

News / Information

Conference Report

Financial Development in Eastern Europe: The First Ten Years

at

Klaffenbach Castle, 3-4 February 2000

This conference on financial sector development in transition economies was convened by Adalbert Winkler, who continued the tradition of convening international conferences organised through the various appointees to the Commerzbank-Visiting-Chair of Money and Finance at Chemnitz University. Some fifty researchers from universities, research institutes and international financial organisations, central bankers and practitioners in the consulting business discussed the extent of monetisation, the intermediation role of financial institutions, economic and monetary policy and financial crisis in the transition economies of Central and Eastern Europe. The meeting was organised in seven sessions over two days. The afternoon of Friday 4 February provided comfortable room for intense discussions, framed by discussion panels.

During a one-hour introductory presentation, *Lajos Bokros*, director at the World Bank and formally Hungarian finance minister, father to Hungary's Austerity Programme of 1995, assessed up-to-date experience with financial sector development in the region by grouping individual economies according to their achievements in that field. In the most advanced reformers, Poland, Hungary and Estonia, foreign involvement in the banking sector is high, the quality of assets is good and corporate governance as well as regulation compare well to Western standards. Subsequently, capital markets are fairly large and liquid, pension reforms and fund management to supplement banks and bourses are at an advanced stage. Perhaps surprisingly, the Czech Republic was grouped with Slovenia, Latvia and Lithuania as 'intermediate reformers'; Slovakia, Croatia, Bulgaria and Romania were coined as struggling with the double legacy of their socialist past paired with insufficient or even bad reforms. In Ukraine and Russia, as 'reluctant reformers', banks are largely in private hands, yet almost all are insolvent. The quality of banks' portfolios is very poor and corruption, crime and cronyism are rampant and financial liberalisation has not started yet. Furthermore, non-bank financial intermediation is almost non-existent. *Bokros* concluded his lecture by assessing the agenda for the next decade of transition with the most important fields of reform being the three pillars of enhanced corporate governance, increased competition and more prudential regulation and supervision. He stressed that the latter are to some extent substitutable.

The second session, chaired by *Friedrich Thießen* from TU Chemnitz, analysed the structure and sources of finance for economic activity. *Simon Commander* from the EBRD analysed the rise of money surrogates and non-conventional transactions in the goods markets. Today, mostly Russian and Ukraine markets rely heavily on barter trade. The underlying question of research conducted by the EBRD on innovation in money surrogates is concerned with why the usual market price mechanism does not serve to govern the adjustment of output according to demand. The origins of barter are traced back to the state's reluctance to enforce timely cash payments for tax and utilities, in part motivated by an unwillingness to let poorly performing firms fail. Subsequently, the scope for moving away from non-monetary transactions is constrained to fiscal and structural reforms, namely the non-acceptance of in-kind and late payment by budget and quasi-fiscal institutions as well as a reduction of social and political costs of firm exits and restructuring. A monetary solution would rather result in inflation and hence further 'barterisation' and deterioration in the fiscal position. *Jens Köke* from the Zentrum für Europäische Wirtschaftsforschung, Mannheim, and *Tanja Salem* from the Centre for Transition Economies, Leuven, undertook the task of assessing the effects of different modes of corporate finance on corporate restructuring, i.e. investment and downsizing, both measured in employment. Using a large data set on medium-sized and large enterprises from ten transition economies, they determine that the potential for internal finance is limited; Hungary, Poland and the Baltic States are the most advanced and economies in South Eastern Europe the least advanced ones. In terms of structure, skill-intensive sectors exhibit relatively greater potential for internal finance (high number of *de novo* firms) and sectors with sizeable export activities can rely on access to both internal and external finance. Not surprisingly, countries and sectors with relatively greater access to finance (be it external or internal) relied more on revenue-enhancing investment. Countries and sectors with typically higher debt and interest burden faced larger pressure to downsize to improve efficiency, indicating a hardening budget constraint (with the notable exception of the Czech Republic).

