The Risk of Credit Concentration: A Study of the Construction Sector

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Abstract

This study investigates the risk of credit concentration in the construction sector in Albania using secondary data and calculates the Herfindahl-Hirschman index (HHI) for the total loan portfolio in Albania, particularly for two large banks operating in the Albanian market, Credins Bank and Raiffeisen Bank for the period 2017-2021. The purpose of this study is to discover and evaluate the level of financing in the construction sector and analyze the risk of loan concentration in the construction sector from the banking sector as a whole, and in these two banking institutions in particular. The method used for this study includes collecting and analyzing secondary data from various sources, such as annual financial reports and statistics of the construction sector in Albania. The study results show that Credins Bank and Raiffeisen Bank have different HHI indices for loans in the construction sector in the years studied. The loan portfolio's concentration level for financing the construction sector is higher for Credins Bank, while Raiffeisen Bank shows a lower concentration level. At the end of the study, relevant conclusions and recommendations are provided, where it is recommended that financial institutions and regulators carefully monitor the situation and take measures to promote diversification and address the issue of credit concentration in the construction sector to reduce potential risks.

Keywords: *Concentration risk; credit; construction sector; the HHI index*

1. Introduction

Researchers have categorized these risks into five main categories, including production, market financial, legal, and human resource risks (Murrja et al. 2023 and Ndregjoni et al.2023)

The risk of credit concentration in real estate (or construction) refers to the fact that a significant part of a bank's loan portfolio is concentrated in loans and financing for the real estate sector. If the real estate sector experiences a crisis, for example, a property price feature or a demand feature, banks that have a high concentration of loans in this sector are likely to suffer a significant negative impact on their financial health (Murrja et al. 2023). The risk of credit concentration in the real estate sector can be mitigated by diversifying the bank's loan portfolio in other sectors, such as industry, trade, or services. Also, the bank can adopt rigorous risk management policies, such as careful assessment of the client in the real estate sector, setting the credit limit according to the client's financial situation and diversifying the loan portfolio between different categories, as well as selecting with the caution of investors in real estate and the adoption of risk protection instruments. However, it is important to note that real estate is a major driver of the economy

and that excessive fear of risk can also translate into a lack of finance for construction projects or real estate developments, which could be profitable. In general, it is important that the bank carefully assesses the risk of credit concentration in the real estate sector and takes appropriate measures to mitigate this risk, without disproportionately limiting access to credit for real estate customers[1]. (Bundesbank, D. (2006).

The risk of credit concentration in real estate can be significant for banks. The real estate sector is subject to market fluctuations and economic downturns can cause property prices to decline. This can lead to a decrease in the value of real estate that serves as collateral for loans. If real estate owners are unable to repay their loans, the bank may incur losses.

Moreover, the risk of credit concentration in the real estate sector may increase the credit risk of banks. If many banks provide loans to the same real estate investor, the risk that all these loans will not be repaid in case of financial difficulties for the investor increases significantly. This can lead to a negative domino effect, where one investor's financial distress spreads to other banks that have lent to that investor (Hibbeln, M. (2010). Moreover, the risk of credit concentration in the real estate sector can make banks more vulnerable to fluctuations in the real estate market. If the real estate market experiences a significant decline in property prices, banks with high exposure to the real estate sector may suffer significant losses and risk bankruptcy.

This study aims to; **Assess the Impact on Economic Stability**, **Analyze Risks Associated with Dirty Money**, **Evaluate Regulatory Effectiveness**, **Recommend Risk Mitigation Strategies** and **Explore International Practices**

Based on the objectives outlined, the following research questions will guide the investigation:

- **What are the economic impacts of concentrated lending to the construction sector in Albania on urban development, job creation, and overall economic stability?**
- **How does the concentration of loans in the construction sector increase vulnerabilities to dirty money and financial crimes within Albania's financial system?**
- **What are the strengths and weaknesses of Albania's current regulatory frameworks in managing the risks associated with high loan concentrations in the construction sector?**
- **What strategies can Albanian banks and financial regulators implement to effectively mitigate the risks of loan concentration in the construction sector?**
- **How do international benchmarks and practices in loan distribution and risk management compare to those in Albania, and what lessons can be learned to improve Albania's approach.**

The paper's weakness is a lack of clear and effective methods to address the hazards of credit concentration in Albania's construction sector, despite its economic importance and vulnerability to issues such as money laundering. While the report examines the Herfindahl-Hirschman Index (HHI) and regional differences in lending, it does not go into detail about the implications of moderate concentration or high-risk thresholds.

