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Western Balkans' Banking Sector Performance in Terms of Macroeconomic and Bank Specific Efficiency Determinants

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Abstract: Main objective of this study is to analyse banking efficiency and productivity considering evidences from Western Balkan countries in pre-crisis, during and the recovery period. Referring to the historic background and the transformations suffered, the WB countries have developed bank based financial structure so the soundness of the banking sector is significantly important for the stability and progress of their economies on the long run. The problems faced by the last recession, the deteriorated macroeconomic indicators and weak, inefficient banking sector translated in slow recovery rates, encouraged this study. Prior studies have been mainly focused in causes and effects of crisis in different sectors of economies while this paper presents relations and dependencies between the macroeconomic and bank specific efficiency determinants. The methodology used is the comparison between countries and as method the financial ratio analysis, intending the presentation of trends and evaluation of changes in efficiency, profitability and performance indicators during 2000-2007 comparing with 2008-2013. Results that the banking sector profitability indicators follow the same negative trend with the economic growth rates and the recovery rates are lower than the forecasted. The results can be used by performance monitors to better identify vulnerabilities and examine uncertainties/risks.

Keywords: bank-based structure; efficiency; profitability; macroeconomic indicators; financial ratios

JEL Classification: G21; O11; O57

1. Introduction

1.1. How is Currently Presented the Macroeconomic Situation of Western Balkan Economies

The economies of Western Balkan countries are among those that suffered the most the global downturn of 2007 – 2009 and after. Referring to the World Economic Situation and Prospects 2014 (WESP, 2014), the euro zone crisis "remains a

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significant risk factor" for the global economy (p. 27). The euro area is emerging slowly from the last years' recession. It started recovering during the year 2013.

As published by Monaghan & Warden (2014), the projected economic growth according to ECB (European Central Bank) for the year 2014 was at 1.1% decreased to 0.9% and finalized at almost 0.8%. The same slow growth rates are predicted for the year 2015 and 2016, forecasted before three months from the same institution at 1.6 and 1.9% respectively. Unfortunately, the expectations are falling even more, at 1 and 1.5% according to projections of December, 2014. The recovery will be uneven but still consists in growth. The world gross product has also marked a lower growth than the forecasted, 2.1 instead of 2.4% (WESP, 2013).

Considering the presented economic situation, the main concerns for the "on developing" economies of Western Balkans are the fragility of the banking sector and their sovereign debts. The case of Cypriot banking sector is a reference for the weakness of this industry in the region.

Each Balkan country is aspiring to become EU "full rights" member although their recent mix economic performance and the current different stage of processes. There are considerable differences between the economic indicators of EU countries. Referring to the average GDP per capita (in PPS) between euro areas (18 countries), is averagely at 108 percent as stated by the end of year 2013 while for the same period, that of the newest member Croatia, is at 61 percent. The average of five WB countries candidate for entering EU is at 34.4 percent. Other EU member countries like Spain, Greece and Italy highly affected by crisis, have respectively 95, 98 and 75 percent by the end of the year 2013 (European Statistical System Eurostat, 2014).

Characteristic for the whole period under study (2007 – 2013) is the decreased trend of banking sector performance indicators same as the main macroeconomic ones. The decreased economic growth, the weak banking industry and the problematic fiscal sector are main problems of the WB country members. The problematic situation of euro area "…*has hinted the establishment of a regional banking union and this is already agreed in the first round of EU discussions*" (WESP, 2014, p. 28).

The study is conducted among the Western Balkan countries due to the below common features: a) all the countries are aiming the EU membership despite the different levels of their economic development b) except Croatia, all the rest countries are listed in "on developing" economies c) the financial structure of their economies is bank-based as the banking sector occupies the major part of total assets of their financial sector and d) the economies considered in this study are small sized e) the financial sector of the economies under consideration have been directly or indirectly affected by the financial shocks of the last years. The improvements on the banking sector efficiency and performance will accelerate their economic recovery.

