SLOVAKIA:
A Tale of Reluctance and Dissimilarity

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Abstract: *Although against a backdrop of illiquid capital markets, substantial non-performing loans, and other problems, Slovakia's bank privatization process evolved in what ultimately turned out to be a well structured manner that made the institutions attractive to good strategic partners.*

1. Introduction

This study presents certain financial services industry (FSI) privatization developments, and characteristics, as evolving in a central European country where the process can be considered to have had a number of interesting positive features. The genesis of today's Slovakia is sourced in issues of ethnicism, nationalism, and conflict, some of which generate continued debate even in our times. When the First World War started in 1914 different Central and Eastern European countries (CEECs) had attained different degrees of democracy, and the sentiments of democracy and of nationalism were deliberately appealed to by the Allies in their propaganda against Turkish rule over Arabs, and against Austrian rule over Czechs, over Slovaks, Poles, Croats, and others.

Four years later, when the Republic of Czechoslovakia was created on the 14th November 1918, and then later when the June 1919 Treaty of Versailles created the new central Europe (with its Little Entente of Czechoslovakia, Romania, and Yugoslavia), a process of incorporation of foreign minorities into the new states was set in train. This was later to be the seed of much disagreement and conflict. Three million Hungarians went under alien rule. Another three million Germans were included in Czechoslovakia, and others into Poland. In one way it could be said that the great principle of nationality, so constantly enunciated in the 19th century, had at last received recognition, but it could equally be held that nationality had been violated by the incorporation of foreign nationalities in the new states.

These “national engineering” decisions made future trouble inevitable, even if such subjections to ‘foreign’ rule (arguably necessary in the interests of military frontiers) were insignificant when compared with those that took place before the war. Perhaps a more vital defect was that the creation of so many small states multiplied economic boundaries, led to the introduction of new tariffs, and made trade infinitely more difficult in South-eastern Europe.

The enactment of a new constitution (based on the French model) in Czechoslovakia, in February 1920, did not eliminate a marring of internal politics sourced in latent racial conflicts. Racially the country comprised seven million Czechs, two million Slovaks, three-and-a-quarter million Germans in the Sudetenland, seven hundred thousand Hungarians, and four hundred and fifty thousand Ruthenes. But the industrious Czechs dominated over the other peoples. Between 1935 and 1938, even if there was active consciousness of the German danger - and this visibly marked both external policy towards Poland and internally towards the ever increasing Sudeten German agitation - Czechoslovakia remained the centre of the Little Entente.

The Munich Settlement of the 29th September 1938 saw Czechoslovakia losing 10,000 square miles of its frontier regions to Germany, and another 6,000 miles to Poland and Hungary. One third of the population of the (supposedly guaranteed by the Allies but now rumped!) Czechoslovakia ended up transferred. After this settlement Slovakia became autonomous, gaining a tenuous ‘independence’ when the Germans annexed the Czech provinces of Bohemia and Moravia in March 1939. The end of World War II in 1945 saw a Czechoslovak ‘National Front” government returning to Prague, but in June of that year the country was forced to cede Ruthenia to the USSR. The Communists won the elections of 1946, but that democratically elected government was overthrown in February 1948 and thenceforth the country became a Russian satellite state, where any internal ethnic or nationalistic aspirations were quelled at the slightest point of expression.

Many accounts have been written to support the belief that even under tyranny the sentiment of appertenance (religious, ethnic, nationalistic) can never be completely quashed into oblivion. The wish of the Slovaks for greater self-government was one such reality, and it often manifested itself through the taking of specific popular positions in sharp difference to those of the dominant foreigner. Thus, for example, during the Arab-Israeli war of 1967 the Slovak populace manifested great open sympathy for Jews living amongst them, in sharp contrast to the Soviet and official Communist policy favouring the Arabs. Several vociferous spokesmen in the Slovak Writers' Union denounced the heavy handed censorship of literature, and young people showed ever less and less enthusiasm for the Communist Party, 40 per cent of whose members were in fact over the age of sixty.

