ESZTER KAZINCZY

Financial shocks and their impacts on the banking sector's clientele in South-East Europe

Abstract

Generally speaking, the banking sector in South-East Europe (SEE) is lagging behind the new member states of the EU both horizontally and vertically. It is characterised by a high level of euro usage, a moderate development process and a general lack of trust. The paper focuses on the general importance of financial development, inclusion and literacy. The analysis highlights the roots of certain characteristics that are related to financial literacy or behaviour in SEE, by focusing on the shocks that affected the retail segment's deposits. Based on the relevant literature, the paper finds a list of various shock events from the socialist time period until the 2008 financial crisis that had fundamental affects on the region's financial habits. Related to this topic, policymakers should address a number of challenges for further stability.

Keywords: South-East Europe, financial literacy, financial shocks, banking sector

INTRODUCTION

When referring to the region of South-East Europe[1] (SEE) the following countries are covered; Albania, Bosnia and Herzegovina, Croatia[2], Kosovo[3], the former Yugoslav Republic of (FYR) Macedonia[4], Montenegro and Serbia. This region is particularly important for the European Union (EU). All of the reviewed countries are EU members, candidate or potential candidate countries. The two regions have built various economic ties between each other, including trade and FDI. SEE's economic and political stability is a fundamental interest of the EU, likewise of various other international institutions.

[1] SEE can be used as a synonym for the "Western Balkans", implying various political, historical and geographical interpretations, see Todorova (1997) or Mazower (2000). Here we stick to the phrase of SEE, comprising of the listed countries. Nevertheless, the borders of SEE are not clear-cut.
[2] The presence of Croatia among the SEE countries can be a source of debate. Currently it rather belongs to the group of the EU's new member states. Still, within this paper, it is added to SEE due to the common history and for the sake of comparison.
[3] This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and with the ICJ Opinion on the Kosovo Declaration of Independence.
[4] According to recent negotiations, FYR Macedonia's name is expected to change to Republic of North Macedonia. Still, due to specific uncertainty, the paper uses the name as "FYR Macedonia".

It is inevitable to discuss the role of the financial sector and the financial literacy in a market economy. On a macro level banks contribute to economic growth e.g., by curbing market frictions and allocating assets in a more efficient way[5]. Noteworthy, that the effect is bidirectional. Still, generally speaking, the financial system's stability contributes to the overall economy's prosperity. On a micro level, the individuals' and the firms' inclusion to the financial sector can support their development and help them during critical times (Demirgüc-Kunt et al., 2018). Nevertheless, these advantages can have a positive effect in the case a society's financial inclusion and financial literacy reaches an appropriate level.

Financial decisions are based on a wide range of factors. Shiller (2000), for instance, analyses stock market booms with a multidisciplinary perspective, by using economics (including behavioural economics), psychology, demography, sociology and history. Anderson et al. (2011) prove – by analysing data from 60 countries – that culture does matter regarding investment decisions. Countries with higher uncertainty avoidance behaviour represent higher home bias, with a less diversified foreign portfolio. Beckman et al. (2013) show that the life-cycle hypothesis holds even for the region of Central, East and South-East Europe. Age[6], education or income affects the propensity to save. They find that age can also determine portfolio choices, as younger individuals have a higher propensity (for example) for life insurance, whereas the older generation rather hold savings deposits. Nevertheless, in the case of SEE, savings are primarily held in cash or deposits. The reasons behind this are discussed further in the paper.

It is important to be aware of the fact, that the financial sector in SEE is bank-based, as the banking sector accounts for the great majority of the financial system's assets. Its proportion was between 68–92% in 2016 Q2 (ECB, 2017, 6; CNB). This banking sector is mainly foreign-owned, as the foreign (mainly EU-headquartered) banks' asset share varies around 70–85% (ECB, 2017, 6; CNB) in all of the reviewed countries.

The goal of the paper is to prove that a sequence of various shock effects led to a "late coming" development process, a general mistrust and a high share of euro usage. The analysis highlights the most important factors that influenced the financial behaviour and literacy in SEE. As the region has a bank-based financial system, we focus on the banking sector, or more precisely on the retail segment's deposit base. Within this paper, this is treated as an indicator of shocks. Aside from this, we use a multidisciplinary methodology, which is based on historical facts, macroeconomic and financial sector indicators. Thus, the comparative analysis is based on economic history and statistics from

[5] To read more on this topic see e.g., Demirgüc-Kunt–Levine (eds.) (2001) or Levine (1997).

[6] They find a hump-shaped relationship between age and savings.

the respective central banks and international institutions. If applicable, the EU or the euro area (EA) is included in the comparison. These lead us to the main characteristics of the retail segment and the current state of the financial literacy in SEE. One should emphasise, that an in-depth analysis on the latter topic is not available due to the lack of surveys for the region. Nevertheless, the existing literature and datasets[7] reflect the main characteristics of the banking sector, but the roots and underlying reasons are usually not highlighted. The paper would like to contribute to the scarce literature on this topic.

The paper is structured as follows: chapter 1 describes the applied terminologies that are crucial for the study. This also includes a brief literature review on the various approaches and underlines the importance of the subject. The next chapter presents the various general and country specific shocks that formed the overall population's or the banking clientele's financial behaviour. Based on these experiences, chapter 3 highlights some of the main characteristics that can be applied to the banking sector in SEE. Finally, the conclusion summarises both the shock factors and their consequences, which lead to implications for policymakers.

1. RELEVANT TERMS

1.1. BANKING CRISIS OR FINANCIAL SHOCKS?

There is a wide range of literature on financial crises[8]. Reinhart and Rogoff (2010) provide an overview of the main types of financial crises. An important observation is that a banking crisis is usually preceded by rising private indebtedness. It is important to underline, that in SEE this was particularly valid before the global crisis that started in 2008.

Calomiris and Haber (2014) focuses on banking crises, incorporating two main types: systemic insolvency crises and systemic illiquidity crises. In the former, banks have negative net worth and government intervention is required when exceeding a certain critical percentage of GDP. As for the latter case, systemic illiquidity disruption occurs, for example, widespread bank runs. This does not generate insolvency and government intervention. This approach is more restrictive compared to the definition of negative events – e.g., a failure of a single large bank – which are treated as crisis.

Laeven and Valencia (2012) – underpinning the work of Reinhart and Rogoff (2010) – find that crises occur in certain waves, which often coincide with credit

[7] See the EBRD's Transition reports, the ECB's Occasional Paper Series on "Financial stability assessment of EU candidate and potential candidate countries" or the World Bank's Findex database.
[8] See Bernhagen–Chari (2011), Calomiris–Haber (2014), Stojanov (2009).

cycles. Also, they confirm that banking crises are frequently preceded by credit booms – about one in three. They state that "a banking crisis is defined as systemic if two conditions are met:

1. Significant signs of financial distress in the banking system (as indicated by significant bank runs, losses in the banking system, and/or bank liquidations)
2. Significant banking policy intervention measures in response to significant losses in the banking system." (Laeven–Valencia, 2012, 4)

In their analytical work Albania, Bosnia and Herzegovina and Croatia are included. However based on their definition, they pinpoint banking crises only during the transition period of the mentioned countries.

