MONEY, FINANCE AND CREDIT

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EXPOSURE OF THE BANKING SECTOR TO THE TERMS OF ECONOMIC GLOBALIZATION

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Abstract. *If the twentieth century was called the century of technology and war, the nineteenth century without doubt has been called the century of information and communication. Advanced computer technology and borderless communication have made information, from all over the world, fly in a hundredth of a second. People also move more freely than 30-40 years ago. Land borders are almost extinct on developed continents and countries.*

In the current conditions of the global COVID 19 pandemic situation, on-line communication in every aspect of life is very important. Currently international conferences, workshops, symposia and most of the work is done virtually.

This wave of technological and social developments has given a powerful impetus to the phenomenon that has emerged since the end of the nineteenth century, globalization. Ultimately, globalization itself means setting no boundaries, communicating without limits, and seeing everything as a whole.

Liberalization of markets and integration into the world economy would find these countries unprepared institutionally and morally to the great pressures that economic opening would bring.

Economic globalization, like any phenomenon, has its advantages and disadvantages.

This paper will further highlight the negative aspects of globalization. Its negative impact is evident in all links of financial systems. This paper will focus more on the negative impact that the liberalization of countries in the banking sector may have, as an important part of the financial system.

The first part of the paper analyzes globalization, as an inevitable phenomenon of our days.

In the second part of the paper, the focus is on the banking sector. First, the benefits and costs of globalization are presented, followed by a summary of the risks that usually characterize the banking sector in its activity.

In the last part of the paper, there are given the relevant conclusions and suggestions.

Keywords: *economic globalization, banking sector, foreign direct investment, financial stability.*

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Introduction

Globalization is defined as the process through which goods and services, capital, people, information and ideas flow without borders, thus paving the way for greater integration of economies and societies.

This integration is further driven by technological progress, especially in transport and communication.

Globalization is not a phenomenon of recent decades.

If we go back in history, in the 11th century, we see that the Republic of Venice based its prosperity on trade with other cities and provinces.

However, true globalization began in the second half of the 19th century, with the discovery and exploitation of electricity, the invention of the steam engine, the expansion of railways, and the setting of the gold standard. This period also marked the first wave of global economic integration, which was interrupted by the period of protectionism and aggressive nationalism, which occurred as a result of the Great Depression of the 1930s and the Second World War of the twentieth century.

The will and desire to return to international cooperation after World War II - which materialized immediately with the United Nations recovery and the creation of the International Monetary Fund and the World Bank - brought the second wave of global economic integration. The main beneficiaries of this development were the industrialized countries, where real per capita income tripled in the second half of the twentieth century; even in Germany it increased fivefold.

However, a recent summary study by the World Bank clearly shows that open markets and integration into the global economy have contributed to the great progress of economies for many developing countries as well.

2. Benefits and Costs of Globalization

Today globalization is a trend from which few can escape. But, like any phenomenon, globalization has its advantages and disadvantages. Being not only an economic, but also a political, social and cultural notion, its benefits and costs can be summarized in two terms: Development on the one hand and Poverty on the other.

Analytical arguments supporting financial openness (or in other words a liberalized capital account) address four main issues:

- benefits of international risk sharing for smoothing consumption;
- the positive impact of capital flows on domestic investment and economic growth
- increasing macroeconomic discipline;
- increased efficiency and greater stability of the domestic financial system, accompanied by the penetration of foreign banks.

a. Consumption balance

Entering the global capital market gives a country the opportunity to share risk and balance consumption, allowing the country to borrow in "bad" times (e.g. during a regression or rapid deterioration in trading terms). of a country) or to lend at “good” times (e.g. during an expansion or continuous improvement in the country's trading terms).

b. Domestic investment and growth

The ability of financial openness to penetrate the international resource space can also have an impact on domestic investment and growth. In many developing countries the capacity to save is strained due to a low level of income. As long as the marginal return on investment is at least as much as the cost of capital (borrowed), net inflows of foreign resources can complement domestic savings, increase the level of physical capital per employee, and can help the host country increase the rate. of economic growth and improve the standard of living. These potential benefits can be particularly large for some types of capital inflows, known as Foreign Direct Investment.

c. Increasing macroeconomic discipline

It has been argued that by increasing rewards for good policies and penalties for bad policies, the free flow of capital across borders may encourage states to pursue more disciplined macroeconomic policies, thus reducing the frequency of political mistakes.

d. Increasing the efficiency of the banking system and financial stability

Another argument in favor of financial openness is that it can increase the dimensions of the domestic financial market and can increase the degree of efficiency of the financial intermediation process, especially banking, by entering the domestic market of foreign banks. Penetration of foreign banks:

It can improve the quality and availability of financial services in the domestic market, increasing the degree of banking competition and enabling the application of more sophisticated banking techniques and technologies (such as more advanced risk management systems).

