International Journal of Economics
Vol. 14 No. 1 (January-June, 2020)

Received: 13th September 2019 *Revised: 24th December 2019* *Accepted: 10th January 2020*

Financial Restructuring in South Eastern Europe: Overview and Recent Trends

Georgios Anastasiadis*

South Eastern Europe was a late starter in financial reform and not before the financial sector had proved to be a major weak link in the transition process manifested in major financial crises. Subsequent recapitalisations of the banking systems, at a hefty price, opened the way for privatisation. Soon, foreign banks came to control the domestic financial systems. The current situation is quite encouraging as the financial systems are making progress at a fast pace although this is happening at different speeds across countries. In the meantime, macroeconomic and institutional imbalances imply the need for corrections and further structural change.

***Key words**: Financial reform, South Eastern Europe, Foreign banking*

JEL *Classidfication:* *E50; E53; E59.*

I. INTRODUCTION

In this paper we will provide an overview of the developments regarding financial reform in South Eastern Europe. The macroeconomic and institutional developments will provide the general background. The current outlook of the financial system will be analysed in conjunction with the role of foreign financial institutions that have come to dominate the domestic financial systems. The development of financial intermediation and deepening in terms of credit growth and the state of financial maturity will be assessed. The existing financial risks will be analysed given the high Euroisation of financial liabilities and the challenges regarding integration in the single European market for financial services. Finally, a short summary will be provided for developments at country level given the high degree of heterogeneity between financial systems and their level of maturity.

II. THE MACROECONOMIC AND INSTITUTIONAL ENVIRONMENT

The banking restructuring process in South Eastern Europe (SEE) started in the late 1990s after most countries had experienced a major financial crisis that entailed failures of major domestic banks. Recapitalisation and privatization signalled the entrance of foreign banks and the retrenchment of state-ownership in the financial system. Empirical evidence has suggested that during the 1990s, large government deficits and high inflation often linked to money printing crowded out private sector lending while loose banking regulation and supervision could not provide for a sound foundation for sustainable credit growth (SEERC, 2005). This

* City Liberal Studies, Affiliated Institution of the University of Sheffield, Department of Business and Economics, 13 Tsimiski Street Thessaloniki, Greece, *E-mail: ganastasiadis@city.academic.gr*

time around, financial systems are in most cases able to steer clear of major crises. However, they could still face some painful corrections from persisting structural/institutional weaknesses and the evidence of arising macroeoconomic imbalances.

An overview of macroeconomic and structural indicators below (tables I and II) provides an idea regarding current constraints. The current outlook of the financial system after privatisation and restructuring will be analysed.

Table 1
Macroeconomic Indicators (2003)

	SEE	*ALB*	*BiH*	*BULG*	*CRO*	*FYROM*	*SiM*	*ROM*
GDP Growth	3.9	6.0	3.2	4.3	4.3	3.4	1.5	4.9
Inflation	4.8	2.5	0.2	2.3	2.2	1.1	9.6	15.4
G. Balance (%GDP)	-2.8	-4.5	-0.2	-0.4	-6.3	-1.6	-4.2	-2.4
C. Account (%GDP)	-8.8	-7.6	-17	-8.4	-6.1	-6.0	-10	-5.8
For. Debt (%GDP)	49.7	23.1	34.9	65.6	81.8	38.7	68.9	34.6
FDI (%GDP)	4.9	2.9	5.4	7.1	6.9	2.0	6.5	3.2
Exch. Rate $		121.9	1.7	1.7	6.7	54.3	57.4	33200
Discount Rate	8.3	4.6	4.5	5.2	4.8	7.0	12.0	20.0
GDP per capita $	2900	1942	1849	2531	6518	2341	2492	2624
Unemployment Rate	23.1	15	44	13.5	18.7	35.3	28.6	7.2

Source: IFS, UNECE, National Statistical Office

A dominant constraint to further gains in financial intermediation is the weak institutional environment and lagging structural change, which predominate in constraining financial deepening. The strengthening of property rights, particularly regarding creditor and shareholder protection and the cementing of an overall competitive economic environment with stronger judicial enforcement seem to be the overriding issues. Enhancing competitive market structures will require the enforcement of competition law next to the continued unwinding of large public sector stakes coupled with the elimination of soft budgets and large payment arrears.

Much greater emphasis needs to be placed on the gradual absorption of the unofficial economies into mainstream economic activity.

Table 2
EBRD Transition Indicators 2004 (Ranking Indexes, Scale: 1-5)

	ALB	*BiH*	*BULG*	*CRO*	*FYROM*	*ROM*	*SiM*
Small Scale Priv.	4.0	3.0	3.7	4.3	4.0	3.7	3.0
Large Scale Priv.	2.3	2.3	3.7	3.3	3.0	3.3	1.0
Enterprise Reform	2.0	2.0	2.7	2.7	2.3	2.0	1.0
Competition Policy	1.7	1.0	2.3	2.3	2.0	2.3	1.0
InfrastructureReform	2.0	3.0	2.7	2.7	2.0	3.0	2.0
Banking Reform	2.3	2.3	3.3	3.7	3.0	2.7	1.0
Non-banking Reform	1.7	1.7	2.0	2.7	1.7	2.0	1.0
Legal Extensiveness	2.7	1.3	4.0	3.7	3.3	4.0	3.3
Legal Effectiveness	2.0	2.0	3.7	3.7	3.7	4.0	3.0

Source: EBRD Transition report (2005).

