



Systemic banking risks in transition countries: issues and current situation in Central and Eastern Europe

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Reforms of the Regulating Institutions in the Context of Transition to Democracy, European Integration and Globalisation: the Judicial System and the Controlling of Banking and Financial Institutions

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Systemic Banking Risks in transition countries

1. What do we mean by “systemic risk” ?
2. Sources of systemic risks
 - a. Micro-structure and individual bank’s performances
 - b. Macro issues and the global vulnerability of banking systems
3. What does it say for regulators ?



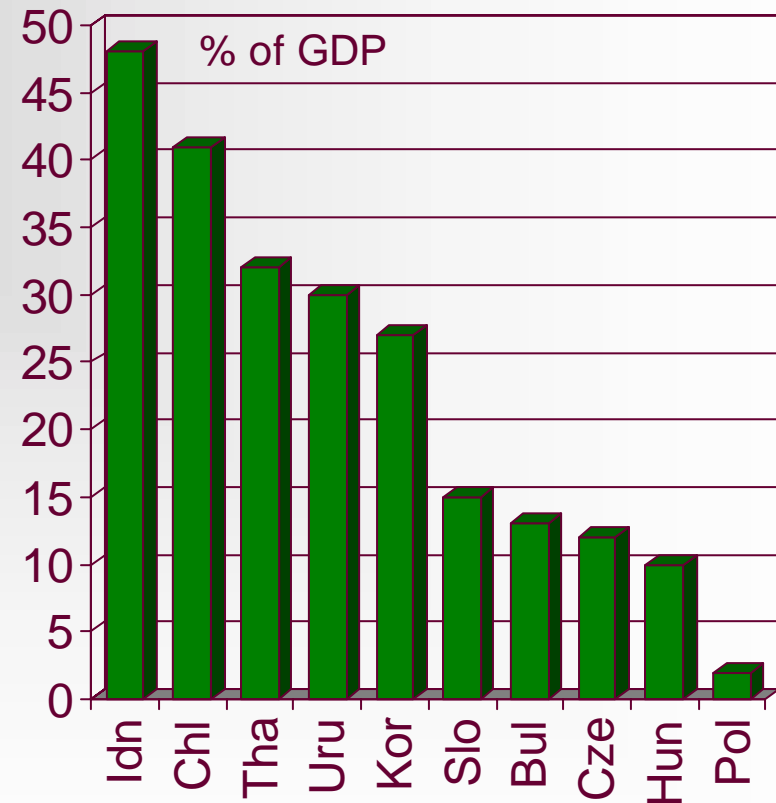
1 - What do we mean by “systemic risk” ?

- Systemic risks or crises relate to:
 - Difficulties that are widespread in the banking sector and not confined to individual banks
 - Difficulties that are large enough to create a significant break in the normal functioning of payment and money flows
 - Difficulties that translate into a large “public cost”, in terms of growth, employment and budget constraints

1 - What do we mean by “systemic risk” ?

- Systemic banking or financial crises occur very often: 117 in 93 countries since the late 1970s
- Increased frequency since 1973, but no visible acceleration in the 90s
- Huge costs for the economies

Estimated cost of banking crises



1 - What do we mean by “systemic risk” ?

- Systemic risks in transition countries are higher because of the huge changes in:
 - The role and importance of market fluctuations for financial variables (prices, interest rates, exchange rates)
 - The spread and width of banking operations and businesses
 - The institutional background, both at regulatory bodies and within banks themselves



2 - Sources of systemic risks

Theoretical background

- Financial and banking contracts are based on future and therefore uncertain events and flows
- Information issues (asymmetry, mimetic behaviour, ...)
- Stronger inter-relations between banks and markets, between countries, coupled with the key function of intermediary for other economic agents

2 - Sources of systemic risks

Theoretical background

- Three archetypal forms of banking crises:
 - A macroeconomic shock, induced by domestic imbalances or an external impulse
 - Endogenous cycle with euphoric and panic behaviour in the financial sector
 - Management / localised problem that spreads over to the industry

