1. INTRODUCTION

About a decade ago, fifteen countries of Central and Eastern Europe had to start the process of building or re-building completely functional financial systems. Bases for such systems had never existed before or in the best case they had not existed for the last forty years. Facing a large number of problems with the existing banking systems, these countries embarked into a number of reforms. Looking back at the past decade, it is noticed that the process of reforming the financial and banking sector followed three main steps: (i) restoration of macroeconomic stability, including the attainment of low inflation rates; (ii) privatization of banks and enterprises that were banks' clients; and (iii) opening the doors for the foreign banks[1].

Thus, one of the main steps of this process was allowing foreign capital[2] to enter the banking system through the opening of foreign banks (i.e. branches, affiliations, joint ventures, representative offices) or through the privatization (completely or partially) of the existing state banks. The countries of the Balkan region followed the same model, though at a period of several years later.

Now, a couple of years later, the presence of foreign capital in these countries' banking systems has intensified encouraging their development as well, even though not to an expected level. On the other hand, concerns about a total or partial dominance of foreign capital in the banking system are increasing. As a result, voices against liberal policies that allow the entry of foreign banks in the market or the privatization by foreigners are becoming stronger. Also, demands on implementing the protectionist policies in this area of the economy are strongly arising.

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[1] *"Starting from scratch"* The Banker. October 1999, pg. 55.

[2] For the purposes of this analysis, the term "foreign banks" is used as a synonym for "banks with foreign capital". Also, this paper focuses on the origin of the foreign capital.

Obviously, the situation differs from one country to another, as the rate of flow of foreign capital is different. For example, two of the most advanced transition countries, Hungary and Poland allowed extensive foreign entry into their banking markets[3]. Estonia has only six commercial banks. Foreigners own three of those, including the two biggest banks, which account for 85-90 per cent of the total assets of banking system. Foreign banks prevail in Lithuania as well[4].

Table 1. Foreign ownership of banks of Hungary and Poland.

Indicator	Hungary	Poland
Total number of banks	43	80
Foreign majority owned banks	30	34
Percent of total banking capital held by foreign banks	61	52

Source : Storf (2000) Data for Hungary, September 1999, for Poland, mid-1999.

Latest surveys of the Bank Austria Creditanstalt show that the weight of foreign banks in the banking system of Central and Eastern Europe last year increased to 32% as compared to 20% that was the previous year. This figure will increase as a result of further privatization of main banks[5].

[3] Galac Tomislav, Kraft Evans. "*What has been the impact of foreign bank in Croatia?"* National Bank of Croatia, S-4. December 2000, pg. 2.
[4] *"Starting from scratch"* The Banker. October 1999, pg. 56.
[5] "*Survey finds foreign ownership is rising"* The Banker. October 1999, pg. 53.

2. THE ARGUMENTS FOR AND AGAINST THE ENTRY OF FOREIGN BANKS

Theoretical reasons for and against the entry of foreign banks in a given country are clearly listed in Bonin et al (1998)[6]. These reasons are outlined below:

Arguments supporting the entry of foreign banks:

✍ *Products and services innovation.* Foreign banks tend to offer a larger variety of products and services as they possess the necessary experience and know-how transferred from their home markets. Meanwhile, the domestic banks lack the proper knowledge on how to launch new products or services or are unable to invest on those due to their present situation (the problems inherited from the past).

✍ *Economies of scale and scope.* Two arguments can be made here. First, that foreign bank could offer new technology, which is very necessary for the main domestic banks to generate profit from economy of scales. However, foreign banks are willing to offer it only if they manage to purchase the majority of shares in a domestic bank. Second, that foreign bank can encourage the consolidation of banking system by participating in joint ventures of acquisitions with small domestic banks. Also, foreign banks take the advantages provided by the economy of scope through their knowledge of other financial operations such as insurance, portfolio management and commissions.

✍ *Environment of competition.* Foreign banks that enter the market naturally lead to an increase in the number of banks, thus increasing competition. However, this is not always the case given the market segmentation.

[6] Qt. in Galac Tomislav, Kraft Evans. "*What has been the impact of foreign bank in Croatia?"* National Bank of Croatia, S-4. December 2000, pg. 1-2. Bonin P. John et al. Banking in Transition Economies pg. 57-76.

