

THE SPATIAL STRUCTURE OF FINANCIAL SERVICES IN THE SOUTH PANNONIAN REGION*

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Analysing banking, insurance and other financial, investment services at regional level, some essential conclusions can be drawn, since these services dynamically adapt to and predict the growth potentials of regions. The extent of banking activity, the volume of individual savings and loans, the rate of progress in insurances and financial investments are all indicators monitored constantly by both companies and international institutions (Juhász 2009). This important subject has not been researched yet, therefore, when studying businesses regionally, researchers often face the problem of lacking data. Although Croatian and Slovenian datasets, statistics are available, lower than national level analyses of the financial field are rare.

Similarly to their administrative structure, countries also have their own financial institutions which can vary from a centralised one-tier banking system to multi-tier systems including local-regional elements. Due also to their diversity, when the financial structure of a territorial unit smaller than the national level is studied, distortions can inevitably be observed. The characteristics of the territorial unit we are studying are not negligible, neither are the efficiency of the examined region and whether its country belongs to the centre or the periphery. In this respect it is a complex situation, because as a result of border changes in the Balkan, the examined territory can now be found in two countries, including the central counties of Croatia and two peripheral counties in Slovenia. Thus the mentioned distortions will be significant in the Slovenian data where nothing counterpoises the “overweight” of the capital city which is located in the Croatian territory examined.

Structural Changes in the Banking, Financial Servicing Sector in Croatia and Slovenia after the Dissolution of Yugoslavia

The 1990s were a period of changing political systems in Central and Eastern Europe, accompanied by the long-lasting transition of the West Balkan (the dissolution of Yugoslavia) involving several crisis situations. In the course of this, the finan-

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cial system of this territory also disintegrated. Following the collapse of the integrated Yugoslav financial system, the newly formed nation states established their own monetary institutional systems (central banks, supervisory bodies, etc.) rather quickly. The economies of these countries are characterised by a strong dominance of the banking sector in financial transactions and capital allocation (Gál 2010a), so our South Pannonian study will also concentrate on this field.

It was not deficiency in the system of monetary institutions that caused the prolonged financial crisis, but rather that reforms of the financial system were postponed in most of the countries in the region (except Slovenia) and that the banks were not privatised on a large scale until the end of the 1990s. The first phase of the bank reform in the early 1990s consisted in establishing a two-tier system and approaching the international standards of risk management. During this time the banking systems of these new countries were characterised by quantitative rather than qualitative changes.

Then a surge in the number of private banks led to having too many banks in all countries of the region. Croatia ranked first with its 54 banks in 1995, of which there was only one in foreign ownership (Golubovic–Golubovic 2005). Towards the end of the 1990s the following factors urged the bank reforms to be speeded up:

- financial institutions worked under unregulated and not properly controlled business conditions;
- the expansion of banks was accompanied by scandals;
- the discredited financial institutions found it difficult to attract clients and their money, and thus to increase their loan portfolio and clientele;
- banks in state ownership remained burdened with the toxic loans of big firms having been financed by the state irresponsibly (Gál 2010a).

In addition to examining the general trends in the former Yugoslavia, we shall deal briefly with the bank reforms in these two countries as well.

The fastest bank reform was carried out in Slovenia where the bank sector became well developed in the 1990s. The main elements of this reform were: (1) state guarantee for deposits in the central bank in Belgrade; (2) increased role of the state in the early phase of the reform; and (3) nationalisation of the biggest banks. As a result of consolidation, the number of banks decreased by 36% between 1995 and 2012 (Table 1).

As Croatia had a two-tier banking system already before gaining independence, it was adaptation to market conditions and international standards that played the prime role in the initial period of transition and restructuring. The 26 banks having operated in Croatia in 1990 became gradually privatised. As compensation for the deposits “trapped” in Belgrade, the Croatian state issued bonds, then consolidated the banks in two steps (first with a sum equal to 23%, then to 6%, of the GDP), which

Table 1. The number of banks in Croatia and Slovenia

Year	Croatia	Slovenia
1995	54	39
2000	43	28
2005	37	25
2010	33	25
2012	32	25

Source: Compiled by the author on the basis of data from the central banks (1996–2012).

was followed by bank privatisation. As a result of the bank consolidations and fusions, the number of banks decreased by 41% by 2012 compared to 1995 (see Table 1).

