Globalization and its Impact on Contemporary Banking in Transition Countries

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Abstract—The aim of this paper is to show the influence of contemporary globalization and its elements on the performance of banks. Key factors of globalization, such as deregulation and financial liberalization led to growth in economies around the world, including countries in transition. In such an environment, a temporary economic growth is a result of the inflow of foreign capital, which attracts investors, with the aim of rapidly increasing capital. In such an environment, with the support of liberalization and deregulation, banks seeking a greater profit, grant more loans. The minimization of risk is a key factor that has feedback. Inadequate control lending escalated the collapse of the finance market, which inevitably spilled over to real sector. This mechanism of communicating vessels destroys itself. In regard to the settlement of the new situation, it is necessary to better supervision and monitoring of financial institutions, especially banks.

1 Introduction

The beginning of the XXI century has definitely confirmed the affirmation of a new paradigm in modern banking, determined the development of the globalization process. Uncontrolled power of global markets and unrestricted mobility of transnational companies are the most important force in the global economy - do not tolerate territorial restrictions and cannot be subject to effective management, which the national oriented states are becoming "virtual" or less relevant to the implementation and organization of economic activity [1]. There is no universally accepted definition of globalization. There are a lot of definitions which more or less used, which more or less made concrete, but there is no generalized view of the concept of globalization. The reason for this is the complexity of the concept and different ways of observing this phenomenon. From an economic point of view, the process took on three dimensions: the

globalization of modern financial markets, globalization of banking products and services and the globalization of modern banking [2].

At the present time, exist a big changes in the world. The world stands at the center of the national economy and the national state, so it almost from scratch. To express all these major changes and developments, we come to the concept of globalization, the force that creates a new world; a new dictate terms, and affects all of humanity. Changes in the global environment have led to increased freedom by tightening global banking, but also changed the conditions for achieving competitiveness.

Expressed skepticism about the possibility of monitoring global economic trends by nation-states, is transferred to the sphere of international management structures of financial sector of developing countries [3]. We are witnesses of growing interdependence between countries around the world, while activities

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.

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.

If you look at the situation in the world economy, it is clear that estimates the speed of economic growth and reduce inflation in a strong industrial economy remains positive. Perspective of the countries in transition, on the other hand, is also positive. The globalization of international business and deregulation of financial markets led to a unification of international business and erasing national borders. Since liquidity in international markets is growing, it is evident some easing in lending and investing criteria.

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 [4].

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 banks and other institutions. On the onther side this environement offers plenty of challenges and benefits for them. 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.

2 Banking in Developing Countries After Financial Crises

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.

The end of the 20th century and the beginning of the 21st century are in the sign of changes not only on macro-level, also the enterprise micro-level has been through changes in a lot of ways.[36] Due to impact of inconsistent economical environment and processes of globalization life cycle of companies has shrunken and business has become more dynamic, which has encouraged processes of restructuring companies.[37]

Global growth is in low gear, and the drivers of activity are changing. These dynamics raise new policy challenges. Advanced economies are growing again but must continue financial sector repair, pursue fiscal consolidation, and spur job growth. Emerging market economies face the dual challenges of slowing growth and tighter global financial conditions.

The numerous empirical studies on determinants of growth in transition economies (e.g. De Melo et al. 1996, Havrylyshyn 2001, Havrylyshyn et al. 1998, 2000, Berg et al. 1999, Koivu, Tuuli. 2002) reflect efforts to explain the sizeable variations in growth performance seen in these countries [5]. According to the data from IMF (2013) developing countries including: Bulgaria, Croatia, Hungary, Latvia, Lithuania, Poland, Romania, Turkey and Serbia, will slow economic growth., A further escalation of the Ukrainian crisis could threaten the economy of this part of Europe , while the forecast of economic growth in Russia for the reduction. The only European country in the development of which this year will remain in recession, it is Africa, but its economy will be in the next year to return to the level of growth.

