CENTRAL & EASTERN EUROPE
Banking & Finance

Stabilising role of EU comes under strain

Stefan Wagstyl says the region is suffering from its reliance on western Europe

These are nervous times for the economies of central and eastern Europe. Just when the region was recovering, albeit hesitantly and unevenly, from last year's recession, along came the Greek crisis, tensions in the eurozone and another bout of global financial turmoil.

While the region's financial markets initially resisted the pessimism spreading from Athens, the pressure later became intense, pushing down stocks, bonds and currencies. Not before time, the European Union and the International Monetary Fund have launched a €110bn rescue for Greece and a €720bn support plan for the eurozone.

At the time of writing it was impossible to say whether it would be enough to calm markets. But one point was clear – the EU's role as a stabilising anchor for the emerging economies of central and eastern Europe (CEE) was coming under severe strain. The main consolation for the region is that the focus of the crisis is elsewhere – in Greece and the Mediterranean. But even if the bullets are flying elsewhere, the more vulnerable CEE states are being hit by the ricochets.

For nearly 20 years, the region benefited from its close association with the EU, especially the 10 ex-Communist states which have joined the union and the seven more (in the Balkans) in line for accession. Trade and investment flowed far and wide, drawing even those nations with no hope of EU membership closer to wealthy western Europe.

But, as the world emerges from the 2008-09 crisis, it seems that the locomotive that is western Europe is sputtering. While other emerging economies have come roaring out of the recession, CEE has not. As Thomas Mirow, president of the European Bank for Reconstruction and Development, says: "Capital markets are more sceptical about recovery in this region and, looking at the growth rate in the emerging world, this region is lagging behind and not just in comparison with east Asia but also the Middle East and Latin America."

Mr Mirow says CEE is recovering "sluggishly" because of its past dependence on foreign investment that was now weak, undeveloped local financial markets, and dependence on either commodities (as in Russia) or a narrow range of manufactured exports (as in central Europe).

> CEE is lagging behind not just east Asia but also the middle east and Latin America
>
> **Thomas Mirow, President, EBRD**

The EBRD is this month raising slightly its 2010 economic growth forecast for the region, including Turkey, from 3.4 per cent to about 3.6 per cent. But that, bank officials say, is surrounded by considerable uncertainty – and the average covers a great range of performances.

Russia, the largest economy, expects growth of 4 per cent, thanks to higher oil prices fuelling a rebound from last year's recession, when gross domestic product fell 7.9 per cent. But despite using oil reserves to prop up key sectors, the country is failing to develop the diversified economy it needs to create employment and spread developments across its vast regions.

Poland, the second biggest economy, was the only EU state last year to avoid recession and is expecting moderate growth this year. It has proved a beacon of stability so far.

But in Ukraine, third in terms of economic size, the position is utterly different: GDP is growing this year, but only after a 15 per cent drop in 2009 and a $16.4bn rescue from the International Monetary Fund of which the country has received $11bn. The fund is talking to Kiev about an even larger $20bn programme. It is also continuing to support five other economies in the region – Latvia, Hungary, Romania, Georgia and Belarus.

Still, it could be worse. With the eyes of international investors concentrated on countries with high fiscal deficits and big public debts, most CEE states are ready to withstand scrutiny.

Fiscal deficits and public debt levels have increased sharply through the crisis: Fitch, the rating agency, calculates that for the eight European Union members in CEE, the average budget deficit has leapt from just 1.1 per cent of GDP in 2007 to 6.1 per cent last year. The average government debt ratio has soared from 25.1 per cent to 34.5 per cent at end-2009.

This is not comforting reading, given that all these countries are committed to joining the euro – bar Slovakia, which has already done so – and meet the Maastricht euro entry criteria, including a 3 per cent fiscal deficit and public debt of less than 60 per cent of GDP. But the region compares favourably with Greece, where last year's fiscal deficit was 13.6 per cent and public debt is 115 per cent of GDP. In central Europe, fiscal deficits have soared during the crisis, last year reaching 8.9 per cent in Lithuania, for example, and 7.1 per cent in Poland. But public debt levels are well below the EU average of 75 per cent, with only Hungary, at 78 per cent, looking exposed.

