Some Factors for Growing Savings to Be Well-Thought-Out by Key Actors in Kosovo

Fitim Mexhuani

Department of Finance, Europian University of Tirana

Artur Ribaj

Management Department, University of Tirana, Albania

Abstract

The main problem for developing countries is the lack of investment, which consequently limits the country's economic growth. Developing the real sector of any economy is not an issue that should be left to random actors. So, the Government of Kosovo, Bank of Kosovo and Commercial Banks are the three main actors that should be focused on factors that influence the growth of the level of domestic savings. By channeling savings into Kosovo's economy through banks for investments in healthy financial capital, Kosovo becomes economically and politically more developed and independent. This paper based on literature analyses and data processing identifies some of the factors that could affect the growth of savings in Kosovo, as these will lead to higher level of financial capital for entrepreneurs and the continuity of the country's economic growth. Taxation and income levels, demographic variables, confidence and deposit security, banking network, state-owned bank, financial education and financial inclusion are among the key factors of increasing savings. The interest rate is also important factor, but since this factor is often subject of other papers, we did not incorporate it in this paper.

Keywords: commercial banks, savings, factors for growing savings

Introduction

In the emerging economy of Kosovo, commercial banks remain the main channel of financial intermediation. Bank deposits represent the most important component of money supply used by the public and changes in money growth are highly related to changes of output in the economy. For commercial banks to efficiently perform their intermediary role in securing liquidity, they should be well-governed and take into account the factors that influence their growth and sustainability. Bank stability has been a key international agenda by policy makers since the global financial crisis of 2007-2009. One of the goals of the Central Bank for Kosovo is to promote financial stability through regulation. CBK has secured stability to date by adopting the regulatory framework with EU Directives and BASEL Principles.

The issue of increasing savings is of high importance for increasing the Kosovo's economic growth rate and development of the country. "The growth of any economy's output depends on accumulation of capital and capital accumulation requires investment and an equivalent amount of savings to match it. Two of the most important issues in underdeveloped economies and developing countries are how to stimulate investment and how to bring an increase in the level of savings to fund large investments.[1]

Commercial banks play a key role in transforming savings into investment. They attract people's savings and ensure the country's economic growth. If a developing country owns a sound financially sound, well-managed and efficient banking system then increasing the level of accumulation of savings in commercial banks is a reliable measure for the economic development of that country[2]. "The private savings ratio tends to increase along with the development of the financial system" [3].The financial links of people with other sectors of the economy depend on good governance and the level of development of commercial banks and the strategies that ensure the growth of deposits accumulation and investment of them to Kosovo.

Kosovo is lacking the capital market. It is a country of the type of banking market oriented and not financial market oriented. Consequently, it is crucial for Kosovo to have well-developed and developed commercial banks which can increase the accumulation of savings of Kosovars and the use of these savings as they are the only financial institutions under the legal framework in force in the state of Kosovo their allowed and main activity is accumulation of deposits and their investment for the growth of financial capital in the economy.

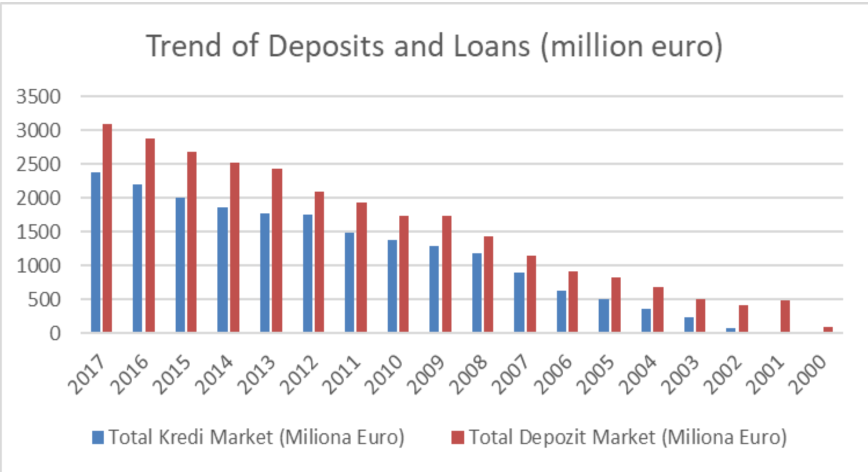
Bad creditors, nevertheless at a low level for Kosovo compared to other countries in the region, should be legally pursued without any tolerance to ensure that Kosovar deposits are not invested in the wrong direction and also to tighten discipline in the behavior of borrowers. These will ensure that banks have optimal performance as more deposits will be channeled into productive investments and there will be growth in the money and investment markets, thus achieving a healthy economic growth in Kosovo.

