Contribution of the banking sector to the economy and society of Serbia
Contribution of the banking sector to the economy and society of Serbia

Study
December 2013
Introduction

Banks are the engine of the financial system. However, there are aspects of the banking sector that are evident but insufficiently known to the average user of banking services. This study addresses those aspects.

The Association of Serbian Banks entrusted A.T. Kearney with conducting the Study on the contribution of the banking sector to the economy and society of Serbia. A.T. Kearney conducted the Study in cooperation with the Association of Serbian Banks and 21 banks.

The analysis in the study was performed based on data provided by 21 banks operating in the Serbian market. These banks account for 81.2% market share and fully represent the Serbian banking sector.

Certain indicators applied in this study refer to all 30 banks operating in the Serbian market at the moment of this Study’s development.
The banking sector is highly liquid, with good capital adequacy and dominant foreign ownership

- 30 banks
- High capital adequacy\(^1\), with capital amounting to 604 billion RSD
- Liquidity at a highly safe level\(^4\)
- Availability of services through 2,144 branches in Serbia\(^2\)
- Total deposits 1,699,713 million RSD
- Total loans 1,743,840 million RSD
- 27,775 employees
- 25% of banks in domestic ownership\(^3\)

---

1. The capital adequacy ratio is 20.44 at the end of Q2 2013 – one of the highest in Europe
2. Includes all forms of retail network
3. Based on total capital
4. The liquidity ratio is 2.51 at the end of Q2 2013, and narrowly defined indicator is 1.96, while the regulatory minimums are 1 and 0.7 respectively

Source: National Bank of Serbia, A.T. Kearney
The banking sector is one of the main pillars of the social and economic system of Serbia

Key contribution of the banking sector of Serbia

- Stable support and partner to the country
- Stable source of capital to the entire economy
- Responsible partner and support in crisis
- Mobilizes savings and turns it into investment
- Improves efficiency of the society
- Recruits and educates
- Strengthens the position of women in the society
- Invests in society and environment protection
- Responsible to the social environment

Source: A.T. Kearney
The applied methodology analyzes the banking sector’s contribution from two perspectives.

**Methodological approach**

**Contribution to the economy**

- The overall impact of the banking sector on the economy of the country that results from core business

**Contribution to the society**

- The impact on the society through core business or additional activities that banks undertake or support

**Two-dimensional approach to the contribution of banking sector, which includes direct and indirect impact on the economy and society**

Source: A.T. Kearney
Content

- Introduction and methodological approach  
  3

**Contribution to the economy**  
  8

- Contribution to the society  
  22

- Conclusion  
  35
Contributes to the achievement of GDP with a 2.4% share

Contribution to GDP compared to the countries in the region

<table>
<thead>
<tr>
<th>Country</th>
<th>Contribution to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union (28 countries)</td>
<td>3.89%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>5.92%</td>
</tr>
<tr>
<td>Montenegro</td>
<td>3.74%</td>
</tr>
<tr>
<td>Slovenia</td>
<td>3.37%</td>
</tr>
<tr>
<td>Hungary</td>
<td>3.28%</td>
</tr>
<tr>
<td>Serbia</td>
<td>2.40%</td>
</tr>
<tr>
<td>Romania</td>
<td>2.33%</td>
</tr>
</tbody>
</table>

The banking sector of Serbia is not far from the share in GDP achieved in the neighboring countries

Source: Eurostat, Narodna banka Srbije, A.T. Kearney
The positive trend of the banking sector’s growth in the first wave of economic crisis indicates its stability and durability.

- The growing trend of the banking sector, represented in the ratio of total assets to GDP, is particularly strong at the peak of the economic crisis.
- In 2009 the banking sector assets equaled GDP, followed by an upward trend of this parameter until it reached a balance in the last two years.

The size of the banking sector in an economy is determined by the ratio of total assets to Gross Domestic Product (GDP).

