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Development prospects of the banking industry in the new EU member countries and forthcoming member countries*

Ivan Ribnikar[1], Marko Košak[2]

Abstract

Bank consolidation has substantially decreased the number of banks in European banking, which has had important implications for the banking sectors structure in all EU member countries. The consolidation processes have had a tremendous impact on the developments in banking sectors of new EU member countries, where major structural changes have been initiated mostly by new entrant banks from the old EU member countries. The future banking development in new EU member countries will very likely follow some main patterns known from the old EU members. Rather speculative conjectures, which are based on a comparison with banking sectors in other EU member countries indicate, that the total-asset-to-GDP ratio in new member countries should further improve in the future. The banking sector growth will be based mostly on the growth of the credit to non-banking sector, while banks are not expected anymore to use non-bank deposits as a predominant way of funding. Instead potentials for alternative funding possibilities should be activated. Although the non-bank financial intermediaries in new EU members represent a serious competition to banks, their relative underdevelopment prevents them from impacting the developments in banking sectors as known from old EU member countries.

***Key words**: European Union, banking sector, new member countries*

***JEL classification**: G21, P27*

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1. Introduction

Globalisation, liberalisation and integration have significantly influenced the dynamics of changes in economies all over the world. These processes have had an impact on banking industry as well. Banking sectors in Central and Eastern European transition economies have been exposed to the effects of the above mentioned processes even more than banks in more developed economies of Western Europe.

The purpose of this paper is to sketch briefly the key characteristics of the ongoing processes of consolidation in European banking and analyse there consequences for the expected integration of banking markets in the EU area with a special emphasis on the new member states (NMS) and three candidate countries from the South and Eastern European area (SEE). The idea is that the forthcoming developments in the banking industry of the new EU member countries and countries that are going to join EU in the near future, are to a large extent determined by the developments in banking sectors of the “old” EU members. The leading role of western European banking industry is determined institutionally, i.e. through the EU wide regulation and institutional settings, and economically, i.e. through the imposed dominant role of banking markets for the economic development of former transition economies. In a way banks from Central and Eastern European countries can see their own future by observing the current developments in western European banking.

The paper is structured as follows. In section two we give a concise overview of the consolidation processes in European banking, with special attention being paid to changing market structure and ownership structure, especially in the “new” EU member countries. Section three explains the methodological approach, key assumptions and data used in the analysis. In section four we compare the development of banking sectors in the “old” and “new” EU member states, with special attention to the growth potentials, funding possibilities and availability of capital, which is a necessary condition for any kind of banking development. The study concludes with some comments on results and ideas on future development in EU banking sectors, especially those in Central and Eastern Europe.

2. Consolidation and integration in European banking

Consolidation has been a global phenomenon in the financial services industry leading to a declining trend in the number of financial institutions. The decreasing number of financial institutions has been mostly a direct consequence of numerous mergers and acquisitions (M&As) in financial sectors rather than a consequence of the closures of existing institutions. Consolidation processes have been especially pronounced in the banking industry of the most of the developed countries, where the intensified global competition and the need to increase efficiency and reduce costs were present even more than in less developed economies. However, EU has represented the area of special interest as regards the observation of the consolidation effects. Namely, the integration processes, which have been triggered by the launch

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of the single market program, have even intensified the consolidation in banking across the entire EU area.

Table 1: Changing number of credit institutions in the EU area after year 2000

	2001	2002	2003	2004
EMU-12	7,213	6,899	6,590	6,403
EU-25	9,363	8,944	8,613	8,374

Source: ECB (2005b)

One of the most obvious indicators of the ongoing banking consolidation in the EU is the number of credit institutions, which has been reduced by 22.7% or 2180 institutions in the 1997 – 2003 period. The data for a longer, 1985 – 2004, period for the euro area only support this pattern, since the number of credit institutions dropped from about 12000 in 1985 to only 6400 in 2004. Despite the disappearance of several thousands of credit institutions the number of bank branches has remained fairly stable in most euro area countries (ECB, 2005a), indicating that consolidation in European banking industry has by and large been driven by mergers and acquisitions activity and not by restructuring of individual banking firms.

Based on long term observations Ayadi and Pujals (2004) report that consolidation in world economy has took place in several waves beginning with the first wave in 1887-1904 period, followed by three consecutive waves in periods 1916-1929, 1965-1969, 1984-1989 and culminating in the fifth, by far the largest consolidation wave, which commenced in the first halve of the 1990s and reached the peak at the end of the millennium. The last consolidation wave has been distinctively characterised by its international dimension, meaning that the proportion of cross-border M&As has taken a significant share in their total number.

