

# The Socialist Banking System in Albania and in Yugoslavia: Two Extremes within the European Socialist Bloc

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## Abstract

The paper compares two different banking systems – and their political background – within the former European socialist sphere; namely the banking system of Albania and Yugoslavia. Based on the relevant literature, the paper provides a comparative overview of the two financial sectors, showing that two completely different systems emerged within the socialist bloc. According to the analysis, although the development of the two countries diverged, the banking sector legacy of both countries could be considered similar by the end of the socialist time period, meaning that basically the same challenges had to be addressed during the transition process. This also underpins the concept that generally only fundamental changes could lead to sustainable economic systems. Furthermore, we highlight that the development of the successor states' banking sector followed a similar path during the transition period, whereas the Slovenian system became an outlier to a certain extent.

Keywords: banking sector, economic history, socialism, Albania, Yugoslavia

## INTRODUCTION

The paper compares the Albanian and the Yugoslav<sup>[1]</sup> banking system during the socialist<sup>[2]</sup> era. From a European perspective, it is important to understand the past and heritages of these countries, as in recent years all of the successor states became member or (potential) candidate countries of the European Union (EU). Thus, the region's economic and political development became relevant not only for the EU itself, but also for various international organisations that are active in the respective countries.

[1] Within this paper, we use the short term of 'Yugoslavia'. Nevertheless, it is worth mentioning that following the Second World War, the country was named Federative People's Republic of Yugoslavia. At a later stage, the country was renamed the Socialist Federative Republic of Yugoslavia. Furthermore, occasionally the English translations differ.

[2] The relevant literature uses both the phrase of 'socialism' and 'communism'. Henceforward we use the former, as a full-fledged communist system was not achieved in the reviewed countries.

This paper focuses on the development of the two countries' financial sector, which is considered as a key sector in a full-fledged market economy. Levine (1997) summarises its importance by elaborating on how the financial sector mitigates the negative effects of market frictions, as it enhances the efficiency of resource allocation via fulfilling five core functions. These are the following: the improvement of risk management, the allocation of resources, the exertion of corporate control and monitoring managers, the mobilisation of savings and the facilitation of the exchange of goods and services. These functions support the relocation of savings, which enhances capital accumulation. They can also spur technological innovation by fostering efficiency. Levine concludes that through these channels the financial system is able to contribute to economic growth. This mechanism highlights the importance of the financial system, which has been/is dominated by the banking sector in the reviewed countries.

Both Albania and Yugoslavia were part of the so-called socialist bloc, but became the representatives of two extreme prototypes among the applied socialist models. The two countries started to implement the classical socialist development model after the Second World War. At a later phase, the two countries' development path diverged, both in terms of the institutional structure and the international orientation. In case of Albania, the country remained loyal to the classical socialist model and turned down fundamental reforms until the transition period. Regarding its international relations, it completely isolated itself from the world from the late 1970s to achieve the so-called 'self-reliance' (Vaughan-Whitehead, 1999). Yugoslavia followed an opposite path within the socialist sphere. It gradually developed its own unique model, which became neither classical socialist nor market economic. It established the system of workers' self-management, where the ownership of assets was shifted from the state to the collectivity of citizens. The assets were supposed to be managed by the employees on their behalf (Bartlett, 1997). Yugoslavia also broke away from the Soviet sphere, but has built good relations with the 'West' as a non-aligned country. As a result, the overall development paths of the two countries diverged as they gradually became two extreme prototypes within the socialist bloc.

We review the time period between the Second World War and the fall of the socialist regimes, but we also provide implications for the transition period. Based on the analysis, the paper aims to answer the following question: How did the socialist economic policies diverging development paths reshape the two respective banking sectors? The primary goal of the paper is to prove that despite the two different development paths of Albania and Yugoslavia, the banking systems had to address similar challenges during the transition period. In connection with this fact, the secondary aim is to highlight that similar financial structures have been created during the transition period. As a third objective – based on the findings – we intend to reflect on the relevance of path dependence theory. In order to fulfil these goals, we provide an insight into the major historical developments of the two banking sectors, while highlighting the most relevant factors for the specified

time period. We would like to stress that this research has been prepared from the commercial banking sector's aspect, thus we merely touch upon the relevant monetary policy where necessary<sup>[3]</sup>.

The paper would like to add to the scarce literature on the socialist banking system of Albania and Yugoslavia by a comparative analysis and its implications. This work can also provide a starting point for further analyses. Furthermore, providing this historical overview can help financial experts to understand the institutional system in the region.

