



Loan portfolio and nonperforming loans in Western Balkan Countries

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Abstract

Non-performing loans (NPLs) present one of the most controversial issues in both developed and developing countries. The main purpose of this paper is to analyze and compare the loan portfolio and NPLs in the Western Balkan countries: Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, and Serbia for the period 2008-2015. Besides, this research aims to make a comparative analysis of some other macroeconomic indicators and industry factors that affect them such as GDP, banking sector assets, loan portfolio, asset participation in GDP, credit participation in GDP, deposit credit ratio, the NPL report on total loans. The results show that the NPL have had a growing trend in the post-global financial crisis, with different variations. In this regard, the highest rate of NPL reflects Serbia, Albania, followed by Montenegro, B&H, and Macedonia, while the lowest rate is in Kosovo.

Keywords: *Bank loans, Credit quality, Credit risk, NPLs, Banking*

JEL classification: *G21, G01*

Introduction

Banks as financial intermediaries enable the transfer of funds from surplus economic units to deficit economic units. As a result, of the technology advancement as well as the application of technological innovations in business, and banking processes, the information is flowing globally by enabling the banking sectors of the various countries to be closely linked and monitored. However, the financing of businesses needs by banks often is accompanied by problems and various challenges Tmava, (2019). Among the biggest banking challenges are NPLs. Hence, the nonperforming loans (NPLs), through the domino effect, from a national problem are transformed into a global problem, as it happened in 2008, with the World Crisis of NPLs. Therefore, if they are not adequately treated, they can cause problems not only in the financial sector but also in the real sector and can paralyze the whole economy.

According to Waweru & Kalami (2009), due to the nature of their business, commercial banks are exposed to the risk of default by borrowers. Also, Chhimpa (2002) and Uppal (2009) argue that lending is not an easy task for the bank since it can cause a considerable problem, so-called nonperforming loans. Today, there is no specific criteria that define credits as non-performing loans. Thus, it is difficult to compare banking assets between different countries in Europe. This fact is emphasized in Vienna's Initiative, regarding the coordination of European banks against GFC (global financial crisis) for NPLs, which presented a global problem. In the Vienna Initiative's report for NPLs in Central Eastern and South Eastern Europe, it is concluded that data for NPLs are sometimes unsustainable; it is difficult to compare and interpret the fact that there is no standardized definition for them. However, all countries accept the credit delays criterion for 90 days and more (loans in default) although the essence of the problem related to the NPLs lies in the different practices of collateral treatment, credit restructuring, different criteria beyond the deadline, roll-over, extended loan repayment term, and so on. The IMF Financial Soundness Indicators (FSIs), use the delay in repayment of principal or interest over 90 days as a criterion for defining a non-performing loan.

The IMF Financial Soundness Indicators (FSIs) use the delay in repayment of principal or interest over 90 days as a criterion for defining NPLs. According to Hennie (2003), NPLs are those credits that do not generate revenue. While Alton & Hazen (2001) point out that NPLs are such credits that are 90 or more past due or no longer accruing interest. Guy (2011) defines NPLs as loans in arrears for at least 90 days. Also, Ouhibi & Hammami (2015), argue that NPLs are indicators of financial stability, reflecting on asset quality, credit risk, and efficiency in resource allocation for the productive sector. Nkusu (2011) notes that the deterioration of credit portfolio quality is the main cause of economic stagnation and is leading to the problems in banking systems, where the quality of assets is often associated with the risk of bankruptcy and financial crisis in both developed and developing countries. Hou & Dickinson (2007) point out that NPLs are one of the major problems that cause economic stagnation, while each NPL in the financial sector is seen as a mirror image of an ailing unprofitable enterprise.

The NPLs has caused debate all over the world, especially after the GFC's appearance, in the emerging economies, including the Western Balkan countries; therefore, we decided to develop this paper and treat this issue more widely. The main purpose of this paper is to compare credit portfolio and non-performing loans to the six Western Balkan countries. Besides, this paper analyses some macroeconomic factors and industry factors, which may affect NPLs in WB countries.