The phenomenon of financial shocks cannot be clearly distinguished from financial crisis. In the relevant literature they are often used as synonyms. Nevertheless, if we want to differentiate between the term of financial crisis and financial shock, then the latter can be defined as a more frequent phenomenon. It can be considered as an exogenous factor in a model, maybe not even with the ability of identifying its main cause, like for instance in the case of a news story or noise. As for the financial crisis, it has more widespread impacts with negative systemic spillovers. Its effects can be detected via the financial sector's key performance indicators (KPIs) and a number of macroeconomic variables. Furthermore, this has an impact on financial literacy as well.

Fornari and Stracca (2013) analyse "financial shocks". They identify the phenomenon with the variable of the relative share price in the sector. They prove that this is highly correlated with financial sector's health and it is related to the financial intermediation process. An open question is, whether financial shocks are mainly demand shocks or rather supply shocks. We believe that both approaches are valid. Fornari and Stracca (2013) also find evidence for financial shocks affecting macroeconomic variables such as GDP and particularly investment. This can clearly be detected in the country cases of SEE. During a significant financial shock, the financial sectors' KPIs and macroeconomic variables went downward hand in hand, leading to a systemic crisis.

A relevant literature analyses the impact of confidence and news shocks. Blanchard et al. (2012) stresses that both the retail and the corporate segment continuously receive information on the future. This information is occasionally "news" but in other cases it is merely "noise". Financial decisions are often based on this. If the information turns out be reasonable news, the market gradually adjusts. However in cases of noise, the economy returns to the initial state. Related to this topic, during the shocks in SEE, the national and international authorities had a primary role via their communication and intervention in restoring public confidence.

Taking into account all these approaches, one should see that in order to consider the relevant "trauma factors" on SEE's financial literacy or behaviour, a different tool must be used. This is due to three main reasons: First of all, the financial markets in SEE are less mature than in the EA or the EU. Furthermore, the analysed time period starts from the socialist times with its own characteristics. Last but not least, the available time series are somewhat limited. Taking all these into consideration, the paper focuses on the retail segments deposit stock. We underline those shocks which had impact on the deposit base and influenced the financial behaviour of the region.

1.2. FINANCIAL LITERACY

"Financial services can help drive development. They help people escape poverty by facilitating investments in their health, education, and businesses. And they make it easier to manage financial emergencies – such as a job loss or crop failure – that can push families into destitution." (Demirgüç-Kunt et al., 2018, 1) This quote helps highlight the most important role of financial literacy and financial integration on a micro-level. These factors can offer appropriate investment and lending opportunities, thus, it can also function as a safety net for individuals.

Based on this logic – in line with the information they receive – agents must be able to bring the most rational financial decisions for the short and long-term. The phrase 'financial literacy' has a wide range definition in literature. Hung et al. (2009) give a good overview of the various definitions, which nevertheless follow a common approach. Among them is the definition from Mandell (2007, 163–164): "The ability to evaluate the new and complex financial instruments and make informed judgments in both choice of instruments and extent of use that would be in their own best long-run interests." This definition reflects the bottom line of financial literacy. The agents should be able to understand the pros and cons, the potential gains and risks of the specific financial products. Furthermore, they should be able to plan for a longer time horizon, which also includes the products of insurance companies and pension funds. Klapper et al. (2012) prove that a higher level of financial literacy helps individuals to have greater availability of unspent income and a higher spending capacity. Furthermore, they find that financial literacy equips the individuals to deal with macroeconomic or income shocks. This can be particularly relevant during times of financial turmoil. Kefala (2010) highlights even the multilevel relevance of financial literacy. This implies that it is substantial not only for the individuals but also for the financial system. Namely, a low level of financial literacy increases the possibility of inappropriate risk return decisions; thus undermining the soundness and efficiency of the financial system.

If we add, that in a well-functioning market economy the financial system is a key player, the role of financial literacy rises to a higher level. Levine (1997) points out that the financial sector's core function stems from the fact that it helps to allocate resources in a more efficient way. This is due to five basic functions that the financial intermediaries fulfil. Namely, they improve risk management, allocate resources, monitor managers and exert corporate control, mobilise savings, and facilitate the exchange of goods and services. These functions have an impact even on the pace of economic growth, though one should emphasise that the relation is bidirectional; the economic activity also influences the structure and quality of the financial structure (Levine, 1997). Based on this logic, the role of financial literacy rises to a macroeconomic level.

However, as financial products become more complex and sophisticated it requires a higher level of knowledge from the individuals and firms to understand the basics of the products. Choosing the most appropriate products and preparing long-term planning becomes even more challenging.[9] Nevertheless, the financial sector itself takes a major role in financial education. They are the actors that directly give advice to the clients. This becomes problematic, when the bonuses of the sector's employees are tied to the sales of particular products.

In connection with this topic, it is widely recognised that the financial literacy of the youth is fundamental, as they represent the future. But one should also emphasise that the youth are heavily influenced by the experience of the older generations. Even OECD (2017) stresses, that financial literacy is crucial throughout the whole life span of an individual. It helps financial well-being. Via this channel – on the mentioned macroeconomic level – it supports inclusive growth and a more resilient financial system, which relates to the resilience of a country's entire economy. Based on the results – where SEE countries are unfortunately not included – OECD calls for greater investments for improving the financial literacy of the youth. The document stresses the influence of parents, as they are the ones who transmit financial values, skills and habits to the younger generation. It is worth mentioning that OECD (2017) also highlights the importance of mathematical and reading skills for financial decisions. Furthermore, they emphasise that access to financial services helps one learn though experience. Due to the importance of youth certain evidence from SEE will be presented in a later section.

Stix (2013) – based on survey data from ten Central, East and South-East European countries – underlines that households have sizeable shares of their savings in cash in mattresses, due to the mistrust in banks, the experiences of banking crises or weak tax enforcement. This is particularly true for countries with "dollarized" economies, as the "safe" foreign currency functions to store its value. Furthermore, the phenomenon of holding savings in cash is rather relevant in poorer economies and cannot be explained by the fact of households are banked or unbanked. The paper will now review some of the shock factors that led to these characteristics in SEE.

[9] The primary aims of MiFID 2 (Markets in Financial Investments Directive) are to increase customer protection and to bolster competition within the financial sector.

2. RELEVANT SHOCKS IN SEE

2.1. SHOCKS: FROM SOCIALISM TO TRANSITION

The first major shock dates back to the last period of the socialist times and affects the country of the Socialist Federal Republic of (SFR) Yugoslavia. Credit institutions borrowed FX loans on the international financial market with sovereign guarantees. These loans financed projects, which were supported by the authorities. At the same time, the sum of FX deposits increased, as a result of the growing amount of remittances and incomes from tourism. A large amount of these FX deposits were redeposited in exchange for dinar credits at the national bank in Belgrade. The problem occurred in the 1980s when inflation gained momentum and the central bank's FX reserves started to decrease. Due to these challenges the dinar was often devalued. As a result of the monetary problems, the large amount of FX deposits that were transferred to the national bank became irretrievable or, in other words, became "frozen" (Barisitz, 2008). The compensation to households took many years and required major fiscal expenditures in all successor states. This case of "frozen" FX deposits can be considered as a "trauma", which undermined the confidence in the banking sector for a long period of time.

