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Introduction

In 2001 it was the sixth time that the International Conference *Future of the Banking after the Year 2000 in the World and in the Czech Republic* took place at the School of Business Administration, Silesian University, in Karviná. It was understood to be a regular meeting of banking experts from practice and also academic and scientific specialists from universities throughout a relatively short period of its existence.

The conference was introduced, like in the past years, by papers of invited guests. They were Doc. Ing. Jiří Havel, CSc. from Charles University, former Chairman of the Executive Committee of the National Property Fund, Doc. Ing. Milan Šikula, DrSc., Chief Executive of Slovenská konsolidačná, a.s. in Slovakia, and Ing. Jan Juchelka, vice-chairman of the Executive Committee of the National Property Fund. Their papers absolutely fulfilled expectations of the conference participants. All of them dealt with various topics concerning the banking sector privatization. Doc. Ing. Jiří Havel, CSc. explained his view of some privatization steps done in banking during his chairmanship at the National Property Fund, Doc. Ing. Milan Šikula, DrSc., focused on consolidation, revitalization and restructuring process in banking sector, and Ing. Jan Juchelka was talking about major critical steps during privatization of large Czech banks. After these papers other participants followed with their papers – most of them focused on various aspects of banking sector privatization. Very interesting and rich ideas appeared in the discussion.

The next day the meeting of enrolled participants was divided into two sections. The first one focused on “The Privatization in the Czech Republic and Abroad”, the second one was called “Privatization, Capital Market, and Companies”. More than 40 participants, including foreign guests, presented their papers. They confirm that views on the banking sector privatization can be very different. Nevertheless a supportive working and friendly environment subsisted in both sections.

Vast majority of the papers presented at the Conference is included in the Proceedings, which you are holding in your hands. Once again they are published on the University websites and you can find them on the address www.opf.slu.cz/pb2000/sbornik2001. The papers in all parts are classified according to the content. The whole proceedings show that the view at the banking sector in the Czech Republic and all over the world, at its development and also prospects can be very different. It finds its reflection in the different participants’ views and in various topics they focused on. It is mainly a confrontation of the ideas and views, which is the main contribution of the conference. This can influence not only the practical scope of activities of the banks’ managing staff but also direct scientific activities of the university workplaces both in the Czech Republic and abroad.

For the fourth year in row, graduates of Silesian University and the School of Business Administration took part in the conference. In spite of the fact that the School of Business Administration was founded in 1990, nowadays nearly 2000 students study there. Most of graduates who studied the major Finance work mainly in the finance sector now. Some of them have already been in practice in challenging workplaces in well-known financial services firms or in public office. It is very nice to have an

opportunity to welcome one of these graduates as the guest speaker as it was in the case of Jan Juchelka this year. We believe that we will have a chance to meet further graduates at the International Conference in the year 2002 again.

We suppose the next year conference *Future of Banking after the Year 2000 in the World and in the Czech Republic* will take place on October 14-15, 2002. Let us hope the next year conference will again bring fruitful papers and rich discussion.

Stanislav Poloucek

Silesian University

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Karvina, 20th November 2001

SOME ASPECTS OF RESTRUCTURING THE BANKS

Monika Bačová

Zuzana Bričová

Key words

banking crisis, bank restructuring, principles of bank restructuring

1. Introduction

Banks as entrepreneurial entities, which accept deposits and provide loans, play an important role also in the whole payments system. In order to ensure a safe and sound functioning of banks, and also of all banking system, each country has a mechanism of regulation and supervision. The aim of this mechanism of bank regulation and supervision is to prevent the destabilization by means of controlling the risk.

Despite the fact that there is a mechanism of bank regulation and supervision, a situation can develop when it is necessary to use also public financial means in order to ensure trust in the banking sector, and to ensure safe and sound functioning of banks and maintaining the financial stability. This can lead to moral hazard.

This contribution is focused on some aspects of bank restructuring which should help to decrease the risky loss assets of banks, which will lead to the development of banking.

2. The Basic Principles of Bank Restructuring

Banking has been a strictly regulated sector recently. This regulation follows from the fact that the banking activity is specific first of all because they do business with specific goods - with money - and the stability of the banking system is the basis for the stability of the economy as a whole. In transforming economies, in favor of arguments for regulation are the not sufficiently developed market tools, relative economic instability and the effort to protect domestic banks from foreign competition. The situation, which requires a strengthening of the regulation in the banking sector and requires state intervention is called a crisis in the sector of banking, or simply a banking crisis. The reasons for arising of banking crises can be summarized as follows:

- macro-economic instability

- price bubble of assets
- the changes of foreign exchange rates
- the height and instability of interest rates
- liberalization of the banking sector and legislature
- the mistakes of the management and the owners
- transparency and familiarity
- classified loans.

In the times of a banking crisis it is also necessary to maintain the competition and stability in the banking sector. It means that the accumulated problems must be solved. There are several possibilities of solving the problems: restructuring aimed at the recovery of the loans portfolio, strengthening of the bank's capital by a strategic foreign partner, forming a new strategy of development, including changes in the organizational structure of the banks with the aim to increase the efficiency of their activities.

If the crisis hit the banks to such an extent that more banks are endangered by insolvency, or inability to pay debts, solving the problem of bankruptcy of these banks by gaining deposits at convenient conditions, or a loan from the central bank is not an adequate solution. In such a case, in order to get over the bankruptcy of the bank, the deposit of the public for restructuring must be used by means of transferring resources from the public sector into the banking system.

A successful restructuring program must follow three basic principles [1]:

- to be sure that the subjects responsible for the crisis bear the biggest part of expenses for restructuring .At the same time the debtors of the bank must not be advantaged in any way at the expense of public outlays
- it is necessary to prevent banks with problems to provide further credits to non-paying and very risky debtors or capitalization of not paid interests to non-returnable, loss loans to a new loan. Complying with this principle decreases the risk of moral hazard when restructuring the banks. This means that banks with problems aware of the existence of protection by means of public expenses must not intentionally worsen the quality of assets
- to make the restructuring successful, political will is essential and social support of restructuring. This program should be well designed in order to prevent a high rise of inflation when distributing public funds.

In order to achieve a successful restructuring it is necessary to fulfil the basic conditions: there must be an economic environment in which it will be possible to fulfil the above mentioned principles of restructuring. The society must also be ready to finance the saving program of the bank. But with considerably limited volume of financial resources for restructuring there is a need to decrease fiscal expenditures. The readiness of the market for bank restructuring can lower the expenses of the public because it allows the private investor to enter this process. Financial resources gained by the subsequent sale of the assets of the problematic banks can be used for compensation for public outlays on their restructuring.

Restructuring can basically be carried out in three ways:

- by assimilation or sale of irrecoverable debts, writing-off loans as losses, if reserves for such loans are not adequate. This loss requires a decrease of the value of the capital
- regulation authorities control is used when regulators have sufficiently developed mechanism for controlling such “problematic” banks. In case the irrecoverable debts are written-off as losses and a decrease of capital value occurs, this procedure will require higher costs from the public than in the previous case. The success of this alternative lies in the conviction that as soon as the market conditions allow it, the banks will be returned to private owners
- contractual sale with property left in place is used if the market is not sufficiently developed, its liquidity is low and regulators have no mechanism for maintaining the running of the bank. Such a procedure is the most complex one because the “problematic “ banks after restructuring must be kept in the ownership of the original owners to whom public funds are provided to revitalize the institution.

3. Restructuring the Banking Sector in Slovakia

The process of both bank restructuring and the whole banking sector as a vital condition of recovering the financial flows between banks and their economic environment could not be avoided by the banking sector in Slovakia. Together with restructuring it is necessary to solve further problems which arose under the influence of either externally or internally acting factors in the beginning phase of the transition from centrally directed economy to free market economy as well as of the existence of non-market environment in a later period. Pressure for an accelerated privatization and the lack of financial resources played an important role. Insufficient knowledge and experience of clients in the field of entrepreneurship as well as of the bank staff in the field of directing risk in the process of giving loans caused the existence of many problems. That is why the most important aspects of bank restructuring in Slovakia are the restructuring the loan portfolio, covering of unpaid liabilities by creating correcting items and reserves to unpaid loans and non-liquid guarantees. An important role here is played by writing off the irrecoverable debts.

Three subjects participate in solving this situation: the state, commercial banks and the debtors.

Through the state, first of all in the banks with a state property share, part of the irrecoverable debts are passed on the tax payers. In the first years of the transition of the Slovak economy into a market economy the Konsolidačná banka, š.p.ú. was established in order to solve the problem of loans generating losses, especially the loans from the period of socialist economy. Another big group of irrecoverable debts which are passed on the tax payers is represented by loans for privatization.

The commercial banks take part in restructuring by raising the financial discipline of the debtors. The resulting improved position of commercial banks in

bankruptcy proceedings against subjects generating perpetual losses will enable to recover financial flows and to cut the general rate of loan risk.

4. Conclusion

In order to successfully manage the bank crisis both in developed and in transforming economies, and at the same time in the developing countries, it is inevitable to apply three basic principles of managing the banking crises: to make sure that subjects responsible for the crises share the biggest part of the costs of restructuring, to prevent the banks with problems to provide further loans to non-paying debtors, and in the framework of the restructuring program to avoid financing with inflation.

This kind of restructuring program cannot be avoided by the economy of the Slovak Republic in the framework of the bank restructuring process.

Abstract

Bankový sektor vo všetkých štátoch, ktoré sa transformujú k trhovému hospodárstvu sa musí reštrukturalizovať, musia sa riešiť nahromadené problémy. Tieto problémy boli vyvolané interne aj externe pôsobiacimi činiteľmi v plánovanom hospodárstve ako aj v počiatočnom štádiu prechodu od centrálne riadenej ekonomiky k trhovému hospodárstvu, ale aj netrhovým prostredím v ďalšom období.

Cieľom príspevku je načrtnúť súbor princípov pre zdravú reštrukturalizáciu bánk, ktorá by mala pomôcť zredukovať riziká vzhľadom na vklady verejnosti a na záchranu súkromného vlastníctva. Uvedené princípy musia byť konfrontované s realitou, že vždy existujú obmedzenia, ktorá brzdia aj tých najrenomovanejších bankových regulátorov pri zavádzaní ozdravných opatrení.

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LIFE INSURANCE IN SLOVAKIA

Barbora Drugdová

Key words

life insurance, life insurance market, insurance legislation

Transition of the economy in Slovakia to market economy principles brought with it a collapse of a monopoly on the insurance market. Changes in the legal system, represented by Slovak National Council Act 24/1991 Zb. on the insurance industry, in the wording of subsequent amendments, the latest amendment being Act 101/2000 Zb., and the attractiveness of this branch of the financial sector led to a dynamic growth of this sphere of business, which is new here.

In the countries of the European Union, but also in other developed market economy countries (the United States, Japan, Germany), insurance is in general divided to life insurance and non-life insurance. In line with the aspirations to join the European Union, division of insurance to life and non-life insurance was also introduced in the legal system here, instead of classification as personal insurance, property insurance, and insurance of liability for damage, as defined in the Civil Code.

The term life insurance is often misrepresented for insurance of persons. Insurance of persons pertains to insurance of life or health of those insured. Insured risk can be death, accident, or disability of the insured. Life insurance is one of the types of insurance of persons. Within insurance of persons we can also distinguish non-life insurance (this involves: accident insurance, medical insurance, health insurance) and life insurance (this includes insurance for the case of death, endowment insurance, mixed insurance, and pension insurance).

Life insurance is oriented at a risk of surviving until certain age or death. The basic feature of this insurance is that the insurer will in all instances pay the benefits. The agreed upon benefit is paid when the insured survives until the date of the end of the insurance policy or the date agreed-upon in the insurance policy, or in case of a premature death. Usually, a share of the insured in surpluses from insurance or profit from investment of the finances deposited with the insurance company is agreed-upon in the form of bonuses and also an increase of insurance payments.

There are several basic types of life insurance which are offered in various modifications. However, all types ensure the payment of benefits at a time of insurance need, either directly to the insured or his/her heirs. The basic types of life insurance are: universal life insurance, endowment insurance, whole life insurance and endowment insurance (mixed insurance), retirement annuities.

For universal life insurance the insured event is the death of the insured for whatever reason. There can be various sums agreed for individual causes of death, such as a result of illness or an accident. This is often combined with endowment insurance and also accident insurance. Universal life insurance is often offered as: whole life insurance, term insurance, deferred (term) insurance. Whole life insurance provides, in case of the insured, a death benefit for the surviving relatives, or another beneficiary. This type of insurance lasts in fact until an age set by an insurance company (70 – 85 years). If the insured survives to that age, the insurance company will pay him/her the agreed-upon insurance sum and the policy thereby ceases.

In term insurance, the duration of insurance is limited to a term agreed-upon in advance. This policy provides in the case of death of the insured during the insurance term a death benefit for the authorized beneficiary or surviving relatives. If the insured survives until the end of the insurance term, the insurance ceases without any redemption.

Deferred (term) insurance is a life insurance where the payment of the benefit is deferred by a certain waiting (deferral) period. This type of policy provides insurance coverage from the moment the contract is concluded.

In the instance of endowment insurance, an insurance company pays an agreed-upon sum if the insured survives until the end of the insurance period. Insurance will cease without compensation. This type of insurance is no longer sold in this form in business practice. Insurance companies offer it with the exception of returning the accumulated premiums to the surviving relatives in case of death of the insured in the course of insurance or this type of insurance is linked with term life insurance.

Mixed insurance is insurance in case of death and insurance for survival up to a certain age. It is a combination of the aforementioned two forms of insurance. This type of insurance may not cease without a reimbursement. An insurance company will pay the benefit either when the client survives until the end of the insurance term, or in case of death of the insured person. Insurance companies modify mixed insurance in various ways.

Retirement annuities are a certain modification of life insurance. This insurance presents a possibility of including risk of death, survival to a certain age, and disability.

Hence retirement annuities are a specific form of insurance for the case of reaching a certain age. Payment of insurance coverage is linked to life of the insured person and usually end with the death of the insured person. Decisive age for the origination of entitlement to a pension is 60 for men and 55 for women. Amount of insurance coverage in life insurance is determined by the insurance sum or its part, depending on agreed-upon insurance terms.

Insurance premium is the price for an insurance service. Factors that determine the amount of premium have an important role for the calculation of insurance premiums in life insurance. Elements that to a decisive degree influence the amount of insurance premium are above all evaluation of subjective and objective aspects of risk, or those features that can be objectively measured or quantified.

Subjective side of risk ensues from dangers that rest on the insured person himself. It has a positive or negative effect to a degree to which the insured person takes

care or is careless towards preserving his/her life and to prolong his/her life. Subjective side of risk, such as care for health, is not directly expressed in premiums. In some economically developed countries, insurance companies reward verified abstains (whether it concerns smoking or alcohol) who buy insurance by proving them discounts on premiums. For example, in the United States, smoking is taken into account in morality tables, whereby there are separate morality tables for smokers and nonsmokers. (such as Unisex Version of the 1980, Commissioners Standard Ordinary Morality Table).

Objective side of risk is represented by age of the insured sex, marital status, occupation, hobbies environment and others. All these factors, as well as other factors, influence morality, or average length of life of the insured.

Factors that directly influence the amount of premium in life insurance include: likelihood of death or survival to a certain age, insurance term (or duration of insurance), time and form of payment of premiums, insurance sum, number of insured risks, waiting period (deferral period, period of deferral of effectiveness of insurance), number and amount of overhead surcharges, amount or profit and other surcharges, interest rate and interest.

Importance of life insurance in the national economy is rising. Life insurance is a stable component of the creation of the gross domestic product. In developed economies it is used as an active element of social policy of the state. It offers a suitable alternative to overcome problems associated with social security. It permits the insured to accumulate part of their income during their economic activity and in this way preclude a drop of their standard of living when income from economic activity is no longer available. The period of receiving pension is linked with a decline of the standard of living also in economically developed countries, needless to say in transforming countries, where social security systems inherited from previous regime are burdened by a high degree of social solidarity.

Fundamental demographic changes in the Slovak Republic are causing major problems in association with a growing economic burden of the productive part of the population to support the part of the population that is no longer active in work.

Accumulation of capital and its investment is an important aspect of development of the economy. Higher savings rate as a source of capital is deemed a factor of stability of a country, on which willingness of foreign investors depends to invest on our capital market. Life insurance has a specific character based on its long-term nature and stability of terms. Therefore reserves accumulated in life insurance represent an important source of investment capital, and so help the recovery of the national economy. Its long-term nature requires a high degree of confidence between the insurer and the insured. Average insurance term in life insurance products is 15 to 20 years.

Modifications of legal norms began in the insurance industry and the process of harmonization of our insurance law started with community law of the European Union. These amendments are also related to life insurance. The possibilities were widened for placement of reserves into foreign securities and the possibility was introduced to provide loans to the insured in life insurance.

Development of insurance in the area of life insurance in recent years is more dynamic than in non-life insurance. The Slovak Republic is gradually getting closer to the European average on the insurance market, which is about 51 percent in favor of life insurance.

The higher the degree of development in a country, the higher the share of life insurance in the total insurance output. Table 1 below provides data about world insurance markets.

Table 1 - World insurance markets data (1997)

Country	Share of the world market (%)	Share of received premiums on GDP (%)	Ratio life: non – life
North America	32,74	8,37	44:56
USA	31,01	8,55	44:56
Latin America	1,56	1,78	25:75
Europe	32,04	6,52	54:46
Western Europe	31,26	7,07	
Germany	7,23	6,47	41:59
United Kingdom	6,51	10,71	65:35
France	6,50	8,89	60:40
Asia	30,73	8,41	76:24
Japan	24,64	11,70	78:22
South Korea	2,97	3,23	76:24
Africa	1,18	5,72	67:33
Oceanic	1,77	8,12	53:47
CELKEM	100,00	7,28	53:47

Source: CEA Number of Companies, 1998

Data in Table 1 shows that the ratio of life and non-life insurance here is unsatisfactory compared with countries with developed economies, such as Japan with 78:22, United Kingdom 65:35, France 60:40.

Table 2 - Market share of insurance companies in the insurance market in Slovakia in life insurance by billed premiums

Rank.	Insurance Company	Market share by billed premiums in % 1999	Market share by billed premiums in % 1998	Market share by billed premiums in % 1997	Market share by billed premiums in % 2000
1	Slovenská poisťovňa	44.26	51.41	61.73	36.40
2	Amslico	16.60	13.23	10.05	18.87
3	Nationale Nederlanden	12.74	10.50	5.93	14.48
4	Kooperatíva	5.31	5.23	5.30	7.17
5	Slovenská investičná poisťovňa	4.13	6.00	7.99	-
6	Allianz	3.98	3.65	3.50	4.77
7	ERGO	3.37	2.42	1.31	3.56
8	Slovenská životná poisťovňa (od roku 1999 Kontinuita)	3.24	1.84	0.54	4.79
9	Prvá česko-slovenská poisťovňa	2.07	1.51	0.84	1.70
10	Otčina	1.48	1.98	1.79	1.48
11	Komunálna poisťovňa	0.58	0.52	0.24	0.64
12	Univerzálna banková poisťovňa	0.53	0.53	0.67	0.61
13	Hasičská poisťovňa	0.44	0.49	0.27	0.30
14	Union	0.43	0.06	0.00	0.90
15	Česká poisťovňa – Slovensko	0.27	0.28	0.17	0.34
16	Generali	0.23	0.28	0.11	0.55
17	Wüstenrot	0.19	0.01	-	0.36
18	Tatra	0.09	0.06	0.05	0.07
19	Vzájomná životná poisťovňa	0.05	-	-	0.01
20	R + V	0.01	-	-	0.03

Source: Slovak Association of Insurance Companies , Bratislava 2001

The ratio of life and non-life insurance in the Slovak Republic was 40 : 60 as of Insurance Companies.

Commercial insurance companies active in the Slovak insurance market ranked by billed premiums in 1997, 1998, 1999 and 2000 are in Table 2.

An amendment to Insurance Act No. 101/2000 Zb., came into effect on 1 April 2000, enabling the approximation of our laws to the legal system of the EU.

The most important changes in the amendment of the law pertain to the division of newly founded insurers to life and non-life insurance companies (universal insurance companies can no longer be established), determining the amount of basic capital for individual types of insurance companies, enacting the function of an actuary, widening jurisdictions of supervisory bodies in the insurance industry, as well as access of branch offices of foreign insurance companies to the market in the Slovak Republic.

The amendment has not effected changes in the area of tax benefits linked with life insurance, as it exists in developed economies. The amendment of the insurance law does not enable citizens of Slovakia to buy insurance policies from insurance companies that are not active in Slovakia, as it is in countries of the European Union. However, the law provides an exception if the required type of insurance is not provided by any local insurance company.

Finally, we can conclude that demand for non-life insurance still prevails. Interest is growing of the population as the main subject on the market in life insurance. Over the past three years life, insurance has been growing by roughly 30 percent annually.

Conclusion

Tradition of the economy in Slovakia to market economy principles brought with it a collapse of a monopoly on the insurance market. Changes in the legal system, represented by Slovak National Council act 24/1991 Zb. on the insurance industry, in the wording of subsequent amendments, the latest amendment being Act 101/2000 Zb. and the attractiveness of this branch of the financial sector led to a dynamic growth of this sphere of business, which is new here. In line with the aspiration to join the European Union, division of insurance to life and non life insurance was also introduced in the legal system here, instead of classification as personal insurance, property, and insurance of liability for damage, as defined in the Civil Code.

Abstract

Prechod slovenského hospodárstva na trhový princíp hospodárenia priniesol rozpad monopolu na trhu hospodárenia. Zmeny v legislatíve prezentované zákonom Slovenskej národnej rady č.24/1991 o poisťovníctve v znení neskorších noviel, posledná je novela č.101/2000 a atraktivnosť tohto finančného odvetvia mali za výsledok dynamický rozvoj v tejto novej oblasti podnikania. V súvislosti so vstupom do európskej únie v oblasti

poistenia a poisťovníctva sa v Slovenskej republike zavádza členenie na životné a neživotné namiesto poistenia osôb, poistenia majetku a poistenia zodpovednosti za škody, ako je to definované v Občianskom zákonníku.

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THE THEORETICAL AND PRACTICAL PROBLEMS OF PRIVATIZATION¹

Kamil Fuchs

Key words

privatization, private property, demonopolization, small-scale privatization, large-scale privatization

1. Agreement of Theoretical and Practical Views about the Necessity of Privatization

Privatization is one of the key elements of an economic system undergoing transformation from a centrally planned economy into a market economy. There is absolute agreement on this premise by all those who deal with the transformation process, whether their perspective is generally economic, economic-political or purely practical.

Economic textbooks list the following necessary prerequisites which have to be fulfilled for the functioning market system: price liberalization, private property, existence of the market of the factors of production, and also competition and private goods. The view of the theory of economic policy is not different, except for the emphasis which in a particular context in scenarios is put on privatization as a process of creation of private property, but together with demonopolization also as a process influencing a competitive environment in a positive way. The process of transformation (creation of a free-market environment) then also comprises liberalization of external economic relations and the achievement of macroeconomic equilibrium.

For the above-mentioned reasons privatization, usually defined as increasing the proportion of private sector business in an economy, has become one of the key elements of the transformation of the Czechoslovak, and later the Czech, economy. The necessity to privatize was an expression of general consensus.

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2. How to Privatize?

It is a fact that the process of privatization is the most widely discussed step in the transformation process. It is not the process which is questioned, but the forms. The starting conditions in Czechoslovakia were different, compared with Poland or Hungary, because privatization was to take place in a fully nationalized economy (only 1.2 % of the workforce and approximately 2 % of property were in the private sector).

The approach to privatization was marked by the fact that privatization is not a target, it is merely a means (indispensable, however). The time-frame of privatization must be limited, since its implementation conditions the process of the transformation of the economy. In the mutual relationship between privatization and transformation, the following holds true: *privatization is a means of creating prerequisites for transformation – for privatization is a process of establishing private property.*

This naturally influences the ways and methods of privatization. A rapid and massive privatization became (along with price liberalization, liberalization of external relations, demonopolization, restoration and maintenance of macroeconomic equilibrium) one of the basic pillars of transformation in the Czech Republic. The speed of privatization, however, has been hampered by several obstacles in its way. The main ones are as follows:

- lack of capital from the nation's own resources²
- decision to prefer restitutions even while having an inadequate legislative framework, this way enabling privatization to be blocked in some instances for several years
- Taking into account that no massive influx of foreign capital was realistically expected, the voucher method of privatization was given preference which:
- was presented as a rapid method
- won wide popular support because it was understood as an attempt to divide common property fairly amongst the general population.

I will try to explain in the following text why this method, the choice of which was significantly influenced by the time factor, contrarily became a cause of the slowdown of the privatization process in the Czech Republic.

3. Privatization and Its Phases

The government announced as early as 1990 the intention to privatize 70–80 % of state-owned enterprises. The first stage of privatization (along with so-called small-

² According to the data published in 1990 there were assets assigned to privatization in total worth of CZK 1,400 billion, compared with savings and cash of the population totalling CZK 323.4 billion.

scale restitution according to Law No. 403/1990 of the Collection) was so-called small-scale privatization. It was based on auction sales of property to Czechoslovak private citizens or private enterprises without foreign participation. If property was not sold at auction, foreign nationals or domestic entities with foreign participation were allowed to take part in a repeated auction. Public sale at auction was to guarantee public control of the formation of private property.

Table 1 - Privatization of small and medium enterprises (1991 – 1993)

	1991	1992	1993
Enterprises approved for privatization	24,523	32,289	33,359
Enterprises privatized	14,155	22,487	24,359
- at auction	12,492	20,182	21,093
- sold to a lessee	1,521	2,090	3,036
- restored to the original owner	142	472	582

Source: HOLUB, A.: Economic Transformation in the Czech Republic: General Outline and Selected Problems. Praha: VŠE, 1996, p. 42

Enterprises in the sectors of trade and services were especially involved; factories accounted for less than 2%. Since the size of an enterprise was not defined in the Small-scale Privatization Act, even a few companies employing several hundreds of employees were auctioned. The auction method proved to be fast, and the average auction price was more than 50% higher than the starting price. So-called Dutch auctions were organized as well, which enabled the price to go down as low as 50% of the starting price in the first round and 20% in the second round. The share of Dutch auctions in individual regions ranged from 8% to 27%. Auction sales of state property were essentially completed by the end of 1992, when the majority of the property had gone through the auctions. By the end of 1993, a total of 24,359 units had been sold or leased, with a total market value of CZK 31 billion.

The large-scale privatization started in February 1992 and it required the presentation of a privatization project. Managements of state-owned companies had to draw up so-called basic privatization projects for their enterprises, all other natural persons or legal entities were given the possibility to present a rival project (for the whole enterprise or its part). Privatization projects were selected by the Ministry for National Property Administration and Privatization, the selection was from 4-5 projects on average. According to the Large-scale Privatization Act the following methods could be used:

- voucher privatization
- direct sale to the pre-selected owner (without public tender)
- public tender
- auction

- transfer of property without consideration (to communities - towns/villages, social insurance funds and to the beneficiaries of the restitution process)
- sale of shares in the capital market.

Most of the projects represented combinations of privatization methods.

The large-scale privatization was implemented in two waves. In the first wave, 3,858 privatization projects were approved and realized, related to 2,210 enterprises and organizations. The total book value of the privatized property was CZK 469 billion. The coupon privatization accounted for 42% of the total volume, i.e. CZK 198 billion. Property worth 10 billion was transferred without consideration to communities or social security funds. Property worth CZK 40 billion was sold at auctions, tenders or direct sales to pre-selected owners. The remaining part of the property totaling over CZK 220 billion (i.e. approximately 47%) has only gone through corporatization. The legal status of state property changed. A state-owned company became a trading company and its property shares were held by the National Property Fund (until September 1994). This property became subject to privatization later and various methods were applied - sale in the capital market, public tenders, direct sale, direct transfer to the beneficiaries of restitution, etc.

The second wave was launched in mid-1993, parallel with the termination of the first one. By the end of September 1994 the number of state enterprises which had gone through large-scale privatization increased to 3,403 and their book value exceeded CZK 912 billion. The following table shows revenues from privatization.

It can be said that already in the years 1991-1995 approximately 2/3 of state property were privatized, whose book value totaled over CZK 900 billion. Nevertheless, about 1/4 of property continued to be owned by the state (the state held it through the National Property Fund). In reality the state-owned share was even higher. Large enterprises became under the control of investment privatization funds (IPF). Only exceptionally a large company was sold to a Czech natural person, and it can be concluded with the benefit of hindsight that such sales have ended in failure (Poldi Kladno, Škoda Plzeň etc.). However, the state kept a minority share, usually through the National Property Fund, in enterprises privatized in the voucher privatization. The state then holds a share significantly higher than 20% of the original state property.

During the first half of the 1990s a really marked transition from state to private ownership began and, in this sense, a successful wave of privatizations was carried out. This is emphasized by those who were present at the beginning of economic reform. "Our economic reform was influenced by one basic idea: that it must be implemented quickly, while there is enthusiasm for the reform and while interest groups are still relatively weak. As soon as the people's enthusiasm vanishes and as soon as new interest groups consolidate their influence, the reform will stop. Since the basis of system transformation is change of ownership, privatization was the core of economic reform."³

³ HOLMAN, R.: Je česká privatizace zklamáním? In.: *Role státu v privatizovaných podnicích*. Praha: ČSE 1997, p. 11.

Table 2 - Privatization revenues in the Czech Republic

Large-scale privatization	Revenues in CZK billions	Percentage share	Small-scale privatization	Revenues in CZK billions	Percentage share
Auction sale	7	1.2	Trade	16	48.5
Tender	18	3.1	Restaurants	3	9.1
Direct sale	82	13,9	Services	6	18.2
Sale without consideration	29	4.9	Other	8	24.2
Restitution	4	0.7	Small-scale privatization - total	33	100.0
Vouchers	343	58.4			
Public offer and tender	18	3.1			
Transfer without consideration	50	8.5			
Restitution investment fund	20	3.4			
Other	16	2.7			
Large-scale privatization – total	587	100.0			

Holman goes on emphasizing the choice of voucher privatization which was based on the belief that the state is not able to restructure enterprises and that is why privatization must precede. He also claims that the state is not able to find appropriate owners and is only able to provide initial owners. The voucher privatization was meant to find owners rather through markets with ownership rights than by state-managed selection. Holman⁴ stresses the fact that voucher privatization did not aim to hand over enterprises to strong owners, it was not aimed at creating strong corporate governance. Its objective was to trigger off a process of spontaneous market concentration of ownership.

4. Approach of Theory and Practice to Private Ownership

Here we are touching upon one of the key problems of the failure of economic theory, and also economic policy and government, which undoubtedly occurred just in connection with privatization. The alignment of all these platforms mentioned in the

⁴ R. Holman is a professor of economics at the Economic University in Prague, and he also worked as an advisor for the Prime Minister.

introduction did not bring the synergistic effect, but contrary to it - it produced a number of misunderstandings, faults and even popular disillusionment. It is a problem which this paper will not solve due to space restrictions and which also exceeds the limits of contemporary possibilities. There are several levels of evaluation, of which the closest to me is the conception of the problem in the context of economic theory.

As mentioned above, the starting point of the approach of economy to the market system is putting emphasis on the indispensability of private ownership. Although it is the cardinal category of the system, its content is deemed so obvious that textbooks do not even consider it necessary to provide its definition or explanation.

Samuelson says: "In a market economy, capital typically is privately owned, and the income from capital goes to individuals. Every patch of land has a deed, or title of ownership. Property rights bestow on their owners the ability to use, exchange, plant, dig, drill, or exploit their capital goods. The ability of individuals to own and profit from capital is what gives capitalism its name."⁵ He discusses this concept again two more times towards the end of the book, but he treats it as an established term already.

What is the link between economics and private property, where is its importance? In an article⁶ from 1983, which is one of the principal texts in the renaissance of market economy theory, Milton Friedman quotes G. Warren Nutter: "If all ownership is to be literally collectivized and all pricing literally centralized, no space remains for a mechanism which could in any relevant respect imitate the operation of a competing private firm." Friedman himself adds: "A person who uses his own labor to produce goods for his own consumption is strongly motivated to work hard and efficiently. A person who risks his property has an incentive to use it in the best possible way."⁷

It is possible to identify in these passages what economics associates with private property, but also what is assumed automatically:

- private property is associated with the competition mechanism
- private property by its nature makes people act efficiently

Besides these two characteristics relating to the given situation, another characteristic can be traced, even more fundamental by its content and consequences:

- private property is a value which, if it is to be preserved, must be developed, i.e. it is assumed that benefits ensuing from private property motivate the owner's behavior to further foster and develop the property and preserve it in this way for the future.

It is not difficult to show that the privatization process, which should result in the introduction of private ownership relations, has actually a deeper and more complex content than a mere transfer of production or other economic units from state ownership into the hands of natural persons or legal entities. The transfer itself does not fulfill the

⁵ SAMUELSON, P.A., NORDHAUS, W. D.: *Economics*. McGraw-Hill 1992, p. 31.

⁶ FRIEDMAN, M.: Market Mechanisms and Central Economic Planning. In: *Economic Impact (A Quarterly Review of World Economics)*, 1983, No. 2, pp. 78-83.

⁷ ditto

above-stated characteristics of private property and, in fact, conditions for their automatic fulfillment in the future will not have to develop either.

The failure of economics, in my opinion, lies in not analyzing the conditions under which the owner entities also behave like owners. And once economics does not provide this answer, it should at least point out such realities. I am aware of the fact that this conclusion is not acceptable for all streams of differentiated economic thinking. However, I do not see the solution in observing that "The problem is that the state is not able to create a good ownership structure of an enterprise, that it is unable to find and choose a good owner. Expressions such as good owner or efficient ownership structure are themselves questionable."⁸

The failure of economic policy is broader, and it follows from the fact that economic policy is obliged to observe the context of privatization on a wider range. For example, economic policy must take into account the legal framework of processes as well. Its neglect in the Czech conditions was quite impossible. However, I would like to point out another important circumstance, namely the inconsistency in the approaches of people who had the chance to influence the concept and who promoted it.

Once the method of voucher privatization was accepted - and I have attempted to present the reasons why, in the context of that time - the government policy should not have fostered the belief that privatization and private property were the same thing. The above-introduced comments on what voucher privatization could and could not do arrived in its defense as late as the second half of the 1990s. The criticism of voucher privatization was based just on a developed simplification, claiming that through two waves of privatization a private-ownership entrepreneurial spirit would be brought into the economy. The standard criticism can be found e.g. in Polouček's treatise on the privatization of the banking sector.

"Even if we admit that the voucher privatization itself had a good intention to privatize an enormous volume of property, the authors of privatization, which was implemented in such a way, quite apparently failed to anticipate some of its principal consequences and impacts."⁹ He emphasizes later in the text that the Czech experience does not lead to the acquisition of shares by owners who are interested in the firm's development and its strong market and economic position. He associates the year 1995 with the formal termination of privatization, while the establishment of private-ownership relations will still require a great deal of effort. Contrary to that, Holman says that we are now (1997) in the last phase of privatization. "Particularly privatization of large banks is what remains to be done."¹⁰

That means, however, that despite statements about limited possibilities of voucher privatization, he sees the economy as privatized, that is characterized automatically by private ownership. In such a case a distinction between formal and real private property would have to be introduced, which makes no sense and is misleading.

⁸ HOLMAN, R.: Je česká privatizace zklamáním? In.: *Role státu v privatizovaných podnicích*. Praha: ČSE 1997, p. 12.

⁹ POLOUČEK, S.: *České bankovníctví na přelomu tisíciletí*. Ostrava: Ethics 1999, p. 99.

¹⁰ HOLMAN, R.: ditto

Rather than that, it seems to be logical to interpret voucher privatization as the starting phase of the privatization process; then, of course, 1995 is not the end of privatization.

The other note concerns another aspect of the above-mentioned statement. If the authors of so-called accelerated or short form of privatization were aware of the limitations of the method from the point of view of the establishment of private-ownership structures, then their behavior in the mid-1990s was incomprehensible: the biggest investment privatization funds launched a campaign then with the slogan "The third wave of privatization is starting." Government officials kept denying it as misinformation and insisted that privatization had been completed.

Although it is possible to see or suspect, at least, political motives behind the controversy, the shape of legislation at that time regulating the conditions of the management of investment privatization funds and companies is hardly justifiable. In this context the failure of economic policy as a theoretical discipline, as well as governmental policy, is clear.

5. Conclusion

Privatization is one of the key elements of an economic system undergoing transformation from a centrally planned economy into a market economy. It is a fact that the process of privatization is the most widely discussed step in the transformation process. It is not the process, which is questioned, but the forms. During the first half of the 1990s a really marked transition from state to private ownership began and, in this sense, a successful wave of privatizations was carried out. This is emphasized by those who were present at the beginning of economic reform. Author associates the year 1995 with the formal termination of privatization, while the establishment of private-ownership relations will still require a great deal of effort.

Abstract

Autor v příspěvku hodnotí průběh privatizačního procesu v České republice v kontextu místa privatizace v procesu transformace české ekonomiky. Konfrontuje pojetí privatizace z pohledu ekonomie a hospodářské politiky. Dále si všímá vztahu mezi průběhem privatizace a naplňováním očekávání rozvoje soukromého vlastnictví a restrukturalizace ekonomiky.

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BANK PRIVATIZATION, CRITICAL LOOK AT PRIVATIZATION PROCEDURES

Jiří Havel

Key words

privatization, the banks, privatization timing, bank management model, ownership rights execution, privatization process, privatization conditions

1. Introduction

The European Commission evaluating report for the year 2001 is favorable for the Czech Republic; among others, for the country can finally state full privatization of its bank sector. A question, however, remains why the privatization was not completed until the eleventh year after the economic reforms initiation in our country. The explanation is not entirely simple though.

The Czech reforms were, without doubt, directed towards market economy without special attributes, that is towards price liberalization, foreign trade liberalization, currency convertibility, and origination of standard proprietary scheme, that is extensive privatization. The economic reform scenario approved by the parliament in 1990, however, did not contain a special part devoted to financial markets. It only gives evidence that in this area the final conception was not known. However, it does not mean that privatization of the banking sector would be excluded from the reform program.

In this connection it is necessary to mention today almost forgotten fact that the first reform steps were marked by considerable uncertainty from possible consequences of the reform, loss of markets and administrative structures obstructions. Also economic balance, if it was possible to talk about it, was supposed very fragile. It is without doubt that state ownership of banks was supposed by many to be a certain island of certainty, to be something like a hand brake that may be used in case of emergency. Later this theoretic concern projected into a comfortable instrument in hands of some politicians, for even a mere signaling of control over key financial institutions is certainly a significant instrument of power.

Thus, we come to a question of bank privatization timing. On the one hand here is an argument concerning alleged temporal need for a possible interference of *a visible hand* if necessary. On the other hand here arises a question, how much the conservation of state ownership in the key sector brakes, in reality, achievement of standard market structure. The very financial market is a place through which a base of

allocation processes goes: that is, therefore, without any doubt, a paradox to abolish State Planning Commission and leave state banks on its place.

2. Negative Effects of Privatization Timing

It is evident that the bank privatization should have been perceived through prism of the largest contribution of the economic reform on the one hand, and on the other hand then through prism of the highest yield or loss minimization. If we ask a contrary question, what in reality bank privatization offers to potential investors, then the answer is not complicated. An investor looks for, above all, a market with a potential growth, the banks value, therefore, is equal to a part of the future market they represent. Only in relation to this that banks can serve this way, it is also possible to evaluate their internal equipment from personnel and company culture to information technologies or premises.

As for an access to the market, state banks certainly represented the largest share in it at the moment of other competition absence here. Banks, which position was still derived from the original administrative monopoly, had the highest value at the given moment, for they represented one hundred percent of the market. Likewise new subjects launch could not be jumpy but gradual. Therefore, from their formal market enter there still remained a buffer period. In connection with the reform dynamic coming bank privatization from 1992 to 1995 would have brought, from that point of view, relatively the highest incomes. On the contrary allowing competition to enter the sector and waiting for their expansion leads to considerable market redistribution and this way to a sharp decrease in price of domestic bank institutions.

From 1990 to 1993 there appeared a marked increase in the number of banks and their branches in the Czech Republic (see Table 1). Very liberal regulation and regulation practice then allowed obtaining bank licenses easily. The new banks can be divided into two basic categories. They were small domestic bank institutions, which should have, according to the original ideas, contributed to bank services recovery. In reality, however, the institutions proved ephemeral life and created a very negative advertisement for the Czech financial market, the same as high outcomes of the state institutions¹. Besides that, however, branches of prestigious foreign banks penetrated to the Czech market. The banks should have, according to the original ideas, brought the real competition to the bank market or else, nevertheless, these expectations were not fulfilled. In reality the institutions provided with undisputed market experience plunged to the most lucrative segments of the Czech market.

It is possible to summarize that the presence of foreign banks and their branches increased the offer of services especially for the most solvent clients in the Czech Republic. These clients may be understood state, large municipalities, administrative or natural monopoly, and several best companies. Competition, therefore, led a range of prominent clients away from state banks and rapidly decreased prices in the segment frame. For the state banks this, of course, meant a considerable loss, as the new subjects led away a range of clients with low risk on one hand and forced to reduce

¹For more details see Matousek (1999).

prices for subjects remaining in care of the state banks. On the contrary subjects with high rate of risk or subjects threatened remained in the state banks bond instrument portfolio. Foreign banks also offered especially foreign currency loans, which sources they had considerably cheaper than the Czech institutions. Long-term fixed rate of the Czech crown combined then with a high rate of inflation, and therefore with nominal interest rates, without dispute, advantaged foreign financial institution to domestic.²

Table 1 - Number of Banks in the Czech Republic (As of the end of year)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Banks	9	24	37	52	55	54	53	50	45	42	40
Big Banks	5	6	6	6	6	6	5	5	5	5	4
Small Banks	4	14	19	22	21	18	12	9	8	5	4
Foreign Banks	-	4	8	11	12	12	13	14	13	13	12
Foreign Bank Branches	-	-	3	7	8	10	9	9	9	10	10
Specialized Banks	-	-	1	5	7	8	9	9	9	9	9
Under forced administration	-	-	-	1	1	0	5	4	0	0	1
Without Licenses	-	-	-		1	4	6	10	18	21	23

Source: Czech National Bank

From the presented facts it is impossible to deduce that the presence of foreign banks in the Czech market was generally a destructive factor. Their experience and capital strength was in reform economy certainly a benefit. The only thing that can arise a doubt is their enter timing to the Czech market with regard to the costs of bank sector stabilization and its privatization. Post festum an opinion can be easily expressed that if the foreign financial agents enter had been timed similarly as the prompt privatization of large state banks, it would not have led to such dramatic losses.

From possible privatization of large state banks by foreign partners one relatively justified concern can be traced. It is that a strategic partner after privatization will redefine trade policy of the acquired institution and as a result of that they will close loan taps for those subjects, which does not meet its strict demands. A question, “who will finance Czech subjects”, was asked many times under dramatic circumstances and it is without any doubt that the Czech politics heard it well. On the other hand, it is possible to put a contrary claim against the objection concerning disservice of Czech subjects, it is that prolongation of bad loans kept to life a range of subjects, which were to cease to exist, and this way extended necessary stage of transformation and deepened the damages caused to state banks.

² Foreign banks had, in the given period, cheaper sources and lower costs, as they were not burdened with the past (it is reserve creation and adjusting items).

The last from the questions on bank privatization timing is not strategic timing but tactical. Quality strategic partners certainly do not rush to a country at the time of distrust to the given market type, at the time of domestic financial scandals, or at the time of dramatic market concentration. Bank sale accumulation into a very short period limits competition for the individual titles. Tactical timing of privatization may be in contradiction to political ordering: a politician is appreciated for meeting the promises. If social democracy included bank privatization into its government program by the end of 2000, then the factor limited leeway on the one hand and accumulated privatization into a relatively short period on the other hand. However, I do not begrudge motivation relevance to the time limit.

3. Difficulties within Bank Sector

The fact that the key banks were in state ownership for approximately 10 years leads to a question, what way the state ownership rights were executed. A reader could anticipate, from the long term leave of the individual bank shares in the state hands, realization of a state conception concerning the sector development or, at least, strict control over the institutions. In reality positive state policy for the given area was never defined and the execution of shareholders' rights remained on a very passive level. A formal owner of the shares in banks, the National Property Fund, actually never gained (apart from legal status) real authority towards large companies, this remained with the government, or its key Ministers as the case may be.³

Banking model of control, therefore, in practice resembled much what we know from the original descriptions of socialist economy by Lubomír Mlčoch or Zdislav Šulc, that is institutions are controlled by their managers whose position depends to a certain extent on their ability to create an interest coalition with the power. The performance is in concrete conditions of "banking socialism" very difficult to measure and its formal and its task defining (if any) comes rather from the controlled institution, which, of course, will never define a task insofar demanding to complete.

From a formally legal point of view everything was in order. Banks were stock companies and state, despite being a majority shareholder, had, except voting rights at general meetings, no other rights, for example the right to obtain wider volume of information.⁴ If it is often reasoned that state had its representatives in these companies, it is in the extreme a statement inaccurate. The reality is that there were persons nominated by state in banks, they were, however, responsible only to the company and they were not allowed to provide information above the frame of public information or to consult their decisions with state institutions. Alike persons in bank

³ The National Property Fund backwardly consigned ownership rights execution to the government. In case of banks the responsibility was at the Ministry of Finance. In boards of trustees, then performed for example persons close to V. Klaus. Although they were personally responsible, informally it evoked an impression as if bank policy was consulted at the highest posts, and that is why other institutions "lost interest" in control.

⁴ Only the commercial code amendment valid from the beginning of 2001 brought possibility to transfer some of the rights to the owner with help of the control agreement (§ 190b Commercial code). The transfer of decisive rights means also transfer of responsibility.

authorities were not allowed to push forward state interests, but they had to follow exclusively the interest the given company, otherwise they would harm the small shareholders' rights.⁵ From the voucher privatization it was, by the way, possible to claim that state was a minority shareholder in banks, because privatization projects of Komerční banka (Commercial Bank), Investiční banka (Investment Bank), and Česká spořitelna (Czech Savings Bank) originally left 45% of shares to state, the rest were ordinarily intended for the voucher privatization.⁶ With regard to that placement of all the shares within the voucher privatization was not successful, the shares were, in reality, higher and ranged from 48 to 49%. This guaranteed technical majority of state at general meetings.⁷ In CS and KB state achieved majority relatively shortly before privatization at increasing the original capital, which the other shareholders did not take part in.⁸

Presence of small shareholders meant other complications. A range of the shareholders tried to abuse their position and block important decisions. In some cases suits of the small shareholders threatened the existence of a bank.⁹ Rights of minority shareholders combined with ineffective judicial administrative are undisputedly one of topical threats of the Czech economy. Presence of minority shareholders had, however, a negative impact on banks also in cases of their participation on other companies controlled by state. Despite state was a majority shareholder of a range of important companies, many of those were served by foreign banks and state was only in a position, when from the legal point of view state was unable to order use of a Czech bank institution.

From the privatization point of view, a fact that no investor is willing, in a country such as the Czech Republic, to overtake risks connected to the previous business, is important. It is for one thing a classical motive for caution, but actually it is, above all, Czech banks assets are suspicious goods for the world capital market analysts. These analysts deduce that acquirer's risk when purchasing a Czech bank will rise and probably there will appear an increase in outcomes or at least growth dynamics will decrease. After purchase of CSOB the prices of acquirer's shares (KCB) actually dropped markedly and even its rating decreased. Erste Bank shares underwent through a certain decrease after purchase of CS. Share price decrease evokes negative reactions of shareholders, rating decrease then increases the price of several sources for banks. Anyway it is a serious problem that cannot be overlooked during privatization. For that reason all banks during privatization insist so much on removal of all risks connected to the previous business of the Czech banks and pay large publicity to the fact.

Generally, it is necessary to say, that guarantee or any other purgative operations are not for the selling party a definite loss, as it is often presented to the public. It is essential to emphasize that an earnest investor will not undertake a risk above a certain frame. Banks may be sold without some of guarantees; it is then a

⁵ A different procedure would be possible only in case of 100% ownership.

⁶ Slovakia could claim a part of KB (Commercial Bank) shares and on the contrary the Czech side could claim a part of VUB shares. An agreement about the shares exchange was not carried out until 2000.

⁷ In case of IPB state due to a mistake, never explained satisfactorily, did not take part in new share issue and lost this way its technical majority (state owned only one third share).

⁸ In case of CS, EBRD did not take part in increasing the original capital, which did not manage to consult the procedure within its internal bureaucracy. Due to it state share increased to 52%.

⁹ Such suits were filed indeed in cases of KB and IPB.

question, if the quality of a subject overtaking increased risks is on the required level. We can, at least, expect that quality and number of parties' interested, and therefore the price, will suffer without purgation. Even from the quantitative point of view it is not a net loss. If the price of a share is equal to for example double of assets net value falling on one share, then at a hypothetical 50 per cent state share each crown put in a bank pays back in the selling price.¹⁰ Besides that there, of course, exists a positive impact of bank privatization on economy as a unit.

Virtually all banks except CSOB had a negative value before privatization. Admittedly CSOB attractiveness was increased by state guarantee for a claim towards Slovenska inkasni.¹¹ Naturally, from the beginning of privatization a bank should be presented as an institution pure of unexpected negative amazement. In this sense it can be stated the dramatic purgation of KB and CS just before privatization processes, as the case may be during the processes, were from the privatization point of view certainly disserviceable. Non-purgation of IPB showed that much more expensive way also exist.

If we are interested in reasons for appearance of such serious financial problems just before privatization, we will have to mention a whole complex of them. Firstly, I would name management unwillingness to inform truthfully about the exact situation of a bank. Rightful concerns about personnel consequences when admitting failures were certainly the reason for that procedure. Gradually increasing presence of a regulatory authority was the next reason for that situation. Further on, many of business projects in the CR in the first half of the 90's proved their non-vitality in this period, which also interfere in that situation. Finally, we also have to mention criminal flexibility of auditors executing very benevolently till the privatization.

Concerning acquisition a strategic investor looks for an institution that which is functioning, has a good working team including the top management and dispose of a persuasive vision of the future institution development. They risk not only their money, but also their reputation capital. A successful example of such an offer is the case of CSOB, which top management just in privatization represented the bank as a compact team of professionals, including presentation of a detailed development program. The CSOB top management also underwent minimum changes after the privatization.

On the contrary CS, which entered privatization with its top management perceived as temporal, was a deterrent case. The reason for that was political unwillingness to reach agreement among the main participants in the dispute, which had taken place in the National Property Fund presidium.¹² CS board was gradually complemented mostly by the bank higher personnel during the spring 1999. CS, therefore, made an impression of an institution without a team and program. At the same time moral lifespan of the bank information technology key systems was also coming to its end. I personally assume that this was one of the reasons for which only one investor

¹⁰ A side product is other shareholders' shares appreciation. A portion of them decreased their share through non-participation in original capital increasing.

