Gashi.

Meanwhile, Venera Hoxha, the representative of Finance in Motion- advisor to EFSE DF underlined the achievements in Kosovo compared to the countries of the region.

"Compared with the countries in the region, Kosovo is not in lower position in terms of the banking system, but it is far from developed countries. Meanwhile, the education or preparation for digitization must start from the young age group. In Kosovo there are one million internet users, while we have only 200 thousand users of e-banking, it shows there is room for the development of digital services, said Ms. Hoxha.

Eriola Bibolli member of the Board of Directors of ProCredit Bank highlights the impact that the digitization of services has had on the overall development of banks. She noted that technological developments have urges banks to digitize their services. This brings economic benefits, such as cost optimization and more efficient services for the customers.

"Currently, Kosovo meets all requirements for digital services with the highest European standards. Indeed, digitization has affected not

only customers, but also banks, which have made changes to comply with these requirements, stressed Ms. Bibolli.

During the discussion were raised many questions about the banks care about customers, about the

truth for virtual money and cybercrime, banking facilities and products intended for the Diaspora and the need for government institutions to be equipped with POS terminals, in order to offer the opportunity to pay via card.

About the EFSE DF

The Development Facility of the European Fund for Southeast Europe (EFSE DF) was created in 2006 to support the fund's development finance mandate. It deploys effective, targeted and innovative technical assistance to maximise the impact and extent of the Fund's development finance mandate in target countries. The services of the facility encompass capacity building and training, financial sector support and applied research with the aim to strengthen the internal capacities and operations of the fund's partner lending institutions.

The facility operates independently from the fund in a fiduciary arrangement under Luxembourg law. The Development Facility Committee, comprising members nominated by KfW Development Bank, the Swiss Agency for Development and Cooperation, the development bank of Austria OeEB, and the Dutch development bank FMO, is responsible for assessing and approving all project proposals and providing strategic guidance to the facility.

About the European Fund for Southeast Europe

The European Fund for Southeast Europe (EFSE) was initiated by KfW Development Bank with the financial support of the German Federal Ministry for Economic Cooperation and Development (BMZ) and the European Commission. It aims to foster economic development and prosperity in 16 countries in Southeast Europe and the European Eastern Neighbourhood. As access to finance is a key to successfully developing micro, small and medium enterprises (MSMEs), the fund seeks to improve the ability of local financial sectors to ensure adequate and sustainable financing. Although it offers funding for private households in the form of home improvement loans, the EFSE primarily provides long-term finance for MSMEs. Funds are channelled to these loan customers through local partner lending institutions.

Initiated by KfW in 2005 from four multi-donor programs under its management, the EFSE was the first public-private partnership of its kind and the first privately managed fund in development finance to leverage private funding for MSME finance in the target region. Oppenheim Asset Management Services S.à r.l., Luxembourg acts as the EFSE's Fund Manager and Finance in Motion GmbH, Germany as Advisor.

For more information about the European Fund for Southeast Europe, please visit:
<http://www.efse.lu/>

Kosovo Banking Association participated in the Forum of Physical Security in Banking and the Forum on Information Security in Tirana

In September, respectively in October 2016 Kosovo Banking Association represented by the Chairman and Vice Chairman of the Security Committee participated in the Forum of Physical Security in banking respectively Information Security Forum.

Forum of Physical Security in Banking was held in two sessions which addressed topics such as: Inter-institutional cooperation for increased security and protection in the banking system, Triangle of Security; Issues and trends in the physical security services; The efficiency of use of electronic protection and benefits from the use of advanced technology, insurance costs; storage of information in communication, etc. Guests from Kosovo brought the experience of banks in Kosovo for physical security and transportation of monetary values. This forum was held on September 21, 2016.



On the other hand, the Information Security Forum was held on October 13, 2016, in the month of security as announced by the European Union (awareness raising campaign by the EU country that promotes cyber security).

The event was organized in three sessions during which the participants discussed and debated in various panels on the latest challenges in the field of information security and digital banking, threat evolution in technology, response procedures in the evolved threat conditions

Kosovo Banking Association hosted the participants of the International Summer Academy

Kosovo Banking Association (KBA) on July 12, hosted the participants of the International Summer Academy. The participants of this Academy had the opportunity to get informed about the work and the mission of KBA. They were introduced to the staff, departments of KBA, Training Center and the projects that are being developed by the Banking Association.

