

THE DEVELOPMENT OF THE ACTIVITY OF BANKS WITH FOREIGN CAPITAL IN CENTRAL AND EASTERN EUROPE

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Abstract

The privatization has as purpose to reestablish the functionality of a type of property under the public agreement. The privatization of banks brings both positive and beneficial aspects, but also some notions with a negative impact that influence the capital markets and banking system. Among the benefits we can include: the increase of the effectiveness and performance of the banking operations, the implementation of some effective structures that lead to the gradual integration of the banking system into the greatly developed economies, the improvement and perfecting of the bank services.

In Romania, the privatization of banks started rather late and in some cases it turned up to be very difficult. Romanian banking system is dominated by the Austrian and Greek investors. The Romanian banking system is very concentrated, but the intermediation level is still lower than in other European or Eastern European countries.

Key words: *privatization, foreign investors, banking system, Romania, Eastern European Countries.*

JEL Classification: *F21, F23, G21, G24, G32, G34.*

1. Introduction

Broadly speaking, the privatization had and still has as purpose to reestablish the functionality of a type of property under the public agreement, and the aim of this phenomenon was intended to remove the proven negative and unwanted aspects related to the transfer of some responsibilities from the private field to the public sphere.

Over time it was considered that the state should keep the leading position in the financial sector for a fair and effective redistribution of the resources in the economy. Moreover, another argument captures the idea that there is not always a strategic investor, efficient in the banking industry in the first stage of the economic transition. There are not clear and concrete evidence, but it was assumed that the public ownership of banks and of the banking system in general should contribute to a faster economic growth. The development and transformation of the banking and financial sector were evaluated by reducing the level of influence of the state in the economy, so that the main role played by the government should be limited to supervision and regulation. The privatization of banks brings both positive and beneficial aspects, but also some notions with a negative impact that influence the capital markets and banking system. Among the benefits we can include: the increase of the effectiveness and performance of the banking operations, the implementation of some effective structures that lead to the gradual integration of the banking system into the greatly developed economies, the development of the management of the companies that can or cannot be banks, the improvement and perfecting of the bank services, the decrease of the financial intermediary cost through labor productivity, the gradual elimination of the administrative officials, as well as the increasing number of companies and share market capitalization (Danila N., 2000.)

Moreover, we can refer to privatization in terms of the influence it has on profitability. If initially the bank were privatized by being sold to capable investors that came up with well-organized and planned strategies, then, the banks have lower costs compared to the ones subsequently privatized. It can be noticed that the positive impact of this process gradually materializes. The banking system has undergone a transformation in the countries of Central and Eastern Europe, whereas in the interest of the state, it has been noticed a rehabilitation of existing banks that had large debts allowing the access of foreign banks (Bonin et al., 2005).

2. The privatizations and acquisitions of some domestic banks by large international banking corporations in Central and Eastern Europe

Related to this aspect, in Central and Eastern Europe, the privatization of the banks in countries such as Bulgaria, Slovakia, Greece and Poland was viewed as a beneficial effect, having a positive impact on the banking

performance. Following the crisis, it has become clear that the privatization and restructuring processes are an integral step towards a stable financial sector. Therefore, they have stimulated the foreign direct investments in various sectors which have seen a rise in the volume of cross-border financing towards the host country (Engerer and Shrotten, 2001).

Bulgaria is among the countries where the government introduced a privatization plan for the banking system. This new approach of the privatization gave a favored position to the foreign banks and to non-financial enterprises, too. Having a great influence ever since 2000, it has been proven an increase of almost 80% of the GDP in Bulgaria, increase noticed in the private sector and thus Bulgaria received an annual increase of about 5% in recent years. Moreover, here we can highlight the existence of three methods of privatization: cash privatization, domestic privatization and mass privatization. One of the banks that were part of the process of privatization is UniCredit Bulbank. UniCredit Bulbank is one of the largest banks in Bulgaria in terms of assets, with about 12 billion leva in 2012. The Bank serves more than one million individual clients, high-profile individuals, small and medium companies and national and multinational corporations. The privatization of Bulbank was completed in October 2000 and with this process the Extraordinary General Meeting of Shareholders approved the new Statute of the Bank and allowed the introduction of a two-tier management system of the Supervisory Board and Board of Directors. Moreover, after the privatization of the bank, it became a member of the UniCredit Group. The remaining majority of the Bulgarian banks namely Bank Biochim and DSK were privatized in 2002 and 2003 respectively, the first bank being sold to Bank Austria Creditanstalt. Also, another privatization of the Bulgarian banking system targeted the second major bank in Bulgaria namely DSK Bank. DSK was originally a joint stock company owned by the state, but in October 2003 after a successful privatization, OTP Bank Hungary became the sole owner of DSK Bank. Since the bank has quickly adapted to the high standards imposed by the OTP Group and to the complex investment program widely spread by the Hungarian owner, and it managed to implement a successful transformation program. Later on, together with its subsidiaries, it has managed to build a financially strong group based on dynamic, modern and flexible development, focusing on the needs of all its customers with the wide variety of services, including pension insurance, asset management, security, cash collection and transportation and as well as the leisure-related services. Although Bulgaria has a late start in the privatization of the banks, all its major banks are now foreign owned.