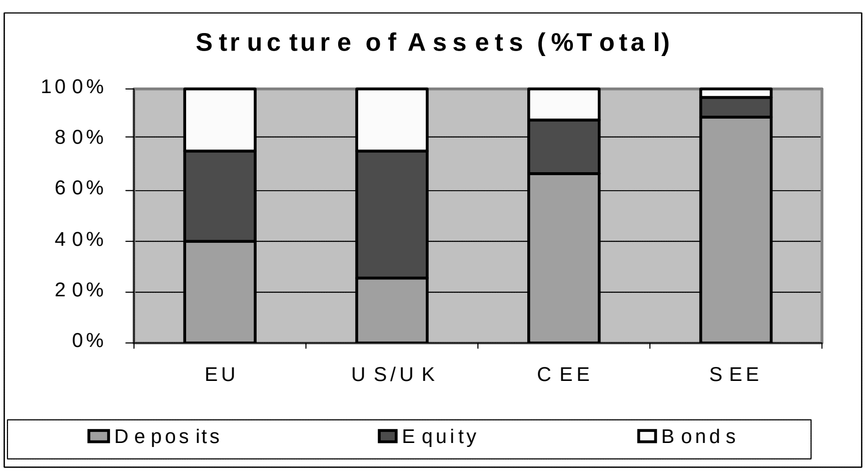
Regarding financial stability, the factors that seem to predominate relate to the macroeconomic outlook and particularly the reliance on not entirely credible exchange rate pegs as nominal anchors in the face of large current account deficits. Although in most cases external deficits are financed through foreign capital inflows the situation appears fragile given potential currency overvaluation coupled with large foreign currency liabilities of the banking system and a questionable resilience to economic shocks. Enhancing the ability of economic policy to react to changing circumstances and external shocks is a pressing need that is constrained by lagging fiscal consolidation (inelastic spending and a weak tax base) and lack of significant domestic financial instruments for the conduct of an effective monetary policy.

III. A BANK BASED FINANCIAL SYSTEM AFTER RESTRUCTURING AND PRIVATISATION

Currently, the financial sector of South Eastern Europe (SEE) is overwhelmingly dominated by banking which holds around 80-95% of financial assets. The dominance of banking is also evident in households holding over 90% of their financial wealth in the form of bank deposits. Similarly, corporations have little chance to raise finance in ways other than bank loans and retained earnings. Hence non-banking finance remains underdeveloped.

In the EU, deposits constitute only around 40% of the share of financial assets and loans constitute less than 55% of corporate liabilities. These figures are on average even smaller for the USA or Britain that have more strongly market-based financial systems (graph 1). There, households hold more equities, bonds and units of institutional investors and pension funds rather than bank deposits. Correspondingly corporations tend to raise a much higher fraction of capital from the capital market rather than via bank loans. The financial sectors of Central Eastern Europe (CEE) are making progress towards EU financial asset structures but also there non-banking finance remains subdued (Bank Austria, 2004).