Literature Review

For many years, the NPLs has attracted high attention among academia and businesses. There is abundant literature that studies various factors, both at macroeconomic and at the bank level, that treats NPLs. Beck, Jakubik, & PiloIU (2013) address the macroeconomic determinants of NPLs in 75 countries around the world before and after the 2007-2008 world crisis. They find that the average asset quality of the bank is drastically deteriorated as a result of the economic recession and conclude that: GDP, share prices, exchange rate, and lending interest rates significantly affect the NPLs. Whereas, Dimitrios , Louri, & Tsionas, (2016) using - methods of dynamic panel data, examine NPLs determinants in the Greek banking sector. The authors conclude that the macroeconomic variables specified below: GDP rate, unemployment rate, interest lending rate and public debt have a significant impact on NPLs in this country.

Klein (2013) examines NPLs in Central Eastern and South Eastern Europe (CESEE) countries in the period 1998-2011, using four explanatory variables: equity returns, equity to assets funds, growth rate of loans, and asset ratio of loans, at the bank level, three specific variables for each country (inflation, exchange rate and unemployment), and two global variables (GDP growth and S&P 500). Meanwhile, Makri, Tsaganos, & Bellas, (2014) identify the factors that affect NPLs in the Eurozone during the 2000-2008 period. The authors found a strong correlation between NPLs and macroeconomic factors (public debt, unemployment, GDP growth) and specific banking factors (CAR, NPLs from previous years and ROE). They also find a significant negative correlation between NPLs and ROE. Louzis, Vouldis, & Metaxas, (2012) using the dynamic method of panel data, examines the NPLs determinants in the Greek banking sector for particular categories of credit (consumer loans, business loans, and mortgage loans). The results show that for all types of loans, NPLs in

the Greek banking system can be explained mainly by macroeconomic variables (GDP, unemployment, interest rates, public debt) and the quality of credit portfolio management.

Shijaku & Kalluci (2013) have assessed the main determinants of private sector bank loans through the VECM case, based on the demand and supply indicators. They found that lending is positively linked to economic growth. Also, Shingjergji (2013) using the simple regression model examines the correlation between NPLs and GDP, inflation, unemployment and interest rates in Albania. Zelenovic, Vitomir, & Radovic, (2016), analyzing and comparing the NPLs in the Serbian banking system and some selected countries in the Southwestern Balkans, found a causal link between the declining in economic activity, unemployment, and NPLs growth, due to the fact that the NPLs portfolio is one of the most significant factors of bank instability and the banking system as a whole, and as such, they have negative effects on the whole economy.

Delova-Jolevska & Andonovski, (2015) treat NPLs in some Western Balkan countries: Croatia, Serbia, and Macedonia, comparing the data related to the differences in the quality of the loan portfolio and the causes of differences in these countries. According to them, the quality of the loan portfolio is an essential determinant of the future strategies of banks; therefore, it is vital for the economic development of the country. Thus, NPLs operate on the economy in the form of a spiral, and the highest level of NPLs impacts low economic growth, while low economic growth creates a new portfolio of NPLs. Ganic (2012) point out that the deterioration in the asset quality of banks and rising NPLs is a result of an extremely high rate of credit expansion in the pre-crisis period. Tmava & Shefket (2019) analyzing credit potential in Kosovo points out that although the lending conditions are not favorable to businesses still, the NPLs in this country are at a low level compared to all WB countries, and that the cause of high interest rates on lending are numerous such as the informal economy, the unstable and unaudited financial statements of businesses applying for loans, lack of appropriate law enforcement and incomplete legal regulations, and the business environment with high risk.

As seen in the reviewed literature and in our knowledge none of the previous research does not compare credit portfolio and non-performing loans to the six Western Balkan countries Albania, B & H, Kosovo, Macedonia, Montenegro, and Serbia, as well as research of some macroeconomic factors and industry factors. So this paper tends to fill this gap in the literature.

Research and Methodology

Due to the nature of the research, we used secondary data from numerous official sources such as International Monetary Fund, the World Bank, monetary authorities and in certain cases by the statistical agencies of respective countries. For our research purpose, these data are utilized with the data of the banking authorities of each country.

In addition, these data are processed and based on them are generated results. Based on the obtained results the conclusions are drawn. In order to achieve the main purpose of the paper comparative, analytical and synthesis methods are used.

The banking system of Western Balkan countries

Banks as financial intermediaries enable the transfer of funds from surplus economic units to deficit ones. Western Balkan countries have social, cultural and economic similarities, but there are also some differences. All of them, except Albania, were part of ex-YU.

