

**EVIDENCE FOR THE CERTAIN FACTORS IMPACT
ON FOREIGN CAPITAL DISTRIBUTION WITHIN
THE BANK MARKETS IN CENTRAL AND EAST
EUROPE¹**

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ABSTRACT

Foreign capital entrance within the markets in the countries from Central and East Europe was motivated by several factors each of them having specific value and impact on domestic bank market structure. From the current perspective and now when such process is in the maturation phase the research tries to analyze the factors that had essential meaning for the decision to enter the bank market of the countries mentioned as well as the impact on the monopolization of the bank market structure.

Keywords: Banking markets of the Central and East Europe states, Profitability, Mergers and acquisitions, Monopolization

**1. Characteristics of a bank mergers and acquisitions in
Central and East Europe**

Factors determining the entrance into capital market of Central and East Europe can be denominated into single one- profitability. Yet,

¹ professional paper

profitability is not a single factor impacting aim for buying new banks and financial institutions. That can be clearly seen from the example of the Central and East European banking market . According to the Markus Fritsch, Fabian Gleisner and Markus Holzhäuser, the average of bank takers that have entered the mentioned market have not received high return on investments, especially in the first years after the entrance². According to authors main accelerators of such bank investment are specific for each country of Central and East Europe separately. Highest level of regulation and as a result of it lower rates of GDP growth and having impact on the return on investment. The unique process of bank merger or acquisition that has been done through the agreement between the buyer and seller as well as permission by the authorities plays great role also. Experience shows that banks bought in the open and auction process are more successful than those that are bought within the process of direct and private negotiations.

Standard factors explaining the success of mergers and acquisitions in the developed markets such as profitability, efficiency, market wide should be updated with new variables such as the degree of bank interconnection, loan expansion, risk portfolio as well as overall business and political climate.³ Furthermore the stock exchange markets reaction pre and post deal intentions announcement can be more precise predicted if the smaller banks are taken over by the larger European banks managed by more experienced managers and in the stock exchange markets with smaller portfolio and trade velocity.

All those factors have influenced the bank mergers and acquisitions within the bank market of Central and Eastern Europe and even more – influenced on bank concentration ratios within the national markets as shown in the table below nearly after the opening of markets for foreign capital in the 90's:

² Markus Fritsch, Fabian Gleisner, Markus Holzhäuser, *Bank M&A in Central and Eastern Europe*, Johann Wolfgang Goethe-University & E-Finance Lab, Mertonstrasse 17, 60054 Frankfurt / Main, 2007,Germany

³ Rym Ayadi and Georges Pujals “*Banking mergers and acquisitions: Overview, Assessment and Prospects*”, SUERF – The European Money and Finance Forum Vienna стр 13 , 2005

Table 1- Market shares in % Top 5 banks (as per the deposit base)

USA1998	%	Eurozone 1998	%
Banc America	8,1	Deutsche Bank	3,0
Ch Banc One	3,9	Credit Agricole	2,7
First Union	3,8	BNP	2,0
Chase Mahnattan	3,3	ABN Amro	1,9
Washington Mutual	2,6	Societe Generale	1,8
Total	21,7	Total	11,4

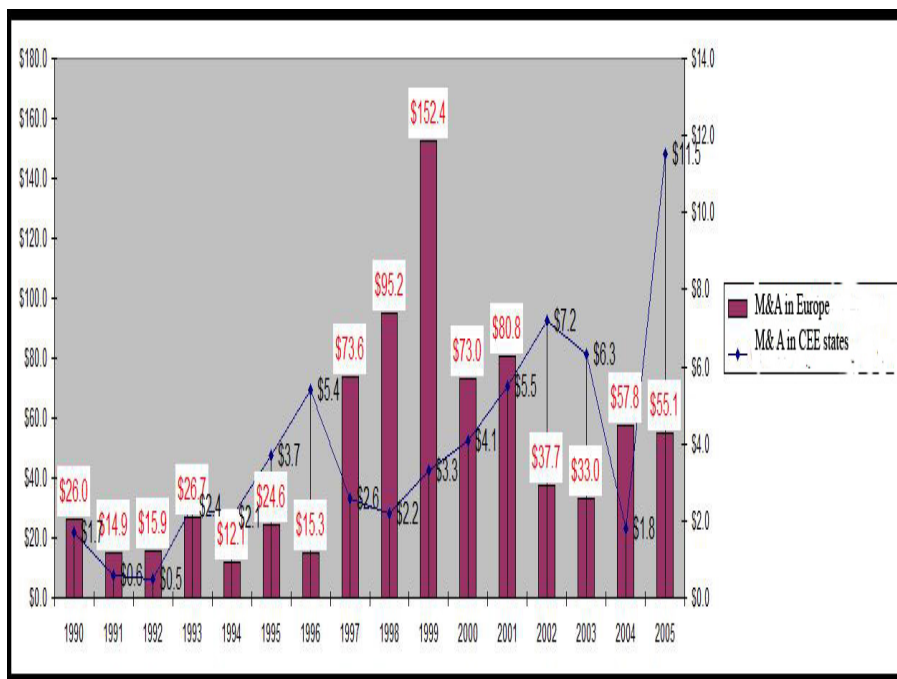
Source: Anne Arnold, *Anti Takeover Behaviour: Specificities of Financial Institutions*, p. 18 USA 2004

