

## **SIGNIFICANCE OF FINANCIAL SYSTEM FOR REAL SECTOR OF MODERN COUNTRIES IN CONDITIONS OF GLOBAL ECONOMIC AND FINANCIAL CRISIS**

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**Abstract:** Financial system is the most significant part of economic system and in the functioning of every market economy it has a central role, because it provides transfer of capital between real sectors of economy. Economic growth and development of each national economy depends on development of financial system, because it relates two basic macroeconomic categories: savings and investments. Certainly, the undisputed role in development of financial system, and thus the real sector, is the appearance and development of financial innovations, such as the market of financial derivatives, i.e. derivative securities that are a subject of stock exchange business. However, financial and economic crisis, which are catastrophic not only for financial system but they are transferred to real sector as well, are specific for market economy. Having in mind the big impact of financial system, primarily of banking sector, and that global financial and economic crisis has affected world economy, Governments of many countries were forced to save banking and financial system with the aim of ensuring economic recovery and then the economic growth. Measures for preservation of financial stability are undertaken, including the injection of capital in financial organizations, recapitalization of banks and various measures against illiquidity. Analysis is aimed at the impact of financial system, primarily banking sector on real sector, measures that particular countries, including Serbia, have undertaken in order to save financial systems and efficiency of foreign banks in funding real sector in region and in Serbia.

**Key words:** financial system, real sector, economic growth, recovery, liquidity, comprehensive plan, foreign banks, economic and financial crisis.

### **1. INTRODUCTION**

Financial crisis, or disorders in financial system of particular countries, regions or international financial market as a whole have occurred more frequently than before in recent economic history, for example: Big Depression, USA, 1929., Financial crisis 1987."Black Monday" 19. October 1987., Crisis in Japan and drop of Tokyo exchange index in 1990, Asian crisis 1997, Nordic crisis, Russian crisis etc. The last example is the current global crisis. Current financial crisis is of a different nature in comparison to crisis from the past. It is also the expression of general weaknesses that have led to crisis before, but also the specific cause related to latest phenomena of the occurrence of financial derivatives market, which was not included in regulations. In case of all crises, the lack of liquidity always gets on top, and in case of this crisis it is the lack of liquidity of a market. Having in mind that financial system is a basic element of overall financial system, it is certain that financial crisis have catastrophic consequences on economic and broader social and political system.

Financial crisis which is spoken about is the crisis that has shaken global financial crisis and economies of modern countries and that is the biggest crisis since the 1930's, and it has began with American collapse in mortgage loans in august 2007, as a consequence of discrepancy between supply and demand.

Although the American housing collapse is mentioned as a cause of crisis, financial system was vulnerable due to high indebtedness and monetary policy that has encouraged debts by low interest rates. For that reason, financial liberalization and deregularization of financial markets and banking system with expansive monetary policy are marked as main cause of current world financial crisis. Purchase of real estate is done

through subprimary (second-grade) mortgage loans with changeable interest rates. In that way, the value of mortgage, due to constant growth of interest rates and multiplications of loans, reached the level that the users were no longer able to pay [1]. Problems in paying enormous number of mortgage loans were the cause of illiquidity of banking sector, so there was a general panic and the confidence that is a basis for functioning of exchanges and investments has disappeared.

The U.S. Federal Reserve (FED) has attempted to mitigate unfavourable climate in financial market by inclusion of liquid funds. Liquidity crisis has caused in 2008 the collapse of a great number of financial institutions, which was a threat for this situation to be rapidly transferred on American economy. This crisis is followed by constant instability, i.e. frequent oscillations of dollar in relation to euro [2]. The illiquidity crisis has rapidly expanded on the rest of the world, primarily on Europe and reaction from USA has jeopardized leading European banks due to their exposure to quakes in USA. Great number of financial institutions in the world, which have invested in risky American mortgage market in order to obtain good earnings, was forced to write off monetary amounts in billions, due to inability to pay mortgage loans [3].

Recapitalization of banks by governments of particular countries was aimed not only at strengthening solvency of banks, but also at raising general level of confidence. In addition to ECB and FED, Bank of England and Central banks of countries throughout the world have injected money on financial markets in order to provide liquidity. In addition, in October 2008, in order to limit harmful effect of global economic crisis, FED, ECB, Bank of England, Central banks of Canada and Sweden, have coordinately reduced reference interest rates, and soon, Central banks of Switzerland, Norway, Japan, China, Australia and other countries have joined them. ECB in 2009 continues with the reduction of referential interest rate, so in March 2009 it was 1,5% [4].

