

# *Consumer behavior towards loan interest rates in Kosovo*

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## **Abstract**

The main purpose of this study was to study the consumer behavior on the loan interest rates in Kosovo. This study is based on the data collected through direct interviews with consumers who have loans from commercial banks in Kosovo. The results obtained show that 98.1% of respondents think that bank in Kosovo offer loans with high interest rates. Results obtained from respondents indicate that 96.1% of them think that it is reasonable that banks reduce/lower interest rates and offer loans with lower interest rates, while another interesting result shows that it is an opinion that banks have agreements among themselves in order to keep this high rate of interest, 49.1% of respondents are of the same opinion. Commercial banks operating in Kosovo have justified these high rates with the high risk of loan return, but 51.7 % of respondents do not share the same opinion as banks that the risk of return is the reason for high rates of interest, since commercial banks that operate in Kosovo, stand much better than other Balkan countries in bad loan ranking.

**Keywords:** *Consumer behavior, interest rate, commercial banks*

## ***Introduction***

Kosovo's recent history is characterized by transition processes from centralized planning, to market-oriented open economy. Lately, in order to provide more complete information to different industries, consumer market analysis in Kosovo has been a subject of several

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research studies.<sup>1</sup> The economies of many countries of the world do not attribute due importance to the consumer market analysis, although practically this issue deserves special attention<sup>2</sup>, the consumer is considered as the last but the most important component in the food chain. This is one of the areas that will positively affect the overall balance of the market in Kosovo and in alignment/approximation with the EU market standards and policies. Regarding, consumer market analysis towards different products, numerous authors in their studies<sup>3</sup> show that there are significant differences of consumer market analysis in different countries. Analysis of consumer markets is defined as a community of action, attitude and decision concerning its use in order to provide income for purchasing goods and services. The main function of the production – marketing line, represents a serious constrain/limitation for sustainable development of sectors of the economy<sup>4</sup>.

### ***Material and method***

The research (sampling) was conducted in Prishtina. This research was conducted in the period of time April – May 2013, and is based on 155 interviews, conducted through direct interviews with bank consumers that have loans from commercial banks in Kosovo. The average duration of an interview was approximately 15 minutes. The market research preceded the drafting and discussion of the questionnaire which contained these key attributes: Interviewee's residence, interviewee's gender and age, and also other questions that can be found in research results. The basis of the research was the

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<sup>1</sup> Njazi Bytyqi, "Analysis of consumer Behavior in Regard to the Beef Meat in Kosovo", ne: *Agriculturae Conspectus Scientificus*, 2009, f. xy.

<sup>2</sup> Njazi Bytyqi, "Analysis of consumer Behavior in Regard to the Beef Meat in Kosovo", ne: *Agriculturae Conspectus Scientificus*, 2009, f. xy.

<sup>3</sup> Verbeke, Wim. and Viaene, J. 1998. *Consumer behaviour towards yoghurt in Belgium and Poland: a survey in two regions*. British Food Journal, Volume: 100 Issue: (201–207).

<sup>4</sup> Kotler, Philip and Keller, Kevin: *Marketing Management*. 12th ed. Pearson Education, Inc. Upper Saddle River, New Jersey, 2006: 21

collection of data through direct interviews with consumers who have loans from commercial banks in Kosovo. Mainly, the interview is conducted where respondents answered the questions asked by the author. The data were collected by the interviewer and were recorded on the questionnaire. After completion of the interviews, the data were recorded in a data base statistical program SPSS. Also, the whole statistical base will be based on this program (SPSS). Within the work methodology for completing this paper, we have used the method of analysis and comparison.

### Results and their discussion

In the following we have presented the data diagram and we have also made comments for each diagram. The results related to consumer opinion regarding the interest rates of commercial banks in Kosovo.