This brief account of the ethnic and historic issues that dominated Czechoslovakia's political and national evolution, is felt to be very necessary background that warrants being kept in mind when considering that Slovakia then inherited much of the same financial sector situation as the Czech Republic when the two separated in January 1931 in what has often been described as "the velvet divorce". Several banks had in theory been practically voucher privatized, but had carried out only some basic reforms, and still had much to do to become commercial. Whilst the Czech experience showed that mass privatization did not result in dispersed ownership in the hands of many small investors, in the case of the Slovak Republic ownership concentration was even higher.

But a complimentary, even if not totally identical in its evolution, development in both republics was the transformation of many investment funds into holding companies. Instead of the funds having small minority stakes in many companies, these new holding companies held large majority stakes in just a few companies.

Managers of these funds would often state that they wanted to be dominant majority shareholders in fewer firms.[2] As in the Czech Republic, many of the funds and holding companies were, in Slovakia, also controlled by the banks. These banks owned the management companies that established and controlled the larger funds, and there was concern of course that the banks both lent to firms as well as controlled the funds that owned them. According to Trend (1996) the "third wave" in the privatization process in the Slovak Republic was the further concentration of ownership that took place in 1996 through M&As. Twelve of the former foreign trade companies became holding companies with large ownership stakes in 146 industrial firms.[3]

In the case of financial services privatization there were times when in Slovakia this seemed as if it would proceed on a totally independent and different footing, if at all. The case of Slovenska Pojistivna (SP), a former insurance monopoly, may be cited as a case in point. Possibly because of industrial loans which it was formed to make during the communist period, SP had been lumped together with the three Slovak state-owned banks (SOBs) when in January 1996 Prime

Table 1

Average combined ownership of the largest owners	
Czech Republic:	706 firms from first and second wave.
1st Quarter 1993	50 %
1st Quarter 1996	65%
Slovak Republic:	623 firms from first wave
4th Quarter 1993	52%
4th Quarter 1995	73%
Source: Pohl, Anderssen, *et al* (1997), *op cit.*	

Minister Vladimir Meciar had announced that banking sector privatization would be completed by February 1996. Many, in Slovakia as elsewhere, were doubtful (but good humouredly so!) about such expressed aspirations.

2. Hard conditions

Naturally this did not happen. And the basic principles then officiously enunciated possibly explain why:

- Ownership had to be by major industrial groups.
- Ownership had to be 100 per cent Slovak.
- Merger of the four leading financial institutions of the country had to (possibly) bring them down to two.

The rest of the process would be in the hands of the National Property Fund.

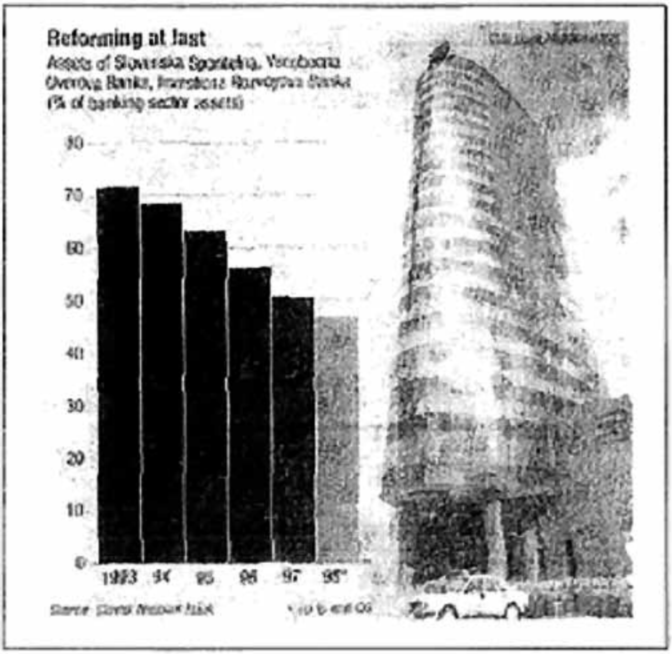
Between 1991 and 1995 the number of bank loans in the Slovak Republic classified as "Non-standard", in IMF assessment methodology terms, (qualifying the country for Significant financial sector problem status), was at a very high level. But whilst all the five major banks had required government sponsored restructuring operations, no runs or major bank closures took place.[4]

The financial position of the three troubled large Slovak SOBs deteriorated significantly in 1998, when each made losses of around US$ 100 m. They accounted for much of the banking sector's sharp increase in the share of bad loans from 37% to 44%.