✍ *Financial markets development.* Foreign banks can help the expansion of inter-banking market and can attract clients who in other circumstances would either seek off shore banks or would not approach the banking system at all.

✍ *Introduction, even if limited, of appropriate banking practices.* Foreign banks introduce their expertise in the banking market through their personnel or through applying the same practices they use in their country of origin.

✍ *Attraction of foreign direct investments.* The presence of foreign banks itself is a form of foreign direct investments. Also, this presence increases the credibility and safety for foreign investments and can help to attract other direct foreign investments especially from the respective countries.

Arguments against the entry of foreign banks:

✍ *Fear of foreign control.* Given that banks are involved in deposit and lending activities, which directly affect the economy of a country and the quality of life of its citizens, it is natural that a sense of fear starts to develop when these activities are in the hands of foreigners.

✍ *Banking is considered as an infant industry.* In less developed markets, banking industry is similar to an infant industry. As a result, it is argued that this industry needs to be protected so that it can grow and be competitive.

✍ *Banks represent a special activity.* Banks are subject to special protections from government due to their important role in the economy. Thus, it is argued that it is not appropriate that foreign investors enjoy these “privileges” as well.

✍ *Foreign banks have different objectives.* Foreign banks might be interested in the economy of their home country rather than the development of the economy where they have invested. For example, they might be

interested in promoting exports from their home country or in supporting projects undertaken by home country firms. Furthermore, it might happen that foreign banks gather deposits in one country to make loans to their home countries.

✍ *Regulatory differences.* Under European Union law, the branches or representative offices of foreign banks are supervised by home country supervising authorities. However, it might happen that the quality of this process varies from one country to another and in the worst case the home countries lack a consolidated supervising authority resulting into a poor monitoring process of a part of the banking system and consequently leading to unsound banking policies. In the case of Albania, foreign banks are under the supervision of the sole supervising authority, Bank of Albania.

Apart from the concerns about the entry of foreign banks, it is necessary to consider another major point in this analysis, i.e. the diversification of the foreign capital, which flows into the Albanian banking system. Foreign capital diversification has theoretically[7] two main advantages:

* First, it introduces new banking cultures interested in various areas of the economy or market segments.
* Second, it decreases the level of exposure of the host country banking system to the developments of a sole economy and thus it lowers the possibility of this sole economy affecting the banking system if the former is in financial difficulties.

[7] Baleta, Teuta. "*An overview of Albanian banking system in 1998".* Economic Bulletin, vol. 2, no. 2, Bank of Albania. September 1999.

3. WHY COUNTRIES IN THE REGION ?

The focus of this paper is to study the foreign capital diversification in the banking system of Balkan countries. Reasons for narrowing our focus not only geographically, (this study does not consider countries of Eastern and Central Europe) but also in its scope (this study is not concerned with the presence of foreign capital in the banking system) are related to the objective of understanding whether the banking systems of the countries in the region are faced with a concentration of capital from certain countries, which might expose them to the risks associated with the economic development of these countries.

Despite their differences, Balkan countries are under developed and lack the appropriate political stability. In the last ten years these countries have experienced violent conflicts at home or with their neighbours. As such, they do not attract many foreign investors. Foreign investments in the region are carried out by specific economies or individuals that have limited possibilities to invest anywhere else and therefore they are willing to accept the high risk that Balkan offers. Theoretically, potential investors for the Balkan would be Italy, Greece, Turkey and other countries, which are located close to the region and are more economically developed, and as such they have potential capabilities for investing. Furthermore, Italy and Greece are two countries, which “play” with their membership in EU and enjoy a “greater prestige in the eyes of the Balkan exhausted by wars.” Considerable penetration of only one or two economies into banking system would definitely result in increasing the level of exposure of each Balkan country to these economies, especially when the latter expand in the whole region.

For these reasons, banking systems are analyzed from two points of view: legal one and numerical one. First, we look at the regulations, which allow the entry of foreign banks in a given country by comparing these rules with the standards set by Basle Committee on Banking and Supervision. Second, we consider the indicators that the banking activity offers. Throughout this paper we use the term “region” or “ Balkan region”. However, we have considered only six countries subject to our study. They are: Albania, Bosnia-Herzegovina, Bulgaria, Macedonia, Romania and Slovenia.