The paper is organised as follows. The next chapter presents the applied methodology. This is followed by an overview of the general economic policy background, in order to understand the two socialist banking systems' environment. Then we continue with the comparison of the main characteristics of the two respective banking sectors. In a further chapter we touch upon ownership-related common features following the fall of the socialist regimes. The final chapter concludes.

## 1. APPLIED METHODOLOGY

This study focuses on certain characteristics of the financial sector. Within the financial sector, we only deal with the banking sector, or more specifically, primarily with the commercial banking segment. The reason behind this is the fact that Albania and the successor states of Yugoslavia had / have bank-based financial systems. This means that other segments of the financial sector – for instance the insurance companies or the stock market – have merely a minor role.

Regarding the time frame, this paper analyses the banking sector of Albania and Yugoslavia during the socialist time period. We primarily focus on the sector from the 1970s until the fall of the socialist regimes. This was the period when Yugoslavia already implemented various reform waves, so both countries had their 'mature' socialist systems. Nevertheless, we also refer to the period between the Second World War and the 1970s in order to reflect the relevant development process<sup>[4]</sup>. Furthermore, this paper provides a brief overview on certain characteristics following the fall of the socialist regimes, in order to seek common institutional traits for path dependency.

The two countries' socialist banking systems are compared with the help of the relevant literature. This determines the categories in which the two sectors are compared. The analysis incorporates a qualitative overview, due to the role

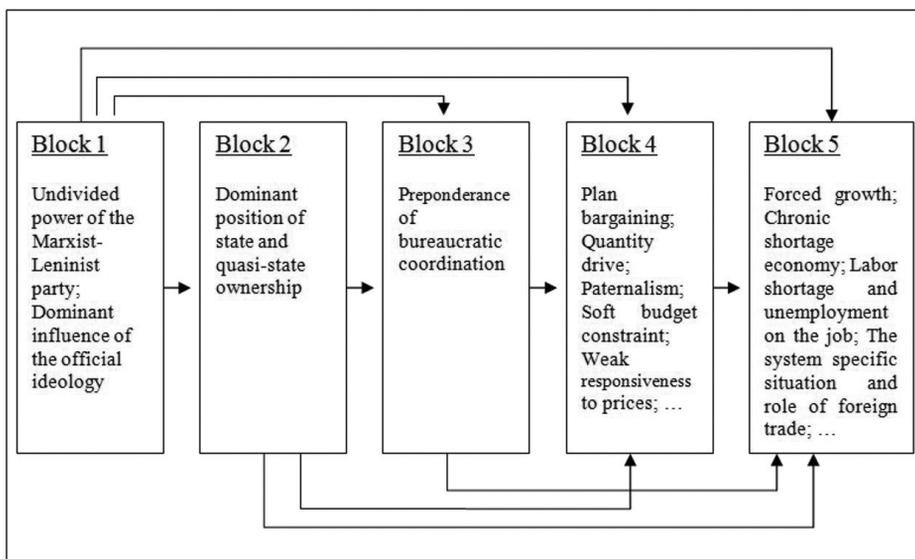
[3] It is noteworthy that detailed analysis on the respective countries' monetary policy is particularly scarce.

[4] Although we do not touch upon the countries' pre-Second World War history, it is worth mentioning that Roland (2010), for instance, claims that the institutional system's evolution might be affected by the region's long run history prior to the socialist experience. Indeed, informal institutions might be influenced by the pre-socialist history, but this goes beyond the scope of our analysis.

of the banking sector and the nature of the results. The most important common and differentiating features are summarised by comparative tables. The comparison helps to understand the socialist legacy.

In order to understand the banking sectors' socialist development, we also overview the main characteristics of the broader institutional background. To provide a theoretical framework for this qualitative comparison, we use Kornai's (1992) main line of causality (Figure 1).

Figure 1 The Main Line of Causality



Source: Kornai, 1992, 361

Kornai classifies the most important political, economic, ideological and social phenomena of the system into five main blocks. These blocks depend on the interactions and layers of their effects. As an outcome, a coherent structure is built up, which explains the systemic mechanisms with its dominant features. The arrows among the blocks reflect the dominant line of causal connections. They show how each of the phenomenon groups are affected by all of the deeper factors. When using the phrase of systemic fundamentals, we refer to the basic building blocks, namely the one-party system, the ownership structure and the coordination mechanism.