Source: National Bank of Serbia, A.T. Kearney
The financial support from banks is vital for the functioning of the country and its system

13% of government loans are provided by the banks, 4.6% out of which represent the loans of banks operating in Serbia

With a 4.6% share in total government loans, Serbian banking sector strengthens its partnership with the state

The funds received through bank loans are predominantly used to finance the budget

40.5% of banking loans are used to finance strategic and development projects

Public debt structure

- Other: 87.0%
- Loans of domestic banks: 8.4%
- Loans of foreign banks: 4.6%
- Budget deficit: 59.5%
- Projects: 40.5%

Source: Serbian Ministry of Finance - Public Debt Department, A.T. Kearney
In the times of financial crisis, banks in Serbia represent a strong support to the state

Percentage of government loans in total bank loans

- Government loans represent 1/7 of total bank loans (14.59%)
- Financing the government increased with the outbreak of the economic crisis in 2008, which strengthened banks’ support in overcoming the challenges of the crisis
- Indirect state financing can be seen through the financing of companies controlled by the government, with 800 million EUR of active loans of the banking sector\(^1\)
- In the last 5 years, the banking sector of Serbia has contributed to the state budget, through lending, more than was the case in certain countries in Central and Western Europe.

1. As of 30.10.2013
Source: National Bank of the countries included in the analysis, A.T. Kearney
Stable partnership with the state is reflected in continuous financing of the budget, with the growing trend

Loans to the state in EUR million

- The availability of bank loans was essential for financing the budget deficits during the crisis
- In terms of partnership with the government, the banking sector follows the trend of neighboring countries, demonstrating the willingness to maintain a relationship based on trust, and to support the economy, in which it itself operates

The state uses 13 loans for financing the budget, granted by a total of 11 banks, 50% of which have a 12-month grace period

Source: National Bank of the countries included in the analysis, A.T. Kearney
The additional support for the budget of Serbia is achieved through investments of banks in securities.

The ownership of government securities (%)\(^1\)

- **Banks**: 59.5%
- **Investment funds**: 32.9%
- **Insurance companies**: 6.8%
- **Other**: 0.8%

**Banks and government securities**

- Banks are major investors in government securities with approximately 60% share, which amounts to 237 billion RSD.
- On the other hand, securities represent one of the key sources of capital for the country, with a total value of 395 billion RSD.

1. On 30.08.2013
Source: Budget draft of Serbia for 2014
The second industry according to the value of contributions to the budget of Serbia through paid taxes from business

Taxes paid by industries (NBS classification, in RSD million) and the number of employees in each sector

For years, the banking sector has been among top tax payers, the paid tax amounting to a total of 24.5 billion dinars (8.9% of total taxes paid to the state)

1. Excluding tax on income and contributions
2. The year of 2012

Source: Association of Banks of Serbia, Statistical Office of Serbia, A.T. Kearney
Banks are the crucial and almost only source of capital for the economy

Banks operating in Serbia have become the main creditor of the industry

Lending to the industry is constantly growing

The financing of the industry is followed by a decreasing trend of average interest rates by 0.8% per year since 2009

Source: National Bank of Serbia, A.T. Kearney
Compared to other countries in the region, the Serbian banking sector is the leader in the financing of the industry.

Total loans to the industry as a % of GDP

Source: National Bank of the countries included in the analysis, National Bank of Serbia, A.T. Kearney
Loans to entrepreneurs have recorded a growing trend in the last years, supporting economic activities in the SMEs segment.

Total loans to entrepreneurs (position at the end of the period in RSD million)

In the last five years total loans to entrepreneurs increased by 149%, with the average annual growth rate of 26%.

Source: ASB Credit Bureau, A.T.Kearney
Despite the high level of non-performing loans, the trend of changes indicates the controlled collection and responsibility of the banking system to manage credit risks.

**NPLs – Serbia compared to countries in the region**

- Although there is a high share of non-performing loans, the banking sector of Serbia is characterized by a controlled yearly growth, far lower than the average growth rate of non-performing claims in the countries in the region.
- Banking sector has high coverage of non-performing loans of 116%.

