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FACULTY OF ECONOMICS - MASTER STUDIES

DEPARTEMENT: FINANCIAL MARKETS AND BANK

MASTER THESIS

THEME:

**CREDIT RISK AND STABILITY OF THE FINANCIAL SYSTEM IN  
KOSOVO**

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Pristine, June 2014

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## **ABSTRACT**

In this paper are discussed two important topics: Credit risk and the Stability of the financial system in Kosovo. Banks have a unique role in the financial system and the banking system performance has a huge impact on the financial system and country's economy. Therefore, the above- mentioned entities in the paper are examined more in terms of banks and banking business. The paper consists of several chapters.

What is the risk, what are the mechanisms and risk management techniques, could we foresee the future, how safe is the future and similar issues are elaborated in the first chapter.

In the second chapter we have described and elaborated credit risk, which increasingly takes place in business with a focus on banking business.

Chapter three elaborates information and data on the stability of the financial system in Kosovo, also based on the banking system, which due to its size and function that distinguishes from other financial institutions, bears the brunt of the stability of the financial system in Kosovo. Insurance companies and pension funds have been roughly described. All quantitative data for the financial system in Kosovo are taken from "Financial Stability Report" (RSF), published by the Central Bank of Kosovo. In Kosovo, as in many other countries banks are regulated and examined institutions in the financial system. I will work to demonstrate the role of the Central Bank in the quiet operation and stability of the financial system. The third chapter will explain the methodology used in the treatment of this problem. And the last chapter consists of conclusions and recommendations.

## **CONCLUSIONS**

1. Good and on time mismanagement of risks and the failure of risk indicators often has led banks and economies of the countries to decreasing.

2. Identification, evaluation, discussion and control of effective risks, genuine implementation of techniques and mechanisms of managing risks is a protective measure and often decisive for the functioning of a healthy financial system and a vital economy.

3. The banking system in Kosovo continues to be sustained and based on indicators sustainability demonstrates that it maintains satisfactory level of liquidity, capitalization and low exposure to financial risk.

4. The banking system has a unique role in the complex structure of the financial system and the entire economy of the country. Banks in Kosovo are regulated and examined financial institutions from the Central Bank of the Republic of Kosovo. Why banking regulations restrict the banks to keep risky assets is exactly the reason to preventing major risk exposure.

## **RECOMMENDATIONS**

1. The future is not always safe. Besides the goods, benefits and growth that a business plans for the future must necessarily have a smart preparation and great commitment in managing uncertain situations and different risks, which can make a business more profit but also challenging.
2. Kosovo's banking system should install effective management of credit risk, in accordance with the prescribed rules and norms of the Central Bank of Kosovo, in order to harmonize the laws applicable in the country and their further reform.