¹¹ A claim coming form liabilities for CSOB portfolio stabilisation from the early 90's was divided into Czech and Slovak part. Several years after the federation split up, however, Slovakia cast doubt on its liability.

¹² Presidium then was incomplete and the ODS representative blocked decision-making with a threat concerning their departure because objectively unacceptable requirements were not observed.

was interested in CS in the final stage and in comparison to the other institutions the lowest price was reached.

KB was privatized with new management, which, however, in a short time of its operation completely proved vitality of the bank, its adaptability, and also its growth potential. It may be stated with satisfaction that this was on the bases of task defining given by privatization authorities.

4. Privatization Procedures

In the privatization procedures proper it is possible to find a range of disputable moments. Projection of political interests and rituals into the process, which has otherwise purely economic character, is one of the reasons for some problems. Some imperfections are, at the first glance, entertaining others evoke deeper malaise till the present day.

Timing of submission of indicative offers (CS) and preliminary interest manifestation (KB) for summer (September) 1999 belongs among perhaps the more cheerful. However, then the former Minister of Finance Ivo Svoboda wanted to meet the relatively demanding privatization schedule, he made, despite advisors' objections, a serious mistake. The reaction submission term supposed that interested parties would make enormous part of work in August, a traditional period of holidays for financial market workers. In spite of skepticism towards emerging markets governing the markets that time (it was relatively soon after the Russian crisis), I can not get rid of an impression, that more suitable timing of the privatization stage could have brought a higher number of interested parties. In case of interest indication concerning KB, in which the term was prolonged by the new minister Mertlik, the difference had a relatively higher impact.¹³

A relatively frequent change of persons responsible for privatization had, naturally, a negative impact on bank privatization. In the course of privatization of CSOB, CS, and KB four Ministers of finance, four deputies responsible for privatization and finally altogether five directors of the National Property Fund executive body were changed. With a similar pace persons in the controlling commission for bank privatization were changing. The process continuity does not come on mind and the partners, undoubtedly, exploited during negotiations the changes on the posts or even just inexperience of the new persons.

One of other problems is privatization competence non-clarification. The National Property Fund was a formal state shares holder in banks, but privatization

¹³ The cases of CS and KB are not, however, comparable, because from the indication offers for CS a possibility for subject selection, according to submitted offers quality, was coming out. In case of KB it was, more or less, only an access to a communication channel in the privatisation frame and not a final exclusion from privatisation. In spite of that the term prolongation together with increased advisors' activity brought approximately four times higher interest in comparison to the original term.

decisions proper and their preparations were out of its power.¹⁴ Direct sale, but also decisions about massive state help were only in the government power, which the Minister of Finance submitted materials to. This meant at many cases completely exhausting fight for matters that were professionally entirely self-evident and the shift of professional decisions somewhere among political antipathies and bargains. Series of decisions went through fight voting at the government session a not always successfully. The government resolution from December 1999, for example, sentenced technically KB to a critical situation with only one solution possibility – forced administration. KB escaped the forced administration only thanks to the NPF obstruction and the government, consecutively in January, changed its original decision.

An interesting problem is a question of privatization advisors' motivation. A fact remains, that their contracts were signed in the beginning of bank privatization, when information on the CS and KB real portfolio status was not known. This way the advisors were ordinarily interested in the price reached. Later it was proved that banks need enormous state help and the motivation scheme paradoxically changed into primary advisor's motivation on state help extend. Willingness to change the scheme on the advisors' side was, of course, not very high and if, then naturally with absolute increase of fulfillment of the Czech state.

In the paper we have come across political limitations of privatization process several times. Investors' interest in privatization is also, into a certain extend, influenced by information, how much the privatization decision is a decision economic and how much microeconomic factors project in it. If microeconomic, beforehand non-identified, factors are to decide, many investors disregard their participation in the tender, because they cannot afford for the risks of unjustifiable costs or suspicion of corruption. I may state, that in this regard American subjects are generally much more careful than European.

The optimum is, therefore, to determine beforehand all conditions that must be fulfilled in privatization, and after only to decide on the basis of one criterion, the price. If the decision is partially or wholly tied to "beauty contest", it will always be influenced by the judge's view. Economically it is evident that in such case there opens a possibility to provide one of participants with at least part of the given goods free in comparison with otherwise achievable auction price.¹⁵

In case of bank privatization we, for example, registered a sensitive reaction, when the government running privatization resolution about Komerční banka an amendment with an innocent note that the government, during privatization decision-making, will take into account the way which the acquirer will give a loan to the Czech entrepreneurship sector. It was then very difficult to explain that this resolution does not reduce transparency of privatization process. Even the government presidium had to help with interpretation that during privatization, when meeting all conditions, exceptionally the price would decide.

¹⁴ The NPF was to watch only the formal contract quality, so that it could be signed. The NPF did not establish a special body dealing with strategic privatisations earlier, and it could be stated that it almost demonstrated its passive power for a long time. Department of strategic privatisation of the NPF was not established until 2001, in the real end of bank privatisation.

¹⁵ Allocation of TV licences or licences for mobile phone operators may be an example of such procedure in the Czech context.

Through that we naturally come to a concrete question of corruption present in the Czech privatization. A suspicion in this direction was markedly increased by an advisory contract for CS privatisation concluded between the ODS deputy chairman M. Macek and the Erste Bank advisor fixed on a figure of 10 million CZK.¹⁶ Questions are what the real role of M. Macek was and what the content of his advice was. The only I can exclude is his personal contact with persons really directing the privatization and especially its completion. I cannot answer the question if Macek's contract was an exception in the process or if it is only a revealed iceberg top.

From my personal interviews with the representatives of some interested banks and their advisors I assume that they were addressed many times with a more or less aggressive domestic offer concerning advisory services, media presentations, contract intermediation, and lobbying including contacts on some of the prominent Czech politicians. Some of the offers came from evident frauds; the others had a certain businesslike content. If I were to state my own opinion, I would insist on that the privatization of CS and KB proper came to pass very correctly. On the other hand I cannot exclude that the parties interested in the Czech banks did not conclude more contracts of the Macek type.

5. Conclusion

The Czech bank privatization was not in any case an ideal process free of a series of mistakes including naive visions of enormous interest in the Czech banks. On the other hand the result of the process is the stabilized bank sector and collected prices (price/NAV ratio) that belong to whatsoever the best reached in transition countries.

Abstract

Privatizace českých bank nebyla v žádném případě ideálním procesem, kterému by nebylo možno vytknout řadu pochybení včetně naivních představ o obrovském zájmu o české banky. Na straně druhé výsledkem tohoto procesu je stabilizovaný bankovní sektor a inkasované ceny (poměr cena/NAV) patří k vůbec nejlepším, které byly transformačních zemích dosaženy.

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¹⁶ MF Dnes published the contract copy in September 2001 and in the consecutive discussion M. Macek did not deny it. As a result of public criticism he resigned for his function.

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SOCIAL IMPACTS OF THE PRIVATIZATION IN THE CARE OF EMPLOYEES OF THE BANKING SECTOR¹

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Key words

small privatization, establishing private sector, social differentiation, employee advantages, banking sector

In the 90's reintegration of the Czech economy towards the world economy was made mainly on the base of stressing traditional industrial values and comparative advantage. The main advantage of the Czech Republic was the quality of the working potential of the state mainly as for the relatively cheap and skilled labor force with long industrial traditions, the location of the state in the middle of Europe and traditional know how in selected industrial branches. Radical economic reforms induced a significant amount of important social transfers, which were accompanied by the occurrence of related problems. The process of so called small privatization influenced the establishment of a private sector which created background for the existence of a group of people disposing of an unexpected big amount of financial capital and reviving mainly continuing of tradesman and handicraftsman professions. Till the end of the 80's, in Europe, but as well in the countries of the previous socialist block, Czechoslovakia belonged to the countries of the broadest income leveling and equalitarianism in evaluation with the relation to qualification and performance, which together with other characteristics led to homogenization in the society in the direction of leveling the social economic position of the population and averaging the way of life. Coupon privatization involved the society into privatization of big capital. Changes of the ownership, direct sales of big companies of the strategic importance to foreign and domestic capital aggregations, growing importance of banks and investing companies, funds etc. launched the social differentiation in the society, they led to increasing social inequality which for decades of an absence only gradually and with difficulties was accepted by the community. A new phenomenon of differentiation of an axis of wealth has appeared - poverty. The difference between people and families in lowest and highest income range grew stronger.

¹ The text was made in the framework of the grant GAČR402/00/312 "Comparison of the Development of the Banking Sector in the World and in the CR in the 90's."

Human resources in every society functions on the labor market as a long term pushing forward goods which is being gradually developing, alternating and improving. Labor force whose carrier is a living human being integrated in the working community asserts itself in a relatively long period compared with material factors of production.

Economic and social changes in the 90's brought a marked differentiation also in the possibility to practice on the labor market, at the same time the change of employment made itself felt in a different way in various branches. A new phenomenon on the labor market in the Czech Republic has appeared- unemployment. On the contrary some branches, except the others even the banking sector, have to challenge the limited amount of available human resources in the course of decades. When selecting the labor force the level of skills, craftsmanship, qualification, adaptability and working abilities of employees were considered. For the quality increase of its working staff the banking sector utilized the possibilities of taking care of its staff by implementation of quality and interesting plans of the company social policy. Social policy of a firm or an institution is distinguishable in its operational (immediate) and strategic (long-term) vision. In any case it is a tool of collective and individual development of human resources in the relation to achieving economic effects. An institution, which wants to succeed in the competitive environment, has to respect dimensions of human development, which can direct in a motivation way by its social policy.

Employee advantages are from the point of employers advantageous as for achieving better choices and wider selection of the staff from the point of their qualification, interest in the profession, evincibly increases due to the fact of fuller saturation of employee needs. They also strengthen the stability of employee staff as satisfied employees show less fluctuation, stress burden etc. and incline to express more confidence in an employer, by which on the base of satisfaction they create a tendency to a suitable participation and working atmosphere inside the company. Moreover employee advantages increase total incomes of employee despite various regulation steps, by which at the same time the company can book-keep expenses as production expenses which are tax free.²

Employees consider employee advantages, mainly the factor that they are accessible often to their family relatives (moreover they are not influenced by the inflation), as the increase of their income and at the same time they provide the possibility to decrease expenses on services and goods on the common market.

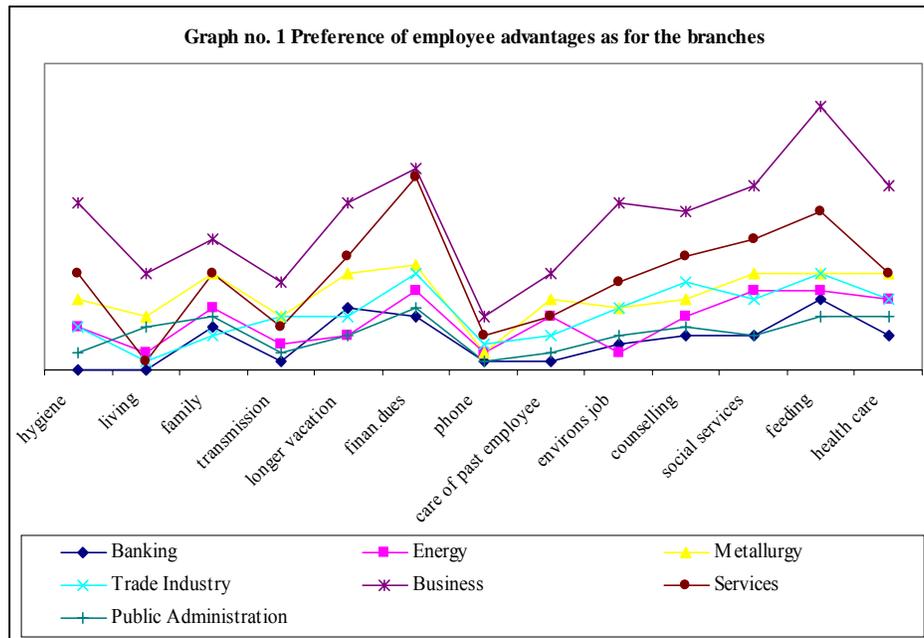
Prevailing ways of social advantages, the character of care of employees have become a subject of research among companies in the Morava - Silesian Region³ which has a lot of specific features due to the conditions of the regional labour market. Therefore into the research of the character of employee advantages there were selected firms from the district of Ostrava, Karviná, Bruntál, Frýdek Místek, Opava, Nový Jičín, that is in financial branches, banking services, trade and its distribution, metallurgy, mining, industry, building and services. The set is relatively extensive as it reflects the situation of 108 firm in the district of Ostrava, out of which the presentation of so called

² JANOUŠKOVÁ, J.: Minimální mzda jako dílčí sociálně politické opatření. *Regionální spolupráce 99*, Karviná: OPF SU, 1999, str. 77-100.

³ The research was carried in the year 2000. in KOLIBOVA, H.: Employee advantages are not charity activities of the firm, *Personal*, vol. VI., No. 11, 2000, p. 20-23.

“small firms “(up to 100 employees) was 26,8%, the “middle firms” up to 500 employees 32,4% and “ big firms” over 500 employees 40,8%. The highest figures have due to their scatter firms of Ostrava and Karvina regions. The preference of single advantages is done on the base of employee evaluation see the graph no. 1.

The base of social advantages in the firms of all sizes and branches is the share of an employer on the boarding of employees (mostly in the amount of 50% of the additional charge to the one meal price together with provided refreshment on the work place), financial incentives in the form of paying mostly the part of the thirteenth and fourteenth payment, various kinds of insurance and additional insurance, in the way of pension, life or even supplementary health insurance. The company care of its employees and the rate of employee advantages at the present time depends on current financial possibilities of companies. Most of the companies care of their employees



within limited ways, mostly it is a combination of three mentioned advantages, that is subsidy on boarding, financial supplements and limited investments into revitalization of labor force of an employee, either in the sphere of health care or sportive activities. The present form of social policy has a tendency towards an addressing and individualized form, it reflects mainly the inner social structure of the company employee.

Employee advantages in the banking sector appears in the downward order:

- Boarding
- Longer holiday
- Financial above standards

- Care of family members
- Supplementary health care
- Services for employees
- Development of social, legal and psychological awareness
- Practical impacts for the benefit of improving working conditions.

The housing care of employees, investments or shares into organizing commuting are lacking, there is a very limited care of previous employees, probably for the reasons of their low number or for the natural absence of the subjects of such care at a newly established institutions in the course of the 90's.

The offer of social policy of the institution, from the point of view of providing employee advantages, respects a natural shift in the practice of care of employees.

In the 90's the system of the care of employees in the banking sector of the Morava - Silesian Region was orientated on a form of investments into revitalization of the labour force of the employee in the benefit of supporting regenerating of his/her labour force and as well as the support and an investment into creating and keeping positive working conditions. Presently it reflects the complex of activities based on advantages related to the position in the organization and selection of the sector of employment.

Entering the new millenium found many sectors of the Morava- Silesian Region, including the banking sector, in more complicated conditions which are seen by the decrease of employment in banking, restricting the number of employees. There has been even a sort of reasoning in some media that employers who dispose higher possibilities of choosing qualified employees on their offered working posts uses the reality both for their own reduction of the forms of the care of employees and the reality that the attitude of the people towards the employment is being changed significantly. This statement should be supported by the results of the research.

Conclusion

The article deals with economic and social changes developed as a result of the privatization process. In the course of the decade the development of the banking sector has to manage the limited amount of the available human capital. For the quantity growth of the labor force banking has been using possibilities of wider assertion of employee advantages.

Abstract

Článek se zabývá ekonomickými a společenskými přeměnami vzniklými jako důsledek procesu privatizace. Rozvoj bankovního sektoru se musel vypořádat v průběhu desetiletí

s limitovaným množstvím využitelného lidského kapitálu. Ke kvantitativnímu nárůstu pracovní sil a stabilizaci zaměstnanců bankovníctví využívalo i možnosti širšího uplatňování zaměstnaneckých výhod.

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THE COST OF INTERBANK TRANSFERS IN EMU AND CZECH REPUBLIC¹

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Key words

bank services, cross-border transfers, privatization

1. Introduction

The privatization of bank sector in the Czech Republic was accomplished. Without any doubt an increase in the level and access to bank products appeared. The offer of services concerning intercession of system of payments was enriched mainly by implementation of various forms of direct banking.

The above-introduced conclusions do not apply; in all extend, to international system of payments and mainly concerning transfers of small or smaller amounts. Construction of bank rates and commissions in international system of payments relatively handicap physical persons, entrepreneurs, and small companies. The situation prevailing, in this regard, in the bank sector of the European monetary union countries (EMU) is not encouraging. The privatization of the Czech banks by capital, which bearers are prestigious banks of EMU countries, can not be a warranty, at this status, the similar disparities will not be transferred also into the bank system of the Czech Republic.

2. The Cost of International Payment System in EMU Countries

The directive issued by the European parliament and Council from 20 January 1997 no. 97/5/ES, *Directive about cross-border transfers and assets* (further on only *Directive*) emphasizes the importance of access to fast, reliable and cheap cross-border transfers of assets especially for citizens, entrepreneurs, and small and medium companies and applies to any transfer of assets up to the amount 50,000 EURO.

¹ The paper is published due to the Czech Grant Agency support (grant GAČR No. 402/00/0312 „Comparison of the Banking Sector Development in the World and in the Czech Republic in the 1990s“).

Directive ordains that financial institutions offering such services have also information duties towards their clients. The information must be understandable, provided in a suitable form.

- 1) From the priority information especially the following:
 - the term necessary for execution of a cross-border transfer and crediting payee's account with financial means,
 - the way of bank rates and commissions calculation including relevant charges,
 - complaint details and remedy proceedings details valid for clients and agreements on their use by clients,
 - presentation of used charges of referential exchange rates.

- 2) Relating information following execution or confirmation of a cross-border transfer (unless a client explicitly refuses them) are to contain above all:
 - reconciliation, allowing clients transfer identification,
 - original amount of a cross-border transfer of assets,
 - total amount of rates and commissions paid by clients.

With the aim to obtain data for evaluation of *Directive* effectuality the European Inter-Regional Institute realized a research² for the European Committee focused on development of payments by clients (in the period 1999 – 2001) when transferring small financial amounts among banks in EMU countries, except Greece.

The authors carried out the total of 352 transfers, each equal to 100 EURO, or its equivalent in the national currencies. These transfers did not consider all possibilities of existing combinations for all the 11 countries, which distort the whole survey into a certain extent. The amount of transaction charges, charged as to a payer so to a payee of the transferred amount, was surveyed. The data is concentrated in Table 1.

On average the costs of bank cross-border transfers increased from 17.10 EURO in 1991 to 17.36 EURO in 2001. The average, of course, blurs distinct development in various countries: in Belgium, Germany and Finland the charge amount slightly decreased, while in the rest of the countries this did not occur, eventually a marked increase appeared (Austria by 64,02 %).

From the average costs for the whole unit the payer shares approximately 82% of the total costs; the payee then bears 18%.

In some countries there exist marked differences in the costs of cross-border transfers. For example in Germany they fluctuated from 7.67 to 20.44 EURO, in Italy

² The subject of research was also the amount of charges for card payments at retailers and amount of charges for cash dispensers' withdrawals via payment cards.

then between 6.20 and 43.40 EURO. Apart from this; in Luxembourg the lowest cost for the same transfer is 8.13 and the highest 10.24 EURO. Marked differences exist even in the amount of charges, which a concrete bank charges for transfers to two different banks in one destination country.

Table 1 - The total average of costs (in euro) of transfers for individual countries (average costs charged to a payer + average costs charged to a payee of the transfer)

Country of payer (payee)	Charges of payer 2001	Charges of payee 2001	Total cost 2001	Total cost 1999	Change 1999/2001 [%]
Average	14.26	3.10	17.36	17.10	+ 1.55
Luxembourg	9.58	0.00	9.58	8.91	+ 7.46
Netherlands	8.84	2.60	11.45	10.00	+ 14.46
Belgium	10.10	1.77	11.87	13.37	- 11.24
Germany	11.93	0.00	11.93	13.78	- 13.42
Finland	10.81	3.55	14.36	20.11	- 28.61
Austria	15.90	1.50	17.40	10.61	+ 64.02
France	14.79	3.27	18.06	16.88	+ 7.00
Italy	12.19	7.55	19.74	18.28	+ 7.97
Spain	14.80	5.76	20.56	20.50	+ 0.28
Ireland	20.96	4.09	25.04	25.98	- 3.61
Portugal	26.99	4.05	31.04	29.68	+ 4.57

Source: Report of the European Inter-Regional Institute of Consumer Affairs³.

Concerning one interbank transfer as a subject of double payment of a fee, then it was found out that altogether in 38% of the cases charges were subtracted to the payee without a prior agreement of the payer. Also, in this regard, there appear stern differences among bank systems of different countries. In the case of payments addressed to subjects in Spain 77% of these were imposed to a fee twice. Apart from this, not a single payment to Germany was a subject of double payment of a fee.

The same as in the research in 1999, it was found that the cost of one direction transaction markedly varies, in many cases, from the cost of an identical transaction performed in the opposite direction. For example, for a transfer from Germany to Belgium the cost was 35% higher than the opposite direction from Belgium to Germany. A transaction in the direction Spain to Portugal was even 40% more expensive than the identical in the opposite direction.

³ URL: http://europa.eu.int/comm/dgs/health_consumer/library/press/press166_en.pdf

3. Costs of International System of Payments in CR

To quantify costs of cross-border transfers the amount 3,500 CZK, as an approximate equivalent of 100 EURO, was determined. Only costs of home bank institutions for sent and received payments (see Table 2) are included. It is supposed the foreign transaction partner, as a payer so a payee, bears the charges of foreign banks.

Table 2

Bank institution	Charges of payer	Charges of payee	Total cost	Share in transfer [%]
Average	230.00	90.00	320.00	9.14
eBanka	200.00	0.00	200.00	5.71
Česká spořitelna	250.00	50.00	300.00	8.57
Komerční banka	200.00	100.00	300.00	8.57
Union banka	300.00	100.00	400.00	11.43
Živnostenská banka	200.00	200.00	400.00	11.43
Hypovereinsbank	650,00	550,00	1 200,00	34,29

A share of the average cost on the transferred amount equal to **9.14%** is circa half in comparison to **17.36%** share in EMU countries.

4. Specificity of Individual Bank Institutions

All banks (with the exception of Hypovereinsbank) charge for an order for a cross-border transfer 1% from the transferred amount and determine the maximum and minimum charge amount.

eBanka:

A cost of the used access channel is charged to the cost of a transfer. Incoming payment is not a subject of payment of a fee.

Česká spořitelna:

This is the only bank, which in connection with the tariff, provides its clients with information on possible dispositions for cross-border transfers and recommends them the optimum method.

Komerční banka:

The incoming payment is credited free of charge – if the foreign payer overtakes the costs (costs „OUR“).

Union banka:

Handicaps an order delivery at the place of payment (tariff 2%) against an electronic payment order (tariff 1%). In the note it alerts to:

- eventual expenses of foreign banks are at the client's account,
- the expenses of foreign banks are always at payer's account at payment of a certain minimum amount abroad.

Živnostenská banka:

In case of received payments up to 2,000 CZK the payee is not charged with any fees.

Hypovereinsbank:

With charges more than three times exceeding the average level was not included in the calculation and that is why it is placed in Table 1 separately. Commissions come from the tariff 0.3%, the minimum 500 CZK; the maximum amount is not determined. In case of received payment 50 CZK and in case of sent payment 150 CZK are added for SWIFT. Payment from abroad up to 2,000 CZK including, is burdened with a 200 CZK charge.

5. Conclusion

The research of cost policy of banks in EMU countries proved a low effectuality of the directive of the European parliament and Council from 20 January 1997 no. 97/5/ES, *Directive about cross-border transfers and assets*. A different development of costs for cross-border transfers of small amounts when comparing bank systems of individual countries was proved. Great differences exist between costs of counter payments and also in number of cases subject to payment of a fee at payees. This all leads to a conclusion the costs are not decisive for the banks when determining the charges for the services. The result is a relative handicap for subjects transferring small financial amounts in international system of payment. Removal of the undesirable status will evidently require regulatory provisions of the European Committee.

Banks in the Czech Republic use for cost determination a similar methodology and with the same results for their small clients as the banks in EMU countries. The difference remains only in sharing charges for a transferred amount, which is in the Czech Republic circa half in comparison to the cost level in EMU. The

privatization of important Czech banks itself cannot, therefore, change the existing status.

Abstract

Ceny přeshraničních převodů drobných finančních částek, které jsou charakteristické pro ekonomickou činnost malých firem, individuálních podnikatelů a občanů, jsou relativně vysoké a znevýhodňují uvedené skupiny bankovních klientů. Závěry prezentovaného výzkumu dokazují, že platná směrnice Evropské komise tento stav nezlepšila.

Poplatky českých bank za přeshraniční převody malých finančních částek jsou rovněž relativně vysoké. Privatizace v tomto ohledu nepřinesla pro klienty bank zvýšení úrovně bankovních služeb.

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THE NATIONAL PROPERTY FUND VIEW ON THE BANKING SECTOR PRIVATIZATION

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Key words

bank privatization, privatization projects, global environmental, shareholder's rights, the National Property Fund, consultants, individual cases, common elements

Let me, as a representative of the NPF CR, a privatization institution responsible for the course of the government approved privatization projects in the CR, present experiences with the process of bank privatization and management of state equity shares in commercial banks. I am convinced that it is success of privatization of state owned equity shares in commercial banks that has been and will be one of the main factors influencing the development in the Czech banking sector and, of course, the development in the Czech economy in general.

I would like to say a few words by way of introduction that privatization of commercial banks in the CR was, from its real beginning, prepared and perceived in the context of global economic environment of unifying Europe. The emphasis were put on searching for partners, which would prove not only willingness to strengthen the banks with capital, but consequently commit themselves to manage the banks in order to endure in the environment with demanding competition conditions in the bank sector.

The National Property Fund maximally exerted to execute shareholder's rights in banks in order to reflect the regulations valid in the CR, but simultaneously the regulations of European institutions (*for example regulations BIS – Bank for International Settlement for capital adequacy in EU*) that are to be binding for subjects in the CR in a short period of time.

For it is almost a decennial process let me, however, make a short excursus into the past, to refresh your memory.

The first concrete steps in the process of bank privatization were taken in the Czech Republic already in 1992. Then state financial institutions (*Komerční banka, Živnostenská banka, and Česká státní spořitelna*) were denationalized through transformation into a legal form of stock companies and a portion of the new founded companies' shares was privatized in the first wave of the Voucher privatization. State, however, still kept, with the exception of Živnostenská banka, significant equity share. Živnostenská banka, a.s. was privatized forthwith by an establishment deed already in the beginning of 1992.

The government of the CR after they had evaluated the development in the banking sector at their meeting on 17 November 1996, passed a resolution no 603, in which they expressed, in point 1, their interest in privatization of state property participation in commercial banks.

Within the frames of “Correction of economy policy and other transformation measures”, passed by the government of the CR on 16 April 1997, in their resolution no 228, a requirement on accelerated elaboration and declaration of intention to privatize state property participation in commercial banks enterprising was expressed.

After a short period of conception clarification the interest of the Czech executive to privatize so far kept state shares in CSOB, KB and CS declared in the government resolution no 732 from 19 November 1997. It contained unambiguous effort to denationalize the property. I venture to remind that it was then 49% of KB block of shares (*9,262,267 pc. in the nominal value 500,- CZK*), 45% of CS block of shares (*34,200,400 pc. in the nominal value 100,- CZK*) and 66% of CSOB shares (*3,353,400 pc. in the nominal value 1,000,- CZK*). Investiční a poštovní banka, as the second Czech bank in rank, had reached the stage of privatization closing at that time.

The new government, which term of office started after the parliamentary elections in June 1998, declared, in its statement of policy, readiness to continue privatization of state property participation in commercial banks. This intention was confirmed repeatedly in concord with recommendations of prestigious foreign economic institutions, independent consultants, rating agencies, and investors.

The government also decided that acceleration of the process would be supported by cooperation with, so called, strategic consultants for accomplishment of strategy of privatization of state property participation in the named banks. It was, therefore, real restart of bank privatization. Its aims, at that time formulated by the government as key, can be, in my opinion, considered main conditions for healthy function of the bank sector in the CR up to the present day.

They are, above all, the following:

- Capital strengthening of privatized banks by a strategic investor.
- Increase in economic efficiency and bank management.
- Extension of the range of products – services.
- Strengthening of international business.
- Decrease in risk of bank destabilization.
- Bank preparation for liberal environment of the European market.
- Strengthening of competitiveness in international scale.
- Accomplishment of owner relations formation, shareholder structure stability.

In March 1998 investment and legal government consultants for bank privatization were contracted. From that time, concrete steps heading to successful privatization accomplishment were being taken, such as preparation of bank information memorandum for potential interested parties, thorough audits of accounting and legal documents (legal and accounting due diligence), various forms of their capital adequacy

strengthening, complex negotiations with foreign investors, and not finally completion of a contract on the transfer of shares.

Now, dear ladies and gentlemen, let me present a detailed view of the individual cases.

1. Živnostenská banka, a.s. (Hereafter ZB)

A choice of a specific attitude in state share privatization in ZB could be perceived, after the experiences with other banks, as the first piece of experience with a strong strategic partner operation in the Czech banking sector. The very example of the bank privatization could serve as a gauge for successfulness of shareholder's rights execution by a strong dominant foreign shareholder with experience in the commercial banking sector in comparison to state, which kept majority blocks of shares in other banks, shareholder's rights execution.

On the basis of the resolution passed by the government of the CSFR in January 1992, transformed ZB was established by an establishment deed with that a part of the bank (48% authorized capital) was privatized in the Voucher privatization (*withal 1/3 of the vouchers was reserved for the Slovak Republic*). The second part of the bank was offered to foreign investors. 40% of the authorized capital was transferred to the strategic investor German BHF-Bank by a deposit to authorized capital and reserve fund and 12% of the authorized capital was transferred to a foreign investor International Finance Corporation (IFC) from the group WB, again by a deposit to authorized capital and reserve fund. It was, therefore, a combined privatization method of the smallest Czech state bank with authorized capital 1,360,410 thousand CZK.

With the laps of time, we can say that fast privatization of the bank and following behavior of the new, experienced foreign owners contributed to stability preservation of the bank, which did not get lost in the Czech bank market and kept its good name of a reputable bank institution.

2. Investiční a poštovní banka, a.s. (Hereafter IPB)

Approximately 3.5 years ago, in March 1998 privatization of IPB was accomplished.

An unexplained state conception concerning strategy in the development of the bank sector, in which state played, due to majority participation in the largest banks, an essential role, brought sour fruit for example in shareholder's control loss in the very bank, which speed of progress exceeded ability of state as a shareholder to react flexibly to the natural development connected with dynamism of the bank sector development – a need for new capital, etc.

In the context of incurred situation, only a block minority 36.29% of authorized capital remained, as a subject to privatization sale, to state in the bank

institution, which was at the time of sale the third largest in the CR (*measured by the value of own property, balance sum, credits provided, etc.*)

State share in IPB was, with use of a foreign consultant, sold to a selected interested party through the government's resolution no 162 from March 1998. The acquirer of the block of shares was Nomura Europe plc., which pledged to pay for the block minority 3.031 billion CZK (*147 CZK for one share*) and increase authorized capital by 6 billion CZK through issue of decennial bonds. State kept 5-year-first option on the sold shares, which were transferred to the new owner in October 1998.

Simultaneously, we may not forget that, unfortunately, this was not sale to a strategic investor, but a foreign investment bank, which never hid its intention to sell the bank in the future.

Likewise, IPB privatization we can judge with a certain lapse of time. It is not a secret that the bank faced, the same as KB and CS, effects of high portfolio of, so called, classified credits. This resulted in the government's agreement, after judgement of the situation in IPB and possible variations of its solution with the aim to minimize risk of the bank sector destabilization, to place forced administration on IPB, and with the intention to consecutively sell the institution to Českosloveská obchodní banka a.s., as a strategic investor (*government's resolution no. 622, 15 June 2000*). Due to, confirmed by an auditor, decrease of capital adequacy CNB was forced to initiate administrative procedure towards IPB on 18 June 2000, in order to withdraw license to operate as a bank.

3. Československá obchodní banka, a.s. (*Hereafter CSOB*)

As you surely know privatization of CSOB was successfully accomplished in summer 1999. This was marked by many sources to be the first "real bank privatization in the CR".

CSOB was privatized with an active participation of carefully selected foreign consultants.

J. Henry Schrodgers & Co. was selected the government's consultant for privatization of the bank for the first stage. Allen & Overy became the legal consultant of the NPF CR.

On 4 June 1998 an announcement was released. The announcement was addressed to international investor community and declared the Czech government's intention to sell the state owned block of shares in CSOB. The advertisement was published in *Hospodářské noviny*, *MF Dnes*, and the *Financial Times*. On the basis of the announcement the company Schrodgers was delivered, so called, preliminary statements of interest from nineteen subjects.

In November 1998 the government of the CR decided in its resolution on the further process of CSOB privatization and shortened the list to thirteen interested parties (**ABN Amro, Bank Austria/Creditanstalt, BAWAG, BNP, Bayerische hypo- und Vereinsbank, Citibank, Commerzbank, Deutsche Bank, Erste Bank, KBC Bank, ING Bank, Raiffeisen Zentralbank Osterreich, Societe General**), which were

addressed to submit their preliminary offers. Five investors submitted the preliminary offers (**BNP, Deutsche Bank, KBC Bank, Bayerische Hypo- und Vereinsbank, and BAWAG**). Thereafter, the consultancy company Schroders released “Indicative value fixing of CSOB” and the Czech side made “Evaluation of non-binding offers for privatization of CSOB from the viewpoint of strategic benefit”.

The Ministry of Finance on the basis of recommendations of Schroders and Directing Committee for bank privatization selected four investors for the final negotiations leading to submission of binding offers for the purchase of CSOB. **They were BNP, Deutsche Bank, KBC Bank, and Bayerische Hypo- und Vereinsbank.** These selected investors were invited to execute Due Diligence and to submit their binding offers for purchase of CSOB shares. In the course of the process BNP withdrew and the legally binding offers were submitted by three selected interested parties on 26 April 1999. **These were companies Bayerische Hypo und Vereinsbank (“BHV”), Deutsche Bank (“DB”), and KBC Bank (“KBC”).**

The government decided to sell CSOB to KBC Bank N.V. in its resolution no 545 from 31 May 1999 about sale of CSOB shares by a direct sale method to the company offering the highest price for 65.69% share in the bank authorized capital, together 40.047 billion CZK == the NPF CR sold 39.18% of authorized capital for 23.887 billion CZK; CNB sold 26.51% of authorized capital for 16.160 billion CZK (*price per a share – 11,942 CZK*).

The second stage of CSOB privatization was accomplished on 24 June 1999 by concluding a contract on sale of CSOB shares to KBC Bank with consequential transfer of the shares to the new owner.

It also cannot be omitted that in the course of privatization of the bank relevant questions about Národní banka Slovenska (NBS) concerning Slovenská inkasní jednotka were being solved.

In connection with privatization of the two remaining banks, Česká spořitelna and, above all, Komerční banka, quite a few newspaper was used. The reason for that was, mainly, not very good economic results of the banks in the past period and following state forced remedy steps.

Howsoever the steps are medially attractive, they evidence the government’s resolution to support original declarations by concrete actions to ensure as good as gold, however, financially demanding, sometimes even hurting accomplishment of the mentioned banks privatization. Also here the government decided to observe demanding and professional viewpoints, similar to those at CSOB privatization.

4. Česká Spořitelna, a.s. (Hereafter CS)

Within privatization of CS the NPF, on the basis of a selection procedure, concluded a contract with the financial consultant Merrill Lynch and consequentially with the legal consultancy firm White & Case in the first half of 1998. The consultants’ activity was laid out into two stages, the first was financially analytical, the second then was focused on own realization of privatization transaction.

Further on, Merrill Lynch submitted a study with its recommendations for next steps in CS privatization containing, above all, recommendations for an independent audit of credit portfolio, detachment of shady credits, securing of social credits, and, in the frame of meeting conditions of capital adequacy, state support for shady credits and social credits and state subscribed inferior debt. The first stage output was evaluation of the bank readiness to enter privatization and recommendation of privatization timing, criteria for selection of a strategic investor and a suggestion of optimum privatization methods. The result was a recommendation to make pre-privatization changes in connection with loss limitation from the existing credit portfolio and sale of the whole share to one strategic partner, as the case may be, to a consortium of investors.

In June 1998 the second stage of CS privatization started. One of the main consultancy firm's recommendations was to help CS by various methods. In December 1998 the government of the CR agreed state help to ensure criteria of capital adequacy in connection with expected loss of the bank (*the Czech Republic government's resolution no 834 from 9 December 1998 and no 870 from 16 December 1998*). A transfer of receivables from losing credits and social credits in the amount of 10.4 billion CZK to Konsolidační Banka, s.p.ú. (hereafter KOB) was carried out.

In March 1999 the government agreed to increase capital in the stock company CS at least by 6 to 8 billion CZK (*the Czech Republic government's resolution no 195 from 10 March 1999*). In connection to the decision, issue of CS shares in the amount 7.56 billion CZK was finished. The state share (NPF) in authorized capital of CS increased from 45% to 52.07%. The minority foreign shareholder EBRD did not take part in the issue of shares.

In April 1999 press released an announcement addressed to investors to purchase the control block of shares of CS. In August 1999 Information memorandum and Letter to investors were distributed to investors, which expressed their interest in participation in the selection procedure being prepared. After several investors' loss of interest, caused by bad economic results of CS, these seven investors indicated their interest in the prepared selection procedure: **Die Erste Bank, Bank Hapoalim, Bank Nationale de Paris, Capotal Z, Česká pojišťovna, Banco Bilbao e Vizcaya, Midland Bank**. On the edge, I would like to remark that one of conditions for success in the selection procedure was preservation of investor's AA rating. It proved that Česká pojišťovna, Capital Z, and Cresus Fund would not be able to keep AA rating until they create a team with a suitable commercial bank.

In September 1999 indicative offers for the first round of the selection procedure were to be submitted to Merrill Lynch (*only Erste Bank submitted its indicative offer in this first round*).

The most frequent reason for withdrawal from privatization was bad quality of CS assets, management capacity necessary for reorganization of CS, and focus of investors on consolidation being in motion in domestic markets.

On 23 September 1999 Directing committee for bank privatization decided to grant a time limited exclusivity for negotiations on purchase of state block of shares in CS to the financial institution die Erste Bank. This initiated the second round of the selection procedure and due diligence of Erste Bank in CS.

On 29 October 1999 Merrill Lynch was submitted only one binding offer from Erste Bank (*confirmation of the original offer submitted in the frame of the first found of the selection procedure*) to purchase state share in CS. The foreign consultancy firm submitted its evaluation of the offer to Directing committee for bank privatization.

Concurrently, in November 1999 the government decided on further transfer of shady and losing debts of CS to KOB (*the Czech Republic government's resolution no 1178 from 8 November 1999*). On 8 December 1999 IPB rejoined the competition for the state share in CS with its offer. Directing committee for bank privatization asked the consultancy firm Merrill Lynch to express their stand to IPB offer. The evaluation was not favorable and from the offer itself it was obvious that it was impossible to consider binding, for it only supposed conditioned formation of consortium of investors around IPB.

One of the key moments of the introduced process were running negotiations between Directing committee for bank privatization and the highest representatives of die Erste Bank concerning the price, which succeeded to increase against the binding offer. Die Erste Bank confirmed contractually readiness to take part in financing projects in the area of flat construction, culture, sport, and charity, etc. with several billions of CZK:

(i) earmarking an amount 10 billion CZK for the program of mortgages with privilege interest rates – rate by 3% lower than usual market conditions for mortgages at the time of credit granting; (ii) earmarking an amount 10 billion CZK at privilege interest rates – rate by 3% lower than usual market conditions for credits granted medium companies and farmers at the time of credit granting; (iii) program of risk capital for the Czech medium companies – commitment to invest risk capital up to 1 billion CZK; (iv) sponsorship in education, culture, social support, charity etc. – commitment to provide an amount 200 million CZK annually for 5 years, altogether 1 billion CZK.

After proper consideration of the offers from die Erste Bank and IPB, from the point of view of price and strategic interests, all relevant circumstances and recommendations of foreign consultants, the government of the CR decided in its resolution no 144 on the sale of state share in CS to Erste Bank die oesterreichische Sparkassen on 2 February 2000. Through direct sale to a selected interested party transfer of 52.07% (79,146,335 pieces) of CS shares (authorized capital was 15,200,000 thousand CZK) was approved. The purchase for all shares was 19.381 billion CZK.

The final price was, according to the contract on shares purchase adjusted in relation to (i) audit value of consolidated equity of CS to 31 December 1999 and (ii) volume of general reserve of CS to 31 December 1999.

Signing of the contract on sale of CS shares between the NPF CR and Erste Bank die oesterreichische Sparkassen then took time on 1 March 2000. Simultaneously, with signing the contract also, so called, a side letter, which amends possibilities of purchase of priority shares in possession of towns and municipalities by Erste Bank, was signed.

In concord with the purchase contract and sale of shares, the purchase price was paid in Euro at the exchange rate CZK/Euro on the day of signing the contract. The

purchase price was settled in two installments, the second installment till the end of 2001 at the latest.

The first installment 280,190,530 EUR was settled in August 2000. The second would be 262,872,485 EUR at the end of 2001, but the NPF asked for a premature settlement in November 2000, therefore, it was discounted and after discounting it was by 12.9 million EUR lower, so it was 249,985,804 EUR.

5. Komerční banka, a.s. (Hereafter KB)

In case of privatization of KB, in November 1999 the government approved further procedure of KB privatization and agreed with sale of state property participation in KB kept by the NPF CR to one strategic investor with a possibility of co-investors' participation (*resolution no 194 from 10 March 1999*). In the period to the beginning of 1999 a favorable stage of privatization took time. In its course, by the others, pre-privatization analysis of KB status was carried out. This found bad quality of credit portfolio.

The government also decided on co-operation in the process with selected strategic consultants. The company Goldman Sachs International became the financial consultant and Weil, Gotshal Manges became the legal consultant for privatization of KB.

It was important for the bank to meet indicators of capital adequacy and to function without problems in the period of privatization.

That is why the government decided to increase authorized capital by 9.502 billion CZK in May 1999 (*resolution no 469 from 19 May 1999*). The increase should have ensured meeting the indicators and contributed to the increase of interest in purchase of state share by high-quality investors.

The government, therefore, had to accept an alternative solution concerning eduction of a part of credit portfolio to KOB (*resolution no 820 from 28 July 1999*). The government agreed to transfer credit claims of KB towards entrepreneurship subjects in the nominal value 23.1 billion CZK to KOB in return for payment 13.6 billion CZK according to the topical status on the date of eduction, with a positive impact into the expected economic result of KB in the amount 9.5 billion CZK. This transaction, together with consecutive increase of authorized capital, should have kept capital adequacy for the whole period of privatization.

Thanks to swift government's solution privatization of KB, in the frame of realization stage, moved to a release of an advertisement about sale of state share. Effort to stick to the timing of privatization approved by the government in March 1999, however, was foiled by a minority shareholder filing a suit on invalidity of the General Meeting.

Finally, the advertisement was published on 10 August 1999 like "Announcement on sale of state owned shares in KB", which were kept by the NPF CR. Preliminary statement of interest of prestigious international strategic investors took time till 15 September 1999.

A question of final solution of Slovak claim for 13.6% of KB shares arose with great urgency. Directing committee for bank privatization was engaged with the problem before the advertisement publication, when it was recommended by the Minister of Finance to publish an advertisement indicating sale of whole share with that the question of Slovak claim would be resolved on the intergovernmental level. The Slovak claim for 13.6% of KB shares was discussed in Bratislava on 11 September 1999. During the consecutive official visit of the Slovak government representatives in Prague on 7 October 1999 a record about resolving exchange of KB shares for shares of VUB a.s. was signed between the NPF CR and NPF SR. The record postulated principles that were judged and discussed by political representations on the level of prime ministers in October 1999. Consecutively, the NPF SR was invited to sign it. The following discussion, on 9 March 2000 in Bratislava, confirmed readiness of both sides to sign the Agreement on solving of property shares to shares in KB and VUB a.s. The Slovak side, however, required its prior discussion in the government of the SR. Signing of the contract, finally, took time on 5 May 2000 in the NPF CR.

A Contract on execution of a special investigation between the NPF CR, KB and the consultancy firm Deloitte & Touche was signed in September 1999. The report was the main input material for the preparation of information memorandum. Consecutively, the advisory company elaborated, so called, a limited investigation of the situation in the bank related to its expected bad economic result.

Simultaneously, an increase of authorized capital of KB to 19 billion CZK was running. The government of the CR approved in its resolution no 469 and the KB General Meeting expressed its agreement with the amount on 31 May 1999. Issue of new shares of KB, however, did not take time until 10 January 2000 for the reason of the minority shareholder filing a suit on invalidity of the General Meeting. The NPF increased its share in KB to 60.00% of authorized capital from the original 48.74% and the total costs of the NPF for the issue of KB shares were 6.77 billion CZK. Authorized capital of KB was increased by 9.5 billion to 19,004,926,000,- CZK.

In January 2000 Goldman Sachs recommended (*in connection with a problem business in the amount 8 billion CZK and the end of the year*) to offer KB to a potential investor after audit data had been available.

Consecutively, the Minister of Finance of the CR suggested the government restructuring bad credits of KB and on 16 February 2000 the government of the CR passed a resolution no 187 to strengthening stability of the bank (*foundation of a subsidiary and eduction of non-reliable credits of KB to the subsidiary, granting a credit for the transaction by KOB etc.*). It means eduction of non-reliable assets in the amount of 60 billion CZK at the transfer price 36 billion CZK.

Bad economic result, newly found facts about the amount of bad credits (*B.C.L.Trading*) led also to extensive personnel changes in the management of KB in the first quarter of 2000.

With regard to the negative impacts of the revelation the Directing committee for privatization decided on the basis of privatization consultant's suggestion (of the firm Goldman and Sachs), first to accomplish the investigation in the bank and only after that to initiate negotiations with potential investors. The investigation also had an aim to provide the new bank management with space and time to carry out the changes leading to better evaluation of the bank.

In concord with approved progress of KB privatization, the investment consultant Goldman and Sachs sent a marketing letter to altogether 32 potential investors on 18 July 2000. They, on the basis of the letter, should have expressed their interest in entry into KB. From the number of addressed investors 17 subjects decided not to take part in the next stage of negotiations, on the contrary, 15 subjects required sending Information memorandum in order to obtain much detailed and confidential information on the bank.

After perusing the Information memorandum, GSI was delivered, so called, preliminary expression of interest from five subjects in November 2000. They were: **Credit Agricole – France, Hypo – Vereinsbank – Germany, Societe Generale – France, UniCredito Italiano – Italy, and AIG New Europe Fund – U.S.A.**

The government in its resolution no 1334 from 18 December 2000 on guarantee of KOB for selected assets of KB agreed to the guarantee in the amount of 20 billion CZK for risk assets of KB, with that the guarantee applies only to assets classified like non-standard, shady, or losing according to the methodology of Czech National Bank, such, as they are classified by the bank and verified by an auditor to 31 December 2000 and their amount was 27.9 billion in the nominal value to 30 September 2000.

On 27 December 2000 the government of the Czech Republic in its resolution no 1208 agreed to continue KB privatization and on the basis of recommendation by GSI and Directing committee for privatization of KB reduced the list of interested parties to four: Credit Agricole, Hypo – Vereinsbank, Societe Generale, and UniCredito Italiano. All the investors complied with the three basic criteria, postulated by the government for selection. They are subjects having a nature of commercial banks, rating higher than the Czech Republic and are interested in purchase of majority share in KB. These selected investors were addressed to execute investor's Due diligence and to submit binding offers for purchase of KB shares.

On 11 May 2001 the investment consultant was submitted binding offers for purchase of KB shares from four interested parties – **Credit Agricole, Hypo – Vereinsbank (“BHV”), Societe Generale (“SG”), and UniCredito Italiano (“UCI”)**. The investment consultant carried out negotiations with the investors in order to specify the submitted offers.

After opening the submitted offers, negotiations for their specification were immediately initiated (11 June 2001). This resulted in a suggestion of transaction documents reflecting conditions of proposed sale of KB. These agreed conditions are final and under given circumstances represent maximum achieved compromise of both sides.

Credit Agricole, however, announced its withdrawal from the public selection procedure for purchase of KB shares for the reason of revision of its strategy and modification of priorities on 29 May 2001.

BHV, by its letter, addressed to GSI on 22 June 2001, confirmed liability and validity of its offer submitted on 11 June 2001 and simultaneously announced not to take part in negotiations with the NPF CR. Other two investors by submission of their specified offers on 27 June 2001 confirmed and specified the

original offers from 11 June 2001. Both the offers are largely identical, only the offered prices for KB differ.

The government in its resolution no 661 from 28 July 2001 approved sale of KB shares by a direct method to Societe General, which offered the highest price for 60.00% share in authorized capital of the bank, it is altogether 40.179 billion CZK (1,185,923,804, EUR at the rate 33.88 CZK/EUR).

After meeting the postponing conditions of Contract on purchase of shares, signed on 12 July 2001, transfer of shares of KB and money took time on 5 October 2001.

Table 1 – The Czech Republic - Comparison of purchase parity to net business capital

Date	Purchaser	Purchased subject	Country of purchased subject	% share in authorised capital of purchased subject	Product of value of net business capital
June 2001	Société Générale	KB	CR	60.00 %	3.2x
March 2000	Erste Bank	ČS	CR	52.07 %	1.5x
June 1999	KBC Bank	ČSOB	CR	65.69 %	2.1x

Table 2 – Central and Eastern Europe - Comparison of purchase parity to net business capital

Date	Purchaser	Purchased subject	Country of purchased subject	% share in authorised capital of purchased subject	Product of value of net business capital
May 2001	UCI / Allianz	Zagrebacka Bank	Croatia	55.00 %	1.5x
January 2001	Erste Bank	Slovenská spořitelna	Slovakia	87.20 %	1.8x
October 2000	UCI / Allianz	Bulbank	Bulgaria	98.00 %	1.5x
January 2000	Citibank	Bank Handlowy	Poland	56.00 %	1.8x
August 1999	UCI / Allianz	Pekao	Poland	52.10 %	2.2x

The facts such as restructuring of KB assets carried out in relation with progress of privatization, filing the suit of a minority shareholder on invalidity of the

general meeting when increasing authorized capital of KB, solving property shares in KB and VUB between the NPF CR and NPF SR, and incurred problems in division trade finance led to delay of KB privatization.

6. Conclusion

As it flows from the data, I have presented earlier, and from the experience with privatization of the bank sector in the CR, individual processes differ one from another, none is identical, each is specific. However, I would, perhaps for distraction, name one common element they share – it is increased interest of media and production of various “guaranteed accounts”, which accompany privatization transactions of large scale all around the world.