When the IMF mission which visited the country in the following year suggested more and speedier sell-offs, Slovak banking was still one of the most fragile in Europe. But, at least, the new government of Mikulas Dzurinda believed that it was of fundamental importance that foreign capital and expertise be injected into the big banks. "There is [was] a very low level of knowledge about how to operate in a capitalist economy, and former governments would expect pressure on the banks to help entrepreneurs" - (Ladislav Vaskovic, head of Vseobecna Uverova Banka (V UB), which was the main commercial bank still providing almost 30% of loans). "VUB is regarded as a social institution, not a bank", he opined.[5]

VUB, Slovenska Sparilelna (SS) the country's main retail bank, and [RB (Investicna a Rozvoyova Banka) the former project finance bank, all suffered from lack of capital, under-provisioned bad loans, high operating costs, and poor profitability.

Figure 1



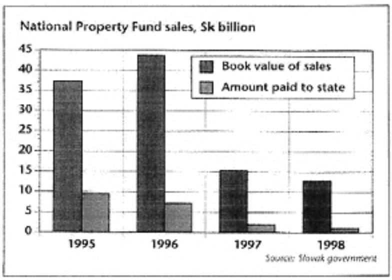
Together they represented almost half of the Slovak banking sector's assets. The average capital adequacy (CA) ratio was a poor 4.4% at the end of 1998, down from just 6.7% in 1997, the year when the central bank took over [RB because of a liquidity crisis. And as the condition of the economy continued to deteriorate the banks' situations worsened steadily. High interest rates turned more loans bad, and at the same time foreign banks creamed off blue-chip clients and high-earning retail customers.

The situation was becoming very urgent, and in order to smooth the way for banking privatization government also bit the same Czech bullet of announcing plans to help some struggling companies. F itch IBCA, the rating agency, estimated it would cost 10% of GDP and much tightening of legal structures, to make it easier for Slovak banks to collect collateral and force companies into insolvency.

3. The sale glam

By May 1999 the Slovak cabinet approved a privatization plan for the three big state-controlled banks and all its minority banking stakes. The plan envisaged that the state's 51% in VUB would be sold by end 2000, and that a partner would take up to a 49% stake in SS through an equity increase in August 2000. Information memoranda had also already been sent out to three potential foreign bidders for IRB, and the bidders had up to the end of the month to respond, with government hoping to sell the bank by October 1999. The potential bidders were Nomura Securities of Japan (which already owned [PB (the bank's separated twin in the Czech Republic), and GE Capital and Citibank from the US.

Figure 2



Whilst doubts persisted about whether - despite the authorities' apparent urgency for privatization - Slovakia really wanted FDI, and whether it would be the panacea it was looking for[6], some estimates put the Slovak government's expenditure to restructure the country's fragile banking sector, with the aim of privatizing the three leading 8085 by the end of 2000, at Sk 87 bn ($2.13bn).

When an IMF delegation left Slovakia in February 1999 it expressed disappointment over the country's progress in restructuring its economy, and the banks in particular.

Talk of selling just the collapsed IRB, and then only later dealing with the other two problem banks (VUB and SS), and plans to merge the latter two, attracted much criticism. Even foreign observers concluded that merging two wobbly banks to produce a bigger, but equally unstable, bank was poor planning.

Finance Minister Brigita Schmognerova supported merging the two banks, and sales of VUB and SS were for a time clearly hostage to the IRB sale, a strategy which seemed to even include running [RB down to the point where a foreign investor could even pick up a controlling stake on the cheap. The simple truth was that none of the banks was really an attractive investment decision, unless government accepted to take upon itself their heavy bad loan portfolios[7], and that merging the banks only made sense if the Slovaks were to want creating a national champion, capable of dominating Slovak banking.

By the last quarter of 1999 it became clear that the sell-off of the banks would be a long and delayed affair, and bad tongues even wagged that this was purposely designed to enable Slovakia catch up with the Czech Republic, which some observers then considered as being the other laggard on banking privatization in Europe.[8] The other explanation for the delay was that government wished the sell-offs to be well structured ones enabling the sector to be on a sound footing when the country would join the European Union.