Observing M&As activity only in the EU banking, we can easily recognise the same pattern as described above: a significant upswing in the number of M&As as well as in their volume in 1999. In that year total volume of M&As in EU-15 banking reached 100 billion EUR (ECB, 2005b). Most of these M&As, in terms of their number and value, were domestic in nature, only in the euro area the proportion of M&As, involving exclusively domestic financial institutions, was as high as 80%. After year 1999 consolidation in EU banking has proceeded at a decelerating pace.

The decline in total number and volume of M&As after 1999 can be explained mainly by a slow down in domestic M&As. Although the decelaration of the cross border M&A deals took place parallel to the domestic ones, the data indicate that it was somewhat slower than the decrease in domestic M&As. As a result the proportion of cross border M&As has even increased and reached about 30% of the number and 24% of the value of all deals in the EU-15 area in post 2000 period, compared to about 20% in the pre-2000 period (ECB, 2005a). A recent EU commission report also points out at a substantial difference in the proportion of cross-border deals in the

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financial sector and other sectors in the EU. According to those figures the proportion of cross-border activity in financial sectors amounts to 20% and 45% in other sectors, which reflects fundamental differences in the underlying consolidation processes.

Although the single market program, which was commenced at the beginning of the 1990s, used to be recognised as one of the most important drivers for EU-wide banking consolidation, there existed even some stronger incentives for banks to enter consolidation processes. Banking firms were forced to respond to fundamental changes in regulation and technology; they were under pressure to improve their efficiency and to exploit the economies of scale and scope, which was possible only by attracting new customers, by increasing the geographical reach and by increasing the range of products they offer.

Table 2: Value of M&As involving banks in the euro area

- % of total value

Area	Within the banking sector	Cross industry deals involving banks		
	1990–1997	1998–2001	1990–1997	1998–2001
Euro area	53	59	50	47
Other EU countries	9	38	1	0
USA	21	2	2	13
Rest of the world	17	1	47	40

Source: Cabral et al., 2002

As already mentioned, bank consolidation in EU banking sectors mostly took place within national markets, with the only exception of NMSs banking sectors, where consolidation was highly impacted by the entry of banks from the “old” EU member countries.

The “inward oriented” banking sector consolidation in the “old” EU member countries was directly reflected in the lower number of credit institutions, which on average also grew in their size. Consequently, especially in small banking markets, the market concentration was increased and in some market segments the competitiveness also seriously impaired. However, the parallel process of enhanced integration of national banking markets within EU alleviated the problem of weakened competitiveness to some extent.

Banking systems in NMSs have undergone tremendous changes and transformations in the period from the beginning of transition to the moment of their entry in the EU. Banking systems were liberalised, banks were restructured and state owned banks were largely privatised. Privatisation of, in many cases, troubled and relatively large state owned banks was in many countries the main and most important reason for a massive penetration of western European banks. Data displayed in Figure 1 clearly reveal the dimension of a massive foreign banks’ penetration in the Central and Eastern European banking markets. While in the group of the “old” EU member

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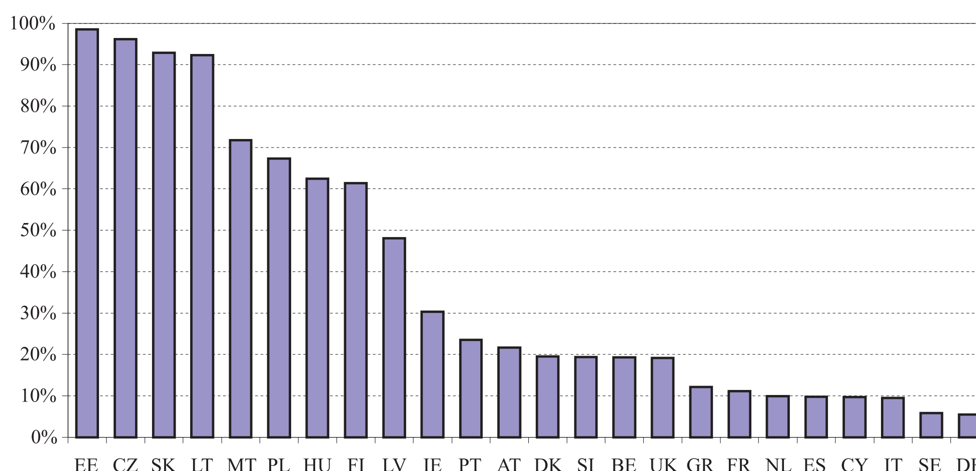
countries Finland and Ireland clearly stand out with 61% and 30% market share of foreign owned banks respectively, and most other countries in the group maintain the share of foreign owned banks between 10% and 20%, the new EU member states (with few exceptions) attain market shares of foreign owned banks well above 50%. In Estonia, Czech Republic, Slovakia and Latvia this share even exceeds 90% of the total banking market.