In principle, it can be stated that within 10 years of gradual privatization of the Czech bank sector much was done and the situation in the sector is not black and white. Regardless of difficulties in some of financial institutions the Czech banking sector is fully functional. It would not be, for the time being, suitable to compare it with the most developed banking systems. It is substantial that all banks were privatized and that thanks to privatization our banking system through gradual steps improves constantly and at the same time keeps its character. Practical benefit concerning entry of foreign investors to our banks is evident. Their strength is that they can support their banks with capital, reserves, and banking and technological know-how. Now, it will be important for the domestic management to remain independent and strong in the good, which they can do, and to avoid past mistakes under the new guidance. I strongly believe that the Czech banks will be stable in the future and will be able to compete with increasing presence of prestigious foreign banks in the Czech banking market through their dynamism.

I dare to state that the NPF CR proved, in case of privatization, that it is able to manage even demanding privatization effectively also in cooperation with the Ministry of Finance of the CR, and that all preconditions for exploiting all experience gained in the process in next privatization transactions are created.

Abstract

Jak vyplývá z údajů, které jsem uvedl dříve a ze zkušeností s bankovní privatizací v ČR, jednotlivé procesy se od sebe liší, žádný není stejný, každý je něčím specifický. Jeden společný prvek bych přeci jen, snad pouze pro rozptýlení, jmenovat mohl – je jím zvýšený zájem médií a produkování různých „zaručených zpráv“, které doprovázejí privatizační transakce většího rozměru snad všude na světě.

V zásadě však lze konstatovat, že za 10 let postupné privatizace českého bankovního sektoru se udělalo mnoho a situace v tomto sektoru není černobílá. Bez ohledu na obtíže v některých finančních ústavech je české bankovníctví plně funkční. Nebylo by zatím vhodné jej srovnávat s nejvyspělejšími bankovními systémy. Podstatné je, že byly privatizovány všechny banky, a že díky privatizaci se náš bankovní systém postupnými

kroky neustále zlepšuje a přitom si zatím zachovává svůj charakter. Reálný přínos vstupu zahraničních investorů do našich bank je zřejmý. Jejich síla spočívá v tom, že mohou svoji banku podpořit kapitálem, rezervami a bankovním a technologickým know-how. Nyní bude důležité, aby tuzemský management zůstal nezávislý a silný v tom dobrém, co umí a pod novým vedením se vyvaroval minulých chyb. Pevně věřím, že české banky budou do budoucna stabilní a dynamikou svého vývoje budou schopny konkurovat rostoucí přítomnosti renomovaných zahraničních bank na českém trhu.

Troufám si konstatovat, že FNM ČR dokázal v případě privatizace bank, že je schopen manažovat i náročné privatizační procesy efektivně i ve spolupráci s MF ČR a že jsou vytvořeny všechny předpoklady, aby zkušenosti nabyté v tomto procesu byly zúročeny v dalších privatizačních transakcích.

HOW MUCH WE PAID FOR PRIVATIZATION OF BIG BANKS IN 1997–2001¹

Pavčina Konkolská

Elena Mielcová

Key words

bank sector privatization, credit, transformation, restructuralization of banks

After eleven years of transformation, the Social Democrats government privatized sector, which is one of the most important parts of the state economy. The privatization of banks, followed by privatization of strategic enterprises had to finish the privatization process in the Czech Republic. Bank sector development was touched by transformation of the whole state economics from the centrally planned to the market one.

The privatization was the key mean of reforms in the Czech bank sector. The slow speed of the bank privatization has become the main weakness of the transformation process of the Czech economy. This slow speed was one of reasons for the European Commission critique; the Commission shifted the Czech Republic from the top of the list to the fourth place after Poland, Hungary and Estonia.

Why this problem appeared? The general cognizance about necessity of the state majority in big banks was only slowly changed. However, the long-run Czech privatization strategy led to resolution that the state would not keep its share in banks; the banks would be privatized, the state would keep only some shares in specialized banks which support chosen government programs and state shares would be sold to a strategic investor.

Table 1 shows the development of ownership structure of the four biggest Czech Banks, ČSOB, ČS, KB and IPB in years 1997, 1999, and 2001. From the table it is evident when the strategic investor gained the majority of shares and who is the strategic investor. An additional information covers the list of minority shareholders of the banks. This time, the ČSOB belongs to the Belgian KBC, Česká spořitelna to Erste Bank, IPB to ČSOB and Komerční banka majority of shares was sold to the French Société Générale. The information about bad timing of the Czech banks' privatization is evident from the price we paid for their restructuralization.

The first bank without the state-controlled majority was the Investiční a poštovní banka (IPB). The state lost its majority in 1994 after repetitive defaults. The

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state lost its majority mainly because of the absence in increase in the share capital (in 1993), because of the fusion of IPB and Poštovní banka (on January 1, 1994), and integration of IPB and Investment Fund of the Quick Revenue (in 1995). Moreover, the situation was complicated by a huge activity of the bank during the privatization process. The IPB used to buy the majority of shares in privatized firms for excessive prices.

Table 1 - Ownership structure of the four biggest Czech banks. The information on shareholder structure of IPB in 2001 is missing because ČSOB undertook IPB in 2000

As of January 1997:			
49% NPF 10% Bank of NY 4% RIF 4% IPB 3% IPF KB 2% Česká spořitelna 1% PIF 1% employees 4% Slovak investors 22% other investors	45% NPF 15% local authorities 1% RIF 15% Motoinvest group 19% other portfolio investors 5% individuals	26% Czech National Bank 24% Slovak National Bank 20% NPF 20% Ministry of Finance 1% Česká pojišťovna 1% employees 8% other investors	32% NPF 11% Bankovní holding 10% Charouz holding 9% Vojenské stavby 5% Česká pošta 3% I. IPF 2% VUB Kupon 6% PIAS funds 22% other investors
As of June 1999			
49% NPF 18% Bank of NY 3% RIF 3% Česká pojišťovna 2% PIAS funds 2% Bank Austria 1% PIF 22% other investors	45% NPF 15% local authorities 12% EBRD 9% Česká pojišťovna 2% Agrobanka 2% Spor. Priv. Vynosovy IF 5% other investors	66% KBC Bank 24% Slovak National Bank 4% IFC 5% other Czech investors 1% other Slovak investors	44% Nomura 13% Bankovní holding 10% Česká pojišťovna 7% RIF 2% Fintop 1% IF Bohatství 23% other investors
As of June 2001			
60% FNM ČR 11% Bank of NY 2% Brown Brothers Hariman 2% Chase Ireland Ltd. 1% State Street Bank and Trust Company 2% Chase Nominees Ltd. 22% other investors	52% ERSTE Bank 8% Česká pojišťovna 7% local authorities 6% EBRD 27% other investors	71% KBC Bank 7% EBRD 6% KB ABB CERA 6% KBC Verzekeringen 4% IFC 5% other Czech investors 1% other Slovak investors	

Source: SCHUTE, C.: Privatization and Corporate Control in the Czech Republic, Cheltenham (UK), Northampton (MA, USA): Edward Elgar, 2000, p. 243; year 2001: Internet sources (given in a reference list).

The group of firms with the main impact of IPB management controlled the bank. Bank got into existence problems; therefore the state decided to sell its shares in IPB to a foreign investor. However, one foreign investor – Japanese Nomura – already owned 10% of shares that gained in 1997 thanks to NUTSHELL firm. From 1997, no investor had a chance to receive majority and, therefore, the bank was sold as it was for the symbolic price 3 mld. Kč to the Nomura Group. Nomura did not change the management of the bank. Recession in years 1998-1999 revealed weaknesses of the bank; the bank supervision showed that the bank is insolvent. In June 2000 CNB decided to impose conservatorship upon the bank.

Consequently, the ČSOB undertook the assets and liabilities of the IPB covered by state guarantees. The expected value of future reimbursement to the ČSOB is about 95 mld. Kč. On the other hand, the state should receive back payment for given guarantees. This value is derived from the net value of undertaken assets. Therefore, the IPB case was the most expensive case in the Czech banks' privatization history.

The Československá obchodní banka (ČSOB) was the second privatized bank (in 1999). The bank was clarified from the old debt coming from socialistic era in 1993, and since then it did not get any additional state support for covering new bad credits. In privatization, the Belgian KBC defeated German-American Deutsche Bank and received majority in the ČSOB. The KBC paid 40 mld. Kč – the money were divided such that the Ministry of Finance received 16.2 mld. Kč. and the Czech National Bank received 16.2 mld. Kč. On the contrary to the IPB case, the ČSOB privatization became the cheapest case in the Czech banks' privatization.

The Česká spořitelna (ČS) was the most intriguing bank for foreign investors, mainly thanks to its leading position on the deposit market in the Czech Republic. Let's investigate the ČS from the state view: the state paid subsidies in amount of 46 mld. Kč. Repurchases of uncovered assets ran in three terms: In 1998 credits with a nominal value of 10.4 mld. Kč. were transferred to Konsolidacni Banka for 6.9 mld. Kč. In 1999 credits with a nominal value of 33.3 mld. Kč were transferred to Konsolidacni banka for 20.1 mld. Kč. The net loss was about 16.1 mld. Kč. Finally, the ČS, thanks to the FNM, increased in the share capital in year 1999. However, this financial support did not help.

The Austrian Erste Bank bought 52% of shares for the price of 19 mld. Kč. This price is quite huge, however, according to the agreement, which covers also so-called ring fencing, the state agreed that it would cover more credits, with classification levels about 3-5 at the end of June 2001. Hence, the ČS put on option; credits in a nominal value of 6.9 mld. Kč were transferred to the Konsolidační banka. The Konsolidační banka enforced its call option for assets in a value of 3.3 mld. Kč; but the ČS continued to keep 1.8 mld. Kč from this assets because of its expected future prospect. Hence credits were drop out of the state guarantees, thanks to the tactic of the Konsolidační Banka. The Konsolidační banka paid for its call option 1.5 mld. Kč. Total value of other options is not known, however the total amount is estimated to be about 12 mld. with high rate of return. Nonetheless, the state paid for the privatization of the ČS 46 mld. Kč and gained 19 mld. Kč.

The privatization of the four biggest Czech banks was finished by privatization of the Komerční banka (KB) a couple weeks ago. Considering assets and equity, the bank is the biggest bank on the Czech financial market. How did the state support this bank?

In 1999, the KB increased in the share capital; it had to keep capital adequacy of the bank over limits of CNB. FNM invested during the two runs total amount of 6.8 mld. Kč. Thus, the FNM increased its ratio to equity up to 60%. Because of the law suit of the minority shareholder the stock subscription was temporarily stopped. That was a reason for covering of credits in nominal value of 23.1 mld. Kč by Konsolidační banka (the bank paid 15 mld. Kč). This transaction caused losses about 14.1 mld. Kč because of increasing sanction fees and interests. This transaction did not solve all problems of the Komerční banka. Therefore, in 2000 the subsidiary firm Konpo was created; Konpo undertook credits in a nominal value of 59.9 mld. Kč. Consequently, the Konpo was bought by Konsolidacni Bank for 35.5 mld. Kč. The KB was sold to the French Soci t  G n rale, which paid 40 mld. Kč; the Soci t  G n rale has a possibility to sell more assets up to value 20 mld. Kč in December 2003 – thus the agreement covers similar conditions as that used in a case of the  S ring financing.

Table 2 - State gains and losses in privatization of the four biggest banks. State expenditures are counted without old debts (before 1989) covered by Konsolidační banka in early 90-th

Bank	State reimbursed (mld. Kč)	State received (mld. Kč)	Difference (mld. Kč)	New owner of the majority of shares
Komerční banka	75	40	35	Soci�t� G�n�rale
�esk� spořitelna	46	19	27	Erste Bank
�SOB	0	40	-40	KBC
IPB	95	13	82	Nomura Group
Total:	216	112	104	

Source: P RAL, P.: Z chrana bankovnictv . Euro, July 23, 2001, No. 30, pp. 16–19.

Conclusion

This paper wanted to give a short overview under the privatization of the four biggest banks in the Czech Republic in years 1997-2001. This overview wants to show that the support of functionality of the Czech bank sector (namely four banks  SOB,  S, KB, IPB) was costly: the state paid 216 mld. Kč (without debts of old regime) while the expected rate of revenue is about 112 mld. Kč. The difference is 104 mld. Kč (see Table 2). There are many possible answers to the question why the privatization was so costly. The most probable and the most discussed reasons are:

- delay and slow speed in the bank sector privatization,
- late start of the functioning bank surveillance,
- economic instability,
- political influence,

- defaults of owners and management,
- liberalization of bank sector and legislative,
- classified credits.

If we want to be objective, we have to point out the fact that at the beginning of privatization process, before problems appeared, the bank sector used to gain huge profits and the state received a lot of money on taxes. Moreover, the bank sector credited strategic industrial enterprises, and so prohibited from bankruptcies, that helped state in social subsidy policy.

Nowadays, the privatization of the bank sector in the Czech Republic is finished. All big banks have its new owners; and, finally the Czech Republic promoted in evaluation of the European Commission in functionality of the bank sector

Abstract

Privatizace bankovního sektoru se stala završením privatizačního procesu, následujícího za privatizací strategických oblastí podnikání. Průběh privatizace čtyř velkých českých bank zaměřený na léta 1997 – 2001, jejich majetkové struktury a zhodnocení, kolik činily příjmy a kolik výdaje bylo cílem tohoto příspěvku, včetně objasnění proč nás bankovní sektor stál tolik nákladů.

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ASSUMPTIONS AND CONDITIONS OF CURRENT BANKASSURANCE DEVELOPMENT

Anton Korauš

Key words

bankassurance, assurance, insurance, banking, distribution, marketing advantages, globalization of financial markets

1. Introduction

Bankassurance represents a specific phenomenon that has appeared over the past few years. It is based on the integration of banks and insurance companies, and as such, represents a newly developing branch of national industry. The tendency towards bankassurance implementation results from the processes and trends of globalization of financial markets and institutions. Bankassurance includes the advantages of both banking and insurance.

2. Assumption and Conditions of Current Bankassurance Development

The difference between assumptions and conditions on the one hand, and causes on the other, resides in the fact that while assumptions (conditions) enable a particular state or its development, the causes determine it directly. Thus, the difference is in the consequences – in the first case they do not have to occur, in the other, they are inevitable (they are determined by the cause).

Schierenbeck and Hoelscher indicate that the integration of banks and insurance companies follows from their common traits determined by the close relationship between their operational sectors. Despite their basic functional difference (banks deal with the transformation of liquidity, while insurance companies transfer and share the risk), their common traits can be derived from the character of their products and services.

In both cases abstract products are involved. As it is not easy to store them, they must be sold as soon as possible. The object of the banking and insurance businesses is money. Money is deposited or a premium is paid in form of monetary units just easily as interest is paid or claim is settled. In the background of these operations, however, there are processes which closely coincide with tangible assets, e.g. purchase of goods, damage incurred by fire, or any other insurable event. In practice,

banking and insurance products are always accompanied by a precise agreement or contract. Current or deposit account agreements, as well as insurance policies, precisely define the terms and conditions (as well as other contractual terms) of financial settlement of banks and insurance companies. The legal form in both sectors is marked by strict cogent norms and by the fact that they are supervised by the state. The long-term character of banking and insurance businesses is also a typical feature, such that the conclusion of such business results in long-term legal relationship. After all, both banks and insurance companies operate on the base of mutual trust between their clients and themselves. In these sectors, the issue of trust is involved to a larger extent than in most other services. Therefore, the marketing focus of these institutions is on their image and brand name.

Lyn Bicker stresses that the pressure of competition forces banks to rely not only on their classical banking operations, but also to widen their sources of revenue. Hence, all finance and bankassurance represent new challenges for banking institutions and the possibility of new potential profit centers. joint ventures have become one way to accomplish such an objective. This form is also advantageous for insurers who gain the opportunity to sell their products via the wide distribution networks of bank branches. Such examples are quite abundant in Europe. An agreement between NatWest and Clerical Medical resulted in the creation of NatWest Life in UK. In Spain, Banesto has joined AGF (the giant French insurer) and formed Banesto Seguros. Similarly in Germany, Citibank has established a very successful bankassurance company, which sells its products through 300 branches.

The trend of deflecting away from traditional low interest projects towards investments in more profitable areas has recently been recorded in western Europe. This trend has forced the banks to enter the insurance market and to form substitute products that enable them to protect themselves from losing their depositors.

In contrast to the relative softness of European anti-monopoly laws enhancing the development of bankassurance, the situation in America was more difficult. Mergers of banks and insurance companies were restricted by two strict laws – one of them, the so-called Glass-Steagall law was passed already in 1933. It strictly separated individual commercial banks, as well as banks from insurance companies. For many years, this law resisted all modernization efforts. However, in 1999 it was largely repealed by the Gramm-Leach-Bliley Modernization Act. This Act has eliminated an increasingly artificial distinction between banking and commerce and created new financial holding companies (FHCs) that have much greater powers than traditional bank holding companies to engage in a wide range of financial services. Securities trading and underwriting, insurance and traditional commercial banking activities can now be combined in a single holding company. The old barriers from the Glass-Steagall Act and Bank Holding Company Act that fragmented financial services have been largely swept away so that the most efficient combination of financial services can be provided under one roof.

In this way, the American legislature has got into accord with world's financial globalization trends.

In Alan Greenspan's opinion (Federal Reserve Chairman), the new law has opened the way to the normal functioning of commercial banks. Owing to their increased ability to compete, the banks have improved and enhanced their financial service.

Several significant mergers have taken place in the US. For example, America Corp. and Nations Bank Corp., Banc One Corp. and First Chicago NBD Corp., and the largest, the banking group Citicorp and the insurance group Travelers. The latter gigantic merger was carried out with the consent of Federal Reserve Chairman Alan Greenspan, Treasury Secretary Robert Rubin, and former President Clinton. The new private financial conglomerate serves about a million clients in a hundred countries, and thus has acquired detail data about a large number of their clients, including their financial possibilities and incomes. In this way, the conglomerate can significantly influence politics in the US and abroad.

Naturally, their competitors are considerably reluctant against such mergers. In addition to the latter concern, they indicate that Citicorp is currently the largest worldwide issuer of credit cards. The insurance group Travelers owns the investment banks Smith Barney and Solomon Brothers, which is the fourth largest issuers of bonds. Travelers is also the strongest American insurance group.

However, the fact that the super-fusion of Citicorp and Travellers has produced the world's largest financial services company with business in the amount of 570 billion dollars, has met a generally positive acceptance by Wall Street. Their positive attitude has given rise to an increase in stocks of both institutions including some other American financial institutions.

The positive reaction by Wall Street is explained also by the fact that both institutions mutually match each other. Hence, a unique "supermarket" has been opened where each client can find all types of service from loans and auto insurance to pension funds. The integration of both companies enables the new company to sell the former products of one of them via the distribution channels of the other.

However, such a successful merger is not so entirely common. There were some cases that ended up as an absolute fiasco. For example, American Express, a specialist in credit cards has recently failed in their effort to establish a financial supermarket. Similarly, the acquisition of First Boston by Swiss Kreditanstalt has brought about difficulties and thereafter also large losses. A similar situation also occurred when Deutsche Bank tried to enter American investment banking. The crucial cause of failure often resides in fairly large differences in corporate cultures of the joining institutions. Sceptics have indicated that the cultures of Citicorp and Travelers differ as well. Citicorp, for example, has recently invested much money into automating their commercial products. On the other hand, the Travellers group has betted on personal contact with clients. At the time of the merger, Citigroup had 100 million clients and by the year 2010 it wants to increase that number to 1 billion.

American legal regulations also provide some tax advantages to institutions formed by a merger. A merger (a so-called "pooling of interest") enables companies to write-off the difference between the bookkeeping value and purchase price, thus decreasing the income tax.

In Europe, the past decade has brought about a whole series of examples of co-operations between banks and insurance companies. Such co-operations can range from loose co-operation in distribution up to absolute materialization of a merger.

The best known, and obviously most successful merger includes the establishment of ING in 1991, when NMB Postbanken and National Lederlanden

integrated and established a new leading company in the Dutch market of integrated financial service. The contributions of this merger reside in the formation of a platform for further European and global expansion, growth of market share, improvement in the allocation of bonds and stocks, a decrease in overlapping areas, and thus an increase in profit. In this context, the establishment of Crédit Suisse Group – in 1997 (Crédit Suisse and Witerthur) can also be mentioned.

The latter reasons for the merger, or the closer co-operation of banks and insurance companies, include also the effort to eliminate competition.

Priewasser indicates that competition pressure upon banks is exerted especially by the market for individual insurance, that is life, endowment, pension schemes, accident benefits and health insurance. He points that the share of this proportion of family expenses increases. In addition to these facts, the German insurance companies have defended their position in the area of mortgage loans provision.

3. The Prospects for Further Co-operation between Banks and Insurers

Globalization, as the one of the current mega-trends, obviously does not avoid the financial markets either. On the one hand, from the macroeconomic view, financial services are greatly demanded. On the other hand, should the financial institutions want to survive, they must update their activities, earn sufficient risk-adjusted profits and, naturally, they must meet the demands of their clients. These external and internal pressures lead to the fact that gigantic companies are being established to provide a wide scale of financial service including insurance.

The list of insurance products offered by domestic insurers is, with some exceptions, practically comparable with service provided by insurers abroad. Therefore, the further development of insurance will not depend on the variety of products, but rather on improving the existing products, implementing new distribution channels and using the possibilities of modern information and telecommunication technologies for this purpose.

This trend has been observed abroad for several years, where new means of access to insurance are in use, for example, by telephone or internet.

The aim to provide a maximum range of financial service at one place coincides with profound co-operation between banks and other financial institutions. In our country, the development of integrated financial service is just in its initial phase, although, especially in the case of privatized financial institutions, it is beginning to accelerate. Several banks and insurers in Slovakia have established their own financial groups that are able to offer their clients a variety of products.

Close co-operation of banking and insurance has many advantages for clients as well as for financial institutions themselves as they can exploit the synergetic effects of decreased costs and increased financial and strategic strengths. It is presented that the merger of two comparable subjects, will result in a decrease in costs of about 10-20% of the costs of one of the partners. However, as world experience proves, the development of bankassurance has its stumbling blocks.

Co-operation between banks and insurers enables the ability to cross-sell individual products. The “over the counter” sale of insurance products by bank branches leads to a decrease in sale costs, widens the client base and at the same time achieves higher productivity in comparison with other distribution channels. The clients can be offered a whole package of services, which positively influences their loyalty.

On the other hand, networks of insurance agents can be used for the distribution of banking service to the existing clients who can be offered loans or a conversion of terminating insurance policies covering their banking deposits.

Insurance products can serve, for example, as a substitution (life insurance, unit-linked products), as a supplement (life insurance, annuities, auto insurance or home packages) of common banking products, or they can be offered as a combination (products of life or property insurance linked with mortgages, motor insurance linked with car purchase loans, etc.)

On the other hand, the risk of integrating banking and insurance businesses includes also the organizational complexity and costs, which are closely associated with the information systems of individual partners, staff training for various distribution channels, a different comprehension of marketing in various client segments, as well as the threat of taking over the existing clients. Following mergers or acquisitions it is wise to expect some difficulties also in the acceptance of changes in corporate culture and organization structure. It is advisable to also consider the reaction of those managers who could lose their posts as a result of the newly established organizational structure.

The Slovak financial market has recorded the development of co-operation between banks and insurance companies, coinciding with the growth of competition, as well as with the globalization processes taking place in the financial sphere. The establishment of Univerzálna banková poisťovňa in 1994 can serve as such evidence. The insurance company was established by five banking institutions: Slovenská sporiteľňa, a.s., Všeobecná úverová banka, a.s., Poštová banka, a.s., Priemyselná banka, a.s., and Investičná rozvojová banka, a.s. Univerzálna banková poisťovňa is licensed to sell and administrate all types of life and non-life insurance and to operate as an insurance broker.

There is another new example in the Slovak market, namely Poisťovňa Cardif Slovakia which insures persons who have concluded a leasing contract with the company GE Capital Leasing a.s.

The client, by purchasing such a policy, insures his ability to recover his outstanding financial debts (leasing installments) called for in his leasing contract with GE Capital Leasing, a.s.

This insurance protects the clients from financial problems than can possibly occur because of various accidents (invalidity, death). GE Capital Leasing, a.s. gives the opportunity to use a unique product of Cardif Slovakia, a.s. to repay the outstanding loan in the case of a lost job. Should the client, after a deferred period of 90 consecutive calendar days elapsing from the conclusion of the leasing contract, lose his job and be unemployed for longer than 60 consecutive days, the insurer repays his loan installments.

There is another example, namely the agreement entered between ING Nationale Nederlanden and Poštová banka, a.s. which was signed on December 1st, 1999. On the basis of this agreement, Poštová banka provides loans to clients of ING

Nationale-Nederlanted which are guaranteed by their life policies concluded with this insurer.

On June 1st, 2000 , Istrobanka, a.s. began, to provide life, accident and annuity products of Slovenská poisťovňa, a.s.

Similarly, several other banks began to co-operate with insurers. Všeobecná úverová banka has entered an agreement with R+V and ING Nationale-Nederlanted by which it acts as their broker of life and non-life insurance.

In this way, these are the first banks in Slovakia, which have ventured to use the advantage created from the banking law amendment and widened their product portfolio by insurance products.

It is indisputable, that the future development in the financial sector will focus on closer co-operation and further development of bankassurance not only in western Europe, but also in countries, like Slovakia, which are in the transformation process. The growth of competition will force insurers to gradually increasing their effort in the acquisition of clients, to improve their services to policy owners, and at the same time to meet all of their needs. The offer of banking and insurance products “all in one” produces a number of advantages not only for banks and insurers, but also for clients themselves. Time saved, lower tariffs, and the possibilities to receive complex information at one location are factors, which are very much appreciated. For the insurers and banks, bankassurance brings about a decrease in costs. Both institutions share activities, in which they are well trained and skilled. Banks offer their distribution network, brand names and databases of clients. Insurers contribute by their products and experience gained during their operations. These mentioned advantages are the particular reasons why the co-operation between banks and insurers in Slovakia should follow this trend.

There is a world-wide trend which has also been recorded in Slovakia, namely to increase the share of profits generated by non-interest, fee-for-service activities. The market, which had been released by banks is then re-occupied by various financial companies which are not regulated by the central bank and are free to do a profitable business in the area of reasonably evaluated risks.

Central banks react to this situation by their efforts to support commercial banks in achieving a greater share in non-interest profits in comparison with interest-based profits. In practice, this means that banks should focus a significant part of their activities in the area of fee-for-services. As to commercial banks, various types of services could be included into their product lines, especially those designed for manufacturers and trading companies. This type of service can also be enhanced by the insurance coverage of risks emanating from business activities of the latter client segments.

4. Conclusion

The future of Slovak bankassurance should be considered specifically in the context of our future incorporation into the European Union. This process requires and will require harmonization of our legal regulations with those of the European Union.

However, this is determined by the macroeconomic functioning of national industry as a whole, as well as that of the financial sector. A precious lesson can be learned from a careful study of banking sectors in some countries prior to and after their incorporation into the European Union, especially of those in Spain, Portugal, and Greece.

Abstract

Bankopoiš'ovníctvo (bankassurance) označuje špecifický fenomén dnešnej doby, ktorým je vzájomné prepojenie bánk a poiš'ovní a predstavuje tak nové rozvíjajúce sa odvetvie národného hospodárstva. Proces vzniku bankopoiš'ovní je vyústením procesov a tendencií globalizácie finančných trhov a finančných inštitúcií. Bankopoiš'ovníctvo totiž zahŕňa výhody oboch sektorov, t.j. ako sektora bankových služieb, tak aj sektora poistenia.

V priebehu posledných desaťročí sa banky v krajinách EU a tiež v USA začali venovať okrem svojich typických aktivít a operácií, aj predaju poiš'ovních produktov v úlohe poiš'ovacích brookerov. Postupne sa ukázalo, že táto činnosť je pre banky väčšinou výhodná, a preto dochádza k jej rozširovaniu. Prehľbuje sa kooperácia medzi bankami a komerčnými poiš'ovňami a vznikajú nové peňažné ústavy so špecifickou činnosťou, označované ako bankové poiš'ovne. Obsahom ich činnosti je realizácia operácií súvisiacich s bankopoišením. Najrozvinutejší systém bankopoištenia v Európe majú Nemecko, Veľká Británia a Francúzsko.

Najdôležitejším faktorom úspechu bankopoištenia je starostlivosť o klientov banky, výber a školenie distribútorov bankopoištenia, ich motivácia a systém odmien, efektívnosť výpočtového systému, atď.

Významnú úlohu zohráva správna kultúra predaja. Potrební sú vyškolení zamestnanci, ktorých hlavnou úlohou je starať sa o klienta. Ten kto sa zaoberá distribúciou bankopoištenia býva označovaný ako poradca finančného plánovania. Pre jeho úspech je rozhodujúce čo najrýchlejšie sa stotožniť s kultúrou styku s klientmi, ktorá je v danej banke zavedená a na ktorú si jej klienti zvykli. Termín poradca finančného plánovania neobsahuje slovo predaj, ktorého používanie je v niektorých bankách odsúvané do úzadia. Poradcovia finančného plánovania, ktorí zabezpečujú distribúciu produktov bankopoištenia by mali mať zmysel pre tímovú prácu, vcítenie sa do potrieb klientov a analytické schopnosti.

Banky sú obvykle technicky lepšie vybavené ako životné poiš'ovne. Ďalšia dôležitá podmienka úspechu je, aby si banky vybrali správneho partnera, ktorý má skúsený manažment, dobrú povesť, kvalitné technické vybavenie vrátane dostatočnej kapacity informačného systému a najmä, je pripravený spolupracovať ako partner.

Celosvetovým, ale aj slovenským trendom v bankovníctve je snaha o zvyšovanie podielu neúrokových ziskov. Na bankami uvoľnené miesto na trhu potom nastupujú rôzne finančné spoločnosti, ktoré nepodliehajú regulácii centrálnych bánk a voľné ruky im umožňujú výnosné obchody práve v oblasti rozumných cenovo zohľadniteľných rizík.

Reakciou na túto situáciu je potom snaha centrálnych bánk viesť obchodné banky k tomu, aby dosahovali väčšieho podielu neúrokových výnosov v porovnaní

s úrokovými. V praxi to potom znamená, že by banky mali smerovať značnú časť aktivít do oblasti platených služieb. Pokiaľ ide o obchodné banky, malo by sa jednať predovšetkým o rôzne služby výrobným a obchodným podnikom, ktoré by mohli zahrnúť aj služby poistenia.

Špecificky treba vnímať budúcnosť slovenského bankopoišovníctva v kontexte nášho začleňovania resp. budúceho začlenenia do Európskej únie. Tento proces si vyžaduje a vyžiada harmonizáciu našich právnych predpisov s európskymi, predpokladom sú však makroekonomické podmienky fungovania hospodárstva ako celku, ako aj finančného sektora. Určité poučenie možno získať štúdiom podmienok bankového sektora niektorých krajín pred a po ich začlenení do EÚ. Ide najmä o Španielsko, Portugalsko a Grécko.

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CONSEQUENCES OF PRIVATIZATION IN CZECH CAPITAL MARKET

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Key words

Czech capital market, voucher privatization, collective investing, capital market as a source of financing, Prague Stock Exchange

1. Introduction

Apart from other west European markets the Czech capital market origination was rather atypical and deeply influenced by the economic and political situation after the year 1989. Till that time the Czech capital market was not existent because it was, after 1948 in central plan economy conditions, considered an anachronism.

The aim of the article is to point at the consequences of the Czech capital market atypical origination and to attempt to analyze its present status.

2. Czech Capital Market Origination

After 1989 it was necessary to resolve a question concerning transformation of state owned assets into private ones. The state enterprises transformation took two forms – small privatization and large privatization. The small privatization preceded the large privatization. Within its frames small business and production units were transferred into private hands. Most of them were offered in auctions, altogether 21,357 shops, workshops and other enterprises of the total cost 29 billion CZK were sold in this process. The first auction took time in January 1991 and generally the small privatization took two years.

The large privatization was divided into two parts - voucher privatization and direct sales of companies to strategic investors. The voucher privatization signified the Czech capital market origination, because its result was not only transformation of the state enterprises but also a basic capital market instrument (registered shares) was created. In 1991 the Preparatory committee for Prague Stock Exchange origination was also established. The Prague Exchange itself originated in December 1992 through incorporation into business register and officially the first transaction took time on 6

April 1993. First transactions with the voucher privatization shares took time on 22 June 1993. The second organizer of the Czech capital market in the Czech Republic - RM-System - started to operate on 24 May 1993.

3. Voucher Privatization

The voucher privatization in the Czech Republic in 1991 - 1994 coursed in two waves. In each wave approximately 6 million citizens participated (see table 1). The basis for both the waves was a purchase of a voucher book for a relatively symbolic amount 1,000 CZK and consequentially a placement of investment vouchers into individual privatized enterprises. Each wave of the voucher privatization had several rounds, during which it was possible to place investment vouchers into enterprises in a certain determined ratio according to the topical offer and demand status. Citizens of then Czechoslovakia could place their investment vouchers into the offered enterprises directly on their own or via investment privatization funds originated for that occasion. The investment privatization funds origination was directed especially by the Commercial Act, due to non-existence of the Investment Companies and Investment Funds Act.

The sale of voucher books for the first wave of the voucher privatization started in September 1991. The wave itself took time from 17 February 1992 to 31 January 1993. 4 million citizens were supposed to take part in the privatization (from 15.5 million inhabitants of then Czechoslovakia). At the end of 1991 only 2 million citizens were registered. At the end of 1991, however, Harvard investment fund started a massive advertising campaign that evoked a large increase in interest in the voucher privatization as from the side of individual investors (citizens) so from the side of the originated investment privatization funds. The example of Viktor Kožený with his "certainty of tenfold" was followed by other funds that through an aggressive campaign with advertising shots, promotion leaflets, and especially similar financial promises (for example a contribution to the voucher book purchase – 1,000 CZK - as a deposit for the future fund's revenue) recruited a large number of additional individual investors. There also appeared so-called voucher books buyouts, when the voucher book owner indebted, at a before hand paid financial amount, to sell their future shares to the relevant fund (investment vouchers themselves were not transferable).

A large part of the adult Czech and Slovak population became, this way, shareholders (more than 8 million citizens); most of the investors then consigned their investment vouchers to funds (71.9%). In the course of the first privatization wave the Investment Companies and Investment Funds Act no. 248/92 was accepted. According to the Act unit trust funds besides investment funds could take part in the second wave of the voucher privatization, which took time from 10 October 1993 to 3 December 1994. The second wave of the voucher privatization was carried out the same way as the first only in the Czech Republic, which on 1 January 1993 became an independent state. Funds again acquired the most of the investment vouchers (63.5%).

Table 1 - Voucher privatization

	1 st wave	2 nd wave
Beginning and end of the wave	17 Feb 1992 – 31 Jan 1993	1 Sep 1993 – 3 Dec 1994
Individual investors	8,540 thousand (5,590 thousand in CR)	6,160 thousand
Number of funds	429	349
Investment vouchers individual investors funds	2,400 million, it is 28.1% 6,140 million, it is 71.9%	2,250 million, it is 36.5% 3,910 million, it is 63.5%
Number of rounds	5	6
Offered companies property	1,491 (988 in CR) 299.39 billion CZK (212.49 in CR)	861 155 billion CZK
Property on 1 individual investor	35,057 CSK	25,162 CSK
Sold companies property	291 (193 in CR) 277.84 billion CSK (198.03 in CR), it is 92.8%	268 149.3 billion CZK, it is 96.3%

Source: POLÁCH, J. and GERLICH, P. and collective: *Banking and Capital Markets, part Capital markets, p. 146.*

4. Consequences of Voucher Privatization

The situation in the capital market after the voucher privatization was considerably incomprehensible. A high share of funds on privatized companies ownership was a great surprise. The funds started unexpectedly to dispose of enormous property and not always their activities complied with the legal norms. A range of them exploited legislative gaps in the codes and transferred the obtained property to their private companies or “tunneled” them. Many funds did not respect the law at all – for example they often overcharged the maximum 20% portion they were allowed to own.

In March 1996 Harvard funds started a process of investment funds transformation into joint stock companies of the holding type and this way they extricated from the Ministry of finance supervision as subjects of collective investing. Thanks to an imperfect legal amendment practically all funds, which wanted to transform, managed, following Harvard funds, to transform into holdings before a new amendment came into validity. A great range of funds were not good trustees of the obtained property; collective investing, thanks to that circumstances received a bad image and the small shareholders’ confidence in investment funds and unit trust funds markedly decreased.

Prague Stock Exchange also had to deal with many problems appearing with the voucher privatization from its origination. Above all it was non-transparency of individual transactions, when transactions of many securities were in reality uncontrolled. In the Stock Exchange there were placed, due to the voucher privatization, shares of hundreds of companies, many of these, thanks to a small amount, never got to

the Exchange market. To check every transaction in this situation was impossible also due to the fact that the supervision was on the side of the Authority for securities, which personal insurance was with regard to the amount of subjects in the Czech capital market insufficient. Many subjects exploited then legislative gaps and also the fact that the Czech capital market missed experts in this area. This situation started to successively improve in 1997, when the Prague Stock Exchange begin to eliminate non-liquid emissions form the markets. A quality change appeared, however, in 1999, when a new established the Securities Commission (1998) originated new control of basic subjects of the capital market.

Table 2 - Number of Czech capital market subjects

Date	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000
Stock Exchange	1	1	1	1	1
OTC markets	2	2	2	2	1
Broker firms	519	451	382	131	112
<i>Non bank</i>	479	415	348	98	
<i>Bank</i>	40	36	34	33	
Investment companies	153	117	99	52	36
Investment funds	173	117	84	50	33
Unit trusts	296	233	186	93	94
<i>Open-end</i>	122	141	139	74	87
<i>Closed</i>	174	92	47	19	7
Brokers	1,317	1,487	1,537	1,543	1,547

Source: press news of the Securities Commission, <http://www.sec.cz>, own calculations.

Table 3 - Numbers of registered securities

Date	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000
Shares	2,223	2,179	2,106	2,040	1,813
Units of unit trust funds	121	122	112	145	104
Bonds	110	121	133	124	123
Total	2,454	2,422	2,351	2,309	2,040

Source: press news of the Securities Commission, <http://www.sec.cz>

The main cause of the whole bad status of the Czech capital market was a completely liberal legislation, which allowed the behavior of the individual capital market subjects. The regulation of the capital market, practically left to “gold diggers”, was completely underestimated. In the frames of the voucher privatization its speed was preferred to the proper preparation of legal norms. However, the purchase of the voucher

books and the mass interest in the investment vouchers, yet relatively in the real beginning of the voucher privatization, should have been a certain warning. Already then it was evident that some funds were originated only for the purpose of the voucher privatization and their aim was not long time trusteeship of the obtained property, but fast enrichment. Likewise the situation in many companies that due to the privatization results did not have a major owner for a long time indicated the necessity to interfere immediately. The management of those companies contrived to exploit the situation very well for their own benefit against the benefit of the future development of the companies. Well-adjusted limitations in a form of relevant legal norms could have saved the situation. Where ethics was missing, strict legal norms with sanctions should have been applied. However, this was not the case for a long time.

5. Present Situation in the Czech Capital Market

The Czech capital market strives to compensate for 45 years of its non-existence (1945 – 1990). The fast voucher privatization without its legal frame in its result rather harmed the capital market than helped it. Despite that the situation in the individual areas of the capital market is successively improving.

The status of collective investing markedly started to change for better after the Securities Commission had been established and after the revised Investment Companies and Investment Funds Act had been entered into effect (both in 1998). The Securities Commission, in spite of its own organization problems, became an important element of the Czech capital market and started to control much more strictly meeting the basic requirements of its individual subjects. The amendment then brought a prohibition of transformation from a subject of collective investing into a different subject (so called holdings), and especially compulsory “fund opening”. Open-end funds, which function, from the point of investors, is less risky and more transparent, were to play the main role in the Czech collective investing. Since the situation in the Czech financial market was favorable for the funds from 1999, the property in the open-end funds increased by 216%, in 2000 by 43.5%. The year 2001, with regard to the situation in the world financial markets (and partially also thanks to purchases from transformed investment and closed funds), will evidently not be so successful. Despite that it is possible to say that the area of collective investing is stable in the Czech Republic. Czech citizens may choose, at the present, from a range of open-end funds for different types of investors, an offer of funds of foreign trustees is increasing.

If we evaluate the activity of the Prague Stock Exchange globally, it is possible to say that, with regard to the starting conditions after the voucher privatization, the Exchange markedly improved its activity. Especially introduction of the Market for Shares and Bonds Supporting System (SPAD) was a successful step. If it intends to remain an independent regional exchange, it will be forced to markedly fasten meeting two main targets – function of New market and origination of transactions with derivatives. Although the New market, which is to help companies that want to exploit the Exchange as a source of financing (IPO), has functioned since 1999, there has not been any new emission so far. The first emission of Limart Company, to be placed at the New market in July 2001, was postponed till the end of the year. The Exchange, therefore, does not fulfill the function of a source of financing. The beginning of

derivatives sale is planned for the year 2002, the Prague Stock Exchange has received a license from the Securities Commission. However, the joint stock company providing trade settlement for the Prague Stock Exchange (UNIVYC) has to obtain a license. An essential task for the Stock Exchange Prague is also connection to other foreign exchanges. It, therefore, has to adapt as fast as possible to European standards in all areas of its activities (independent purchasing, tightening of issuers' duties to inform, etc.)

6. Conclusion

The present status of the Czech capital market is directly proportional to the length of its existence, the development it had to pass, and the status of the economy, in which it exists. The capital market in the Czech Republic has been continuously adapting to new situations and conditions in the Czech and foreign economies. This all has to be taken into account when evaluating it. The present situation in the Czech capital market cannot be watched through rose-colored glasses, but it is just to say, the Czech capital market stabilized in a certain way and develops in "the right direction". A question, therefore, remains if the development is fast enough and if it is sufficient with regard to the development of other foreign markets.

Abstract

Článek se zabývá důsledky kupónové privatizace na českém kapitálovém trhu. Autoři popisují atypický způsob vzniku kapitálového trhu v České republice a analyzují jeho současný stav – zejména oblast kolektivního investování a Burzu cenných papírů Praha.

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DEVELOPMENT OF BANKS' PRODUCT OFFER AS THE EFFECT OF TRANSFORMATION OF THE POLISH BANKING SYSTEM

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Key words

banking system, changes in Polish banking, a package of bank services

1. Introduction

Changes in Polish banking took place in result of economic reform in 1982, which caused the appearance of Banking Law [1] and the Act on the Articles of Association of the Polish National Bank [2]. This Act helped the Polish National Bank to become independent of the Ministry of Finance (President of the Polish National Bank who stopped performing the function of Vice-Minister of Finance), to increase the role of the central bank in shaping the monetary and credit policy as well as create the possibility of organizing banks in the form of joint stock companies, also including those with foreign capital. In consequence, from 1982 to 1989 only three new banks were established: in 1986 the specialized Bank Rozwoju Eksportu S.A. (Export Development Bank Joint Stock), at the beginning of 1989 the universal Bank Inicjatyw Gospodarczych S.A. (Business Initiatives Bank Joint Stock) and Łódzki Bank Rozwoju S.A. (Development Bank of Łódź Joint Stock), and in 1987 the bank Powszechna Kasa Oszczędności Bank Państwowy (National Savings Bank State-Owned Bank) was isolated from the Polish National Bank.

The year 1989, bringing both structural and ownership changes, is considered the turning point in the development of the Polish banking system. In result of introducing Banking Law [3] and the Act on the Polish National Bank [4] from 1989 the banking structure shaped during previous years in Poland started adapting itself to the functioning principles and mechanisms of market economy. In result of new legislation foundations were formed for a two-stage banking system. At the head of the Polish banking system stood the Polish National Bank as the superior State bank, from which nine state banks were singled out. These banks were transformed into sole shareholder companies of the State Treasury and operate as independent, self-financing companies, which deal in the accumulation of financial resources, granting of credits and conducting financial settlements. They have been established on the basis of the biggest operating

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branches of the Polish National Bank and began their activity without any subjective, objective and territorial limitations. This bank group includes the following banks: Bank Gdański S.A. in Gdańsk, Bank Zachodni S.A. in Wrocław, Bank Śląski S.A. in Katowice, Pomorski Bank Kredytowy S.A. in Szczecin, Bank Depozytowo-Kredytowy S.A. in Lublin, Powszechny Bank Kredytowy S.A. in Warsaw, Bank Przemysłowo-Handlowy S.A. in Cracow, Powszechny Bank Gospodarczy S.A. in Łódź, Wielkopolski Bank Kredytowy S.A. in Poznań. In 1993 Polski Bank Inwestycyjny S.A. with seat in Warsaw was the tenth bank separated from the Polish National Bank. Apart from the forenamed banks also foreign banks are now present on the Polish market. They usually operate as joint stock companies with total or partial contribution of foreign capital.

During the years 1989-1998 there was a dynamic growth of the bank sector. During these few years the number of banks grew rapidly. We now have approximately 80 banks operating on the Polish market, including over 20 foreign banks or with contribution of foreign capital and somewhere round 1,550 co-operative banks.

The Banking Law [5], in effect since February 1998, established formal foundations for the restructure of Polish banking. The reformed banking model ensures dualism in money management and competition between banks.

First of all, further development of the banking system in Poland requires its strengthening through consolidation, privatization and supplementary capital, defining the role of foreign capital in Polish banking and adaptation of norms regulating the functioning of the central bank and commercial banks to directives and recommendations of the European Union.

2. Package Offers of Selected Banks

The development of banking services was undoubtedly the effect of competition in conditions of liberalized circulation of money. It consisted in the appearance and very quick popularization of new bank services – improved forms of payment, profitable deposits, convenient forms of crediting. Under the pressure of competition the standard of banking services improved and the method of customer service changed.

More and more often banks adapt their basic products to customer requirements, modifying or improving them and simplifying them at the same time, in order to fill the market gap or accurately meet the customers' requirements. Many banks are beginning to create an offer, which is a response to the differentiated requirements of customers. A package of bank services is such an offer; in a way it constitutes a list of products, which allow the service of customers, especially the institutional ones, on a wide plane. More and more banks are starting to introduce package offers. Here are some of them:

“My Company” Package (Pakiet “Moja Firma”) in GBG S.A. Bank [6]

This is a package of products prepared bearing in mind the requirements of small companies. It ensures full and effective service because it contains: a current

account, debit balance, revolving credit within the account, payment card, advantageous purchase system.

The package is constructed in such a way so that its products complement each other, are of optional nature, which means that one may use it as a whole or use any part of it. Its main advantages are:

- limited formalities,
- quick access to sources of financing,
- favorable interest,
- preferential charges and commission.

The current account is used for accumulating monies and conducting both national and foreign cash and non-cash transactions. The GBG Bank provides efficient and effective management of means accumulated on the account. Possession of a current account in GBG Bank enables:

- effecting all payments in cash and non-cash form,
- effecting of regular payment orders,
- transfer of means from the current account to fixed deposit accounts,
- receipt of free bank statements confirming all the operations carried out,
- obtaining information on the account balance by telephone.

The debit balance is an advantageous form of financing current needs of conducted business activity. After 3 months' functioning of the account it is possible to give dispositions causing a debit up to 500 PLN and after 6 months up to 1,000 PLN.

Credit on the account is a source of financing current business activity. It allows the settlement of short-term current obligations and the financing of outstanding liabilities. In the event of irregular receipts on the account, it improves the financial liquidity of the company. It is renewable, whereas the current account receipts reduce the debit balance, thus reducing the cost of credit. Credit on the account is granted after using the account for 6 months. Its amount is determined individually, whereas its full or partial payment gives the possibility of its multiple use during the 12 months for which it is granted.

The Maestro payment card is also part of the package offer and offers the free disposal of means accumulated on the account at home and abroad.

BUSINESS PARTNER Account (Konto BIZNES PARTNER) in Bank PKO BP S.A. [7]

The BUSINESS PARTNER account is used for keeping monetary means and carrying out settlements in connection with conducted business or earning activity. Moreover, the account gives the possibility of:

- using the permissible debit balance,
- obtaining credit on the BUSINESS PARTNER account,

- receiving bank cards,
- making regular orders from the BUSINESS PARTNER account,
- putting in orders by telephone.

PKO BP SA in conjunction with the BUSINESS PARTNER account keeps fixed deposit accounts, grants loans, enables the taking of credit for investment projects and availing of other bank services offered to entrepreneurs. The BUSINESS PARTNER account is designed for economic subjects conducting business or earning activity on principles of simplified accounting, which in addition:

- settle their obligations with the tax authorities in the form of a tax card, recorded lump sum or a tax journal of receipts and expenditure,
- employ under 20 workers,
- derive annual income in the following sums:
 - under 400 thousand PLN - when settling their tax obligations in the form of a lump sum income tax or tax card,
 - up to 800 thousand EURO – when settling their tax obligations in the form of a tax journal of receipts and expenditure.

The holder of a BUSINESS PARTNER account has the possibility of receiving the following bank cards. PKO Eurocard/MasterCard Business, Gold EC/MC Business Card, Silver EC/MC Business Card, Business Partner PKO Card.

On the customer's application the PKO BP S.A. branch keeping the account may grant credit on the BUSINESS PARTNER account. Credit is granted to cover current obligations resulting from conducted business or earning activity. To obtain credit the account must be held for at least 3 months and the applicant must show credit-worthiness. The credit is renewable. The PKO BP S.A. Bank may grant credit for investment projects. This credit functions on the same conditions and the investment credit for holder of current accounts in PKO BP S.A. The Bank PKO BP S.A. may grant credit on application of the customer, who has been holding a BUSINESS PARTNER account for at least 3 months. Granting of the loan and its sum depends, among other things, from the incomings to the BUSINESS PARTNER account.

Offer of the BPH Bank. "Sesame Manager" Account (Konto "Sezam Menedżer") [8]

The BPH Bank has a wide package of products and services addressed to small companies. By small enterprise the Bank understands economic subjects that derive an annual income up to 10 million PLN and settle their tax obligations in the form of a tax card or lump sum tax, keep a book of receipts and expenditure or full accountancy.

The "Sesame Manager" Account is an account designed for customers of the small enterprise sector. It is a current account used for accumulating financial means of the account holder and effecting financial settlements on the score of conducted business activity and other activity not connected with business.

Account facilities include:

- obtaining information of the account balance by telephone,
- cheque book with open cheques and generally crossed cheques,
- BPH – Visa Business Card,
- BPH – EUROCARD/MASTERCARD Business Card,
- BPH – Macro Cash and Carry Card,
- the debit limit, that is the possibility of debiting the account up to a certain sum, depending on the account receipts. The limit cannot be smaller than 1 thousand PLN and higher than 25 thousand PLN. Each incoming sum to the account reduces or liquidates the debt and the limit can be used again. The limit is granted for a period up to six months with the possibility of being renewed.

