

Savings Banks and other regional banks

**Does regional orientation stabilise
financial markets and poorer regions?**



Questions and Structure

Questions & Structure

- I. Space and Banks
- II. German's regional financial institutions
- III. Can they stabilise financial markets and regions
- IV. Future challenges

II. Space and Banking

The importance of financial intermediates

Intermediates broke capital/funds between savers and investors

Specific features which distinguish from other markets

- Asymmetric distribution of information
- Lending business (inter-temporal)
- Trust and reliability



Structures of Banking-markets in Germany

- Three Sector System: Savings banks, co-operative and private commercial banks
- Bank-based and capital-market-based financial systems
- Regional-National-Global

Conventional (Neoclassical) Theory



Perfect Financial Markets

Financial markets are not different from other markets



Monetary Neutrality

Spatial Structure

- Spatial structure of financial system irrelevant
- Funds flow to best projects, regardless of location

NEG, Institutional Theories, Post-Keynesian Theory, Competence-Based Approaches



Imperfect Financial Market

1. Exchange is not simultaneous,
2. Finance is advanced on a promise or expectation of repayment
3. Asymmetric information
4. High transaction costs



Monetary Non-neutrality

Spatial Structure

- Spatial structure of financial system matters
- Bottleneck of regional development
- Spatial differences in supply and demand for finance interact and reinforce one another

Proximity

- Proximity is important for borrows and lenders (Investors)



II. German's regional financial institutions

Geographical Proximity to avoid financial crises?

Proximity in the bank-customer relationship can

- reduce asynchronously distributed information,
- enhance the regional absorption of money and
- induce responsibility for the region

- The round about 400 savings banks and 1000 co-operative banks are in each region independent
- As public institutions are savings banks bounded to the regional level by public law:
 - Reinvest of the accounted savings has to take place in the banks' own territory
 - Reducing the mobility of capital and the back-wash-effects of capital
 - Important promoters of the regional economy in their own interest (without public money)

Possible Disadvantages of regional banks

Two Questions:

- Are regional orientated banks able to contribute to regional development in weaker regions?
- Are regional banks able to lend businesses still money in the crisis (credit crunch)?

III. Empiricism

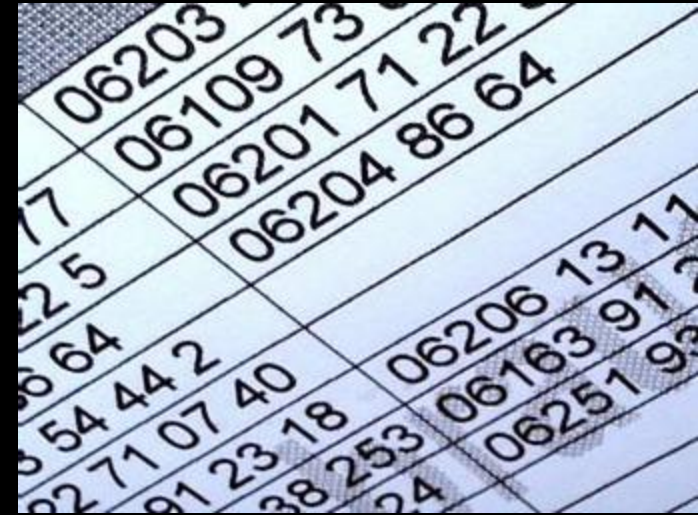
Lock-in Effects?