As for the period following the fall of the socialist regimes, we merely touch upon respective characteristics in order to see if there are traits of path dependency. The aftermath or heritage of the socialist regimes is demonstrated partly by quantitative indicators. These data are primarily compiled from the reports published by the EBRD, the ECB and the respective central banks. For this period, the banking sector is analysed via the formal institutional system, omitting informal factors. Among the many key indicators of the banking system, we highlight

the ownership structure by the ratio of state and foreign-ownership. We reflect these data until the second quarter of 2018 (2018 Q2), as we can download reports using similar methodology until this date. We believe that these indicators can function as signs for path dependency, while they also signal common potential challenges. Furthermore, the ownership structure itself is represented by the second core block in Kornai's causality line.

During our primary analyses we deal with two countries; Albania and Yugoslavia. Nevertheless, when referring to the post-socialist era, the number of the over-viewed countries increases to eight, due to the gradual dissolution of Yugoslavia. This implies that when reflecting current developments, we touch upon certain features in the following countries: Albania, Bosnia and Herzegovina, Croatia, Kosovo<sup>[5]</sup>, Montenegro, North Macedonia, Serbia and Slovenia.

During our analysis we refer to the term of 'development path' or 'diverging path' of Albania and Yugoslavia. As a result, during our conclusions we would like to reflect on the potential implication of path dependence theory. There are various scientific fields where the theory is being applied, including different interpretations. For instance, Bednar and Page (2018) relate path dependence to institutional sequencing and culture. Martin and Sunley (2006) provide a detailed literature overview on the theory and its implications. In the current case, we imply the theory for economic policy stressing that a country's or a region's economic development is a consequence of irreversible historical events. To put it another way, the former institutional development influences or even determines an economy's future development based on its institutional heritages. The above described analysis helps to decide if the path dependence theory is applicable for the banking sectors' development in the reviewed countries.

All in all, this paper is an empirical work and it uses comparative analysis as a primary tool. The comparison is carried out mainly via qualitative analyses, but quantitative features are also included. The study is multidisciplinary, as it includes elements from finance, economic policy, transition economics or politics. This serves to understand the broader environment of the banking sector.

## **2. THE ECONOMIC POLICY BACKGROUND**

This chapter provides information on the general political and economic background in Albania and Yugoslavia. It is important to overview the landscapes and the mechanisms in order to understand the banking sectors' operations. As a framework for this chapter, we follow the blocks of Kornai's causality line.

Starting with the first and core block, we touch upon the one-party system. Following years of power struggles and the elimination of the opposition, both

[5] This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and with the ICJ Opinion on the Kosovo Declaration of Independence.

Albania and Yugoslavia had a one-party political system. Both countries were led by a characteristic leader almost throughout the complete socialist time period. Unlike Albania, Yugoslavia underwent a number of reform waves. These, however, did not alter this core element; namely the one-party system. Merely certain ideological adjustments were required (Gligorov, 1998).

Turning to the second block, or the ownership structure, underlying differences could be detected. In Albania by 1947 widespread collectivisation resulted in the elimination of private property. Following the Second World War, Yugoslavia also started the collectivisation process. However, this process remained incomplete as the country started its own development path at an early stage (Kornai, 1992). In the 1950s, the first reform wave took place and the above mentioned system of self-management altered the classical socialist concept of ownership. The system of self-management remained a core element of the economic system until the fall of socialism. It became a reinterpretation of public ownership, and was used as a tool to explain economic development by politicians and mainstream economists. It was considered as using a market economic element in a more efficient way, as it mobilised the collective entrepreneurship according to their interpretation. Furthermore, it was treated as a more just form, as it was seen as a kind of profit sharing method (Gligorov, 1998).

As for the third block, namely the coordination mechanism, a widespread bureaucratic apparatus has been built to run the central planning system in Albania. Firstly, nine-month plans were implemented from 1947. This was followed by the classical five-year plans from 1951 (Schnytzer, 1982). These were run by the classical socialist methodology. This also implies that prices and exchange rates were fixed. They were primarily used for accounting purposes, but had no allocative role. This method omitted market mechanisms or competition (Vaughan-Whitehead, 1999). Yugoslavia also started to apply the methodology of central planning before the caesura. However, in the system of self-management the units were supposed to be led by the results of negotiations and agreements between the unions and associations. This was supposed to generate tasks based on social responsibility and mutual willingness. However, central planning was not completely eliminated, but its practical relevance shrank. Economic agents had only a minor role regarding the indicative plans, whereas the 'socio-political communities' had to view the plans as mandatory. To be more specific, in various time periods planning had different functions (Kornai, 1992).