But surviving the crisis is not the only issue – so is generating sustainable economic growth to achieve the long-term ambition of most countries of matching west Europeans in income and lifestyle. Pre-crisis, the region was growing at an average rate of more than 5 per cent, compared with 2 per cent in western Europe, so each year the east-west gap was shrinking. It seemed possible for the more advanced central European states to complete their catch-up by 2020-25, particularly with EU funds pouring in.

Further east and south, countries had much further to go – but most were proceeding at a reasonable clip.

Now, the outlook is less certain. First, the inflow of foreign capital, a key driver of growth pre-crisis, has slowed. The Institute for International Finance, the bankers' organisation, estimates that private inflows of capital and credit into CEE, which plunged last year to $43.5bn are set to recover in 2010 to $179.4bn – a substantial increase but far short of the $263.1bn recorded in 2008.

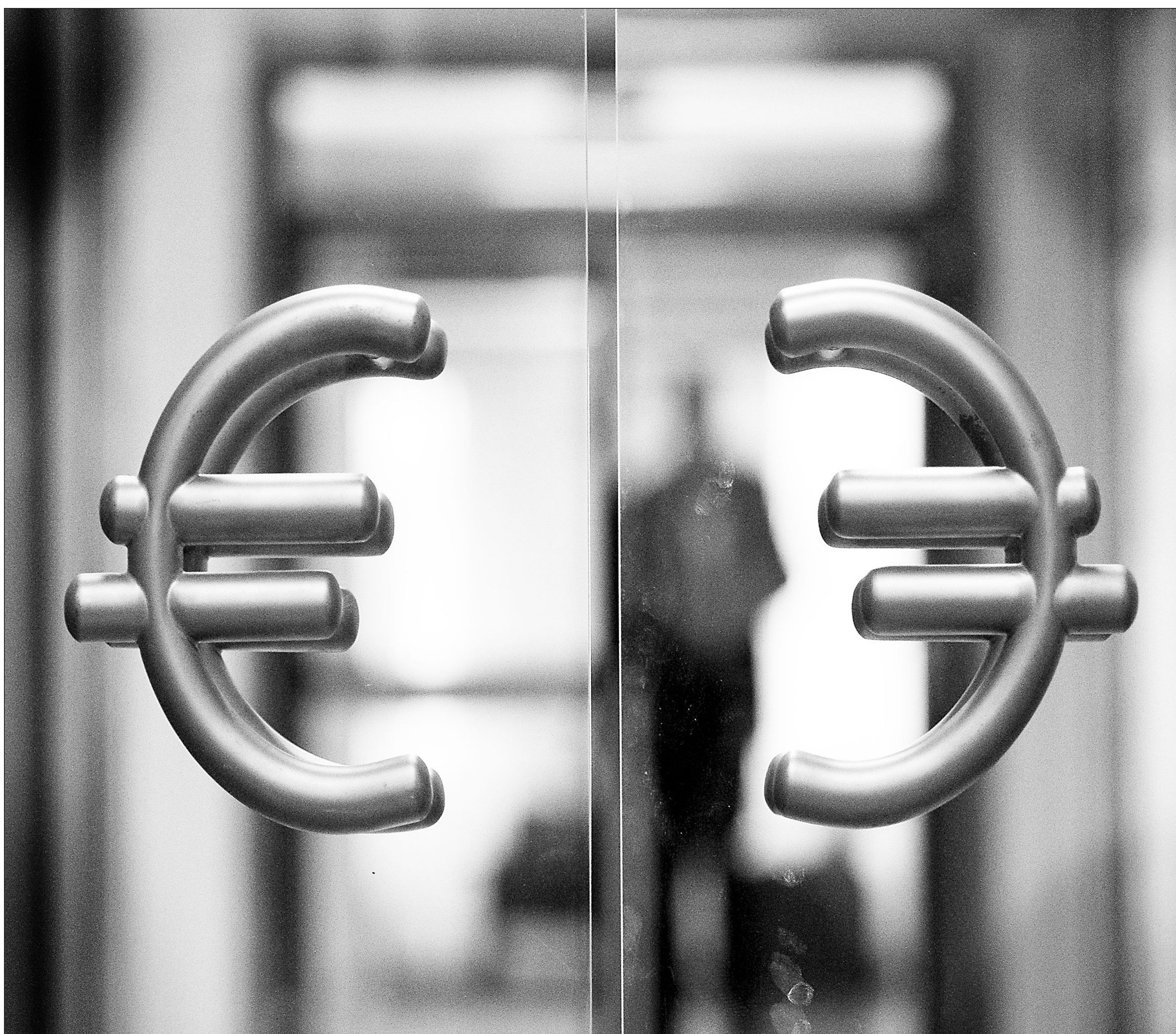
With west European banks dominating banking in the region, this decline in inflows has a direct impact on the supply of credit to CEE borrowers. Not surprisingly, banks are very hesitant despite the efforts of multilateral institutions headed by the IMF to stimulate lending.