Sustainable development will have to rely on domestic financial systems and ultimately for domestic investors to mobilize savings and channel them into productive investment. The banking sector is the main source of finance for the

[1] Anthony Thirlwall, 2002, page 7
[2]For more, see: Growth and development of financing in transition economies: The role of domestic / domestic savings, 2000. United Nations Economic Commission for Europe
[3] *Koskela E., Viren M. 1983 p. 117.*

economy by offering loans to individuals, firms and government. Knowing the role that financial institutions have in a country's economy and their growth is a positive step in this regard.

The chart data below shows that the value of deposits increased year-over-year compared with previous years, but there are also two periods with decline of total deposits. The biggest decline was in 2002 where we have decreased by about 87 million euros compared to 2001, while in 2010 we have decreased by about 10 million euros compared to 2009.



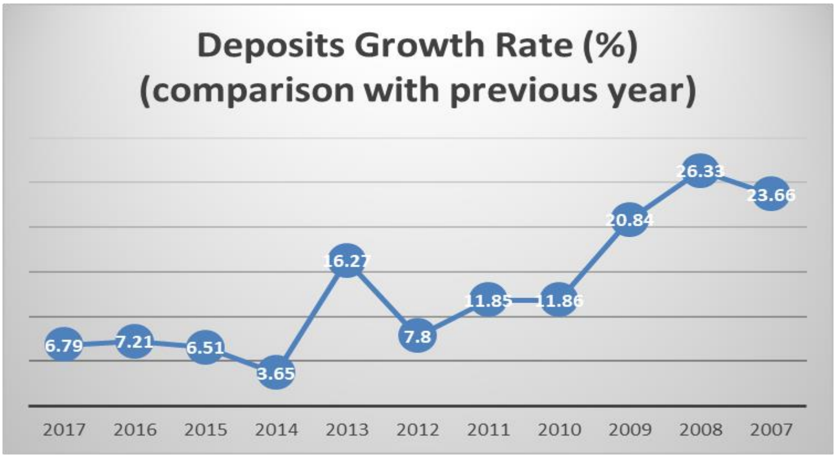
Graphic 1. Trends of deposits and loans

Source: Data published by banks and processed by authors

Such drops cited above also reflect the relationship with the political situation in Kosovo and the state's importance to the stability-enhancing effect of deposits and loans. The trend of loans that appear in blue at the graphic 1, represents lending by banks with a slight upward trend year after year which is strongly linked to the trend of savings accumulation in Kosovo. Despite the fluctuations in bank activity growth, the banking industry is among the sectors with the best performance of Kosovo's economy and has contributed a lot in terms of financing investments.

According to data processing the overall savings of Kosovo will be higher compared to the previous year, as per normal forecast will growing up to 3.915 billion euro in 2022; as per lower confidence forecast will growing up to 3.7 billion euro in 2022; as per upper confidence forecast will growing up to 4.13 billion euro in 2022.

Deposit growth continued to be positive for years now, despite the worrying growth rate which has considerable deviations from year to year and this is shown in the following graph. The growth rate of deposits in industry in the last four years has been at the lowest level compared to the pre-2014 growth.



Graphic 2. Deposits growth rate from 2007-2017.**Source:** Data published by banks and processed by authors

From the data processing and presentation in the graphic 2, above we note that the growth rate of deposits for Kosovo as a developing country to keep growing fast, was up to 2009, despite the fact that double digit growth was also shown in 2013 but this was a casual peak which clearly does not come as a result of clear strategies by Government of Kosovo, CBK or commercial banks for increasing the accumulation of savings of Kosovars. The other periods continue to fall and rise 6.51% in 2015, 7.21% in 2016 and 6.79% in 2017. These rates do not bring Kosovo's required economic growth. So, what is also evidenced by this graphic 2, is that despite the total increase in the amount of deposits (savings) in commercial banks of Kosovo, there is a downward trend in the growth rate compared to the previous year over the last ten years, which is also reflected in the volume of bank investments for the economy of Kosovo.

The factors that determine savings as well as the factors positively affecting investments are a major political challenge for all countries [1] "Understanding the motivation for savings (at the level of individuals and the community as a whole) is not only of academic interest, but also important in terms of policy implications. Identifying key determinants of savings can help policy makers draft policies to stimulate domestic savings and thus domestic investment. " [Economic Survey of Europe, 2001 No.1].