Regional Banks are less successful and are defended by higher risks in structural weaker regions (Dybe 2003, Allesandrini/Zazzaro 1999, Chick/Dow 1988, Myrdal 1959)

- » **No empirical research before**
- » **Can they avoid regional downward spirals?**

Methods

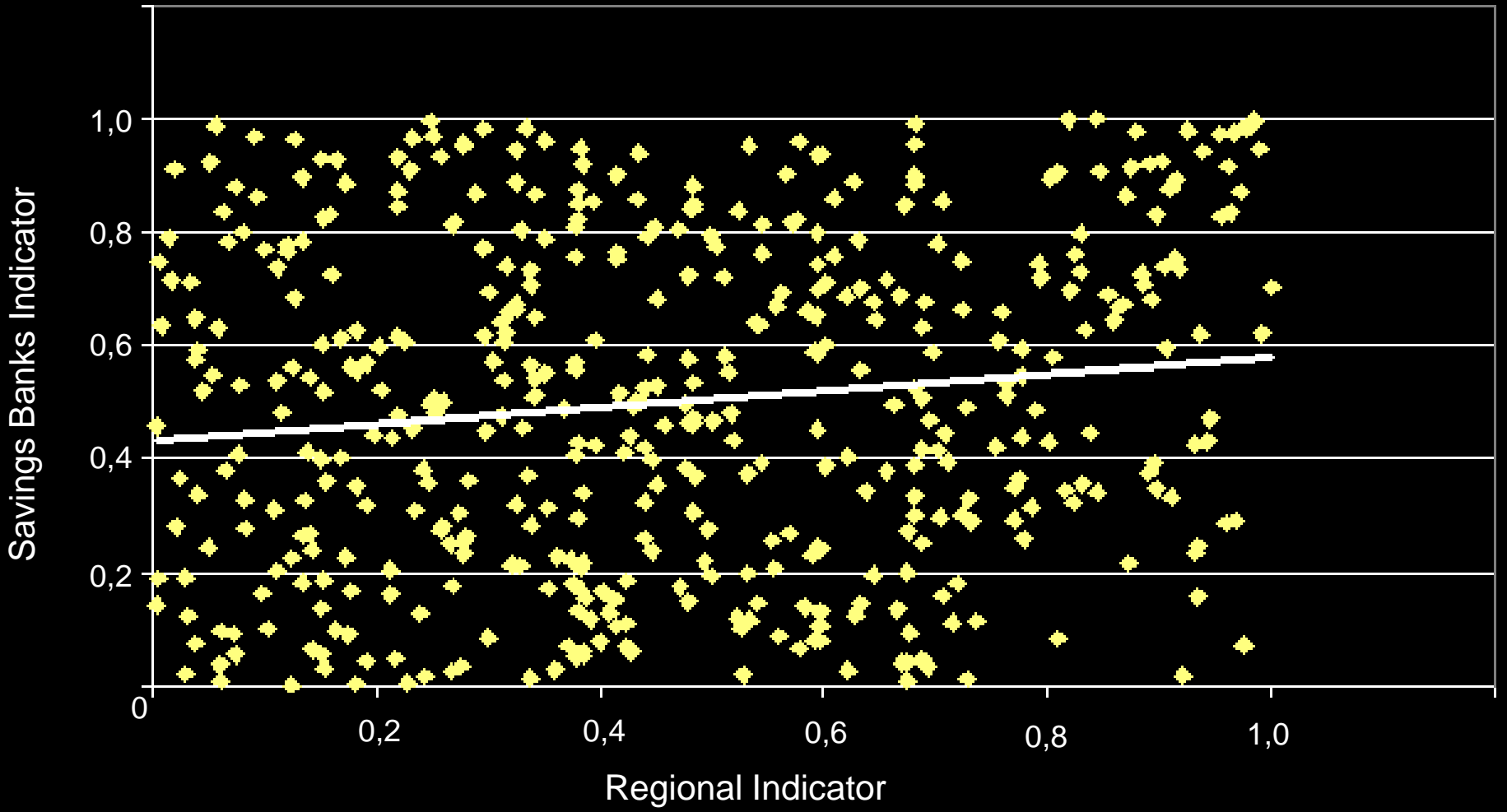


1. Correlation and

2. Comparison of means

- between the profit of 463 Savings Banks, the loans
- and the wealth of the regions respectively the type of regions