These features directly led to certain phenomena related to the connections between the actors. These are demonstrated by block 4. In case of Albania, the existence of a kind of vertical dependence on superiors was clear. The great difference in the case of Yugoslavia was the fact that managers also depended on their subordinates. This meant that a firm's workforce gained a stronger relation with its heads, due to the fact a manager's re-election depended on worker support. As a result, besides the classical vertical dependence, the management in Yugoslavia also depended on their workers, creating a certain kind of double depend-

ence. Nevertheless, the connection with the superior institutions enabled the actors to gain various advantages; for instance, subsidy in case of loss, access to foreign exchange or investment credit. This leads to the fact that the phenomenon of 'soft budget constraint' – or a loose financial policy – was present in Yugoslavia as well. Furthermore, the dependence on workers increased the possibility of unjustified wage and benefit growth, but also limited the enforcing power of the firms' superiors. More populist actions were needed under looser bureaucracy. However, this system created a stronger relation between managers and their workers, making a clear difference from the classical socialist model applied in Albania. A certain kind of similarity between the two systems could also be highlighted. In case of Yugoslavia, the property rights did not allow the workers to take their 'investments' with themselves if they moved to a new firm. As a result, they became unmotivated in the firm's long-term development. In both socialist systems, people were encouraged to stick to a short-term interest and maximise the consumption or income of today, rather than to make investments for the long-term (Kornai, 1992).

All of these mentioned characteristics directly led to the typical lasting phenomena from block 5. We will pick a few unique or differentiating features from the list. In case of Albania, economic self-reliance was supposed to avoid balance of payment deficit, while reaching the economic growth targets (Schnytzer, 1982). In reality, the country was not able to balance the strong import dependence with its narrow export base (Vaughan-Whitehead, 1999). This led to the fact that foreign aid substituted the domestic savings that were supposed to finance the investments for the industrialisation programs. As a consequence of these facts, when Albania chose international isolation, the economy's sustainability deteriorated, and the country was not able to accumulate resources for the required investments (Sjöberg-Wyzan, 1991). This indicates that the long-term goal of self-reliance was never achieved in practice (Schnytzer, 1982). On the other hand, Yugoslavia opened the economy for western credit lines and trade from the 1950s. Throughout the years of reform waves, the country liberalised its foreign trade step by step, thus it tried to integrate the economy to the world market. Trade contacts were re-established with the Soviet bloc, but the main partner remained Western Europe. Furthermore, it even took attempts for the full convertibility of the local currency. Despite these attempts, by the late 1970s large trade and current account deficits were recorded. This could not be offset by the growing amount of workers' remittances, thus by the late 1980s state intervention and reforms had been implemented (Schrenk et al., 1979).

Inflationary pressure was a phenomenon of the classical socialist model. But the respective countries – likewise Albania – applied administrative measures for prices and wages to curtail the pressure. However, in Yugoslavia these measures were less complete or even left certain room for market mechanisms. There was a changing composition of the list of administratively regulated prices. As mentioned, the managers of the firms had to cope with a kind of double dependence, while the workers were motivated to maximise the short-term interest. In the

case of the wage pressure meeting soft financial policy, a wage-price spiral starts to unfold. This was one important reason for the inflation rate spikes (Kornai, 1992).

Regarding employment, it was bolstered in the classical socialist model by the expansion drive. Thus in Albania, the country stuck to the policy of full employment, despite a rapidly growing population. This population growth led to a milder inflationary pressure from the wage side. But this also indicated that the priority rather focused on creating employment opportunities than developing the productivity (Sjöberg-Wyzan, 1991). On the other hand, in Yugoslavia company income was rather spent on the workers' current consumption. Efforts were made to finance investments through state subsidies or banking finance with negative interest rates. As a consequence, firms were motivated to maximise the income of the workforce; the income per worker. This implies that the companies supported capital-intensive investments with little extra workforce demand. Uniquely, this led to the co-existence of unemployment and inflation (Kornai, 1992).

As a general conclusion, one can highlight that partial reforms were not able to overcome the systemic shortcomings. These derived from the core blocks or the lack of well-functioning market mechanisms. All of these discussed characteristics and phenomenon help to understand the banking sectors' background. They also underpin the two financial systems' similarities and differences.

### **3. THE BANKING SECTOR IN THE ANALYSED COUNTRIES**

Following the general comparison of the two political and economic systems, we turn to the banking sector. The aim here is to highlight certain similarities or differences, which became relevant during the transition process of the successor countries. Bearing in mind this goal, the paper does not provide detailed analyses, but rather gives a broad overview for the purpose of comparison. The lessons are relevant not only for the financial system itself, but also for the broader political economy.