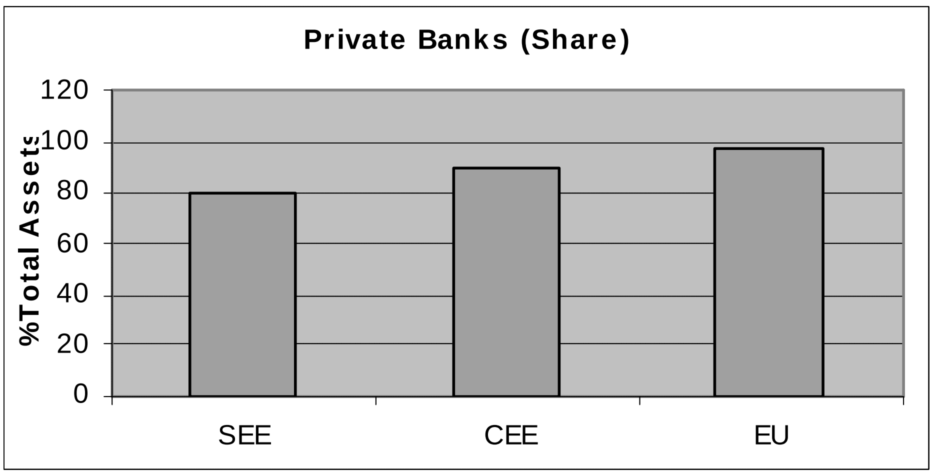
Graph 1



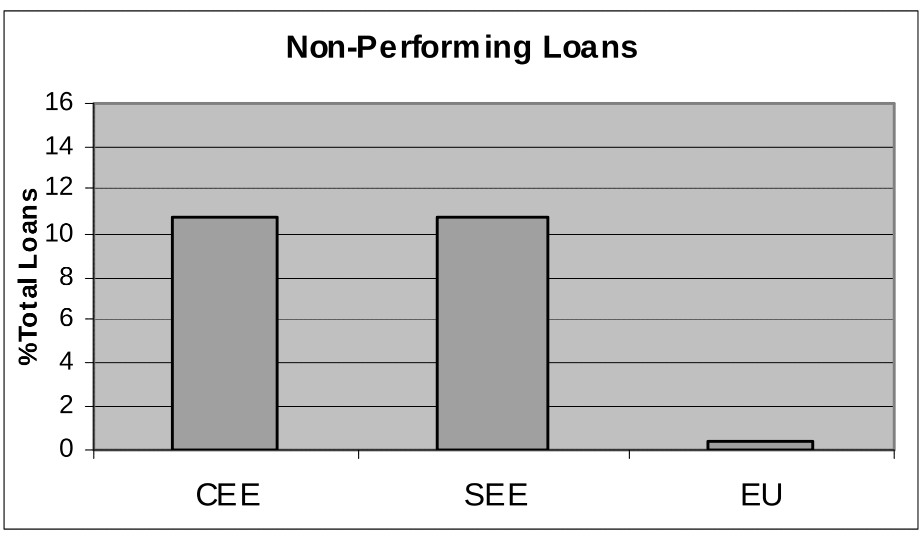
Source: Bank Austria, 2004

After a series of banking failures across the region over the 1990s, renewed efforts at bank restructuring through mergers, liquidations and privatisations resulted in private banks dominating (graph 2) in an overall much healthier banking system for all countries in the region (Bonin, 2001). This is also evident in the declining share of non-performing loans that stand at less than 11% of the total from over 60% in the late 1990s (graph 3). In many cases, refinancing of the financial sector occurred at a high cost e.g. close to 10% of GDP for Romania and 12% for FYR-Macedonia.

Graph 2



Graph 3



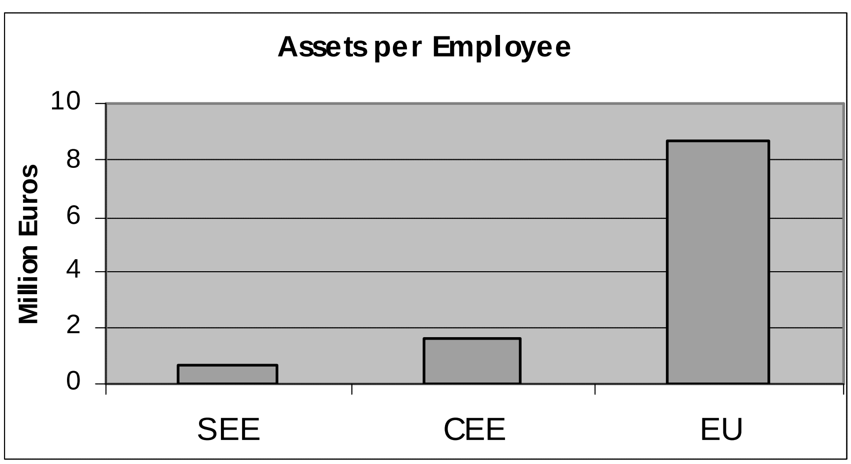
Source: Bank Austria, 2004

Concentration (5 largest banks holding 66% of assets) is higher than the 54% EU average, although the presence of many small banks is still evident, which might imply some potential for future consolidation. In terms of profitability, return on equity averages at 11% and combined with high capital reserves for the banking system as a whole, at almost twice the EU average, implies high liquidity, a sense of security as well as space for further expansion. However, profitability relies on high real interest rates for loans at 10% compared to 2.8% for the EU. This makes up for the low fee-based revenues and the higher risks incurred in SEE.

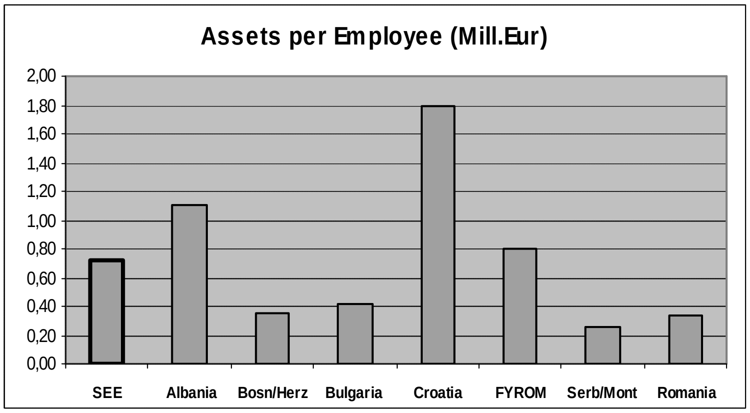
A key issue for SEE banking is the low level of assets per employee with SEE banks employing 12 times more employees than in the EU and twice as many in comparison to CEE to manage the same amount of assets (graph 4). In SEE average bank size is still very small. Looking at average bank size for each country, bank assets per employ stand at just Eur0,720mn for the SEE average (graph 5). This is considered very low both by EU standards but also for reaping economies of scale and/or establishing state-of-the-art banking practices. It has been estimated that at EU level the average bank size, measured by assets, required to secure economies of scale ranges between Eur5-10bn (O'Brien and Wagenvoort, 2001). According to our calculations, in SEE, the highest average bank size, looking only at the assets of the largest 5 banks in every country, is registered in Croatia at Eur4bn followed by Romania at Eur2bn while in Bulgaria it is still below Eur1bn (Anastasiadis et al, 2005). The problem is more pronounced when one considers the fact that banks are primarily of the universal type with limited focus on market niches. Average bank size has nevertheless more than doubled since 1999 and impressive progress has also taken place over the past couple of years.

The above issue is of vital importance and provides a major competitive advantage for foreign banks vis-à-vis domestic since the former are able to integrate their domestic operations to their international networks and hence bypass the diseconomies of scale and new technologies problem arising from the small domestic market size. Further, the problems arising from the small market size might explain the constantly increasing share of foreign banks while the ability of domestic banks to expand their assets could be seen as an issue of survival.