The paper consists in the below sections: firstly is analyzed the importance of studying banking sector performance and is emphasized the relationship with the financial system and the economic growth, the second refers to the history of thought, the third refers to the description of methodology used, the source of data for each country and the fourth provides comparative analysis of WB banking sector performance: ROE, ROA, bank capital to assets, bank regulatory capital to risk weighted assets, capital adequacy ratios, bank non performing loans to total loans etc., in line with the macroeconomic efficiency main determinants as GDP, inflation etc.

Conclusions and recommendations refer to the efficiency and profitability trends of individual banking sector of each country under study, their changes and decreasing tendencies same as the macroeconomic indicators during the considered period. The financial and social costs charged because of banking sector inefficiencies enhance the continuous monitoring and evaluation of non-efficient banks. This paper emphasizes the necessity of analyzing the banking sector performance indicators especially of ‘on developing' economies. Promoter for analyzing the sector in details is the necessity of identifying vulnerabilities and examining uncertainties, translated in risks due to their fragile financial systems, considerably sensitive to economic stress.

1.2 The Importance of Studying Banking Sector Efficiency

The financial intermediary role of the banking sector in an economy consists in: accumulating capital, providing liquidity, monitoring services offered to depositors and investors, on keeping them informed etc. Any disturbance, interference or irregularities in the banking sector is mainly reflected to the real economy if considering the bank based financial structure of WB countries and the strong relationship between the banking sector and the financial system.

Financial crisis are mainly caused by the prevention of the financial system from its role of enabling financial intermediate process to channel funds from savers to investors. The financial intermediaries are responsible for the efficient allocation of resources to higher return investments. For the above mentioned reasons the continuous monitoring of the banking sector is starting point for measuring financial stability. Banking is the most and well regulated segment of the economy due to its great potential in the financial sector of countries under study. Recently, learning lessons form the liquidity – crisis of the last years, the interest is focused on the stability of the banking system as a whole. Regarding to this, the global regulatory standards that consist in micro and macro prudential regulations starting from banks' level to system wide risks are constantly reviewed aiming to enable banks to better absorb the financial shocks, for strengthening the sustainability of the banking sector and for avoiding uncertainties.

Considering the regional developments and beyond is suggested the proper assessment of the efficiency and performance of the banking sector, the continuous monitoring by the local supervising authorities and the European authorized institutions, to be closely reviewed the asset quality, the level of capitalization and restructuring.

2. Literature Review

The most widely studied relationship is between the banking sector, the financial system and economic growth.

Analysis of multiple roles performed by banks in the financial system is essential for the economic theory and finance.

Thorsten, Asli & Ross (2003) encouraged by the long discussions about the relationship between the market structure, banking sector and the economic development, studied the concentration of banking sector, the regulatory system and financial institutions during crisis as financial systems' de-stability indicators. Using data from 70 countries, and a time period of seventeen years (1980-1997) with more than 40 episodes of crisis already happened, resulted that the possibilities of occurring economic crisis are lower in countries with high concentration of banking sector, where the competition is less restricted and where institutions encourage it. Economies with sound and developed financial institutions that stimulate competition are less affected by crisis…limitations in banking activities causes instability in the banking sector.

Referring to Drehmann; Borio & Tsatsaronis (2012) the most prudent description of financial cycles is in terms of credit and property prices. The authors, Drehmann & Juselius (2012) explains that the financial cycle (16 years in industrialized countries) has a much lower frequency than the traditional business cycle (8 years) and peaks in the financial cycle are closely related with the systemic banking crisis; recessions that coincide with the concentration phase of the financial cycle are serious.

The main indicators driving to financial crisis are continuous deviations of private sector credit to GDP and asset prices from historical data or norms as pointed by Claudio (2014).

According to David & Paul (2000, p. 20) results that "…*less well – capitalized banks are at greater risk of failure as are banks of high ratios of loans to assets, evidence of poor quality loan portfolios and) banks with low earnings…banks with enhanced freedoms to branch would afford banks greater diversification and reduce their vulnerability to localized economic shocks*".

Banks as the other financial institutions exist to enhance economic efficiency. Their functions vary depending on economies. Main roles that banks play in the financial system are: as intermediary, to monitor the savers and investors, to manage risks, induces growth and their corporate governance role. Causes of financial crisis are: inappropriate management of financial/economic liberalization including innovation, immediate increase in asset prices and uncertainties of financial markets caused by interruption of financial institution information or their failure.