Additional services connected with the account:

- administration of the account, that is effecting regular payments by Bank BPH on specified dates and in specified sums, as well as effecting other regular customer orders,
- automatic investment of means, which consists in the making of deposits by BPH Bank until the following day, provided that the means on the account, at the end of the working day are not smaller than 10 thousand PLN. The means are available on the current account at the beginning of the following working day,
- conveying by telefax urgent orders for remittance,
- EDI – BPH home banking, that is giving electronic instructions in the range of national and foreign settlements and an information service, among other things, provided by the Bank; as from July of this year we shall propose the giving of instructions through Internet.

Advantages:

- possibility of serving all types of settlements, including foreign settlements,
- possibility of debiting the account,
- connection with additional services and special facilities,
- possibility of choosing the form of account keeping.

Furthermore, the BPH Bank offers the possibility of managing free means or their surplus (standard deposits, INTRATA, “call” type account, non-standard deposits), it offers purchase and sale transactions of debenture bonds – the bonds may be sold to the bank at any time, thus meaning that the investment will be completed before the planned date without interest loss.

The BPH Bank proposes credits for business activity for sums and periods suited to individual needs, grants bank guarantees and together with the Bankowe Towarzystwo Leasingowe S.A. proposes complex service of leasing transactions.

Offer of Bank Śląski. "Profit" Account (Konto "Zysk")

[9]

The basic element of the offer is the PROFIT ACCOUNT. The holder of the PROFIT ACCOUNT may also avail of additional services which enter the package: PROFIT Deposit Account, Maestro Business Card (Premium or Standard), Standard Credit Line. Access to all elements of the package has been made easy thanks to electronic banking systems: HomeCash, BSKOnLine and HaloŚląski.

Therefore, the PROFIT ACCOUNT is a complex offer, which will ensure convenient and easy access to different bank services without unnecessary formalities. The PROFIT ACCOUNT may be opened by: natural persons conducting business activity, natural persons conducting a free profession, partners in a private partnership availing of simplified accounting forms i.e. settling their obligations towards the revenue office by means of a tax card, lump tax on recorded income or the tax journal of receipts and expenditure.

The PROFIT ACCOUNT ensures safety of carried out operations due to: modern safety systems of transactions made by using electronic banking services, limiting the maximum sum paid by cheque, possibility of immediate cheque and card restriction, possibility of immediate blocking of account. It also gives the possibility of:

- effecting non-cash payments in shops, which have been marked with the Maestro or Cirrus symbol at home and abroad, thanks to the debit Maestro Business cards,
- quick and safe access to cash through the wide network of Bank Śląski cash machines and cash dispensers of other banks all over the country,
- making transactions conveniently through the electronic banking system.

The PROFIT ACCOUNT is used for accumulating monetary means and allows cash and non-cash settlements to be made at home and abroad. It may be kept as:

- a current account,
- auxiliary account – if the current account is kept by a different branch of Bank Śląski or by a different bank,
- account of specified nature, for example for the company social welfare fund, for payment of generally crossed cheques.

PROFIT Deposit Account is used for depositing financial surplus. It guarantees higher interest than the current account and at the same time permanent access to the deposited money. It is opened exclusively on application of the current/auxiliary account Holder kept within the framework of the PROFIT ACCOUNT and it may be opened for an unlimited period of time. This account enables to effect any number of payments to and from the account, irrespective of their amount in non-cash form as transfers from or to the PROFIT ACCOUNT.

Bank Śląski offers two types of Maestro Business cards.

- Maestro Business Premium – a card designed for company owners or managerial staff, with the possibility of making of transactions of any amount within the means available on the account,

- Maestro Business Standard card designed for company workers. It is possible to define the limit of daily expenses with the card.

The Credit Line enables the financing of current company needs. It is granted for a period of 12 months and is of renewable nature. The time of considering the application for granting the Standard Credit Line has been reduced to minimum.

“Extrabusiness” Package (Pakiet “Ekstrabiznes”) of Kredyt Bank S.A.

The EXTRABUSINESS package is designed for customers, who conduct business/earning activity and who derived income from conducted business activity during the previous business year on a level not exceeding the equivalent in PLN of the value of 800,000 EURO, or are beginning to conduct such activity and make a declaration that the planned income from commenced business activity during the business year will not exceed the PLN equivalent of the sum 800,000 EURO.

Within the EXTRABUSINESS Package the Bank opens and holds bank accounts of:

- a) natural persons conducting business activity, which is subject to registration in the Business Activity Register, including partners in private partnerships,
- b) persons conducting liberal professions, including in particular: lawyers, notaries and legal advisers performing work without any relation of service dependence and for their own account, persons rendering medical services in the form of private practice (e.g. doctors, veterinarians, dentists, nurses),
- c) persons who derive income from conducting farming activity,
- d) commercial companies,
- e) non-public health service units.

The Bank has also prepared the following special offer:

- the EKSTRABIZNES MEDYK account – addressed to those persons who render medical services in the form of private practice and to non-public health service establishments,
- the EKSTRABIZNES LEX account – addressed to lawyers (attorneys, notaries and legal advisers) who performing work for their own account.
- Within the EKSTRABIZNES account one can have:
 - the permissible debit balance,
 - renewable credit limit within the EKSTRABIZNES account,
 - regular and single orders put in,
 - bank cards,
 - wide offer of fixed deposits,
 - the possibility of using Bank phone Tele KB and Home Banking system,

- the possibility of submitting orders for transfers in electronic form – KB transfer program,
- reporting by means of SMS,
- Free insurance against consequences of accidents within the country in TUwRiGŻ “Agropolisa” up to the sum of 10,000 PLN,
- free road assistance insurance “PZM – Assistance”.

Customers possessing the EKSTRABIZNES account have the possibility of opening auxiliary accounts kept in Polish currency and are used by their Holders to carry out specific money settlements. The good point of this product is the simplified account opening procedure. The account is kept within the framework of one agreement together with the EKSTRABIZNES account. Kredyt Bank S.A. offers to open and keep interest bearing EKSTRABIZNES account in USD and EUR.

Package addressed to small and medium companies by BRE Bank S.A. [10]

The BRE Bank offers a promotional service package to small and medium companies. The package for small and medium size companies was prepared on the basis of precise analysis of such companies and takes into consideration opinions and suggestions submitted by company owners in direct contact with the bank. It is addressed to firms which keep full accountancy and whose income from sales during the previous business year did not exceed the equivalent of 5 million USD.

The package includes basic BRE Bank products that are most often used by small and medium companies. This enables, among other things, quick access to credit within the current account, with procedure simplified to maximum, and to reduce bank service costs to a degree that can be felt. In the basic variant the Package includes a current account with progressive interest yield and the BRESOK – home banking type system or InterBRESOK banking through Internet, through which the majority of bank transactions can be carried out directly from the office. The Package also gives the possibility of having free sub-accounts, free transfers within the framework of the BRE Bank, low charges for making transfers to other banks. Furthermore, the Package gives the possibility of availing of the following services on preferential principles: cash payments in closed form, foreign exchange transactions; credit on current account, VISA Business and Eurocard/MasterCard Business cards.

Customer advantages:

- smaller total charge for keeping the account and for using the BRESOK system,
- smaller charge for keeping the auxiliary account in another bank branch,
- current account progressive interest yield,
- lower commission in case of using cash payments in closed form,
- possibility of individual negotiation of exchange rates for transactions with the equivalent of over 20 thousand EUR,

- simplified procedure of obtaining credit on the current account up to the sum of 100 thousand PLN secured only with a blank bill,
- Via Business and Eurocard/MasterCard Business cards at a smaller charge and without the necessity of blocking the guarantee sum.

3. Conclusion

The bank products introduced in their offer by banks, either by generating a new product, or by copying ideas which have already proved successful create a new situation on the market. Financing of ventures, economic development, circulation of goods – due to banks and their activity in favor of small companies – is becoming a very easy task to them. It has no meaning whether it is a one-man company or a company employing workers. Through financial facilities offered by banks, each company has a chance to develop; the decision whether it takes the chance or not, belongs to the company. Companies are no longer limited by their own capital but by using financial reserves put at their disposal by bank institutions, they are able to operate on the market generating profit, creating new places of employment, as well as working out their small but proportional share in the GNP, which is of considerable significance in the total scale of the country.

Abstract

Začátky změn polského bankovníctví byly výsledkem ekonomické reformy z roku 1982. Rok 1989, jenž přinesl jak strukturální, tak vlastnické změny, je pokládán za zvrátový bod ve vývoji polského bankovního systému. Tento vývoj je nepochybně výsledkem konkurence v podmínkách liberalizace pohybu peněz. Bankovní subjekty stále více přizpůsobují své produkty spotřebitelským požadavkům, modifikují nebo zvyšují jejich kvalitu a také zjednodušují jejich nabídku s cílem uspokojení spotřebitelské poptávky. Nabídkové pakety bankovních služeb umožňují rovněž uspokojení institucionálních zájemců v širokém měřítku.

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ESTABLISHMENT, PRIVATIZATION AND DEVELOPMENT STRATEGY OF BANK ŚLĄSKI S.A.

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Key words

banking system, changes in Polish banking, privatization of Bank Śląski S.A.

1. Introduction

System changes and the return to market economy brought about the need to conduct elementary changes in the bank system. A bank reform was carried out during the years 1988-1989. Its essence consisted in returning to ways of thinking and acting used universally throughout the world. The right to make independent decisions in their own matters was restored to banks, whereas generating profit became the basic objective of their activity. Within the framework of reform new state banks were established and conditions were created for the founding of private banks [1]. In spite of differences between established banks, they have one thing in common, which allows us to treat them as a collective body of similar subjects. This is the commercial attitude towards conducted activity. Irrespective of the name used, they are called commercial banks.

The notion of commercial banks derives from the word commercialism, that is the pursuit of maximum profit. The word “commercial” itself means activity aimed at profit, bringing in income, that is business, mercantile activity. Therefore, bank commercialism consist in dealing in money with the purpose of gaining profit.

In market economy commercialism is the driving force of initiative, resourcefulness and competition [1]. The basic condition for the commercial functioning of a bank is its full independence in making decisions, and this means real independence and not only declared as such.

And so, banks regained their independence in making decisions and elaborating their own strategy, this being a resultant of the basic role played by them, i.e. the role of intermediary between persons accumulating money on their bank accounts

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and those expressing the will to make use of their money for specific purposes. This independence consists in such management of assets and liabilities so as to derive maximum income whilst maintaining simultaneous payment liquidity, to an extent which ensures the bank's solvency.

Due to the excessive differences existing between banks during the period of centrally planned economy and the commercial banks, operating in market economy, transformation of these banks was not an easy matter. It was very difficult to get used to new surrounding conditions and needs. Also, quite frequently the same workers and managers remained working in the banks, with their way of thinking and reactions still in the previous epoch.

Just as in other branches of Polish economy privatization became the next step in banking system transformations. Privatization will, among other things, facilitate access to the capital market and due to new issuing operations will create the possibility of strengthening the bank capital. Furthermore, privatization will create the possibility of better control over the bank's activity, thus leading to its greater effectiveness, by maintaining its shareholders. The essence of the privatization process lies in entrusting property to legal entities or natural persons, who as owners will be interested in the effectiveness of entrusted assets. The structure and range of services rendered by these banks can be differ greatly. We are dealing with inter-bank competition, which allows customers to use the products of different banks; at the same time possibilities have been created for the establishment of new banks by legal entities and natural persons. All these reforms are aimed at favoring initiative, innovativeness in rendering services and responsibility for economic results.

Banking is usually a branch characterized by great competitiveness. In Poland competition between banks is continuously growing because more and more new banks are entering the market. Banks are competing between themselves for customers on the home and foreign markets, alike. In competition between banks great importance is attached to the efficiency and speed of customer service, but first of all to extending the range of bank services in order to satisfy all the customer needs in this area. Competition forces banks to raise the standard of their customer service and systematically improve working tools, whereas the dynamic growth of economic relations and international trade encourages them to extend their range of services.

2. Development of Bank Śląski S.A.

Bank Śląski was established by virtue of the order of the Council of Ministers dated 11th April, 1988, at the same time with 8 other banks isolated from the structure of the Polish National Bank. The period from May till the end of 1988 was designed for the organization of a new structure and preparation of each of its units to perform tasks according to the assumptions and requirements of the implemented bank reform. This mainly consisted in working out its own instructions and customer service procedures, making up the staff and training its members to an extent possible at the time.

Bank Śląski S.A began its independent legal existence on 1st February, 1989, after the Sejm resolved changes in the Banking Law Act. Thirty-six branches operating in the organization structure of the Polish National Bank, together with their bank

activity, places of residence and personnel, localized in the area of seven provinces entered into the composition of the bank. The moment the Bank was established it was supplied with own capital amounting to 37 milliard PLN. The Bank also obtained assurance that its independence within the limits determined by the banking law [2] would be acknowledged by the Polish National Bank and other authorities. The Bank has the status of a commercial bank, it has permission to conduct all sorts of banking activity inside the country and abroad.

The Bank was transformed into a sole shareholder company of the State Treasury on 18th October, 1991. At the same time preparations for privatization had been started. Transformation of Bank Śląski, a state-owned bank into a joint stock company, took place by virtue of a notarial deed dated 8th October, 1991, drawn up in the State Office of the Notary Public in Warsaw [3].

As a joint stock commercial company the bank had specifically determined authorities and competencies. Therefore, the legal situation and in consequence its management method changed radically. The State Treasury was the founder and co-owner of the bank, taking over all shares of the established company.

Privatization of Bank Śląski was an important element of transformation element in the Polish economic system and a step adapting the banking system to requirements of market economy. On 3rd September, 1993, the Securities Commission issued permission to introduce BSK S.A. shares to public trading. Within the framework of public subscription, the State Treasury, represented by the Minister of Finance, offered 2,789,000 shares for sale, which represented more or less 35 % of BSK S.A. shares. On 13th January, 1994, the Ministry of Finance signed a contract with a Dutch bank – International Nederlanden Group – ING for the sale of 2.4 million BSK S.A. shares, that is 25.9% of the share capital [4]. The concluded transaction was the first operation on such a scale of a foreign bank entering with capital. Bank Śląski S.A. obtained the possibility of availing itself of consulting services and professional support from the strategic investor ING Bank. On one hand, this partnership consisted in the co-operation and co-ordination of commercial activity, whereas on the other hand Bank Śląski profited from consulting services and gained modern bank technologies.

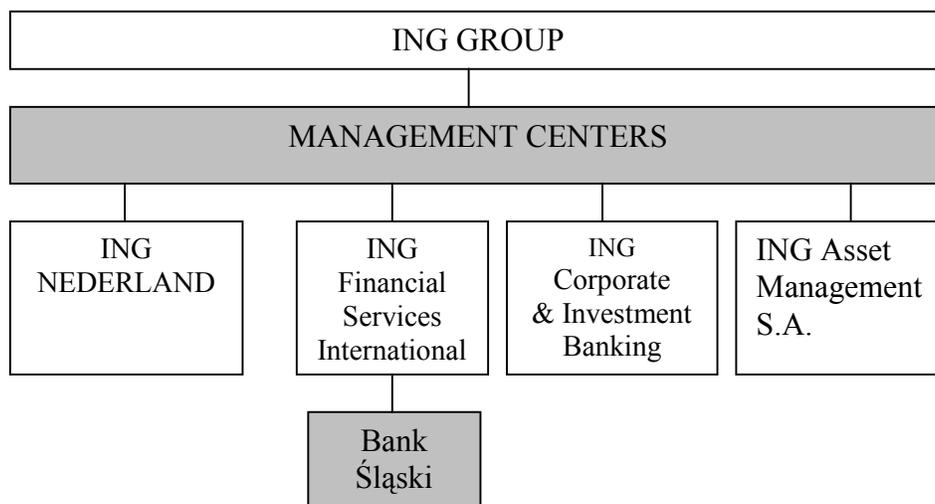
Bank Śląski S.A. during the realization of joint ventures availed of the knowledge and experience of many highly qualified ING workers, whereas a numerous group of Bank workers participated in training organized in ING establishments in Holland and in other countries. Within the framework of co-operation the following activities were conducted in the area of: improving planning methodology, implementing medium-term strategy, marketing and commercial activation, implementation and development of payment services, management of accounts belonging to economic subjects, establishing personnel and training policy, improving management techniques and financial administration, creating a credit policy, improving brokerage operations, improving internal control procedures, organizing a model branch of the Bank and development of insurance activity [5].

For the first time Bank shares were quoted on 25th January, 1994. It was then that the shares reached a record price of 675 PLN.

On 24th July, 1996, the ING Group bought 28.2% shares of Bank Śląski from the State Treasury. In result of this operation ING's share in the capital of Bank Śląski increased to 54.8 %. This transaction means that the privatization process of Bank

Śląski, being the first privatised bank in Poland, has been completed. This gives BSK S.A. the feeling of stable ownership structure and assurance of partnership, which permits vast independence of activity. Together with the strategic partner the reporting formulas within the ING group were unified, canvassing procedures and credit application analyses established. In its financial administration Bank Śląski will still put more emphasis on improving financial planning. Improvement of financial planning under ING supervision, in particular of medium and long-term planning, is to serve better control of costs and guarantee the harmonious development of Bank Śląski. Parallel development of commercial planning functions should in consequence give a coherent and effectively operating system of division of the budget in regions and branches. Co-operation with the ING group concerns nearly all types of Bank Śląski activity – from workplace evaluation policy, worker assessment, credit procedures through organization of sales services, organization of operating division, to last but not least, final shaping of retail activity development strategy. The position of Bank Śląski in the structure of ING Group has been shown in Figure 1.

Figure 1 - Position of BSK S.A. in the ING Group Structure



Source: Raport Roczny BSK S.A. w Katowicach 1997 r.

ING together with Bank Śląski established a fund management group ING BSK Asset Management possessing 50% of invested capital. At the end of 1996 the Company presented a service offer from the so called private banking group, that is management of funds belonging to individual, private, wealthy customers. Also another company was fully established by Bank Śląski – BSK Leasing - before starting its activity it co-operated very closely with ING Lease Polska. The product and service offer of these firms complements the offer of Bank Śląski. As we can see, the multilateral co-operation with ING Bank gives Bank Śląski a solid base for dynamic development.

On 20th January, 1997, Dom Maklerski Banku Śląskiego Spółka Akcyjna (Bank Śląski Brokerage House Joint Stock Company) was incorporated in the District Court of Katowice. In 1997 BSK S.A. isolated its brokerage activity by transferring it to a separate legal entity [7].

Availing of more efficient management methods Bank Śląski can offer services of very high quality, which are sold by other subjects of the group. By establishing new economic subjects, totally or partially owned by BSK S.A., indirectly it reaches with a new product offer to areas that are not so well managed when it comes to financial activity. The network of 36 branches inherited after NBP, mainly corporate ones, was extended to 212 at the end of 1998. During the period of the last two years over one hundred STAREO establishments have been founded - dense multi-regional network of standard retail branches. The STAREO branch, i.e. the standard retail branch, is a sales and consulting unit, whereas all back-up and supporting operations were separated and transferred to other Bank organization units [8] in 1999. The retail banking development strategy was prepared for the optimum fulfillment of requirements of individual customers and small companies, whereas the new network is characterized by: high quality of services, advanced equipment technology, favourable localization.

In 1998 the Bank also incurred considerable costs connected with development and centralization of computer systems. Due to full centralization and on-line settlement Bank Śląski offers to its customers access to the current account in any Bank branch in the country. Quick, fully electronic settlements between the Bank branches and branches of other banks operating in the ELIXIR system, a fully centralized cash machine system accepting VISA cards, access to the centralized electronic banking system. The now centralized computer-application platform allows us to offer modern products and services, such as: automated mass payment system offered to telecommunication, power industry and other corporate customers. The built telematic structure also enables the realization of numerous projects that serve the automation of routine bank operations on the central level, at the lowest unit costs [9].

The technological reorganization project (re-engineering) of Bank Śląski S.A. conducted in a systematic way has brought many significant benefits. They are closely correlated with adapting Bank Śląski to conditions of fierce competition on the bank market. Technological reorganization of the Bank has been complemented by changes in its organization structure. It has been assumed that the organization structure should reflect the dominating features of activity and functioning of particular organization units.

Fulfilling this assumption the Bank's Head Office was reorganized. Sections grouping several departments were acknowledged as forming the basic management structure. Each of the sections is directed by Bank Managers. The new Operational Section, singled out from its structure, which took over the management and full responsibility for the operating center of Bank Śląski, implementation of worker assessment system and modeling personnel development paths, establishment of an Organization Department as well as creation of a Consumer Credit Service Center was an important event.

Bank Śląski S.A. with its strong position on the market, and first of all ING support, basing on synergy of the retail and corporate market, has a place in the group of

large universal banks. It has a good opinion and the conviction prevails that it has a good chance for further dynamic development.

In conditions of continuously increasing competition on the market and growing customer requirements towards banks they are forced to take up marketing activity and work out an operating strategy.

In May 1998 the text of the strategy declaration of Bank Śląski was solemnly announced. Its basic assumptions are as follows: Bank Śląski S.A. as a universal bank, shall offer all wholesale and retail products, whereas different product packages and price levels shall be addressed to particular customer groups [9]. The Bank offers its services to economic subjects and individual customers. The key advantages of the Bank are its modern computer and clearance systems, high quality services offered through differentiated distribution channels, suited to customer expectations. [10]. The sale channels are: branches, money machines, telephone banking and middlemen. Customer consulting shall be applied with respect to corporate banking and to service of individual customers with high income (personal banking).

The superior objective of the credit policy of Bank Śląski S.A. is to ensure the right portfolio of credit engagement whilst maintaining all requirements of reliable and versatile risk assessment suited to the specific character of particular types of commitments [10]. This is possible due to the flexible shaping of the credit offer, which is adjusted to particular customer groups and continuously updated with new products.

In the field of corporate banking the Bank is developing market segmentation by adapting its product offer and distribution channels to particular groups of customers.

The development strategy of retail banking of Bank Śląski assumes the rendering of integrated financial services, perfecting tied sales and a conservative approach to risk. Customers should obtain access to the Bank's services 24 hours a day, 7 days a week.

Electronic banking is used to provide convenience to customers and pushing the transactions towards cheaper distribution channels.

Recent years have for Bank Śląski been the continuation of activities resulting from assumed development strategy. Quick development of the market, adjustment of the offer to customer requirements and improving the quality of rendered services through competition have stimulated the Bank to continuous work on improving the offer and building permanent relations with customers.

One of the main projects implemented in the year 2001 by Bank Śląski will be integration with the ING Branch in Warsaw. This will be of considerable importance for strengthening of the Bank's position on the market of financial services. Furthermore, another important event will be the starting of operational activity of Bank Śląski Hipoteczny. Moreover, in the year 2001 the Bank will continue implementing its development strategy, which assumes offering a full range of services to corporate and individual customers, by using different distribution channels [10].

In the year 2001 the Bank will continue developing its branch network. It has planned to open 28 new branches in areas with high potential. In order to provide suitable service to large economic subjects the Bank intends to start 5 new Corporate Banking Centers. The number of products offered by insurance agents of Nationale

Niederlanden will also be increased. At the same time, during development of the network, the Bank will be starting successive electronic channels of bank service distribution. In March 2001 the Bank put an Internet banking system into operation.

In the retail area the Bank will be improving the existing product and distribution policy in 2001. In particular, works will be performed in the direction of: market and customer orientated offer, bigger segmentation of the market, new ROR offer conception, use of new technologies and NN Agents network, simplification of product structure and existing service procedures.

In the field of corporate banking in 2001 the Bank will introduce a Profit product package (Zysk) for small and medium size companies and will extend the offer on exporters in the range of export dues discount.

In 2001 Bank Śląski intends to introduce new services: Euro Navigator MT 101/MT 940 which enables customers to manage their accounts kept by the Bank from abroad.

3. Conclusion

The basic objective of Bank Śląski resulting from its strategy is to develop and strengthen its position in the Polish bank sector by providing integrated financial services and maintaining the customer orientated nature of the bank. Co-operation with the ING Group, use of modern technology, development of distribution channels and rendering of high quality services are the factors which support the achievement of planned objectives.

In conditions of great competition between banks the systematically improved product offer, expansion of the branch network as well as efficient and friendly customer service guarantees the achievement of success.

Abstract

Změny systému a návrat k tržnímu hospodářství s sebou přinesl potřebu provést základní změny v bankovním systému. Reforma bankovníctví proběhla v letech 1988-1989. V čele polského bankovníctví stála Polská národní banka jako centrální státní banka, z které bylo vyčleněno 9 státních bank. Tyto banky byly přetransformovány v ryzí akciové společnosti ve vlastnictví státu a působí jako nezávislé, samofinancující se společnosti, které obchodují s finančními zdroji, přidělují úvěry a provádí finanční úhrady. Tyto banky byly založeny formou největších provozních poboček Polské národní banky a začaly působit bez jakýchkoliv subjektivních, objektivních nebo teritoriálních omezení. Do této skupiny bank patří také Bank Śląski S.A. v Katowicích. Privatizace Bank Śląski byla významným prvkem v transformaci polského ekonomického systému a důležitým krokem v přizpůsobování bankovního systému požadavkům tržního hospodářství. Využíváním více účinných metod manažerských postupů Bank Śląski může nabídnout služby ve velmi vysoké kvalitě. Základním cílem

strategie Bank Śląski je rozvoj a posílení její pozice v polském bankovním sektoru poskytováním integrovaných finančních služeb a udržováním orientace banky na zákazníka.

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PRIVATIZATION - SELECTED EMPIRICAL STUDIES ON PRIVATIZATION¹

Lumír Kulháněk

Key Words

privatization, ownership, banks in transition countries, banking sector, economics of transition

1. Introduction

Privatization is one of the key elements of transformation from command into market economies. The topic of the conference “Privatization of the banking sector” offers an opportunity to summarize existing general knowledge on privatization as in the world generally, so in the transition countries of Central and Eastern Europe. For an extensive empirical research including also the questions of transformation and privatization of the bank sector has been realized, we consider relevant to summarize the main conclusions of the selected empirical studies on privatization and to compare them with the reality of the Czech bank sector.

2. Purposes of Privatization

Privatization has been instrumental in reducing state ownership in many countries. Since 1989 attention has been paid, above all, to privatization programs in transition countries. However, extensive privatization programs were realized in developed and also developing countries before 1989. Despite the fact that privatization programs are usually associated with Margaret Thatcher’s conservative government, Megginson and Netter (1998) pounce that the first extensive privatization program as the case may be denationalize program of the post-war era was launched in the Federal Republic of Germany by the government of K. Adenauer.² A few non-European governments did pursue privatization during the 1965-1979 period, in particular, the

¹ The contribution was originated within the frame of the project supported by Grant agency of the Czech Republic No. 402/00/0312 „Comparison of the Banking Sector Development in the World and in the Czech Republic in the 90’s“.

² In 1961, the German government sold a majority stake in Volkswagen in a public share offering heavily weighted in favor of small investors. In 1965, the government launched an even larger offering for shares in VEBA.

Pinochet government in Chile.³ In the U.K. during the Conservative administration of Margaret Thatcher (1979-90) and John Major (1990-97) large-scale privatization of many public enterprises took place. By 1998 only a few public enterprises remained.⁴

The trend in developing countries is considerably differentiated. A different trend may be for example noticed in the 70's and 90's.⁵ Considerable differences also exist among individual continents and regions. One region, which has embraced privatization with enthusiasm, is Latin America; two Asian countries deserve special attention, since they are already the world's second and fifth largest economies on a purchasing-power-parity basis (Meggison and Netter, 1998). Privatization in sub-Saharan Africa has been something of a stealth economic policy. Few governments have openly adopted an explicit state-owned enterprises divestment strategy. The situation in this region, however, requires a detailed analysis⁶ over-exceeding the submission frame.

The targets of privatization in transition economies are similar to the targets of privatization in other countries.⁷ Meggison, Nash and van Randenborgh (1994), the same as Price Waterhouse (1989) define them as follows: 1. raise revenue for the state, 2. promote increased efficiency, 3. reduce government interference in the economy, 4. promote wider share ownership, 5. provide the opportunity to introduce competition, and 6. expose state-owned enterprises to market discipline.

Within an application on privatization of the bank sector in the Czech Republic the entire targets 1 and 3 forefront. If we take into account privatization through sale of stocks to a foreign partner a requirement for efficiency, pertinently retention or increase of competition in the bank sector has its significance. By contrast we do not consider targets 4 and 6 in connection with the present Czech bank sector privatization to be relevant.

3. Bank Sector and Studies on Privatization

In foreign literature relatively extensive attention is paid to the bank sector and to privatization in transition economies. The general view is that banking systems and stock markets in transition economies are vastly undersized, and that banks are not

³ The Chilean privatisation programs are described and assessed in Yotopoulos (1989).

⁴ During 1979-83, only companies which were already listed on the stock exchange or which operated in competitive markets were privatised. During 1983-87 the privatisation of major utilities began with the privatisation of British Telecom, then the world's largest public offer for sale. During 1992-97 involved the privatisation of companies previously thought to be unsaleable (British Coal, British Energy and the Rail Industry).

⁵ In the developing countries, these programs have been actively promoted by international organizations, notably the United States Agency for International Development and the World Bank, the latter making some of its structural adjustment loans conditional upon the implementation of privatisation operations (Bouin, 1992).

⁶ Bennell (1997) shows that there has been substantially more privatization in the region than is commonly believed.

⁷ This piece of knowledge is stated also for privatization in Russian Federation (Perevalov, Gimadi and Dobrodey, 2001).

sufficiently robust.⁸ Commander, Dutz and Stern (1999) note (the fact), that privatization has proceeded more slowly for banks than for firms. It has been held back by a combination of factors, including the scale of bad debts in portfolios of state banks, opposition by vested interests, and lack of clarity regarding laws and oversight. In the Czech Republic investment fund's accumulation of significant holdings in privatized banks appears to have exerted little beneficial influence on governance.⁹ Farther East privatization have generally been led by incumbent bank managers, who have successfully exploited the government's inability to organize an orderly transfer of ownership rights.

Berglof and Roland (1998), Meyendorff and Snyder (1997), Perotti (1993), Verbrugge, Megginson and Lee (1998) and Megginson and Netter (1998) paid, in their research works, attention to special problems of banks in transition countries in the 90's. In these studies a problem of soft budget constraints in transition economies a "transactional structures" of banking privatization¹⁰ in central and Eastern Europe is analyzed. Soft budget constraints arise endogenously due to the government's lack of credibility regarding liquidating a project rather than refinancing it. That is why it is also necessary to ensure meeting the principles included in the Insolvency and compensation law. Banks must also be an important player in determining the scale and pace of enterprise restructuring. In addition to providing financing, banks play a critical monitoring role. They are thus an important link in enforcing hard budget constraints and improving corporate governance.¹¹

For as much as no privatization method itself brings (except sale to a foreign owner) new capital and know-how, the bank sector in transition economies stays, for a relatively long time, weak and non-competitive. From this point of view it is also possible to evaluate the bank sector privatization in the CR at the present period. Other economists show that banks have a strong, perverse incentive to fund former debtors, although state-owned enterprises are less efficient and more risky than private firms. Perotti (1993) for example recommends liquidation of non-effective companies and their debts. This will allow a release of bank financial means and their transfer for financing dynamic private companies in transition economies.

Nowadays abroad a large attention is paid to the question concerning influence of privatization on financial and operating performance of commercial banks in transition countries. For example Estrin (1966) analyzed the impact of privatization on company behavior on general level and on the level of companies. In the summary he

⁸ Not only Begg (1996) presents this generalizing view in connection with monetary policy of transition economies, but also for example Wyplosz (1999) when evaluating 10 years of transformation on the macroeconomic front at The Annual World Bank Conference on Development Economics in 1999.

⁹ Dispersed ownership of the investment funds is partly to blame, leading to an incentive problem involving the behavior of managers of both funds and the banks.

¹⁰ They consist of three elements: 1. Antecedent actions that determine the characteristics of the unit being privatised, 2. ownership transfer and governance after privatisation, 3. follow-on actions and ongoing government intervention.

¹¹ Although concentrated ownership of banks is generally preferable to dispersed ownership, several important caveats have emerged from experience with privatisation. Where bank shareholders are also bank borrowers, there is a risk of perpetuating connected lending. Continuation of such lending will hurt efforts to restructure and improve corporate governance.

predicted that privately owned firms should perform better than state owned ones in terms of productivity. He also summarized results from a series of World Bank sponsored projects covering the Visgrad countries plus Russia. Verbrugge et al. (1998) indicates, thought at a very tentative stage, that privatization yields performance improvements for banks comparable to that observed for non-financial corporations,¹² and that both the short and long-run return to investors in share issue privatization seems to be significantly positive.

Because different privatization methods are used during privatization their possible influence on the future behavior of the privatized companies was also surveyed. For the Czech Republic Marcincin and van Wijnbergen (1997) carried out a research concerning the consequences of the different Czech privatization methods on the company efficiency. They reached the conclusion, that the observed difference between fully voucherised and partly voucherised companies is always lower than true. The results also suggest that comparisons between companies privatized by different privatization methods do suffer from selection bias. An independent analysis concerning the privatization of the Czech banks has not been realized so far.

4. Conclusion

Nowadays in the Czech Republic there operate altogether 39 banks¹³, from that 12 banks mostly with a Czech ownership interest, 16 banks mostly with a foreign ownership interest, 10 branches of foreign banks, and 1 bank in forced administration. On 1 September 2001 the Czech consolidation agency, which is not a bank, overtook the liabilities of the former financial institution Consolidation bank Prague, s.p.ú. It is a body corporate established according to a special act, which manages the state property.¹⁴ Its aim is to accomplish all activities and deals undertaken from the Consolidation bank Prague.

In the course of the voucher privatization in the 90's the Czech bank sector was also partially privatized. The most important feature of the Czech mass privatization program was the active participation of banks and insurance companies in the program - by establishing some of the largest investment funds and encouraging the citizens to entrust them with their voucher books. Banks succeeded in extending their influence over the enterprise sector as owners, thus going far beyond their former status as creditors. Interestingly, banks and insurance companies were being privatized in the same process as their investment funds or unit trusts were engaged in bidding for shares of companies in the privatization scheme. The net result was an extensive web of cross-ownership between financial institutions, investment companies, privatization investment funds and unit trusts, raising concerns about a financial oligarchy controlling a considerable part of the economy.

¹² It is possible to agree with Verbrugge et. al. (1998), that unfortunately, the difficulty of generating a large sample of internationally comparable banking privatisations seriously hinders research on this topic.

¹³ Status on 30 September 2001.

¹⁴ According to § 1 par. 3 regulation no. 239/2001 of col., about the Czech consolidation agency, the state is liable for Agency's liabilities.

The privatization of the state shares in the biggest Czech banks¹⁵ was then realized in the years 1999-2001 mainly through sale to foreign investors. Through the sale the government have raised significant revenues. While maximizing revenues by setting high offering prices for SOEs is important to government, banks trade this objective off in favor of targeting sales to preferred buyers in direct sales and allocating shares to investors in share offerings. The privatization in the bank sector also contributed to the development of the national stock market and corporate governance systems in banking sector in the Czech Republic.

Abstract

V zahraničí je otázce privatizace v tranzitivních ekonomikách věnována relativně velká pozornost. V této souvislosti již bylo vypracováno mnoho empirických studií, které postihují také problematiku bankovního sektoru a jeho privatizace. Cíle privatizace v tranzitivních ekonomikách při jejich transformaci na ekonomiky tržní jsou v zásadě shodné s cíli privatizace státem vlastněných podniků ve vyspělých ekonomikách. Publikované studie o privatizaci bankovního sektoru v tranzitivních ekonomikách věnují pozornost i některým speciálním problémům bankovníctví. V tomto příspěvku je podán přehled vybraných empirických studií k těmto tématům a hlavní závěry, ke kterým jejich autoři dospěli, ať již z hlediska metod privatizace, měkkého rozpočtového omezení či vlivu na výkonnost a efektivnost privatizovaných subjektů.

V průběhu kupónové privatizace byl v 90. letech částečně privatizován také český bankovní sektor. Privatizace státních podílů v největších českých bankách pak byla realizována v letech 1999-2001, především formou prodeje zahraničním investorům (bankám). K 30. září 2001 působilo v České republice celkem 39 bank, z toho 12 bank převážně s českou majetkovou účastí, 16 bank s převážně zahraniční majetkovou účastí, 10 poboček zahraničních bank a 1 banka v nucené správě. Závazky dřívějšího státního peněžního ústavu Konsolidační banka Praha převzala k 1. 9. 2001 Česká konsolidační agentura, která není bankou, nýbrž právníckou osobou zřízenou podle speciálního zákona. Privatizace v bankovním sektoru vedla nejen k přeměně státního vlastnictví, ale přispěla také k rozvoji národního kapitálového trhu a k zdokonalení systému řízení firem, včetně bank v České republice.

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¹⁵ Number of banks with the state interest by 31 December 1998 was 5 banks, by 30 July 2001 then 4 banks. The data are updated by Czech national bank quarterly at the latest in two months after the relevant quarter termination (See : http://www.cnb.cz/_bd/pdf/c_met_bd_06_2001.pdf, and http://www.cnb.cz/_bd/pdf/c_bd_06_2001.pdf).

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THE PROCESSES OF PRIVATIZATION AND ECONOMY TRANSFORMATION IN RUSSIA

Eudmila Lipková

Key words

instability, total economic downturn, GDP, hyperinflation, financial crisis, liquidity shortage, sub capitalization, foreign resources, foreign direct investments, foreign debt, illegal capital exports, business environment, economic stabilization, oil prices, privatization revenues

The economy of modern Russia has begun its transformation in the latter 80's, when Mikhail Gorbachev launched the "perestroika" program in former Soviet Union. Social and economic reforms had a continuous character. The acceleration of the economic transition process became blatant in 1992, when the Soviet regime collapsed and 15 independent states appeared. In Russia, forerunners of the so-called shock therapy, the liberals respectively, took the power.

Russia is a country with largest surface in the world – 17,075 mil. Square kilometers, spreading over 12% of planet's soil. Number of residents reaches 146 million. As for the GDP, it consists of agriculture – 7%, industry – 39% and services – 54%. Unemployment rate represents approx. 13%. In the beginning of the new century Russian GDP is 2.400 USD per capita, or 470 billion dollars, with a black economy breakdown of 43% of the official economy. The minimum income is 35 US dollars. Poverty increase is a long term tendency, in 1995 approx. 11% of Russians lived below the level of poverty, in 1997 it was already 15% and in 1999 almost 30%. The level of poverty represents a half and less of the minimum income.

During the whole decade of the 90's Russian economy showed recession or turmoil respectively (in 1994 a GDP decrease of 13%, in 1995 4,0%, 1996 – 5% and in 1998 another 5%). Inflation rate was close to hyperinflation (1994 - 215%, 1995 – 131%, 1996 – 22%, 1998 – 85%, and finally in 2000 – 16%). It is assumed in 2001 the inflation rate should not exceed 20%.

After a decade of turmoil Russian economy has shown the first signs of macroeconomic stabilization, which is inevitable assumption of an economic growth.

GDP growth was first observed in 1999 (3,2%). In 2000 it was 2% and in 2001 Russian economists expect GDP to reach 4,8 %. Russian Prime minister, Mikhail Kasyanov, has positively evaluated the performance of industrial growth, although he's concerned with its structure. The growth of mining and processing branches is significant, while the share of the so-called sophisticated spheres of industry is retarded. The actual growth is largely stimulated by record-high oil prizes on the world markets.

During next two decades Russia plans to triple its economy, which represents approx. 6% on the annual basis.

Failures in the transformation process led to a deep financial crisis, that broke out in August 1998. It had been caused by a couple of factors:

- Permanent state budget deficit leading to a debt payment crisis.
- Banking system crisis due to unbalance between the assets and liabilities denominated in various currencies. Moreover, it was a substantial amount of money banks invested into bonds that state showed reluctant to pay off on time.
- Capital market crisis demonstrated Russia's dependence on short-term investments and American dollar's role as local main asset currency.
- Constantly deteriorating standing of real economy.

The principal reason of financial crisis is an enormous shortage of liquidity in the sector of real economy. It is not a state budget deficit. According to official statistics from 75 to 85 per cent of all contracts is made without financial means used as payment instrument. They're paid off by barters, secondary payment-disability count-ins or with money substitutes. That is why tax revenues are limited – profit is a difference between receivables and liabilities. It is very probable that the budget revenues would rise if liquidity shortages were abolished.

This issue is considered the main reason for economy stabilizing efforts in Russia. There's always the lack of money for the prize level at persisting volume of production and the velocity of money circulation.

During the reform process money offer has sharply decreased in the country. The relation of M2 aggregate (mass of circulating money) does not correspond to the GDP volume when compared to stabilized economies. Secondary payment disability and money substitutes seem to be the consequence of money shortage in the economy.

Another factor contributing to Russia's economy's instability from the beginning of the 90's till today is the illegal capital (black money) export. It is estimated that in 1994 approx. 7 billion USD were exported from Russia, in 1995 it was almost USD 15 billion, 18 billion in 1997 and in the year 2000 the illegal export of capital from the country represented 24 billion US dollars.

In this decade, the privatization process in Russia goes on as well. The government expects some 600 million USD in 2001 and in 2002, from the privatization of roughly 300 enterprises another 614 million USD should flow into Russian economy.

In 2000 the government has adopted a stabilization program focused on setting a legal base and a favorable climate for business and investments development. Russia's urgent need today is a privatization act that would exclude the option of national requisitions and that would settle property ownership.

Urgent are the acts enabling purchase and sale of estates and soil, the creation of generally functioning market competition, the abolition of all administrative restrictions of free capital, goods and labor movement.

Providing the government manages to realize all liberalizing principles, in the maximum of 4 years, e.g. till 2005, those measures taken should be fruitful. The program is a part of decennial industrial strategy counting on 5 per cent annual GDP growth.

Russian economy is sub-capitalized like the economies of other CEE countries, that is why the government makes all effort to attract foreign investors. Many of those are though concerned with repetition of interrupted privatization cases; others are repelled by bureaucracy or simply by disorder. Due to cultural customs and frequent arguments with local partners many investors prefer green-field investments. Many of them remain present just not to lose their market shares or not to miss the breaking moment.

Conclusion

From the latter 80's Russia's economy has been submitted to a transformation from the centrally planned system to the market economy. This transition has been very dramatic.

In the beginning of the 90's the economy was in a deep crisis, accompanied with hyperinflation and a total decrease of industrial production and GDP. In 1998, the Russian economy suffered of another financial crisis, which led to a strong devaluation of the Rubble. This devaluation and high oil prices had a major impact on the economic recovering. In 2000, the annual GDP growth was 8%. Continuous development is only possible with the participation of foreign investors. In 2001 Russia's government adopted a lot of motivating measures to support domestic and foreign investors, especially in the area of profit and income taxation. It can be assumed that in future Russia's economy will further stabilize and flourish.

Abstract

Nestabilita ruskej ekonomiky od začiatku 90-tych rokov 20. storočia – absolútny pokles HDP - hyperinflácia - finančná kríza koncom 90-tych rokov – nedostatok likvidity – podkapitalizovanie – potreba zahraničných zdrojov rastu – priame zahraničné investície – zahraničná zadlženosť ruskej ekonomiky – nelegálny vývoz kapitálu (špinavých peňazí z Ruska) – nepriaznivé podnikateľské prostredie pre domácich i zahraničných investorov – stabilizácia ekonomiky začiatkom nového desaťročia – vysoké ceny ropy – hospodársky rast – príjmy z privatizácie.

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TERRITORIAL STRUCTURE OF PRIVATIZATION IN THE WORLD IN 1977 - 1997

Stanislav Matuszek

Milan Třaskalík

Key words

privatization, sales and revenues from privatization, methods of privatization

1. Introduction

In the period 1977-1997, more than 1850 large-scale privatization were carried out in the world, bringing government revenues of over USD 750 billions. The process grew exponentially, both in terms of number of transactions and of revenue (Fig. 1). These privatization processes involved more than 100 countries, and all sectors in which state-owned enterprises traditionally operate.

A number of recent studies have testified to the benefits of private as opposed to state ownership of firms. One group of research studies compares private and state firms in the same line of activity, such as air transport or railroads, and finds the former to be more efficient. A second group of research studies reveals the improvements in a given company's operations following privatization. A third group of these studies documents the lower cost of contracting public services to private suppliers than providing it publicly. This research confirms the greater efficiency of private ownership.

However, it is less clear from the mentioned research studies how private ownership leads to greater efficiency. Commonly accepted view is that private owners have stronger incentives than government appointees to maximize profits because they own equity and so bear the financial consequences of their decisions. Empirically, however, the case for incentives as the reason for greater efficiency of private ownership has not yet been established. Manager of state firms are selected for their ability to get along with politicians, address political concerns, and lobby for assistance. In contrast, managers of private firms are selected for their ability to run them efficiently.

2. History

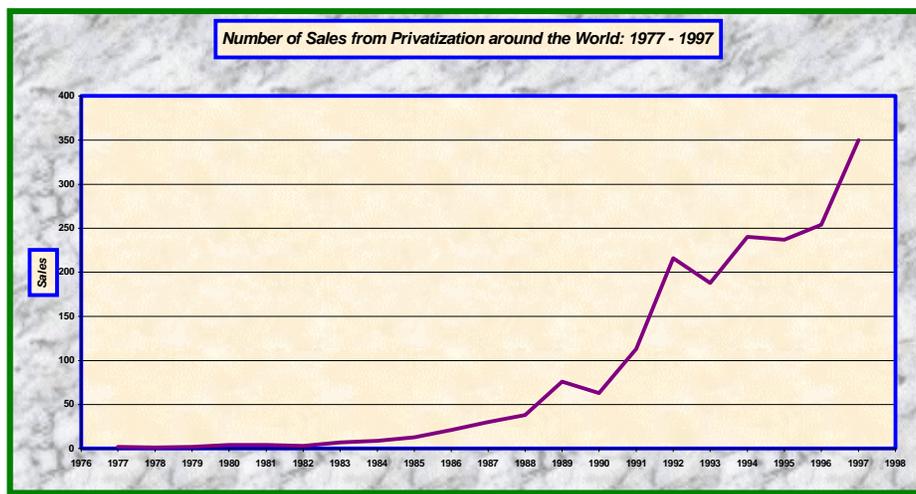
One of the first big privatization, in modern times, was undertaken by the Adenauer government in the Federal Republic of Germany. In 1961, the German

government, on the basis of an explicit policy of denationalization of the economy, sold a majority stake in Volkswagen through a public offering, mainly to small investors. This privatization was followed by the sale of Veba shares in 1965.

The largest-scale privatization program was accomplished in the Great Britain of Margaret Thatcher's conservative government. State owned enterprises activity in terms of value added as a percentage of GDP decreased from 6,1 in 1978 to 1,9 in 1991 (World Bank, 1995). Thereafter, the privatization processes spread around countries and continents.

The greatest number of sales, according to privatization data by geographic areas, were performed in Western Europe, followed by Central and Eastern Europe and former Soviet Union, Latin America and Asia (Fig. 2). The analysis of revenues confirms that Western Europe, over the 20-year period, accounted for 50 % of global revenues, followed by Asia (22%) and Latin America (13%) (Fig. 3). The comparison of number of sales and revenue offers interesting insight. For instance, privatization in Eastern Europe and the former Soviet Union, similar as in Africa and the Middle East, were numerous, but minor in size. The opposite occurred in Asia.

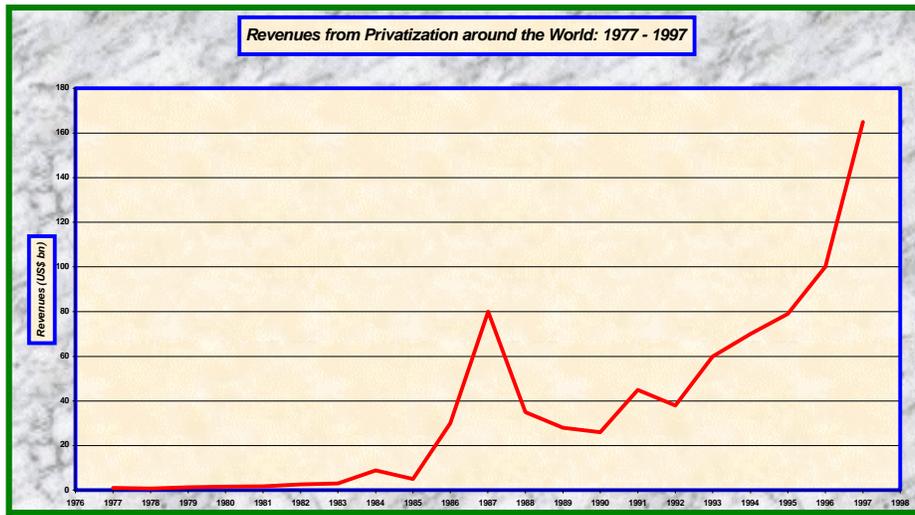
Figure 1 – Number of Sales from Privatization around the World: 1977-1997



Source: Privatization International Database.

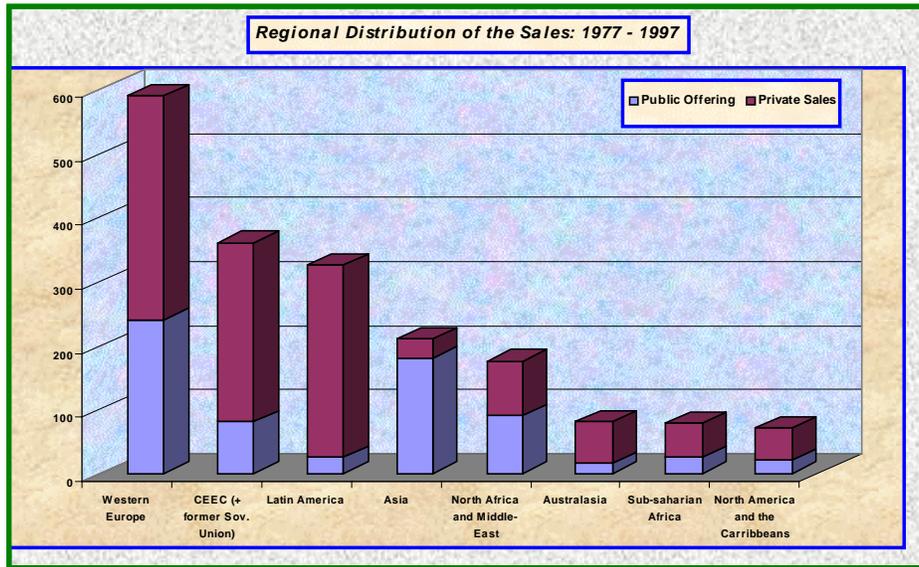
The data on the privatization methods are also surprising. In almost all areas, including Western Europe, direct sale accounts for the majority cases. The choice to privatize on public equity markets, however, regards the sales of greater size, greatly increasing the weight of public offerings in terms of revenues. The breakdown by industry shows that almost no sector was left out of the privatization process. The greater part of revenues came from utilities, industrial products and energy (Fig. 4).

