INHolland University of Applied Sciences, Diemen

International Business and Management Studies

The fundamentals of the relationship between Czech Export Bank and commercial corporate banks in the Czech Republic

Bachelor Dissertation

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Preface

The research topic was chosen based on my interest in export promotion and was based on the aims of HSBC Grant for exporters in co-operation with Czech Export Bank. The research was written during my internship at HSBC Bank Prague branch in 2014. The client company is not mentioned in the research in order to stay objective as much as possible and eliminate any conflict of the interests.

Acknowledgement

The writing of this bachelor dissertation would not have been possible without the constant support and encouragement from my colleagues. Especially, I would like to thank to Martina Suchomelová, who has inspired me to achieve my goals and develop my potential and Svetlana Kratochvilová for an on-going support, perseverance and encouragement to reach my goals. Moreover, I am very thankful to my thesis supervisor René van der Linden, who provided me with constant support, guidance and tremendous insights into the research development. I would like to express my big gratitude to my colleagues and interviewees, who were willing to share their valuable knowledge of the local market and helped me to deliver the final product. Moreover, I would also like to give a special thanks to my close friend and classmate, Bara Haliková, who was also writing her final bachelor dissertation, for her constant encouragement and cheerfulness during the writing process.

Lastly, I would like to express my thanks to my beloved family and to the lecturers of IMBS at Inholland University and Metropolia, who have shared their views that has taken part in shaping my perceptions. Likewise, they have helped me to broaden my knowledge and to master my skills, which have given me the competence to write this thesis.

Table of Contents

Executive Summary

The bachelor dissertation focuses on the relationship between Czech Export Bank and the commercial banks, which are offering corporate banking services in the Czech Republic. The prime goal of the research is to provide insights into the research topic and identify the key elements, which are shaping this relationship. The objectives of the research are evaluation of export of the Czech Republic, describing the current situation in the banking sector, identifying the key determinants of the competition and providing clear overview of the role and position of the CEB. In order to achieve these objectives, the research questions have been formulated, focusing on the fundamentals that are impacting the relationship. The sub-questions are looking for answers on the impact of the EU on the banking sector, the importance of the export support in economic development, the role of export credit agency in the banking sector and analyses of the competition between CEB and the commercial banks.

In order to gain better understanding of the relationship between the CEB and the commercial banks, the exploratory research design has been chosen. The exploratory design provides the insight and clarifies the understanding of the problem. Firstly, the available secondary data have been researched to build the background of the research. In second stage the theoretical framework has been implemented and in the third stage, in-depth interviews with banking professionals working in export credit agencies and commercial banks were conducted. The sample consisted of eight interviewees from management positions. The theoretical framework consisted of three models, Four-Firm Concentration Ratio, Five-Forces Model and Generic Strategies Model.

The most important results were gained from the interviews, where the relationship between these two different types of banking institutions was examined into details. The research indicates that there are two perceptions on this relationship. It is either considered as a partnership, where the CEB is funding the deals, which were refused by the commercial sector or it is a competition, in which the CEB and commercial banks are in rivalry for their clients. Another very significant result is that the prime driver of this competition is the relationship between the bank and the company. However, the competition is usually not based on the price, because the market has a stable liquidity. Another major result is how the EU and its latest reforms and establishment of the

European Banking Union is perceived by the bankers with strong refusal of further integration on the EU level.

The limitations of the research are due to chosen theoretical concept of the Four-Firm Concentration Ratio, which is taking into consideration only the market share of the four largest banks. Another limitation of the research is in its the methodology, which is not taking into account the impact on the main stakeholder of this relationship, who is in this case Czech exporting companies. The last limitation is the availability of data, since banks are not willing to share any kind of data that could be used by their competitors for their own benefit.

Suggestions for further research would be in-depth research of the relationship between the banking institutions and the exporting companies. The research could examine whether the companies are really choosing the banks according to connections and further explain the main drivers for choosing the CEB instead of the commercial banks and vice versa.

Last but not least, the recommendations for the commercial banks and CEB are outlined. The main recommendation is to focus on building a strong relationship with companies and implementing effective client management. In case of acquisition of a new client that is switching from a competitor bank, the acquiring bank is advised to ensure a smooth process of the transformation of refinancing liabilities, accounts and data.

List of Abbreviations

ASCM	Agreement on Subsidies and Countervailing Measures
CEB	Czech Export Bank
CIRR	Commercial Interest Reference Rate
CS	Ceska Sporitelna
CSO	Czech Statistical Office
CSOB	Cesko-Slovenska Obchodni Banka
CEB	Czech Export Bank
CNB	Czech National Bank
CR_4	Four-Firm Contraction Ratio
HHI	Herfindahl-Hirschman Index
ECAs	Export Credit Agencies
ECB	European Central Bank
EGAP	Export Guarantee and Insurance Corporation
EMIR	European Market Infrastructure Regulation
EU	European Union
EURIBOR	Euro Interbank Offered Rate
FSI IMF	Financial Soundness Indicators developed by International Monetary Fund
IMU system	Interest Make-Up System
LC	Large Corporations
LIBOR	London Interbank Offered Rate
KB	Komercni Banka
OECD	Organisation for Economic Co-operation and Development
SME	Small Medium Enterprises
WTO	World Trade Organization

List of Terms

BASEL III: part of the continuous effort made by the Basel Committee on Banking Supervision to enhance the banking regulatory framework. It builds on the Basel I and Basel II documents, and seeks to improve the banking sector's ability to deal with financial and economic stress, improve risk management and strengthen the banks' transparency. A focus of Basel III is to foster greater resilience at the individual bank level in order to reduce the risk of system wide shocks (Investopedia, retrieved on April 28, 2014).

CLUB DEALS: investment of private equity, which involves several different companies (Club Deal, retrieved on April 20,2014).

HSBC PMI INDEX: Purchasing Managers' Index ®, provides monthly surveys of key regions in the world. Providing the most closely watched business in the world, favoured by central banks, financial markets and business decision markets in order to provide up-to-date, accurate and unique indicators of economic trends.

EMIR: The European Markets and Infrastructure Regulation (EMIR) is a European Union law that aims to reduce the risks posed to the financial system by derivatives transactions. It impacts European and non-European financial institutions and corporates (HSBC, retrieved on April 18, 2014).

EXPORT /TRADE FINANCE: The financing of international trade. Trade finance includes such activities as lending, issuing letters of credit, factoring, export credit and insurance. Companies involved with trade finance include importers and exporters, banks and financiers, insurers and export credit agencies, as well as other service providers. Trade finance is of vital importance to the global economy; with the World Trade Organization estimating that 80 to 90% of global trade is reliant on this method of financing (Investopedia, retrieved on April 28, 2014).

EURIBOR: is the rate at which euro interbank term deposits are being offered by one prime bank to another within the Euro-Zone region.

FOREIGN BRANCH BANK: A type of foreign bank that is obligated to follow the regulations of both the home and host countries. Because the foreign branch banks' loan limits are based on the parent bank's capital, foreign banks can provide more loans than subsidiary banks.

LIBOR: Benchmark for the short-term interest rate on which banks are borrowing funds from the other banks in London interbank market. The British Banking Association sets Libor daily.

NON-MARKETABLE RISK: represents those country risks for which no cover is available in the private market (icisa.org, retrieved on 18th April 2014)

ONE-STOP BANKING: when a bank offers a whole range of different products and services, this is also called Universal Banking.

SYNDICATED LOAN: A loan offered by group of lenders (banks) to one borrower.

STATE GURANTEES: A loan guaranteed by the state in case a borrower defaults, meaning, the state is taking responsibility for the loan.

List of Figures

1 Introduction

The research is conducted as a final bachelor dissertation at INHolland University of Applied Sciences based in Amsterdam, the Netherlands. A number of areas are addressed in order to define relationship between Czech Export Bank and other Czech commercial corporate banks and to identify various drivers of this relationship. The introduction is focused on the complex explanation of the research topic, the research questions to be answered and the relevance of the research for academics and banking professionals.

1.1 The problem description

The economy of the Czech Republic is one of the most developed and industrialized economies in the central and eastern European region in terms of nominal GDP – 27,400 USD, followed by Slovakia 24,500 USD. The real growth rate GDP reached 2% in 2012, consisting of 47% service, 30,8% industry and 3,1% agriculture (summary of Macro-economics figures is available in Appendix I.). In regards to the balance of trade, the Czech Republic has a trade surplus of 486 Million USD, December 2013(Trading Economics, 2014). Overall, the Czech economy is a stable and thriving market economy, which is closely integrated into the EU. "While the conservative, inward-looking Czech financial system has remained relatively healthy, the small, open, export-driven Czech economy remains sensitive to changes in the economic performance of its main export markets, especially Germany"(Index Mundi, 2013). After the global financial crisis, the Czech Republic was in long-lasting recession, caused by an extensive interdependence on global trade, mainly on the EU countries and political solutions of the sovereign debt crisis.

According to the 2014 January's data from HSBC PMI Index, the Czech economy is recovering from the long-lasting recession, caused by the global financial crisis. The Czech Economy has had the strongest rise in output since April 2011 and a new export order growth at 43-month record since July 2010 (see figure 1). However, the cost of goods and services are still under pressure caused by a foreign exchange intervention of Czech National Bank to weaken Czech koruna against euro by approximately 7%. This measure was implemented as prevention from possible deflation. Hence, the current driving force of the economy is in a direct export, while it is forecasted that demand and supply of households and government will remain low for the whole annum according to Markit forecast.

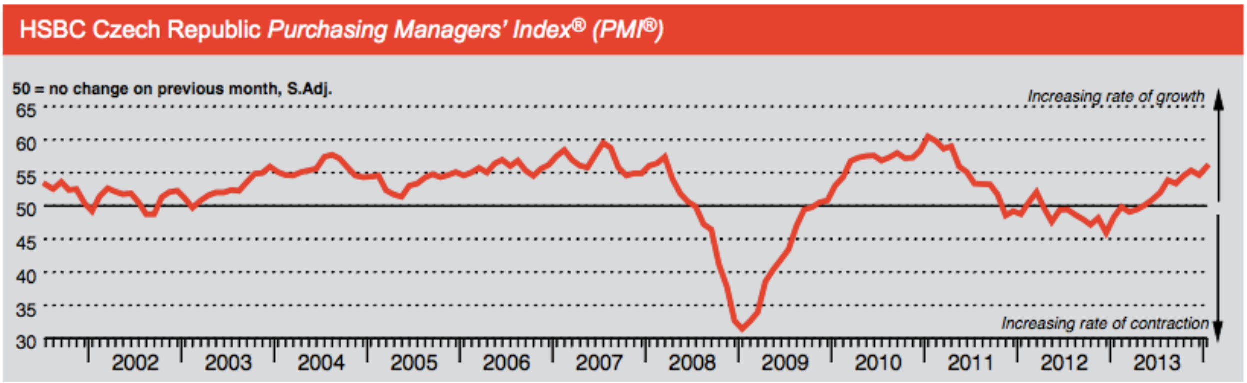


Figure 1 **Purchasing Manager's Index, January 2012 =55.9** (any figure greater than 50.0 represents growth)

Source: HSBC Czech Republic Manufacturing PMI, January2014 (developed by Markit)

Export represents the prime driver of the Czech economic growth and, therefore, support of the export activities is under critical consideration by the government. Czech businesses need to be enabled to compete on an international level, in what the Czech government has a crucial role. The government is implementing trade policies, programs and activities to encourage export growth. The main aims of the export promotional programs are to create export awareness as instrument for growth and market expansion, to reduce and remove export barriers, to create promotional incentives and to provide various forms of assistance to potential and actual exporters. The government of the Czech Republic has several institutions such as the Czech Export Bank, EGAP and Czech Trade, which are aiming to increase national export activities.

The Czech government is backing-up and funding export activities of local companies via Export Credit Agencies (ECAs). These provide three basic functions, firstly, helping exporters to be aligned with foreign credit competition. Secondly, the ECAs provide financing to foreign buyers, when commercial lenders disapprove funding and thirdly, the ECAs are covering risks beyond the ones available by the commercial insurance.

Czech Export Bank (CEB), Export Guarantee and Insurance Corporation (EGAP) are the main Export Credit Agencies in the Czech Republic. The CEB and EGAP are owned by the state and follow the national strategy for export and international trade defined by the Czech government.

The CEB is providing state-backed loans with attractive fixed interest rates to its clients according to Commercial Interest Reference Rate (CIRR), which set monthly by the Organisation of Economic Co-operation and Development (OECD) based on the governments bonds in the countries domestic market in its local currency (Export-Import Bank of the United States, 2014). The CIRR defines the minimal interest rate, however, ECAs are free to higher it with additional basis points in order to increase the margin. The CEB is not only offering low interest loans, but also region specific law consulting and know-how, while EGAP is providing insurance, which covers political, economical and non-marketable risks in the invested region. On the local corporate banking sector, the CEB has a dominant position in export financing due to repayment period longer than 2 years and financing mainly to high-risk countries, according to classification by OECD. In order to encourage commercial banks in long-term lending, the Czech government developed Interest Make-Up (IMU) System, offering commercial banks to lend money with CIRR.

Recently, there has been a growing need for an active engagement of private sector in export promotion (International Trade Forum, 2009). Following this, commercial banks have an important role in export, trade and investment promotion. The growth of commercial banking is aligned with vast expansion of trade and industry, leading to growth of banks alongside with economic development (Ryskova, 2013). In contrast with the CEB, commercial banks do not offer fixed interest rate, but their interest rate is usually based on LIBOR or EURIBOR rates. On the other hand, partly due to the global financial crisis and implementation of Basel III regulatory standards, "requiring commercial banks to hold more capital against trade finance exposure to high-risk countries" (Berne Union, 2013 p. 34). Commercial banks became more risk conscious. The risk-aware decisions of commercial banks lead to increasing preference for financing of businesses on domestic and low risk-markets (Berne Union, 2013).