According to data analyses of Kosovo, there is evidence of a low growth rate of savings and the main actors in Kosovo (Government, CBK and Commercial Banks) do not have a strategy to increase accumulation of savings to ensure increased investment. Taxation and income levels, demographic variables, banking network, state-owned

[1] *Zhou Xiaochuan, 2009).*

banks, confidence and deposit security, financial education and increased financial inclusion are among the key determinants of increasing savings. These factors will be addressed following this paper. While the interest rate is also an important factor, but since this is often handled in scientific papers it is not addressed in this paper.

Taxation and the level of income

Encouraging the growth of savings through taxation policies is a well-known model applied by different countries. In Kosovo there is not yet a government action plan for studying the application of this model. "Some studies have shown that tax policy has a positive impact on the real sector and is an important tool not only for stabilization but also for promoting savings and capital."[1]

Tax incentives to boost savings are needed to apply in Kosovo. Applying appropriate taxation policies based on income benefits that people receive from investments. Types of incentives for Kosovars may be tax deductions for the amounts invested in pension investment funds and special savings accounts for studies, purchase of the first home, etc. The introduction of special bank accounts that would allow people to deposit a sum of money without taxation of accrued interests within the few years is one of the methods of promoting tax savings. Higher revenues allow higher levels of savings, which in turn are likely to be held in savings accounts in commercial banks[2]. The level of income directly affects the amount of savings, and also increases the predisposition to save. Increase in household income will lead to an increase in investment potential in the Republic of Kosovo. Increasing the size of the income will be associated with even greater savings. Savings of people is one of the indicators for living standards of the country.

Demographic variables

Demographic variables are considered important as determinants of household savings. The population structure affects people's saving behavior. "In the basic life cycle model, household age distribution has an impact on individual savings rates, because household savings rates are supposed to change with their age. An increase in the proportion of older households in the population is expected to reduce the rate of aggregate savings because retired families are supposed to eliminate or at least save less than those of working age. Similarly, an increase in the percentage of the working age population is also expected to reduce the rate of aggregate savings for each person, as parents spend a large part of their income in caring for their children.[3] Referring to the statistics on the age structure of Kosovo population there are: for the age group 0-14 years: 25.01% (male 246.281 / female 227.718) for the age group 15-24 years: 17.22% (male 170.515 / females aged 55-64 years: 7.92% (male 75.964 /

[1] *Peter V, Peter R. 2006, p. 36.*
[2] *Adusei, 2015.*
[3] *Bérubé G, Côté D 2000, p. 5.*

female 74.170) for the age group 65 years and over: 7.28% (male 57,965 / female 79,945). Based on data analysis, the population growth factor is favorable for Kosovo, as the population is young and most of working age. The number of new generations prevails over the older generation. The new, energetic and growing population predicts long-term economic growth. This factor increases the likelihood of an economy for growth and contributes to the growth of aggregate savings in the country.

Financial education and inclusion

The link between education and financial inclusion can be understood in the context of the theory of financial growth. The essence of the theory of financial growth[1] is that financial inclusion creates a productive environment for economic growth. This theory supports financial stability, which is a condition where the financial intermediation process works smoothly. While [9] Spratt (2010) writes that "the success of economic growth depends on the level of financial involvement, composition and stability of financial institutions. Thus, the existence of a financial education and financial inclusion carried out by an energetic financial sector has economic growth effects".

Therefore, the deepening of education and financial inclusion is a reflection of growth in other sectors of the economy. Financial institutions to support financial inclusion, they should be financially viable. Another theory that provides an explanation for the possible relationship between financial inclusion and bank credit risk is the financial intermediation theory. The extent of involvement has an impact on the level of stability as confirmed by the literature. Financial market is seen as the place which bring together the parties they spend and the parties that save. Without a financial advisor (broker), all investors (who do not have financial education) are involved in illegal long-term investments that give high benefits to those who consume later.

The effect of education and financial inclusion on the credit risk of a bank can be seen from the perspective of the theory of financial asymmetry. Asymmetry of information arises when a party to a debt contract has better information than the other party. The theory proposed by [10] Akerlof in 1970 shows that it may be difficult to spot a good sign from bad borrowers. [11] Richard (2011) writes that: "The moral hazard and negative outcomes of the asymmetry of information between borrowers and lenders may contribute to credit contractions, thus affecting performance and stability. Moral risk is the risk that a party to a transaction provides fraudulent information about its assets, liabilities or lending capacity. This is noted to be contributing to non-performing loans".

