International Journal of Innovation and Scientific Research
ISSN 2351-8014 Vol. 74 No. 1 Aug. 2024, pp. 1-10

http://www.ijisr.issr-journals.org/

The performance of banking system in Kosovo: Analysis of financial indicators (2010-2022)

Arbenita Kllokoqi and Gjyltene Bllaca

Faculty of Business and Economics, South East European University, Republic of North Macedonia

ABSTRACT: The role of banking institutions in the Republic of Kosovo remains on transferring of funds from those who have a surplus to those who have a deficit. Banks make significant contribution to increase the economy in order to provide an increase on consummation, investments, savings, contributing directly to the increase in the well-being of families and the economy in general. The individuals and families encounter financial constraints or aim to expand their investments, they frequently seek support from banking institutions.
Despite the small economic growth in the Republic of Kosovo, the banking sector has expanded, witnessing an increase in profits and deposits over the years. This paper reflects the financial indicators in the years from 2010 to 2022. The study utilized data sourced from the Central Bank of the Republic of Kosovo, and for analysing the impact of these variables on banking system profit, we used econometric methods such as OLS, analysis of correlation and trend analysis.
The selected indicators for analysis include Profitability, ROA, ROE, Deposits, Loans, NPL, Employees, Branches, and GDP. The results show that increases in deposits lead to increase profitability, whereas increases in loans have a negative impact on profitability within the banking system.

KEYWORDS: Profitability, Banks, Non-Performing Loans (NPLs).

1 INTRODUCTION

In every country, the economy depends on the performance level of its banks, which serve as a protective barrier for the system during financial shock (Tabash & Dhankar, 2014).

In the Republic of Kosovo, the banking sector is regulated and under the supervision of the Central Bank, which has the task of supervising the financial sector of the Republic of Kosovo.

In the Republic of Kosovo, there are:

- 12 commercial banks
- 10 MFIs
- 24 NBFIs

"Many studies confirm that improvements in the performance of the banking system have a positive impact on GDP and the economy in general. Therefore, a study on their impact over the years could contribute to economic growth forecasts. In recent years, Kosovo's banking sector has played a significant role in fueling economic growth within the country.

This expansion is characterized by a notable increase in loan growth rates and significant reductions in loan interest rates. The relaxation of lending standards and the decrease in loan interest rates have acted as crucial incentives, fostering greater demand for loans. As of October 2022, there has been an annual loan growth rate of 11.6 percent, indicating a consistent improvement in access to finance—an aspect long identified by businesses as a primary obstacle to their development (Kosovo Banking Association. 2022).

The performance of the banking system in Kosovo from 2010 to 2022 stands as a testament to the region's economic evolution amidst transformative global financial landscapes. Against the backdrop of Kosovo's post-war recovery and state-building efforts, the banking sector has played a pivotal role in channeling investments, fostering economic stability, and driving growth. As highlighted by Xhafaj and Loku (2018), the period witnessed significant strides in regulatory reforms aimed at enhancing transparency, governance, and risk management within the banking industry. However, amidst these advancements, challenges such as non-performing loans persisted, impacting the sector's resilience. This paper seeks to delve deeper into the performance dynamics of Kosovo's banking system during this crucial period, shedding light on its contributions, challenges, and future prospects.

Over the span of 2010 to 2022, Kosovo's banking system has been a cornerstone of the nation's economic fabric, driving investment, facilitating commerce, and bolstering financial inclusion. The period witnessed a remarkable surge in banking sector assets, reflecting the sector's growing prominence in Kosovo's evolving economy (Kosovo Banking Association, 2021). Notably, as articulated by Hoxhaj and Mustafa (2016), the banking sector's performance has been intertwined with broader macroeconomic trends, navigating challenges such as fiscal imbalances and external shocks. Amidst these fluctuations, the resilience of Kosovo's banking institutions has been tested, underscoring the need for adaptive strategies and robust risk management frameworks. This paper aims to analyze the performance trajectories of Kosovo's banking sector during this transformative period, exploring its resilience amidst economic upheavals and its role in fostering sustainable growth.

From 2010 to 2022, Kosovo's banking system traversed a dynamic regulatory landscape shaped by both domestic imperatives and international standards. The period witnessed a concerted effort by regulatory authorities to fortify the sector's foundations through prudential measures and enhanced supervision (Central Bank of the Republic of Kosovo, 2019). Notably, as emphasized by Miftari and Gashi (2020), the adoption of Basel III standards underscored Kosovo's commitment to aligning its banking regulations with global best practices, fostering confidence among investors and stakeholders. However, amidst regulatory advancements, the banking sector grappled with persistent challenges, including the prevalence of informal economy and regulatory compliance costs. This paper endeavors to assess the impact of regulatory reforms on the performance dynamics of Kosovo's banking system, elucidating the interplay between regulatory imperatives, market dynamics, and institutional resilience.