The global financial crisis caused bailouts of the banks with taxpayers' money, what is against the aims of the strategy of European Central Bank trying to ensure a stable financial sector and elimination of high-risk decisions. The aim of the EU is to create a single financial market, however, it is questionable how it will affect the position of ECAs (European Commission, 2014). The prime goal is to transform the 28 national regulators with different systems to a single regulator on the EU level. The main intention is, however, not to pay for bad banker decisions with taxpayers' money, which is leading to a greater independence of banks on governments. In addition, no bank in the Czech Republic received bailout from the government, therefore, it is questionable how the Czech banking sector can benefit from this newly prepared reform. With acceptance of the single banking union, the Czech National Bank would give up its monetary decision making power in favour of the European Central Bank. The establishment of the single resolution fund, which is part of the European Banking mechanism, requires funds from the banks. Therefore, the mother bank will probably ask its subsidies for financial support. Even though the Czech Republic will not be a part of the European Banking Union from its beginning, it will influence its market liquidity.

The aims of the EU are contradictory to the ECAs function, because the funding from government, the taxpayers money, provide loans to high-risk countries with insurance covering. In addition, the prime aim of ECA is to support export promotion rather than to focus on the creditability of the lenders and profit growth. Therefore, it is creating unequal conditions for the commercial banks, which are becoming more risk conscious.

To conclude, the major aim of the commercial banks is to maximize revenue in contrast to the CEB, which is focusing more on expansion of Czech businesses and economic development of the Czech Republic. Therefore, the function of the commercial banks and the CEB has to be defined. Likewise, analysis of their relationship is needed, as the relationship can be either competitive or, if the CEB has complementary role in the Czech economy, it can be a partnership. This relationship is also influenced by the macro-environmental regulations formulated by the European Union, which impact the state and the commercial banks. Therefore, it is questionable what the fundamentals of the relationship between the CEB and the other commercial corporate banks in the banking industry are.

1.2 Research Aim

The aims of this research are to examine the relationship between the Czech Export Bank and other commercial corporate banks in the Czech corporate banking sector, to describe the major elements of this relationship and to analyse the impact of the EU on the local banking sector.

1.3 Research Objectives

The research objectives of the dissertation are the following:

- To evaluate the role of export in the Czech Republic
- To provide analyses of current situation of banking industry on the EU level

- To describe the relationship between the CEB and the commercial corporate banks in the Czech banking sector
- To identify the key determinants of the competition in the Czech corporate banking industry
- To develop a clear overview of the role and the position of the CEB within the banking industry

1.4 Central Research Question

What are the fundamentals impacting the relationship between the CEB and other commercial corporate banks in the Czech Republic?

1.4.1 Sub Research Questions

- What is the current situation of the banking sector in the Czech Republic, taking into account the impact of the EU banking sector including the development towards the European Banking union?

- What is the importance of export support for economic development in the Czech Republic?

- What role does the Czech Export Bank have as an export credit agency in national economy and banking sector?

- To what extent are the Czech Export Bank and the commercial corporate banks in rivalry within the banking sector? To what extent does this competition pose a threat to the CEB?

1.5 Relevance of the Research

1.5.1 Academic Relevance

Due to the small size and not very significant position of the corporate banking in the Czech Republic in regards to the global financial market, there is not much academic literature written about this issue. Therefore, any additional scientific and academic research in this area is highly valued, because it provides a base for further investigation. The results of this research will provide a comprehensive up-to-date analysis of banking in the EU and in the Czech corporate banking sector, an analysis of the position of the Czech Export Bank and a description of the competition within the sector.

1.5.2 Managerial Relevance

Managerial relevance of the research lies in gaining better understanding of the strategy of the Czech Export Bank in the Czech corporate banking sector and in enabling the evaluation of the benefits of the commercial banking, when pitching to the clients. In addition, it is important to be aware of the strategy of the CEB, because it is transmitting the export strategy of the Czech government. Lastly, recommendations are proposed for the managers who are selling trade and export financing products and would like to find new clients or co-operate on structured deals with the CEB.

1.6 Scope of the Research and Limitations

The research questions target the competition and the relationship between the Czech Export Bank and the corporate banking sector. The research is not focused on individual banks on the market, but rather, it is divided according to shareholders; either it is owned by the state or by private sector. Relationship between these two different types of banking entities is examined. However, the relationship between individual commercial banks within the sector, which are in rivalry, is not subject of the research. Moreover, the research is not taking into consideration the main stakeholders represented by a foreign debtor and a local supplier, and not looking at their position and point of view. Moreover, the banks are not willing to share sensitive data about their market share, operations, strategies with public, because what to prevent this data to be used by its direct competitors. In order to gather the most accurate data for the competitor analyses and the relationship between the ECAs and the commercial banks, the interviews with banking professionals were conducted.

1.7 Anticipated Results

The results of the research will provide a comprehensive analysis of the environment in the Czech Republic and the specific impact of the EU on the banking sector. The expected results will clearly define the main influencers, causing dominant position of the CEB. These would be linked with interest rates, the lending conditions for debtor, regulations and others. Another anticipated finding is the lack of regulation for ECAs and imperfect IMU system implementation by the government. Other results are expected to would support the dominant position of the CEB on the market, which is partly caused by the significant decision making power given to it by the state.

1.8 Structure of the Research paper

The chapter following the description of the context, where the fundamentals of the research are outlined, is the methodology. The focus of the methodology is on the development of the research, how the data were gathered and analysed. The chapter includes the research design, data collection, conceptual model, population and sampling and concludes with reliability and validity of the research. The next section provides explanation of chosen theoretical frameworks. Following chapter analyses what is already known about the macro-environment. Next chapter describes the characteristics of the CEB. Following chapter contains research results and analyses, summarizes the most important messages from the interviews, which are essential for the results and implementation of the industry concentration ratio, the Five-Forces Model and Generic Strategies Model is provided. The following chapter provides the conclusions of the research and answers all of the formulated research questions. Recommendations for commercial banks are identified and their limitations in regards to chosen theoretical concepts, chosen methodology and availability of data are explained, followed by detailed bibliography in APA format and the appendices.

2 Methodology

2.1 Research Design

An exploratory research design provides insights and clarifies the understanding of the research problem. The most fundamental element of the exploratory design is the flexibility of processes towards the research findings. The flexibility, in this context, is used to define the topic from broad to narrow perspective (Saunders, Lewis, & Thornhill, 2009). The research results based on exploratory research design are characteristic to be tentative rather than specific and accurate.

2.1.1 Data Collection and Data Analysis

The research was conducted in three steps. Firstly, a researcher gathered and analysed data in order to be familiar with the background and current situation of the research topic. Secondly, interviews with banking professionals were conducted, specifically focusing on the topic of the complementary role of ECAs and banks in the economy and rivalry between them. Thirdly, researcher implemented collected data to the theoretical framework. The research methods vary according to the research subject of the study and triangulation method is applied, which leads to higher creditability of the end research results (Saunders, Lewis, & Thornhill, 2009). The triangulation method is defined as " a validity procedure, where researchers search for convergence among multiple and different sources of information to form or categorize a study" (Creswell & Miller, 2000, p. 126). The research strategy is based on careful consideration of all possible risks such as limited number of interviews, availability of academic sources, limited amount of time and money.

In the first stage of the research, the deduction method is applied in order to explain macro-economical environment in top-down logical order. The secondary data contributed towards the formulation of the background information, which are needed for both the researcher and the reader to constructively build the research context and outline the outcomes of the research more thoroughly. The first stage is based on the prior research, current situation on the market and theoretical concepts. The analysis of the previous researches and data consists of international economic system analysis with emphasis on export, the establishment of ECAs, followed by analysis on national level such as state export strategy, the banking environment in the European Union and concluding with analysis of local corporate banking sector, and analyses of the CEB's position. Concluding, the sources for the macro-environment are mainly retrieved from academic journals, books and various publications published by institutions, which are aiming to support trade or export.

The second stage, consist of qualitative interviews were hold in order to provide an in-depth insight into the relationship between ECAs and commercial banks and their role in the Czech economy. Descriptive research design allows gathering of factual and accurate information from the interviews. The emphasis is put on the present variables and conditions, which are directly and indirectly influencing this relationship. The descriptive research method is used, causing higher creditability for identifying and classifying the specific elements characteristic for the relationship, industry and position of the CEB.

The third stage of the research is conducted in order to analyse the data according to the models formulated in the theoretical framework. The third stage of the research focuses on the competition on the corporate banking sector and CEB's unique position within the corporate banking sector and outlines recommendations for ensuring complementary role of the CEB. For this stage the inductive approach is used to enable close understanding of the research context developed in the first and second stage of the research.

2.2 Conceptual Model of the Research

The conceptual model graphically (see, Figure 2) demonstrates the logical order of the researched themes. Firstly, the macro-environment is described to ensure that the crucial factors of the economy are understood. Secondly, the importance of national export promotion is analysed and the role of ECAs is outlined, which is followed by the examination of possible impact of the EU regulations and requirements of the EU Banking Union on the current situation of the local banking sector. Fourthly, the analysis of the commercial banking industry in the Czech Republic is summarized. The last part focuses on investigation of the particular position of the CEB in the banking industry.

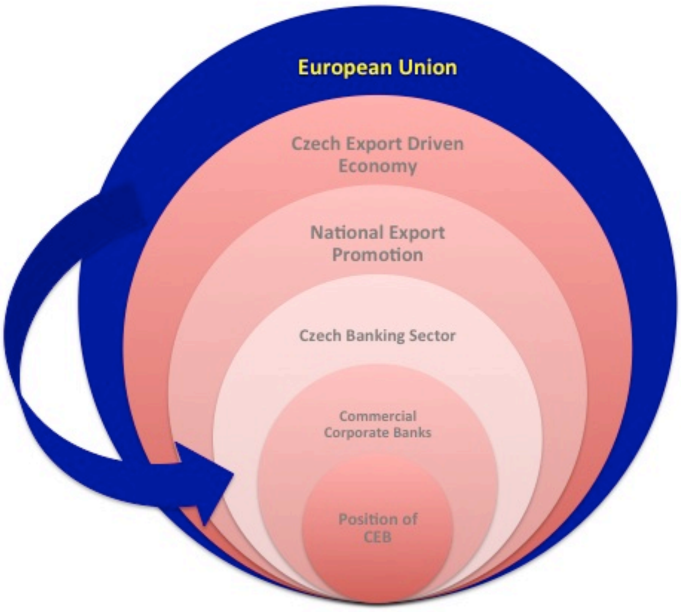


Figure 2 **Conceptual Model of the Research** (based on own ideas from the researcher)

2.3 Population and Sampling

Non-probability sampling method was implemented, because it does not require any statistical inferences, large size of population and representative sample. The most ideal sampling method is the purposive homogenous sampling, due to the reason that it focuses on in-depth data gathering from the qualitative research. Qualitative research is conducted through interviews with professionals working in banking sector either in ECAs or in commercial corporate banks. The interviewees are corporate bankers or managers in front offices with between six to twenty-one years of banking experience, who are in interaction with EGAP or CEB or any other rivalry banks, when working on syndicated loans or club deals. Eight in-depth interviews provided enough information for credible research. The interviews are conducted in one of the three ways: personally, via telephone, or via email, depending on the preference, time availability and geographical distance of the interviewee. The summary of the interviews is provided in the Appendix VI and is divided into relevant categories. Moreover, Appendix V provides the profiles of the interviewees and the dates, when the interviews were conducted.

2.4 Reliability and Validity

The reliability of the research is supported by various research methods used, which result in the key findings of the research. Reliability of the qualitative research is to *"understand a situation that would otherwise be enigmatic or confusing"* (Eisner, 1997 p. 58). The reliability of the research is in generating understanding of the research topic. To increase consistency of the findings of the research summaries of the interviews are provided in the Appendix VII.

To ensure validity of the outcomes of the research, the triangulation method is applied. The triangulation method is increasing the quality of a research, which is related to generalizability of the findings, resulting in higher validity and trustworthiness of the research (Golafshani, 2003).

3 Theoretical Framework

The theoretical framework chapter provides comprehensive explanation of the models used for the research. For the analysis of the corporate banking sector the Five-Forces Model is implement. The Five-Forces Model is a strategic tool used to analyse the competition within the sector. The Four-Firm Concentration Ratio is used for measure rate of industry concentration and to evaluate the state of the competition in project export finance. The last model used in the research is the Generic Strategies Model, which enables to determine the strategic position of the CEB with focus on its core competencies.

3.1 Five Forces Model

Michael Porter developed the Five Forces Model in 1989 and it is one of the most widely used strategic models for determining rivalry and competition within the industry. The model analyses consumers, suppliers, new entrants and substituted products and how these forces are affecting rivalry (see Figure 3).