Commercial banks in Kosovo that are mostly seeking profit should be much more engaged in financial involvement. Due to the change in the landscape of financial

[1] *Bagehot, 1973*

involvement by commercial banks, it is important to understand its implications for their stability. Most of the early studies have found that increased financial inclusion improves the quality of banking sector assets. However, other studies have revealed potential threats caused by financial involvement in lending to those previously excluded from the banking sector [12] (Gokhale, 2009; Allen et al., 2012; Khan, 2011). Meanwhile, another study suggests that financial inclusion and financial stability have a relationship and that synergies exist between them [13] (Adasme et al., 2008; Cihaki et al., 2015). This is also evidenced by [13] Hanning and Jansen, who conclude that: "Increasing financial access through financial involvement changes the composition of clients in terms of saving and borrowing behavior. These compositional changes can support financial stability through diversification of risk " [14] (Hanning & Jansen, 2010).

According to the Global Partnership for Financial Inclusion (GPFI) and G-20, financial inclusion has become an important component of financial development. Increasing access to financial services for many citizens should be a priority for policymakers. The recent decade has witnessed many initiatives from emerging economies, in fostering the financial inclusion agenda. [15] (Demirguc-Kunt et al., 2015). Multilateral agencies, including the IMF, the G20, the Alliance for Financial Inclusion (AFI), and the Advisory Group on Assistance for the Poor (CGAP) have also been active in increasing the financial inclusive banking agenda. The 2007-2009 Global Financial Crisis (GFC) tested the rationality of financial inclusion when bank failures were accompanied by financial involvement (Carneiro & Ghosh, 2008). Financial involvement has also been associated with improving financial performance [16] (Allen et al., 2012). Despite the continued importance and attention to financial involvement and the claim that the global financial crisis has been accelerated by the lack of financial inclusiveness, there is still a lack of empirical evidence to bring this to the conclusion. In addition, there is little awareness of the effect of micro-level or banking-level involvement, as most studies are conducted at sectoral level with several studies that deal with individual banks [17] (Allen et al., 2012). Allen states that: "Financial inclusion can be measured using some dimensions, breadth, availability, accessibility, and usage. The availability dimension is used to calculate the expansion of the financial sector in terms of the physical network of banks, as physical distance from the financial point of view of financial services is considered to be an important obstacle to financial inclusion [18] "(Allen et al., 2014).

Referring to a country in the Southeastern Europe, similar to Kosovo, during the global crisis of 2008, Montenegro moved from rising deposits by 94 percent[1] in 2007 to move to a decline and not a rise in deposits - 8 percent in 2009. At the time of financial stress or crisis, depositors worry, they can turn to banks urgently and

[1] *Access to Bank Deposits and the Growth of Deposits in the Global Financial Crisis by Rui Han Martin Melecky. JEL Classification: G21, G01, G28, G32*

withdraw their deposits [19] (Diamond and Dybvig, 1983, Shin, 2009). Large depositors are usually the first to compete to make withdrawals of their deposits from commercial banks [20] (Huang and Ratnovski, 2011). Under the law of large numbers, withdrawals related to deposits can be mitigated if bank deposits are more diversified. Greater diversification of deposits can be achieved by enabling a wider access to and use of timely bank deposits, including a larger proportion of the adult population in the use of timely bank deposits. Based on this assumption, wider financial inclusion in time bank deposits can significantly improve the sustainability of banking sector financing and thus overall financial stability [21] (Cull et al., 2012).

Greater financial involvement, including access to savings, may also increase financial stability indirectly by offering individuals, families and small businesses a greater access to financial risk management tools. This larger financial approach can improve the elasticity and stability of the real economy and thus the financial system that serves it [22] (GPFI, 2012; Cull et al., 2012; Khan, 2011). At the banking level, the concentration on the accumulation of retail deposits can create a more varied and sustainable financing base that is less vulnerable to changes in market interest rates and a bank's financial standing.

At the country level, education and financial inclusion may increase financial intermediation efficiency by mediating larger amounts of domestic savings and thereby improving the sustainability of investment financing and investment cycles. Provided that the quality financial infrastructure and competent supervision are implemented, such improvement will produce greater economic and financial stability [23] (Prasad, 2010; Cull et al., 2012).

If no investment is made for education and financial inclusion from developing countries such as Kosovo, banks with a larger Loan-to-Deposit indicator may be considered from potential depositors' point of view that they are more generally vulnerable to bankruptcy risk.

