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Global Inflationary Pressures: Impacts in Kosovo and the Region

20
YEARS

Kosovo Banking Association
Shoqata e Bankave të Kosovës



**Asset management in
inflationary periods**

**Inflation and its
effects on small
and medium-sized
businesses**

**Financial instruments
to prevent, control and
delay the impact
of inflation**



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The Kosovo Banking Association (KBA) supports the development of the banking sector and is the representative voice of the banking industry in the Republic of Kosovo. We support member banks in achieving their objectives by providing a platform for advocacy, capacity building and public relations. Banks are key to Kosovo's economic development and prosperity, and we help advance this cause. Our main objectives are to create optimal conditions for an innovative, sustainable, secure, and inclusive banking sector in Kosovo.

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17%

e portfolios së përgjithshme të kredive në Bankën ProCredit Kosova janë **kredi të gjelbra**



Raporti i Ndikimit të Grupit ProCredit për vitin 2021

Informacione të detajuara rreth qasjes sonë ndaj qëndrueshmërisë, ndikimit dhe kontributit në Objektivat e Zhvillimit të Qëndrueshëm



PETRIT BALIJA
CEO
KOSOVO BANKING ASSOCIATION

Global Inflationary Pressures: Impacts on Kosovo and the Region

Milton Friedman, winner of the Nobel Prize in Economics, said, "Inflation is a tax without legislation." I think this quote best describes the impact of inflation on everyone's financial well-being, whether individuals or businesses.

Kosovo has been facing a succession of crises in the last three years; first the country was hit by the pandemic and the entire economic system shook under the tectonic shift caused by the intertwined health and food and product supply security problems, then the energy crisis of rising electricity prices hit, only to be followed by the recent enormous inflationary pressures. A comforting aspect of this series of consecutive shocks is the understanding that Kosovo is facing these crises just like every country in the region and around the whole world, as these are global crises and we all become one in the fight against these negative developments. However, the impact on developing countries like Kosovo is many times higher than on economically well-consolidated countries that have the option of state interventions to mitigate the crisis and

IN 2021, OUR COUNTRY'S ECONOMY MARKED ONE OF THE LARGEST GROWTH RATES OF THE LAST TWO DECADES, OVER

10%

CERTAINLY AN EXPECTED EFFECT AFTER THE CONTRACTION OF

5.3%

THAT OCCURRED IN 2020 AT THE PEAK OF THE PANDEMIC PERIOD, WHILE ESTIMATES FOR 2022 ARE THAT KOSOVO'S GDP WILL GROW BY ABOUT

4%

keep inflation under control. Kosovo is more vulnerable to these crises, due to its limited capacity to absorb these crises and the very high economic dependence on imports.

Russia's war against Ukraine is sending bad signals around the world, including our region, exacerbating rising energy prices, which in turn has led to rising construction and food prices, but also caused disruptions in markets and in the flow of investments, causing further impediments in the regions and our country's post-pandemic recovery.

In 2021, our country's economy marked one of the largest growth rates of the last two decades, over 10%, certainly an expected effect after the contraction of 5.3% that occurred in 2020 at the peak of the pandemic period, while estimates for 2022 are that Kosovo's GDP will grow by about 4%. In addition to economic growth in the country during 2021, over the same year inflation in Kosovo marked the value of 3.4%, while at the end of April 2022, inflation in Kosovo marked the value of 11.2%.

It was thus proved once again that no country, regardless of its small size or low degree of integration in

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Milton Friedman, winner of the Nobel Prize in Economics, said, "Inflation is a tax without legislation."

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the international economy, is immune to important global developments, and that their produce a chain of effects in the economy of every country in the world, including Kosovo and the countries of the region.

For ordinary citizens, inflation produces a few negative implications, from the weakening of the consumer basket to the loss of purchasing power of savings and higher prices of residential properties, while investors in international stock exchanges face significant drops in share prices (if we refer to an average of global market indices). All these factors make inflation the biggest and most dangerous enemy of everyone's financial well-being. This situation best explains why the core mandate of financial regulators, like the European Central Bank, is to control inflation within certain parameters.

In all this situation of global economic and political uncertainty, Kosovo's banking sector continues to work hard to ensure sustainable financial stability while making lending to the country's citizens and businesses as accessible as possible. Kosovo's banking sector performance indicators show that the sector is well capitalized, liquid and profitable. This performance enables banks to inject the necessary capital for the country's

economy to enable households and businesses to overcome these crises, while being sure that markets and inflation will stabilize over time, although the duration of these effects cannot be predicted.

As of March 2022, the banking sector has approved new loans in the amount of 508 million Euros, which exceeds the level of lending in previous years. However, there is a slowdown in the growth of new deposits compared to previous years, which is expected to increase the cost of funds for banking institutions and may cause pressures to increase average interest rates on lending. To minimize these effects, lending institutions are required to find alternative funding sources, such as the development of the capital market, specifically that of corporate bonds and bank bonds. The push for such developments requires the cooperation of all relevant parties, including the banking sector regulator, relevant ministries, international development organizations, and private sector actors themselves. Kosovo and the region need to build mechanisms that guarantee financial, fiscal, and economic sustainability to prepare for other crises that may occur in the future, in the face of warnings of crises that may be caused by environmental or climatic factors deriving from carbon

emissions, forest and biodiversity degradation, and global warming. Many challenges are expected to arise from these factors, so the banking sector in Kosovo has reacted with good foresight by engaging without delay in meeting the Environmental, Social and Governance (ESG) criteria set out in United Nations conventions and the Paris Agreement. The Kosovo Banking Association has undertaken several strategic steps to advance the sector in this direction by joining this April the Sustainable Banking and Finance Network (SBFN), which is a global network of developing countries. This membership is an expression of the will and commitment of Kosovo's banking sector towards the voluntary and certainly gradual fulfillment of the ESG criteria. In conclusion, I would like to emphasize that Kosovo's banking sector acts in a symbiotic manner with bank customers and the country's economy, to create a financial ecosystem in which everyone benefit, so it is important that it has appropriate support from institutions and partners to achieve the objectives that will serve to overcome these economic challenges and further develop the country towards a more sustainable economic model.



MASSIMILIANO PAOLUCCI
COUNTRY MANAGER FOR KOSOVO WORLD BANK



ISOLINA ROSSI
ECONOMIST WORLD BANK

Global inflationary pressures: impact on Kosovo and the Region

The Western Balkan region was recently brought into a new economic reality where high inflationary pressures threaten recent gains of the post-pandemic recovery. When looking at recent price dynamics, inflation is on the rise due to a combination of factors: stronger global growth since mid-2020 has placed upward pressure on commodity prices and shipping costs, feeding through into higher imported inflation across the Western Balkans. In parallel, strengthened domestic demand in 2021 placed further pressure on prices. Core inflation in the region reached a record high of 2.9 percent in December 2021, with persistent supply shocks and

wage increases fueling inflationary expectations. Russia's invasion of Ukraine has added further pressures to these rising inflation trends. The recent pickup in inflation in the Western Balkans reflects a similar trend taking place in global international markets. At the global level, inflation stood at 4.6 percent in February 2022¹, from a pandemic-related bottom of 1.2 percent in May 2020, reflecting a combination of supply side constraints and continued growth in demand. Global food prices rose by 29.3 percent (year on year) during 2021², placing the heaviest burden on vulnerable populations while adding to headwinds of the global economic recovery. Rising

food prices hit lower-income countries particularly hard, as food accounts for a much larger share of the average household consumption basket. In addition to food prices increases, commodity prices rose sharply since the start of 2022. For example, energy prices³ were more than four times higher in March 2022 than their April 2020 lows—the largest 23-month increase in energy prices since the 1973 oil price hike. Higher energy prices are leading to increases in production and transport costs driving up overall price levels. Russia's invasion of Ukraine in February 2022 added impetus to already rising inflationary pressures.

¹ World Bank Global Economic Prospects, April 2022
² World Bank Global Economic Prospects, 2022
³ In U.S. dollar terms

EVROPE

IMPORTS A SUBSTANTIAL SHARE OF ITS ENERGY FROM RUSSIA, INCLUDING NATURAL GAS

35%

CRUDE OIL

20%

AND COAL

40%

WHILE OIL AND GAS SUPPLY FROM RUSSIA MAY CONTINUE UNDER CURRENT ENVIRONMENT DOMINATED BY SANCTIONS, THERE ARE RISKS OF IMPORTANT DISRUPTIONS TO MAJOR GAS TRANSIT ROUTES AND ENERGY-RELATED FINANCIAL FLOWS.

With both Russia and Ukraine as major wheat exporters accounting jointly for one quarter of the global supply, another wave of food price increases has materialized. In addition, Russia is the world's largest exporter of fertilizers, while Ukraine is the largest exporter of seed oil and the fourth-largest exporter of corn. As a result of the war, energy prices increased significantly. Brent crude oil averaged \$116/bbl. in March 2022, an increase of 55 percent compared with December 2021⁴. Russia is a major exporter of natural gas, and it also accounts for a large share of global exports of coal, and crude oil. Europe imports a substantial share of its energy from Russia, including natural gas (35 percent), crude oil (20 percent), and coal (40 percent). While oil and gas supply from Russia may

continue under current environment dominated by sanctions, there are risks of



GLOBAL FOOD PRICES ROSE BY

29.3%

(YEAR ON YEAR) DURING 2021

important disruptions to major gas transit routes and energy-related financial flows. It is against this background that inflation in the Western Balkan region started picking up speed in the second half of 2021, predominantly through supply side-pressures linked to stronger global growth following the pandemic. The headline consumer price index (CPI) growth in January 2022 varied significantly in different countries of the region, ranging from 8.2 percent in Serbia to 3.7 percent in Albania, with food price increases contributing the most to headline inflation figures. Higher energy prices also translated into higher transport prices across the region. Transmission channels of recent price increases vary across the region.