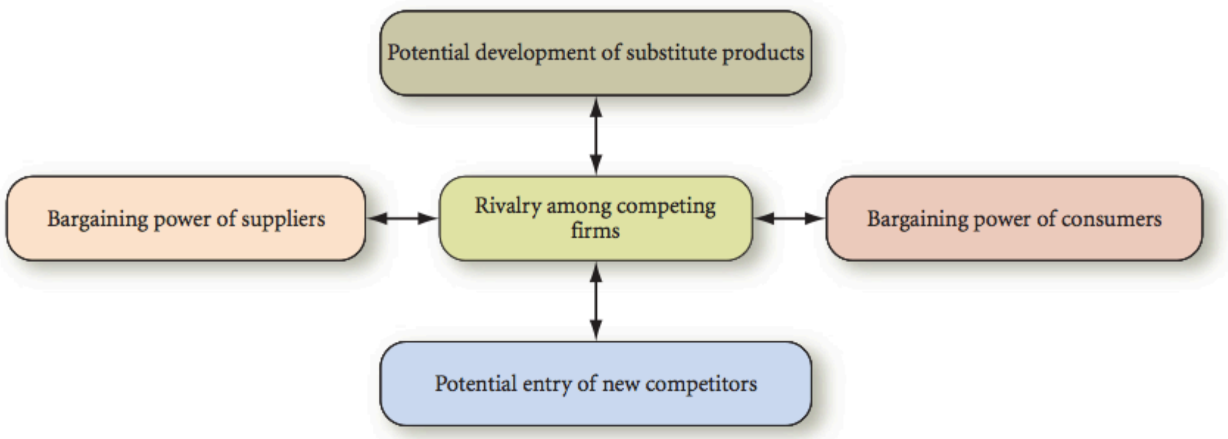


Figure 3**The Five-Force Model,** impact of the forces on the rivalry

Source: Fred R. David, p. 74

The model identifies three factors in the chosen industry and determines the possible profitability (David, 2011)

1. Identify key aspects or elements of each competitive force that impact the firm.

2. Evaluate how strong and important each element is for the firm.

3. Decide whether the collective strength of the elements is worth the firm entering or staying in the industry.

The model is used to evaluate and gain understanding of the industry in which the company is operating (Porter M. E., 1999). This model was chosen because the outcomes provide the researcher with the drivers of the competition and profitability influencing the competition in long and medium run (Porter, 2008), which the researcher needs to find out and consider for formulation of the conclusions and recommendations. As well as, because the Five Forces Model is widely used by management consultants, businesses journalists and other strategists. To mention some criticism, according to Steve Denning, leadership and management writer, the model should be re-examined and the whole focus of the company's strategy should not be only based on the competitor's position (Denning, 2012). This is a valuable critique, however, it does not have a significant effect on this research, since the aim of this research is not to create a strategy but rather to understand the rivalry.

3.2 Industry Concentration

Industry Concentration is an economic tool for measurement oft he degree of market control and competition of dominating players. Industry concentration can be measured with two different methods. The first one is the Herfindahl-Hirschman Index (HHI), which is widely and commonly accepted and the other one is the Four-Firm Concentration Ratio (CR_4), which is older and focuses only on major players. The HHI is measuring concentration according to the market share of each company in the industry, while CR_4 measures the market share of the four largest companies. (Shughart II, 2008). Despite the fact that HHI is considered to be more accurate, because it takes into consideration entire industry, for this research the CR_4 was implemented. CR_4 is used due to the limited availability of data, only the data for the market leaders could have been obtained.

3.2.1 Calculation of CR_4

$$\mathbf{CR_4 = (X1 + X2 + X3 + X4) / T}$$

X= the market share of a company
T= sum of companies

3.2.2 Classification of the concentration

Low Concentration: 0-50%characteristic range from perfect competition to oligopoly.

Medium Concentration: 50-80% characteristic range for oligopoly.

High Concentration: 80-100%characteristic range from oligopoly to monopoly.

3.3 Generic Strategies Model

The Generic Strategic Model was implemented in order to effectively determine the crucial factors of the CEB strategy, which are influencing its position within the banking sector. The Generic Strategies Model was developed by Michael Porter in 1980s with the purpose to describe a competitive advantage of a company. The competitive advantage lies in one of the three "generic strategies" (please, see figure 5): cost leadership, differentiation and focus. Cost leadership means either offering the lowest price or the best-value on the market. Differentiation means offering a unique product for price in-sensitive customers. Focus generic strategy means focusing on small range of customers either with the lowest price or best value available on the market (David, 2011). It is considered that generic strategy can create and ensure a defensible position within the sector in the long-run (Yamin, Gunasekaan, & Mavondo, 1999). There are two different perspectives on Generic Strategies Model in the academic literature. The first assumes, as Porter does, that firm has to choose one strategy and devote to it (Dess & Davis, 1984). On the contrary, some authors believe that a company has to combine two strategies to succeed (Wright, Knoll, Caddie, & Pryingle, 1990).

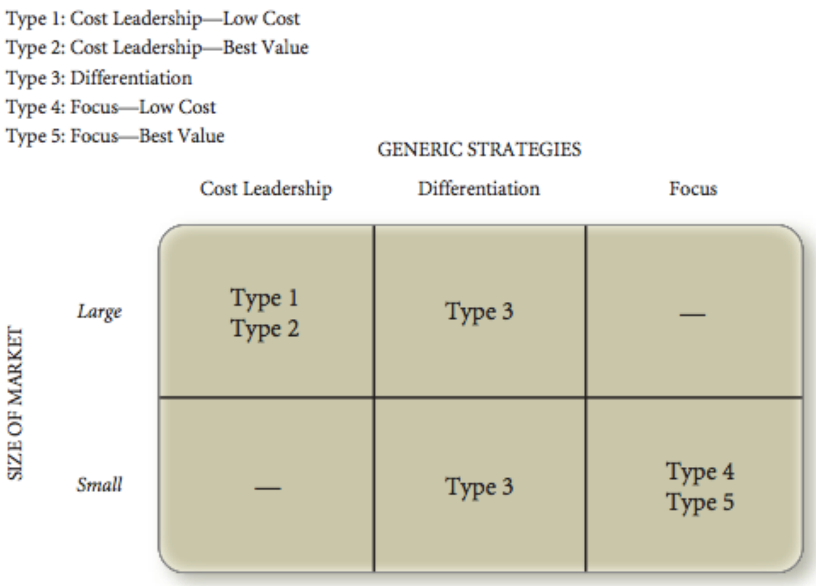


Figure 4 **Porter's Five Generic Strategies**
Source: Michael E. Porter, p. 45-40

4 The Macro-environment

The macro-environment chapter consists of three sections; the first section is an overall analysis of macro-environment of international trade with the importance of export, where the motivation behind the establishment of ECAs is outlined. Following section is focusing on the international trade on the national level, thus, on the relation of the Czech export strategy to the banking sector, plus the CEB as ECA is analysed. The last section describes the banking environment within the EU and in the Czech Republic.

4.1 The role of Export for the Economy

In the recent decades, dramatic globalization of business occurred as a consequence of the liberalization of trade policies, more stable monetary transactions, economic integration across regions, convergence of customer preferences and growth of technology advances (Katsikeas, Leonidas, Samiee, & Theodosiou, 2006). This pushed small and medium enterprises (SME) to develop export-led strategy to attract overseas markets and to expand across the regions. Importantly, export strategy and expansion have become the fundamental matter of survival, rather than a choice, for many businesses, which are facing challenging economic situation (O'Cass & Craig, 2003). However, the first attempt to explain the free engagement of the countries in international trade can be dated back to 1876 with Adam Smith's theory of absolute advantage. The theory explains that bigger export and restricted import of a country leads to more power and wealth (Krugman & Obstfeld, 2003). Peter Drucker, in 1986, asserted on the changing economic situation on the global market as: " From now on any country – but also any business … that wants to prosper will have to accept that it is the world economy that leads and that domestic economic policies will succeed only if they strengthen, or at least not impart, the country's international competitive position." (p. 791).

The importance of the national export strategy is, therefore, crucial. It is not that simple to export, because of various challenges and obstacles are involved in the process, such as environmental, governmental or procedural with different frequency, intensity and importance (Leonidou, 2004). These obstacles are limiting the engagement of export opportunities in the international trade and harming operating performance of existing exporters. (Leonidou &Katsikeas, 1996) To reduce these obstacles and limits for the exporters, national strategies and policies are formulated. In addition to these, many governments offer assistance to private sector businesses via wide range of export programs (Leonidou, Theodosiou, & Dayananda , 2011). In 1970, after economic slowdown, the governments of the biggest export countries started to increase their credit support to boost their export to developing countries via ECAs. The first ECAs were established in 1920 and the current ones were set up in the last 35 years (Stephens, 1999). In 1937, the Berne Union was set up by private and export credit agencies from Spain, France, Italy and the United Kingdom. Lately, the Prague Club was established to provide support to new and maturing ECAs. For this reason, the OECD started to regulate ECAs and issued guidelines on official export credits (Felonis, 1984).

National export policies have a crucial impact on the integration of a country's economy to international one and reinforce their competitive advantage (Faroque & Takahashi, 2012). A competitive export strategy is an essential feature of an economic agenda in 21st century as well as a critical factor of the commercial and national growth (Katz & Istrate, 2011).

4.2 Export Credit Agencies

The export credit agencies (ECAs) are the prime players of global business and investment. However, the ECAs are subject to low transparency, inadequate monitoring, corruption and low accountability (The Center for International Environmental Law, 2003). The main function of ECAs is to provide state-backed loans to exporters in order to increase export activities and engagement of the local companies in international trade in emerging and developed countries. The main activity of ECAs is providing export credits and investment insurances (OECD, 2014):

- ✓ **Export Credits** are in form of loans with repayment from two to ten years and indirect guarantee or insurance by ECA for commercial loans. The insurance is covering political and commercial risks.
- ✓ **Investment Insurance** is covering political and economic risks, which are related to foreign investment.

Much theoretical research has been done analysing the positive and negative impact of ECAs on trade. The most fundamental benefits are the support of international trade, domestic production, growth of country's employment rate, development of small and medium size businesses and growth of the developing countries. In contrast to often mentioned negative effects of ECAs are the distortion of the international trade, moral hazard and support of only a small scale of businesses in a home country. In addition, a negative impact on the environment, low interest in a sustainable development of international trade and in living conditions of local communities, as well as often involved corruption are also criticized (Gianturco, 2001) and (Sohn, Harmon, Crescencia, & Carbonell, 2005). Nevertheless, role of ECAs on international trade is crucial and co-operation with private sector should be strengthened for benefits of both. According to the president of the Berne Union, Dan Riordan, the cooperation between ECAs and private sector is the most fundamental "particularly in transactions or projects that exceed either the capacity of private insurers or the capacity of ECAs"(Berne Union, 2013).

4.3 Export Strategy of the Czech Republic

The first national export strategies were formulated in the 90's, after the change of political regime and economic transformation in the Czech Republic. With reorganization of the state authorities and formulation of new legislation focusing on global trade, the main pro-export institutions were established (Plchova, Žamberský, Aušer, & Hermánová, 2003). In 1992, it was EGAP, followed by the establishment of the CEB in 1995,and two years later Czech Trade, an agency supporting trade, was founded.

According to the KPMG report "Investment in Czech Republic", the main macro-economical challenge, after the financial crisis in 2011, is to come out from the long-term recession, originated from the poor performance of the Eurozone countries, the destination of the vast majority of the Czech export, and the low local demand and investment in contrast with growing export, due to the reason that the export represents the main driver of the Czech GDP (see Figure 5).

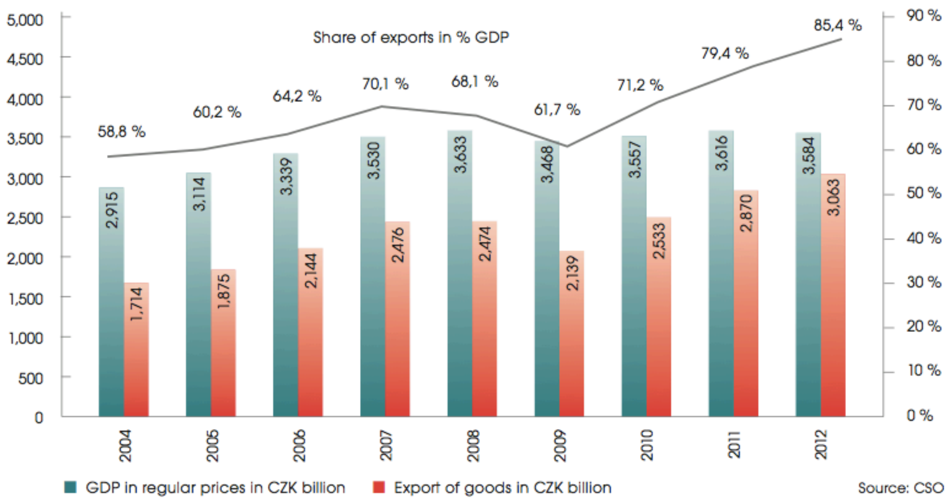


Figure 5 **Contribution of export in GDP of the Czech Republic**

Source: Annual Report of Czech Export Bank 2012, 2013. Page 27
(FX rate according to ČNB, 31.12.2013, was 1 EUR = 27.425CZK)

In 2012, the government of the Czech Republic formulated International Competitiveness Strategy 2012-2020, aiming to be among the 20 most competitive countries in the world by 2020 and to have secure future in a globalised world. The export strategy is based on the aim and concern of the International Competitiveness Strategy (see Figure 7)(Ministry of Trade and Industry, 2011).