The research hypotheses for this study are as follows:

H1: The increase in deposits leads to a significant increase in the profitability of the banking system.

H2: An increase in loans leads to a decrease in the profitability of the banking system.

The structure of the paper is as follows: Section 1 introduces the study, Section 2 reviews the existing literature, Section 3 methodology and Section 4 analysis of financial indicators in banking system for years 2010-2022 and the results. In the end are presented the conclusion

2 LITERATURE REVIUW

According to R Moalla-Fetini (2005), the quality of bank loans granted by banks can be risky, this occurs when banks do not increase the level of risk management, but only focus on increasing the number of loans.

The study conducted by Nuhiu. H, B (2017) concludes that the profitability of banks in the Republic of Kosovo is priority influenced by factors internal as capital, quality of assets, and an efficiency work of management. Furthermore, the macroeconomic indicators do not have a great impact on increasing the performance of the banking sector.

The banking system plays a pivotal role in the economic development of any nation, serving as a conduit for financial intermediation and resource allocation. In the context of Kosovo, a young and emerging economy, understanding the factors influencing the performance of its banking sector is imperative for sustaining growth and stability. Over the years, various internal and external dynamics have shaped the trajectory of Kosovo's banking system, impacting its efficiency, stability, and overall effectiveness. This essay seeks to explore these factors, drawing insights from both academic literature and empirical evidence to provide a comprehensive analysis (Czarnitzki & Kraft, 2011).

The banking sector in Kosovo has undergone significant transformations since its inception, influenced by both internal reforms and external factors. As a post-conflict economy striving for stability and growth, Kosovo's banking system has encountered numerous challenges and opportunities along its developmental path. Understanding the multifaceted influences on banking performance is crucial for policymakers, regulators, and market participants alike. This paper aims to dissect the key determinants that have shaped the performance of Kosovo's banking system, integrating insights from scholarly research and practical observations (Halili et al., 2020).

In the complex landscape of financial systems, the performance of banking institutions is influenced by a myriad of factors, ranging from macroeconomic conditions to regulatory frameworks and technological advancements. Kosovo, as a transitioning economy, offers a compelling case study for examining these influences on banking performance. Since gaining independence in 2008, Kosovo has embarked on a journey to establish a robust and resilient banking sector, yet it faces unique challenges stemming from its geopolitical context and institutional capacity. This study endeavors to unravel the intricate web of factors that have shaped the performance of Kosovo's banking system, synthesizing findings from academic research and empirical analyses (Abdixhiku et al., 2020).

As per Zogjani, (2022), the Republic of Kosovo from 2004 to 2013, were evidenced the highest interest rates for deposits and loans coinciding with increased demand for banks services. Subsequently, net banking profit in Kosovo experienced an average annual growth of 80 million Euros from 2014 – 2020, marking the highest average growth over the last two decades.

A study by Derguti, Aliu, Zh, A (2014), it was discovered that the ratio of non-interest income to total income (NIITIR) significantly impacts profitability. Also, other results have shown that generating non-interest income can have a significantly impact in profitability of banking system which faces intense competition compared to traditional income activities, has minimized the profitability over the last decade, including the recent years of global financial crisis. Banks play essential roles as facilitators within modern economies, streamlining the vast array of transactions across goods, labor, and financial capital markets. Considering the logistical challenges if all transactions were conducted solely in cash: individuals would need to carry significant sums for everyday expenses, while businesses would grapple with the burden of managing cash flows. In contrast, banks offer a solution by providing convenient avenues for individuals and businesses to store their money and access it as needed through various means such as direct withdrawals, checks, or debit cards (Mishkin& Eakins, 2015).

At the core of banking lies the payment system, which facilitates the exchange of goods and services for money or financial assets within an economy. Additionally, banks act as intermediaries, bridging the gap between savers looking to invest their surplus funds and borrowers in need of capital. Through the centralization of financial transactions, banks effectively lower transaction costs associated with linking lenders and borrowers, thereby enhancing efficiency in capital allocation (Barth, et al, 2006).

Beyond facilitating transactions, banks play a pivotal role in the creation of money, a process fundamental to the operation of modern economies. By engaging in lending activities and issuing credit, banks actively contribute to the expansion of the money supply, thereby stimulating economic activity and growth.