Next, trade has slowed with the deceleration of west European demand. The prospects for the motor industry, the biggest contributor to west-bound exports from central Europe, are difficult. Finally, while Russia and other commodity exporters have continued to sell energy and raw materials, the path for using these revenues to create a diversified economy appears more problematic.

At the EBRD annual meeting on May 14-15, officials, bankers and businesspeople will be considering these questions.

Mr Mirow says CEE countries should not change their market-oriented growth models, but pursue them "with more caution and more astuteness" emphasising the development of domestic markets, including financial markets, sound regulation, diversification and the fight against corruption.

All that is easier said than done, even in a benign global financial climate. In the current turmoil, it will be far more difficult. The region has proved its economic mettle in previous crises over the past 20 years. It will need to draw on this experience and more in confronting today's challenges.



Gateway to the eurozone: the doors to Poland's central bank suggest where the country may be heading — Bloomberg

Storm subsides, but tricky waters still to navigate

Banking

Chris Bryant and **Jan Cienski** report on how financial services are faring as the recession ends

As an 18-month storm subsided, banks in central Europe entered calmer waters in 2010, albeit with a variety of tricky channels still left to navigate.

The doomsday predictions did not come to pass. Although Hungary and Romania were forced to turn to the International Monetary Fund and European Union for a combined €40bn, other central European economies proved remarkably resilient.

Poland, with growth last year of 1.7 per cent, was the only member of the EU not to fall into recession, helping its banking sector generate total profits of 8.7bn zlotys. Austria's big three central Europe focused-lenders – Unicredit's Bank Austria, Erste Bank and Raiffeisen International – all remained in the black, while banks in the neighbouring Czech Republic also had a relatively good downturn.

"Profits were higher than in 2008. The banking system is very resilient, very liquid," says Gernot Mittendorfer, chief executive of Ceska Sporitelna, the country's largest bank and an affiliate of Austria's Erste Bank. Here, the sector's net profits rose from Kc46bn to Kc60bn last year, in spite of a 4.1 per cent contraction in the economy over the same period.

Although banks in central Europe avoided the risky assets that crippled their western peers, they could not dodge the impact of bad debts linked to the recession. In Hungary, the ratio of non-performing corporate loans jumped from 4.7 per cent to 10.1 per cent over the course of last year, while for households the figure doubled to 8 per cent.

Large provisions for loan losses obliged institutions to tighten lending criteria, cut costs and slim balance sheets, while focusing on collecting deposits and building capital and liquidity reserves.

