
Adoption of International Financial Reporting Standards (IFRSs)

**and their Impact on Loan Terms:
Kosovo Case**

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ABSTRACT

As part of the major international developments on financial reporting and auditing, the International Financial Reporting Standards (IFRS), which are now applied in many countries around the world, are creating an international harmonization and a common language for financial reporting and accounting between firms that apply and report in accordance to these standards. This paper empirically tests whether adoption of IFRS in developing and transitional Kosovo, has impact on bank's loan terms and conditions for companies that are mandatory adopters of IFRSs. To test the hypothesis, the authors analyzed the opinions of the banking sector and of companies that are mandatory adopters of IFRSs in Kosovo. The research results suggest that the adoption of IFRSs in Kosovo has impact on interest rates offered by banks to mandatory adopters, as well as on non-financial loan terms such as: loan time limits, mortgage requirements, lower administrative costs and renegotiating loan terms. Mandatory IFRS adopters have a better loan rating compared to other companies in Kosovo and the percentage of non-performing loans is lower for mandatory IFRS adopters in Kosovo. Based on this research, the aim is to demonstrate to policy makers and other stakeholders that only the mere implementation of high quality financial reporting standards, such as IFRSs, is not sufficient to improve the quality of accounting and financial reporting in Kosovo, especially since there are no institutional mechanisms to empower the implementation of IFRSs. For companies in Kosovo receiving better loan terms from banks can be an incentive to improve their financial reporting systems, but the focus is also on other benefits that should be considered as well.

Keywords: IFRS, financial statements, cost of borrowings, loan terms, disclosures, transparency, accountability

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