Prosperity of Regions and Profit of Savings Banks



Questions

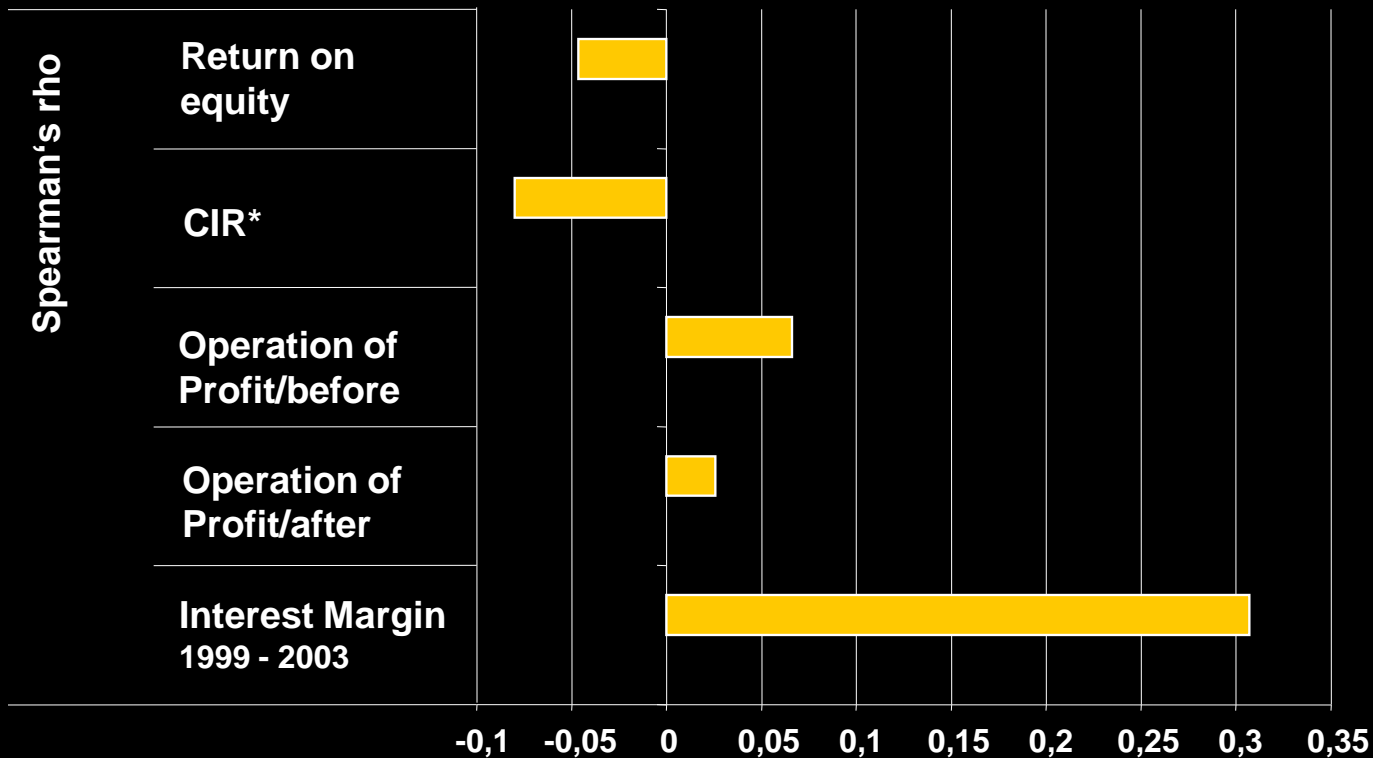
I Space and Banking

II Regional Institutions

III Empiricism

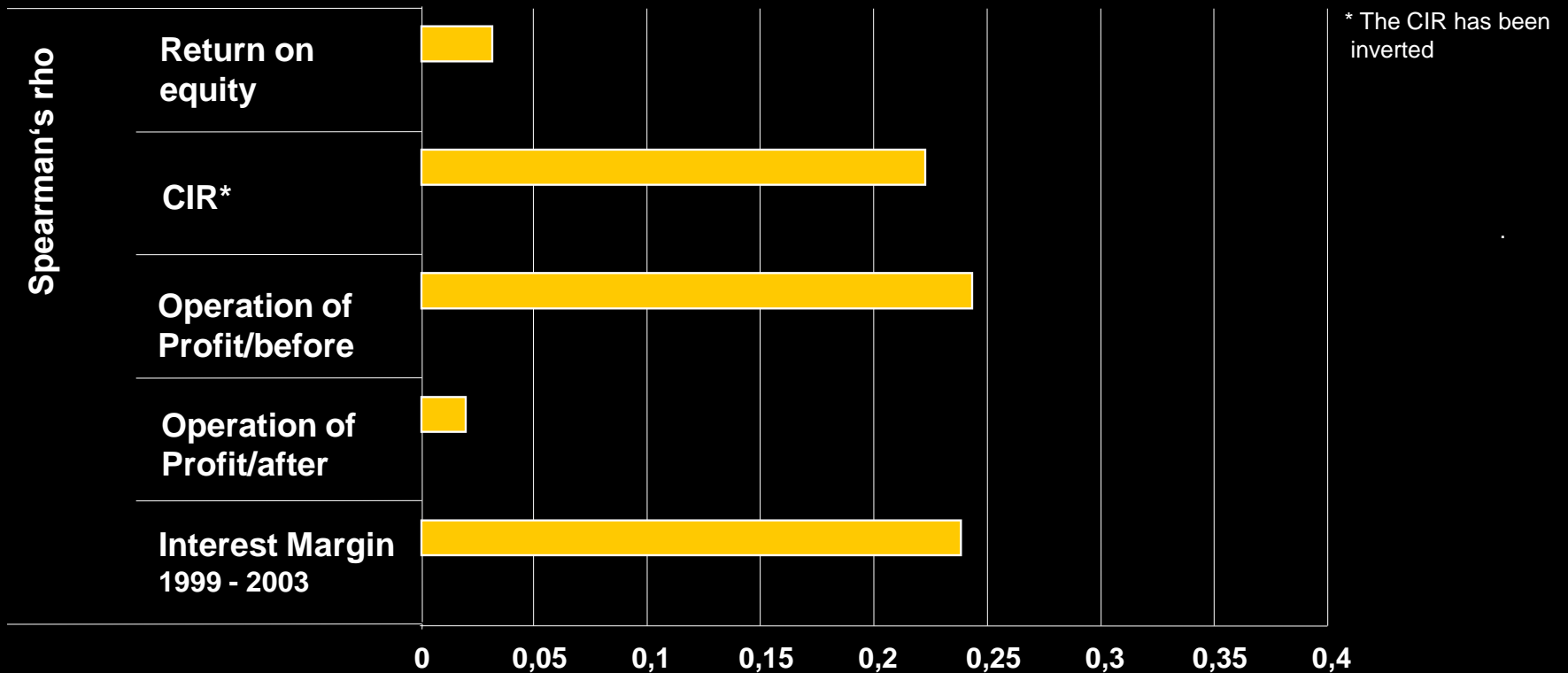
IV Challenges

Correlation in West Germany



■ Correlation Coefficient between the Regional Indicator and the Economic Success of Savings Banks

Correlation in East Germany



■ Correlation Coefficient between the Regional Indicator and the Economic Success of Savings Banks