The conceptual model of reearch illustrate the relationship between loan concentration in the construction sector and its broader impacts. The diagram clearly shows the central issue of "Credit Concentration" and its effects on "Economic Impact," "Illegal Activities," and "Bank Stability."

[1] *Hibbeln, M. (2010). Risk management in credit portfolios: concentration risk and Basel II. Springer Science & Business Media.*

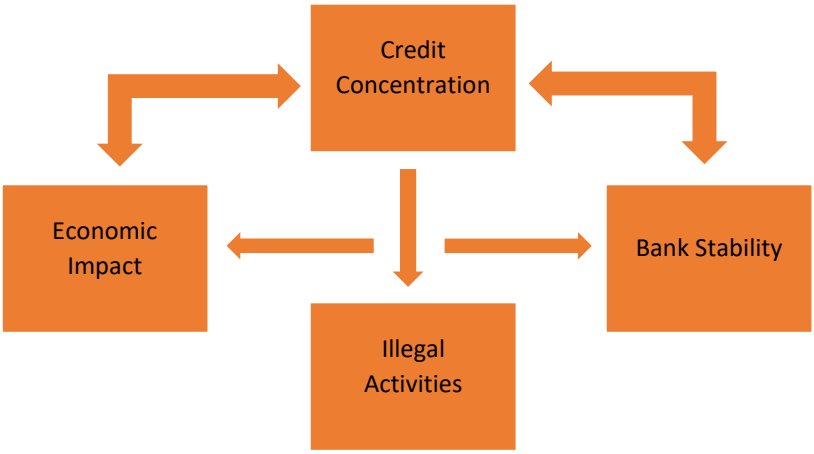

Figure 1: Conceptual model of research
Source: Authors

This paper is structured as follows. Section 2 examines the relevant literature, including earlier research and theoretical frameworks that address loan concentration issues and the economic importance of the construction sector. Section 3 examines the technique utilized to perform empirical research, including data sources, variables, and analytical tools such the Herfindahl-Hirschman Index (HHI) employed in this study. Section 4 offers the empirical findings, focusing on trends in loan concentration in Albania's banking sector as well as specific findings for Credins Bank and Raiffeisen Bank. Section 5 explores the ramifications of these findings in terms of economic stability, regulatory policies, and international standards. Finally, Section 6 closes the research by providing crucial insights and recommendations for managing credit risks.

2. Literature Review

Lending organizations manage concentration risk by utilizing a "concentration ratio" calculation to assess risks associated with lending excessively to single borrowers or specific industries. This risk management strategy is crucial because a less diversified loan portfolio increases a financial institution's concentration risk. The higher the concentration, the more sensitive the portfolio is to sector-specific downturns, which is particularly perilous for banks and other financial entities. Financial companies, under guidance from their board of directors, must determine an acceptable level of risk concentration. This "risk appetite" is defined through policies addressing concentration risk limits, as highlighted in the studies by Beck, T., De Jonghe, O., & Schepens, G. (2013).

Banks play a vital role in the economic system, offering a range of financial services with lending as a core activity that generates substantial income. However, this also introduces significant risks. Banks must consider not only the credit solvency problems of their customers—which entails evaluating their current and future ability to meet financial obligations—but also the distribution of credit across various borrowers and sectors to prevent excessive concentration, as suggested by Berger, A. N., Klapper, L. F., & Turk-Ariss, R. (2017).

Various international organizations and academic research have underscored the dangers associated with loan concentration:

International Monetary Fund (IMF):	Cautions that high concentration of loans in particular sectors or to specific borrowers can amplify systemic risks, potentially destabilizing the financial system during negative sectoral developments (Prendi L. Gashi J, 2023).
Basel Committee on Banking Supervision (BCBS):	Asserts that banks must have robust policies to identify, measure, monitor, and control concentration risk. The BCBS stresses that excessive loan concentration can undermine a bank's viability, exposing it to unexpected economic or industry-specific shocks.

Federal Reserve:	Highlights that concentration risk can increase credit risk and lead to higher credit losses during economic downturns, advocating for banks to implement effective risk management practices and diversify their loan portfolios
Academic Research:	Further research indicates that a high concentration of loans reduces the benefits of diversification, increases vulnerability to specific economic shocks, and can amplify the transmission of financial stress between borrowers or industries, thereby posing a potential source of systemic instability in the banking sector (Valvonis, V. 2007).