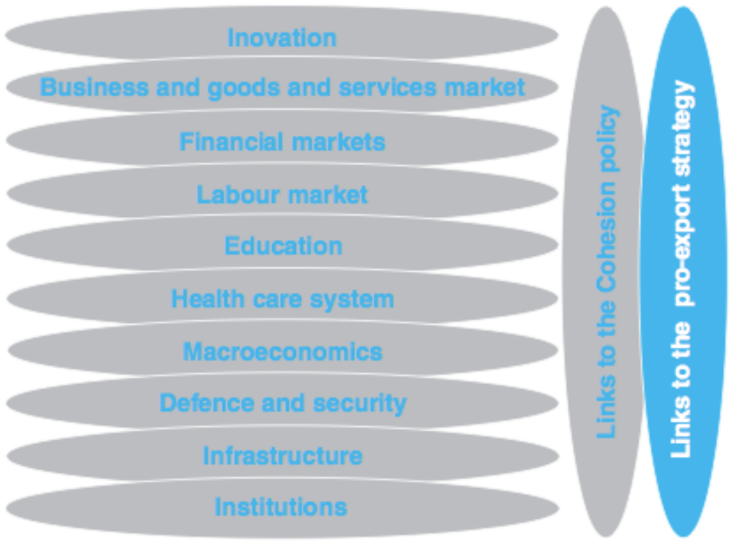


Figure 6 **Integration of the Export Strategy as a cross- Competitiveness Strategy 2012-2020 for the Czech Republic**

Source:2012-2020 International Competitiveness Strategy for the Czech Republic, 2011

Each year, the Ministry of Industry and Trade releases a report mapping implementation of the export strategy. For 2012-2013, 9 projects were described. The most relevant for the banking sector is the Project No. 7: Supporting export in the form of export financing and insurance with state support (detailed description of the project is available in Appendix III.). The aim of the project is to increase the assistance provided by the CEB and EGAP for the Czech exporters and expand the export outside of the EU in order to limit economic interdependence. Moreover, the project is aiming to make the IMU (Interest Make-Up) System more consistent and attractive for commercial banks. "IMU system represent a new product in the area of export financing, which facilitates access by commercial banks to state-supported export financing and which is sought after especially for long-term business deals with elements of project financing"(Ministry of Industry and Trade, 2013, p. 15). The aim of IMU system is to integrate commercial banks into Czech national export strategy and guarantee a fixed interest rate for export financing. The IMU system is targeting SME and encouraging their expansion. The IMU is based on bidirectional topping fixed interest, according to CIRR, which is quarterly defined by OECD, with the cost of resources of commercial banks from or to the state budget. CIRR is a fixed minimum interest rate at which banks may grant loans for export support, while it has to comply with international rules and cannot be considered as illegal aid for export. CIRR is derived from government bond yields on the market in the relevant currency. This rate is increased by margin of 1%, however CEB is free to increase by more basis points. OECD is announcing CIRR every month. The consequence of IMU system is that commercial banks will not ask the funds from the CEB as it is currently, but the financing will be provided according to CIRR and the difference will be paid from the state budget (Břicháčkova, 2009). The problem with the IMU system is the fact that its regulator is the Ministry of Finance, but the main decision maker for granting it is the CEB, which may cause information asymmetry.

4.4 European Banking Union

The prime aim of the European System of Central Banks is to maintain price stability, conduct foreign exchange operations, hold and manage the official foreign reserves and promote the smooth operation of payment systems (Czech National Bank, 2012). Currently, the Czech National Bank is a member bank of the European System of Central Banks including all 28-member countries, but is not a member of the Eurosystem, which consists only of the Eurozone countries. Therefore, the CNB is managing its national monetary policies independently. The EU is regulating the banking environment and is issuing different regulations, which has to be adapted by all member states. The most recent regulations were EMIR and BASEL III (definition available in the list of terms).

The latest banking regulatory reform in the EU zone, which is aiming to form the European banking union, has been approved in March 2014. The EU banking reform is considered to be "the biggest shake-up for the last 20-years"in the EU (Financial Times, 2014, p.1). The creation of banking union is aiming to stabilize the financial sector of euro area and make it safer and more transparent, create greater homogeneity of monetary policies in the countries toward single market and introduce instruments of crisis management. Membership in the banking union is compulsory for all euro countries, however, voluntary for non-euro countries. The banking union is formed as a response to the economic and financial crisis emerging in 2009, which had a negative impact on the economies of the EU member countries. The banking union is aiming to minimize the impact of the crisis and prevent the EU from negative impacts of future crisis. The banking union is set up on three pillars, which represent a single rulebook for the financial institutions. The first pillar defines a single supervisory mechanism for euro-countries, moving supervisory authority from national to the European level represented by European Central Bank (Casert & MgHugh, 2014). The European Central Bank (ECB) can intervene directly in failing banks and allocate losses between the creditors and the owners. In some cases, the ECB can provide public funds for outstanding shortfalls (The Economist, 2013).

The second pillar represents introduction of the Single Resolution Mechanism to deal with failing banks, ensuring minimal cost for the taxpayers. The banks will pay a contribution to the Single Resolution Fund, which is supervised by the Single Resolution Board. For the detailed function of single resolution mechanism model, see Figure 7. The third pillar is common deposit-insurance scheme to prevent and eliminate bank runs (Plihon, 2013).

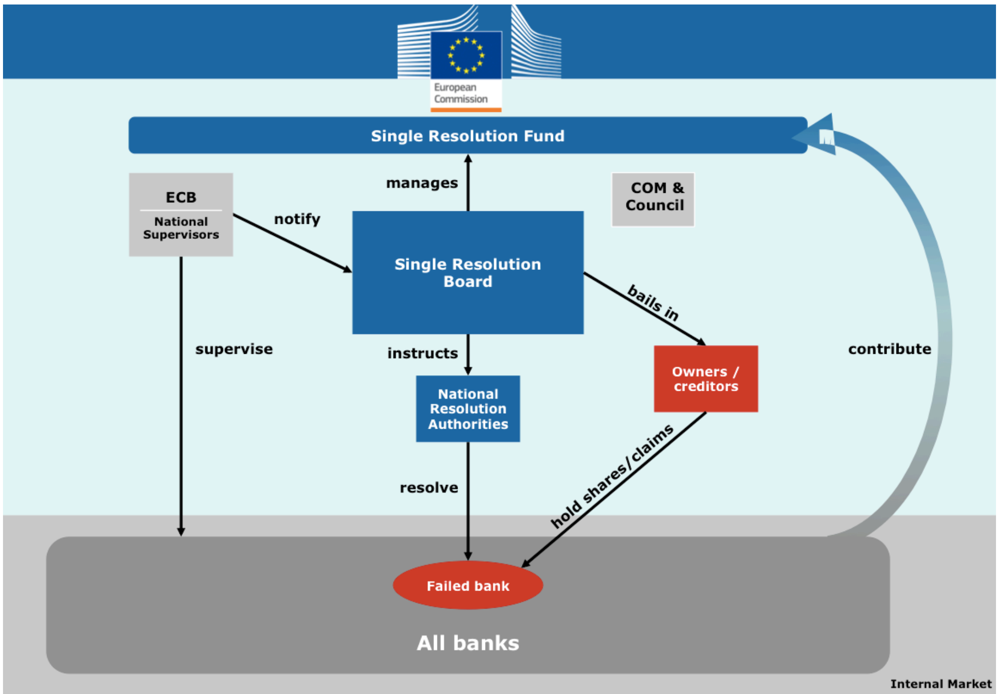


Figure 7 **Single Resolution Mechanism**

Source: State of play of the Banking Union, European Commission 28.3.2014. Page 7

Czech Republic is sceptic about the European Banking Union introduced by the EU. One of the main concerns is that almost 90% of banking industry is owned by the European financial institutions. This regulation would make it easier for the parent banks to drain liquidity from the well-funded local subsidies, what would negatively affect the local market (Cienski& Buckley, 2013). As Andreas Treichl, CEO of CeskaSporitelna, which is the market leader and part of the Erste Group, warned that if any of the European Union (EU) member states, including the Czech Republic, fail to participate in the banking union, it could lead to the disintegration of the EU (Hudema, 2013). The disintegration would be even worse for the Czech Republic, because of the high financial interconnectedness with the EU. On the contrary, CNB governor Miroslav Singer doubts the advantages of joining the European Banking Union under the present circumstances (The Czech News Agency, 2013). The Czech Republic is not pro-EU oriented and the scepticism toward the banking union is present from the beginning, since in 2012 the Czech Republic wanted to veto the banking union (Reuters, 2012). Because of these reasons, it is unlikely that the Czech Republic would enter the banking union voluntarily in the near future.

4.5 The Czech Corporate Banking Sector

The Czech corporate banking sector, as well as, the private banking sector were formed in the last decade of the 20th century after the fall of communist regime, when a massive privatization of national banks by their current foreign parent banks occurred (Pulpanova, 2007). The situation has not changed and the sector is still dominated by financial institutions under foreign control. More than 85% of the banking sector assets, deposits and loans are controlled by foreign institutions from which 93% are of European origin. The Czech Republic has dual banking system since 1990.The first level is represented by central bank, Czech National Bank, which is the highest financial institution of the banking sector. The second level is made of commercial, investment, mortgage and saving banks. Dual banking system is characteristic for market economies (Ptatschekova & Dittrichova, 2013). Such a banking system ensures a separate functioning of central bank and other banks within the sector. The central bank is regulating market as supervisory authority and does not provide any services to its clients. Dual banking system has more banks, which are

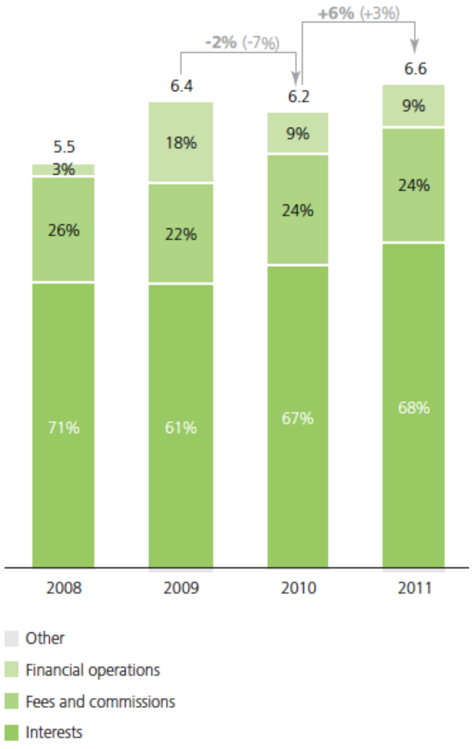


Figure 8**Income Structure**

Source: The Banking Sector in Central Europe, Performance Overview, Czech Republic 2012, Page 16 specialized in different activities. Moreover, dual Banking system is further divided into different categories. Most of the EU countries as well as the Czech Republic has universal model of dual banking system. Universal model does not separate commercial and investment banking, banks can provide commercial and investment services at the same time, what is characteristic for one stop banking.

The global financial crisis has negatively affected the banking sector and caused a collapse of several banks, however, none of them had received the state bail- out (Ptatschekova & Dittrichova, 2013). Nevertheless, the banking sector is still able to be efficient and profitable. The profit generated after the crisis on the Czech market was used to strengthen Western parent banks. The interests from loans are the major factor of the income for the banks (see, Figure 8). In January 2014, the average interest rate to non-financial institutions dropped by 8 basis points to 2,18% (Czech Banking Association, 2014). Moreover, the margins for corporate clients are constantly declining. At the beginning of 2013, it was slightly below 2% (CNB, 2013). The loan-to-deposit rate was 96,4 % in 2011 and around 92% in previous 10 years, showing that the lending is aligned with the expansion of deposit base (Deloitte Center for Financial Services, 2012). The cause of high level of liquidity, which is creating a positive marketability as one of the best in the EU (see, Figure 9), results in low dependence of local banks on international banking sector (Czech Banking Association, 2013). The contribution of the banking sector to GDP is 2.77% (Czech Banking Association, 2013).

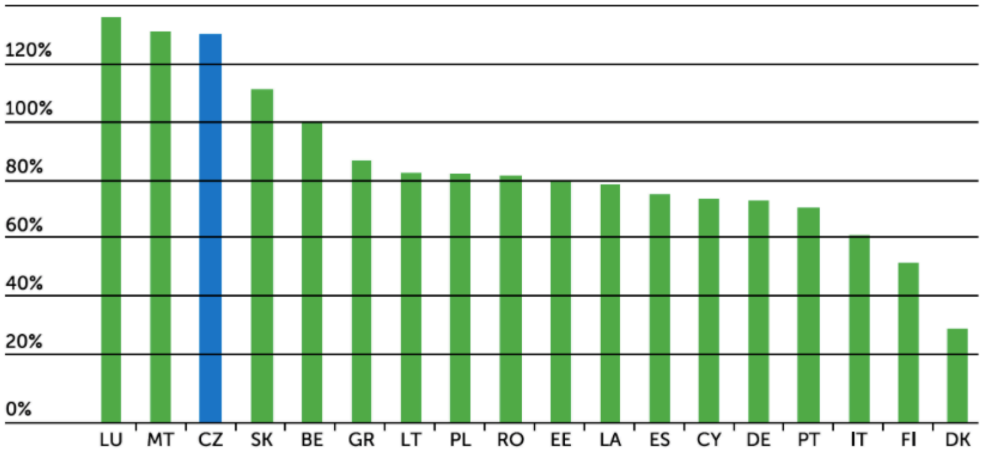


Figure 9 **Deposit-to-Loan Ration in selected European Countries**

Source: FSI IMF and Czech Banking Association, last data available Q4 2012

4.5.1 Corporate Banking Sector with focus on Project Export Financing

Cesko-Slovenska Obchodni Banka, CSOB (KBC), Komercni Banka, KB (Societe Generale) and Ceska Sporitelna, CS (Erste), UniCredit and Raiffeisen Bank have the dominant position in the commercial banking sector, together controlling approximately 90% of the entire banking market. The state has a stake in two banks, Czech Export bank and Cesko Moravska Zarucni a Rozvojova Banka (HSBC Bank, 2014).
Corporate Banking sector can be divided into three main categories:

1. Traditional local banks (all privatised and locally incorporated)

Česká sporiteľňa (Erste Group), Komerční Banka (SocieteGenerale), ČSOB (KBC)

2. Significant foreign players (local subsidiaries)

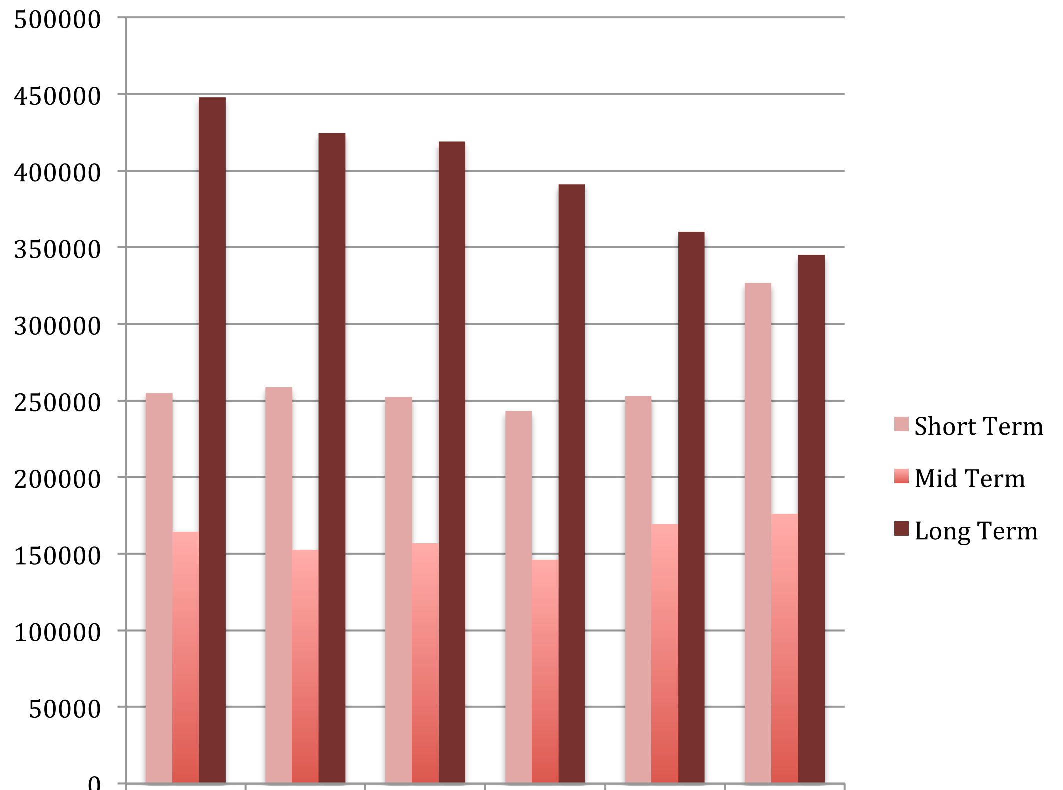
UniCredit, Raiffesissen

3. Others

Citi, ING, HSBC, RBS, Commerzbank, … (HSBC Bank, 2014).