Figure 1: Total assets of foreign owned banks in EU countries (as % of total national banking sector assets)



Source: ECB (2005c)

The presence of foreign owned banks has also significantly determined the developments in banking sectors of CEE countries. Additionally, the direction and intensity of structural changes was importantly influenced by the convergence to EU standards in banking industry. While the level of convergence is pretty high in countries that already joined EU in 2004, the convergence processes will continue in the rest of candidate countries.

3. Methodological approach and data

In analysing the likely structural changes in banking sectors of the new EU member states and three candidate countries from the South and Eastern European area in the next section, we rely on a basic correlation analysis. The analysis and conclusions are based on the following simple presumptions:

1. We assume that there exists a tight connection between the level of the economic development in each country and the level of banking sector development. If we assume that the level of financial intermediation through the banking sector briefly reflects the development stage of the banking sector,

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then there should be a correlation between the level of GDP and level of financial intermediation in economies. Many existing theoretical and empirical studies actually support the existence of the relationship between economic development and development of the financial system. Eschenbach (2004, p. 22) in his summary of the "finance and growth" literature comes to conclusion that in developing countries the development of the financial sector stimulates economic progress, whereas in developed countries, according to several studies, the causality goes in both directions.

2. We assume that economic development of the new member states will converge toward the economic development levels common in the "old" EU member countries. The economic convergence is expected to progress and it is reasonable to assume that it will be accompanied by the banking sector development especially due to strong bank oriented financing of firms in new member states economies.
3. We assume that the value of GDP per capita is a good enough approximation of the achieved economic development level in each country and it is reasonable to expect that banking sector development parameters will be correlated with the general development level.

Taking into account these assumptions, we compare four banking sector development indicators with the GDP per capita:

- value of total banking assets,
- value of loans to non-bank borrowers (loans to non-credit institutions)
- value of deposits from non-bank depositors (deposits from non-credit institutions) and
- value of total bank capital.

In order to assure comparability all four variables are compared to the value of national GDP in each country. On the basis of this comparison some basic conjectures on the likely future developments in banking sectors are made in order to determine the main development fields and directions of these developments.

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Table 3: GDP per capita (in EUR) and main financial intermediation parameters for banking sectors of EU-15 countries (without Luxembourg), NMS countries and three EU candidate countries (Bulgaria, Croatia and Romania)

Country	Count. code	BDP per capita in EUR	TA in % of GDP	Total loans in % of GDP	Total deposits in % of GDP	Equity in % of GDP
Austria	AT	28,996	268.03	125.14	97.85	31.8
Belgium	BE	27,237	322.25	107.18	142.79	41.7
Denmark	DK	35,984	312.26	166.04	62.78	40.5
Finland	FI	28,645	141.88	69.42	53.21	27.5
France	FR	26,511	267.87	92.91	76.95	27.9
Germany	DE	26,856	297.18	135.82	113.34	35.1
Greece	GR	15,141	137.86	76.35	95.62	17.8
Ireland	IE	36,599	486.37	176.23	122.65	59.8
Italy	IT	23,197	168.40	87.98	57.99	19.6
Netherlands	NL	29,969	343.32	174.07	122.40	40.8
Portugal	PT	13,434	244.75	138.04	103.16	28.3
Spain	ES	19,643	205.04	120.64	104.35	23.8
Sweden	SE	31,022	208.93	114.50	51.18	22.6
United Kingdom	UK	28,585	406.23	142.10	117.54	57.2
Cyprus	CY	16,828	309.11	—	—	—
Malta	MT	10,666	476.76	200.05	204.93	41.1
Czech Rep.	CZ	8,453	100.33	38.91	69.61	11.9
Estonia	EE	6,669	94.40	65.42	45.76	10.8
Hungary	HU	7,996	80.39	48.48	44.55	9.8
Latvia	LV	4,766	101.30	56.49	65.74	11.2
Lithuania	LT	5,213	47.47	30.37	30.11	5.4
Poland	PL	5,114	67.57	34.84	45.59	10.5
Slovakia	SK	6,154	87.69		21.68	15.6
Slovenia	SI	12,967	94.47	47.78	57.20	10.5
Croatia	CRO	6,213	108.61	60.99	63.77	13.5
Bulgaria	BUL	2,495	65.47	36.29	51.31	7.2
Romania	ROM	2,716	39.11	17.88	24.38	4.6

Source: ECB (2005b); Central banks

[*] Total loans to non-credit institutions.
[**] Total deposits from non-credit institutions.

Data used in the analysis are taken from the ECB publications and publications of national central banks. The parameters indicating the development level of specific banking markets and the level of financial intermediation in these markets are displayed in Table 3.