The amount of new equity which government planned to inject in SS, VUB, and in IRE, to recapitalize them, was estimated at Sk 20 bn ($ 0.5bn), and some Sk 76 bn ($1.89bn) of NPLs would be transferred to a state agency. SS and VUB, which together held about 40% of banking assets, had been left undercapitalized by previous governments. The objective now was to raise SS's share capital by Sk4.9bn to Sk6.97bn. NPLs to be transferred to the new bad loan agency were some Sk22.8bn from SS, and Sk45bn from VUB. 1RB. administered by the central bank, had already benefited from a Sk5.7bn capital increase and a Skl4bn transfer of non-performing and low interest social loans. Government's hope was that its 67% stake in [RB would be sold by early in 2000, and those in SS and VUB by end of 2000.

Up to the end of 2000 Slovakia (along with Romania, Slovenia, and Lithuania) remained the only country amongst the new EU accession countries where a significant share of banking sector ownership was in state hands. Private ownership of both registered capital and total banking assets was just under 51 per cent, and only some 28 per cent of registered capital, and some 5 per cent of bank assets, were foreign owned at that date according to ECB estimates. The public sector therefore accounted for roughly half of the country's total banking assets and capital at that date, even if the country's plan for large scale privatization, leading in fact to almost total privatization of the sector over a short term, was already in hand.[9]

4. Compromise

Reaching a point in the last quarter of 1999 where agreement on Slovak bank privatization was hammered out, had been a long tortuous affair. Months of negotiations eventually led to the Party of the Democratic Left (SDL) accepting a compromise whereby only natural monopolies would remain majority state-owned. The long dispute threatened to hold up the state's ambitious privatization programme in many areas. Slovak Telecom, Globetel, Nafta Gleby (the state's gas storage company)[10], Slovak Railways, Slovnaft (the oil refinery), VSZ (a large steel mill), and others, were all large enterprises often in the forefront of the public debate on Slovak privatization.

The varied experiences of these and other firms in the Slovak Republic - when and how eventually privatized the tale of each was indeed an account deserving to be retold on its own - support the view that a high level of indebtedness does not necessarily always discourage firm restructuring. Econometric analysis carried out by Pohl, Andersen, el al (1997) tested whether such high levels of initial indebtedness, relative to sales revenues, hindered or encouraged operational restructuring.

The evidence from Slovak firms suggested that a high level of initial indebtedness either had no effect on, or actually discouraged re-structuring.[11] Most of these firms were highly indebted and thus had difficulty borrowing additional funds from the large Slovak SOBs. In many cases they found alternative sources of finance, most importantly their own internal cash flow. They had to undertake some initial restructuring to improve this cash flow, which was then used to finance further restructuring. In addition these firms were able to obtain some outside financing from foreign and domestic private banks, and through new joint venture arrangements that were not burdened with past debts.

On the 20th December 1999 KBC of Belgium, and the EBRD, completed the privatization of Ceskoslovenska obchodnz' Banka (CSOB) by buying the Slovak central bank's 24% shareholding in it for Euro 400 m ($404m). The EBRD's purchase of a 7.5% stake for Euro 125m was its biggest equity investment. For KBC, then the second largest Belgian bank, its Euro 275m outlay raised its stake in CSOB to 82%. The sale was concluded at the same price per share as KBC's $1.1 bn acquisition of the Czech's stake 66% the previous May.

This sale defused what at that stage had been a dispute between the two parts of the former Czechoslovakia. The EBRD's declaration that it had become involved in the deal to facilitate the sale came with an added bonus via a further statement that it was considering further investments in the Slovak banking sector. These could include taking part in an equity increase in Pol'nobanka, where it already held 20%, and entering IRB and VUB alongside a strategic partner on their expected privatization in 2000.

By the end of 1999 the Slovak government transferred Sk 74 bn (equivalent to about 10% of GDP) of bad loans from the three large SOBs to the Consolidation Agency and the Consolidation Bank, and increased their capital by Sk 19bn. As a result of government measures the state banks now had satisfied the 8% international capital adequacy standard, and the share of bad loans in their loan portfolios dropped to below 20%. However a number of loans that were classified as Standard due to state guarantees were still likely to face repayment difficulties, again putting pressure on public finances.[12]

5. Capital market

Slovakia's capital markets were still underdeveloped at this time. The stock market had more than 800 companies listed on it, but it was illiquid, and with a tarnished reputation from suspicion of widespread insider trading. In November 2000 a new independent financial market regulator was established, but the Bratislava stock exchange remained a relatively small market, with a capitalization of US$ 3.3bn (15% of GDP) and turnover at an annual average of US$60m, about 2% of market capitalization. Trading on this local market had started way back in April 1993, but no primary IPOs had ever been made since then, and about two-thirds of shares rarely traded.