The Thursday early afternoon session, chaired by *Klaus John* from TU Chemnitz, was concerned with banks and capital markets as financial intermediaries. *Claudia Buch* from the Institut für Weltwirtschaft, Kiel, reviewed the experience with foreign banks in transition economies. The widespread fear, that domestic banks would not be able to withstand intensifying competition due to inherited problems ('bad assets') and less experience (the learning curve) could be rejected: "the entry of foreign banks has not caused large-scale banking failure". Quite on the contrary, it increased overall banking efficiency. In particular, the analysis showed that foreign banks followed some form of 'sequencing', by which they initially followed their foreign corporate clients into the region to slowly expand in small market niches and to finally obtain shares in markets with domestic firms and in the deposit business. The

Hungarian case highlights that competitive pressure on incumbent banks increased only gradually, giving domestic banks time to adjust. Still, *Buch* argued in favour of some compensation of domestic banks for truly inherited 'bad loans' before all entry barriers can be removed. *Rüdiger von Rosen* from the German Financial Equity Institute stressed the decisive role of capital markets for growth and structural adjustment in Central Eastern Europe. This is especially relevant in view of the typical reluctance of banks to finance venture capital in the most dynamic, technological, sectors as well as providing an alternative to often insufficiently developed banks. Both reasons are likely to remain relevant for the foreseeable future, considering not least that the development of Western banking sectors took decades. Today, stock exchanges in Central Eastern European economies have grown to significant sizes. For further qualitative development, the import of human capital and know-how via education of staff by Western experts, organisational and technical support as well as legal advice will prove to be more decisive factors than the import of foreign capital.

The late afternoon session on Thursday, chaired by *Jens Hölscher* from the University of Brighton, assessed the properties and implications of financial crisis in post-socialist transition economies. *Werner Neuhauf* from the Kreditanstalt für Wiederaufbau (KfW) provided an overview of the engagement of the KfW in the region. The institution's strategy features support for new financial institutions, which target small and medium enterprises as well as the promotion of development banks. The particular importance of small and medium enterprises in the region lies with their dynamic role in economic growth and structural adjustment within an unstable financial surrounding. Yet, their access to the financial markets is constrained by their typical lack of collateral, in Central Eastern Europe predominantly real estate. Here, the KfW not only tries to convince domestic banks to service that market but also provides additional finance for banks at reduced rates. Strict rules and tight supervision of banks as well as the firms involved guaranteed a profitable engagement despite the lack of financial stability. *Janos Vicze* from the National Bank of Hungary analysed the financial crisis in Central and Eastern Europe in light of the existing theoretic models. He developed an own specification of an escape clause model to assess which financial crisis in the region can be explained by a deterioration of fundamentals and which were triggered by other reasons. His presentation provided an extensive evaluation of financial sector development and crises where they happened in Russia, Bulgaria, the Baltic states, Romania, Slovakia, the Czech Republic, Hungary, Poland and Slovenia. In his conclusions, he made a case for a burden sharing between (international) creditors and debtors in case of a crisis ('bail-in problem'). *Zbigniew Polanski* from the National Bank of Poland stylised the Polish case as a role model for economic transition and financial institution building without bank or currency crisis. The striking stability of Poland's financial sector despite a very large and

still growing current account deficit can be traced back to numerous factors. There has to be mentioned Poland's long standing history of economic reforms, the clear vision of goals and the strategy of reforms, the sound sequencing of individual reform steps, powerful supervisory institutions and tough regulation predominantly in financial markets as well as timely reacting macroeconomic policies. In particular, the transition from a rigid currency peg during monetary stabilisation to a flexible exchange rate regime today in line with gradual capital account liberalisation played an important role in stabilising the markets. During the Russian crisis in 1998, Poland was the least affected transition economy, the central bank even reduced interest rates.