Table 2- Types of bank mergers and acquisitions in Central and East Europe

	1998	1999	2000
Domestic bank /Domestic bank	9	24	60
Crossborder bank acquisition	1	8	15
Bank/nonbanking institution	9	8	55

Source: Anne Arnold, *Anti Takeover Behaviour: Specificities of Financial Institutions*, USA p. 19 2004

Graph 1– Comparison of level of bank M&A in Europe and in the Central and East Europe countries. 1990-2005



Source: Natassa Koutsomanoli-Fillipaki Christos Staikouras, *Competition and Concentration in the New European Banking Landscape*, Department of Accounting and Finance, Athens University of Economics and Business, 76 Patission Str., 104 34, Athens, Greece, p 15, 2003

Table 3 – Main characteristic of the acquirers and acquired bank within the CEE countries

Year	Acquirer name	Country of origin	Acquired name	Country of origin	Share bought in %	Additionally bought share in % once the offer time has expired in %
1996	Internationale Nederlanden	Netherlands	Bank Slaski	Poland	20.95	54.10
1997	Banca Comerciale Italian SpA	Italy	Central European Intl Bank	Hungary	81.80	95.00
1998	Societe General SA	France	Romanian Bank for Development	Romania	51.00	51.00
1999	Fortis AG	Belgium	Pienwszy Polsko Amerikanski Bk	Poland	58.80	68.50
1999	Unicredito Italiano SpA	Italy	Bank Polska Kasa Opieki SA	Poland	52.10	52.10
1999	AIB European Investment Ltd	Ireland	Bank Zachodni SA	Poland	80.00	80.00
1999	KBC Bancassurance Holding NV	Belgium	CSOB	Czech Republic	65.70	65.70
1999	Bayerishce Hypo und Vereins	Germany	Bank Przemyslowo - Handlowy SA	Poland	27.85	66.60
1999	Skandinaviska Enskilda Banken	Sweden	Latvijas Unibanka	Latvia	2.30	50.34
1999	Alpha Credit Bank	Greece	Kreditna Banka	Macedonia	66.00	65.00
1999	Erste Bank	Austria	Trgovacka	Croatia	94.30	94.30

			Banka DD			
1999	Societe General SA	France	Expressbank	Bulgaria	97.90	97.90
1999	Deutsche Bank AG	Germany	Bank Wspolpracy Reionalnej SA	Poland	89.20	89.20
1999	Skandinaviska Enskilda Banken	Sweden	EUP	Estonia	5.07	50.15
1999	Erste Bank	Austria	Ceska Sporitelna Savings Bank	Czech Republic	52.07	50.20
1999	National Bank Of Greece	Greece	Stopanska Banka AD	Macedonia	66.00	65.00
1999	Bank od Piraeus SA	Greece	Pater Bank of Romania	Romania	100.00	100.00
2000	KBC Bancassurance Holding NV	Belgium	Hungarian Coml And Credit Bank	Hungary	30.00	62.68
2000	Bankgesellschaft Berlin AG	Germany	Zivnostenska Banka AS	Czech Republic	1.13	51.00
2000	Unicredito Italiano SpA	Italy	Splitska Banka	Croatia	63.00	63.00
2000	Unicredito Italiano SpA	Italy	Bulbank AD	Bugaria	98.00	98.00
2000	Citigroup Inc	USA	Bank Handlowy SA	Poland	56.00	66.00
2000	Unicredito Italiano SpA	Italy	Polnobanka AS	Slovakia	51.20	62.00
2000	National Bank Of Greece	Greece	United Bulgarian Bank	Bulgaria	89.90	89.90
2000	Danske Bank A/S	Denmark	Polsko - Kanadyski Bank SW	Poland	83.00	83.00
2000	Wuesternrot Holding AG	Germany	Lakaskassza	Hungary	22.00	51.00
2000	Skandinaviska Enskilda Banken	Sweden	Vilnius Bank	Lithuania	60.00	100.00
2000	Egnatia Bank	Greece	BNP Dresdner Bank	Romania	100.00	100.00