⁴ World Bank, Commodity Markets Outlook, April 2022



From a policy perspective, given Kosovo's poverty levels and the concentration of pressures on food prices, the immediate focus should remain on protecting the most vulnerable citizens, who were also the most affected by the recent COVID-19 pandemic-induced shock. Avoiding further pressures on firms through rising labor and input costs will be important to contain inflationary expectations.



Almost all Western Balkan countries are exposed to the indirect impact on trade disruptions in key commodities including energy, while some countries are also dependent from Russia's and Ukraine's food imports. The increase in inflation will have an immediate impact on household's welfare and poverty - particularly through rising energy prices - posing important challenges for policy makers. In Kosovo, the economic recovery of 2021 proceeded in tandem with heightened inflation pressures, particularly from abroad. As a net importer of food and energy, Kosovo experienced stronger inflationary pressures because of the war in Ukraine. Consumer price inflation, driven primarily by higher import prices, surged to 3.4 percent in 2021, a 3.2 percent point increase compared to 2020. Based on recent figures, the annual

(year on year) inflation rate measured in April 2022 was 11.2 percent. Compared to the same period of last year, food and transport prices in April 2022 increased by 15.2 and 19.4 percent, respectively. Averaging 11.1 percent, import price inflation intensified from the second quarter of 2021 onward, reaching 14.7 percent and 19.7 percent during the third and fourth quarter of the year, respectively. In response, manufacturing, construction, and agricultural input prices recorded increases throughout 2021 and the war in Ukraine further amplified inflationary pressures on both import prices and production inputs. Given the large share of construction activity in Kosovo's firm investment and its overall share in value added, the impact of the recent price hikes of construction inputs warrants close monitoring of the sector in 2022.

Looking ahead, even our initial projections—using data available until February 2022—suggested that headline consumer inflation in Kosovo would accelerate by at least 1/3 during 2022, hovering between 5 and 6 percent compared to 2021. This projection assumed elevated but gradually normalizing price levels in the second half of the year following expectations of subsiding global inflationary pressures. However, with consumer price inflation reaching its historical high, the annual average inflation rate could easily reach 9 percent if global pressures do not subside by yearend. Risks of prolonged pressures are now tilted to the downside. While Kosovo's direct trade links with Russia and Ukraine are limited and concentrated on base metals and mineral products, the indirect impact from international

FOOD PRICES



TRANSPORTATION PRICES



Based on recent figures, the annual (year on year) inflation rate measured in April 2022 was 11.2 percent. Compared to the same period of last year, food and transport prices in April 2022 increased by 15.2 and 19.4 percent, respectively. Averaging 11.1 percent, import price inflation intensified from the second quarter of 2021 onward, reaching 14.7 percent and 19.7 percent during the third and fourth quarter of the year, respectively.

commodity prices, including food commodities, has already spurred inflation. Kosovo imports an average of 40 percent of its wheat needs and has an even higher import dependence on select agricultural products. Bans on exports of agricultural products within the region could significantly aggravate inflationary pressures. Kosovo also imports all its fuel consumption and part of its electricity consumption, especially during the winter season. The persistence of high electricity prices could exacerbate electricity supply and further increase the fiscal cost of subsidizing electricity imports. At the same time, exports of base metals could benefit from the global shortages triggered by the war in Ukraine and accelerate export volumes and prices. From a policy perspective, given Kosovo's poverty levels and the concentration of

pressures on food prices, the immediate focus should remain on protecting the most vulnerable citizens, who were also the most affected by the recent COVID-19 pandemic-induced shock. Avoiding further pressures on firms through rising labor and input costs will be important to contain inflationary expectations. At the same time, policy actions need to focus on building resilience and on undertaking structural reforms to support growth and steer through the crises. With limited fiscal space, Kosovo will need to carefully weigh the costs and benefits of new spending commitments in response to higher energy and food prices and prioritize vulnerable households. In this context, given the predominance of supply-side inflationary pressures, the recently discussed measure to allow a second round of sizable withdrawals from

Kosovo Pensions Savings Trust against a Government obligation to compensate the withdrawals would not only put the long-term sustainability of the pension system at risk but would further fuel inflation and fail to direct Kosovo's limited public resources to households most affected by inflation. Measures need to be targeted and timebound. Improving tax compliance, introducing poverty targeting in social protection programs, together with building energy resilience through investing in renewables and energy efficiency, should stay at the forefront of the policy agenda. On the other hand, Kosovo should build on the export momentum created since 2020 by enhancing competitiveness through lower cost of regulatory compliance and accelerated digitalization.



GEM MALOKU
MEMBER OF THE MANAGEMENT BOARD
NLB BANK

Inflationary impacts on the real economy

Inflation is the decrease of value of money over the exchange of products or services available in the market. There are several reasons driving the inflation, cost push inflation and demand-pull inflation, depending on the driving element of inflation.

Cost push inflation derives from the increased prices of commodities which most often it is driven or ignited by the increased price of energy sources such as oil. In the meantime, intensified or economic growth can trigger inflation also, due to increase of economic activities surging the demand which is not able to be followed by the productivity of the country.

Such positions are also known as hyperinflation. While during slowdown of economic cycle the intensity of demand decreases permitting country productivity to match the demand which leads towards decrease of inflation rate.

In other words, if currency printout into the economy is more than the productivity of the country it leads towards a disbalance known as inflation, or loss of the value of money/currency. To stabilize the inflation trends, Governments

tend to regulate the pace of economic activities through money supply, which is known as monetary policy and is sponsored by the Central Banks. Such an intervention reflects macroprudential measures activating reduction of cash supply activities, through increase of interest rates or increase of liquidity reserves for the banks to decrease bank lending capacities and reducing money flow to the economy, thus impacting towards decreasing inflation trend.

Although inflation trends can be driven by the intensity of the economic growth pattern, it also impacts the economic growth pattern, accordingly, depending on the



COST PUSH INFLATION DERIVES FROM THE INCREASED PRICES OF COMMODITIES WHICH MOST OFTEN IT IS DRIVEN OR IGNITED BY THE INCREASED PRICE OF ENERGY SOURCES SUCH AS OIL

intensity and spread. During high inflationary periods the economic growth pace is lowered due to decrease of purchasing power of the real economy if such environment of high inflation continues for longer period. The current inflation rate is driven by raise of prices in sources of energy, government interventions in EU, US and worldwide with the fiscal policies due to COVID 19, destabilized supply chain associated with significant impact from the crises produced from the war in Ukraine.

Kosovo's inflation is an imported inflation, negatively impacting CPI index through increased prices for basic consumption products. Taking into account that Kosovo currency is Euro, does not have the threat deriving from the disbalance between domestic productivity and money supply due to domestic money printing, but it also has a disadvantage of lack the monetary policy and its mechanisms which can be utilized in other countries.



The latest developments with the inflation have had its impacts on Kosovo's economy, primary through increased prices of imported goods. Kosovo has a negative trade balance, which translates to a heavy import dependent country thus impacted by raise of prices worldwide. Kosovo's inflation is an imported inflation, negatively impacting CPI index through increased prices for basic consumption products. Taking into account that Kosovo currency is Euro, does not have the threat deriving from the disbalance between domestic productivity and money supply due to domestic money printing, but it also has a disadvantage of lack the monetary policy and its mechanisms which can be utilized in other countries.

Through monetary policy the Central Bank would be able to influence over the money supply in the market through change of the interest rates. As part of such actions, latest measures taken from the FED in the US, was revision of interest rates which will increase the cost of money supply to the economy and potentially slow the inflation trend.

Having an inflation rate in the range of 10% (latest published data as of March 2022) % in Kosovo's fragile economy and with significant negative trade balance, it results directly towards weaker purchasing power of the real economy, impacting

fiscal balance thus leading towards volatility of countries debt repayment capacity ext.

First implications deriving from the inflation on the Kosovo's economy during the first quarter of the year 2022 were reflected on the significant price increases which required supplement money supply to be utilized by the real economy to face with the necessary supply needs. Such a pattern led towards the increase of utilization of credit buffers from real economy thus increased utilization of the liquidity of the banking sector towards the economy at a higher pace compared to Year-on-Year trends.

Given the existing banking sector sustainable liquidity position, it was able to serve with such a supply to the economy and



THROUGH MONETARY POLICY THE CENTRAL BANK WOULD BE ABLE TO INFLUENCE OVER THE MONEY SUPPLY IN THE MARKET THROUGH CHANGE OF THE INTEREST RATES

support the economies needs facing from elevated prices and increased working capital needs of companies. Under such circumstances a critical success factor of the real economy is transfer of increased prices towards the end customers, and the capability of the end customer to absorb such price increases. A further side-effect of elevated prices towards end consumers and its effect towards price elasticity of demand impacted gave the first signs by slowing investment cycles on slow moving inventory business cycles, such as construction.



Deri në
25 vjet

NLB Kredi Hipotekare

Mundësia për të jetuar jetën në mënyrën tuaj.

NLB Banka

This pattern leads towards monthly family earnings and their ability to follow the growth of inflation pattern, which as up to now domestically was not able to take place, work force salaries remained the same. Such a static income position raises doubts over the sustainability of the Kosovo's economy facing with such inflation trends taking place. Given the current pattern it is indicatable that the effect of inflation is not transitory and will have its lasting long-term effects also.

Meanwhile, Kosovo's economy is significantly dependent and fueled from remittances deriving mainly from EU countries which on annual basis reach almost over Euro 1 billion, at the same time such an inflow of remittances might hedge to an extend the inflationary pressures when it comes to the daily consumption and components of CPI, presuming that the salaries within the EU countries would reflect the inflation rate. Thus, positively protecting the purchasing power of families supporting their consumption needs.