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4. Development prospects in the EU newcomers' banking sectors

Completely reliable predictions regarding the future developments in banking sectors of NMS are not possible due to many environmental (external) factors (e.g. changing macroeconomic conditions, international competition, other financial intermediaries entering banking markets,…) that determine banking operations. Nevertheless we try to determine some main directions in which major parameter of banking industry will evolve in the near future in NMS and Croatia as one of the EU candidate countries.

Table 4: Pairwise correlation coefficients for selected variables

	GDP per capita	TA / GDP	Loans / GDP	Deposits / GDP	Capital / GDP
GDP per capita	1				
TA / GDP *Sign. level*	0.7171 *0.0000*	1			
Loans / GDP *Sign. level*	0.7130 *0.0001*	0.9413 *0.0000*	1		
Deposits / GDP *Sign. level*	0.4172 *0.0340*	0.8493 *0.0000*	0.7986 *0.0000*	1	
Capital / GDP *Sign. level*	0.8087 *0.0000*	0.9581 *0.0000*	0.8841 *0.0000*	0.7435 *0.0000*	1

Source: Authors' calculations

The proportion of total banking assets in GDP is considered to be one of the basic indicators of the degree of financial intermediation through the banking sector. The data in Table 3 and Figure 2 disclose a significant variation of this indicator in the set of 27 countries. Banking systems in the "old" EU countries with average total assets to GDP value of 272% clearly dominate new member states with 84% and three candidate countries with 71%.[3] One, very likely explanation of these differences lies in the differences of the degree of economic development of this three regions. Such an explanation looks even more plausible if we observe the relationship between the degree of financial intermediation (total assets to GDP) and the degree of economic development (GDP per capita) of individual countries. This relationship is graphically displayed in the scattergram in Figure 2. On average countries with higher GDP per capita experience higher total assets to GDP ratios, which is also confirmed by a correlation between this two variables. Positive correlation coefficient 0.72 is statistically significant and reveals a pretty strong relationship between banking financial intermediation and degree of economic development.

[3] Two sample mean comparisson tests confirm that differences are significantly different from zero.

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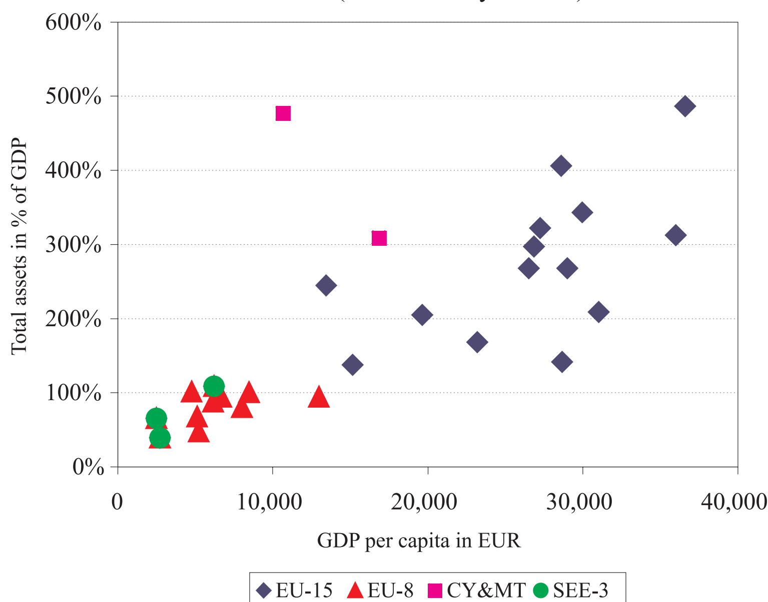
Figure 2: Total banking assets in % of GDP (vertical) vs. GDP per capita in EUR (horizontal) for selected pool of EU member and candidate countries (2004 end of year data)



Source: ECB (2005b), ECB (2005c), national central banks, Authors' calculations

Explanation: In the scattergram the rhomboid marks designate individual "old" EU member countries (EU-15 without Luxembourg), squares designate the position of Cyprus and Malta, triangles designate individual "new" member countries from central and eastern Europe (EU-8) and round marks designate positions of three candidate countries (Bulgaria, Croatia and Romania). Due to several specificities Luxembourg is not included in comparison.

More detailed inspection of the scattergram also discloses some important characteristics of banking sectors in the EU "newcomers". The amount of financial intermediation in Cyprus and Malta clearly differs from the values in EU-8 and SEE-3 group, which could be fist of all a consequence of the openness of both banking sectors for the entrants from abroad and developed international banking operations. In the rest of the group of the "newcomers" Slovenia and Croatia appear to be in a specific position. First, Slovenia with the far largest GDP per capita in the amount of 13000 EUR should have had a greater volume of financial intermediation through banking sector than it actually has. With 94.5% of GDP Slovenian banking sector is ranked only third behind Croatia, Latvia and Czech Republic, where total banking assets are at least equal to annual GDP. Second, Croatian banking sector is in terms of financial intermediation with 108.6% of GDP clearly in the leading position among transition economies and at the moment in the best position to catch up with the banking sectors in the "old" EU member countries.