			Romania			
2000	Commerzbank AG	Germany	Bank Razwoju Eksportu	Poland	1.30	50.00
2000	Erste Bank	Austria	Slovenska Sporitelna	Slovakia	87.18	87.18
2000	BNP Paribas SA	France	BnP Dresdner Bank Bulgaria	Bulgaria	50.00	100.00
2000	Dresdner Bank AG	Germany	BnP Dresdner Bank Russia	Russia	50.00	100.00
2001	Societe General SA	France	SKB Banka DD	Slovenia	96.46	96.46
2001	Unicredito Italiano SpA	Italy	Zagrebacka Banka	Croatia	59.10	77.92
2001	Intesa Bei SPA	Italy	Vseobecna Banka AS	Slovakia	94.47	94.47
2001	Societe General SA	France	Komercni Basnka AS	Csech Republic	60.00	60.00
2001	BNP Paribas SA	France	Finans Bank AS	Turkey	56.00	55.00
2001	HSBC Bank PLC	United Kingdom	Demirbank TAS	Turkey	100.00	100.00
2001	San Paolo IMI Bank SA	Italy	Banka Koper	Slovenia	47.10	62.10
2001	Novobank SA	Greece	Sitebank AS	Turkey	100.00	100.00
2002	Erste Bank	Austria	Rijecka Banka	Croatia	85.02	85.02
2002	Unicredito Italiano SpA	Italy	Zivnostenska Banka AS	Czech Republic	85.16	85.16
2003	San Paolo IMI Bank SA	Italy	Intereuropa Bank RT	Hungary	52.75	85.26
2003	Bank od Piraeus SA	Greece	Tirana Bank	Albania	15.00	62.19
2003	Erste Bank	Austria	Postabank Rt	Hungary	99.97	99.97
2003	National Bank Of Greece	Greece	Bank Romaneasca	Romania	81.60	81.60
2004	Bayerische Hypo und Vereins	Germany	International Moscow Bank	Russia	9.88	62.68
2004	Creditanstalt AG	Austria	Eksimbanka	Serbia	58.70	58.70
2004	Alpha Credit	Greece	Jubanka AD	Serbia	88.64	88.64

	Bank					
	Banca Intesa SpA	Italy	Delta Bank	Serbia	90.00	90.00
	Fortis AG	Belgium	Turk dis Ticaret Bankasi	Turkey	80.34	89.34
2005	Banca Intesa SpA	Italy	KMB Bank	Russia	75.00	75.00
2005	Erste Bank	Austria	Novosadska banka	Serbia	83.28	83.28
2005	Credit Agricole SA	France	Meridian Bank	Serbia	71.00	71.00
2005	Societe General SA	France	Podgoricka Banka	Montenegro	64.44	64.44
2005	Bank Austria Creditanstalt AG	Austria	Nova Banjalucka Banka	Bosnia and Herzegovina	83.27	83.27

Source: Central banks of the CEE countries

AU- Austria BE- Belgium DE – Denmark FR –France GE – Germany GR- Greece IR- Ireland IT – Italy NL- Holland SE-Sweden UK –United Kingdom US – USA AL – Albania BK-Bosnia and Herzegovina BU – Bulgaria CR –Croatia CS – Serbia and Montenegro CZ – Czech Republic EE – Estonia HU-Hungary LT-Lithuania LV-Latvia MK –Macedonia PL-Poland RO-Romania RU- Russia SI-Slovenia SK –Slovakia TU-Turkey

Table 4–Geographic distribution of takeovers

Target nation	Nation of the acquirer												Total
	AU	BE	DE	FR	GE	GR	IR	IT	NL	SE	UK	US	
AL						1							1
BK	1												1
BU				2		1		1					4
CR	2							2					4
CS	2			2		1		1					6
CZ	1	1		1	1			1					5
EE										1			1
HU	1	1			1			2					5
LT										1			1
LV										1			1

MK						2								2
PL		1	1		3		1	1	1				1	9
RO				1		3								4
RU					2			1						3
SI				1				1						2
SK	1							2						3
TU		1		1		1						1		4
		8	4	1	8	7	9	1	12	1	3	1	1	56

Source: Markus Fritsch, Fabian Gleisner, Markus Holzhäuser, *Bank M&A in Central and Eastern Europe*, Johann Wolfgang Goethe-University & E-Finance Lab, Mertonstrasse 17, 60054 Frankfurt / Main, 2007, Germany

2. Identification are the motivation factors for the banks interested to enter the banking markets of Central and East Europe

Foreign banks might have stabilizing effects on the banking markets as per the evidence from CEE countries due to several reasons. First of all foreign property is less sensitive on the domestic vulnerabilities and can even mitigate them as well as to impact on the domestic business environment enhancement. Second, foreign banks are having better access to the international capital markets and international experiences are showing that main banks are serving as a lenders of a last resort to their subsidiaries when the second ones will face financial challenges impacting the liquidity and capital.

