Globalization and its Impact on the Financial Performance of Banks in Serbia

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Abstract: The purpose of this paper is that it should point to the impact of the contemporary globalization and its elements to financial performance of the banking sector. Key factors of globalization, such as deregulation and financial liberalization have led to the unleashing of economies around the world, including Serbia. In such an environment the temporary economic growth is a result of inflow of foreign capital, which carries a speculative character, with the aim of rapid reproduction and then withdrawing investors. In such an environment, supported by liberalization and deregulation, banks managed a quick buck, approve more loans. Inadequate credit score helped the escalation of the collapse of the financial sector, where is the domino effect spilled over to the real sector. This mechanism, communicating vessels, destroys itself. In terms of solving new situations, it is better control of financial institutions (banks).

Key words: banks, financial performances, liquidity, solvency, capital adequacy, financial crises

1 Introduction

We are witnessing a growing interdependence between countries around the world and the operation of a number of independent processes taking place and include the countries, regions and the world. This set of relations they are connected to a number of agents at the state, regional, and even civilization in various areas, time periods, at different speeds unfolding, with a tendency to universality, and the spread in those processes which have become global, a contemporary globalization.

Contemporary globalization process begins with the capitalist mode of production and the industrial revolution, aimed at the acquisition and increase profits. As a result of globalization the major integration processes in the world economy, with the same goals: endless accumulation that knows no boundaries and national economy, maximizing profits and efforts richer and more powerful countries to increase their wealth by exploiting the natural and human resources of other countries.

The effects of the globalization reflected in the freedom of movement of capital, especially among developed countries, primarily the United States, European Union and Japan, who have experienced the positive effects of globalization, while the negative effects felt most countries in transition, which is imposed on a unique model of transition to a market economy, including: liberalization, privatization, deregulation.

This triad and the development of information technology has spawned a process of globalization that has lifted all barriers between the national and international markets, a transnational corporation (TNC) provided the conditions for faster and easier management of the world economy. In an environment where the constellation of relationships facing the side of big business, in an environment of increased liberalization and deregulation of financial markets, aided the process of globalization is inevitable occurrence of certain instability, lack of control of key participants.

As we live in a world characterized by permanent changes caused by a number of factors, socio-economic and the technological and socio-cultural, modern companies need to adapt and respond to these changes, a number of activities in the field of vision, mission, strategic objectives, changes in the organizational structure and the like. All these changes also introduce new approaches and models of management companies, where the emphasis is, among other things, with the employees and their contribution to the achievement of positive performances and results, through their continuous involvement of all business activities.
The globalization of international business and deregulation of financial markets led to a unification of international business and erasing national borders. In this sense, national markets are becoming less national and international character given, thus leading to greater freedom of international capital flows between different countries. As a result of changes in the economic policy of the economy that were once divided by high transport costs, trade barriers, followed by reduced mobility of capital are connected denser network of economic interdependence.

In modern terms, the bank performed very heterogeneous activities, from creating and pouring money into the economic system through the intermediary function of mobilizing and Concentration of available public funds, and the performance of different intellectual and advisory services for their clients. In addition, the main motive of the bank's profit, the difference between the actual income from all jobs bank provides modern and total operating costs of the service inspection is dominated by the cost of obtaining funds on the one hand and the amount of equity the bank on the other side. [1]

Bank as a depository financial institutions to come to the capital by raising funds from other market participants, in terms of the fall in economic activity and in terms of underdeveloped market, do not have the ability to conduct business attractive to the capital markets. This situation may jeopardize the survival of individual banks and the entire banking system. Economic environment, as well as portfolio effects of various macroeconomic variables, determines the direction of movement and the strategic direction of the Company, and as such, it offers plenty of challenges and benefits of facing these companies. Unstable macroeconomic conditions carry the insecurity and uncertainty in investment inflow, a high level of moral hazard, the emergence of the financial crisis and the lack of innovative ideas. Therefore, for proper growth and development of the economy it is necessary to create a business environment that is stable, on the one hand and stimulating for all participants, on the other hand.

When performing the basic functions of receiving of deposits and granting loans, ie mediation between borrowers and lenders unit banking. Polls are closely related to certain global development goals, which were designed by the economic and social structure. In other words, no matter how the bank works the same or similar roles and functions of banking institutions is very different in different social and economic environment. In this term, thoughts on the situation whether the economic conditions in the countries with market economies, countries in transition or even on the territory of developing countries.