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If we compare both, Croatian and Slovenian banking sector with banking sectors in the least developed western European countries, like Greece, Portugal and Spain, we can see that their total-banking-assets-to-GDP ratios differ significantly (Greece 138%, Portugal 245%, Spain 205%) and are even larger than in two much more developed EU countries: Finland (141%) and Italy (168%). In any case we can expect further growth of banking sectors in Croatia and Slovenia, although the growth potential might be somewhat larger in Slovenia. However, even if Slovenia is going to reach GDP per capita around 16000 EUR in next five years it is hardly possible to expect that the total assets to GDP ratio would grow above 130%, which would be comparable with the current Greek ratio and current Greek development level (GDP per capita 15141 EUR).

The next important indicator of the financial intermediation development is bank-loans-to-GDP ratio. This ratio discloses the credit activity of the banking sector which is especially crucial in bank oriented developing economies like transition economies of central and Eastern Europe. The ratio is also frequently used in econometric studies analysing credit activity of banks (e.g. Cottarelli et al., 2005) and since especially credits to private sector are considered to be decisive factor in stimulating economic growth, most analyses concentrate on this particular type of bank lending. For this reason we focus in our comparison on bank loans to non-bank borrowers, meaning that the interbank credit activity is not considered as relevant for our purpose.

Observing the data on loans to GDP ratio in Table 3, one can quickly notice that this ratio again differs widely among countries in our sample. Again the ratio is on average much larger in the “old” EU member countries, where Nederland an Ireland clearly stand out with 174% and 176% respectively. Most of the other countries in this group keep the ratio above 100% mark (United Kingdom 142%, Portugal 138%, Germany 136%) and in four of them the ratio lies below 100% but it is still greater than 50% (Greece 76%, France 93%, Italy 88% and Finland 69%). The average value of the ratio for EU-15 (without Luxembourg) countries was 123% in 2004. Malta appears to be an outlier with the ratio more than 200%, but again this value may be contributed to specificities mentioned earlier in text.

In the group of the “new entrants” (EU-8 and SEE-3) no one of the countries exceeds the 66% mark. Actually the highest ratios are recorded with the Estonian (65.4%), Latvian (56.5%) and Croatian (61%) banking sector, whereas in the rest of this group the ratio does not exceed 50%. The lowest ratio value belongs to Romanian banks, with only 17.9% of GDP and the average value for the group is 38%.

Relationship between credit activity and the degree of economic development again appears to be quite strong. The correlation coefficient between loans-to-GDP ratio and GDP per capita amounts to 0.713 and is statistically significant. Again one can conclude that on average GDP per capita and credit activity of banks are highly associated and therefore EU-8 and SEE-3 countries are definitely expected to increase the loan-to-GDP ratio in next years and decades. However, this progress is going to depend also from the development characteristics in the financial systems of these countries. One of such characteristics could be the degree of capital market development and potential reorientation of the corporate sector from the

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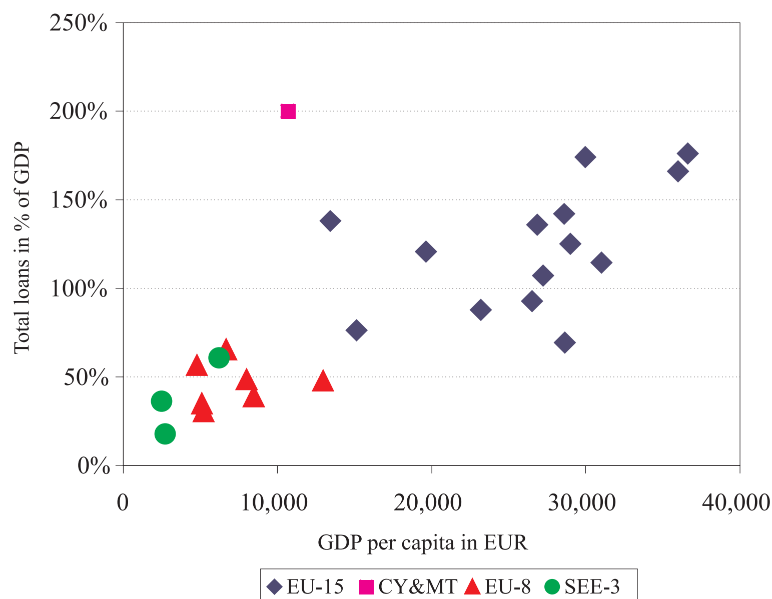
predominantly bank oriented funding towards more capital market oriented funding. Although some really dramatic changes can not happen in just few years but rather in the long run, there might arise some effects for the banking sector. Second of the characteristics that might be relevant for the future development of the banking sectors of this group of countries is the openness of the economy for foreign funding and the entrance of foreign credit institutions through direct financing of projects in this part of the EU. Potential heavy reliance on foreign creditors might diminish the importance of domestic credit institutions and therefore also the potential for their growth.