Slovakia. The investment funds dominated the first wave of privatization and banks have sponsored these investment funds. For this country, the first bank that was privatized is Tatra Banka. This bank was established in 1990, being for a while the only private bank in Slovakia. Tatra Banka reached the banking field in order to create a universal bank with full banking services. In time, Tatra became one of the most important and top-ranked banks in Slovakia due to the large scale banking services and products that they managed. In 2012 it was considered the best bank regarding the management relations, the best private services granted to customers, and in 2014 it offered the best credit products and financial solutions, it also considered the investments related to precious metals, real estate investment, as well as the opportunities for entrepreneurs.

Greece. Due to the economic-financial problems, in Greece the issue of privatization of some state-owned banks, as well as the merging of other banks was debated. We are going to consider one of the privatizations that took place in Greece, a process begun in 2006 and completed seven years later. One of the first banks presented is TT Hellenic Postbank banks. It was established in 1900 with the objective of contributing to the society and of building a long tradition of prestige and reliability, which is still an important element of the bank nowadays. TT Hellenic Postbank has obtained a license to operate as a credit institution since 2006. Furthermore, it was successfully listed on the Athens Stock Exchange, in a program of privatization of the state. Although four banks have struggled to get the bank, in 2013 the transfer of 100% of shares and the voting rights of TT Hellenic Postbank New to Eurobank SA was successfully completed, as well as the legal merger by absorption of the bank by Eurobank SA.

Poland. The current privatization process is different from one country to another: while Hungary has requested exclusive foreign strategic investors, Poland opted for initial public offerings (IPO) in the domestic market while Slovakia preferred the privatization vouchers. The Polish privatization followed several objectives: to maintain the ownership of the Polish banking sector when faced with the foreign penetration process that generates revenue for the state, to strengthen the domestic banking sector compared to the foreign competition and to recover the pension funds. WBK and Bank Slaski, the two banks known for their high quality management and strong balance sheets were the first to be privatized. As it was the smaller of the two, WBK was privatized first in order to test the absorption capacity of the capital market. In order to get an infusion of capital, WBK issued new shares that the government intended to sell to a foreign strategic investor (Dimova, 2006). After an unsuccessful search for a buyer, the European Bank for Reconstruction and Development (EBRD) has expressed its interest in taking over a stake of 28.5 %, while Bank Slaski, attracted the Dutch bank ING, with a stake of 25. In 2006, Allied Irish Bank (AIB) held 60.14 % of the shares of the WBK and held 87.77 % of ING Bank Slaski. The bank privatization of Gdansk (BG) confirmed the suspicion that the government clearly prefers foreign owners. Only by preventing foreign investors from increasing the market share in the privatization process of the BPH, Bank Inicjatyw Gospodarczych (BIG) was allowed to merge with the BG already a considerable market share. Bank Handlowy (BH), the oldest operating bank, was also privatized in an attempt to balance the policy objectives with an independent governance structure. Consequently, an offer in order to attract a core group of strategic investors and the issue of domestic IPO were used to sell shares. As a result, a significant part was widely held by Polish individuals.

3. The privatizations and acquisitions of some domestic banks by large international banking corporations in Romania

Romania was among the last states compared to other countries surveyed in the privatization of the banks. In 2000, the foreign investors who owned less than half of the banking assets in Romania and two of the three largest banks remained with state capital until 2003. In Romania, the five largest state banks that were holding 37% of the banking assets at the beginning of the privatization process were Bancorex, a bank which focused on foreign trade bank and the Romanian Development Bank (RDB) that has been the investment bank and development; the Agricultural Bank was renamed the Bank for Agriculture and Food Industry and the Savings Bank Institute (CEC) was a traditional institution of savings. The fifth bank, the Romanian Commercial Bank (RCB) was created from the assets of the National Bank of Romania.

