

## TABLE OF CONTENTS

<b>List of Figures</b> .....	<b>viii</b>
<b>List of Tables</b> .....	<b>ix</b>
<b>Acknowledgments</b> .....	<b>xi</b>
<b>Preface</b> .....	<b>xii</b>
<b>Chapter One (Author: Tamás Isépy)</b>	
<b>Financial Structure and Economic Growth</b> .....	<b>1</b>
History of the Financial Structure's Evolution .....	1
Relationship Lending Versus Arm's Length Financing .....	3
Cross-country Financial Structure Index Comparison.....	5
Conclusion.....	10
References .....	10
<b>Chapter Two (Author: Cândida Ferreira)</b>	
<b>Bank Sector Performances, Economic Growth and European Integration</b> .....	<b>12</b>
Financial Systems and Economic Growth .....	13
Financial Integration in the EU.....	15
Empirical Estimation .....	18
Conclusion.....	23
References .....	23
Notes.....	27
Appendix 2-A .....	27
Appendix 2-B .....	28
<b>Chapter Three (Author: Jaan Vainu)</b>	
<b>Development of the Estonian Banking System, 1995–2004</b> .....	<b>29</b>
Theoretical Background and Review of the Related Literature.....	30
Development of the Estonian Banking System .....	32
DuPont Financial Ratio Analysis.....	34
Econometric Modelling .....	38
Conclusion.....	40
References .....	41
<b>Chapter Four (Author: Janek Uiboupin)</b>	
<b>The Impact of Foreign Bank Entry on the Stability and Performance of Banks: Evidence from the CEE Countries</b> .....	<b>42</b>
Theoretical Aspects of Foreign Bank Entry Effects .....	42
The Effect of Foreign Bank Entry on Bank Performance in the CEE Countries .....	45

The Effect of Foreign Bank Entry on Stability of Banks in the CEE Countries .....	56
Results of the Survey .....	59
Conclusion .....	62
References .....	62
Appendix 4-A .....	65
<b>Chapter Five (Author: Daniel Stavárek)</b>	
<b>Are the More Integrated Also More Efficient? Investigation on Selected EU Banking Sectors.....</b>	<b>66</b>
Comparison of Banking Sectors .....	67
Methodology and Review of Relevant Literature.....	74
Data and Selection of Variables .....	81
Empirical Results.....	84
Conclusion.....	96
References .....	97
Notes.....	101
<b>Chapter Six (Author: Asma Ben Salem)</b>	
<b>Cross-Border Banking Mergers And Acquisitions in Europe: An Empirical Investigation.....</b>	<b>103</b>
Theoretical and Empirical Research on Cross-Border Banking .....	105
Empirical Evidence on Cross-Border Banking M&As in Europe .....	109
Conclusion.....	124
References .....	125
Notes.....	126
<b>Chapter Seven (Authors: Karel Diviš &amp; Petr Teplý)</b>	
<b>Information Efficiency in Central European Equity Markets .....</b>	<b>128</b>
Information Efficiency of the Capital Market .....	128
Models of Testing Efficiency .....	129
Methods of Testing Market Efficiency.....	130
Results of Testing Market Efficiency .....	133
Conclusion.....	139
References .....	140
Note .....	141
<b>Chapter Eight (Authors: Jan Frait &amp; Luboš Komárek)</b>	
<b>Monetary Policy and Asset Prices: What Role for Central Banks in New EU Member States?.....</b>	<b>142</b>
Current Developments in the New EU Member States .....	142
How Should Monetary Policy Respond to Asset Prices? .....	145
Asset Markets and Risk of Bubbles in the NMS .....	151

Conclusion.....	159
References .....	160
Notes.....	160
Appendix 8-A .....	162
<b>Chapter Nine (Authors: Luboš Komárek &amp; Martin Melecký)</b>	
<b>Currency Substitution in a Transitional Economy</b>	
<b>with an Application to the Czech Republic .....</b>	<b>164</b>
Currency Substitution in Small Open Transition Economies .....	164
Empirical Analysis of Currency Substitution in the Czech Republic .....	170
Conclusion.....	183
References .....	184
Notes.....	186
Appendix 9-A .....	188
Appendix 9-B .....	189
Appendix 9-C .....	190
<b>Chapter Ten (Authors: Jarko Fidrmuc &amp; Roman Horváth)</b>	
<b>Exchange Rate Dynamics in Selected New EU Member States.....</b>	
Krugman Target Zone Model .....	193
Monetary Equilibrium Exchange Rate Models .....	195
Autoregressive Conditional Heteroskedasticity (ARCH) Models .....	198
Conclusion.....	203
References .....	204
Notes.....	206
<b>Contributors .....</b>	<b>207</b>
<b>Index .....</b>	<b>211</b>

## ACKNOWLEDGMENTS

There are many people to thank for their input in making the conference and this book possible. We would like to thank everyone who helped to make this conference so successful. We appreciate both the speakers giving their valuable time to share their expertise as well as the discussants and audience participants who actively contributed to very interesting debates. In this context, we should express our gratitude to the invited keynote speakers: Jan Frait, member of the Bank Board of the Czech National Bank; Reint Gropp, deputy head of the Research Division of the European Central Bank; Iikka Korhonen from the Institute for Economics in Transition, Bank of Finland; and Jan Juchelka, head of the Executive Committee, National Property Fund of the Czech Republic. We also would like to thank the members of the International Programme and Organizing Committee and to all reviewers of the papers. A deep sense of gratitude is owed to members and staff of the Department of Finance, School of Business Administration in Karviná.