Figure 2 – Revenues from Privatization around the World: 1977-1997



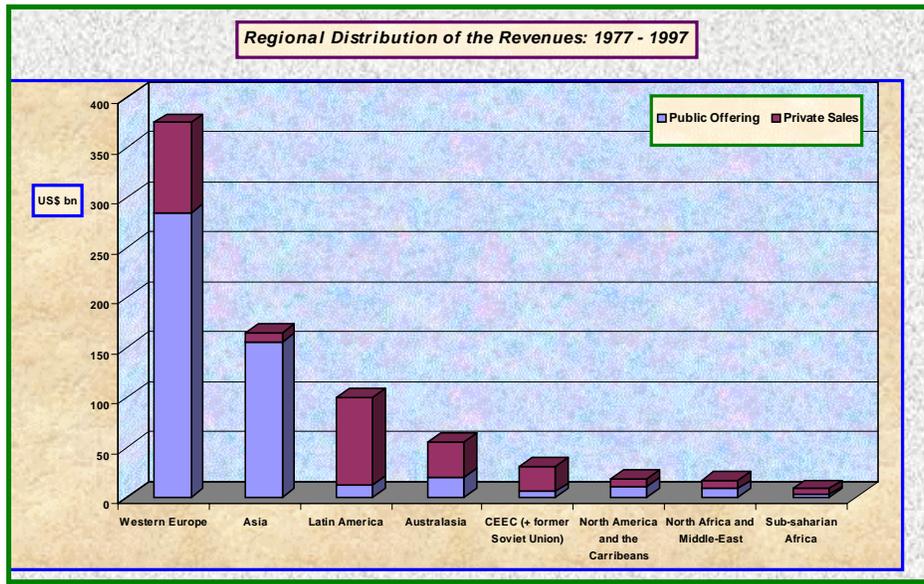
Source: Privatization International Database.

Figure 3 – Regional Distribution of the Sales: 1977-1997



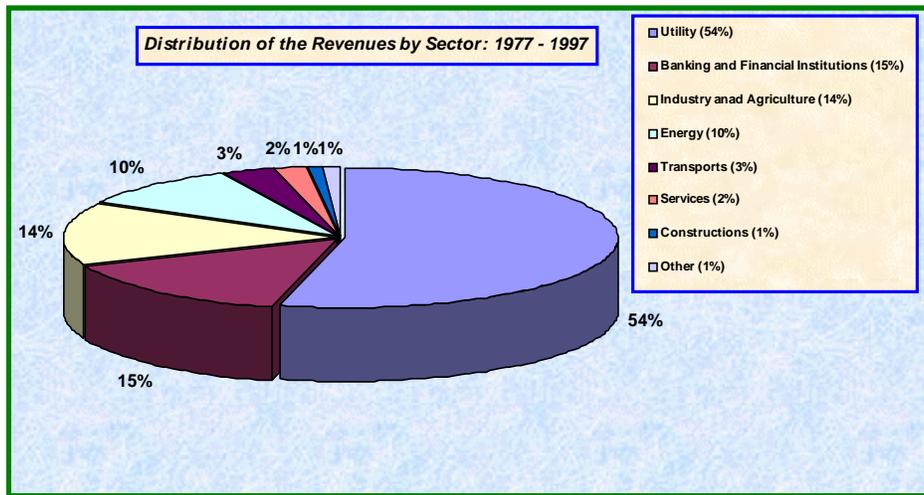
Source: Privatization International Database.

Figure 4 – Regional Distribution of the Revenues: 1977-1997



Source: Privatization International Database.

Figure 5 – Distribution of the Revenue by Sector: 1977-1997



Source: Privatization International Database.

3. Why Do the Extent, Size, and Quality of Privatization Differ Substantially in a Cross-Country Comparison?

There are several important questions concerning privatization phenomenon. Why do some countries accomplish large-scale privatization programs? How do governments privatize? Why do some governments privatize big stakes in state-owned enterprises, while others stick to partial privatization? Why do some governments choose public equity markets to divest companies, and others choose private sales to strategic investors?

We try to answer to these questions only very shortly with regards to the purpose of this article. To answer these questions it is necessary to define two terms: the quantity and the quality of privatization. The quantity of privatization in a given country is defined in terms of number of sales relative to the number of domestic listed firms and in terms of revenues per capita. The quality of privatization can be defined in terms of the percentage of share sold and in terms of public offers as a percentage of total sales. As for the quantity, the factors that may trigger the privatization process is examined, trying to explain why some countries have privatized more extensively than others. As for quality, possible explanations for the persistence of partial privatization are looked for. The reasons underlying the choice of privatization methods are also identified.

It is clear that privatization has strong political underpinnings. Right-wing governments are more prone to privatize. A rationale for this preference is the creation of a middle class of small capitalists more inclined (as shareholders) to support market oriented policies and to vote with the right in future.

The empirical testing of the theories is based on a data that refers to a sample of 49 countries for the period 1977-1997.

4. The Quantity and Quality of Privatization

For measuring the quantity are used two variables. The first variable is sales that looks at the number of public offers and private sales, scaled by the number of domestic listed firms. The second variable is revenues that is based on the total proceeds from those sales in USD billions in 1996 per country, scaled by the population. The number of sales relative to domestic firms measures the extent of privatization and shows the willingness of incumbent governments to privatize the economy. For this reason it is important to use privatization transactions and not privatized firms as the unit of analysis. The fact that a firm is sold in multiple branches is important information about the extent of privatization, since bigger firms are typically sold in a sequence of issues.

The quantity indicators are useful in providing a first measure of the willingness of governments to privatize and of the economic impact of one country's privatization. But by focusing only on quantity, some interesting questions concerning privatization remain unexplained. For example, did ownership change hands? Or, was the auctioning of public enterprises designed to modify prevailing ownership structures?

For addressing these questions, we it is necessary to apply the quality indicator to the country's privatization. Quality is also defined by two variables – the country average of the cumulative privatized stock and the ratio between public offerings and total sales per country. The first variable is a weighted average constructed at the firm level.

The second quality measure, the proportion of public offerings against total sales captures a fundamental feature of privatization, namely the commitment by the government to consider security markets as a primary source of equity. On the contrary, public sales bypass the security markets, allocating the shares to institutional investors. Political control is, in this case, replaced by private concentrated ownership.

The aggregate data on privatization processes are presented in Table 1. Countries are ranked by GNP per capita and classified into two broad categories – developed and developing countries. Switzerland, Hong Kong, Uruguay, Jordan, Ecuador and Zimbabwe never implemented a major privatization during the examined period. Only the first two countries of this list are developed countries.

As to the number of sales, the developed countries average is 25,42, while the corresponding average for developing countries is 16,12. With 148 operations, the UK leads the ranking, accounting for 14,61 % of total sales. European countries appear particularly involved in divestiture: Austria, Germany, Italy, France and Portugal have implemented from 28 to 48 privatization. Other wealthy economies, Australia, Canada and Israel, present similar figures, with an average of 38 sales. Within the developing countries sample, Turkey leads the ranking with 53 operations, and some Latin America countries (for instance Argentina, Peru, Brazil and Mexico) have a great bearing on the number of sales. Also some African countries are noteworthy, with Egypt and Nigeria boasting 40 and 19 major privatization, respectively.

The stage of economic development does not appear to be a critical determinant of the extent of privatization, when judged by sales. A more exhaustive picture will emerge by looking at revenues. The average total revenues for developed countries is appr. 18,1 USD billion, and 3,4 USD billion for less wealthy economies. In some cases, the data on revenues confirm the previous results. The UK are once again first, and the USA is second last (before Nigeria) in terms of privatization proceeds. Developed countries, such as France, Germany, Italy and Australia, have also raised substantial revenues from the sales. A higher number of sales is also correlated to higher proceeds in some developing countries such as Mexico and Argentina. However, it is also interesting to note that the opposite is true for developed countries, such as Portugal, Israel, Canada and Australia, and developing countries (i.e. Peru, Brazil, Egypt and Turkey).

The quantity of privatization could be determined by the size of the economy. The number of sales and the total revenues are scaled by the number of domestic listed firms and by the population.

Comparing aggregate and per capita revenues shows that the difference between the two groups magnifies. Developed countries report approximately 747 USD of average per capita revenues, while developing countries only 80 USD.

Table 1 - Privatization around the world

DEVELOPED COUNTRIES					
Country	Total sales	SALES	Total revenues ¹	REVENUES	PO ² /sales
Australia	34	2,87	22311	1262,32	0,29
Austria	28	30,98	459	585,01	0,71
Belgium	9	4,95	4844	479,36	0,11
Canada	44	3,94	13351	474,87	0,48
Denmark	6	2,25	4448	854,72	0,67
Finland	17	27,42	3164	626,75	0,88
France	38	5,93	40971	717,50	0,84
Germany	37	6,72	17336	215,28	0,14
Ireland	8	10,13	1730	484,76	0,38
Israel	36	11,64	3542	707,30	0,50
Italy	44	19,43	30762	540,63	0,48
Japan	9	0,44	109565	883,71	1,00
Netherlands	16	7,08	11610	761,07	0,38
New Zealand	24	18,97	9618	2752,99	0,08
Norway	8	1,64	1585	366,65	0,88
Portugal	48	32,71	10930	1103,37	0,54
Singapore	10	1,43	4572	1574,90	1,00
Spain	17	4,44	11179	286,20	0,59
Sweden	9	6,79	9005	1034,26	0,67
Taiwan	18	9,14	5196	248,39	0,89
UK	148	7,66	113819	1986,82	0,41
USA	2	0,03	347	1,31	0,00
DEVELOPING COUNTRIES					
Argentina	50	26,76	16598	486,91	0,12
Brazil	41	7,09	10781	70,18	0,07
Colombia	3	3,47	722	19,09	0,67
Egypt	40	7,38	1249	21,48	0,83
Greece	18	14,24	1715	164,84	0,11
Chile	8	3,55	604	44,24	0,00
India	6	0,13	2720	2,95	0,83
Indonesia	5	5,52	3271	17,28	0,80
Kenya	8	14,55	118	4,79	0,75
Malaysia	20	10,36	6402	343,38	0,45
Mexico	32	13,42	22793	261,44	0,09
Nigeria	19	15,11	32	0,30	1,00
Pakistan	5	2,02	1319	11,04	0,40
Peru	48	31,55	6872	294,24	0,04
Phillippines	10	6,18	1799	26,78	0,40
South Africa	3	0,52	1401	37,72	0,67
South Korea	5	1,72	2546	57,69	0,80
Sri Lanka	4	2,23	63	3,52	0,50
Thailand	7	3,33	862	14,89	1,00
Turkey	53	58,16	2000	33,98	0,06
Venezuela	18	22,02	2157	100,91	0,00

Source: *Emerging Markets Reviews, 1995 – 2001.*

¹ Mln USD

² Public Offering

As for quality measures, in advanced economies the weighted average percentage of privatized stock is 60 %, while it is 51 % in developing countries. Privatization on public equity markets, which is given by the ration of public offers to the total number of sales, appear, on average, more frequent in developed countries. Japan and Singapore always opted for public offerings. Also Norway, France, Finland and Taiwan exhibit very high ratios. On the contrary, developing countries – especially Latin America countries – have typically chosen to privatize through asset sales. Chile and Venezuela, for example, have never implemented a public offer. Argentina, Mexico, Brazil and Peru exhibit the lowest public offering/sales ratios.

5. Conclusion

This article presents evidence about the extent, size, and quality of privatization processes around the world. The size of privatization in terms of revenue per capita appears to be strongly correlated with financial market development and government credibility. Liquid capital markets allow governments to obtain the full market value of the company sold. In countries with less developed capital markets and with a higher political risk, privatization appear to be less successful in term of proceeds.

Abstract

Článek popisuje privatizační procesy ve 49 zemích v období od roku 1977 do roku 1997. Provedena analýza ukazuje, že rozhodnutí o privatizaci a výběr privatizační metody je ovlivněn vládnoucí politickou většinou, zatímco úspěch privatizace měřený výnosy a prodanými podíly vyžaduje především rozvinutý kapitálový trh.

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MONEY SUPPLY AND INFLATION IN POLAND

Pawel Mlodkowski

Keywords

inflation, monetary policy, money aggregate

“Lenin was asserting, that the best way to destroy capitalism is destroying money. By permanent inflation authorities can seize – silently and imperceptibly – substantial share of citizens’ wealth.”

John Mynard Keynes

1. Introduction

There is a major agreement among economists considering gist of inflation processes. Continuous growth of average price level is called an inflation¹. Paul Samuelson assert, that inflation is as old as economic system called capitalism². Unfortunately, he is wrong. Inflation is much older. After America was discovered, in XV century, Europe experienced substantial inflation. It was due to increase in gold resources. Monetary systems were based on gold, which was a common mean of exchange. Large gold inflow from America caused some mismatch between products and services available and money supply.

Before World War II, there was a regular move of average price level. During wars, prices were rising to dive when a war was over³. It is true especially for United States between 1980 and World War II. After World War II the world experienced a new regularity: one way change of price level, despite of war or non-war period. Nowadays there is a minor change in the rate of inflation depending on current phase of economic cycle. During recession inflation is lower than in boom periods.

¹ BREMOND, J., SALORT, M. M.: *Odkrywanie ekonomii*. Warszawa: PWN, 1994, s. 105.

² SAMUELSON, P. A., NORDHAUS, W. D.: *Ekonomia 1*. Warszawa: PWN, 1995, s. 359.

³ SAMUELSON, P. A., NORDHAUS, W. D.: *Ekonomia 1*. op.cit., s. 361.

2. Typology of Inflation Process

So far agreement is reached in case of idea of inflation. Economists still see quite different criterion for inflation typology. Table 1 presents different kinds of inflation specified according to several criterion.

Table 1

Criterion	Kind of inflation	Gauge within certain kind
Causes 1. Domestic and foreign 2. Internal and external sources 3. Price level pressure	internal imported endogenous exogenous demand inflation supply inflation structural monetary	wage inflation budget deficit inflation lending boom inflation
Mechanism 4. Direct and indirect sources	spiral of inflation	
Symptoms and effects 5. Rise of price level and market imbalance 6. Rate of economic and social disorder 7. Rate of inflation 8. Economic growth trends	open suppressed shortageflation civilized barbarian crawling pacing galogalloping megainflation hyperinflation classical stagflation slumpflation	overt concealed stratoinflation
Period 9. Durability	secular periodical	
Possibility of control 10. Rate of control	controlled uncontrolled	

Source: A. Pollok, *Inflacja w teorii ekonomii*, Wydawnictwo AE Kraków, Kraków 1998, p. 20.

Explaining inflation causes is the main topic for all theoretical schools of economy. Traditional monetary theory is based on Fisher's identity:

$$MV \equiv PQ$$

M – money supply, V – money velocity of circulation, P – price level, Q – quantity of product

When Q and V are set constant, one can assert, that increase in money supply M causes price level rise. Oppositional keynesian school see some quantity effects caused by money supply rise. Increase in M results in Q growth. This means, that employing more and more money in any economy will lower unemployment by stimulating economic growth. Modern monetarists do not question little quantity effects in a short run. Milton Friedman asserts, that all enterprises and individuals adapt to inflation. It is necessary to continuously increase money supply M to support quantity effects (increase in Q). This is how inflation is spinned. Monetary policy is supposed to match money supply M increase and growth of Q (GNP).

According to Karol Marks conception, inflation appears when there is some kind of collision in a society. Different classes clash with each other. Collision arises during process of shearing jointly created value. The Marxists assert that inflation is used by capitalists to maintain and enlarge rate of value added at the cost of workers⁴.

Other social conceptions of inflation seek causes of this process among difficulties of social agreement. Lack of consensus while output is sheared makes different social groups competing. The one, which would gain price level control is the winner. To support this idea of inflation process induction highly disciplined nations are enumerate (Germany, Japan), where average rate of inflation is rather low.

3. How to Fight an Inflation?

For effective antiinflation policy proper recognition of causes is crucial. In this regard there are alternatives. Increase in price level may be due to excessive demand or due to production costs rise⁵.

It should be clearly stated that no inflation is possible without monetary imbalance. Superfluity of money in circulation M and/or acceleration of circulation V induce average price level increase. No other causes can be attributed to creation and supporting inflation processes if monetary balance is maintained⁶. Key role plays than proper money supply balancing.

⁴ BREMOND, J., SALORT, M. M.: *Odkrywanie ekonomii*. op.cit., s. 114.

⁵ KOŁODKO, G. W.: *Polska w świecie inflacji*. Warszawa: KiW, 1987, s. 123.

⁶ FAJFER, W.: Miejsce pieniądza w procesach inflacyjnych. *Finanse*, 1987, No. 1.

4. Money Supply and the Rate of Inflation in Poland: An Empirical Study

Controlling price level in Poland is the main objective of NBP (National Bank of Poland). Every year inflation target is set and all efforts are used to keep average price level rise at a certain pace. Monetary policy is conducted by chairman of NBP and advisory board of specialists called Monetary Policy Advisory Board (MPAB). The main instrument is an official interest rate (actually there are three official interest rates set by MPAB). Using this tool money supply in Poland is adjusted.

I have conducted an empirical investigation concerning monetary aggregates and two price level change indicators correlation. The monetary aggregates, representing money supply in short, medium and long run are as follows:

- M0 – monetary base;
- M1 – monetary base plus short term deposits;
- M2 – M1 plus long term deposits.

We have concerned two main inflation indicators:

- CPI – Consumer Price Index, and
- Base Inflation indicator.

5. Methodology of Base Inflation Indicator

Base Inflation indicator describes long-term trend of price level change. It is free from short-term cyclical changes caused by temporary supply shocks. Base Inflation indicator is than very useful in analyzing inflation processes. However, we have found high correlation (0,99) between CPI and Base Inflation indicator and decided to use rater CPI than its alternative. NBP uses in its analysis both CPI and Base Inflation indicator, but does not consider them as alternative inflation measures. Base Inflation indicator is calculated on five different ways⁷:

- Base inflation, excluding controlled prices,
- Base inflation, excluding high volatility prices,
- Base inflation, excluding high volatility prices and fuel prices,
- Net inflation, excluding food and fuel prices,
- 15% average (15% are excluded from left and right side of price indicators distribution – low and high volatility prices are excluded).

The most popular way of Base Inflation indicator calculation is excluding certain groups of prices from Consumer Price Index. Alternative ways cover a wide

⁷ www.nbp.pl

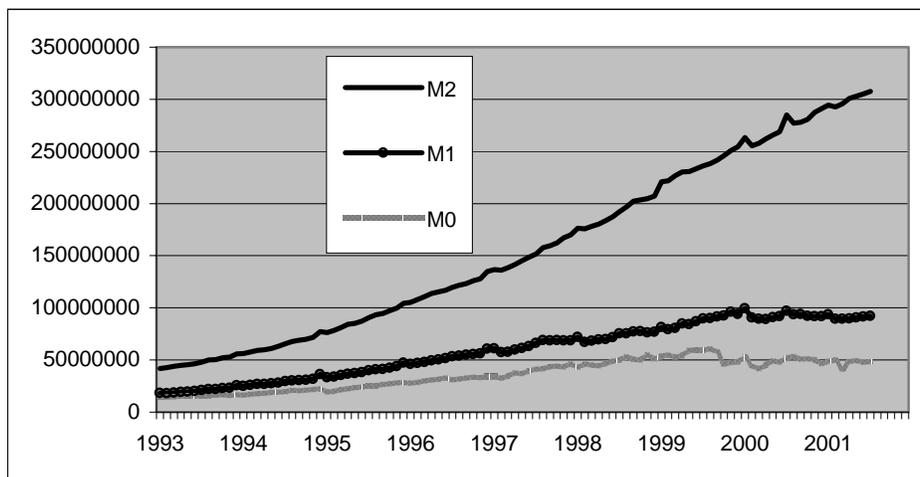
range of statistical methods. Variety of Base Inflation indicators was found redundant. It was due to high correlation between CPI and considered Base Inflation indicators.

6. Money Supply from 1993 to 2001

Analyzed monetary aggregates were steadily and permanently increasing with time, but in 2000 this trend was reversed in case of M0 and M1. Figure 1 presents M0, M1 and M3 in period 1993 – 2001.

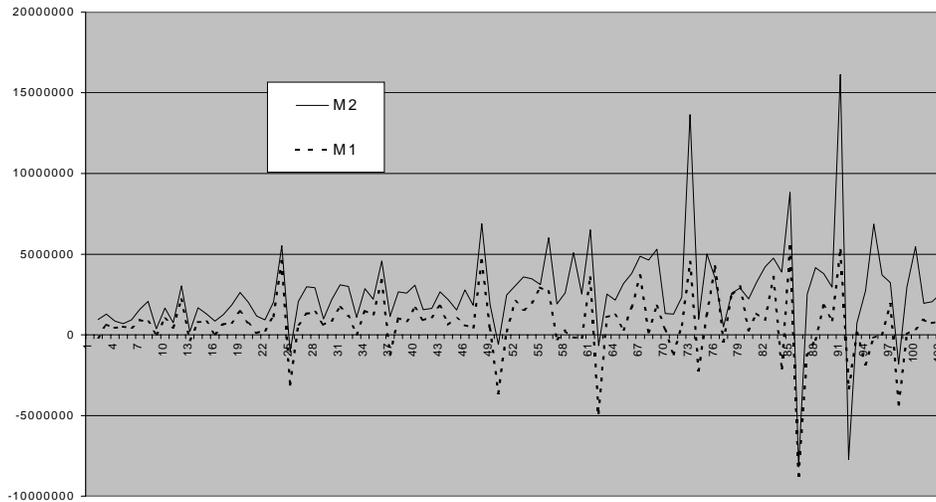
Money supply in a long period was increasing. It is consistent with observed monetary policy and dynamic economic growth. High level of real interest rates stimulated savings in polish economy. Instead of using current and short term saving accounts (decrease of M0 and M1), people deposited savings for longer periods (increase in M2). But as level of M2 was rising, volatility was rising as well. Figure 2 shows chart of first difference series of M1 and M2.

Figure 1 - Money supply in Poland in years 1993 – 2001



Source: NBP data: www.nbp.pl

Figure 2 - Rise of M2 and M1 volatility



Source: NBP data: www.nbp.pl

Basic statistics for analyzed variables are stated in Table 1.

Table 1 - Basic statistics

Average	M0	M1	M2	CPI
1998 – 2001	55387	610757	3214650	100,63
Variance	M0	M1	M2	CPI
1998 – 2001	5104309844717	6727512735624	6335208382056	0,27
Standard deviation	M0	M1	M2	CPI
1993 – 2001	2687368	2021696	2859646	
1998 – 2001	3886426	2593745	4041684	0,52

Substantial increase in volatility in period 1998 - 2001 can be attributed to external factors. Level of savings was changing due to financial turmoil. Economic and financial crisis arising around the world implied uncertainty.

Next step was correlation analysis. First I tested how strong are M0, M1 and M2 interrelated. Statistical outcomes are presented in Table 2.

Table 2 - Correlation coefficients for M0, M1 and M2, calculated for period 1993 – 2001

	M0	M1	M2
M0	1	0,955	0,910
M1	0,955	1	0,978
M2	0,910	0,978	1

For the whole period correlation was very high, what should not be surprising. These variables are methodically interrelated.

Then we have undertaken further analysis for chosen period 1998 – 2001. Earlier data for Base Inflation indicators was not available. On the other hand, late nineties are quite different from systemic change period. Starting analysis in 1998 is due to believe that financial system was not fully developed before 1998 and monetary authorities were not able to conduct effective policy mainly because of internal factors. Coefficients of correlation between analyzed variables are stated in Table 3.

High correlation between CPI and Base Inflation indicator allows using these indexes interchangeably. In our studies, we use CPI for wider recognition. There was low and negative correlation (close to zero) in period 1998 – 2001 between money supply and CPI. This outcome is inconsistent with theory, which implies positive correlation. Next step was lag correlation analysis.

Table 3 - Correlation between money aggregates and two measures of inflation

	M0	M1	M2	CPI	Base Inflation
M0	1				
M1		1			
M2			1		
CPI	-0,175	-0,165	-0,170	1	0,999
Base Inflation	-0,188	-0,064	-0,072	0,999	1

Influence of money supply change is supposed to have little quantity effects in a short – run, and inflation stimulation in a long – run. We have than lagged CPI and considered three lags: 1, 3 and 6 months. Correlation coefficients are stated in Table 4.

Negative correlation is present only between M0 (monetary base) and inflation. Two other monetary aggregates changed sign of interrelation, but correlation coefficients are very close to zero. On the one hand M0, M1 and M2 are highly correlated, but on another, they show different correlation (positive and negative) with inflation measures.

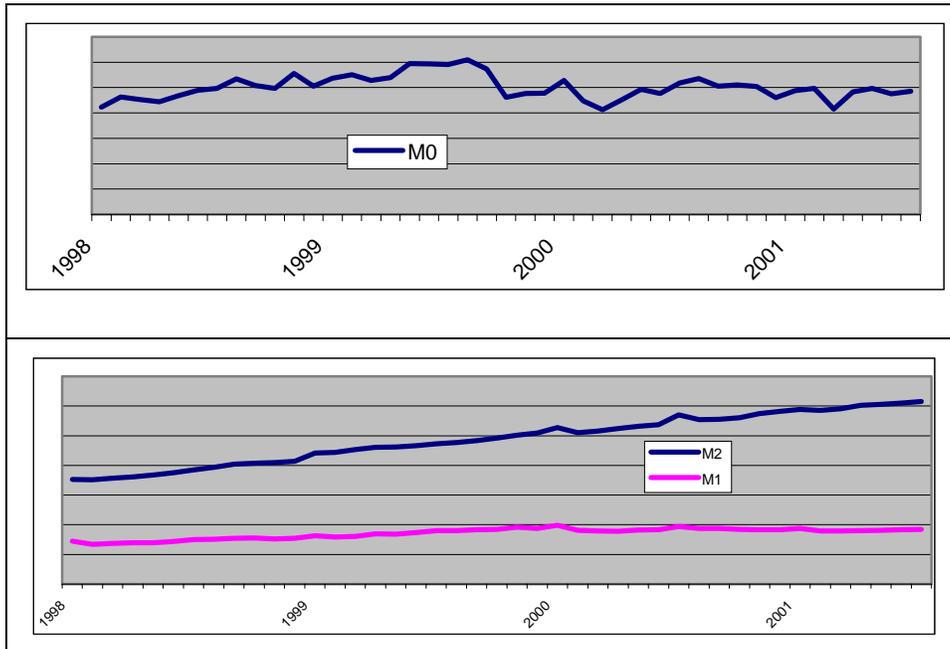
Table 4 - Correlation coefficients between money aggregates and lagged inflation measures

One month lag				3 month lag				6 month lag			
	M0	M1	M2		M0	M1	M2		M0	M1	M2
CPI	-0,124	0,127	0,013	CPI	0,180	0,287	0,107	CPI	0,444	0,184	0,067
Base Infl.	-0,194	0,157	0,062	Base Infl.	0,139	0,275	0,113	Base Infl.	0,378	0,219	0,117

Lagging inflation indicators by 3 months is combined with hypothesis, that today's money supply determine price level in three months time. At this point correlation between variables is positive. This is fully consistent with presented theoretical assumptions. All correlation coefficients are different from zero. In case of M1 value of the coefficient reaches almost 0,3. It might mean that inflation in Poland is driven in about 30% by money supply changes.

6 months lag reveals high positive correlation between CPI and monetary base. All other coefficients are positive, but in case of M2, close to zero. Substantial interrelation between CPI and M0 is to be attributed to coincidence. Monetary aggregates are highly correlated and such outcome: CPI – M2 coefficient decreases and CPI – M0 coefficient increases shows untrue nature of the relations. High correlation CPI – M0 is due to cumulating of similar changes.

Figure 3 - Monetary aggregates M0, M1 and M2 in 1998 – 2001



Setting shorter period for analysis (1998 – 2001 instead of 1993 - 2001) was mainly due to substantial difference between M0 and M1 or M2 in years 1999 – 2001. While M1 and M2 were rising, M0 suffered some incline. Figure 3 shows charts of the monetary supply variables.

That is why we decided to undertake analysis of correlation based on first difference series of monetary aggregates and inflation measures.

Empirical results covering correlation coefficients between inflation and first difference series of M0, M1 and M2 are reported in Table 5.

Table 5 - Coefficients of correlation between inflation measures (CPI and Base Inflation indicator) and first difference series of money aggregates (M0, M1, M2)

	M0	M1	M2
M0	1	0,283	0,282
M1		1	0,776
M2			1
CPI	-0,153	-0,275	-0,2
Base Inflation	-0,166	-0,283	-0,217

Negative correlation between inflation and money supply changes is inconsistent with theoretical view. Negative relation was found at earlier stage of analysis (compare with Table 3). There might be some weak direct short – term relation. In case of money supply changes, high correlation is present only between M1 and M2. Almost identical coefficients of correlation between monetary base and M1 or M2 changes point that these (M1 and M2) variables are actually very similar. On the other hand, factors that determine monetary base and M1 or M2 are different. This result may be interpreted as follows. Monetary base (M0) depends on fewer factors than M1 or M2. Factors that determine M1 and M2 are similar. The difference is in nominal factor.

Investigating interrelation between inflation and money supply changes lag analysis was employed. Three lag periods were selected. Series of money aggregates changes were lagged by one, three and six months. Results are reported in Table 7.

Table 7

	One month lag			3 month lag			6 month lag				
	M0	M1	M2		M0	M1	M2		M0	M1	M2
CPI	-0,086	0,189	0,317	CPI	-0,054	0,1406	0,1583	CPI	0,089	0,0003	-0,117
Base Infl.	-0,151	0,080	0,185	Base Infl.	-0,16	0,0672	0,1016	Base Infl.	0,1189	0,056	-0,102

Lagging by one month results in sign change of correlation between CPI and M1, M2. Again coefficient reaches level of about 30% (M2). Three months lag shows sudden drop in level of all coefficients. Sign of correlation is consistent with results for one month lag, but low values unable recognition of true relations. The longest lag period brings unexpected sign change of correlation between inflation and M2 and M0. For the first time monetary base change revealed positive interrelation with CPI. M1 reached very low level, close to zero. No relation was found. There is than no causality between money supply (M0, M1, M2) change and the level of inflation (CPI).

7. Conclusion

Analysis conducted above shows low correlation between money aggregates and inflation. Money supply and money supply change in Poland seems very good adjusted to demand. Monetary policy is than supposed to be conducted in a very proper way. Looking for permanent inflation causes one can state large budget deficit, substantial inefficiencies in industry or many large monopolists. Inflation in Poland is driven more by non-monetary causes than money supply and demand imbalance.

Abstract

V tomto příspěvku analyzuji peněžní nabídku a inflační korelaci. Peněžní nabídka je reprezentována třemi monetárními agregáty M0, M1 a M2. Inflace je měřena použitím CPI a ukazatelem jádrové inflace. Je také zhodnocena monetární politika v Polsku.

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CONSOLIDATION PROCESSES IN POLISH BANK SECTOR

Anita Mutwil

Key words

consolidation processes, privatisation, Polish bank system

1. Introduction

At the beginning of the XXI century the bank sector, as all the country, has faced new challenges. The system of both the external and internal factors has been relatively favorable. The perspective of a new world order including the Polish membership in the European Union creates great chances of economic and civilizational progress. However, at the same time it makes us daily face the threats connected with both opening the borders in order to make the capital and financial services flow freely and the intensive competition on the part of foreign banks, being the consequence of it.

According to the generally accepted presumptions, the transformation of a bank sector should on one hand lead to the opening of the domestic market and internalization of Polish banks and on the other it should get at strengthening their competitive force, mainly through consolidation and capital reinforcement by means of privatization.

2. Consolidation Activities in Banks

In the Polish bank sector the reasons for starting consolidation processes were not only tough and increasing competition or the will to gain a stronger position in the market, but mainly the logical consequence of the privatization process of the banks belonging to State Treasury or those in which the Treasury had significant shares. The consolidating activities lead to the capital reinforcement of the banks and the increase of their efficiency and competitiveness. Banks privatized in the last years and those already established as private have been the initiators of the consolidation processes. [6] Privatization and consolidation processes do not only have an economic dimension but they are also strictly connected with the political and social factors (f. ex. the problem of staff reduction in the banks – mergers).

Banks merging and unions in Poland are regulated by various rules. According to the banking law [3] (122 art.), there is a possibility of banks union on the basis of an agreement. The banking law regulates widely the issues of the bank capital

groups as a form of the consolidation of the banks operating as joint stock companies. The solutions presented in the banking law concerning this form of consolidation are based on the act dealing with merging and grouping of some banks in the form of joint stock companies [2] belonging to State Treasury, the National Bank of Poland or other state legal persons. Therefore, depending on the capital structure of the banks intending to merge in this way, there are two bases of creating such bank groups. The banks existing in the form of joint stock companies can also merge on the ground of the rules of the Commercial Companies Code in force. [4]

The merging of co-operative banks is performed according to the regulations included in the act concerning restructurization of co-operative banks and Bank Gospodarki Żywnościowej. [1]

Banks in Poland, as in other countries, are more and more interested in consolidation. Consequently, a constant improvement of the situation in especially the co-operative banks sector takes place. More and more often economic calculations prevail over individual ambitions and the co-operative members agree to the loss of independence. In most cases merging with another bank is preferred. A few banks merging may enable them not only the increase of capital, but also the extension of their net. Larger banks are superior to all the others due to:

- the lesser risk of bankruptcy as a result of external conditions,
- the bigger possibility of diversification of the income sources,
- the bigger possibility of analyzing various issues,
- financial means to pay for highly qualified staff,
- the opportunity to take advantage of the external professional consultants' services,
- considerable public opinion confidence. [6]
- In 1999 the following mergers and take-overs took place:
 - On 1 January 4 banks; Powszechny Bank Gospodarczy S.A. in Łódź, Pomorski Bank Kredytowy S.A. in Szczecin, Bank Depozytowo-Kredytowy S.A. in Lublin and Polska Kasa Opieki S.A. merged forming Bank Pekao S. A. Group.
 - It was the biggest merging in the Polish bank sector. Effectively, the second biggest bank in Poland was set up.
 - Powszechny Bank Kredytowy S.A. purchased Pierwszy Komercyjny Bank S.A. and on 1 July incorporated the branches of P.K.B. into its own structure.
 - On 22 November Bank Energetyki S.A. merged with Bank Inicjatyw Społeczno-Ekonomicznych S.A.
 - Consolidation of 3 banks belonging to Bayerische Hypo – und Veresbank AG took place; a new stock issue of Bank Przemysłowo-Handlowy S.A. was paid by a shareholder by means of non-money contribution in the form of property right of 100% shares of Hypo-Bank Polska S.A. and Hypo Vereisbank Polska S.A. Then, the second of the banks, on the 11th of November, merged with Bank Przemysłowo-Handlowy S.A., and on the 1st of December Hypo-Bank S.A. was transformed into mortgage bank. [8]

In 2000 the bank situation was subject to further diversification. Especially small banks, where Polish capital predominates carrying into effect improvement schemes, turned out to be in a difficult position. To be able to remain in the market they will have to find a foreign investor or merge with another “strong” bank (bank with capital power).

So considering this fact and taking into account the elimination of the competition among the banks belonging to the same capital group, 2001 year is going to be the next year of the consolidation of the bank sector in Poland.

The consolidation is not going to omit regional banks and those which unite co-operative banks and the co-operative banks themselves.

Among 150 co-operative banks with the funds up to 300.000 Euro, only about 30 can reach the capital minimum if they appropriate for this aim their 2000 year’s profit. The rest of the banks if the circumstances, (which are difficult to predict) aren’t changed, will have merged with other co-operative banks by the end of 2001. [8]

In the strategy of reinforcing the Polish bank system the special tasks have been attributed to BFG. The role of the fund is particularly distinct in the field of the sector consolidation. BFG top priority is to support the strong banks in taking the weak banks over by means of granting financial help – mainly through credits. [9]

3. The Structure of the Bank System

The number of the banks has been constantly changing as a result of consolidation and privatisation. The development of the banks in Poland in 1996 – 2000 is illustrated by data in Table 1. At the beginning of 90 most of the banks was set up. The process of creating new Polish banks was inhibited in 1993 and only foreign banks were allowed to be established.

In 1993 – 1998 some of the new banks were liquidated because of poor results, some of them were taken over by the “stronger” banks and the others merged with the bigger banks to increase their economic force. It concerned mainly the small banks with little capital. At the end of 1998, as the result of these changes, there were 83 commercial banks in Poland, while in 1993 there were 87.

The characteristic thing is the fact that in 1993 there were 58 private banks in Poland, and by the end of 1998 there were 70 of them, 31 out of them with foreign capital. [8]

In years 1996 – 1998 the number of the co-operative banks has automatically decreased. It was the result of consolidation processes in the co-operative banking, so at the end of 1998 there were 1272 co-operative banks, while in 1996 there were 1475 of them.

Characterising consolidation and privatisation problems in Polish bank sector it could be noticed that the number of commercial banks has decreased to 74 at the end of 2000 and the amount of banks where state capital predominates has decreased to 7. The decrease of the number of commercial banks, (from 77 at the end of 1999 to 74 at the end of 2000) was the result of:

- the liquidation of the Warsaw branch of American Express on the 1st January 2000,
- declaration of bankruptcy of Bank Staropolski S.A.,
- Bank Współpracy Regionalnej S.A. took BWR REAL BANK S.A. over and then these banks merged,
- a new bank has appeared (Toyota Bank Polska S.A.) with 100 % foreign capital shares.

The amount of banks where foreign capital dominates decreased and at the end of 2000 it was 67, while the number of banks with foreign capital increased to 47.

In Polish bank sector the biggest investments in 2000 were made by American, German and Dutch institutions.

Table 1 - The number of banks in Poland (without those in bankruptcy and liquidation states)

No.	Specification	1996	1997	1998	1999	2000
1.	Commercial banks: among them	81	83	83	77	74
2.	where state capital dominates: among them	24	15	13	7	7
	- directly owned by State Treasury	8	6	6	3	3
	- indirectly owned by State Treasury	13	8	7	4	4
	- owned by NBP	3	1	0	0	0
3.	where private capital dominates: among them with the most of:	57	68	70	70	67
	- Polish capital	32	39	39	31	20
	- foreign capital	25	29	31	39	47*
4.	Co-operative banks	1394	1295	1189	781	680
5.	Bank system	1475	1378	1272	858	754
* including Śląski Bank Hipoteczny S.A.						

Source: NBP data – <http://www.nbp.pl>

Analysing the co-operative banks sector it could be noticed that their amount decreased from 781 to 680 due to the highest number of mergers in the co-operative sector. In this period of time 99 co-operative banks merged with other banks and 2 banks – on the strength of a decision made by KNB – were taken over by the commercial banks. At the end of December 2000 679 co-operative banks were organised into 11 structures. 537 banks united in 9 regional banks belonged to Krajowa Grupa Banków Spółdzielczych, while 143 banks were outside the Group.

The number of banks controlled (directly or indirectly) by State Treasury didn't change as there were still 7 of them.

The number of banks where private capital dominates decreased (from 70 to 67), while the number of banks where foreign capital dominates increased (from 39 to 47). [8]

The banks activities which are the result of privatisation and consolidation made the number of branches of the commercial banks increase to 2406 (171 more) and the number of co-operative banks branches increase to 1148 (100 more) (Table 2). The development of the net of the co-operative banks made the employment rate increase (by 2.3%) to the highest level for the last 5 years, while in case of commercial banks there was a decrease (by 2.7%) to the level lower then in 1997. [8] The employment state is shown in Table 3.

The number of people employed in commercial banks operating at the end of December 2000 fell by 2622 persons. The employment situation in individual banks was differentiated. The employment rise appeared in 45 banks, and the employment fall; in 25 banks. [8] The increase in employment was due to the net development of the modern branches. New technologies contributed to the fact that the number of the staff was increasing much slower then the number of newly operating branches might presume it.

Table 2 - The number of branches of the commercial banks in the country (without bank headquarters and bank representations)

The state at the end of	Specification	Commercial banks			Co-operative banks
		in all	With the domination of		
			Polish capital	Foreign capital	
<i>1</i>	<i>2</i>	<i>3=4+5</i>	<i>4</i>	<i>5</i>	<i>6</i>
1996	Branches	1580	1437	143	502
	Other agencies	7981	7888	93	634
1997	Branches	1629	1460	169	581
	Other agencies	8023	7808	215	674
1998	Branches	1864	1572	292	668
	Other agencies	7615	7385	230	730
1999	Branches	2235	1243	992	1048
	Other agencies	7987	6939	1048	790
2000	Branches	2406	960	1446	1148
	Other agencies	8614	6610	2004	875

Source: NBP data – <http://www.nbp.pl>

Table 3 - The number of employed people in bank sector

The state at the end of	Bank sector	Commercial banks			Co-operative banks
		in all	With the domination of		
			Polish capital	Foreign capital	
<i>1</i>	<i>2=3+6</i>	<i>3=4+5</i>	<i>4</i>	<i>5</i>	<i>6</i>
1996	169534	144201	129102	15099	25333
1997	172227	147095	130823	16272	25132
1998	174044	149069	131266	17801	24977
1999	174748	149638	86199	63439	25110
2000	171235	145541	60714	84827	25694

Source: NBP data – <http://www.nbp.pl>

4. Conclusion

Summing up it may be stated that further development of Polish bank system depends on 3 factors:

- consolidation level of Polish bank system,
- intensity of banks privatisation processes,
- level of conforming of Polish banks to European standards.

Consolidation is a necessary process from the point of view of safety and development of the bank system in Poland. Polish banks, especially commercial ones, which appeared as a result of the separation from NBP, are too small to develop effectively and compete efficiently on financial services market.

Abstract

Tento příspěvek se zabývá problematikou, která souvisí s konsolidací v polském bankovním sektoru. Jsou zde prezentovány konsolidační procesy a jejich dopad na fungování bank a strukturu bankovního systému.

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BANK PRIVATIZATION WITH FOREIGN CAPITAL IN POLAND - PROS AND CONS

Monika Ogrodnik

Key words

bank privatization, privatization in Poland, privatization with foreign capital, foreign capital in banking sector, privatization, Poland, foreign capital

1. Introduction

Today's shape of the banking sector in Poland has been determined by two main objectives:

- transformation to free market economy
- accession to the European Union

Privatization is a core element of economical transformation and the banking sector, being one of the pillars of economy, is one of the mostly discussed topics. The main advantages of privatization are:

- better management
- the stronger competition
- wider possibilities of gaining capital on the market
- an acceleration of bank's restructuring
- elimination of political pressure¹

All these advantages increase company's efficiency. Therefore the fact of bank privatization is not so controversial. It is agreed that private property is more advantageous than state property. What causes controversy, however, is the question how much of the foreign capital should be invested in the bank privatization. It concerns especially Poland where, during the privatization process, foreign investors have taken over the majority of the largest banks. Only two of them remain in Polish hands.

¹ Others: budget incomes and development of capital market.

2. Bank Privatization Process in Poland

Privatization of the Polish banking sector began in the indirect way in 1989. More than 70 privately-owned banks were being set up between 1989 and 1992, decreasing by this way the share of the state property in the banking sector. However, the privatization of the largest state-owned banks is a matter of the greatest importance for Poland. It was planned that “the nine banks”², hived off from the central bank in 1989 were to be privatized at first. Then the privatization of the biggest Polish banks: Bank Handlowy SA (BH SA), Bank Polska Kasa Opieki SA (PKO SA), Powszechna Kasa Oszczędności Bank Polski SA (PKO BP SA), Bank Gospodarki Żywnościowej SA (BGŻ SA) were going to be held. To enable the process of privatization “the nine banks” were commercialized³ in 1991, as well as BGŻ SA in 1992 and PKO BP SA in 2000.

The process of privatization of “the nine banks” began in 1993. It was planned that Treasury would have at least 30% stake in their ownership, foreign investors were to be allowed to buy 20%-30%⁴. It was also postulated that banks should have a foreign strategic investor, who was expected to provide additional capital and help to introduce innovations⁵. But it was difficult to find an investor who was willing to do it while having only minority stake. It was even the subject of criticism in an article “Polish banking sales advance on two fronts” in “The Financial Time”⁶ before BH SA’ privatization. It was written that Polish aims: to find institution who would provide capital and know-how, and to leave present management are divergent.

Between 1993 and 1997, in the first stage of each bank privatization, the Treasury was selling only minority stakes. To gain majority stakes foreign investors had to buy stakes gradually either from other investors or from the Treasury (so called “remaining stakes”). The privatization in 1999 was performed in a different way – through the sale of majority stakes. In 1999 Treasury sold the stake of 52,1% in The Pekao Group to consortium of UniCredito Italiano and Allianz AG. The stake of 80% in the last of “the nine banks” – Bank Zachodni SA was sold to Allied Irish Bank European Investments Ltd (AIB) at the same year.

² Bank Gdański w Gdańsku S.A. (BG SA), Bank Śląski w Katowicach (BSK SA), Bank Przemysłowo-Handlowy w Krakowie (BPH SA), Bank Depozytowo-Kredytowy w Lublinie S.A. (BD-K S.A.), Powszechny Bank Gospodarczy w Łodzi S.A. (PBG S.A.), Pomorski Bank Kredytowy w Szczecinie S.A. (PBK Sz S.A.), Powszechny Bank Kredytowy w Warszawie S.A. (PBK S.A.), Wielkopolski Bank Kredytowy w Poznaniu S.A. (WBK S.A.) oraz Bank Zachodni we Wrocławiu S.A. (BZ S.A.).

³ I.e. transformed into one-man joint stock-company fully owned by the Treasury.

⁴ SZELAĞ K.: Prywatyzacja polskiego systemu bankowego – stan obecny i perspektywy. *bank i kredyt*, July-August, National Bank of Poland, 1998, p.107.

⁵ JAWORSKI W.L.: *Współczesny Bank*. Warszawa: Poltext, 1998, p. 79-80.

⁶ The Financial Time, 22 May 1997.

Table 1 - Privatization of the largest Polish state-owned banks and their present owners

Name of the bank	The year of privatization	The year of majority stake's takeover	The biggest shareholders (September 2001)	Ranking by assets (30. June 2001)	Ranking by own funds (30. June 2001)
WBK S.A. *	1993	1997 – AIB 60%	AIB European Invested Ltd – 70%	4	8
BSK S.A. *	1993	1996 – ING 54%	ING Bank N.V. – 88%	6	9
BPH S.A.	1994	1999 - HVB 86%	Hypo-und Vereinsbank - 86%	7	4
BG S.A. *	1995	1997 – BIG group 63%	Banco Comercial Portuges - 20% Eureko BV - 10% Other foreign investors - 38%	8	11
BH S.A.	1997	2000–Citibank 88%	Citibank Overseas Inv. - 92%	3	2
PBK S.A.	1997	2000- Bank Austria 57%	Bank Austria AG - 57% The Bank of New York - 10%	5	5
PKO S.A.**	1998	1999 – UniCredito Italiano & Allianz - 52%	UniCredito Italiano SpA - 53% The Bank of New York - 5%	2	1
BD-K S.A. **					
PBG S.A. **					
PBK SzSA **					
BZ S.A. *	1999	1999 – AIB 80%	AIB European Invested Ltd – 70%	4	8

PKO BP S.A.	x	x	Treasury 100%	1	3
*at present: BZ WBK SA (as a result of union BZ SA and WBK SA); ING BSK S.A.; BIG BG S.A. ** Pekao Group (1996-1999)- as the result of the consolidation, Pekao SA or PKO SA (since 1999)					

Source: prepared by author on the base: K. Szeląg, *op.cit.*; data reflecting the biggest shareholders (on the day 26.09.2001) obtained from The Polish Securities and Exchange Commission (KPWG); data reflecting assets and own funds rating – *Gazeta Bankowa*, 28.08.2001-30.09.2001.

As it is shown in the Table 1, all former state-owned banks, which have been privatized, have been taken over by foreign investors. These banks are among the eight largest Polish banks by assets and among eleven largest banks by own funds. Not so long time ago - last year - Bank PKO SA and Bank Handlowy S.A. gained the 350 and 444 place on the list of 1000 top world's banks. This year Poland is represented by BRE Bank S.A. and PKO BP SA, which are placed on much farther positions, namely 537 and 541⁷. This is caused by the fact that Bank PKO SA and BH SA are now treated as non-Polish banks. One can be astonished finding on "The Banker" 's list of foreign banks performing in Poland⁸ such banks as BH SA – the oldest Polish bank which has been performing since 1870 or Bank PKO SA. A frequently asked question is whether privatized banks are still Polish or not. If we take into consideration the ownership structure – we definitely cannot say they are Polish. But when we take into consideration the market they are performing on and their clients we can still call them Polish.

Bank PKO BP SA (still has not been privatized) is the only large bank left in Polish hands. BGŻ SA- the largest Polish wholesale bank for many rural co-operative banks, has Polish owners as well. PKO BP SA is the largest bank by assets in Poland (78 400 million PLN⁹), the third one by own funds. It is also the leading bank on the retail banking. There are plans to ensure the Polish ownership in this bank¹⁰. One of the problem concerning its privatization is the lack of Polish strategic investors. Other segments of financial sector, from which potential investors may come (pension funds, trust funds, insurance companies), are also dominated by foreign capital¹¹. Some postulate to privatize PKO BP SA together with PZU – the biggest Polish, still state-owned insurance company. It would enable to create the strongest financial institution on the Polish retail market. BGŻ SA is privatized through buying its shares by other co-operative banks, associated with it, and it is assumed to remain in their ownership. At present there is only one state bank – Bank Gospodarstwa Krajowego and it is expected to stay like this and to fulfill special tasks of the state.

Privatization of BH SA and PKO SA – two biggest and the most well-known banks abroad – was of a particular importance for Poland and was a subject of great controversy. The initial project of privatization of both of them assumed they would stay Polish and foreign investors could buy only minority stakes. These two banks were considered as a few which can cope with foreign competition. But time showed that these initial resolutions were not kept. The privatization of the BH SA began in 1997. It was agreed it should retain its Polish character. At the same time, however, it was decided that foreign stable institution should be gained in order to provide access to new technologies. In 1997 Bank of New York, JP Morgan, Zurich Insurance and Swedbank bought the stakes, which gave them together 47%. According to the contract they couldn't sell their stakes during the next 1.5 years and some restrictions might be set for

⁷ The Banker, July 2000, p. 233; July 2001, p. 218.

⁸ The Banker, April 2001, s. 55.

⁹ Aktywa i pasywa banków, Gazeta Bankowa, 28.08.2001 –3.09. 2001, p. 20.

¹⁰ In August Polish government accepted the project of PKO BP SA privatization aiming to sell shares to variety small investors. The Treasury is too keep a stake of 50% plus one share.