Foreign banks have moved to developing countries

mainly due to push factors like low profits and regulatory restrictions in the home country. Grubel's theory of internationalization suggests that the main advantage of foreign bank entry is the information and personal contacts between banks at low cost.

Buch (2000) also suggests that foreign banks go toward their customers, more easier than before globalization process [6].

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'' [7]. 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 [8]. Quick financial market downturn began in the USA in the summer of 2007. Was expanded and in Europe and has shown how financial institutions were supervised and controlled [9]. As a result of IMF-World Bank Spring Meetings in 2008 financial leaders have made serious measures for monitoring and redefining the existing regulations, including proposals of the Financial Stability Forum - FSF, which calls for better inspection of banks in capital and liquidity of financial institutions [10].

The crisis has shown that Basel II has fundamental flaws in it, in the form of existing legislation and an inadequate model of risk management in the banking business. The key is that Basel II could not stop the destruction and decline of individual financial institutions. On the other hand, Basel III contain many mechanisms to maintain the capital and risk reduction as compared to previous standards [11].

During the slump, credit risk may be increased if you take into account the loan. By preserving capital in times of crisis banks would have more capital reserves, and thus to prevent side effects. During the fall and recession, banks find it difficult to retain

capital, since their reserves are shrinking. Is inevitable and the problem related to the uncertainty of reserve capital, but due to the high capital requirements (which accelerates the risk) and the inability to maintain the existing capital at the required level, you should reduce loan businesses, which could reduce the economic recession and decline. The percentage of non-performing loans in the transition countries is as high as 35 % by businesses. Monitoring banks realized through a continuous process of direct and indirect supervision and direct communication with bank management, in order to harmonize and coordinate activities that will result in the stabilization of the banking sector. During the escalation of the crisis of liquidity and significant contribution to support its subsidiaries provided the parent bank [12].

According to the latest data from 2013. On the financial market of a country in transition operates smaller number of banks. Recommendations of the World Bank is that the one million people operating a bank. The data indicate that under the globalization of the banking sector in transition economy has suffered major changes.

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 staking 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.

Banking sectors in transition countries differ from their counterparts in many developing and emerging market countries by the high percentage of assets held in banks with majority foreign ownership [13].

3 Results of the Research

The survey results are divided into two parts: the first part deals with the analysis of the macroeconomic environment of the countries whose banking system is the subject of research and other analysis of microeconomic indicators. Based on cross-cutting analysis will establish how globalization has affected the modern banking, primarily in terms of the financial performance of banks.

3.1 Analysis of Macroeconomics Factors

Through the research work, based on global assumptions in the paper, will be analyzed the macroeconomic environment of the nine states of which the four countries within the European Union, and five non-EU country.

Macroeconomic environment or environment within which banks operate is a set of factors that influence their actions in the direction of the business activities of banks and their business success. Research conducted by Gonzales - Hermosillo, Pazarbasioglu, Billings [14] shows that macroeconomic factors affecting financial performance.

Among the most important macroeconomic indicators that have an impact on the financial performance of the banking sector are: gross domestic product, exchange rates, inflation and other. Literature abounds with analysis of the impact of macroeconomic factors on the financial performance of banks.

Shaffer, (2004); Degryse and Ongena, 2007, Ramlall (2009), Sufian (2009), Kosmidou 2008, Luo (2003) and Hannan, Prager (2009, etc). For example,

Ramlall and Sufian are discovered a positive relationship between the size of the bank and profitability – the larger the bank is, the more profitable it is in comparison with a smaller bank, thus demonstrating the effect of economy of scale.

In contrast, Kosmidou (2008) states that large size of the banks may leave a negative impact on bank profitability, and Luo (2003) and Hannan and Prager (2009) note that small banks can earn higher profit because they have lower expenses and better performance efficiency. Laker [15] said that macroeconomic variables (GDP and interest rates) are positively correlated with the growth of earnings. In this regard, studies conducted in the Republic of Croatia Demirguc-Kunt, A. Huizinga, H. Huizinga [16];Pejic, M., Bach, P. Posedel, A. Stojanovic [17]; Vujcic, B., Jeremic, I. [18]; Kraft, E., Hofler, R., Payne, J [19] showed that the profitability of banks depends largely on the macroeconomic indicators.