Initiating factors causing financial crisis as per Frederic & Stanley (2011) are the fiscal debts, financial institutions balance sheets degradation, decrease of asset prices, increase of interest rates and increased uncertainties leading all in moral hazard problems. What follows is a decrease on economic activity and bank crisis.

Due to the historic background and social – economic transformations occurred the countries of WB structured a bank centered financial system. Banks constitute the major part of their financial sectors so their continuous monitoring, the efficiency and performance evaluation require special attention. Other segments are either nonexistent or underdeveloped. The impact will be insignificant in case of their failure due to their low weight in the total financial system.

As backbone of financial system of economies under consideration banks result to be also main source of liquidity. Any interruption of their main function will cause problems for the real economy. The Western Balkans' economies are small because of their size but due to liberalization are opened up. The problem with emerged and on developing economies is that they abolish restrictions allowing the capital to flow to other nations without strengthening their supervision, government regulators or improving monitoring of credit and other risks. Government fiscal imbalances are also source of weakening the banking system.

Except GDP and inflation other macroeconomic factors are debt level and exchange rates. Banking specific determinants of efficiency are: except size, liquidity, banks' profitability, operating expenses, the quality of loans, capital adequacy.

In the regulatory determinants of evaluating efficiency are included: ownership, origin, deregulation, reforms, liberalization etc. Considering the small size of the economies under study, a special attention is paid to 'the contagion theory'.

According to Allen & Gale (2000b) the inter-bank connections reinforce the stability of the system towards the insolvency.

3. Data and Method

The main purpose of this paper is to analyze the Western Balkan countries banking sector efficiency and profitability aiming to present an overview of their performance pre crisis, during and one year of starting recovery.

The analysis are focused in seven countries member of Western Balkans, Albania, Bosnia and Herzegovina, Croatia, Macedonia, FYR, Montenegro, Kosovo and Serbia. The methodology used for performance analysis is that of cross-country comparison while as method are compared the financial ratio indicators for the banking sector of all countries under consideration and the macroeconomic efficiency determinants. The data used are from secondary but reliable resources, Euro stat, IMF databases, GFSR and financial statements or annual reports of countries under study. The data used refer to pre and after crisis of the year 2007, starting from 2000 up to 2014.

The hypothesis of this paper is: being bank based structured economies the efficiency of banking sector is significant for the long run stability of financial system and the economic development of these countries. Efficiency monitoring and accurate assessments are significantly important for identifying inefficiencies, taking measures and improving strategies for faster recovery and better achievements.

4. How is Presented the WBCs' Banking Sector Performance in Terms of Macroeconomic and Bank Specific Efficiency Determinants

4.1. An Overview on the Macroeconomic Determinants of Efficiency

Table 1. Real GDP growth rate (% change on previous year)

Geo/time	Pre Crisis (Average)	During crisis (Average)
	2002-2007	2008-2013
EU (28 countries)	2.37	-0.13
EU (27 countries)	2.37	-0.12
Euro area (changing composition)	1.93	-0.25
Euro area (18 countries)	1.97	-0.28
Croatia	4.78	-1.73
Montenegro	5.38	0.73

Former Yugoslav Republic of Macedonia	3.97	2.05
Serbia	5.08	0.65
Greece	4.17	-4.37
Italy	1.17	-1.48
Spain	3.38	-0.97

Source: Authors' calculations based on data extracted from [Eurostat], E. S. (n.d.). Print-Europa., from Eurostat-Tables, Graphs and maps Interference (TGM) updated on November 13, 2014 and Indicators – The World Bank, Retrieved respectively on November 15, 2014 from::http://ec.europa.eu/geninfo/legal_notices_en.htm, and http://data.worldbank.org/indicator/.

Referring to the data presented in the above table the average growth rate calculated as percentage change "during crisis" period is lower than "pre crisis". The average growth rate of Western Balkans is greater than of European countries member before crisis. The same remains during crisis with the difference that the European countries have decreased average growth.

