

2. STRUCTURE OF THE BANKING SYSTEM OF THE REPUBLIC OF MACEDONIA

2.1. Structure of the Banking System

At the end of 2000, the banking system of the Republic of Macedonia was consisted of 22 commercial banks and 19 savings houses; 17 banks of which had the so-called license for payment operations and international credit and guarantee activities abroad, while 5 banks were licensed to perform only banking activities in the country.

Compared to December 31, 1999, the number of banks dominating the banking system of the Republic of Macedonia decreased, due to the revocation of the operating license of ‘Almako banka’ a.d. Skopje (February 24, 2000), followed by introduction of a bankruptcy proceeding.

As far as the second segment of the banking system – savings houses is concerned, in 2000 their number increased, due to the establishing of 2 new savings houses:

- Savings house ‘Zegin Viktorija i drugi’ d.o.o. Skopje
- Savings house ‘Možnosti’ d.o.o. Skopje

as well as founding of savings house ‘Al Kosa’ a.d. Stip, licensed by the National Bank of the Republic of Macedonia on November 9, 1999.

The analysis of the structural relations between the two basic segments of the banking system in 2000 confirms the structural precedence of the banks in the banking system of the Republic of Macedonia. This is due to the restricted scope of operations of the savings houses, which according to the regulatory framework, primarily operate with households. The role of the savings houses in the system can be analyzed from several aspects. Their share in total assets of the banking system equaled 1.4%, which is by 0.4 percentage points higher compared to 31.12.1999. The share of the mobilization of households’ available funds, as one of their basic functions, equaled 2.8%. If only Denar savings deposits are taken into account, the share of the savings houses equals 6.4%, which is an increase of 0.7 percentage points compared to the same period of the previous year.

The basic structural characteristics of the banking system of the Republic of Macedonia are analyzed from several aspects:

1. Size of the banking institutions;
2. Ownership structure;
3. Regional structure.

2.1.1. Size of the banking institutions

From the aspect of their size, the banking institutions are analyzed according to three criteria:

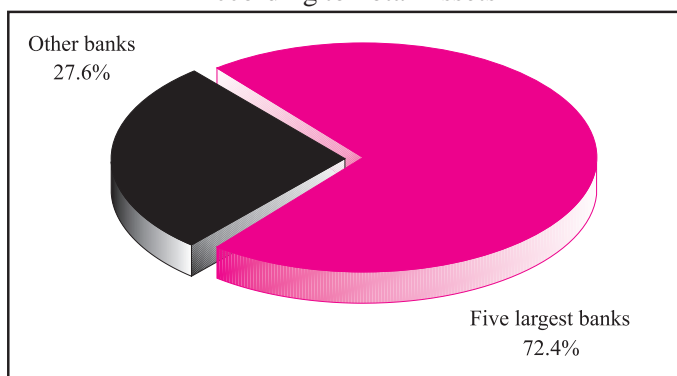
- a. Total assets i.e. total financial potential;

- b. Scope of operations or market share;
- c. Capital power i.e. total amount of available own funds of the banking institutions.

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Chart 1

Concentration of the Banking System
According to Total Assets



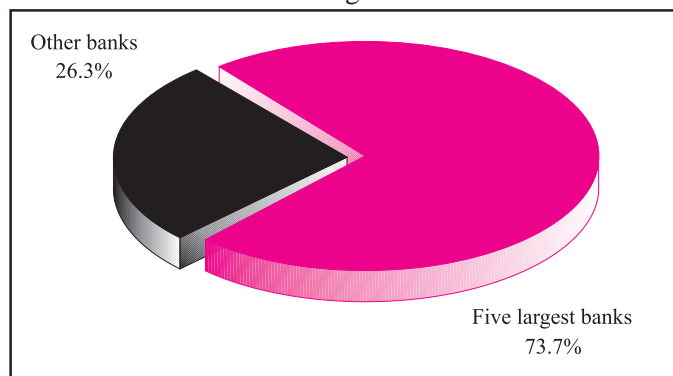
a. The analysis of the structure of the banking system of the Republic of Macedonia from aspect of the assets size of the banking institutions confirms the conclusions from the previous period that the assets is concentrated in several banks. The five largest banks in the banking system of the Republic of Macedonia account for 72.4% of the total net assets, which is an increase of 1 percentage point compared to December 31, 1999.

The three largest banks cover 64.0% of the total assets of the banks, which is by 2 percentage points more compared to December 31, 1999, while the largest bank in the banking sector of the Republic of Macedonia covers 35.8% of the total assets of the banks in the country.

