

***BANKS:  
FROM PLANNED TO MARKET  
ECONOMY IN EU***

*Produced and presented by*

**GIORGIO SZEGÖ**

University of Rome “La Sapienza”

Dubrovnik

June 29 - July 2, 2005

# *Process and Problems*

---

- “Désétatiser”, how?
- The role of the market in the price-discovery process.
- New proprietary assets.
- Supervision
- On foreign owned banks
- Lending of last resort

# *The role of the market*

---

The preliminary sale of a small percentage of stock in a public market along with a firm commitment to privatize the whole company may help to discover the correct price.

In Italy this procedure has been successfully applied in the privatization process of ENEL, the former state electric power company.

# *New proprietary assets*

---

In many countries, the privatization of banks has implied a transfer of ownership to foreigners. In Romania, for instance, the Government has announced the sale of the largest local bank: Banca Comerciala Romana. It is anticipated that it will be bought by a foreign bank. In many countries among them, notably, New Zealand, most of the banking system is foreign-owned.

# *Ownership, operation, supervision*

---

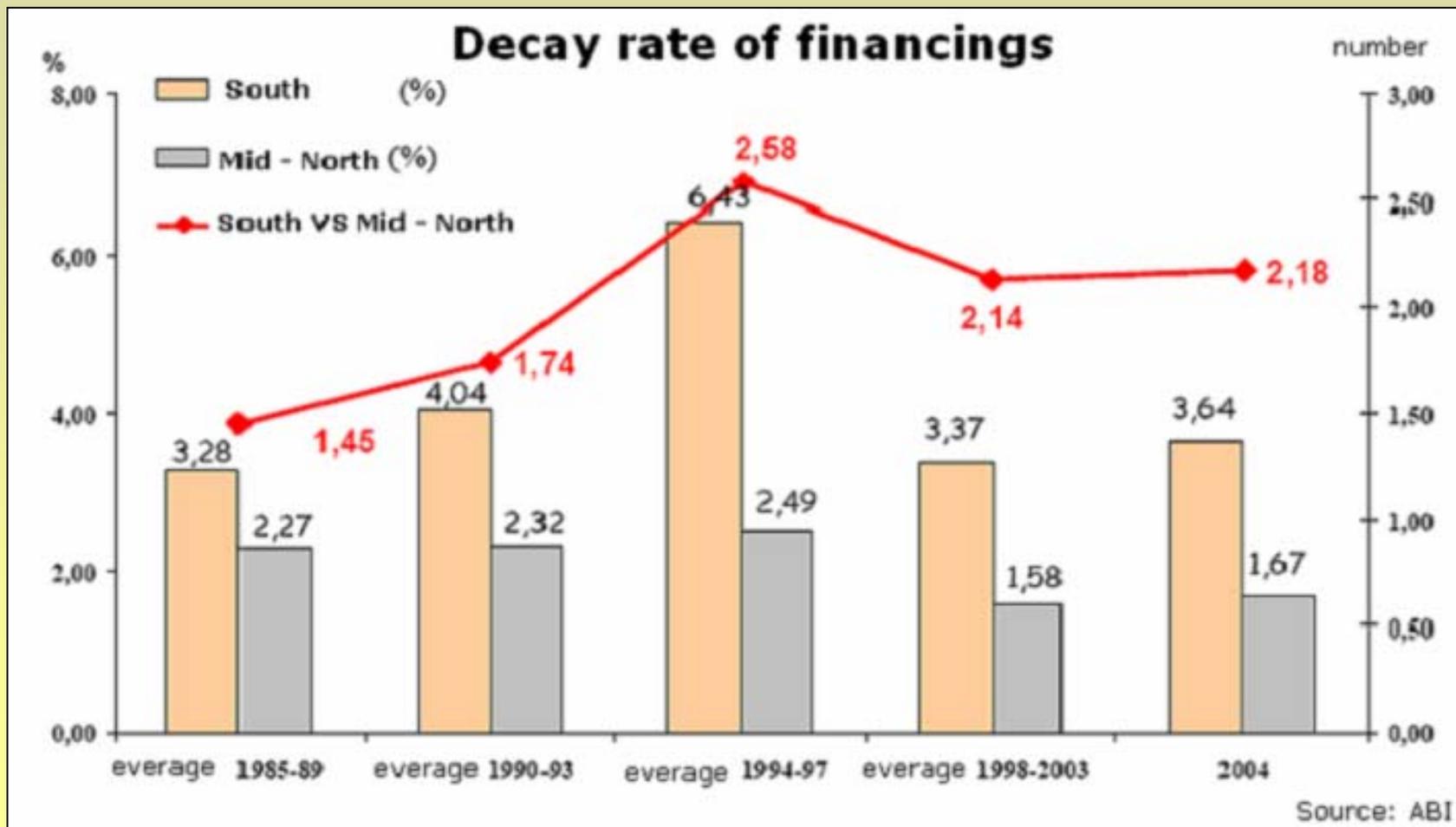
- Can be detected a difference in behaviour between foreign- and domestic-owned banks?
- Is there any difference in lending and recovery behaviour?
- At least in EU, supervision is performed by the authorities of the country of incorporation and (after BCCI) where the main operational headquarter is located.
- Will taxpayer money of the country of incorporation be used to save foreign-owned banks?

# *A comparison via proxy*

---

- From many economic indicators southern Italy can be considered a different country from the north.
- In the credit sector the difference can be summarized in the following graph.

# Comparison among bad loans (1)



# Comparison among bad loans (2)

## CREDIT RECOVERY RATE

	incidence % of the costs of the activity of recovery on the operative costs	times of recovery (years) of the executive real estate procedures
North - West	1,8%	5,8
North - East	1,8%	5,3
Mid	2,7%	6,6
South	5,3%	}
Islands	3,1%	
ITALY	2,3%	6,3

Source: Banca d'Italia

# *A surprising result...*

*...in the South the majority of credit is provided by Northern banks !!*

## **Role of Northern Banks in South Italy**

(Share % on total)

	<b>TOTAL</b>	<b>Direct (1)</b>	<b>Indirect (2)</b>
<b>DEPOSITS</b>	<b>79</b>	<b>48</b>	<b>31</b>
<b>LOANS</b>	<b>80</b>	<b>53</b>	<b>27</b>

(1) Trough branches of Northern Banks

(2) Trough local Banks owned by Northern Banks

Source: ABI

# Arguments for foreign banks participation

## a) in favor

- enhancement of the ability of financial institutions to measure and manage risk effectively → better credit management → more loans
- increase of amount of funding available to domestic projects by facilitating capital inflows
- improvement of quality, pricing and availability of financial services
- improvement of financial system infrastructure (accounting, transparency and financial regulation) and increased presence of supporting agents (rating agencies, review company)
- import of financial system supervision and supervisory skills from home country regulators

# Arguments for foreign banks participation

---

## b) against

- decrease of the stability of aggregate domestic bank credit
- “cherry pick” of the most lucrative domestic markets or customers by foreign-owned banks

# *The debate on lending of last resort*

---

- the lesson of BCCI
- will taxpayer money of the country of incorporation be used to save foreign-owned banks?