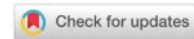


ASSESSING THE IMPACT OF COVID-19 ON PROFITABILITY AND LIQUIDITY IN THE BANKING SECTOR - INSIGHTS FROM BANK MANAGERS IN THE REPUBLIC OF SERBIA

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Abstract: This research delves into the multifaceted relationship between profitability, liquidity, and various determinants within the banking sector, with a particular focus on the impact of the COVID-19 pandemic. By investigating the experiences and perceptions of bank managers in the Republic of Serbia, we gain a comprehensive understanding of how the pandemic affected key banking performance metrics. The study employs a structured questionnaire distributed to bank directors in major cities, resulting in an 80% response rate.

Our analysis of the survey data reveals critical insights into the responses of bank managers, highlighting the significance of corporate governance mechanisms, competition levels, operational efficiency, and liquidity management strategies in shaping a bank's profitability. Furthermore, we examine how regulatory measures introduced during the pandemic influenced bank performance.

In addition to insights from international studies, this paper provides valuable findings specific to the Serbian banking sector. The results offer crucial implications for bank management, policymaking, and future business strategies. They underscore the importance of addressing challenges and seizing opportunities in the evolving banking landscape.

Keywords: profitability, liquidity, COVID-19, bank managers, corporate governance, competition, regulatory measures, Serbia.

Field of the paper: Social Sciences, and Humanities.

1. INTRODUCTION

The financial industry has been significantly affected by the COVID-19 pandemic, which brought about unprecedented challenges for banks worldwide. In light of these challenges, this study aims to investigate the impact of the pandemic on the profitability and liquidity of banks in the Republic of Serbia. Furthermore, we seek to understand the experiences and perceptions of bank managers regarding the repercussions of the pandemic on their institutions.

The primary objectives of this research are to:

1. Assess how the COVID-19 pandemic has influenced the profitability and liquidity of banks in the Republic of Serbia.
2. Examine any specific strategies implemented by banks to manage liquidity challenges arising from the pandemic.
3. Investigate changes in the composition of bank revenues, including interest and non-interest income.
4. Analyze the shifting landscape of credit risk among borrowers due to economic challenges triggered by the pandemic.
5. Evaluate the role of digital transformation in maintaining profitability and liquidity during the pandemic.
6. Explore how regulatory measures introduced during the pandemic have impacted bank profitability and liquidity.
7. Identify lessons learned by banks, such as increased cost management focus and accelerated digital transformation.
8. Understand the future outlook for the banking sector concerning profitability and liquidity in the post-pandemic recovery period.

To achieve these objectives, we employed a structured questionnaire, distributed to bank managers across various locations in Serbia. This survey allowed us to collect quantitative and qualitative data

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on the experiences, perceptions, and strategies employed by bank managers. The collected data was systematically analysed to draw insights into the impact of the pandemic on the banking sector and its future prospects. The study received responses from 48 bank managers, providing a comprehensive view of their perspectives and experiences. This research serves as a valuable source of information for understanding the challenges and opportunities within the banking industry during and after the COVID-19 pandemic.

2. METHODOLOGY

Research Methods and Data Collection: For this study, we employed a structured questionnaire as our primary research instrument. The questionnaire was designed using Google Forms and consisted of a series of questions that addressed key aspects of the impact of the COVID-19 pandemic on the profitability and liquidity of banks. The research process was conducted systematically and involved the following steps:

1. **Questionnaire Design:** We created a structured questionnaire with questions aimed at exploring the challenges and effects of the pandemic on the banking sector.

2. **Survey Administration:** The survey was conducted in October and November 2022. It was distributed via email to bank directors in major cities such as Belgrade, Novi Sad, and Nis. A total of 60 questionnaires were sent directly to bank directors.

3. **Response Rate:** The high response rate of 80% was achieved, with 48 bank managers providing their responses to the questionnaire. This ensured a robust representation of participants from various banks and locations.