¹¹ In 1999 foreign capital share in investment funds market was equivalent to 95%, in pension funds – 78%, in insurance company's capital – 50% - Dziawgo L., Dziawgo D.: Integracja czy dominacja?, *Bank i Kredyt*, NBP, January-February, 2000, p. 37-44.

selling shares during the next 1.5 years¹². In 2000 Citibank Overseas Investment Corporation bought the stakes from former foreign and Polish shareholders and gained in this way the stake of 88% and took over the control of BH SA. In May 2001 Citibank has united with BH SA. In 1999 the stake of 52% of Bank PKO SA – the biggest Polish bank by own funds that year and the second after PKO BP SA in retailing banking - was sold off.

3. Foreign Capital in Polish Banking Sector

1999 was a crucial year when the privatization was accelerated and when the foreign investors gained the majority of Polish banking sector¹³.

Table 2 - Changes in the ownership structure of the banking sector¹⁴ in the years 1996-2001

Capital stock	1996	1997	1998	1999	2000	03.2001
which belongs (directly and indirectly) to the Treasury	49%	31%	23%	18%	15%	18%
which belongs to other domestic investors	9%	10%	10%	12%	17%	14%
which belongs to foreign intitutions	30%	42%	50%	56%	57%	56%
which belongs to others	12%	18%	17%	14%	11%	12%
Total	100%	100%	100%	100%	100%	100%

Source: prepared by author on the base: *Sytuacja finansowa banków w 1999, 2000, w pierwszym kwartale 2001, National Bank of Poland (NBP)*.

As the data in the Table 2 shows, the share of foreign capital in Polish banking sector has been growing systematically in years 1996 – 2000. Foreign investors have been increasing their stakes by buying shares during privatization, taking over Polish banks or setting up branches or new banks. Nowadays they possess at least 56% of total capital of the banking sector in Poland (total 8020 mln PLN=2215 mln EUR at the end of March 2001). If we include co-operative banks the stake would decrease to 53%. Treasury owns directly and indirectly more than 18% and domestic investors more than 14% of the capital stock.

The biggest foreign investors come from Germany and USA. Each of these countries owns about 13% of Polish banking capital. Apart from these two countries,

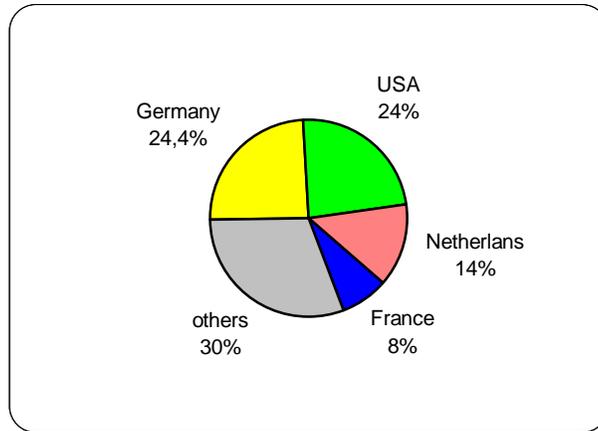
¹² LACHOWSKI S.: Proces prywatyzacji banków w Polsce – sukcesy i porażki. *Bank i Kredyt*, November, 1997, p. 28-29.

¹³ It might have occurred earlier as the position “capital belongs to others” consists of both Polish and foreign small investors.

¹⁴ Without co-operative banks

that provide a half of foreign capital, there are other considerable investors coming from Netherlands, France, Ireland, Austria, Portugal and Belgium.

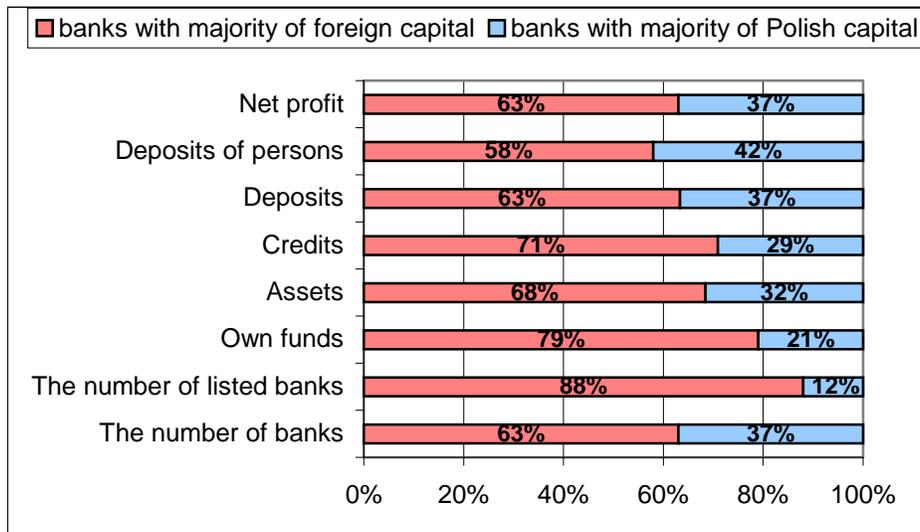
Figure 1 - The origin of foreign capital in banking sector in Poland (March 2001)



Source: prepared by author on the base: *Sytuacja banków w pierwszym kwartale 2001*, NBP.

It is shown below to what extent banks with majority of foreign capital participate in Polish banking sector:

Figure 2 - Participation of banks with the majority of foreign capital in Polish banking sector



Source: prepared by author on the base: *Sytuacja finansowa banków w pierwszym kwartale 2001*, NBP.

In March 2001, 72 banks were performing in Poland. 2 of them, ING Bank and Societe Generale, were the branches of foreign banks. 15 banks had 100% of foreign capital, 28 banks had majority of foreign capital and 5 banks minority of foreign capital. Banks controlled by foreign investors equal 63% of total number of banks. Banks with the stake of 100% of foreign capital are 25% of all banks. Among 16 banks which are listed on The Warsaw Stock Exchange there are 14 banks with the majority of foreign capital. These banks play also a big role on the money market in Poland. There are presently 11 banks¹⁵ performing as The Dealer of Money Market and only one – PKO BP SA (state-owned bank) is controlled by Polish capital. Banks with the majority of foreign capital play a dominant role in the commercial papers issue as well¹⁶.

Own funds of the banks controlled by foreign investors constitute nearly 80% of the total amount of banking sector's own funds (8 800 mln euro¹⁷). Assets which belongs to them constitute nearly 70% of total assets (121 200 mln euro). The similar proportion is in credits they grant to non-financial sector. The stake in deposits is lower and it equals 63%. But if we consider only deposits of persons the stake will decrease by 5% to 58%. It means that possibly persons trust more domestic institutions, especially the potentate in retail banking – PKO BP SA (state-owned bank). Banks with the majority of foreign capital worked out in the first term of 2001 more than 80% of total income of banking sector and made about 63% net profit (70% in 2000).

4. Advantages and Threats of Foreign Capital in Polish Banking Sector

The data mentioned above indicates that Polish banking sector is dominated by foreign capital. It is a subject of criticism and discussion. Although the author is not the opponent of foreign capital in the banking sector, she presents both arguments of supporters and opponents. The Table 3 below presents the most common arguments for and against the bank privatization in Poland with foreign capital.

It was agreed that Polish banks needed strategic investors. The lack of them in Poland made Poland accept foreign institutions. But some people, who are unfavorable to foreign capital, argue that there is no need for strategic investors because shareholding diffusion can be advantageous as decision taking process is not dominated by the interest of one investor¹⁸. But at that time Polish banks would be devoid of the benefits of having strategic investors, such as providing additional capital and modern banking knowledge. Besides, thanks to foreign capital the process of privatization was going faster. If the government had decided to sell the majority stake of banks, which were privatized at the beginning, the privatization might have proceeded at faster speed. It had not be done because of the willingness to keep the Polish character of the banking sector. But as the

¹⁵ Jointly (since 2001): BH S.A. and Citibank; BZ S.A. and WBK S.A.; ING and BSK S.A., BPH S.A. and PBK S.A. – data obtained from The National Bank of Poland (NBP).

¹⁶ In 1999 they had a stake of 87% by numbers of clients and 98% by worth of commercial papers issue – L. Dziawgo, D. Dziawgo, op. cit., p. 43-44.

¹⁷ 1 EUR = 3,62 PLN.

¹⁸ JAWORSKI W.L.: *Banki w Polsce. Wyzwania i tendencje rozwojowe*. Studia Finansowo-Bankowe, SGH, Warszawa: Poltext, 2001, p. 105.

time showed, market terms were the reason why the majority of this sector was given to foreign investors.

Table 3 - Most common arguments for and against the bank privatization in Poland with foreign capital

BANK PRIVATIZATION IN POLAND WITH FOREIGN CAPITAL	
ARGUMENTS FOR	ARGUMENTS AGAINST
<ul style="list-style-type: none"> • possibility of gaining foreign strategic investor • acceleration of the privatization process • access to modern banking knowledge, innovation, etc. • extension and increase of the quality of banking services • intensification of competition • improvement of foreign settlements • provision of additional capital and wider opportunities for gaining capital • increase of the safety of banks • increase of bank's prestige • bigger confidence in Polish economy – inflow of investments • easier access of Polish companies to foreign markets • diminution of political pressure • gaining new, international customers • acceleration of adjustment of Polish banking sector to EU 	<ul style="list-style-type: none"> • diminution of the efficiency of monetary policy • threat for Polish economical policy • bigger influence of external disturbances on Polish economy • acting in the interest of the foreign owners and mother's bank clients • unwillingness for granting credits for risky enterprises, within the important economical sections for Poland • transfer of Polish deposits and gained profits abroad • possibility of the reducing of number of credits granted in Poland and its negative influence on the economic growth • better opportunities for taking over other financial institutions and Polish financial sector elimination • taking decision of Polish banking sector's shape abroad (mergers and acquisitions) • possibility of withdrawal of Polish banks which are quoted on The Stock Exchange and the threat for its stability.

The most common argument put forward by the supporters of foreign capital is that Polish banks can be provided by the mother-bank with modern technologies, financial and organizational innovations. Banks can also benefit from using the mother-bank's experience, methods of risk management, marketing strategies, including new abilities of gaining clients and their better attendance. Banks with the majority of foreign capital often organize various courses, enhancing in this way the qualifications of Polish staff.

Another argument for foreign capital is the fact it increases the number of bank services and their quality. And indeed, the significant improvement of services can be noticed in Poland. Most of banks began to use the market segmentation strategy, adjusting in this way its services to customer needs. Particular improvement can be seen within services offered to companies. Banks offer cash management, derivatives, factoring and others. The number of branches and ATMs as well as a number of people using bank cards has risen considerably. Since 1999 banks have been using more and more commonly the new channels of distribution. The pioneers in the internet banking on the Polish market were: Pekao SA, WBK SA, BPH SA, Fortis Bank SA, BRE Bank SA. Other banks have followed them in the later time and offering similar services. Besides traditional banks which offer their services via internet, internet banks have started their performance: mBank (which was set up by BRE Bank SA) and Intelligo (by Bankgesellschaft Berlin), Volkswagen Bank Direct (by Volkswagen Bank Polska SA). At the end of 2000 Invest Bank, as the first in Poland and the seventh in Europe has launched on the market a virtual payment card¹⁹. For a few years BPH SA has been doing some experiments with smart cards at the College of Information Technology and Management in Rzeszów. According to "The Banker" "...some Polish banks are likely to move ahead of their western counterparts in offering innovative products..."²⁰.

The establishment of foreign banks in Poland and improvement in services offered by banks taken over by foreign investors has been forcing other Polish banks to introduce new products and to improve their services, although this process seems very slow in some banks. PKO BP SA (state-owned bank) and BGŻ SA (belongs to Treasury and co-operative banks) – two the biggest banks with Polish capital – have introduced some new products but with their offer and quality of services they still lag behind in comparison with banks with the majority of foreign capital. PKO BP is still a potentate in the retail banking. However, many of banks with the majority of foreign capital have been trying to gain more and more retail customers offering them higher standard and more attractive services. It can be assumed therefore, that more and more PKO BP SA customers will be taken over by other banks, which is actually a process that has already started.

Other benefits of the privatization with foreign capital is improvement in foreign settlements. Banks can use a wider corresponding banks network. Some may use the TARGET system via their mother-bank. Customers of these banks can have better access to an external financial market. Polish companies can also have a better access to foreign markets. They can obtain useful information and advice. They can also come easier into contact with foreign customers.

The supporters of foreign capital in Poland maintain that thanks to foreign investors banks have better possibilities of gaining capital (from mother-bank or from external capital market). Own funds of the banks in Poland have risen last years. At the beginning of this year average own funds in the banks with foreign shareholders majority are about three times larger than in the banks with the majority of domestic

¹⁹ Invest Bank, Zakupy w Internecie, Wirtualna karta, Rzeczpospolita, 24.11.00, nr 275 (5744)

²⁰ BALFOUR M.: IT puts banks in Pole position. *The Banker*, November 2000.

capital²¹. Banks, which were privatized with foreign investors can benefit from the rise of prestige, trust and their ranking position.

An important argument is that the presence of foreign capital has strengthened the confidence in Polish financial sector and the whole economy. Therefore foreign investors are more willing to make direct and indirect investments in Poland and the economic growth increases. The establishment of foreign enterprises in Poland is strengthening the competition in other sectors. It tightens international co-operation and increases Polish chances to join the EU.

Another argument for foreign capital is that it may help to adjust Polish banking sector to the EU's conditions and will accelerate its integration with international financial market. As mentioned earlier, enhanced competition, made the banks in Poland improve their services and introduce some innovations. The present trends of the world banking have penetrated into Poland. Consolidation processes in Europe result in Polish banks' consolidation and what it follows the increase of the capital strength of banks in Poland and their preparation to the international competition. The example is the consolidation of Bayerische Hypo- und Vereinsbank AG and Bank Austria AG, that caused the present merger process of BPH SA (which is controlled by HVB) and PBK SA (which is controlled by Bank Austria).

The main argument, which is set forth by foreign capital opponents is that foreign capital minimizes the monetary policy effects and is a threat to the sovereignty of Polish economical policy. Foreign capital opponents try to prove their opinion presenting the data that show a low level of foreign capital in some of the EU countries. However firstly, the banking sectors of these countries were being developed in different time and under different conditions, hence such comparison should not be made. The comparison with other post communist countries seem to be more justified. Most of them have also a high level of foreign ownership in their banking sector. Secondly, the globalization processes, enhanced competition on the financial markets and integration within the EU, which has been enhanced lately by forming Economic and Monetary Union, have risen a number of consolidations. Therefore it can be supposed that the foreign ownership in their banking sector has risen as well. Freedom of capital movement causes the capital from different countries to intermingle and financial markets of various countries are more and more integrated. Considering the increasing numbers of international mergers, acquisitions and stake buying in foreign institutions, the international connection network among financial institutions is more and more complicated just as the ownership structure of mother- and daughter- institutions and it is more and more difficult to indicate precisely where the capital comes from. Thirdly, Poland is going to access the EMU and then it will have to waive its monetary policy authorizations in support with the European Central Bank.

The raise of foreign ownership in Polish banking makes Polish economy more sensitive on the external economy's disturbances. This fact cannot be denied but ten years ago Poland decided to open its economy and to integrate with the EU. The possibility of external disturbances transfer is its core element. The transfer of external disturbances is caused not only by the presence of foreign capital in Poland but mostly by foreign trade. Poland can either isolate itself and in this way partly eliminate an

²¹ Calculated by author on the base: Sytuacja finansowa banków w pierwszym kwartale 2001, NBP.

influence of external disturbances (which means no benefits of open economy and moving back to the economy from ten years ago) or can have its economy open but then it has to expect both benefits and threats.

The opponents of foreign capital in Polish banks argue that foreign capital will cause savings transfer abroad and the decrease in the numbers of granted credits in Poland. But as data show banks with the majority of foreign capital have a share of 63% in total deposits and 71% in total credits of the banking sector. Moreover, growing capital movement liberalization in Poland and internet banking development on the world may be the reason why savings will be taken over by the banks from abroad²². It does not seem valid as well that foreign capital in Polish banking causes a dramatic drop in granted credits. The decrease of economic growth in Poland would not be advantageous for foreign countries, for which Poland is a large outlet. It can even be said that inflow of the foreign capital has risen the own funds of banks in Poland and enabled them to perform credit expansion on a larger scale.

Another argument of foreign capital opponents is that bank profits can be transferred abroad. This is however not the case as banks with the majority of foreign ownership are conscious of the fact that Poland, with its 38 mln inhabitants, among whose many people do not have opened account yet, is a huge potential market. Hence, the above-mentioned banks are rather doing reinvestments in Poland. They have been developing their branch network, introducing innovations and organizing courses for the staff, which works as a benefit for Polish financial system and the whole economy.

Common argument against foreign ownership is that banks with the majority of foreign capital can act in the interest of their foreign owners, mother-bank's clients or even in the interest of foreign countries. Some people argue that these banks can discriminate Polish companies against granting credits, especially if they perform in the lines which are competitive to their mother-bank's clients. Some also suppose that they can give the companies' secrecy away to their mother-clients. Even if the bank acts in the interest of its clients, high competition can make customers choose a different competitive bank. Moreover the increasing worldwide competition on financial markets and the intermingling of capital make the banks, taking their decision, follow economic criterions rather than the criterion of the origin of client's country. Besides, as it was already mentioned, because of the lower transparency of the ownership structure of foreign financial institutions in many cases it is hard to say which country's interest is going to be taken into consideration.

Another argument is that foreign owned and foreign majority owned banks are not willing to grand credits on risky enterprises in the economical sectors, which are important for Poland. However, Poland still can obtain credits from such institutions as the EBRD. They can be also financed with the help of the state-bank BGK, which is aimed for special country purposes. Moreover, one of the aims of the privatization process in Poland was making the banks follow economical criteria. So why a Polish owned bank should be willing to grand a credit for the enterprise which is in conflict with them?

²² Intelligo is the first internet-bank which has been established by foreign bank in Poland.

5. Conclusion

Poland has profited from opening its economy and allowing inflow of foreign investments in the banking sector. In the last few years it has increased considerably the quality of banking services, especially in corporate banking. It has also increased the confidence in Polish economy and thanks to it brought to Poland foreign investments and which have had a positive impact on Polish economical growth. It cannot be said there are no threats resulting from a high level of foreign capital in Polish banking. Total domination of Polish financial sector is not proper either. However, Poland could have met with a much higher loss if the foreign capital inflow had been restricted. It might not be a member of the OECD now and it might not be so advanced in negotiations with the EU. Poland might have met then other various restrictions established by foreign countries.

If Poland had not allowed for foreign capital inflow, it is most probable that after the year 1999 (the year when according to agreement with the OECD, foreign banks can without restraint open their branches in Poland) and after Poland joins the EU, where capital movement freedom must be respected, Polish banks would be taken over by larger and offering better services counterparts from abroad.

The globalization process, growing integration of European economies, development of internet banking and growing competition are the reason why national frontiers of financial markets are no longer of importance. Intermingling of foreign capitals make the ownership structure of international financial institutions less and less transparent and the profit is the dominant criterion.

Poland had to choose between two options. The first option was to open its economy, including banking sector, which in the conditions of capital indigence in Poland and capital surplus abroad caused a natural inflow of foreign capital. Such process could be observed not only in Poland but in other post-communist countries. Polish banking sector benefited from the inflow of foreign capital. The second option was to keep the Polish character of banking and to use a variety of restrictions but at that time Poland would not have benefited from the presence of foreign capital. It seems there is no other way, that would bring only benefits of it and eliminate the threats of foreign capital simultaneously.

Poland, having considered possible benefits, decided to open up its economy and integrate with the EU. Poland must be prepared for some costs, though. We can still hope that Poland will catch up with EU countries and that we will buy foreign banks in the future.

Abstract

Príspevek popisuje proces privatizace bank se zahraničným kapitálem. Pozornosť je zaměřena především na privatizace "devítiky bank", které byly vytvořeny z komunistické jediné centrální banky v roce 1989, a také na kontroverzní privatizaci největších polských bank: Bank Polska Kasa Opieki SA (PKO SA), Bank Handlowy w Warszawie

SA (BH SA). Autor také prezentuje data, která ukazují jak důležitou roli hrají zahraniční investoři v polském bankovním systému. Krom jiného data ukazují podíl bank v zahraničním vlastnictví a bank s většinovým zahraničním vlastnictvím na celkovém bankovním kapitálu, aktivech, vkladech a úvěrech. Poté jsou prezentovány a obsáhle prodiskutovány nejčastější argumenty hovořící pro a proti privatizaci polských bank za účasti zahraničního kapitálu. Na konci jsou vyvozeny závěry o privatizaci za účasti zahraničního kapitálu a to s ohledem na dnešní globalizační procesy ve světě.

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EVALUATION OF THE EFFECT FROM THE PRIVATIZATION OF CENTRAL AND EAST EUROPEAN BANKS ON BIDDERS STOCK PRICES

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Key words

bank privatization, Central and East Europe, event study analysis

1. Introduction

The privatization in CEE is not a homogenous process. In the different countries, there are different procedures and methods for the bank privatization. In this regard two kinds of bank privatization can be defined. At the beginning of the 90-es the bank privatization was a long lasting process. Very often the Governments used to privatize the bank system in small parts. They used to offer small parts of shares of the bank that was to be privatized on the local stock markets. After a few years of permanent trade on the local stock market the corresponding bank was finally privatized through the stock market. This could only happen with the permission of the Government for purchasing the majority stake. This kind of privatization is typical for the countries in Central Europe. The other kind of privatization in CEE starts at the middle of the 90-es and it is typical for the Eastern European countries. It has the following features:

- fast bank privatization;
- the practice of public auctions;
- the search of a strategic investor;
- the approved bidder becomes majority owner of the bank.

Sometimes, there may be another, third kind, of privatization. The specific feature here is the merger of the corresponding local bank with a branch of some foreign major bank.

There are numerous studies on privatization process in CEE but not one of them evaluate the effect of privatization on bidders market value.[1-5, 7, 9-17, 19-25]

The object of this research is the market value of European banks Unicredito Italiano (Italy), Societe General (France), Banca Commerciale Italiana, KBC Bank

(Belgium) and Erste Bank der Oesterreichen Sparkassen (Austria) during the process of privatization. We have concentrated our attention on the variation of the privatizing banks' stock prices, since the moment they had announced their intention to participate in the privatization of bank institutions in Eastern and Central Europe till the moment the privatization contract was signed.

The specific objects are the abnormal returns of the privatizing banks' stock prices since the moment they had announced their intention to participate in the privatization of bank institutions in Eastern and Central Europe till the moment the privatization contract was signed. In this part of the research we are trying to figure out if the market expectation for the results of the privatization over the bidder's economy. From one point of view we expect that the direction of the movement of abnormal returns must indicate the market's expectation about the development of the privatization procedure. From other point of view the abnormal returns must indicate the market's evaluation of the bidder economy after privatization is finished.

The purposes of the research are following:

- 1) to find out the influence of the privatization of CEE banks on the bidders' stocks;
- 2) to find out whether the influence of the privatization of CEE banks on the bidders' assets is positive or negative;
- 3) to find out what the dependence between the nationality of the privatized bank and the reaction of the stock market, where the bidders' stocks are traded;
- 4) to find out what is the reaction of the stock markets in the corresponding countries on the bank privatization in CEE.

2. Data

The above-mentioned kinds of privatization determine the fact that this research cannot cover all the privatized banks in CEE. Another reason that makes us leave aside some of the privatized banks in CEE is that after the corresponding privatization, some of the bidders have merged with other banks. The result of this merger is that their shares are no longer traded on the stock market (e.g. Bank Austria). This fact does not give us the chance to find historical data about their shares. Some of the bidders are traded on more than one stock market. Naturally, we give our preferences to a research on the prices of the shares of the bidders that appear on their local stock markets. Since we use public data, sometimes we are forced to analyze historical stock prices from other markets. In some cases it is impossible to find historical data about some banks. In this research we do not include some of the privatized banks because they were privatized very long time ago and unfortunately, we could not find any data about their bidders.

The analysis of this data is limited because of the following reasons:

- the research is based on the hypothesis that the contemporary stock markets are perfect;

- the market share of the different privatized bank is different in the corresponding countries;
- the privatized steak of the shares is deferent in the different banks;
- with some privatization procedures the period between the official announcement and the actual contract conclusion is very long. That is why we cannot be positive about the real influence of the privatization on the prices of the bidder shares;
- this research is also limited by the condition of the bank system and by the general economic situation in the bidders' country. The same applies to the privatized bank's country.

The date 1 (t_1) and date 2 (t_2) are presented in Table 1. Date 1 is the date of official announcement of the intention for taking part in privatization process of a given privatizing CEE bank. This means that since this date is actively involved in the bidding. Date 2 is the date of actual conclusion of the process. Actually, this is the date of signing the privatization contract. Of course, there are some other activities such as endorsement of shares and payment but we accepts them as a technical issue and they do not have any influence on stock prices.

Table 1 - Bidders, privatized banks and announcement dates

Bidder	Privatized Bank	t_1	t_2
<i>Societe General</i>	Expresbank	27 July 1999	24 September 1999
Societe General	Romanian Bank for Development	15 December 1998	18 March 1999
Societe General	Komercni Banka	28.June 2001	12 July 2001
UniCredito Italiano SpA	Bulbank	12 April 2000	7 July 2000
UniCredito Italiano SpA	Banka Pekao SpA	23 June 1999	3 August 1999
UniCredito Italiano SpA	Splitska Banka	15 November 1999	19 April 2000
KBC bank	CSOB	31 May 1999	25 June 1999
Erste Bank der Oesterreichischen Sparkassen	Ceska Sporitelna	27 December 1999	28 February 2000
Banca Comerciala Italiano	Privredna Banka	15 November 1999	17 December 1999

Source: National Stock Exchanges and bank's web sites.

3. Methodology

To measure the effect of bank privatization in CEE on bidder's market value we apply the methodology of the standard event study analysis described in Elton and

Gruber (1995) and Campbell, Lo, MacKinley (1997). We use the market model in order to estimate the expected returns. The estimation period is from day -190 to day -11.

$$R_{i\tau} = \alpha_i + \beta_i R_{m\tau} + e_{i\tau} \quad (1)$$

where:

$R_{i\tau}$ – is the daily return of the i^{th} bank on day τ ;

$R_{m\tau}$ – is the market return on day τ ;

α_i – intercept;

β_i – slope of the model;

$e_{i\tau}$ – error term;

The parameters of the market model are estimated by OLS and are used in estimation of expected returns over the investigated period of 20 days, from day -10 to day +10 around the event date (day 0):

$$E(R_{it}) = \alpha_i + \beta_i R_{mt} \quad (2)$$

Then we calculate the abnormal return for the period around the event date subtracting the expected return for day t from the actual return on day t , or:

$$AR_{it} = R_{it} - E(R_{it}) = R_{it} - (\alpha_i + \beta_i R_{mt}) \quad (3)$$

where

$t = -10, \dots, +10$

To test the hypothesis that the announcement effect is equal to zero we use t-test.

$$t - test = \frac{AR_{it}}{\sqrt{\sigma^2(AR_{it})}} \quad (4)$$

where:

$$\sigma^2(AR_{it}) = \sigma_{ei}^2 \left(1 + \frac{1}{L} + \frac{(R_{m\tau} - \bar{R}_m)^2}{\sum_{t=-190}^{-11} (R_{m\tau} - \bar{R}_m)^2} \right) \quad (5)$$

where

$\sigma^2 (AR_{it})$ - variance of the abnormal return on day t ;

σ_{ei}^2 - variance of error terms of the market model;

R_{mt} - return of the market portfolio on day t , $t = -10, \dots, +10$;

$R_{m\tau}$ - return of the market portfolio on day τ , $\tau = -191, \dots, -11$;

L - number of observation in the estimation period, $L = 180$ *days*.

This test statistics follows Student distribution with $T-1$ degrees of freedom. Since the cumulative abnormal return is better measure of the impact of the announcement than abnormal return we calculate it from day -10 to day +10 by:

$$CAR_i = \sum_{t=-10}^{+10} AR_{it} \quad (6)$$

To test the overall effect of bank privatization on bidder's market value we construct two portfolios – **country portfolio** and **bidder portfolio**. We analyze three-country portfolios **Bulgaria**, **Croatia** and **Czech**. The Bulgarian portfolio includes two banks - Expresbank and Bulbank while the Czech portfolio includes three banks - CSOB, Komerčni banka and Ceska Sporitelna. The Croatian portfolio includes Splkitska Banka and Privredna Banka. **Societe General (SG)** and **Unicredito Italiano** are bidder portfolios. The SG portfolio includes Expresbank, Romanian Bank for Development and Komerčni Banka while the UniCredito Italiano includes Bulbank, Banka Pecaó, and Splitska Banka.

The portfolio abnormal return on day t is given by:

$$AR_{pt} = \frac{\sum_{i=1}^N AR_{it}}{N} \quad (7)$$

where

AR_{pt} - the abnormal return of portfolio on day t ;

AR_{it} - the abnormal return of bank i on day t ;

N - number of banks in the portfolio;

To test the impact of the announcements we calculate the cumulate abnormal return of the portfolio from day+1 to day +10 by:

$$CAR_p^T = \sum_{t=+1}^{+10} AR_{pt} \quad (8)$$

The t-statistic is defined by:

$$t - test = \frac{CAR_p^T}{\sqrt{T \times \sigma^2(AR_p^T)}} \quad (9)$$

where

$\sigma^2(AR_p^T)$ - variance of the portfolio abnormal return from day +1 to day +10;

T - number of days after the announcement day;

The variance of AR_p^T is defined by:

$$\sigma^2(AR_p^T) = \frac{\sum_{t=+1}^{+10} (AR_{pt} - AR_p^*)^2}{T - 1} \quad (10)$$

where

$$AR_p^* = \frac{\sum_{t=+1}^{+10} AR_{pt}}{T}$$

Under the null hypothesis of no announcement effect, the CAR_p^T should fluctuate around zero.

4. Results

In the first part of the research we have focused our attention on CAR in the period between the official announcement for taking part in privatization process of a given privatizing CEE bank and the actual conclusion of the privatization contract. We expected that the market where the stocks of the privatizing bank are traded would react to the expected result from the privatization. If the expectations are positive, than CAR in period between t_1 and t_2 is supposed to be positive as well. And vice versa, if the market estimates the privatizing deal in negative terms, then CAR is expected to be a negative value, too. The results we have come to are presented in Attachment 1.

As the graphs show, a permanent positive CAR can only be seen with the two Bulgarian banks – Bulbank and Expresbank, as well as with CSOB, Privredna Banka and Banka Pecaio. The results for Bulgarian banks are surprising to some extent. This can be explained by the specifics of the bank system in Bulgaria. Since the financial crisis in 1996/1997 there has been a currency board in the country. The consequently, the banks have been stabilized and have achieved some very good results in their activity. From macroeconomic point of view, the Bulgarian banks appeared to be in very low risk positions and very firm activity. This proves the fact that the ownership of a Bulgarian bank appears to be a really good investment. We can make a supposition that this fact has been appreciated by the stock markets and they have expressed their positive estimate by the positive CAR.

The controversial results during the first period, between t_1 and t_2 , can be explained by the uncertainty of the deals and the problems at negotiations. This applies especially to the Bulgarian banks at which the method of potential investor negotiations is adopted. This means that the Government is allowed to cancel the deal, regardless of the fact that they may have already chosen the bidder.

An interesting result can be seen with the Czech banks, as well. Although normally CAR is a negative value, there is a trend of its increase right after t_2 (the conclusion of the deal). We observe negative CAR for Romanian bank for development.

Of course, we have to underline the fact that the results in this part are not complete and unsatisfying. This happens because of the fact that the imperfectness of the event study methodology. Normally this method is not to be used for single events that do not last. We can not prove that the changes of CAR between t_1 and t_2 are not determined only by the information about the future privatization. The longer the period between t_1 and t_2 , the more inaccurate the conclusions based on CAR only. This forced us to pass from the first stage to the another.

In the second stage our research has slightly changed. In order to remove the disadvantages in the first stage, we have decided to change the conditions of the research. Our purpose now is first to determine the value of CAR at the moment of the official announcement (CAR_1), and then to determine Car at the moment of the actual conclusion of the deal. The purpose of this distinction between the two moments is to remove the influence of the other factors, which lead to changes of the bidder's stock prices.

Attachment 1 presents results for the behavior of the daily abnormal returns of the bidders for the time interval after announcement day ($t=0$). Last two columns show the average abnormal returns of the overall portfolio of privatized banks and t-test for significance of the average abnormal returns. On the basis of these results we can conclude that the Western European capital markets positively reflects the privatization of CEE banks. The average abnormal return of the overall portfolio on day $t=0$ and day $t=1$ is positive but statistical insignificant. The portfolio CAR also is positive and it is an additional evidence of positive attitude of western European capital markets to privatization of CEE banks. Furthermore, the capital markets positively evaluates both the decision for privatization of CEE banks and the successful conclusion of the privatization but the cumulative abnormal return of the portfolio in period t_1 and t_2 is statistical insignificant.

Attachment 2 shows the results of the country portfolios Bulgaria (BG), Croatia (CR) and Czech (CZ). Western European capital markets negatively reacts on the announcement for privatization of Bulgarian banks. The abnormal returns of Bulgarian portfolio are negative during the first two days after the announcement. European capital markets positively reflect the announcement for privatization of Czech banks. The abnormal returns of Czech portfolio are positive on days $t=0$, $t=1$, $t=2$. Positive is the reaction to the announcement for privatization of Croatian banks on day $t=0$. All abnormal returns of country portfolios for period t_1 are statistical insignificant.

European capital markets reacts in different way to the announcement for successful conclusion of the privatization of banks in CEE. Capital markets positively reflects the information for conclusion of privatization process on day $t=0$. This fact is typical for all country portfolios. But there is a negative and statistical significant reaction of the capital markets for Czech portfolio on day $t=1$. Negative and statistical significant is the abnormal return of Croatian portfolio on day $t=4$ in spite of positive abnormal returns from day $t=0$ to day $t=3$.

In Attachment 3 are presented the results of bidder portfolios. Capital markets positively but statistical insignificant reflect both the decision for bidding of CEE banks and the information of successful conclusion of the privatization. The French capital market reacts negative to the announcement for purchasing a CEE bank. Furthermore, there is a negative and statistical significant abnormal return on day $t=1$. Positive but insignificant is the reaction of the French capital market on the announcement for successful bidding.

5. Conclusion

As a conclusion of our paper we can prove the following:

- 1) The western capital market reacts positively on the information about the privatization process. We can say that this means that investors accept this process as a positive and that they expect that the privatization will add value to the bidder's shares. This can be seen by the positive values of CAR_1 and CAR_2 for the all bidder deals (overall portfolio);
- 2) The western capital markets reacts as efficient markets on the information about the privatization process. This conclusion is a result of the fact that all values of CAR_1 and CAR_2 for the overall portfolio are statistical insignificant;
- 3) Despite market efficiency in some cases we found that market react inefficient way – Czech portfolio, Croatian portfolio and SG portfolio. This means that in these cases markets approbates information for the privatization deal before the date of the deal or investors form too high expectations before the deal.

Generously, the effect from the privatization of Central and East European banks on bidders stock prices is positive but not significant.

It will be useful if we develop the research in other direction. Our paper shows that assuming the prices of the bidder as a main indicator for evaluation the privatization process is not enough form scientific point. It will be interesting to figure

out the influence of the privatization over the Market Value Added of the bidder, over the book-to-market-value coefficient of the bidder, over the price-earnings ratio and over the others indicators integrating the markets and fundamental information for the bidder. The topic is open for further development and we are open for other ideas.

Abstract

Je mnoho studií zabývajících se privatizačními procesy v zemích střední a východní Evropy, ale žádná z nich nevyhodnocuje dopad privatizace na tržní hodnotu kupující banky.[1-5, 7, 9-17, 19-25]. Předmětem výzkumu je tržní hodnota evropských bank Unicredito Italiano (Itálie), Societe General (Francie), Banca Commerciala Italiana, KBC Bank (Belgie), and Erste Bank der Oesterreichen Sparkassen (Rakousko) během procesu privatizace. Pozornost byla zaměřena na změnu cen akcií privatizujících bank, od doby kdy byl oznámen záměr zúčastnit se privatizace bankovních institucí ve východní a střední Evropě, až do doby, kdy byla podepsána privatizační smlouva. Bylo zjištěno, že dopad privatizace bank v zemích střední a východní Evropy na tržní hodnotu kupující banky je pozitivní, ale není obzvláště významný.

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Attachment 1 – Aggregated results: Abnormal returns of overall portfolio

	Banka Pecaó	Bulbank	CSOB	Ceska Sporitelna	Expresbank	Komerčni Banka	Splitska Banka	RBD	Privredna Banka	AR_p^t	$t - test AR_p^t$
0	0,0022	-0,0022	0,0152	0,0008	0,0251	-0,0027	0,0014	0,0013	-0,0021	0,0043	0,80
1	0,0103	-0,0103	0,0255	0,0301	-0,0301	0,0024	-0,0034	0,0417	0,0000	0,0073	1,36
2	0,0009	-0,0009	0,0066	0,0243	-0,0243	-0,0246	0,0027	-0,0089	-0,0002	-0,0027	-0,50
3	-0,0083	0,0083	0,0066	-0,0345	0,0345	0,0098	-0,0014	0,0166	0,0020	0,0037	0,69
4	-0,0104	0,0104	-0,0591	0,0021	-0,0021	0,0015	0,0016	-0,0106	0,0014	-0,0073	-1,34
5	-0,0108	0,0108	0,0042	0,0135	-0,0135	0,0117	0,0012	-0,0438	0,0031	-0,0026	-0,48
6	-0,0037	0,0037	0,0031	-0,0392	0,0392	0,0522	0,0039	-0,0519	0,0031	0,0011	0,21
7	-0,0048	0,0048	0,0108	-0,0108	0,0108	0,0071	-0,0011	0,0093	0,0013	0,0030	0,56
8	0,0007	-0,0007	0,0310	0,0135	-0,0135	0,0190	0,0011	-0,0003	-0,0010	0,0055	1,02
9	0,0023	-0,0023	-0,0136	0,0017	-0,0017	0,0287	0,0011	-0,0050	-0,0011	0,0011	0,21
10	-0,0034	0,0034	0,0054	-0,0024	0,0024	0,0257	0,0026	-0,1186	-0,0043	-0,0099	-1,83
CAR_p^1	0,0037	t	0,2143						$\sigma^2(AR_p^1)$	0,0054	
0	0,0047	-0,0046	0,0108	0,0215	-0,0215	0,0259	0,0035	-0,0026	-0,0008	0,0041	1,00
1	0,0100	0,0014	-0,0024	-0,0355	0,0355	-0,0413	-0,0008	-0,0348	-0,0001	-0,0075	-1,85
2	-0,0022	-0,0006	0,0131	-0,0100	0,0100	-0,0160	0,0007	0,0198	-0,0002	0,0016	0,40
3	0,0084	-0,0022	-0,0057	0,0186	-0,0186	0,0064	0,0016	0,0274	-0,0012	0,0039	0,95
4	0,0031	0,0000	-0,0100	0,0023	-0,0023	0,0400	-0,0088	0,0014	-0,0004	0,0028	0,69
5	0,0099	-0,0026	0,0020	0,0211	-0,0211	-0,0384	0,0039	0,0064	0,0001	-0,0021	-0,51
6	-0,0082	0,0005	0,0208	0,0141	-0,0141	0,0238	-0,0001	0,0213	0,0003	0,0065	1,59
7	0,0037	0,0045	0,0054	-0,0092	0,0092	-0,0087	0,0032	0,0090	0,0000	0,0019	0,46
8	-0,0124	0,0034	0,0065	0,0064	-0,0064	0,0125	-0,0025	-0,0472	0,0013	-0,0043	-1,04
9	0,0004	-0,0025	0,0065	-0,0517	0,0517	0,0205	0,0050	-0,0385	0,0015	-0,0008	-0,19
10	-0,0045	0,0042	0,0259	0,0309	-0,0309	-0,0138	0,0070	-0,0017	0,0034	0,0023	0,56
CAR_p^2	0,0084	t	0,6408						$\sigma^2(AR_p^1)$	0,0041	

Attachment 2 – Abnormal returns by dates and country portfolios

	Bulbank	Expresbank	BG	t-test	CSOB	Ceska Sporitelna	Komercni Banka	CZ	t - test	Splitska Banka	Privredna Banka	CR	t-test
0	0,0060	-0,0493	-0,0216	-1,3512	0,0152	0,0008	-0,0027	0,0066	0,3840	0,0014	0,0001	0,0007	0,6821
1	0,0050	-0,0504	-0,0227	-1,4179	0,0255	0,0301	0,0024	0,0290	1,6748	-0,0034	0,0020	-0,0007	-0,6510
2	0,0154	-0,0599	-0,0222	-1,3887	0,0066	0,0243	-0,0246	0,0031	0,1817	0,0027	-0,0002	0,0013	1,1647
3	-0,0077	-0,0185	-0,0131	-0,8179	0,0066	-0,0345	0,0098	-0,0090	-0,5221	-0,0014	0,0022	0,0004	0,3654
4	-0,0066	-0,0065	-0,0065	-0,4086	-0,0591	0,0021	0,0015	-0,0277	-1,6018	0,0016	-0,0006	0,0005	0,4658
5	0,0029	0,0173	0,0101	0,6305	0,0042	0,0135	0,0117	0,0147	0,8486	0,0012	0,0017	0,0015	1,3611
6	-0,0008	0,0356	0,0174	1,0866	0,0031	-0,0392	0,0522	0,0080	0,4644	0,0039	0,0000	0,0020	1,8276
7	0,0004	-0,0075	-0,0035	-0,2193	0,0108	-0,0108	0,0071	0,0035	0,2029	-0,0011	-0,0018	-0,0015	-1,3544
8	0,0012	0,0070	0,0041	0,2586	0,0310	0,0135	0,0190	0,0317	1,8320	0,0011	-0,0023	-0,0006	-0,5809
9	-0,0077	-0,0570	-0,0324	-2,0210	-0,0136	0,0017	0,0287	0,0084	0,4852	0,0011	-0,0001	0,0005	0,4904
10	0,0032	0,0054	0,0043	0,2676	0,0054	-0,0024	0,0257	0,0143	0,8277	0,0026	-0,0031	-0,0003	-0,2568
0	-0,0046	0,0090	0,0022	0,1371	0,0108	0,0215	0,0259	0,0291	1,6806	0,0035	0,0004	0,0019	1,8081
1	0,0014	-0,0088	-0,0037	-0,2295	-0,0024	-0,0355	-0,0413	-0,0396	-2,2856	-0,0008	0,0008	0,0000	-0,0004
2	-0,0006	0,0079	0,0037	0,2287	0,0131	-0,0100	-0,0160	-0,0065	-0,3743	0,0007	-0,0002	0,0003	0,2409
3	-0,0022	0,0013	-0,0005	-0,0287	-0,0057	0,0186	0,0064	0,0097	0,5584	0,0016	-0,0010	0,0003	0,2758
4	0,0000	-0,0231	-0,0116	-0,7236	-0,0100	0,0023	0,0400	0,0161	0,9317	-0,0088	0,0009	-0,0040	-3,6948
5	-0,0026	-0,0021	-0,0024	-0,1470	0,0020	0,0211	-0,0384	-0,0076	-0,4386	0,0039	0,0005	0,0022	2,0358
6	0,0005	-0,0119	-0,0057	-0,3544	0,0208	0,0141	0,0238	0,0293	1,6923	-0,0001	0,0002	0,0000	0,0391
7	0,0045	-0,0161	-0,0058	-0,3599	0,0054	-0,0092	-0,0087	-0,0063	-0,3624	0,0032	-0,0003	0,0014	1,3504
8	0,0034	-0,0015	0,0009	0,0588	0,0065	0,0064	0,0125	0,0127	0,7331	-0,0025	0,0013	-0,0006	-0,5466
9	-0,0025	0,0157	0,0066	0,4112	0,0065	-0,0517	0,0205	-0,0123	-0,7107	0,0050	0,0002	0,0026	2,4474
10	0,0042	0,0132	0,0087	0,5452	0,0259	0,0309	-0,0138	0,0215	1,2416	0,0070	0,0018	0,0044	4,1052

Attachment 3 – Abnormal returns by dates and bidder portfolios

	Bulbank	Banka Pecaó	Splitska Banka	UniCredito Italiano	t-test	Expresbank	Komercni Banka	RBD	SG	t-test
0	0,0060	0,0022	0,0014	0,0032	0,8591	-0,0493	-0,0027	0,0013	-0,0169	-1,1637
1	0,0050	0,0103	-0,0034	0,0040	1,0600	-0,0504	0,0024	0,0417	-0,0021	-0,1467
2	0,0154	0,0009	0,0027	0,0063	1,6958	-0,0599	-0,0246	-0,0089	-0,0311	-2,1402
3	-0,0077	-0,0083	-0,0014	-0,0058	-1,5477	-0,0185	0,0098	0,0166	0,0026	0,1821
4	-0,0066	-0,0104	0,0016	-0,0051	-1,3759	-0,0065	0,0015	-0,0106	-0,0052	-0,3580
5	0,0029	-0,0108	0,0012	-0,0022	-0,5989	0,0173	0,0117	-0,0438	-0,0049	-0,3391
6	-0,0008	-0,0037	0,0039	-0,0002	-0,0583	0,0356	0,0522	-0,0519	0,0120	0,8224
7	0,0004	-0,0048	-0,0011	-0,0018	-0,4871	-0,0075	0,0071	0,0093	0,0030	0,2039
8	0,0012	0,0007	0,0011	0,0010	0,2659	0,0070	0,0190	-0,0003	0,0086	0,5907
9	-0,0077	0,0023	0,0011	-0,0014	-0,3801	-0,0570	0,0287	-0,0050	-0,0111	-0,7653
10	0,0032	-0,0034	0,0026	0,0008	0,2123	0,0054	0,0257	-0,1186	-0,0292	-2,0091
0	-0,0046	0,0047	0,0035	0,0012	0,3181	0,0090	0,0259	-0,0026	0,0108	0,7418
1	0,0014	0,0100	-0,0008	0,0035	0,9507	-0,0088	-0,0413	-0,0348	-0,0283	-1,9454
2	-0,0006	-0,0022	0,0007	-0,0007	-0,1890	0,0079	-0,0160	0,0198	0,0039	0,2686
3	-0,0022	0,0084	0,0016	0,0026	0,6973	0,0013	0,0064	0,0274	0,0117	0,8059
4	0,0000	0,0031	-0,0088	-0,0019	-0,5137	-0,0231	0,0400	0,0014	0,0061	0,4209
5	-0,0026	0,0099	0,0039	0,0037	0,9985	-0,0021	-0,0384	0,0064	-0,0114	-0,7815
6	0,0005	-0,0082	-0,0001	-0,0026	-0,6941	-0,0119	0,0238	0,0213	0,0111	0,7617
7	0,0045	0,0037	0,0032	0,0038	1,0152	-0,0161	-0,0087	0,0090	-0,0053	-0,3621
8	0,0034	-0,0124	-0,0025	-0,0038	-1,0221	-0,0015	0,0125	-0,0472	-0,0121	-0,8310
9	-0,0025	0,0004	0,0050	0,0010	0,2571	0,0157	0,0205	-0,0385	-0,0007	-0,0514
10	0,0042	-0,0045	0,0070	0,0022	0,6012	0,0132	-0,0138	-0,0017	-0,0008	-0,0516

PRIVATIZATION AND BANKING SECTOR EFFICIENCY¹

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Key words

privatization process, effectiveness, stability, profitability, asset quality, bank capitalization

1. Introduction

It is generally agreed that privatization improves the effectiveness of the banking sector and strengthens its stability. On the basis of several indicators the paper confirms this is true in the case of the Czech Republic as well as in the case of Poland. Data for developed countries are given as a benchmark.

In this paper we first explain basic features of the privatization process in the Czech Republic and Poland (chapter 2). Then we explain why privatization could be considered to be one of the most important factors improving the effectiveness of the banking sector and strengthening its stability on the basis of profitability (chapter 3), asset quality (chapter 4) and bank capitalization (chapter 5). A general summary is presented in chapter 6.

2. Privatization of Banks in the Czech Republic and in Poland

In EU countries as well as in Central European countries banking sectors have been under important changes during last years. One of them is privatization. The improvement of banking sector's profitability is mentioned among major positives of privatization of Central European banks. Other positives are considered to be that foreign investors have brought in additional capital, skills, experience, and managerial capability. An important benefit should be also a higher level of competition in banking sector and an elimination of political pressures on banks. The result is that the privatization has strengthened the banking sectors of Central European countries.

Generally it is difficult to separate a privatization impact on bank's profitability from other factors. Financial liberalization, globalization, and technological

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changes over the past years have challenged banks competitive pressures and approaching privatization of these banks pressed them to react very actively. The region's economic recovery helped the bank's profitability while non-performing loans worsened it.

Privatization in major European countries started in mid-1980-ies (e.g. with the sale of Société Générale), but acquired momentum only in the 1990s. Many banks (for instance Italian savings banks) changed their ownership structure from exclusively "foundation-owned" to more open, shareholder-based, entities².

Banking sector privatization in the Czech Republic and in Poland has been completed only recently. In the Czech Republic the privatization of large state-owned banks started in 1998 with Investment and Post Bank (Investicni a postovni banka). The last of banks was privatized in 2001 (Komerčni banka) and only some specialized banks (CMZRB, the Czech Export Bank) stay in state hands. We can expect serious but probably only gradual improvement in banking sector efficiency (measured by its profitability) in the future. The improvement in asset quality and bank capitalization should come, too.

There is a similar situation in Poland: 68 % of banking sector assets and 79 % of own funds are in hands of banks with majority of foreign capital now³. The main steps in privatization were done during 1996-1999. The increase of the private sector in banking was relatively slow in 2000 and at the beginning of 2001. The way for privatization of Poland's largest savings bank PKO Bank Polski was paved in 2001; the State Treasury guarantees 90 % of the bank's low-cost loans to housing co-operatives (dating from 1965-1992) now. But the result of the parliamentary elections in 2001 may not give a chance to privatize this bank soon.

It is well known that banking sector performance is closely related to its ownership structure.⁴ It is often argued that privatization improves the effectiveness of the banking sector and also strengthens its stability. In almost all cases of bank privatizations this holds true for central European countries, though the whole process will take some time.

² BELAISCH, A., KODRES, L., LEVY, J., UBIDE, A.: *Euro-Area Banking at the Crossroads*. IMF Working Paper 28/2001. Washington, D.C.: IMF, 2001, p. 20.

³ OGRODNIK, M.: Bank Privatization with Foreign Capital in Poland – pros and cons. In: POLOUČEK, S., KULHÁNEK, L., FLEISSIG, S. (ED.): *Future of the Banking after the Year 2000 in the World and in the Czech Republic. VI. Privatization of the Banking Sector*. Proceedings from the International Conference. Karviná: OPF SU, 2001, s. 61 - 73.