*MEANWHILE, KOSOVO'S ECONOMY
IS SIGNIFICANTLY DEPENDENT
AND FUELED FROM REMITTANCES
DERIVING MAINLY FROM
EU COUNTRIES*

While from the investor's paradigm seeking, return on their investments, have been impacted and will be impacted on the long term from the inflation. Long-term contracting under increased inflationary pressure impact directly the profitability of the long-term investment projects. Thus, as usual business practice in the Kosovo's economy, does not embody as part of two-party agreement inclusion of inflation effects which would hedge the long-term contracting position of the investors. Under such circumstances pre agreed long term contracts without inflation clauses will result on negative profitability implications for the investors due to its pre agreed pricing towards its purchaser/contractor.

Such situation will provide its first side effect towards raising needs for working capital from Kosovo's business which would be consumed by increased prices thus impacting directly on the purchasing power of the investor, raising a vulnerability towards debt servicing due to deteriorated cash flow and profitability position. While developed countries will unfold their measures towards the inflation, such as increase of interest rates as one of the usual and immediate measures, such actions will have their effect also on Kosovo's economy but to a more limited extent. Borrowing from banks under fixed interest rates conditions for such situations represents a hedged borrower's position. Nevertheless, variable interest rate loans which have been issued in the Kosovo's market which have a reference point the EURIBOR will be impacted when the reference rate increases. Such an increase will impact on elevated cost of living for physical entities.

On the other hand, inflation effects will also have their implications towards the banking sector, under a inflation intense environment of 10%. The banking sector investments towards the real economy which are in the range of less than the inflation rate considering that the average interest rate for legal entities is 5.7% and for households is 5.97% given a long-term presence of elevated inflation remains.

Therefore, to address such a wide-ranging implication deriving from the inflationary environments for Kosovo's Government it encompasses a significantly challenging exercises, which as such it is also a significant challenge for developed countries. While using some of the macroprudential mechanisms to align a wider and tunned/coordinated activities to cope with the inflation and its negative implications towards the Kosovo's economy might be considered by the Government. Therefore, measures taken for management or control of inflation trends may also lead to new recession known as "Hard landing", based on historical trends, implemented practices of developed economies to manage inflation led towards economic recession because of slower economic development deriving from measures taken to manage inflation. Thus, it is crucial importance to balance measures taken in order to avoid triggering of economic recession.



ANITA KOSUMI-AJETI
HEAD OF HUMAN RESOURCES DEPARTMENT
BANKA PËR BIZNES

Human capital development, trainings, and Human Resources Academy

With the repositioning of the Bank for Business in the market, the need for the development of the institution's internal staff has increased, which was also helpful in other phases of the gradual growth of the bank.

Seeing this as a necessity, BPB has already launched the BPB Junior Program several years ago, which originally started as an idea for career guidance for students and for recruitment of new staff within the institution. Students accepted in this program attend training for three months by the best experts of banking industry and beyond.

This program is designed in such a way as to prepare top candidates, having already received thousands of applications from students of public and private universities across the country, to then proceed with testing, selection, and training, finding their professional

strengths that would lead them towards a career in the banking sector, but not only. BPB, as part of the reform for institutional transformation, from this program has managed to recruit over 50 young people who attended the program



BPB HAS ALREADY LAUNCHED THE BPB JUNIOR PROGRAM SEVERAL YEARS AGO, WHICH ORIGINALLY STARTED AS AN IDEA FOR CAREER GUIDANCE FOR STUDENTS AND FOR RECRUITMENT OF NEW STAFF WITHIN THE INSTITUTION.

and demonstrated interest and strengths throughout these three months as the program, employing and positioning them in the departments and branches of the bank.

What distinguishes BPB Junior from other programs is that, in addition to training, it also entails recruitment, the very way of selecting candidates and the assessments that are done in the preliminary stages. Visits to other domestic institutions, lectures by the executive management and heads of departments are also organized, while giving selected candidates an idea of their career orientation.

The list of the fifth generation has already been finalized and the trainings will be held at the new object the bank has inaugurated.

"HR Academy from BPB" is the project for which we are most enthusiastic, especially for how the training modules



"HR Academy from BPB" is the project for which we are most enthusiastic, especially for how the training modules are combined, which of course includes the BPB Junior program, which is marking half a decade of operation.



are combined, which of course includes the BPB Junior program, which is marking half a decade of operation.

Aware that the future of business is focused on the requirements related to human capital, as Human Resources Department we have upgraded internal advancement, thus addressing the most sensitive points that we have identified during our analysis. This Academy provides nearly 400 BPB employees with opportunities for professional development, familiarizing them with new environments, precisely through modules designed by the best experts in the field.

With the HR Academy, which is already being further developed, according to the designed curricula and our projections, we are convinced that we have fulfilled an important task related to internal advancement, which obviously includes new staff as well.

BPB is committed to further developing the Academy, with the main goal of disseminating the bank's strategy to employees, so that everyone feels part and committed to its vision and can contribute daily to our long-term goals.

Furthermore, ongoing development programs will be provided, because I need to emphasize that BPB is oriented towards internal promotions and the Academy will help our staff to develop these skills further. Dedicated teams at the Bank will follow and monitor the employee development cycle and their career path step by step, training and building their necessary skills according to their career path.

E-learning will be another method of holding numerous trainings for our Bank employees. Online trainings were heavily relied on during the pandemic, increasing the enthusiasm, flexibility, and efficiency of the staff.

BPB is committed to harmonizing its business strategy to be in line with the company's goals and to contribute towards them. In short, BPB is not only about providing a job, but it is about providing career and development opportunities, therefore, through projects such as the Human Resources Academy we also fulfill an important obligation that we have towards our employees.





ANA GOGA
CFO
CREDINS BANK KOSOVA

Rising inflation will continue to reinforce inequality, both within and between countries

I Return of global inflation

After nearly four decades, inflation is back as the main concern of advanced and developing economies around the world. This time, it looks as if inflation rose faster, more visibly, and is probably here to stay for longer than what central banks initially thought. Rising commodity prices, alongside rising global demand, is something that affects inflation, which is common in advanced and developing countries. Today we are experiencing another major event, the war in Ukraine, which has not only created extraordinary human suffering, but has also disrupted the global economy at a critical stage. Not only has it contributed to the further rise in energy and commodity prices, but it has also significantly increased global uncertainty, which undermines growth. The aftermath of the war and the sanctions that followed continue

to reverberate. The resilience of the global financial system will be tested through various possible amplification channels. Europe carries a higher risk compared to other regions due to its geographical proximity to the war, reliance on Russian energy, and the non-negligible exposure of some banks and other financial institutions to Russian financial assets and markets. Moreover, the continuing volatility in commodity prices could put great pressure on commodity financing and fuel markets and may even cause more disruptions like wild fluctuations that halted some nickel trades last month. Such episodes, amid heightened geopolitical uncertainty, could weigh on liquidity and financing terms. Another key issue affecting this indicator is the global supply chain, which continues to be heavily disrupted from China's recent

lockdowns due to the rising number of Covid-19 infections. Transportation costs have risen sharply. The most obvious feature of today's inflation is its ubiquity. In the absence of global policy options to address supply chain disruptions, the task of addressing inflation will fall to the world's major central banks. To be sure, a more timely and stronger policy response from major central banks would not be good news for developing markets and developing economies in the short term. Most would experience higher financing costs and debt crises may become significantly more likely for some. Based on IMF estimates, the increase in uncertainty in the first quarter may be enough to reduce global growth by up to 0.35 percentage points year-on-year. Inflation is expected to remain high globally in the coming months until 2023.

“Rising inflation will continue to exacerbate inequality, both within and between countries.”



II Impact of global inflation on the Balkans

Many central banks in developing markets have already tightened their policy significantly. They must continue to do so - depending on individual circumstances - to maintain their credibility in fighting inflation and to anchor inflation expectations. Interest rates may need to rise beyond what is projected to keep inflation on target in a timely manner. This can push interest rates well above their neutral level. For the central banks of the advanced economies, clear communication is essential to avoid unnecessary volatility in the financial markets, providing clear guidelines for the tightening process, while remaining data dependent.

The Federal Reserve has doubled the base interest rate so far, followed by the Bank of England. The European Central Bank has not yet changed the base interest rates. Coming back to our region, the Central Bank of Serbia decided to increase the base interest rate by 50 bp, to 1.5%. This increase is accompanied by an increase in repo rates and facilitating deposits and lending. The Central Bank of Albania

did the same, by increasing the base interest rate by 50 bp to 1% (at pre-pandemic levels) but kept deposit and lending rates unchanged. The National Bank of Macedonia decided to increase the interest rate on CB bonds by 0.25% to 1.5%, mainly as a preventive response to rising inflation expectations. Meanwhile, the Central Banks of Bosnia and Herzegovina, Montenegro, and Kosovo, have not yet taken any actions, although inflation is above their target level. These decisions are intended to control the further growth of inflation, but at the same time not to have a significant impact on the economic growth of countries, which are still recovering from the pandemic years. However, the growing risk of inflation to which all Balkan economies are exposed, is compounded by a further rise in electricity prices, natural gas, oil, and chemical fertilizers, due to the war in Ukraine. Inflation reduces the purchasing power of the population, which will be reflected in the reduction of personal consumption, which is the main component of the

GDP of the Western Balkans. Rising transportation costs is an additional risk to the business operating in the region. According to the latest data published by the Central Banks of the Balkan countries, the GDP growth rate in 2022 and 2023 has been revised downwards from the initial forecast made in 2021, due to the consequences of the current situation. A further increase oil prices would also lead to an increase in the current account deficit (balance of payments) in all Balkan economies, as well as an increase in the foreign trade deficit. On the other hand, the increase in inflation and the base rate will affect the increase in the interest rate on lending, deposits, and government securities in the financial markets. The recent increase means an increase in government debt and the annual budget deficit. Increasing loan interest rates would increase borrowers' credit risk, leading to tighter lending policies and procedures for Banks. Under such conditions we could be expecting global financial stability.



