Exploring the Banking Business Model: A Case Study of Croatia

Anita Pavković, PhD[1], August Cesarec, PhD[2]

[1,2]*Faculty of Economics & Business, University of Zagreb*

ABSTRACT

Banks are the most important financial intermediaries in the European Union. In the Republic of Croatia, banks still represent approximately 70 % of the financial sectors' assets. In terms of their asset composition, loans are key part of their balance sheet and hence interest income is the most important source of profitability. For the economy, especially households and non-financial corporations, bank loans are the most significant external financing source and a vital prerequisite for sustainable economic growth and stability. Therefore, the success of banks' intermediation, i.e. "transformation" of received deposits and other funding sources into loans, determines country's economic prospects. The aim of this article is to calculate intermediation efficiency of the Croatian banking sector. The input variables will include main sources of banks' financing (e.g. deposits), while loans will be used as the primary output variable. Banks' financial statements will be used as a main data source. Our key hypothesis is that Croatian banks are efficient in intermediation role and hence contribute to the growth of the national economy and financial stability.

Keywords: bank efficiency, DEA analysis, financial intermediation, financial stability, loans