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DEPARTMENT: BANKS AND FINANCING

MASTER THESIS

**BANKING FINANCIAL SYSTEM ANALYSIS IN KOSOVO – STUDY
CASE OF NLB PRISHTINA BANK**

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CHAPTER FOUR: SUMMARY AND RECOMMENDATIONS

- I. Growth and development of the banking sector (2000-2014) has been associated with the creation of banks and increasing their number, with the expansion of their products and their variety, as well as with the extension of geographical coverage covering the entire territory of the country. Although there is an ongoing effort by banking operators to provide a broad customer base by increasing competition, this increase only in the last year has resulted in lowering interest rates on loans and reducing the difference between interest rates in loans and interest on deposits. Although the number of banks operating in Kosovo is not small, all 10, the country's banking system remains highly concentrated, where about 75% of the total assets of the banking system belong to four major banks (PCB, RBKO, NLB and TEB). Therefore, in the framework of the liberalization of the banking market, there is room for the introduction of new banks in the Kosovo banking market as a way to increase competition and improve the services and especially in the continuation of the downward trend of credit interests.
- II. Sufficient capital adequacy rates generally remain within the norms set by the Central Banks. Although there has been a decline over the years, the NMK continues to be at satisfactory levels in most commercial banks. This level should be maintained and raised in some of the banks.
- III. Despite the entry into force of the law on consumer rights protection, there is still a lack of information, and it is expressed in the impossibility of mainly individual clients and small businesses to find comprehensive, comparative and up-to-date information for all banks, in order to have the opportunity to make their own choices. This is partly due to their limited ability to process information and partly to the lack of effective information provided by banks. This makes the choice of the product and its most difficult customer service and reduces the pressure of banks to compete with the prices, at least for certain products or the quality of service.
- IV. The lack of transparency, presented above through the impossibility of consumers to efficiently compare the services provided by banks has contributed to a low level of customer's ability to move from one bank to another. So, the process of switching the bank is a difficult and costly process for the consumer, and in most cases, it takes time

and it forces the client that it will remain "barricaded" to a certain bank. In this regard, especially in difficult positions are companies which the consumer protection law does not protect and allows banks not to consider it as a consumer because they are doing business even though they are consumers in relation to the bank. From this fact, these companies pay the highest cost of switching from one bank to another.

- V. Also, the difficulty of bank switching by customers due to the penalties that the banking system do favors many existing banks in relation to the newly licensed new banks despite their lower prices and services, and certainly in this regard it is the duty of the BQK to create equal conditions for all operators.
- VI. It is necessary to make the rating of the banks in order for the international credit institutions to provide funds through which they will be directly affected by interest rates.
- VII. Support activities for the creation of arrangements between local banks and governmental / donor finance organizations and banks from the outside world to establish lines for financing SMEs in general, and in particular for manufacturing, agricultural and agro-industrial enterprises.
- VIII. The security of credit placements should be increased through the effective implementation of the guarantee instruments - pledge and mortgage, increasing the efficiency of the courts and giving priority to the execution of these cases, the improvement of movable and immovable property registers, digitalization of the cadaster. In this regard, the organization of special mechanisms in the courts of the country, so that business disputes and the implementation of business premises are treated in a special, short, and efficient manner. In this way, it would decrease the risk of the loans and consequently there would be a reduction of interest rates among the banks, one of the main arguments for maintaining high interest rates having the credit risk stemming from the ineffective functioning of the judiciary. Also, a large number of businesses and individuals cannot access credit precisely because their properties are not registered in the cadaster and such properties cannot be mortgaged.
- IX. The main source of liquidity of the Kosovo banking system comes from the provisions, which although having a trend of lasting maturity in the recent years, most of them have a maturity of up to one year (over 50%), the rest up to two years, and only a small part of a maturity of more than three years. As a result, banks need to stimulate longer maturity

provisions in order to be able to make long-term loans. Increasing public confidence in banks has a big impact on this.

- X. As still the interest rate cut between loans granted by the banks and the deposits they receive is high, the narrowing of this margin and mainly the interest on loans should be aimed at. For this purpose, establishing a guarantee fund with donor support that will serve as a guarantor for banks during the crediting process will increase the confidence of the client and will make them give loans at lower interest rates. Recently there is news that steps are being taken in this regard.
- XI. Also, the BQK would need to set a rule on transactions through POS terminals because almost every bank has already put its payment facilities and thus has created difficulties for businesses in their management. It would be nice and very interesting for the BQK to select an outsider who would manage the payments of all bank cards through a single POS.
- XII. Under conditions of impact on the effects of the global financial crisis, commercial banks should pay particular attention to the quality of the credit portfolio. For this reason, along with the strengthening of the central bank supervisor of Kosovo, commercial banks have to strengthen their internal risk departments.