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Banking Sector Reforms and the Global Financial Crisis in Transition Economies: Evidence from Southeast Europe

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Abstract
In this paper we provide an overview of banking sector reforms in the transition economies of eight Southeast European (SEE) countries. We discuss certain macroeconomic and financial sector indicators of SEE countries leading up to the Global Financial Crisis and immediately after. We benchmark these indicators with Central Eastern European and EU 15 countries in order to identify financial development gaps and areas for improvement. This paper is intended to contribute to the discussion on the economic convergence of EU and new or potential EU member states and the degree to which reforms have contributed to a sound financial sector which will in turn fund a sustainable growth and ensure a successful EU integration.

Introduction

Banks are an important part of the financial system of a country. In some countries with less developed capital markets the financial system is dominated by banks, whereas in other countries with market based financial systems banks are relatively less dominant. In this paper we focus on the transition economies of Southeast European (SEE) countries as they represent an interesting sample of countries to investigate the evolution of their banking sectors from the initial phases of banking sector reforms until the years during and immediately after the Global Financial Crisis (GFC). We examine macroeconomic and financial sector indicators to investigate how these economies fared during the GFC and to compare them with other more advanced European countries, such as Central Eastern European (CEE) and the old member states of the European Union, otherwise referred to as the EU 15 countries. SEE countries experienced considerable reforms of their economies during the last three decades, however, as will be argued in the following sections, they are still lagging behind other European countries. The aim of this paper is to provide an overview of the banking sector reforms carried out in these countries, the level of economic and financial sector development achieved and the way they were impacted by the GFC, in order to highlight areas for improvement and catching up with other more advanced economies.

The rest of the paper is structured as follows. Section 2 gives a background for the SEE countries in terms of their experiences with the process of transitioning their banking systems. Section 3 discusses the unique features of SEE countries both in terms of macroeconomic and banking sector indicators compared to CEE and EU 15 countries. Section 4 presents the way SEE countries were impacted by and reacted to the GFC, whereas Section 5 concludes.

Banking Sector Reform in SEE after 1990

Over the last three decades considerable political, economic and financial sector reforms were carried out by transition economies as they moved from centralized to market-oriented economies. European transition economies (SEE and CEE countries) were no exception to this trend. A particularly difficult aspect of the transition process was the transformation of their banking industries. These countries inherited socialist banks whose financial services were of a limited use in a market economy and very different from those provided by modern banks today. Socialist banks acted merely as bookkeepers for the planned allocation of resources, while the use of monetary balances by households and enterprises were tightly controlled by the government (Fries and Taci, 2002). Few large savings banks that existed collected deposits from sectors that ran a surplus (typically households) to pass them on to the central bank which will than allocate resources to the few specialized banks that gave credit to different sectors such as agriculture and industry (Caprio and Levine, 1994). Credit was allocated to enterprises based on previously planned investments and interest rates were set administratively. There were no procedures for monitoring and evaluating the creditworthiness of the enterprises nor there were risk management practices established as all risks were borne by the government (Caprio and Levine, 1994). To facilitate the planning process the socialist banking system was highly concentrated with almost no separation of the central bank from commercial banks. Some banks that existed were mainly focused on different activities as: agriculture, industry, household savings and foreign trade. Hence, structural segmentation, state-controlled banks and high concentration ratios were banking system characteristics which were inherited from the centrally planned economies (Bonin et al, 2009).

Despite the similarities, there were some differences among European transition economies, mainly due to the organizational structure before the transitioning process began as well as circumstances that arouse during the process. SEE countries that were part of Yugoslavia inherited a somewhat different banking system from other European transition economies (see Bonin, 2004). So, for instance, different from other European transition economies, Yugoslavia established a two-tier banking system during the 1950s with the national central bank (National Bank of Yugoslavia) in Belgrade and republic-level commercial banks. These republic-level banks were universal banks which engaged in different banking activities so that the structural segmentation feature inherited by other transition economies was not applicable to these former Yugoslavian republics. Furthermore, banks like all other enterprises in these countries were not initially state-owned, rather owned collectively according to the self-management system of Yugoslavia. In former Yugoslavia there was typically one dominant bank which accounted for the majority of banking assets. With regards to the high concentration ratio present in other centrally planned economies, former Yugoslavian countries had a different experience as during the 1970s many small unhealthy banks entered the market a number of which continue to operate for a long time (Sevic, 2000). Hence, different from other European transition economies, at the beginning of the transition period Yugoslav republics had monopolistic banking sectors with some small unhealthy banks. In general most transition economies have followed the recommendations of IMF and World Bank for the reformation of their banking systems (see Fries and Lane (1994) and Caprio and Levine (1994)). These recommendations included several dimensions: providing a reliable legal and institutional infrastructure in terms of property rights, accounting standards, tax systems; the separation of central from commercial banks, restructuring and privatization of state banks, as well as liberalization of interest rates.

Overall, SEE countries succeeded in establishing commercial banks early in the transition period. However, for an efficient and a well-functioning banking system three tasks needed to be resolved (Bonin et al, 2009): First, dealing with bad loans. - the beginning of the transitioning process did not immediately lead to good lending practices. The lending of state-owned commercial banks was biased towards large state-owned companies. This was either due to political pressure or to lack of skills to evaluate good investment projects. A lax regulatory system contributed to the creation of many de novo banks which channelled funds to their owners which were usually companies. As a result of these bad lending practices and bad loans inherited from the previous systems, non-performing loans became a serious problem for banks. Failing banks were either recapitalized by the government, had their bad loans removed from the balance sheets, or they merged with bigger state-owned banks. Second, privatizing the state-owned commercial banks. - as far as privatization is concerned, some countries started privatizing and opening their markets to foreign banks at an earlier stage while others waited until later in the transition period. The reluctance to allow foreign bank entry came from the fear that it would facilitate capital flight and would not provide enough credit to the private sector in order to promote economic development. However, these countries soon realized that foreign bank entry was necessary for enhancing financial intermediation. As a result, foreign bank presence increased while the presence of state-owned commercial banks declined rapidly. Third, establishing effective regulatory institutions. - in addition to the basic legal framework for banking this required an establishment of a credit registry, rating agencies as well as a well-functioning court system to ensure contract enforcement. Although the paradigms followed by all European transition economies in transforming their banking sectors have been the same, the sequencing and the pace of the reforms have varied substantially across countries. Today, after about three decades of banking sector reforms SEE countries are still behind other European transition economies and have not yet achieved the desired level of financial deepening. The following section will present and discuss some macroeconomic and banking system indicators of SEE countries.

SEE macroeconomic and banking sector characteristics

This section will compare SEE, CEE and EU 15 countries with respect to some key macroeconomic and financial system indicators.

Macroeconomic Indicators

Tables I and II give the trend of the GDP per capita and the real GDP growth rate, respectively. SEE countries as a group have lower GDP per capita values compared to both CEE and EU 15 countries. However, the real GDP growth rates of CEE and SEE countries are higher than those of EU 15 countries. GDP per capita (at purchasing power parity) is an indicator of the general level of development of a country. Bosnia-Herzegovina and Albania are the poorest countries in the SEE region, whereas Croatia is the most developed country in the region with a GDP per capita comparable to that of Poland. The fastest growing country over the period 2004-2011 is Montenegro with an average annual growth rate of 5.6%, followed by Albania with 5%. Among CEE countries the highest average real GDP growth rate over the period 2004-2011 is realized by Slovakia (4.9%) followed by Poland with 4.6%. EU 15 countries as a total have an average growth rate of 1.3 %, with the fastest growing country Luxembourg (2.7%). The GFC had adverse consequences on the economic activity of advanced and emerging economies alike. SEE countries were no exception to this trend. In 2007 the average real GDP rate for SEE countries peaked at 6.6% before starting to decline in 2008. The real GDP growth rates in all SEE countries, except Albania was negative in 2009, which started to recover slowly in 2010 and 2011, but had not yet reached pre-crisis levels.

Inflation in SEE countries has been generally volatile and much higher than in other European countries (Table III). The period up to 2008 was characterized with a growing economy which put an upward pressure on inflation. In 2008, the highest rate of inflation among SEE countries was 12.4% in Serbia, followed by Bulgaria with 12.3%. Among CEE countries Latvia (15.4%), Lithuania (10.9%) and Estonia (10.4%) showed the highest inflation rates in 2008. In subsequent years as the economic activity slowed down, inflation started to stabilize.

Unemployment remains a major problem in SEE countries. Their unemployment rates are significantly higher than those in CEE and EU 15 countries (Table IV). Unemployment rates (as a percentage of total labor force) are particularly high in Bosnia-Herzegovina (27% in 2010) and Macedonia (32% in 2010). Bulgaria, Croatia and Romania have a somewhat lower unemployment rates, but still higher than the EU 15 countries. With the exception of Croatia and Bulgaria the time trend does not show any consistent improvement of the situation. Even though the GDP growth rate is high in these countries compared to more developed European countries, this is not reflected in the labor market. This is a sign of the phenomenon “jobless growth” that has been often mentioned in the context of emerging European countries, and is particularly relevant to SEE countries (Galcoczi and Sergi, 2012).