⁴ FUCHS, K.: The Theoretical and Practical Problems of Privatization. In: POLOUČEK, S., KULHÁNEK, L., FLEISSIG, S. (ED.): *Future of the Banking after the Year 2000 in the World and in the Czech Republic. VI. Privatization of the Banking Sector*. Proceedings from the International Conference. Karviná: OPF SU, 2001, s. 37 - 45.

3. Profitability

Banks in Central Europe have focused on improvement of profitability, measured in terms of returns on assets (ROA, the ratio of pre-tax profits to assets) and returns on equity (ROE, the ratio of pre-tax profits to equity) only recently.

Growing profitability is the result of many factors not only the result of privatization. Even more – it is difficult to separate any privatization impact on profitability of banks. Financial liberalization, globalization, and technological changes over the past years have challenged banks to strengthen their competitiveness. These banks responded very actively facing strong market pressures and approaching privatization. But generally mainly the region's economic recovery helped the banks profitability while non-performing loans worsened it.

The new products offered to clients, huge investments in information technologies and staff reductions belong to other factors that supported the ROA and ROE growth during the bank privatization in transition countries. Without any doubts all investors underlined this strategy and all above-mentioned steps. That is why the profitability of the banking sector has been growing relatively rapidly during last years in Poland and in the Czech Republic.

Over transition process all Central European banks (even before privatization) started with the development of non-interest income activities. These may have a positive effect on bank's performance and non-interest income has been the most dynamic component in the bank's income. It is confirmed for the industrial countries where the contribution of non-interest income remains small (Germany, Austria) profitability measured by ROA actually declined⁵. The Czech and Polish Banks belong to those banks in which non-interest income earnings grew rapidly during 90's.

Table 1 - Profitability of banks in some industrial countries ROA a ROE (In percent)

	France	Italy	Spain	Belgium	Finland	Ireland	Portugal
1992							
ROA	0.2	0.3	0.2	0.3	- 1.0	0.9	0.7
ROE	3.9	5.0	2.6	9.1	- 21.7	14.9	10.3
1995							
ROA	0.3	0.3	0.7	0.3	- 0.1	1.1	0.7
ROE	6.0	4.7	12.4	10.9	- 1.4	14.9	12.2
1998							
ROA	0.3	0.5	0.9	0.6	0.7	1.1	0.8
ROE	8.0	7.6	14.5	17.5	14.0	17.7	14.8

Source: Adapted from BELAISCH, A., KODRES, L., LEVY, J., UBIDE, A.: Euro-Area Banking at the Crossroads. IMF Working Paper No. 28. Washington, D.C.: IMF, 2001, p. 23.

⁵ BELAISCH, A., KODRES, L., LEVY, J., UBIDE, A.: *Euro-Area Banking at the Crossroads.* IMF Working Paper No. 28. Washington, D.C.: IMF, 2001, p. 32.

Data from industrial countries generally show an increase in ROA and a very serious increase in ROE in 90's (Table 1). This confirms growing competition in banking, globalization of banking services and focus on owner's earnings in companies. The comparison of industrial countries data on profitability to the same data in Poland and in the Czech Republic (Table 2) suggest that further improvement in profitability in transition countries can be expected. Nevertheless the ROA and ROE data development confirms quite strongly our expectations - privatization means the ROA and ROE growth, privatization means improvement in bank's profitability.

Table 2 - Profitability of banks in Poland and the Czech Republic ROA a ROE (In percent)

	1993	1994	1995	1996	1997	1998	1999	2000	2001*
The Czech Republic									
ROA (%)		0.56	0.71	0.39	0.36	-1.16	-0.24	0.62	0.96
ROE (%)					-0.25	-12.50	-2.84	7.28	11.42
Poland									
ROA (%)	-0.48	0.11	1.91	2.24	1.82	0.67	0.94	1.10	1.15
ROE (%)	-6.56	6.10	37.57	35.17	24.96	7.67	12.10	13.99	
* three quarters of 2001									

Source: NBP, CNB

4. Asset Quality

Asset quality can be measured by non-performing loans of banks. Some countries do not publish figures on the level of non-performing loans (Germany, Austria, Luxembourg, Netherlands), but in central European countries these figures are easily available for the last years. Even more – the indicator of non-performing loans is quite unique.

In the Czech Republic non-performing loans are one of the typical and persistent features of the banking sector transformation. The share of non-performing loans is much higher than in any other industrial or transition countries (Table 3). The situation worsened after the banking crises in 1997 – 1998. Non-performing loans require high provisions to protect depositors against losses.

In Poland and in the Czech Republic the asset quality in banks has seriously improved by the transfer of bad loans of privatized banks into the specialized institutions (Consolidation or Hospital Bank). The same way of cleaning bank portfolios was used in some industrial countries (Crédit Lyonnais in France, Banco di Napoli in Italy etc.). Nevertheless in industrial countries the share of non-performing loans in total loans remains very low (Table 4) in comparison with Poland and mainly in comparison with

the Czech Republic (Table 5). After privatization this indicator shows gradual tendency to improve in the Czech Republic but non-performing loans/loans indicator has been surprisingly growing in Poland.

Table 3 - Non-performing loans during financial crises in some countries (in %)

	Crises in 80-ies		Crises in 90-ies			
	peak of the crises	non-performing loans	1990	1994	1995	1996
Korea	1986	6,7	2,1	1,0	0,9	0,8
India				23,6	19,5	17,3
Hong Kong				3,1	2,9	2,7
Taiwan	1986	5,5	1,2	2,0	3,1	3,8
Indonesia			4,5	12,0	10,4	8,8
Malaysia	1988	32,9	20,6	10,2	6,1	3,9
Thailand	1983-1988	15,0	9,7	7,5	7,7	?
Argentina	1985	30,3	16,0	8,6	12,3	9,4
Brazil			4,7	3,9	8,9	5,8
Chile	1983	15,5	2,1	1,0	1,0	1,0
Columbia	1984	25,3	2,2	2,2	2,7	4,6
Mexiko	1982	4,1	2,3	10,5	19,1	12,5
Venezuela	1983	15,4	3,0	24,7	10,6	3,8
U.S.A.	1987	4,1	3,3	1,,9	1,3	1,1
Finland	1992	8,0		4,6	3,9	2,7
Norway	1992	9,1		25,4	4,5	3,2
Sweden	1992	11,0	6,0	4,0	3,0	
The Czech Republic				38,8	33,6	30,7
* Data are not fully comparable due to different accounting standards. Banque Des Reglements Internationaux, 66 ^e Rapport Annuel, Bâle, 10 Juin 1996 a 9 Juin 1997; IMF World Economic Outlook, Washington, D.C., October 1996. ČNB (1996a), Banking Supevision in the Czech Republic, 1996.						

Source: JONÁŠ, J.: *Bankovní krize a ekonomická transformace*. Praha: Management Press, 1998, s. 24.

Table 4 - Asset Quality Non-performing loans / total loans (In percent, 1998)

	France	Italy	Spain	Belgium	Finland	Ireland	Portugal
1995	8.5	9.0	6.0	4.0	6.0	n.a.	5.9
1998	6.3	8.9	1.7	3.2	1.8	2.1	2.8

Source: Adapted from BELAISCH, A., KODRES, L., LEVY, J., UBIDE, A.: *Euro-Area Banking at the Crossroads*. IMF Working Paper No. 28. Washington, D.C.: IMF, 2001, p. 31.

Table 5 - Asset Quality Non-performing loans / total loans

	1993	1994	1995	1996	1997	1998	1999	2000	2001
The Czech Republic	13.4	24.2	30.5	28.8	28.3	28.8	33.5	29.6	27.7*
Poland	31.0	28.5	20.9	13.2	10.5	10.9	13.7	15.3	
* half of the year									

Source: NBP, CNB

5. Bank Capitalization

To be competitive banks in Central European countries have no other chance than to boost their capitalization. Growing activities and thus growing assets demanded more and more capital. Greater capitalization also helps reduce the cost of borrowed funds for banks. That is very important for Central European countries where capital markets are underdeveloped and large share of savings is not saved in banks. To improve capitalization banks started to use the issuance of hybrid instruments (quasi-equity) and subordinated debt.

At the beginning of 90's the Capital Adequacy Directive and the Basel Committee's recommendations on bank soundness were accepted by the Czech Republic and Poland. This was the only way how to make the banking sector more credible. Nevertheless the basic reason for the growth of capital in banks was to fulfil criteria demanded by central banks. But this process would be impossible without the government help. To boost bank's capitalization was very expensive for the government budgets as well as an important impact for bank privatization. Government budget deficits and persistent inefficiency of banks were among major reasons for privatization. In the Czech Republic costs to keep government banks working and to sell them later were much higher than the price these banks were sold for (Table 6)⁶.

Data in Tables 7 and 8 confirm that there is no important difference between capitalization measured by equity/total assets or BIS ratio in developed countries and in Poland, respectively in the Czech Republic. Above all the equity/total assets indicators are slightly higher in the case of Poland than in industrial countries while they are slightly lower in the case of the Czech Republic. Further capitalization can be expected in both countries. The new owners should be guarantors of this development.

⁶ KONKOLSKÁ, P., MIELCOVÁ, E.: Costs of large banks privatization of in 1997 – 2001. In: POLOUČEK, S., KULHÁNEK, L., FLEISSIG, S. (ED.): *Future of the Banking after the Year 2000 in the World and in the Czech Republic. VI. Privatization of the Banking Sector*. Proceedings from the International Conference. Karviná: OPF SU, 2001, s. 95 - 100.

Table 6 - Costs and income of the Czech banking sector (billion CZK)

	costs payed from governm ent budget	income	exp. income*	total income	share sold (%)	overvalu- ation of the net present value
Investiční a poštovní banka	95.0**	3.000	10.00	-82.000	36.00	
ČSOB						
capital increase	56.4	40.047		-15.953	65.69	2.2
non-performing loans (TOZ)						
Česká spořitelna	4.5					
capital increase	3.0	19.00	6.9	-3.000	52.07	1.8
non-performing loans (TOZ)	41.5***		20.1			
non-performing loans						
Komerční banka						
capital increase	6.8	40.00	13.0	1.4	60.00	3.2
non-performing loans (TOZ)	11.8		35.5			(2.6)
non-performing loans	68.5					
Small banks	73.0					
Agrobanka	42.0					
TOTAL	402.5	102.047	85.5	-99.553		
* expected income or payment of non performing loans						
** estimation						
*** 8 billion of that estimation						

Source: CNB, www sites of particular banks

Table 7 - Capitalization (In percent, 1998)

	France	Germany	Italy	Spain	Austria	Belgium	Finland	Ireland	Portugal
BIS ratio									
5 largest banks	11.0	10.1	9.6	12.0	12.7	11.0	11.9	12.5	11.4
Equity/total assets	4.4	3.4	6.3	6.4	4.0	3.5	5.0	6.1	5.3

Source: Adapted from BELAISCH, A., KODRES, L., LEVY, J., UBIDE, A.: Euro-Area Banking at the Crossroads. IMF Working Paper No. 28. Washington, D.C.: IMF, 2001, p. 31.

Table 8 - Capitalization (In percent)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
The Czech Republic									
BIS ratio			10.58	10.58	10.32	12.31	14.71	13.78	
3 largest banks									
Equity/total assets		3.57	3.33	3.33	3.25	2.97	3.46	3.27	
Poland									
BIS ratio				13.85*	11.80*	12.20	13.19	13.85	
3 largest banks									
Equity/total assets	4.22	5.00	5.17	6.39	7.24	7.05	7.06	7.12	7.22*
* only two of three largest banks									
** 3Q									

Source: NBP, CNB, web sites of particular banks

6. Conclusion

The banking sector goes through an outstanding curative process in transition countries. Privatization belongs to the most important factors standing behind serious changes in the banking sector during last 10 years. Namely in Poland and in the Czech Republic restructuring and privatization of the banking sector improved bank's profitability, capitalization and asset quality. Data and comparison with developed countries show that improvement in asset quality and partly in capitalization can be expected in near future while profitability has already started to increase in both countries during the privatization process. Nevertheless further improvement in profitability measured by ROA or ROE can be expected.

Abstract

V tomto příspěvku jsou nejdříve objasněny hlavní rysy privatizačního procesu v České republice a v Polsku (kapitola 2). Poté je vysvětleno proč by měla být privatizace považována za jeden z nejvýznamnějších faktorů zvyšujících efektivitu bankovního sektoru a posílení jeho stability na základě rentability (kapitola 3), hodnoty aktiv (kapitola 4) a bankovní kapitalizace (kapitola 5). Souhrnný závěr je prezentován v kapitole 6.

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STRUCTURAL CHANGES IN ASSETS AND LIABILITIES: THE BULGARIAN CASE

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Key words

bank privatization, Bulgaria, structural changes

1. Introduction

The privatization process in Bulgaria has started in 1997. The Government decided to stabilize the bank system by privatizing it. This decision came as a result from the overwhelming crisis in the bank system at that time. The purpose was to create a solid and working bank system by means of a better management. This was based on the assumption that the privatization means real improvement of the bank management

The real effect of this better management can be seen in the balance sheets and the income statements. They appear to be the best reflection of this process in regard to the assets and liabilities of the privatized bank its policy and market orientation.

The objects of this research are the structural changes of the balance sheet of the bank, resulting from the privatization:

- credit portfolio structure – the expected consequences of the bank privatization are that the ratio of the credit portfolio in the bank assets will increase and that its structure will change according to the new bank policy and market orientation;
- changes in the own funds structure – the expectations here are that the own funds of the privatized banks will increase;
- profit/loss – the profitability of the corresponding bank will be higher which follows the optimizing of its revenues and expenditures, as well as the optimizing of the range of services;
- expenditures and revenues change;
- liquidity decrease – the 1997 bank crisis and the change in the legislation led to a tremendous level of liquidity (sometimes up to 43,5%). That is why the Bulgarian

bank system suffers over liquidity. In Bulgaria, the best way to manage the bank liquidity is to decrease it.

The purpose of this research is to prove the better performance of the banks as a result from the innovations made by the new bank management. Most often, this positive effect is achieved by the combination of aggressive credit policy in some non-typical spheres and expenditure optimizing, greater range of services.

2. Database Description

In order to support the described statement, in this research we have enlisted 4 of the biggest banks in Bulgaria - Bulbank, SG Express Bank, UBB, Hebrosbank. The data is based on their quarterly balance sheets and income statements. They have been privatized in one-year period – September 1999-September 2000. This fact gives us the chance to compare the different banks in this period. The intensity of the external factors, which influence the financial performance of the analyzed banks, is limited by the length of the period in question. These factors are as follows:

- economic situation;
- BIR (Bank Interest Rate);
- intensity of credit offering;
- legislation;
- governmental policy;

For the purposes of this research we employ comparatively short rows of data because bank accounting standards in Bulgaria have been changed since the middle of 1999. The present bank balance sheets are incomparable to the ones prior the change. The main source of information is the web site of Bulgarian National Bank - www.bnb.bg.

3. Methodology

To evaluate the significance of the structural changes in bank assets and liabilities we use the integral coefficient of structural changes [1]:

$$K_s = \sqrt{\frac{\sum_{i=1}^k (V_{it} - V_{io})^2}{\sum_{i=1}^k V_{io}^2 + \sum_{i=1}^k V_{it}^2}} \quad [1]$$

$$V_i = \frac{n_i}{N}$$

Where:

V_i - relative share of the section i from the balance sheet;

n_i - absolute size of the section i from the balance sheet;

N - aggregate size from the balance sheet;

V_{i0} - relative share of the section i from the balance sheet before privatization;

V_{it} - relative share of the section i from the balance sheet after privatization.

The coefficient generalized the characteristics of both absolute and relative structural changes. Furthermore, the integral coefficient is sensitive and captures the most insignificant structural changes. It reflects not only the differences between relative shares but also the size of these shares during the two periods. The values of the coefficient are within zero and one. If the coefficient is equal to zero it means that there is no structural change.

We calculate ten ratios on the basis of balance sheets and income statements to evaluate the bank management [2]. The ratios are as follows:

- 1) Earnings assets share.
- 2) Asset profitability rate.
- 3) Coverage ratio of credits with special provisions.
- 4) Rate of credit granting.
- 5) Credit profitability.
- 6) Coverage ratio of credits to individuals and households with deposits.
- 7) Coverage ratio of credits to private enterprises with deposits.
- 8) Coverage ratio of credits to public enterprises with deposits.
- 9) Rate of credit security with OF.
- 10) Ratio between liquid assets and deposits.

We compute the mean value of the ratios before privatization and after privatization. The difference between the mean value of the ratios before privatization and the mean value of the ratios after privatization is marked by Δ . To understand is the Δ significant we apply the statistical procedure for hypothesis testing of two means using small samples [3]. We test the following hypothesis¹:

¹ We apply the calculation procedure of MS Excel Data Analysis/t-test: Paired Two Samples for Means

$$H_0 : \mu_{1i} = \mu_{2i}$$

$$H_1 : \mu_{1i} < \mu_{2i}$$

or

$$H_1 : \mu_{1i} > \mu_{2i}$$

Where μ_{1i} is the mean value of the ratio i before privatization and μ_{2i} - is the mean value of the ratio i after privatization.

4. Results from the Analysis of the Bank Balance Sheets Structure

The structural analysis of the balance sheets of Bulbank, UBB, Hebros bank and Express bank is divided into three directions. We accept that every new bank management is supposed to concentrate its attention to the following three formal balance sheet positions: earnings assets structure and in particular - the securities portfolio structure and bank deposits structure. The results from structural analysis are presented in Attachment 1.

4.1. Structural Analysis of Earnings Assets

The most substantial results from the structural changes that have been analyzed can be noticed in the earnings assets structure. This is due to the following factors:

- 1) there is a substantial post-privatization increase of the relative percentage of the credits to individuals and households in the total earnings assets. The reason for this to happen is the lower risk of this credits, as well as the slow development of this bank service, because up to now, this service was typical only for DSK Bank;
- 2) there is a decrease in the relative percentage of credits to the budget and to public enterprises. This is determined by the transition of the real sector from state property into private property, by the changes in the legislation, as well as by the fact that the public enterprises are the most insolvent debtors;
- 3) there is also a significant change in the percentage of the credits to private enterprises. On the basis of the calculations we can state that these changes are a consequence of the privatization and the new bank management. But as the changes are versatile, we cannot say for sure that the privatization leads to increase of the credits to private enterprises and in particular of the investment credits. The latter would be a normal process and it was expected by the economic agents, but unfortunately it has not happened. Of course this is not necessarily a disadvantage of the new bank management because there are natural reasons for the present state of the private enterprises credit granting: the low solvency of the Bulgarian companies,

the disadvantages of the legislation, the negative consequences on the bank system that came after the bank crisis in 1997.

4.2. Structural Analysis of the Deposits

The structural analysis of the deposits of the four banks does not show a general trend in their deposit mass. There are trends that are not the same in their significance and direction. This gives us the reason to claim that these trends are due to casual factors and are not influenced by the privatization at all. The more so as the deposit policy is considered to be a passive bank policy. Because of that a change in the deposit structure may be expected in the long run, as a result from a better marketing, higher quality services and lower prices of the bank services.

4.3. Structural Analysis of the Portfolio

At the analysis of the structural changes of the portfolio of the four banks, we have come to the conclusion that there is a permanent trend to a change of the securities portfolio structure and it happens at the expense of increase of the securities investments portfolio. We can say for sure that changes of the structure are the result of the privatization in all the banks but Bulbank this is because Bulbank has had a sizable investment portfolio long before the other banks included in the research.

5. Results from the Analysis of the Ratios

Attachment 2 contains the results from hypothesis testing.

$$1. \text{Earnings Assets Share} = \frac{\text{Earnings Assets}}{\text{Total Assets}}$$

Results: The change (Δ) of the earnings assets percentage is positive for all banks analyzed. The bank after privatization P ($T \leq t$) one-tail coefficient shows that the change of the earnings assets share is significant to Bulbank and UBB, and it is not significant to Hebros and Express bank. This comes to prove that the privatization of the corresponding banks is successful and that the new management has made some positive innovations. The most insignificant change can be noticed with Express bank and this can be explained by the fact that it has been bought just before bankruptcy.

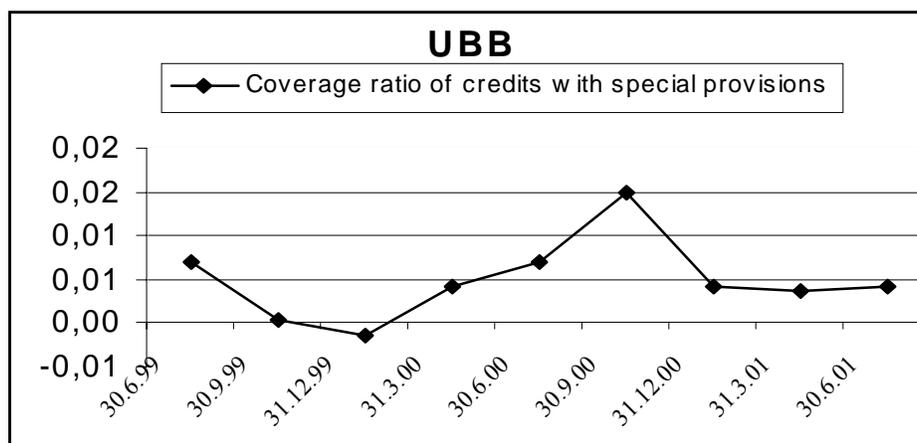
$$2. \text{ Asset profitability rate} = \frac{\text{Bank profit}}{\text{Total assets}}$$

Results: The coefficient does not reflect a synonymous change of the bank management of the four banks. P (T<=t) one-tail coefficient shows that the change of asset profitability is significant to Bulbank and Hebros. The important here is that their results are contrary. It is typical to Bulbank to have an aggressive market policy, while Hebros bank is now in the process of restructuring and new market orientation. The eventual reason may be that profitability is the bank management's long run purpose.

$$3. \text{ Coverage ratio of credits with special provisions} = \frac{\text{Special provisions}}{\text{Total credits}}$$

Results: We find out that the provisions for all researched banks are decreasing. The value of Δ is negative for Bulbank and Expressbank this is due to writing off of provisions. The new bank management has improved credit-collecting rate and has estimated some credits to be less risky. This provides extra resources. This is a natural process because the trend that can be noticed one year prior to privatization is of permanent growth of special provisions of the banks in question. This due to a change in the legislation, which obliges the banks to make extra provisions on some credits. The second reason is the Government's will to improve stability and to minimize the losses from bad loans. Δ is positive as far as UBB and Hebros bank are concerned, but the result is insignificant due to the influence of some unexpected factors. This fact presupposes controversy of the real trend, as it can be noticed with UBB.

Figure 1

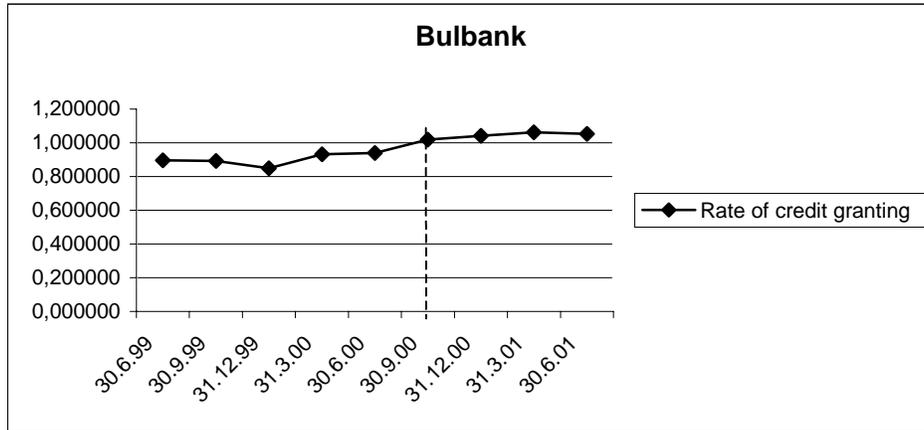


Legend: The point of acquire is section number 6

$$4. \text{Rate of credit granting} = \frac{\text{Total credits}}{\text{Total deposits}}$$

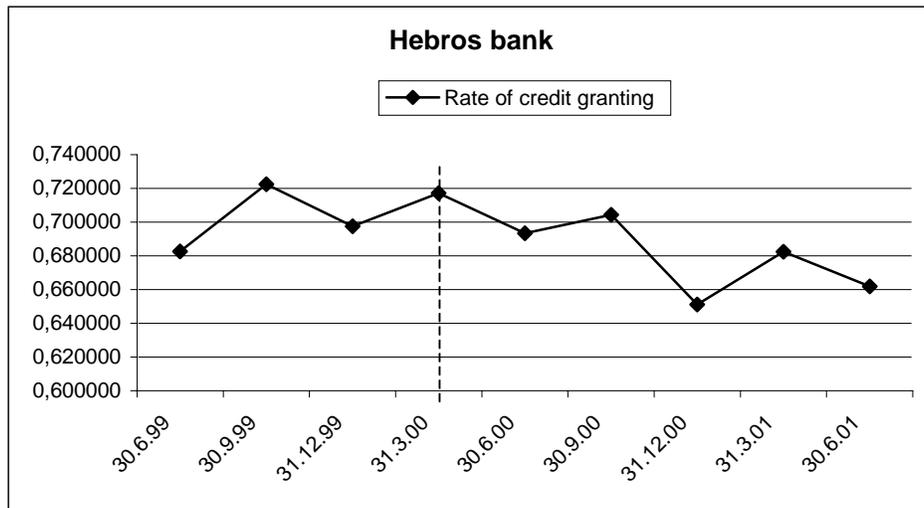
Results: We prove that the rate of credit granting is decreasing or slowing down. P (T<=t) one-tail coefficient is significant to Bulbank and Hebros Bank, but Δ has contrary values. If we make a comparison with the trend shown on the graph below, we can notice that the growth of credit granting rate is slowing down or decreasing.

Figure 2



Legend: The point of acquire is section number 6

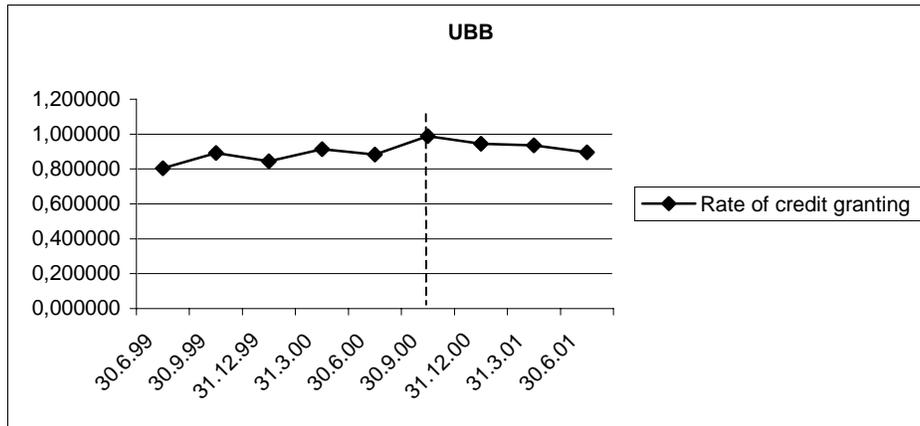
Figure 3



Legend: The point of acquire is section number 4

UBB has a positive Δ indicator $\Delta = 5\%$, but the change itself is not significant because $P_t < 0.05$ and because it is influenced by unexpected factors. This means that what we see is not the actual value of the coefficient. This can be proved by the graph below which shows a negative trend in the movement of the credit-granting rate.

Figure 4



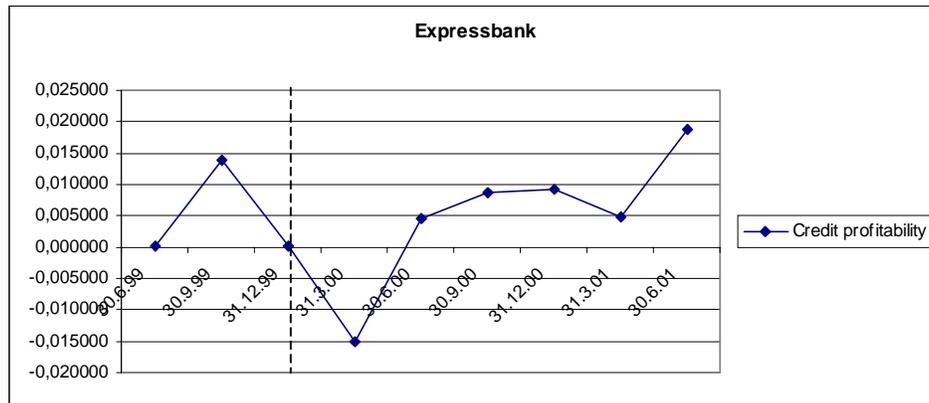
Legend: The point of acquire is section number 6

Expressbank is the only one that has an increasing trend of the credit granting rate – 8%, but the value is not significant and is the result of casual events. The general trend of the indicator is one of retention or decrease of the credit-granting rate after the privatization. The reason is the restructuring of the credit portfolio by the new bank management.

$$5. \text{Credit profitability} = \frac{\text{Profit}}{\text{Total credits}}$$

Results: The results are controversial. $P (T \leq t)$ one-tail shows that the change of credit profitability, as well as the change of asset profitability is not synonymous to all banks. On the other hand the Δ coefficient outlines a clear negative trend. The same trend is substantiated by the credit profitability graph of Bulbank, although $P (T \leq t)$ is significant and Δ is positive. The difference of the data is due to the imperfection of the average quantity method $(X_2 - X_1) / X_1 = \Delta$, that is applied for short rows of starting data. The situation with Expressbank is the same. Here $P (T \leq t)$ shows that the change of credit profitability is insignificant and the $\Delta = 6\%$ change is a result of a casual event. Nevertheless, the graph shows a permanent positive trend of the profitability coefficient, which is due to the new bank management.

Figure 5



Legend: The point of acquire is section number 3

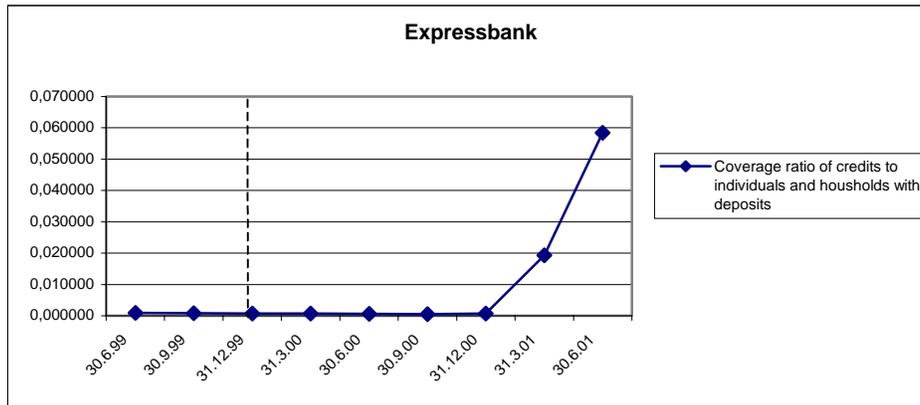
The general conclusion is that the credit profitability indicator fluctuates according to the new bank management's strategy, which can be defined like this:

- 1) the new bank management is aiming at fast investment return ;
- 2) the new bank management makes structural changes in bank, optimizes the assets and the liabilities, especially the credit and deposit structure. The purpose of this is greater profitability in the long run.

$$6. \text{ Coverage ratio of credits to individuals and households with deposits} = \frac{\text{Profit}}{\text{Total credits}}$$

Results: If we analyze the bank's performance in a shorter time period, we can say that there is a significant and lasting positive trend of increase of credits to individuals and households. The change of the Coverage ratio of credits to individuals and households with deposits is significant to three of the banks. The change is not significant only for Hebros bank. Nevertheless, $\Delta=2,34\%$ is a positive value and coincides with the general trend of increase of credits to individuals and households as a share of the total deposits. As of Expressbank $\Delta=-28,055771$, which does not coincide with the general trend of increase of the credits to individuals and households. The bank starts the program for credits to individuals and households much later after the privatization.

Figure 6



Legend: The point of acquire is section number 3

The contradiction between Δ indicator and the graph is a consequence from the imperfect average quantity model. Its accuracy is improved by the use of long rows of figures, which this research does not dispose of.

The consumer credit/total deposits indicator clearly outlines one of the main trends, typical to the bank management after the privatization of the corresponding banks. All these banks permanently turn to consumer credit granting.

$$7. \text{Coverage ratio of credits to private enterprises with deposits} = \frac{\text{Credits}}{\text{Deposits}}$$

Results: The significance results for this coefficient are not similar. On the opposite are the Δ coefficients, which reflect the market strategy of the new bank management, oriented toward decrease of the share of credits to private enterprises. As of UBB Pt = 0.246910, which makes the coefficient under analysis insignificant and the corresponding value of $\Delta=8\%$ is due to casual events. Nevertheless, we can accept that UBB is a part of the general trend of decrease of the credits to private enterprises.

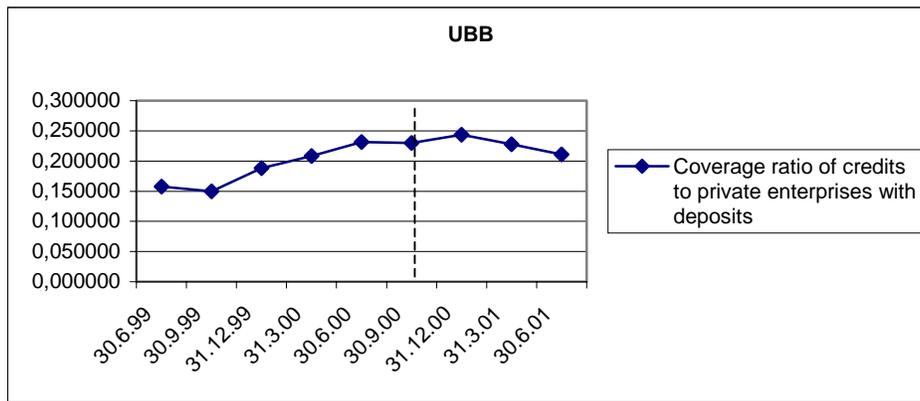
The management of Bulbank is the only one that does not follow the general trend, although a small slow down of the growth of credits to private enterprises can be noticed.

The good results, on the background of the general trend, are due to the good management of the biggest Bulgarian bank combined with the aggressive market strategy, which can be noticed in the earnings assets coefficient, the ratio of coverage of the credits with specific provisions and the credit granting rate.

8. Coverage ratio of credits to public enterprises with deposits = $\frac{\text{Credits}}{\text{Deposits}}$

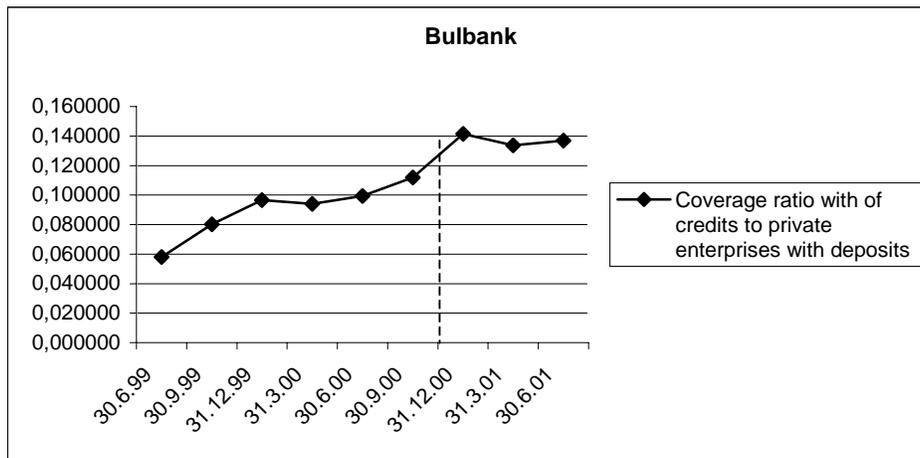
Results: The trend here is definitely negative. $P_t < 0,05$ for all banks, (the values of change) are significant and the coefficient Δ gives negative results. The trend outlined by the new bank management is toward minimizing of the risk of bad loans. Most often this kind of loans is granted to state institutions, and at the same time some amounts are directed to consumer financing.

Figure 7



Legend: The point of acquire is section number 6

Figure 8



Legend: The point of acquire is section number 6

$$9. \text{ Rate of credit security with OF} = \frac{\text{Credits Total}}{\text{Own funds}}$$

Pt are significant for "Rate of credit security with OF", and in the same time Δ is has negative value. This data confirms the new bank management's market behavior, which has been determined by the "credit granting rate indicator". Hebrus bank appears to be an exception again, which means that its market strategy is passive. The eventual reason may be cautiousness and distrust to the economy. The same trend is about to be developed by the other banks as well, but it is not quite clear at the moment.

$$10. \text{ Ratio between liquid assets and deposits} = \frac{\text{Liquid Assets}}{\text{Deposits}}$$

The value of Pt indicator is significant for three of the four banks, while Δ has a negative value in all four. Obviously the new bank management restructures the assets by denying itself liquidity and increasing the share of earnings assets.

6. Conclusion

The following conclusions about the new bank management can be made out of the methodology used in the research and the results from it:

- 1) The integral coefficient shows clear structural changes of the earnings assets. This means that the bank management improves the bank's profitability and, consequently, the privatization can be considered successful.
- 2) The deposits integral coefficient does not render an account of the structural changes made after the privatization. This comes to show that the new managers does not consider it necessary to increase the total deposits on one side, and on the other to that the deposit market has reached to the maximum due to the economic situation.
- 3) At the analysis of the structural changes of the portfolio of the banks, we have come to the conclusion that there is a permanent trend to a change of the securities portfolio structure and it happens at the expense of increase of the securities investments portfolio.
- 4) The results from the analysis of ten indicators outline an enormous balance sheet restructuring. The following tendencies can be seen:
 - a) The bank management has an aggressive policy in regard to the credits to individuals and households;
 - b) Some additional resources are released out of the specific provisions by re-estimation of the credit portfolio and decrease of the bank liquidity. By doing this the new bank management secures additional resources that can be invested;

- c) There has been a drop of the profitability of the banks since their privatization. This is not due to bad management but to the structural changes aiming at the future bank development.

As a result from our research we have the reason to claim that the decisions made by the new bank management are good and directed toward real future development of the privatized banks.

Abstract

Privatizační proces začal v Bulharsku v roce 1997. Vláda se rozhodla stabilizovat bankovní systém jeho privatizací. Toto rozhodnutí bylo výsledkem obrovské krize v bankovním systému v této době. Cílem bylo prostřednictvím lepšího managementu vytvořit stabilní a funkční bankovní systém. Toto bylo založeno na předpokladu, že privatizace znamená skutečné zlepšení bankovního managementu.

Skutečný efekt takového lepšího managementu může být spatřen v rozvaze a ve výkazu zisků a ztrát. Tyto ukazatele se jeví jako nejdůvěryhodnější obraz procesu privatizace, vzhledem k aktivům a pasivům privatizované banky, její politiky a tržní orientace.

Předmětem tohoto výzkumu jsou strukturální změny v rozvaze bank, pramenící z privatizace.

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Attachment 1

Bulbank		UBB	
Ks of earnings assets for the period 30.6.2000-30.9.2000	0,08	Ks of earnings assets for the period 30.6.2000-30.9.2000	0,10
Ks of earnings assets for the period 30.6.2000-31.12.2000	0,12	Ks of earnings assets for the period 30.6.2000-31.12.2000	0,06
Ks of earnings assets for the period 30.6.2000-31.3.2001	0,12	Ks of earnings assets for the period 30.6.2000-31.3.2001	0,07
Ks of earnings assets for the period 30.6.2000-30.6.2001	0,12	Ks of earnings assets for the period 30.6.2000-31.6.2001	0,07
Ks of deposits for the period 30.6.2000-30.9.2000	0,07	Ks of deposits for the period 30.6.2000-30.9.2000	0,03
Ks of deposits for the period 30.6.2000-31.12.2000	0,02	Ks of deposits for the period 30.6.2000-31.12.2000	0,02
Ks of deposits for the period 30.6.2000-31.3.2001	0,07	Ks of deposits for the period 30.6.2000-31.3.2001	0,01
Ks of deposits for the period 30.6.2000-30.6.2001	0,02	Ks of deposits for the period 30.6.2000-30.6.2001	0,02
Hebros bank		Expressbank	
Ks of earnings assets for the period 31.3.2000-30.6.2000	0,0949365	Ks of earnings assets for the period 30.9.1999-31.12.1999	0,1646929
Ks of earnings assets for the period 31.3.2000-30.9.2000	0,1021659	Ks of earnings assets for the period 30.9.1999-31.3.2000	0,3302108
Ks of earnings assets for the period 31.3.2000-31.12.2000	0,0527438	Ks of earnings assets for the period 30.9.1999-30.6.2000	0,2195172
Ks of earnings assets for the period 31.3.2000-31.3.2001	0,1266826	Ks of earnings assets for the period 30.9.1999-30.9.2000	0,3198744
Ks of earnings assets for the period 31.3.2000-30.6.2001	0,1069297	Ks of earnings assets for the period 30.9.1999-31.12.2000	0,3498525
Ks of deposits for the period 31.3.2000-30.6.2000	0,0373784	Ks of earnings assets for the period 30.9.1999-31.3.2001	0,3554377
Ks of deposits for the period 31.3.2000-30.9.2000	0,0348069	Ks of earnings assets for the period 30.9.1999-31.6.2001	0,377099
Ks of deposits for the period 31.3.2000-31.12.2000	0,0280765	Ks of deposits for the period 30.9.1999-31.12.1999	0,013737
Ks of deposits for the period 31.3.2000-31.3.2001	0,0354768	Ks of deposits for the period 30.9.1999-31.3.2000	0,0159064
Ks of deposits for the period 31.3.2000-30.6.2001	0,0328497	Ks of deposits for the period 30.9.1999-30.6.2000	0,012068
		Ks of deposits for the period 30.9.1999-30.9.2000	0,0454883
		Ks of deposits for the period 30.9.1999-31.12.2000	0,0104063
		Ks of deposits for the period 30.9.1999-31.3.2001	0,0134535
		Ks of deposits for the period 30.9.1999-30.6.2001	0,0205878

Attachment 2

	Bulbank	UBB	Hebrosbank	Expressbank
1. Earnings assets share				
P(T<=t) one-tail	0.009825	0.001753	0.162000	0.469422
Δ %	6.515033	2.192323	3.011430	0.523349
2. Assets profitability rate				
P(T<=t) one-tail	0.005455	0.149594	0.031717	0.485807
Δ %	82.891782	-13.17622	-55.365913	6.145833
3. Coverage ratio of credits with special provisions				
P(T<=t) one-tail	0.066543	0.397176	0.127307	0.394189
Δ %	-1366.41343	23.103099	119.552673	-72.754047
4. Rate of credit granting				
P(T<=t) one-tail	0.012906	0.120724	0.028144	0.295794
Δ %	15.994943	5.165951	-4.632756	8.028364
5. Credit profitability				
P(T<=t) one-tail	0.004642	0.156026	0.031186	0.484924
Δ %	50.739814	-23.29006	-54.795859	-6.114637
6. Ratio between liquid assets and credits				
P(T<=t) one-tail	0.014583	0.000992	0.021288	0.443366
Δ %	-43.347663	-22.37709	-34.529220	-2.759263
7. Rate of credit security with OF				
P(T<=t) one-tail	0.145524	0.025091	0.070909	0.104298
Δ %	-14.681597	-21.62848	12.799183	-24.043835
8. Coverage ratio of credits to individuals and households with deposits				
P(T<=t) one-tail	0.053450	0.040500	0.421835	0.035938
Δ %	64.846066	6.858302	2.343398	-28.055771
9. Coverage ratio of credits to private enterprises with deposits				
P(T<=t) one-tail	0.001397	0.246919	0.003033	0.357149
Δ %	42.031446	8.717401	-19.167435	-4.693515
10. Coverage ratio of credits to public enterprises with deposits				
P(T<=t) one-tail	0.001899	0.004072	0.046202	0.180732
Δ %	-64.334516	-46.63326	-53.506949	-56.673419

CONSOLIDATION, REVITALIZATION AND RESTRUCTURING IN THE BANKING SECTOR OF THE SLOVAK REPUBLIC

Milan Šikula

Key words

transformation risks in the banking sector, consolidation, revitalization and restructuring of the banks

The banking sector plays a key role in the transformation between a command economy and a market economy. On the one hand, the country's banking sector is an indicator reflecting the overall direction and results of these changes since a functional banking sector plays an unreplaceable role as a catalyst in building market conditions. On the other hand, a functional banking sector is influenced by initial conditions and by definite procedures in economic reform, especially in the area of commercial banks.

The shaping of the commercial banking sector has been exposed to many risks even from the beginning of this transformation. The most important risks were as follows:

- macro and micro economic problems (a huge disparity between cash demand and restricted financial funds, ineffective portfolio of clients and high indebtedness and insolvency of corporations, inadequate experience in commercial banking);
- disparity between loans and funds deposited mostly in savings banks which limited competition;
- a very low capital investment determined a substandard capital adequacy of 1.72 percent in the Czechoslovak banking sector in the year 1992;
- strongly warped initial conditions which resulted in banks not analyzing the risks of the banking business in accordance with acceptable banking standards and banking activities were further marked by political pressures, cronyism and corruption.

The above mentioned factors led to the creation and increase of non-performing loans to approximately SKK 15 billion in the years 1993-94. Delayed realistic solutions to these problems in the banking sector increased the volume of non-performing loans more than 12 times and it reached the critical level of SKK 190 billion by the year 1999. The three largest banks with assets amounting to nearly half of the total assets of the banking sector were in imminent danger of bankruptcy. Repeated failures to adopt efficient measures made it impossible for the banks involved, to handle the tasks on their own, without government help. Bankruptcy of these banks would have resulted in the country's default and a financial crisis that would have had far-reaching detrimental consequences. Even the state contribution amounting to SKK 18.9 billion to

increase these bank's registered capital during the year 1999 would not have been sufficient to avoid the financial crisis. Due to the above mentioned circumstances, it was inevitable that in December 1999 SKK 62.7 billion of non-performing loans were transferred from VUB, a.s., SLSP, a.s. and IRB, a.s. to Slovenska konsolidacna, a.s. At the same time SKK 11.4 billion of non-performing loans was transferred to Konsolidacna banka, s.p.u. In June 2000, a second amount of SKK 43.2 billion of non-performing loans was again transferred to Slovenska konsolidacna, a.s. Replacement of these non-performing loans amounting to the total SKK 108.3 billion by three state guaranteed loans allowed the above mentioned banks to increase their capital adequacy to above 8 percent. Because of the previous experiences we must distinguish between three qualitative and different processes, consolidation, revitalization and restructuring, in order to understand and allow transformation to take place in the banking sector.

CONSOLIDATION represents a process of overcoming a threshold in non-performing loans. In practical terms the state has increased the registered capital of the banks directly and the main portion of bad and doubtful debts in the loan portfolios were transferred to a special loan rehabilitation institution. A nominal value of these transferred non-performing loans was substituted by a state guaranteed loan and state bonds, respectively. As a result of the above mentioned capital transfusion selected state banks were rescued. However, consolidation did not mean that the banks had made changes to the former methods of operation, which had led them to the verge of bankruptcy. A qualitative different process, called revitalization is necessary for this change.

Under **REVITALIZATION** we understand a restoration of all 'living means', those fundamental to banks performing rationally. Therefore, such adaptable measures are required, which will be able to change a huge and dangerous bank's capital depreciation to its rational valorization and enhancement. Opposite to consolidation, which would have been performed by several single acts, revitalization required a consistent set of regulations being able to induce a critical level of changes. These changes are necessary for changing a behavior of a new established structure of banking from capital depreciation to capital valorization. This is a basic and inreplaceable precondition of an effective revitalization.

RESTRUCTURING we understand to be an adaptable process, whereby banks react to determinative trends of globalization in world banking and finance. The aim is to gain the most suitable position in a hot global competitive market. The main pressure and determinative trends of restructuring arise from external environmental factors. They are as follows:

- relative increase and independence of monetary sphere in relationship to real economy and increase of a difficult mediation between them,
- development of interchangeability and penetrating a money function in circulation of the goods and in servicing of a large scale of alternative monetary and financial assets,
- increase of financial funds allocated in securities at the expense of loans,
- avoiding of and rejecting banks by institutional investors,

- convergence and integration of commercial banking, investment banking, insurance and other financial services,
- massive and quick innovation of information and telecommunication technology,
- relative increase of banking sector's over capacity,
- increasing global concentration of banks through mergers followed by strong measures for cost depreciation,
- increase of global interdependency and competition on domestic, regional, and international financial markets and shaping of the global monetary and financial market.

Conclusion

Consolidation, revitalization and restructuring are different processes as stated. Therefore, a different approach has to be applied in order to achieve their successful control. However, the distinguishing of these processes does not mean their mutual isolation. Without consolidation, we would hardly find reliable investors, who as new owners will be able to perform an effective revitalization. And only sound banks can react to global appeals in the way of a restructuring process.

Abstract

Prezentovaný príspevok vychádza z identifikácie transformačných rizík a na základe zovšeobecnenia doterajších poznatkov a skúseností z transformačného procesu v bankovom sektore SR argumentuje potrebu účelového rozlíšenia troch kvalitatívne rozdielnych, no vzájomne spätých procesov – konsolidácie, revitalizácie a reštrukturalizácie bánk.

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INFLUENCE OF BANK PRIVATIZATION TO CASH CIRCULATION

Ilja Skaunic

Key words

money, cash, central bank, commercial bank, security agency

1. Introduction

Most people see in the term „bank“ an institution, which affords loans to its clients and deposits their money . It is very probable, especially for the last years , that common people have been thinking about banks as institutions, in which money laundering and tunneling are normal activities. I can't say, that all these words aren't particularly true. Banks are above all institutions, in which services for clients are given and which provides some type of activities, which are sometimes forgotten, because they are very common, very normal and very ordinary. One form of these activities involves operations with cash. Privatization of Czech banking will influence cash circulation as a part of this economy sector. We can find evidences for this , if we compare operations with cash in big traditional Czech banks and in foreign banks, located in the Czech Republic.

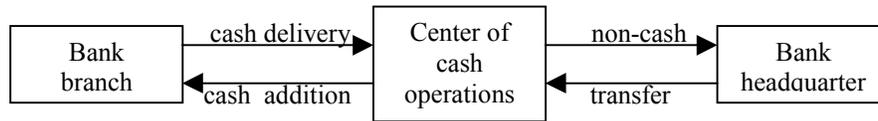
The basic target of each bank is maximalization of profit. One of the tools, used in this process is an effort to increase the amount of deposits in client's accounts, as an effort to expand the offers of products to clients. It means, by the way, that the bank has to offer to its clients cash operations. Any bank for this type of operations should have backing in form of sufficient, but not excessive reserves of cash. On the other hand – money in a safe is very expensive. Only money on account brings to its owner new money. That is the reason, why we can see, how special cars are coming to and out of banks branches. That transport of money brings to small bank branches the possibility to have optimum value and structure of bank notes and coins every day.