Research also shows that there is a certain level of positive impact of macroeconomic factors on the profitability of banks. A positive correlation indicates that the growth of the welfare state would not have been possible without the involvement of growth of the banking sector. From 2002 to 2012 value of gross domestic product decreases and has a negative trend. The largest decline was recorded 2009 (-3.5) which is the logical consequence, because in that period felt the greatest impact of the global financial crisis. However, in subsequent years, the economy has not recorded even remotely similar growth rate as before the crisis.

	2008	2009	2010	2011	2012	2013 Q1	Q2
Albania	7.5	3.3	3.8	3.1	1.5	1.7	1.1
Bosnia	4.7	-3.8	-0.2	1.8	-0.9	n.a	n.a
Bulgaria	6.2	-5.5	0.4	1.8	0.8	0.8	-0.2
Croatia	2.1	-6.9	-2.3	0.0	-2.0	-1.5	-0.7
Hungary	0.9	-6.8	1.3	1.6	-1.7	-0.9	0.5
Macedonia	5.0	-0.9	2.9	2.8	-0.2	2.9	3.9
Montenegro	6.9	-5.7	2.5	3.2	-2.5	1.1	3.4
Romania	7.3	-6.6	-1.1	2.2	0.7	2.2	1.5
Serbia	3.8	-3.5	1.0	1.6	-1.7	2.7	0.2
Slovenia	3.4	-7.9	1.3	0.7	-2.5	-4.6	-1.7

Fig. 1 Real GDP (in %) by years and countries

Figure 1 shows that the movement of gross domestic product for the analyzed countries. From the pictures it appears that the economic activity of the countries analyzed is in a phase of recession at the time of the crisis, after which they observed a significant decline. As a result of the revival of economic activity shows that economically stronger economies recover faster compared to less developed economies and economies in transition. High growth rates were recorded in the 2008th year, have drastically declined in the 2009. Albania has achieved a growth rate shown indicators. Economic growth in the Balkan countries ranged on average from 1 % -2 % in 2013, while Croatia and Slovenia are the countries with negative growth rate.

	2008	2009	2010	2011	2012	2013 jan	feb	mar	apr	may	jun	jul	aug	sep
Albania	0.9	3.5	3.4	1.7	2.4	2.7	2.5	2.4	2.3	2.1	2.3	1.6	1.2	1.7
Bosnia	3.8	0.0	3.1	3.0	1.8	1.3	1.0	0.6	0.4	0.4	1.0	0.8	-0.2	n.a
Bulgaria	7.2	1.6	4.4	2.0	4.2	4.4	3.6	2.7	2.0	2.0	2.6	0.5	-0.7	-1.6
Croatia	2.8	1.8	1.7	2.1	4.7	5.2	4.9	3.7	3.3	1.6	2.0	2.3	1.9	1.1
Hungary	3.4	5.4	4.6	4.1	5.0	3.7	2.8	2.2	1.7	1.8	1.9	1.8	1.3	1.4
Macedonia	4.1	-1.6	3.0	2.8	4.7	3.8	n.a	3.1	3.3	3.4	4.2	4.0	2.8	1.6
Montenegro	6.9	1.5	0.7	2.8	5.1	4.2	3.3	3.3	3.2	3.0	2.2	2.7	2.2	1.8
Romania	6.4	4.7	7.9	3.2	5.0	6.0	5.7	5.3	5.3	5.3	5.4	4.4	3.7	1.9
Serbia	8.6	6.6	10.3	7.0	12.2	12.8	12.4	11.2	11.4	9.9	9.8	8.6	7.3	4.9
Slovenia	1.8	2.1	2.2	2.1	2.7	2.4	2.7	2.0	1.5	1.2	1.9	2.6	2.2	1.4

Fig. 2 Inflation (in %) by years and countries

Negative inflation shows that inflation leads to lower credit risk in a situation where loans are granted to companies in the short term. Loans to households are less sensitive to changes in inflation, while more sensitive to movements in interest rates. Finally, the results show that increasing the amount of inflation as measured by the Consumer Price Index (Consumer Price Index - CPI) may contribute to debt servicing easier because it reduces the real value of outstanding loans which further leads to a reduction in exposure to credit risk in the short term.

