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THE PROCESS OF MERGERS AND ACQUISITIONS – A WAY FOR HIGHER CONCENTRATION IN THE BANKING SECTOR

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Serbia has started transition of its financial system in 2000 and until 2008 the first phase of transition is finished. The national financial system became of banco-centric character, with very week insurance, leasing, innovative institutions, funds and financial markets. The main step ahead made banking system, which recovered credit and saving functions, with high capitalization, high interest rates and interest margins, but with low efficiency and low level of its concentration.

If look at the process of mergers and acquisition in Serbian banking system one can recognized two episodes. The first wave of mergers was happened in 2005-2006, when more than one dozen of banks changed ownership structure, both state owned and private ones. As a result of this first wave the ownership structure of banking sector became completely different with three fourth of banks in foreign hands, like in other transitory economies. Although the transition of all banks is not finished before the Global economic crisis came, and a lot of economists expected the new wave of mergers and acquisition, the crisis phase was rather not seen as right time for doing this. With general economic recovery started in 2015 it seems that there were some steps forward in this regard. Some banks left the national market because of their own problems (Greek, Belgian, French), some banks were lost their licenses. In recent period several banks were acquired and it seems that the general picture is changed, with 20 banks all in all, with increasing concentration of the sector.

One has to be aware of still high potential of national banking system for development. In other words, total volume of bank's crediting is still on the low level, measuring their share in GDP. Although the national banking system became profitable from 2005 on, the profitability is still low. Total capital of banks is also too low, and on the microeconomic level (considering a bank as a single company) the capital of average bank is too small by international standards. It is also worth noting that banks during last several years considerably lowered the share of nonperforming loans, NPLs, due to measures introduced by the Central bank and by its own. The share of NPLs in the total portfolio of Serbian banks is now even lower than in comparison to the pre- crisis period.

In the future firstly, there is a need for further concentration of the national banking system. Secondly, considering a banco-centric character of the national financial system there is a room for additional changings, which the Central bank as the main regulator can introduce. A process of liberalization of banking system is one of the important issues, as it is necessary to open room for new players, like micro credit institutions and saving companies and cooperatives, and especially for new innovative hi-tech institutions.

The aim of the paper is threefold. Firstly, to measure the level of concentration of the national banking system, with intention to point a need for further process of mergers and acquisitions. Secondly, to point differences in two waves of M&E, which produces sharp discrepancies in the prices of acquired banks. Thirdly, to suggest further necessary market reforms in the national financial system.

The paper is based on the results of the process of mergers and acquisitions of banks in Serbia with reference to the period since 2000, both in the period before and after Covid-19. During the pandemic (2019-2021) and after, larger banks increased the level of liquidity and decreased the level of credit activity compared to smaller banks operating in Serbia. Nevertheless, the profitability of larger banks in Serbia remained at a high level compared to smaller banks. Larger banks in the pre- and post-pandemic period achieve higher rates of return on capital compared to smaller competitors. In the same period, larger banks reduced the share of capital in the balance sheet, but within limits that do not threaten the stability of the banking sector. Also, large banks have opportunities when it comes to reducing costs, through digitalization, and achieve higher rates of profitability, but also lower passive interest rates.

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