Figure 3: Loans to non-bank borrowers in % of GDP (vertical) vs. GDP per capita in EUR (horizontal) for selected pool of EU member and candidate countries (2004 data)



Source: ECB (2005b), ECB (2005c), national central banks, Authors' calculations

Explanation: In the scattergram the rhomboid marks designate individual "old" EU member countries (EU-15 without Luxembourg), squares designate the position of Cyprus and Malta, triangles designate individual "new" member countries from central and eastern Europe (EU-8) and round marks designate positions of three candidate countries (Bulgaria, Croatia and Romania). Due to several specificities Luxembourg is not included in comparison.

If we focus on the relative position of Croatia and Slovenia we can see that Croatian banking sector is again in the leading position (together with Estonia) in the group of recent and forthcoming new members of the EU. In comparison to Slovenia, Croatian banks are clearly ahead in terms of their credit activity. Accounting for the degree of

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economic development Slovenian banks should have loans-to-GDP ratio close to 70%, which is close to Greek banking sector with 76% share of non-bank loans in GDP. Definitely there is a room for further improvement in credit activity in the Slovenian as well as in the Croatian banking sector, even though these improvements might have different pace in both countries and might be also impaired by external factors mentioned earlier.

Somewhat smaller appear to be the differences between the "old" and new EU member states when comparing the third indicator of the banking sector development level, that is the share of non-bank deposits in GDP. Despite smaller differences between less and more developed economies we can easily see (Table 3 and Figure 4) that five countries from the EU-8 group and one from the SEE-3 group have deposit-to-GDP ratio below 50% (Estonia 46%, Lithuania 30%, Hungary 45%, Poland 46%, Slovakia 22%, Romania 24%). On the other side three countries from the EU-8 and two from the SEE-3 group have ratio greater than 50% (Czech Rep. 70%, Latvia 66%, Slovenia 57%, Croatia 64%, Bulgaria 51%), which is completely in line with the deposit-to-GDP ratio in some much more developed EU countries like Denmark (63%), Italy (58%), Finland (53%) and Sweden (51%). A significantly less tighter connection between the deposit-to-GDP ratio and GDP per capita is also proven by the calculated correlation coefficient corr=0.4172.

A pretty much straightforward explanation of much looser relationship lies in the development characteristic of the modern financial systems. Namely, banking sectors appear to lose their relative importance in comparison to non-bank financial intermediaries, especially investment funds. Consequently much larger proportion of savings is directed in other parts of the financial system and not in the banking sector. Since this disintermediation process is the most pronounced in more developed economies deposit-to-GDP ratios in different EU economies, which distinctively differ in the their economic development, don't differ significantly.

In this respect it is hardly possible to expect the deposit-to-GDP ratio to be improved substantially in banking sectors of Croatia and Slovenia in the future, since it is very likely that that the savings will be to a lesser extent channelled through the banks. In a way at least in Slovenian banking sector it already exists some evidence on this type of developments, as the deposit growth rates slowed down substantially in last few years and have fallen behind the growth rates of banking total assets. Accordingly banks will be forced to switch gradually from predominantly deposit based funding to different types of market based funding, which means that they will need to compete for funds in the market and will not be able to rely on their exclusive status based on the deposit insurance schemes and their role of liquidity provider for their customers.

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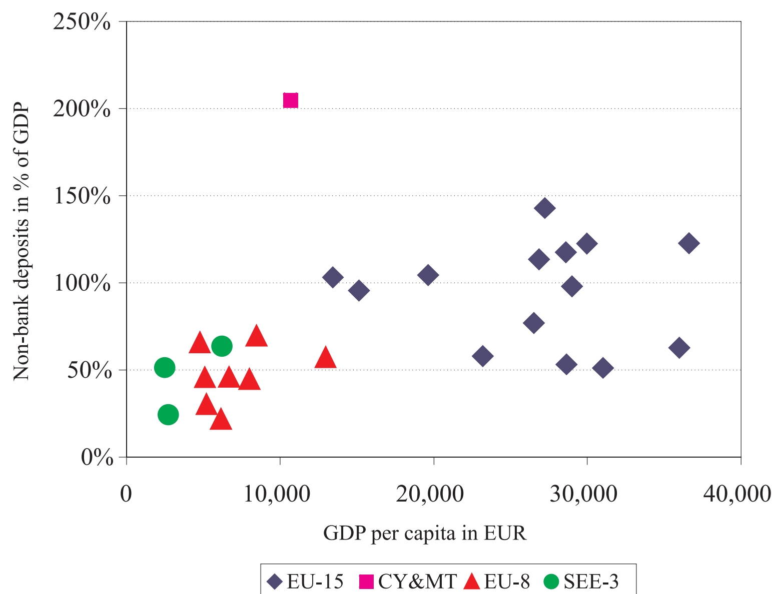
Figure 4: Deposits from non-bank depositors in % of GDP (vertical) vs. GDP per capita in EUR (horizontal) for selected pool of EU member and candidate countries (2004 data)