In the same time they can contribute to destabilization of bank markets by the reasons arising from the domestic business environment in their countries of origin.

Finally many times there is a fear that foreign banks might attract best clients while more risky clients can be retained for banks of domestic origin, that can lead to poorer performances of the second.

According to the highest portion of the studies foreign banks are playing major role in the field of domestic sector having the positive impact on bank efficiency but the competition improvement role might be sometimes question for discussion.

Entrance in the CEE bank markets both within the 90's and 00's was not always smooth. At the beginning of 90's only few foreign banks entered the CEE market and mainly as a greenfield investments i.e. without buying of a domestic banks. That was motivated by two factors :

-Lack of support for entrance from the domestic bank as well as authorities;

-Lack of attractiveness of the markets before the reforms were undertaken.

Even the first wave "greenfield" entered banks have undertaken the entrance step in order to follow the companies entering foreign market.

Despite, such banks have grown up fast and taken good position within the privatization process of the state owned banks⁴

Table 5- Capital share of the foreign banks in the selected CEE countries 1995-2003

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Bulgaria	No data	No data	34,8	43,4	46,6	68,1	66,7	66,6	76,3
Czech Republic	22,8	24,1	29,5	38,7	48,4	54,5	70	81,9	84,9
Estonia	29,2	37,2	No data	55,49	63,23	83,91	85,74	86,73	85,7
Hungary	35,6	45,9	61,2	60,4	62,1	64	61	58,6	81,9
Latvia	27,7	55,6	67,7	66,2	69,8	69,8	67,7	54,3	53,9

⁴ Olena Havrylchuk, Emilia Jurzyk, *Profitability of Foreign and Domestic Banks in Central and Eastern Europe : does the Mode of Entry Matter ?*, Centre D'Etudes Prospectives Et D'Informations Internationales, Paris , p 9-11 2005

Lithuania	16	25	32	41,3	45,3	59,9	82,3	88	88
Poland	19,24	29,79	41,52	49,7	56	56,6	61,3	63,2	63,3
Romani	14,11	12,84	24,46	35,79	41,75	53,8	60,6	64,9	66,3
Slovakia	HPI	39,6	39,2	37,3	24,6	28,1	60	85,3	88,9
Slovenia	9,59	9,16	11,88	11,3	11,3	12	16	32,5	32,5

Source: BSCEE review

Table 6– Market shares and total assets of the biggest international banks in CEE

	Market share as a % of total assets share in the country of SEE											Total assets in CEE in EUR
	BG	CZ	EE	HU	LI	LV	PL	RO	SI	SK		
KBC Bank NV		25,48		10,2			5,24					30287910,3
Erste Bank Sparkasse		25,88		6,77						24,26		28534848,9
HVB Group	10,13	5,55		5,66	2,75		10,77	3,4	4,21	5,74		22196820,6
Societe Generale	4,01	19,18						15,2	7,51	0,43		19116304,9
Unicredito Italiano	17,11	2,06					14,03	1,32		4,51		18746734,5
Raiffeisen	5,13	3,86		5,9			1,96	7,94	2,35	20,97		14762549,2
Citibank a.s.		2,94		2,58			7,58	3,14		3,05		12463970,1
Banca Intesa SpA				7,58						22,28		8760961,68
ING Bank NV				2,27			6,45					7932755,62
Commerzbank AG	1,32			1,04			6,72					7410738,56
Swedbank			62,8		28,82	17,5						6929075,57
Allied Irish Banks plc							5,38					5478194,61
Skandinaviska Enskilda			26,8		38,46	16,2						5248655,36
Bayerische Landesbank				8,12								4413335,91
Millennium							4,32					4399315,47
GE Capital Bank		2,43		2,77								3258344,92
Oesterreich. Volksbanken	14,45	0,80		1,08				0,98	1,30	3,17		2299759,63
San Paolo IMI				1,41				0,44	5,65			2105390,66
ABN AMRO Bank							0,75	5,65				1821319,39
Deutsche Bank				0,56				1,28				1601328,95
Credit Lyonnais		0,85		0,89				0,28		0,87		1800961,57
National Bank of Greece	10,94							1,18				1302810,6
BNP Paribas	1,47			1,10			0,52					1275444,42
Bank für Arbeit und Wirtsch.		0,59								3,22		1120549,06
Gazprombank Group				2,01								1094768,34
NORD LB					12,43	4,04						1077680,99
Fortis							1,02					1039485,02
Credit Agricole				0,06				0,88				934484,246
Nordea							0,90					917856,657
WestLB				0,68				0,48				862762,533
Rabobank							0,81					828800,036
EFG Eurobank Ergasias								4,95				748297,926
Sampo Bank Plc			7,67		3,80	0,46						726243,31
DEXIA										3,08		640902,475
Alpha Bank							3,98					601215,733
Dresdner Bank AG		0,78										593741,997
Hypo Alpe-Adria Bank AG									1,60			360962,134