It is worth noting that the Kosovo Banking Association has also contributed with professional support for the International Summer Academy by holding a lecture for the participants. The lecture on the topic



“The performance of the banking sector” was held by the Executive Director of the Kosovo Banking Association Mr. Petrit Balija. This Academy is organized by UBT College.

First cooperation between EBRD and the Kosovo member of NLB Group



Prishtina, July 25th, 2016 - EBRD is beginning the cooperation with a new bank in Kosovo, NLB Bank Prishtina, with a 5 million Euro credit facility under EBRD's Trade Facilitation Program (TFP). NLB Bank Prishtina will use the program to help small and medium-sized enterprises (SMEs) trade across borders. This is the first EBRD cooperation with NLB Bank Prishtina.

The project was signed during a visit of the EBRD President Sir Suma Chakrabarti in Prishtina. The President said "Cross-border economic integration is one of EBRD's strategic priorities, and cross-border trade is especially

important for Kosovo and the Western Balkans region. I am happy that we are beginning our cooperation with NLB Bank Prishtina for this goal".

Albert Lumezi, President of the Management Board of NLB Bank signed the project on behalf of the bank. He said, "Through the TFP agreement, the bank will have a greater opportunity to cooperate with more correspondent banks, which will enable our clients to gain expertise in new markets and build relationships with its counterparts around the world."

Banka Ekonomike - Golden sponsor of the humanitarian action “Let’s Dance”

As a Gold sponsor, Banka Ekonomike this year also supported the humanitarian action “Let’s Dance” organized by the Foundation for Mother and Children, held on September 22nd, 2016. The purpose of this humanitarian action is that all the funds raised go to help mothers and children. This donation is part of the continuing commitment of Banka Ekonomike to raise awareness and social responsibility in our society.

Banka Ekonomike
Thinking of you!



BPB wins the award “Fastest Growing Commercial Bank” and “Best Corporate Social Responsibility Bank in Kosovo” for 2016

BPB proudly announces that it has won the Fastest Growing Commercial Bank and Best Corporate Social Responsibility Bank in Kosovo in 2016. Awards are given by the prestigious Global Banking and Finance organization, which is one of the leading publications in the world, specialized in the review of banking performance and is read in over 200 different countries.

Mr. Arton Celina, BPB's Chief Executive Officer, said 'We are a local bank seeking responsible and stable growth and these two awards demonstrate that we are heading in the right direction. A special thank you goes to all those who have made these two awards possible, which are our clients for the trust they have shown us, and our staff with their hard work and dedication'.



Raiffeisen Gallery, an alternative possibility to promote young artists



Prishtina, November 23rd, 2016 - As part of community support activities in Kosovo, Raiffeisen Bank has improvised a space in the Albi Mall trade center which is used as an alternative space for promotion of young artists' art works. This space begun to be used in October this year and will remain open for one year. Each month, a young artist will use this space to promote their work.

"We have supported different cultural projects in Kosovo so far. Nevertheless, this way of support, through which new artists are provided with an alternative space to exhibit their work is something new to us as well. I hope that this initiative will contribute to the promotion of art in general and will support young artists in their career development", said Robert Wright, the CEO of Raiffeisen Bank in Kosovo.

Considering that this is the first time that the Bank initiates such a project, it has been decided to start with a small group of young artists and the coordination of the project regarding the selection of artists was conducted in collaboration with the professor Zake Prelvukaj. For the first year, 12 young artists have been selected, both students and graduates of the Faculty of Arts in the university of Prishtina.

If this initiative is successful for the young artists that expose their art works, the Bank will continue this project next year as well and the selection of young artists will be coordinated through an open announcement.

ProCredit Bank inaugurates its Regional Training Centre in Kosovo



Prishtina, 7 December 2016 – ProCredit Bank has officially inaugurated its new Regional Training Centre on the 17th anniversary of the bank operating in Kosovo.

The Regional Training Centre, which located in Prevallë, Prizren district, will provide advanced training courses which are designed to update and deepen the specialised knowledge of the employees of ProCredit Bank in Kosovo and of its affiliate banks in the region. The training for existing staff will be customised to their fields of activity and is also designed to enhance their analytical and interpersonal skills. Training courses will also be provided for the carefully selected participants of the international ProCredit Entry Programme, which is taught in the English language to future staff and which is unique in the banking market in Kosovo.