However, credit shock was also transferred to the sector of real economy and slowing down of economic growth, initiated in summer 2007, was also continued in 2008 and 2009. The first sign of financial recovery is expected in the end of 2009, so that recovery with gradual normalization is not expected before 2010, with economic growth from 0.5 to 1.5% [5]. Depth and duration of global economic decline will depend on recovery and stabilization of global financial system and financial systems of modern countries.

Catastrophic consequences of global financial and economic crisis, the world has avoided due to enormous fiscal stimulus, of particularly developed countries. However, global growth and development sustainable in the long run requires for institutional improvement to be done in financial sector whose failures have generated global financial, and then the economic crisis as well. Risks for financial stability and economic growth are present as long as there is a mild recovery of financial sector, with unexpressed potential losses and disputable assets and as long as mild recovery of real sector based more on fiscal stimulus than regained confidence of consumers and investors is in progress.

According to IMF, global economic crisis is not ended yet, and a key issue of economic recovery is financial sector [6].

In January 2011, State Commission of USA for examining the cause of financial crisis has announced that failures in state financial regulations have led to crisis, as well as systemic neglecting of responsibilities and violation of ethics at all levels.

Recovery of banking and entire financial sector is not completed, and according to new evaluation of European Central bank the growth of GDP of EU 27 in 2011 0,5% in Eurozone and 2,3% in EU 27. Confidence in financial system is not yet regained and financial system in many countries is still vulnerable. There is a risk that banks might slow economic recovery down if they make a pause in funding the economy, and that would prevent many governments from covering fiscal deficit by indebteding.

Further in this paper, the analysis will be aimed at: 1) Impact of financial system on real sector; 2) Measures undertaken by particular states for revival and preservation of financial system and 3) Banking sector of Serbia in conditions of crisis.

## **2. IMPACT OF FINANCIAL SYSTEM ON REAL SECTOR**

Within the economic system, one of the most important subsystems is financial system. Financial system is, as a part of economic system, made of several elements that provide free flow of funds in one social-economic community. Financial system is rather complex and consists of different types of private financial institutions such as: banks, insurance companies, investment funds, financial companies, investment banks and all of them are regulated and monitored by government.

Financial system, and banking system within it plays an important role in modern economic flows, because the banks are main external source of funding both the companies from real economy sector, and the consumption of population. Basic functions of banks, such as transformation of maturity, as well as transformation between risk and returns, allow depositors to have a relatively high level of security of investments, so it can be said that development of market economy is inextricably related to development of banking and generally, financial sector, with a simultaneously high liquidity level.

Fact that banks help the development of real sector, through mobilization of savings, and that they have positive impact on real sector, is known to experts since the second half of 19<sup>th</sup> century, when the economy of Great Britain from the second half of 19<sup>th</sup> century, in which development of banking has reached a relatively high level, was compared with the economies of France and Germany, which have significantly lagged behind the Britain [7]. Significant number of empirical papers shows, indeed, that higher level of development of financial intermediation, measured by the ration of the level of issued loans and gross domestic product (GDP), leads to a higher level of investments and thus towards a higher level of GDP and in many countries there was a positive correlation between the level of economic development and capacity of financial sector [8].

Certainly that financial innovations that continuously appear in financial system affect the development of real sector and was also one of the reasons to blame precisely financial innovations for negative consequences of global financial crisis on real sector. Financial innovations are certainly an important factor of the growth of economy and in the period from 1974 to 2004, about 30% of growth in the USA can be explained by technological innovations in financial sector. As opposed to that, institutions, laws, regulations and policies that limit the development of financial innovations simultaneously reduce the speed of technological progress of a country, as well as its economic growth and development [9].

In addition to positive side of correlation of relations between financial system and real sector, there is also negative side, which implies that too high level of indebtedness leads to illiquidity and impossibility of debtor to pay his debts. When considering the methods for reaching optimal level of indebtedness, in professional literature, the case of Great Britain is taken, one of the countries with the most developed financial market [10]. In relation to this, there are two relevant issues: 1) comparative statistics of long-term indebtedness and 2) transitional dynamics.