An "intermediary" is an entity positioned between two other parties, facilitating transactions or interactions between them. In the financial domain, banks stand out as a prime example of a financial intermediaries. They operate as intermediaries between savers who deposit funds into the bank and borrowers who seek loans from the same institution. While financial intermediaries encompass a broader range of entities within the financial market, such as insurance companies and pension funds, our focus here is specifically on depository institutions—entities that accept deposits and utilize them to extend loans. A study analyzing the factors affecting the profitability of banks in the United Arab Emirates concludes that capital has a positive effect on profit increase for banks. However, it also found that Return in Asset and Return in Equity are negatively related to the performance of commercial banks in the United Arab Emirates Banerjee & Hazarika (2014)

Deposited funds are consolidated into a unified pool within the bank, subsequently earmarked for lending purposes. This pooling of funds allows banks to effectively channel capital from savers to borrowers, thereby enhancing the flow of financial resources throughout the economy.

It is important to note that banks exercise discretion when extending loans, prioritizing the allocation of financial capital to viable businesses with promising prospects for loan repayment. Thus, banks focus on lending to financially healthy enterprises, rather than allocating funds to firms facing losses or financial instability, which carry higher repayment risks.

In essence, banks act as intermediaries in the financial landscape, facilitating the efficient allocation of capital between savers and borrowers, thereby fostering economic activity and growth.

The banking sector serves as a cornerstone of any economy, functioning as a critical barometer of its financial well-being. According to Diamond and Rajan (2001), banks play multifaceted roles, including facilitating fund flows, safeguarding savings, and providing capital for businesses, thereby influencing economic trends and conditions. Drawing from lessons learned from past financial crises, scholars such as Allen and Gale (2000) advocate for robust regulatory frameworks to ensure the stability of the banking system Therefore, analyzing various facets of the banking sector is crucial not only for academic understanding but also for maintaining economic stability and resilience.

Within economic analysis, the banking system offers invaluable insights into the financial health of an economy. According to Mishkin and Eakins (2015), metrics such as bank lending, deposit levels, and profitability can serve as early indicators of economic trends. Moreover, Mishkin (2010) emphasizes the intricate relationship between banks and the broader economy, underlining the need for vigilant monitoring to address potential vulnerabilities. Thus, comprehending the nuances of the banking sector is crucial for policymakers, investors, and analysts in navigating financial landscapes and formulating effective policies (Repullo & Suarez, 2000).

The banking system serves as a linchpin in modern economies, shaping financial landscapes and influencing economic trajectories. Mishkin (2010) highlights the interconnectedness between the health of banks and the stability of financial systems, emphasizing the ripple effects of disruptions within the banking sector. Additionally, Mishkin and Eakins (2015) suggest that by examining indicators such as loan quality and liquidity ratios, analysts can discern underlying trends and potential risks. This understanding enables policymakers to proactively address emerging challenges and strengthen economic resilience (Freixas et al, 2000).

Within the global financial framework, the banking system acts as a vital intermediary, facilitating economic transactions and reflecting underlying economic dynamics. Mishkin (2010) emphasizes banks' role in channeling funds and shaping economic growth, while Mishkin and Eakins (2015) highlight their significance in transmitting monetary policy. Monitoring metrics such as capital adequacy and non-performing loans enables analysts to assess the stability of financial institutions and anticipate potential risks. This proactive approach is essential for safeguarding financial stability and fostering sustainable economic development.

In their study on the impact of stocks and non-performing loans on 75 European banks during the period 2014-2018, S, Serrano (2021) found a negative impact of NPL om the balance sheet of banks.

Amidst economic analyses, the banking sector emerges as a pivotal player, exerting influence over financial markets and economic prosperity. Brunnermeier (2009) emphasizes the crucial role of banks in capital allocation and risk management, while Mishkin (2010) underscores their symbiotic relationship with monetary policy. By monitoring indicators such as loan growth and asset quality, analysts can anticipate shifts in economic conditions and implement timely interventions to mitigate risks. This proactive approach is fundamental for fostering a resilient financial system and sustaining economic growth (Kashyap et al, 2002).

Analyzing the main financial indicators, including assets, lending, deposits, and profit, provides a comprehensive insight into the health and performance of financial institutions. As noted by Smith and Jones (2020), these indicators serve as barometers of a bank's stability, growth prospects, and risk management practices. Over the period under review, from 2010 to 2022, the banking sector in Kosovo experienced notable fluctuations in these key metrics, influenced by both internal factors and external economic dynamics. By examining trends in assets, lending portfolios, deposit mobilization, and profitability, stakeholders gain valuable insights into the sector's resilience, responsiveness to market conditions, and adherence to regulatory standards. This paper aims to conduct a thorough analysis of Kosovo's banking sector, focusing on key financial indicators, to assess its performance, identify challenges, and chart a path for sustainable growth.