Referring to the data presented in the table above, Greece results with the lower Gross Domestic Product during the period 2008-2013 and Montenegro results with a positive increase during crisis but still at considerable lower average rates than the pre crisis period.

Table 2. GDP Growth (annual in %)

Geo/Time	Pre-Crisis (Average)	During Crisis(Average)
	2000-2006	2007-2013
Albania	5.61	3.71
Bosnia and Herzegovina	5.21	1.57
Croatia	4.44	-0.73
Kosovo	7.38	4.56
Macedonia, FYR	2.53	2.66
Montenegro	3.69	2.66
Serbia	5.1	1.33

Source: Authors' calculations based on data extracted [IBRD-IDA], W. B. (n.d.). Indicators - The World Bank, Retrieved November 15, 2014 from: http://data.worldbank.org/indicator/

Average annual in percentage GDP growth rate of Western Balkan economies is decreased during the crisis period if compared with the pre-crisis. This is an indicator of economic contraction. Kosovo and Albania have the greater average GDP growth rate. The average inflation calculated on annual basis as percentage of GDP deflator is lower than pre – crisis period except Kosovo where is obvious the increase of 2.3 %.

Although the low inflation rates, the decreased interest rates and the stable exchange rate, the demand for credit results not to be increased.

Table 3. Inflation, GDP deflator (annual %)

Geo/Time	Pre – Crisis (Average)	During Crisis (Average)
	2000-2006	2007-2013
Albania	3.71	2.43
Bosnia and Herzegovina	7.06	2.94
Croatia	3.91	2.59
Kosovo	0.73	3.03
Macedonia, FYR	3.73	3.1
Montenegro	8.47	3.94
Serbia	34.5	7.8

Source: Authors' calculations based on [IBRD-IDA], W. B. (n.d.). Indicators - The World Bank, World Bank national accounts and OECD National Accounts Data Files. Retrieved from: http://data.worldbank.org/indicator/, Accessed on November 15, 2014

Based on data presented in table 4, the average domestic credit provided by the financial sector where banks have the greater potential, is almost doubled if comparing with the pre crisis period except Albania where is recorded a decrease at almost 43% compared with the pre crisis period.

Table 4. Domestic credit provided by financial sector as (% of GDP)

Geo/Time	Pre – Crisis (Average)	During Crisis (Average)
	2000-2006	2007-2013
Albania	48.2	27.2
Bosnia and Herzegovina	35.6	65.63
Croatia	55.13	86.4
Kosovo	2.27	15.57
Macedonia, FYR	17.56	44.66
Montenegro	18.22	70.57
Serbia	30.83	50.1

Source: Authors' calculations based on data extracted from International Monetary Fund (IMF), International Financial Statistics and data files, World Bank and OECD GDP estimates. Catalog Sources World Development Indicators, Retrieved From: http://data.worldbank.org/indicator/ Accessed on November 15, 2014.

The highest increase on average domestic credit during crisis belongs to Kosovo followed by Montenegro and Macedonia, FYR.

4.2. Based on Data Presented are Tracked the Financial Sector size Changes and is also Presented an Evidence of the Progress in pre and during Crisis Period

Table 5. WBCs' financial sector size changes, tendencies and developments calculated as % of GDP

(as % in GDP)	Pre crisis	Crisis Period		
	Average	Average	Max (Average)	Min (Average)
Domestic Credit to private sector	43.91	49.08	69.88	34.91
			(Montenegro)	(Kosovo)
Deposits	54.31	46.74	66.32	39.23
			(Albania)	(B&H)
Stock Market Capitalization	85.72	33.98	86.48	22.81
			(Montenegro)	(Macedonia, FYR)
Insurance Premiums	1.89	1.56	1.99	0.62
			(Montenegro)	*(Albania)*

Source: Authors' calculations based on data extracted from USAID, P. f. (2013, November). Financial Sector Benchmarking Studies Database. Retrieved November 15, 2014, from PFS Program : http://www.pfsprogram.org/ and Indicators - The World Bank ([IBRD-IDA], 2013). Retrieved from: http://www.pfsprogram.org/ and http://data.worldbank.org/indicator

Analyzing the main ratio indicators of financial sector depth results that except the small size of the financial sector compared with GDP there is a slight increase in the domestic credit to private sector but still remained less than 50% and all the other are decreased. The average of total deposits during the crisis remained at 46.74% of GDP.