Overall, macroeconomic indicators show that SEE countries are under-developed compared to other European economies. A lot needs to be done to achieve the level of development of at least the most developed transition economies. We now turn to financial sector indicators.

Financial system indicators

The financial system of SEE countries is dominated by the banking sector. All SEE countries have stock exchanges but most of them have a limited liquidity. Therefore, companies in this region mostly rely on bank financing. The banking system in SEE countries is very different from the banking system of Western European countries or the United States. Most local banks in SEE are small and make a little use of sophisticated financial instruments. Their main role is to receive deposits and make loans. Only a small number of banks are listed on stock exchanges.

With regards to the characteristics of the banking sector it is worth noting that financial deepening in SEE as expressed by the ratio of domestic credit provided by the banking sector to GDP has an upward trend although it is lagging behind compared to CEE or EU 15 countries (Table V). In 2004 the average ratio of domestic credit provided by the banking sector to GDP was 31% for SEE, 48% for CEE and 123% for EU 15 countries. In 2011 these figures increased to 63% for SEE, 75% for CEE and 168% for EU 15 countries.

Another indicator of financial deepening is the level of bank credit extended to the private sector. Table VI shows the trend of the domestic credit extended to the private sector as a % of GDP. This trend is very similar to the total domestic credit provided by the banking sector presented above. The low levels of private sector credit are indicative of low financial intermediation, implying strong potential for further financial deepening in all SEE countries. A weak depositor confidence caused by banking crises in the past, lower personal income than in developed countries limited the level of savings and the credit expansion by banks.

In addition to the amount of credit available to the private sector an important indicator is the cost at which this credit is made available to businesses and households. This is especially important for countries, such as SEE countries, that rely on bank credit as a main source of external financing. Table VIII compares the interest rate spreads (lending minus deposit rate) of SEE and CEE countries. SEE countries are characterized by higher interest rate spreads than CEE countries. In 2004 the average interest rate spread for SEE countries was 8.2%, while that for CEE countries was 4.3%. Since then the spread in SEE countries has slightly declined, but still remains higher than the interest rate spread of CEE countries.

As SEE countries have undergone major financial sector restructurings it is interesting to examine the level of progress achieved in different areas of the financial system and compare it with the progress achieved in other European transition economies. EBRD indicators as presented in Table VII, allow us such an analysis. EBRD indicators were formulated in 1994 with the goal of quantifying and comparing the level of progress achieved in different aspects of transition. Banking reform and interest rate liberalization scores start from the lowest score 1, indicating little progress beyond the establishment of a two-tier banking system to the highest score 4+, indicating that the banking system has achieved the standards of advanced industrialized economies with banking laws and regulations fully in accordance with the Bank for International Settlement (BIS) standards and the provision of competitive banking services. Most SEE countries have a banking reform and interest rate liberalization score of 3, indicating that these countries have made substantial progress in liberalizing interest rates and allocating credit to private enterprises, privatizing the banking sector, establishing of bank solvency and of a framework for bank supervision and regulation. As of 2010, Croatia had the highest score of 4 (comparable to Estonia), indicating that the country has made significant progress in aligning banking laws and regulation with BIS standards, has achieved substantial financial deepening, a well-functioning competitive banking sector, significant term lending to private businesses and effective prudential supervision. After Croatia, Bulgaria (3.7) and Romania (3.3) have the highest rankings among SEE countries. In general CEE countries, as indicated by the EBRD banking reform and interest rate liberalization index, have made a greater progress in reforming their banking system than SEE countries. EBRD also provides scores for reforms achieved in the non-bank financial institutions and securities market sector. Table VII (bold numbers) shows that Bulgaria, Croatia and Romania have achieved the highest progress among SEE countries in the non-bank financial market with a score of 3. This indicates that there is a substantial use of the securities market by private companies, an established share registry, secure clearance and settlement procedures and an existence of non-bank financial institutions such as private pension and insurance funds, leasing companies, investment funds and the corresponding regulatory framework. Macedonia and Serbia have lower scores of 2.7 and 2, respectively, indicating that a securities exchange has been formed with brokers and market-makers, there is a limited trading in government securities and a rudimentary regulatory framework. The least progress in this area has been realized in Albania, Bosnia-Herzegovina and Montenegro with a score of 1.7. In general, EBRD index of banking sector reform scores for SEE countries are much higher than scores of the EBRD index of non-bank financial institutions reform, which shows the importance of the banking sector in the overall financial system of these countries. It is also noted that CEE countries have more developed securities markets and non-bank financial institutions than SEE countries. Hungary and Poland have the highest score of 4. According to the EBRD scoring methodology this indicates that these countries have established well-functioning non-bank financial institutions, effective regulation and have achieved significant market capitalization and liquidity.

With regards to the stability of the banking sector three ratios will be considered: the non-performing loans, capitalization and liquidity ratios. While the capitalization and liquidity of the banking sector in SEE has generally been high, non-performing loan ratios have often been a cause of concern. Non-performing loan ratios remain significantly high in SEE countries (Table IX). There was a downward trend of NPLs up to 2007, when the lowest level was reached in Bulgaria and Romania, at 2.1% and 2.6% of total loans, respectively. As the negative effects of the global financial crisis started to materialize, the level of NPLs started to increase. In 2011 NPLs averaged 13.2% across SEE countries. The trend in CEE and EU 15 countries is similar, although the level of NPLs in these countries was much lower.

The liquidity and capitalization ratios of SEE banks are satisfactory. With the exception of Serbia and Romania the ratio of bank liquid reserves to total assets have been relatively stable (Table X). This ratio has declined over time. In 2004 the average bank liquid reserves to total assets was 26% for SEE countries and 20% for CEE countries. The figures for 2011 were, 20% and 10%, respectively. EU 15 countries have had much lower liquidity ratios (2.2% in 2010 and 5% in 2011). Capitalization ratios in SEE countries are well above the regulatory minimum of 8% according to the Basel Capital Adequacy rules (Table XI). This indicates that banks can significantly expand lending without resorting to additional capital. CEE and EU 15 countries have lower liquidity ratios. As of 2010 the average capitalization ratio was 12.5% for SEE, 8.6% for CEE and 5.7% for EU 15 countries.

In terms of ownership structure Table XII shows that SEE banking sectors are mainly owned by foreign investors. Banking sector liberalization and privatization was characterized by an increasing rate of foreign bank entry. As the share of foreign banks increased there has been a continuous decline of the share of state-owned banks, suggesting that privatization has been effective and the state has withdrawn from provisioning of bank services. Table XII shows that foreign bank presence (as measured by the asset share of foreign owned banks) in SEE countries has increased from 65% in 2004 to 90% in 2009. At the same time the asset share of state-owned banks have declined from 8.2% in 2004 to 2.4% in 2009 (Table XIII). The increase in foreign bank presence has been less dramatic for CEE countries. It started at 70% in 2004 and reached 76% in 2009. In contrast to SEE countries, the asset share of state-owned banks in CEE countries has increased from 6.6% in 2004 to 8.7% in 2009.

Table XIV reports the total number of banks operating in SEE and CEE countries as well as the number of foreign banks (in parentheses). In all SEE countries except Albania and Montenegro the total number of banks have decreased. The reduction in the number of banks is mainly due to consolidations which have been guided by international financial institutions and have been considered as important banking sector reforms to enhance stability and efficiency. The decline has been most noticeable in Bosnia-Hercegovina and Serbia. So, for example, in Serbia there were 43 banks operating in 2004. By 2008 the number of banks operating in Serbia declined to 34. At the same time the number of foreign owned banks increased from 11 foreign-owned banks in 2004 to 20 in 2008. In CEE countries these trends were somewhat different. In contrast to SEE countries, all CEE countries (except Hungary) saw an increase in the total number of banks. This increase was more pronounced in Poland and Estonia. So, for example, in Poland 57 banks were operating in 2004, while in 2009 this number increased to 67 banks. Related to this issue we look at another banking sector indicator, namely its level of concentration. Banking system concentration is represented with the Herfindahl-Hirschman Index (HHI) based on total assets (Table XV). Although the number of banks has declined in SEE countries, the concentration of the banking system has shown a downward trend. In 2004 the average HHI for SEE countries was 0.14 which declined to 0.109 in 2010. CEE countries have also seen a decrease of their banking sector concentration levels, but the level of banking sector concentration is higher than in SEE countries. In 2004 the HHI for CEE countries was 0.149 which declined to 0.129 in 2010.