With this background the Bratislava Stock Exchange was a very unlikely source of finance for entrepreneurs, let alone the country's banks, even taking into account government attempts to tighten supervision. The hope initially was that the market would be boosted by the flotation of some of the larger state utilities to which we referred above. Later the lack of liquid shares on the market, and the emerging reality that the remaining SOEs would be privatized through direct sales to strategic investors, instead of share offerings through the local capital market, may even have hindered the planned introduction of mandatory pension funds by 2003.[13]

6. The sales

The two largest Slovak 8085, CS and VUB, were sold in 2001. SS, the largest in terms of assets, was sold to Austria's Erste Bank for Euro 425 mn in January 2001. VUB went to the Italian banking group IntesaBCI for Euro 550 mn in July 2001.[14] After these sales the Slovak government still held a majority stake in three financial institutions: the mentioned [RB (third largest in the country), in the medium sized Posrova ban/ca (PB), and in the still dominant insurance company Slovenska poisrovna. The intention was to sell them off by the end of 2001.

The 2001 privatisation of SS and VUB had been preceded by the transfer of SK 108 bn of bad loans (more than 10 per cent of GDP) from these two banks, over a period of two years (1999-2000) to the state consolidation agencies. Slovenska Komolia'acna then managed to sell the first package of bad loans with a nominal value of Sk 13 bn (US$ 261 m) for Sk 431 mn (US$ 8.7 m) - i.e. just about 3.3% of the nominal value to a consortium of Credit Suisse First Boston (CSFB) and a Slovak brokerage firm Portia Group in June 2001.

The purchase of SS in early 2001 by Erste Bank raised the question of whether the Austrian bank, only one year after having bought the Czech savings bank Ceska Sporitelna, would be able to cope with turning round more than one big Central European bank at a time. SS came with 542 branches to refurbish and 6500 employees to retrain, added that is to CS's 700 odd branches and 14,000 employees. The restructuring was estimated to total at around an equivalent to CS's, i.e. some Kc 7bn (US$17om).

7. Erste in the CEECs

Rating agencies' initial worry (e. g. Standard and Poor's report) about Erste's ability, in terms of its weakened core capital, and its senior managerial capacity strain, to cope with the venture, gave way to a more enthusiastic response when Erste beat Bank Austria, and Italy's Unicredito, by paying Euro 425m for the 87% stake in SS.

In one swoop the move made Erste the biggest savings bank in Central Europe. And one of the top ten in Europe in terms of number of customers. From just a small and highly fragmented savings bank network in Austria, in three years Erste went to eight million clients and 32,000 employees in an empire spanning five countries. Erste became the biggest retail bank in the Czech Republic and in Slovakia, the second biggest in Austria, and it had substantial toeholds also in Hungary and Croatia. Only Slovenia was still missing from the Central and Eastern European countries it had mapped out on being present in.

Table 2

Erste Bank and its Subsidiaries				
Bank	Country	Stake	Price	Customers*
Erste Bank	Austria	100%	na	2.5 m
Ceska Sporitelna	Czech Republic	52%	$481m	3.5 m
Slovenska Sporitelna	Slovakia	87%	$374 m	1.8 m
Erste Bank Hungary	Hungary	49%	na	0.3 m
Erste Steirmarkische Bank	Croatia	40%	na	0.1 m
* includes allied regional savings banks. Erste Bank alone had 700,000 customers.				
Sources: Erste Bank, analysts, press reports.				

One stated aim for Slovenska Sporitelna was that its return on equity (ROE) would be taken up to 18%, from a low 2%, within two years.15 Erste's own was 13%. Erste received the bank, similar to what it had done in the Czech Republic, in a good clean state - (Analysts Wood & Co described it as "clean as heaven") - mainly of course because of some Sk 36 bn ($69om) in dodgy loans (around 4% of Slovakia's GDP) having already been drained out of it by government and put into the Konsolidacna hospital. After the takeover a team of around 80 expatriates and over 200 locals, who had just finished doing the same job in the Czech Republic, moved to Bratislava to sift through and reclassify any possible other bad loans that might turn up and move those too to Konsolidacna.