Graph 4



Graph 5

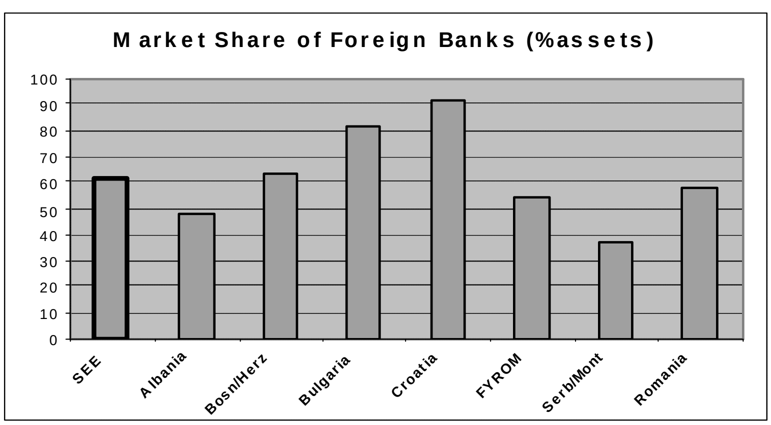


Source: Bank Austria, 2004

Regarding institutional developments in the financial market, the driving force has been the effort to gradually introduce EU regulations to the domestic financial system. Great progress has occurred particularly in reducing excessive credit extension to few selected clients, directed lending to failing state enterprises and direct advances by Central Banks to finance public deficits. These factors were much to blame for the financial crises of the 1990s (Sevic, 2002). That said, there is still plenty of room for further improvement, especially in the implementation process of the legislated institutional reforms.

One can claim that European cross-border consolidation has already happened in the region before it has hardly taken off in the rest of the EU._Foreign banks dominate Eastern European financial systems controlling over 72% of assets in CEE and 62% in SEE but only 24% in the broader EMU area (Boot.A, 2003). Austrian, Greek, Italian, French and German banks are leading the way. Croatia and Bulgaria have the highest penetration rates (Graph 6). In non-banking finance, foreign insurance companies and investment funds have been gradually entering these markets too.

Graph 6



The dominance of foreign banks is due to the fact that neither domestic financial institutions nor the financial system as a whole could prove resilient enough or simply did not have enough time for national consolidation as EU banks where swift to grab the opportunities offered by privatisation under conditions of grave economic crises. On the other hand, the potential for growth in Eastern Europe and the opportunities arising from economic liberalization in the region, were quite attractive for foreign banks. This was in contrast with the situation prevailing in EU countries, where there is significant homogeneity in cost efficiency structures between financial institutions, significant overbanking and strong competition from domestic banks.

The concentration of assets in the banking system and slow progress in developing a well functioning financial services industry act as a constraint to the further evolution in the financial sector. A serious pension reform that could provide a major drive for the development of non-banking finance is not sufficiently advanced in any of the countries in the region. The insurance industry remains geared towards provision of non-life products and services. Insurance and pension fund assets average below 6% of GDP in the region compared to 46% in the EU and 11% in CEE. Finally, stock markets remain shallow with market capitalization around 11% of GDP and quite illiquid providing limited opportunities for raising funds towards corporate expansion.

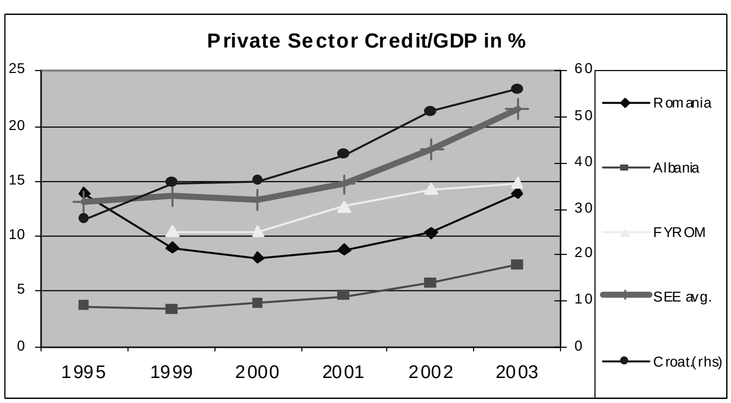
Croatia and Bulgaria have made most progress in initiating new pension systems and together with Romania have achieved sizeable stock market capitalization above 20% of GDP in 2005. In other countries pension reform is still grappling with fiscal sustainability issues relating to transitory expenses and capital markets are hardly evolved.

IV. DOMESTIC CREDIT GROWTH AND FINANCIAL INTERMEDIATION

The financial crises of the late 1990s highlighted the fact that the high ratios of money supply to GDP in SEE during the early 1990s were illusory as they were mainly linked to the monetisation of public deficits and generally unsustainable lending in a high inflation environment. The financial crises that followed resulted in widespread demonetisation across the region.