ARIJAN HAXHIBEQIRI
DEPUTY CHIEF EXECUTIVE OFFICER
BANKA EKONOMIKE

Chain effects as a result of global inflationary pressures

The last two years have featured numerous economic and social hardships, from the Pandemic to the Russia's war in Ukraine, "shocking" even the world's most powerful economies such as the US. As a result of such developments, in March, inflation in the US was expected to rise by 8.5%, the highest in the last 40 years! The same inflation trends have taken hold of Eurozone countries, where in March inflation rate was expected to rise by 7.5%!

Since the beginning of the Russian invasion of Ukraine, oil and natural gas prices have risen sharply. Given that EU countries rely for 40% on their natural gas needs on imports from Russia, which represents the main source of energy for these countries, the increase in energy prices is one of the main causes of rising inflation in EU countries. Moreover, the difficulties/ disruptions caused in the supply chain, as well as the increased demand since the pandemic and especially since the beginning of the Russia-Ukraine was,

and the recently imposed financial and political sanctions against Russia by Western countries, have led to rising product and service prices globally. Rising energy prices and Kosovo's negative trade balance (according to the Kosovo Agency of Statistics), data on foreign trade of goods in Kosovo show that the trade deficit rose by 41.7% in January 2022, compared to the same period of 2021. Kosovo relies to a large extent on the import of products and services, which has led to

THE OVERALL HARMONIZED INDEX OF CONSUMER PRICES HAS INCREASED ON AVERAGE BY

7.5%

IN FEBRUARY 2022, COMPARED TO FEBRUARY 2021

the increase of prices of products and services in Kosovo and the region! In the context of the negative impact of inflation in Kosovo, the impact is all-encompassing, both economically and socially. First of all, inflation has a negative impact on the wellbeing of our citizens as a result of rising prices of consumer goods (according to the Kosovo Agency of Statistics, "The overall harmonized index of consumer prices has increased on average by 7.5% in February 2022, compared to February 2021); secondly, many activities and economic sectors are affected by the negative impact of rising prices, especially sectors such as construction; thirdly, rising energy prices also negatively affects the manufacturing sector, increasing manufacturing costs for domestic products; and last but not least, the chain effect of rising prices to some extent will affect all economic activities, thus causing a decrease in the level of economic development in 2022.

Banka Ekonomike

Mendon për ty!

Banka e vetme
100% vendore



Siguroni pronën tuaj

të financuar nga Banka





FISNIK LATIFI
FIXED INCOME MANAGER
RAIFFEISEN BANK KOSOVË

Wealth Management in Inflationary Periods

An economic concept, the rate of inflation is important as it represents the rate at which the real value of an investment is eroded over time. To investors this metric tells exactly how much of a return their investment needs to make for them to maintain their purchasing power.

With this idea in mind, investors should aim to generate returns that are greater than inflation, in percentage terms: if an investment is returning 4% and inflation was 5% throughout the same period, the effective return is negative 1%.

The more liquid an asset is, with the baseline being cash, the more affected it is by inflation, meaning that this asset will more likely devalue by the rate of inflation. Illiquid assets are also affected by inflation, but over time they usually appreciate in value and generate income in form of interest or dividend. This provides a natural hedge against depreciation due to inflation, which is why investors prefer it in an inflationary environment.

In this sense, investors must chase returns that will outrun inflation.

In broad terms, the asset classes they can choose from are fixed-income instruments (although we will see that they might not always be fixed), equity and commodities

Fixed Income

When investing in assets which generate fixed income, such as bonds, loans or rent, the investors' key performance metric is the interest rate they receive throughout the investment period. Interest rates usually have several components priced in, such as the risk-free rate, the expected rate of inflation for the investment duration, and idiosyncratic credit risk elements. Investors must be aware, that the expected rate of inflation is just that: an expectation, which in reality may be over- or undershot. If the real inflation turns out to be lower than the expected value, the investors are rewarded beyond plan, and vice versa.

Now, an investor may deem that inflation will rise more than what is priced in current interest rates, so they might want to invest in assets, whose returns are linked to inflation. Bonds or rent from real estate often are referenced to the Consumer Price Index (CPI), which means that if inflation goes up, so does the return on the investment. Concrete examples for this are Treasury Inflation Protected Securities (TIPS), or Real-Estate Investment Trusts (REITs). Similarly, bonds and loans linked to a reference rate, such as Euribor, can pick up rising interest rates, because reference rates are directly linked to inflation.

In short, if an investor expects inflation (and interest rates) to go up over time, they will be best suited to invest in assets with variable interest rates. On the other side, if they believe that inflation will go down, they might want to lock in fixed rate assets, and continue receiving high returns when the market rates go down.

Equity

Like fixed income, returns from equity investments must be measured by a key metric, in this case most investors use the required rate of return. This rate is determined by the investors themselves, by taking in account the cost of the capital used, and some forward-looking assumptions, such as expected revenues, economic cycle, and inflation. Various valuation methods are on hand to calculate the intrinsic value of a stock, and if the currently traded market price of that stock is lower than the calculated value, the investor may choose to buy into this stock, with the expectation that the traded market price will converge toward the calculated intrinsic value.

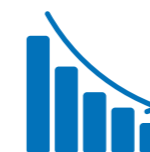
Not all equity investments behave the same in inflationary periods: most companies are affected by rising input prices: producers face higher costs in raw materials, and service providers are required to increase employee compensation to retain competitiveness.

However, some companies can pass these added costs easier to their customers than others. We know that luxury items, and generally the consumer discretionary sector is more price sensitive than, say, consumer staples, such as food or medicine, or utilities.

Investment in the latter is defensive behavior, which is characterized with lower returns in the expansion phase of an economic cycle, but in turn it is more resilient in value preservation during a recession.

Careful selection of the economic sectors should be exercised, and within the sectors, the individual companies chosen. Here it is appropriate to check the financial statements of the companies for their durability on stress. A company that is higher leveraged through a large proportion of debt in their balance sheet, may see higher cost of debt servicing with rising interest rates during an inflation period, and are to be avoided.

Some industries, such as banks, are highly leveraged by means of their business model. In those cases, it is worth examining, what their assets and liabilities are composed of, in terms of their interest rate sensitivity. In times of rising interest rates, those banks with fixed-rate liabilities and variable-rate assets are best-positioned: they have locked-in lower cost of capital when interest rates were low, yet they are able to pick up the higher returns from market shifts upwards. Their interest margin widens the most.



Savers in the first place are losing in inflationary periods, as well as receivers of fixed-rate payments, such as salaries, regular bonds, and unpegged rents.

Commodities

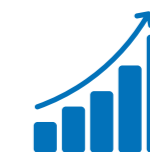
Inflation and commodity prices are probably interrelated the most inversely among all asset classes, which makes investment in commodities the preferred hedge against rising prices.

The distinct feature of commodities from fixed income and equity is that they usually do not generate value through dividends or interest. On top of that, it is costly to store and secure them, because they are of material nature and wealth is locked in them. Their only way of value creation is through appreciation of their price when sold.

The Covid-19 pandemics has forced mining companies to close their production sites for industrial and precious metals. Gold as the classic inflation hedge, Copper as precursor for the electrification of vehicles and infrastructure development, Aluminum and other metals are presently in short supply, and this represents a bottleneck in the production stream.

The war in Ukraine has laid bare the reliance on oil, gas, grain, and fertilizers from the conflicted areas, and intents are being made to find adequate replacements.

It is to be seen how quick producers can meet demand forthcoming, but even then, probably at higher prices



Winners are the inverse positions, such as governments, banks, and other debtors paying fixed rates, or receiving variable rates.

than today. “Commodities supercycle” is a buzz word currently gaining more attention in the media.

Investors may gain exposure to this asset class through stocks of the mining and producing companies, which can have an inefficient transmission mechanism between the value of the commodity and the stock price, because of the operational costs incurring. The may also invest in Electronically Traded Funds (ETFs), which can replicate the value of the underlying commodities to a high degree. Some ETFs are fully backed by the underlying commodities, others synthesize their value accordingly. The latter may perform at lower fees, but it exposes the investors to counterparty risk of the issuer of the ETF.

Given access to the futures market, an investor may be directly open to price movements of commodities as they are being traded on the commodities exchanges.

Wrap-up

Inflation can shift markets substantially if it presents itself at high speed.

Commodities usually underperform in an environment of low inflation, but they have historically proven to be excellent hedges against high inflation.

Equities and variable-rate receivables are able to withstand price pressures if inflation does not run out of check. While equities do mostly well, a selective approach that fits with the inflation outlook is still key. This is especially true when looking at it from a sector perspective.

Savers in the first place are losing in inflationary periods, as well as receivers of fixed-rate payments, such as salaries, regular bonds, and unpegged rents.

Winners are the inverse positions, such as governments, banks, and other debtors paying fixed rates, or receiving variable rates.

Investors should not shy away from active participation in the capital markets when inflation is occurring, it is a cyclical phenomenon, and with mindful planning they can overcome such periods with decent performance.

Disclaimer

The author holds at the time of writing beneficial long positions in commodities-related equity instruments. He is not receiving any compensation for writing this article.

The opinions presented in the article do not represent the viewpoint of the publisher, but solely that of the author.

The article contains forward-looking statements.

This is no investment recommendation or solicitation. For investment advice please seek qualified financial planners.