This section has highlighted that the SEE financial system exhibits different characteristics compared to other European economies. Financial deepening in SEE countries (as measured by the ratio of bank credit to GDP) is low compared to CEE and EU 15 countries. In SEE the banking sector dominates the financial system while non-bank financial institutions and securities markets are under-developed. Capitalization and liquidity ratios are high, however the level of NPLs is concerning. Financial intermediation costs are high and what is most important for our study, the presence of foreign banks has dramatically increased. The following section presents another aspect of the uniqueness of the SEE region, its experience with the recent financial crisis. It also shows the systemic importance of foreign banks and foreign capital in the region.

SEE and the financial crises

This section will address the issue of how SEE countries were hit by the GFC in terms of both macroeconomic and banking sector indicators. It will also discuss how the region responded to limit the impact of the crisis both in the real economy and the banking sector, thereby highlighting the role played by the international financial institutions.

The global financial crisis which started as a sub-prime mortgage crises in the United States in late 2007, quickly expanded into other developed countries which had exposure to the related financial instruments (mortgage-backed securities). In 2008 most industrialized countries such as (United Kingdom, France, Germany, Japan) were experiencing the effects of the crisis in their economic and financial systems which has been described by many as the worst after the Great Depression of the 1930s. SEE countries felt the negative consequences of the financial crisis after about a year (end 2008), due to a lower degree of financial and economic integration with the world. The effects of the crisis were felt in the real economy. In 2009 the average real GDP growth rate for SEE countries was -3.6%, the corresponding figures for CEE and EU 15 countries were -8.7% and -4.6%, respectively (Table II). Hence, SEE countries were initially hit less hard by the global crisis. Sanfey (2011) identifies three key channels of contagion causing this fall in output. First, the demand for exports declined as the crisis hit major trading partners and export industries of SEE countries. EU member states are the major trading partners of SEE countries which were severely affected by the global financial crisis. The steel, aluminium, car and tourism industry which are the dominant exports of the region were also hit by the crisis. Second, access to finance became difficult and expensive compared to the pre-crisis period when credit expanded rapidly. This meant less credit for businesses and households further dampening domestic demand and production. Credit growth rates slowed down after the crisis, however credit to businesses and households was not shut off completely. Third, there was a decline in remittances reducing domestic demand, production and foreign exchange inflows.

The macroeconomic impact

Besides the negative GDP growth rates and declining exports and remittances, other macroeconomic indicators deteriorated as well. After a decline of foreign direct investment and exports, the crisis started to impact the industrial and service sector. Production declined which in turn led to employee layoffs and a deterioration of consumer spending (USAID, 2010). This slowed the pre-crisis growth and put a downward pressure on inflation which had reached a peak in 2008 due to increased domestic demand and high oil and commodity prices (Table III). The main macroeconomic concern before the crisis hit the region was how to keep inflation under control. However, the fall of domestic demand combined with declining prices of natural resources caused inflation to decline considerably in 2009. Countries like Bosnia-Herzegovina and Macedonia even experienced deflation in 2009. Since then inflation has picked up again. Serbia recorded two-digit inflation rate in 2011 calling for policy measures to keep inflation under control. Although SEE countries were hit less severely by the financial crisis the recovery of the SEE region is lagging behind other European transition economies. The average real GDP growth rate in 2011 for the SEE region was 2.1%, while that for the CEE region 3.7% (Table II).

Banking sector impact

Since the SEE banking sector is mainly foreign owned, there were concerns that troubles in foreign (mainly western European) parent banks will be reflected in host country banking sectors. Although SEE banks did not have exposure to financial instruments which were hit hard by the crisis, because of the large presence of foreign banks in the region, the SEE banking sector was not isolated from the negative impact of the crisis.

The World Bank report (2012) points to a rapid decline of deposits in the SEE banking sector at the beginning of the first wave of crisis in late 2008, after which there has been a continuous recovery and the amount of deposits in SEE countries have increased to pre-crises levels. As indicated in the previous section the level of non-performing loans (NPLs) in SEE remains high and presents a major problem for the banking sector stability. SEE countries reached the lowest level of NPLs just before the crisis hit the region, in 2007, of 3.8% of total loans (Table IX). In 2008 the NPLs had increased to 5.6%, and by the end of 2011, they amounted to 13.2%. The highest levels of NPLs were noted in Albania and Serbia, 14.4 and 18.6 percent, respectively, as of 2011. Montenegro reduced the level of NPLs by selling them to factoring companies or to parent banks and to a lesser extent due to loan collection (World Bank, 2012). Credit supply in SEE countries has also increased but at a slower pace than the pre-crises period. Up to 2008 there was a rapid increase of credit provided by the banking sector growing from 31.4% in 2004 to 61.1% in 2008 (Table V). After this period credit supply leveled-off. The credit supply by 2011 had increased to only 63.1%. Although there was a stagnation of credit growth rates after the crisis, there was no massive decline of the credit supply in SEE countries up to 2011. This could be attributed to the reaction of the governments and the international institutions to the crisis to which we will now turn.

Macroeconomic reactions to the crisis

By the end of 2008, SEE governments realized that the effects of the global financial crisis were inevitable. The question remaining was how to protect their economies or lessen the impact of the crisis in their countries. Most governments introduced "anti-crisis packages" although the effects in the real economy were negligible. These took the form of tax reliefs for businesses and households (Macedonia, Monetengro), subsidized interest rates on investment or consumer loans (Serbia), the exemption of essential goods from VAT for the most vulnerable category (Bosnia-Herzegovina) or stimulus packages for infrastructure project (Romania). Most governments had to rebalance their budgets several times and undertake unpopular spending cuts, due to lower budget revenues and limited access to borrowing. Despite the stimulus packages, businesses were struggling to maintain production and retain workers.

Banking sector reactions to the crisis

In the banking sector front several measures were undertaken in response to the financial crisis. As the confidence in the banking sector started to deteriorate, governments increased the level of deposit insurance. Macedonia raised the level of deposit insurance to 30,000 Euro in December 2010, Serbia and Croatia raised the level of deposit insurance in October 2008 to about 50,000 Euro, whereas Bosnia-Herzegovina raised the deposit insurance limit in April 2010 to 18,000 Euro. The most extreme case was Montenegro which in October 2008 insured 100% of all deposits, while Bulgaria increased the level of deposit insurance to 100,000 Euro in November 2010. Central banks also played an important role in mitigating the effects of the crisis. Most SEE central banks (except Macedonia and Croatia) decided to decrease their policy rates. In Serbia the key policy rate which is the interest rate applied by the National Bank in the conduct of repo transactions of sale or purchase of securities, declined from 17.75% in November 2008, to 10% in November 2009, declining further to 8% in May 2010. Since then, the rate has picked up again with the figure as of August 2012 being 10.5% (NBS, 2012). Interest rate cuts were also noted in Bulgaria, Romania and Albania. In contrast, in Macedonia the Central bank bills rate increased from 7% in November 2008 to 9% in November 2009. Since then, it has gradually declined reaching 3.73% in July 2012 (NBM, 2012).

Another monetary policy tool used by Central Banks was the rate of reserve requirements. This tool is used to control the inter-bank lending rates and regulate the domestic financial market. Most central banks have lowered the reserve requirement rate as a response to the crisis in an effort to encourage banks to keep lending. In November 2011 the central bank of Macedonia brought a decision to decrease the reserve requirement rate to 10% for liabilities in domestic currency and 13% for liabilities in foreign currency. In Bosnia-Herzegovina from February 2011 began the implementation of a reduced rate of 10% instead of the previous 14% (on the base with maturity of up to one year) (NBBH, 2011). In Croatia the reserve requirement rate was cut from 14% to 13% in February 2010. In Montenegro the reserve requirement to total deposits ratio declined from 9.5% in 2009 to 9.2% in 2010. These examples show that the tendency of central banks has been to reduce the level of reserve requirements to act counter-cyclically on the economy.

The role of international institutions

In addition to domestic policy responses, international financial institutions also played an important role in helping SEE economies whether the crisis. The "Vienna Initiative" is one example of an international coordination to support the banking system of SEE countries. The main goal of this initiative was to prevent the massive and uncoordinated withdrawal of foreign banks and ensure that parent banks commit to maintaining their exposures and recapitalizing their subsidiaries in SEE (EBRD, 2011).