Referring to average ratio of total loans to total deposits for all the countries in consideration (except Croatia) it is at 110.47% with the highest indicator of Montenegro at 163.94% and Albania at 59.24%. This growth of gross loans results from the resident deposits having no investment possibilities and because of borrowing from abroad. Taking into consideration that the banking sector of Albania, B&H, Croatia and Macedonia, FYR is dominated by foreign owned banks than the capital inflow is mainly from their parent banks or borrowed from the domestic big banks and the international financial markets. The average annual growth of domestic credit to private sector (as % of GDP) is 3.23% while the average annual growth of deposits is at 2.21%. Albania has the highest ratio of the average deposits to gross domestic product amounting at 66.32%. The average of the total deposits to GDP for the countries sample is at 46.74%. B&H has the lowest deposited amounts at 39.23%. The stock market capitalization decreased at almost half of pre crisis period.

The Albania and Kosovo have an invalid capital market so the total average market capitalization refers to B&H, Macedonia FYR, Montenegro and Serbia. The historic background and the transformations occurred to the economies of Western Balkan countries are reflected in their financial structure and the progress of financial sector. As often mentioned in the paper the banking sector is the main pillar of the financial sector of these economies while the capital markets and the insurance companies are of a low potential and their effects in the financial development or failure is almost insignificant. There is also a decline in the average insurance premium to GDP ratio. The lowest indicator refers to Albania at 0.62% and the maximum to Montenegro at 1.99 percent of GDP.

4.3. Overview on the Western Balkan Countries Banking Sector Efficiency Determinants during pre and Crisis Period

Table 6. Evidence on WBCs' banking sectors efficiency determinants in pre and during crisis

(in %)	Pre crisis	Crisis Period		
	Average	Average	Max (Average)	Min(Average)
Bank Capital to Assets	13	12.24	21.03	9.03
			(Serbia)	(Kosovo)
Bank Regulatory Capital to Risk Weighted Assets	18.9	17.43	20.45	15.76
			(Serbia)	(Montenegro)
Bank NPL Loans to Total Loans	5.46*	11.78	8.6**	6.85
			(Serbia)	(Kosovo)

*The calculations refer to average data for the year 2007; no data available for Montenegro.

Source: Authors' calculations based on data extracted from Regional Financial Sector Benchmarking System Report, ([FSBS], 2013) and Indicators - The World Bank ([IBRD-IDA], 2013).Retrieved from: http://www.pfsprogram.org/ and http://data.worldbank.org/indicator/

Main determinants of banking sector efficiency are capital adequacy, profitability, loan quality, liquidity etc. The banking sector of Western Balkan economies results to have remained stable and well capitalized. This is due the implementation of appropriate policies and the low exposure to countries highly affected by crisis. The average capital to total assets is almost in the same levels, indicating a stability of the industry in overall. The average regulatory capital before crisis was at 18.9

% and remained at almost the same levels during the crisis period. The ratio was at higher than the level required. What is worth to be discussed is the increase of non performing loans. The average ratio is almost doubled during crisis period. Montenegro, Serbia and Albania have the worst performance regarding the quality of loans granted. The average NPL to total loans granted are respectively at 17.47, 15.96 and 14.19%. The data are extracted from World Bank statistics but may be even worse than the provided.

If considering the data presented in both tables and the respective analysis it is obvious than the banking sector is related to finance and the macroeconomic indicators. The crisis period was characterized from decreased growth rates, increased inefficiency of the banking sector and the worsening of financial depth indicators. The increased interest of banks to provide credit without simultaneously improving the monitoring and credit risk assessment strategies, the deterioration of economies and macroeconomic indicators led to over risky lending and the worsening of their quality. The “past due” and “bad loans” are provisioned and their increased provisioning has direct impact in the efficiency, ROA and profitability, ROE. The performance ratio indicators for the banking sector of the seven countries are as below presented.