Thus, support for education and greater financial involvement of Kosovars will help increase the stability of the banking sector by mitigating the weakness of the bank deposit base. The coefficient estimated by the WB study on the [24] Honohan (2008) and DK & K (2012) variables measuring access to deposits shows that a 10 percent increase in the share of people having access to bank deposits can mitigate the fall in growth deposits (or deposit withdrawals rates) by about three to eight percentage points. Increased banking financing strength can support the overall financial stability of the banking sector and the entire financial system

Increased confidence and secured deposit amount

The problem of transforming savings in investment is of particular importance for the development of the republic of Kosovo. Redistributing the financial resources of those who are in possession to those in need is essential to the economy. Thus, savings and investments are interlinked.

To transform savings into investment, savings should be accumulated from commercial banks in Kosovo. The mobilization of population savings by commercial banks is the most important type of relevant banking operations in Kosovo. For people in order to deposit their savings on bank accounts, it is necessary to ensure the confidence of depositors through good governance by commercial banks, ensuring transparency and symmetry of information on any product and service offered to Kosovo bank customers.

Macroeconomic indicators of Kosovo, such as gross domestic product, macroeconomic policy, inflation, unemployment and interest rates, are indicative of the overall economic situation of the country. They affect the extent to which Kosovo citizens use the financial sector. The most favorable macroeconomic conditions are expected to increase the confidence for depositing in the banks of Kosovo. [25] Mohrotra and Yetman, 2014, noted that financial stability could increase confidence in the financial system.

It is also necessary to develop a more effective mechanism for guaranteeing and protecting the deposit of people, which will increase confidence in the banking system. The use of security mechanisms to transform savings in investment is of great practical significance. One of the solutions to the problem of increasing the confidence of the people in the Kosovo banking system is the increase of the amount of insured deposits. The amount of deposits secured by the state in Kosovo to date is € 10,000 according to the Law on "Deposit Insurance" of the Republic of Kosovo. If we are referring to other countries in the region, this amount is several times higher. It is time to think that Kosovo will increase the deposit amount as measures taken to protect the rights and legitimate interests of depositors and increase the financial stability of financial markets and people's confidence in Kosovo's commercial banks.

The large number of small individual or household savers can potentially contribute to the stability of the financial system [26] (Cull et al., 2012). [27] Khan notes that "Low-income depositors tend to maintain viable financial behavior through the business cycle. Therefore, during crises, deposits from low-income customers usually act as a continuous source of funds even when other banks' funding sources sink or become difficult to attract. Small consumers in this way offer great opportunities to mobilize sustainable deposits "

The global crisis showed that steady sources of domestic retail funds, unlike international borrowing funds, could greatly increase the health and sustainability of financial institutions and reduce revenue volatility of a country [27] (Khan, 2011). The diversified financing fund of financial institutions has played a role in mitigating the impact of a global credit (wholesale financing) on domestic financial intermediation [28] (Hannig and Jansen, 2010).

If will increase the number and the amount of retail depositors, who are covered by Kosovo Deposits Insurance Agency, it will contribute to the stability of the financial system. Khan notes that small depositors tend to maintain viable financial behavior through the business cycle. Therefore, during crises, deposits from low-income customers usually act as a continuous source of funds even when other banks' funding sources sink or become difficult to attract. Small consumers in this way offer great opportunities to mobilize sustainable deposits [27] (Khan, 2011). In times of stress, secured depositors have proven to be the most reliable source of bank financing and, consequently, play an integral role in liquidity risk mitigation [29] (OCC, 2012).

Banking network

There is a link between the commercial banks' deposits and the expansion of the commercial banks network. Not only are deposits increased by the presence of the banking network but also the expansion of the banking network is also influenced by the deposit level potential in each area / city / village. Banks make decisions to expand their presence with a banking network taking into account factors such as level of competition, deposit potential, regional income and infrastructure existence. Deposit potential is a reason that banks consider in the strategy of expanding their banking network. There is a long-term relationship between the banking network of commercial banks and the commercial banks' deposits. It has often been argued that the growth of the banking network stabilizes the banking system by facilitating the diversification of bank portfolios [30] (Mark Carlson and Kris James Mitcheer, 2006).

From the research of literature for the effect of banking network over deposits increase, we note that the expansion of commercial banking network leads to more stable banking systems, enabling banks to diversify their assets and expand their deposit base. [31] Daniel (2005) states that: "The lack of widespread banking networks hampers the development of large-scale industrial firms. It is said that unit banks (centered only on one branch or capital) become increasingly incapable of receiving deposits from all the cities / areas of a state. Also, these types of banks are not able to monitor geographically widespread debtors as easily as it could with a banking network spread across the country. " An articulated argument in the literature is that banking networks stabilize banking systems by reducing their vulnerability to local economic shocks; the growth of the banking network enables banks to diversify their loans and deposits into a wider geographical area or diversify their customer base. While, banking network constraints have been linked to the instability of banking systems.