2 - Sources of systemic risks

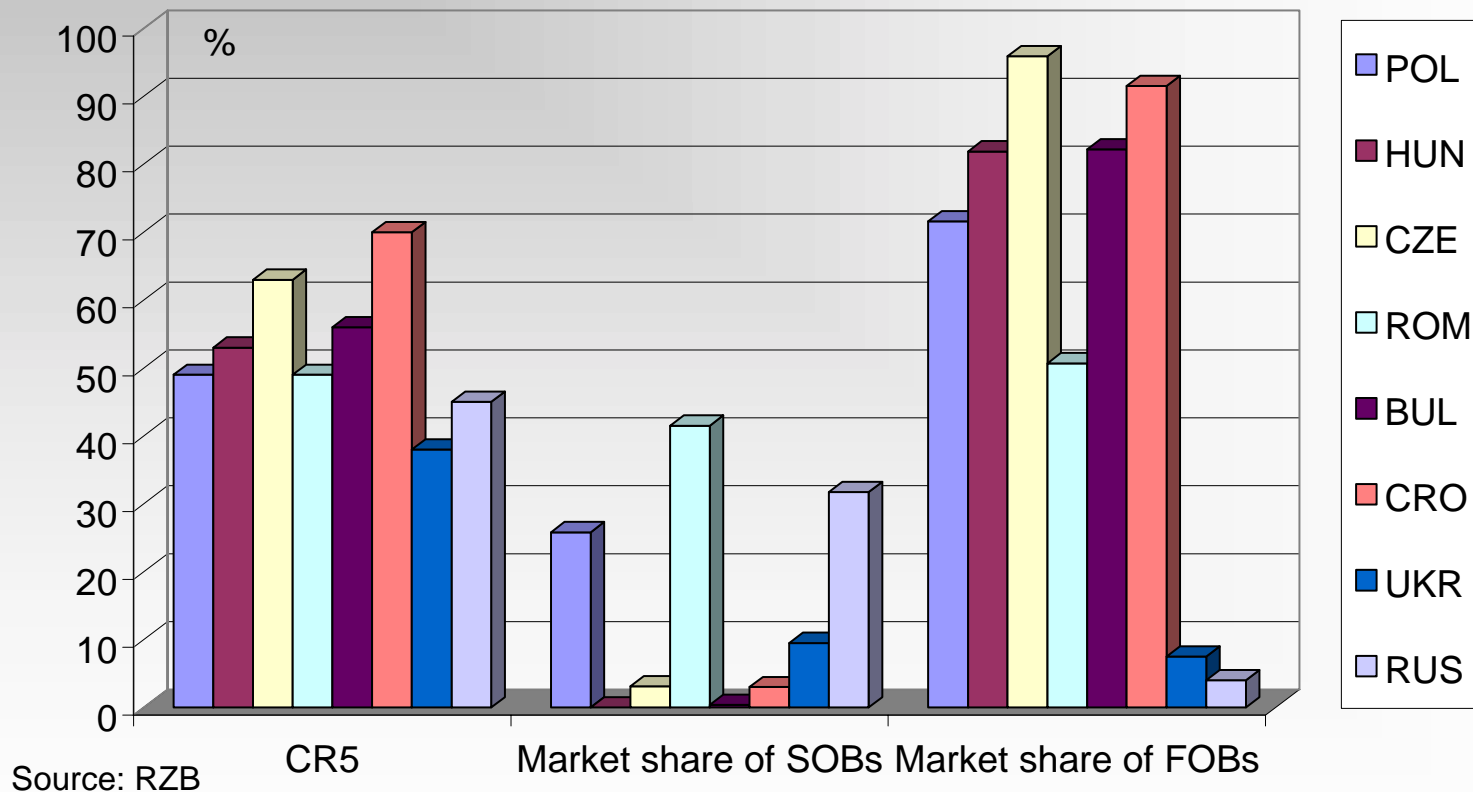
Micro-structure and individual bank's performances

- Ambiguous signs: number of banks, concentration and ownership
- Other simple criteria can more easily point towards systemic fragility:
 - Capital strength
 - Quality of loans
 - Profitability