The demand for the investment loans is low, however, in April 2013 rose by 1.5% despite the fact of high uncertainty in economic situation (Czech Banking Association, 2013) and it is forecasted to increase by 4,3 % in 2014 and 6,6 % in 2015(Czech Banking Association, 2014). The lending capabilities of the local banks are relatively high, because the major players such as Ceska Sporitelna, Komercni Banks and CSOB have a lot of free cash, which needs to be placed into the market. Overall, there is enough liquidity on the market, therefore, there is eliminating price competition between banks.

According to the CNB database, most of the volumes of loans in banks' portfolios are the long-term ones, on which the project export financing is focusing, followed by the mid-term and short term loans (see, Figure 10). As indicated in Figure 10, there is a constant growth in long-term funding provided by corporate banks, while the fluctuation is observed in short and mid-term loans for non-financial institutions. In the first Quarter of 2014, there has been increase in non-financial clients by 2,6% (Czech Banking Association, 2014).



	2013	2012	2011	2010	2009	2008
Short Term	255005.3	258687.7	252300	243276	252783.3	326849.6
Mid Term	164124.9	152380	156695.5	145896.3	169229.7	176092.8
Long Term	448011.3	424305.6	419058.9	391252.2	360171.5	345126

Figure 10 **Loans and Liabilities for Non-financial clients in Corporate Banking Sector (mil CZK)**

*(Short Tem- Less than 1 years, Mid Tem- 1-5 years, Long-Term – 6 years)
Source: Data from CNB processed by the researcher

However, the market has a high number of banks, 44 banks in total with 30 of them offering corporate banking services. Therefore, the banks differentiate themselves on the market mainly according to their parent bank such as Commerz Bank is focusing on the German businesses, Komercni Banka on French businesses, UniCredit on Italian, City bank on American, HSBC Bank on British, Chinese and Hong Kongese. For many of these, it is hard to gain significant market share outside their scope of interest. The most relevant banks for the research are the ones, which are offering project-export financing. The main players according to EGAP are Ceska Exportna Banka, Komercni Banka, PPF Banka, Cesko-Slovenska Obchodni Banka, Ceska Sporitelna,HSBC Bank – branch office Prague, UniCredit Bank Czech Republic and Oesterreichische Kontrollbank Aktiengesellschaft.

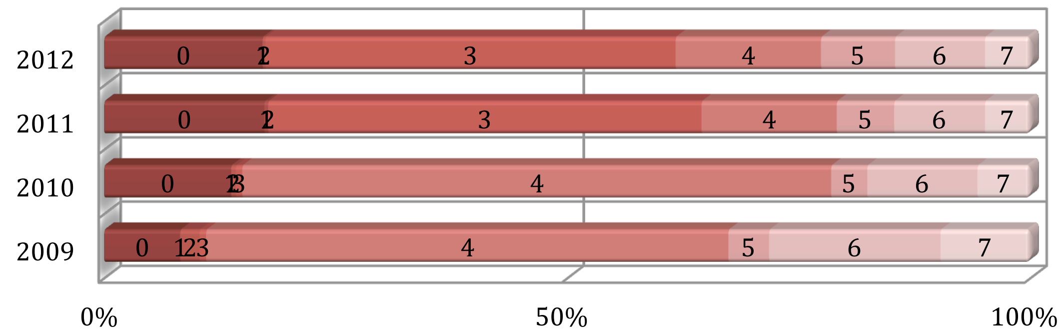
5 Czech Export Bank

Czech Export Bank "Česká exportní Banka" was founded in 1995. The main shareholder of the bank is the state with 80% and EGAP owns the other 20% of the shares. From the balance point of view, the CEB belongs to medium size banks with dynamic growth and market share reaching 1.75% in 2012 (CEB, 2014). All activities of the Czech Export Bank are in full compliance with regulatory requirements of World Trade Organization (WTO), OECD, the EU and the local law Act No. 58/1995 Coll on Insurance and Financing of Exports, with State Support.

- ✓ **WTO:** the most significant regulations are adopted in Agreement on Subsidies and Countervailing Measures (ASCM). ASCM defines the type of subsidies, which are permitted or not and defines countervailing duties. (World Trade Organization, 2013).
- ✓ **OECD:** consensus contains the basic principles for granting export loans with more than two years pay-back, defines required minimal insurance, interest rate, minimal value of pay-back and maximal length of the loan. Consensus defines a framework for the provisions of export credit guarantee in order to reduce risk of the exporters, while still maintain competitive price. The consensus provides the security to other countries that the supported country will not use the export guarantee to harm other business players. (Felonis, 1984).
- ✓ **EU:** the rules from the OECD consensus are incorporated into the EU legislation. The effort to harmonize main provisions concerning export credit insurance for transactions with medium and long-term cover is outlined in Council Directive 98/29/EC. The directive is elaborating on insurance covering, insurance premium and politic covering of risks of import countries. However, it is not limiting the functioning of ECAs anyhow.
- ✓ **Act No. 58/1995 Coll:** defines the Czech requirements and ownership of ECAs and defines their roles. In addition, it describes how the losses and profits of the export bank are managed and what are the conditions of state support funding.

The prime aim of the CEB is the long-term export financing loans exciding two years repayment period to higher and high-risk countries with territorial risks. The level of the risk is classified quarterly by OECD. In general, the Czech export is coming mainly to its neighbouring countries, which has 0 country risk according to OECD and the export to these countries represents 51% from the total export. As stated in 2012 Annual Report of the CEB, the CEB is providing financial funding "where Czech commercial banks are, for various reasons, not eager about providing export finance" (Ceska

Exportna Banka, 2013, p. 22). The following Figure 11 and Figure 12 show the territorial portfolio of the CEB and compare the CEB's export with the overall Czech export. From the Figure 11 it is clearly demonstrated that the main focus is on countries with classified risk above 2. However, there is a significant and growing portion in countries of 0 risk. The Figure 12 demonstrates that the CEB is active in the countries with medium and higher territorial risk, while 84% of total Czech export in 2012 was to countries from zero to not very high risk countries, which are the countries classified from 0 to 2 according to OECD scale. The CEB contributed with 82,6% to countries with higher risk from 3 to 7.



	2009	2010	2011	2012
0	8.2	13.7	17.3	17.1
1	0	0	0.4	0
2	2.1	0.5	0	0.3
3	0.7	0.7	46.8	44.3
4	56.4	63.6	14.6	15.7
5	4.4	3.9	6.2	8
6	18.5	11.9	9.8	9.7
7	9.7	5.7	4.9	4.9

OECD's Country Risk Classification

Figure 11**Territorial Portfolio of the CEB 2009-2012**

Source: Annual Report of the CEB from2009, 2010, 2011, 2012 Year processed by the researcher

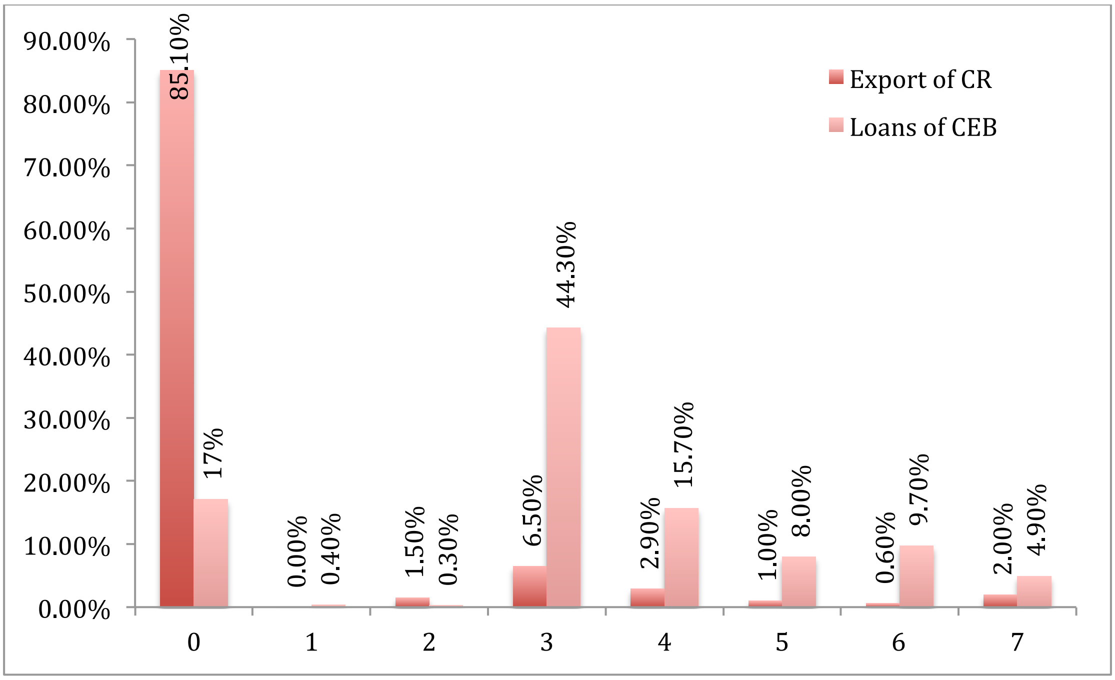


Figure 12 **Structure of the Czech Export versus loans of the CEB in 2012 according to OECD's Country Risk Classification**

Source: Internal source from the CEB (based on data from CEB, OECD, CSO)

5.1 The CEB Strategy 2014-2018

Strategic vision of the Czech Export Bank for 2014- 2018 was defined in 2013 based on the national Czech Export Strategy, which is briefly described in chapter 4.3. The bank wants to present itself as a transparent, active, trustworthy, organically growing institution with the focus on the quick response and simple internal decision-making. Creditability and stability of the debtor are the most important. Furthermore, the bank does not place any restrictions on countries, which is caused by the fact that the prime drivers are Czech companies with projects in economically and politically stable, growing or emerging economies (Ceska Exportna Banka, 2013). The strategic goals are based on the state political concepts for export financing. The strategy of the Czech Export Bank is based on 10 fundamental areas, which are perceived as the key for the future development and expansion(see detailed strategy in Appendix III.)(Ceska Exportna Banka, 2013).

Goal 1. **Support of Exporters in a role of financial suppliers**

Goal 2. **Increase the number of supported exporters**

Goal 3. **Support of investment activities**

Goal 4. **Territorial Diversification**

Goal 5. **Concentration on support of export**

Goal 6. **Optimizing the relationship**

Goal 7: **Looking for another ways of supporting export**

Goal 8: **Ensuring financial stability of Banks**

Goal 9: **Expansion of the investor base**

5.2 Position within the Sector

The CEB's position is specific on the local banking sector because of the following (Ceska Exportna Banka, 2013):

- ✓ The CEB is providing loans only for financing exports and services immediately related to exports. Therefore, the spectrum of the business activities on the contrary to commercial banks is very narrow and limited.
- ✓ Financing of export can be provided only to specific number of entities requesting export funding. These exporters have to have registered office in the Czech Republic.
- ✓ The CEB is committed to provide supported export financing to local exporters according to International regulation and guidelines of "OECD Agreement to officially supported export credits". While, the CEB is also providing loans, which are not in line with OECD Agreement under market terms.

The CEB is considered as medium size bank in comparison to locally operating banks. The CEB is continuously growing in terms of its share of the total assets of all the Czech Republic's banks, the latest share increase was from 1.69% to 1.75% (see Figure 15)(Ceska Exportna Banka, 2013). While Figure 16emphasizes the historical development of the CEB's assets in contrast to development of the whole banking sector's assets in the Czech Republic. From the graph, it is clear that the growth of the CEB's assets is much higher that the cumulative growth of assets of the whole industry.