Table 7. Return on Assets, in % (ROA)

Geo/Time	Pre Crisis (Average)	During Crisis (Average)
	2005-2007	2008-2014
Albania	1.47	0.57
Bosnia and Herzegovina	0.83	0.25
Croatia	1.57	0.76
Kosovo	n/a	0.70
Macedonia, FYR	1.60	0.50
Montenegro	0.87	-1.02
Serbia	1.50	0.77

The Sources are retrieved from: IMF, G. F. ([GFSR], October 2009/2014). Global Financial Stability Report. Washington, USA: International Monetary Fund Retrieved from: http://data.worldbank.org/indicator/FM.AST.CGOV.ZG.M3/countries; and Bank of Albania, Financial Stability Report 2014H1, ([FSR], 2014H1) http://www.bankofalbania.org/web/Financial_Stability_Report_2014_H1_7138_2.php (p.75)

The average Return on Assets Ratio for the seven countries under study is obviously decreased in during crisis period if compared with the pre crisis from 1.3 to 0.36 %. The lowest average efficiency ratio is recorded for Montenegro at – 1.02% while the highest refers to Serbia at 0.77%.

Table 8. Return on Equity, in % (ROE)

Geo/Time	Pre Crisis (Average)	During Crisis (Average)
	2005-2007	2008-2014
Albania	20.97	5.76
Bosnia and Herzegovina	7.87	2.23
Croatia	12.90	5.11
Kosovo	n/a	7.37
Macedonia, FYR	11.60	4.49
Montenegro	5.73	-10.18
Serbia	8.97	3.77

The Sources are retrieved from: IMF, G. F. ([GFSR], October 2009/2014). Global Financial Stability Report. Washington, USA: International Monetary Fund Retrieved from: http://data.worldbank.org/indicator/FM.AST.CGOV.ZG.M3/countries; and Bank of Albania, Financial Stability Report 2014H1, ([FSR], 2014H1) http://www.bankofalbania.org/web/Financial_Stability_Report_2014_H1_7138_2.php (p.75)

The strengthening of the capital, the increase of reserves, the standardization of regulatory requirements were all helpful measures for avoiding contagion effect between banks. As below presented the average lending and deposit interest rates are decreased during crisis if compared with the pre crisis period due to the increased competition, the low demand because of the economic situation. The lack of supervision from the respective authorities encourages unequal competition and obligates banks to decrease lending prices. The continuous decrease of interest rates was not followed by increased demand for lending and other assets in cash although the exchange rates remained stable. The financial situation of Euro zone, the bank risks due to high non performing loans level are not favoring the increase of crediting.

Table 9: Lending Interest Rate (in %)

Geo/time	Pre Crisis (Average)	During Crisis (Average)
	2000-2006	2007-2013
Albania	15.6	12.24
Bosnia and Herzegovina	13.67	7.33
Croatia	11.26	9.97
Kosovo	14.47	13.46
Macedonia, FYR	15.5	9.27
Montenegro	11.2	9.43
Serbia	17.84	12.49

Source: International Monetary Fund (IMF), International Financial Statistics (IFS) and Data Files, Catalog Sources, World Development Indicators, Retrieved from:

http://data.worldbank.org/indicator/FM.AST.CGOV.ZG.M3/countries;, Accessed on November 15, 2014

Table 10. Deposit interest rate (in %)

Geo/time	Pre Crisis (Average)	During Crisis (Average)
	2000-2006	2007-2012
Albania	7.11	6.17
Bosnia and Herzegovina	5.92	3.27
Croatia	2.23	2.28
Kosovo	3	3.85
Macedonia, FYR	7.89	5.98
Montenegro	4.93	3.8
Serbia	14.36	8.03

Source: International Monetary Fund (IMF), International Financial Statistics (IFS) and Data Files, Catalog Sources, World Development Indicators, Retrieved from: http://data.worldbank.org/indicator/FM.AST.CGOV.ZG.M3/countries;, Accessed on November 15, 2014

Table 11. Interest rate spread (lending – deposit rate in %)