The next financial shock occurred during the years of transition. It is an interesting fact that despite Albania and the SFR Yugoslavia have built completely different socialist economic and financial systems their transitional challenges remained the same. Albania remained constantly loyal to the classical socialist system and gradually isolated itself from the rest of the world. Meanwhile, from the 1970s, the SFR Yugoslavia gradually shifted closer to a capitalist model but limited the market-oriented mechanisms by various administrative measures. This was particularly valid for the financial system. For this reason, the SFR Yugoslavia also lacked knowledge and experience regarding market mechanisms. Banks had limited or no knowledge of credit evaluation, risk management, international accounting, etc. Banks lacked experience in functioning in a market-oriented economy. All these imply that the successors of the two countries had to face similar transitional challenges. Adding to this, in the SFR Yugoslavia the transitional shock was coupled with a succession process, including devastating wars in most of the countries[10].

During this transition process, neither of the SEE countries could achieve macroeconomic stability in the long-term and certain systemic collapse occurred in all cases. Part of these could be attributed to the classical transitional shocks, like for instance the drop in the GDP, the high rate of inflation and unemployment.

[10] For more information on the two countries' economies, see Gligorov (1998), Kornai (1992), Lydall (1984) or Schnytzer (1982). For literature on the financial system, see Barisitz (2008), Clunies-Ross–Sudar (1998), Gedeon (1987) or Lydall (1984).

These are elaborated by Kornai (2008) or Lavigne (1999). Besides the broad macroeconomic factors, the financial sector also faced certain meltdowns. Parts of these were general phenomenon and could be considered as an aftermath of existing bad loans (Keren–Ofer, 2003). However the institutional network was missing and banks were not able to function as intermediaries between savers and borrowers (Kornai, 1994). On top of this, in the SFR Yugoslavia the payment settlements system was separated from the banks (Mrak et al., eds., 2004)[11]. This structure implied further dedicated tasks during the transition period for the successor states of the SFR Yugoslavia. All in all, the various shocks in SEE – which occurred in multiple waves – required broad stability packages, while putting great pressure on fiscal authorities[12].

Now we highlight certain country cases that had a major impact on the financial system. Starting with Albania, large pyramid schemes collapsed in 1997, causing major turmoil in the country. According to estimations, the affected total liabilities reached almost 50% of the annual GDP (Šević ed., 2002, 28). People lost their savings, consumption dropped, real GDP fell by 11%, while inflation exceeded 33% (EBRD, Economic data). Foreign intervention was required for an extensive economic recovery program. The long lasting psychological effect on the population's financial behaviour still remains.

Croatia had to cope with two major bank crises. Following the first classical transitional one, deposits started to return to banks. However, due to the fierce competition leading to high deposit interest rates a large share of non-performing loans and the unfavourable international environment Croatia had to face a second major bank crisis in 1998. The rehabilitation has cost 32% of the GDP (Barisitz, 2008, 51), and led to a more cautious banking sector with a stronger supervisory authority (Barisitz, 2008).

Turning to FYR Macedonia, the banks in the country continued to finance loss-making enterprises, which was not a unique phenomenon in transitional countries. In FYR Macedonia this was coupled by debt-equity swaps, meaning that banks collected corporate shares. From 1995 policymakers took measures. The rehabilitation of the sector amounted to 42% of the GDP, with 12% just for the cleaning of bad loans from the balance sheets and 30% for the repayment of the already mentioned "frozen" FX deposits (Šević ed., 2002, 277).

Bosnia and Herzegovina holds a unique state structure with two entities – the Federation of Bosnia and Herzegovina, and the Serb entity of Republika Srpska – and a third region of the Brčko District. The banking system developed separately in the two entities. In both cases a certain delay could be detected due to the devastating war and the unclear state structure. The first moves were taken

[11] In practice, the internal payment system had been conducted through a state-level institution. This institution was responsible for all transactions within the country but also for the system of internal payment control and supervision.
[12] To see relevant statistics, see EBRD statistics or Transition Reports.

in the Federation in 1997 and in the next year in Republika Srpska. Insolvent banks were closed in 2000. Impaired assets and liabilities were transferred to the Ministry of Finance, incorporating a balance sheet cut by 80%. “Frozen” FX deposits amounted to 80% of total assets. Following the initial steps and first privatisations the gradual development of the banking sector started from the 2000s in both entities (Šević ed., 2002).

As for Serbia, we can speak of a kind of “lost decade”, as the fundamental reforms started only in the 2000s after the fall of the Milošević regime. The first assessments and restructuring strategies were done in 2001 with the help of international organisations. Public confidence in the banking sector was very low. This could be explained not only by the case of the “frozen” FX deposits and the effects of war but also by various pyramid schemes. The level of this mistrust could be very well detected by the euro changeover in 2002. Namely the cash had to be deposited for conversion, so EUR 4 billion was paid in. Following the conversion, three-quarters of the deposits was withdrawn again (Barisitz, 2008). In the same year, steps were taken for the repayment of the “frozen” FX deposits, the banking system’s restructuring was launched, certain banks were closed, write-offs took place, and privatisation started case-by-case but at a slow pace (Barisitz, 2008).

Regarding Montenegro, it gained its independence in 2006, so the term of “lost decade” was valid for its case as well. In the late 1990s, Montenegro also experienced the boom and bust of large pyramid schemes. This took the financial sector to the verge of a systemic meltdown, while ruining the public confidence further. The banking sector’s assessment and consolidation started from 2001. This implies the same starting date as in the case of Serbia, but the sequencing was somewhat different. Certain banks were liquidated, others were nationalised, preparing them for privatisation or resolution (Barisitz, 2008). Montenegro established its Deposit Protection Fund the same year it gained its independence. From the mid-2000s the banking system stabilised both in Serbia and in Montenegro, while credit and deposit growth started to revive.

Last but not least, the case of Kosovo should be mentioned. Following the NATO bombing, the financial infrastructure was missing, regarding both the physical presence and the framework. This implies that the sector – including its supervisory and regulatory framework – had to be built from scratch. This process was conducted under the administration of the United Nations Mission in Kosovo and the guidance of international financial institutions (Barisitz, 2008). As a result Kosovo also holds a bank-based financial system, but the sector is more diverse. For example, many microfinance institutions have been established and the insurance sector holds a larger share compared to the regional average[13]. This cannot be attributed to a gradual organic development but rather to the artificial

[13] For relevant data, please see the statistics of the Central Bank of the Republic of Kosovo (https://bqk-kos.org/index.php?m=t&id=47).

building-up process. On the other hand, the product range of investment products can still be considered somewhat narrow. For instance, the establishment of an own stock exchange is still on the table. To sum up, the banking sector in the typically cash-based society of Kosovo started a swift development from the mid-2000s, though from a very low base.

It can be concluded that by the end of the transition period, in all country cases the stabilisation of the system took place after the banks were restructured by the new owners. The financial sector became bank-based with a dominantly foreign-owned – mainly EU headquartered – banks. The concentration also increased gradually, with the exception of Serbia, the five largest banks hold around 75% of the total assets (EBRD Transition Reports).