Therefore, the current economic system of these countries despite divergences also has numerous similarities. The focus of the paper is credit portfolio as well as NPLs, in the banking system of these countries, in the period 2008-2015.

Initially, we will present the number of commercial banks, which offer the highest credit potential compare to all other financial intermediaries in Western Balkan countries, by years.

Table 1: Number of commercial banks in Western Balkan countries by years, 2008-2015

Country/Year	2008	2009	2010	2011	2012	2013	2014	2015
Albania	16	16	16	16	16	16	16	16
B&H	30	30	29	29	28	27	26	26
Kosova	8	8	8	8	9	9	10	10
Macedonia	18	18	18	18	18	19	19	19
Montenegro	14	14	14	14	14	14	14	14
Serbia	34	34	33	33	32	30	28	28

Source: Annual reports of Central banks of respective countries, by years

As seen in table 1 Serbia has the highest number of commercial banks from all Western Balkan countries, twenty-eight in total, followed by B&H with twenty-six commercial banks. In addition, Macedonia has nineteen and Albania sixteen commercial banks. Whereas, the smallest number of commercial banks operates in Montenegro (fourteen) and Kosovo (ten).

Banking System Assets in Western Balkan countries

Besides, the banking sector assets of the WB countries are analyzed for the period 2008-2015, and the obtained results show an interesting trend as seen in the table below:

Table 2: Assets in the banking sector of Western Balkan countries by years, 2008-2015 (million euros)

Country/Year	2008	2009	2010	2011	2012	2013	2014	2015
Albania	6.737	6.424	7.139	8.063	8.626	9.164	9.231	9.431
B and H	10.762	10.742	10.828	11.196	11.414	11.994	12.514	12.137
Kosova	1.808	2.204	2.455	2.649	2.829	3.059	3.185	3.385
Macedonia	4.729	5.108	5.829	6.383	7.078	7.464	8.076	8.427
Montenegro	3.309	3.025	2.944	2.809	2.808	2.959	3.136	3.472
Serbia	21.632	24.362	25.984	27.732	27.775	27.485	27.352	27.867

Source: Annual reports of Central banks of respective countries, by years

According to the figures in table 2, slight average growth in bank assets is recorded for the period 2008-2015 in Western Balkan countries. If we analyze the banking sector assets for each country, we conclude that in Albania, in the first period of GFC there was a decrease in assets in 2009 compared to 2008. The highest growth in assets is recorded in 2011, around 13%. In 2009, the banking sector in Albania had a 0.2 % decrease in assets. The highest increase was in 2013 with 5.1%. Kosovo permanently shows an increase in assets throughout the comparative period indicating that this country has not been involved in international markets. The highest increase was recorded in 2009, at the peak of GFC, with approximately 22%. Also, in Macedonia was present a permanent increase in assets annually throughout the comparative period. The highest increase in banking assets of Macedonia was recorded in 2010, with 14.1%. A decrease from 8.6% of banking assets was recorded in Montenegro in 2009 compared to 2008, this decrease in assets is continuous until 2013, whereas for the first time after GFC a slight growth in assets appears with only 5.3% in 2013 and 6% in 2014. While in Serbia a moderate increase in banking sector assets is recorded continuously with only 12.3% throughout the comparative period.

Annual GDP growth in Western Balkans countries

GDP growth in the whole of the analyzed period in Albania was 7.54% in 2008, on an annual basis. While in subsequent years, there is a slight decrease in GDP growth over the years. The GDP of B&H from an

increase of 5.42% in 2008 experienced a decrease in GDP from -2.91%. The GDP growth rate has also declined in 2012 with -1.21%. Kosovo experienced permanent GDP growth between with minimum increase from 2.8% in 2011 and a maximum increase of 4.40% in 2010. In Macedonia, there has been a variation in GDP fluctuations over the years. In 2009 GDP has fallen from -0.92% and in 2015 has increased up to 3.86%. Whereas Montenegro, only in 2008 shows a high increase of GDP from 6.92%. In the following year, there was a decline in GDP of -5.66% (2009), and in the following years, a slight increase of GDP was recorded. In Serbia, in 2008 was the highest increase of GDP from 5.37 %, and in 2009 the highest decrease from -3.12%, whereas and a decrease from -1.83 in 2014 in GDP is recorded as well.

The following table presents the annual growth of Gross Domestic Product (GDP) in WB, in percentage.

