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DEPARTEMENT: FINANCIAL MARKETS AND BANK

MASTER THESIS

THEME:

**CREDIT RISK OF BANKING SYSTEM IN KOSOVO**

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## INTRODUCTION

As a country in the first steps of a market economy, businesses and the public in Kosovo have yet to learn and become aware to conceive rightly risk and its relation with the expected return. So, not only in the early years but now businesses and the public equate risk with risk. Obviously, this is a wrong draw. This is not for a linguistic concept that has to do with the selection of the appropriate term for this phenomenon, but the real perception of market operators and the change of this perception of what risk represents in reality. The risk in literature and economic models are known as the uncertainty on the outcome of next year. It is measured by the standard deviation of possible outcomes from the results anticipated. Deviation in the result may be positive, which means the opportunity for lower profit than forecast. So the risk is understood as the probability to lose while provided profits are not perceived as the undertaken risk.

Although banks have the same risks with other businesses, in particular the main risks affecting the banks are:

- Credit Risk
- Operational risk
- Liquidity risk
- Market risk
- Interest rate risk
- The risk of foreign currency

Banks need to manage carefully because an ineffective risk management can quickly lead to the failure of the bank. If a bank is perceived that it is in the position of poor financial depositors would withdraw their funds, other banks will not lend on one hand and bank itself will not be able to sell securities debt in the financial markets. All this will further aggravate its financial situation. Fears of bank failures were a major cause of the credit crisis in 2007-2009.

## CONCLUSION AND RECOMMENDATION

And we can finally give an overview on the subject that is interesting as well as voluminous and noted that efforts have been made to be given a recapitulates on "Credit risk in the banking system in Kosovo". In this research, I have been concentrated in operational policies on the oversight of the Bank of Kosovo, which is the document that establishes criteria for a continuous oriented monitoring of risk.Kosovo where the bank considers that the banking industry should review the strategies of increasing banking activity, harmonizing well with the needs for qualified people as well as financial and technological needs.Concluding that all these require the strengthening of the internal audit system, promoting structures to assess and manage operational risks in general.I'll explain more or less the importance of my paper except of credit risks, and risks that are listed in the paper I will specify the current situation in our country.Based on the research the main factors of Kosovo banking system are analyzed. Every bank in the world is faced with different risks but in Kosovo we have analyzed the sectors that are faced with risks are the credit sector and liquidity sector.But Kosovo's banking system is regulated and supervised as a result of effective supervision by the Central Bank of Kosovo and the successful management of banks for this we say that it has achieved a financial stability.Knowing that Kosovo is relatively new market banking, commercial banks and CBK have managed to develop different sectors but is concentrated in the credit sector, thus increasing the loan portfolio, but also with this we can have then different risks.However, because the financial crisis in Euro zone credit market is faced with businesses that have high exposure to more credit risks. Because of this high exposure to credit risk in Kosovo banks face credit risks which still today continue.We can say that except crisis there are several factors driving the growth of these risks and they are also not functioning of the legal system and delays facing the banks which have to do with the problematic cases. In general, the banking system in Kosovo is considered as sustainable and stable.This stability is the result of advanced criteria and procedures for assessment of loans that subsequently results in a high quality of loan portfolio. Also important role in the stability of the financial system is the provision of information for the performance of borrowers who continues to play the Credit Registry of Kosovo.Besides the credit sector worth mentioning is that the sector of liquidity is vulnerable of different risks, but the liquidity of the banking sector continues to be satisfactory through the appropriateness of liquidity risk management.In conclusion, we can say success in overcoming or mitigating these barriers encountered in the banking system in Kosovo is a success if there is availability of efforts of government and international institutions trying to improve the institutional environment and its supervision. We may conclude that such detailed analysis of this topic contributes to expand professional horizons and enrich the candidate's literature in the economic subject in Albanian by making genuine analysis with case studies on the banks of Kosovo.