The availability of banking services was represented from the point of view of penetration of banks, ATMs and agents [32] (Mostak & Sushanta, 2015). For accessibility, the number of bank deposits, loans and mobile accounts for 1000 adult adults was used to integrate the depth of financial access. The size of the use included the volume of loans plus deposits in relation to GDP [33] (Beck et al., 2014). This study used the Financial Inclusion Index (IFI) developed by [34] Sarma and Pias (2011). The index captures information on the three dimensions of financial inclusion in a single number ranging between 0-1, where 0 means complete financial exclusion and 1 indicates full financial inclusion. [35] Chiba (2009) noted that "commercial banks have taken actions to address financial inclusion by designing new services and products targeting low wage and poor earners all over the world. Investing in accumulated deposits is their biggest single and largest source of income".

From commercial banks' reports in Kosovo in recent years there has been a restriction of the banking network by some banks which has affected a contraction in the share of deposits and loans owned by these banks in the Kosovo banking market. Referring to the table below, commercial banks since 2013 seem to have reduced the number of agencies / offices from 245 to 183 in 2017 across the country on the basis of their spending reduction targets.

Banks network	2013	2014	2015	2016	2017
Banks	9	9	10	10	10
Branches	44	45	45	45	45
Agencies	245	223	210	207	183

Table 1. Banks network in Kosovo. **Source:** Data published by banks and processed by authors

The pronounced decline of banks with capital from EU countries in Kosovo has also been influenced by parent bank policies which have shrunk in their growth strategies, limiting the banking network, staff reductions but also interest rates on deposits maximizing profit. Despite that for 2017, it turns out that about 357,300 accounts have applied online banking by enabling banking services to make payments or to check the account balance over the internet. The latter have seen a significant increase thanks to investments in technology and encouraging the rapid growth trend in the use of electronic payment instruments in Kosovo.

The role of a state-owned bank

For small and developing countries, it is very important to collect domestic savings and utilize savings accumulated in domestic investment. The phenomenon of Greece and some Latin American countries whose budget deficit has been financed by foreign investors, with external debts, is well-known. Due to the lack of tax revenues they passed into an economic crisis. The Asian financial crisis in 1997 is one of the typical phenomena where speculative foreign capital suddenly hit countries such as Thailand, Indonesia, Malaysia, Korea, etc. These speculative attacks from the outside created panic and financial instability in their domestic economy.

Ensuring proper functioning of banks should be the first priority for all governments. The role of the bank is to increase and maintain deposits of households, businesses and institutional organizations, as well as finance the real economy. The banking system should be governed by a clear legal and regulatory framework. Also, might be a good measure setting the maximum limits for the size of each bank to the GDP of the country where they operate, in order not to repeat the "Too big to fail" phenomenon of 2008. After the financial crisis of 2008, many banks' shares came to the hands of the state in the United States, England, Spain, France, Belgium, Germany and other countries.

The coordinated actions of governments and central banks during the 2008 global crisis to save financial institutions, which were considered too large to fail, saved the banking system from total bankruptcy in the US and Europe. The US gave the sum of $ 16 trillion to keep the banking industry from failing to go bankrupt. These experiences showed that private equity banks (such as Bear Stearns, Lehman Brothers, Citigroup, Royal Bank of Scotland, etc.) were systematically risky through their bad management

In today's world post-crisis situation, commercial banks choose to write-off the loans, clear balance sheets and manage bad loans, and then might lend new loans, resulting in less liquidity for the real economy, which in turn has serious negative economic and social effects by causing businesses and individuals to go bankruptcy, unemployment increases, and social problems intensify. Each state should have an analysis of whether a bank should be owned by it. As the world experience and relevant literature has shown, only 25% of economic recovery is realized without credit.

Instead of governments supporting and encouraging private commercial banks or international financial organizations to provide more soft loans, the solution can be found with domestic financial resources that can be accumulated through state-owned bank as they offer more trust for savers, wide banking network and then invest in the country's economy.