Source: ECB (2005b), ECB (2005c), national central banks, Authors' calculations

Explanation: In the scattergram the rhomboid marks designate individual "old" EU member countries (EU-15 without Luxembourg), squares designate the position of Cyprus and Malta, triangles designate individual "new" member countries from central and eastern Europe (EU-8) and round marks designate positions of three candidate countries (Bulgaria, Croatia and Romania). Due to several specificities Luxembourg is not included in comparison.

An extremely important factor that determines the credit activity of banks and their growth is their capital. The amount of capital banks have at their disposal and consequently their capital adequacy ratio set the limits of the individual banking firm expansion and at the aggregate level also the limits of the total banking sector expansion. Under the assumption that there are no significant differences in the aggregate level of risk exposures in the individual countries we can compare the capital availability by calculating the bank capital-to-GDP ratio, which gives at least a rough idea about the relative strength of the banking industry in every specific country. The data shown in Table 3 are also displayed in a scattergram in Figure 5, where the capital-to-GDP ratio is compared to GDP per capita for the set of countries under observation.

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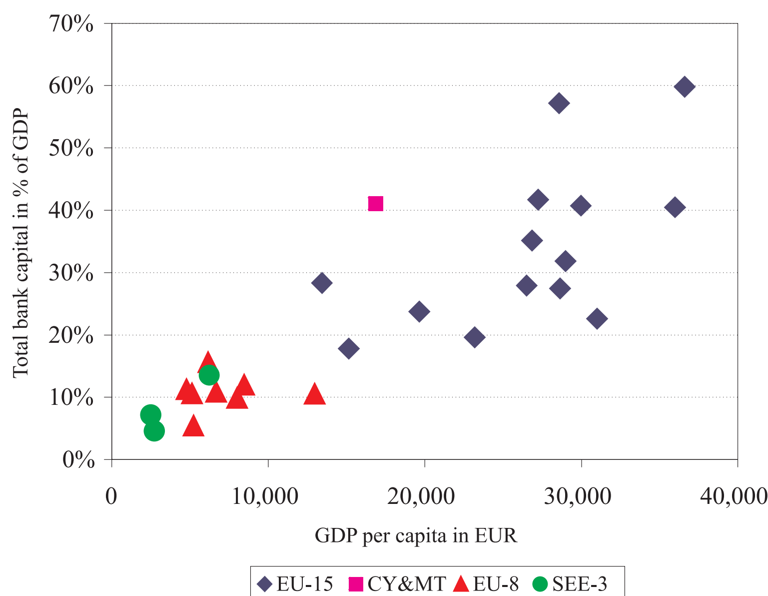
A distribution of observations in the scattergram (Figure 4) indicates that there exists a quite strong correlation between capital-to-GDP ratio and GDP per capita, meaning that on average more developed banking systems also operate with larger capital. The existence of this relationship can be confirmed also by a relatively high correlation coefficient value corr=0.81. As a consequence there appears again a notable discrepancy between the banking sectors in the "old" EU member countries and the banking sectors in the new EU members. In the latter the capital-to-GDP ratio does not exceed 16% mark, whereas in the "old" EU member countries the value of the ratio is not lower than 20% with the exception of Greece (17.8%) and Italy (19.6%). A quite astonishing is also the difference between the banking sector with the lowest and the largest ratio. While the Lithuanian banking sector operates with only 5.4% capital-to-GDP ratio on the other side Irish banks have ratio close to 60% and banks in the United Kingdom 57.2%.

Figure 5: Total bank equity in % of GDP (vertical) vs. GDP per capita in EUR (horizontal) for selected pool of EU member and candidate countries (2004 data)



Source: ECB (2005b), ECB (2005c), national central banks, Authors' calculations

Explanation: In the scattergram the rhomboid marks designate individual "old" EU member countries (EU-15 without Luxembourg), squares designate the position of Cyprus and Malta, triangles designate individual "new" member countries from central and eastern Europe (EU-8) and round marks designate positions of three candidate countries (Bulgaria, Croatia and Romania). Due to several specificities Luxembourg is not included in comparison.