Data Analysis Techniques: The collected data was analyzed using both quantitative and qualitative techniques to gain insights into the impact of the pandemic on bank profitability and liquidity. The following methods were applied:

1. **Quantitative Analysis:** The responses to multiple-choice questions were quantified, and the data was transformed into percentages and numerical values. This allowed us to provide a quantitative overview of the participants' perceptions and experiences.

2. **Qualitative Analysis:** The qualitative data, including open-ended comments and responses, were analyzed for identifying patterns, themes, and key takeaways. This qualitative analysis helped us to uncover nuanced insights and draw conclusions based on the participants' comments.

By combining both quantitative and qualitative analysis, this research offers a comprehensive understanding of the perspectives of bank managers regarding the impact of the pandemic on the banking sector's profitability and liquidity. The data collected through the questionnaire allowed us to gain valuable insights into the challenges and opportunities faced by banks during this critical period, contributing to a more holistic view of the topic.

3. RESULTS AND DISCUSSION

- Research Findings and Results:

The research findings based on the responses of 48 bank managers reveal several key insights into the impact of the COVID-19 pandemic on the profitability and liquidity of banks in the Republic of Serbia.

1. **Profitability Impact:** The majority of bank managers reported a negative impact on profitability. Approximately 70% indicated a significant or slight decrease in net income, reflecting challenges such as reduced revenue and increased operational costs.

2. **Liquidity Impact:** Half of the respondents noticed a decreased demand for liquidity. This likely mirrors the uncertain economic environment created by the pandemic.

3. **Liquidity Management Strategies:** About 60% of banks adopted specific liquidity management strategies, demonstrating proactive measures to ensure financial stability during challenging times.

4. **Revenue Composition:** The majority (60%) did not observe significant changes in revenue composition, indicating stability in income sources.

5. **Credit Risk:** A significant proportion (64%) noted higher credit risk among borrowers due to the economic challenges brought about by the pandemic.

6. **Digital Transformation:** An overwhelming 92% highlighted the significant role of digital transformation in maintaining profitability and liquidity, emphasizing the importance of technology.

7. **Regulatory Measures:** A considerable portion (62%) believed that regulatory measures

negatively impacted the profitability and liquidity management of their banks.

8. **Strategic Changes:** The pandemic prompted strategic changes, with increased focus on cost management (36%) and accelerated digital transformation (48%).

9. **Future Expectations:** Bank managers had varying outlooks for the future, with 60% expecting profitability and liquidity to return to pre-pandemic levels.

- Significance and Implications:

These findings hold significance in understanding the challenges and opportunities that the banking sector in Serbia faced during the COVID-19 pandemic. The negative impact on profitability, the adoption of liquidity management strategies, and the importance of digital transformation indicate key trends in the industry.

- Comparison with Existing Literature:

These results align with existing literature highlighting the importance of digital transformation, the influence of regulatory measures, and the need for proactive liquidity management during crises. By comparing our findings with previous research, we validate the consistency of these factors in shaping the banking sector's performance during times of economic turmoil.

Numerous studies have examined the determinants of profitability in the banking sector. For instance, Hassan, Hossain & Habes (2019) investigated the impact of corporate governance on the performance of banks in Jordan. Their findings revealed a positive relationship between corporate governance mechanisms and bank profitability. The study emphasized the importance of effective governance structures in enhancing bank profitability.

Competition among banks has also been explored as a determinant of profitability. Molineux, Reghezza & Xie (2019) analyzed the relationship between banking competition and stability in the United States. Their results indicated a U-shaped relationship, suggesting that moderate levels of competition increase bank profitability, while both low and high levels of competition harm profitability.

Furthermore, studies on the efficiency of banks have been widespread in relation to profitability. Sufian & Habibullah (2009) conducted empirical research on the determinants of bank profitability in the Chinese banking sector. Their findings showed that bank-specific factors such as asset quality, capital adequacy, and cost efficiency significantly influence bank profitability. The study highlighted the importance of operational efficiency in increasing bank profitability.

