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THE GLOBAL ECONOMIC CRISIS AND THE FUTURE OF EUROPEAN INTEGRATION

REFORMS OF THE BANKING SECTOR AS A PART OF EUROPEAN INTEGRATION PROCESS

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***Abstract**: For Serbia, last decade of 20th century represents period with crush of political, social and economic system. In a centrally planned economy, with a state on top, banking system got a role - tool in implementation specified planned goals. Selective credit policy, which is used in combination with big structural disproportions and inadequate regulatory framework, resulted with crush of monetary system. Fundamental reforms in the early 21st century, aimed at recovery of banking system have made this sector is characterized as a sector with constant growth until 2008. Serbian banking system has undergone the process of privatization and consolidation, so the present structure is characterized by the lower number of participants and ownership pluralism. In the period after 2008 the banking sector in Serbia has been facing new challenges in the current global financial crisis and also the need for a clear definition of strategy against financial turmoil. This paper presents the analysis of reforms that are made and effects of the global financial crisis on the banking sector in Serbia. We will focus on the way in which the banking sector in Serbia cope with the growing problems of illiquidity and insolvency, that shook much more developed and stable financial systems. Since the banking sector is characterized with achieving of adequate capital rate and good liquidity and profitability, the aim of this paper is to highlight importance of the reform process and the effects of the global financial crisis in process of creating such an environment.*

***Key words:** banking sector, capital adequacy, financial crisis, regulatory framework, profitability*

1. Introduction

The Serbian economy is currently in a process of transition. The pre-transition period was characterized by the following attributes. First, banks were the sole pillar of the financial system, which was supposed to ensure the smooth transfer of assets from the hands of savers to investors. Second, in countries with centrally planned economy, the

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banks' were the instrument for implementing planned policy. The state was determining which activities bank can conduct and to whom can approve loans, thereby implementing a selective credit policy. Banks have not conducted credit analysis of the borrower, nor have looked at the option of paying claims, but the loans have been granted to politically eligible persons and legal entities.

This situation has led to an increase of all risks in the banking business, primarily credit risk. The attributes listed above have led in the absence of an adequate institutional framework to an increase in the number of bankruptcies. The problems culminated in the 1990s, when there was a collapse of banks that operated as pyramid schemes, where the savings accounts of a large number of citizens were emptied. These events have led to the decline of confidence in the banking sector.

Already mentioned transition is focused on the reform process in the entire economic system, and one of the goals is to create a market-oriented banking sector, which would be resistant to systemic crisis. This process is not easy and the once defined laws are not universal for all times, as the financial system, like any system of stochastic nature, is subject to changes and uncertainty. The global financial crisis is an example of such increasing uncertainty, and therefore this paper is aimed on the analysis of reforms' effects and the effects of crisis on the banking sector in Serbia.

In order to examine these effects, the results of the reforms will be pointed out as well as the situation in the banking sector in the period before the escalation of the financial crisis. After that, it is necessary to point out the effects of the global financial crisis and forced changes in the regulatory framework on the performances of the banking sector in Serbia. Given the current situation in the banking sector in Serbia, the possible directions of its further development are reviewed.

2. The Situation in the Banking Sector of Serbia in the Pre-crisis Period

Abandoning state planning system, Yugoslavia faced major banking, financial and economic problems that have adverse effects on the entire economy. Some of the problems that contributed to this situation were:

1) Inadequate legislation, which has been unable to ensure effective functioning of the banking system;
2) The underdevelopment of financial markets that could absorb some of the risks;
3) State ownership of the banks

Problems that occurred during the 1990s created the need for a new framework for banking business in Serbia. One effective solution implied major changes in the structure of the banking system, methods of its operation and its regulation. The main objectives to be achieved were: 1) solving the problem of old foreign currency savings, 2) the return of confidence in the banks, 3) the renewal of contracts with international creditors and troubleshooting of large debts.

The assessment of the banking sector by the National Bank of Yugoslavia [2002, 80] pointed out that the banking sector was in a very bad condition. The main problems in the banking sector were: the high level of non-performing loans, low reserves established to cover losses, undercapitalization, and high illiquidity, the lack of an adequate system of internal control in banks, inadequate risk management system and inadequate work of external auditors.