- b. If the banks' balance and off-balance sheet activities are taken as a criterion for their size, the precedence of the five largest banks in the banking market of the Republic of Macedonia is again confirmed. As of December 31, 2000, according to this criterion, the structural share of these five banks in the banking system of the Republic of Macedonia equals 73.7%.

Chart 2

Concentration of the Banking System
According to Market Share



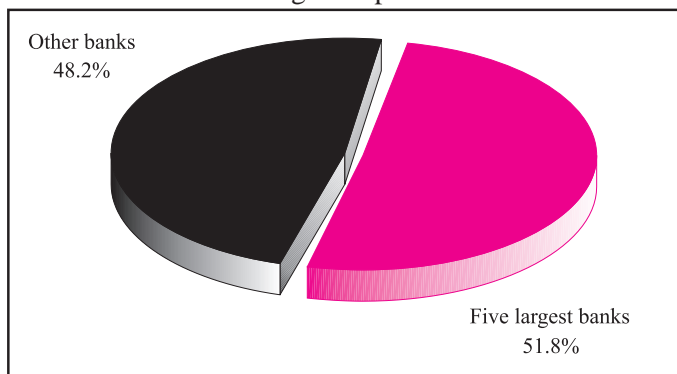
If the three largest banks are taken into account in the analysis, their structural share equals 65.8%. As of December 31, 2000, the first largest bank accounts for 37.2% of the total scope of operations of the Macedonian banks.

The share of the off-balance sheet activities equals 14.6% of the total scope of the banking operations. In 2000, the five largest banks in the banking sector of the Republic of

Macedonia covered 81.4% of the total off-balance sheet activities, with the largest bank covering 45.7%.

Chart 3

Concentration of the Banking System
According to Capital Power



c. At the end of 2000, the five largest banks of the Republic of Macedonia operated with 51.8% of the total capital of the banks. Compared to the end of 1999, the structural share of the five largest banks registered an increase of 2,9 percentage points, which is an increment of 9 percentage points compared to 30.06.2000. This is primarily due to the new capital injection by strategic investors in two out of five largest banks in the second half of 2000.

2.1.2. Ownership Structure

The ownership structure of the banks in the Republic of Macedonia can be analyzed from two aspects:

- a. The level of privatization of the banks
- b. The share of foreign capital

a. The on-going process of privatization of the banks in the Republic of Macedonia, as a component of the reforms of the banking sector, continued in 2000. The level of privatization of the banks in the Republic of Macedonia at the end of December 2000 equaled 83,5%, which is an increase of 6,7 percentage points compared to 31.12.1999. If “Macedonian Bank for Development Promotion”, as a 100% state-owned bank, is excluded from the analysis, the level of privatization of the remaining banking capital in the Republic of Macedonia equals 87.8%, or 5.5 percentage points more compared to 31.12.1999. The bank-by-bank analysis indicates that the level of privatization ranges from 61.5% to 100% in six banks.

b. Considerable foreign capital investments in the banks in the Republic of Macedonia were registered in 2000, which resulted in increase of the share of foreign capital in the total capital of the banks from 19.3% (as of December 31, 1999) to 40.8% at the end of December 2000. The bank-by-bank analysis indicates that foreign capital has been invested in 16 banks, ranging from 0.3% to 100%.

The amount of total foreign capital investments in 2000 amounts to DEM 216.7 million, DEM 119.4 million of which intended for purchase of shares of current bank shareholders, while DEM 97.3 million are investments for further capitalization of banks. The most important investments are the following:

- Stopanska banka a.d. Skopje
 Investors: National Bank of Greece, EBRD and IFC
 Total investments: DEM 133 million, DEM 50 million of which aimed at further capitalization of the bank.

- Kreditna banka a.d. Skopje
 Investor: Alpha Credit Bank - Athens
 Total investments: DEM 24.3 million, DEM 8.1 million of which aimed at further capitalization of the bank.

- Tutunska banka a.d. Skopje
 Investors: Nova Ljubljanska Banka and LHB Frankfurt
 Total investments: DEM 21.3 million, DEM 15 million of which aimed at further capitalization of the bank.

- Izvozna i Kreditna banka a.d. Skopje
 Investor: EBRD
 Total investments: DEM 6 million, aimed at further capitalization of the bank.