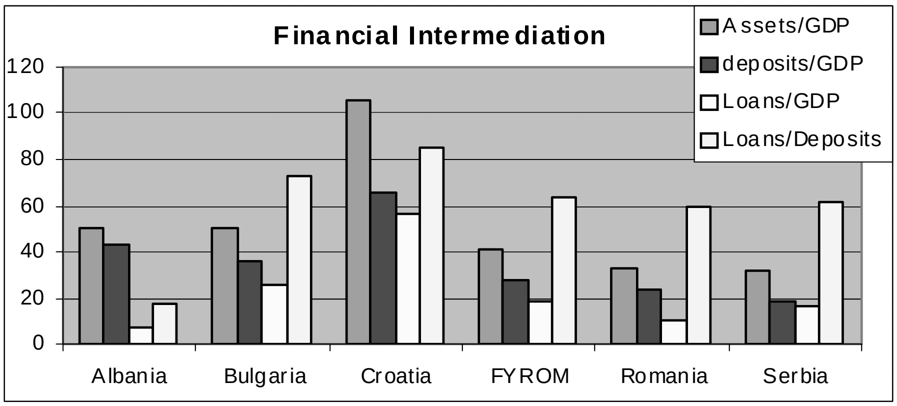
Since the recapitalisation of the financial systems in the late 1990s, bank credit to the private sector in SEE has started to rise rapidly from fairly low levels in line with the development of private sector productive activity and private financial institutions (graph 7). However, the

Graph 7



levels in overall financial intermediation remain modest (graph 8). Further the speed of increase of credit expansion, as well as the way that this increase was financed, have varied sharply within the region.

Graph 8



Broadly speaking three country groups have been identified in the relevant literature (Cottarelli, *et al.*, 2003)

(a) The "early birds", in which Bulgaria and Croatia are included. In these two countries the stock of bank credit to the private sector (BCPS) has been rising for at least seven years at an annual average rate exceeding 1.5 percentage points the growth in nominal GDP. In Bulgaria the surge on BCPS reached 44.0% in 2002, 48.3% in 2003 and 40.5% in 2004. These countries also share a fairly similar experience in the way the increase in BCPS was financed, namely through increased bank intermediation, reflected in a rising deposit to GDP ratio, as well as through the decline in credit to the general government sector.

(b) The "late risers" Bosnia-Herzegovina and Serbia-Montenegro have experienced a rise in BCPS only recently, since 2002. The rise has been fuelled by a surge in deposits, partly reflecting the response of bank customers to the introduction of the Euro. The latter forced holders of pre-euro currency notes to deposit them with the banks in order to convert them into Euros. The bulk of these resources stayed in the banking system providing banks with the resources needed to expand their loans. In Serbia-Montenegro BCPS growth reached 45.3% in 2002, 32.5% in 2003 and 28.6% in 2004.

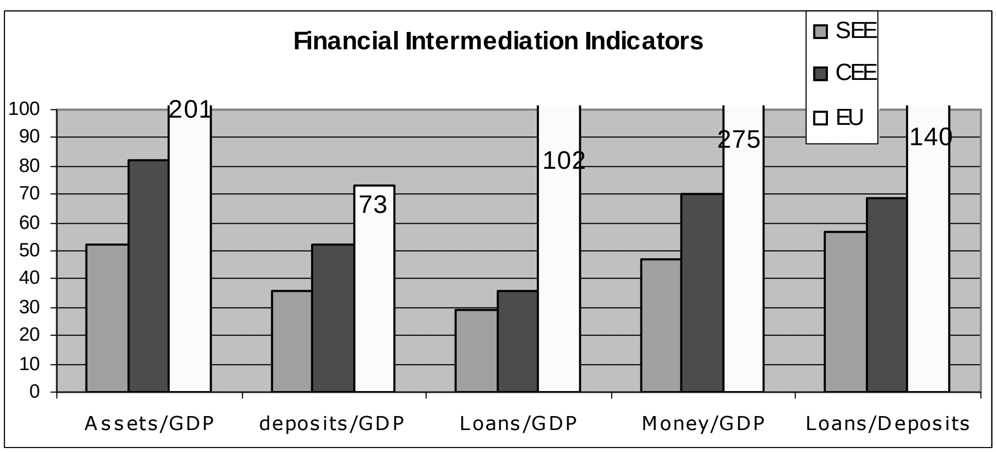
(c) The "sleeping beauties", in which Albania, FYR-Macedonia and Romania are included, experienced an initial decline of the BCPS ratio with respect to GDP, partly reflecting writing off operations and a stabilization of the BCPS/GDP ratio in 2001-2002. Then the ratio started rising from end-2002 onwards, especially in Romania. Until the summer of 2003 bank balance sheets in these countries were expanding in line with GDP with limited changes in balance sheet composition. However, in FYR-Macedonia while the overall growth in BCPS has not exceeded that of nominal GDP, credit to households has increased more rapidly. In Romania, growth of BCPS has recently exceeded that of nominal GDP, reaching 51.9% in 2002, 70.1% in 2003 and 44.2% in 2004.

Until recently, the rise in the BCPS might not have been in line with the rising share of the private sector in value added. While the latter's contribution to GDP ranges between 65-80% its absorption of financial resources ranges between 7-26% of GDP with the exception of Croatia where BCPS reached 56% of GDP in 2003.

The rise in BCPS up to 2002 has been outperformed by the rise in deposits but this trend has been appreciably reversed since mid 2002 with household related loans registering the most sizeable gains. Even so with the exception of Croatia where the household sector came to absorb 49% of total loans in 2003, in the other countries its share remains relatively limited. Bulgaria that has also experienced fast growth in household lending the latter's share was below 30% of the total or around 8% of GDP in 2003 (Anastasiadis *et al.*, 2005).