State-owned banks must act for the general purpose of developing a country according to the economic policies of the respective country. The bank should be a useful tool for practicing politics, not a tool to replace commercial banks. The importance of a state-owned bank increases in periods of recession and deflation, where conditions are created to reduce liquidity. State-owned banks should have the means to limit the adverse effects of the above phenomenon by providing low interest rate loans and longer repayment term to overcome the crisis cycle and in order to establish the economy mechanism in movement

The state-owned bank does not focus on increasing profitability and returning ROAE to shareholders, but in fulfilling development planning requirements and completing of the needs of society. In some developed countries, they have begun to discuss the necessity of creating state-owned banks, as it has been shown that even private banks lack the ethical and professional management, but also do not respond in a coordinated manner to the monetary policies and needs of the country. In the US, the creation of state-owned banks has found some supporters. The example of the North Dakota Bank, which based on accumulating deposits offers low interest loans to students, small businesses and businesses under construction, cooperates with private banks in buying home loans and buys municipality bonds has now become the center of discussion between financial districts and bankers in USA. North Dakota Bank and its mode of operation is one of the main reasons why the North Dakota state shows the lowest level of unemployment and bankruptcy in the US.

We note that public banks account for 40% of the number of banks around the world, most of which are in developing countries and where the impact of the recent crisis was much smaller. Germany, Brazil, Japan, Singapore and China are examples of countries that did not hit the economic crisis and have state banks. In Europe we see the creation of development banks, with the latest examples of France and Andalusia in Spain, which copied the German model of success of the KFW. People need to know that KFW, and other development banks and banking institutions are excluded from the exceptionally high capital adequacy standards presented by Basel (standards affecting the bank's capacity to provide loans).

The case of Japan that owns the Public Post, which carries out banking activity, and has the main role in the accumulation of domestic savings. The Japan Central Bank annually conducts a household savings survey. The results of survey were: Closeness with the branch and office network was the main reason for depositors in the selection of the financial institution where they would deposit their savings and another reason was security (confidence). In Japan there are 24,700 nationwide post offices. On the other hand, there are only about 3,500 banking branches in Japan. Due to geographic distribution and proximity to customers, post offices attract most depositors in Japan.

The state of Kosovo does not own any state-owned banks, and to date there has not been a study or initiative for this. Also, Kosovo does not have credit savings associations that can have a special role to play throughout the system. These savings credit associations may be the first cells of another type of economy, especially at the local level, and in cooperation with a state-owned bank could contribute to supporting and developing Kosovo's agricultural production in order to increase the pace of the country's sustainable economic growth.

The significant difference between a state-owned and a private bank should be absolute transparency based on a clear legal and regulatory framework for any money investment. The bad management phenomenon, government interventions, and free credits should be hampered by the use of money. Otherwise, there will be strong criticism and confidence will shake and many citizens would seek to close the state-owned bank. At this point we can mention the practices and experiences of state-owned banks in former Yugoslavia and Albania where there have been phenomena of mismanagement by the administrators of state-owned banks. So, experience has shown that state-owned banks are used by country politicians. Intervention by political leaders for the employment of special employees or for obtaining loans for business-friendly interests. In order to reduce the existing risk of political interference, there should be a legal and regulatory framework that will determine the transparent mode of operation and decision-making method and will allow control of the state-owned bank.

The role of state-owned bank is not to perform a fierce competition with private commercial banks. State-owned bank may act in a complementary way with private commercial banks to accumulate deposits and provide loans to those whom commercial banks cannot serve. The purpose of state-owned bank is not to have a high rate of ROAE. It should be clear that the state-owned bank should not participate in the investment in stocks, derivatives and toxic products. At the same time, any funding they provide should be the product of a broad study to avoid the creation of "bubble" conditions, for example in the immovable property market and their internal procedures should be clear and strict rules to prevent their administration from lending under political pressure.

Conclusion

The current savings of Kosovars have served as the main potential of financial resources for capital investment in Kosovo and banks have their contribution to the development and growth of the economy of the independent state of Kosovo. Finding out that Kosovo is a banking market-oriented and no financial market-oriented country, it makes commercial banks having a crucial role for growth or decrease of Kosovo's economic growth.

Analyzing the low growth rate of savings in Kosovo during these last 4 years, it is required that key actors in Kosovo (Government, CBK and Commercial Banks) should be engaged to increase accumulation of savings and provide incentives for entrepreneurs to maximize resource use (production factors) for the production of goods for consumption and sustainable economic development of Kosovo. To support Kosovo's economic growth, it is necessary the commitment of Kosovo's government in drafting appropriate policies and models to support the country's sustainable macroeconomic development through the use of fiscal policy, financial education and financial inclusion; the CBK's commitment to ensure optimum performance of licensed banks in Kosovo and maintaining financial stability; engagement of good corporate governed banks to ensure their development and increase the accumulation of Kosovars savings and transform these savings into investments for the Kosovo economy. Well-governed commercial banks facilitate the flow of funds from savings in investment.

