

The Determinants of Cost Efficiency: Evidence from the Kosovo Banking Sector

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ABSTRACT

In recent years, competition in the banking sector has increased, and even banks today have competition from non-banking institutions. Given that banks are the main intermediaries for the channeling of savings and investments, this situation presents pressure on the banking sector. Due to competition in the banking sector, banks are trying to find ways to increase their efficiency and take advantage of economies of scale and scope. The purpose of this study was to examine the cost efficiency of the banking sector in Kosovo. Data from eight commercial banks during the period 2014-2020 (quarterly financial statements) are analyzed to find out which specific variables of the banking sector affect cost efficiency. Our first stage of methodology was to find cost efficiency using the traditional model of Data Envelopment Analysis. In a second stage, we use the multiple regression model to find the impact of determinants in the cost-effectiveness. We included several variables such as the return on assets, capital adequacy, size of the bank, bank liquidity, loan loss provision coverage ratio, return on equity, and loans to asset ratio. Our results show that cost effectiveness was mainly explained by profitability (ROA), size of the bank, loan loss provision coverage ratio, and Return on Equity (ROE). Meanwhile, capital over total assets, total loans to total assets, and loans to deposits do not have any impact on cost efficiency.

Keywords: cost efficiency, profitability, liquidity, loan loss provision, bank size.

JEL Classification: D24, G24, G32, G33

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