The dominance of foreign ownership generated many advantages; e.g., the transfer of know-how, international accounting and auditing standards, IT technology, managerial skills, risk management and loan monitoring techniques, relevant information, business network, product innovation, and market access to cheaper funding. It was crucial that foreign banks brought funding to SEE, which was typically poor in capital, and helped stabilise the sector. On the other hand, the risk of a negative spillover effect also needs to be mentioned, which became particularly important during the time of the global crisis. Still, the entrance of foreign banks had a huge impact on public trust, which was much needed in the region. Deposits started to flow into the banking sector.

Now we give an overview of the relevant features during the transition period. The development levels of the areas within the SFR Yugoslavia showed great differences. During the transition period this phenomenon became even more visible. Based on the relevant time series and literature, great heterogeneity could be detected among the countries of SEE. The reasons behind this can be put into four main groups:

- the initial development level and institutional system;
- the impacts of succession, military conflicts, embargos and sanctions;
- the effects of economic (including financial) shocks;
- the starting date, sequencing, duration and methods of the restructuring and stabilising policies.

The common features that negatively affected the retail clientele's deposit base during the transition period are the following:

- Periodically high or extreme level of (in case of Serbia even hyper) inflation, which was not covered by the real interest rate growth. This was partly offset by remittances, in certain cases the income from tourism or the support of international institutions. Still, the trauma of inflation pushed the client base to hold more stable currencies. In the case of SEE this incorporated the Deutsche Mark and later on euro deposits.
- During the dissolution of the SFR Yugoslavia, certain clients had to face the fact that the bank where they held their deposits became a legal entity of

a different country. Thus, the clients could obtain their deposits only after bilateral agreements between the relevant authorities. In addition, the unique payments settlements system, which has already been mentioned.

- In the case of a systemic or particular banking crisis the clientele became uncertain, as to whether they could regain their savings. This was particularly true if the deposit insurance companies had not yet been established, which was typical in most cases.[14]
- Almost all countries experienced the collapse of certain pyramid schemes. No matter if these were wide range – like in the case of Albania – or minor, they caused a general mistrust in the general financial system.

These facts all underpinned the two main characteristics of SEE; namely the distrust in the banking system and the large share of FX savings. On top of this, the lag of financial development – compared to new member states of the EU – have caused less diversification possibilities. This means that in most countries – with the exception of Croatia or Kosovo – there were no other investment possibilities other than bank deposits.

2.2. SHOCKS FOLLOWING THE TRANSITION PERIOD

Following the above discussed transition period, a rapid financial deepening[15] evolved in SEE. This could be attributed to the gradually returning confidence in the banking sector. Thus, bank deposits increased swiftly. On the other side of the balance sheet, rapid credit growth was recorded. The latter was particularly fuelled by household and mortgage lending. From the banks' point of view they had to cope with the pressure of market competition, which often went against the willingness of appropriate client assessment. Regulatory authorities didn't take measures to mitigate the pace of credit growth or their steps to curb the overall or particularly the FX loan growth had only temporary effects (EBRD, Transition reports).

An important feature is that both deposits and credits were FX dominated – with the exception of Kosovo and Montenegro where the euro is used as a sole legal tender. On the deposit side, this could be attributed to the already mentioned historical heritage forming client behaviour, higher real deposit interest rates, the one-off effect of the euro changeover, or the amount of remittances and the income of tourism. As for credits, the banks were funded by the parent banks usually in euro, and the banks themselves motivated the clientele to take FX loans irrespective of the applied exchange rate regimes.[16] Clients were motivated by

[14] One can check the deposit agencies' homepage for the date of establishment in the relevant countries.

[15] The level of financial deepening can be measured by various indicators. As a benchmark, we use the percentage of total financial assets per GDP.

[16] Kosovo and Montenegro use the euro as a sole legal tender, Bosnia and Herzegovina applied

lower interest rates or the expectation of appreciating domestic currencies. Overall, the FX risk was somewhat milder compared to that of the new member states of the EU, where the portion of owning FX deposits was/is much less typical. Still, a considerable systemic risk became present due to the fact that the borrowers did not cover the amount of loans, while there was a great maturity mismatch (Backé–Walko, 2006).

The rapid financial deepening took a sudden stop, when the optimism of the "decoupling story" ended, and the overwhelming negative effects reached SEE by the end of 2008. It is noteworthy that in case of Kosovo an almost one year lag could be recorded. These negative effects were a result of the strong trade and financial integration with the western European economies[17]. Floating exchange rates meant a further hazard in the case of widespread FX loans. On an international level the IMF and the EU intervened, while on a local level the monetary authorities took various measures, like for instance monetary policy rate cuts, reserve requirement easement, or other liquidity and prudential measures. The deposit insurance has been increased in almost all countries. Local authorities emphasised that based on the region's solid capital ratios, the system could be considered stable. Via the cooperation of the local and international actors the so-called "Vienna Initiative"[18] has been launched (EBRD, Transition reports).

Despite the applied actions, a widespread confidence shock took place. The swift pace of deposit growth stopped in SEE, also due to the increasing liquidity needs of the retail and corporate segment. In the case of Bosnia and Herzegovina and Montenegro certain withdrawals could be recorded. Nevertheless, large-scale deposit withdrawals were avoided in all countries. As for the strong correlation of macroeconomic figures, most of the countries had to face recession, which in the case of Croatia – as a unique case in the world – lasted for six consecutive years. Income growth dropped, the number of company defaults rose, future expectations deteriorated, while unemployment started to rise. As a next phase, the lagging indicator of non-performing loan (NPL) ratios started to increase due to these macroeconomic tendencies (EBRD, Transition reports).

The second shock wave of the EA unfolded in 2011, which caused a significant credit crunch in the EA itself. As a spillover effect, the deleveraging process unfolded in emerging Europe, including SEE countries[19]. As an answer, "Vienna

a euro-based currency board regime, FYR Macedonia has a de facto peg against the euro. In these cases the euro in considered as an anchor, and does not reflect the countries' development level. Croatia incorporates more risk with its tightly managed floating FX policy, while Serbia and Albania cover the largest risk with a managed or independent floating regime against the euro. For an overview on the effects of various FX regimes' during banking contagion, see Kutasi (2015).

[17] It is worth mentioning that SEE had no exposure to toxic assets and the "simple" product structure became rather advantageous. Still, general economic problems led to increasing NPL ratios.

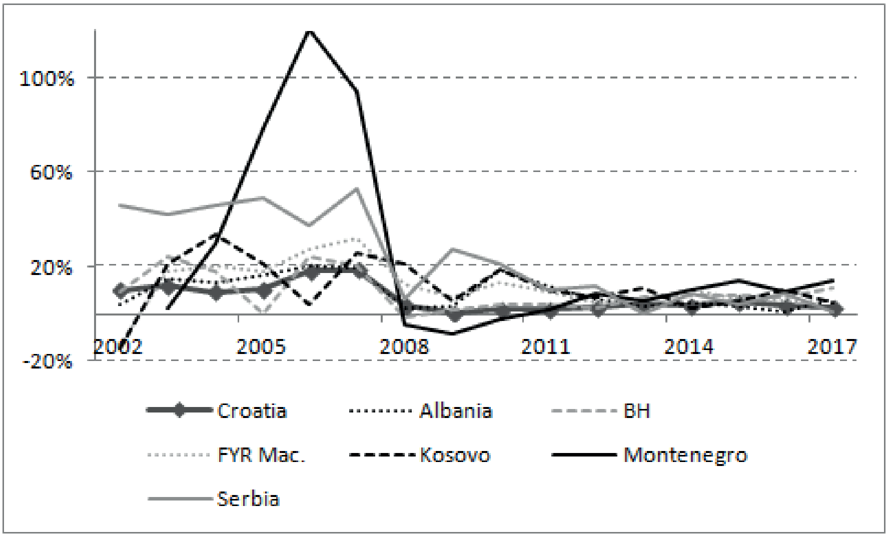
[18] To read more on the "Vienna Initiative" please visit the following homepage: http://vienna-initiative.com/.