Concerns that foreign parent banks would not support subsidiaries proved unfounded, save one glaring exception: BayernLB, the German lender, in December elected to write off its entire €3.7bn investment in Hypo Group Alpe Adria rather than endure further losses related to the Austrian group's failed Balkan investments.

Although borrowers continue to fall behind on loan repayments, the rate of increase appears to have peaked.

"I'm certainly of the opinion that the bottom of the crisis has been reached," says Federico Ghizzoni, head of Unicredit's CEE banking.

With some Polish institutions sitting on a cash pile, there is evidence of banks cautiously starting to lend again. Real estate developers, for example, who had found it almost impossible to get funding, are now able to access it, albeit on tougher conditions than before the crisis.

> Customer confidence is tied to unemployment, and we are seeing customers being much more reluctant to take loans.
>
> **Erich Comor, Home Credit**

Poland's banking regulator estimates that the sector's profits will rise by about a third this year, thanks to lower write-offs for bad loans and higher interest income and charges for service. But the recovery is expected to be tepid and patchy, with consumer demand predicted to lag behind the corporate sector and countries like Poland expected to outperform Hungary and Romania.

Erich Comor, country manager for the Czech Republic and Slovakia for Home Credit, a consumer finance company, said that 2010 would be a more difficult year for Czech banks than 2009, in large part because of continuing high unemployment – which currently stands at 9.2 per cent.

Czech banks have had a good crisis

"Customer confidence is tied to unemployment, and we are seeing customers being much more reluctant to take loans," he says.

Divergent growth rates pose a challenge for parent banks, because they are no longer able to easily move capital from one country to another.

Banks must also contend with tighter regulation of the once profitable practice of providing euro- or Swiss-franc denominated loans. These became a source of instability during the crisis, when domestic currencies weakened making loans more costly to service.

Markus Heidinger, a partner and banking specialist at law firm Wolf Theiss, says: "The costs of regulation have been increasing over time and that's not going to end now. Rather, they will further increase."

Banks in central Europe are also eyeing upcoming Basel III proposals, which are set to tighten liquidity and capital requirements.

"Banks must be ready to accept some new rules . . . but we can't go too far. If pressure on capital becomes unmanageable, the result will impact the real economy," says Mr Ghizzoni.

The tougher post-crisis banking environment will tend to drive consolidation in the sector, analysts argue.

Raiffeisen International plans to merge with RZB, its unlisted parent this summer, to boost access to capital markets. And in Poland, troubled Allied Irish Banks is scouting for a buyer for its Polish affiliate, BZ WBK.

Brussels may force some western European banks to sell central European assets as a condition of receiving state-aid. And some small locally-owned players could yet be picked off by new entrants to the market, says Mr Heidinger.

However, the main participants have no intention of pulling out of the region, as growth rates will tend to outstrip developed banking markets in the medium term.

Steady ship stays attractive to foreign direct investment

Poland

The country has been successful in attracting capital, reports **Jan Cienski**

The shocks set off by the global financial crisis are still reverberating around the world, but that has not stopped McKinsey, the consultancy, from opening a knowledge centre in the western Polish city of Wroclaw, similar to its other outsourcing centres in China, India and the US.

"We drew up a list of criteria and a list of locations, and did a thorough analysis," says Catherine Tilley, in charge of the Wroclaw project for McKinsey, which is expected to eventually employ 100 analysts.

McKinsey is not the only company to take the plunge. According to the national bank, Poland last year had €8.4bn in foreign direct investment, down from €10bn in 2008 – a smaller drop than most of its neighbours.

Last year's success was due in part to the continuation of projects initiated before the onset of the global crisis, and to Poland's exceptional performance as the only EU country not to fall into recession: in 2009 Poland's economy grew by 1.7 per cent.

"We are winners of the crisis," says Slawomir Majman, the head of PAIiIZ, the Polish investment agency, speaking by telephone from China where he was taking part in the Shanghai Expo 2010. "Poland is a supplier of a truly rare product in the current environment – economic stability."