Results

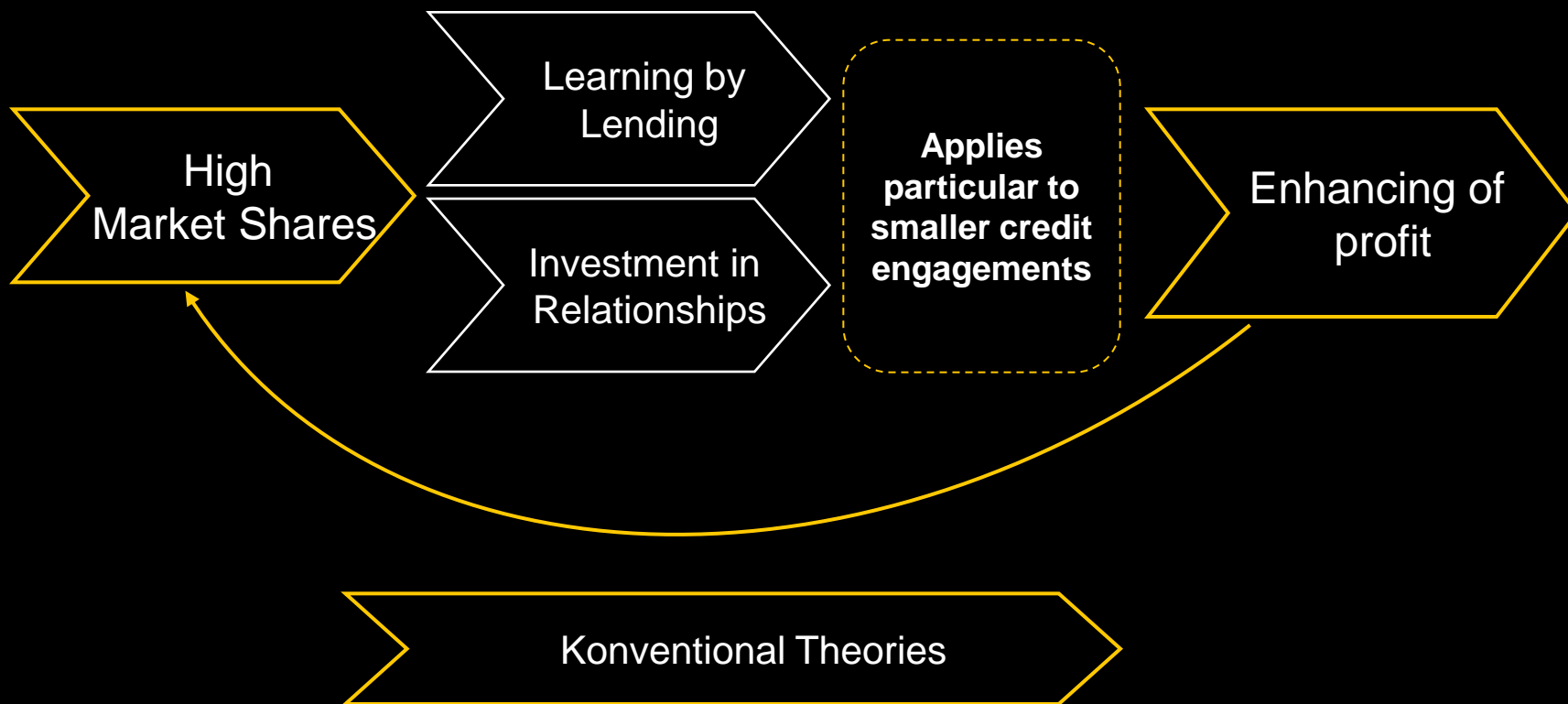


- **No Lock-in Effects from a statistical point of view**
 - » **Savings Banks in Germany can foster growth potentials and can avoid downward spirals in weaker regions**
 - » **They can promote regional growth agenda (Lissabon-Agenda) and on the other hand adjustment policy (Art. 158 EGV)**

Interpretation of results

High Market shares in the region reduce informational asymmetries and produce social capital