The financial crisis of 2008 serves as a stark reminder of the risks posed by high credit concentration. Originating from excessive lending in the U.S. mortgage market, the crisis demonstrated how credit concentration could lead to significant financial upheavals, emphasizing the necessity for careful credit management and diversified lending practices. During this period, the construction market was continually expanding, and credit was significantly eased, leading to a bubble in the real estate market. This was exacerbated by banks' risky credit practices, including subprime and inadequately secured loans, which, as Deutsche Bundesbank (2006) and J. York (2007) suggest, were major factors contributing to the scale of the crisis.

In light of these insights, lending to the construction sector, especially in developing regions like Albania, needs careful management. Despite the critical role of construction lending in supporting infrastructure development and urbanization, the associated risks demand comprehensive risk management strategies and regulatory oversight to ensure the long-term stability and sustainability of banking practices. This careful balance between leveraging opportunities in real estate and managing associated risks will be crucial for maintaining financial stability in the face of evolving economic landscapes.

Other studies have highlighted the risks associated with credit concentration in the construction industry. Bank OZK finances risky bet on Miami glamour" (The Financial Times, July 14, 2024): This article examines Bank OZK's considerable exposure to commercial real estate, particularly in Miami, which raises worries about the concentration risk in its loan portfolio. US homebuilders face credit crunch as banks cut lending" (Financial Times, September 2024). The paper looks at how restricted bank lending has resulted in a credit bottleneck for US homebuilders, underlining the construction sector's vulnerability to concentrated credit risks. Analyzing Concentration Risk in Credit Portfolios" (Moody's, October 2024) The analysis investigates how sector concentration, such as in construction, can raise economic capital requirements due to increased risk exposure. Concentrations of Credit" (Office of the Comptroller of the Currency, Oct 2020): This paper covers the significance of identifying and managing credit concentrations, with an emphasis on industry-specific risks such as those in the construction sector.

3. Research Methodology

Conducting this research, a comprehensive analysis of secondary data sources, including reports and data from the Bank of Albania and various key banks operating within Albania, was undertaken. This data provides critical insights into credit risk management and the specific dynamics of credit distribution to the construction sector over the study period from 2017 to 2021. The inclusion of data from prominent financial institutions such as Credins Bank and Raiffeisen Bank, both significant players in the Albanian market, allows for a detailed exploration of sector-specific lending practices and their economic implications.

3.1 Variables of the Study

The study focuses on several key variables to assess the impact and risks associated with the concentration of loans in the construction sector:

Total Value of Loans in the Construction Sector: This metric quantifies the aggregate amount of credit extended to the construction sector by the banks. It serves as a primary indicator to evaluate the level of credit concentration and to gauge the vulnerability of the financial sector to potential downturns in the construction industry.

Percentage of Loans in the Construction Sector Relative to Total Bank Portfolios: This variable measures the proportion of each bank's total loan portfolio that is attributed to the construction sector. A higher percentage indicates a greater reliance on the construction sector, which could pose significant risks should the sector experience financial distress.

4. Method of Data Presentation and Analysis

The collected data is organized and presented both in tabular form and through graphical representations. These presentations facilitate a clearer understanding of the trends and patterns in lending practices. Special attention is given to the breakdown of credit distributions, allowing for a nuanced analysis of the construction sector's credit exposure relative to other sectors.

4.1 Use of the Herfindahl-Hirschman Index (HHI)

A pivotal part of the analysis involves calculating the Herfindahl-Hirschman Index (HHI) for the construction sector lending within the Albanian banking industry, with a particular focus on Credins Bank and Raiffeisen Bank. The HHI provides a quantitative measure of market concentration and is instrumental in assessing the competitive environment and the potential for monopolistic or oligopolistic conditions. By calculating the HHI, this study assesses:

Market Concentration Levels: The degree to which the construction lending market is concentrated in a few hands, which might suggest higher market power and less competitive dynamics.

Risk Assessment: The potential risk posed by having a high concentration of loans in a sector that might be susceptible to economic fluctuations or specific sectoral shocks.

By integrating these methods and focusing on these variables, the research aims to offer comprehensive insights into the strategic significance of lending patterns to the construction sector in Albania. The findings are expected to contribute to the broader discourse on economic stability, risk management in banking, and the strategic planning necessary for mitigating concentration risks in sector-specific lending. This study will not only enrich the academic understanding of financial market dynamics but also provide valuable recommendations for policymakers and financial institutions aiming to enhance financial stability and economic development in Albania.