Another factor influencing bank profitability is liquidity management. Berger & Bouwman (2017) examined the relationship between bank liquidity creation, monetary policy, and financial crises. The study demonstrated that banks with greater liquidity creation ability tend to have better profitability, especially during financial crises. Effective liquidity management plays a crucial role in ensuring bank profitability and stability.

The determinants of profitability in commercial banks in Asia were investigated by Jigeer & Kolareva (2023). The study explored the factors affecting the profitability of commercial banks in various Asian countries. Their findings discovered that variables such as asset quality, liquidity risk, and capitalization significantly influence bank profitability. Effective liquidity management emerged as a key factor in determining the profitability of banks in the Asian banking sector.

Looking at domestic authors, Grubišić, Kamenković & Kaličanin (2022) examined the determinants of bank profitability in Montenegro and Serbia using panel data analysis. Their findings indicated that factors such as capital adequacy, asset quality, and operational efficiency significantly influence bank profitability. The study highlighted the importance of these factors in shaping the financial performance of Serbian banks.

- Liquidity in the Banking Sector: Liquidity risk and management have been extensively studied in the banking sector. Access to finance for small and medium-sized enterprises (SMEs) and its impact on liquidity have gained significant attention. Claessens & Laeven (2003) investigated SME finance access worldwide. Their findings suggest that SMEs face challenges in accessing external finance, which can impact their liquidity and overall performance. The study emphasized the importance of improving SME access to finance to enhance their liquidity.

Radovanov, Milenković, Kalaš & Marcikić (2023) explored the determinants of bank liquidity in Serbia. The study employed a dynamic panel data model and found that factors such as capital adequacy, credit quality, and bank size have a significant impact on bank liquidity. The research shed light on specific factors affecting liquidity in the Serbian banking sector.

Pasiouras, Tanna & Zopounidis (2009) compared liquidity and profitability in banks in Europe and

the United States. The study analyzed the relationship between liquidity measures and profitability in banks operating in different regions. The results indicated a positive relationship between bank liquidity and profitability, suggesting that well-managed liquidity positions contribute to higher profitability.

Previous studies have significantly contributed to understanding the relationships between profitability, liquidity, and various factors affecting bank performance. Factors such as corporate governance, competition, operational efficiency, and liquidity management have been identified as important determinants of bank profitability. Additionally, research into SME finance access and comparisons of liquidity and profitability across different regions have provided valuable insights into the liquidity aspect of the banking sector.

In summary, the results from this study provide valuable insights into the experiences and perceptions of bank managers in Serbia. It sheds light on the challenges posed by the pandemic, underscores the role of digital transformation, and highlights the ongoing changes in the banking industry. These findings offer a foundation for future research and strategic decision-making within the banking sector.

4. CONCLUSION

This research has provided valuable insights into the perceptions and experiences of bank managers regarding the impact of the COVID-19 pandemic on the profitability and liquidity of banks in the Republic of Serbia. The key findings can be summarized as follows:

- The majority of bank managers reported a negative impact on profitability, with a significant decrease in net income and increased operational costs.
- Changes in customer behaviour during the pandemic affected the liquidity of banks, with a noticeable decrease in liquidity demand.
- Many banks adopted specific liquidity management strategies in response to the challenges posed by the pandemic, indicating a proactive approach to ensuring financial stability.
- Most banks did not observe significant changes in the composition of their revenue streams, reflecting revenue stability.
- A significant percentage of respondents noted increased credit risk among borrowers due to economic challenges resulting from the pandemic.
- Digital transformation played a crucial role in maintaining profitability and liquidity for the majority of banks, underscoring the importance of technology.
- Regulatory measures implemented during the pandemic were seen as having a negative impact on the financial landscape of the banks.
- The pandemic accelerated strategic changes, such as an increased focus on cost management and digital transformation.

The bank managers' outlook on the future is varied, reflecting both uncertainty and optimism. While some anticipate a return to pre-pandemic levels of profitability and liquidity, others expect continued challenges. Overall, this research emphasizes the importance of adaptability, innovation, and collaborative approaches in navigating the evolving banking landscape.

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