In order to solve mentioned problems it was necessary to classify each bank in a particular category. The idea was to classify in the same group all banks that needed to carry out the same procedure for stabilization. Each bank was classified into one of the following four groups:

A – Healthy banks,
B – Solvent but illiquid banks,
C – Insolvent banks which are essentially important for the system,
D – Insolvent banks that have no systemic importance.

As the basic criterion for categorization NBJ [2002, 82] listed the following: a) the amount of potential losses, b) the amount which the state and the National Bank needs to pay under the savings and security for loans, c) approximate amount of funds needed for the rehabilitation, d) interest of other entities for takeover, e) systemic and regional importance of banks and number of employees.

The analysis shows that the total costs of the liquidation are several times lower than the total cost of full rehabilitation. In doing so it was decided to liquidate the four largest banks. The significance of these banks for the whole system was major, but their rehabilitation cost a lot. Complete recovery of these banks required insertion of liquidity in the system in an amount of about 2.5 billion German marks, while the non-performing assets would be exchanged for government bonds in an amount of about another 5 billion marks. Amounts needed for recovery were further scaled up due to the bad debts by companies that were in bankruptcy. On the other hand, the liquidation of insolvent banks would cause the direct costs of about 65 million German marks. With the liquidation process has begun the process of reforms in the banking sector, especially in its structure. As Ćirović [2007, 16] outlined, there are three ways of expanding banking operations to other countries. Each bank has available the following options: 1) building branch network in other countries; 2) the acquisition of foreign banks and 3) acquisition of the minority stake.

In the initial phase of the reform process, foreign banks were granted Greenfield licenses for operations. Due to the conversion of the debts to the Paris and London Club of creditors and old foreign currency savings, the state had a majority stake in the banks. Therefore, for the continuation of the privatization process it was necessary to stop granting Greenfield licenses. The only way for the entry of foreign banks into the domestic market was the acquisition of an existing domestic bank. Based on the acquired ownership of the banks, the state dictated the pace of the privatization process, defining the timing and requirements the potential customers should meet. The entry of foreign capital strengthened competition and modernization of banks and banking services.

Table 1. The structure of the banking sector according to the ownership type in the period 2002-2007 (on 31. XII)

	2002	2003	2004	2005	2006	2007
State owned	23	15	14	11	8	8
Domestic entities	15	16	18	12	7	6
Foreign entities	12	16	11	17	22	21
Total	50	47	43	40	37	35

Source: NBJ, Annual Reports (2002-2007)

The result of the initial stage of the banking sector reform was a change in the ownership structure. In addition to the reduction in the number of banks with majority state capital, there was a decrease in the share of domestic banks in the total capital of the banking sector. Domestic banks (public and private) had in 2002 a share of 81% in the total capital of the banking sector, but in the end of 2007 the share was 29%.

These changes in the structure were followed by an increase in total assets of the banking sector. It is particularly important that in the structure of total assets share of less quality assets decreased. To the high quality items of assets are applied lower risk factors when calculating risk-weighted assets, which ultimately reduces the required amount of capital. Table 2 shows the movements of the total assets in the banking sector, credits and deposit potential in this period.

Table 2. Indicators of banking activities in the period 2002-2007 (in millions of dinars)

	2002	2003	2004	2005	2006	2007
Total assets	316.578	367.468	510.092	772.413	1.169.271	1.561.822
Credits	182.757	194.295	290.800	426.528	545.059	812.647
Deposit potential	173.495	222.948	313.256	484.684	666.290	960.000

Source: NBJ, Annual Reports (2002-2007)

Confidence in the entire banking system became increasingly larger, which is proved by the constant growth of the deposit potential. The annual report of the NBS [2008, 57] states that only in 2007 deposit potential increased by 44.1% compared to 2006. With the increase in credit activity the structure of credit investments has begun to change. Policymakers, relying on a model of growth based on consumption, imports and borrowing, have signaled banks in which sectors need to direct investments. In end of 2007 the loans to the household sector represented almost 40% of all loans; loans to the corporate sector 58%, and 2% of loans went to public sector. In addition, 2005 was the first year with the profit at the banking sector level.