The first Friday morning session, chaired by *Hubert Gabrisch* from the Institute for Economic Research Halle, was intended to discuss such aspects of financial sector development in transition economies, which play an important role in the advisory task of international financial institutions. *Gerwin Bell* from the International Monetary Fund, after briefly dismissing recent calls for a paradigm change in the Fund's agenda, focussed on the link and causality between the financial sector and the macroeconomy, especially of course macro adjustment programs as promoted by the Fund in transition economies. Stressing that financial crisis typically do not emerge without clear disequilibria in macroeconomic fundamentals, he supported the view that engagement of foreign banks tends to be supportive for financial sector development. IMF experience clearly shows that whilst the benefits of financial liberalisation typically outweigh the dangers in terms of stability and the danger of crisis, there is no place for complacency with respect to reforms of the financial sector. In formulating macroeconomic reform programs, particular emphasis has to be placed with their effects on the financial sector. *Christof Rühl* from the World Bank, concerned with the 'bail-in problem', stylised the Mexican, Asian and Russian crisis as examples where private international investors, despite the obvious risks involved, were able to escape the crisis without much costs due to the bailing out activities of international financial institutions. Relying on these institutions, private capital keeps flowing into emerging markets at ever growing amounts, a clear case of moral hazard. Hence, investors can rely on receiving risk-inflated interest rates quite independent of whether a crisis occurs or not. Reviewing experience with crowding-in in the test countries of Pakistan, Romania, Ukraine and Ecuador, he concluded that a possible solution could involve the introduction of collective-action clauses into loan contracts to make restructuring a desirable option long before extraordinary circumstances leave no choice. "No longer would the only alternative be paying off creditors in full with official funds or enduring a costly, extended interruption to market access". So far, however, not even the Bretton Woods institutions embrace this alternative and US American - style bonds, in contrast to the more flexible UK - style issues, do not allow any renegotiation - clear fields for future reform. *C.P. Zeitinger* from Internationale Projekt Consult elaborated on his experience with

institution-building in the micro-finance sectors of CIS. The usual problems associated with business in the region, e.g. criminality and dishonesty, payment morale and the Mafia, proved to be of little relevance: “working with small scale debtors still produces comfortable returns”, arrears rates turned out to be very favourable, collateral also existed to a sufficient value. Dealing with the middle class typically allowed to “fly below the radar of the Mafia”. Interestingly, the small and micro enterprises paid back their loans even in the midst of the Russian financial crisis - an indication for *Zeitinger* that the small scale market provides a less risky business than the usual larger scales as typically targeted by international development and commercial banks.

The late morning session, chaired by *Wolfram Schrettl* from the Deutsches Institut für Wirtschaftsforschung, Berlin, laid out the agenda for a panel discussion on the central banks’ views on monetary policy in an unstable financial system. *Peter Bofinger* from the University of Würzburg opened the discussion by assessing, in an analytic manner, the two extreme options of exchange rate policy for transition economies in general and the EU accession countries in particular. He made a clear case for some form or other of currency peg and dismissed (theoretical) advantages of fully fledged flexible exchange rate regimes for these economies. He held the determination of exchange rates to be to some degree a random process, econometric evidence can show that there does not exist a systematic relationship between the usual fundamentals and the exchange rate. Furthermore, *Bofinger* stressed the often neglected relationship between a rigid exchange rate regime, interest rate parities, hence capital inflows and the problem of sterilisation for domestic policies geared towards a further reduction of price inflation. Assessing regime-options for each of the EU accession economies, he in particular expressed his concerns with Poland’s path of inflation targeting paired with a (practically) free floating exchange rate. In this conjunction Japan was a point of reference. The panellists *Peter Backé*, Österreichische Nationalbank, *Polanski* and *Vincze* largely agreed with *Bofinger’s* case against an unmanaged free floating exchange rate. Yet *Polanski* reminded the conference delegates that Poland made positive experience with a practically unmanaged free float of the Zloty in the most recent past and particularly during the Russian crisis. *Vincze* suggested a more gradual view, incorporating both, inflation and exchange rate targets: as monetary stability sets in, Hungary plans to shift step-by-step from the contemporary exchange rate target to a more domestically oriented monetary policy. He held the abandonment of any exchange rate motive as a sign of maturity to enter the European Monetary Union. *Backé* critically assessed the existing framework for eventual European Monetary Union membership as lacking provisions in case of currency crisis, lacking a scenario of an emerging system of parallel currency and, remarkably for a central banker’s view, that the inflation criteria might be “unduly constraining for catching-up economies”.