The crisis has produced some unexpected changes in the ranking of countries investing in Poland, with Germany falling out of first place, in large measure because of the German government's efforts to keep capital at home.

Instead, the US and Britain, long laggards in investing in Poland, have taken the top two places.

The two key areas for investing in Poland are the car sector, especially parts suppliers, followed by business process offshoring.

The BPO sector is moving upmarket, beyond simple call centres to value added operations such as that being opened by McKinsey.

About 70,000 people work in Polish BPO, and the number is expected to grow. Poland is even having success in attracting Indian BPO companies, which are interested in getting closer to European markets, and hiring specialists who speak languages other than English.

Poland is particularly attractive because salaries are significantly below those of western Europe – a software engineer costs about €1,500 a month – while the workforce is quite skilled.

"It will take 15 to 20 years before wages catch up to western levels," says Andrzej Kinast, who runs a foreign investment consultancy in Warsaw.

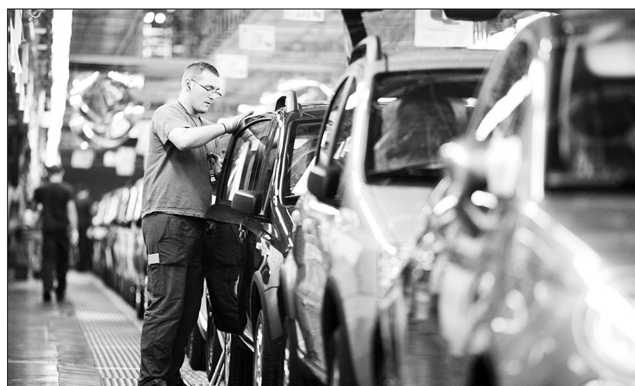
Real estate is also showing signs of a revival, as foreign investors are once again taking a look at Polish assets.

"I expect foreign direct investment volume in the real estate sector to exceed €2bn in 2010, compared with the €700m invested in 2009," says Jaroslaw Wnuk, investment director in Warsaw for King Sturge, the property consultancy.

> Poland is a supplier of a rare product in the current environment – economic stability
>
> **Slawomir Majman, PAIiIZ**

A further magnet for investors is the flood of EU structural funds pouring into Poland; together with government funds they will total more than €100bn until 2013.

"Foreign investors can get a lot of money for innovation, for reducing unemployment, for retraining workers, for export promotion," says Mr Majman.



Lead the way: car makers are key investors in Poland — AFP

While Poland has done better than many other countries in attracting FDI, there are still some serious hurdles. Investors face a fierce bureaucracy, an often impenetrable legal and tax system, and a transport infrastructure that falls far below the standards of western Europe.

Poland is strongly focused on attracting investment from its traditional trading partners in western Europe and the US, and is having less success in attracting companies from fast-growing developing countries such as China.

Although China is looking for beachheads in the European Union, no large Chinese companies have located in Poland. Lenovo, the computer maker, last year abandoned plans to build computers in western Poland. Chinese construction companies, responsible for building more than 60,000km of highways at home, have also had a tough time breaking into Poland to build roads, football stadiums and subways.

"China is looking for new markets, and Poland could take part in that," says Marcin Kaszuba, an FDI expert with Ernst & Young, the consultancy. "Competition is growing because the Czechs are already moving – they see this as the key moment to get Chinese investments."

As the rest of the region emerges from the recession, competition for FDI is expected to continue to grow. Poland's large internal market is an advantage that its smaller rivals do not have, but unlike Slovakia, which joined the euro in 2009, Poland's zloty has been subject to violent swings over the past two years, which could give pause to some investors.

Differentiated approach is now the norm

Financial Markets

Neil Buckley sees signs of optimism across the region

The Greek debt crisis threatened a nasty sting in the tail for a region that a little over a year ago was talked of in terms similar to those used of Greece today. With luck, however, the giant eurozone rescue package should ensure central and eastern Europe's recovery is not derailed.

