

The Impact of Interest Rates on Reducing the Unemployment Rate in Kosovo

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Abstract: The main purpose of this paper is to address and research interest rates and how they affect employment or job creation. Hence, what are the favourable interest rates for job creation, taking into account that in Kosovo the banking operation is that of commercial banks, whether local or foreign.

Through this paper are researched the changes that have occurred in recent years with fiscal policies in our country, as a country in transition. Its basic objective includes the impact of interest rates on business development in Kosovo, as well as the impact of interest rates on the social and economic development of Kosovo. Are credit policies in Kosovo favourable for the development of local and foreign businesses operating in the country?

In the beginnings of banking operations in Kosovo, interest rates were very high. In 2010, for instance, interest rates were brought to the value of 13.97%, while in 2016 they reach the value of 7.22%.

Regarding the issue of the unemployment rate in Kosovo, during the period 2001 - 2015, it has decreased by 42.38%, calculating that in 2001 it was 57.1%, while in 2015 it reached 32.9%, respectively the annual average of the unemployment rate.

Keywords: Credit policy, reforms; Interest rates; Unemployment rate; GDP.

1. Introduction

The purpose of this paper is to assess how credit policies affect the development of businesses in Kosovo from the post-war period to the present day, given that Kosovo has a high unemployment rate and a young population not well qualified.

How do interest rates, and credit policies, affect the growth of businesses as well as the creation of new jobs, and at the same time the growth of the local economy.

Challenges faced by business people when applying for a loan. Short loan terms and their high rates.

The challenges that businesses face during the lending process are numerous. Loans are with high-interest rates. There is a lack of loans with low-interest rates, that would stimulate the growth of local businesses.

2. Literature Overview

(Sadiku, 2010, as cited Bislimi, 2010) "These rates are high in terms of regional and international comparisons. It means that the capital in Kosovo has the highest price to all these developments in the regional market." says Muhamet Sadiku.

50% of companies with several employees over 250 have emphasized the difficulty faced by this aspect alluding to the costs and expenses that drew heavily

on this form of financing for enterprises in Kosovo. (Oda Ekonomike e Kosovës, 2018).

This assertion derives from the fact that the interest rates of commercial banks which are the main source of external financing of enterprises are considered quite high and overburdening for the liquidity of enterprises. (Ri Invest, 2011).

3. Materials and Methods

The main data used in the compilation of this paper are based: on scientific and professional literature from the field of economics. The paper is based: on research conducted by local and international institutes, where interest rates have an important role in raising revenues at the national level. Based on the level of interest rates, economic development is also stimulated. The methods used for research are analytical, statistical, comparative, descriptive, and historical (empirical).

During the drafting of this paper, the data will be processed; the variables used to prove the hypotheses; will be compared. Data from many articles and publications will be collected.

4. Definition of interest rate

Rates of interest can be expressed as a percentage payable (a *coupon*), usually per annum; or as the present *discounted* value of a sum payable at some future date (the date of maturity). (Paterson, B. & Lygnerud, K. 1999).

For loans, the interest rate is applied to the principal, which is the amount of the loan. The interest rate is the cost of debt for the borrower and the rate of return for the lender. (Banton, C. 2020, May 17).

One of the most important parts of a loan contract is the amount of interest. When estimating the interest rate, the difference between the nominal and effective interest rates must be taken into account.

- **Nominal Interest** is the percentage applied to the principal amount and is the amount of interest paid by the client per month or year. Nominal interest does not contain additional loan costs are included in the effective interest rate.
- **Effective Interest** is a way to present, in one figure, all the expenses that refer to

loans. The effective interest rate includes all fees and costs paid to secure a loan (credit insurance costs, the costs of processing the application

- credit, etc.) that are taken into account when incurred. In the case of a typical loan contract, the effective interest rate is influenced by many factors as the nominal monthly interest, fees/commissions, the method of payment, and the period of repayment. "No additional fees the effective interest rate is equal to annual nominal interest". (Banka Qëndrore e Kosovës, 2017).