"The successes and sustainability that we demonstrate in our business operations are a direct result of our commitment to achieving

the objectives that we set ourselves in line with the bank's mission and vision. However, we cannot achieve any of these objectives without a team of motivated, dedicated and well-trained employees. Therefore, continuous investments in training and development of our employees are of particular importance to us. We believe, that the selection of Kosovo as the location for the Regional Training Centre further demonstrates the commitment of the ProCredit group to enhancing education, developing the banking sector and promoting economic development in the country. In total, we have invested over EUR 3.2 million" concluded Ilir I. Aliu, General Director of ProCredit Bank Kosovo.

Mr. Avdullah Hoti, the Minister of Finance, said, "The decision to build this centre in Kosovo is an important step that gives a positive signal about the business environment in Kosovo, and is also a good way to show the investment opportunities in the country."

TEB JSC is affirmed the Bank of the Year 2016 by “The Banker”



For the second year in row the prestigious British magazine gives the highest rating to the TEB Bank for the banking system in Kosovo.

The work and achievements of the TEB Bank JSC for the year 2016 were also awarded by the prestigious magazine “The Banker”. “The Banker”, which is a part of Financial Times LTD, has announced the TEB JSC Bank as the best bank of 2016 in Kosovo.

The rating by the bank reporting professionals from London marks another important recognition for the TEB Bank JSC and evaluation of the banking sector in Kosovo. This award reaffirms the Bank’s ability to respond to different customer needs as well as their loyalty and trust towards the TEB Bank.

TEB JSC which started its activity in 2008 has made a significant contribution to the development of the country through its financial and non-financial activities and such an award is a high rating for the TEB Bank achievements.

As this Bank deeply believes in the principle of the slogan under which it operates, “The Bank for a changing world”.

This has been the third and most important award this year for TEB JSC, following the award from Global Finance Magazine and Global Banking Alliance for Women

IntelliNews BNE announces BKT as “The Best Bank in Kosovo”



Banka Kombëtare Tregtare has been selected as the “Best Bank in Kosovo” by the magazine IntelliNews BNE. This information has been published in the November issue of the magazine, which contains surveys of the banking sector in Central and Eastern Europe for 2016. The award given is based on return on equity assessments, which is one of the main indicators of the banking activity.

Receipt of this award confirms the reputation of Banka Kombëtare Tregtare in Kosovo and Albania as a reliable partner, and demonstrates that the activities and strategies of Banka Kombëtare Tregtare are in the right direction.

Publications of the Kosovo Banking Association

“The Kosovo Banker” is a publication of the Kosovo Banking Association. The magazine is published twice a year with the aim to properly inform the public on the banking industry in Kosovo. For more information, please go the the

web site of the Kosovo Banking Association www.bankassoc-kos.com.

Published magazines:



“Periodic Overview of the Financial Sector in Kosovo” is a monthly publication of the Kosovo Banking Association starting with its first publication in January 2014. Monthly publications are comprised by data and general overview of the financial system in Kosovo. Each

monthly publication will address specific issues of the financial system which for main focus will have the banking sector in Kosovo. www.bankassoc-kos.com.

Monthly publications published so far:



FINANCIAL LITERACY

A PRIORITY FOR
THE BANKING
SECTOR IN
KOSOVO

Join Global Money Week!
Theme: 'Learn.Save.Earn.'
27 March - 2 April 2017

Global Money Week (GMW) is an annual global celebration, initiated by CYFI, with local and regional events and activities aimed at inspiring children and youth to learn about money, saving, creating livelihoods, gaining employment and becoming an entrepreneur.

GMW Goal | To raise awareness of financial education, teach children and youth about money matters through fun and interactive activities.

Where? | Everywhere. GMW is an international week – with many events, activities, projects, launches and competitions taking place in over 130 countries.

Who? | Anybody. Anywhere. Anytime - can get involved in GMW. Whether you are a student, employee, parent or guardian. Whether you are from an educational institution, financial authority, NGO, government institution, company, or community organization.

EDUKIMI FINANCIAR

PRIORITET
PËR SEKTORIN
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