Early last year, the big freeze in credit markets and capital inflows brought fears of a regional meltdown: "There were concerns among investors that we might be facing a systemic crisis involving both the region and the eurozone banking system," says Marco Annunziata, chief economist at UniCredit.

In reality, the economic health of countries across the region was more varied than many investors and policymakers realised; Poland, for one, was never in much danger.

Crisis was averted elsewhere through international assistance, firm leadership and ordinary citizens' stoicism.

The Group of 20 summit in London in April 2009 ensured the International Monetary Fund had enough funds to provide assistance to countries with financing difficulties. The Vienna Initiative, fostered by the European Bank for Reconstruction and Development, ensured foreign banks agreed to support subsidiaries in CEE countries.

"Foreign banks have generally remained invested. There has been some pullback, but not a wholesale flight of foreign banks," says Tim Ash, head of emerging markets research at Royal Bank of Scotland.

Citizens played their part too. "There was a willingness by households and companies to tighten their belts and keep servicing their debts, even though their circumstances had deteriorated," says Koon Chow, a senior foreign exchange strategist at Barclays Capital.

Some countries have emerged in sounder financial shape, since the downturn led to a correction in external imbalances. "The recession has driven down imports and this, combined with lower oil prices, helped improve current accounts," says Mr Annunziata.

By contrast, the cost of stimulus and social protection measures combined with shrinking economies has led to wider budget deficits in some countries. But these are generally less serious than in the eurozone. So, too, are debt levels.

"When we did our homework, we realised that in terms of public sector debt, these countries started from a position of strength; debts to gross domestic product were relatively low compared with [some European economies]," says Mr Chow.

Perhaps most importantly,

> The big threat would be Greece's debt problems escalating into a broader eurozone crisis

however, while the region faces lower growth than before the downturn, its prospects remain more robust than in western Europe. "Before the crisis, growth in the region was artificially inflated by unsustainably high credit growth," says Mr Annunziata. "But I would not say overall the model has been proven wrong."

In January, the EBRD raised its average regional growth forecast for 2010 to 3.3 per cent. That compares with only 0.9 per cent annual growth for the eurozone, and 1 per cent for the EU, forecast by the European Commission this month.

The one big threat would be Greece's debt problems escalating into a broader eurozone crisis. Contagion to Spain and Italy, for example, would create instability in the European banking system, damaging the economic outlook.

Initial reactions, however, to the €750bn emergency funding facility from the EU and IMF this month – plus further measures by the European Central Bank – were that they should be enough to stop the rot.

CEE nations' varying performances during the crisis mean investors are taking a differentiated approach. Poland is attractive because of its economic resilience and large domestic market, reducing its reliance on exports to the EU.

Also in the front rank, though more dependent on exports, are the Czech Republic and Slovakia, thanks to manufacturing strength and attractiveness for foreign direct investment. Hungary, despite turning to the IMF in late 2008, has made good progress repairing its finances. Provided the governing Fidesz party retains its commitment to reform, investors see Hungary, too, as potentially attractive.

Shorter-term, Russia and Ukraine may see asset prices continue to recover. Both are bouncing back from slumps, Russia helped by higher oil prices and Ukraine by a reviving steel market and comparative political stability since Viktor Yanukovich was elected president in February. Longer-term, however, concerns persist over stability, institutions and the investment climate.

In the second tier are the three Baltic republics, Latvia, Lithuania and Estonia, whose fixed exchange rates precluded devaluation and forced a painful real economic adjustment that led to double-digit contractions last year. The three are likely to start returning to health in 2011.

Also lagging behind are Romania and Bulgaria, seen as overly reliant on cheap credit before the crisis and expected to enjoy insipid growth this year.

Overall, however, provided recovery further west does not stall, the process of asset reallocation towards "emerging" Europe should continue.