In addition, inflation has some impact on the financial performance of banks, as shown in a study conducted by Tabari, Ahmad, Emami [20]. Results of the study show that if inflation can predict its impact on business performance is positive. In other words, if the bank can predict movements in the inflation rate can thus adjust their interest rates and increase profitability.

In order to obtain a comprehensive picture of the economic environment, in addition to these macroeconomic aggregates we analyzed the budget deficit, public debt, current account and international investment position of the country.

The budget deficit is caused by an imbalance in the actual total income and total expenditure executed or expenditure from the budget of the state, province, or other local government. In the case of higher level of income in relation to expenditure, there was a budget

surplus, while in cases of lower amount of revenues over expenditures resulting budget deficit. In other words, the budget deficit occurs due to a smaller amount of income of a country in relation to the total expenditure in the budget year.
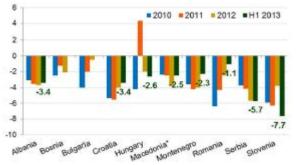

Fig. 3 Budget deficit as % of GDP by years and countries

To state its measures, among other things reduce the budget deficit, may borrow in the domestic or international market. The public debt is defined as the amount of liabilities of the consolidated government sector in a given time period and can be viewed as the cumulative prior budget deficit.
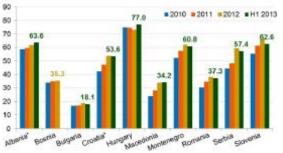

Fig. 4 Public debt as % of GDP by years and countries

Permanent increase in the budget deficit was accompanied by a permanent increase in public debt in the last five years. Permanent increase in public debt was recorded in all the countries analyzed, with Hungary, Slovenia, Albania and Serbia, the state with the largest share of public debt in the domestic product. Serbia's public debt in the last five years was double the increase. Also, Bulgaria is the country with the lowest amount of public debt, on the one hand and the state with approximately stable amount of debt on the other. Also, Bulgaria is country that has reduced the amount of the budget deficit, which is a positive boost economic environment.

In addition to the analyzed macroeconomic aggregates, in terms of the analysis of the economic environment it is important to analyze the current account balance, which means the difference between imports and exports of goods and services. Due to the lack of constant compliance between exports and imports of goods and resources, there is a deficit (the situation where the amount of imports higher than exports) or a current account surplus (the situation where the amount of imports lower than exports).

| | 2008 | 2009 | 2010 | 2011 | 2012 | H1 2013 | IMF projection | | | | | |
							2013	2014	2015	2016	2017	2018
Albania	-15.8	-15.3	-11.3	-12.3	-10.5	-5.2	-9.3	-10.5	-10.3	-9.7	-8.7	-7.4
Bosnia	-14.1	-6.6	-5.5	-9.5	-9.6	-2.7	-8.7	-7.9	-7.2	-6.4	-5.7	-5.0
Bulgaria	-23.1	-8.9	-1.5	0.1	-0.7	0.3	1.2	0.3	-1.5	-1.9	-2.5	-3.2
Croatia	-8.9	-5.1	-1.1	-0.9	0.1	-3.7	0.4	-0.7	-0.9	-1.8	-2.3	-2.5
Hungary	-7.3	-0.2	0.2	0.4	1.0	1.3	2.2	2.0	1.3	0.4	-0.4	-1.4
Macedonia	-12.6	-6.5	-2.1	-2.5	-3.1	-2.6	-5.8	-6.2	-5.6	-5.2	-5.0	-4.8
Montenegro	-49.8	-27.9	-22.9	-17.7	-18.7	-12.4	-16.8	-16.2	-16.3	-16.2	-16.1	-16.1
Romania	-11.6	-4.2	-4.4	-4.5	-3.9	0.4	-2.0	-2.5	-2.8	-3.0	-3.2	-3.5
Serbia	-21.6	-6.6	-6.7	-9.1	-10.5	-2.7	-7.5	-6.5	-7.8	-8.2	-8.4	-8.8
Slovenia	-6.2	-0.7	-0.6	0.0	2.2	4.5	5.4	7.0	6.9	6.7	6.4	6.3