It is thought that for some consumers the time of loan approval is more important than the other factors, since these consumers have an obligation to complete that the time would not wait, but based on the responses of responders we have as following:

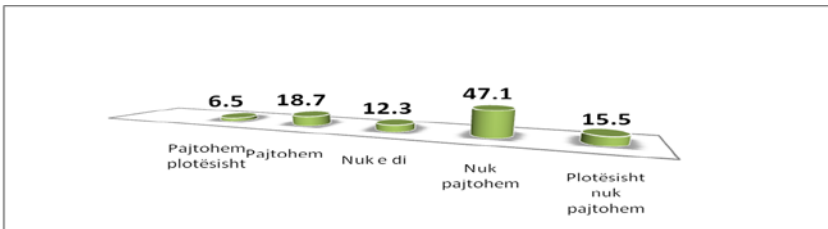


Figura.1: Loan approval time is more important than interest

6.50% of respondents strongly agree, 18.70% of respondents agree, 12.30% of respondents never thought about it when they have taken the loan and do not know the importance of the loan approval time, 47.10% of respondents disagree, and 15.50% of respondents do not fully agree. Based on their answers we can say that the time of approval it is not the key important factor that has an impact on the time factor.

Regarding the information that are important for taking the loan, before deciding to take the loan are introduced in Figure 2, from which we can distinguish the consumers high level of perception with 77.4% as contributing factors upon getting information when deciding to take a loan, then consumers impacted by period of loan payment/return 9.7%, while about application procedures (4.5%), colateral (2.6%) also did not produce any important result, proceeded by taking mortgage (1.9%) from the bank when they decide to take a loan with a small affect/impact of the perception importance, while in 3.2% consist of other impact factors.

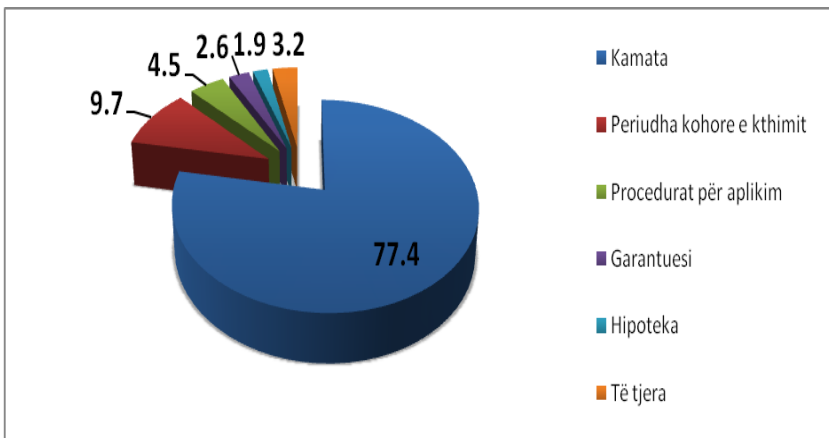


Figure 2: Consumers' perception regarding the interest of obtaining loan information before deciding to take the loan/credit.

From these data, extracted from the Figure, it can be said that it does not mean the financial part should be of interest only to an Economist, when it is known that the interest rate it has a direct impact in the incomes of the customer that takes a loan, therefore over 77% of respondent's concern on interest rates (interest) than other procedures.

Considering that in Kosovo, the need to take a loan is too big, and this is proved by CBK where the overall value of loans issued/granted by the banking system in Kosovo, in June 2012, reached to 1.77 billion Euro.

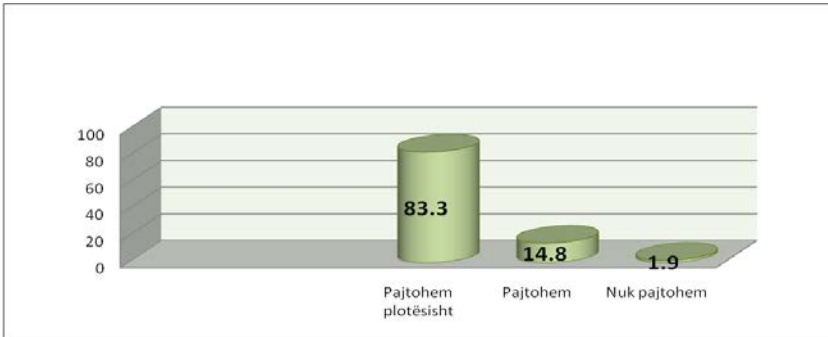


Figure. 3: Banks in Kosovo offer loans with high interest rates.