[19] For relevant information and statistics please see the Vienna Initiative's Quarterly Deleveraging Monitors (http://vienna-initiative.com/type/quarterly-deleveraging-monitors/).

2.0” has been launched with the aim to minimise systemic risks in emerging Europe, and to bolster coordination among home and host authorities. Due to the international developments and the solutions for decreasing NPL levels, a certain level of credit crunch could be recorded in Albania, Croatia, Serbia and Montenegro. In the case of Croatia – between 2012 and 2017 – the amount of total credits decreased in every year with a dip of -6.17%[20] in 2012.

During this second wave no withdrawals have been observed on the deposit side. Nevertheless, the high growth rates of the pre-crisis period did not return, as the credit fuelled growth model collapsed. All in all, it was rather 2008 that started a new economic era. It even caused a shock effect in the banking sector, including its retail and corporate clientele, having another negative impact on long-term trust.

Figure 1 Change of total deposits, 2002–2017



Sources: Based on relevant central banks’ statistics own calculations

Figure 1 reflects these latter episodes. To begin with, the drop of total deposits in the case of FYR Macedonia and Kosovo can be mainly attributed to ethnic insurgencies. Following this period even these countries recorded massive growth rates. Among the countries Montenegro showed extraordinary expansion. After the booming pre-crisis period, the largest drop was also recorded in this country, showing an extraordinary boom-bust cycle. Deposit withdrawals were recorded mainly in

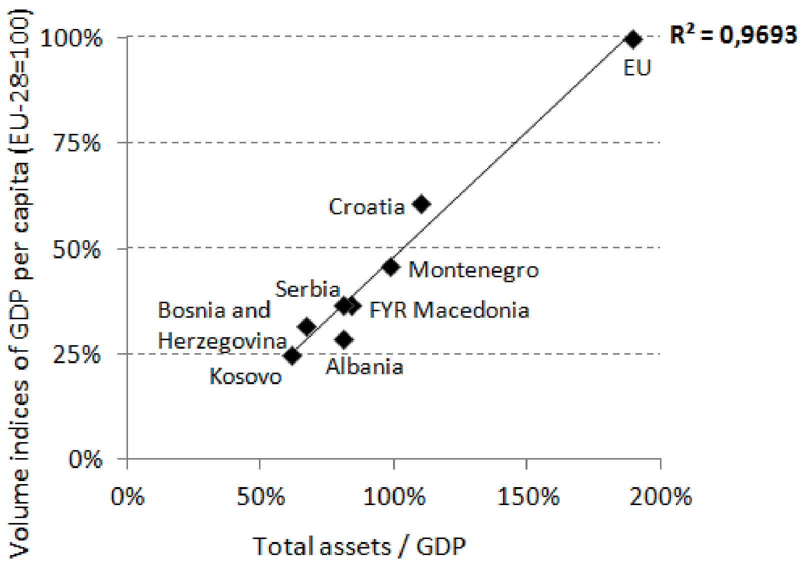
[20] Croatian National Bank: Statistical data, Consolidated balance sheet of OMFIs (http://www.hnb.hr/en/statistics/statistical-data/financial-sector/other-monetary-financial-institutions/consolidated-balance-sheet-of-omfis). For further statistics, please visit the relevant central banks’ statistical database.

Montenegro, and a minor withdrawal in Bosnia and Herzegovina. Apart from these two cases, deposit growth remained positive but reflected lower growth rates compared to the pre-crisis levels. The second wave of the European crisis – starting from 2011 – did not have a massive impact on the deposit growth in SEE. This could be considered as a positive phenomenon. On the other hand, financial deepening still has ample space and the product range ought to be widened for the sake of diversification.

3. CONSEQUENCES ON THE CLIENTELE

Despite the booming pre-crisis period, the financial deepening remained very low in the region. As it has already been mentioned we measure financial deepening by the amount of total financial assets divided by the GDP. As demonstrated by the relevant literature, this figure shows a high correlation with the GDP levels. Figure 2 reflects this correlation; namely the link between the percentage of total financial assets per GDP and the level of GDP per capita. The numbers can be compared with the respective EU data thus regarding them as a benchmark for convergence. Figure 2's numbers reflect that Croatia is ahead in this convergence process, while Kosovo is far away even from the Croatian development level.

Figure 2 Total assets per GDP and GDP per capita, 2017



Sources: Based on relevant central banks' statistics and Eurostat, EBA own calculations

Based on the above elaborated shock effects, the inherited financial behaviour and the lagging development process, special conclusions can be drawn from the statistics of The World Bank's Findex Database. As there are no overall surveys on financial literacy for the region with the age group over 25, we will highlight certain underlying characteristics from this dataset. The data are comparable with the EA's numbers (see table 1), which should be considered as a certain benchmark.

EBRD's Transition Report 2017 stresses that the level of financial inclusion – which can reduce inequality of opportunities – depends on such factors as gender, age group, level of education and income, or living in rural areas. Financial inclusion can be assessed via provider-based and user-based indicators. As for the former, SEE is quite well covered regarding bank branches, while there is a further requirement regarding the number of ATMs. As for the latter, households have better access to credits. Regarding the corporate sector, the generally higher collateral requirements (compared to the new EU member states), the accounting standards, the judicial system or the governance are named as hindering factors (Murgasova et al., 2015).

Table 1's first column – percentage of bank accounts among the total population – can be treated as an indicator of financial inclusion. It can be seen, that in poorer countries the financial access is lower. In Albania it reaches merely 43%, while in Croatia it is 93%, almost reaching the EA's level. This figure decreased in the case of Serbia and Croatia between 2014 and 2017, but increased in all countries between 2011 and 2017 as a sign of growing financial inclusion.

As for the second column – the level of savings for starting a business – it shows a factor which mirrors entrepreneurial "appetite". This particular figure is quite low in the region, but even in the EA. As a negative and warning sign for policymakers, savings are low also at an older age. Fluctuations can be attributed to the change in the pension schemes or can be a consequence of recession. Generally, savings at financial institutions are low in SEE. This incorporates great risk for the clientele in cases of unexpected situations, as for instance unemployment, health problems or wage cuts. Funding can also be required for educational purposes. Overall, the low level of savings is a negative sign for financial literacy, but it also reflects the low level of income. All this leads to the conclusion that policymakers should motivate savings and the diversification of the available financial product range.

The percentage of debit and credit cards – columns 5 and 6 – can be seen as an indicator of financial sophistication. The number of debit cards increased in all countries between 2011 and 2017. So this tendency – likewise the level of usage – shows great similarity with the number of bank accounts. Credit cards can reflect client sophistication but it also depends on the particular banks' applied policies. The bank's managements should decide: Does the bank prepare a campaign for credit card sales and do they take the relevant risk?