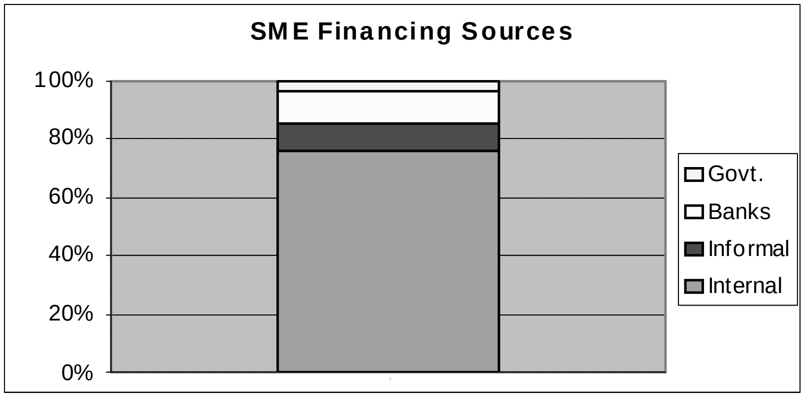
Improved banking health has not yet sufficiently impacted the growth process. The impact of reform still lags behind considering that total banking assets average at 51% of GDP with total loans and deposits at 21% and 36% respectively. Respective EU averages stand at 73% and 102% of GDP. More importantly the fact that the loans to deposits ratio has only recently reached 57% while for the EU and CEE stands at 140% and 64% respectively, shows that regional financial systems still mobilise more resources than they can lend (graph 9).

Graph 9



Real lending interest rates at 9.6% compared to 2,8% for the EU coupled with excessive collateral requirements, usually at 100% of the loan value, make borrowing prohibitive for domestic SMEs. According to the BEEPS surveys (Fries, Lysenko and Polanec, 2003), 70-80% of domestic enterprises claim that bank borrowing is either very difficult or impossible. This is more pronounced for SMEs while the least affected parties are large and especially foreign companies, public enterprises and particularly those with access to FX loans. In fact SMEs have to rely primarily on internal sources (retained earnings) to cover their financing needs with banks covering just 11% and informal sources like family and money-lenders another 10% (graph 10).

Graph 10



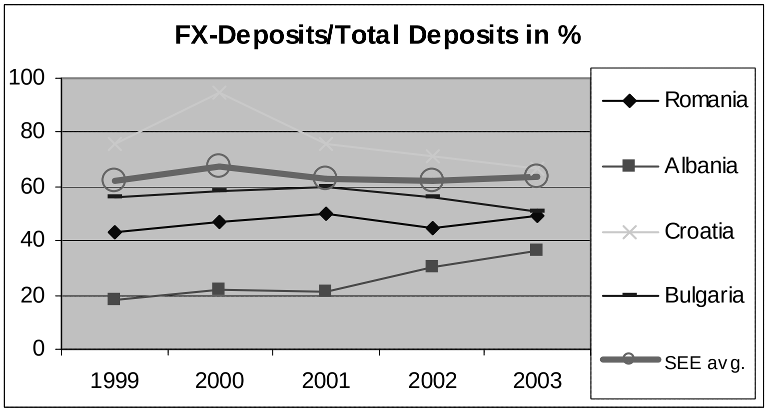
The major constraints to financial development, relate primarily to the overall lagging institutional framework and other objective difficulties stemming from the transition process itself. Inadequate legal protection for lenders, lack of credit history for companies and households, limited transparency in corporate governance and insufficient technical skills by finance professionals all combine to keep the brakes on credit expansion. At bank level, the fact that balance sheets are dominated by short-term deposits and Central Bank Bills coupled by high reserve requirements constitute another set of constraining factors. Short term deposits exceed 50% of the total in the more advanced financial sectors and reach 70% in the least evolved. This is reflected in the limited extension of long-term loans that average around 14% of the total.

The past history of financial crises has embedded a mentality of financial insecurity that encourages extreme attitudes, with the pendulum swinging between conservatism and speculation. In recent years, confidence to the financial system has been improving mostly due to the regional economic recovery and sustained macroeconomic stability. The observed high growth of credit expansion in recent years in the most advanced countries of the region is a welcome development as far as it is conducted with awareness of the risks involved by taking due care and observing all the rules of secure and efficient financial conduct.

V. AN EARLY DE FACTO 'EUROISATION' PROCESS AND FUTURE CHALLENGES

The relatively low confidence in the ability of SEE governments to sustain stable economic conditions has resulted in a high share of foreign currency deposits and loans that usually account for half of the total on both accounts (table 10). A related issue is the fact that banks until recently placed, in some cases, almost half their assets abroad, primarily with EU financial institutions (NBG, 2003). Even in the most evolved systems like Bulgaria up to 2002 a third of banking assets were placed abroad and this is still the case for FYR-Macedonia with 30% of banking assets (see country case studies in Part B). This is a rather remarkable feature given the urgent domestic investment requirements. We will argue that this feature is primarily linked to lagging institutional prerequisites for a favourable business environment.

Graph 11



In recent years, the growth in consumer lending and mortgages as well as FX lending to sectors of the economy not involved in the production of internationally traded goods has accentuated the potential risks from confidence loss and/or exchange rate volatility. Further and more importantly it could raise issues regarding the long-term efficient allocation of scarce economic resources and economic competitiveness. Finally, the high degree of de facto euroisation also limits the domestic monetary base, constraining the effectiveness of domestic monetary policy.