2 - Sources of systemic risks

Micro-structure and individual bank's performances

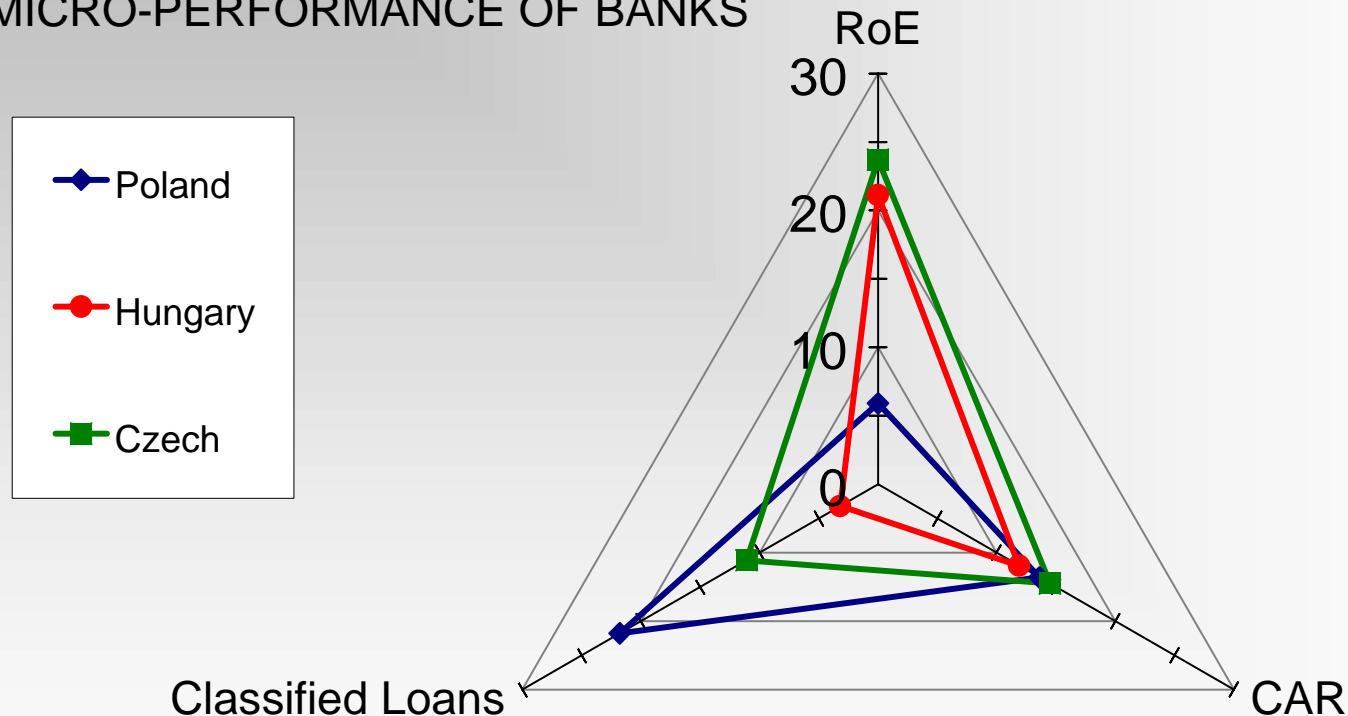
CONCENTRATION AND OWNERSHIP



2 - Sources of systemic risks

Micro-structure and individual bank's performances

MICRO-PERFORMANCE OF BANKS

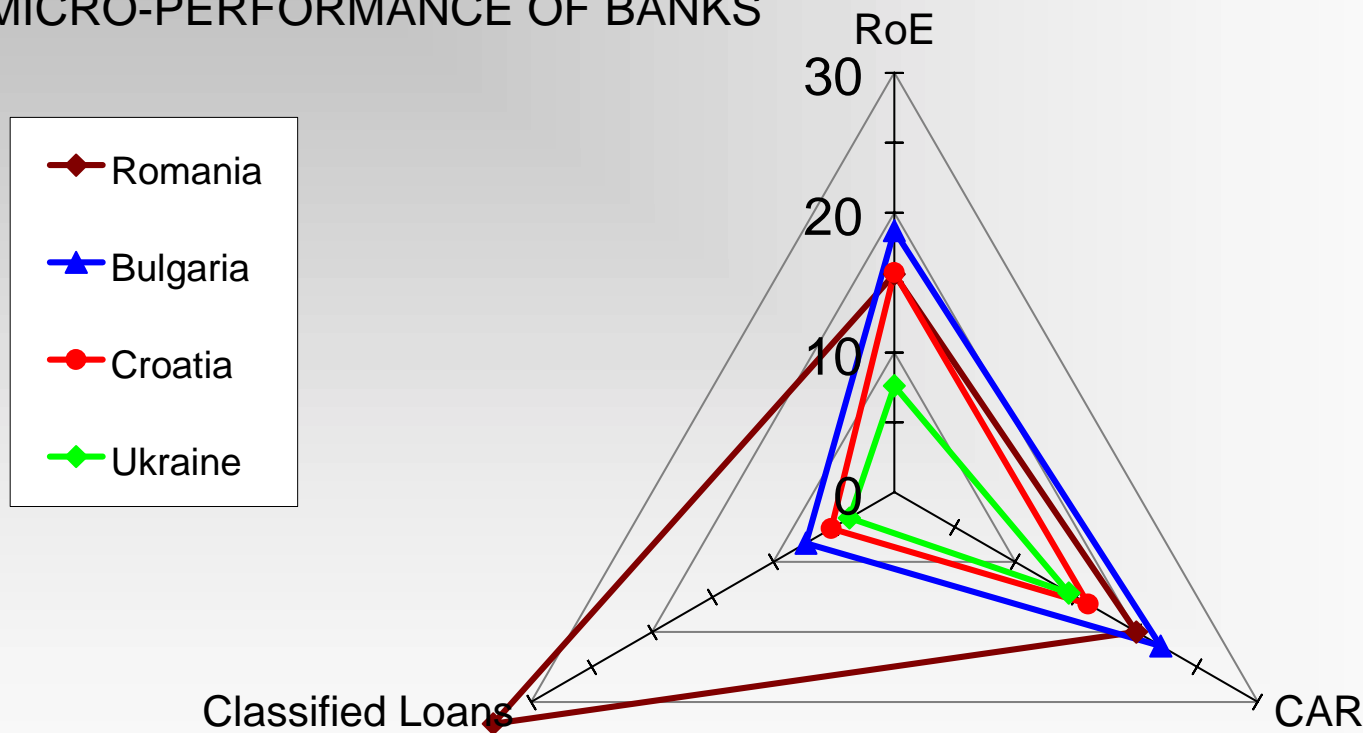


Source: RZB - data refer to end-of-2003 - %

2 - Sources of systemic risks

Micro-structure and individual bank's performances

MICRO-PERFORMANCE OF BANKS



Source: RZB - data refer to end-of-2003 - %

2 - Sources of systemic risks

Micro-structure and individual bank's performances

- Other measures are more difficult to analyse: liquidity, forex positions, off-balance sheet items
- All indicators must be examined carefully (overall cycle, regulatory definitions, effective practice, etc.)