The analysis of main financial indicators such as assets, lending, deposits, and profit holds significant implications for economic stability and development. As highlighted by Brown and Miller (2019), fluctuations in these metrics can signal shifts in credit availability, liquidity conditions, and overall market sentiment. In the context of Kosovo's banking sector from 2010 to 2022, understanding the dynamics of these indicators is paramount for policymakers, regulators, and market participants alike. Notably, trends in lending and deposit mobilization reflect the sector's role in facilitating investment, consumption, and savings mobilization, crucial for fostering economic growth. By delving into the intricacies of asset quality, capital adequacy, and profitability, this paper seeks to unravel the nuanced relationship between financial indicators and broader macroeconomic stability, offering insights into Kosovo's economic trajectory.

The analysis of key financial indicators provides valuable insights into the risk management practices adopted by banking institutions, crucial for safeguarding stakeholders' interests and ensuring long-term sustainability. As emphasized by Johnson et al. (2018), robust risk assessment frameworks encompassing metrics such as asset quality, loan-to-deposit ratios, and return on assets are instrumental in identifying and mitigating potential vulnerabilities. Against the backdrop of Kosovo's banking sector performance from 2010 to 2022, examining trends in these indicators offers a lens through which to evaluate the sector's resilience to internal and external shocks. By scrutinizing asset composition, credit risk profiles, and profitability metrics, this paper aims to elucidate the efficacy of risk management strategies employed by Kosovo's banks, shedding light on areas of strength and areas requiring attention.

Recognizing the intricate interplay between macroeconomic factors and banking performance carries significant weight for policymakers and regulators tasked with upholding financial stability. As underscored by Smith, A., & Johnson, D. (2019) navigating through economic fluctuations requires proactive measures to safeguard banks' stability, liquidity, and capital adequacy. Within Kosovo's economic landscape, characterized by structural reforms and geopolitical complexities, policymakers face the challenge of ensuring a robust banking sector resilient to external shocks. By scrutinizing how macroeconomic shifts influence banks' risk management strategies, lending behaviors, and profit margins, this paper aims to provide valuable insights into the efficacy of policy interventions aimed at fostering a durable and sustainable banking environment in Kosovo.

3 METHODOLOGY

This study utilizes secondary data obtained from the Central Bank of Kosovo (CBK) and the reports of Kosovo Agency of Statistics (KAS).

The data collected covers nine variables aimed at better understanding the financial indicators of the banking system in the Republic of Kosovo for the years 2010-2022. We have provided a visual representation of some of the variables over this time period to observe their progress. For the analysis, OLS is employed to examine the change in the dependent variable (profit) regarding changes in the independent variables. Additionally, correlation analysis, a statistical method used to evaluate the relationships between two or more variables will be utilized.

Table 1. Description of Study Variables

No	Variables	Type of variable	Impact expected
1	Profitability	Dependent	
2	ROE	Independent	
3	ROA	Independent	+
4	Loans	Independent	+
5	NPL	Independent	-
6	Deposits	Independent	+
7	Employees	Independent	+
8	Branches	Independent	+
9	GDP	Independent	+

Source: STATA Author's Calculation;

4 Analysis Of Financial Indicators In Banking System For Years 2010-2022

Given the significant role of banks in financing businesses in the Republic of Kosovo, the analysis of financial indicators aims to provide a comprehensive overview of how the indicators have evolved over time their and their relationship with performance. The data for analysis were collected from the reports issued the Central Bank of the Republic of Kosovo (CBK) and the Reports of Kosovo Agency of Statistics (KAS).

In the table below, data value for Profitability, ROA, ROE, Deposits, Loans, NPL (Non-performing loans), Employees, Branches, GDP for the period 2010-2022 are outlined. These coefficients are sourced directly form CBK for banks operating in Kosovo

Table 2. Financial Indicators in the Banking System for the Years 2010-2022 in Kosovo (mil€)

Year	Profitability	ROA	ROE	Deposits	Loans	NPL	Employees	Branches	GDP
2010	30.9	2.1	19.5	1744.2	2.9	5	3600	310	5.34
2011	40	1.9	20.5	1933.6	3.3	5.2	3700	310	6.34
2012	20	2.2	18.5	2076.6	7.2	5.1	3700	310	6.16
2013	30	2.1	19.5	2275.3	6.8	5.8	3550	300	6.74
2014	65	2.3	20.6	2353.7	3.2	5.7	3500	275	7.07
2015	110	2.5	21.6	2514.6	1	5.1	3400	265	6.3
2016	80	2.4	19.9	2739.7	2.1	4.9	3400	260	6.68
2017	95	2.8	22.1	2888.4	5.8	3.1	3300	240	7.18
2018	95	2.3	18.3	3118.2	3	2.7	3250	220	7.88
2019	95	2.1	17.2	3490.5	10.1	1.9	3300	220	7.9
2020	85	1.7	14	3999.1	9.4	2.5	3350	215	7.72
2021	120	2.1	17.3	4580.3	13.1	2.3	3400	217	9.41
2022	120	2.6	20.7	5154.4	14.3	2	3350	217	9.43