The transformation of the banking system and the economy of the Republic of Serbia is certainly one the transition of the Serbian economy. The process of transition banks began 2001, when the country had close to 90 banks. In the next two years, the number was cut in half: some banks were liquidated, including four large (Belgrade bank Beobanka, Yugobanka and Invest bank), some merged with others, and other privatized. At the end of 2003rd in Serbia, the number of banks was reduced to 40. [2] Since the beginning of the transition process to date, Serbia has entered as many as 17 foreign banks, of which the end of 2003 year - 9, and by the end 2006, 8 more banks.

The entry of foreign banks into the market of the Republic of Serbia was carried out mainly through the privatization process which has all these years subject to challenge and praise depending on the position from which to approach this activity. But regardless of whether the privatization process was good or bad, some activities in this process are undoubtedly made in terms of authority and power without the involvement of prominent economic experts in the field.

According to the latest data from the NBS, now on the Serbian market operates 32 banks. The data show that during the end of 2006 year and the end of 2007. The banks had extremely high credit growth, which tells in favor of the consequences of globalization are wantonly in the banking sector, reduction of control over financial institutions. Since the beginning of the crisis to date, the credit activity of the banking sector on low amount. Therefore, the paper will demonstrate the movement of the indicators of financial performance in the period from 2003 until 2012.

2 Banking in Serbia: from financial crises period to the present

Nowadays, in the context of globalization, the world economy recorded significant changes in the structure and function in the financial subsystem. Under globalization conditions, banking sector which includes capital flows and investment recorded the highest rate of increase of the volume business.

Foreign banks have moved to developing countries mainly due to push factors like low
The past two decades have experienced a resurgence of international banking, continuing a well-documented general expansion of international financial integration within what has become known as the “second age of globalization” (Obstfeld and Taylor, 2004). The shares in country banking systems of banks with sizable foreign positions have grown tremendously. Moreover, the form of banking globalization is evolving, moving away from a system with primarily cross-border flows to a system with both cross-border transactions and more internationally diversified ownership of banks. Other types of international transactions also have been growing, including the transactions extended by the branches and subsidiaries of parent banks that are located in host country markets, derivative use, and other forms of international investments made by banks.

According to the latest data from NBS, in 2012 on Serbian financial market operates 33 banks. The data indicate that under the globalization of the banking sector in Serbia has suffered major changes. Market liberalization has enabled the free movement of capital and the arrival of foreign companies on the Serbian market. In the modern sense, by financial market in Serbia has experienced a boom in 2000, primarily in the development of banking and investment securities as a result of the privatization of state enterprises and investments in bonds of old foreign currency savings.

The banking sector instead of reviving the economy and placed the loans that do not carry the mark of high risk in its portfolio had a very risky loans with an uncertain ability to pay. Also, inadequate determination of rating led to the unleashing of the banking sector in terms of granting mortgage loans to high risk. Such, in the process of securing loans have gradually led to the creation of the mortgage crisis and the collapse of the financial system, as it ripped the whole system of control. Institutional investors are taking derivative securities, the so-called collateral in order to achieve even higher yields and fertilize the funds invested. After the initial shock of the financial and banking sector crisis domino effect spilled over to the real economy, not only in the U.S. but in Europe and throughout the world. The consequences of the crisis are still visible, with a tendency to transform into a debt crisis. In an environment where seriously undermined confidence in the financial sector, as companies around the world have posted huge losses, to find an optimal solution for the recovery of the economy.

It has been shown that central bank intervention in financial injections that are first pumped into the financial sector did not show quick results. It means that no matter how much financial resources to invest in the rehabilitation of the crisis, will show visible results, and does not start the whole momentum of economic recovery around the world. In this sense, the role of banks as financial intermediary institutions is unprecedented, but limited because they can not contribute because they are themselves affected by the crisis.

According to the National Bank of Serbia, in the structure of NPLs 80% of participating businesses and most of all enterprises and about 18% of the population. If we analyze the structure of the economy by sectors, the most contentious in the structure of the loan involved agriculture, construction and other industries. However, when one looks at the results of agricultural companies an insight into a different reality. Companies in the field of large loss, the percentage of the population that is employed in this field from year to year decreases and the accumulated losses continuous growth. The economy is a long-term borrowed from banks, on average, about 1,500 billion, and also took a short-term loan between 500 and 600 billion. Thus, the annual cost of economies for interest only around 200 billion.

