ANALYSIS OF THE BEHAVIOR OF FOREIGN-OWNED BANKS IN SERBIA DURING GREAT DEPRESSION AND GREAT RECESSION[1]

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Abstract

In this paper we analyse the actions of foreign-owned banks on Serbian financial market during two largest financial crises in modern era, in 1931-1935 and 2008-2010. In crisis moments, during the first half of the 20th Century, due to major disruptions in international financial markets, foreign-owned banks quickly withdrew their capital. On the contrary, during global financial crisis, at the end of the first decade of the 21st Century, they continued to operate in Serbia, in undiminished volume, thanks to the implementation of the Vienna Initiative. The establishment of this unique public-private forum for overcoming the consequences of the global financial crisis in the South-Eastern and Central Europe was initiated by the European Bank for Reconstruction and Development. Thanks to creating new mechanisms for crisis management, macroeconomic and financial stability has been maintained in Serbia, and that is a striking contrast to the situation of more than 70 years ago.

Key words: *global financial crisis, Vienna Initiative, banking sector, Serbia*

MONOPOLIY POSITION OF FOREIGN-OWNED BANKS ON SERBIAN FINANCIAL MARKET

In the interwar period, banking sector of The Kingdom of Serbs, Croats and Slovenes (SCS) consisted of four state, privileged banks as well as of numerous private shareholding banks and credit cooperatives.

Private shareholding banking in Serbia in the interwar period was characterized by a visible contrast. On one hand, domestic capital was very fragmented, situated in relatively large number of small shareholding banks; on the other hand, strong concentration of foreign capital was present in extremely small number of foreign-owned banks.

Comparing to other regions of The Kingdom of SCS, Serbia was on the last place regarding the level of capital concentration in domestically- owned shareholding banks, and on the first place regarding their number. The fact that domestically-owned shareholding banks in Serbia had on average almost three times less capital than such banks in Croatia and almost six times less capital than such banks in Slovenia speaks for itself about their modest strength.[5]

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[5] I. Kovačević: *Banking in Serbia 1921-2011,* Association of Serbian Banks, Belgrade, 2011, p. 31

Until the agrarian crisis, number of domestically-owned shareholding banks in Serbia was growing constantly. Just before The World War I, 208 shareholding banks operated on the territory of Serbia while in 1926, there were 302 of them.[6] Such trend was a consequence of fast growing number of small family banks in rural areas. *The Law on shareholding companies* inherited from The Kingdom of Serbia allowed each shareholder to hold 10 percent of shares at the most, so it was common practice that all shares of a bank were held by one or two families. The clients of small shareholding banks were mostly farmers who were creditworthy only during postwar economic boom.

At the outbreak of Great Depression, foreign financial capital was concentrated in just 14 domicile shareholding banks and 4 foreign bank affiliates. Those 18 foreign-owned banks held 50 percent of overall shareholding banking capital in Serbia.[7] Thus, in Serbia, a half of private banking capital was concentrated in only few, relatively strong foreign-owned banks and the other half was fragmented in large number of small, relatively weak domestically-owned banks. Moreover, in other regions of The Kingdom of SCS, foreign-owned banks had even larger share of the ownership of banking capital. Such banking network structure implicates the conclusion that in the interwar period, banks in direct or indirect ownership of foreigners had monopolistic position on the financial market in Serbia, just as in The Kingdom of SCS.

The pillars of the concentration of banking capital on Serbian financial market in the interwar period were three banks in Belgrade: Belgrade Commercial Bank (Beogradska trgovačka banka), Bosnian Industrial and Commercial Bank (Bosanska indsutrijalna i trgovačka banka) and Adriatic-Danube Bank (Jadransko-podunavska banka). They were under direct control of foreign capital that participated with more than 75 percent in their shareholding capital. Foreign shareholders were mostly foreign banks, to a lesser extent foreign shareholding companies and very rarely physical persons who represented in fact foreign companies. Among foreign-owned banks in Serbia in the interwar period, the most prominent were Banque Franco-Serbe and Wienner Bank Verein, later to become General Yugoslav Banking Company (Opšte jugoslovensko bankarsko društvo). Foreign capital placed in Serbian banks in this period was mostly of French, Czech, Austrian or German, and Belgian origin.