Fig. 5 Current account as % of GDP by years and countries

The data presented in Figure 5 show that in the last five years, analyzed the state of the economy recorded a balance of payments deficit. The maximum amount of the current account deficit was recorded in Montenegro and Bulgaria, where it upward to the increased amount of the 2008th year.

In the end, the international investment position includes financial assets (financial claims on non-residents and residents' monetary gold, which became part of the country's reserve assets) and liabilities that have an international character (financial liabilities of residents to non-residents) [21].

In the period analyzed economy marked a negative amount of international investment position as a consequence of excess negative position of the public sector, banks and other sectors as net debtors abroad. Also, a negative trend is also reflected in the cumulative growth values from year to year. One of the reasons may be cited the global financial crisis and the lack of domestic capital.

	2008	2009	2010	2011	2012	H1 2013
Albania	-2,396	-2,869	-3,208	-3,785	n.a	n.a
Bosnia	-5,882	-6,960	-7,303	-7,763	-8,081	n.a
Bulgaria	-36,194	-37,063	-34,153	-33,021	-31,599	-31,602
Croatia	-34,998	-39,116	-41,947	-40,370	-39,107	-40,064
Hungary	-106,272	-110,920	-107,797	-94,983	-99,271	-95,841
Macedonia	-3,265	-3,612	-3,569	-3,931	-4,196	-4,514
Romania	-69,006	-73,741	-77,846	-84,394	-85,561	-89,575
Serbia	-21,993	-20,824	-23,765	-25,583	-27,730	-30,104
Slovenie	-13,375	-14,103	-15,338	-14,747	-15,866	-14,168

Fig. 6 International investment position, in mil EUR

Data on macroeconomic indicators show that after adjustments initial banking sector, the consequences of the crisis, there is a revival of credit markets, and the growth of key macroeconomic aggregates is not on the level as compared to the period before the crisis. Also, the negative trend mentioned other macroeconomic aggregates, the growth of the budget deficit, accompanied by the growth of public debt and rising current account deficit and the negative international investment position represents the state of the economic environment which makes it difficult to achieve business performance of the banking sector.

	2013	2014	2015	2016	2017	2018
Albania	1.7	2.1	2.5	2.5	2.5	2.5
Bosnia	0.5	2.0	3.5	4.0	4.0	4.0
Bulgaria	0.5	1.6	2.5	2.5	3.0	3.0
Croatia	-0.6	1.5	2.0	2.5	2.5	2.5
Hungary	0.2	1.3	1.5	1.7	1.6	1.6
Macedonia	2.2	3.2	3.6	4.0	4.0	4.0
Montenegro	1.5	2.2	2.3	2.4	2.6	2.7
Romania	2.0	2.2	2.5	2.9	3.4	3.5
Serbia	2.0	2.0	2.2	2.5	2.8	3.0
Slovenia	-2.6	-1.4	0.9	2.1	2.4	2.6

Fig. 7 Projection of GDP by IMF

After the initial shock, which is a consequence of the occurrence of the financial crisis, according to projections that are presented in Figure 8, there is a growing trend indicators, gross domestic product and boost the economy of the observed state. Direct consequences, transfer it to the banking sector in the form of loan growth potential, and improve financial performance.