In addition to all bank loans, total, cumulative loss of about 1,360 billion as funds from foreign loans and privatization proceeds are not used for investment in productive investment and replacement of old new economic structure that can reproduce itself and evolve with less capital from abroad, to increase productive employment, to be discharged and to maintain macroeconomic stability. The flow of funds is constantly maintained overheated domestic demand which is constantly threatened creating inflationary spiral. Of these total loss of 62.5% were 924 large companies, which employ 45% or 450,000 of the total workforce. At the same time the 924 large companies have at least 800 meets the requirements for bankruptcy, and has lost half of total capital. [3] Due to the huge losses of the company are not able to settle their basic
obligations to suppliers and state. With all that as a result of a very restrictive monetary and credit policy of the government in the economy of chronic shortage of working capital.

If in such a devastating indicators continue beyond that I just fall in GDP in 2008 was 35%, and it is known that the structure of the rate of economic growth mainly services and industry have hardly, it is clear that the charge of the funds handled completely arbitrary use. So, borrowings are invested in new technology and restructuring of the economy to generate sufficient profits for the principal and interest. On the contrary, the economy is faced with even more difficulties when it came to repay the loans. So economic growth in Serbia in the period after 2000, characterized by growth rates that are lower than the rates of inflow of funds from abroad and increasing indebtedness in the period. Foreign funds have not been sufficiently allocated to production that can provide economic growth.

3 Results - the financial performance of banks

Banking has gone through many dramatic changes in the last two decades in whole world, and in Serbia. In term of financial globalization, banks tried to diversify their activities. Such trend was required by the international competitive environment in which banks evolved and aimed to cover the financing needs in different geographical areas and industries.

One aproach of performance measurement is to conduct ratio analysis utilizing financial performance measures. As part of the analysis of performance, this study looks at the determinants of four performance indices: liquidity, efficiency, profitability and solvency.

As noted earlier, the financial market 33 banks, whose financial statements were studied. Of the total number of banks, 21 banks are owned by foreign entities, while 12 banks are owned by local people - 9 owned by the state as a majority or the largest individual shareholder and 3 bank owned by private individuals. Prevailing bank owned foreign entities from 74% of total banking sector assets, 74% equity and 70% of employees and generated a profit of £ 6.6 billion (70% of the accumulated profits of the banking sector) [4].

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity 1</td>
<td>1.27</td>
<td>0.52</td>
<td>0.67</td>
<td>0.72</td>
</tr>
<tr>
<td>Liquidity 2</td>
<td>1.14</td>
<td>0.36</td>
<td>2.35</td>
<td>2.13</td>
</tr>
<tr>
<td>Liquidity 3</td>
<td>0.10</td>
<td>0.07</td>
<td>0.12</td>
<td>0.15</td>
</tr>
<tr>
<td>Efficiency 1</td>
<td>0.42</td>
<td>0.41</td>
<td>0.35</td>
<td>0.34</td>
</tr>
<tr>
<td>Efficiency 2</td>
<td>-0.23</td>
<td>-0.01</td>
<td>-0.2</td>
<td>-0.1</td>
</tr>
<tr>
<td>Profitability 1</td>
<td>-0.14</td>
<td>0.04</td>
<td>-0</td>
<td>0.08</td>
</tr>
<tr>
<td>Profitability 2</td>
<td>-0.02</td>
<td>0.003</td>
<td>-0</td>
<td>0.01</td>
</tr>
<tr>
<td>Profitability 3</td>
<td>-0.34</td>
<td>0.15</td>
<td>-0.1</td>
<td>0.07</td>
</tr>
<tr>
<td>Solvency 1</td>
<td>4.71</td>
<td>5.05</td>
<td>4.94</td>
<td>4.11</td>
</tr>
<tr>
<td>Solvency 2</td>
<td>0.36</td>
<td>0.36</td>
<td>0.48</td>
<td>0.49</td>
</tr>
<tr>
<td>Solvency 3</td>
<td>3.36</td>
<td>3.393</td>
<td>3.46</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Table 1: Financial indicators

Based on the research that is the subject had potting the impact or consequences of contemporary financial globalization in the

Fig 1: Financial indicators of banks from 2008-2012
banking sector, based on the financial statements from which the financial indicators are obtained.