The final Friday afternoon session, chaired by *Reinhard Schmidt*, University of Frankfurt, incorporated the commercial bank's view on financial development in the region. The contribution of *Monika Schnitzer* from the Ludwig Maximilian University, Munich, took issue yet again with the possible trade-off between (foreign) competition and stability of the banking sector. By distinguishing between the long and the short term, she held that at least in the long run, competition can be expected not only to promote stability, but least as importantly also efficiency. Today, financial sectors in the region are largely 'overbanked' but 'underserviced'. In respect to measuring competition, the particular structures in Central and Eastern Europe suggest to focus on how heterogeneous banks really are, the degree of market segmentation and the relationship between bank and firm managers. Hence, competition can be enhanced even by further consolidation, paired with the pressure for higher efficiency by the entry of foreign banks. The panellists, *Jürgen Conrad* from the Deutsche Bank Research, *Harald Eggerstedt*, Commerzbank and *Martin Holtmann*, Russia Small Business/IPC) discussed this thesis against their individual professional background in the region. *Conrad* asked for more country specific analysis rather than the up to date often biased cross-country analysis in assessing financial development and competition in the financial sector in Central and Eastern Europe. *Holtmann* informed the delegates about his experience with the promotion of inter-bank competition in Russia. Here, interest rates did come down and more clients or client groups have been serviced by that industry already before the financial crisis broke out. In contrast to the discussion during the conference up till then, he however held that the entry of foreign banks could in so far be detrimental to domestic financial development, as these banks often tend to 'skim off' the best customers, leaving the less interesting 'crumbs' to domestic competitors. *Eggerstedt* broadened the discussion by focussing on the puzzling observation that the securities markets were not really taking off in the region and suggested that this might be rooted in a typical sequencing in financial market development.

The conference closed with concluding remarks by all panellists of the afternoon. Some controversial issues remained unresolved which was in line with the conference convenor's intention, *Adalbert Winkler*, by inviting a diverse audience such as theorists from academia, representatives from international financial institutions and commercial banks as well as consultants to Chemnitz University. A volume with the proceedings of the conference, in particular incorporating the panel discussions, will be published in due course.

Johannes Stephan, Halle Institute for Economic Research

Jens Hölscher, University of Brighton

Calls for Papers

IACCM Annual Meeting from 29-30 September 2000 in Zagreb

As always we call for original papers reflecting the aims of the Association and the interest and the specialism of its members. All papers for presentation will be issued at the beginning of the conference in the form of proceedings.

After all presentations the International Editorial Board of the Journal of the IACCM will select the best papers to publication, subject to recommended revision, in the journal.

Papers may be in German or English.

Deadlines

Registration for the conference: **15.05.2000**

Submission of abstracts: **16.06.2000**

Full paper: **01.09.2000**

Should you have any further questions please do not hesitate to contact us:

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V. Chemnitzer Ostforum

21. - 23. März 2001

"Personalmanagement im Transformationsprozeß"

„Die Mitarbeiter sind unsere wichtigste Ressource“, solche oder ähnliche Aussagen erhält man heute permanent von Unternehmen. Doch wie sieht es mit den Mitarbeitern aus, wenn Unternehmen in grundlegende gesellschaftliche Transformationsprozesse eingebunden sind? Wie gestaltet sich das Verhältnis von Führungskräften und Mitarbeitern, welchen Einfluß haben Gewerkschaften und andere Verbände in Zeiten radikalen Wandels? Wie erfolgt die notwendige Personalanpassung und welche Rolle spielt die Personalentwicklung? Welche Beiträge kann ein Personalmanagement leisten, das selbst vom Umbruch betroffen ist? Welche Rolle spielen Expatriates und welche Beiträge zur Bewältigung leisten in westlichen Unternehmen bewährte Managementkonzepte und -instrumente? Zu diesen und anderen Fragen sollen Beiträge eingereicht werden, die sich auf eines der folgenden sechs Themenfelder beziehen sollen:

1. Personalführung, Personalentwicklung
2. Personalbeschaffung/-auswahl, Anreizsysteme
3. Industrielle Beziehungen
4. Restrukturierung, Personalanpassung
5. Organisationsentwicklung und Kulturwandel
6. Institutionelle und personelle Aspekte des Personalmanagements

Kurzfassungen der Beiträge (500 Wörter), inklusive Name(n) des/der Autors/Autoren, akademischer Grad/Position, Name der Institution, Adresse, Telefon- und Faxnummer, Email-Adresse sowie das Themenfeld auf das sich die Kurzfassung bezieht, senden Sie bitte an das Organisationskomitee (1 Ausdruck und 1 Diskette).

Die Kurzfassungen müssen bis zum **31. August 2000** bei uns eingetroffen sein. Alle Autoren werden bezüglich der Annahme/Ablehnung ihres Beitrages bis zum 31. Oktober 2000 benachrichtigt.

Der Konferenzbeitrag beträgt 250 DM. Teilnehmern aus osteuropäischen Staaten werden im Rahmen der Möglichkeiten der Konferenzbeitrag sowie die Reise- und Aufenthaltskosten erstattet.

Weitere Informationen erhalten Sie unter folgender Adresse:

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V Chemnitz East Forum
21 - 23 March 2001
„Human Resource Management in Transition“

“Employees are our most important resource”, such are the statements one hears from enterprises today. However, how about the employees if enterprises are involved in fundamental societal transformation processes? How is the relationship between executives and other staff organised? To which extent do unions and other associations have influence in times of radical change? How does the necessary adjustment of the staff take place and which role does staff development play? Which contribution can human resource management make which is undergoing a process of transition itself? Which role do expatriates play and which contributions do established western management concepts and instruments render in coping with transition? Conference contributions on these and other topics should focus one of the following areas:

- | | |
|--|---|
| 1. Personnel management and staff development | 4. Restructuring, personnel adjustment |
| 2. Recruiting and personnel selection, incentive systems | 5. Organisation development and cultural change |
| 3. Industrial relations | 6. Institutionell and personnel aspects of HRM |

Abstracts of paper presentations (500 words) should be sent to the organising committee (1 printout and 1 file on disk). Abstracts should contain author(s) name(s), title/position, institution, address, telephone, fax number and email address and the area the paper is referring to.

Abstract submissions should be submitted by **31 August 2000**. All authors will be notified of the acceptance/rejection of their abstracts until 31 October 2000.

The conference fee is 250 DM. As far as possible participants from Eastern Europe countries will receive their conference fee and their travel and accommodation expenses refunded.

For further information, please contact:

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Preis für die besten Beiträge junger Wissenschaftler
Best Paper Award for Young Scholars
V Chemnitz East Forum
21 - 23 March 2001
„Human Resource Management in Transition“

Das Journal for East European Management Studies lobt einen Preis für die besten Beiträge junger Wissenschaftlers aus, die für die Konferenz eingereicht wurden. Die Bewerber dürfen maximal 30 Jahre alt sein. Die Preisträger erhalten die Möglichkeit kostenlos am V. Chemnitzer Ostforum teilzunehmen. Weiterhin werden die besten von ihnen in einem JEEMS-Sonderheft publiziert.

Wir fordern junge Wissenschaftler auf, Beiträge einzureichen. Vermerken Sie dazu auf Ihrem Konferenzbeitrag, daß sie sich für den Preis für das beste Papier bewerben möchten.