Says Mr Annunziata: "If you compare the fundamentals of Hungary and Poland to countries like Portugal and Greece, paradoxically they look better."

Retail lending to bounce quicker than the corporate sector

Russia

Lending rates for commodity giants are lower, writes **Catherine Belton**

Russia's biggest banks are preparing to expand retail lending as they start to recover from a crisis year that all but wiped out profits for many of them, as non-performing loans multiplied.

Sberbank, VTB and Bank of Moscow, the state-controlled giants, are lining up to win retail clients, as they begin to lower interest rates on store and cash loans and jostle to refinance at lower rates consumer credits already extended by rival banks.

Last month, Sberbank, Russia's biggest, said it was lowering retail loans by 0.5 to 1 percentage points to make 17 per cent the lowest rate, while also abolishing commissions.

Caution clearly remains, with rates still far above inflation, which currently stands at a record low of 6 per cent. However, for the first time since the crisis, Sberbank notched up an increase in its retail loan portfolio in March.

Privately-owned Home Credit and Finance Bank is taking its campaign even further, as it battles to kick-start consumer spending after Russian retail sales fell nearly 30 per cent last year.

HCFB is offering 24-month store loans at zero interest rates under a special deal, as it seeks to consolidate gains made during the crisis, when it notched up record net profits of €120m last year.

Shareholder and central bank support had helped it seize market share in store

> Banks are willing to lend to a handful of industrial giants but not to the rest of the 'semi-bankrupt' economy

loans while rivals faltered.

"This will help generate incremental sales. This is good for the retailer and good for us," says Ivan Svitek, HCFB's chief executive.

The bank is conducting this programme only at two outlets, one of which is El Dorado, the electric goods store that is also controlled by HCFB's parent company, PPF, the Czech group. However, it says it is also in talks with other retailers.

"The appetite for lending is returning," says Richard Hainsworth, head of Rusrating, the Moscow-based bank rating agency.

He adds: "Retail is going to take off faster than lending to the mid-sized corporate sector, because non-performance rates for retail and corporate borrowers are similar while the lending margins in retail are higher and therefore there is a higher level of efficiency."

Russian banks are still wary of lending to many companies, bankers say.

The crisis last year froze lending, as bad loans mounted and banks resorted to creative accounting to reduce the reported number of non-performing loans, while the Central Bank relaxed reporting standards.

Bankers say non-performing loans look to have peaked at about 15 per cent – far higher than the official central bank figure of just 5.1 per cent.

But although lending growth of about 1 per cent resumed in March, bankers say it is still difficult to find many low risk borrowers.

Russian companies have split into a two tier system where banks willingly lend to a handful of industrial giants that stayed afloat due to higher commodity prices and those that had low leverage going into the crisis, but not to the rest of the economy where most companies are "semi-bankrupt", says Oleg Vyugin, chairman of MDM Bank, Russia's largest privately-owned bank.

Lending rates to the handful of commodity giants are now at record lows of about 11 per cent, while the remainder still face interest rates above 17 per cent.

The finance ministry and Russia's central bank are predicting that the recovery will start to spread into other sectors of the economy still suffering from the drop in demand, such as the manufacturing, construction and real estate sectors, and, as a result, overall lending growth could reach 5 to 10 per cent this year.

But Mr Vyugin is more circumspect. He says MDM plans to increase corporate lending by 10 to 15 per cent this year, after cutting back its portfolio by almost 20 per cent last year.

"But a plan is a plan. In principle, banks are not against lending, but they need very low risk. There are few low-risk borrowers and therefore the process is braking," he says.

Mr Hainsworth adds, however, that the process is beginning to clear up, as banks "are now in a much better position to see which companies are surviving and which are not".