4.2 Alternative methods

Qualitative approaches, such as in-depth interviews and focus group discussions with important stakeholders in the banking and construction industries, could be appropriate methodologies for conducting this research. These methodologies would provide insights into the strategic decisions that drive lending practices, as well as the perceived dangers associated with credit concentration. A case study technique might also be used to investigate specific examples of credit concentration in the construction industry, examining the origins, consequences, and outcomes of these activities. Another way is to use econometric modeling or simulations to forecast the potential effects of credit concentration under different economic scenarios. Combining these methodologies with secondary data analysis may increase the study's depth and provide a more comprehensive picture of the dynamics and risks of loan concentration in the construction sector.

5. Results

Lending to the construction sector by the Albanian banking sector.

Regarding the risk of credit concentration in the construction sector, we will first see how the exposed banking sector stands according to the financing of the economic sectors, where the construction sector will receive the most attention. For the portfolio of loans divided by economic sectors, we will also calculate the value of the HHI index to further analyze the concentration and be able to interpret the potential risk that may come from the risk of concentration. We will first examine the Annual Supervision Reports of the Bank of Albania and the division by sectors of the Credit portfolio starting from 2017 to 2021 to observe the progress of sector lending.

The data presented in the table 3 in Appendix, provides a detailed comparison of loan distribution across various sectors of the economy for December 2017 and December 2018. In December 2017, businesses held the largest share of loans, representing 68.6% of the total, which decreased to 63.2% by December 2018. This period also shows significant changes in the allocation of loans among other sectors. Notably, the construction sector, which experienced an increase in loan volume from 46.4 to 47.8, saw its share of total loans rise from 8.7% to 15.0%, reflecting a growing emphasis on this sector. The wholesale and retail sector, including the repair of motor vehicles and motorcycles, also saw an increase in its percentage share, despite a slight drop in absolute value. In contrast, the sector of electricity, gas, steam, and air conditioning supply experienced a substantial decline in both value and percentage, from 52.7 and 9.9% to

15.9 and 5.0% respectively. The data indicate shifts in the economic focus and lending practices of financial institutions in Albania, pointing towards increased investments in construction and retail sectors while reducing exposure to utility services. This shift might reflect broader economic trends, strategic priorities of banks, or reactions to market demands and regulatory changes during this period.

In 2019, businesses received the largest portion of loans, amounting to 335.9 units, which represented 64.3% of total lending, slightly decreasing to 64.1% in 2020 despite an increase in absolute value to 355.9 units. The construction sector also saw an increase, from 45.3 units (14.3% of total loans) in 2019 to 50.1 units (15.8%) in 2020, reflecting a growing focus on this area. Notably, the accommodation and food services sector experienced a significant percentage increase, from 5.1% to 6.7%, indicative of an expanding hospitality industry. Conversely, the information and communication sector's share dropped from 1.3% to 0.7%, alongside a decrease in its loan value, suggesting a contraction in this sector's financing. Overall, the total lending volume grew from 522.4 units in 2019 to 555.5 units in 2020, highlighting an overall increase in credit distribution across the sectors, with particular growth noted in real estate and construction, potentially due to increased investments in infrastructure and property development within the economy(see table 4 in appendix).

The data from December 2017 to December 2018 reveals notable shifts in the allocation of loans across various economic sectors in Albania. Businesses, although still holding the largest share, saw a reduction in both absolute value (from 364.3 to 317.7) and percentage of total loans (from 68.6% to 63.2%), indicating a possible diversification of loan portfolios or a decrease in business lending. Significant changes were observed in the wholesale and retail sector, which saw an increase in its share of total loans from 22.6% to 37.0%, despite a slight decrease in absolute value. This suggests a relative growth in importance of this sector within the loan portfolio. The construction sector also saw an increase in both value and percentage share (from 46.4 to 47.8 and 8.7% to 15.0%, respectively), reflecting continued investment and focus in this area. Conversely, the sector for electricity, gas, steam, and air conditioning experienced a sharp decline in loan value and percentage (from 52.7 to 15.9 and 9.9% to 5.0%, respectively), indicating a significant shift away from these utilities. Overall, the total loan value decreased from 533.8 to 502.4, yet the data shows a redistribution of loans towards sectors that may offer higher returns or strategic growth opportunities, such as retail and construction (see table 5 in appendix).