Due to the large increase in assets in the reporting period (total assets at the end of 2007 was almost five times higher than in 2002) and change in the structure of loans, the question of the citizens' credit burden has opened up. As Dugalić [2007, 2] outlined, credit debt per capita was 498 euros, or 1095 euros per employee. For fear that the citizens' debt could become burdensome, NBS, as pointed out by Zivkovic [2011, 64] implemented the following measures: a) reducing banks' liquidity and activation of open market operations (repos) with an increase in the interest rate; b) the introduction of prohibitive system of mandatory reserves; c) limiting the gross retail loans in the amount of 200% of the bank's capital and d) the use of prudential norms to control credit expansion.

This period is, among other things, important for the adoption of reforms that are a prerequisite for further development of the banking sector. Banking Act, which emphasizes the control of the banks and the precise definition of the risks to which banks are exposed, was passed in 2005. The process of identifying risks and ways to manage them were precisely defined. Important innovation was a precise definition of the capital adequacy ratio, whose value determined at the level of 12% relative to risk-weighted assets.

The Basel Committee on Banking Supervision was established in 1974. Its aim is to prevent future crises. The first important document was published by the Committee in 1988 under the name Basel Capital Accord (Basel Accord). This document was ratified by a large number of member states. The regulatory framework for banking in Yugoslavia did not implemented Basel I principles, which can be considered as one of the factors of occurrence of pyramid schemes and the crisis in the domestic banking system. The reforms for the first time created the conditions for the inclusion of the Basel standards in the regulatory framework in Serbia. Basel I standards were implemented in the early 2008. Comparing the time of creation and implementation of these standards, one can see that the standards were implemented nearly two decades after publication. Subsequently, measures were implemented at the earliest possible implementation of the Basel II standards. A prerequisite for further development of the banking sector and the creation of stronger links with citizens was the reform of the payments system. It was necessary to carry out reforms in line with the global trends in this field. The modern instruments, procedures and infrastructure that were thought to contribute to the efficiency of the payment system were implemented. For the payment system in Serbia it is extremely important high compatibility of its elements with SEPA standards and, as Vuksanović [2009] states, despite the existence of an efficient payment system it is necessary to remove the remaining incompatibilities with the principles of the SEPA system.

Reconstruction of the banking sector was fast and efficient and was rarely observed even in the experience of countries that have had a similar history and pre-history of banking crises [Begovic and others 2004, 224]. The aforementioned reforms have created an efficient banking sector. Satisfactory profitability, innovative banking products, effective risk management methods are just some of the elements of the state in the banking sector just before the spillover of the global financial crisis on the economy of Serbia.

3. The Global Financial Crisis and the State of the Banking Sector in Serbia

The global financial crisis originated in the United States (U.S.). The large increase in approved mortgage is one of the main causes of disruption in the financial system of the United States. Banks are granted mortgage loans even to those customers whose incomes were not high enough to service the obligations which increased the risks these banks face in their operations. To protect against the increased risk, banks applied securitization of these loans, creating securities that are backed up by these hardly payable loans. By selling these securities banks transferred risks to the buyers of the same, or to institutional investors.

The banking sector recorded good result in the first half of the 2008. A slowdown in lending activity occurred as spillover effect of the global financial crisis on the financial system of Serbia in mid 2008. The first indicator that suggested there was a problem on the financial market was an increase in interest rates. Despite the fall in Euribor, by the end of 2008, the interest rates were not reduced because of the growth of the risks that banks have faced in their business. The signals from the market have caused the decline in confidence of depositors in the banking system, which manifested in withdrawal of savings in the amount of 960 million euros. Powerful impact on the liquidity of banks required a systemic solution. The maximum amount of insured deposits by a single deposit account has increased from 3,000 euros to 50,000 euros. In the event of bankruptcy or liquidation, the

Deposit Insurance Agency would allow rapid payment of deposits, while the Republic of Serbia took over the function of guaranteeing. The effect of these measures was restored trust in the banking system performance which was indicated by the increase in deposit potential at the aggregate level.