In the interwar period, foreign-owned banks were main financiers of industry and instigators of coalescence of industrial and banking capital in Serbia. Most frequently applied forms of such coalescence were: bank participation in founding shareholding capital of a new company, transformation of sole proprietorship company in shareholding company or capital enlargement of the existing shareholding company. In Serbia, the best example of coalescence of industrial and banking capital was Adriatic-Danube Bank from Belgrade that held shares in 18 industrial companies.[8]

In 1928, French and Czech capital were the most prevalent in foreign-owned banks in The Kingdom of SCS. Almost 90 percent of French capital was engaged in Serbia and only 10 percent in other regions of The Kingdom of SCS. French capital was engaged mostly through Banque Franco-Serbe. Capital of French origin could rarely be found in other shareholding banks in combination with capital originating from other West European countries. However, that could not be said for Czech capital that appeared frequently in combination with Austrian, British or Belgian capital in Yugoslav banks. Almost 65 percent of Czech capital invested in shareholding banks was engaged in Serbia. [9]

Today, in Serbia, there are no small domestically-owned shareholding banks. At the same time, monopolistic position of foreign shareholding capital in banking sector is even more pronounced than

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[6] Op. cit,, p. 36

[7] Op. cit., p. 38

[8] Op. cit., p. 51

[9] V. Aleksić, "Foreign Financial Capital as the Catalyst of Serbian Economic Development before the Second World War": B. Hinić, ed., *Economic and Financial Stability in SE Europe in a Historical and Comparative Perspective*, Fourth Annual Conference of Southeastern Europe Monetary History Network (SEEMHN), National Bank of Serbia,, 2009, pp. 315-335

in the interwar period. There are 33 banks operating on the territory of The Republic of Serbia today. As of June 30, 2011, their overall balance sheet assets were 2,476 billion Dinars while their overall shareholding capital was 520 billion Dinars. Among banks in Serbia, 21 are completely owned by foreign private persons and 12 are owned by domestic persons, among which 8 banks are in the majority or the minority ownership of the State while four banks are owned only by private persons. In banking sector of Serbia, foreign-owned banks participate with 76 percent in overall banking profit, with 73 percent in overall balance sheet assets and with 71 percent in overall shareholding banking capital[10].

Table 1. Ownership structure, country of origin and share in overall balance sheet assets in banks in Serbia (June 30th, 2011)

	Percentage share in overall balance sheet assets	Range of the share in overall balance sheet assets
Domestically-owned banks in the majority or the minrity ownership of the State	**18,6**	
Agrobanka	3,2	11
Čačanska banka	1,2	23
Jugobanka K.Mitrovica	0,3	30
Komercijalna banka	10,4	2
Dunav banka a.d. Zvečan	0,1	32
Poštanska štedionica	1,3	21
Razvojna banka Vojvodine	1,5	18
Srpska banka Bgd.	0,6	27
Domestically-owned banks in private property	**8,5**	
Aik banka Niš	5,6	7
Jubmes banka	0,4	29
Privredna banka Beograd	1,1	24
Univerzal banka	1,4	20
Foreign-owned banks		
Italy	**21,1**	
Banca Intesa	14,4	1
UNICREDIT BANK	6,7	4
Austria	**18,0**	
Erste Bank Novi Sad	2,6	13
Hypo Alpe-Adria-bank	5,6	8
Raiffeisen banka	6,8	3
VolksBank	3,0	12
Greece	**16,1**	
ALPHA BANK	3,8	9
Piraeus bank	2,1	15
Vojvodjanska banka (National Bank of Greece grupa)	3,6	10
Eurobank EFG	6,6	5
	Percentage share in overall balance sheet assets	Range of the share in overall balance sheet assets
France	**9,0**	
Credit Agricole banka Srbija	2,1	16
FINDOMESTIC BANKA	0,7	26

[10] Association of Serbian Banks: *Serbian Banking in 2011,* 2012

	Percentage share in overall balance sheet assets	Range of the share in overall balance sheet assets
Societe Gen.Bank Srbija	6,2	6
Belgium	**1,2**	
KBC banka	1,2	22
Cyprus	**1,0**	
Marfin bank	1.0	25
Hungary	**1,5**	
OTP BANKA SRBIJA	1,5	19
Germany	**2,4**	
ProCredit Bank	2,4	14
Russin Federacion	**0,1**	
Moskovska banka a.d.-Beograd	0,1	33
USA	**0,2**	
Opportunity banka	0,2	31
Slovenia	**2,3**	
Credy banka	0,5	28
NLB banka	1,8	17