➤ Space and Proximity matter



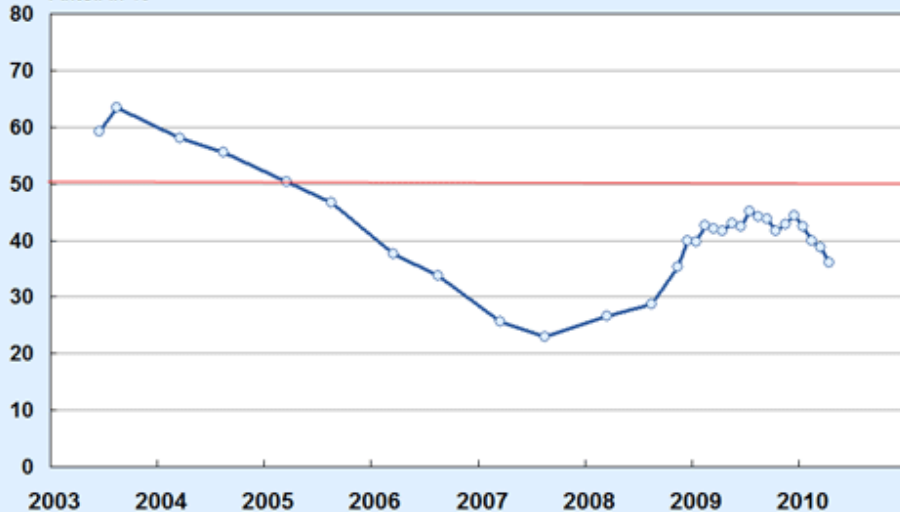
IIIb. Credit Crunch?

Business Survey: Is access to funds/loans difficult? (ifo-Konjunkturtest)

Kredithürde – Gewerbliche Wirtschaft

ifo Konjunkturtest April 2010

Anteil in %*



* Anteil der Unternehmen, die angeben, die Kreditvergabe sei restriktiv.

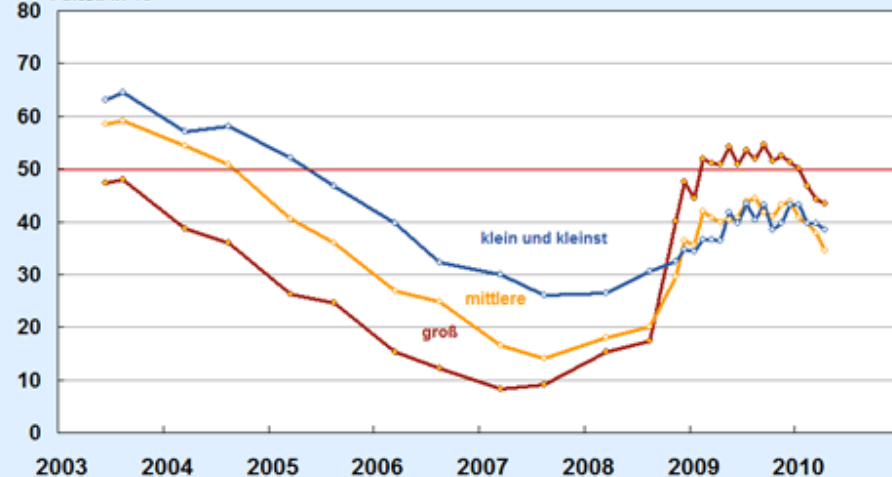
Quelle: ifo Konjunkturtest.

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Kredithürde im verarbeitenden Gewerbe nach Größenklassen