The Slovenian bank reform was characterised by the strengthening of local banks, and it was only after this that foreign investors were cautiously allowed to enter the banking market. The ratio of banks in foreign ownership was only 12% in 2000, then it started to grow, but it has remained far below the average of this area. According to recent data, the ratio of foreign banks is the smallest in Slovenia (39%), compared not only to the Balkan, but also to the whole of Central and Eastern Europe (Banka Slovenije 2012). Almost three quarters of the Slovenian banking market belong to Slovenian private or state owned banks (the ratio owned by the state was 22.7% in 2011). Croatia followed a different path. The first foreign owned bank in Croatia was the Raiffeisen Zentralbank which opened its branches in 1995, then came the German and Italian banks from 1998, when bank privatisation started. In 2000 out of the 43 banks 20 were in foreign majority ownership and only three remained state owned. Between 1996 and 2012 the ratio of foreign banks in banking assets grew from 1% to 90.6% (Table 2) (Hrvatska Narodna Banka 2013).

Table 2. Ownership structure in the Croatian and Slovenian banking systems (%)

Year	Croatia			Slovenia		
	state ownership	other domestic ownership	foreign ownership	state ownership	other domestic ownership	foreign ownership
2000	5.7	10.2	84.1	36.8	51.2	12.0
2005	3.4	5.3	91.3	18.2	46.9	34.9
2010	4.3	5.4	90.3	20.1	42.9	37.1
2011	4.5	4.8	90.7	22.7	38.3	39.0

Source: Compiled by the author on the basis of data from the central banks (2001–2012).

The Structure of Banking Services in the South Pannonian Region

From a historical point of view, the first credit unions already existed in the territory of Banat at the time of the Austro–Hungarian Monarchy (1867–1918). At that time here was the highest network density of local financial institutions based on the co-operative principle. However, in the early 1900s there were very few commercial banks in this area, namely, there was only one branch, in the town of Eszék (now Osijek), of the remarkable Hungarian Commercial Bank of Pest (Gál 2010b).

As already mentioned, following the transition in this area, banks had strong dominance within the financial sector over the other financial services (stock exchange, institutional investors).

As regards the assets of the banking sector, they are equal to 86% of the GDP calculated at purchasing power parity in Croatia, while it is 137% in Slovenia. The former value supports our statement, whereas that of Slovenia is approaching the western ones (200–300%).

The territorial structure of the banking systems in these two countries is centralised in terms of assets, but in respect of branches and headquarters there are also some elements of decentralisation. This is more characteristic of Croatia due to its geographical location. Out of the 32 banks in South Pannonia 22 have their headquarters on Croatian territory, while only 4 of the 22 banks in Slovenia have their headquarters on Slovenian territory, namely in Maribor (Podravska). Furthermore, out of the 10 biggest banks 9 are registered on the Croatian side and 1 on the Slovenian side of the South Pannonian region. The much higher Croatian numbers are due to territorial characteristics. As we have already mentioned, the Croatian side of the examined territory includes the capital city and its surroundings (altogether 12 counties), whereas the Slovenian one consists of two peripheral counties (Kovács 2013).

It is also a distorting factor that while 55% of the Croatian branch network can be found on South Pannonian territory, only less than 21% of all of the Slovenian branches are located here (Table 3). It is worth examining the data in Table 3 in detail. Following the European consolidation trends, the number of banks in Croatia started to decrease after the turn of the millennium, then there was a slow increase in the network of branches until 2009, which was followed by another decrease (Gál 2010a). Finally, there were 1266 branches in Croatia in 2011. The latter decline was the result of the crisis, during which the number of branches was reduced by 2.4% on a national scale compared to 2009, while in respect of South Pannonia this figure was 0.6%. The reason for this more favourable South Pannonian datum is that the liquidation and relocation of branches affected the central counties much less than the coastal and the remote ones. Moreover, in the County of Zagreb the network even grew by 13 new branches. There was a reverse trend in the number of ATMs

Table 3. Territorial distribution of bank branches and ATMs in South Pannonia

Counties/Regions/Countries	Number of bank branches, pcs	Ratio of bank branches in the whole country, %	Number of ATMs, pcs	Ratio of ATMs in the whole country, %
Zagreb city and county	301	23.8	1,136	28.6
Krapina-Zagorje	30	2.4	93	2.3
Varaždin	44	3.5	133	3.3
Koprivnica-Križevci	33	2.6	69	1.7
Medimurje	27	2.1	82	2.1
Sisak-Moslavina	37	2.9	111	2.8
Bjelovar-Bilogora	27	2.1	72	1.8
Vitrovitica-Podravina	27	2.1	41	1.0
Požega-Slavonia	25	2.0	50	1.3
Slavonski Brod-Posavina	30	2.4	71	1.8
Osijek-Baranja	85	6.7	200	5.0
Vukovar-Srijem	30	2.4	107	2.7
Croatian South Pannonia	696	55.0	2165	54.5
Croatia	1,266	–	3975	–
Podravina	95	14.1	281	15.2
Pomurska	41	6.1	104	5.6
Slovenian South Pannonia	136	20.2	385	20.9
Slovenia	675	–	1,845	–

Source: Compiled by the author on the basis of 2012 data from Hrvatska Narodna Banka and Banka Slovenija.

in recent years. The constant rise continued after 2009 and until the end of the first half of 2012 450 new machines started to operate in the country, which means 12.5% increase, and more than half of them were put into operation in 12 counties under study (Hrvatska Narodna Banka 2012).