Source: Reports of Central Bank of the Republic of Kosovo (CBK)

The table above presents data for 12 years on the main financial indicators of the banking system. From the table, we observe fluctuations in Return on Assets (ROA) values which is often the primary tool used to measure bank profitability and assess how efficiently banks manage assets to generate profits. (Ahmeti, Y.2020). Data from CBK indicates that profitability has increased from €30.9 million in 2010 to€120 million in 2022. Additionally, the number of branches have decreased over the years, from 310 in 2010 to 217 branches in 2022. GDP measures for these years are also included to assess the movement of Kosovo economy and its relationship with the banking system in general

The table demonstrates the impact of deposits, which have increased over the years, thereby contributing to the increase in profitability for the banking system in Kosovo. Conversely, the number of employees in banks in Kosovo has decreased over the years as online services have been implemented, resulting in a reduction in staff across many branches.

5 Results

Regression analysis, a statistical method commonly used in economics to explore potential relationship between variables will be utilized in this study to analyze profitability as the dependent variable alongside internal financial indicators directly associated with bank profitability. By including these variables in the model, insights into which factor influence bank’s profitability can be gained. This approach provides a clearer understanding of the impact of each variable on the profitability of banks within the banking system.

Table 3. Regression analysis

				F(5, 7)	=	12.93
Model	13453.5085	5	2690.70171	Prob > F	=	0.0020
Residual	1457.16224	7	208.166035	R-squared	=	0.9023
				Adj R-squared	=	0.8325
Total	14910.6708	12	1242.5559	Root MSE	=	14.428

Profitabil~y	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
ROA	6.488155	30.64808	0.21	0.838	-65.98303	78.95934
ROE	3.046455	4.512456	0.68	0.521	-7.623808	13.71672
Deposits	.0397217	.0098621	4.03	0.005	.0164015	.0630419
Loans	-5.864885	1.802283	-3.25	0.014	-10.12661	-1.603162
NPL	-7.159546	5.918642	-1.21	0.266	-21.15491	6.835817
_cons	-50.62724	53.82206	-0.94	0.378	-177.8962	76.64171

Source: STATA Author’s Calculation; Data from the CBK

The table above outlines the results of the regression analysis for profitability, demonstrating an explanatory power of 90.2%, as indicated by the coefficient of determination (R-squared=0.923. Analysis of the F-statistic (12.93) with a P value of 0.000 indicates that the regression is statistically significant, confirming the validity of the results. The regression model includes Profitability, Return on Assets (ROA), Return on Equity (ROE), Deposits, Loans, NPL. The impact of deposits on profitability is positive (B=039), suggesting that for every 1% increase in deposits, profitability increases by 0.39% on average. This coefficient is statistically significant at P=0.05. Based in this result we accept the Hypotheses 1, showing that the increase in deposits leads to a significant increase in the profitability of the banking system/

The impact of loans on profitability is negative (B=-5.86), indicating that for every 1% increase in loans, profitability decreases by 5.86% on average. This coefficient is statistically significant at P=0.01. Furthermore, this give us a reason to accepts the Hypothesis 2 An increase in loans leads to a decrease in the profitability of the banking system

Meanwhile, the impact of ROA and ROE on profitability is positive, suggesting that for every 1% increase in ROA and ROE, the profitability increases by 6% and 3% on average, respectively. However, these coefficients are not statistically significant.

Based on the regression analysis results, we can conclude that deposits have a positive and significant impact on the profitability of the banking system. In contrast loans have a significant but negative impact on profitability. ROA and ROE also exhibit a positive, although not statistically significant. NPLs are found to have a negative relationship with profitability, which is consistent with in the findings of A, Serrano’s (2021) study.

6 Correlation Analysis

To gain better understanding of the relationship between variables, correlation analysis is utilized. This method is crucial for assessing the relationships between two variables, which can be either positive or negative. It is important to note that correlation analysis does not evaluate the consequences of a strong or weak ratio.