By comparative statistics of long-term indebtedness we have in mind the question whether it would be better for British economy when in 2025 it would have the ratio of debt and GDP of 120%, instead for that coefficient to be, for example, 80%? Answer to this question requires observing the impact of indebtedness level on long-term rate of savings and efficiency of capital allocation. In the analysis, we need to have in mind long-term impact of

the level and structure of crediting on the welfare level of citizens, through reduction of variability of consumption during life cycle.

By transitional dynamics, we imply something completely different: if, as given, we take current level of indebtedness (in case of Great Britain, it is 125% of GDP), the issue of optimal evolution of indebtedness is set in, for example, the following five years. For that purpose, it is necessary to consider the impact of changes in supply of loans on aggregate nominal demand, and thus on the movement of realized GDP and employment in relation to productive potential. Certainly, it is necessary to determine optimal policy, both in medium and long run, which can cause a dilemma for carriers of economic policy, in the sense that, reduction of indebtedness can be useful in the long run but, at the same time, harmful for economic development in the short run.

If in case of observing long-term comparative statistics we begin from the assumption that higher capital requirements will lead to more expensive and less available loans, the problem of funding real sector in conditions of global crisis can be set. Major standpoint is that higher price of loans will reduce the funding of productive investment projects and thus influence the lower economic growth. When investment projects are ranked at the level of yield expected, number of projects which will be funded depends on the number of projects that have higher yield than capital price. Analysis of British regulator of financial institutions FSA (Financial Services Authority) shows that significant increase of capital and liquid requirements towards the banks could be socially optimal for Great Britain [11]. Therefore, this and similar models, as starting assumption, take the fact that increase of capital adequacy of banks leads to the reduction of investments in real sector, and thus the reduction of economic growth rate. In Serbia, such an attitude is implicitly or explicitly represented by representatives of all leading financial institutions. However, for this obvious assumption, we also need an additional analysis, in the sense whether the expected reduction of loans in case of the increase of capital requirements is relevant to all, or even majority of sectors in the real sphere of economy of G. Britain [12].

It is possible to give right answer to this question only if we analyze what was going on in G. Britain in the last 45 years. Namely, the ration of mortgage loans for citizens in that period was increased from 14% to 79% GDP. This form of crediting has grown the most rapidly, not only in G. Britain, but also in many other Western countries. Availability of mortgage funding has indirectly helped the funding of new housing units.

Turner (2010) shows that growth of mortgage crediting, for houses and apartments, was not related to the building of new, housing units, i.e. to real investments, but it has actually funded the growth of prices of the existing real estate. On the other hand, the growth of real estate prices in G. Britain was mostly a result of growth in prices of land for construction, rather than the growth of value of facilities. Price of the land was increased precisely by cheap housing loans. On the other hand, in transitional countries such as Serbia, where the existing jump of real estate is in poor condition, mortgage loans are primarily taken for purchasing newly-built housing units, so the increase of capital price can have a negative impact on building new housing units.

Cheap and available mortgage loans often lead to the appearance of speculative pricing bubbles in real estate market. Namely, cheap loans represent the encouragement to households to choose the amount of average housing consumption that, although perhaps sustainable in the period of economic prosperity and stability, can lead to significant macroeconomic disorders in the long run. In addition, individuals who wish to achieve short-term gain in real estate market can enter the speculative purchase of real estate funded through cheap loans. Thus they expose both their household and economy of a country as a whole to great risk.

In addition, we can analyze the impact of the reduction of cheap loans of different sectors of economic activities. In G. Britain, for example, the highest increase of crediting in economy (observed relatively in relation to GDP) has gone through loans for business real estate. More detailed analysis shows that only the reduction of production crediting has actually had a negative impact on the real sector of economy. However, at least in G. Britain, only about 12% of all loans are invested in those fields (Turner, 2010).

We can conclude that there is a real danger that, in some parts of business cycle, the crediting of productive activities is replaced by crediting purely speculative investments into real estate. In Serbia, the additional danger is high interest rate that the country is willing to pay to commercial banks in order to fund budgetary deficit (primarily public consumption).

Due to obvious role of financial sector within economic system, Governments of many countries we forced to, in conditions of global financial crisis, save the financial system by undertaking different measures, with the priority to provide economic recovery, i.e. to create conditions for economic growth and development.