The support from IMF has increased during the crisis . In September 2008, Albania was the only country in the region to have an IMF-supported program. Before the crisis the tendency among SEE countries was to reduce their dependence on IMF funds. However, when the effects of the crisis started to materialize, several SEE countries approached IMF for help. In November 2008 Serbia seeks a $ 518 million precautionary loan from IMF which was approved in January 2009. By the end of January 2009 Serbia had made another request for a stand-by arrangement. In May 2009 IMF increases financial support for Serbia to 2.9 billion Euro. In May 2009, IMF approves 12.9 billion Euro stand-by arrangement for Romania. IMF and the authorities of Bosnia-Herzegovina reached an agreement in May 2009 on an economic program supported by $ 1.52 billion under a 36 month stand-by arrangement which was approved in July 2009. The latest agreement between IMF and Bosnia-Herzegovina was reached in July 2012 for a USD 500 million stand-by arrangement. In January 2011 IMF for the first time approved 475.6 million Euro two-year arrangement for Macedonia under the precautionary credit line. The precautionary credit line is an instrument of the IMF designed to provide assistance to Fund members that have sound economic fundamentals and do not have financing needs but face external circumstances that could give rise to such needs. In March 2011 Macedonia drew 220 million Euro from this credit line, because of the changing external environment such as early elections and the delay in the issuance of Eurobonds. Other international organizations have been active in the region as well. The World Bank, EBRD, and European Investment Bank have supported the banking system as well as the infrastructure in the SEE region. The headline figure was 24.5 billion Euro in February 2009 spread over the next two years (Sanfey, 2011).

In conclusion, SEE countries were not spared from the negative effects of the global financial crisis. However due to the different position in the global financial markets they were impacted differently from other developed and transition economies. Both the domestic and international organizations played a major role in mitigating the adverse consequences of the crisis. The support SEE countries had to receive from international financial institutions once again point to the fact that the region is heavily dependent on foreign capital to finance their growth.

Conclusions

This study has provided an overview of banking sector reforms for eight SEE countries and have discussed several macroeconomic and banking sector indicators leading up to the Global Financial Crisis. It has also compared these indicators with Central Eastern European and EU 15 countries in order to benchmark the economic and financial development achieved in SEE countries against more advanced European economies. In general, SEE countries have achieved a major reformation of their banking sectors however they are still lagging behind other more developed economies in areas such as the level of non-performing loans and financial deepening as measured by the amount of credit to the private sector. Foreign capital in the banking sector have steadily increased making foreign investments an important source of finance and know-how. The GFC has highlighted the vulnerabilities of SEE economies and the role played by international financial institutions in helping these countries deal with the consequences of the crisis. This paper could be extended by including the recent COVID-19 pandemic into the analysis and tracking the evolution of macroeconomic and financial sector indicators during the pandemic in order to draw conclusions about how resilient these economies are to another kind of economic disruption. We leave this extension for future research.

Tables

Table I: Gross Domestic Product (GDP) per capita, PPP (current international $)

	2004	2005	2006	2007	2008	2009	2010	2011
EU 15								
Austria	32,846	33,626	36,583	38,074	39,783	38,824	40,007	42,122
Belgium	31,177	32,189	34,238	35,655	37,026	36,718	37,665	38,633
Denmark	32,281	33,193	36,047	37,713	39,830	38,292	40,158	41,015
France	28,090	29,453	31,315	33,025	34,041	33,545	34,107	35,194
Finland	29,863	30,708	33,140	36,167	38,080	35,693	36,477	37,581
Germany	29,679	31,115	33,547	35,557	37,119	36,036	37,402	39,414
Ireland	36,769	38,896	42,530	45,506	42,741	39,832	40,470	41,642
Greece	23,861	24,348	26,803	27,709	29,568	29,381	28,410	26,892
Spain	25,957	27,392	30,373	32,230	33,157	32,161	31,889	32,701
Italy	27,528	28,280	30,399	32,056	33,372	32,247	31,895	32,569
Luxembourg	64,956	68,320	78,500	84,525	89,056	82,892	86,132	88,787
Netherlands	33,185	35,104	38,076	40,727	42,915	41,078	42,166	43,339
Portugal	19,854	21,369	22,967	24,201	24,939	24,935	25,432	25,444
Sweden	32,496	32,703	35,704	38,478	39,615	37,337	39,325	41,447
United Kingdom	31,752	32,738	34,992	35,735	35,885	34,473	35,687	36,511
EU 15 Average	32,020	33,296	36,348	38,490	39,808	38,230	39,148	40,219
CEE								
Czech Republic	20,063	21,264	23,262	25,429	25,885	25,625	25,239	25,949
Estonia	14,773	16,548	19,163	21,594	22,159	19,791	20,382	22,406
Latvia	11,731	13,040	14,995	17,178	18,091	15,992	16,284	17,692
Lithuania	12,968	14,197	16,057	18,191	19,559	16,915	18,158	20,374
Hungary	16,188	16,975	18,299	18,933	20,432	20,154	20,545	21,738
Poland	13,009	13,784	15,073	16,757	18,019	18,925	19,899	21,281
Slovenia	22,270	23,476	25,456	27,228	29,074	27,176	26,931	27,570
Slovakia	14,654	16,175	18,381	20,873	23,210	22,577	23,251	24,434
CEE Average	15,707	16,932	18,836	20,773	22,054	20,895	21,336	22,681
SEE								
Bulgaria	8,870	9,809	11,082	12,366	13,916	13,718	13,944	14,603
Romania	8,731	9,361	11,136	12,688	14,670	14,365	14,531	15,163
Montenegro	7,650	8,238	10,325	12,265	13,650	12,845	12,877	13,612
Croatia	14,440	15,332	16,820	18,721	20,310	19,820	19,339	20,031
Macedonia	7,020	7,872	8,774	9,500	10,723	11,233	11,249	11,666
Albania	5,628	6,102	6,807	7,191	8,179	8,635	8,651	8,944
Serbia	7,798	8,517	9,447	10,124	11,531	11,087	11,360	11,919
Bosnia and Herzegovina	5,844	6,341	7,174	7,913	8,688	8,606	8,728	9,089
SEE Average	8,248	8,947	10,196	11,346	12,708	12,539	12,585	13,129

Source: World Development Indicators

Table II: Real GDP growth rate (percentage change on previous year)

	2004	2005	2006	2007	2008	2009	2010	2011	2004-2011
EU 15									
Austria	2.6	2.4	3.7	3.7	1.4	-3.8	2.1	2.7	1.9
Belgium	3.3	1.8	2.7	2.9	1.0	-2.8	2.2	1.9	1.6
Denmark	2.3	2.4	3.4	1.6	-0.8	-5.8	1.3	0.8	0.7
France	2.5	1.8	2.5	2.3	-0.1	-3.1	1.7	1.7	1.2
Finland	4.1	2.9	4.4	5.3	0.3	-8.5	3.3	2.7	1.8
Germany	1.2	0.7	3.7	3.3	1.1	-5.1	3.7	3.0	1.5
Ireland	4.5	5.3	5.3	5.2	-3.0	-7.0	-0.4	0.7	1.3
Greece	4.4	2.3	5.5	3.0	-0.2	-3.3	-3.5	-6.9	0.2
Spain	3.3	3.6	4.1	3.5	0.9	-3.7	-0.1	0.7	1.5
Italy	1.7	0.9	2.2	1.7	-1.2	-5.5	1.8	0.4	0.3
Luxembourg	4.4	5.4	5.0	6.6	0.8	-5.3	2.7	1.6	2.7
Netherlands	2.2	2.0	3.4	3.9	1.8	-3.5	1.7	1.2	1.6
Portugal	1.6	0.8	1.4	2.4	0.0	-2.9	1.4	-1.6	0.4
Sweden	4.2	3.2	4.3	3.3	-0.6	-5.0	6.2	3.9	2.4
United Kingdom	2.9	2.8	2.6	3.6	-1.0	-4.0	1.8	0.8	1.2
Average EU 15	3.0	2.6	3.6	3.5	0.0	-4.6	1.7	0.9	1.3
CEE									
Czech Republic	4.7	6.8	7.0	5.7	3.1	-4.7	2.7	1.7	3.4
Estonia	6.3	8.9	10.1	7.5	-3.7	-14.3	2.3	7.6	3.1
Latvia	8.9	10.1	11.2	9.6	-3.3	-17.7	-0.3	5.5	3.0
Lithuania	7.4	7.8	7.8	9.8	2.9	-14.8	1.4	5.9	3.5
Hungary	4.8	4.0	3.9	0.1	0.9	-6.8	1.3	1.6	1.2
Poland	5.3	3.6	6.2	6.8	5.1	1.6	3.9	4.3	4.6
Slovenia	4.4	4.0	5.8	6.9	3.6	-8.0	1.4	-0.2	2.2
Slovakia	5.1	6.7	8.3	10.5	5.8	-4.9	4.2	3.3	4.9
Average CEE	5.9	6.5	7.5	7.1	1.8	-8.7	2.1	3.7	3.2
SEE									
Bulgaria	6.7	6.4	6.5	6.4	6.2	-5.5	0.4	1.7	3.6
Romania	8.5	4.2	7.9	6.3	7.3	-6.6	-1.6	2.5	3.6
Montenegro	4.4	14.7	8.6	10.6	6.9	-5.7	2.5	2.8	5.6
Croatia	4.1	4.3	4.9	5.1	2.1	-6.9	-1.4	0.0	1.5
Macedonia	4.6	4.4	5.0	6.1	5.0	-0.9	2.9	3.0	3.8
Albania	5.9	5.5	5.0	5.9	7.7	3.3	3.5	3.0	5.0
Serbia	9.3	5.4	3.6	5.4	3.8	-3.5	1.0	1.8	3.3
Bosnia and Herzegovina	6.1	5.0	6.2	6.8	5.4	-2.9	0.8	1.7	3.6
Average SEE	6.2	6.2	6.0	6.6	5.6	-3.6	1.0	2.1	3.8