Source: Bankscope

Table 7 – Market shares of foreign banks in the CEE states bank market as a % of bank assets

	Market share in each country as a % of bank assets										Total assets in CEE in EUR
	BG	CZ	EE	HU	LT	LV	PL	RO	SI	SK	
Danske Bank A/S								0.28			281109.751
United Gulf Bank						2.99					242900.302
Korea Development Bank				0.41							222081.081
DZ Bank AG							0.21				214696.949
MDM Bank						2.5					203021.148
Piraeus Bank								1.16			176008.215
Bank of Tokyo - Mitsubishi							0.11				115168.412
Emporiki Bank of Greece	0.51							0.36			106824.435
Meinl Bank AG										0.41	85684.1339
GMAC Bank				0.07							40266.0618
Bank of Moscow						0.39					31873.1118
Egnatia Bank								0.18			27933.0444
Total of bank assets	65.06	90.4	97.4	61.19	86.25	44.1	73.97	45.9	22.62	91.98	

Source: Bankscope

Table 8 – Characteristics of 56 merger and acquisitions within the CEE bank market in the period of 1990-2005 transactions

Characteristics	Bidders(N=56)	Target banks(N=56)	Target banks /bidders coefficient
Total assets in millions of EUR			
Average	235,000	2,060	0,557%
Standard deviation	213,000	3,270	
Minimum	742	0,2	
Maximun	815,000	13,400	
Total own capital in the millions of EUR			
Average	10,000	180	1,80%
Standard deviation	9,590	263	
Minimum	118	0	

Maximun	55,900	1,250	
Return of capital			
Average	12,5%	-12,1%	-0.641%
Standard deviation	7,3%	72,5%	
Минимум	-14,57%	-433,3%	
Максимум	34,3%	35,0%	
Coefficient costs/revenues			
Average	78,9%	80,2%	101,64%
Standard deviation	43,1%	87,4%	
Minimum	47,6%	-335,1%	
Maximum	385%	391,7%	
Total operating costs /total assets			
Average	2,2%	6,1%	279,08%
Standard deviation	1,2%	6,5%	
Minimum	0,8%	0,5%	
Maximum	9,2%	43,0%	

Source Markus Fritsch, Fabian Gleisner, Markus Holzhäuser, *Bank M&A in Central and Eastern Europe*, Johann Wolfgang Goethe-University & E-Finance Lab, Mertonstrasse 17, 60054 Frankfurt / Main, 2007,p 25 Germany

3. Why foreign banks are good for CEE bank markets

Bank sectors of the CEE countries are characterized with high level of foreign banks entrance. In Hungary, Czech Republic, Estonia, Macedonia, Albania and other states foreign owned assets are consisting 80% of total bank assets. Five biggest banks present to those markets are KBC Bank, Erste Bank, HVB Group, Societe Generale and Unicredito Italiano. Also regionalized aspect can be noticed as a way of regional specialization. Big Scandinavian banks (Swedbank, Skandinaviska Enskilda) are monopolizing the markets of the Baltic states while Greek banks National Bank of Greece, Piraeus Bank., Alpha Bank, Emporiki Bank of Greece) are controlling large shares of the Balkan states bank markets. In the same time Austrian banks are controlling large part of the bank assets throughout Central and East Europe. At the same time the Austrian banks (Erste Bank,

HVB Group, Raiffeisen) with the exemption of Baltic states.⁵ Also several examples can be identified where banks from Central and East Europe states are having own shares in other banks in the region. For example Hungarian OTP bank have acquired banks from Bulgaria and Slovakia. Latvian Parex bank have bought the Lithuanian Industrijdos Bankas etc. According to the analysis of Mian from 2005 geographic distance is important factor for decision making for entrance in specific markets due to the information and agency costs. Finally it is of a great importance for banks to enter the markets where the cultural and social aspects are very similar like in the domestic market as well as overall societal environment.

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