It is concluded that the observed world economy record growth. In the next period, authority of states should examine structural weaknesses if they want to achieve the desired growth. Another important issue that arises is that government measures should be related to the stimulus lending various sectors of the economy and that they should be compatible with the measures of the central bank regarding the determination of capital adequacy. The function of achieving good performance of banks and the banking sector, it is necessary to measure synergy government and the central bank.

3.2 Analysis of Microeconomic Factors of Banking Sector

Banking has undergone many dramatic changes in the last two decades in the world, with the process of financial globalization, have tried to diversify their activities in terms of regional diversification and in terms of diversification of the loan portfolio. This trend is justified by the need to internationally competitive environment; banks are intended to provide additional financing needs in different geographic areas and industries.

To measure the performance of banks and the impact of globalization on the financial performance of banks in theory have been widely hyped ratio analysis. As part of the performance analysis, this study will focus placed four bank performance indices: liquidity, efficiency, profitability and capital adequacy.

Research by Bonin, J., Hasan, I., Wachtel, P. [22], [23]. relevant to this investigation, is foreign owned. If we observe the ROA and ROE of banks individually recorded in the years before and the years after the transformation of the banking sector, reveals that the entry of banks with majority foreign capital, the Serbian financial market reduces the profitability of the banking sector. This is not surprising, because several studies have shown that the ownership structure of the banking system plays a significant role in the analysis of profitability.

The research is thereafter by Bach, M., P. Posedel, A. Stojanovic [17], the size of banks affects the profitability, measured by ROA and ROE, while smaller banks have higher ratios, ie. smaller banks are more profitable than larger ones. The author explains the results that smaller banks do not enter into risky business ventures and for this reason are more profitable.

COUNTY/YEAR	2008	2009	2010	2011	2012
ALBANIA	11.4	4.6	7.6	0.8	3.8
BOSNIA AND HERZEGOVINA	4.3	0.8	-5.5	5.8	5
BULGARIA	20.5	9.3	6.7	6.1	5.7
CROATIA	9.9	6.4	6.5	6.9	4.8
HUNGARY	14.2	12.5	2.8	-8.1	-3.4
MACEDONIA	12.5	5.6	7.3	3.4	3.8
MONTENEGRO	-6.9	-8	-27.3	-1.1	-18.3
ROMANIA	17	2.9	-1.7	-2.6	-5.9
SERBIA	10.5	4.5	5.3	6.3	4.7

Fig. 8 Return of equity from 2008 to 2012

However, Sinkey [24] cites two major flaws in this indicator. Amount ROE can be high due to inadequate measurement of capital. In the event of a negative amount of capital, and a net loss, this indicator will have a positive value. To all this must be added the

fact that the return on equity does not take into account all the risks that banks face. For example, credit risk can be expressed as an effective loss in the later years of the use of the loan, so that the inadequate policy provision for credit losses, profitability in the early years to be overestimated. In this sense, the comparisons of indicators were considered indicators of profitability (ROA, ROE) as indicators of capital adequacy.

ROA

	2008	2009	2010	2011	2012	Q1 2013	Q2 2013
Albania	0.9%	0.4%	0.7%	0.1%	0.3%	0.4%	0.3%
Bosnia	0.4%	0.1%	-0.6%	0.7%	0.6%	0.3%	0.5%
Bulgaria	2.1%	1.1%	0.9%	0.8%	0.7%	0.8%	n.a
Croatia	1.6%	1.1%	1.1%	1.2%	0.9%	1.0%	n.a
Hungary	1.1%	0.9%	0.2%	-0.7%	-0.3%	0.3%	0.1%
Macedonia	1.4%	0.6%	0.8%	0.4%	0.4%	-0.05%	0.2%
Montenegro	-0.6%	-0.7%	-2.8%	-0.1%	-2.0%	n.a	n.a
Romania	1.6%	0.3%	-0.2%	-0.2%	-0.6%	0.6%	0.7%
Serbia	*2.4%*	*1.0%*	*1.1%*	*1.3%*	*1.0%*	*1.5%*	*1.1%*

Fig. 9 Return of asset from 2008 to 2012

Based on the data presented in table 9 we can see a permanent decline in the profitability of the banking sector in comparison with the values achieved in the 2008th year, while the profitability of the banking sector in Montenegro, Romania and Hungary next biggest drop in profitability, with a negative rate of return, and profitability of the banking sector of Serbia in line with the average of other countries in the region.