Source: Eurostat and World Development Indicators

Table III: Inflation, consumer prices (annual %)

	2004	2005	2006	2007	2008	2009	2010	2011
SEE								
Albania	2.3	2.4	2.4	2.9	3.4	2.3	3.6	3.5
Bosnia and Herzegovina			6.1	1.5	7.4	-0.4	2.2	3.7
Bulgaria	6.3	5.0	7.3	8.4	12.3	2.8	2.4	4.2
Croatia	2.0	3.3	3.2	2.9	6.1	2.4	1.0	2.3
FYR Macedonia	0.9	0.2	3.2	2.2	8.3	-0.7	1.6	3.9
Montenegro			2.9	4.3	8.8	3.5	0.7	3.1
Romania	11.9	9.0	6.6	4.8	7.8	5.6	6.1	5.8
Serbia	11.0	16.1	11.7	6.4	12.4	8.1	6.1	11.1
Average SEE	5.7	6.0	5.4	4.2	8.3	2.9	3.0	4.7
CEE								
Slovenia	3.6	2.5	2.5	3.6	5.7	0.9	1.8	1.8
Estonia	3.0	4.1	4.4	6.6	10.4	-0.1	3.0	5.0
Hungary	6.8	3.6	3.9	7.9	6.1	4.2	4.9	4.0
Poland	3.6	2.1	1.1	2.4	4.3	3.8	2.7	4.2
Slovakia	7.5	2.7	4.5	2.8	4.6	1.6	1.0	3.9
Latvia	6.2	6.7	6.5	10.1	15.4	3.5	-1.1	4.4
Lithuania	1.1	2.7	3.8	5.7	10.9	4.5	1.3	4.1
Czech Republic	2.8	1.8	2.5	2.9	6.4	1.0	1.4	1.9
Average CEE	4.3	3.3	3.6	5.3	8.0	2.4	1.9	3.7
EU 15								
Austria	2.1	2.3	1.4	2.2	3.2	0.5	1.8	3.3
Belgium	2.1	2.8	1.8	1.8	4.5	-0.1	2.2	3.5
Denmark	1.2	1.8	1.9	1.7	3.4	1.3	2.3	2.8
Finland	0.2	0.9	1.6	2.5	4.1	0.0	1.2	3.5
France	2.1	1.7	1.7	1.5	2.8	0.1	1.5	2.1
Germany	1.7	1.6	1.6	2.3	2.6	0.3	1.1	2.3
Greece	2.9	3.5	3.2	2.9	4.2	1.2	4.7	3.3
Ireland	2.2	2.4	3.9	4.9	4.1	-4.5	-0.9	2.6
Italy	2.2	2.0	2.1	1.8	3.4	0.8	1.5	2.7
Luxembourg	2.2	2.5	2.7	2.3	3.4	0.4	2.3	3.4
Netherlands	1.2	1.7	1.2	1.6	2.5	1.2	1.3	2.3
Portugal	2.4	2.3	2.7	2.8	2.6	-0.8	1.4	3.7
Spain	3.0	3.4	3.5	2.8	4.1	-0.3	1.8	3.2
Sweden	0.4	0.5	1.4	2.2	3.4	-0.5	1.2	3.0
United Kingdom	1.3	2.0	2.3	2.3	3.6	2.2	3.3	4.5
Average EU 15	1.8	2.1	2.2	2.4	3.5	0.1	1.8	3.1

Source: World Development Indicators

Table IIV: Unemployment, total (% of total labor force)

	2004	2005	2006	2007	2008	2009	2010
SEE							
Albania				13.5	13	13.8	
Bosnia and Herzegovina			31.8	29.7	23.9	24.1	27.2
Bulgaria	12	10.1	9	6.9	5.6	6.8	10.2
Croatia	13.7	12.6	11.1	9.6	8.4	9	11.8
FYR Macedonia	37.2	37.3	36	34.9	33.8	32.2	32
Romania	7.7	7.2	7.3	6.4	5.8	6.9	7.3
Serbia	18.5	20.8	20.8	18.1	13.6	16.6	19.2
Average SEE	17.8	17.6	19.3	17.0	14.9	15.6	18.0
CEE							
Slovenia	6.3	6.5	6	4.8	4.4	5.9	7.2
Estonia	10	7.9	5.9	4.7	5.5	13.8	16.9
Hungary	6.1	7.2	7.5	7.4	7.8	10	11.2
Poland	19	17.7	13.8	9.6	7.1	8.2	9.6
Slovakia	18.1	16.2	13.3	11	9.6	12.1	14.4
Latvia	9.9	8.9	6.8	6	7.4	17.1	18.7
Lithuania	11.3	8.3	5.6	4.3	5.8	13.7	17.8
Czech Republic	8.3	7.9	7.1	5.3	4.4	6.7	7.3
Average CEE	11.1	10.1	8.3	6.6	6.5	10.9	12.9
EU 15							
Austria	4.9	5.2	4.7	4.4	3.8	4.8	4.4
Belgium	8.4	8.4	8.2	7.5	7	7.9	8.3
Denmark	5.5	4.8	3.9	3.8	3.3	6	7.4
Finland	8.8	8.4	7.6	6.8	6.3	8.2	8.4
France	9.2	8.9	8.8	8	7.4	9.1	9.3
Germany	10.3	11.1	10.3	8.6	7.5	7.7	7.1
Greece	10.5	9.9	8.9	8.3	7.7	9.5	12.5
Ireland	4.5	4.3	4.4	4.6	6	11.7	13.5
Italy	7.9	7.7	6.8	6.1	6.7	7.8	8.4
Luxembourg	5.1	4.5	4.7	4.1	5.1	5.1	4.4
Netherlands	4.6	4.7	3.9	3.2	2.8	3.4	4.5
Portugal	6.7	7.6	7.7	8	7.6	9.5	10.8
Spain	11	9.2	8.5	8.3	11.3	18	20.1
Sweden	6.5	7.7	7	6.1	6.1	8.3	8.4
United Kingdom	4.6	4.6	5.4	5.2	5.3	7.7	7.8
Average EU 15	7.2	7.1	6.7	6.2	6.3	8.3	9.0

Source: World Development Indicators

Table V: Domestic credit provided by banking sector (% of GDP)

	2004	2005	2006	2007	2008	2009	2010	2011
SEE								
Albania	45.4	48.6	54.5	62.1	66.1	68.0	67.1	69.1
Bosnia and Herzegovina	33.9	39.9	55.7	61.9	67.2	52.9	65.0	57.7
Bulgaria	34.5	40.2	40.7	55.6	64.3	69.6	70.9	71.4
Croatia	57.6	63.7	69.4	71.6	74.5	76.4	82.2	88.5
FYR Macedonia	20.3	19.4	22.8	33.4	41.3	43.5	48.5	46.7
Montenegro	17.0	17.5	35.9	78.2	88.0	76.2	67.9	61.0
Romania	16.9	20.8	24.1	35.0	47.4	52.7	54.9	55.0
Serbia	25.2	29.1	25.7	31.7	40.3	48.0	57.6	55.0
Average SEE	31.4	34.9	41.1	53.7	61.1	60.9	64.3	63.1
CEE								
Slovenia	56.1	65.4	73.1	81.8	87.1	93.4	97.4	94.7
Estonia	60.2	68.3	81.2	90.3	95.9	105.4	98.9	85.7
Hungary	58.1	62.3	68.4	75.7	80.9	81.4	81.7	75.7
Poland	37.6	37.4	42.0	46.3	59.7	61.4	63.5	66.2
Slovakia	42.9	48.1	49.8	51.6	54.1			
Latvia	53.9	71.9	89.7	89.5	89.4	94.3	89.6	79.3
Lithuania	30.5	43.1	48.9	59.9	64.2	70.0	64.6	57.5
Czech Republic	43.0	41.7	46.7	51.3	55.6	60.5	62.9	68.0
Average CEE	47.8	54.8	62.5	68.3	73.4	80.9	79.8	75.3
EU 15								
Austria	122.3	130.3	129.6	126.9	130.8	140.9	137.5	135.1
Belgium	102.2	103.4	108.6	111.7	113.1	118.8	117.0	117.3
Denmark	164.8	178.2	190.0	205.2	209.6	221.9	215.3	206.0
Finland	69.5	77.5	82.4	85.1	87.9	98.0	100.8	100.4
France	106.1	109.0	115.1	122.0	124.3	128.8	132.9	133.5
Germany	138.7	137.2	131.7	124.7	126.6	133.1	132.0	125.9
Greece	95.4	106.6	108.9	113.8	115.9	115.6	145.5	148.5
Ireland	133.1	159.0	179.1	195.0	207.4	223.8	233.2	225.7
Italy	102.9	107.4	111.6	128.2	132.0	141.6	154.9	157.0
Luxembourg	98.1	127.4	151.6	182.9	183.6	189.8	185.9	171.6
Netherlands	169.7	176.6	177.7	197.6	196.0	224.1	212.1	211.1
Portugal	139.2	144.0	155.2	165.6	177.7	195.1	209.1	204.0
Spain	140.0	159.2	177.2	197.7	214.5	229.1	233.9	228.8
Sweden	108.2	117.5	122.2	130.4	134.6	144.1	142.3	142.7
United Kingdom	153.3	161.9	171.6	187.5	213.5	229.2	222.6	213.8
Average EU 15	122.9	133.0	140.8	151.6	157.8	168.9	171.7	168.1