	2011			2012		
	Banks in total	ČEB	CEB's share	Banks in tota	ČEB	CEB's share
Total Assets in CZK'm	4,609,808	78,063	1,69 %	4,778,450	83,494	1,75 %

Figure 13 **Development of the CEB share from 2011 to 2012**

Source: CEB and ČNB (Banking statistics)

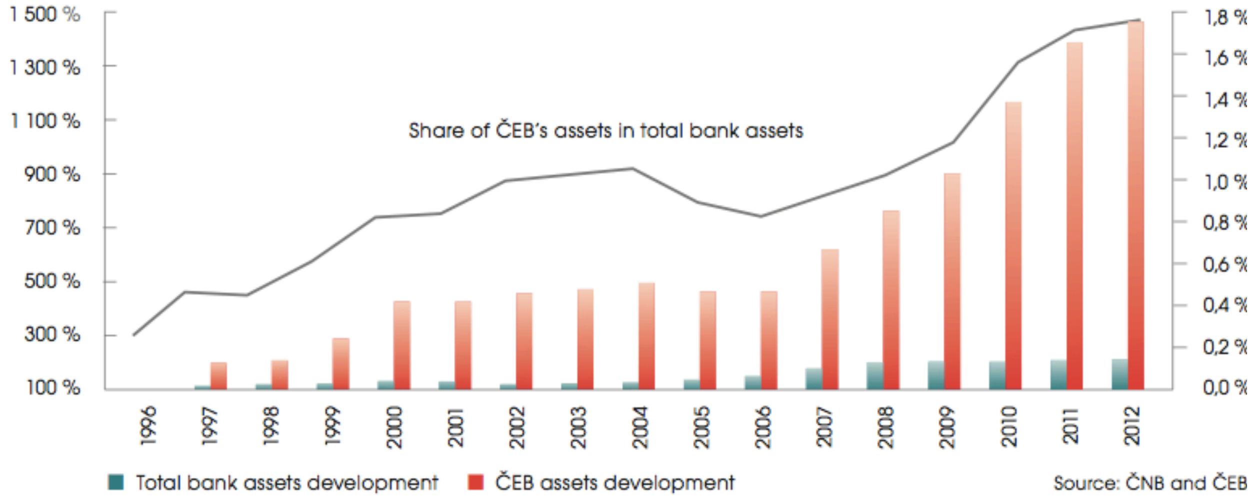


Figure 14 **Development of CEB share in the Czech Banking Sector (Asset in 1996=100%)**

6 Research Results and Analyses

6.1 Primary Research Results

The following section summarizes the key findings from the primary research, which was conducted in form of in-depth interviews from between 11th and 23th April 2014 in Prague, Czech Republic. The total sample consists of eight interviews, from which two interviewees are working in Credit Export Agency (EGAP and CEB) and six are working in commercial banks. The findings are divided into two categories focusing on the position of CEB and on the position of commercial banks within the Czech banking industry. The complete profile, and summaries of the interviews are available in the Appendix V and Appendix VI.

6.1.1 Position of the CEB

- ✓ The CEB was established in 1996 as response to insufficient and underdeveloped banking sector in the Czech Republic in order to promote export activities of the local exporters and strengthen of the country on the international market.
- ✓ The CEB perceives the relationship with commercial banks as cooperative, while commercial banks classify this relationship as competitive.
- ✓ The CEB is currently dominating the market in project export financing, due to the large volume transactions and interviewees assume that any other ECA does not have a market share above 10% within the EU region.
- ✓ For the CEB, the application procedure for deals consists of much less administration in comparison to commercial banks, which are very risk-conscious.
- ✓ Current monopolistic position of the CEB due to the CIRR (fix interest rates) defined by OECD, what is the cause of inefficient implementation of the IMU system. In addition, the CEB is administrator of IMU system. Nevertheless, in majority of the cases, the CEB adds three basis points as margin to CIRR.
- ✓ Deals made by the CEB are not limited to specific industries or countries, what is typical for commercial banks. However, in order to diversify the portfolio, the CEB has sector limits to prevent that the portfolio is not based only on certain industries.
- ✓ The CEB should only invest to countries, which are classified according to OECD with risk from 0-3 in order to pay back of the loans. While it is advised not to lend money to the countries above the 4 risk level. The CEB should only fund the

industries in these countries (0-3 risk level), where the commercial banks have no appetite for.

- ✓ The CEB had an important position during the global financial crisis, as commercial banks were not financing risky deals. During the financial crisis, around 70% of all loans insured by EGAP belonged to the CEB.
- ✓ Competitive advantage of CEB is in its state guarantees and in the funding from the state.
- ✓ The CEB has obligation to insure 92% of all deals, while 8% consist of deals within the EU, which have volume less than 50 millions EUR with repayment period of two years.
- ✓ To ensure that the deals are of interest of the Czech Republic, the export project has to include at least 50% of project investment of the Czech origin.
- ✓ The CEB's prime aim is to only finance deals, which would not receive financing by the commercial banks.
- ✓ The CEB is not requiring any proof from the clients that the deal was refused by the commercial bank. However, this practices was part of the procedure in the past.
- ✓ The CEB is perceived as the most corrupted and the least transparent state institution. The bad reputation has its root in bad management decisions, which were profit oriented rather than focusing on support of the exporters.
- ✓ The CEB is eligible for 1% of its total volume of the deals for covering of operational expenses.
- ✓ The CEB is the initiator of the club and syndicated deals.
- ✓ The CEB activities can lead to distortion of the market competition.
- ✓ The acceptance of the European Banking Union can lead to re-consideration of the role of the CEB.
- ✓ Due to current lost of reputation of the CEB and governmental changes, there are three options for function of the CEB introduced by the current government. Firstly, the reform of the legislation to prevent from the risky deals, secondly, possible merge with EGAP or thirdly, loose of banking license leading to creation of an agency instead of a bank.

6.1.2 Position of the other commercial banks

- ✓ Export financing of the major banks represents a small portion of the total portfolio, which is the reason why their collective power remains insignificant.

- ✓ Corporate banking is dominated by the traditional banks, which were privatised (CSOB, Ceska Sporitelna, Komercni Banka, Raiffeisen Banka).
- ✓ Customers have a small bargaining power, unless they are the top tier companies. However, one the main drivers of the competition is the product competition with focus on the quality of products and services.
- ✓ The trustworthiness and reputation of the bank is also important factor for the companies, mainly after the global financial crisis. It represents one of the competitive advantages and is crucial for the bank to maintain it.
- ✓ The competition is not influenced by the price. Because of the stable market liquidity, banks are willing to decrease the interest rates. On the contrary, banks are reluctant to decrease the fee payments.
- ✓ There is large number of banks on the Czech market compared to other developed countries. Therefore, it is very difficult to gain a significant market share for the new banks on the market.
- ✓ The switching costs between banks are not high, however, the relationship is more valuable and it is one of the prime reasons in decision-making. In addition, Czech culture is conservative and Czech people are rigid to switch the companies or products even though it might be more beneficial for them.
- ✓ The banking sector has a stable liquidity with around 30 billions EUR of free cash to operate with.
- ✓ Commercial banks are not interested in small-scale and long-term project export financing deals and majority of these deals are managed by the bank's branch situated outside of the Czech Republic.
- ✓ Cooperation between the CEB and other commercial banks is characteristic when organizing different export seminars. These seminars are organized and financed by the commercial banks and usually the CEB is partner.

6.2 Analysis of theoretical framework

6.2.1 Industry concentration

To determine industry concentration of project export-financing sector, the CR_4 is implemented. The data used for the calculation are from the Annual Reports 2011 and 2012 of the EGAP. The analysed data are from the total volume of new financing loans and outstanding commitments for the certain year.

YEAR	2011		2012		2011		2012	
Data	Outstanding Commitments				Insured Export Credit and Other Bank Products			
Order	Market Share (%)	Bank	Market Share (%)	Bank	Market Share (%)	Bank	Market Share (%)	Bank
1.	60	CEB	54	CEB	33	CEB	31	CEB
2.	8	KB	11	KB	16	CSOB	10	KB
3.	7	CSOB	6	CSOB	11,15	KB	9	PPF
4.	3	PPF	5	PPF	6	CS	7	CSOB
CALCULATION OF CR_4								
	19.5 %		**19 %**		**16.5 %**		**14.25 %**	

Figure 15 **Calculation of CR_4**

Source: Adjusted data from EGAP Annual Report 2011 and EGAP Annual Report 2012

As indicated in Figure 15 the industry concentration in 2012 for the outstanding commitments is 19% and new insured export credit and other bank product is equal to 14,25%, what is characteristic for the low concentration which can be formed by perfect competition or oligopoly. The decline from 2011 to 2012 creates better conditions for perfect competition. However, one of the features of perfect competition is that the firms have relatively small market share, which is not the truth in this case because in 2012 the market share of the CEB was slightly more than 300% bigger than the market share of KB, the second largest player. It is important to add, that this industry concentration is relevant only under the condition that CEB is perceived as an equal player to the other corporate commercial banks. In a situation where the CEB is a partner rather than a competitor, the industry concentration would be even lower. Therefore, the Czech Export Bank has a special position in the corporate banking sector, the position within the sector is analysed in detail in chapter 5.

6.2.2 Five Forces Model

6.2.2.1 Potential Entry of New Banks

The entrance to the Czech banking sector requires obtaining of a banking license name as an authorization criteria defined by the Czech National Bank. One of the requirements is a minimal capital deposit in amount of 500 000 000 CZK provided to the CNB(CNB, 2013). The bank can perform all activities, which are included in the license. In the Czech Republic, a bank can operate also foreign branch banks, which obtained valid banking licence in one of the EU countries. This is based on a mutual recognition of "single passport" system, allowing legally established banks of one of the EU countries to operate in other member states without further authorisation requirements (European Commission, 2014). Foreign branch banks have to be complaint with regulatory standards in host and home country. Foreign branch banks with home country outside of the EU have to obtain valid banking license from the CNB. After, the global financial crisis, the reputation of banks and trust has become one of the key factors for attracting and retaining clients. At the same time, it has impact on decision to enter the banking sector. It is much easier for foreign reputable bank to enter the market in comparison to newly established one. According to the CNB database from 2009 until 16.3.2014, there were only 11 new entrants to the banking sector from which 6 were banks offering corporate banking services (see, Figure 16).

Period	New Entrants	New Entrance to Corporate Banking	Total Number of Banks and foreign branches	Banks offering corporate Banking services
2014 (16/3)	0	**0**	44	**30**
2013	2 (Western Union Bank, Meinl Bank)	**1**	44	**29**
2012	1 (Royal Bank of Scotland)	**1**	43	**28**
2011	3 (Air Bank, Bank Gutmann, Voksbanks)	**2**	44	**27**
2010	2 (Fio Banka, Zuno Bank)	**0**	41	**26**
2009	3 (Postova Banka, Saxo Bank, AXA Bank Europe)	**2**	39	**27**

Figure 16 **New entrants to banking and corporate banking sector**

Source: CNB (Number of New Entrance and Total number of Banks and Foreign branches) and own investigation

Furthermore, the new entrants are able to target only niche audience, because of the strong and successful local players with stable market share. However, these new entrants are using aggressive marketing to attract new customer with deposit interest rates, with which the established banks are unable to compete (Deloitte Center for Financial Services, 2012).

To conclude, there is no significant threat of new entrants for established banks due to the regulations, brand image, high cost of entry to the banking industry and the number of new entrants (see, Figure 12).

6.2.2.2 Threats of Substitution

A substitute product has to originate from a different industry and the impact of high number of substitute product influence the price competition within the industry. From the general point of view, all banks are providing capital for different purposes; therefore, there is not very high threat of substitute products for banks. The banks are not only lending money but also producing documentation for loans, provide consulting, guarantees and arrange insurance for the loans. Furthermore, the loans are considered to be commodities, therefore, it is not easy to develop substitute product outside of the banking industry. On the contrary, non-banking institutions, which are offering different types of mutual funds, fixed income securities and other financial instruments may be considered as industry where the substitute product can be developed. Another possible substitute product can be paying for trade and goods in instalments what increases working capital for companies. When focusing on export financing, the substitute products are possible state subsidies offered to companies for overseas expansion. However, due to the current economic situation of the Czech Republic, the subsidies are not very common because the state budget is very tight. Moreover, growing competition from non-financial companies creates threat for banks. Only to provide cash and liquidity and other services will be cover by external companies (Deloitte Center for Financial Services, 2012). In regards to financial support for export, there is a low level of threat of the substitute products for the corporate banking sector.

6.2.2.3 Bargaining Power of Suppliers

The main resource of banks is capital, which is coming from account holders, borrowing on financial markets and loans from other financial institutions. Syndicated loans and club deals require cooperating with other banks, which are supplying the borrower with capital. Utilization of the two main suppliers ensures the sufficient level of free capital for banks. However, the current situation in the banking sector has enough cash to operate, what is caused by stable liquidity on the market with around 30 billion EUR free cash.

Additional suppliers, who are significant for loan applications, are different external financial advisory companies, insurances and law offices. The law offices, insurance and external financial advisory companies have a low bargaining power, caused by fierce competition within their industries. However, the most of the time the parent bank requires the cooperation of certain companies and than their bargaining power is high, caused by their concentration.

Another suppliers, who are very important for banks, are IT engineers, marketing and PR agencies. Their bargaining power is relatively high because only few of them within the market are able to offer sufficient services and if so, the final decision for choosing a supplier is a responsibility of the parent bank in many cases. Therefore, the overall bargaining power of suppliers in the local Czech market is strong.

6.2.2.4 Bargaining Power of Buyers

From the economic point of view, entire banking sector in the Czech Republic is oligopolistic. The market consists of few major players (UniCredit, Raiffeisen, CSOB, Komercni Banka, Ceska Sporitelna) with approximately 90% of the market share, while 10% is divided among 39 other banks. However, corporate banks are in perfect competition, with large number of buyers and sellers. In the perfect competition the buyers are willing to lend money with certain price and sellers are also able to adjust the interest rate and fee based on the mutual agreement. This is typical for corporate banking industry in the Czech Republic. In the corporate banking sector the switching costs are not high, but require a lot of administration. Therefore, it is not easy for buyers to change banks.