After that, we have to calculate the HHI index by using this percentage of lending in the construction sector:

$HHI = S_1^2 + S_2^2 + S_3^2 + ... + S_n^2$

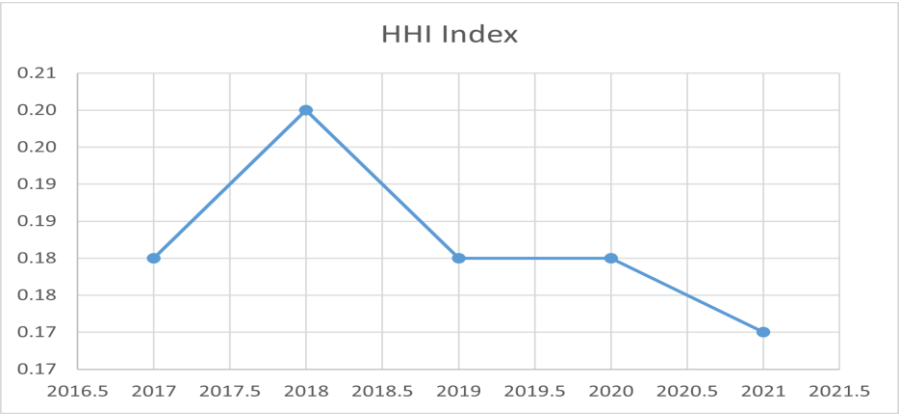

Figure 2: HHI value for the loan portfolio
Source: Author

The Albanian banking sector, starting from 2018 to 2021,figure 2, has encountered a diversification of the loan portfolio in several areas of the economy. Although the construction sector continues to grow in nominal value from year to year and continues to remain among the most credited as the second most credited sector in the Albanian economy. The credit market (figure 3) in the Albanian economy results at the end of 2021 with an HHI index value of 0.17, which shows that it is categorized as a market with a moderate concentration value.

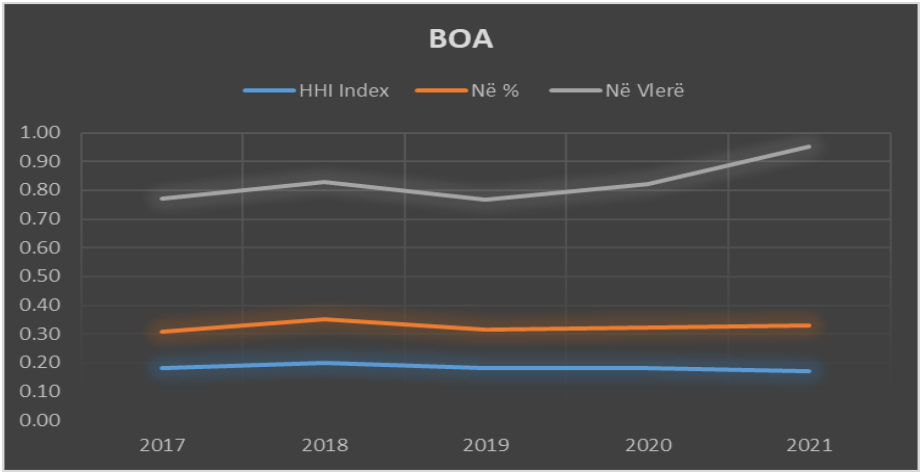

Figure 3: Summary of 3 indicators subject to the study of the Credit market
Source: Author

6. The Case of Credins bank

Regarding the risk of credit concentration in the construction sector, we will see the data of 2 (two) financial institutions banks in Albania such as Credins Bank and Raiffeisen Bank. We must first underline that the annual reports of banking institutions do not expressly include the risk of credit concentration and do not provide concrete data regarding this, so it is considered that it is the case to reach a conclusion regarding the need for unification and standardization of the annual reports of the banks so that first the banks themselves have a clearer picture, perform even more accurately the analysis of the credit concentration and anyone interested in this sector.

Regarding the data collected regarding the portfolio of loans granted by Credins Bank, they were collected from the audited annual reports of Credins Bank for the years 2017 to 2021, data published on the bank's official website.