The general diverging development paths were also relevant for the banking system. The Albanian banking sector stuck to the classical socialist pattern. This implied that it had a one-tier banking system, meaning that the central and commercial banking sphere was not separated. A single bank - the State Bank of Albania - was in charge of the 'classical' activities of central banks, which included, for instance, the issuance of banknotes or the management of the country's reserves. Nevertheless, the State Bank of Albania was in charge of the 'classical' commercial banking tasks, as well as collecting deposits from households and firms or providing loans for the public sector and state-owned enterprises. This institution controlled the system of payments management and the management of international payments (Balliu, 2012). Despite the broad range of tasks, this state institution had limited room for its operations, as both the credit distribution and the monetary policy were directed by the central plans.

At a later phase, other banks were established by separating them from the central institution. These banks had dedicated purposes, as for instance, supplying rural funds or collecting savings. By the fall of the socialist regime – based on the structural segmentation – there were four state-owned banks covering different business fields; the State Bank of Albania, the Agricultural Bank, the Savings Bank and the Albanian Bank of Commerce<sup>[6]</sup>. In practice they merely followed the governance of the central plans and had an administrative role (Vaughan-Whitehead, 1999). When Albania launched its transition process, the banking sector was a compilation of these four, centrally directed banks.

Unlike Albania, Yugoslavia implemented a set of fundamental reform waves. As a result, the socialist banking pattern was completely reshaped by the 1970s, creating a unique prototype. Already in the 1950s, Yugoslavia established a two-tier banking system, which implied that central and commercial banks co-existed. The single central bank – the National Bank of Yugoslavia – was located in Belgrade. Based on the underlying reforms of the 1970s, a decentralisation of the monetary policy could be detected. As a result, the six republican and the two autonomous provincial central banks launched the process of gaining monetary sovereignty besides the state-level monetary authority (Singleton, 1976; Šević, 2002; Bonin et al., 2014). However, it is important to stress that the monetary policy itself was set on a federal level, whereas its implementation has been decentralised. The federal monetary policy was intended to support the real economy's agricultural and export sectors. Also this underpins the political motivations of the monetary policy, which could be detected in other socialist countries as well. On the other hand, the budget financing channel between the central bank and the federal state remained more hidden (Rant, 2004).

On the next level of the two-tier banking system, a large number of small, republic-level commercial banks operated (Bonin, 2004). Most of these small banks were internal company banks. Enterprises had to establish their own commune banks, as their credits were channelled through these new institutions. These small banks were owned by the communes. Though there were banks for dedicated purposes, most banks were involved in various activities, so the structural segmentation was less valid for Yugoslavia. These small banks' profits had to be returned to their investors, thus they had limited disposal over their own profits. From this aspect, these banks were merely financial service providers for their respective enterprises (Bonin, 2004).

In theory, banks were able to compete with each other, but in practice they continued to operate on their local levels. This was mainly the result of the bureaucratically set interest rate ceilings. Nevertheless – unlike in Albania – certain market economic elements did function to a limited extent. For instance,

[6] Please note that the exact name of these financial institutions has been changed over time, while occasionally the translations differ. To read more on the development of the Albanian banking sector see, for instance, Balliu (2012) or Cani (1997).

a primary role of market-led commercial banks was fulfilled by channelling locally collected savings to investors via credits. Yugoslavia even had a specific capital market as it was possible to issue corporate bonds with certain limitations (Singleton, 1976; Lydall, 1984).

Unlike Albania, Yugoslavia became an open economy, which generated a significant amount of foreign currency transactions, culminating in the 1980s. The republic-level banks were required to transfer most of the foreign currency deposits to the Belgrade-located National Bank of Yugoslavia. In exchange, they received dinar-denominated credits. During the secession of Yugoslavia, the central bank in Belgrade froze the foreign currency deposits. This generated large holes in the respective banks' balance sheets. The puzzle of the so-called 'frozen deposits' had to be solved in the relevant countries during their transition process (Bonin, 2004; Bonin et al., 2014).

The financial structure becomes more complicated, when taking into consideration that in Yugoslavia the payments settlements system was separated from the banks. The internal payment system had been conducted through a state-level institution, which was responsible for all transactions within the country, and for the system of internal payment control and supervision. Following decentralisation, even regional-level Social Accounting Services have been established. It is noteworthy that the right of money issuance remained centralised on a federal level, while the republican central banks had their own account at the Social Accounting Service in order to fulfil the required monetary policy (Rant, 2004). The fact that the internal payment control and supervision was not integrated to the banking system generated further challenges during the transition period.