However, the key feature of the corporate banking are the relationship managers and their relationship with the decision makers in the company. Nevertheless, the buyers have changing needs and expectations from the financial services, requiring wide range of products, quality innovative services and transparency, which represents a powerful driver of loyalty. Moreover, there are two types of buyers, either large corporations (LC) or SME. LC have a high power, because they have operations in different markets and the decision for choosing a bank can be made by their headquarters. In addition, LC need various products and therefore, brings more business to banks. In addition to these, top tier corporations are the ones with whom the banks want to do business and therefore, are willing to offer favourable conditions for them and are able to squeeze margins in their favour. On the contrary, SME are most of the time local companies with aim to finance their expansion. In current economic situation, the banks are risk-conscious about their customers and lending to SME remains weak, caused by high-risk involvement as a result of slow economic recovery and unemployment rate (Deloitte CEE, 2012).

To summarize, the bargaining power of buyers is an adequate for perfect competition, but the bargaining power of top tier corporations is higher than of the other companies on the market.

6.2.2.5 Rivalry between Competing Banks

The conditions of the rivalry are defined by perfect competition within the market. Market consists of high number of companies and high number of banks, which are serving them, what is leading to intense competition. Industry concentration is low (see Figure 15), caused by many rivals on the market. The prime drivers of the competition are profit maximization and building a strong portfolio of the top tier companies. Banks strive for competitive advantage against their rivals. The market diversity among competitors varies in strategies, culture and origins and is perceived based on these competitive advantages. The most often, the banks are targeting companies which have the same origin as their parent bank, for example UniCredit is mainly targeting Italian companies, Citi Bank focus on American, Sberbank target Russia and Ukraine, Commerzbank focus on German, HSBC Bank is targeting British and Asian companies. Rivalry is increasing because the banks are to certain extend flexible with interest rates, therefore, many times companies are gaining temporary price advantage. Moreover, as explained earlier, the relationship between bank and the company is very important and it has significant impact on the competition. The banking industry is still recovering from the global financial crisis and banks are very risk-conscious, what is a result of slow growth and demand. The switching costs are adequate, the customer can freely switch from one bank to another, however, it requires a lot of administration.

Nevertheless, it should be mentioned that the Czech culture is very conservative, rigid and people are unwilling to change. This cultural fact is making it more difficult for the newly open banks to gain relevant market share. The barriers and costs of leaving the market are high, however, the most of the time a bank is merged or acquired by its competitor, what results in transfer of all relations and deals with the companies and network to another banking institution. At the same time, there is a low threat of new rivals as outlined earlier in this chapter. The product is not easily differentiated, because the loan is considered to be financial service commodity.

To conclude, the competition on the corporate banking sector is fierce as a result of moderate growth and demand, with a large number of rivalry banks and companies and low product differentiation.

6.2.2.6 The Outcome of the Five-Forces Model

The following paragraph summarizes each of the five forces and its power within the corporate banking sector.

- ✓ Force 1: *Potential Entry of New Banks* **Weak**

(High entry cost, regulatory requirements, importance of reputation)

- ✓ Force 2: *Thereat of Substitute Products* **Weak**

(Commodity product, banking product cannot be replaced by product outside of the industry)

- ✓ Force 3: *Bargaining power of Suppliers* **Strong**

(High concentration of suppliers)

- ✓ Force 4: *Bargaining power of Buyers* **Adequate to Strong**

(Large number of companies, stronger power of top-tier companies, stable liquidity)

- ✓ Force 5: *Rivalry among Competing Banks* **Strong**

(Intense competition, moderate growth and demand, low product differentiation)

To conclude, the competition is very intense within the sector and therefore, unfavourable for new entrants. The corporate banking industry is still recovering from the global financial crisis, despite this fact, the demand is growing and allowing banks to make more profit. However, these five forces are dynamic so any significant macro-economic change can influence power of the forces.

6.2.3 Generic Strategies Model of the CEB

The following Generic Strategies Model summarizes the key findings of primary and secondary research. The type of generic strategy of the CEB is the focus strategy, offering the best value with following characteristic features:

- ✓ The market is described as growing, profitable with a large niche market. The market niche is made of companies interested in project export financing in high-risk countries or industries.
- ✓ The CEB strategy 2014 -2018 is based on 2012-2020 International Competitiveness Strategy for the Czech Republic, which reinforces national interest and positive impact on the local economy. Moreover, each deal has to bring a benefit to the local economy.
- ✓ One of the prime aims of the CEB is to focus on needs of the local exporters and take their views into considerations in order to increase Czech participation in the international trade, while other commercial banks primarily focus on its own profitability rather than growth of the client.
- ✓ The CEB is targeting only the exporters, which are not foreign companies, but entities registered in the Czech Republic.
- ✓ Aiming to increase funding of Czech SME is genuinely interested in their expansion and internationalization. The CEB is therefore targeting small scale loans in comparison to commercial banks, which project export financing is usually managed outside of the Czech Republic and does not have appetite for small scale and long-term deals. The export financing is growing in the market and targets mainly small and medium enterprises (SME) from which only 8% use export financing products (EGAP, 2013).
- ✓ The time span of the loans, according to Figure 10 of the entire banking sector is mainly long-term loans (two and more years), which are mostly offered by the CEB, while the commercial banks are predominantly interested in short and mid-term loans.
- ✓ Due to the small size of the market the CEB is focusing on the special needs of the clients, which represent the core reason why it was established, to provide financial services to clients who want to enter or supply countries with high territorial risks. These high-risk countries are restricted to commercial banks, because they represent risk of non-payments. The CEB is primarily focusing on

Commonwealth of Independent states, former Soviet Republics, while the export to Russian Federation was 44% of the CEB portfolio in 2012. It is the CEB's strategy to diversify more its portfolio to countries outside of the EU, based on 2012-2020 International Competitiveness Strategy. As indicated in the Figure 12 of Structure of the export, the CEB is successfully focusing on diversification, while the Czech national export is still not that diversified, but focuses on the EU countries mostly.

- ✓ The core competencies of the CEB are ability to offer fixed interest rate, state back-up loans and deals for high-risk countries and industries.
- ✓ Market leaders are unable to meet the special needs of client of target niche market due to different regulations and restrictions of their parent entities in combination with the rising pressure of the banking regulators to make risk-conscious deals.
- ✓ Any other bank on the market is not able to offer identical services as the CEB, because only the CEB can offer state guarantees and fixed interest rate defined by OECD at the moment. Therefore, there is no potential risk of it copying by rivalry.
- ✓ The CEB is able to offer a cost advantage to clients caused by CIRR in contrast to EURIBOR or LIBOR provided by commercial banks.
- ✓ The ministry of Finance with the CEB will introduce IMU system, giving chance to commercial banks to offer the same interest based rates as the CEB does in the future.
- ✓ In theory and according to the interviewees working in ECAs, there is no rivalry between the CEB and other banks, but partnership and cooperation. However, some interviewees from commercial sector perceive the relationship as competitive.
- ✓ The CEB is more independent from the changes on the market, while more dependent on governmental changes. However, the highest growth of the CEB was spot in 2010, at the beginning of the global financial crisis, when the local companies needed to strengthen their export caused by declining local demand.

All the above mentioned elements of the CEB focus strategy define its unique position within the market.

Conclusions

The conclusions chapter outlines the outcomes of the entire research, which is the result of analyses of the secondary data and in-depth interviews answering the following research questions:

Central Research Question

What are the fundamentals impacting the relationship between the CEB and other commercial corporate banks in the Czech Republic?

Sub Research Questions

What is the current situation of the banking sector in the Czech Republic taking into account the impact of the EU banking sector including the development towards the European Banking union?

What is the importance of export support for economic development in the Czech Republic?

What role does the Czech Export Bank have as an export credit agency for national economy and banking sector?

To what extent are the Czech Export Bank and the commercial corporate banks in rivalry within the banking sector? To what extent does this competition pose a threat to the CEB?

The fall of communist regime in early 90' had brought a born of a market economy in the Czech Republic, what emerged a massive privatisation of banks. During this period, the major banks were privatized by the foreign banks. Currently, the five major banks that were privatised are controlling more than 90% of the total banking industry. Few years later in 1995, the Czech Export Bank was established in order to provide sufficient project export financing for the exporters. Initially, the CEB was aiming to make the Czech Republic more competitive on the international trade and promote its export activities. Every deal financed by the CEB has to have at least 50% of Czech origin and create benefits for the local economy in the long run. The CEB is offering loans under two different conditions, either as an export credit agency thus according to OECD requirements or under the maker terms as a commercial bank. Therefore, it is difficult to distinguish its position within the market. In theory, as an export credit agency, the CEB should be complementary to the economy and should not represent any threat to other banks on the market, since it should just lend money to exporters, who are refused by the commercial banks and want to expand into high-risk countries or industries. Currently, the banking sector is stable and developed, offering different sophisticated banking products for the exporters with presence of the key global players such as Citibank focusing on the American businesses, HSBC Bank targeting British and Asian business, Commerzbank on business originated in Germany. Therefore, the function of the CEB in the current conditions in the banking sector is questionable considering that it was developed when the banking sector was underdeveloped and companies struggled for funding.

The current situation of the banking sector is influenced by the Czech Republic's membership in the EU only to a limited extend, because majority of the EU regulations are targeting countries using the Euro currency. As stated by the CNB and the bankers, the Czech Republic does not intend to join the EU Banking Union at the moment and under the present circumstances. The initiation to establish the European Banking Union arose from the global financial crisis, when the taxpayers had to pay for the bad decisions of the bankers causing collapse of several banks. The European Banking Union is aiming to create more stable and transparent banking market across the EU region. One of the reasons, why the Czech Republic is not positive about joining the banking union, is current stable banking sector, as during and after the global financial crisis no banks in the Czech Republic have received bailout from the government.

The EU does not have a significant impact on the monetary policy of the Czech Republic, which is performed independently by the CNB. Moreover, the most recent regulations issued by the EU, such as EMIR or Basel III, have to be implemented by all the banks in the Czech Republic as well. Despite the fact that the Czech Republic is part of the EU and Czech National Bank has certain obligations towards to the European Central Bank, the banking system remains relatively independent. However, if the parent banks of the foreign banks and local subsidies in the Czech Republic will be required to contribute to Single Resolution Fund, liquidity on the market will decrease, because the parent banks would drain liquidity from its subsidies more easily. This would have a significant impact on the Czech banking industry, from which 93% is controlled by the institutions originated in the EU. The local banking sector has a high level of liquidity and ranks third in the EU region.

The Czech Republic has an open, export driven economy with low domestic demand, what is causing high dependence on its export. The destination of the majority of the export activities is within the EU countries, particularly to neighbour countries such as Germany, Slovakia, Poland and Austria. Therefore, any negative influence on the economy and demand in the EU region has immediate effect on the Czech economy. This represents one of the reasons why the government is increasingly supporting greater diversification of the export and support of small and medium size companies. In addition to this, the export is the main driver of the GDP, therefore, the support of the export activities goes hand in hand with economic growth and development. In order to ensure economic stability and compensate it with low domestic demand there is a high priority for export support activities. The Czech government is consequently implementing International Competitiveness Strategy, which is linked to the export oriented strategy. The Czech Republic has various institutions involved in implementation of export oriented strategy, however the key institutions, which are directly connected to the local companies, in this case the exporters, are credit export agencies, EGAP and the CEB.

The prime aim of the CEB as export credit agency is to primarily fund the local companies with export activities in high-risk countries, to which funding is rejected by the commercial banks. Czech Export Bank is therefore, focusing only on companies registered in the Czech Republic. The deal has to have at least 50% Czech origin and has to benefit the local economy, such as contributing to the employment in the Czech Republic, supporting SME, supporting research and development, ensuring development of underdeveloped region or any other significant long-term benefits for the economy. The CEB has a significant position in the banking sector, because it is the only bank, which is eligible to issue bank guarantees, which are backed-up by the state. In addition, the CEB is the initiator of the large volume deals that posses higher credit risk, than the commercial bank would be willing to take. On the contrary, CEB should not fund the risky transactions, relying on state guarantees. Moreover, CEB's role in the banking sector should be complementary, and therefore, the CEB should focus on the funding of the deals, which are refused by the commercial banks only. On the other hand, it is questionable, whether the loans funded by the CEB were actually refused by the commercial banks on the market, as CEB does not require official approval from the companies. The refusal can have two reasons, either the bank does not have appetite for the industry or the deal is baring high credit or territorial risk. However, according to the structure of the portfolio, the CEB has around 17% in the 0 risk-country. The reason behind it can be a requirement to fund a project in risky industry, such as nuclear power in a country with zero risk. As suggested by the interviewee, the CEB should invest only to the countries, which are classified below 3-risk level and none of the banks should fund a project in a country classified above 3-risk level. In addition to this, the CEB is able to lend a large volume loan by itself and does not need to split the risk with other banks. The function of the CEB is in theory beneficial for the economy, because it is currently also focusing on the support of SME, which are usually not the target of the commercial banks. Moreover, currently it is the only institution on the Czech market, which is able to lend money with CIRR interest rate, however, the CEB is still adding some additional basis points to increase its margin. During the global financial crisis, the CEB benefited from its special and important position within the banking sector, because of its lending capabilities and state guarantees. The commercial banks' response to the global financial crisis let to risk-conscious decision, when granting a loan during this period. The support of the exporters during this period is extremely important for the national economy as well as for the banking industry, as the CEB can initiate syndicate or club deals and used the state guarantees to bare the risks.

