

INNOVATIVE STRATEGIES FOR GLOBAL COMPETITIVENESS

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IMPACT OF GLOBAL FINANCIAL CRISIS ON THE BANKING SECTOR OF SELECTED DEVELOPED AND DEVELOPING ECONOMIES

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ABSTRACT

The current global macro-economic situation is characterised by an unbalanced economic recovery across advanced and emerging economies, moderation in economic prospects in 2011, high levels of unemployment and inflationary pressures, and elevated levels of government debt. In September 2011, World Economic Outlook, the International Monetary Fund (IMF) has estimated a growth of 4.0 per cent for the world economy as a whole. The projected growth for developing economies was 6.4 percent. The projected growth for developed economies was only at 1.6 per cent. The estimate for advanced economies of 1.6 per cent provided in September 2011 was lower than the estimate of 2.2 per cent provided in June 2011 in light of the lower quarterly GDP growth of leading advanced economies. The rate of unemployment in advanced economies has been little over 8 per cent in 2010 as per the IMF estimates. Inflationary pressures, which had become stubborn in 2010, due to raising prices of oil, food and commodity prices. It further aggravate the economic problem in the world economies in 2011.

In this backdrop, the performance of the global banking system too has been characterised by a mixed bag of a few positive developments and a number of shortfalls. To conclude, the capital adequacy ratio had declined in developing countries while it had improved in developed countries after financial crisis. The global financial crisis had significant negative impact on return on banking assets of developed economies. The banking sector in these economies is recovering. The return on assets had increased in India and China. The banking sector of these countries was not affected by the global financial crisis.

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inflationary pressures, and elevated levels of government debt. In September 2011, World Economic Outlook, the International Monetary Fund (IMF) has estimated a growth of 4.0 per cent for the world economy as a whole. The projected growth for developing economies was 6.4 percent. The projected growth for developed economies was only at 1.6 per cent. The estimate for advanced economies of 1.6 per cent provided in September 2011 was lower than the estimate of 2.2 per cent provided in June 2011 in light of the lower quarterly GDP growth of leading advanced economies. The rate of unemployment in advanced economies has been little over 8 per cent in 2010 as per the IMF estimates. Inflationary pressures, which had become stubborn in 2010, due to raising prices of oil, food and commodity prices. It further aggravate the economic problem in the world economies in 2011.

In this backdrop, the performance of the global banking system too has been characterised by a mixed bag of a few positive developments and a number of shortfalls. The positive developments have been in terms of the efforts by countries towards revamping their regulatory and supervisory architecture learning from the crisis, along with an effort to step up capital adequacy of banks. The major shortfalls, however, have been the lack of a widespread revival of the global banking activity, which could be characterised by improved credit growth, profitability and asset quality, and lower leverage.

Against this backdrop, an attempt was made to analyse the impact of global financial crisis on the banking sector of selected developed and developing economies using major indicators of banking activity and soundness.

OBJECTIVES

1. To analyse the impact of global financial crisis on return on banking assets of developed and developing economies.
2. To assess the impact of global financial crisis on assets and liabilities of banks of world Economies.
3. To study the impact of global financial crisis on capital adequacy of the banks

METHODOLOGY

The data for the study in relation to return on assets, assets and liabilities of banks and capital adequacy ratio of banks of selected world economies were collected for the period 2007 – 2011 from the Report on trend and progress of banking, Bombay. Simple averages and growth rate were used to discuss the impact of global financial crisis on world banking sector.

RESULTS AND DISCUSSION

Banking business in some advanced economies showed signs of revival in 2010. An increase in the growth of bank credit was evident in the US, Germany and France in the first quarter of 2011 after entering into the negative growth zone after the crisis. However, there is an uncertainty about whether this credit revival would continue or not, given the picture of economic revival looking bleak in the US and now, even in Germany¹. In fact, credit growth has again witnessed a slump in the second quarter of 2011 in the US. In the UK and Japan, bank credit growth, which had entered a downtrend since the beginning of 2009, has shown a recovery in 2011, but has remained in the negative zone. Other advanced economies from Europe, particularly countries with fiscal strains, namely Portugal, Spain and Italy, showed a steep fall in the growth in bank credit with no signs of revival by 2011.

In 2010-11 (March), there was considerable revival in international banking business (by location of reporting banks) continuing with the trend in 2009-10. During 2008-09, international assets and liabilities of banks had contracted significantly in the aftermath of the financial crisis. Return on Assets (RoA) is an indicator of banking system's profitability and soundness.