In the wake of the seceding countries' transition process, each republic had large main banks, which indicated a high level of market concentration. Beside these institutions, the banking sector included a large number of small, unhealthy banks. Generally, banks were characterized by a large share of non-performing loans and undercapitalisation (Bonin et al., 2014)<sup>[7]</sup>. Table 1 summarises the above mentioned, major differentiating features between the two countries' banking models.

[7] For further details on the development of the Yugoslav banking system see, for instance, Mrak et al. (2004).

Table 1 Main differentiating features between the Albanian and the Yugoslav banking model

	<b>Albanian model</b>	<b>The model of Yugoslavia</b> (all valid from the 1970s)
Two-tier banking system	-	+
Bank management led by bureaucracy	-	-/+
Disposal over the banks' own profits	-	-/+
Competition in the banking sector	-	(Only in theory)
Channelling savings to investors	-	+
Existence of capital market elements	-	+
Integrated payments settlements system	+	-
Structural segmentation	+	-/+
Federal/republic division	-	+

Note: - Nonexistent, -/+ Partly existent, + Existent

Source: Kazinczy, 2013, 52; own compilation

Table 1 reflects the great difference between the two countries' banking sectors. Still, if we compare the two financial systems in respect of the fundamental requirements of a full-fledged market economy, we find similarities between the two countries. Table 2 summarises this outcome; namely that neither of the two financial systems fulfilled most of the market-economic requirements. Based on the two tables, we can conclude that although the two countries had different banking systems, their shortcomings were still similar. Both models constrained effective financial intermediation.

Table 2 The role of financial intermediaries in a market economy

	<b>Albanian model</b>	<b>The model of Yugoslavia</b> (from the 1970s)
Improving risk management	-	-
Efficiently allocating resources	-	-
Absorbing financial and real economic shocks	-	-
Monitoring managers and exerting corporate control	-/+	-/+
Mobilising savings	-	-/+
Facilitating the exchange of goods and services	+	+

Note: - Nonexistent, -/+ Partly existent, + Existent. The categories of the table are gained from the work of Levine (1997) and ECB (2018).

Source: Kazinczy, 2013, 53; own compilation

To sum up, Albania and Yugoslavia have built up completely different financial structures. The latter even implemented certain market economic elements. Nevertheless, despite the reform waves, the fundamentals have not been reshaped. This led to the fact that similar challenges had to be addressed during the transition period.

## 4. THE AFTERMATH

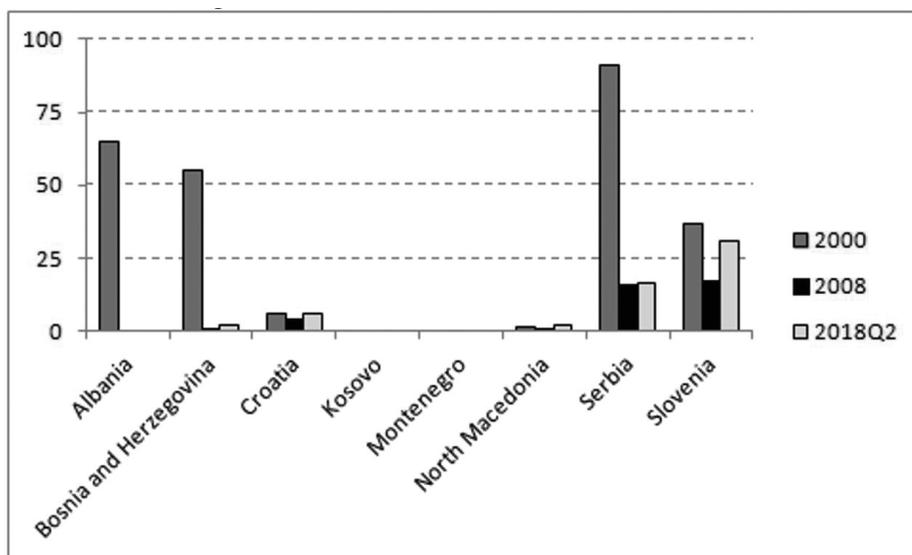
Based on the finding that the two financial systems had to face similar challenges during the transition period, the next question arises: Were these challenges addressed in similar ways? In this chapter we briefly highlight characteristics that might be treated as the aftermath of the socialist time period. Due to the gradual dissolution of Yugoslavia, here we observe the banking sectors of eight countries.