Source: World Development Indicators.

Table V: Domestic credit to private sector (% of GDP)

	2004	2005	2006	2007	2008	2009	2010	2011
SEE								
Albania	9.4	14.9	21.8	30.0	35.2	36.7	37.7	39.3
Bosnia and Herzegovina	36.9	43.1	49.5	61.8	67.4	54.4	63.8	54.8
Bulgaria	35.4	41.0	44.9	62.8	71.7	75.5	74.1	72.1
Croatia	48.5	52.6	59.2	62.3	64.4	65.9	70.1	72.2
FYR Macedonia	21.5	24.4	29.3	35.7	42.4	43.9	45.5	46.3
Montenegro	14.6	18.0	36.3	80.3	87.0	76.5	66.9	55.1
Romania	15.7	20.0	25.9	35.1	46.0	47.1	46.1	45.2
Serbia	23.0	29.0	29.2	35.2	40.2	45.2	51.3	49.1
Average SEE	25.6	30.4	37.0	50.4	56.8	55.6	57.0	54.3
CEE								
Slovenia	47.9	56.3	65.9	78.8	85.3	92.9	94.4	91.4
Estonia	60.8	69.7	82.8	91.3	96.0	107.4	98.5	84.6
Hungary	45.9	51.2	55.6	62.6	69.8	69.5	68.8	65.0
Poland	28.1	28.9	33.3	39.4	49.6	50.4	51.9	54.9
Slovakia	30.4	35.1	38.7	42.4	45.0			
Latvia	50.8	68.2	87.5	88.7	90.5	104.6	99.3	82.7
Lithuania	28.8	40.9	50.1	60.0	62.7	70.1	63.9	53.7
Czech Republic	31.3	35.4	39.4	46.3	50.6	52.3	53.3	55.8
Average CEE	40.5	48.2	56.7	63.7	68.7	78.2	75.7	69.7
EU 15								
Austria	106.0	115.6	116.4	115.4	120.3	126.6	122.4	119.6
Belgium	71.2	73.8	82.0	90.9	93.9	97.5	94.8	93.0
Denmark	158.2	171.8	185.7	202.5	216.3	223.5	216.4	209.0
Finland	67.6	75.1	78.8	81.5	86.0	93.8	95.2	95.6
France	90.6	92.7	98.4	105.6	108.8	111.5	114.2	116.2
Germany	112.9	112.6	109.6	105.3	108.6	113.4	107.8	105.4
Greece	70.8	79.6	85.1	94.1	97.5	94.1	115.9	118.2
Ireland	133.0	159.5	180.5	198.9	220.3	234.5	215.0	207.6
Italy	84.8	89.0	94.5	100.6	104.8	111.0	122.2	122.3
Luxembourg	106.1	129.0	154.6	184.8	183.6	187.3	185.4	169.9
Netherlands	157.8	165.0	167.2	188.1	193.2	214.9	199.3	198.1
Portugal	135.9	140.7	151.9	162.5	173.7	186.8	190.9	192.2
Spain	124.9	145.7	167.0	187.9	202.8	212.2	213.9	204.0
Sweden	101.3	107.9	112.8	121.5	127.6	136.2	135.7	136.2
United Kingdom	150.8	159.6	170.7	187.2	212.5	213.8	202.9	187.9
Average EU 15	111.5	121.2	130.4	141.8	150.0	157.1	155.5	151.7

Source: World Development Indicators.

Table VI: EBRD index of banking sector reform (EBRD index of reform of non-bank financial institutions in bold)

	2004	2005	2006	2007	2008	2009	2010
SEE							
Albania	2.7	2.7	2.7	2.7	3.0	3.0	3.0
	1.7	**1.7**	**1.7**	**1.7**	**1.7**	**1.7**	**1.7**
Bosnia and Herzegovina	2.7	2.7	2.7	2.7	3.0	3.0	3.0
	1.7	**1.7**	**1.7**	**1.7**	**1.7**	**1.7**	**1.7**
Bulgaria	3.7	3.7	3.7	3.7	3.7	3.7	3.7
	2.3	**2.3**	**2.7**	**2.7**	**3.0**	**3.0**	**3.0**
Croatia	4.0	4.0	4.0	4.0	4.0	4.0	4.0
	2.7	**2.7**	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**
FYR Macedonia	2.7	2.7	2.7	2.7	3.0	3.0	3.0
	2.0	**2.0**	**2.3**	**2.3**	**2.3**	**2.7**	**2.7**
Montenegro	2.3	2.3	2.7	2.7	3.0	3.0	3.0
	1.7	**1.7**	**1.7**	**1.7**	**1.7**	**1.7**	**1.7**
Romania	3.0	3.0	3.0	3.3	3.3	3.3	3.3
	2.3	**2.3**	**2.3**	**2.7**	**3.0**	**3.0**	**3.0**
Serbia	2.3	2.7	2.7	2.7	3.0	3.0	3.0
	2.0	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
CEE							
Slovenia	3.3	3.3	3.3	3.3	3.3	3.3	3.3
	2.7	**2.7**	**2.7**	**2.7**	**3.0**	**3.0**	**3.0**
Estonia	4.0	4.0	4.0	4.0	4.0	4.0	4.0
	3.3	**3.3**	**3.7**	**3.7**	**3.7**	**3.7**	**3.7**
Hungary	4.0	4.0	4.0	4.0	4.0	4.0	3.7
	3.7	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**
Poland	3.3	3.7	3.7	3.7	3.7	3.7	3.7
	3.7	**3.7**	**3.7**	**3.7**	**3.7**	**3.7**	**4.0**
Slovakia	3.7	3.7	3.7	3.7	3.7	3.7	3.7
	2.7	**2.7**	**3.0**	**3.0**	**3.0**	**3.0**	**2.7**
Latvia	3.7	3.7	3.7	4.0	4.0	3.7	3.7
	3.0	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**
Lithuania	3.3	3.7	3.7	3.7	3.7	3.7	3.7
	3.0	**3.0**	**3.0**	**3.3**	**3.3**	**3.3**	**3.3**

Source: EBRD

Table VIIIII: Interest rate spread (lending rate minus deposit rate, %)

	2004	2005	2006	2007	2008	2009	2010
SEE							
Albania	5.2	8.0	7.7	8.4	6.2	5.9	6.4
Bosnia and Herzegovina	6.6	6.0	4.3	3.6	3.5	4.3	4.7
Bulgaria	5.8	5.6	5.7	6.3	6.4	5.2	7.1
Croatia	9.9	9.5	8.2	7.0	7.2	8.4	8.6
FYR Macedonia	5.9	6.9	6.6	5.4	3.8	3.0	2.4
Montenegro	6.1	4.1	5.4	5.5	5.8		
Romania	14.1	13.2	9.2	6.6	5.5	5.3	6.8
Serbia	11.9	13.1	11.5	7.1	8.8	6.7	6.0
Average SEE	8.2	8.3	7.3	6.2	5.9	5.5	6.0
CEE							
Slovenia	4.8	4.6	4.6	2.3	2.6	4.5	
Estonia	3.5	2.8	2.2	2.1	2.8	4.6	6.7
Hungary	3.7	3.4	0.6	2.3	0.3	5.2	2.7
Slovakia	4.9	4.2	4.1	4.3	2.0		
Latvia	4.2	3.3	3.8	4.8	5.5	8.2	7.7
Lithuania	4.5	2.9	2.1	1.5	0.8	3.6	
Czech Republic	4.7	4.6	4.4	4.5	4.6	4.7	4.8
Average CEE	4.3	3.7	3.1	3.1	2.7	5.1	5.5