Source: National Bank of the countries included in the analysis, A.T. Kearney
Despite the high percentage of non-performing loans, banks show responsibility for recovery of liquidity of the economy

Percentage of non-performing loans and loans restructuring/rescheduling

<table>
<thead>
<tr>
<th></th>
<th>Corporate</th>
<th>Small business</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>20.92%</td>
<td>14.90%</td>
<td>8.23%</td>
</tr>
<tr>
<td>2010</td>
<td>21.89%</td>
<td>20.71%</td>
<td>7.81%</td>
</tr>
<tr>
<td>2011</td>
<td>24.63%</td>
<td>25.08%</td>
<td>7.93%</td>
</tr>
<tr>
<td>2012</td>
<td>20.54%</td>
<td>28.50%</td>
<td>7.63%</td>
</tr>
</tbody>
</table>

- Moderate growth trend of non-performing loans population segment indicates that people still regularly service their obligations despite the apparent decline in living standards
- Through understanding the needs for loan repayment relieves, expressed through client requests for restructuring and rescheduling of debts, banks show willingness to, together with economic entities, contribute to the recovery of their business and return of liquidity

Source: The National Bank of Serbia, Association of Serbian Banks, Banks that participated in the analysis of the study, A.T. Kearney
The evident strengthening of deposit base allows banks to mobilize domestic savings and turn it into investment.

Retail savings in the last decade

- Significant increase in the deposit base of banks in the past 10 years
- Growing trend of deposits indicates the citizens’ confidence in the banking system
- It enables banks to optimize their financing model - lending from deposit sources that transform domestic savings into investment (sustainable model of economy financing)
Content

Introduction and methodological approach 3

Contribution to the economy 8

Contribution to the society 22

Conclusion 35
The main role of the banking sector is to mobilize savings, provide financing with controlled risks, and provide payments and other financial services in an efficient and safe manner.

**DEPOSITS AND LOANS**
- Retail and Corporate clients deposit their funds on accounts from which they earn interest.
- Banks lend such funds, redirecting capital and converting savings into investments.

**RESPONSIBLE RISK MANAGEMENT**
- Banks protect users of their services by managing risks responsibly.
- Credit bureau, as a source of indebtedness information, enables banks and clients to assess the risks of new lending/borrowing.

**PAYMENTS AND OTHER SERVICES**
- By offering different payment instruments, banks make the life of the community easier.
- Payment system evolution follows the trend of technology development and modernization of the society, at the same time educating the society in terms of technology.

Source: A.T. Kearney
Banks, through their services, provide efficiency to the society in its everyday activities

<table>
<thead>
<tr>
<th>Service</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment operations</td>
<td>198,6 million payments last year, amounting to 506,2 billion RSD</td>
</tr>
<tr>
<td>E-banking</td>
<td>924,730 users</td>
</tr>
<tr>
<td>Telephone banking</td>
<td>70,209 users</td>
</tr>
<tr>
<td>Mobile banking</td>
<td>81,347 users</td>
</tr>
<tr>
<td>M-commerce</td>
<td>1,841,363 people bought goods or services via Internet, enabled by the banks in Serbia</td>
</tr>
<tr>
<td>Credit cards</td>
<td>5,423,334 payment cards</td>
</tr>
<tr>
<td>Standing order</td>
<td>224,204 citizens use the standing order instead of going to the bank</td>
</tr>
</tbody>
</table>

Source: National Bank of Serbia, A.T. Kearney
Banks have supported citizens in purchasing over 93,000 real estate properties in the total value of over 384 billion dinars. If saving a full average monthly salary, a citizen of Serbia needs 8 years to save enough money to purchase a real estate property of average value.

1. Average value of real estate, calculated based on average loan amount and average downpayment, amounts to 35,850 EUR
   Source: Banks that participated in the analysis of the study, RZS, A.T. Kearney
Banking sector employs 27,775 people in Serbia

% of total number of employed in Serbia, working in the banking sector, by city

<table>
<thead>
<tr>
<th>Major cities</th>
<th>% of total number of employed in the city</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beograd</td>
<td>2.2%</td>
</tr>
<tr>
<td>Novi Sad</td>
<td>2.1%</td>
</tr>
<tr>
<td>Niš</td>
<td>1.1%</td>
</tr>
<tr>
<td>Kragujevac</td>
<td>1.1%</td>
</tr>
<tr>
<td>Ostali gradovi</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

If all employees from the banking sector belonged to a single household, 1.1% of total households would have one member working in a bank

1. The assumption is that 2% of employees in the banking sector have another member of the household employed in a bank
Source: Banks that participated in the analysis of the study, A.T. Kearney
The employees in the banking sector attend on average over 447,000 hours of training annually, enhancing their professional knowledge and increasing the value on the labor market.