First of all, it is important to underline that there are great differences among the starting dates, the methodology, the pace and the duration of the respective transition processes in the eight reviewed countries. The initial development level and the impact of military conflicts further differentiated the countries. In case of the banking systems – with the exception of Slovenia – all countries had to tackle at least one major banking crisis during the transition period. Certain countries also experienced financial meltdowns by the collapse of large pyramid schemes. Kosovo incorporated a special case, as its banking system had to be built from scratch under the auspices of international organisations<sup>[8]</sup>.

The banking sector can be characterised by a wide range of qualitative features and quantitative indicators, but here we merely review the ownership structure. There are three main factors for highlighting the topic's importance. First – as Kornai's causality line also states – the ownership structure determines the phenomenon of the overall economy or the operation of a specific sector. Second, the shifting ownership structure played a pivotal role during the transition process. Third, even the latest developments and challenges in the sector are largely determined by the ownership structure. Figure 2 and Figure 3 show two main indicators that demonstrate the key features of the ownership; the asset share of state and foreign-owned banks. In 2000, the reviewed states were still in a different phase of their transition process. However, during this development all the reviewed countries chose privatisation, leading to state-ownership ratios of below 20% by the pre-global crisis year of 2008. This ratio dropped to 0% in case of Albania, Kosovo and Montenegro.

[8] There is broad literature referring to the banking sector's transition in the region or in a specific country. See, for instance, Barisitz, 2008; Berglöf-Roland, 1995; Bonin, 2004; Clunies-Ross-Sudar, 1998; Fink et al., 2007; Šević, 2002; Štiblar-Voljč, 2004.

Figure 2 Asset share of state-owned banks, %



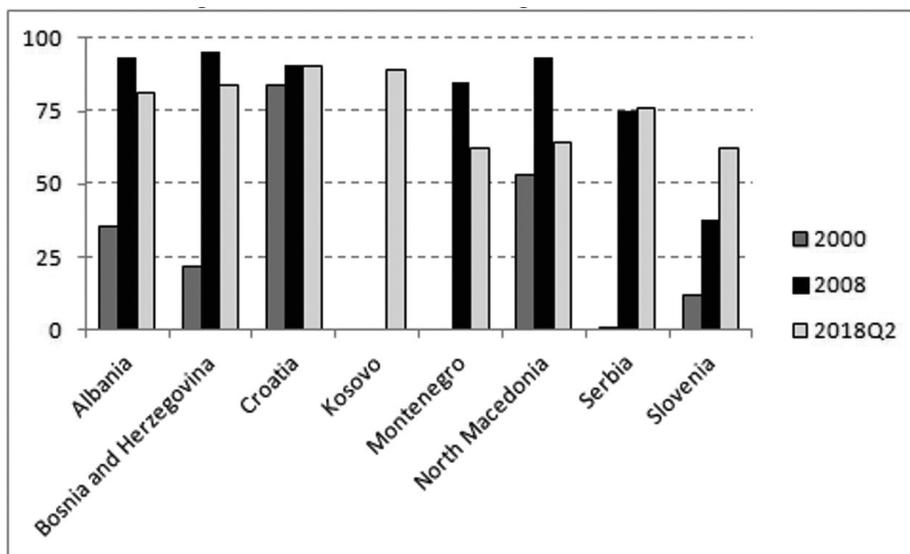
Note: Latest data for Croatia and Slovenia refer to 2018. 2000 and 2008 data for Kosovo and Montenegro are not applicable. Data for Serbia in 2000 refer to the Federal Republic of Yugoslavia.

Source: Bank of Slovenia; Croatian National Bank; EBRD, 2005; EBRD, 2009; ECB, 2019

Figure 3 reflects that generally foreign-owned – mainly EU-headquartered (ECB, 2019) – banks dominate the sector in the reviewed countries. Their market share showed a clear growth, which was over 75% before the global crisis in all countries, with the exception of Slovenia. This ratio was even over 90% in case of Albania, Bosnia and Herzegovina, Croatia and North Macedonia. During this period, Slovenia remained an outlier, as state-owned and domestic private banks dominated its market. Between 2008 and 2018 the almost continuous instability of the sector somewhat changed the ownership structure in most of the reviewed countries. In most cases the ratio of foreign ownership decreased as state ownership slightly grew. In Slovenia, there has been significant uncertainty surrounding the presence of state-ownership in the largest banks for years. 2018 became a turning point, when state ownership dropped and foreign-owned banks emerged as the dominant participants in the banking sector<sup>[9]</sup>.

[9] For more information and current development, see the respective central banks' homepages, the various editions of the EBRD's Transition reports or the ECB's reports on EU (potential) candidate countries.