We offer our deepest appreciation to all the contributors for their enthusiasm about this project and their hard work in completing the chapters to a universally high standard. Secondly, we must thank our colleagues from Bowling Green State University, Ohio, USA who provided language editing of the text. We and all the contributors are much indebted to Cynthia Miglietti, Kay E. Strong, Philip D. Weinsier, Martin S. Anderson, Tracy Goss McGinley and JoEtta Crupi.

We are glad to acknowledge the support provided by the Czech Science Foundation within the project GAČR 402/05/2758 “Integration of the financial sector of the new EU member countries into the EMU” in editing the book and elaborating Chapter Five and Chapter Eight. And a final word of appreciation to Andy Nercessian, Amanda Millar and their colleagues at the publishers, who approved the project and helped to finalize it.

## PREFACE

In October 2005, the 10<sup>th</sup> Annual International Conference on Finance and Banking, *Future of Banking after the Year 2000 in the World and in the Czech Republic*, took place at the Silesian University, School of Business Administration in Karviná, Czech Republic. Every year, the conference focuses on a specific new development in the banking and financial sector. This year, mainly because of the 15<sup>th</sup> anniversary of the School of Business Administration, and the 10<sup>th</sup> anniversary of the conference itself, the theme was unspecified and all papers on financial and banking topics were reviewed and considered for presentation. Consequently, the conference hosted 209 participants from 35 countries and 5 continents.

This volume contains eight of the best papers presented at the conference and two invited papers. In spite of the fact that the book is a collection of independent studies it represents a comprehensive and cohesive work. All studies (book chapters) are tied together by common themes. Through original research, the book covers various aspects of financial and banking sectors in the enlarging European Union (EU), giving a comparison of their development in the new and traditional member states. Special attention is paid to prospective integration of the New Member States to the European Economic and Monetary Union and the implications for national economic policies.

The book contains ten chapters arranged in three thematic parts focusing on the structure of financial systems, banking sectors, and equity markets and monetary policy. In the first chapter, *Tamás Isépy* compares the financial superstructure in EU member countries, including the New Member States, and analyses how and to what extent the financial structures have an influence on the economic growth of a national economy or region. Some indices such as size index, activity index or efficiency index of the financial sector are used in the analysis. *Cândida Ferreira* examines a similar issue, the link between financial intermediation and economic growth in the context of European integration, in the second chapter. Panel fixed and random estimates are used to analyse data from 26 EU member and candidate countries. In the third chapter, *Jaan Vainu* presents some historical notes on the development of the Estonian banking system and the capital structure of banks. Several versions of financial ratio analysis are applied to bank performance analysis along with modified DuPont analysis and econometric modelling. The fourth chapter written by *Janek Uiboupin* aims to identify the main effects of the entry of foreign banks on the stability and performance of banks in new EU-members from Central and Eastern Europe. The empirical analysis used is Arellano–Bond dynamic panel estimation. Additionally, the summary of a survey based questionnaire is presented for qualitative

analysis. *Daniel Stavárek*, in the fifth chapter, compares commercial banks' efficiency in four groups of homogenous countries with different levels of economic development and involvement in the process of European integration. Employing Data Envelopment Analysis, the hypothesis that the higher degree of European economic integration and economic development goes hand in hand with higher banking efficiency is tested.

In the sixth chapter, *Asma Ben Salem* identifies some countries or characteristics of countries that will affect the trends of foreign direct banking investments via mergers and acquisitions across Europe. A panel data of cross-border banking mergers and acquisitions in the main European countries from 1987 to 2004 are used to reveal the importance of banking market concentration as a determinant of further international growth of European banks. The seventh chapter by *Karel Diviš & Petr Teplý* focuses on testing a weak form of market efficiency in regards to capital markets in some new EU members and developed countries implementing a variance ratio test as a research method. The main conclusion is that the weak form of the efficient market hypothesis could not be rejected for Central European capital markets and that an improvement of market efficiency was observed over time on all markets. *Jan Frait & Luboš Komárek* look at the relationship between monetary policy and asset prices and the recent developments in the New Member States in the eighth chapter. The appropriate reaction of monetary policy to asset price bubbles is discussed, the main pros and cons associated with this reaction are summarized and the risks of asset market bubbles in the New Member States are evaluated. The ninth chapter written by *Luboš Komárek & Martin Melecký* analyses the relevance of the currency substitution phenomenon in the Czech Republic. The authors discuss consequences of euroisation as well as an estimation of a modified Branson and Henderson portfolio model, and application of several cointegration techniques. In the tenth chapter *Jarko Fidrmuc & Roman Horváth* examine the exchange rate dynamics in selected New Member States. To analyse the exchange rate behaviour, they perform the analysis in two steps. First, they estimate the monetary equilibrium exchange rates; and second, they use these exchange rates obtained in the subsequent GARCH estimations.

This book gives a deep insight into the financial sector of the enlarging EU. Additionally, it successfully pulls together theory and actual development of the European financial sectors.

Karviná, May 2006

Daniel Stavárek  
Stanislav Polouček