The first bank privatization in Romania was represented by the selling of a state majority, in BRD Société Générale in 1999 along with the EBRD which took over a minority stake in 2000. Also, we are going to consider the status of the Agricultural Bank, which, after it had problems, in 2001 the bank was taken over by the consortium formed by the Austrian Bank Raiffeisen Bank (RZB) and the Romanian-American Enterprise Fund (RAEF). If the bank were to be closed, the costs would have been much higher than those of the privatization process. Banc Post was fully privatized in 2003 when GE Capital and Banco Português de Investimento took over the minority stakes, and the government retained a majority stake in the bank, so that the foreign buyers would not gain complete control over the bank. As a result, GE Capital was not satisfied with the established agreement, so it sold most of its shares in 2000 to EFG Eurobank (Greece) and to Banco Português de Investimento. In 2009, EFG Eurobank bought the shares of the investment companies (SIF), owning a stake of 98.47 %. Subsequently, the RCB was privatized in 2006, and Erste Bank became the new owner of the RCB. Erste bank had to pay 3.75 billion euros for the 61.88 % of the bank's shares. The total assets that the Erste Bank held later exceeded about five times the consolidated assets of the entire Romanian banking system, and after nine months the net profit reported by Erste recorded 508 million euros, being higher than the cumulative result of all the banks in Romania.

In the following tables (Tables no. 1 and 2) we notice the evolution of the net balance sheet assets and of the Own Funds in the late 2011 and 2012. Concerning the issue related to the "Banks with majority Romanian capital," CEC Bank and the Import-Export Bank of Romania, Eximbank, represent the only major state-owned banks over the years. If in 2011 the Romanian capital banks included TB, at the end of 2012 it appears in the category of banks with a majority foreign capital.

Table no. 1. The value of the banks net assets and the equity at the end of 2011

I	Net assets		Equity	
	Bill. Rol	%	Bill. Rol	%
1. Romanian capital owned banks, of which:	59294,2	16,8	4940,0	15,2
<i>1.1 State owned banks, of which:</i>	28990,1	8,2	2664,2	8,2
a) CEC Bank	24 815,6	7,0	1757,8	5,4
b) Eximbank	4 174,5	1,2	906,4	2,8
<i>1.2 Private capital owned banks, of which:</i>	30 304,1	8,6	2275,8	7,0
1. Transilvania Bank	25745,2	7,3	1939,4	6,0
2. CARPATICA Comercial Bank	3787,1	1,1	197,6	0,6
3. Libra Internet Bank	595,4	0,2	101,3	0,3
4. Railway Commercial Bank	176,4	0,1	37,5	0,1
2. Foreign owned capital banks, of which:	265381,6	75,0	25969,0	80,1
• Romanian Commercial Bank	71054,8	20,1	5867,6	18,1
• BRD Groupe Société Générale	48027,7	13,6	5064,6	15,6
• Raiffeisen Bank Romania	23690,3	6,7	2155,8	6,6
• UniCredit Țiriac	22346,5	6,4	2127,3	6,6
• Volksbank Romania	17728,1	5,0	1410,1	4,3
• Alpha Bank Romania	16544,1	4,7	1858,1	5,7
• Bancpost	12274,1	3,5	1322,7	4,1
• Piraeus Bank Romania	8166,6	2,3	1134,9	3,5

• Romanian Bank Group National Bank of Greece	7417,2	2,1	914,5	2,8
• Others	38131,6	10,6	472,9	1,5
II. Subsidiaries of the foreign banks	28381,2	8,0	1268,0	3,9
CREDITCOOP	853,9	0,2	236,2	0,8

Source: National Bank of Romania, *Report on the Financial Stability*, 2012.

In 2011, we cannot notice major changes in the banking system in Romania regarding the privatizations and mergers processes. We consider the taking over of the Anglo-Romanian Bank of Romania branch by the RCB, as well as the transfer that took place in the state-owned shares at Eximbank. Also related to the ownership structure of the shareholder certain changes occurred at Volksbank Romania SA, which has come to have a new shareholder, VBI Beteiligungs. The changes took place in the case of Libra Bank, as we shall see later, and its name was changed into Libra Internet Bank.