If you look at the liquidity ratios observed a high degree of liquidity in the banking sector during the crisis. Deeper analysis of liquidity ratios (table 2) weighing of different positions can be seen the specific situation in terms of liquidity ratios.

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Q1 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit/deposit</td>
<td>1,22</td>
<td>1,15</td>
<td>1,27</td>
<td>1,29</td>
<td>1,33</td>
</tr>
<tr>
<td>Liquidity asset/total asset</td>
<td>43,3</td>
<td>41,5</td>
<td>35,1</td>
<td>36,72</td>
<td>34,6</td>
</tr>
<tr>
<td>Liquidity asset/short term liability</td>
<td>68,6</td>
<td>63,6</td>
<td>56,3</td>
<td>59,95</td>
<td>59,3</td>
</tr>
<tr>
<td>Average monthly indicators of liquidity</td>
<td>1,81</td>
<td>1,86</td>
<td>1,96</td>
<td>2,08</td>
<td>2,23</td>
</tr>
</tbody>
</table>

**Table 2: Indicators of liquidity of banking sector**

In addition to large losses recognized industry, and in addition to the high percentage of doubtful loans to total loans, it is observed that the bank recorded a high level of liquidity during the financial crisis. It can be said that the bank charged the very unrealistic high interest rates on loans and low interest rates on deposits, and that the high-margin partially offset the losses.

The high level of liquidity, leading to lower levels of profitability, because the above two parameters mutually exclusive. The data indicate that the level of profitability of the banking sector is very low, compared to the standard values for this sector moving to the average profitability of 0.1 - 0.5. Because of the high liquidity levels and keeping a high level of cash on balance, the profitability of the banking sector is below average.

A comprehensive profitability analysis illustrates two negative trends: a) the cost of risk rose sharply, especially in 2011 and 2012 (a weak macroeconomic backdrop and slower loan book growth resulted in a strong increase in loan-loss provisions in 2011 and 2012, placing Serbia among those countries with the highest levels of provisions in the CE region, 2.5% CAGR from 2008 to 2011 – the deterioration is particularly evident when 2008 is taken as the base year: loan-loss provisions in 2011 were almost twice the 2008 level); b) revenue relative to assets contracted throughout the period at an annual rate of 8%. At the same time, cost-to-income ratio in the past 4 years was balancing around 62%, remained the same, causing profitability to fall. [5]

Generally speaking, deregulatory banking acts, combined with increased globalization, create a more competitive environment that should increase the efficiency of banking operations in general. However, the results contradict the statement in the example of the efficiency of Serbia. The table shows that the efficiency measured by the ratio provisioning costs and net interest income is negative, because it increases the cost of provisioning due to being unable to repay the loan by the population and the economy. On the other hand, the efficiency measured by the ratio of interest expenses and interest income are telling us that efficiency is satisfactory.

As for the Basel Capital Accord, through its content, it meant to ensure the convergence of the prudential regulations concerning the credit risk and the market risk. It sets the international standards of bank capital proportionality establishing a method of linking between bank capital and assets. [8] Finally, a comprehensive indicator of banking sector is capital adequacy or solvency. The solvency ratio confirms the above-average capitalization of banks in the local market, and solvency remains at a satisfactory level.

**4 Conclusion**

The objective of this paper has been to discuss the implications of financial globalization on a financial performances of banking in Serbia. After the outbreak of the crisis until today, noted the first signs of recovery of the banking combined in late 2011 and early 2012. Despite the recession in 2012, the year that the economy has suffered financial performance indicators rising trend. First of all, a slight tendency to increase can be attributed to restoring confidence in the banking sector and increase savings.

On the other hand, are bank meet the crisis with high levels of capitalization and high liquidity. Protection measures of bank failures of the crisis and of unforeseen economic sation of the costs
helped prudential regulation by the central bank and the implementation of the Basel principles.

Data obtained from the analysis of the performance of the banking sector, it is likely to be non-negative if there is a strong control by the central bank, and the mandatory application of the Basel standards by banks. This method avoids the management of the bank has complete freedom in their business policy. Of course, banks are not deprived of this freedom, but are required to adhere to certain principles, in order to protect their poslovnje of unexpected adverse effects.

References:
[3] J. Ranković, Do we are threatened collective bankruptcy”, kWh, No 428, 2009