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*(Spatial) Changes in Central and Eastern European Financial Sectors  
after Crisis<sup>2</sup>*

The main goal of the first half of this paper the examination of the formulation of the new financial systems after the transition processes (1990's) in the Central and Eastern European countries and in the second half I introduce the main (geographically) changes in these models before (–2008) and after the global crisis (2008–2013).

The early years of 1990's are the years of political and economic transition in the Central and Eastern European countries. These states have become market economies and the modern economies required a new structure of financial and banking systems, so the following trends observed in these years:

- (1) initiation of the two-tier banking system separated the functions of central bank and commercial bank;
- (2) elimination of sectoral and operational restrictions;
- (3) enable of private bank's foundation;
- (4) enable of operation of foreign-owned and joint-owned banks;
- (5) liberalisation of bank foundation; (6) establish of the supervisory agencies.

These were the common fundament of the evolution of the CEE countries' financial systems and created a “crossroads” from where many directions were possible.

Concerning the territorial dimension, it can be declared that similarly to the public administration and governance structure of a specific country, the structure of the banking network may also be either centralised or decentralised, and generally the two systems resemble each other in this respect.

The geographical aspects of financial systems of these countries change in various ways after the systemic change. Some different cases are the following: in Poland, formed a much decentralized bank model with some strong regional centres and non-capital bank headquarters and in Hungarian and Czech bank sector became monocentric. In these models the regional directorates dispose merely of informal roles. The middle ground may be Slovakia and Romania. Their banking systems does contain a few smaller monetary institutions which did not develop their managing bases in the capital city, yet these can hardly be called significant, they are centred generally on one specific sector or branch.

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Very interesting question is the foreign bank's position in these countries, because the one reason of the crisis was the foreign exposure in the CEECs. In the ten years to 2008, big western banks took strong positions in CEE countries. Their presence brought to the region the much needed expertise, modern business practices and fresh capital. Western banks helped improve access to credit, introduced very important banking products that were largely absent in these economies until early 2000, like mortgages. They also brought along state-of-the-art risk management practices, good marketing and a customer-oriented service culture. The statistical data illustrates the overwhelming presence of foreign banks in CEE countries, where they manage between 65 and nearly 100 per cent of bank assets. Turkey is the outlier in this group having only 15 per cent of its bank assets owned by foreign banks.

These models lived in the CEE countries before the global financial crisis in 2008. What does it change after this year? The first (geographically relevant) step was the branch closures. Some international bank groups (Raiffeisen, Intesa Sanpaolo, AXA, etc.) downgrading its branch network in these countries (e.g. the number of branches decreased 119 in 2012). This is a great problem, because in structural-political terms, the development of potential on the ground is the very area where local banks and the regional availability of credit play a key role. A lack of regional financial intermediaries can lead to a shortage of credit: banks in the centres do not have enough information on potential borrowers in the periphery, or assume that loan transactions in the periphery are smaller and the sums involved therefore unprofitable. As this hinders companies' development, these regions are thus in turn an unattractive business prospect for the banks. The countries should be therefore a local and regional bank. The empirical evidence shows the continued importance of local credit institutions and credit markets for small borrowers and local economic development. The second step was the bank failure, but the only big bank failure was the domestically owned Parex Bank in Latvia, which possessed 15 per cent of the country's bank assets in 2007.

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