4. LEGAL ASPECTS

4.1 Compliance with the core principles of BIS Basle[8] on bank licensing.

The 25 core principles of Basle designed to provide an effective monitoring of banking system serve as minimum international standards that the supervising authority of each country refers to. These criteria cover all the elements of supervising activity and it is necessary that they be strictly followed. Criteria that deal with the banking licensing occupy a special place in the set of principles.

Compliance with the international standards on bank licensing affects the flow of capital in one country. Following is a brief comparison of minimum licensing requirements and the rate of compliance with them as approved by countries under consideration.

Box 1 : Core principles of BIS Basle on bank licensing.

Principle 2. The permissible activities of institutions that are licensed and subject to supervision as banks must be clearly defined, and the use of the word "bank" in names should be controlled as far as possible.

Principle 3. The licensing authority must have the right to set criteria and reject applications for establishments that do not meet the standards set. The licensing process, at a minimum, should consist of an assessment of the bank's ownership structure, directors and senior management, its operating plan and internal controls, and its projected financial condition, including its capital base; where the proposed owner or parent organization is a foreign bank, the prior consent of its home country supervisor should be obtained.

The permissible activities of licensed and supervised banks should be clearly defined.

[8] "Core Principles for Effective Banking Supervision", consulative paper issued by the Basle Committee on Banking Supervision, Basle, April 1997.

Legislation of all the countries under consideration clearly define the scope of activity that licensed banks are allowed to perform. This activity ranges from deposit and lending to trading of derivatives, payments system, service commissions, etc.

Licensing authorities have the right to establish appropriate criteria and to reject any application that does not comply with these.

Legislation of respective countries define in detail all the criteria for granting a bank license, the time needed to process applications (which differs among countries – see table 2), procedures for license invalidation, appeal processes, etc.

Minimum criteria to be met include assessment of banks' capital structure, directors and senior managers, operating plan and internal audit, projected financial situation, including its base capital. In the case of foreign banks, the consent of home country supervising authorities is needed.

The licensing procedures determine that shareholders entitled to more than ten percent (in the case of Bosnia-Herzegovina it is 15%) of the votes (or that have preferential votes) should prove to have sufficient financial skills and business experience. Specific procedures are designed with regards to the financial situation and supervision of the banks (rules on banks' investments, level of their exposure, etc.)

The supervising and licensing authorities should co-operate closely together if they are not the same authority.

The process for granting a license to foreign banks or their branches requires that the home country authorities for supervising and licensing give their full approval.

Apart from Bosnia[9], the supervising and licensing authority in all countries is the central bank.

Banks' supervisors should have the authority to review and reject any proposals to transfer significant ownership or controlling interests in existing banks to other parties.

National legislation take this criterion into account. The shares transferred vary from 5-10 percent. In all case, changes in the structure of ownership of the bank are subject to licensing authority's approval.

The supervising authorities should have the right to establish criteria on merging and investments plans of a bank and ensure that corporate affiliations or structures do not expose the bank to risks or hinder effective supervision.

This clause is included in national legislation and the licensing and supervising authority should give its approval about any possible modification of it.

In general, it is noted that all countries under consideration have developed similar ways of drafting the laws, regulations or clauses related to the requirements for granting a license or carrying out investments. Their legislation outline banks' obligations to give out information, to publish financial and banking information which can be made public (i.e. deposit and credit interest rates, etc.) Furthermore, these countries define specific penalties (fines which might be as severe as invalidation of the license) that the supervising authority might implement in case the banks do not abide by the rules.

The time it takes to review an application for license and grant it varies from two months (in Bosnia-Herzegovina) to six months (in Bulgaria).

[9] In this case, the Bosnian Banking Agency acts as a licensing and supervising authority. Laws related to this agency and to banking activity include clauses that assure the co-operation between the Central Bank and the Agency.

The amount of the minimum required capital to start a banking activity varies from 4.5-5 million US dollars (in Albania, Slovenia, Bulgaria) to 7.2 million US dollars (in Bosnia-Herzegovina) and 9.4 million US dollars (in Macedonia). In the case of Macedonia, the amount refers to those banks that operate with off shore institutions for payments, loan warranties, etc. Slovenian law states that the minimum capital requirements (which is determined by law and not by Central Bank)[10] can be changed by the Bank of Slovenia if the exchange rate of domestic currency (tolar) and Euro shifts with more than 10% (according to the exchange rates of Bank of Slovenia).