With a view to prevent the depreciation of the dinar, the NBS, as pointed out by Kokotovic [2008, 17] has taken the following measures: a) facilitated new foreign borrowing, through amendment of regulations regarding mandatory reserve requirements, and provided new debt not to be burdened with mandatory reserves b) two times doubled the amount of foreign exchange reserves that banks calculate on the foreign currency base (but keep in dinars to the bank account) - first from 10% to 20%, and then from 20% to 40% of the allocated funds.

Economic recession in Serbia during the 2009, due to the correlation of economic and financial system, had a negative effect on the banking sector. The decline in industrial production, decline in exports and imports led to a slowdown in lending activity at the beginning of the year. Activist approach to crisis management by economic policy makers was crucial to buffer the negative effects. In the march of 2009, with coordination by the International Monetary Fund (IMF), European Bank for Reconstruction and Development (EBRD), the World Bank (WB) and the European Investment Bank (EIB) the Vienna Agreement was signed as Program of support for the financial system. The aim of this agreement was to help the banks operating in the markets of Eastern Europe to keep exposure to these markets. Banks signatories have committed themselves to reprogram private debt in the amount of 4.5 billion euros in the 2009, which allowed companies in Serbia to postpone repayment of loans previously taken, using new loans to make payments. Good coordination between the Government of the Republic of Serbia and NBS, which was manifested through the abolition of calculating reserve requirements on the domestic currency deposits and foreign currency deposits, resulted in the increase in credit activity in the 2009.

Table 3. Indicators of banking activities in the period 2008-2011 (in millions of dinars)

	2008	2009	2010	2011
Number of banks	34	34	33	33
Total asset	1.776.919	2.160.411	2.533.530	2.649.928
Credit Exposure	1.027.600	1.278.300	1.685.400	1.591.622
Deposits	1.024.707	1.301.234	1.504.761	1.526.097

Source: NBS, Annual Reports (2008-2011)

Increases in credit exposure in circumstances where there are no viable projects resulted in increased participation of non-performing loans and the decline in the share of high-quality loans in the loan portfolio of banks. The share of non-performing loans to total loans reached nearly 20%, a significant increase comparing to 11.3% during 2008. The growth in the participation of non-performing loans was influenced by the structure of loans, where most of the loans were in foreign currency or foreign currency indexed. In terms of depreciation of the dinar against the euro, the debt of citizens and businesses was increasing and it was becoming increasingly difficult to service obligations.

As one of the measures, in the beginning of 2011 NBS promoted the strategy of dinarisation which was meant to increase the use of the dinar in the financial system. The strategy is intended to improve the country's financially stability, reduce the risk of changes in the exchange rate and strengthen the effectiveness of monetary policy [NBS 2011a, ii]. By monetary policy instruments should be achieved an increase in the use of the dinar in the financial system of Serbia. A key indicator used to monitor the level of dinarisation and realization of the objectives was the participation of local currency loans in total loans approved. The following indicators are used as additional in monitoring the level of financial systems dinarisation: participation of local currency loans in total newly granted loans to companies and households, the share of local currency deposits in total deposits of the economy and population, and the dinar debt in total public debt [NBS 2011a, 5].

During the period the liquidity of the banking sector has been satisfactory. It is particularly important that the value of this indicator is not excessively high, since this indicates a reduced efficiency of resources involved. These changes in business conditions have led to a reduction in the profitability of the banking sector. The banking sector operated the worst during the 2009, when a significant drop in ROA has been seen. However, bearing in mind that Gup and Kolari [2005, 24] find that the amount of ROA of 1% indicates that the banking sector is doing well, the decline in the 2009th year was not a threat to the operations of the banking sector. Decline in profitability can be explained by higher allocations in reserve requirements on local and foreign currency deposits, increased participation of non-performing loans, and a lack of effective management, primarily in banks with domestic capital. However, Marinkovic et al [2012] point out that in the years following the outbreak of the global economic crisis, there is no clear data to suggest that foreign ownership, by itself, guarantee good performance. However, this does not mean that foreign banks do not show better performance than domestic ones.