ARGJIRA KADRIJAJ - DUSHI
HEAD OF BUSINESS DEVELOPMENT
PROCREDIT BANK KOSOVË

Inflation and its effects on small and medium-sized businesses

Currently, inflation rates and price movements are a key topic of discussion and assessment from policymakers, businesses, and consumers. Inflation tells consumers how much more we are paying for the goods and services we receive over a period of time by measuring their prices. Usually, this rate refers to the change in the cost of living in a country, but nowadays, the inflation rate mainly refers to the increase in the prices of commodities. When prices increase, the value of money falls. This makes it more costly for consumers to purchase goods and services.

In certain sectors, prices have risen gradually for over a decade due to megatrends that have impacted the economy, such as globalization, demographic changes, rapid technological development, and progress in digitalization. Over the last two years, inflation has been rising at



ACCORDING TO BUSINESS QUESTIONNAIRES IN THE US,

90%

OF SMES HAVE INCREASED PRICES SINCE THE PANDEMIC. THE SAME THING HAPPENS IN KOSOVO. SMES ARE ANALYZING PRICE MOVEMENTS AND INCREASING THEM ACCORDING TO THE MOVEMENT OF PRICE AND COMMODITIES ON THE STOCK EXCHANGE. KOSOVO'S INFLATION RATE IS IN SOME WAY TRANSFERRED, AS IMPORTS HAVE A SHARE OF OVER

80%

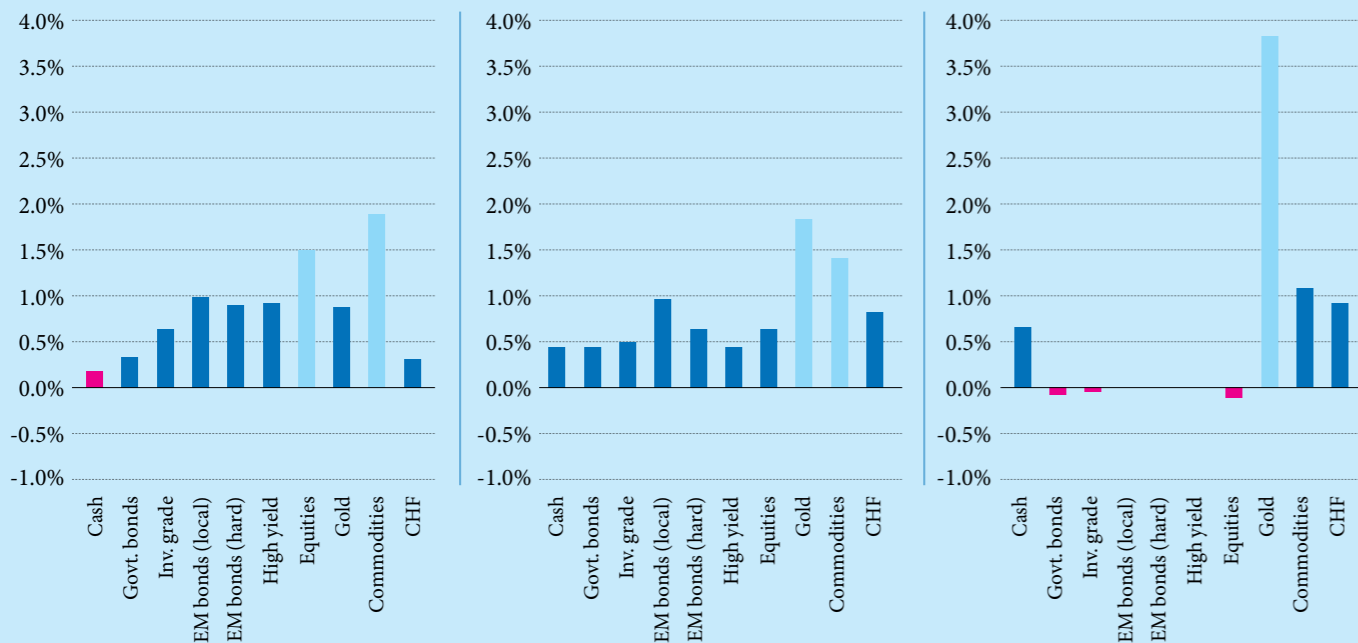
IN THE TRADE BALANCE.

the most rapid rates since the 1980s. This pressure on inflation started after the supply chain disruption and due to higher demand for goods after the first COVID -19 wave. This rapid rise is continuing this year under the influence of Russia's attack on Ukraine, which impacted the increase of gas and oil prices. Reports on US economy show a 8.5% year-on-year increase in the consumer price index, the highest increase since December 1981. In Kosovo according to the data of the Kosovo Agency of Statistics, this index was 10% higher in March 2022 compared to March 2021.

Small and medium businesses in times of inflation

Small and medium businesses (SMEs) are keeping a close watch on their spending while inflation rates keep moving, bottlenecks are created in supply chains, and question marks are rising in the

Rising inflation: asset class returns



1 of 3 Avg monthly return in times of rising, but low inflation (<3%) since 1973

2 of 3 Avg monthly return in times of rising & high inflation (3-6%) since 1973

3 of 3 Avg monthly return in times of rising & very high inflation (>6%) since 1973

According to the **CBK**, in the first quarter of 2022, businesses in Kosovo have made more than

1,5 billion Euros

outgoing payments, the highest amount realized compared to the same periods.

Deposits from businesses have been reduced to the lowest level in the last **10 years**.

While financing for the purchase of goods has increased significantly, more than financing in fixed assets.



BUJAR STATOVCI
HEAD OF BUSINESS DEPARTMENT
BANKA PËR BIZNES

The main factors of inflationary impact on the economy of Kosovo

labor market. According to business questionnaires in the US, 90% of SMEs have increased prices since the pandemic. The same thing happens in Kosovo. SMEs are analyzing price movements and increasing them according to the movement of price and commodities on the stock exchange. Kosovo's inflation rate is in some way transferred, as imports have a share of over 80% in the trade balance.

Inflation affects the cash flow of businesses through these factors: higher costs of supplies or services; higher prices of products or services that comes from increased costs and that can affect sales which results in reduced profitability. Therefore, SMEs today need to analyze and make systematic financial forecasts in line with the movements of global financial markets. They need to automate processes and digitize the channels of doing business to reduce their costs. The way SMEs manage their business activity in this time of inflation, plays a crucial role for the continuity of business and even their survival in the market.

The right support from the bank

According to the CBK, in the first quarter of 2022, businesses in Kosovo have made more than 1.5 billion Euros outgoing payments, the highest amount realized compared to the same periods. Deposits from businesses have been reduced to the lowest level in the last 10 years. While financing for the purchase of goods has increased significantly, more than financing in fixed assets. Businesses, following the global trends of price movements and problems in the supply chain, have made purchases in advance. So, in these times adequate support in financing is needed from banks. In such times of inflation, but not only, it is important that the bank also has an advisory role. As part of its strategy to be a Hausbank SME bank, ProCredit Bank client advisers discuss short-term and long-term SME plans, advise them and support with information about global and local economic developments in domestic and regional markets, as well as support in finding business partners

in regional countries where ProCredit operates. Thus, the practice of our bank in establishing and managing long-term business relationships with SMEs are essential and in these unforeseen times of financial markets, the decisions to finance or not, are faster and easier to make.

At such times, changes in macroeconomic policies that directly affect how SMEs do business, are expected. One of the measures expected is the increase of the interest rate by the ECB in the European market, after the increase of this interest rate by the FED in the US market. This directly affects the management of finances and investments by businesses. On the other hand, as the pandemic is coming to an end, consumers may start spending less on goods and products and more on services. If the Russian attack of Ukraine ends, oil and gas prices could fall and this could lead to some lower commodity prices, although this does not seem to be probable given current developments.

Inflation is defined as the increase in the overall price of goods and services that causes a drop in purchasing power. The global wave of inflation has certainly had a major impact on the local economy of Kosovo, where inflation is reported to have increased, according to KAS, to 11.2 percent. This trend was more noticeable at the end of last year, meanwhile, prices are still rising. Given that the economy was still transforming from the 2020 lockdowns due to the pandemic to rapid growth during the following year, this has resulted in the creation of economic imbalances caused by many factors.

According to many economists, a small rate of inflation is a sign of a healthy economy, like the Federal Reserve of the United States of America aims to keep the inflation rate at around 2%. Starting from the second quarter of 2021, in Kosovo there has been a continuous increase in prices or higher inflation, to reach the level of 11.2%, in April 2022 compared to the same period of the previous year.

ACCORDING TO MANY ECONOMISTS, A SMALL RATE OF INFLATION IS A SIGN OF A HEALTHY ECONOMY, LIKE

THE FEDERAL RESERVE OF THE UNITED STATES OF AMERICA

AIMS TO KEEP THE INFLATION RATE AT AROUND

2%

STARTING FROM THE SECOND QUARTER OF 2021, IN KOSOVO THERE HAS BEEN A CONTINUOUS INCREASE IN PRICES OR HIGHER INFLATION, TO REACH THE LEVEL OF

11.2%

IN APRIL 2022 COMPARED TO THE SAME PERIOD OF THE PREVIOUS YEAR.

There are several key factors that have contributed to rising inflation. Initially, one of the main factors that caused the increase of prices was the supply chain disruption as a result of the high increase in demand compared to supply after pandemic lockdown entered into effect. Rising oil and gas prices are considered another important factor in the rising inflation rate. In this context, the increase in the price of supply and import derives from the increase in the price of oil and gas. This has a significant impact when the high ratio of imports to exports is considered. Another important factor in rising inflation is Russia's invasion of Ukraine. Although not directly influenced, Kosovo is indirectly influenced by Russia's war in Ukraine.