Source: Association of Serbian Banks: Serbian Banking in 2011, 2012

Foreign-owned banks in Serbia are affiliates of international banking groups, whose head offices are in 11 states. Shareholding banks in the majority ownership of shareholders from four EU countries: Italy, Austria, Greece and France hold monopolistic position on the financial market in Serbia. In overall balance sheet assets, banks from Italy (Banaka Intesa and UNICREDIT BANK) participate with 21.1 percent, from Austria (Erste Bank Novi Sad, Hypo Alpe Adria-bank, Raiffeisen banka i VolksBank) with 18.0 percent, from Greece (ALPHA BANK, Piraeus bank, Vojvođanka banka NBG i Eurobank EFG) with 16.1 percent and from France (Credi Agricole banaka Srbija, FINDOMESTIC BANKA, Societe Generale Banka Srbija) with 9.0 percent (Table 1). In total, affiliates of foreign banking groups from four mentioned countries participate with 64.2 percent, and affiliates of foreign banks from all other seven countries participate with 5.8 percent only in overall balance sheet assets of banks in Serbia.

BEHAVIOR OF FOREIGN-OWNED BANKS IN SERBIA DURING GREAT DEPRESSION

Differences in behavior of foreign-owned banks in Serbia during Greta Depression and global financial crisis could be explained with help of logic of the competition between oligopolies. In both cases, foreign-owned banks were questioning strategic decision; should they stay on Serbian financial market or withdraw their capital. Benefits for foreign-owned banks, competing on Serbian financial market, were and still are, of course, to maximize monopoly profit and, in the crisis situation they found themselves, to minimize monopoly profit losses.

Theoretically speaking, in the crisis conditions, foreign-owned banks could act in cooperative or non-cooperative way. Cooperative act would assume the banks reached binding agreement that could enable them to implement certain common strategy on the financial market. Cooperative solution would bring less damage to each party than non-cooperative one. However, at times of Great Depression, cooperative solution was not possible. Foreign banks were left to their own selves; there were no intermediaries who would assist their mutual agreements. National Bank of The Kingdom of Yugoslavia did not have financial strength to prevent capital outflow and multinational financial institutions that would initiate promptly the consolidation of banking sector did not exist at that time.

The crisis of Yugoslav and by the same token Serbian banking started in fall of 1931 and it was in tight connection with credit crisis that had already hit Germany and Austria, and sometime later Hungary, too. Due to close business ties that domicile foreign-owned banks had with banks from those countries, credit contraction on financial markets of these countries started to be felt in Serbia and whole Yugoslavia. Already in 1930, foreign capital outflow was recorded and it continued during 1931. The chain reaction that followed led the largest shareholding banks in Serbia and Yugoslavia to serious difficulties. Those difficulties were the consequence of the connectedness of financial, industrial and commercial capital, and they were felt in similar way in whole Europe in 1931-1935 period.[11]

The withdrawal of foreign capital from Yugoslavia inevitably led to anxiety of domestic investors. At those times, they believed deeply foreign capitalists, who they saw as good businessmen, well acquainted with financial situation. Foreign capitalists were suggesting them not to trust the banking system. At the same time, credit policy of National Bank of The Kingdom of Yugoslavia contributed to increased distrust. Namely, the withdrawal of foreign capital provoked credit restrictions on domestic financial market. In an effort to preserve monetary stability, National Bank started to implement restrictive monetary policy measures, increasing discount rate from 5.5 percent to 7.5 percent. Moreover, the suspension of German reparation payments, just at time of the legal stabilization of Dinar in 1931, prevented the assistance of National Bank to commercial banks.[12]

Soon, commercial banks were faced with rush from their investors. In this way, the acute psychological banking crisis could not be neutralized and it turned to chronic, structural one that affected gradually almost all private banks in Yugoslavia. Soon, banking sector experienced such large disorder that National Bank could not avoid any longer placing emergency loans to commercial banks. However, the sum of those loans was not large enough to enable the banks to overcome acute phase of the crisis. Thus, the State announced banking moratorium, which aggravated the situation in commercial banks even more.[13] So, Central Bank did not provide indirect liquidity for commercial banks. On the contrary, National Bank worsened already difficult situation in banking sector by its decision dating from August 8, 1931, that aimed to lift large margin of approved but not used credits. When it became clear that there were no chances for banks to establish liquidity by themselves and to continue with normal operations, Yugoslav Government took measures for reconstruction of credit organization in the country. For that purpose, on November 22, 1933, *Regulation on the protection of financial institutions and their clients* was enacted and, afterwards, regulations dealing with protection of credit cooperatives, cutting expenses of banks under protection and maximizing interest rates. Also, according to *Regulation on the protection of banking institutions* that was changed on November 23, 1934, three different protective regimes were foreseen: payments deferral, bank rehabilitation and non bankruptcy liquidation. Despite all those legal interventions of the State, banking crisis in The Kingdom of Yugoslavia had lasted during entire interwar period. In Serbia, since the emergence of agrarian crisis in 1926 until 1938, 46 shareholding banks were shut down.[14] Among those in operation, many of them were in silent liquidation.