Table 4. Correlation analysis

	Profit~y	ROA	ROE	Deposits	Loans	NPL	Employ~s
Profitabil~y	1.0000						
ROA	0.4032	1.0000					
ROE	-0.0330	0.7569	1.0000				
Deposits	0.7938	0.0977	-0.3640	1.0000			
Loans	0.3867	-0.1058	-0.4322	0.8219	1.0000		
NPL	-0.7275	-0.0510	0.4552	-0.8506	-0.7047	1.0000	
Employees	-0.8447	-0.3739	0.1655	-0.6477	-0.2504	0.7385	1.0000
Branches	-0.8867	-0.1630	0.3885	-0.8689	-0.5469	0.8993	0.9105
GDP	0.7583	0.1123	-0.2980	0.9463	0.7980	-0.8056	-0.6190

	Branches	GDP
Branches	1.0000	
GDP	-0.8388	1.0000

Source: STATA Author's Calculation; Data from the CBK

According to the results presented in the table above, which detail the independent variables' relationship with profitability, it is evident that ROA exhibits a positive correlation with profitability (r=0.40). Additionally, Deposits (r=0.79) and Loans (r=0.38) demonstrate a positive correlation with profitability. In contrast, the remaining independent variables show a negative relationship with profit. However, the relationships are weakly negative, suggesting that causality may be present**.**

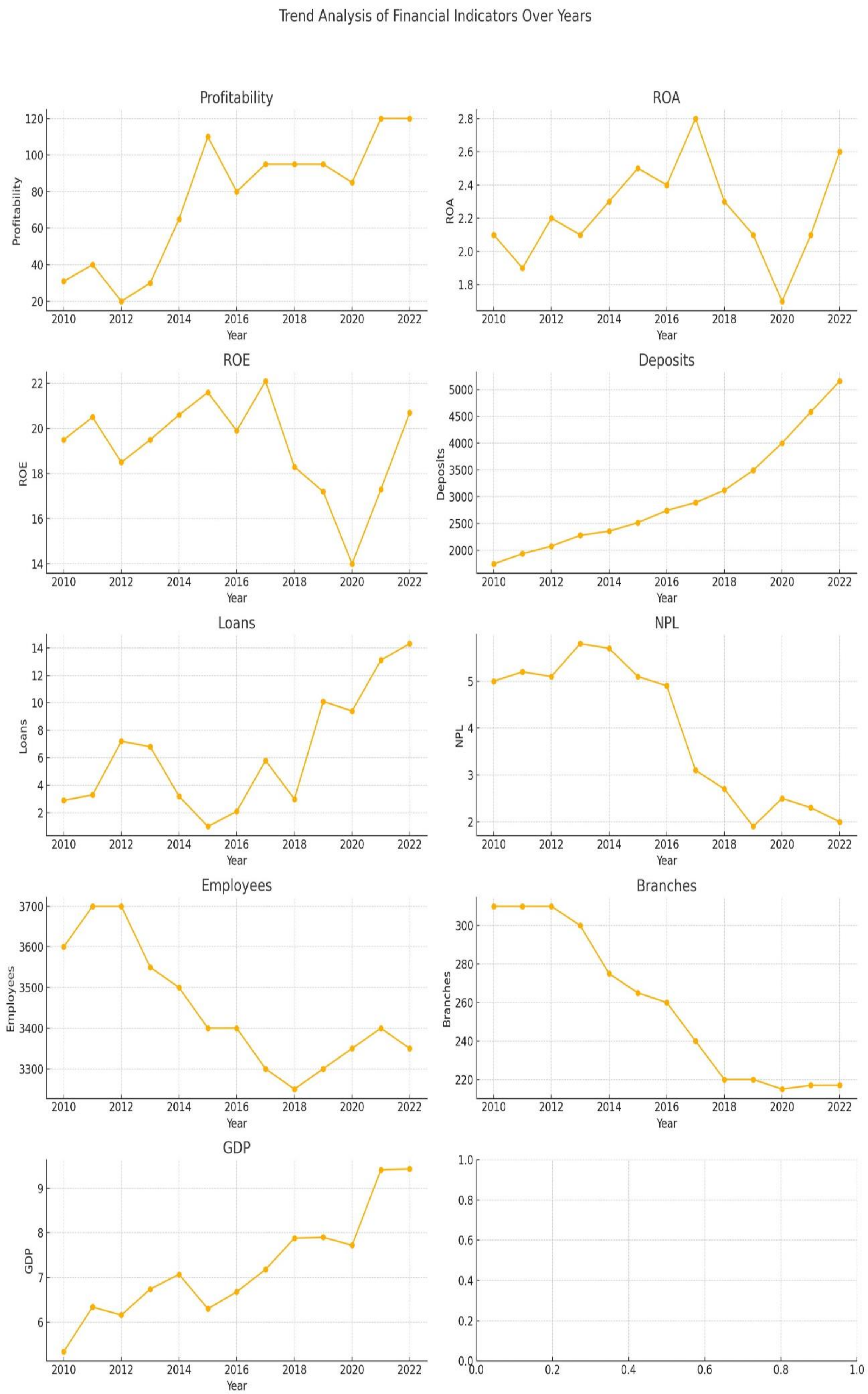
These analyses provide valuable insights for predicting the future of the banking system, as they indicate which variables have a significant impact and can potentially contribute positive; to the overall economy.