Rates coming down: Sberbank, Russia's largest, last month lowered retail rates to 17 per cent Bloomberg

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Spring fails to bring a thaw to Ukraine's frozen institutions

Ukraine

Roman Olearchyk says the country has too many small and inefficient banks

The arrival of spring, early signs of a global economic recovery and a measure of domestic political stability brought on by the passing of this year's hotly contested presidential election have all helped ease the gloom hanging over Ukraine's near-term economic prospects.

But a complete thaw is still a long way off for the shaky Ukrainian bank sector that fell abruptly into a deep freeze with the onset of the 2008 global financial crisis.

"It is very difficult to get loans. For the corporate sector, access to straightforward loans is scarcely open. That is obviously a big negative factor for restarting the economy and bringing it out of a deep recession. There is no fuel in the tank," says Peter Vanhecke, chief executive of Renaissance Capital in Ukraine.

Billion-dollar losses – cumulatively about $4bn in 2009 and $600m in the first quarter of 2010 – continue to pile up at the country's 170-plus banks and weigh heavily upon European financial groups who spent billions of dollars in previous years to build up a collective 40 per cent market share.

It is a scenario that European bank groups could hardly have imagined in the years leading up to 2008, when a post-Orange Revolution Ukraine was seen as the next country on a path of convergence with central Europe, eyeing European Union membership.

Jacques Mounier, head of the banking committee at the Chamber of Commerce in Ukraine, says "the 20-25 foreign banks, mostly European, that came to Ukraine over the past 17 years probably invested in the order of $5bn in purchasing those banks."

A lending boom with double-digit interest rates generated strong profits for banks. But the combination of cheap money and asset-hungry investors artificially drove up asset prices, most noticeably property prices.

"Money was almost free before the crisis, so everyone got sucked into that bubble," says Mr Vanhecke. "The attitude was, if you don't do it, someone else will. Foreign banks were piling into the market, further exacerbating the situation. Then, suddenly, the patient had a heart attack."

When the global financial crisis hit

Pavel Cetkovsky, Erste Bank: 'Banks were lending under aggressive conditions mostly in US dollars and accepting high leverage.'

Ukraine in late 2008, the currency plunged by some 50 per cent, triggering a run on the banks. This ended years of rising deposit and hard currency lending. Non-performing loan levels reached 10-30 per cent.

"Ukraine's banking industry was quite unbalanced before the crisis," says Pavel Cetkovsky, deputy chief executive in Ukraine for Austria's Erste Bank. "Banks were lending to both retail and corporate segments under aggressive conditions, mostly in US dollars, and accepting high leverage. This strategy was influenced by the positive experiences of international financial groups in emerging markets in general and in CEE in particular over the past decade.

"But when the crises struck in the fourth quarter of 2008, its impact on Ukrainian economy was enormous," Mr Cetkovsky adds.

A financial meltdown was avoided thanks to $11bn in aid from the International Monetary Fund and more than $1bn in capital injections from European bank groups.

"Due to intervention from the IMF, Ukraine was stabilised and kept alive in a coma and on intensive care for most of 2009. Now the question is: What next," says Mr Vanhecke.

The crash has proved costly for Ukraine. More pain lies ahead – lending is not expected to return to pre-crisis levels until 2011, once the banks' have cleaned up their balance sheets. But the crisis will bring badly-needed corrections, most notably consolidation in a market flooded with more than 100 ill-capitalised pocket banks. Many of the small and inefficient banks operated by domestic businessmen are expected to wither, or be snapped up at bargain prices by foreign groups.

In the long term, European banks with strong parent group backing are expected to emerge with a bigger share of a banking market in its infancy. Given the nation's big economy and a 46m population that is just starting to make use of classical banking services, there is still a lot of potential upside.

"Ukraine will end up with fewer than 10 banks that will have about 80 per cent market share. Some European banks might wish they never came to Ukraine . . . But in 10 or more years, they may be really happy." says Mr Vanhecke.

"Poland is an interesting comparison, with a lot of basic similarities, including the size of the economy and population. Ukraine is probably three to five years behind," he adds.

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