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[11] V. Aleksić, op. cit.

[12] D. Gnjatović: „Foreign Exchange Policy in The Kingdom of Yugoslavia during and after the Great Depression“, P. Mooslechner, ed., *the experience of Exchange Rate Regimes in Southeastern Europe in a Historical and Comparative Perspective,* Second Annual Conference of Southeastern Europe Monetary History Network (SEEMHN),OeNB, Vienna, 2006, pp. 330-348

[13] Ž. Lazarević: „Regulations of Banking Sector in Yugoslavia“, D. Gnjatović, Ž. Lazarević: *Contributions to Financial History of 20th Century Southeast Europe – Perspectives from Slovenia and Serbia -,* Beograd, 2011, pp. 21-50 (in Serbian)

[14] Op. Cit

BEHAVIOR OF FOREIGN-OWNED BANKS DURING GLOBAL FINANCIAL CRISIS

There is major difference in the behavior of foreign-owned banks in Serbia in two observed cases: during Great Depression, those banks had pursued non cooperative solution and during global financial crisis they had chosen cooperative solution. In this second case, international financial organizations stood after the interests of foreign-owned banks and determined 'the rules of the game' which were obligatory even for monetary and fiscal policy decision makers in Serbia.

The situation in which banking sector was in the eve of global financial crisis in fall 2007 and during the first half of 2008, resembled very much Great Depression. With the outbreak of global financial crisis each foreign-owned bank in oligopoly position on Serbian financial market wondered if any competitor would withdraw capital in fear of monopoly profit loss. There was no answer to this question because no one knew how deep financial crisis would be and how long it would last. Though, it was clear that foreign-owned banks were preparing to start risky non-cooperative game, like that from Great Depression.

When this concrete situation is considered, no foreign-owned bank thought it would be possible to provide against threatening profit losses if interbank agreement on the terms of staying in Serbian financial market had been signed.[15] On the other hand, if only one foreign-owned bank left Serbian financial market, all other foreign-owned banks would be exposed to the risk. Namely, foreign exchange deposits and savings could be withdrawn from those banks, and dimnished capital supply and the resulting rise in interst rates would initiate smaller demand for bank loans. Thus, any separate move of any foreign-owned bank to leave Serbian financial market would initiate non-cooperative game with an uncertain outcome, in whicch all foreign-owned banks would have to participate. It was clear that if they decided to stay in Serbia, they would have to give up at least a share of their monopoly profit. Thus, non-cooperative game between foreign-owned banks on Serbina financial market would lead to their withdrawal of optimal stategy.

Foeign-owned banks in monopoly position on Serbian financial market are the affiliates of international banking groups that are all very present in whole region of South-East and Central Europe. Financial integration int the South-East and Central Europe is characterized today by the presense of a relatively small number of affiliates of banks from the Member States of the European Union. These banks have a dominant share of the finanscial market in the region. At the same time, these banks are an important foundation of financial sector of countries of origin.[16]

Global financial crisis reached the region of the South-East and Central Europe in the third quarter of 2008.[17] Then, macro financial risks threathened to provoke non-cooperative games on regional financial market, similar to those played during Great Depression. Namely, individual moves of any international banking groups to relocate operations from Serbia would provoke a chain reaction of all other banking groups. In this case, however, not only the interests of foreign private investors and their countries of origin would be damaged but also the interests of international financial organizations that finance regional development. This primarily refers to European Bank for Reconstruction and Development – EBRD. This international developmental financial institution has placed a predominant portion of its loans in the South-East and Central European countries particularly through affiliations of 10 international banking groups (Raiffeisen International, Intesa Sanpaolo, Hypo Alpe-Adria, Eurobank EFG, National Bank of Greece, Unicredit, Société Générale, Alpha Bank, Volksbank

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[15] C. Andersen: *Agreement with Banks Limits Crisis in Emerging Europe*, IMF Survey online, October 28, 2009

[16] C. Friedrich, I. Schnabel and J. Zettelmeyer: *Financial integration and growth - Is emerging Europe different?*, IBRD Working Paper, no. 23, 2010.