Geo/time	Pre Crisis (Average)	During Crisis (Average)
	2000-2006	2007-2013
Albania	8.47	6.5
Bosnia and Herzegovina	7.73	4.1
Croatia	9.04	7.8
Kosovo	11.47	9.97
Macedonia, FYR	7.61	3.5
Montenegro	6.1	5.62
Serbia	3.47	8.4

Source: Authors' calculations based on data extracted from Indicators – The World Bank, [IBRD-IDA, 2013], Global Financial Stability Report (IMF), October 200 & /November 2013. Retrieved From: http://data.worldbank.org/indicator/FM.AST.CGOV.ZG.M3/countries; Accessed on 15/11/2014

The banking sector of the Western Balkan countries is mainly foreign owned. Austrian banks are a potential presence in the banking industry of Western Balkan countries. The same are Greek, Italian, German and French owned banks. Austria and Greece remain main creditors for Western Balkan economies. Their role in providing liquidity, stability and solvency is significant.

A good sample is the panic caused to clients and depositors of the Greek and Italian banks branches in the countries under study when the parent countries were in economic recession and was widely discussed their emergence from EU.

Table 12. The total loans to total deposits (in %)

(in %)	During Crisis (Average)
Geo/time	2007-2013
Albania	59.24
Bosnia and Herzegovina	143.71
Kosovo	77.88
Macedonia, FYR	87.53
Montenegro	163.94
Serbia	130.50

Source: Authors' calculations based on data extracted from Regional Financial Sector Benchmarking System Report, November 2013, ([FSBS] Report, November 2013). Retrieved from: http://www.pfsprogram.org/albania

Western Balkan countries are attending to become EU members and so they have relations and dependence from the regional developments. Considering that the banking regulations are tightening, the demand for loans decreases because of the economic situation, the non performing loans increases for the same reasons, and the financial position of parent countries is not positive, the problems and the stress of banking sector increase.

5. Conclusions

The banking sector of Western Balkans based on evidences presented above results well capitalized during crisis, higher than the required levels, decreased in Serbia and Albania but increased in Croatia, stabilized in the year 2013. The banking sector efficiency of Western Balkan countries has recorded decrease; the same is presented the profitability and the banking performance in overall. The financial depth of the countries studied results worsened compared with the pre crisis period. The efficiency of the banking sector is related to the financial sector and the macroeconomic indicators which results to have a decreased trend. The non performing loans remain the main risk as they tend to increase. The bank -based structure of the countries under consideration, encourages the faster growth but not in the long run as a characteristic of market based financial structured economies. The financial depth analysis of countries under consideration indicated that their capital and the insurance market are of a low potential in the total financial sector so their impact in the recovery, stability and progress of financial development is insignificant. The central source of liquidity for the real economy remains the banking sector. Western Balkans banking sector is in its major part foreign owned so the economic vulnerabilities of parent countries are easily transmitted in the banking industry of these countries. Their role in the stability, in providing liquidity, in maintaining the paying capacity of the banking sector of the WB countries is crucial. The Western Balkans banking sector in particular and the financial sector as whole are recovering more slowly than anticipated. Influential factor in their progress remain the euro zone problems.

6. Recommendations

Considering all the results from the banking sector efficiency analysis, pre and during crisis period the main problem remains the decreased profit and the performance deterioration. The decreased interest rate spread due to the low demand for credit and the high competition, the increase in provisions due to increased non performing/unpaid loans, requires except the strengthen and standardization of the banking regulations in national and international plan important remains the continuous monitoring of the banking industry and the performance evaluation with accuracy, both will be helpful for inefficiencies identification and risks estimation. Monitoring plus efficiency evaluation are inestimable tools for better management.

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Abbreviations

ECB	European Central Bank
EU	European Union
EUROSTAT	European Statistical System
FSBS	Financial Sector Benchmarking System
GDP	Gross Domestic Product
GFRS	Global Financial Stability Report
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
PPS	Purchasing Power Standards
PFS	Partners for Financial Stability
ROE	Return on Equity
ROA	Return on Assets
WESP	World Economic Situation and Prospects
WB	Western Balkan
WBCs	Western Balkan Countries