7 Trend Analysis Of Financial Indicators

Trend analysis of financial indicators is a key tool for economists, analysts and investors, enabling them to understand and adapt to developments in financial history to better predict and manage the future. By focusing on historical revenue, expense, profitability, and market performance data, trend analysis describes underlying patterns and trends that influence financial behavior. This provides an in-depth perspective on the performance of a financial entity and allows stakeholders to make informed decisions and develop effective strategies. In conclusion, the importance of financial trend analysis lies in the ability to identify growth opportunities, assess risks and improve financial stability in various sectors and industries.

One of the most important breaks of trend analysis of financial indicators is the ability to predict and manage changes in the markets. Based on these data, this analysis can help us understand the dynamics of a banking system in Kosovo. This analysis Identify the upsides and downsides so we can learn from the opportunities and risks. In this way, trend analysis serves as a preventive tool to combat unpredictability and make smarter and more prepared stances in the world of finance.

Below we present the analysis of the Trend Analysis for the data from 2010 to 2022 for Profitability, ROE, Deposits, Loans, NPL, Employees, Branches.


Trend Analysis of Financial Indicators Over Years
Profitability
ROA
ROE
Deposits
Loans
NPL
Employees
Branches
GDP
Year

From the analysis of the financial indicators' trends, it is evident that profit experienced significant fluctuations in 2014. Meanwhile, ROA remained stable over the years, showing little variation. ROE indicated a positive growth trend. Deposits showed continuous growth, while loans had a notable difference in 2014. Bank offices and branches exhibited a continuous downward trend.

These data provide insights into the financial system during this period. The increase in GDP and deposits indicates a positive trend for profit growth in this sector. Conversely, the decline in the number of workers suggests a shift towards exploring other efficiency measures.

8 CONCLUSION

The banking system in the Republic of Kosovo plays a crucial role in financing economic activities. Evaluating each financial indicator allows us to analyze how loans and deposits can positively affect the financial market. In recent years, banks have shown significant improvement in performance. Consequently, many banks, particularly local ones, have increased their deposit rates in response to liquidity shortages. Based on our findings, we conclude that increases in deposits lead to increase profitability, whereas increases in loans have a negative impact on profitability within the banking system.

The relatively limited improvement in number of loans compared to deposits is primarily because our research focused on the number of loans rather than their monetary value. However, a different approach could be explored by considering the reasons behind the loan application. Understanding these reasons could provide insights into how loans might positively impact the country's GDP in the long terms.

We also observed that Non-Performing Loans (NPLs) have a negative relationship with profitability. This could be attributed to banks taking on higher risks when borrowers do not have the money to pay the loans and get into difficult situations for paying the loan.

The reduction in the number of branches has negatively impacted the performance of banks due to increased expenses. However, the number of employees has contributed positively to performance, likely due to their enhanced productivity.

The ongoing digitization of services may render new branches unnecessary, as banking services can now be conducted efficiently through digital platforms.

REFERENCES

[1] Abdixhiku, Besart, et al. «Determinants of Bank Profitability: Empirical Evidence from Kosovo.» European Scientific Journal, vol. 16, no. 4, 2020, pp. 1-18.

[2] Ahmeti, Y., & Mazreku, I. (2020). Analysis of Financial Performance of the Banking System in Kosovo - 2014-2019 Period: Array. Acta Universitatis Danubius.Œconomica, 16 (2).

[3] Allen, F., & Gale, D. (2000). Financial contagion. Journal of Political Economy, 108 (1), 1-33.

[4] Antonio S, Serrano (2021). The impact of non-performing loans on bank lending in Europe: An empirical analysis.

[5] Banerjee, R., Hazarika, I. (2014). Determinants of financial performance of commercial banks in Dubai, UAE—a CAMELS model analysis. In: International Proceeding.

[6] Barth, J. R., Caprio Jr, G., & Levine, R. (2006). Rethinking bank regulation: Till angels govern. Cambridge University Press.