3. Banks Risks.

Banks are always exposed to certain types of risks that are characteristic of their traditional activity.

Credit risk

Credit risk is defined as the risk that arises when a bank's customers do not repay their obligations on time, thus causing a loss. This is the typical risk or "natural risk" of the banking industry. Therefore, banks' boards of directors usually focus continuously on the quality of loans both at the time of their approval and throughout their duration.

Foreign Currency Risk

Foreign exchange risk is the risk of fluctuations in the value of financial instruments as a result of exchange rate changes. This risk is high in those countries with exchange rate instability and usually in this case banks prefer to use financial instruments in a strong currency, which may not necessarily be that of the country in which the bank operates (mention here the phenomenon of deposit dollarization prevalent during the 1950s and which continues to this day in a good part of African states). In most cases, banks manage this type of risk by setting and monitoring the limits of open positions in foreign currency.

Interest Rate Risk

Interest rate risk is the risk of fluctuations in the value of financial instruments as a result of changes in market interest rates. This type of risk is managed by the treasury department through monitoring of market conditions.

Liquidity Risk

Liquidity risk is the risk that arises from the failure to secure funds as needed, e.g. replacement of existing funds at the time of maturity, withdrawal or fulfillment of client requests for additional loans.

Market Risk

Market risk is the risk of loss that arises as a result of opposite developments in market price fluctuations, which may appear in interest rates, foreign exchange markets, stocks and commodities. It is caused as a result of commercial activities and management of the bank's Assets / Liabilities. Furthermore, market risk may arise from other positions taken by the bank, such as in the trading portfolio.

International Banking and Additional Risk

The international trade of goods and services underwent a rapid development during the twentieth century and today it is one of the main engines driving the economy and politics of states. The realization of this trade necessitates the existence of a foreign exchange market that enables and facilitates international payments. In terms of the existence of international payments, there is also a need for international loans, deposits or borrowings. The international deposit and loan market is often called the Eurocurrency Market - and banks that accept deposits and lends are often called Eurobanka. The prefix "euro" used in these two words does not mean that the above activities are limited to Europe.

Recommendations and Conclusions

Globalization is an economic, political, social and cultural phenomenon which few can escape today, in the nineteenth century, in the era of information and movement without borders. However, whenever the world's most powerful countries gather at their annual summits to discuss international cooperation and policies to be pursued in the context of globalization, powerful and even violent protests erupt against institutionalized globalization movements. States and supporters of globalization emphasize its importance, citing as the main reasons the economic growth and development opportunities that this phenomenon brings to societies and individuals. But opponents of globalization respond sharply with the argument that globalization increases and develops more powerful states and with consolidated institutions and market economies, while in poor and developing countries globalization deepens poverty and economic regression.

Analytical arguments supporting economic globalization are: the benefits of international risk-sharing that helps balance consumption - smoothing consumption; the positive impact of capital flows on domestic investment and growth; increasing macroeconomic discipline; increased efficiency and greater stability of the domestic financial system, accompanied by the penetration of foreign banks.

But those who oppose economic globalization argue that this phenomenon brings about: a high degree of concentration of capital flows and a lack of access to finance for small countries; an inappropriate distribution of these flows in the host country; loss of macroeconomic stability; a high degree of volatility of capital flows; and risks related to the penetration of foreign banks. The financial crises that occurred during the 1990s mainly in Asia, Latin America and Eastern Europe, i.e. mainly in developing countries, are the best evidence that opponents of globalization rely on what an "excessive globalization" can bring.

The main indicators that measure the degree of economic integration of a country are **trade openness** and **financial openness**.

Trade openness is estimated by the ratio of trade volume (export + import) to gross domestic product (GDP). However a high trade openness ratio can result not only when the country has high export volumes thus becoming more competitive in foreign markets and directly affecting GDP (export growth directly increases GDP). This ratio gets high value even when the country has high import volumes and low export value, which increase the amount of import + export - the ratio numerator - and decrease the GDP - the ratio denominator. In these cases, the high ratio of trade opening has as a cost the high trade deficit that increases the current deficit. The increase of the current deficit on the other hand brings many other problems related to external debt, domestic debt, exchange rate, etc., making the integration in this case not in favor of the state with high import volume and low export volume. This is also the case of Albania that for years continues to have "wounds" high trade deficit.