Referring to the practices of some developed countries but also to some emerging countries, if Kosovo continues to have a low rate of increase in savings, high difference between deposit and lending interest rates, and non-financing of production and agricultural sectors from private commercial banks in the country, the state of Kosovo should consider the possibility of establishing a state-owned bank to increase deposit accumulation and investment in Kosovo's manufacturing and industrial development sectors.

Bibliography

[1] Allen, Franklin, Asli Demirguc-Kunt, Leora Klapper and María Soledad Martínez Pería. 2012. “The Foundations of Financial Inclusion: Understanding Ownership and Use of Formal Accounts.” Policy Research Working Paper 6290, World Bank, Washington, DC.

[2] Anginer, Deniz, Asli Demirguc-Kunt, and Min Zhu. 2012. “How Does Bank Competition Affect Systemic Stability?” Policy Research Working Paper 5981, World Bank, Washington, DC. Bankable Frontier Associates. 2009.

[3] Arestis, P. and Demetriades, P. (1997). “Financial Development and Economic Growth: Assessing the Evidence”, Economic Journal, 107.

[4] Ayadi, R., Arbak, E., Ben-Naceur, S. and Pieter De Groen, P. (2013). Financial Development, Bank Efficiency and Economic Growth across the Mediterranean. MEDPRO Technical Report No. 30. March 2013

[5] Balogun, E. D. (2007). "Economic Growth in a Cross Section of Countries," The Quarterly Journal of Economics, MIT Press, Vol. 106(2)

[6] Banka Qëndrore e Kosovës, Raporti Vjetor 2017. (Qershor 2018)

[7] Chiba Michael (2009). Financial Inclusion, Poverty Reduction and the Millennium Development Goals [Journal] / European Journal of Development & Research, 2009. - Vol. 21.

[8] Financing Growth and Development in the Transition Economies: The Role of Domestic Savings. 2000. UN Economic Commission for Europe

[9] Gilles Bérubé G., Côté D. “Long-Term Determinants of the Personal Savings Rate: Literature Review and Some Empirical Results for Canada.” Working Paper 2000-3.

[10] Hanning, A and Jansen S. (2010) Financial inclusion and Financial Stability; Current Policy Issues. ADBI Working Paper 259, Tokyo: Asia Development Bank Institute.

[11] IMF on Economic Growth of Kosovo. (2016)

[12] Kaufmann, Daniel. 2005. “Myths and Realities of Governance and Corruption.” University Library of Munich, MRPA Paper 8089, Munich.

[13] Khan, A. (2012). Role of Commercial Banks in Economic Development.

[14] Koskela E, Viren M., (1983) “A note on long-term determinants of the private savings ratio.” Economic letter 11 91983) 107-113. North-Holland Publishing Company.

[15] Koskela, E., Viren, M. (1983). A long-Term determinants of the private saving ratio. North Holland Publishing Company.

[16] Mark Carlson and Kris James Mitcheer. (2006). Branch Credit Banking, Bank banking, Competition, and Finnacial Stability. Journal of money Vol.38, No.5, 129-151.

[17] OECD Report to G20 Finance Ministers and Central Bank Governors. (September 2015)

[18] Peter V., Raja Peter R., (2006) "Tax Finance and Savings: Conceptual Issues International Research." Journal of Finance and Economics ISSN 1450-2887 Issue 3 (2006) © EuroJournals Publishing, Inc. 2006.

[19] Ribaj, A, (2017). Tregjet financiare, risqet dhe etika.

[20] Richard J. Butler and Harold H. Gardner (2011), "Moral Hazard and Benefits Consumption Capital in Program Overlap: The Case of Workers' Compensation", Foundations and Trends® in Microeconomics: Vol. 5: No. 8, pp 477-528.

[21] Scher Mark and Naoyuki Yoshino, Small Savings Mobilization and Asian Economic Development, M.E.Sharpe. 2005

[22] Spratt, Steven, and others (2010). The Great Transition: A Tale of How It Turned Out Right. London: new economics foundation.

[23] The Law on "Deposit Insurance" of the Kosovo Republic

[24] Thirlwall A. (2002) "The Mobilization of Savings for Growth and Development in Developing Countries" Icfai University Journal of Applied Economics, 2002, vol. I, issue 1, pages 7-30.