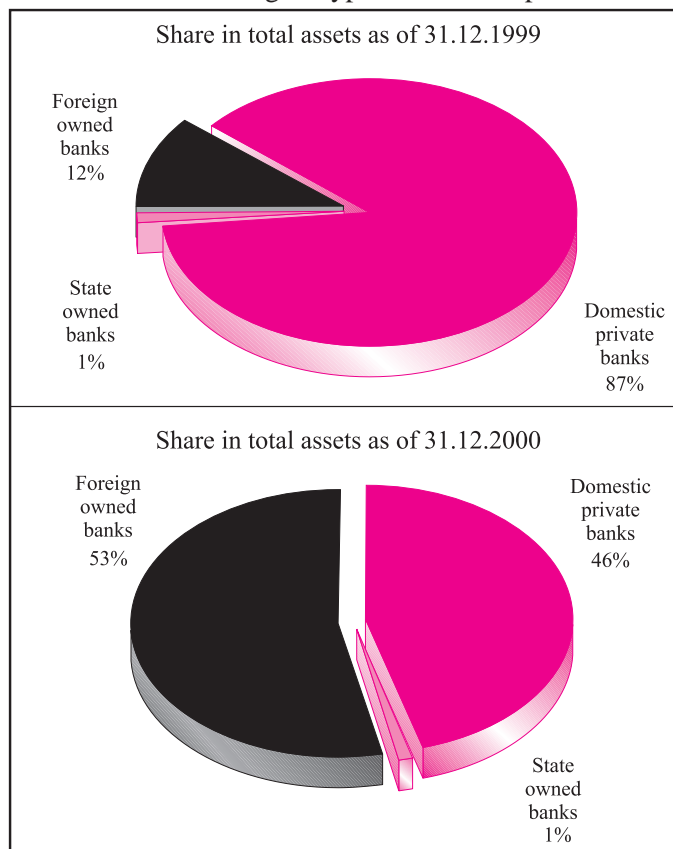
The significant capital investments in the Republic of Macedonia in 2000, induced changes in the structural relations between the banks owned by domestic private shareholders and that owned by foreign shareholders.

Chart 4

At the end of 2000, the number of banks owned by domestic private shareholders equaled 14, which compared to the end of the previous year is a decrease of 3 banks. As of 31.12.2000, the share of these banks in total assets of the Macedonian banks equaled 45.5%, compared to 31.12.1999 when it equaled 87.2%. On the other hand, at the end of 2000, their share in the total capital of the banking system of the Republic of Macedonia equaled 50.1%, compared to the end of 1999, when it equaled 83.3%.

On the other hand, the number of banks owned by foreign shareholders equaled 7 at the end of 2000 and compared to the end of 1999, it increased by 2 banks. As of

Structure of the Banking System According to Type of Ownership



31.12.2000, the share of these banks in total assets of the Macedonian banks equaled 53.4%, which is an increase of 41.9 percentage points compared to the same period of the previous year. The capital analysis indicates that their share in the total capital of the Macedonian banks equaled 45.0% as of December 31, 2000, which is by 34.3 percentage points more compared to December 31, 1999.

Table 2

Structure of the Banking System According to Type of Ownership

Type of ownership	Number of banks		Share in total capital (%)		Share in total assets (%)	
	31.12.1999	31.12.2000	31.12.1999	31.12.2000	31.12.1999	31.12.2000
Domestic private banks	17	14	83.3	50.1	87.2	45.5
State owned banks	1	1	6.0	4.9	1.3	1.1
Foreign owned banks	5	7	10.7	45.0	11.5	53.4
Total	23	22	100.0	100.0	100.0	100.0

Note: Foreign owned banks are considered banks with foreign capital exceeding 50% of their capital structure.

2.1.3. Regional Structure

The analysis of the regional aspects of the banking system structure of the Republic of Macedonia confirms its asymmetry and concentration of supply of financial services in the capital of the Republic of Macedonia. Out of the total number of the banking institutions in the Republic of Macedonia, only 6 banks and 5 savings houses are located outside the capital city, out of which, 3 banks are licensed to perform payment and credit operations abroad. The share of these eleven institutions in the total assets of the banking system of the Republic of Macedonia equals 11.6% and compared to the end of 1999, it remained unchanged.

The existing regional structure is to a certain extent mitigated with the relatively wide network of branches, sub-branches, windows, business units and representative offices. Thus, at the end of the 2000, the banks in the Republic of Macedonia had 20 branches, 89 sub-branches, 96 windows, 8 business units and 4 representative offices. The windows of Macedonian Post Offices (about 600 on the whole territory of the Republic of Macedonia) used by the Postal Savings House, should also be taken into consideration.