### **3. MEASURES UNDERTAKEN BY PARTICULAR STATES FOR THE PRESERVATION OF FINANCIAL SYSTEM**

Illiquidity and losses due to impairment of assets covered by mortgage securities and their financial derivatives were the first consequences of global financial crisis, which affected numerous financial institutions throughout the world. For that reason, the first measures undertaken were the return of liquidity of financial markets and protection of secured deposits. Strong and powerful intervention of a country to recover and provide liquidity of financial markets has limited panics successfully, but it was necessary for financial institutions to function with smaller debts and to correct their balance deficiencies, due to lack of coverage of the sources of funds, which has required recapitalization of banks by the state [13].

Recovery plan for exiting the crisis are estimated for each country separately, particularly depending on whether and in which way one country is exposed to crisis. Namely, there is no unique and universal model applicable and effective for any country. Common to all the recovery plans is that they contain measures for returning the liquidity. Main difference between recovery plans of particular countries refers to whether its financial sector was directly exposed to problematic securities. For that reason, one group are countries, such as USA, Great Britain, Germany, Austria, Italy, Sweden, France, Russia, whose financial sector was directly exposed to problematic securities and whose recovery plans always include necessary funds for recapitalization of banks. Banks that have received some help are faced with different conditions that vary from country to country, such as: ban on paying dividends in the period in which state loan or capital is in their sources of business, application of the policy of limited earnings of banks' management and impact of the state on business policy towards the encouragement of crediting.

Due to proportions of financial crisis, in the USA, there was a series of important measures undertaken in order to stabilize financial system:

- 1) The injection of funds in the amount of 250 billion of USD was performed in order to raise liquidity,
- 2) Expansion of state guarantees for banks and reduction of reference interest rate of FED,
- 3) In the end of September 2008, the Law on emergency economic stabilization from 2008 was adopted, by which recovery plan was approved in the amount of 700 billion USD and,

in that way, problematic securities covered by mortgage were purchased, by which there was actually recapitalization of financial institutions performed.

4) Cleaning the banks from uncovered assets by purchasing their securities in order to revive credit mechanism. Government has decided to keep securities until the market is recovered and then it would sell it and thus return a part of taxpayers' money.

5) Special funds in the amount of 50 billion USD are set aside in order to strengthen the banks by mitigating mortgage crisis. Banks will have the access to additional capital under strict conditions, which include the obligation of submitting the reports regarding business decisions and the limits that concern payment of earnings to management.

Government of Great Britain has undertaken the following:

1) It has announced a package of measures for saving banking system in the amount of 500 billion pounds in 2008. By taking loans from the state, banks have increased their capital from 25 billion pounds and additional 25 billion pounds in exchange for priority actions with fixed dividend rate, without the right to vote, so the state has become co-owner [14].

2) Partial nationalization was performed in the biggest eight banks, short-term loans in the amount of 200 billion pounds were provided, guarantees for interbank loans up to 250 billion pounds and the GDP rate was temporarily reduced from 17.5 to 15% for the period of 13 months, starting from 01. 12. 2008.

3) Providing guarantees for purchasing mortgage securities in the amount of 50 billion pounds in order to increase the offer of lending to big companies.

4) Government does not intend to purchase risky property of banks, but it supports its sale to companies through guarantees.

5) Extension of credit guarantees to banks with maturity up to April 2014, which have signed an Agreement on recapitalization in the autumn 2008.

6) By future regulations, main regulatory body (FSA – The Financial Services Authority) will supervise long-term compliance of liabilities and assets of the banks.

Government of Germany has undertaken the following:

1) The first German recovery plan of 500 billion of EUR was adopted in October 2008 and it was intended for guarantees to banks, recapitalization and purchase of risky assets. Each bank has obtained maximally 10 billion EUR for recapitalization and 5 billion of EUR for loan on behalf of covering problematic securities [15]. German Government has helped the biggest Dutch financial company ING, by taking the stocks with more than 20% of share in ownership with the capital of 10 billion EUR.

2) State has took over the verification of balance and business policy and it has a right to reduce risky activities. Any dividend paid to the bank needs to be oriented towards recovery plan.

3) Having in mind the crises identity is greater that it was assumed, German government has adopted a new stimulative package of measures after the assessment that the first one was not enough. New plan includes the amount of 50 billion EUR for the period of two years and it is meant for infrastructural investments and tax cuts.

Government of Austria has undertaken the following:

1) Competent authority for financial market can prescribe the amount of additional capital that exceeds the required minimum of bank's capital.