The data in table 6,7,8 in appendix, show that the loan granted to the construction sector has decreased from 2017 to 2019 both in absolute value and in the percentage of participation in the loan portfolio. Starting from 2020 and 2021, this sector has received attention and support both in absolute value with a noticeable increase and in % that this type of sector has received compared to other sectors, remaining again as the second most credited sector

The percentage of lending in the construction sector for 2021 = (22,956,134,000 / 129,608,170,000) * 100 = 17.7% (and in the same way it is done for every year, from 2017 to 2021)

After that, we have to calculate the HHI index by using this percentage of lending in the construction sector:

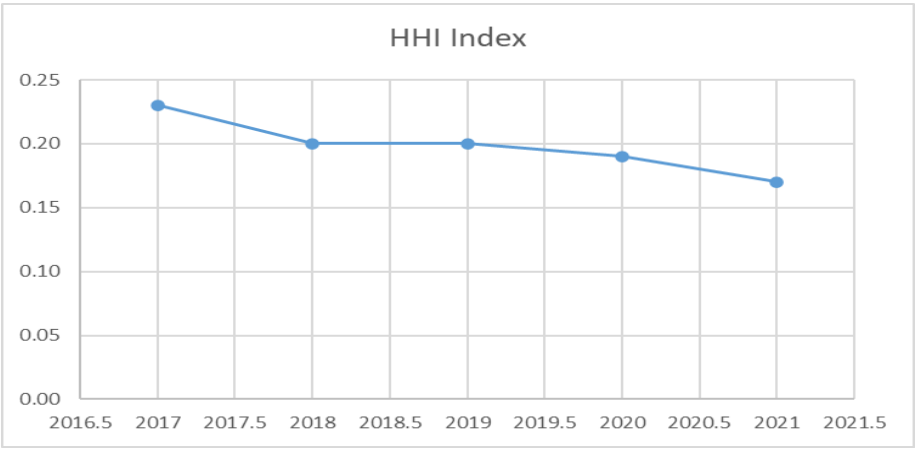

Figure 4: HHI value for the loan portfolio by sector for Credins Bank
Source: Author

The Credit Portfolio for Credins bank (figure 4) starting from 2017 when it had the highest concentration point in the value of HHI 0.23 has come every year more and more towards diversification reaching the lowest point of HHI 0.17 which shows that it is heading towards a diversified portfolio, although it still remains at the lower end of a moderately concentrated market.

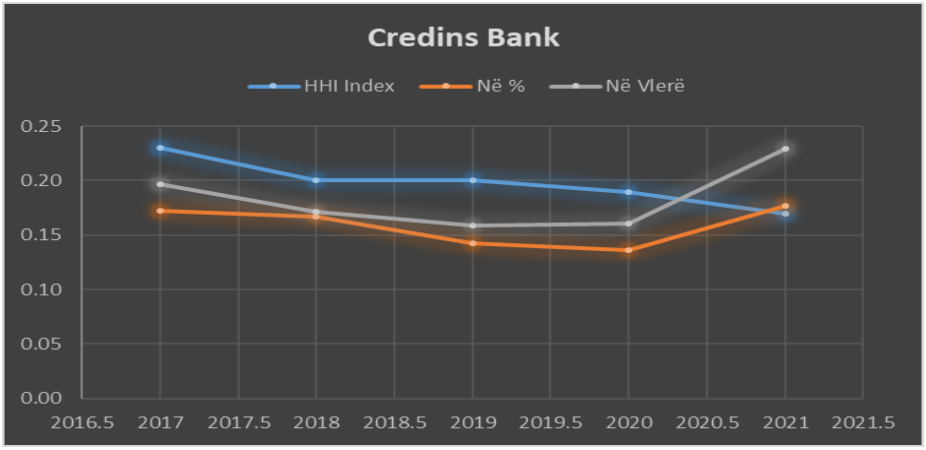

Figure 5: Summary of 3 indicators subject to study of the Credit market, Credins Bank
Source: Author

7. The Case of Raiffeisen Bank

In the annual report of Raiffeisen Bank, it results that this bank has lent to the construction sector in the last 5 years from the lowest value in 2018 with the value of ALL 6,344,265,000, or as much as 2.59% of loans, up to the maximum value of lending to the construction sector. construction in 2021 marking a value of ALL 10,511,203,000, or 3.48% of loans for the respective year. Below we have listed in tabular form the breakdown of the portfolio of loans granted by Raiffeisen Bank starting from 2017 to 2021.

The data in table 9,10,11 in appendix show that the loan granted to the construction sector has increased from

2019 to 2021 both in absolute value and in the percentage of participation in the loan portfolio, except for 2021. In the case of Raiffeisen Bank the value of the portfolio of credit in construction remains relatively low compared to other sectors of the economy, therefore it does not present a material problem, but again the concentration index remains at values that speak of a credit portfolio with moderate concentration.