- Banks organize on average total of 447,000 hours of professional training for their employees per year.
- The amount of funds invested in the professional improvement of employees is increasing annually by an average of 10% and since 2011 it has exceeded 300 million RSD.
- Through continuous and growing investment in the professional knowledge and skills of employees, banks contribute to the improvement of the quality of workforce in Serbia.

Source: Banks that participated in the analysis of the study, A.T. Kearney
With the dominant presence of women among the employees, the banking sector strengthens the position of women in society.

### Distribution of employees in the banking sector by gender over the period 2008 - 2013

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women</td>
<td>69.9%</td>
<td>69.8%</td>
<td>69.8%</td>
<td>69.4%</td>
<td>69.4%</td>
<td>69.4%</td>
</tr>
<tr>
<td>Men</td>
<td>30.1%</td>
<td>30.2%</td>
<td>30.2%</td>
<td>30.6%</td>
<td>30.6%</td>
<td>30.6%</td>
</tr>
</tbody>
</table>

- Women dominate in the structure of employees in the banking sector.

### Division of management positions between men and women over the period 2008 - 2013

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women</td>
<td>49.1%</td>
<td>48.6%</td>
<td>49.3%</td>
<td>49.0%</td>
<td>49.2%</td>
<td>48.8%</td>
</tr>
<tr>
<td>Men</td>
<td>50.9%</td>
<td>51.4%</td>
<td>50.7%</td>
<td>51.0%</td>
<td>50.8%</td>
<td>51.2%</td>
</tr>
</tbody>
</table>

- The equal division of management functions in the banking sector between men and women.

Among the employees in the banking sector, 2/3 are women, while in the management positions there are 49% of women.

Source: Banks that participated in the analysis of the study, A.T. Kearney
In the environment of negative population growth rates in Serbia\(^1\), the banking sector motivates birthrate with the average maternity and parental leave of 7.4% of employed women.

\(^1\) The birth rate is 9.3 and death rate is 14.2
\(^2\) 21 of the 30 banks included in the analysis

Source: RZS, Banks that were included in the study analysis, A.T. Kearney
In the last five years, banks donated over 1.5 billion dinars, and every year donate on average over 260 million dinars

### Banks’ donations in RSD

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Art and culture</td>
<td>34,942,989</td>
<td>11.8%</td>
</tr>
<tr>
<td>Education, research, scientific papers, scholarships, and other</td>
<td>41,144,903</td>
<td>13.9%</td>
</tr>
<tr>
<td>Sport</td>
<td>60,757,608</td>
<td>20.5%</td>
</tr>
<tr>
<td>EU integration</td>
<td>2,112,445</td>
<td>0.7%</td>
</tr>
<tr>
<td>Environment</td>
<td>10,360,464</td>
<td>3.5%</td>
</tr>
<tr>
<td>Social inclusion – support to vulnerable groups</td>
<td>71,231,985</td>
<td>24.0%</td>
</tr>
<tr>
<td>Local self-government</td>
<td>13,098,420</td>
<td>4.4%</td>
</tr>
<tr>
<td>Other</td>
<td>63,331,925</td>
<td>21.3%</td>
</tr>
</tbody>
</table>

Source: Banks that were included in the study analysis, A.T. Kearney
In the past five years banks sponsored social categories with over 198 million RSD on average per year

<table>
<thead>
<tr>
<th>Category</th>
<th>Sponsorship in RSD</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arts and Culture</td>
<td>58,612,569</td>
<td>29.5%</td>
</tr>
<tr>
<td>Education, research, scientific papers, scholarships, and other</td>
<td>9,086,058</td>
<td>4.6%</td>
</tr>
<tr>
<td>Sport</td>
<td>104,782,479</td>
<td>52.8%</td>
</tr>
<tr>
<td>EU integrations</td>
<td>1,474,722</td>
<td>0.7%</td>
</tr>
<tr>
<td>Environment</td>
<td>759,340</td>
<td>0.4%</td>
</tr>
<tr>
<td>Local self-government</td>
<td>1,802,891</td>
<td>0.9%</td>
</tr>
<tr>
<td>Other</td>
<td>21,908,748</td>
<td>11.0%</td>
</tr>
</tbody>
</table>