[17] J. Schreiner and C. Zauchinger: *Developments in Selected Central, Eastern and Southeastern European Countries, Focus on European Economic Integration*, Q2/09, OeNB, 2009, pp. 6-54

International and Piraeus Bank), with head quarters in four EU countries (Austria, France, Greece and Italy). Therefore, it became a matter of urgency to initiate collective action at international level that would prevent non-cooperative solution.

The key role of the affiliates of international banking groups from the EU countries in the South-East and Central Europe asked for the participation of interested parties both from public and private sectors in the initiating of crisis management. In normal circumstances, the authorities of the countries in which the head quarters of private banks are situated and the private banks themselves do not participate in collective operations of overcoming debt and balance of payments crises.[18] But the lack of suitable coordination mechanism threatened to create serious problems in financial crisis management and in maintaining financial stability in the Region, so the circle of participants in collective decision making had to be enlarged. In order to make foreign private banks and the countries where these banks have their seats agree to participate in creating the coordination mechanism for financial crisis overcoming in the region of the Southeast and Central Europe broad action on international level had to be initiated. The key interested party was the EBRD. At the end of 2008, together with Austrian Ministry of Finance and International Monetary Fund, the EBRD initiated the foundation of an international coordination mechanism. In January 2009, in Vienna, the initial meeting of the representatives of international financial organizations and European Union took place where the platform for financial crisis management in the South-East and Central European counrie has been established. This platform is known as VI/EBCI, (Vienna Initiative/European Bank Coordination Initiative). On the grounds of this platform, a number of cooperative games have been initiated between foreign banks that continued to be present in the region.

On the grounds of Vienna Initiative, an informal group has been made of the representatives of public and private sector. In those South-East and Central European countries that would voluntarily agree, this informal group took the obligation to conduct an action for financial crisis overcoming. This informal group consists of: international financial organizations (European Bank for Reconstruction and Development, International Monetary Fund, International Bank for Reconstruction and Development, and European Investment Bank); European institutions (European Commission and European Central Bank); Central Banks from the countries in which international banking groups have their seats; Central Banks and regulatory fiscal and monetary authorities from the countries in which affiliates of international banking groups are situated; and the largest West European Banking Groups that operate in the region.

During the first half of 2009, within the Vienna Initiative, individual meetings were held with the representatives of certain countries from the South-East and Central Europe. The outcomes of those meetings were binding individual agreements with Serbia, Hungary, Latvia, Romania and Bosnia and Herzegovina. Foreign-owned banks obliged themselves to continue to operate in those countries without contraction in their activities. They agreed on rescheduling debts and on short-term debt conversion of their clients, showing that they accept to earn lower monopoly profit. International financial organizations obliged themselves to provide a package of financial support for liquidity of the foreign-owned bank affiliates worth 27.1 billion Euros until the end of 2010, where International Bank for Reconstruction and Development participated with 6.8 billion Euros, European Investment Bank with 13.1 billion Euros, and the World Bank institutions with 7.2 billion Euros. Central Banks of mentioned countries have agreed to liberate foreign-owned banks from mandatory foreign exchange

[18] Existing coordination mechanisms in the EU were not able to fulfill the task. Economic and Financial Council – EFC, for example, included the governments of the member states and central banks but not the supervisory and regulatory bodies of the European Union, individual Member states and international banking groups. Also, the Memorandum of understanding sighed in June 2008 by the ministers of finance, supervisory authorities and central banks of the EU countries concerned was inadequate because its mandate and procedures have been established for use in banks un crisis as individual cases and not in broader regional framework. W. Nitsche: **The Vienna Initiative/European Bank Coordination Initiative: Assessment and Outlook,** ***Federal Ministry of Finance of Austria, Working Paper 4/2010, p. 6***

reserves, provide them with easier access to credits for liquidity and allow their additional capitalization from subordinated liabilities. The governments of these countries committed themselves to implement programs of economic stabilization within the arrangements signed with the IMF.