The last four columns demonstrate certain borrowing habits. Though it is not an underlying financial figure, it is eye-catching that borrowing for health or medical purposes is the highest in the two poorest countries, stressing the importance of savings. Taking credit to start a business reflects both the entrepreneurial habits and the banks' lending policy. It can be seen that this percentage was very low even in the EA in 2014 as a sign of risk avoidance. The same two sided approach should be used for the overall lending from financial institutions. So both the demand and supply side factors should be considered. The tendency of this figure shows a variety among the countries of SEE. Last but not least, the indicator for borrowing from family or friends should be observed. With the exception of Bosnia and Herzegovina it is much higher in the reviewed countries compared to the EA. On the one hand, the high numbers show that people don't trust banks, and they do not want to rely on their requirements. On the other hand, it can demonstrate the stricter lending policies of the financial institutions. In SEE, more often the former case dominates.

Table 1 Selected data on the financial habits, ages 25+

		Accounts	Saved to start, operate, or expand a farm or business, older adults	Saved for old age,older adults	Saved at a financial institution	Debit card ownership	Credit card ownership	Borrowed for health or medical purposes	Borrowed to start, operate, or expand a farm or business	Borrowed from a financial institution	Borrowed from family or friends
Albania	2011	29%			9%	21%	10%			8%	12%
Albania	2014	40%	7%	11%	8%	24%	6%	26%	5%	13%	45%
Albania	2017	43%	6%	9%	9%	29%	8%	23%	10%	10%	25%
B&H	2011	58%			7%	36%	13%			14%	15%
B&H	2014	56%	3%	12%	9%	37%	10%	4%	3%	16%	7%
B&H	2017	63%	8%	10%	10%	42%	11%	5%	18%	10%	8%
Croatia	2011	91%			13%	77%	37%			15%	18%
Croatia	2014	90%	7%	38%	29%	76%	41%	6%	4%	25%	25%
Croatia	2017	93%	11%	32%	39%	74%	40%	5%	11%	14%	16%
Kosovo	2011	48%			6%	31%	10%			8%	17%
Kosovo	2014	50%	8%	16%	8%	37%	15%	16%	4%	10%	17%
Kosovo	2017	59%	12%	15%	10%	43%	13%	21%	10%	13%	24%
FYR Mac.	2011	74%			9%	39%	19%			12%	23%
FYR Mac.	2014	77%	5%	16%	15%	58%	24%	9%	2%	15%	20%
FYR Mac.	2017	82%	9%	18%	19%	57%	19%	11%	12%	15%	21%
Montenegro	2011	56%			3%	26%	16%			24%	38%
Montenegro	2014	64%	3%	8%	6%	37%	17%	9%	4%	27%	22%
Montenegro	2017	74%	10%	12%	12%	40%	19%	9%	15%	18%	25%
Serbia	2011	68%			4%	47%	25%			14%	30%
Serbia	2014	84%	4%	14%	10%	58%	16%	5%	3%	10%	20%
Serbia	2017	77%	13%	20%	13%	64%	20%	12%	10%	13%	23%
Euro area	**2011**	**93%**			**41%**	**72%**	**40%**			**13%**	**6%**
Euro area	**2014**	**97%**	**8%**	**37%**	**47%**	**84%**	**44%**	**4%**	**3%**	**17%**	**12%**
Euro area	**2017**	**98%**	**10%**	**41%**	**52%**	**89%**	**49%**	**4%**	**27%**	**18%**	**11%**

Source: The World Bank Findex Database, 2017

Following the review of the age group of 25+ we now turn to the younger generation, who is supposed to influence the future. CYFI and EFSE DF (2017)[21] provide a comprehensive study on the financial behaviour and knowledge of children and youth between 10 and 24 years of age. It emphasises that around the age of seven

[21] They refer to SEE by including the following countries; Albania, Croatia, Kosovo, FYR Macedonia, Moldova, Montenegro and Serbia. This means that compared to our paper, Bosnia and Herzegovina is not included, while Moldova is added.

people start to form their financial behaviour. They find that financial literacy among the reviewed group is quite low. On the other hand, there are certain optimistic conclusions. Around 70% (CYFI–EFSE DF, 2017, 3) of the youth save a part of their money – via piggy banks, with parents or even at banks. As a further positive aspect, they show interest in receiving financial education at school and learning about money management, which is important for policymakers. Based on the region's past experience, it is not surprising that the attitudes towards financial institutions are generally not positive. This is particularly valid for the group older than 18. Even in the study it is underlined that this attitude is mainly based on the negative experiences within their social circles. Negative experiences are passed over. But even the role of the media is mentioned as a source of perceptions. Another finding is that youth whom have personal experience owning and using own bank accounts tend to be more familiar with money management and have their own saving habits. This involves better perceptions on the importance of savings, and a better knowledge on financial products, including formal financial education. Notwithstanding, significant differences can be detected based on age, gender and geographical location.

Individuals with parents holding a university degree show greater interest in financial education. Furthermore, youth from urban areas generally tend to save first and spend money only afterwards. Peer influence is also important. Not surprisingly, it is influential whether financial education is taught in school. Certain programs are available in all countries and intend to develop financial literacy. However it is questionable how many people are being reached. As a positive example, in Croatia certain elements of finance are integrated into a compulsory subject in both elementary and high schools. In Albania it is included as an elective subject. Time will show the effects. Still, the study highlights that most youth receive financial knowledge and information from their families. This is the reason why the reviewed shocks can still affect the younger generation. Table 2 gives an indication of the financial inclusion of the youth. It is obvious that it shows lower levels than in the case of the older age group (see table 1). Serbia and Croatia stand out regarding account ownership. In the latter case savings are also more frequent, though this indicator shows low levels. One of the main conclusions of the study is that "one of the big barriers to youth financial inclusion is the low level of trust in the financial sector. This barrier can only be addressed through a coordinated and joint effort between the public and private sectors aimed at increasing the stability of the financial sector and the confidence of the consumers." (CYFI–EFSE DF, 2017, 31)

Table 2 Percentage of youth accounts and savings at financial institutions, ages 15 –24, 2014

	Albania	Croatia	Kosovo	FYR. Mac.	Montenegro	Serbia
Youth account	30.0%	57.8%	41.1%	46.7%	41.3%	77.8%
Youth saved	7.2%	16.6%	5.3%	7.5%	2.9%	2.7%

Source: CYFI–EFSE DF, 2017, 7

4. CONCLUSION

The goal of the paper was to prove that from the socialist time period until the 2008 global crisis, various shock effects influenced the financial sector's clientele in SEE. During the overview, both common and country-specific shocks have been listed. Adding up these effects general characteristics can be outlined for the region. The negative impacts led to a "late coming" development process, a general mistrust of banks and a high share of euro usage.

With the help of the relevant literature and statistics, a multidisciplinary comparative analysis could be carried out. Both economic history and statistics from the respective institutions have been used for the work. In general, the focus was shifted to the retail segment's deposit base, but the currently available data on the clientele's behaviour have also been presented. If applicable, the data have been compared with the EU or EA statistics. The latter provides information on the current status of the convergence process. Based on the applied methodology the paper highlighted the most important factors which influenced the financial literacy and behaviour in SEE.