2. Optimizations of Amount of Cash in Bank Branches

To optimize the value of cash in a bank branch means to have the right amount of bank notes and coins in right structure for clients withdrawal every day and at the same time, it means returning excessive bank notes and coins out of the branch. This excessive money is immediately changed from cash to non-cash money on account in

bank headquarters. Money on account is applicable for further business, while cash brings costs only.

These operations can be demonstrated in a chart:



The Center of cash operations means in this chart a symbolic unit, in which cash is delivered from bank branches and its bookkeeping value is transferred into account in bank headquarters. The opposite operation is used, if cash addition is necessary in some bank branch. The Center of cash operations is moreover a place, in which the issuance of bank notes and coins from production circulation, is executed. Damaged money is here classified and withdrawn from circulation.

Different institutions can play a role of center of cash operations in different banking systems. It could be private companies (for example cash centers owned by commercial banks in Great Britain and Denmark), but in most of European countries the bank of issue is the institution, which performs these operations. In last decade some central banks founded daughter companies (mostly limited companies), to which such operations are shifting. For example we can use the Austrian or the Sweden central banks. A brand new system has been built in the Czech Republic in this field. Czech central bankers have used experience of the German Bundesbank and, from my point of view, they have built a really modern and sophisticated system, which will function without necessity of bigger changes to the end of crown times – it means until denomination to the Euro in the Czech Republic. The Czech system is created as system with one headquarter in Prague and seven branches in big cities all over the republic (Prague, Ústí nad Labem, České Budějovice, Hradec Králové, Brno, Ostrava).

3. Cash Operations in the Czech Republic

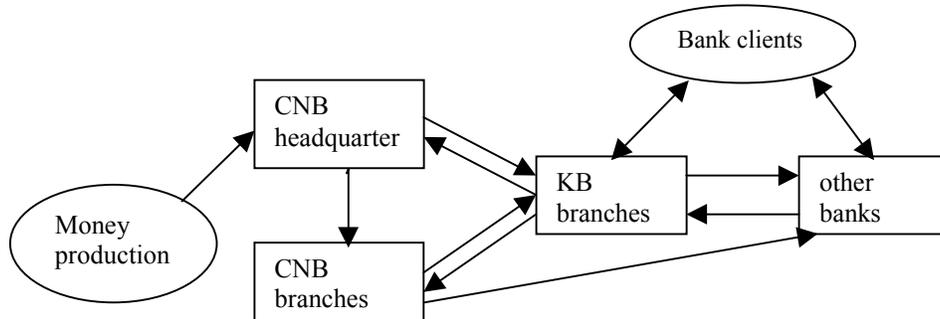
There were a few stages in operations with cash in the Czech Republic in the past. The first of these ended in 1997, when most CNB branches (except for Prague branch) were built. Branches took cash operations from branches of Komerční banka, a.s..

In this stage cash operations were organized in accordance with the following Figure 1.

CNB branches and KB branches issued and withdrew cash. Safes of Komerční banka held money owned by that bank, as well as money owned by the CNB. Changing from cash to non-cash money passed on cash-desks CNB and KB. Transport of money owned by the CNB was ensured by CNB employees, but transfer between the CNB and commercial banks was ensured by employees of banks. From the middle

nineties these operations were ensured partly (later completely) by special security companies and agencies.

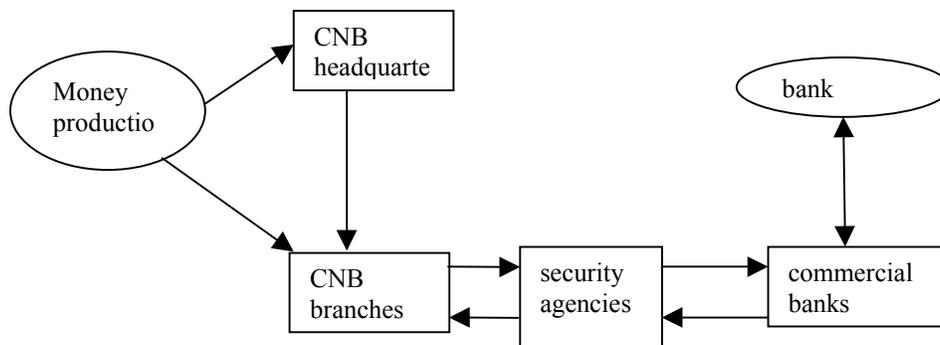
Figure 1



The second stage of cash operations in the Czech republic (from 1997 to 1999) was characterized by two principle facts:

- branches of CNB started to be fully responsible for cash operation with money reserves in CNB ownership (except Prague territory).
- security agencies started to be fully responsible for transport of money between CNB and branches of commercial banks.

Movement of cash in this stage can be shown on this diagram:

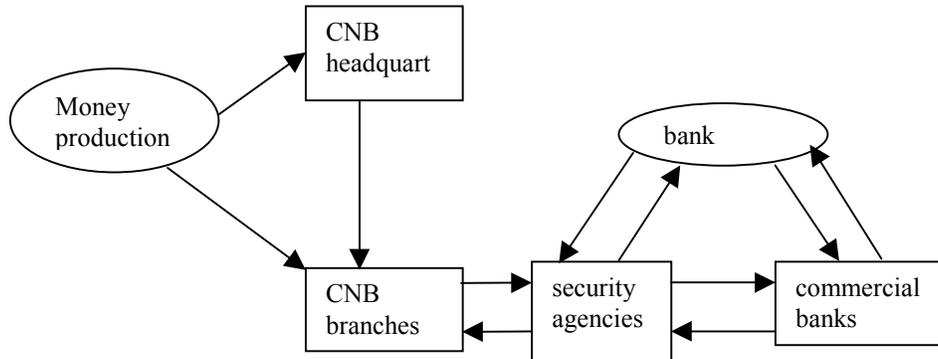


Security agencies are not an owner of money in time transfers, their work is different. The CNB is in personal contact with security agencies instead of commercial banks. Accounting non-cash transfers of value of cash operations is realized between CNB and commercial banks immediately.

A new, to this time last, stage of cash operations have started in 1999. For this stage a few points are characteristic:

- Big international owners of supermarkets have opened their commercial units in the Czech Republic. This companies are mostly clients of foreign banks with new know – how, unknown to this time in Czech banks.
- Privatization of the three biggest Czech banks is going to end.
- Security agencies are preparing for new business – they will be able not only transfer cash, but they will start processing cash instead of bank employees .

This diagram shows evaluation of cash movement :



Security agencies make part of the process, which was in the past typical work for commercial banks. Money, which is filed in accounting of banks could not be really present in a bank branch. Because one of the main targets of banks in this time is to cut the number of employees (or to reduce costs), it is very probable, that substitution of security agencies for bank staff (outsourcing) will continue faster and faster not only in foreign banks.

In future is possible to wait next changes, especially in harmony with our intention to be a member of the EC:

- possibility to open accounts in CNB for security agencies (as in the Bundesbank in Germany);
- possibility makes a part of work of CNB in private companies. It is a chance for CNB how to reduce some works with highly costs and don't lose control over cash operation in macroeconomic interpretation.

4. Conclusion

Cash circulation is problem, which have to sold central banks in co-operation with commercial banks all over the world. Commercial banks have to find balance between costs for transport money from central bank to their branches and interest, which is resulting from operation with money on accounts. Cash gives to banks no

profit, its change to money on accounts is expensive. Central bank in the Czech republic has solved problems with cash circulation under law. Czech banks start to use new tools in accordance with privatization of this banks. That tools and methods, which are common in foreign banks, dramatically changes system of cash circulation in the Czech republic.

Abstract

Hotovostní peněžní oběh je problémem, který ve své podstatě znamená pro obchodní banky nutnost najít optimální rovnováhu mezi náklady na přepravu a ostrahu hotovostí a nerealizovanými výnosy, které vyplývají z toho, že hotovosti zůstávají uschovány v trezorech jejich poboček. Pro centrální banku v ČR je hotovostní peněžní oběh jedním z problémů, které je ze zákona povinna zabezpečit. V souvislosti s privatizací českých bank se v nich i v této oblasti začínají používat nástroje a metody, které jsou obvyklé v bankách se sídlem v zahraničí a které přináší radikální změny do celého systému oběhu hotovostí v republice.

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THE INFLUENCE OF PRIVATIZATION AND LEGISLATIVE SURROUNDINGS ON COLLECTIVE INVESTMENT IN SLOVAK REPUBLIC

Jaroslav Slepecký

Key words

privatization, collective investment, investment, share fund, legislative, coupon privatization, transformation of funds, minor stock holders

2.6 million citizens, who have obtained the shares of investment funds and joint stock companies, have joined the first tide of coupon privatization, which took place in federal Czechoslovak republic. Further shares they have bought on the market in the purchase boom in the year 1995. Nowadays, there are still about 900 000 small stock holders in Slovakia, what is one third of the total number.

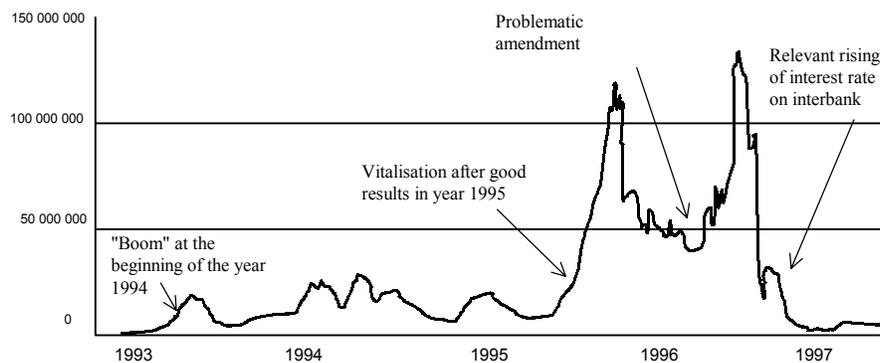
There exist different opinions about the importance, the process and economical, social and political consequences of the coupon privatization - from absolutely negative, that compare the after-November privatization to a theft of century at the expense of the rest of citizens of the country, up to positive views. The fact is, that the market did not function in that way, that many people have thought it should have, and the imperfect legislative made possible the practically impunity misusing of low knowledge and legal awareness of the latter stock holders educated in socialistic schools. Even nowadays there are still attempts of different companies private persons but also of state institutions to deprive the small stock holders of their property. One example is the transformation of RM-system Slovakia to Slovenská burza (Slovak stock exchange) and some proposed regulations of the new act of „Securities and investment services“ in the range of protection of minor stock holders. By liquidation of the RM-system the last possibility of sale of small number of stocks of „coupon“ owners, and the existence of two stock exchanges in Slovak republic should be thought about. The problem of protection of the rights of stock holders shall be solved by the amendment of Commercial statute book, which should be valid from January 1st, 2002.

Just in Slovak republic, there were registered for the second tide of the coupon privatization totally 162 investment funds, which have invested for the advertisements, purchase of coupon books, and supposed lucrative transactions no small amount of money. By the act No. 190/1995 of statute book, by which it was changed and added the act NR SR No. 92/1991 of statute book about the conditions of transfer of the property of state to other persons in wording of later regulations, the government of Slovak republic has substituted the coupon privatization by government bond. In this way it has finished one experiment with collected and not solved problems and it has started the transfer of

more than 30 milliards SKK liability of FNM (Fund of national property) of Slovak republic to the next government, what has fully affirmed in the due term of the bonds in the year 2001.

The mentioned act made it possible to 88 investment funds to ask for lump refund of 500 000 SKK, what naturally couldn't compensate the costs. The big investment funds started the long process of exaction of invested finance from the citizens, who are still on court.. Together with the liquidation of the investment fund PSIS, a.s, the manager of the popular and successful open share fund „Sporofond“, this has meant the begin of great mistrust of the citizens to the collective investment. The capital market started to be, for foreign and inland investors, very sensible to political events and also the attempt of Ministry of finance to solve the created situation, according to specialists, by non-adequate means. The picture No.1 documents the state of capital market in the years 1993 - 1997. The market prices have had similar development.

Figure 1 - The volume of capital used on anonymous markets in the years 1993 - 1997¹



The investment funds started to react on the legislative chaos and low transparency of the capital market in their own way. A number of transformations of the investment funds to common joint stock companies has started, out of which some have still not issued any shares. In the year 1996 the first case of change of the legal base of investment fund has originated. The Ministry of finance of Slovak republic (MF SR) tried in the years 1996-1998 to solve the transformation of the funds by legal way, but without evident result. By the end of the year 1998 MF SR has lead against the investment funds about 50 lawsuit. In the year 2000 the MF SR has cancelled all the complaints.

¹ Problematic amendment of the act about the securities is in context with the attempt of the previous government to cancel the public market of the shares issued in the coupon privatisation (after president M. Kováč has returned it the parliament has changed the discussed article).

Table 1 - Open share funds of Association of managing companies of SR

Open share funds of Association of managing companies (ASS)							
Fund	Manager	Efficiency of fund					
		Currency	1 month %	3 month %	6 month %	1 year %	3 years % p.a.
<i>Funds of financial market</i>							
Slovak crown financial	Tatra Asset Management	SKK	0,52	1,60	3,19	6,23	-
Capital Invest Euro Cash (profit)	Capital Invest (Bank Austria)	EUR	0,46	1,44	2,67	5,35	3,61
Capital Invest Euro Cash (growth)	Capital Invest (Bank Austria)	EUR	0,46	1,43	2,67	8,54	-
Slovak crown financial	J&T Asset Management	SKK	- 0,01	1,77	3,84	6,97	-
<i>Bond funds</i>							
KBC Renta Dollarenta	KBC Renta	USD	1,48	5,12	2,86	11,29	5,14
VB-Dollar-Rent	Volksbanken-KAG (Ludová banka)	USD	1,38	- 0,82	- 1,85	5,96	5,31
Eurofond	VUB Asset Management	SKK	1,32	2,53	2,40	3,99	-
Euro bond	Tatra Asset Management	SKK	1,25	4,04	2,34	9,83	-
WIOF USD International Bond	Unigestion Asset Management	USD	0,96	2,28	-	-	-
Capital Invest Euro Corporate Bond (growth)	Capital Invest (Bank Austria)	EUR	0,93	0,54	2,32	7,67	-
Capital Invest Euro Corporate Bond (profit)	Capital Invest (Bank Austria)	EUR	0,93	- 3,66	- 1,95	3,17	2,32
KBC Renta Eurorenta	KBC Renta	EUR	0,87	2,92	2,16	7,49	3,38
Slovak crown	VUB Asset Management	SKK	0,86	2,18	4,42	7,78	-
Capital Invest Euro Government Bond (growth)	Capital Invest (Bank Austria)	EUR	0,82	2,85	2,74	15,14	-
Capital Invest Euro Government Bond (profit)	Capital Invest (Bank Austria)	EUR	0,78	2,80	- 2,41	2,94	1,87
Slovak crown bond	Tatra Asset Management	SKK	0,52	1,45	3,01	6,62	-
VB-Interbond	Volksbanken-KAG (Ludová banka)	EUR	0,50	1,63	3,75	9,49	8,86
Taking bond	Amslico AIG Funds	SKK	0,50	1,63	3,18	-	-
1. PF Slnko	Agroinvest	SKK	0,41	1,73	-	-	-
Capital Invest Global Bond (profit)	Capital Invest (Bank Austria)	EUR	0,18	- 5,55	- 2,60	1,44	4,29
Capital Invest Global Bond (growth)	Capital Invest (Bank Austria)	EUR	0,16	- 1,53	1,42	5,77	-
KBC Bonds Capital Fund	KBC Bonds	EUR	- 0,35	0,48	1,68	4,29	5,73
U.S. dollar bond	Tatra Asset Management	SKK	- 0,46	- 1,46	3,46	-	-
Capital Invest Dollar Bond (growth)	Capital Invest (Bank Austria)	EUR	- 3,00	- 3,93	2,55	6,27	-
Capital Invest Dollar Bond (profit)	Capital Invest (Bank Austria)	EUR	- 3,01	- 7,50	- 1,25	2,32	9,56
U.S. dollar	VUB Asset Management	SKK	- 3,03	- 2,64	2,12	4,07	-
<i>Share funds</i>							
KBC Equity Fund Biotechnology	KBC Equity Fund	USD	2,91	- 4,41	- 11,83	- 40,40	30,40
KBC Equity Fund Medical Technologies	KBC Equity Fund	USD	1,67	9,06	3,32	12,29	-
WIOF Global Equity	AIG-Brandes	USD	- 3,24	- 7,14	- 6,85	1,01	-
VB-Pacific-Invest	Volksbanken-KAG (Ludová banka)	EUR	- 3,24	- 10,25	- 8,62	- 31,07	21,01
KBC Equity Fund Oil	KBC Equity Fund	EUR	- 4,02	- 13,86	- 1,19	-	-
Capital Invest Eastern Europe Stock (growth)	Capital Invest (Bank Austria)	EUR	- 4,24	- 15,12	- 7,51	- 25,20	-
Capital Invest Eastern Europe Stock (profit)	Capital Invest (Bank Austria)	EUR	- 4,24	- 16,68	- 9,20	- 26,56	6,08
KBC Equity Fund US Small Caps	KBC Equity Fund	USD	- 4,25	- 8,81	- 4,88	- 25,82	8,81
KBC Equity Fund Pharma	KBC Equity Fund	EUR	- 4,72	- 8,65	- 4,22	- 9,58	21,50
VB-Europa-Invest	Volksbanken-KAG (Ludová banka)	EUR	- 5,01	- 15,73	- 19,07	- 34,60	2,38
Veri-Eurovaleur	Veritas SG	EUR	- 5,07	- 12,96	- 13,10	- 31,59	-
KBC Equity Fund Finance	KBC Equity Fund	EUR	- 5,10	- 9,93	- 6,31	- 12,15	11,39
KBC Equity Fund America	KBC Equity Fund	USD	- 5,20	- 9,16	- 9,39	- 25,87	2,68
KBC Equity Fund Europe	KBC Equity Fund	EUR	- 5,22	- 11,17	- 10,10	- 23,97	5,22
Capital Invest Europe Stock (growth)	Capital Invest (Bank Austria)	EUR	- 6,60	- 14,13	- 10,60	- 27,61	-
Capital Invest Europe Stock (profit)	Capital Invest (Bank Austria)	EUR	- 6,60	- 14,19	- 10,67	- 27,69	4,97
VB-Global Blue Chip Fund	Volksbanken-KAG (Ludová banka)	EUR	- 7,43	- 16,20	- 11,60	- 30,63	-
European share	Tatra Asset Management	SKK	- 7,47	- 12,67	- 10,53	-	-
KBC Equity Fund World	KBC Equity Fund	EUR	- 7,62	- 14,97	- 11,52	- 30,51	7,92
American share	Tatra Asset Management	SKK	- 7,79	- 9,61	- 0,39	-	-
WIOF US Capital Growth Fund	AIG Global Inv. Corp (USA)	USD	- 7,96	- 12,50	- 12,21	- 25,91	-
Renta global share	J&T Asset Management	SKK	- 8,21	- 4,46	- 6,66	- 14,48	-
European technological	Tatra Asset Management	SKK	- 8,34	- 22,55	- 24,95	- 54,56	-
WIOF European Equity	AIG Global Inv. Corp. (Switzerland)	EUR	- 8,37	- 15,07	- 14,48	- 30,47	-
Capital Invest Global Stock (profit)	Capital Invest (Bank Austria)	EUR	- 8,90	- 16,48	- 11,14	- 33,71	8,20
Capital Invest Global Stock (growth)	Capital Invest (Bank Austria)	EUR	- 8,95	- 16,49	- 11,19	- 32,11	-
Veri-Valleur	Veritas SG	EUR	- 9,23	- 17,25	- 19,45	- 41,51	-
VB-Amerika-Invest	Volksbanken-KAG (Ludová banka)	EUR	- 9,39	- 11,44	1,88	- 12,81	2,85

Capital Invest America Stock (growth)	Capital Invest (Bank Austria)	EUR	- 10,31	- 15,36	- 8,84	- 33,66	-
Capital Invest America Stock (profit)	Capital Invest (Bank Austria)	EUR	- 10,41	- 16,62	- 10,22	- 34,65	22,26
Hi-tech share	J&T Asset Management	SKK	- 12,63	- 14,42	- 18,77	- 42,64	-
Capital Invest Teleworld Stock (growth)	Capital Invest (Bank Austria)	EUR	- 13,62	- 24,84	- 22,58	- 17,17	-
KBC Equity Fund Technology	KBC Equity Fund	USD	- 15,02	- 25,30	- 32,80	- 72,48	- 9,47
KBC Equity Fund Telecom	KBC Equity Fund	EUR	- 16,88	- 28,61	- 31,12	- 63,20	- 4,54
Global share	Istro Asset Management	SKK	- 17,31	- 21,82	- 22,62	-	-
KBC Equity Fund Internet	KBC Equity Fund	USD	- 24,86	- 43,46	- 53,19	- 86,47	-
<i>Compound funds</i>							
Eurofond	Prvá Penzijná	SKK	1,37	3,04	5,88	11,21	-
Bonus	Prvá Penzijná	SKK	0,97	3,25	6,41	10,05	-
WIOF Balanced Euro	Unigestion Asset Management	EUR	0,85	1,71	-	-	-
VB-Inter-Invest	Volksbanken-KAG (Ludová banka)	EUR	- 1,05	- 3,66	- 1,67	- 4,27	6,34
Balanced	Istro Asset Management	SKK	- 1,98	- 2,69	0,80	-	-
International share-bond	Tatra Asset Management	SKK	- 2,16	- 3,47	0,49	- 1,65	-
Živnobanka-Interkonto	ŽB – Trust	CZK	- 2,25	- 6,16	-	-	-
Foreign growth	Amslico AIG Funds	SKK	- 3,40	- 8,70	- 4,05	-	-
Renta II-05	J&T Asset Management	SKK	- 4,88	- 9,14	- 9,16	-	-
Veri-Tresor	Veritas SG	EUR	- 7,94	- 15,03	- 21,36	- 42,11	-
<i>Funds of funds</i>							
KBC Master Fund ČSOB-Conservative	KBC Master Fund	CZK	0,59	0,82	1,14	3,48	-
KBC Master Fund Defensive	KBC Master Fund	EUR	- 1,09	- 2,38	- 0,37	- 4,17	3,04
KBC Master Fund ČSOB-Balanced	KBC Master Fund	CZK	- 1,12	- 4,21	- 2,72	- 8,02	-
KBC Master Fund ČSOB-Growth	KBC Master Fund	CZK	- 2,30	- 7,25	- 5,14	- 15,05	-
VB-Quartett "Ertrag"	Volksbanken-KAG (Ludová banka)	EUR	- 2,83	- 7,87	- 7,36	- 12,37	- 1,70
KBC Master Fund Optimum	KBC Master Fund	EUR	- 3,12	- 6,91	- 3,55	- 13,36	4,48
KBC Master Fund ČSOB-Dynamic	KBC Master Fund	CZK	- 3,62	- 10,57	- 7,70	- 22,89	-
Capital Invest Master Fonds dynamisch (growth)	Capital Invest (Bank Austria)	EUR	- 3,89	- 8,42	- 4,11	- 17,82	-
Capital Invest Master Fonds dynamisch (profit)	Capital Invest (Bank Austria)	EUR	- 3,89	- 11,55	- 7,38	- 20,62	-
KBC Master Fund Dynamic	KBC Master Fund	EUR	- 4,33	- 10,06	- 6,00	- 18,84	4,28
Veri-Select	Veritas SG	EUR	- 6,06	- 18,48	- 24,22	-	-
KBC Master Fund Equity	KBC Master Fund	EUR	- 6,37	- 15,07	- 10,29	- 29,12	-
KBC Master Fund Sectors	KBC Master Fund	EUR	- 6,37	- 15,51	- 11,26	- 31,09	-
VB-Modern Times	Volksbanken-KAG (Ludová banka)	EUR	- 9,10	- 23,49	- 19,55	- 42,33	-

Source : Association of managing companies (ASS) www.ass.sk

In this way hundred thousands of stockholders have lost their small share, which they have gained in the first tide of coupon privatization, and different groups obtained a milliard property without any control. Just as an example, in the general assembly of the follower company of the fund VÚB Kupón did not take part the statutory representatives, they are represented by a lawyer, who is not due and rejects to say, who does he represent. The biggest share holder does not owe even 5% share, but manipulates with enormous property. This, naturally, didn't contribute to the development of the collective investment in Slovak republic.

One of the small number of companies, which try seriously to deal with the minor stock holders, is the mentioned Prvá Slovenská investičná skupina (PSIS), a.s., which in public promises in the year 2001 has purchased the shares of the transformed investment funds.

In the year 1997 there were offered 10 stock certificates of open funds and 22 closed funds in Slovakia, out of which 16 were managed by Prvá penzijná investičná spoločnosť, a.s.

Out of the investment privatization funds established in the framework of first tide of the coupon privatization practically just one has remained and transparently

managed the property. It is Tatra kupón fond (TKF), which nowadays according to the act No. 385/1999 of statute book is transforming from the closed to open share fund. The manger of the fund is Tatra Asset Management, a partner company of Tatra banka, a.s.

Even in current time it didn't come to significant division of the market of savings between the classical deposits and investment funds. For 81 open share funds managed by the members of Association of managing companies there is about 0.6 milliard EUR (actual situation on Sept. 3rd, 2001). It is four times more in the Czech republic, not to speak about the countries of EU. 8 foreign and 8 Slovak managing companies operate on the Slovak market, which are just slowly successful in persuading the Slovak population about the advantages of collective investment. The deep mistrust, which originated in the 90-ies has still its influence.

Table 1 shows the structure and basic data about the efficiency of the open share funds operating on Slovak market.

Conclusion

The area of collective investment is solved in the EU by the Directive of the Council 85/611/EEC of the co-ordination of the legal regulations for the organizations of collective investment with shares (UCITS) from the year 1995. Within the framework of the access process of Slovak republic into the EU it is necessary to adjust the legislative dealing with the capital market to the standards valid in the EU.

In the year 1999 the not convenient act about the investment companies and investment funds was replaced by the act No. 385/99 of statute book about collective investment. By the end of the year the act about the securities and investment services and the amendment of the Commercial statute book should be passed by the parliament. The important contribution to the financial market in the year 2000 has the creation of the Office of financial market, as a independent control organization. Further acts, regulations and arrangements are prepared. We shall hope, that the whole process will contribute to the development of the collective investment in Slovakia.

Abstract

Príspevek sa zabyvá histórií a vývojom kolektívneho investovania na pozadí 1. a 2. vlny kupónovej privatizácie a zmien legislatívneho prostredia v Slovenskej republike.

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INFLUENCE OF PRIVATIZATION ON THE EFFICIENCY OF ČESKÁ SPOŘITELNA¹

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Key words

privatization, banking sector, efficiency, Data Envelopment Analysis, profitability

1. Introduction

Czech banking sector and Czech banks were treated as ineffective in the past. Privatization of the big, state owned banks was considered as a one of possible ways to solve this problem. This article focused on analysis of influence of privatization on Česká spořitelna's efficiency. In spite of privatization of Česká spořitelna (hereafter ČS) as the third bank, its structure now is the same like before privatization process. That is the reason why e.g. Investiční a poštovní banka or Československá obchodní banka (previously privatized banks) have not been chosen for the analysis.

The interval of analysis is defined in years 1998 – 2000. It is necessary to point out faulty information candor of Czech banks. Data from the period before 1998 are published very rarely as well as new data from the first six months of this year. This fact dramatically reduces the possibility of application the method used in this analysis and the relevance of the results. More than twenty months after ČS's privatization is the right time for the first assessment of privatization's effects. The basic method used in the research of ČS's efficiency is Data Envelopment Analysis (hereafter DEA). The next method, considered as a supplement, is system of profitability ratios.

2. Data Envelopment Analysis

Any unit is according to the Pareto optimum effective if no particular input or output can be improved without aggravation of any other input or output. However, it is very hard to realize if it is possible or not. In the case of relative efficiency is any unit effective if performances of other units do not indicate that any particular input or output

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can be improve without aggravation of any other input or output. Measurement of relative efficiency with number of inputs and outputs was a core of Farrell's research². The Farrell's indicator of relative efficiency was based on construction of hypothetical effective unit as a weighted average of all effective units, with which ineffective unit is compared. Complications connected with formulation of common collection of weights for relative efficiency definition are apparent. Charnes, Cooper and Rhodes³ allowed each unit to define its own collection of weights whose application makes the unit at maximum effective compared with other units. Next assumption is that efficiency of all units in set must be less than or equal to one.

Two main types of efficiencies can be calculated, depending on whether the focus is on finding the optimal (minimal) set of inputs for production of a given set of outputs (input based measures) or on finding the maximum possible outputs which can be produced by a given set of inputs (output based measures). DEA efficiency score is defined as a ration of weighted outputs to weighted inputs in this analysis. Under these circumstances the relative efficiency of researched unit j_1 can be calculated by solving of following mathematical problem. The input oriented model is used in this paper.

Maximize the efficiency h_1 of the unit j_1 regarding the efficiency of any unit which is ≤ 1 .

$$\text{Max } h_1 = \frac{\sum_{r=1}^t u_r y_{rj_1}}{\sum_{i=1}^m v_i x_{ij_1}} \qquad \frac{\sum_{r=1}^t u_r y_{rj_1}}{\sum_{i=1}^m v_i x_{ij_1}} \leq 1$$

$i = 1, 2, \dots m$

$j = 1, 2, \dots n$

$r = 1, 2, \dots t$

$m =$ index of inputs

$n =$ index of units

$t =$ index of outputs

Variables u and v are delimited to be at least equal to a small plus non archimedic quantity ϵ , which prevent from entire elimination of any input or output in efficiency calculation. Solution of previous model gives us the DEA score h_1 and weights leading to this efficiency. If $h_1 = 1,0$, the unit is effective considering other units, but if $h_1 < 1,0$, some other unit j_n is more effective than unit j_1 even with weights calculated for maximum efficiency of unit j_1 .

² FARELL, M. J.: The Measurement of Productive Efficiency. *Journal Royal Statistical Society Series A*, 1957, No.120, pp.253-281.

³ CHARNES, A., COOPER, W. W., RHODES, E.: Measuring the Efficiency of Decision Making Units. *European Journal of Operational Research*, 1978, No.2, pp.429-444.

Problems of DEA using consist in fact that many researched units in the set could be effective and insufficient discriminatory power of DEA would appear. The unit would become effective on the ground of suitable input and output weights and not because of its own efficiency. Therefore all weights should be limited. The minimal level of weights guarantees that no input or output will be ignore in DEA score calculation. The maximal level of weights avoids the overestimation of influence of any input or output on the relative efficiency.

1. Application of DEA on Czech Banking System and Česká spořitelna

Definition of number of units in examined set was the first initial point in DEA calculation. There were 42 functional bank in the Czech republic on 1.1.2000. From that there were 6 building societies, 10 branches of foreign banks, Konsolidační banka as a state banking institution and 3 specialized banks⁴. It comes to this, that there were 22 "classical" commercial bank in the Czech banking sector.

Numerous definitions of bank inputs and outputs have been proposed by different investigators and researchers. The aim is a middle position between at one extreme just defining one input and one output, and at the other extreme defining so many that the DEA methodology may give meaningless results. It means, using statistical rules, that the maximal number of factors (inputs and outputs) is seven (one third of number of banks). Expecting that data from all banks will not be available the number of factors was reduced to six.

The inputs and outputs used in the analysis were defined as set out below.

Inputs:

- interest costs, representing funds used by the bank,
- cost of labor, representing labor inputs,
- other operating costs, representing use of technology, premises and other goods and services,
- tier one capital, representing input of financial capital.

Outputs:

- gross interest incomes, representing output of lending,
- fee and commission incomes, representing output of other services.

⁴ Česká exportní banka, Českomoravská hypoteční banka a Českomoravská záruční a rozvojová banka.

The tendency using input based model is to find inputs' and outputs' weights of each unit which maximize the relative efficiency.

$$\text{Max } h_1 = \frac{u_1 y_{1j_1} + u_2 y_{2j_1}}{v_1 x_{1j_1} + v_2 x_{2j_1} + v_3 x_{3j_1} + v_4 x_{4j_1}}$$

where

y_1 – interest income	u_1 – weight of interest income
y_2 – fee and commission income	u_2 – weight of fee and commission income
x_1 – interest paid (costs)	v_1 – weight of interest costs
x_2 – labour costs	v_2 – weight of labour costs
x_3 – other operating costs	v_3 – weight of other operating costs
x_4 – tier one capital	v_4 – weight of tier one capital

under circumstance

$$\frac{u_1 y_{1j_1} + u_2 y_{2j_1}}{v_1 x_{1j_1} + v_2 x_{2j_1} + v_3 x_{3j_1} + v_4 x_{4j_1}} \leq 1$$

Table 1 - Relative efficiency of Czech banks

	1998		1999		2000	
	EFFIC.	RANK.	EFFIC.	RANK.	EFFIC.	RANK.
<i>BA-Creditanstalt</i>	100,00%	1. - 3.	87,50%	5.	94,07%	5.
<i>Citibank</i>	90,35%	7.	84,45%	7.	85,81%	10.
<i>Česká spořitelna</i>	98,88%	4.	100,00%	1. - 2.	100,00%	1. - 3.
<i>ČSOB</i>	100,00%	1. - 3.	100,00%	1. - 2.	100,00%	1. - 3.
<i>Expandia (eBanka)</i>	22,55%	14.	58,10%	13.	97,37%	4.
<i>GE Capital Bank</i>	33,22%	13.	73,67%	11.	90,93%	7.
<i>HypoVereinsbank</i>	n.a.	n.a.	81,60%	9.	92,08%	6.
<i>IPB Banka</i>	90,65%	6.	n.a.	n.a.	n.a.	n.a.
<i>IC Banka</i>	n.a.	n.a.	37,94%	14.	41,15%	14.
<i>J&T Banka</i>	100,00%	1. - 3.	58,19%	12.	55,14%	13.
<i>Komerční banka</i>	92,29%	5.	92,98%	3.	100,00%	1. - 3.
<i>Plzeňská banka</i>	37,92%	12.	4,11%	15.	28,12%	15.
<i>První městská banka</i>	81,30%	9.	86,17%	6.	73,23%	12.
<i>Raiffeisenbank</i>	85,48%	8.	84,29%	8.	86,99%	8.
<i>Union banka</i>	69,65%	11.	78,39%	10.	78,05%	11.
<i>Živnostenská banka</i>	80,09%	10.	88,93%	4.	86,74%	9.

Source: Author's calculations, banks' annual reports.

Overwhelming majority of banks reached the relative efficiency 1,00 at application of only the lower limit on the level of 10^{-6} (minimal weight ϵ) and the results were nonsensical. The limits of weights were set after several tests in interval:

$$u_1, u_2, v_1, v_2, v_3, v_4 \in [0,3 ; 1,7]$$

4. Efficiency of Česká spořitelna

4.1. Efficiency According to DEA

The DEA scores of ČS from the years 1998 - 2000 are shown in Table 1. It is evident that ČS was relatively effective in 1999 and 2000 and nearly effective in 1998. In detailed analysis, it is necessary to take into account weights of inputs and outputs and share which inputs and outputs contribute to the bank's efficiency. DEA allocates the highest weights to the factors which are eminencies of the bank and the lowest weights to the factors in which the bank is weak. See Table 2.

Table 2 - Allotted weights and shares of efficiency of each input and output of Česká spořitelna

	1998		1999		2000	
	WEIGHT	SHARE	WEIGHT	SHARE	WEIGHT	SHARE
<i>interest incomes</i>	0,4953	76,58%	1,3153	86,95%	1,2462	81,54%
<i>fee and commission</i>	1,7000	23,42%	1,2451	13,05%	1,2753	18,46%
<i>interest costs</i>	0,7594	72,80%	1,7000	61,18%	1,6969	57,30%
<i>labour costs</i>	0,3000	5,13%	0,9256	10,53%	0,8741	11,74%
<i>other operational costs</i>	0,3000	8,58%	0,3000	11,33%	0,7007	15,47%
<i>tier one capital</i>	0,3000	13,49%	0,4691	16,96%	0,3545	15,49%

Source: Author's calculations.

If we look at the reasons of ČS's scores, we realize that the most important faults in the beginning were labor costs, other operating costs and ineffective involvement of capital. On the other hand, ČS profits from unique market position in primary deposits and number of clients. Interest incomes and fees and commissions contribute to the bank's efficiency very significantly. ČS reached the 100% efficiency in 1999. Decline in interest costs was the main reason of improvement. Other operational costs remained as one of the demerits of ČS.

Dramatic growth of non interest incomes, mainly fees and commissions, played the most positive role in the bank's efficiency score of the year 2000. This

growth was caused by rise of number of transactions, new electronic and direct banking products and tariff adjustment. Subsequently the weight of fee and commission incomes exceeded the weight of interest incomes. Interest costs fell due to changes in structure of deposits and produced the biggest effect on the side of inputs. More deposits are deposited on accounts with low interest rate (current accounts, giro accounts) and amount of deposits on savings books (traditional ČS deposit product with higher interest rate) is going down. Development of labor costs is positive too because of reduction of number of employees.

4.2. Efficiency according to profitability ratios

Representatives of categories of business activities profitability, personal profitability and well known indicators Return on Equity (ROE) and Return on Assets (ROA) were chosen from a numerous group of profitability ratios. Details are given in Table 3.

Table 3 - Profitability ratios of Česká spořitelna

	1995	1996	1997	1998	1999	2000	2Q/2001
<i>pat / incomes</i>	10,56%	7,71%	2,48%	-15,53%	-18,58%	3,12%	11,77%
<i>pat / personal costs</i>	0,9537	0,6284	0,2244	-1,5375	-1,2762	0,2120	0,7533
<i>pat/No.of employees</i>	195.786	143.900	57.768	-417.522	-399.728	70.766	154.633
<i>ROE</i>	10,00%	8,81%	12,34%	-78,16%	-25,85%	0,18%	6,89%
<i>ROA</i>	0,49%	0,47%	0,78%	-1,57%	-1,08%	0,01%	0,31%
pat = profit (loss) after tax							

Source: Annual Reports, author's calculations

5. Conclusion

It is very hard to say now, if the privatization process affected efficiency of ČS in positive way. Data sets from longer period, which could be used in analysis, are missing. The two methods used in this paper give different results. The DEA scores indicate that relative efficiency of ČS based on relevant inputs and outputs of banking business has been during last three years on maximal or almost maximal level. Answers of profitability ratios show improving performance of ČS in last year.

Differential is caused by a massive state help which is included in general statement used in profitability ratios comparing with data used in DEA calculation which is not affected by state financial injection. We may say in other words that absolute efficiency of ČS is on the mend. However the main reason is not the more effective banking business but the state subvention. The relative efficiency among the group of

Czech banks is at maximal level.

It is necessary to continue in processes leading to more efficient banking business. Cuts in number of employees, reduction of waste paper handling and duplicate operations, development of new products and implementation of modern selling channels and methods are the principal ways to higher efficiency. Their effects will be visible in at least two years since the end of privatization. The fact that influence of privatization on bank's efficiency is not immediate and that privatization is not an operational measure of banking sector's restructuralization is evident.

Abstract

Příspěvek je zaměřen na zkoumání vlivu privatizace na růst efektivnosti České spořitelny (ČS). Pro analýzu, která testovala obecně přijímaný názor o pozitivním vlivu privatizace na efektivnost, byla použita metoda Data Envelopment Analysis (DEA) a jako doplněk některé z poměrových ukazatelů rentability. Výsledky DEA, jež měří relativní efektivnost jednotlivé banky ve srovnání s ostatními zkoumanými bankami ukázaly, že ČS je maximálně efektivní již od roku 1999. Výsledky poměrových ukazatelů dokazují zlepšování efektivnosti banky od roku 2000. Rozpor spočívá v tom, že poměrové ukazatele jsou ovlivněny masivní státní pomocí v předprivatizačním období, zatímco údaje využité pro DEA jsou tvořeny pouze vstupy a výstupy, jež ovlivňují provozní výsledek banky, který byl vysoce pozitivní i v období 1998 – 1999. Vliv privatizace na efektivnost ČS tedy zatím nepřevyšuje vliv státní pomoci při očištění portfolia banky. Privatizační efekt je v současnosti patrný zejména v jasném definování strategie banky, rozšíření spektra nabízených produktů, zefektivnění pracovních postupů a investic do modernizace informačního systému.

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BILLS-OF-EXCHANGE OPERATIONS UNDER SLOVAK CONDITIONS

Renáta Vokorokosová

Key words

monetary-policy instruments, administrative instruments, market instruments, the lombard rate, discount rate, bills – of - exchange operations

1. Introduction

Privatization of Slovak banking institutions is both severe and a very expensive process. Slovak financial sector calls for a long-term stability achieved under a comfortably off entrepreneurial sector. A successful privatization process of Slovak banks has to be consummated along with a successful financial restructuring of Slovak business companies.

Thereafter there will be a severe competition environment established in the Slovak banking marked by different top international institutions competing with each other for their clients – depositors, business entities. Owing to this, these on the other hand can be looking forward to be offered better banking services. A sound banking industry can stimulate entrepreneurial activities employing the services offered by banking financial institutions.

Aim of this article is to present monetary policy instruments based on bills which might be assigned to commercial banks by central banks. In addition, a comparison of present state of this issue in Slovakia with that in selected countries and approximation to European Central Bank is also a part of this article.

2. Central Banks and Monetary-Policy Instruments

Central Bank's basic functions in market economy are connected with controlling monetary policy and regulating commercial banks activities. Monetary-policy instruments of Central banks are in the market economy classified from different standpoints [2]. One of them is the character of monetary instruments. According to this there are market (indirect) and administrative (direct) ones.

Indirect instruments are more frequently applied in market economy. They fall upon the whole banking system without being exploited for a selective support or restriction of some banks. They involve [2]:

- discount rates,
- money market operations,
- foreign-exchange intervention.

They all are characterized by possibility of immediate application.

Direct instruments include the following [2]:

- limits of interest rates,
- absolute credit caps.

These instruments cannot be avoided by commercial banks.

2.1. Discount and Lombard Rates

Monetary-policy instruments aren't applied to conduct monetary basis, however, they are used for controlling liquidity, interest rates, credit sources, and loans offered by banks. Central banks proclaim two interest rates [1]:

- discount rate,
- lombard rate.

Discount rate indirectly indicates the fluctuation of commercial interest rates increasing in the restrictive policy of central bank and, declining during expansive policy. Its fluctuation is considered to be a certain signal. Discount rate is used when paying interest to loans from Central bank for calculating the time value of securities mainly bills-of-exchange in discounting and rediscounting, or when calculating the investment effectiveness [1].

Commercial banks are put their discount window borrowing into three categories:

- *adjustment credit*: short-term, temporary loans to help banks meet needs for funds that cannot be met through reasonable alternative sources,
- *seasonal credit*: temporary loans to smaller depository institutions to meet regular seasonal needs that cannot be met through special industry lenders,
- *extended credit*: loans to an institution in exceptional circumstances or experiencing difficulties adjusting to changing market conditions over a longer period of time.

Lombard loan is offered to banks against bills-of-exchange or some other securities determining its maturity (often up to 1 month). This type of loan is granted to commercial banks which suffer liquidity problems and which have no other possibility to

obtain discount or rediscount loans [2]. There is a high Lombard rate paid on Lombard loan.

Owing to this in fact Central banks provide commercial banks with three main loans – discount, rediscount, and the Lombard loan. Discount and the Lombard loans are often called „refinancing loans“. Commercial banks draw on financial sources from Central banks from two main reasons:

- to obtain additional source for refinancing their active operations,
- to strengthen their liquidity.

3. National Bank of Slovakia and its Monetary Instruments

Since the creation of the National Bank of Slovakia (NBS) in 1993, it gradually passed through administrative monetary-policy instruments to the market orientated ones. One of the priorities of the NBS is to create an environment for conducting monetary policy and using such instruments, which are transparent and gradually in compliance with those of developed countries, in our case with the European Central Bank (ECB) [3].

Present monetary-policy instruments of NBS include:

- discount rate,
- Lombard rate and Lombard loans,
- foreign exchange interventions,
- reserves requirements,
- liquidity controlling at commercial banks through open market operations.

The activities of the NBS with commercial banks include the issue of NBS bills, open market operations – refinancing on an overnight or biweekly basis, sterilization on a biweekly basis, and overnight deposits with the NBS [3]. As a result of the qualitative change in the approach of the NBS to operations with commercial banks, the interbank money market has stabilized and the level of interbank rates recorded a fall, this was then gradually translated into rates of interest on loans and deposits for primary customers.

Together with the cut in interest rates, marked by surplus of free liquidity in the banking sector (especially in 2000), and automatic and unrestricted access of banks to overnight refinancing provided by NBS, they created an environment in which the Lombard loan, the discount rate, and the conduct of bills-off-exchange operations, were gradually losing their justification [3].

Due to this, NBS decided to cancel the bills-of-exchange operations together with the Lombard rate since 1.1. 2002, whereas in 2001 there is the limit reduction set for the volume of bills- of-exchange operations to Sk 1 billion hence during the first half of 2002 they will be only paid. Due to the fact that there are numerous laws and government directives referring to the discount rate, the Bank Board of the NBS

considered it advisable to preserve the discount rate as a monetary instrument, but with a change in the method of its determination [3].

Since 1993 the NBS has been applying the discount rate. Due to the development of other instruments, the NBS now uses the discount rate only in pricing loans secured by bills of exchange.

The NBS prepared financial means for exporters and farmers mainly via bill-of-exchange transactions. For export promotion, there were Sk 0.75 billion set aside in 1995. For the support of agriculture, two possibilities existed – a standard one in the amount of Sk 1 billion, which was increased by another Sk 1 billion in the second half of the year, and a capped bills-of-exchange amount for financing the purchase of wheat in the amount of Sk 0.5 billion. In 1997, the limit for rediscounting agricultural bills was set at Sk 2 billion. NBS stopped accepting export bills, because the funding of export supporting due to the fact, that there already exist institutions (EXIMBANK SR in particular) dealing with this activity. In 1998, the bill-of-exchange cap was increased to Sk 3 billion, then in 2000 reduced again to Sk 2 billion, due to the non-utilization in the previous year [3].

The European Central Bank has cancelled the exploitation of the discount rate and the bills-of-exchange operations from its list of monetary instruments. Member states of EMU have also stopped or modified the discount rate and its application sooner than the introduction of the single currency came. Therefore the bills-of-exchange operations have been assigned to special institutions except the central banks.

On 1 January 2002, the discount rate of the NBS will equal the 2-week REPO rate. Like the discount rate and bills-of-exchange operations, the Lombard loan has been on the Bank's list of monetary policy instruments since 1993. In 1994, it was used by commercial banks as the last resort for obtaining refinancing funds. The Lombard loan exploitation as a source of refinancing was considered to be an indicator of some problems at a bank. The NBS introduced the overnight refinancing operations with automatic access of commercial banks. In addition, the NBS moved to cancel the Lombard loan and the Lombard rate with the effect from 1 January 2002 [3].

4. Discount and Lombard Rate in Selected Countries

In Germany, the Deutsche Bundesbank used to exploit the discount rate as a monetary-policy instrument before joining the EMU. At the beginning of the 3rd stage of EMU the Deutsche Bank ceased to rediscount bills of exchange. However, it still accepts the bills of exchange as collateral for refinancing operations. On January 1999, the Lombard rate was cancelled and replaced by the rate of ECB for overnight loans [3].

The Austrian Central Bank followed the Deutsche Bundesbank in canceling the discount rate. The discount rate was replaced by the base rate, the value of which is set by the interest rate of ECB for overnight deposits, increased by 0.5 percentage points. The Lombard rate of the Austrian Central Bank was replaced by a reference rate, which represents the rate of ECB for overnight loans plus 0.25 percentage points.

In Sweden the discount rate is only a reference rate and is not connected with the goals of monetary policy.

The Greek Central Bank stopped in 1998 the rediscounting of bills and the setting of the discount rate.

In Denmark the discount rate indicates the current account rate, at which banks and mortgage institutions deposit funds with the central bank.

The function of the discount rate in the Czech Republic is the same as that of the interest rate on overnights deposits with ECB. Bills of exchange operations were cancelled by CNB as early as 26 June 1997. The Lombard rate of the CNB has been defined, since 1998, as the rate at which commercial banks can obtain overnights loans from the central bank.

Central banks in Poland and Hungary use a rediscount rate for bills-of-exchange operations. The Central Bank of Poland is not considering the possibility of canceling the discount rate. In Hungary, bills-of-exchange operations are little used and the central bank plans to stop using this instrument, since the commercial banks have other possibility for obtaining refinances on the interbank market. The Lombard rate in Poland represents an upper limit for interest rates on the interbank market and serves as an indicator of changes in the monetary policy of the central bank. The Central Bank of Poland is as yet not considering the possibility of canceling the Lombard rate [3].

5. Conclusion

The NBS lends loans to commercial banks when supply of money is smaller than its demand or, during the interim liquidity shortage that can be abolished by the Lombard rate, or if there is the long-term liquidity shortage and loss of ability of commercial banks to pay their liabilities.

Providing commercial banks with finances, supposing all other circumstances unchanged, results in the increase of banking resources as part of monetary basis followed by enhanced monetary aggregates. The importance of the lender-of-last-resort is to promote security, trust and effectivity of banking system.

By modifying the tools of monetary policy, the NBS has done a significant step towards bringing the implementation of monetary policy into line with that of ECB, and has created conditions, for a monetary environment in the entrepreneurial sector, comparable with that in EU countries.

Abstract

Príspevok analyzuje inštrumentárium menových nástrojov centrálnej banky s dôrazom na tie, ktoré sú vo svojej podstate spojené s využívaním zmenky. Ide o diskontnú a Lombardnú sadzbu. V trhovej ekonomike banky využívajú štandardné inštrumentárium menových nástrojov. Lombardné a núdzové diskontné úvery majú síce vplyv na menovú bázu, sú však poskytované za účelom pomoci bankám, ktoré majú problémy s likviditou. Tieto úvery teda nie je možné považovať za nástroje menovej politiky.

Obdobie prechodu na trhovú ekonomiku si vyžiadalo určité zmeny, ktoré sa na jednej strane prejavovali vo využívaní neštandardných nástrojov, na strane druhej v dočasnom aktívnejšom využívaní priamych nástrojov a to predovšetkým úverových limitov. Od 1.1. 1996 sa v SR nevyužívajú priame nástroje. Dôvodom pre prehodnotenie menového inštrumentária NBS bol aj proces harmonizácie s krajinami EÚ, keďže Európska centrálna banka v rámci svojich menových nástrojov neuvažuje s inštitútom diskontnej sadzby, ani s uskutočňovaním zmenkových obchodov.

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