In general, the application materials for granting a license, the time needed to review the documents, the minimum capital requirement and other regulations on investments and monitoring process are similar across all countries in the region and overall in compliance with the minimum international standards. The latter happens because of the influence that international institutions have exercised in drafting the legislation of these countries and also of a tendency to comply with the standards.

Thus, there are very minor differences with regards to the procedures for granting a license among countries in the region. These differences are insignificant and they do not give priority to any country in terms of attracting foreign capital or capital from a certain country.

It is obvious that the rate of penetration of foreign banks and their quality depends on the market size, economic and political stability, the level of foreign investments in other sectors of the economy and the banking culture rather than the pro-investment climate of a country.

[10] Unlike other countries, in Albania and Romania the minimum capital requirement is specified in the licensing procedures approved by central bank and not in laws.

Table 2. Comparing requirements for bank licensing.

	Albania	FYROM	Bulgaria	Romania	Slovenia	Bosnia
Time needed to grant the license (in months)	3	3	6	4		2
Minimum capital requirement in millions of :						
Domestic currency	700 (Lek)	9 Euro	10 000 (leva)		1 000 (tolar)	15 convertible marks
US dollar	5	10	5		4.4	7

Note : The average exchange rates in 2000 are used.

4.2 Special Issues.

4.2.1. Purchase of shares of banks.

To purchase authorized shares (specified as direct or indirect ownership of more than one per cent of the shares – usually it varies from 5 to 10 per cent) of a bank, a permission from licensing authorities is needed. This permission is required even in those cases when the owner (natural and legal person) wants to increase the amount of shares to the point of becoming a major shareholder.

4.2.2. Licensing of branches of foreign banks' branches.

In the case of opening a foreign bank branch or a representative office, additional documents are required apart from the normal applications for opening a bank. These additional documents consist of approvals from the home country supervising authorities, audited financial information on the activity of the bank in its home country, incorporation act, permission to operate in the banking sector, etc. Branches of foreign banks can not exercise activities not performed by the headquarters.

The branch of a foreign bank can be granted a license only if the supervising authorities in the home country carry out a consolidated monitoring process (Bulgaria, Macedonia). In the case of opening a branch, the bank should present a warranty confirming its willingness to pay off the liabilities accrued by the branch with its assets (Bosnia-Herzegovina).

The branch should participate in a deposit guarantee scheme if it is not a member of such scheme in its country of origin (Slovenia). Albania considers the branches of foreign banks as banks. Thus, these branches follow the same licensing procedure and rules for supervision as any bank.

5. WHAT DO THE FIGURES SAY[11]?

The number of banks operating within a country differs from one place to another. Also, the institutional framework that each country offers is different. The number of banks varies from 13 (Albania) to 97 (Slovenia). However, that does not bear any particular implication, as the population to which the banks serve, the level of economic development, banking culture, are different.

Table 3. Number of banks (1999).

Type of banks	Albania	Bosnia-Herzegovina	Romania	Bulgaria	Slovenia	FYROM
1. Commercial banks	10	61	34	28	25	22
2. Credit cooperatives					68	
3. Savings bank		1			6	16
4. Branches of foreign banks	3		7	7		1

Table 4. Number of banks (2000).

Type of banks	Albania	Bosnia-Herzegovina	Romania	Bulgaria	Slovenia	FYROM
1. Commercial banks	10	56	33	28	25	21
2. Credit cooperatives					68	
3. Savings bank						19
4. Branches of foreign banks	3	7	7	7	4	1

In order to make an accurate comparison of the banking services performed in one country, we measure the number of banks per 100,000 inhabitants.

[11] The analysis refers to two periods of time, end of 1999 and September 2000. Year 2000 as used in this section refers to September 2000.

Table 5. Number of banks per 100,000 inhabitants.

	Albania	Bosnia-Herzegovina	Romania	Bulgaria	Slovenia	FYROM
1999	0.38	1.88	0.18	0.42		1.86
September 2000	0.38	1.91	0.17	0.42		1.05
* Figures refer to 1998.	3.4	3.3	22.5	8.31		2.1

Source : "Business without borders" European Business Conspectur 2001.