2) Mature obligations of banks are accepted by granting a loan, recapitalization and share in property.

3) The amended Law on Stock Exchanges can be banned by competent body for financial market or it can impose restrictions to prompt sale of securities.

4) By the Law on market reflation, we have changed the regulations on guarantees and development of small and medium companies and the following instruments with

corresponding measures are predicted: encouraging the investments by securing the financing; promoting the strategy of international business; promoting research and development by granting loans for research and technological projects; encouragement of environmental protection measures; investments in infrastructure.

Serbian Government has adopted framework programme of measures by which it it traced further activities in conditions of financial crisis:

- 1) Insured deposits are increased from 3,000 to 50,000 EUR.
- 2) In the beginning of 2009, IMF has granted fifteen-month stand-by arrangement, worth 402,5 billion EUR for overcoming world financial crisis.
- 3) The adopted Programme of measures for mitigation of the effects of global crisis contains restrictive fiscal policy and realization of budgetary deficit below 1.75% in GDP in 2009, restraining the inflation, with a simultaneous implementation of the policy of floating exchange rate, for the purpose of easier external adaptation.
- 4) Loan of European Investment Bank (EIB) in the value of 120 million EUR is meant for health care and construction of municipal and regional infrastructure.
- 5) In the beginning of March 2009, World Bank has approved a loan of 34.9 million EUR to Serbia for supporting the reforms for improving business environment, in order to encourage opening new companies and attract foreign direct investments.
- 6) In the end of March, a new stand-by arrangement with IMF was achieved, by which the loan of 2.9 billion EUR for 2009 and 2010 will be available to Serbia for strengthening foreign exchange reserves and supporting structural reforms.

#### **4. EFFICIENCY OF FOREIGN BANKS IN FUNDING REAL SECTOR IN REGION AND SERBIA**

As a result of takeover of domestic banks or through *greenfield* investments, international banking groups have become dominant factors of banking sector of the countries of Central, Eastern and South-eastern Europe (CESE). Initial conditions when entering of foreign banks are significantly different from country to country. While in some countries, such as Serbia or Croatia, there is an open access to foreign banks primarily in order to restructure the failed domestic banking system, in some other countries, such as Czech Republic and Slovakia, they have entered the market in conditions of the existence of a relatively stable domestic banking sector.

Limited by domestic demand, Italian, French, Austrian, Greek and Scandinavian banks have expanded their business in the market of Eastern Europe, in the following manner: Scandinavian banks were oriented on Baltic countries, Greek and Austrian banks on Balkan market and Italian and French banks on Russian market.

In the period of crisis, when the economy is in the phase of expansion, capital moves from parent bank towards subsidiaries, while in recession and big crisis the capital changes direction and moves from periphery to centre. Countries in which foreign capital has a dominant share in ownership structure of banking sector are exposed to greater risk from consequences of crisis in financial markets of the most developed countries of the world. Serbia is, by the share of foreign capital in ownership structure of the countries mentioned (table 1), at the very bottom, which provides the stability of entire financial and economic system.

**Table 1. Share of foreign capital in ownership structure of banking sector of the countries mentioned.**  
**Percentage of foreign capital in relation to total banking sector**

1	Slovakia	97,4%
2	Czech Republic	96,2%
3	Croatia	90,4%
4	Bosnia and Herzegovina	83,3%
5	Bulgaria	80,0%
6	Poland	79,6%
7	Montenegro	78,1%
8	Romania	77,0%
9	Hungary	76,2%
10	Serbia	75,3%
11	Macedonia	54,00%

Source: The Financial Crisis in Europe Stratfor

Entering of foreign banks on the market of CESE region has brought big credit expansion in the region. In the period from 2004 to 2007, average real growth of loans was more than 50% in Albania, more than 40% in countries of Baltic region and Ukraine, and more than 30% in Russia, Bulgaria and Romania. Such a growth of crediting level can be explained by the need to make up the lost, since the observed growth of crediting is the greatest precisely in the countries where the system of loan financing was not developed sufficiently. Global financial crisis has stopped this upward trend in crediting since the banks, which so far were one of the main flywheels of financing, often need to cover losses in the mainstream [16].