The prospects for growth in the financial sector are spectacular given the potential for the expansion of loans, introduction of new financial services and the minimal current size of non-banking finance. However, one must bear in mind that financial sector maturity can only be a medium to long-term goal. Long-term key constraints include low per capita incomes and lagging structural and institutional change.

The medium-term key issue is systemic confidence-building for the purpose of mobilizing domestic savings towards the emergence of a strong private sector and away from unproductive uses and loss-making public sector activities. The related issue is the ability of national governments to maintain macroeconomic stability and institutional change, coupled with the implementation of prudent financial regulation. The ultimate target for all countries of the region will remain the earliest possible entry into the Eurozone.

Eventually, the banking systems will have to shift their assets structure towards higher risk lending in order to realize their potential in terms of both profitability and effective financial intermediation. Corporate governance will need to improve if the stock exchange is to develop and pension/insurance funds must evolve sufficiently to become institutional investors. Finally, the process of EU accession and the eventual full liberalization of international capital flows will provide the final test for regional financial sectors.

VI. CONCLUDING REMARKS

The above analysis draws primarily upon regional financial averages, which tend to veil country specific differences that are quite pronounced. This is evident in the summary table on financial indicators but also from EBRD transition indicators for banking and non-banking financial reform (See appendix).

The financial systems of Bulgaria and Croatia are most advanced followed by Romania and FYR-Macedonia while the systems of Albania, Bosnia-Herzegovina and Serbia-Montenegro are the least evolved.

In the more evolved systems, priority issues relate to the strengthening and full implementation of the new institutional arrangements and organizational structures, faster progress in financial intermediation with risks arising from missing links in the transition process and the ability of the system to support rising credit growth.

In the less advanced systems, priority issues relate to the establishment of the new institutional and organizational structures pertaining to the development of a well functioning financial system and to a gradual progress in financial intermediation coping with the risks arising from the still higher weight of state banks, the underdeveloped financial infrastructure and the overall lagging structural and institutional reform.

Looking at the country outlook the situation can be summarized as follows:

Albania: Least evolved in terms of credit extension to the private sector (7,4% of GDP) while the public sector until 2004 retained the highest share of state ownership in banking at 52% of assets. Real interest rates for lending at 12% are from the highest and so is the share of FX-loans in total lending. Banking concentration (above 83%) is the highest and banks rely almost entirely on interest earnings. Although the financial sector has accumulating assets at 50% of GDP, public deficit financing continues to swell monetary aggregates. In 2002 government securities accounted for 55% of total banking assets. Non-banking finance is most underdeveloped.

Bosnia-Herzegovina: A regional laggard, given the high exposure to regional upheavals, the lowest per capita income, small size of the economy and exceptionally weak institutional evolution. The loans to deposit ratio is the second lowest in the region and the real interest rate the highest. Recently, foreign banks have taken a dominant role in the banking sector, which constitutes the more advanced sector of the economy. A current account deficit close to 18% of GDP highlights the macroeconomic limitations and an unemployment rate at 44% points to the severity of economic problems.

Bulgaria: The financial sector evolution has been impressive in recent years with a strong growth in savings mobilization and since 2002 there has been a doubling of banking assets per employ, credit as a share of GDP, and stock exchange capitalization. The loans to deposits ratio reached 80% in 2004, becoming the second highest in the region. Competitive tendencies have been on the rise and non-interest earnings as well as long-term loans have risen substantially while banking profitability has remained high. Risks relate to the ability of the system to withstand the high expansion of recent years particularly in consumer credit.

Croatia: The most evolved financial system with money supply, credit extension and banking assets being above the averages of CEE. Profitability is high but relies on a high real interest spread at 7,5%, which is from the highest in the region. The recent boom in credit has raised stability risks considering the high Euroisation rate of banking assets and the fact that Croatia has the highest public deficit and foreign debt in the region. Croatia, up to 2003, had the highest rate of foreign bank participation in assets at 91% of the total. Assets per employ are the highest in the region at 1,8mnEur and exceed the CEE average. The stock market has the highest capitalization in the region close to 20% of GDP.

FYR-Macedonia: Despite progress since the late 1990s, financial evolution has remained relatively static in recent years with all basic financial intermediation indicators unable to register gains. Non-performing loans have declined very impressively in the last couple of years but remain from the highest in the region at 16% of the total. The share of FX-deposits in total at 64% is from the highest in the region and real interest rates as well as spreads remain inordinate. According to the IMF (IMF country report 2003), banking governance is problematic especially for a number of smaller banks where related lending could to be an issue.

Romania: Having started relatively late the process of financial reform, the country is lagging behind despite the fact that it has made significant progress in the overall process towards EU accession. Money supply is quite low at 25% of GDP and so is credit extension to the private sector. The recent credit boom has also raised stability concerns given the high inflation differential and the subsequent erosion in competitiveness reflected in high external deficits. Although, stock exchange capitalization has increased to 11% of GDP and expected to reach 20% in 2005, the rest of non-banking finance remains underdeveloped.

Serbia-Montenegro: The war has kept financial evolution well behind and the level of monetisation and financial intermediation is the weakest in the region as money supply stands at 20%, bank assets at 32% and credit extension at 11% of GDP. The share of state banks also remains the highest in the region at 37% of assets and so are non-performing loans at 24% while non-banking finance is very weak. Macroeconomic risks are significant as the current account and budget deficits are amongst the highest in the region. Nevertheless, should the country be able to resolve its institutional and political problems then fast progress is quite likely.