It is clear that the largest concentration of banks is in Bosnia and Macedonia. In other words, these countries serve their respective population with more banks. Albania holds a modest position of 0.38. The first assumption that can be drawn by looking at the figures is that Albania has very few banks and thus not much competition in the banking system. At the other end of the spectrum stands Bosnia-Herzegovina and Macedonia.

However, the figures should be analyzed considering the inherited factors. The countries considered in this discussion belong to the ex-socialist group. In that system, banks played a passive role. Some countries had built a relatively large banking system (of many banks) while some others had not. These banks exist also nowadays and are under reconstruction. Later, the situation might invert completely due to merges and acquisitions of the banks. Albania inherited only two banks, one of which went into liquidation, and two institutes, savings and insurance. The existing ten other banks represent foreign banks opened after 1992.

Apart from looking at the criteria for bank licensing (see *section 4*), it is important that we focus also on the relative importance of foreign capital in the banking systems in order to understand these figures. The structure of capital ownership for each of the six countries appears different. Figures indicate a small share of state ownership in the case of Albania and Macedonia. This share has been further reduced during 2000 as compared to the previous year due to the privatization process that has taken place. Also, Bulgaria shows considerable

changes in the ownership structure as the state's share has been reduced due to privatization and/or state banks' liquidation. With regards to the foreign capital it is noted that:

* Foreign capital participation has increased during 2000 as compared to the previous year in Bulgaria, Macedonia and Albania.
* Foreign capital as percentage of total capital of the banking system has increased to 87.4% in the case of Albania (September 2000).
* Foreign capital as percentage of total capital has been relatively small in Slovenia (11.3% in 1999) and Bosnia-Herzegovina (16.5% in September 2000).

The above figures hint that Albania is the country:

-relatively most favored for foreign investments in banking activity
-relatively "most welcoming" in allowing the entry of foreign banks
-with a relatively considerable level of privatization of state banks.

However, it can not be stated that Albania has more flexible criteria for bank licensing compared with those of other countries. The differences are slight and insignificant.

As aforementioned, Slovenia has the lowest rate of foreign capital inflow. Maybe, this is a result of the strategy followed by this country. According to Galac and Kraft (2000)[12]:

> "A more plausible version of the infant industry argument is to advocate the formation of strong domestic banks or bank groups through mergers, perhaps with assistance of government, in place of privatization to foreign strategic investors. Stiblar (1999) elaborates such a strategy for

[12] Galac Tomislav, Kraft Evans. "*What has been the impact of foreign bank in Croatia?"* National Bank of Croatia, S-4. December 2000, pg. 2.

Slovenia. Still, it is not clear whether such a strategy would work in an open, competitive environment given the many advantages foreign banks enjoy in technology, financial power and know-how. Such efforts were abandoned in Poland."

Table 6. Structure of banking system, in percent (1999).

Type	Albania	Bosnia-Herzegovina	Romania	Bulgaria	Slovenia	FYROM
1.State	37.3	44.2	42.6	41.1	44.4	6.5
2. Private (domestic)	0.0	41.5	17.8	19.1	47.3	82.1
3. Private (foreign)	62.7	14.3	39.6	39.8	11.3	11.4

Table 7. Structure of banking system, in percent (Sept. 2000).

Type	Albania	Bosnia-Herzegovina*	Romania	Bylgaria	Slovenia**	FYROM
1.State	12.6	44.6	50.0	14.1		5.5
2. Private (domestic)	0.0	38.9	9.3	16.4		54.2
3. Private (foreign)	87.4	16.5	40.7	69.5		40.3

Note: * Figures refer to June 2000.

** This is measured only once per year.

5.1 Foreign capital diversification.

As mentioned above, it is important that the banking system of a country attract foreign capital from a number of countries in order to avoid its exposure to the developments of a single economy. In order to measure the level of capital diversification for each of the country under consideration, we have calculated the relative importance each foreign country has in the capital investments in respective banking systems.

Table 8. Capital diversification (as percent of total capital in the banking system).