As regards the network density of branches, the situation is clearly more favourable in the more urbanised counties. 23.8% of the branches are concentrated in Zagreb County, while the coastal areas rank second. Osijek-Baranja might also be mentioned with its 6.7%. The effects of the crisis can naturally be found in the county data as well. After 2008 new branches were opened in only three Croatian counties (Zagreb, Osijek-Baranja, Medimurje), which altered the above ratio a little. It was a positive development that there was no big wave of closing branches in this region, only four of them finished operation in the first half of 2009, 1-1 in Krapina-Zagorje and Varaždin and 2 in Vukovar-Srijem counties. Overall, in longer term, there was a decrease in the number of branches until 2012, which is partly due to the bankruptcy of Obrtnička Banka d.d. As a result of all these changes between 2009

and 2012, there was a significant rise in the number of branches in Zagreb County, Vukovar-Srijem County got two more, while the rest of the South Pannonian counties suffered losses to various degrees (Hrvatska Narodna Banka 2001; 2012).

The largest number of ATMs can also be found in the capital city and in Zagreb County, albeit their 33.7% share at the turn of the millennium was decreasing till 2003; since then they have kept their 28–29% share. They are followed in rank by Osijek-Baranja County where its 3% share in 2000 grew to 5% by the end of 2012 (Hrvatska Narodna Banka 2001; 2012).

As regards the two examined Slovenian counties, they possess 20.1% of the branches and 20.9% of the ATMs in Slovenia. Here, too, the larger settlements (especially Maribor) are overrepresented. There are only two settlements without a bank. Beside Maribor, Murska Sobota and Pluj have more than ten branches, while at the other settlements of the Mura and Drava Regions one or two branches or offices can be found. The presence of the headquarters of four big banks, namely, Nova Kreditna Banka Maribor, Postna Banka, Probanka and Raiffeisen Banka also contributes to the “overweight” of Maribor. Nova Kreditna Banka Maribor is the second largest bank in Slovenia.

The two studied counties are similar with regard to their networks of both branches and ATMs. At the same time, while Podravska region is above the national average, Pomurska region is below it in both respects. In the longer run, the 95 branches and 281 ATMs in 2012 in Drava district are the result of continual growth: the number of branches started to grow from 76 in 1997, then following the 2008 decline it grew again. Developments in Mura district were similar: the 36 branches in 1997 grew to 46 by 2007, then there was a decline to 40 as a consequence of the crisis, to become 41 in 2012 (Banka Slovenija 2012).

In addition to the composition of the networks of branches, their accessibility is also important. It is a generally accepted view that services should be concentrated and so they cannot be accessed at every settlement. This greatly contributes to the inter-settlement relations in societies of our time (Beluszky–Gyóri 2004). It might be suitable to study the network density of the territorial units in question in the case of branch networks (Table 4).

First let us compare the data at country level. Both the Croatian (3385) and the Slovenian (3045) values are similar to the Hungarian (3220) one, however, all of them are lagging behind the West European data (Austria 850, Switzerland 1200, Germany 1600) (Kovács 2011). The high values indicate that branch networks should be developed in both countries. This holds true even if one can recently witness shrinking networks everywhere as a consequence of the crisis.

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Table 4. Density of bank branches and ATMs in South Pannonia

	Branch network density (population per branch)	ATM density (population per ATM)
Zagreb city and county	1,055	280
Krapina-Zagorje	4,430	1,429
Varaždin	3,999	1,323
Koprivnica-Križevci	3,503	1,675
Medimurje	4,215	1,388
Sisak-Moslavina	4,661	1,554
Bjelovar-Bilogora	4,436	1,663
Vitrovitica-Podravina	3,142	2,069
Požega-Slavonia	3,121	1,561
Slavonski Brod-Posavina	5,286	2,233
Osijek-Baranja	3,589	1,525
Vukovar-Srijem	5,984	1,678
Croatian South Pannonia	2,808	903
Croatia	3,385	1,078
Podravina	3,404	1,151
Pomurska	2,916	1,150
Slovenian South Pannonia	3,257	1,150
Slovenia	3,045	1,114

Source: Compiled by the author on the basis of 2012 data from Hrvatska Narodna Banka and Banka Slovenija.