ifo Konjunkturtest April 2010

Anteil in %*

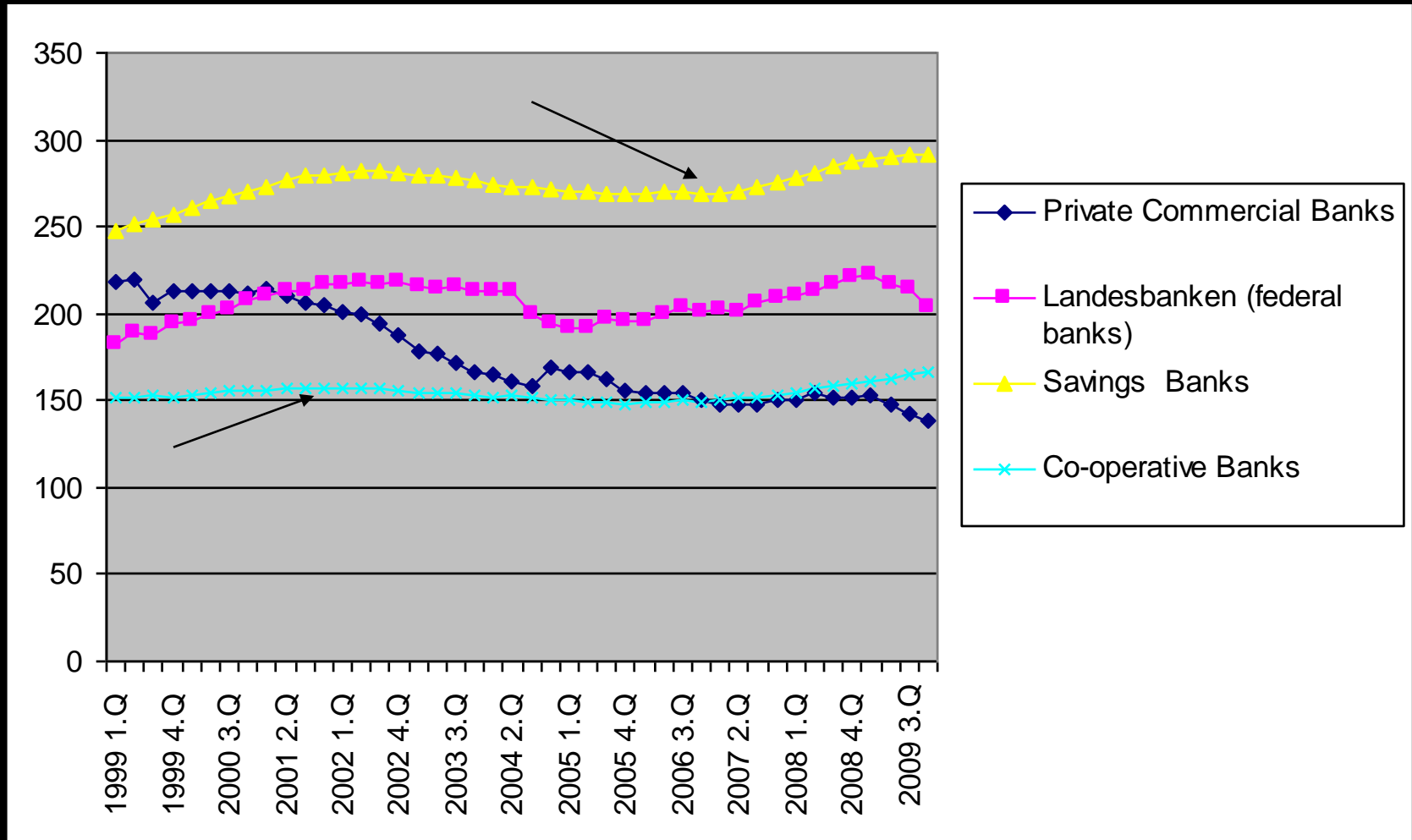


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Quelle: ifo Konjunkturtest.

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Lending to business costumers



Source: Deutsche Bundesbank (German central bank), Bankenstatistik, own calculation

IV. Future Challenges

Savings/co-operative Banks in a Europe of Regions

Challenges in demographically shrinking regions

- **Combination of Financial Services and Promoting of Civic Commitment**

The basis for a successful European society is a vital and innovative regional life

...more research and comparative analyses should be done of European Savings/co-operative Banks, of their instruments and their significance in a 'Europe of Regions'



The Crisis

1. Internalising an Externalities

- Own capital quote in regard to the bank's size (progressiv)
- Risk fee in regard to the geographical dimension
- Re-dimensioning



Many Thanks for your Attention !

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