Source: World Development Indicators

Table IVIII: Non-performing loans (%of total loans)

	2004	2005	2006	2007	2008	2009	2010	2011
SEE								
Albania	4.2	2.3	3.1	3.4	6.6	10.5	13.9	14.4
Bosnia and Herzegovina	6.1	5.3	4.0	3.0	3.1	5.9	11.4	11.7
Bulgaria	2.0	2.2	2.2	2.1	2.5	6.4	11.9	13.5
Croatia	7.5	6.2	5.2	4.8	4.9	7.8	11.2	11.5
FYR Macedonia	17.0	15.0	11.2	7.5	6.7	8.9	9.0	9.1
Montenegro	5.2	5.3	2.9	3.2	7.2	13.5	21.0	
Romania	8.1	2.6	1.8	2.6	2.8	7.9	11.9	13.4
Serbia	22.2				11.3	15.5	16.9	18.6
Average SEE	9.0	5.6	4.3	3.8	5.6	9.6	13.4	13.2
CEE								
Slovenia	3.0	2.5	2.5	1.8	1.8	2.3	3.6	
Estonia	0.3	0.2	0.2	0.5	1.9	5.2	5.4	5.2
Hungary	2.7	2.3	2.6	2.3	3.0	6.7	9.7	10.4
Poland	14.9	11.0	7.4	5.2	4.5	8.0	8.8	8.4
Slovakia	2.6	5.0	3.2	2.5	2.5	5.3	5.8	5.8
Latvia	1.1	0.7	0.5	0.8	3.6	16.4	19.0	18.4
Lithuania	2.2	0.6	1.0	1.0	4.6	19.3	19.7	19.1
Czech Republic	4.0	3.9	3.6	2.7	3.2	5.2	6.2	5.6
Average CEE	3.9	3.3	2.6	2.1	3.1	8.6	9.8	10.4
EU 15								
Austria	2.7	2.6	2.7	2.2	1.9	2.3	2.8	2.7
Belgium	2.3	2.0	1.3	1.2	1.7	3.1	2.8	
Denmark	0.7	0.4		0.6	1.2	3.3	4.1	4.4
Finland	0.4	0.3	0.2	0.3	0.4	0.6	0.6	0.5
France	4.2	3.5	3.0	2.7	2.8	3.6	4.2	
Germany	4.9	4.0	3.4	2.7	2.9	3.3		
Greece	7.0	6.3	5.4	4.5	5.0	7.7	10.4	11.5
Ireland	0.8	0.7	0.7	0.8	2.6	9.0	8.6	9.2
Italy	6.6	5.3	4.9	4.6	4.9	7.0	7.8	
Luxembourg	0.3	0.2	0.1	0.4	0.6	0.7	0.2	0.3
Netherlands	1.5	1.2			1.7	3.2	2.8	2.7
Portugal	2.0	1.5	1.3	1.4	1.8	2.8	3.3	3.2
Spain	0.8	0.8	0.7	0.9	2.8	4.1	4.6	
Sweden	1.1	0.8	0.8	0.6	1.0	2.0		
United Kingdom	1.9	1.0	0.9	0.9	1.6	3.5	4.0	
Average EU 15	2.5	2.0	2.0	1.7	2.2	3.7	4.3	4.3

Source: World Development Indicators

Table IX: Bank liquid reserves to bank assets ratio (%)

	2004	2005	2006	2007	2008	2009	2010	2011
SEE								
Albania	27.5	23.7	21.1	18.2	15.9	14.4	14.6	13.5
Bosnia and Herzegovina	20.1	23.2	26.2	25.9	19.3	21.1	21.3	19.4
Bulgaria	13.1	12.3	13.5	14.8	10.7	9.8	11.3	11.3
Croatia	19.6	22.4	21.5	19.4	14.3	16.2	15.4	16.9
FYR Macedonia	12.1	18.7	18.6	24.4	21.3	21.6	25.3	26.9
Romania	67.1	77.2	57.9	43.4	36.9	27.8	25.1	23.6
Serbia	24.9	35.7	72.0	60.7	41.0	39.9	25.9	31.8
Average SEE	26.3	30.5	33.0	29.5	22.8	21.5	19.8	20.5
CEE								
Slovenia	29.1	25.1	14.7	1.1	2.7	3.3	2.3	3.1
Estonia	7.2	7.8	8.6	6.6	8.9	9.5	6.2	2.8
Hungary	11.8	11.2	11.8	8.8	11.2	17.7	15.8	19.4
Poland	9.7	12.9	10.8	7.8	7.9	12.4	15.7	14.6
Slovakia	60.9	47.6	41.1	43.3	47.0			
Latvia	4.6	6.2	9.9	8.5	6.4	6.7	10.1	7.5
Lithuania	8.2	7.6	6.7	6.8	5.2	4.5	6.3	11.2
Czech Republic	33.6	25.3	19.1	12.9	12.9	16.3	16.4	15.6
Average CEE	20.6	18.0	15.3	12.0	12.8	10.1	10.4	10.6
EU 15								
Austria	1.1	1.1	1.0	1.6	2.7	3.0	2.6	3.5
Belgium	1.4	1.5	1.6	3.1	1.9	2.8	2.5	4.4
Denmark	6.1	6.6	4.6	0.4	0.9	0.9	0.4	0.7
Finland	2.1	2.1	1.9	2.8	3.5	5.4	7.6	22.9
France	1.3	1.1	1.0	2.5	3.0	2.1	1.5	5.3
Germany	1.2	1.4	1.3	1.7	2.6	2.1	2.2	2.5
Greece	3.4	2.3	2.0	2.7	2.6	2.6	3.1	1.7
Ireland	0.9	1.3	1.5	2.1	1.9	1.6	1.3	0.8
Italy	1.0	0.9	1.0	2.5	2.0	2.0	1.2	1.6
Luxembourg	1.9	2.0	2.4	2.3	9.8	3.0	2.3	11.1
Netherlands	1.1	1.3	1.0	1.3	1.4	3.9	3.1	11.0
Portugal	2.7	1.9	1.8	3.0	1.6	2.5	1.3	1.5
Spain	1.1	1.1	1.1	2.4	2.3	1.4	1.1	2.1
Sweden	0.4	0.2	0.2	0.3	4.2	5.1	0.2	0.3
Average EU 15	1.8	1.8	1.6	2.0	2.9	2.7	2.2	5.0

Source: World Development Indicators

Table X: Bank capital to assets ratio (%)

	2004	2005	2006	2007	2008	2009	2010	2011
SEE								
Albania	4.8	5.4	6.8	7.6	8.6	9.6	8.5	9.1
Bosnia and Herzegovina	15.7	14.4	14.3	13.0	14.1	15.2	17.6	18.0
Bulgaria	10.2	7.4	7.3	7.7	8.5	10.8	10.5	10.6
Croatia	8.6	9.0	10.3	12.5	13.5	13.9	13.9	14.2
FYR Macedonia		15.9	13.3	11.4	11.5	11.4	10.6	11.0
Montenegro	20.4	15.3	10.4	8.0	8.4	11.0	10.6	10.5
Romania	8.9	9.2	12.9	10.7	9.0	8.6	8.9	7.8
Serbia	18.8	16.2	18.5	21.0	23.6	21.0	19.7	21.0
Average SEE	12.5	11.6	11.7	11.5	12.2	12.7	12.5	12.8
CEE								
Slovenia	8.1	8.5	8.4	8.4	8.4	8.3	8.2	
Estonia	9.9	8.7	8.4	8.6	8.8	8.7	9.3	10.0
Hungary	8.5	8.2			9.2	9.4	9.8	10.0
Poland	8.0	7.9	7.8	8.0	7.9	9.0	9.1	
Slovakia	7.7	7.4	7.0	8.0	8.2	9.6	9.7	9.8
Latvia	8.0	7.6	7.6	7.9	7.3	7.4	7.3	8.1
Lithuania	8.7	7.9	7.6	7.9	9.2	7.9	8.9	
Czech Republic	5.2	5.4	6.0	5.7	5.5	6.1	6.5	6.8
Average CEE	8.0	7.7	7.5	7.8	8.1	8.3	8.6	8.9
EU 15								
Austria	4.9	4.8	5.2	6.5	6.3	7.0	7.5	7.5
Belgium	3.1	2.7	3.3	4.1	3.3	4.5	5.0	
Denmark	5.7	5.7	5.7	6.2	5.5	5.5	5.5	6.5
Finland	9.6	9.2	9.4	7.9	6.2	6.4	5.5	5.3
France	5.1	4.4	4.5	4.1	4.2	4.6	4.4	
Germany	4.0	4.1	4.3	4.3	4.5	4.8	4.3	4.6
Greece	5.3	5.9	7.0	6.8	4.8	6.5	6.9	6.3
Ireland	6.0	4.7	4.5	4.6	4.7	5.4	4.4	
Italy	6.4	7.6	7.0	7.9	7.6	8.0	9.3	
Luxembourg	5.5	4.1	5.0	5.0	4.8	5.5	5.2	5.3
Netherlands	3.9	3.1	3.0	3.3	3.2	4.3	4.4	4.5
Portugal	6.1	5.8	6.6	6.5	5.8	6.5	6.4	6.8
Spain	6.7	6.8	6.4	6.7	5.9	6.4	6.2	
Sweden	4.8	4.8	4.9	4.8	4.7	5.0		
United Kingdom	7.0	6.1	6.1	5.5	4.4	5.4	5.4	
Average EU 15	5.6	5.3	5.5	5.6	5.1	5.7	5.7	5.9