First of all, the paper highlighted that the role of financial literacy is essential in a well-functioning market economy. It is important for both the retail and the corprate segment. The financial sector helps to hold and diversify savings, and offers solutions for adverse circumstances. However the sector's relevance can be raised even to a macroeconomic level, as it supports the efficient allocation of savings and underpins GDP growth. These benefits are more relevant when the society has an appropriate level of financial literacy. This implies that agents should be able to understand and evaluate financial products, and make decisions based on their long-term interests. This also helps them use appropriate instruments in the case of adverse situations.

It can be concluded that the region of SEE has a bank-based financial system. The retail segment – likewise the corporate – is still highly "euroisationed", the trust in the banking sector is still somewhat unstable and savings are usually held via bank deposits or at home. Thus, a certain part of the society is absolutely not included to the financial sector. Nevertheless, the sector is gradually developing throughout the region. Croatia stands out with its relatively mature and diverse financial market, while other countries might follow. The youth's analyses also carry cautious optimism[22].

The reports and statistics, however, do not deal with the background of the relevant features. This paper showed – from the trauma of the frozen FX deposits

[22] The respective characteristics can be gathered from the relevant literature. See the EBRD's Transition reports, the ECB's Occasional Paper Series on "Financial stability assessment of EU candidate and potential candidate countries", the World Bank's Findex database, Demirgüç-Kunt et al. (2018) or CYFI–EFSE DF (2017).

until the latest global crisis – the main shock factors that formed the financial attitude in SEE. These included the dissolution of the SFR Yugoslavia's financial system, the transition shocks with extreme levels of inflation and bank crises, and the fall of large pyramid schemes.

As a consequence of the above-mentioned factors, the current level of financial maturity differs among the countries. Overall, there is a certain lag compared to the EU or EA average, as developing the necessary institutions and their background takes time. This general lag and the specific difference among the reviewed countries can be traced back to the initial conditions and the different development sequences during the transition period. The development path and approaches differed according to the political realities, and the social and cultural preferences (Murgasova et al., 2015). Other characteristics – for instance the level of "euroisation" – can also be connected to macroeconomic features, such as the level of remittances or tourism.

As for the general economy, the incomplete reform processes hold back the convergence to the EU. Achieving durable growth, curbing high unemployment rates and large current account deficits are crucial for the region (Murgasova et al., 2015). As for a solid economic and financial development in SEE, the society ought to be more inclusive and the enhancement of financial literacy would be required. This should involve rational long-term thinking. This goes hand in hand with the level of trust in the financial system, which depends on the banks themselves, and the supervisory and regulatory authorities. As a result of the global crisis, a new cross-border supervisory and regulatory architecture has been set, which affects the financial sector of SEE as well[23]. Nevertheless, the country-level structure has a primary role.

To sum up, the financial market can be considered shallow and narrow in SEE. Firstly, non-bank financial services need to be built from scratch in many country cases. Secondly, financial deepening has ample space compared for instance to the EU. The future holds various challenges for SEE: enforcing financial development within a solid economy, curbing further NPL rates, omitting the dangers of parent banks' deleveraging, avoiding the negative spillover effects of a stricter monetary policy, and coping with the potential hazards of digitalisation. Furthermore, more focus should be given to the domestic funding possibilities, while the range of investment products should be widened. The list could be continued depending on the individual countries. On the other hand, the clientele ought to develop financial literacy in order to prepare for potential micro or macro shocks, diversify risk and apply long-term planning. This process should be supported via education, which can take place in school, in a workplace or within a community. This dedicated education can help maintain stability on a longer term, especially if we turn to the younger generation.

[23] To read an overview on this topic, see Dakić (2014).

The conclusions for the authorities can be summarised as follows: Policymakers are responsible for creating a stable economic framework and institutional system. In addition, it is their duty to foster financial literacy. In order to reach the youth, the educational process should be built from a "school level". Furthermore, policymakers should motivate the growth and diversification of savings to underpin micro and macro level stability. These developments can be carried out via close cooperation between the public and private sectors. Due to the sector's ownership structure and its international integration, the public and private institutional cooperation must be extended to an international level.

REFERENCES

- Anderson, Ch. W.–Fedenia, M.–Hirschey, M.–Skiba, H. (2011) Cultural influences on home bias and international diversification by institutional investors. Journal of Banking & Finance, 35, 4, pp. 916–934.
- Backé P.–Walko, Z. (2006) Bank Intermediation in Southeastern Europe: Depth and Structure. In: Österreichische Nationalbank (ed.): *Focus on European Economic Integration, 2/06*. http://www.oenb.at/de/img/feei_2006_2_backe_walko_tcm14-49881.pdf Downloaded: 14 02 2012
- Barisitz, S. (2008) *Banking in Central and Eastern Europe 1980-2006. A comprehensive analysis of banking sector transformation in the former Soviet Union, Czechoslovakia, East Germany, Yugoslavia, Belarus, Bulgaria, Croatia, the Czech Republic, Hungary, Kazakhstan, Poland, Romania, the Russian Federation, Serbia and Montenegro, Slovakia, Ukraine and Uzbekistan.* Routledge, Taylor&Francis Group, London, New York.
- Beckmann, E.–Hake, M.–Urvova, Jarmila (2013) Determinants of Households' Savings in Central, Eastern and Southeastern Europe. *Focus on European Economic Integration,* Q3/13, Oesterreichische Nationalbank. https://oenb.at/dam/jcr:887f1308-3b92-4aad-b024-95b9f357eff5/feei_2013_q3_studies_beckmann_tcm16-257382.pdf Downloaded: 14 06 2018
- Bernhagen, P.–Chari, R. (2011) Financial and economic crisis. Theoretical explanations of the global sunset. *Irish Political Studies,* 26, 4, pp. 455–472.
- Blanchard, O. J.–L'Huillier, J.-P.–Lorenzoni, G. (2012) News, noise, and fluctuations: An empirical exploration. *Development Research Working Paper Series,* No. 09/2012, Institute for Advanced Development Studies, La Paz. https://www.econstor.eu/bitstream/10419/87823/1/728651653.pdf Downloaded: 31 05 2018
- Calomiris, C.–Haber, S. (2014) *If stable and efficient banks are such a good idea, why are they so rare?* Princeton University Press. http://assets.press.princeton.edu/chapters/s10177.pdf Downloaded: 29 05 2018
- Clunies-Ross, A.–Sudar, P. (eds.) (1998) *Albania's economy in transition and turmoil, 1990-1997.* Aldershot, Ashgate.
- CNB (Croatian National Bank) *Statistical data. Financial statistics.* https://www.hnb.hr/en/statistics/statistical-data/financial-sector Downloaded: 08 06 2018
- CYFI (Child & Youth Finance International)–EFSE DF (Development Facility of the