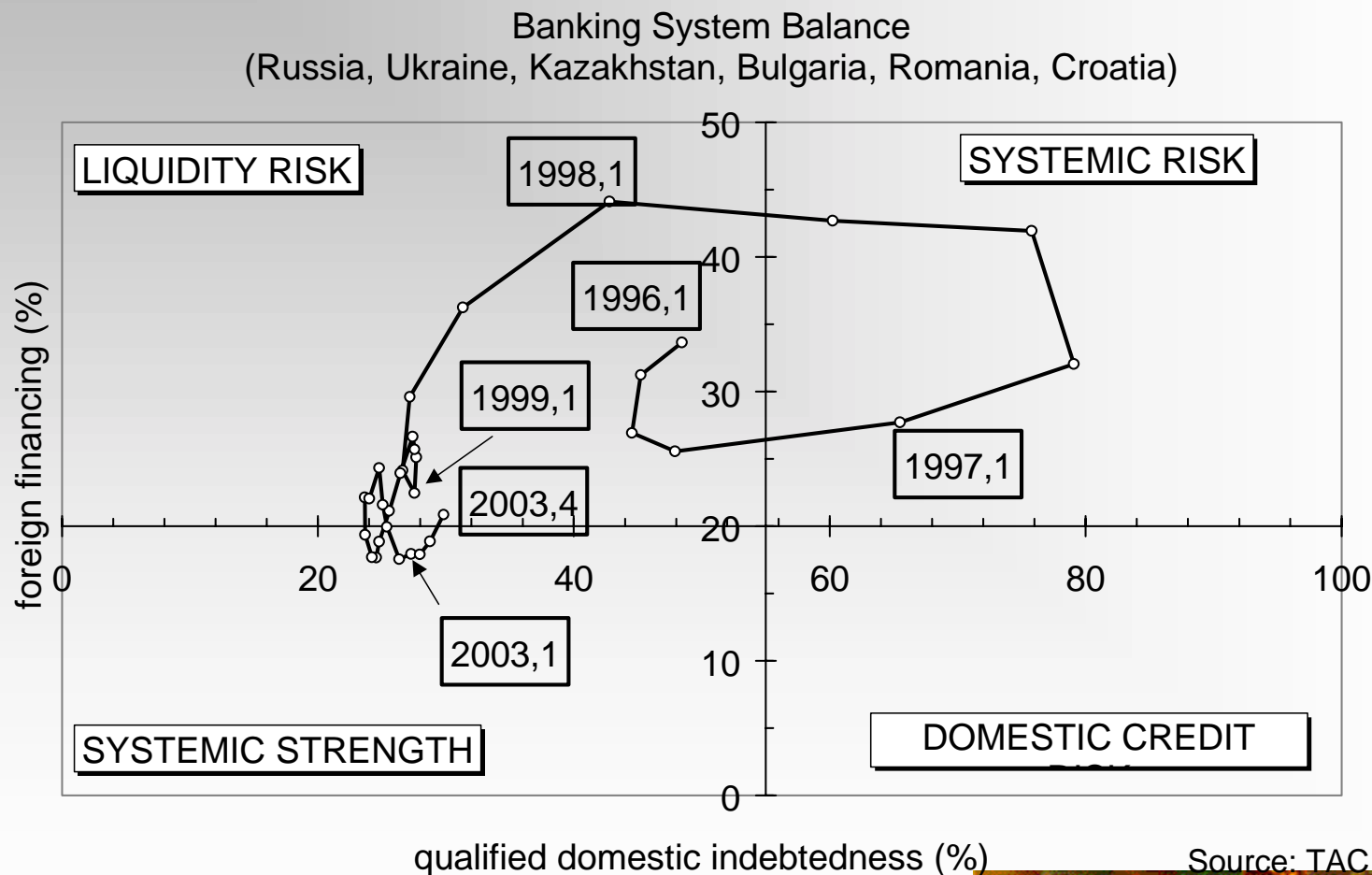
2 - Sources of systemic risks

Macro issues and the global vulnerability

- Critical issues of non-linear phenomena (interbank relation, mimetic behaviour, common pressures)
- Best looked at through combinations of indicators and performances
- A look at three “Fundamental Balances” as in TAC RiskMonitor methodology and service