Table 3: Annual GDP growth in Western Balkan countries by years, 2008-2015 in %

Country / Year	2008	2009	2010	2011	2012	2013	2014	2015	Country average (2008-2015)
Albania	7.54	3.35	3.71	2.55	1.62	1.42	1.77	2.22	3.02
B and H	5.42	-2.91	0.7	0.96	-1.21	2.48	1.15	3.01	1.20
Kosova	3.6	3.3	4.4	2.8	3.4	3	1.2	4.1	3.23
Macedonia	4.95	-0.92	2.9	2.8	-0.4	3.1	3.63	3.86	2.49
Montenegro	6.92	-5.66	2.46	3.23	-2.55	3.34	1.8	3.4	1.62
Serbia	5.37	-3.12	0.58	1.4	-1.02	2.6	-1.83	0.76	0.59
WBs average (2008-2015)	5.63	-0.99	2.46	2.29	-0.03	2.66	1.29	2.89	2.02

Source. World Bank, GDP by years and National Authorities, by years. Authors' Calculations.

As seen in Table 3, the lowest GDP growth for the entire analyzed period 2008-2015 was in Serbia with only 0.59%, whereas the highest was in Kosovo with 3.23%

Asset participation in GDP, in Western Balkan countries

In the table 4 is presented the banking sector asset participation in GDP for the Western Balkan countries by years and the obtained results are presented below:

Table 4: Asset participation in GDP, in Western Balkan countries, for the period 2008-2015, in %

Country / Year	2008	2009	2010	2011	2012	2013	2014	2015	Country average (2008-2015)
Albania	76.6	76.6	76.8	81.8	85.6	87.6	91.5	92	83.56
B & H	85.2	86.8	85.5	85.3	85.6	87	83	84	85.30
Kosova	50	54.3	55.8	55	55.9	57.4	57.2	58.5	55.51
Macedonia	56.9	51.6	62	67.9	67.4	76.9	74.8	75.6	66.64
Montenegro	106.7	100.8	95	87.8	90.6	87	90	96.6	94.31
Serbia	64.7	84.1	92.8	88.1	93.8	83.2	76	76.7	82.43
WB average (2008-2015)	73.35	75.70	77.98	77.65	79.82	79.85	78.75	80.57	77.96

Source: IMFs World Economic Outlook, National Authorities, Authors' Calculation.

In Albania, the share of assets in GDP is in the range of 76.6% in 2008 and 91.5% in 2014, whereas the average share of assets in GDP is 82.36%. In B & H, the share of assets in GDP ranges between 85.2% in 2008 and 92.4% in 2014, and the average of the analyzed period is 86.83%. Montenegro reflects the highest share of assets in GDP and ranges between 87% in 2013) and 106.7% in 2008. The country average in the share of assets in GDP for the analysis period is 93.93%. Kosovo, Serbia, and Macedonia show the lower share of assets in GDP. In Kosovo, the average percentage of assets in GDP over the entire period is only 55.09%. In Macedonia is 65.36%, while in Serbia it is 84.53%. The average share of assets in GDP for all Western Balkan countries for the analyzed period is 77.96%.

The loan portfolio of Commercial banks in Western Balkan countries

In this part, we will analyze the loan portfolio of the Commercial banks in Western Balkan countries, and the obtained results are presented in the table below in million euro.

Table 5: The total amount of disbursed loans in Western Balkan countries for the period 2008-2015 (in million EUR)

Country / Year	2008	2009	2010	2011	2012	2013	2014	2015
Albania	3.204	3.261	3.537	4.076	4.139	4.045	4.246	4.398
B & H	7.424	7.184	7.436	7.828	8.151	8.391	8.626	8.824
Kosova	1.123	1.289	1.458	1.698	1.763	1.806	1.882	2.020
Macedonia	2.822	2.921	3.128	3.395	3.579	3.810	4.189	4.583
Montenegro	2.959	2.644	2.517	2.359	2.341	2.413	2.867	2.901
Serbia	12.261	13.138	15.166	16.452	16.615	15.801	15.470	15.269