Table 4. Performances of the banking sector in the period 2008-2011 (on 31. XII)

	2008	2009	2010	2011
ROA	2,1 %	1,0 %	1,1 %	1,3 %
ROE	9,0 %	4,6 %	5,3 %	6,1 %
Interest margin	7,5%	6,7%	6,1%	5,9%
Financial result (mill. Dinars)	34.956	20.025	25.398	1.252*
Amount of capital (mill. Dinars)	419.887	447.487	497.967	545.880
Capital Adequacy	21,9 %	21,4 %	19,9 %	19,1 %

* Including the loss of Agrobanka A.D. Beograd about 29.7 billion of dinars

Source: NBS, Annual Reports (2008-2011)

During the 2011, differentiated rates of mandatory reserves for domestic currency deposits and foreign currency deposits were introduced, which have reduced banks' credit potential. On dinar deposits with maturity up to 2 years mandatory rate was 5%, and for those with maturity over 2 years 0%, while for deposits in foreign currencies mandatory rate was 30% and for those with maturity over 2 years 25%. However, the introduction of obligation to keep a part of mandatory reserve for euro deposits in dinars, 15% for maturities up to 2 years, and 10% for the maturities over 2 years is at odds with the concept of dinarization. These measures have led to a decrease in the share of domestic currency loans in total loans from 34% in end of 2010 to 30.2% in late 2011 [NBS 2011c, 11]. The basis of this decision was a desire to rein inflationary effects, given that the main objective of the NBS monetary policy was to maintain inflation within a defined framework.

All these measures contributed that the banking sector does well in unstable conditions. Besides the increase in total assets of the banking sector, lending and deposits, the problem was a decline in profitability. However, the banking sector is still characterized by better performances than the ones in the real sector of the economy. This was largely contributed by the good coordination of actions of the NBS and the Government of Serbia, which created a stable sector that despite the growth of assets and capital follows trends in the world in terms of regulation.

4. The Current Situation in the Banking Sector and Development Trends in the Future

The importance of a stable banking sector for economic growth is extremely important. Basel II standards have not proved to be good enough, and both in the European Union and the United States huge efforts are made to create conditions for the implementation of Basel III. The main objective of the agreement is to ensure banks' ability to absorb shocks arising from financial market or any sector of the economy. In addition to these efforts, the Basel Committee on Banking Supervision, in cooperation with the European Central Bank highlighted the initiative for a single management of banking sector in the European Monetary Union. In this way, through the cooperation, the European Central Bank and the national supervisory institutions establish uniform rules and mechanisms, by which it is possible to prevent the emergence of new banking crises, protect depositors and restore confidence in the banking sector. However, as these regulatory mechanisms are not applicable to the banking sector in Serbia, it is necessary that NBS ensure the stability of the banking sector through existing standards and their further development.

Today, the banking sector in Serbia consists of 31 banks, of which 21 are foreign-owned and 10 are in domestic ownership. The performance and stability of the banking system have been influenced by the decision on the fate of the two state-owned banks. In the late 2011, the loss was reported in the balance sheet of Agrobanka A.D. of almost 30 billion of dinars. With the aim to stabilize the bank's assets and to increase capital a receivership was introduced. In May 2012 the bank lost its license and a new bank Nova Agrobanka was formed, which played the role of a bridge bank. Insured deposits have been transferred to Poštanska Štedionca A.D. Belgrade. New approach to the problem involved a winding of bridge bank in late October 2012. The second situation relates to the problems of the Razvojna Banka Vojvodina. This bank was recapitalized three times in the 2012 in the total amount of $ 12.4 billion, and was finally liquidated in early 2013. Insured deposits were transferred to the Poštanska Štedionca A.D. Belgrade. The problems faced by these banks did not affect the operations of the banking sector.

The recession of the global economy caused a significant increase in the share of non-performing loans in the total credit portfolio. The high foreign exchange risk in terms of a dominant share of lending in foreign currency or lending indexed to foreign currency and large fluctuations in the exchange rate of the euro converted to credit risk. Through the raising and placing the funds in foreign currency, banks transfer the exchange rate risk to customers. However, reciprocal effect of this transformation was the increase in the share of non-performing loans (nearly 20%). Despite the increase in the share of non-performing loans, it is important that these loans are adequately covered, which contributes to the safety of the entire banking sector.