Source: World Development Indicators

Table XI: Asset share of foreign-owned banks (in%)

	2004	2005	2006	2007	2008	2009
SEE						
Albania	93.3	92.3	90.5	94.2	93.6	92.4
Bosnia and Herzegovina	80.9	90.9	94.0	93.8	95.0	94.5
Bulgaria	81.6	74.5	80.1	82.3	83.9	84.0
Croatia	91.3	91.3	90.8	90.4	90.8	91.0
FYR Macedonia	47.3	51.3	53.2	85.9	93.1	93.3
Montenegro	31.0	87.7	91.9	78.7	84.6	87.1
Romania	58.5	59.2	87.9	87.3	87.7	84.3
Serbia	37.7	66.0	78.7	75.5	75.3	
Average SEE	65.2	76.7	83.4	86.0	88.0	89.5
CEE						
Slovenia	20.1	22.6	29.3	28.8	31.1	29.5
Estonia	98.0	99.4	99.1	98.8	98.2	98.3
Hungary	63.0	82.6	82.9	64.2	84.0	81.3
Poland	71.3	74.3	74.2	75.5	76.5	72.3
Slovakia	96.7	97.3	97.0	99.0	99.2	91.6
Latvia	48.6	57.9	63.3	63.8	65.7	69.3
Lithuania	90.8	91.7	91.8	91.7	92.1	91.5
Average CEE	69.8	75.1	76.8	74.5	78.1	76.3

Source: EBRD

Table XII: Asset share of state-owned banks (in %)

	2004	2005	2006	2007	2008	2009
SEE						
Albania	6.7	7.7	0	0	0	0
Bosnia and Herzegovina	4.0	3.6	3.2	1.9	0.9	0.8
Bulgaria	2.3	1.7	1.8	2.1	2.0	2.4
Croatia	3.1	3.4	4.2	4.7	4.4	4.1
FYR Macedonia	1.9	1.6	1.6	1.4	1.2	1.4
Montenegro	16.4	5.1	0.0	0.0	0.0	0.0
Romania	7.5	6.5	5.9	5.7	5.6	7.9
Serbia	23.4	23.9	14.9	15.7	16.0	
Average SEE	8.2	6.7	4.0	3.9	3.8	2.4
CEE						
Slovenia	12.6	12.0	12.5	14.4	15.4	16.7
Estonia	0.0	0.0	0.0	0.0	0.0	0.0
Hungary	6.6	7.0	7.4	3.7	3.5	3.9
Poland	21.7	21.5	21.1	19.5	18.3	22.1
Slovakia	1.3	1.1	1.1	1.0	0.8	0.9
Latvia	4.0	4.3	4.4	4.2	19.5	17.1
Lithuania	0.0	0.0	0.0	0.0	0.0	0.0
Average CEE	6.6	6.6	6.6	6.1	8.2	8.7

Source: EBRD

Table XIII: Number of banks (of which foreign-owned)

	2004	2005	2006	2007	2008	2009
SEE						
Albania	16 (14)	16 (14)	17 (14)	17 (15)	16 (14)	16 (14)
Bosnia and Herzegovina	33 (17)	33 (20)	32 (22)	32 (21)	30 (21)	30 (21)
Bulgaria	35 (24)	34 (23)	32 (23)	29 (21)	30 (22)	30 (22)
Croatia	37 (15)	34 (13)	33 (15)	33 (16)	33 (16)	32 (15)
FYR Macedonia	21 (8)	20 (8)	19 (8)	18 (11)	18 (14)	18 (14)
Montenegro	10 (3)	10 (7)	10 (8)	11 (8)	11 (9)	11 (9)
Romania	32 (23)	33 (24)	31 (26)	31 (26)	32 (27)	31 (25)
Serbia	43 (11)	40 (17)	37 (22)	35 (21)	34 (20)	
CEE						
Slovenia	22 (7)	25 (9)	25 (10)	27 (11)	24 (11)	25 (11)
Estonia	9 (6)	13 (10)	14 (12)	15 (13)	17 (15)	17 (14)
Hungary	38 (27)	38 (27)	40 (28)	40 (27)	39 (25)	38 (23)
Poland	57 (44)	61 (50)	63 (52)	64 (54)	70 (60)	67 (57)
Slovakia	21 (16)	23 (16)	24 (16)	26 (15)	26 (16)	26 (13)
Latvia	23 (9)	23 (9)	24 (12)	25 (14)	27 (16)	27 (18)
Lithuania	12 (6)	12 (6)	11 (6)	14 (6)	17 (5)	17 (5)

Source: EBRD

Table XIV: Herfindahl index for Credit institutions (CIs) total assets;

	2004	2005	2006	2007	2008	2009	2010
SEE							
Albania	0.270	0.210	0.180	0.150	0.150	0.140	0.140
Bulgaria	0.072	0.070	0.071	0.083	0.083	0.085	0.079
Croatia	0.136	0.136	0.130	0.128	0.131	0.137	0.136
FYR Macedonia	0.169	0.161	0.160	0.163	0.158	0.164	
Montenegro	0.164	0.230	0.204	0.192	0.191	0.164	0.147
Romania	0.111	0.112	0.117	0.104	0.092	0.086	0.087
Serbia	0.060	0.067	0.061	0.058	0.063	0.064	0.063
Average SEE	0.140	0.141	0.132	0.125	0.124	0.120	0.109
CEE							
Slovenia	0.143	0.137	0.130	0.128	0.127	0.126	0.116
Estonia	0.389	0.404	0.359	0.341	0.312	0.309	0.293
Hungary	0.080	0.080	0.082	0.084	0.082	0.086	0.081
Poland	0.069	0.065	0.060	0.064	0.056	0.057	0.056
Slovakia	0.115	0.108	0.113	0.108	0.120	0.127	0.124
Latvia	0.102	0.118	0.127	0.116	0.121	0.118	0.101
Lithuania	0.185	0.184	0.191	0.183	0.171	0.169	0.155
Czech Republic	0.110	0.116	0.110	0.110	0.101	0.103	0.104
Average CEE	0.149	0.151	0.147	0.142	0.136	0.137	0.129
EU 15							
Austria	0.055	0.056	0.053	0.053	0.045	0.041	0.038
Belgium	0.210	0.211	0.204	0.208	0.188	0.162	0.144
Denmark	0.115	0.112	0.107	0.112	0.123	0.104	0.108
Finland	0.268	0.273	0.256	0.254	0.316	0.312	0.355
France	0.062	0.073	0.073	0.068	0.068	0.061	0.061
Germany	0.018	0.017	0.018	0.018	0.019	0.021	0.030
Greece	0.107	0.110	0.110	0.110	0.117	0.118	0.121
Ireland	0.060	0.060	0.060	0.070	0.080	0.090	0.090
Italy	0.023	0.023	0.022	0.033	0.031	0.030	0.040
Luxembourg	0.037	0.037	0.033	0.032	0.031	0.031	0.034
Netherlands	0.173	0.180	0.182	0.193	0.217	0.203	0.205
Portugal	0.109	0.115	0.113	0.110	0.111	0.115	0.120
Spain	0.048	0.049	0.044	0.046	0.050	0.051	0.053
Sweden	0.085	0.085	0.086	0.093	0.095	0.090	0.086
United Kingdom	0.038	0.040	0.039	0.045	0.041	0.047	0.052
Average EU 15	0.094	0.096	0.093	0.096	0.102	0.098	0.102

Source: European Central Bank and National Central banks

List of abbreviations

SEE – Southeast Europe

CEE – Central Eastern European

EU – European Union
GFC – Global Financial Crisis
GDP – Gross Domestic Product
IMF – International Monetary Fund
EBRD – European Bank for Reconstruction and Development
NPLs – Non-performing loans
HHI – Herfindahl Hirschman Index

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The authors declare that there is no conflict of interest regarding the publication of this paper.

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