4.1. The average effective interest rates on loans

Table 1. The average effective interest rate on loans and deposits (2010-2016)

Description	2010	2011	2012	2013	2014	2015	2016
Effective rate for total new loans	13.97%	13.30%	12.24%	10.90%	9.29%	7.69%	7.22%
Effective rate for total new deposits	3.38%	3.62%	3.72%	2.40%	1.11%	1.15%	1.24%
Difference	10.59%	9.68%	8.52%	8.50%	8.18%	6.54%	5.98%

Source BQK – Interest rates on loans and deposits for the banking sector

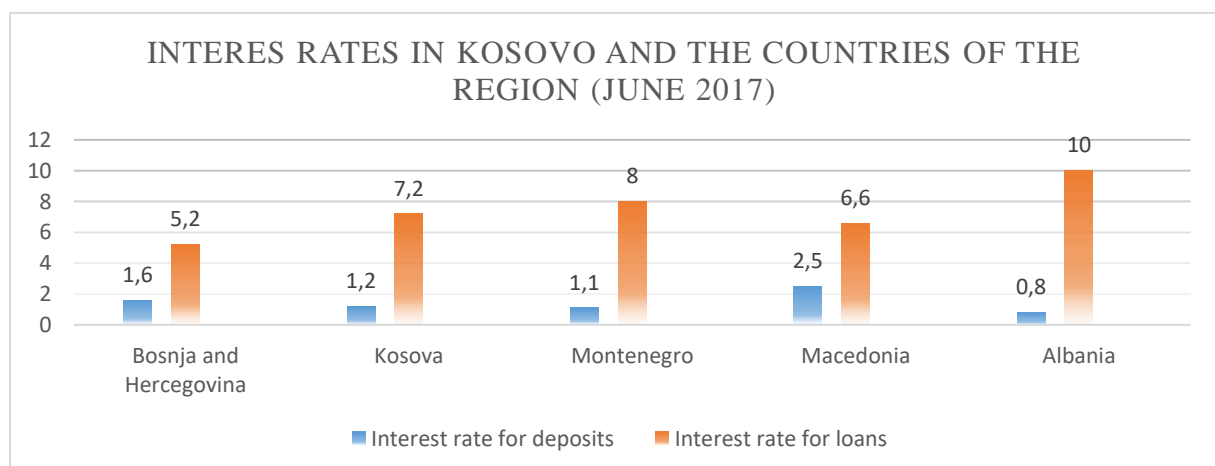
In 2014, for the first time, the interest rate on loans reached the single digits. Within five years, the effective interest rate on loans has decreased by 45.7%.

The difference between the effective interest rate on loans and the deposit rate has been steadily declining, reaching its lowest level in 2016 at only 5.9%.

The interest rate on loans has decreased continuously over the years, reaching the lowest value in 2016 at 7.22%. (Shoqata e Bankave të Kosovës, 2017).

4.2. Kosovo interest rates compared with regional countries

Figure 1. Kosovo interest rates compared with regional countries (qershor 2017)



Source: BQK (2017)

Since 2010, when the interest rate was at the level of 13.97%, in 2016 it reached 7.22%. Within 7 years it has dropped on average to 0.96% on an annual basis or 48.32% in total.

The reduction of rates occurred as a result of competition from banks operating in Kosovo. It has been thought for some time that commercial banks in Kosovo have had secret agreements regarding interest rates.

The significant decline in interest rates on loans in the banking sector over the past three years has resulted in alignment with the rates offered as loans and deposits in the region.

The present chart shows the state with the lowest interest rate in Bosnia and Herzegovina and Macedonia with a 5.2% to 6.6% interest rate. While Kosovo has an interest rate on loans of 7.2%. While higher interest rates have Montenegro with 8.0% and Albania reaches the level of the highest interest to 10.0%. (BQK, 2017).

4.3. The loan interest role in reducing the level of unemployment in Kosovo

Table 2. The employment rate in years 2001-2015

Year	Male	Female	Total
2001	51.8	69.9	57.1
2002	45.2	74.5	55.0
2003	40.3	71.9	49.7
2004	31.5	60.7	39.7
2005	32.9	60.5	41.4
2006	34.6	61.6	44.9
2007	38.5	55.2	43.6
2008	42.7	59.6	47.5
2009	40.7	56.4	45.4
2010	-	-	-
2011	-	-	-
2012	28.1	40.0	30.9
2013	26.9	38.8	30.0
2014	33.1	41.6	35.3
2015	31.8	36.6	32.9

The unemployment; in post-war Kosovo in 2001 reached 57.1%. This number is considered as very high unemployment. From this year, we have a decrease in the unemployment rate.