Table 5. Characteristics of the banking sector (on 31. XII 2012.)

Total assets (mill. dinars)	2.880.000
Credits (mill. dinars)	1.752.000
Financial result (mill. dinars)	11.700
Capital (mill. dinars)	591.100
ROA	0,97 %
ROE	4,7 %
Regulatory liquidity ratio	2,08
Capital Adequacy	19,87 %

Source: NBS, The fourth quartile report 2012

The main objective of the NBS is to maintain price stability through targeting inflation. The obligation to respect that goal has influenced the actions of the Government and the NBS which focus on the stability of the banking sector. With a view to prevent the depreciation of the dinar, the NBS made the decision in beginning of 2012 to reduce the required reserves for foreign currency and increase part of the reserve in dinars by 5%. This action was legitimate in terms of the main objective of monetary policy, but it was in stark contrast to the strategy of dinarisation and the increasing use of the dinar in the financial system. However, this is not the only contradiction in the actions of the NBS. Vienna Initiative from 2009 provided the retention of banks' exposure, which during the recession resulted in increase in the share of non-performing loans to total loans. Therefore, a logical question arises whether in times of recession bank should credit those who do not deserve it and increase credit risk and the percentage of non-performing loans.

The banking sector is characterized by an uneven level of development, particularly in terms of efficiency of resource management. In the 2012, 21 bank operated with positive financial result, while the loss in income was reported in 11 banks, mostly state owned (Razvojna Banka Vojvodina had the highest loss). Within this concept of the banking sector, by end of 2012 only 2 banks had a market share larger than 10%, namely Banca Intesa, with 14.9% and Komercijalna Banka, with 10.8%. The top 5 banks had a share of 47% of total assets, and the top 10 banks hold 71% of total assets.

Further development of the banking sector should be primarily directed towards ensuring operational stability. Capital adequacy, modern services and confidence in the banking sector are some desirable characteristics. Although it did not erupt in Serbia, the global economic crisis has greatly affected the operations of all businesses. Crisis in Serbia has manifested in the reduction of foreign direct investment and a decline in exports due to lower demand in foreign markets. Due to the structure of the banking sector in Serbia and the dominant place of foreign capital, there was a decrease in the inflow of new foreign capital. This does not mean that the core capital of foreign owned banks will be withdrawn as each bank is a separate legal entity and has to meet the requirements. However, due to the difficult business conditions in the future it can be expected that the banks withdraw realized profits, as it was the case in the 2012. Also, a significant role in maintaining the stability of the banking sector belongs to the Association of Serbian Banks. The special contribution of this institution is the formation of the Credit Bureau, which allows the centralization of data about the potential loan takers.

It is particularly important to stress the interdependence of the banking sector and the real sector of the economy. Solving problems in the real sector is one of the requirements for maintaining the stability of the banking sector, while the stability of the banking sector, on the other hand, can contribute to faster overcoming the crisis in the real economy. It is therefore important that the bank loans are approved on the basis of market criteria as it would contribute to the reduction of non-performing loans. As a possible solution, the establishment of the Development Bank of Serbia was mentioned, whose main tasks would be effective asset management and lending to the real economy. As this is a bank with state capital, it raises the question of the effectiveness of management, as for the politically suitable management efficiency would not be primary.

In order to create a sound and stable banking system it is necessary to provide a regulatory framework that will be based on professional risk management of the banking business and the increasing capital base, to strengthen lending. Due to the perceived shortcomings of Basel II, it will be possible if Basel III standards are consistently and swiftly implemented. That is why, as Caruana points out [2011, 152], it is of extreme importance to create stable and independent institution that will carry the reforms. Basel II standards in Serbia are in force since January 2012. In accordance with the agenda of implementation of Basel III, NBS should in the shortest possible time create preconditions. However, due to the "delay" in the implementation of Basel I standards and still incomplete implementation of the Basel II standards, the question is when will it be possible to implement the Basel III standards. We think that this will not happen in the next 10 years, which questions the stability of the banking sector in the future.