The table-1 shows the return on assets of banks for selected developed economies

TABLE -1
Return On Assets Of Banks For Selected Developed Economies

Country	2007	2008	2009	2010	2011
France	0.4	0	0.4	0.6	-
Germany	0.3	-0.1	0.2	-	-
Greece	1	0.2	-0.1	-0.6	-0.3
Italy	0.7	0.3	0.2	-	-
Japan	0.3	-0.3	0.2	0.4	-

Portugal	1.2	0.4	0.4	0.5	0.5
Spain	1.1	0.8	0.6	0.5	-
Unitedkingdom	0.4	-0.4	0.1	0.2	-
United states	1.2	-0.1	-0.1	0.9	1.2

Source: Report on trend and progress of banking, 2010-2011

The return on banking assets was negative for developed economies such as Germany, Japan, Unitedkingdom and United states in 2008. It shows that the global financial crisis had significant negative impact on return on banking assets in these economies. In 2010, it turned out to be positive in 2010. The banking sector in these economies is recovering.

The table-2 shows the return on banking assets in developing economies.

TABLE -2
RETURN ON ASSETS OF BANKS FOR
SELECTED DEVELOPING ECONOMIES

Country	2007	2008	2009	2010	2011
Russia	3	1.8	0.7	1.9	2.3
Chiana	0.9	1	0.9	1	-
India	0.9	1	1.1	1.1	-
Malasia	1.5	1.5	1.2	1.5	1.8
Brazil	3.4	1.5	2.4	3.2	3.3
Mexico	2.3	1.4	1.5	1.8	1.6

Source: Report on trend and progress of banking, 2010-2011

In developing economies, the return on banking sector was positive in 2008. It shows that the global financial crisis did not affect much the banking sector of developing economies. But it had shown a declining trend between the period 2007 and 2010. But for India and China the return on assets had increased in the same period. The banking sector of these countries was not affected by the global financial crisis.

The growth of banking assets and liabilities is another indicator of performance of international banking sector. The table-3 shows the growth of assets and liabilities of banking sector selected economies.

TABLE -4
CAPITAL TO RISK-WEIGHTED ASSETS RATIO
OF BANKS IN SELECT ECONOMIES

Country	2007	2008	2009	2010	2011
France	10.2	10.5	12.4	12.3	
Germany	12.9	13.6	14.8	16.1	16.6
Greece	11.2	9.4	11.7	11.4	12.3
Italy	10.4	10.8	12.1	12.3	
Japan	12.3	12.4	15.8	16.7	
Portugal	10.4	9.4	10.5	10.2	10.5
Spain	11.4	11.3	12.2	11.8	
Unitedkingdom	12.6	12.9	14.8	15.9	
United states	12.8	12.8	14.3	15.3	15.5

Source: Report on trend and progress of banking, 2010-2011

TABLE - 5
CAPITAL TO RISK-WEIGHTED ASSETS RATIO OF BANKS IN
SELECTED DEVELOPING ECONOMIES

Country	2007	2008	2009	2010	2011
Russia	18.7	18.2	18.9	17.6	18.2
Chiana	8.4	12.0	11.4	12.2	11.8
India	12.3	13.0	13.2	13.6	
Malasia	14.4	15.5	18.2	17.5	16.4
Brazil	15.9	15.3	16.5	16.9	16.5
Mexico	15.5	16.8	20.9	18.1	17.2

Source: Report on trend and progress of banking, 2010-2011

The capital adequacy ratio had shown an increasing trend in developed economies even after global financial crisis. By 2010, in the UK, US, Japan and Germany, Capital to Risk-weighted Assets Ratio (CRAR) was placed above 15 per cent. The ratio showed a further increase for US and German banks in the first quarter of 2011. In developed economies, the capital adequacy ratio had declined except in China, India and Mexico. Both Mexican and Chinese banks showed a moderate decline in their capital positions by March 2011. Globally, there was little improvement in the asset quality of banks since the onset of the financial crisis. Credit risks have risen and continue to be the key potential risk

to global financial stability. There was a trend of increasing non-performing loans (NPLs) ratio across most advanced economies between 2008 and 2010 with the exception of the US. In the US, there was a moderate improvement in asset quality between 2009 and 2010, which continued in the first quarter of 2011. In complete contrast to advanced economies, many of the major emerging economies showed considerable improvement in asset quality in the years following the crisis. Asset quality remained particularly robust in China.

CONCLUSION

To conclude, the capital adequacy ratio had declined in developing countries while it had improved in developed countries after financial crisis. The global financial crisis had significant negative impact on return on banking assets of developed economies. The banking sector in these economies is recovering. The return on assets had increased in India and China. The banking sector of these countries was not affected by the global financial crisis.

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