Kosovo reached the lowest unemployment rate in 2013, where it reached the rate of 30.0%. In 2014, it reached the level of 35.3%, while in 2015 it reached the unemployment rate of 32.9%.

For this period of 15 years, Kosovo has reduced the level of unemployment or 42.38% of the annual

average unemployment rate reaches values of 2.82%. The unemployment rate is low in the Republic of Kosovo given that Kosovo has a young population. The country has the youngest population in Europe.

4.4. The unemployment rate in Kosovo compared with regional countries

Table 3. The overall unemployment rate in years 2005-2014

Countries	2005	2006	2007	2008	2009
Kosova	41,4	44,9	43,6	47,5	45,4
Albania	14,1	13,8	13,5	13,0	13,8
Macedonia	37,3	36,1	34,9	33,8	32,2
Montenegro	30,3	29,6	19,3	16,8	19,1
Serbia	20,8	20,9	18,1	13,6	16,1
Bosnia and Herzegovina	43,9	31,1	29,0	23,4	24,1
Turkey	9,3	8,8	8,9	9,8	12,7

Table 4. The overall unemployment rate in years 2005-2014

Countries	2010	2011	2012	2013	2014
Kosova	-	-	35,1	30,0	35,3
Albania	14,0	13,9	13,9	15,6	17,5
Macedonia	32,0	31,4	31,0	29,0	28,0
Montenegro	19,7	19,7	19,7	19,5	18,0
Serbia	19,2	23,0	23,9	22,1	18,9
Bosnia and Herzegovina	27,2	28,0	28,6	27,5	27,6
Turkey	10,8	8,8	8,2	8,8	9,9

As for Bosnia and Herzegovina in 2005, it has had the highest unemployment rate. Whereas, during the period 2005-2014 it has managed to decrease to a large extent the level of unemployment.

The table shows that Kosovo and Bosnia and Herzegovina have the highest unemployment rates in the region. Bosnia and Herzegovina have reduced their unemployment rate more than Kosovo. Kosovo remains a leader in the region, with the highest unemployment rates in the period 2005-2014.

Turkey and Albania have the lowest unemployment rate, although during the period 2005-2014, both countries have had an increase in the unemployment rate. Albania has had the largest increase in the unemployment rate. (Agjencia e statistikave të Kosovës, 2016).

5. Results and Discussion

At the beginning of Commercial Banks in Kosovo, interest rates on loans were very high. In 2010 the interest rate was at the level of 13.97%, while in 2016, they reached the level of 7.22%. Annually we have an interest rate decrease of 0.96% or 48.32% for the period of 2010-2016. The interest rate difference from 2010 to 2016 shows that there is a decrease in interest rates, but they are still high. During the period 2001 - 2015, Kosovo has reduced the unemployment rate to 42.38% by estimates that in 2001 it was 57.1%, while in 2015 it reached 32.9%, respectively annual average rate of unemployment reduction has affected the value of 2.57 %.

Although there is a decline in interest rates if we compare them from the post-war period until now, they remain high. High interest rates do not stimulate economic development and opening of new jobs or reduce the high rate of unemployment in the country. Given that Kosovo has a younger population in Europe.

Banks operating in Kosovo are commercial. These banks offer loans with high-interest rates, short

repayment periods, and a large value of collateral for loan insurance. With these parameters, Commercial Banks in Kosovo do not guarantee/enable business development or reduction of the number of the unemployment rate, namely the opening of new jobs, taking into account that there is a very young age and there is no need for youth to emigrate to European Union countries, USA, Canada, Australia, and other economically developed countries.

The Country should create conditions for foreign investors as well as local ones, no bureaucracy, provide more incentives, benefits, eliminate barriers, corruption, the rule of law, political stability, and economic development.

The establishment of the development bank would be ideal in terms of; providing loans at low-interest rates, 2-3% on an annual basis. An extension of loans for investment loans and the granting of grace periods. In some countries, stimulation is applied in payment of loan interest to 50%. The annual average unemployment reduction rate has reached the value of 2.57% while the unemployment reduction rate should reach the level of 4.2% under the Gross Domestic Product (GDP) rate.

According to (ASK, 2017, p 10). "The largest decrease of the GDP in 2014 with 1.2%. From 2015 and 2016, we have a leveling of GDP with 4.1%. The year 2017 has a GDP growth of 4.4%." The reduction in the unemployment rate should be around 4.0% in line with the GDP rate scale.

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