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These huge discrepancies in the availability of bank capital are in a way expected and reflect the development stage of each of the banking sectors. What is more important is that the availability of bank capital will decisively determine the direction and the pace of the future development in banking sectors of new EU members. Namely any expansion in credit activity of banks absolutely asks for additional capital. Taking into account somewhat more risky environment in which banks in the new member states operate, the need for additional capital is going to be even more pronounced in the future. On the other side it is also possible that the future development of banking sectors in the new EU members will rely on provision of banking services through the network of foreign branches established by parent banks from western European countries. In that case it can happen that the need for fresh bank capital in new EU member states will be much lower.

5. Conclusions

European banking sectors have undergone significant changes in last 15 years. While changes in the "old" EU member countries have evolved through profound consolidation processes, which have resulted in a substantially reduced number of banks and considerably changed market structures, the transformation of banking sectors in Central and Eastern European countries was more radical and all-embracing. Especially banking sectors in the EU accession countries have been spurred to undertake extensive structural and institutional reforms, adopt the common EU legislation and regulation and integrate, at least to some extent, into the single EU banking market. Privatisation of large state owned banks in most of the EU accession countries was only part of the entire process. However, it has left remarkable traces in their newly renovated banking sectors - the market share of foreign owned banks in these countries surged to unprecedented values, not commonly seen in Western European economies. The ultimate effects of such an ownership structure are not completely clear yet. All in all, banks in Central and Eastern Europe benefited from the extensive restructuring process and banks have reached development levels that would have remained unattainable if these economies had not opted for the European Union.

The purpose of our paper is to point at some parameters of banking sector development in the EU with a special respect to the development potentials in banking sectors of the "new" EU member states and candidate countries. The indicator of financial intermediation, as measured by total assets to GDP ratio, discloses a remarkable gap in the intermediation potential of banks in Western Europe on the one side and banks in the new EU member countries and candidate countries on the other side. A similar gap is discovered by observing the credit activity indicator, as measured by the proportion of loans-to-non-bank-borrowers in GDP. Based on these findings, we can speculate that parallel to the strengthening of economic power, the growth of the banking sectors in the new EU member countries and candidate countries is likely to continue. However, it is not very likely to expect

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that the size and power of the banking sectors in the “old” EU member countries would be reached soon. Moreover a fast development of non-deposit-taking financial institutions in these countries may restrain the growth potential of banking sectors.

A comparison of two other indicators (i.e. the proportion of non-bank deposits in GDP and the share of bank capital in GDP) is actually supporting our conclusions on modest growth potentials of banking sectors in the “new” EU member countries. The observation of the non-bank-deposits-to-GDP ratio reveals, that the future funding of banks in the “new” EU members is not quite likely going to rest exclusively on deposit type funding, but should rather be reoriented towards non-deposit sources. As a result banks may be expected to be exposed to much stronger competition in the market. The other obstacle for the future development of banking sectors in the “new” EU member countries may be the availability of bank capital. Our cross country comparison of total bank capital to GDP ratio reveals that on average banks in the “old” EU member countries have relatively more capital at their disposal than banks in the “new” EU member countries. In any case a strong and sustainable growth in banking operations is only possible by the employment of sufficient capital that enables banks to comply with capital adequacy standards and regulation.

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Razvojni prospekti bankarstva u novim i budućim zemljama članicama EU

Ivan Ribnikar[1], *Marko Košak*[2]

Sažetak

Konsolidacija banaka znatno je smanjila broj banaka u europskom bankarstvu, što ima značajne implikacije na bankarski sektor u svim zemljama članicama EU. Konsolidacija banaka imala je veliki utjecaj na razvoj bankarskog sektora svih novih zemalja članica, gdje su najveće strukturalne promjene inicirane stvaranjem novih banaka uz sudioništvo starih članica EU. Budući bankarski razvoj u novim zemljama članicama EU vjerojatno će se temeljiti na onom starih članica. Više spekulativna nagađanja, koja se temelje na usporedbi s bankarskim sektorima u drugim zemljama članicama, pokazuju da će se odnos kapitala prema BDP u novim zemljama članicama povećavati u budućnosti. Rast bankarskog sektora temeljit će se većim dijelom na rastu zajmova nebankarskim sektorima, a od banaka se očekuje da više ne rabe nebankarske depozite kao glavni oblik financiranja. Umjesto toga, trebaju se aktivirati mogućnosti za alternativnim financiranjem. Nebankarski financijski posrednici u novim zemljama članicama EU bankama predstavljaju ozbiljnu konkurenciju, međutim, njihova relativna nerazvijenost sprečava ih da utječu na razvoj u bankarskom sektoru kao što je to bio slučaj u starim zemljama članicama EU.

Ključne riječi: *Europska Unija, bankarski sektor, nove zemlje članice*

JEL klasifikacija: *G21, P27*

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