Capital origin	Albania		Bosnia-Herzegovina	Romania	Bulgaria	Slovenia	FYROM
	1999	2000					
1.Greek	24.1	31.6		2.8			
2. Italian	4.4	4.9					
3. Turkish		12.3	4.7	3.6			4.7
4. Austrian			4.6	1.6		6.2	
5. German	2.6	3.0	1.0				
6. Others	31.6	35.6		15.7		0.5	6.7

It is noted that Turkey has the widest spread among the countries in the region (four of them) and Albania is the most preferred. Austria has invested in three of the countries and Germany in two but their share compared to other foreign investments is still low (less than 5%). Albania and Romania indicate investments of capital from Greece. However, it is known that Greece has invested even in Bulgaria and Macedonia (see Box. 2) though the data for that is missing. Yet, the spread of investments of capital from Greece demonstrates a different pattern. In Albania it occupies about 1/3 of the total capital in the banking system. Figures show that Italy has invested only in Albania, but at a low rate.

Box 2: Penetration of banks with Greek capital in the Balkan.

I. Bulgaria[13]***:***

In May 2000, National Bank of Greece (NGB), the largest bank groups in the country, purchased 90% of the United Bulgarian Bank (one of the largest commercial banks) for an amount of 229 million Euro. The rest of 10% will be purchased by EBRD. Purchase price (official) reached 200 million US dollars. EFG Eurobank (a branch of Swiss EFG in Greece) in partnership with Alico (insurance company of AIG) purchased 78% (38 million US dollars) of the shares of Postbank.

II. Macedonia[14]***:***

National Bank of Greece bought for a price of 117 million German Marks 65% of the shares of the biggest state bank in Macedonia, Stopanska Banka.

Alpha Bank purchased 65% of Creditna Banka, the most profitable bank in Macedonia, for a price of 18.5 million US dollars. It is presumed that this bank will deal with payment transfers to Albanian emigrants and international organizations working in Pristina.

III. Romania[15]***:***

Alpha Bank has opened a branch, Banca Bucuresti. Pireaus Bank has purchased Pater Bank for 5.5 million US dollars. EFG Eurobank has purchased Bank Post (preferred shares). National Bank of Greece has opened a branch in Romania.

IV. Albania :

National Bank of Greece, Alpha Bank and Commercial Bank have opened their branches respectively. Tirana Bank is a subsidiary of Piraeus Group. These banks operate in Albania since 1996.

[13] "The Banker", July 2000.
[14] Iden.
[15] "The Banker", July 2000 and "Romanian Business Journal", no. 2 (92), January 12-16, 1996 and "New Europe", May 10-16, 1998.

Box 3: National Bank of Greece.

The National Bank of Greece[16], country's largest commercial bank, aims to become a bank of regional dimensions in Southeastern Europe and Eastern Mediterranean. In line with this plan, are the openings of its branches in Sofia, (Bulgaria) Tirana (Albania), and Bucharest (Romania).

Plans are also in work for opening up new branches in Belgrade, as well as in the south-east Albanian city of Korca, which is near the borders with Greece and FYROM, and in Durres, a port city located approximately 45 km west of Tirana.

5.2 The role of foreign banks.

In order to understand the significance of foreign banks in the banking system of countries in the region, we analyzed certain indicators: significance of foreign banks (per countries of origin) in relation to the overall banking activity (total assets), deposit and lending activity, which are the basic functions of a commercial bank.

Table 9. Relative importance as of total assets of banking system (1999).

Capital origin	Albania		Bosnia-Herzegovina	Romania	Bulgaria	Slovenia	FYROM
	1999	2000					
1.Greek	7.2	11.1		2.3			
2. Italian	5.0	6.0					
3. Turkish		12.7		5.9			1.2
4. Austrian				2.5		4.5	
5. German	1.0	1.6					
6. Others	5.5	7.6		23.7		0.4	7.6

[16] "*National Bank of Greece is setting its sighs high*", "New Europe", May 10-16, 1998.

Table 10. Relative importance as of total loans of the banking system (1999).

Capital origin	Albania		Bosnia-Herzegovina	Romania	Bulgaria	Slovenia	FYROM
	1999	2000					
1.Greek	7.2	11.9		3.3			
2. Italian	16.4	21.8					
3. Turkish		36.3		3.6			
4. Austrian				2.4		4.0	
5. German	3.6	5.5					
6. Others	4.2	6.2		29.1		0.5	8.5

Table 11. Relative importance as of total deposits of the banking system (1999).

