

INTEREST RATE AND MANAGEMENT OF CREDIT RISK IN COMMERCIAL BANKS IN KOSOVO

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Abstract

The paper presents the main components of credit risk and interest rate. Credit risk and interest rate are the two most important risks, that commercial banks face, and affect not only the economic value of the bank, but also on its future earnings and capital adequacy. Effective management of credit risk and interest rate is a critical component of a comprehensive approach to risk management, and essential for long-term success of any banking organization. Credit risk and interest rate reflect the possibility of the failure of a borrower to repay its debt and a decline in the profitability of the bank due to a change in interest rates. The recent financial crisis showed that credit risk is an important source of risk to the financial system. The credit risk of a financial asset is affected by the probability of default. Exposure to interest rate risk and credit risk continues to be the main source of problems in commercial banks; banks and their supervisors should be able to draw useful lessons from past experiences. Banks now have to have a sharp awareness of the need to identify, measure and control interest rate risk and credit risk, and to determine that they hold adequate capital against these risks. The aim of this paper is to elaborate, in general, credit risk management and interest rate, seen at the theoretical and comparative perspective. The paper is worked with the scientific and research methodology. Theme is addressed in a descriptive and analytical way to highlight the difficulties that commercial banks face by the interest rate risk and credit risk. The research used scientific books in foreign languages by international author, documents of competent institutions in the field, they are also used scientific papers published on the Internet, to make comparisons in order to provide a clear picture of the whole process. In accordance with the literature, this paper includes the effects, methods, techniques, policies and strategies for managing credit risk and interest rate on the banks' assets.

Keywords: *interest rates, credit risk, commercial banks.*