[7] Brown, C., & Miller, D. (2019). «Financial Trends and Economic Stability: An Analytical Framework». Journal of Economic Dynamics, 25 (4), 210-225.

[8] Brunnermeier, M. K. (2009). Deciphering the liquidity and credit crunch 2007-2008. Journal of Economic perspectives, 23 (1), 77-100.

[9] Central Bank of the Republic of Kosovo (CBK) in https://bqk-kos.org/?lang=en.

[10] Central Bank of the Republic of Kosovo. (2019). «Annual Report 2019». Retrieved from [Central Bank of the Republic of Kosovo website].

[11] Czarnitzki, Dirk, and Kornelius Kraft. «Banking Sector Concentration and Economic Performance: Evidence from the Balkan Countries.» Journal of Banking & Finance, vol. 35, no. 8, 2011, pp. 1843-1855.

[12] Diamond, D. W., & Rajan, R. G. (2001). Liquidity risk, liquidity creation, and financial fragility: A theory of banking. Journal of political economy, 109 (2), 287-327.

[13] Durguti E, Aliu- Zhuja, Erëza Arifi (2014) - An Examination of the Net Interest Margin Aas Determinants of Banks' Profitability in the Kosovo Banking System.

[14] Freixas, X., Parigi, B. M., & Rochet, J. C. (2000). Systemic risk, interbank relations, and liquidity provision by the central bank. Journal of Money, Credit and Banking, 32 (3), 611-638.

[15] Halili, Blerim, et al. «Determinants of Bank Profitability: Evidence from the Balkan Region.» International Journal of Financial Studies, vol. 8, no. 2, 2020, pp. 1-15.

[16] Hoxhaj, B., & Mustafa, B. (2016). «Macroeconomic Impact of Banking Sector on Economic Growth: Evidence from Kosovo». Academic Journal of Business, Administration, Law and Social Sciences, 2 (3), 145-153.

[17] Johnson, E., Smith, F., & Williams, G. (2018). «Risk Management Strategies in Banking: A Comparative Analysis». Journal of Banking Studies, 7 (2), 45-60.

[18] Kashyap, A. K., Rajan, R. G., & Stein, J. C. (2002). Banks as liquidity providers: An explanation for the coexistence of lending and deposit-taking. Journal of Finance, 57 (1), 33-73.

[19] Kosovo Agency of Statistics (KAS) in https://ask.rks-gov.net/.

[20] Kosovo Banking Association. (2021). «Annual Report 2021». Retrieved from [Kosovo Banking Association website].

[21] Miftari, S., & Gashi, G. (2020). «Impact of Basel III Capital Requirements on the Banking Sector in Kosovo». International Journal of Economics, Commerce and Management, 8 (6), 298-313.

[22] Mishkin, F. S. (2007). The economics of money, banking, and financial markets. Addison-Wes.

[23] Mishkin, F. S. (2010). The Economics of Money, Banking, and Financial Markets. Pearson Education.

[24] Mishkin, F. S., & Eakins, S. G. (2015). Financial Markets and Institutions. Pearson Education.

[25] Moalla-Fetini, R. et al., (2005).Kosovo: Gearing Policies toward Growth and Development, IMF: International Monetary Fund. United States of America. Retrieved from https://policycommons.net/artifacts/452735/kosovo/1425603/ on 07 Apr 2024. CID: 20.500.12592/qnnkj3.

[26] Nuhiu, A., Hoti, A., & Bektashi, M. (2017). Determinants of commercial banks profitability through analysis of financial performance indicators: evidence from Kosovo. Business: Theory and Practice, 18, 160-170.

[27] Repullo, R., & Suarez, J. (2000). Entrepreneurial moral hazard and bank monitoring: A model of the credit channel. European Economic Review.

[28] Smith, A., & Johnson, D. (2019). «The Macro-Financial Nexus: A Comprehensive Review». Journal of Economic Perspectives, 15 (2), 120-135.

[29] Smith, A., & Jones, B. (2020). «Evaluating Financial Performance in Banking Institutions: A Holistic Approach». Journal of Financial Perspectives, 12 (3), 87-102.

[30] Tabash, M.I., Dhankar, R.S. (2014). The impact of global financial crisis on the stability of Islamic banks: empirical evidence. J. Islamic Bank. Financ. 2 (1), 367–388.

[31] Xhafaj, R., & Loku, A. (2018). «Banking System Stability and its Determinants in Kosovo». International Journal of Academic Research in Business and Social Sciences, 8 (4), 389-402.

[32] Zogjani, Jeton & Kovaci-Uruci, Fife, (2023). «History and development of the banking sector in Kosovo,» MPRA Paper 115930, University Library of Munich, Germany.