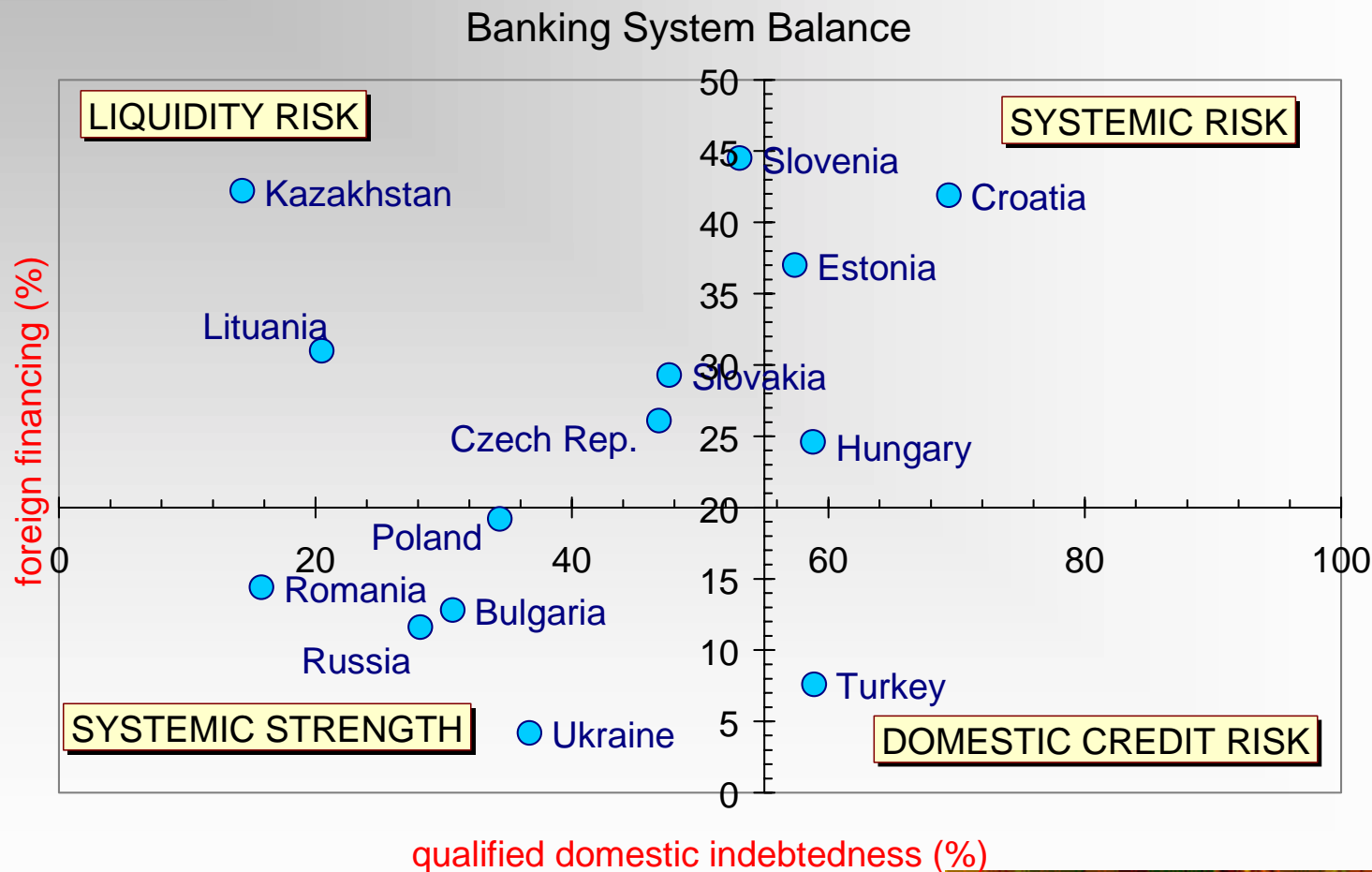
2 - Sources of systemic risks

Macro issues and the global vulnerability



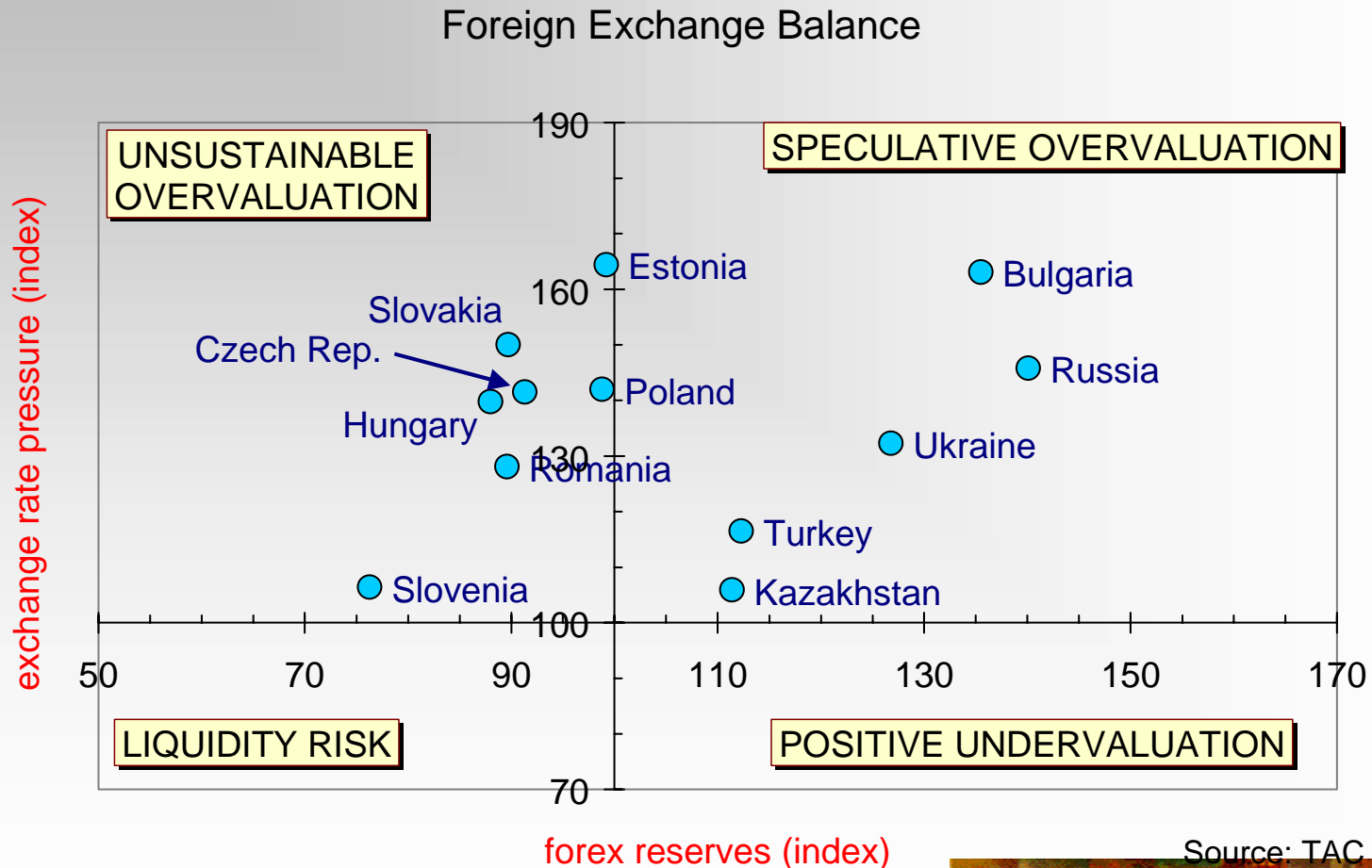
2 - Sources of systemic risks

Macro issues and the global vulnerability



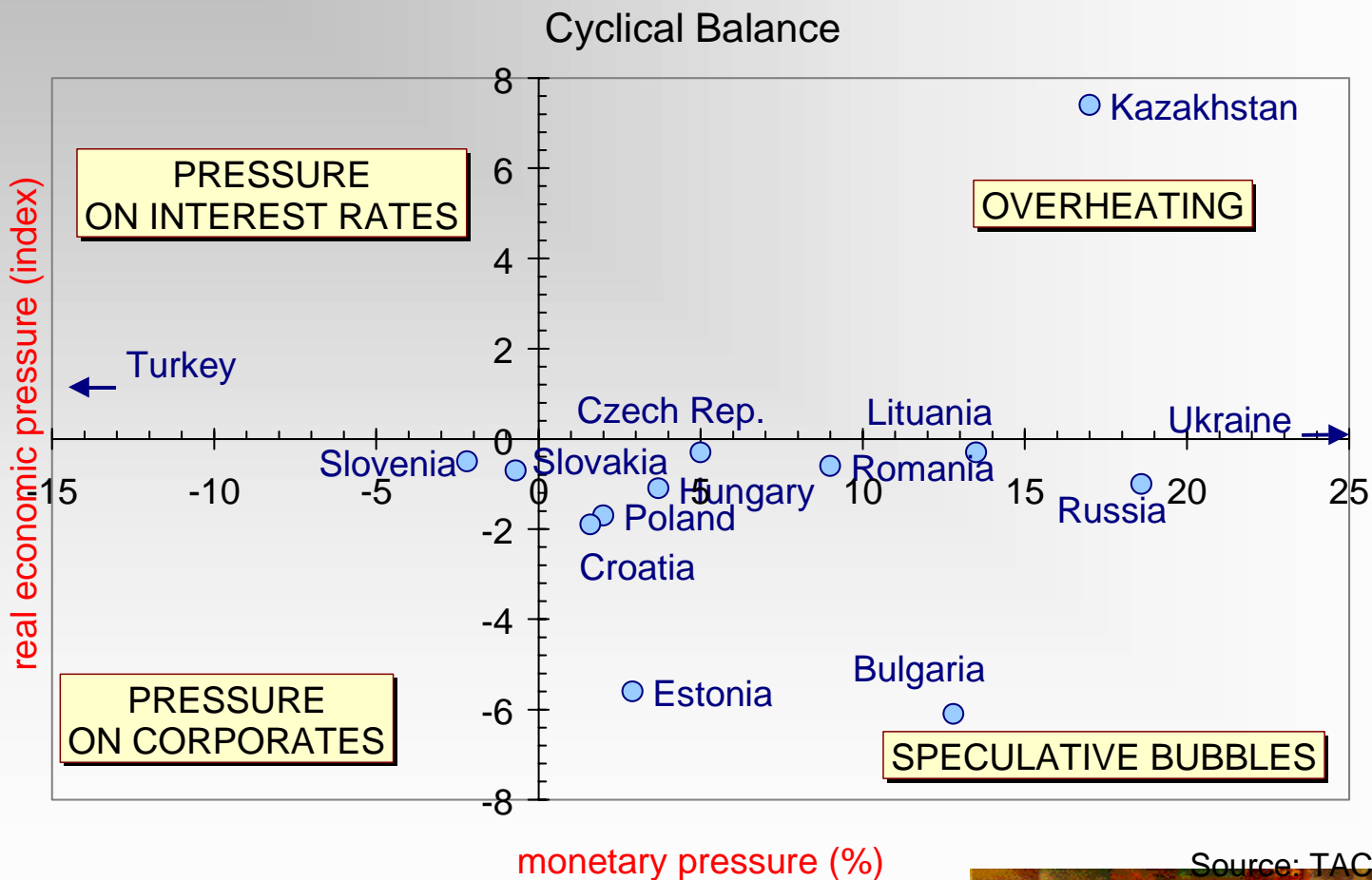
2 - Sources of systemic risks

Macro issues and the global vulnerability



2 - Sources of systemic risks

Macro issues and the global vulnerability



3 - What does it say for regulators?

- The delicate issue of the right balance between concentration and moral hazard
- Degree of competition, boom and bust cycles in credit and mimetic behaviours
- Balance between banks (much more easily regulated and supervised) and markets (more flexible and innovative)
- Basel 2 regulation and the key issue of supervising the internal credit risk tools developed by banks



3 - What does it say for regulators?

- Necessary caution on consequences for corporate financing (especially SMEs)
- Relationship between different regulators, and between the regulation and the macro policy management exchange rate regime, monetary policy, industrial policy)
- Strength and managerial skills brought by foreign banks, but it is not a binding commitment in case of systemic shock



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Thank you for your kind attention

Questions and comments are most welcome

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