Figure 3 Asset share of foreign-owned banks, %



Note: Latest data for Croatia and Slovenia refer to 2018. 2000 and 2008 data for Kosovo and Montenegro are not applicable. Data for Serbia in 2000 refer to the Federal Republic of Yugoslavia.

Source: Bank of Slovenia; Croatian National Bank; EBRD, 2005; EBRD, 2009; ECB, 2019

Despite the great differences characterising the transition period, a common template – with Slovenia being an outlier to a certain extent – could be specified by the end of the process. Namely, after a massive systemic collapse, large – primarily EU-headquartered – banking groups penetrated the local markets and fostered financial deepening. This latter phenomenon is often measured by the amount of banking sectors’ assets in percent of the GDP. In the initial phase, foreign banks contributed to the sector’s development process from various aspects. They transferred know-how, technology and financial resources, and they enhanced competition (Barisitz, 2008; Cani-Hadžeri, 2002). At a later phase, during the pre-global crisis period, their operation became a mixed blessing, as they fuelled rapid credit growth in the region, leading to micro and macro-level vulnerabilities (EBRD, 2007).

During the financial crisis period, the financial integration via multinational banks became a double-edged sword (De Haas–van Lelyveld, 2014; Allen et al., 2017). Since 2008, there is a continuous risk of potential negative spill-overs from parent banks to their subsidiaries. The European Bank Coordination Initiative – dubbed as the Vienna Initiative – was launched in 2009 to mitigate the tension (De Haas et al., 2015). Nevertheless, the risk is generally present and occasionally there were / are signs of deleveraging (Vienna Initiative, 2019). This fact calls for the need of cooperation between home and host countries’ supervisory and regu-

latory authorities (World Bank Group, 2019a), and the diversification of financing instruments (World Bank Group, 2019b).

## 5. CONCLUSIONS

The paper provided an overview on the main differences between the political and economic systems of Albania and Yugoslavia between the end of the Second World War and the fall of the socialist regimes. The comparison of the economic background was made via the framework of Kornai's causality model, whereas the banking sector was analysed with the help of the relevant literature. It can be concluded that a wide range of structural elements varied between the two countries. Albania remained loyal to the classical socialist model and even isolated itself from the rest of the world with the aim of self-reliance. On the other hand, Yugoslavia applied the system of workers' self-management; a unique system within the socialist bloc. As a result of the various reform waves, Yugoslavia implemented certain market economic elements, but with limited effectiveness. Still, from the 1970s, the ownership structure, the planning procedure, the disposal over the firms' own profits, likewise other core factors differed between the two countries.

This study provides an analysis of the history and development of the banking systems in Albania and the former Yugoslav countries. The paper's primary aim was to provide an overview on the main differentiating features of the two respective banking sectors. We focused on the banking sector from a commercial banking viewpoint. The main institutional differences of the two countries' financial systems have been clearly presented. The secondary goal, namely to highlight the similarity of the financial structures after the transition period, has been fulfilled by presenting the relevant literature and statistical data. The third objective was to consider the relevance of path dependence theory. This was underpinned by the two systems similar legacy and outcome. These facts prove that it is important to understand the historical background of specific institutional systems.

After studying the historical development of the banking systems in Albania and Yugoslavia we can arrive at the conclusion that no matter what reforms were introduced in different segments of the socialist economy – like self-management, elements of private incentives, collective ownership or introduction of limited commercial banking functions in the financial institutions – as was done in Yugoslavia, they could not change the substantial discrepancies of the socio-economic system, which resulted in the collapse of the economies. Following this phase, there was no other option left than to start the painful and long transition process leading to market economies. In addition, the successor states of Yugoslavia also had to deal with the traumas related to the often devastating succession process.

This paper's analysis can be continued in three main directions. Firstly, further research can be carried out by providing in-depth analysis of the banking sectors in Albania and Yugoslavia, focusing on a specific time range. Secondly, further

analysis can focus on the respective monetary policy. Thirdly, specific case studies can represent the highlighted development process of the banking sectors.

To sum up, despite the different development paths during the socialist era, similar challenges had to be addressed during the transition process in all countries. Though there were great differences among the economies regarding the starting date and sequencing of the transition, still a common template could be outlined. A clear outlier was Slovenia, but only until 2018. This indicates that current institutional structures can partly be explained by the developments during the socialist era, as historical legacies cannot be wiped out. Thus, based on the similarities of the post-socialist development in the financial systems, we can conclude that there are clear signs for a determinist path-dependency in the reviewed countries' banking sector.

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