But if the bad loans had gone, some of 88's middle management and staff who had been responsible for making them in the past were still there. Changing their mentality and training them in attracting new and safe business was seen as Erste's biggest challenge. Whilst one consoling view saw the staff and branches in Slovakia as better prepared than their Czech colleagues for the new regime, it was imperative that the learning curve should be as short as possible. (See Table 3 on the next page)

By early 2002 in Slovakia, as in the Czech Republic, the situation was one where there certainly was no shortage of competitors looking for expansion. Table 3 above shows the sector as moving encouragingly to overall profit from 1999 to 2001, with a healthy increase of 30% in primary funds, a drop of 40% in total classified loans, and total sector assets rising by 21% over the period.

Table 3

Slovakia – Key Banking Sector Data 1999-2001			
	1999	2000	2001
Total Assets	769.7	846.9	931.3
Total Classified Loans	118.6	87.7	71.0
Created provisions (loans)	50.5	69.0	59.8
Legal reserves	31.2	5.4	4.0
Funds allocated from profit	12.8	12.8	10.8
Uncovered estimated loss	0.6	0.0	0.1
Primary funds	506.9	596.3	660.9
Secondary funds	154.3	158.2	166.6
Profit/Loss	- 29.5	4.3	10.2
Source: National Bank of Slovakia			

8. Conclusions

1. The Slovak experience of bank privatizations suggests it was – even making due allowance for the pace at which it was carried out, and for a fair amount of compromising across both internal sectional interests and in external relations certainly made less if a travail than in the country's former sister the Czech Republic, as well as when compared to other CEECS. One certain originally contributing factor was the higher average combined ownership in the hands of the larger investment funds.

2. From tough basic principles initially enunciated by government in 1996 for privatization of the three large SOBS, the actual development of the process eventually turned out to be one of very smartly calculated steps aimed at turning the banks into afit enough state for purchase by strategic partners. But this of course can be deemed as a smug a posteriori View. The major concentration area was, in this country too, that of the heavy non-performing loans portfolio of the banks.

3. Urged by an IMF mission that in 1999 suggested that ever more sell-offs from right across the national spectrum would have to take place,[16] privatization of the banks was in fact presented to the nation as offering the first step towards Slovak economic recovery. The essential events in the country's bank privatization account were the 1997 takeover by the state of IRB, [17] the 1999 sale of the state's remaining stake in Ceskoslovenska Obchodni Banka, and the 2001 sales of the country's two largest banks, i.e. SS and V UB.

4. These were all developments which took place against the background of a deteriorating economy, an illiquid and practically non-performing capital market, and transfers of large amounts of the banks' non-performing lendings to Slovenska Konsolidacna. Key decision-makers in Slovakia were already fatalistically eyeing eventual membership of the country within the European Union, within a context where neighbouring states (in the immediate vicinity Hungary and Poland, but also further North the Baltic states) would be doing likewise, and this as inevitably meaning an indigenous regional banking sector which would be required to function within the context of the impact of the E U 's four freedoms, and hence not in any way possible to shield or protect

5. Despite however the elements of economic deterioration, weak capital market, and bad lendings, the Austrian bank which had bought out SS, i.e. Erste Bank, showed all signs of a resolute approach towards turning the bank around as part of the impressive expansion strategy which it had planned out for its presence in the region. The banks in Slovakia were now clearly driving down their own independently chosen paths… privatisation was a completed reality.

The developments related in this paper generally suggest there being present in the Slovak Republic a sense of earnestness which, even against a deteriorating economic background, pushed towards relatively quick banking sector restructuring: quick as well as less hampered by political elements as often present in the case of other CEECs.

The above, and the five general conclusions as outlined, posit relatively comfortable relating to the general indicators and issues that illustrate the main categories in our following matrix. This attempts to reproduce, and summarize, this Slovak experience, and, in some of its more positive elements, it explains the positive view that certain sought external strategic partners for the Slovak SOBs being sold, generally had.

KEY BANK PRIVATISATION THEMES		THE SLOVAK EXPERIENCE
Category	**Indicators and Issues**	
Attitudinal approaches to banking	- Downplaying financial services sector's role for economic growth - Banking not considered as a public good - Low appreciation level why systemic banking problems need to be addressed urgently - The socialist concept of "public enterprise" - The pain-credibility-of-bankruptcy nexus - High/low information economies	- Low initial knowledge on how to operate banks in a capitalist economy - Doubts about whether FDI was really wanted - IMF push of FSI privatization as first step towards economic recovery generally accepted - Later acceptance that sector would have to compete in pan-EU market - Low familiarity with commercial bank management rules and styles - Slow staff mentality change - Legal structure changes to help banks force insolvency
Economic scenario	- Big country or small - The disorganization factor - Budget limitations, and the soft budget constraint - Human resource & managerial competence - Legal traditions & infrastructures - Extent and role of FDI	- Small *mittle europa* state - Deteriorating economic background to initial FSI sales process - IMF-urged sales of struggling companies helped by government - Government acceptance that foreign capital and expertise were needed - Legal structures changed to help banks collect collateral - Low assets/GDP & domestic credit/GDP ratios compared to Euro average
Political scenario	- Weak governments & institutions - State immobilism towards change - Conflicts of interest - Interference	-Genesis of possible conflict on basis of ethnicism and nationalism controlled - Non bank finance often easily obtained – SMEs non handicapped - High indebtedness levels did not discourage restructuring - EU membership accepted as inevitable in line with similar moves by neighbouring states.
Privatisation generally	- Inadequate frameworks for the process - Inadequately developed capital markets and stock exchanges. - Pre and post privatization action.	- Initial targets set for February 1996 proved not achievable - High ownership concentration despite coupons system in early phase - Small and illiquid stock market, but later increase in number of listed companies; underdeveloped capital market - Some M & As during later stages of privatisation
Systemic banking sector problems	- Capital inadequacy - Weak/ unperforming assets (e.g. loans) - Co-relation between poor bank lending & SOEs - Government (under) capitalisation - Timing of bank bailout recapitalisation - Expensive bank credit, especially SMEs - Poor or absent corporate governance	- Deteriorating CA: 1997 6.7%; 1998 4.4% - Pre-1993: same FSI overall situation as in Czech Republic; only some basic reforms undertaken prior to velvet divorce in Jan-1993. - No runs or bank closures, despite high 1991-95 level of problem loans - Transfer of bad debts to *Slovenska Konsolidacna* - Banks lent to firms and also controlled the funds that owned them
FSI privatization	- Strategy choice - Undertaking financial restructuring without supporting reform - Inadequate regulatory & supervision infrastructure - Speed or pace - Inability to collect, collate, publish bank data - Method (stock market sale, employee buyout, private sale, mass voucher)	- Initial Feb-1996 targets not achieved because hard conditions imposed - May 1999 plan to sell 3 large SOBs and all minority stakes by 2000 - Stock market regulation moves from 2000 independent regulation to later government supervision of the market - Long and delayed pace for a relatively small number of SOBs - Improved data availability on post-privatisation gain of new banks ambitious for success in the region - Voucher privatization to strong funds' role to strategic buyers' FDI in SOBs w.e. f. 2001.

APPENDIX A

SLOVAKIA: KEY FINANCIAL SECTOR INDICATORS

1. Number and Importance of Various Banking Groups – 2000

   Table - 1

2. Ownership Structure of Commercial Banks on basis of Registered Capital (%) – 2000

   Table - 2

3. Strategic Ownership of Banks (2001) sorted by Adjusted Common Equity*

   Table - 3

4. Number of Firms Listed on Stock Exchange

   Table - 4

5. Size of the banking sector – 2000

   Table - 5

6. Slovakia: Banking Sector Structure of Assets & Liabilities (2000) % of total balance sheet

   Table - 6

(See the opposite pages)

1. Number and Importance of Various Banking Groups – 2000

	No of banks	% of banking assets
Commercial banks	18	91
Co-operative banks	3	6
Specialised institutions	2	3
Total No of institutions	23	100
Source: ECB		

2. Ownership Structure of Commercial Banks on basis of Registered Capital [%]-2000

	%
State ownership	50.9
Other domestic Ownership	21.0
Foreign ownership	28.1

3. Strategic Ownership of Banks (2001) sorted by Adjusted Common Equity

	Ranking among top 100 CEECs banks	Total reported assets (US$m)	Main shareholders	Holding %	% of all foreign investors in capital
VUB	16	3425	Intesa (It)	69%	84%
Slovenska Sporitelna	26	3852	Erste Bank (At)	87%	87%
Tatra Banka	36	1636	RZB (At)	86%	86%
Citibank	59	534	Citibank (US)	100%	100%
Hypovereins-Bank	68	293	Bayerische Hypovereins-Bank (DE)	100%	100%

* For banks and bank holding companies, Common Equity adjusted for Loan Loss Reserves and Non-performing Loans.
It=Italy; At=Austria; US=United States; DE=Germany

Sources: Standard & Poors', ECB.

4. Number of Firms Listed on Stock Exchange

1994	1995	1996	1997	1998	1999	2000
18	18	816	872	837	845	843

5. Size of the banking sector – 2000

	% (+/-)	Euro area average (+/-)
Banking assets/GDP	98	248
Domestic Credit/GDP	70	139
Domestic Credit/ Total Financial Assets	66	58
Credit to the Public Sector/ Total Financial Assets	43	13
Securities/Balance Sheet total	16	13
Foreign assets/Total assets	16	n/a
Bank Forex assets/Total assets	18	-
Bank Forex liabilities/Total Liabilities	16	-
Profitability: Return on Assets	2	-
Profitability: Return on Equity	22	-
Deposit interest rate	9	-
Lending interest rate	15	-
Sources: IFS, ECB, Eurostat		

6. Slovakia: Banking Sector Structure of Assets & Liabilities (2000) % of total balance sheet

	%
Assets	
Cash and claims on central bank	10
Loans	60
Securities	16
Others	14
	100
Liabilities	
Deposits from banks	15
Deposits from customers	70
Securities	1
Own Capital	6
Others	8
	100
Sources: Slovakia Central Bank, IFS, ECB	

NOTES

1. In 1918 Slovakia had asked for the creation of Czechoslovakia.

2. See Pohl, Anderson, Claessens & Djankov (1997) - "Privatisation and Restructuring in Central & Eastern Europe: Evidence & Policy Options World Bank Technical Paper No.368, World Bank, Washington.

3. See Trend (1996) - Top 100 Slovak companies, Bratislava, Dec, p.11.

4. As in Consiglio J .A. (2003) - "Bank Soundness and Macroeconomic Policy in the EU CCs, 1980 to 1996" - Jean Monnet Seminar Series, EDRC, University of Malta, p 4.

5. FT, April 29th, 1999. The casual Maltese reader can again easily posit here the analogy with the period during the mid and late 19705 when, under a system of practically totally nationalised banks, it was popular local parlance that financially troubled industrialists and businessmen would use their political connections to exert discreet pressure on the banks for financing.

6. See Moran T. (1999) - "Doubts " - BCE, Vol 6, No.62, p.27.

7. Ceska Sporitelna's portfolio, for example, included a billion koruna "social loans" portfolio left over from communist times which paid just 2% per annum interest when 1999 real interest rates were nearly 30%.

8. See Anderson R. & Done K. (1999) - "Slovakia to prepare banks (or sell-012" FT, October 26th.

9. See European Central Bank (2001) - "Financial Sector Developments and and Convergence in Accession Countries." An Overview" – Background paper for the Eurosystem Seminar with Accession Countries' Central Banks, Berlin, Dec 6-7.

10. The subject of a previous administration's crony privatisation in 1996.

11. The coefficients for indebtedness in Pohl el al's (1997) regression equations were either insignificant or positive.

12. See EBRD, Transition Report 2000, p.207.

13. See EBRD, Transition Report 2001, p.l91.

14. Italy's Unicreo'ito, which had ambitions of its own as a regional player, had also entertained ideas early in 2001 of trying for VUB.

15. Investment bankers Lehman Bros estimated it was around 4% in 2000.

16. Early in May 1999 Maria Machova, Slovak privatisation minister, said that following the IMF's mission an amendment had to be drafted to the national privatisation plan that would reduce the number of companies designated as strategic to include only energy.

17. IRB remained in the state's hands up to 2001, by which year's end the intention was to sell it off too.