Source: Banks that were included in the study analysis, A.T. Kearney
Every year, 19% more bank employees participate in volunteer activities, which have become a part of bank tradition in Serbia

Examples of volunteer activities of bank employees

- Cleaning and decorating the school yards in 20 schools in 20 cities
- Rearranging green areas and spending time with children without parents
- Helping to the Library in Kraljevo and to the Centre for Social Work in Secanj
- 40 hours of volunteer work devoted to the organization of one part of the park in Gerontology home in Mataruška Banja
- Partner and foundation and further development of Food Bank
- Bank employees prepare gifts for children from vulnerable groups - donating more than 2,000 present packets
- The annual food collecting for donation to 35 schools for children belonging to vulnerable groups
- Reorganization of 12 kindergartens in 11 cities in Serbia, which was called "Energy in Action"
- Voluntary blood donations in collaboration with the Institute for Transfusion

Source: Banks that were included in the study analysis, A.T. Kearney
Banks are characterized by rational resource consumption and growing environmental protection awareness, in which they invest over 100 million dinars per year.

- Invest in environment preservation and protection over 100 million RSD a year
- Recycle over 100 million kilograms of consumed material
- Monitor and control consumption of electricity, water, paper, waste and CO₂ emissions, as socially responsible organizations

Source: Banks that were included in the study analysis, A.T. Kearney
Memberships in socially responsible organizations and numerous awards place banks within highly socially responsible companies

Membership examples
1. UNDP Global Agreement of Serbia
2. Forum of Business Leaders in Serbia
3. Serbian Association of Managers
4. American Chamber of Commerce in Serbia
5. Council of Foreign Investors
6. NALED
7. Chamber of Italian and Serbian Businessmen
8. Serbian Philanthropic Forum
9. Association of German Businessmen

Certificate examples
1. A bank issues DOP (Socially-responsible business) certificate according to GRI standards (Global Reporting Initiatives): 2011 report was at C level, while 2012 report was at B level
2. A bank is one of the signatories of Declaration of anti-corruption of the UNDP Global agreement of Serbia
3. A bank is a signatory of Principle of strengthening of women, defined by UN Women
4. NALED certificate
5. ISO Standard 14001:2004
6. Alienation of assets performed exclusively by certified companies

Banks have received over 35 certificates in the past 5 years for environmental protection and contribution to society through socially responsible business

Source: Banks that were included in the study analysis, A.T. Kearney
Conclusion

Economy and society of Serbia

Banking sector

STABLE SUPPORT AND PARTNER TO THE COUNTRY
STABLE SOURCE OF THE CAPITAL TO THE ENTIRE ECONOMY
RESPONSIBLE PARTNER AND SUPPORT IN CRISIS
MOBILIZES SAVINGS AND TURNS IT INTO INVESTMENT
IMPROVES EFFICIENCY OF THE SOCIETY
RECRUITS AND EDUCATES
STRENGTHENS THE POSITION OF WOMEN IN THE SOCIETY
INVESTS IN SOCIETY AND ENVIRONMENT PROTECTION
RESPONSIBLE TO THE SOCIAL ENVIRONMENT

2.4% of GDP
15% of total bank loans given to the state
Invested in 60% of state securities
800 million loans given to state owned companies

Over 198 million payments per year
Enabled the purchase of over 93,000 houses to citizens of Serbia
Over 5 million issued payment cards and nearly one million users of internet banking
2/3 of employees and 49% of managers in banks are women

Employs 27,775 citizens of Serbia
Over 260 million dinars donations per year
More than 100 million dinars invested in the environment per year
More than 35 awards for social environment protection
The Association of Serbian Banks and A. T. Kearney extend their gratitude to all banks which participated in the creation of this study: