

Does Ownership of Banks in the CEE Countries Matter?

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The ownership structure and governance of banks in the European Union, and in the Eurozone in particular, is far from homogenous. A variety of banking models existed before the global and financial crisis, and a variety of banking models remains.

Of particular interest in the context of the EU is the bank ownership structure and governance divide between the old and new member states. The divide represents the outcome of transition in Central and Eastern Europe (CEE). It is a unique situation. Most of the CEE countries - since 2004 also members of the European Union - ended up with the prevalent foreign ownership of banks, insurance companies, and a large share of foreign ownership of manufacturing companies.

The purpose of this paper is to provide a normative and comparative institutional analysis of the socio-economic situation in the CEE countries with regard to the prevalent foreign ownership of financial institutions. During the period of transition and mass privatization, various experts often advocated that the international financial groups provide the necessary capital and bring in the missing expertise, new technologies and access to international markets. Therefore, the best way to integrate with the European Union and exit from the periphery was to open up to foreign capital. The European Union would provide the structural funds required to accelerate the process of integration.

In practice, after more than a quarter of a century of transition and more than a decade of EU membership, the CEE countries continue to lag behind the EU average level of socio-economic development. The resulting disappointment of the citizens can be observed in many of the CEE countries, and a populist backlash has also occurred. Is it possible that the model of integration was not the optimal one? Are there credible alternatives to the current path of integration?

Finally, the European Union's effort to establish a banking union should be also examined from the CEE perspective. If one of the main declared goals is to sever the link between the sovereign members and the banks, the lessons can be learned from the CEE experience. Our analysis of the CEE position may shed some light on the future challenges of the European Banking Union.

Keywords: bank ownership structure, Central and Eastern Europe, corporate governance, variety of institutional financial models