Source: Annual reports of Central banks of respective countries, by years

From the table 5 it is noted that loan growth is not linear, whereas in 2009 in most countries a decrease of lending was recorded (in B & H a decrease of -3.2% and, in Montenegro the decrease was -11.6%) or the recorded growth is symbolic (1.8 % in Albania, 3.5% in Macedonia and, 7.1% in Serbia). In Kosovo, there was an effective lending growth from 14.8%. The two following facts can justify it; first Kosovo has not been involved in international financial markets; therefore the effects of the crisis on lending were lower in this period. Second, some of the foreign-owned banks started to apply qualitative initiatives. Application of qualitative initiatives has enabled commercial banks to improve operational efficiencies that have resulted beneficially from the banks point of view since banks profitability and productivity has been increased (Avdullahi and Fejza, 2015). Besides, it was beneficial for customers considering that the customer satisfaction has been increased and time for the approval and disbursement of the loan (time to yes and time to cash) has been reduced. In Serbia and Albania, in 2013 there was a decrease of credit activity by -2.3%, or -2.2% respectively. In general, in all Western Balkan countries the trend of loan growth in average is extremely low in all countries. Therefore, there is a growing economic activity plummet in all countries of the Western Balkan region.

Such economic recession is mainly due to the poor performance of investments as well as private consumption, which still suffer from the low confidence of economic agents and tight financing conditions. Consumption and private investment were not favored by the conservative policies of commercial banks in these countries, on lending to economic agents.

Loan participation in GDP in Western Balkan countries

In all Western Balkan Countries, loan participation in GDP is meager. According to the table below, the lowest participation of loan in GDP, on average for the period is in Kosovo with only 34,16%, and Macedonia, with 35,38%. Average credit participation in GDP in Albania for the observed period is 39.81% and in Serbia 50.2%. On average, high participation of loans in GDP is in B & H approximately 61%, whereas the highest participation was recorded in Montenegro with 78.08%.

Table 6: Loan participation in GDP in Western Balkan countries for the period 2008-2015 (in %)

Country / Year	2008	2009	2010	2011	2012	2013	2014	2015	Country average 2008-2015
Albania	36.4	38.9	38.1	41.4	41.1	38.7	42.1	41.8	39.81
B & H	58.9	58.1	58.7	59.6	62.1	62.3	63.7	64.5	60.99
Kosova	31.2	31.1	33.1	35.7	34.8	33.9	38.7	34.8	34.16
Macedonia	34	29.5	33.3	36.1	34.1	39.3	38.8	37.9	35.38
Montenegro	95.5	88.1	81.2	73.7	75.5	73.1	69.6	67.9	78.08
Serbia	36.7	45.4	54.2	52.3	56.1	47.8	48.1	61	50.20
WB6 average, 2008-2015	48.78	48.52	49.77	49.80	50.62	49.18	50.17	51.32	49.77

Source: Annual reports of Central Banks of respective countries, by years. Authors' Calculations

As seen in table 6 the average share of loans to GDP in all countries in the region is meager, with only 49.77%.

Loan participation on assets, in Western Balkan countries

Loan participation in banking sector assets in Western Balkan countries is relatively low. According to the data from table 7, we can conclude that the lowest share of loans in assets averaged for the period, was recorded in Albania with only 48.07%, Macedonia with 52.88%, Serbia with 57.55%, and Kosovo with 60.64%. The share of credit in assets in these countries is below average for WB countries for the given period of research that was 62.03%, which is also very low. The most favorable situation was in B&H with 69.24%, and in Montenegro with 83.81% that overcomes the average of the WB countries.

Table 7: Loan participation on assets in Western Balkan countries for the period 2008-2015 (in %)

Country / Year	2008	2009	2010	2011	2012	2013	2014	Country average 2008-2015
Albania	47.55	50.76	49.54	50.55	47.98	44.14	45.99	48.07
B and H	68.98	66.87	68.67	69.91	71.41	69.94	68.93	69.24
Kosova	62.11	58.48	59.38	64.09	62.31	59.03	59.08	60.64
Macedonia	59.67	57.18	53.66	53.18	50.56	51.04	44.89	52.88
Montenegro	89.42	87.4	85.49	83.98	83.36	81.54	75.47	83.81
Serbia	57.39	53.92	58.36	59.32	59.81	57.48	56.55	57.55
WBC average, 2008-2015	64.19	62.44	62.52	63.51	62.57	60.53	58.49	62.03

Source: Annual Reports of Central Banks of respective countries, by years. Authors' Calculations

The low credit lending average for WB countries for the specific period shows that banks have led a conservative policy on lending but also indicates that not all potential for economic development has been exploited.