However, for the next year, 2012 brought some modifications starting with the changing of the number of credit institutions, which decreased from 41 to 40 entities, the decrease being caused by the merger through absorption between Intesa Sanpaolo Romania and CR. Firenze Romania. The bank that was absorbed is C. R. Firenze Romania, and the whole process was completed in late 2012. Moreover, the shareholder of the majority shares of the National Bank of Greece acquired the shares owned by EBRD. As in the previous year, the changes related to names have also occurred in the case of credit institutions, as it follows: Romexterra Bank SA and Emporiki Bank Romania S.A. became Nextebank SA, the following bank that was renamed is the Agricultural Bank Romania SA. (Table no. 2).

Table no. 2. Value of the banks net assets and equity at the end of 2012

	Net assets		Equity	
	Bill. Rol	%	Bill. Rol	%
I				
1. Romanian capital owned banks, of which:	36612,9	10,0	2888,6	9,4
<i>1.1 State owned banks, of which:</i>				
a) CEC Bank	26883,4	7,4	1669,2	5,5
b) Eximbank	3931,4	1,0	869,7	2,8
<i>1.2 Private capital owned banks, of which:</i>				
1. CARPATICA Comercial Bank	4725,9	1,3	214,5	0,7
2. Libra Internet Bank	777,3	0,2	97,7	0,3
3. Railway Commercial Bank	294,9	0,1	37,5	0,1
2. Foreign owned capital banks, of which:	296596,7	81,1	26155,1	85,2
• Romanian Commercial Bank	70524,7	19,3	4777,0	15,5
• BRD Groupe Société Générale	47924,1	13,1	4363,6	14,2
• Raiffeisen Bank Romania	29572,0	8,1	2223,8	7,2
• UniCredit Ţiriac	25061,5	6,9	2600,6	8,5
• Volksbank Romania	23061,5	6,5	2367,2	7,7
• Alpha Bank Romania	16479,5	4,5	1707,7	5,6
• Bancpost	16460,8	4,5	1068,6	3,5
• Piraeus Bank Romania	12174,1	3,3	1190,1	3,9
• Romanian Bank Group National Bank of Greece	7830,8	2,1	901,7	2,9
• Others	6914,8	1,9	659,7	2,1
2. Foreign owned capital banks, of which:	40049,4	10,9	4295,1	14,1
II. Subsidiaries of the foreign banks	31558,0	8,7	1427,4	4,6
CREDITCOOP	850,5	0,2	233,4	0,8

Source: National Bank of Romania, *Report on the Financial Stability*, 2012.

If we analyze the whole financial system in Romania, we are going to notice that the banking system ended up losing about 2.3 billion in 2012, and this situation was due largely to the growth of the existing provisions relating to credit risk amid the increase of the volume of non-performing loans. Moreover, the exposure of the parent bank to

subsidiaries throughout the country has recorded a significant decrease, but balanced by the branches that attracted deposits from the local market. Therefore, the extensive and lengthy process of privatization, takeovers and mergers that have taken place both at the national and at the European level focused on improving the efficiency of the state and banking system, but it is not carried out under the same conditions which could lead to the development of certain situations that may harm or not the public or private sector.

4. Conclusions

No matter of the privatization methods, the privatization process aimed an increase of the banks' profitability and efficiency in the analyzed countries. In Romania, the privatization of banks started rather late and in some cases it turned up to be very difficult. We have a few major foreign investors and the rest of the banks are rather small sized as we could see from the previous section.

Although the number of the banks activating in Romania is decreasing, it is still large if we consider the concentration level of the Romanian banking system. It is based mainly of the foreign capital and the first three banks foreign capital owned represent almost one third of the total assets of the Romanian banking system. Banks with domestic capital represent only 10 percent of the total assets and so do the subsidiaries of the foreign banks.

The banking network is decreasing in Romania as a result of the crisis that imposed many limitations for the banking activity. The intermediation level is lower than in other European and Eastern European countries. In the first 10 banks we find four Greek banks so Romania's exposure to the Greek crisis is quite large. Those Greek owned capital banks represent almost 12% of the total assets of the Romanian banking system. The largest foreign investors on the Romanian banking market are Austrian, Greek and French. Romanian banking system faced important changes, mergers and acquisitions for the consolidation of the banks' position on the market.

5. References

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