Many of Kosovo citizens the only way to improve their living standard is to take a loan, while seeing this high interest of citizens, banks that operate in Kosovo did not lower interest rates, but they continued and still continuing to offer loans with high interest rates, 83.30% of respondents strongly agree on this, 14.84% only agree, while only 1.93% disagree. 96.13% of respondents agree that banks should lower their interest rates, because high interest rates are not allowing economic entities to expand their activities, and thus to open new jobs, and consequently diminish the level of unemployment and poverty, and this is one of the reasons to lower interest rates.

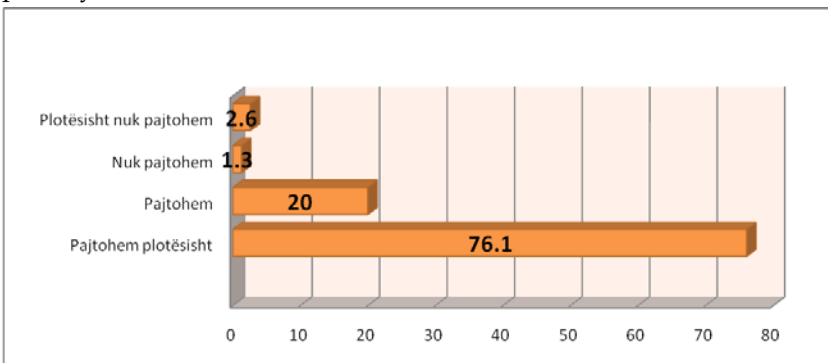


Figure.4: Banks should offer lower interest rates.

On this, 76.10% of respondents strongly agree, 20% agree, 1.30% disagree and 2.60% strongly disagree.

Secret agreements that banks do among themselves are differently called as cards. It is very important to know that these kind of agreements, which are in favor of banks by increasing bank benefits, and on the other side harm the consumers. If these agreements are confirmed, such agreements are punishable by law,

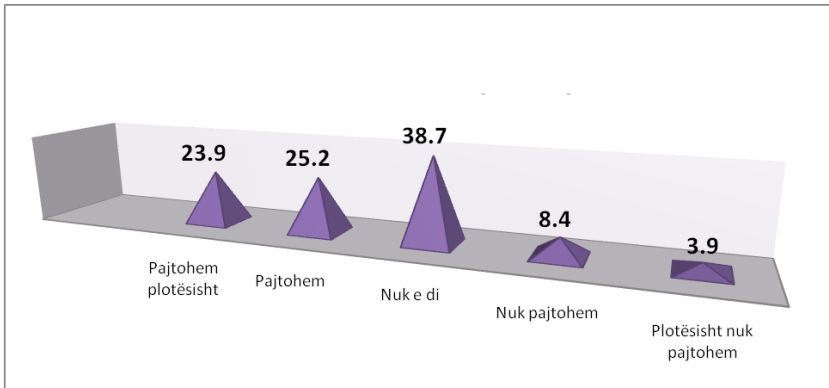
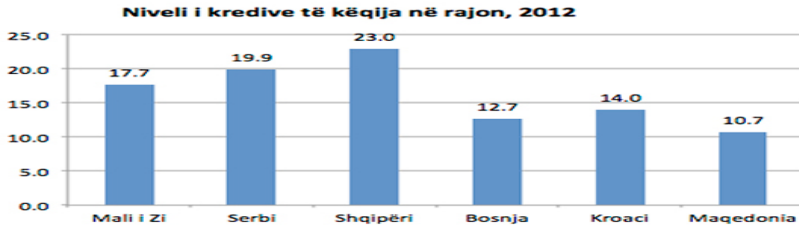


Figure.5: Banks make secret agreements about the interest rates they offer.

Perhaps many consumers are not aware that such agreements do exist, and some of them do not know what is achieved with these agreements, this is best introduced in the results/outcome of the research where 38.70% are not aware of such agreements, while 23.90% of respondents strongly agree, 25.20% agree, 8.40% disagree and 3.90% partially agree.