How are businesses and households affected by inflation? If inflation is higher in countries where Kosovo businesses are supplied or import from than in Kosovo, then this causes goods to become more expensive for businesses. Rising supply prices also



According to the World Bank Report on the Western Balkans, inflation will rise due to rising food and energy prices, while declining exports, supply chain disruptions and declining tourism revenues, are expected to slow economic growth.



cause cost increases and influence the profitability of businesses. If the final price of the product increases at the same rate of the increase in supply prices, then we can say that profitability would remain the same if sales wouldn't drop but, according to the economic rule, with rising prices demand falls, which means reduces sales. If household nominal income does not rise as much as prices, then consumers inevitably buy less, which means that real revenues fall, which is known as declining purchasing power.

According to the World Bank Report on the Western Balkans, inflation will rise due to rising food and energy prices, while declining exports, supply chain disruptions and declining tourism revenues, are expected to slow economic growth.

"GDP growth forecasts in the six countries of the Western Balkans during 2022, have been revised downward, from 4.1 percent to 3.1 percent. The economies of Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia,

GDP GROWTH FORECASTS IN THE SIX COUNTRIES OF THE WESTERN BALKANS DURING 2022, HAVE BEEN REVISED DOWNWARD, FROM

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DESPITE SIGNIFICANT RECOVERY FROM THE CORONAVIRUS PANDEMIC, ARE NOW FACING A NEW CHALLENGE DUE TO RUSSIA'S INVASION OF UKRAINE," THE REPORT STATES.

and Serbia, despite significant recovery from the coronavirus pandemic, are now facing a new challenge due to Russia's invasion of Ukraine," the report states.

The Central Bank of Kosovo, meanwhile, in the latest report published states that the country's economy will experience a slowdown because of developments in Ukraine. According to Central Bank of Kosovo, economic growth will slow to about 3.3 percent this year, from 10.5 percent in 2021.

Kosovo's economy, influenced by external factors, is constantly affected by such global developments. Thus, we can conclude that among the main factors that have influenced the rise of inflation are disruption of the supply chain as a result of high demand-to-supply growth following the pandemic shutdown, rising oil and gas prices, the increase of costs in imports as the main derivatives from the increase in the price of oil and gas and Russia's invasion of Ukraine.

"The Kosovo Banker" Student Scholarship



On the 10th anniversary of the publication of the economic magazine "The Kosovo Banker" and with the aim of encouraging the research among young Kosovo economists, the Kosovo Banking Association (KBA) has offered the opportunity to award a student scholarship "The Kosovo Banker" for the best article presented by young economists. On this occasion, KBA has announced an open competition for "The Kosovo Banker" student scholarship, which was won by Kastriot Dautaj, student at the University of Prishtina "Hasan Prishtina" at the Faculty of Economics, Banking and Finance.

Global Inflationary Pressures: Impacts on Kosovo and the Region

Kastriot Dautaj - University of Prishtina "Hasan Prishtina"

The winning article of the scholarship "The Kosovo Banker"

Executive Summary

The purpose of this short science article is to assess the new circumstances created by current economic developments as a result of pandemics Covid-19 and the new situation created after the invasion of Ukraine by Russia. In particular, I will be focused in the increase in prices – inflation due to post-covid situation as a result of supply/demand mismatch, higher energy prices, and inflation triggered as a result of invasion of Ukraine by Russia, two major world exporters in commodities and energy.

Economic activities during 2021/2022 have changed due to new circumstances that have arisen. Various health and

economic crises have significantly affected the global economy and one of their causes is Covid-19 pandemics. The pandemic overturned every aspect of global supply chains, from customer needs and material availability to manpower and digital skills. The average global GDP has fallen by 2.9 percent from 2019 to 2020. We are still recovering from the economic and health crisis, but we are followed by new uncertainties.

The war in Ukraine has caused major supply disruptions and led to historically higher prices for several commodities. European sanctions on Russia have also pushed up prices for essential products

such as oils and cereals. Another facing problem was the increase of energy prices due to the supply and demands on the global wholesale market (BBC).

The impact on the supply chain was due to the sheer complexity of a typical global consumer goods supply chain involving millions of deliveries and thousands of suppliers. To tackle this new challenge “supply chain masters” are creating new end-to-end solutions to innovate a new supply chain – one that cannot be fractured by such black-swan events (BBC). / **The full article can be found at www.bankassoc-kos.com.**



The impact on the supply chain was due to the sheer complexity of a typical global consumer goods supply chain involving millions of deliveries and thousands of suppliers. To tackle this new challenge “supply chain masters” are creating new end-to-end solutions to innovate a new supply chain – one that cannot be fractured by such black-swan events (BBC).



GENTIANA HALIMI

UNIT MANAGER - DEPARTMENT FOR FINANCIAL INSTITUTIONS
BANKA KOMBËTARE TREGTARE KOSOVË

Inflation as a global phenomenon which also affects the economy of Kosovo

The global inflationary pressure, coming from the increase in prices of goods, has been evident in many countries since the beginning of the year. These countries have been struggling by the quick increase in prices. Such increase created implication in many economic indicators. Considering these implications, the welfare of customers was directly affected. There are many factors contributing to this increase such as: Russia's invasion of Ukraine, supply – chain disruption and commodity prices (energy, oil etc.). Having in mind the effects caused by inflation many changes were noticed in the global market such as; tendency towards higher interest rates, tax increase, lower savings etc., and maintaining a healthy inflation rate around 2 percent has become very difficult target to reach.

In February of this year Russia invaded Ukraine, by causing disruption in the world supply chain. After the invasion, many countries started to feel the pressure of the inflation especially for the products which were exported by those two countries. As the war kept intensifying these effects have become

more and more noticeable. Considering that Russia is one of biggest mineral fuel exporter (including oil and gas), and the high dependency that a lot of world countries have, the sanction which were put in place towards Russia had a huge impact throughout the world. On the other hand, Ukraine, as a seed oil, corn, wheat exporter etc. alters the prices for these products.

Our region, as most of the countries in the world, is facing a lot of economic challenges caused by Covid-19 and the repercussions coming from the Russia and Ukraine war. Likewise, other countries worldwide the region

has been facing an energy crisis which correlated with high energy prices. Countries in the region that have linkages with Russia, were the one to feel heavier the impacts. As a result of the combination of these factors our region in general has been experiencing a rise in inflation. The increase in price was mainly reflected in essential products such as bread, edible oil, milk, eggs etc. Taking in consideration that majority of countries in our region are import countries this increase of prices has been “inherited”.

Kosovo, in the other hand felt this pressure in prices coming mainly from food products, electricity and other fuels, transport etc. The global inflationary pressures were significantly present in Kosovo as well bearing in mind that Kosovo economy is import country. This trend is expected to continue through this year. However, compared with other countries in the region, Kosovo is expected to have the highest GDP growth as for the latest World Bank Report (published in May 2022).

There are many factors contributing to this increase such as:

- Russia's invasion of Ukraine,
- supply – chain disruption and commodity prices (energy, oil etc.)



ALBERT DEVAJA
HEAD OF COMPLIANCE DEPARTMENT
BANKA PËR BIZNES

Financial instruments to prevent, control, and delay the impact of inflation

The main causes of inflation are considered to be a country's economic growth, increased money supply in the market as part of monetary policies, and higher taxes that lead to increase off inflation rate.

In addition to the inflation caused by the factors mentioned above, other type of inflation is so called imported inflation, which is caused by a number of factors, such as: reductions or delays in the manufacturing of imported products that are essential for the economy of a country, closing of one or more freight routes, or even conflicts between different countries, which cause the decrease in the quantity of production of such goods that imported into domestic markets, and this eventually influence increase in prices. Since imported inflation differs

from usual inflation, even the tools employed to combat these two types of inflation differ from one another. A country's monetary policies are

The main causes of inflation are considered to be:

- 1 A country's economic growth
- 2 Increased money supply in the market as part of monetary policies
- 3 And higher taxes that lead to increase off inflation rate.

among the tools expected to be used to prevent, control, or delay the impact of usual inflation. In cases of inflation, the main purpose of a monetary policy is to reduce demand for goods, which should in turn reduce the prices of these goods, thus reducing inflation.

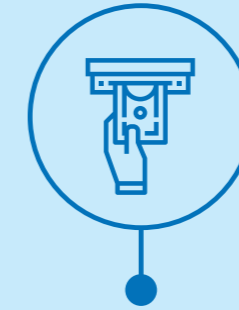
Demand for purchase of goods is decreased by reducing the amount of money that circulates in the market, which leads to reduced purchasing and investment power of people and companies. The reduction of purchasing and investment power would reduce the demand for the above-mentioned goods, which would be reflected in the decrease of the prices of these goods.

The use of the above mechanism has its cost, which can negatively affect the economic growth of a country. Moreover, this mechanism

The tools that can be used as part of monetary policy are:



Banking regulatory institution requirements on banks to increase deposit reserves



Banking regulatory institution intervention to raise or lower interest rates on loans or deposits



Banking regulatory institution limits on the total amount of bank lending



Foreign exchange by the banking regulatory institution (in countries using local currency)

is considered successful in economic theories, but does not always work in practice, due to the fact that there are significant number of external factors, such as the source of rising inflation (if inflation has risen due to global factors, measures taken by a state may be too limited to control it), or even setting the right time to take the measures described above, otherwise these measures may have a counter-effect, meaning that economic growth slows down because of the measures taken, but the inflation rate remains the same or even increases further.

Depending on a country's government system, level of independence of the banking regulatory institution of that country, and the level of regulation of the banking sector by that institution, the tools that can be used as part of monetary policy are: banking regulatory institution requirements on banks to

increase deposit reserves, banking regulatory institution intervention to raise or lower interest rates on loans or deposits, banking regulatory institution limits on the total amount of bank lending, foreign exchange by the banking regulatory institution (in countries using local currency).

All of the above-mentioned tools include the decisions of a country's banking regulatory institution to take steps to lower the inflation rate, decisions which are not always liked by the people of that country, due to the negative side effects that may have. Also, banking regulatory institutions do not always have the independence from the government of a country, to take measure to prevent, control or slow down the increase of the inflation rate.