Loan to deposit ratio (LTD) in Western Balkan countries

Loan to deposit ratio (LTD) indicates high diversity among WB countries, and this can be seen in the data from the table below.

Table 8: LTD ratio (Loan to Deposit Ratio), 2008-2015, in %

Country / Year	2008	2009	2010	2011	2012	2013	2014	2015	Country average 2008-2015
Albania	61.5	65	60.1	61	58.2	55.1	56	58.58	59.44
B & H	122.6	116	116.2	118	120.1	115	109.1	111.3	116.04
Kosova	82	78.3	75.3	80.7	77.4	73.7	74.2	74.5	77.01
Macedonia	107.7	108.2	114.3	115.7	113.5	112.7	113.4	114.1	112.45
Montenegro	148.7	145.1	141	130.1	118.2	115	108	109.3	126.93
Serbia	122.4	115	128.1	126	125	116.1	111	135.2	122.35
WBC average, 2008-2015	107.48	104.60	105.83	105.25	102.07	97.93	95.28	100.50	102.37

Source: Annual Reports of Central Banks of respective countries, by years. Authors' Calculations

From the above data in table 8, we conclude that the lowest LTD ratio is presented in Albania, where the average of the period is only 59.44%, followed by Kosovo, with 77.01%, whereas both countries indicate the average below the WB countries average, which is 102.37%. Countries that show the higher average of LTD ratio than WB countries period average are Macedonia with 112.45%, B&H with 116.04%, followed by Serbia with 122.35%, whereas Montenegro reaches the highest average with 126.93%. Based on this it indicates that these countries use other financial sources for lending besides depository resources.

Nonperforming loans in in Western Balkan countries

Nonperforming loans (NPLs) are among the economic issues that have sparked much debate, in academic, politicians and business levels, in the last decade, all over the world (Beck, Jakubik, & Piloju, 2013; Dimitrios, Louri, & Tsionas, 2016; Makri, Tsagkanos, & Bellas, 2014; Shingjergji, 2013; Delova-Jolevska & Andonovski, 2015; Ganic, 2012; Guy, 2011; Louzis, Vouldis, & Metaxas, 2012).

Table 9: NPLs participation on total loans in Western Balkan countries for the period 2008-2015 (in %)

Country / Year	2008	2009	2010	2011	2012	2013	2014	2015	Country average 2008-2015
Albania	6.6	10.5	14.1	18.8	22.5	23.5	22.8	18.2	17.13
B&H	3.1	5.9	11.4	11.9	13.5	14.9	14	13.7	11.05
Kosova	3.4	4.3	5.8	5.7	7.4	8.5	8.4	6.5	6.25
Macedonia	6.7	8.9	9.0	9.5	10.1	10.9	10.8	10.6	9.56
Montenegro	7.2	13.5	21.0	15.5	17.6	18.4	17.2	12.5	15.36
Serbia	11.3	15.7	16.9	19	18.6	21.1	23	21.6	18.40
WB average, 2008-2015	6.38	9.80	13.03	13.40	14.95	16.22	16.03	13.85	12.96

Source: Annual Reports of Central Banks of respective countries, by years. World bank-Non performing bank loans in relation to total gross loans, 2016 The Global Economy, Authors' Calculations

From the above in table 9, it is noted that all WB countries have a very high average growth after the GFC's. Thus, the highest increase in the NPLs is in Albania, where the NPLs rate is in range of 6.6% (2008) and 23.5% (2013). On average, the NPLs for the analysis period is 17.3%, which is 4.17% above the region's average (12.96%). In addition, Serbia reflects an enormous growth of NPLs from 11.3% (2008) to 21.6% (2015). On average, for the whole period, the rate of NPLs is 18.4%, with roughly every fifth loan in use results as a NPL. Thus, average NPLs in Serbia are 5.44% above the average of WB countries for the comparative period.

In Montenegro, NPLs range is between 7.2% (2008) and 18.4% (2013). On average, for the reporting period, the NPLs are at a level of 15.36%, which is 2.4% above the regional average of WB countries for the comparative period.

In B&H, NPLs are in the range of 3.1% (2008) and 14.9% (2013). Therefore, we have an worsening of the NPL, as a result of GFC's reflection in this country. Although on average, NPLs in this country are below the average of WB countries for the comparative period, for 1.46%.