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In Slovenia the average value of the two studied counties is similar to the national average in respect of branch density. The higher value of Drava district which has more branches, compared to that of Mura district, is due to its about three times as high population with twice as big network of branches. The network density value in Slovenian South Pannonia is higher than the national average.

As regards ATM density, the two countries have similar national values. At county level, the degree of difference in the case of Zagreb and its environs is salient (280), while the deviation among the other Croatian counties is only one third of

that in the case of branch network. The two counties are similar in respect of ATM density and are close to the national average (Kovács 2013).

In addition to analysing the branch network, it is also worth studying the ratio of employment in the examined territorial units within the financial services sector (Figure 1). Some trends are discernible in the Figure. On the Croatian side employment level is lower in the counties surrounding the capital city of Zagreb, which is presumably due to the high number of people commuting to the capital. We can find medium level employment in the Croatian counties near the Hungarian border because of the significant towns there (Osijek, Vukovar, Čakovec) (Kovács 2014). On the Slovenian side employment in these two regions is affected both by the number of branches in Drava district, which is greater than in Mura district, and also by the fact that four commercial banks have their headquarters in Maribor.

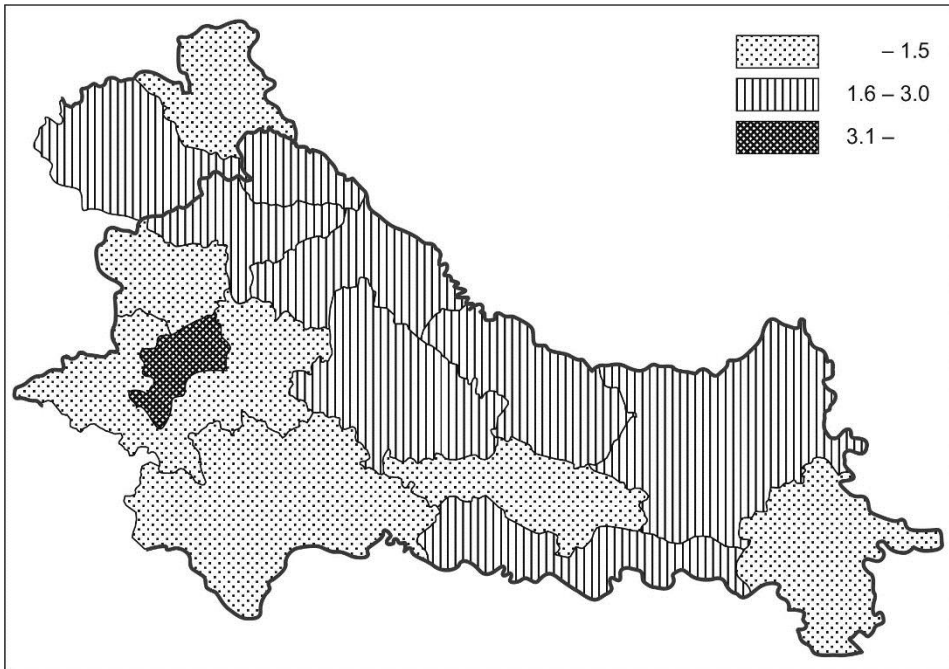


Figure 1. Employment in financial services in the examined regions in 2011 (%)

Source: Based on the author's own calculations.

Some Features of the Insurance Sector in South Pannonia

In Croatia the insurance sector is even more concentrated than the banking system. All of the insurance companies active in Croatia have their headquarters in Zagreb. It goes without saying that the branch network is extensive here too, the 38 insurance (17 life, 20 “other”, and 1 reinsurance) companies have a network of 218 branches. The insurance market is much smaller than the banking one, the assets of the life insurance segment, for example, were 155.5 million, those of the “other” segment 496.5 million euros in the first half of 2012 (HANFA 2012a).

On the Slovenian part of South Pannonia we can find the headquarters of two universal insurance companies, both of them in Maribor. From among the 21 companies in Slovenia, Zavarovalnica Maribor d.d. ranked third in life insurance and fourth in other than life insurances, while GRAWE Insurance ranked seventh and ninth, respectively, in 2012. Market concentration is high, the share of the five biggest insurance companies is 76.75%, and the biggest Zavarovalnica Maribor has 12.84% (Agencija za zavarovalni nadzor 2012).

Summary

There is sharp contrast in South Pannonia between its two territories belonging to Croatia and Slovenia, respectively, as regards their financial markets. The big differences can be discerned in the extension of the banking network, the location of the bank headquarters, and in network density. The central counties in Croatia have higher indicator values, that is, they are in a better position, than the two examined Slovenian areas.

The contrast is similar in their centralised insurance markets, as all the headquarters of the insurance companies in Croatia can be found in South Pannonia, while in Slovenia only two insurance headquarters are located in South Pannonian territory.

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