In cases where inflation is imported through the prices of imported goods

and products, the measures undertaken and tools used to prevent, control, or slow down its impact, are much more limited in scope and scarce. In these cases, as means of preventing, controlling, or slowing down imported inflation, taxes which are applied on imported goods, may be reduced to prevent reflection of inflation on other goods, or to reduce the impact of such inflation to a country's economy. Another tool that is considered important in this case, is giving grants to specific sectors affected by imported inflation, to limit the impact of imported inflation.

Despite the measures and tools mentioned above, it should be noted that economic power remains the main determining factor in a country's success in coping with inflation and its consequences.



ENEIDA THOMAJ
GENERAL DIRECTOR DREJTORE E PËRGJITHSHME
PAYLINK ALBANIA

Some strategies that might be followed in the payment industry during inflationary impacts!

YES, it is true! The factors out of which the market and the payment industry is adapting itself, continue to be unpredictable and unprecedented. These factors had mainly negative effects, but even positive ones were noticed. The question that remains is, what will happen next? What will be our response when the market has inflationary impacts? When every conversation starts with the comment: Prices have risen!?

Payments have always given solutions for such scenarios and continue to give a “green light” during these times. Financial and non- financial institutions, including here even providers of payment services, has been in focus of regulatory compliance during the last 2-3 years as per the latest laws and regulations which has recently been approved. Just by observing the Albanian and Kosovo latest Regulatory framework drafted, which help towards increased market competition, corporate governance, financial inclusion and facilitating the use of means of payment, we understand the “burden” placed on the service payment providers. But on the other hand, this doesn’t imply that payment industry must lag on offering the alternative options to

optimize payment channels. As far as the market requires it!
In the latest report of “The Great Payment Transformation” (emarchantpay, 2022), from 954 merchant, leaders in industries such as retail, airlines, travel etc., 91% of respondents confirms that they are experiencing loss in revenues because of the actual implemented payment solution.



Furthermore, **53% of the respondent predicts an increase in revenues by around 4-6% in the next two years by implementing changes in the payment channels that they use.** This indicator is more than enough to urge providing alternative payment channels. Merchants are asking for new solutions and they are ready to invest in such alternative solutions.

Naturally the next questions that comes to mind is, why are alternative channels being so popular now?

The simplest and straightforward answer is *because costs are reduced!* And everybody appreciates reduced costs. In developed markets like US and UK, recently there is an overgrowth of “closed loops” from merchants, where about 45% of fintechs and payment service providers are planning to launch such close loops, associated with a payment card, within 2022 (PaymentsCards&Mobile, May 2022). “Closed loops” operate through payment cards, issued from a specific merchant for the loyal customers of the merchant (in collaboration with a local bank, where the latter aims to lower the costs of license with international payment schemas through this collaboration). These cards are used in the merchant’s terminals (being physical terminals like POS, or online terminals) lowering this way processing costs of payment transactions because the latters are categorized as local transactions (eliminating this way interchange fees). This alternative local payment channel is expanded even more when a close loop is applied to **some local merchants**. These merchants enter in an agreement between them where they use co-brand cards, and loyalty schema are applied to the mutual customer portfolio of the merchants being in such schema. PayLink has offered similar solutions in Albania, where alike schemas are requested in industries such as gas/oil, markets, or even local banks. Furthermore, PayLink offers also “full” local solutions, implying here that a card is branded as PayLink Schema, and is accepted in all local terminals in a market, functioning within the same PCI standards of payment industry. Both options are valid in reducing IRF costs. The first option gives flexibility in card usage even out of the local territory where the card is issued, meanwhile the second option targets that specific

customer segment who operate within the local territory. The selection of these alternatives remains within the discretion of the institution, based on the behavioral approach of its customer portfolio.

As per the above, these market needs in lowering costs, are orienting now toward “Card-as-a-service” solution. Institutions which do not have the necessary knowledge to launch and to manage cards, which do not want to invest in human resources and in infrastructure, are relying more on and more in their processors to get a total package of services. The latter, through collaborations that they have with international payment schemas and with other service payment



THE LATEST REPORT “FUTURE READY PAYMENTS TECHNOLOGY RESHAPES THE PLAYING FIELD FOR THE INDUSTRY” (IDC FINANCIAL INSIGHTS, JANUARY 2022) EMPHASIZES THAT 74% OF PAYMENTS PERFORMED FROM CONSUMERS WILL BE REALIZED FROM NONTRADITIONAL FINANCIAL INSTITUTIONS WITHIN 2030.

providers which offer parts of the entire solution, are collaborating to propose “standard” package which include different elements such as licenses, API solutions, virtual cards, loyalty schemas, compliance services, card management systems and terminal management system, fraud monitoring etc. The latest report “Future Ready Payments Technology Reshapes the Playing Field for the Industry” (IDC Financial Insights, January 2022) emphasizes that 74% of payments performed from consumers will be realized from nontraditional

financial institutions within 2030. This observation confirms the potential that both the markets of Kosovo and Albania have regarding “non-banking” consumer segments, being so a very good opportunity to target.

On the other hand, this doesn’t imply that the banking sector must stay behind in this regard. For the banks a decision has to be made as of now: To build with internal resources, or to collaborate with third parties for additional / innovative functions required from the market? In order to answer to this question, the latest report from McKinsey’s Global Banking Annual Review (December 2021), recommends continuous **innovation and fast go-to-market for the banking institutions** giving success story such as WeBank (launching around 1,000 updates per month in not more than 11 days from product idea to “go live”), or NuBank having an approach toward increasing financial inclusion by giving personal credit for individuals who don’t have a credit history. Without giving more arguments, it is understandable the answer to the question for the banks.

Concluding with a recommendation from Payments Innovation Jury, in the latest report “Innovation by Domestic Payments Systems in the Pandemic” (ECPA, April 2021): **“Investment in systemic innovation is a must”**, these times are imposing continuous change and as such banks and other institutions in the payment industry must implement such culture. There are many factors which have impacted in the increase presence of fintechs in the region, and in their better financial performance in the market (being such the ability to respond to specific client needs, but also the ability to benefit from the collaborations with processors, to optimize costs and time to market, in launching innovative products in the market). It is a necessity that even traditional payment institutions continue in the same pace, in order to keep their market position.

Banka Ekonomike – Sponsor of Basketball Cup of the Republic of Kosovo

In the framework of social responsibility, Banka Ekonomike has continued supporting sports in sports projects. Basketball is one of the most popular sports which, has provided entertainment for many years in the basketball elite.

Recently, we have supported the organization of the Basketball Cup of the Republic of Kosovo where these competitions take place in women's super league quarterfinals, men's super league quarterfinals, first league quarterfinals, semi-finals, and finals in three categories.



Global Money Week

To mark the Global Money Week, Banka Ekonomike has organized several awareness activities in various primary schools in Kosovo.

All this for the purpose of financial education and raising the awareness of children by teaching them how to take care of



money, how to save, and the importance of managing it for a brighter future.

The importance of raising awareness on savings is one of the topics that has been addressed for more than a century, constantly advocating, especially to the younger generations.

Savings provide us with the realization of dreams, and a more secure future for all generations.



BKT Kosova has joined the initiative to support the creation of the memorial in honor of health professionals "For Life"

Over the years, BKT Kosova has continued its support in many different projects, always committed to play an even greater role in the community in which it operates. Supporting various initiatives through donations, sponsorships, voluntary and charitable activities, reflect the values of the institution for the company and its shareholders. It is always a pleasure for the bank to show commitment and support to corporate social responsibility for

society. To contribute to the work and sacrifice of health workers is an honor, so BKT Kosova has joined the initiative to erect a memorial to the contribution and professional dedication of the doctors over the decades. The obelisk was inaugurated on February 16 in front of the UCCK, on the day which was declared a day of remembrance for health staff.



International Client Day

To mark the International Client Day and to reward their loyalty, Banka Ekonomike has rewarded the clients who have their birthdays today with a modest gift!

We infinitely thank every client of Banka Ekonomike for giving us their trust and appreciation.

Donation for the primary and lower secondary school "Ibrahim Mazreku" of Malisheva



As part of the responsible practices, BKT Kosovo has supported over the years many educational projects, mainly through donations, contributing to the development of education in the Republic of Kosovo. BKT this time has supported the creation of the Computer Cabinet of the lower secondary school "Ibrahim Mazreku" which is the only school in the city of Malisheva, where the total number of students in this school is 900.

The school was equipped with 20 computers, 20 monitors and 2 printers which will help improve the conditions for following the developments of information technology and will facilitate the learning work.

DSK raises over 38 thousand Euros from project supported by BPB



Down Syndrome Kosova has managed to raise 38 thousand 595 Euros from the “A Postcard for You” activity, supported by BPB. The postcards were distributed in celebration of March 21, International Down Syndrome Day. BPB pledges that it will continue to stay close to this association, with which it has already signed a 5-year partnership.

BPB inaugurates the Human Resources Academy

On May 19, starting at 14:00, at the BPB HQ the Bank for Business inaugurates the Human Resources Academy.

The ceremony will be attended by guests from domestic banking institutions and partners of the Bank for Business.

The Human Resources Academy is the outcome of five years of intensive work done within the BPB Junior Program, which initially started as an idea for career guidance for students as well as the recruitment of new staff within the institution.

The students selected for this program have been trained for three consecutive months by the best experts in the field of banking and not only, while now, final preparations are being made for the new generation of this program, to which more than 400 young people have applied.

This Academy provides nearly 400 BPB employees with opportunities for



professional development, familiarizing them with new facilities, precisely through modules designed by the best experts in the field.