The percentage of lending in the construction sector for the year 2021 = (10,511,203,000 / 302,039,757,000) * 100 = 3.48% (and in the same way it is done for every year, from 2017 to 2021)

After that, we have to calculate the HHI index by using this percentage of lending in the construction sector:

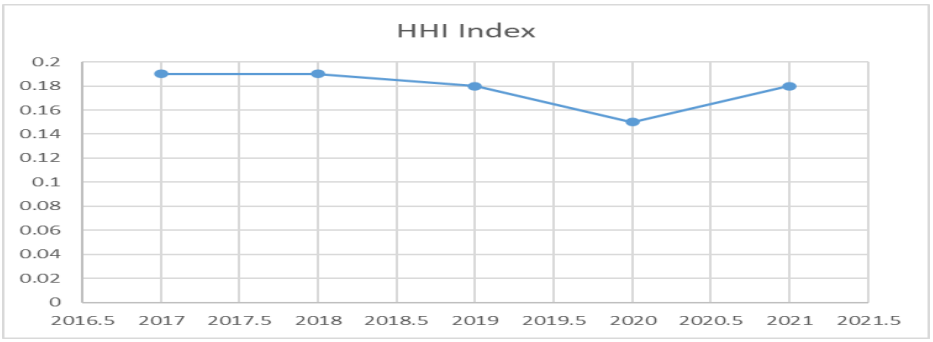

Figure 6: Value of HHI for the portfolio of loans by sectors for Raiffeisen Bank
Source: Author

The loan portfolio for Raiffeisen Bank starting from 2017 when it had the highest point of concentration in the value of HHI 0.19 has come every year more towards diversification reaching the lowest point of HHI 0.15 in 2020, then rising series in 2021 at the value concentration index HHI 0.18 indicating that it is moving towards a moderately concentrated portfolio (figure 6).

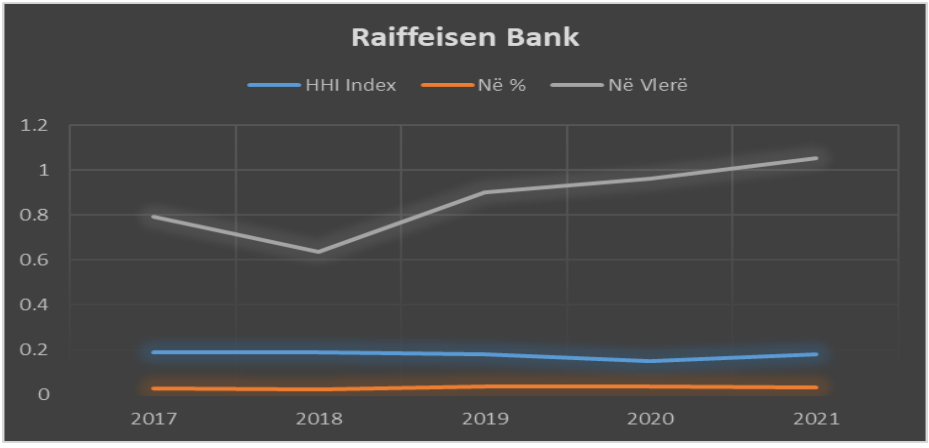

Figure: Summary of 3 indicators subject to the study of the Credit market, Raiffeisen Bank
Source: Author

Based on the analyzed data, the construction sector in Albania has been one of the most bank-financed sectors, showing different levels of loan concentration. The data show that the percentage of loans granted to the construction sector has changed over the years, reflecting different strategic priorities of the banks and changes in market demand. In the case of Credins Bank, the level of loan concentration for the construction sector has shown a trend towards diversification from

2017 to 2021. The HHI has decreased from the highest value of 0.23 in 2017, to 0.17 in 2021, which shows that the loan portfolio is leaning towards diversification, although it still remains at the limits of a moderately concentrated market. This trend shows a clear effort by the bank to balance risk and avoid excessive reliance on a single sector. On the other hand, for Raiffeisen Bank, the loan portfolio for the construction sector has had a gradual increase, but the level of concentration remains lower compared to Credins Bank. The HHI reached its lowest value of 0.15 in 2020, reflecting greater diversification, but increased again in 2021 to 0.18, which may indicate a return of attention to the construction sector. However, the share of loans for construction remains low relative to other sectors, thus reducing the risk of excessive concentration. Overall, both banks show different trends in terms of loan concentration for the construction sector. While Credins Bank has a higher, but decreasing, concentration, Raiffeisen Bank has a lower and relatively stable concentration. These data highlight the importance of diversifying the loan portfolio to minimize the risks associated with excessive concentration in a particular sector. Regulatory authorities and financial institutions should continue to monitor the situation and take measures to encourage a more balanced distribution of credit across sectors of the economy.