As the most important indicators that are directly connected to exposure to credit risk is the rate of return on capital, which declines since 2008. , Compared with other countries in the region, it can be seen that the lowest rate of return on equity recorded in Montenegro, with the largest decline in profitability suffered by the banking sector of Albania. It is concluded that the banking sector in Serbia and after the initial shock of the crisis, yet made a satisfactory rate of return on capital. In other words, lost revenues, reduced capital are adequately damped.

Indicator of the return on equity of the banking sector in Serbia is also the average level in the region. It is noted that the high amount of the capital adequacy of the banking sector in Serbia amortize the consequences of the growth of bad loans which are a key factor in the decrease in profitability of the

banking sector. On the other hand, due to higher capital adequacy ratio of the banking sector stability is not compromised. However, it is important to note that in the post- crisis profitability of the banking sector at a much lower level as well as the profitability of the banking sector surveyed more than halve.

A comprehensive profitability analysis illustrates negative trends that cost of risk rose sharply, particularly in 2011 and 2012, because weak macroeconomic backdrop and slower credit growth resulted in an increase in the amount of provision for loan losses in 2011 and 2012.

Compared with the rate of return on equity, capital adequacy ratio (expressed as a percentage of risk-weighted assets) is very high in comparison with the prescribed minimum amount of 8 %.

A stress scenario includes economic downturns, depressing industry conditions, severe market risk events, different types of liquidity squeezes, solvency problems, and so on. [38]
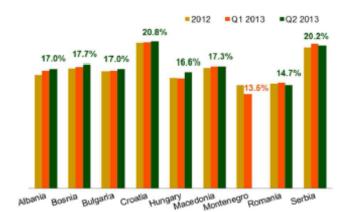

Fig.9 Capital adequacy ratio from 2008 to 2012

The diagram shows that the capital position of the analyzed banking sector is stable, so in comparison to the pre-crisis period there were no significant fluctuations.

The efficiency of the banking sector attracted the attention of many authors. However, a large number of works in this domain (Kasman, A., Yildirim, [25] C. Kraft, E., Hofler, R., Payne, J., [26] Park, K., Weber, W.; Sensarma, F., [27] Sufian, Fadzlan, Muhammad Zulkhibri-Majid, [28] Pasiouras, F., [29] appeared directly after structural changes such as liberalization, deregulation, growth in use of new
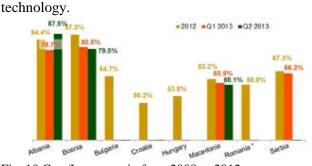
technology.

Fig. 10 Cost/Income ratio from 2008 to 2012
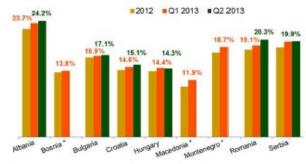

Fig.11 Average value of non-performing loans

The data presented in the table show that the banking sectors are analyzed at the level of the average efficiency with a tendency to further improve efficiency in the future. It can be concluded that the general increase in economic activity contributes to improving the efficiency of the bank.
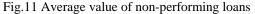
The ability of managers to achieve efficient use of inputs will influence the dispersion in risk and performance across banks. In particular, inefficient institutions have a tendency to carry higher risk [30].

As the main product of globalization is the application of modern technology and the creation of new banking products and more liberal approach to business. The consequence of this problem is the increase in non-performing loans after the financial bubble burst. Non-performing loans have a negative impact on the performance of banks. Growth of non performing loans will decrease the profitability of the banking sector. In this case, the bank gives up part of the profit that is supposed to accomplish in the planned time frame and thus increases the exposure to loss of business.