With the Human Resources Academy, which is already being further developed

BPB employs youths from SOS Children's Villages



BPB, as partner of SOS Children's Villages Kosovo, has employed several youth from this social care non-governmental organization dedicated to supporting children who are abandoned and in need. These youths have been engaged in several different departments within our institution.

according to the designed curricula and our projections, BPB is convinced that we have fulfilled an important task related to internal advancement, which obviously includes new staff as well.

Guided tours of Kosovo's beautiful mountains - BPB signs partnership with "Prishtina" Alpine Club



This year, the Bank for Business, in cooperation with the “Prishtina” Alpine Club will explore some of the most beautiful places in Kosovo and bring back wonderful images from our expeditions. BPB has signed a partnership agreement with the “Prishtina” Alpine Club, aimed at organizing a series of activities related to the environment, culture, tourism, society, sports, and socialization. These guided tours to be organized by the two partners, include joint presentations that seek to raise awareness about the importance of getting to know the country's rich natural landscapes and cultural heritage. The agreement was signed by BPB's Deputy Chief Executive Officer, Artan Sadiku, and the representative of the “Prishtina” Alpine Club. Sadiku stated that BPB, as a national bank raised on local capital, is always committed to promoting local culture and tourism, and that BPB perceive this is their duty towards citizens and clients.

NLB Banka together with FC Prishtina donate sports shirts to children

There is nothing more precious than a smile on the faces of children, so with much love, today NLB Banka together with the football players of FC Prishtina donated sports shirts to 6th grade children at SHFMU “Dardania”.

Social responsibility is at the heart of NLB Banka's strategy, and we pay special attention and importance in supporting professional and youth sports activities. We traditionally support the oldest football club in Kosovo, FC Prishtina, so with the players of this team today we organized a visit to SHFMU “Dardania” to make the children happy. Children meeting with their sports idols was very emotional.



Sport unites us all and is important for our physical and mental health. It has the power to unite and change the world.

Children, you are our future.

Play, dream, win!

ProCredit Bank Plants 200 Trees in Various Spaces

Through its continuous contribution and other actions that the ProCredit Bank undertakes towards a cleaner environment, recently 200 trees were planted in three different locations in Kosovo. In close collaboration with the respective municipal authorities, a large part of these trees was planted along one of the main streets in

Pristina. The other part was donated to the city of Mitrovica and were planted in the vicinity of the artificial lake, making that area even more pleasant for the residents and visitors. Also, in collaboration with the Municipality of Pristina, the ProCredit Bank became part of the revitalization project in the village of Grashtica. The

transformation of the space from an illegal landfill to a clean and green area is being achieved through cleaning, planting of trees etc. Through such actions, the ProCredit Bank aims to raise awareness about the importance of environment protection and to have an impact on the improvement of air quality. Be a friend of the nature!



TEB Bank and EBRD in Support of Digital Transformation of Women's Businesses

TEB Bank, in cooperation with the European Bank for Reconstruction and Development (EBRD) in honor of the International Women's Day, March 8, organized the event "Women Entrepreneurs Embracing Digital Transformation".

Participants in this organization were representatives of women-owned majority businesses, which over the years have cooperated with TEB Bank and EBRD.

The main topic of this event was the digital transformation of the business, as well as the unveiling of online sales platforms, which further develop their businesses.

Representatives from SheInspires, Appdec and UNWOMEN shared with the participants the digital platforms created especially for their enterprises. After the presentations, participants had the opportunity to attend one of the trainings: "Digitalization of accounting, an important element for business growth" by Melita & Partners and "Grow your business with digital marketing" by Think B Agency. TEB Bank is the only one in the banking sector



in Kosovo that offers a special program for women's businesses. Since the establishment of this program, more than 1,500 women businesses have been supported with a total credit value of 47 MIO EUR and more than 30 trainings on important topics on business progress. TEB, Bank for a changing world!



TEB also sponsors Manifesta 14

TEB Sh.A. Bank has also signed sponsorship agreements with the organizers of Manifesta 14.

The largest cultural event in Kosovo for 2022, Manifesta 14 Prishtina will be sponsored by TEB Bank, after the agreement reached between the two parties. Manifesta is considered as one of the most important art biennials in Europe and this year it will be held in the capital of Kosovo, Prishtina, from 22nd July to 30th October. The organization contains a 100-day program with art, performances, events, and workshops with the aim of empowering citizens to return public spaces for reuse. Corporate Social Responsibility is one of the four main pillars of BNPP Paribas, a Bank

of a global reach, a part of which is also TEB Bank in Kosovo. TEB Bank is a supporter of many sports activities aimed at representing the country, especially in partnership with the Kosovo Football Federation, the Kosovo Basketball Federation, the Kosovo Olympic Committee, and the Kosovo Paralympic Committee. We are proud to be a supporter and part of the European biennial Manifesta, which is held for the first time in Western Balkans, and which puts Kosovo on the European cultural map.

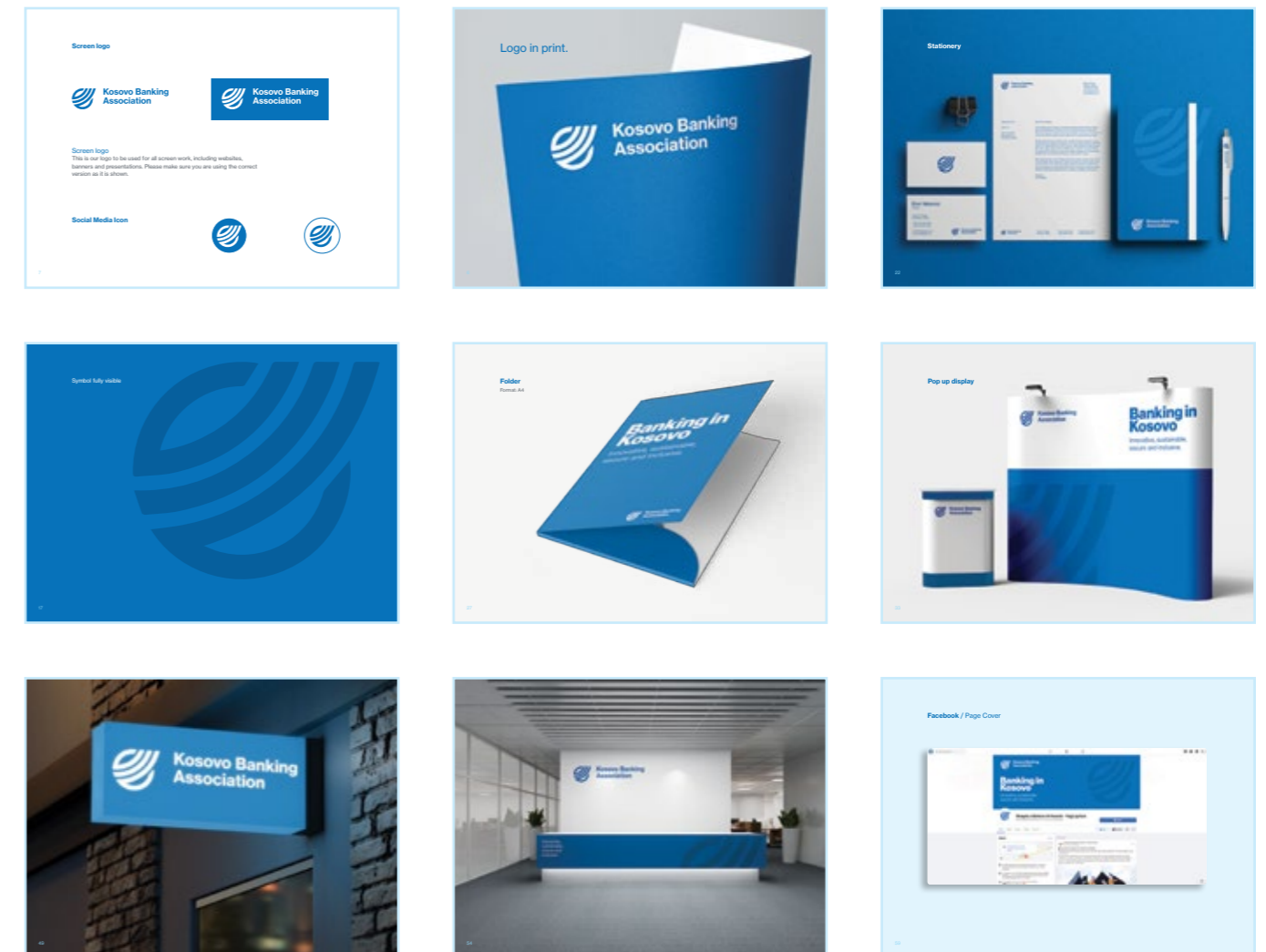
TEB, Bank for a changing world!

The Kosovo Banking Association presents the NEW BRAND & visual identity!

On the twentieth anniversary of the establishment of the Kosovo Banking Association, we are very excited to introduce the new KBA brand. Innovative, Sustainable, Secure, and Inclusive are just some of the values that our new brand symbolizes.

The new LOGO of the Kosovo Banking Association is inscribed with the circle representing the coin, unity, shared interests, and inclusiveness as well as three lines going through and beyond the circle representing stability, innovation, and sustainability, which are the values embodied by our banking sector as well.

The refreshing and energizing colors, circle and lines combine into an analog of they symbol of the Euro which represents the commitment and aspiration of the banking sector of the Republic of Kosovo to progress towards the European integration.



Join us in our renewed enthusiasm and energy that our new brand brings!



THE TRAINING CENTER OF THE KOSOVO BANKING ASSOCIATION



EDUCATION IS THE BEST INVESTMENT



PARTNERS:

LUXEMBOURG
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The Banking Training Center within its training program also offers internationally recognized certifications, webinars and e-learning training in the field of banking industry.



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Kosovo Banking Association is member of the European Banking & Financial Services Training Association.



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