References

Anastasiadis. G. *et al.* (2005), *Financial SectorRreform in South Eastern Europe*, SEERC Publications, www.seerc.info.gr

Bank Austria (2004), Creditanstalt, Economics Department, Banking in Central Eastern Europe, April.

BIS, (2004), International Convergence of Capital Measures and Capital Standards, Commission on banking supervision,

Bonin.J. P, (2001), Financial Reform in Southeast Europe: Banking on the Balkans, *Working Paper*, William Davidson Institute.

Bonin. J. P, Hasan.I and Wachtel. P, (2004), Privatisation Matters: Bank Efficiency in Transition Countries, Working Paper No.679, William Davidson Institute.

Boot, A.W.A, (2003), Restructuring in the Banking Industry with Implications for Europe, *European Investment Bank* (EIB) Papers, Vol. 8.

Cottarelli. C, Dell'Ariccia.G and Vladkova-Hollar. I, (2003), Early Birds, Late Risers and Slleping Beauties: Bank Credit Growth to the Private Sector in Central and Eastern Europe and the Balkans", *IMF* working paper No. 213, 2003.

European Bank for Reconstruction and Development (2004), Spotlight on South-Eastern Europe, *EBRD*.

European Bank for Reconstruction and Development (2004), Institutional Aspects of the South-Eastern European economies, *EBRD*.

Fries.S, Lysenko.T and Polanec. S, (2003), The 2002 Business Environment and Enterprise Performance Survey: Results from a Survey of 6100 Firms", *EBRD* Working.Papaer No. 84, 2003.

Global Insight (2004), *Quarterly Economic Outlook for Emerging Europe economies*.

International Monetary Fund (2004), *International Financial Statistics.*

International Monetary Fund (2005), *Country Staff Reports*. (IMF)

National Bank of Greece (2003), Overview of the Banking Sector in South-East Europe, *SEE & Mediterranean Emerging Market Economies Bulletin*, Vol. 4.

O'Brien. D and Wagenvoort. R. (2001), Empirical Findings on the Character of Cost-efficiency for Credit Institutions", *Economic and Financial Reports*, *EIB*.

Sevic Zeljko (2002), *Banking Reforms in South-East Europe*, Edward Elgar Publications.

South East European Research Center (2004), *Financial Sector Reform in South Eastern Europe*, Workshop, Skopje 2004, www.seerc.info.gr

South East European Research Center (2005), *Country Backgrounds for SEE*, www.seerc.info.gr

UNECE, Economic Commission for Europe (2004), Economic Survey of Europe, *United Nations*, Issues 2001 to 2004.

APPENDIX

Table 3
Summary of Key Financial Indicators (EBRD Ranking (Scale 1-5)

	Alb.	*BiH*	*Bulg.*	*Cro.*	*Fyrom*	*Rom.*	*SiM*
Bank reform	2.3	2.3	3.3	3.7	3.0	2.7	1.0
Non-Bank ref.	1.7	1.7	2.0	2.7	1.7	2.0	1.0

Table 4

SSE Financial Sectoro (2003)	*SSE*	*Albania*	*Bosn/Herz*	*Bulgaria*	*Croatia*	*Fyrom*	*Romania*	*Serb/Mon*
Number of Banks	227	15	36	35	43	21	30	47
Foreign Banks	130	13	19	27	23	8	24	16
Bank Capital/GDP-%	5,9	3,1	6,5	6,3	9,2	7,5	2,3	6,4
Assets per Employee (Mill.Eur)	0,72	1,1	0,36	0,42	1,8	0,8	0,33	0,25
Concentration (top 5% Assets)	66,4	84,8	76	53	66	67	63	55
Market Share of state banks	21,7	52	6	14,2	3,5	4	38	34
Market Share of foreign banks	61,6	47	63	81	91	54	58	37
Broad Money/GDP-%	45,0	60,2	43,5	48	87	32	24,4	20
Bank assets/GDP-%	51,7	50,2	51	50	105	41	33	32
Private sector credit/GDP-%	21,1	7,4	14,6	26	56	18	16	10
Deposits/GDP-%	36,1	43,4	38	36	66	28	23	18
Loans/Deposits-%	57,4	17,1	38,4	72,2	84,8	64,3	69,6	55,6
Exdeposits/Total deposits-%	46,4	36	na	51,2	67,3	66	43,3	61
Non-Perf. Loans/Total Loans-%	10,7	4,6	13	4	11	16	2,8	23,8
Return on Assets	1,3	1,2	na	2,2	1,6	0,5	2,5	–0.2
Return on Equity	12,1	19,5	na	16,7	16,3	2,3	18	–0,05
Interest Rate Spread	9,5	4,2	6,6	6,3	9	8,5	14,6	17
Net Interest Margin	8,4	3,2	5,3	5,1	8,5	7,5	14,1	15
Real Interest Rate (Loans)	9,6	11,9	11,2	5	9,8	12,4	10,8	6,3
Non-Interest Earnings (% total)	24,2	10,3	na	37	39	17	22	19,6
Capital Adequacy Ratio	22,9	28,5	na	16	16	25,8	20	31
Stock Exchange Cap. (%GDP)	10,9	na	na	10	19	7,6	11	7
Insurance & assets (% GDP)	5,7	4,8	na	5,5	9,2	5	3,8	na

Source: IMF (IFS, 2004), EBRD (2004), National Central Banks, Bank Austria Creditanstalt, SEERC.