The Journal for East European Management Studies announces an award for the best papers submitted to the V Chemnitz East Forum by young scholars. Candidates should be 30 years of age or less. The winners will have the opportunity to participate in the conference for free. Additionally the best papers will be published in a special JEEMS-issue.

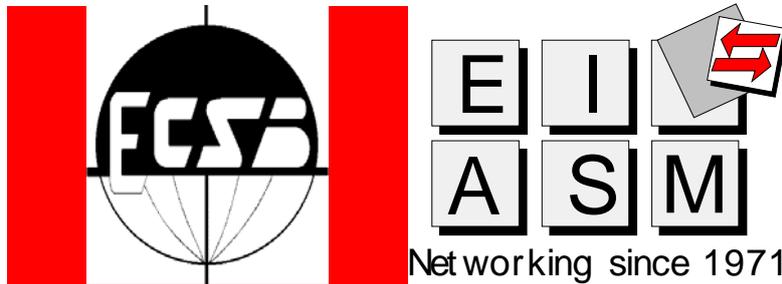
We invite young scholars to submit papers for the award. Please note on your conference paper that you would like to take part in the contest.

Weitere Informationen erhalten Sie unter folgender Adresse / For further information, please contact:

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RENT XIV Research in Entrepreneurship and Small Business
November 23-24, 2000 in Prague



Most European countries are increasingly hard pressed to address the issues of growth, productivity, unemployment and global competitiveness in the information integrated, significantly global environment. Small and medium enterprise (SME) cooperative networks provide viable and complementary alternatives to traditional economic patterns and offer new solutions and perspectives on the crucial problems of long-term economic health and sustainability.

Usually the workshop welcomes papers on any aspect of Small and Medium Enterprises (SMEs), Entrepreneurship and Regional Economics. However, the world in which entrepreneurs and SMEs operate has changed fundamentally in the era of Internet, global markets and the New Economy of networks. We have therefore selected NETWORKS to become the central focus of our discussions in Prague:

The above themes could be expressed through the following specific topics of interest:

- SMEs and the Internet
- SME Networks
- E-business and E-engineering of enterprise
- From MBA to E-MBA education
- Regional advantages of SMEs
- Inter- and intra-company organization
- SME financing and capitalization
- Knowledge management for SMEs
- SMEs in post-communist economies
- EU, SMEs and public policy
- Initial public offering (IPO) management
- Strategic aspects of SME alliances
- Franchising, networking and cooperation
- High-technology regions and “silicon valleys”

Deadline for three page abstracts in English (including full address, telephone, fax numbers and Email address): **July 1st , 2000.**

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Fourth International Conference
Enterprise in Transition - Competitiveness, restructuring and growth
May 24-26, 2001 in Split

The Fourth International Conference on Enterprise in Transition will focus on the problems of enterprise competitiveness, restructuring and growth.

In addition to the discussion of the transition from a socialist toward a market economy, we would like to encourage and invite authors to consider the issues relating to the growth and development of enterprises and economies in transition. Such an orientation of the Conference encompasses many different research themes, which reflects our comprehensive approach to transitional problems, which have been key features of the Conference from its very beginning. Some of the issues we propose for discussion are:

Competitiveness:

- Determinants, indicators and measures of competitiveness;
- Technology, technical progress and competitiveness;
- Industrial policy and international competitiveness;
- Competitive strategies of contemporary enterprises;
- Management systems and enterprise competitiveness.

Restructuring:

- Company restructuring in the context of the process of globalisation;
- Privatization and restructuring of state-owned enterprises;
- Innovation, networks and entrepreneurship;
- Regional development and restructuring of local economies;
- Industrial restructuring and its effect on development.

Growth:

- Financing entrepreneurial growth and SME development;
- Direct foreign investment and its effects;
- Implications and effects of cooperation with the EU on growth in transition economies;
- Sustainable growth: a green paradigm for the countries in transition;
- Models and theories of growth for countries in transition.

Deadlines:

Abstract submission deadline: **30th August 2000.**

Paper submission deadline: **31st December 2000.**

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Conference "Enterprise in Transition"

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