Financial openness is mainly assessed by the degree of capital account liberalization or rather by the number of restrictions on the movement of capital flows both out-and-out of a country. However capital account liberalization does not necessarily indicate financial integration. There are countries with highly liberalized or relatively liberalized capital accounts, such as Albania, that have low levels of financial integration - foreign direct investment, portfolio flows and bank lending. This is because the level of foreigners' credibility for investing in a country is affected not only by the legal liberalization of the movement of capital flows, but also by the macroeconomic, political and social situation that in developing countries takes time to reach acceptable standards.

One of the main sectors affected by globalization and economic integration is the banking sector.

In the context of the development of international banking - the realization of banking activities in foreign currency and in other countries abroad the origin of banks - banks operating in foreign markets face another risk, **political risk**. A country's political risk consists of controls over international capital flows, which include quotas on foreign borrowing and deposit, taxes on international capital flows, threats to private property rights, exchange rate controls, and so on. As a result of political risk in banks, exposure to typical banking risks such as credit risk, exchange rate risk, liquidity risk, interest rate risk and market risk may increase.

But domestic banks are also exposed to the unlimited movement of capital, especially when this movement is from the outside.

- Moreover, in the case of developing countries, where the market economy is not yet institutionalized, banks are also significantly exposed to currency instability, non-performing loans and the massive investment in short-term treasury bills, which are usually the main source of covering the budget deficit of developing countries.
- In the Albanian financial system, the Albanian banking sector is the only one that has developed, while other sectors within this industry have undergone modest developments.
- Regarding the stage of exposure of the banking sector in Albania, we can say that it is not at worrying levels and this for several reasons:
- From the analysis and indicators presented during the topic, it is concluded that although Albania has a liberalized capital account, it is still not integrated and integration remains an objective to be achieved in the future. Capital inflows into Albania are low, more in the form of foreign direct investment, which have modest values compared to the region, as well as in the form of long-term loans to the government. While deposits of non-residents remain at minimum levels.

- The commercial banking market is generally not concentrated in a limited number of banks, and the banks that make up the Albanian banking market are owned by interest groups from different countries on three continents, avoiding the importation and spread of crises from other countries as well as the creation of banking monopolies, according to states. The leader of the deposits remains the Savings Bank, a former state-owned bank, which was sold in December 2003 to the prestigious Austrian bank, Raiffeisen Bank. This is considered as one of the greatest achievements of the Albanian banking system in this 20-year period, because such a strong bank is expected to increase the efficiency of the banking market, mainly in bank lending, extending it to individuals and medium-sized businesses and at satisfactory levels, unlike what has been done so far, where lending was at low levels and addressed only to large businesses.
- In Albania there are Banking Supervision institutions and the Deposit Insurance Agency and these supervisory and regulatory institutions of the banking sector are in constant consolidation and are constantly improving their regulations. Banking supervision plays a positive role in reducing the “fragility” and uncertainty of the banking sector against speculative actions that may increase the exposure rate.
- It is true that commercial banks in Albania actively invest in treasury bills, but the fact that treasury bills do not have very high interest rates makes them attractive to the extent that banks fill the gap that leave non-lending, but their realization of profits through this form of investment is not their priority. Even foreigners are less present in this type of investment. The positive thing here is that banks have recently, with the introduction of Raiffessien Bank, are trying to focus more on typical banking activities, rather than secondary activities, which strengthens their market position.
- Banks' capital adequacy ratio and financial leverage, although not at high levels, have a tendency to increase, which indicates that the security of the banking sector is increasing and the risk is decreasing.

It seems that Albania's low degree of integration is the main reason that the banking sector is not very exposed. However, no matter how far we are from membership in the European Union or other important international institutions, global integration is a process we cannot avoid. The economic history of developing countries of the last 10 years provides us with a lot of evidence on the mistakes that can be made along the way and in a way invites us to learn lessons and not repeat the same mistakes. Integration is an important process, but our opening to the world must happen at a pace no faster than the consolidation and strengthening of Albanian institutions and financial system. Only in this way will we be able to avoid or positively face the potential crises that globalization can bring to our country.

Regarding the Albanian banking sector, it should maintain the current indicators and should start immediately from active lending to the population, so that this is the main form of deposit investment.

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