VIENNA INITIATIVE AND SERBIA

After the coordination meeting of the forum of Vienna Initiative dedicated to Serbia that took place in Vienna on March 27th, 2009, National Bank of Serbia prepared special support measures for macro financial stability within the arrangement with the IMF. Those measures were aimed for assuring continued access to sources of liquidity, both in Dinars and in foreign exchange, stabilization of foreign exchange market, preventive action in the direction of preserving the quality of bank assets, providing the framework for modifying conditions for debt repayments for bank clients, reduction of the outflow of foreign exchange and reduction of depreciation pressures.[19]

In order to fulfill obligations assumed on coordination meeting of Vienna Initiative, National Bank of Serbia adopted three decisions: *Decision on special support measures to country's financial stability*[20], *Decision on the conditions and manner of granting short/term loans to banks for liquidity against collateral securities*[21] and *Decision on Terms and Conditions of swap purchases and sales of foreign currency between National Bank of Serbia and Banks,*[22] Special support measures were meant for those international banking groups which kept the level of exposure in Serbia reached in December 2008. Those banking groups agreed also, first, to enable their debtors to reschedule credits in foreign currency and credits indexed with foreign exchange clause and, second, to change the debt repayment conditions in accordance with the defined framework. To those international banking groups that fulfilled the above mentioned conditions, National Bank of Serbia offered, first, new sources of liquidity, i.e. credits in Dinars with one year amortization period: second, ort/term foreign exchange swaps and exemption from obligation to calculate reserve requirements on deposits and loans received from abroad by October 2008 to December 2010, until their repayment. Besides, banks were allowed, for regulatory purposes, to include subordinated debt in their capital, up to 75 percent and to increase their foreign exchange risk to capital ratio from 10 percent to 20 percent.[23]

Thanks to the realization of Vienna Initiative, banks in Serbia have successfully overcome the first wave of the global financial crisis that started in fall 2008. This could be seen from the following data: on December 31st, 2009, total balance sheet assets were 2,160.4 billion Dinars and was higher by 21.6 percent compared to 2008; there was an increase in total bank loans which amounted to 1.278,3 billion Dinars and was higher by 24.4 percent compared to 2008. True, the banks had to reconcile with the halved profits. Namely, at the end of 2009, banking sector profit before the taxation was 20 billion Dinars, while at the end of 2008 it was 44.1 billion dinars.[24] However, already during 2010, he banks enlarged their profit. Their positive net financial result was 22.6 billion Dinars and it was 28.8 percent higher comparing to 2009. Such result has been accomplished thanks to the growth of balance sheet assets and bank capital, increase in savings deposits and their participation in trading of securities as well as an increase in the volume of lending. According to data from financial statements for 2010, the banks have reported total revenues of 457.3 billion Dinars and expenses of 431.9 billion Dinars which were, compared to the previous year, increased by 17.0 percent and 16.4 percent respectively.[25]

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[19] National Bank of Serbia: *Vienna Initiative,* Belgrade, 2009
[20] *Official Gazette of The Republic of Serbia, no.* 34/2009, 36/2009, 51/2009, 83/2009, 95/2009, 104/2009, 12/2010.
[21] *Official Gazette of The Republic of Serbia, no.* 95/2010, 3/2011, 18/2011.
[22] *Official Gazette of The Republic of Serbia, no.* 34/2009.
[23] National Bank of Serbia: *Vienna Initiative,* Belgrade, 2009
[24] Association of Serbian Banks: *Serbian Banking in 2011,* 2012
[25] Op. Cit.

CONCLUSION

The realization of Vienna Initiative had favorable effects in all South Eastern and central European countries that took part in it voluntarily. Besides Serbia, Vienna Initiative had been approached by Hungary, Latvia, Romania and Bosnia and Herzegovina. The above mentioned international banking groups have predominant share in the financial markets of all those countries. During the first wave of global financial crisis, the stability of banking sector had been preserved, primarily for the fact that foreign-owned banks did not withdraw their capital from those countries. Truly, foreign-owned banks have agreed to lower profits but they received in return a number of benefits from Central Banks in those countries and from international financial organizations.

Experts of the International Bank for Reconstruction and Development found that the key to the success of the Vienna Initiative is the fact that relatively small number of international banking groups from only four EU countries has a monopoly on financial market of the region of South-Eastern and Central Europe. Although this is true statement, it does not diminish the importance of the assistance that these international banking groups received from international financial organizations and governments of countries in which they operate. This is even more so when we look at the bitter experience of unprotected banking sector during Great Depression.

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