

Restructuring the Banking Sector in Slovakia

MA Thesis Defense Presentation

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My thesis deals with the fundamental questions of the bank restructuring scheme design. It has experienced a large amount of evolutionary elements.

OVERLAP between Banks and Firms — significant in Slovakia (*Intermediation rate & Loans on GDP*) \Rightarrow any *inefficiencies of banks - BD* - tend to be more pronounced on firms \Rightarrow Due to their *high costs* we have to get rid of them = *SCHEME*. As the scheme is a transportation mean to connect the status quo with the *desired state*, we have to know this first. BUT the role of banks in the economy strongly *depends on the corporate governance* system and its *evolution*.

CORP. GOV'CE SYSTEM \Rightarrow DESIRED ROLE OF BANKS \Rightarrow SCHEME \Rightarrow BAD LOAN SOLUTION (Banking sector restructuring)[10pt]

THE PURPOSE: to show that in a transitional economy banks should not be allowed to lead restructuring of corporate sector. As I use no model \Rightarrow FOCUS the logic by using just one country - Slovakia. I found a very limited amount of literature on Slovakia \Rightarrow the **first** part is an analysis based on *history* \Rightarrow Corporate governance NOW — difference with CR. The **second** part deals with *BANKS* \Rightarrow their effect on corps. and their governance. \Rightarrow SIMILARITY WITH GERMAN MODEL (differences are transition-related) \Rightarrow OPTIMALITY from Agency Cost minimization.

Efficient restructuring has to satisfy:

- (a) *generate diverse views* of alternative asset uses
- (b) *select one maximizing value of the firm*

In a transitional economy we deal with a situation when **correlation of the past information and potential use of assets is small.**