In new empirical study of European Central Bank, the financing of companies in real sector in 14 countries of CESE is compared in cases when foreign, i.e. domestic banks dominate the banking sector [12]. At the time of the maximum of credit expansion in CESE countries, in 2005, financing of the companies from real sector by domestic and foreign banks wasn't noticeably different from the standpoint of probability for identical companies to obtain a loan. With the crisis in 2007, conduct of foreign and domestic banks starts to diverge noticeably [17]. Financial crisis that was initially caused by abrupt fall in values of complex financial assets, such as mortgage, primarily in USA market, was transferred to Europe through big financial groups that have significantly invested in those assets (Erste and UniCredit groups, KBC, etc).

Domestic banks in CESE countries mostly were not exposed to such assets so they weren't directly affected by the crisis. On the other hand, many big financial groups had significant losses through complex financial products which they were exposed to. Real sectors of economies in Europe, particularly in CESE countries, are very dependent on financing through bank loans. This is particularly the case with small and medium companies that make up even 99% of real sector in region countries.

Therefore, it could be expected that crisis in European banking will significantly affect real sector of CESE countries.

For that reason, it is important to analyze the impact of ownership structure of banks towards the country of origin on transfer of crisis from financial to real sector, as well as whether foreign banks have behaved differently than domestic during the crisis.

In the period 2007-2008, companies were more frequently rejected for loans precisely in those countries of the region where foreign banks had dominant presence in the market, in relation to countries in which this was not the case. This particularly refers to countries such as Slovakia, Czech Republic and Romania, where foreign banks are dominant. Credit contraction is significantly smaller in countries where leading banks in the market

are well-capitalized domestic banks (Hungary and Poland, for example), as well as in Slovenia, where domestic banks also dominate although they are poorly capitalized. All the companies that do not have tangible, collaterals, companies in the field of services, as well as export-oriented companies were deprived of loans in the period of crisis.

Serbia, as a country with dominant presence of foreign banks, is significantly affected by crisis. Banks have significantly tightened credit conditions, and many companies in real sector have a big problem of liquidity. Namely, on one hand other companies in real sector are often late in payments towards their business partners (in this, unfortunately, the state leads). Since the banks tend to grant loans, even those short-term ones for the needs of maintaining the liquidity, state has introduced the loan subventions mechanisms that should encourage business banks to grant particular types of loans.

While in majority of western countries, the problem are too cheap and available mortgage loans in the period before global financial crisis, housing loans in Serbia were never particularly available to the average citizen. Therefore, in countries such as USA or Great Britain, the increase of capital requirements (in order to prevent the flood of cheap loans) can be socially useful, the increase of regulatory costs of granting mortgage loans would make them even more unavailable to the majority of citizens in Serbia.

Therefore, the reduction of mortgage crediting has a potentially more significant negative impact on real sector in Serbia than in economically developed countries.

Measures of country related to the encouragement of crediting different branches of economy need to be harmonized with measures of the National Bank of Serbia related to determination of capital adequacy. In addition, it is necessary to take care that the state does not become a rival to the economy in the aspect of obtaining scarce credit resources. Entering of foreign banks to the market of Serbia and region has its good sides, primarily in the aspect of improving the quality of management in banks and increase of offer of different financial products in the market. On the other hand, Serbian economy is thus directly exposed to big risks which it wasn't directly exposed to before and which need to be perceived better. We primarily refer to mechanisms of network risk and possibilities for the crisis that has appeared in one part of the world to be transferred to the region. Precisely that has happened during big global financial crisis that has begun few years earlier and, de facto, it is not finished yet. Crisis has firstly affected financial sector of Serbian economy and through crisis of interbank confidence and liquidity.

Although banking sector itself in Serbia, due to big capital adequacy imposed by the National Bank of Serbia, hasn't entered deep long-term crisis, the crisis is still, to a great extent, transferred to real sector, primarily because significantly tightened crediting conditions. In broader environment, foreign banks that until then were the carriers of crediting the economy have significantly reduced their credit activity, particularly towards small and medium companies in the field of services, as well as the companies that produce for exporting. At the same time, domestic banks in region countries behaved mostly as before the crisis. Although this conclusion doesn't have to be valid for Serbia as well (because it wasn't included in appropriate empirical study), it is very likely that it was the case in our country. Therefore, the development of careful empirical study which would be focused on Serbia is imposed as an important task, the study which would help to understand whether foreign banks have really behaved more conservatively than domestic banks during the crisis. The issue of ownership shares of the state in particular domestic banks is closely related with this. These and some other important issues remain for further work and discussion.

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