European Fund for Southeast Europe) (2017) *Insights into Financial Behavior and Knowledge of Children and Youth in Selected Countries from South-Eastern Europe.* Child & Youth Finance International.
https://www.microfinancegateway.org/sites/default/files/publication_files/efse-cyfi_report_online_version.compressed.pdf Downloaded: 31 05 2018
• Dakić, M. (2014) Global financial crisis. *Policy response. Journal of Central Banking Theory and Practice,* 3, 1, pp. 9–26. http://www.cbcg.me/RePEc/cbk/journl/vol3no1-2.pdf Downloaded: 29 05 2018
• Demirgüç-Kunt, A.–Klapper, L.–Singer, D.–Ansar, S.–Hess, J. (2018) *The Global Findex Database 2017. Measuring Financial Inclusion and the Fintech Revolution.* International Bank for Reconstruction and Development/The World Bank. https://globalfindex.worldbank.org/ Downloaded: 01 06 2018
• Demirgüc-Kunt, A.–Levine, R.. (eds.) (2001) *Financial structure and economic growth. A cross-country comparison of banks, markets, and development.* The MIT Press, Cambridge, Massachusetts, London.
• EBRD (European Bank for Reconstruction and Development) Economic data https://www.ebrd.com/what-we-do/economic-research-and-data/data.html
• EBRD (European Bank for Reconstruction and Development) Transition Report (various years) https://www.ebrd.com/news/publications.html
• ECB (European Central Bank) (2017) Financial stability assessment of EU candidate and potential candidate countries. Developments since 2014. *Occasional Paper Series,* No. 190. https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op190.en.pdf?fd7a86c68b22092b9a3b42728265ea73 Downloaded: 08 06 2018
• Fornari, F.–Stracca, L. (2013) What does a financial shock do? First international evidence. *Working paper series*, European Central Bank, No. 1522, March 2013. https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1522.pdf Downloaded: 31 05 2018
• Gedeon, S. J. (1987) Monetary Disequilibrium and Bank Reform Proposals in Yugoslavia. Paternalism and the Economy. *Soviet Studies,* 39, 2, pp. 281–291.
• Gligorov, V. (1998) Yugoslav economics facing reform and dissolution. In: Wagener, H.-J. (ed.): *Economic thought in communist and post-communist Europe.* Routledge, London, pp. 329–361.
• Reinhart, C. M.–Rogoff, K. S. (2010) From financial crash to debt crisis. *NBER Working Paper Series, Working Paper* 15795, Cambridge, March 2010. http://www.nber.org/papers/w15795.pdf Downloaded: 24 05 2018
• Hung, A. A.–Parker, A. M.–Yoong, J. K. (2009) *Defining and Measuring Financial Literacy.* RAND Labor and Population, Working paper, WR-708, September 2009. https://www.rand.org/content/dam/rand/pubs/working_papers/2009/RAND_WR708.pdf Downloaded: 20 03 2018
• Kefela, G. T. (2010) Promoting access to finance by empowering consumers - Financial literacy in developing countries. *Educational Research and Reviews,* 5, 5, pp. 205–212. http://www.academicjournals.org/journal/ERR/article-full-text-pdf/275B9894039 Downloaded: 24 04 2018
• Keren, M.–Ofer, G. (2003) Globalization and the Role of Foreign Banks in Economies in Transition. In: Kolodko, G. W. (ed.): *Emerging market economies. Globalization and development.* Aldershot, Ashgate. pp. 237–266.
• Klapper, L. F.–Lusardi, A.–Panos, G. A. (2012) Financial Literacy and the Financial Crisis. *NBER Working Paper Series,* Working Paper 17930, National Bureau of Economic

Research. http://www.nber.org/papers/w17930.pdf Downloaded: 20 03 2018
• Kornai J. (1992) *The socialist system. The political economy of communism.* Clarendon Press, Oxford.
• Kornai J. (1994) Transformational recession. The main causes. *Journal of Comparative Economics,* 19, 3, pp. 39–63.
• Kornai J. (2008) From socialism to capitalism. Eight essays. Central European University Press, Budapest, New York.
• Kutasi G. (2015) Banking contagion under different exchange rate regimes in CEE. *Society and Economy,* 37, 1, pp. 109–127.
• Laeven, L.–Valencia, F. (2012) Systemic Banking Crises Database: An Update. *IMF Working Paper,* WP/12/16 http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.436.5908&rep=rep1&type=pdf Downloaded: 29 05 2018
• Lavigne, M. (1999*) The economics of transition. From socialist economy to market economy.* Palgrave, Houndmills.
• Levine, R. (1997) Financial Development and Economic Growth. Views and Agenda. *Journal of Economic Literature,* 35, pp. 688–726.
• Lydall, H. (1984) *Yugoslav Socialism. Theory and Practice.* Clarendon Press, Oxford.
• Mandell, L. (2007) Financial literacy of high school students. In J. J. Xiao (ed.): *Handbook of Consumer Finance Research.* Springer, New York, 163–183.
• Mazower, M. (2000) *The Balkans.* Weidenfeld and Nicolson, London.
• Mrak, M.–Rojec, M.–Silva-Jáuregui, C. (eds.) (2004) *Slovenia. From Yugoslavia to the European Union.* The International Bank for Reconstruction and Development/The World Bank, Washington, D.C.
• Murgasova, Z.–Ilahi, N.–Miniane, J.–Scott, A.–Vladkova-Hollar, I. and an IMF staff team (2015) *The western Balkans: 15 years of economic transition.* Regional Economic Issues, Special Report, Washington, D.C., International Monetary Fund. http://www.imf.org/external/pubs/ft/reo/2015/eur/eng/erei0315.htm Downloaded: 29 05 2018
• OECD (2017) *PISA 2015 Results (Volume IV): Students' financial literacy,* PISA, OECD publishing, Paris. https://read.oecd-ilibrary.org/education/pisa-2015-results-volume-iv_9789264270282-en#page3 Downloaded: 29 05 2018
• Schnytzer, A. (1982) *Stalinist economic strategy in practice. The case of Albania.* Oxford University Press, New York.
• Šević, Ž. (ed.) (2002) *Banking Reforms in South-East Europe.* Edward Elgar, Cheltenham, UK and Northampton, MA, USA.
• Shiller, R. J. (2000) *Irrational Exuberance.* Princeton University Press, Princeton, New Jersey.
• Stix, H. (2013) Why do people save in cash? Distrust, memories of banking crises, weak institutions and dollarization. *Journal of Banking & Finance,* 37, 11, pp. 4087–4106.
• Stojanov, D. (2009) Keynes and economic crisis: some reconsiderations. *Proceedings of Rijeka School of Economics,* 27, 2, pp. 293–310.
• Todorova, M. (1997) *Imagining the Balkans.* Oxford University Press, New York.
• World Bank (2017) *The Global Findex Database 2017* https://globalfindex.worldbank.org/ Downloaded: 08 06 2018

Internet sources:

- Bank of Albania: https://www.bankofalbania.org/home/
- Central Bank of Bosnia and Herzegovina: https://www.cbbh.ba/?lang=en
- Central Bank of Montenegro: http://www.cb-cg.org/eng/
- Croatian National Bank: https://www.hnb.hr/en/home
- EBA (European Banking Authority): http://www.eba.europa.eu/
- Eurostat: http://ec.europa.eu/eurostat
- National Bank of Serbia: https://www.nbs.rs/internet/english/
- National Bank of the Republic of Kosovo:

https://www.bqk-kos.org/?m=t&id=1National

- Bank of the Republic of Macedonia: http://www.nbrm.mk/pocetna-en.nspx