The decrease in revenue and profit impact on reducing the profitability of the banking sector . The diagram shows that the five-year period of non-performing loans showed an increase, with the largest increase Non-performing loans (%) was recorded in Albania, Romania and Bulgaria, while the tiniest increase in non-performing loans in Macedonia and Serbia.

If a bank can establish a link between the macroeconomic environment and systematic credit risk factors, this knowledge may help in assessing and managing the portfolio credit risk over time and may prove useful in dynamic credit risk management circumstances in which default scenarios can occur over a variety of economic conditions [31].

Growth of the non performing loans affected profitability and solvency of the bank to cover its exposure to credit risk provisions increased costs and reduced reserves while reducing and solvency of banks. On the other hand, it should again be noted that just a higher amount of indicators of capital adequacy and the growth of market capitalization for banks whose shares are listed on the stock exchange, has a positive effect on business performance of banks. To compensate for any adverse effects of bank NPLs growth, hire additional amount of capital that remains "trapped" which further reduces the rate of return on capital. In this way , the growth of non-performing loans, a twofold effect on the profitability of the bank , in the first iteration causes changes to the structure of financial results by reducing the profit or increase the loss, while the second iteration of the impact on reducing the return on capital , because the capital involved as regulatory capital to cover losses .

In Hungary, the bad loans problem required the program of restructuring in the 90s. Bad loans were swapped for long-term government bonds. Removing unrecoverable loans from bank balance sheets and government financed bank recapitalization were the means of getting banks in shape [32].

The improvement of economic conditions positively influenced the banking sector performance of both economies. Further, depreciation of the Hungarian Forint and Polish Zloty could contribute to the build-up in the banking crisis through a high share of loans nominated in foreign currency. In Hungary, a large proportion of savings is placed with banks, and savings have decelerated the NPL ratio. On the contrary, in Poland, savings have accelerated growth in the NPL ratio. An increasing number of insolvent enterprises in Hungary have accelerated the NPL ratio [33].

The empirical research quantitatively related the proportion of doubtful and non-performing loans with the macroeconomic indicators. This relation was confirmed by the canonical analysis and cluster analysis results. The increase of doubtful and non-performing loans in the EU statistics was mostly influenced by a group of the EU members, which was compounded by cluster analysis. These seven countries show the worst macroeconomic rates, and the increase of doubtful and non-performing loans in this group was the highest. In other clusters, the increase of the macroeconomic indicators was related to the decreasing proportion of doubtful and non-performing loans in banks [34].

In addition, large amount of losses in industry sector increased the percentage of doubtful loans in the total loan amount. In the first stage, after the crisis, a growing number of bad loans the bank is compensated for their profit margins high interest evidenced increasing the amount of the provision due to inability to repay the loan by the population and the economy.

Generally speaking, the deregulation of the banking sector, combined with a pronounced globalization, creating a competitive environment that can increase the efficiency of the banking business as a whole. The table shows that efficiency measured by the ratio of costs of provision and net interest income was negative because it increases the cost of the provision due to inability 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

4 Conclusion

This paper examines the implications of globalization on modern banking in nine states from which the four countries within the European Union and the remaining five are not. I used a cross-analysis of the macroeconomic environment and microeconomic indicators of countries in transition. Based on cross-cutting analysis it was found that the impact of globalization on modern banking, primarily in terms of the financial performance of banks. It also provided the data to macroeconomic factors affecting the financial performance of banks in transition countries.

Based on theoretical considerations analysis is focused on the major macroeconomic aggregates, such as: GDP, foreign exchange rates, the inflation rate, and in terms of microeconomic indicators to measure the performance of banks were used four bank performance indices, namely: liquidity, efficiency, profitability and capital adequacy. An important finding is that capital requirements and supervisory power have a direct impact on credit risk by reducing non-performing loans [35].

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 bnke 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 Accords.

Data obtained from the analysis financial 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. 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.

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