Despite the global economic crises, the banking system in Kosovo remains stable and sustainable, as well as the loan return is at the satisfactory level. The number of bad loans in Kosovo is the smallest compared with other regional countries. Non-performing loans, which consists of loans classified as doubtful and lost, in June 2012 increased the participation to 6.5 % of overall loans (5.9 % in June

2011)<sup>5</sup>, while in the region, these were significantly higher, and in the following table we have presented the level of bad loans in the region.



From the report of KCB

With this we cannot justify the interest, since it is seen that Kosovo has better situation of bad loans compared with countries in the region.

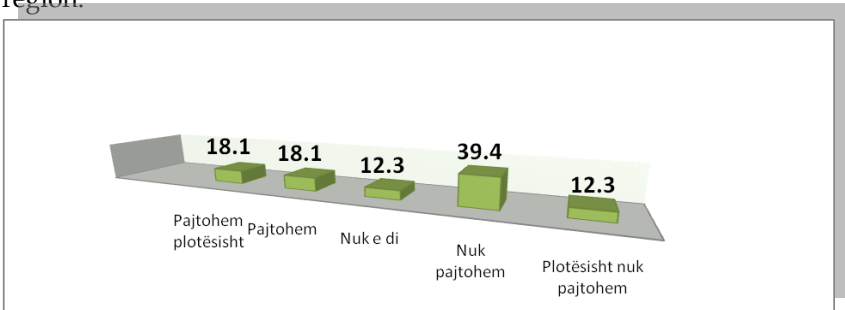


Figura.6: Interest rates in Kosovo are reasonable, risk of return is high.

From respondents' answers to the question that the interest rates are higher because the risk of return is higher, 39.4% of responders disagree and 12.3% partially disagree with this. While analyzing the table of bad loans in the region and also knowing the status of bad loans in Kosovo, it can be concluded that consumers are fully right that they think the return risk cannot be one of the key factors that banks can use it as a justification that the risk of return is affecting in lowering the interest rates, we can say this as Kosovo has a better status of bad loans compared to the countries in the region.

<sup>5</sup> Banka Qendrore e Republikës së Kosovës. *Departamenti i Stabilitetit Financiar dhe Analizave Ekonomike*. Prishtinë, 2012.

## ***Conclusion***

As the research is done and as we have the results of the research, we can draw the conclusions about this topic that is elaborated. Based on research that was done for consumers who have or have had loans/credits, we can state that the first thing that the consumers are interested for is the interest rate, since for them that is more important than the time period of loan approval. Above we mentioned some customer categories who have taken a loan and which factors are the key factors that consumers analyze before they take the loan.

Because in our country the demand for personal or family need in order to improve living standards, such as: Construction needs, renovation, education, for car, and so on, such demands are numerous, and to meet these demands/requirements or needs, the only solution for many citizens is by a loan, It is known that in Kosovo banks offer loans with high interest rates, so with this conclusion agreed 98% of our respondents, high interest rates could possibly be justified with risk of return, but responders disagree on this, and they are completely right, because Kosovo has the lowest percentage of bad loans in the region. Interest is one of the factors that directly affects the customer's budget, and the first thing that they care is the interest rate.

It happens that banks make secret agreements about interest rates, and this action is in the favor of the banks, while for the citizen it is not beneficent, since he is obliged to pay high interest rates, so, all the responders have agreed on this.

In conclusion, we can say that the Kosovo banking institutions play a very important role in the economic life of the citizens of Kosovo.

## ***Recommendation***

We recommend that banks operating in Kosovo should lower interest rates, because they are not allowing economic entities to expand their activities, to open new jobs, and consequently diminish the level of



unemployment and poverty, this is only one of the reasons why banks should lower their interest rates.

We recommend that banks operating in Kosovo should offer/provide more favorable products with reasonable interest rates for the agriculture sector, when it is well known that this sector is very important in Kosovo. Commercial banks in Kosovo consistently have shown a conservative approach towards agriculture sector, which is indicated by high interest rates applicable to loans issued/provided for this sector.

Through these recommendations stated above, we think that it would be reasonable that consumers feel comfortable with banks operating in Kosovo.

### ***Literature***

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