5. Conclusion

During the last decade of the twentieth century, the banking sector was in deep crisis. Reforms at the beginning of the new millennium, with the active participation of the state, in spite of the low base created a stable banking sector. Liquidation of insolvent banks, which are designated as systemically important, has opened a space for the entry of foreign banks. The privatization and internationalization have created a sector that is characterized by majority share of foreign-owned banks. Opinions on the comparative advantages in terms of efficiency between domestic and foreign banks are divided.

The escalation of the global financial crisis has not directly affected the performance of the banking sector, as the problematic securities of foreign institutions have not found a place in the assets of domestic banks. In terms of the global economy, due to spillover effects, every economy tries as much as possible to fight the negative effects. Therefore, it is necessary to develop an appropriate strategy that will give best results in this situation. NBS has mitigated the negative trends through the implementing anti-cyclical monetary policy. Vienna Initiative is most responsible for maintaining the level of loans during the 2009, when the recession took root movement.

The crisis has entered during the 2011 even more dangerous phase, where the problems are augmented with excessive debt, especially in the euro area, led to a decrease of trust in the government sector. Despite a very pessimistic forecast, the fact that the macroeconomic indicators point to a slowdown in GDP growth, rising inflation and unemployment, the decline in industrial and agricultural production, the Serbian banking sector stands out as a relatively stable sector, which should spur economic recovery. The main risks for the banking sector are determined by extending the recession and the growth of credit risk because of the debt of companies and citizens in foreign currency. This is evidenced by an increase in the share of non-performing loans in total credit portfolio (18.6%) at the end of 2012. year.

The banking sector is characterized by adequate capital ratios, satisfactory liquidity and profitability. Adequate capitalization of the banking sector stands out as the main factor of stability. Decrease in capital adequacy ratio is the result of irregularities detected in operations of the two state-owned banks. The domestic legislation incorporated provisions of Basel I and II, which have improved the way of risk management in the banking business and expand the jurisdiction of regulatory institutions. Although the implementation of Basel I was delayed nearly two decades, it has not had a negative impact on the performance of the banking sector. Therefore, the NBS in the future must insist on further improvement of the risk management function in all financial institutions, strengthening prudential supervision and regulation of financial institutions and creating the conditions for the acceptance of Basel III.

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REFORME BANKARSKOG SEKTORA KAO ELEMENT PROCESA EVROPSKIH INTEGRACIJA

Rezime*: Poslednja decenija XX veka, za Srbiju predstavlja period u kojem je došlo do sloma političkog, socijalnog i ekonomskog sistema. U centalno-planskoj privredi, sa državom na čelu, bankarskom sektoru je bila dodeljena uloga instrumenta realizacije planskih ciljeva. Korišćena selektivna kreditna politika je u kombinaciji sa velikim strukturnim disproporcijama i neadekvatnim regulatornim okvirom rezultirala krahom monetarnog sistema. Fundamentalne reforme sprovedene početkom XXI veka, usmerene ka oporavku bankarskog sistema učinile su da ovaj sektor bude okarakterisan kao sektor sa stalnim rastom sve do 2008. godine. Bankarski sistem Srbije prošao je kroz proces svojinske transformacije i konsolidacije, tako da današnju strukturu karakteriše manji broj učesnika i svojinski pluralizam. U periodu nakon 2008. godine bankarski sektor Srbije našao se pred novim iskušenjima u uslovima globalne finansijske krize i pred potrebom za jasnim definisanjem strategije borbe protiv finansijskih potresa. Rad predstavlja analizu učinjenih reformskih procesa i efekata globalne finansijske krize na bankarski sektor u Srbiji. Osvrnućemo se na način na koji se bankarski sektor u Srbiji izborio sa rastućim problemima nelikvidnosti i nesolventnosti, koji su potresli i mnogo razvijenije i stabilnije finansijske sisteme. Budući da bankarski sektor Srbije, trenutno ostvaruje adekvatne stope kapitala, zadovoljavajuću likvidnosti i profitabilnost, cilj ovog rada jeste da ukaže na značaj reformskih procesa i efekata globalne finansijske krize u procesu kreiranja takvog ambijenta.*

Ključne reči: *bankarski sektor, adekvatnost kapitala, finansijska kriza, regulatorni okvir, profitabilnost*