8. Conclusions and Recommendations

The topic "The risk of the concentration of loans in the construction sector in Albania" examines the impact of the concentration of loans in a specific sector of the country's economy, where, as we saw in the secondary data, this sector is not only developing more and more, but also lending levels for this sector have been increasing, with exception of the period of the COVID-19 pandemic.

Lending to the construction sector in Albania is of particular importance for many reasons, including economic impact, impact on urban development and job creation. However, it is true that the construction sector is vulnerable to the challenges of dirty money or illegal financial activities.

International reports such as Moneyval have been engaged in the assessment of Albania's financial system and the fight against dirty money and terrorist financing. In these reports, it was pointed out that there was an increased presence of dirty money in the construction sector in Albania. The presence of dirty money in the construction sector is a serious problem that can cause serious consequences for the country's economy and financial system. This can be related to actions such as money laundering, exploitation of illegal construction, tax evasion and links to other criminal activities. To address these challenges, it is important to have a continued commitment from state institutions, banks, and financial regulators to strengthen controls on dirty money and the fight against financial crime (Prendi, L., Borakaj, D., & Prendi, K. 2023). This includes measures to identify and report suspicious transactions, monitor illegal construction work and strengthen transparency in the construction sector.

Also, international cooperation is important to fight dirty money and to build appropriate information and reporting systems. Thus, the improvement of transparency and the effective fight against illegal financial activities will help ensure a more orderly and safe construction market in Albania.

In the context of the total credit given by the banking system against the economic sectors of the country, the Herfindahl-Hirschman index (HHI) has fluctuated from 2017 to 2021. The values of the HHI index go from 0.17 to the lowest point in 2021 up to 0.2 in 2018, which marks the highest value. Credit to the construction sector occupies a significant place in the total credit, where in 2021 it ranks as the second most-credited sector. With an HHI value of 0.17, it classifies the loan market in Albania as a moderately concentrated market, which raises concerns about the large concentration of credit in only a few sectors.

The Herfindahl-Hirschman Index (HHI) for Credins Bank, for the total loan portfolio, has a fairer shape compared to the total loan of the banking market as a whole. From 2017 to 2021 we have a continuous decrease in the index from 0.23 in 2017 to 0.17 in 2021. Although we have a decrease in the index, the value of the loan to the construction sector has increased in the last two years, which shows that the bank has diversified its loan portfolio well, although it still remains in the figures of a moderately concentrated portfolio.

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If the HHI index for loans in would be very high, it would be an indicator of a high market concentration and lack of diversification, but it appears with a not very significant problem since the total loan market in Albania remains at the limits of being with a moderate concentration, which if it appeared with a high concentration would lead us to analyze

each loaned sector item by item to assess the specific weight and give the appropriate recommendations to diversify the market so as not to we have problems with the risk brought by the concentration of the credit market.

Regarding the suggestions of the study, it can be said that: Due to the importance of lending to the construction sector in Albania, it is important that banks have well-defined lending standards to avoid the risk that comes from the concentration of credit in this sector, which, as we saw in the theoretical part of the study, can cause significant financial crises.

The annual reports of banks should have a clear analysis of the risk of credit concentration, even more so considering that the construction sector is generally credited in some areas where the interest is even higher, such as in the capital and in coastal areas or developing areas and the problems of the sector would produce consequences on the financial health of financial institutions. Because it examines the concentration of loans in Albania's construction industry, a sector with substantial economic effect and potential vulnerabilities, this work is valuable for future research because it tackles a crucial topic in financial risk management. It offers a quantitative framework for evaluating credit concentration through the use of instruments such as the Herfindahl-Hirschman Index (HHI), providing a reproducible model for examining comparable risks in other economic sectors or nations. The paper also emphasizes how credit risk is linked to issues like financial crime and money laundering, highlighting the necessity of stronger regulatory frameworks and international collaboration. The conclusions and suggestions of this study provide a framework for more research into portfolio diversification, effective risk mitigation techniques, and policy creation, adding to the larger conversation on economic stability and financial system resilience in developing and transitional economies.

In this research we face 2 limitations; The annual reports of the banking institutions do not explicitly include detailed data on the risk of credit concentration, which limits the ability to fully assess the exposure of the banks to this risk and the analysis relies on secondary data from public reports, which may not provide the most current or comprehensive insights into the dynamic trends of credit concentration in the Albanian banking sector.

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