Capital origin	Albania		Bosnia-Herzegovina	Romania	Bulgaria	Slovenia	FYROM
	1999	2000					
1.Greek	6.3	9.0		1.2			
2. Italian	4.2	4.7					
3. Turkish		9.8		7.0			0.5
4. Austrian				1.9		3.4	
5. German	0.9	1.5					
6. Others	3.8	6.2		21.1		0.2	6.1

It can be noticed that foreign banks do not play a significant role in the banking systems of countries in the region in terms of overall activity expansion, considering the deposit as well as lending activity they perform. All of the countries in the region show a certain harmony of the figures, as the relative indicators (those, which reflect the significance of various activities in the banking system) are similar across foreign banks as well as across capital origin.

Conversely, Albania presents a high irregularity. In 1999 the share of foreign capital in the banking system was 62.7% while that of total assets, deposits and loans, as compared to the system were 18.7%, 31.4% and 15.2% respectively. In 2000, figures improve as the increase of capital to 87.4% is followed by the increase in the share of assets, deposits and loans to 39%,

81.7% and 31.2% respectively. Yet, this is not an accurate conclusion as the National Commercial Bank was privatized during 2000. This bank inherited all the activities previously carried out as a state owned bank.

In the case of Albania, the disparity becomes even more obvious if we look at the origin of foreign capital. In 2000, banks with Greek capital account for 1/3 of the banking system, but carry out only 1/10 of the total banking activity, deposits and lending. Italian capital makes for 5% of the total capital in the banking system, but performs 1/5 of banking activities. The German capital takes up 3% of the total capital invested in the banking system and 5.5% of the lending activity. Figures related to overall activity and deposits are very close to those showing the share of the foreign banks in total capital. This is evidence of two different behaviors. Italian-Albanian Bank and FEFAD Bank (partially financed with German capital) behave “normally” as they expand into the lending activity financed by banks’ capital and deposits. Greek bank group behaves more rigidly as it restricts credit to Albanian economy.

6. CONCLUSIONS

1. Overall, requirements for bank licensing are similar among countries in the region. Also, they are in accordance with the international standards defined by core principles of BIS Basle. The differences are minor and insignificant and thus they do not provide advantages for any country to attract foreign capital or select its origin. Obviously, there are other reasons that affect the flow of foreign capital into the banking systems of Balkan countries.

2. The capital ownership structure shows that Turkey has a wider spread in the region (a larger number of countries mention Turkey as an investor in respective banking systems). As our observation is not based only in the data provided by each country but considers also additional information from newspapers or periodicals, it is noticed that foreign banks with Greek and Turkish capital are equally expanded (spread over the same number of countries). However, in a few countries, especially Albania, banks with Greek capital have a higher share in the overall banking system. Unlike expectations, Italy's presence in the region is not at a considerable level.

3. Albania has the highest rate of foreign capital inflow. This is due to small number of banks inherited from the past and the priority given to privatization of banks (as there are few banks subject to privatization) rather than to more flexible criteria for bank licensing. Yet, this situation might be an indicator of "a more friendly" attitude Albania has toward foreign capital inflow.

4. Albania has the smallest number of banks per citizen and accordingly it has a banking system not very competitive.

5. Foreign banks have a relatively small role in the banking system activity of countries in the region. Yet, except for the case of Albania, relevant figures for each of the country under consideration are in harmony and logical. In the

case of Albania, foreign capital makes up a high portion of the total capital in the banking system but its role in the overall banking activity is limited. This is mostly true for Greek bank group.

In conclusion, a suitable proposal as a general policy for the Albanian authorities would be to allow the free flow of foreign capital in the country. However, the presence of banks financed with Albanian capital, diversification of foreign banks, new policies on bank licensing, an efficient review of business plans and control that they are being implemented after the banks have started operating, are necessary to make sure that foreign banks play a significant role in the development of Albanian economy and banking system. The privatization of Savings Bank provides a good opportunity for foreign capital diversification in the Albanian banking system.

Furthermore, it would be of great interest to pursue this analysis by looking at the effects of foreign banks in banking system of countries in the region. Did foreign banks have a positive effect and did they meet expectations?

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