Even in Macedonia, the NPL level increased from 6.7% (2008) to 10.9% (2013). The average of the NPLs in this country for the comparative period is 9.56%, which is 3.4%, below the average of the region for the comparative period.

The lowest level of NPLs across the region was Kosovo, where the NPLs rate ranged between 3.4% (2008) and 8.5% (2013). The average of these loans for the comparative period is 6.25%. Therefore, Kosovo is the only country in the WB countries, where NPLs are at the level of one digit number Kosovo Banking Association, (2016). Compared to the region's average, for the entire comparative period, the NPLs level in Kosovo is 6.71% lower. This is mainly due to very conservative politics of banks that operate in Kosovo market, but also because of the high nominal value of the pledged collateral, which in most of the cases is more than the double value of the amount of the applied loans.

Conclusion

The purpose of this paper was to examine some of the macroeconomic factors and the banking system, which affect the credit potential and non-performing loans in the WB countries at the time of the global financial crisis.

Findings show that GFC had an impact on all the factors analyzed. So it reflected negatively on all the macroeconomic and financial parameters in WB countries.

Initially, a decrease in GDP was recorded in 2009, in most WB countries, which is also reflected in the following years, especially in 2012 and in 2013. Financial sector assets are growing much slower compared to the pre GFC period.

GFC also reflected on the credit potential of commercial banks. In 2009, in most countries, a decrease of lending was recorded in B & H with -3.2% and Montenegro with -11.6%, or a slight increase in lending was recorded in Albania with 1.8%, Macedonia 3.5%, and Serbia with 7.1%. Only Kosovo has a significant increase in lending with 14.8%, indicating that this country has not been involved in international markets; therefore the effects of the credit crisis were minor in this period. In 2013 lending declined 2.3% in Serbia and Albania 2.2%. Otherwise, credit growth is on average extremely low in all countries. Thus, there is a marked economic slump and prolonged economic recovery in all countries of the region.

NPLs have been in focus for many years in developed and developing economies worldwide. NPL presents one of the main concern and challenge of the banking system in all WB countries. Since the beginning of the GFC, NPLs have grown enormously in numbers and percentage. The highest increase in NPLs was in Albania, where the NPLs rate was between 6.6% in 2008 and 23.5% in 2013. The average of NPLs in Albania for the analysis period is 17.3%, which is for 4.17% above the region's average of 12.96%.

Further, Serbia underwent a considerable increase of the NPLs in a range of 11.3% increase in 2008 and a 21.6% increase in 2015. On average, for the whole period, the rate of NPLs is 18.4%, with roughly every fifth credit in use being a nonperforming loan. Thus, the average of NPLs in Serbia is 5.44% above the average

of the WB countries for the comparative period. In Montenegro, NPLs range between the rate of 7.2% in 2008 and 18.4% in 2013. On average, for the reporting period, the NPLs are at a level of 15.36%, which is 2.4% above the regional average for the comparative period.

In B&H, NPLs are in the range of 3.1% in 2008 and 14.9% in 2013. A considerable increase of the NPLs was recorded, as a result of GFC's reflection in this country. Still, on average, NPLs in this country is 1.46% below the average of WB countries. Even in Macedonia, the NPLs level increased from 6.7% in 2008 to 10.9% in 2013. The average of the NPLs in this country for the comparative period is 9.56%, which is 3.4%, below the average of the region.

Kosovo's experienced the lowest NPLs level, throughout the region. NPLs rate in Kosovo ranged between 3.4% in 2008 and 8.5% in 2013, whereas the average for the comparative period was 6.25%. Therefore, we can conclude that Kosovo is the only country in the WB countries, where NPLs are at the one digit number. The NPLs level in Kosovo is 6.71% lower than the region's average, for the entire comparative period. Such a situation is mainly because banks in Kosovo have managed a very conservative policy, but also as a result of the high value of the pledged collateral, which in certain cases exceeded double the loan value. Besides, this has resulted in decreasing of economic and financial activity. Such economic sluggishness is mainly due to the poor performance of investments as well as private consumption, which still suffer from the low confidence of economic agents and tight financing conditions. Consumption and private investment were not favored by the conservative policies of commercial banks in these countries, on lending to economic agents.

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