There are different perspectives on the role of the CEB. The employees of the commercial banks stated that there is competition between the CEB and commercial banks, while employees of ECAs believe that there is partnership between these different banking institutions. The possible explanation of the two perceptions on the relationship can arise from the function of the CEB. First of all, it is funding export finance loans to high-risk territories, where banks have no appetite for or have country or industry restrictions. Second of all, the CEB is also providing loans, which are not in line with OECD requirements, but loans are granted under market conditions. This is possible reason, why there are two contrasting perceptions on function of the CEB. In general, when considering the relationship of ECAs and commercial banks, there should be mutual cooperation with focus on needs of the local suppliers or exporters rather than profit. The partnership on the transactions comes from the split of risks and resources between banks involved in club or syndicated deals. On the other hand, when taking into consideration loans funded by the CEB under marker conditions, CEB is in rivalry with other commercial banks obviously. Therefore, the fundamental of impacting their relationship is the function of the CEB and the conditions under which it grants loans. However, when granting loan according to OECD conditions, the loan should bring benefit to a local economy and cannot be classified as subsidy. Moreover, the connection and relationship between the bank and the company is one of the most important factors for choosing the bank for financing. This has been approved by the CEB as well as by the interviewees from the commercial banks. Furthermore, Czech people are reluctant to change, which is also the reason why traditional banks are dominating the market. However, if the Czech Republic would be a part of the European Banking Union, it would make the banking industry safer and transparent, while the CEB would have to reduce the high-risk decisions. At the same time, this would represent a threat to function of the Czech Export Bank, which would impact decision-making process, when granting a loan. This represents the main criticism of the Czech Export Bank, that it is financing the deals, which do not have a sufficient quality and thus are risky. In addition to this, a dominant position of the CEB within the market is not helping to form an environment for perfect competition. The CEB is benefiting from the state guarantees and from the trust of the lenders in the state. As asserted by the majority of the interviews, there is no price competition within the market, in regards to interest rates. The only influencers of interest rates are the top tier companies, which have a significant power in price negotiation. The competition is fierce within the existing players, due to the high regulations and capital requirements creating a low threat from potential new entries. The development of the substitute products outside of the banking industry is also low, however, the bargaining power of the suppliers and buyers is high.

To summarize, according to the responses from the interviews, the competition is not negatively affecting the position of the CEB. However, in case of becoming a member of the European Banking Union, the situation would change. The future of the CEB should be under careful and critical consideration due to the fact that banking system in the Czech Republic is currently developed and stable, forcing CEB to fund high-risk loans. The future of the CEB depends on the decision of a new government with three possible solutions. First of all, to reform the legislation, where the function of CEB is defined. Second of all, to merge it with EGAP or, third of all, to take away the CEB's banking license leading CEB to become an agency. However, in order to keep all current functions of the CEB, the best solution would be to reform the law, specifically Act No. 58/1995 Coll on Insurance and Financing of Exports, with State Support.

Suggestions for further research would be on researching the relationship of the banking institutions with the exporting companies, in order to find out whether the companies are really choosing the banks according to connections. Likewise, the main influencers of the companies' decisions between the CEB and the commercial banks could be analysed, to gain insights into the fundamentals of rivalry between CEB and the commercial banks.

Recommendations

Based on the outlined conclusions, the recommendations are formulated to identify how the professionals working in banking industry in the Czech Republic should carry out the outcome of the research.

- ✓ When taking into consideration the competition between the CEB and commercial banks, the banks should really focus on the effective relationship and client management, because as it was expressed by both of the interviewed parties, the relationship between a bank and a client is crucial in decision-making for choosing the financing bank. Particularly, small banks should really focus on mastering this factor and provide a sufficient training to its bankers and sales managers and support it with premium client services.
- ✓ When considering that the relationship between the CEB and commercial banks is cooperative, commercial banks should focus also on development of good connections with the CEB, because it is essential for being invited to club or syndicated deals, which are usually in large volume. Currently, there is a trend on the market to organize various export seminars by the commercial banks cooperating with Czech Export Bank in order to attract companies, which aspire to expand abroad. This partnership is beneficial for local exporters, commercial banks and the CEB itself. Therefore, it is recommended to continue and strengthen this kind of approach.
- ✓ Commercial banks are recommended to follow their risk procedures in order to prevent the reputation loss, as it happened to the CEB in the past. Currently, the trust is one of the main factors when acquiring new clients.
- ✓ It is recommended for the CEB to include a proof of refusal of financing the transaction by the commercial banks. This would eliminate the competition between the CEB and the commercial banks and at the same time, it would ensure complementary role of the CEB in the Czech economy.

- ✓ The bankers, who are not working in the leading banks and wish to acquire new clients, should be always well-prepared for the meetings and highlight the international presence of the banks and focus on its strengths. In addition to these, the bankers should be willing to help clients to move all their commitments and accounts smoothly to their bank with minimum assistance of the client. This is very important since the Czech culture is very conservative and people are not open for changes.

Limitations of the research

The limitations of the research are divided into three categories, based on the scope of the limitations:

- ✓ **Due to chosen theoretical concepts**

The first framework analyses of the banking industry concentration was CR4 model, which focuses on the four most dominant players, while not taking into consideration the market share of the smaller ones. There is a big difference between the CEB with 54% of market share in outstanding commitments and 31 % in insured export credit in contrast to KB with 11% outstanding commitments and 10% of insured export credit. The overall result is equally split within all biggest banks, while HHI would take into consideration market share of all banks within the industry. The second theoretical framework used was the Five-Forces Model developed by Michael Porter, which focuses on the competition and evaluates the rivalry between the banks. Because of the specific position of the CEB within the commercial banking sector, it was not possible to include it within the framework. The limitation of the generic strategy model is in its focus on competitive advantage of the company, however, if the CEB is perceived as a partner not as a competitor to other commercial banks, it cannot have competitive advantage. Therefore, this model represents certain limitation to this issue.

- ✓ **Due to chosen methodology**

The research methodology focused on the gathering primary and secondary data to provide understanding of the research problem. Because of the small population, which was not representative and focused only on people having experience with project export financing, the research does not provide a deep insight and finding into the research topic. As characteristic for the explanatory research design its focus lies on the better understanding of the research topic. The methodology does not focus on the key stakeholders, in this case the exporters, as well as it does not analyse the individual commercial banks within the Czech banking sector.

- ✓ **Due to availability of data**

Because of the limited secondary data needed for the implementation of the theoretical models, the secondary data were gathered from the literature research containing certain limitations to in-depth research. Similarly, primary data were limited as well, as the employees of the banks were not willing to share all of the information, due to the fear of leaking some confidential data.

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Appendices

Appendix I: Macroeconomic Data

Key Macro Data	2010	2011	2012	F2013	F2014
GDP (Real growth)[1]	2.3%	1.8%	-0.9%	-1.4%	-1.4%
Industrial Production[1]	10.2%	6.9%	-0.7%	-0.5%	3.7%
Construction output[1]	-7.1%	-3.5%	-6.5%	-8.5%	7.4%
Retail sales[1]	-0.6%	2.8%	-0.9%	0.7%	2.4%
Unemployment [1]	7.3%	6.7%	7%	7%	7.4%
Inflation [1]	2.3%	2.4%	2.4%	1.1%	1.7%
Public Sector Debt/ GDP[1]	-4.7%	-3.2%	-4.4%	-2.9%	-2.9%
Gross External Debt/GDP[1]	47%	49%	50%	48.6%	49.9%
Corporate Tax Rate[1]	20%	19%	19%	19%	19%
CZK/EUR (EoP)[2]	25.3	25.8	25.1	27.0	27.0
CZK/USD (EoP)[2]	18.8	19.9	19.1	19.9	20.9
ECB Fixed Rate (EoP) [š]	1%	1%	0.75%	0.05%	0.05%
3M PRIBOR (EoP)[4]	1.22	1.17	0.5	0.49	0.47
Rating (Moody's, S&P, Fitch)[5]	A1, AA-, A+				Dec 2013

Source:
1,http://www.czso.cz/csu/csu.nsf/aktualniinformace
2,FXwww.cnb.cz/cs/financni_trhy/devizovy_trh/kurzy_devizoveho_trhu/denni_kurz.jsp
3, ECB FIXED RATE http://www.ecb.europe.eu/home/html/index.en.html
4, PRIBOR http://www.cnb.cz/cs/financni_trhy/penezni_trh/pribot/denni.jsp
3, Rating, www.cnb.cz/en/about_cnb/international_relations/rating/

Appendix II: Three Pillar of Export Strategy -2012-2020

I. Export intelligence

- Centre for shared services and export intelligence (back-office);
- Information One-Stop-Shop;
- Global diversification of exports (conceptual management).

II. Export Development

- Services for exporters (front office services);
- Export financing and insurance;
- International financing resources and development cooperation;
- Clusters and pro-export initiatives of self-governing units;
- Management and communication platform.

III. Development of Trade 0pportunities

- EU trade policy and export to the Single Market;
- Optimization of the foreign network;
- Services of the foreign network;
- Investments and innovation for goods and services exports.

Appendix III: Project No7: Supporting Export In the form of export financing

Financing and insurance with state support is very important for exporters *(Project No. 5 – Export financing and insurance)*. Thanks to the Export Strategy, Czech exporters may rely to an increasing degree on assistance provided by the **Czech Export Bank (CEB)** and **Export Guarantee and Insurance Corporation (EGAP)**.Within the framework of diversifying export outside the EU countries, CEB and EGAP ensure sufficient limits and capacities for priority countries, so that increased availability of export financing and insurance corresponds to the requirements of the Czech exporters. **The objective is also to ensure maximum involvement of commercial banks in financing of the Czech export.**

Preliminary results of CEB and EGAP commercial activities in 2012 show that even in the adverse global economic climate the Czech exporters managed on foreign markets and that both companies have sufficient resources to satisfy the needs of Czech exporters.
With regard to EGAP, 2012 marked a record in the history of the insurance company. A total of 240 new contracts totaling CZK 72.1 billion were concluded, which means that the business plan was exceeded by 14 billion CZK, which represents about 35.8% year-to-year increase. Approximately 71.7% of the total volume of new insurance contracts (about 51.7 billion CZK) accounted for large commercial cases (over 1 billion CZK). Premiums reached in 2012 CZK 2 billion. Territorial structure reflected the fact that the majority of new insurance contracts were concluded for countries that are among the traditional Czech export markets, especially in the Russian Federation (31%), other CIS countries (23.3%), Serbia (12%), Azerbaijan (10%), India (10%) and Bulgaria (8%). Machinery and transport equipment (80.9%), followed by insurance supply of power equipment (33.4%) and transport equipment (23.8%) dominated the commodity structure of the newly insured loans, investments and bank guarantees.

According to preliminary results, the volume of executed loan agreements in the CEB in 2012 reached approximately 26 billion CZK which is historically the third highest in 17 years of CEB. This volume represents performance of the financial business plan for the bank at 101.9%. Commodity structure was dominated by engineering (40.5%), machinery and equipment for the production of energy (28.5%) and transport equipment (11%). As for the territorial division, export to priority countries accounted for approximately 57%, most into the Russian Federation (39%), Turkey (16%) and Ukraine (1.5%).

The state budget for 2013 is budgeted to **increase EGAP insurance funds by CZK 1 billion.**

Simultaneously, the **insurance capacity EGAP will be increased from the current CZK 250 billion to 270 billion CZK. CEB** activities will be supported by the state budget in 2013 up to the amount **of CZK 750 million. This capacity of resources in the national budget should allow the state to provide supported lending provided by the CEB up to the amount of at least 25 billion CZK and export insurance and investment loans and guarantees amounting to around 57 billion CZK.**

In December 2012, new CEOs of both companies were appointed following onto transparent selection procedure. Their role is to find and hire, in the near future, other key management roles with clearly defined powers, so that the management of both companies becomes fully functional.
Czech Parliament is currently discussing **an amendment of Act No. 58/1995 Coll., on insurance and export financing with state support,** aiming to make the **IMU system**(Interest Make-Up System) more permeable. This is a new product in the area of export financing, which **facilitates access by commercial banks to state-supported export financing** and which is sought after especially for long-term business deals with elements of project financing. This new product should contribute to improving the serviceability of Czech exports. The **state budget will set aside CZK 200 million in 2013 to facilitate introduction of the IMU system**.

At the same time, the Chamber of Deputies of the Czech Parliament discussed amendment to Act No. 458/2011 Coll., amending laws relating to the establishment of a single collection point and other changes in tax and insurance laws, which should **eliminate problem related to taxation of insurance claims on receivables provided to banking entities and insurance claims paid for bank guarantee provided to non-bank entity**. Act No. 458/2011 Coll., already addressed this issue, however, that law was to enter force only on January 1, 2015.

One of the objectives of the Export Strategy is to increase the share of small and medium-sized enterprises (SMEs) on Czech exports. New products that should assist in achieving this objective are guarantees, which are already offered by CEB, for loans provided by other banks which provide finance to SMEs to act as subcontractors for large exporters. By the end of 2012, CEB signed cooperation agreements in this respect with ČSOB, Raiffeisen Bank and GE Money Bank. The agreement with the Czech Savings Bank has been in place since 2011, and on its basis CEB already closed its first business case in the total volume of EUR 1 million. The export bank has provided additional support to SMEs through financing mediated by a factoring company. **CEB supported a total of 104 SME exporters via factoring-arranged financing.** There were 20,067 receivables financed vis-à-vis 842 foreign buyers. **20 new contracts were executed in 2012 as well as 15 amendments totaling CZK 267 million**. Regarding geographical breakdown of exports undertaken by SMEs according to financial volume, the largest share of exports went to Cuba (69.9%), Serbia (9.7%), Germany (8.2%), Italy (5.2%), France (4.1%) and the Russian Federation (2.6%).

Equally important task is to simplify and facilitate access of exporters to export finance and insurance. A working group was set the CEB and EGAP to discuss and implement standardization of processes and related documentation and to regularly discuss cooperation between the two institutions on specific business cases and to ensure harmonization of its requirements on clients.

With regard to project contemplating **CEB's own offices abroad**, the activities of the CEB Russia office is currently being evaluated, considering the possibility of its expansion and consequently recommendations will be drawn up with regard to offices in other countries. A detailed analysis of the benefits provided by Bank's foreign offices to the Bank's activities and for promoting exports is in progress, as well as general analysis of the legal and technical requirements and costs of establishing and operating such offices (primarily in Turkey). **CEB is also successfully utilizing services provided by the MIT foreign network.**

In connection with the requirement to ensure export financing and insurance of large commercial cases enjoying state support to the tune of tens of billions CZK, it is also necessary to set up corresponding procedural mechanism for future financial backing from the state budget so that in case of problems during implementation of projects there arise no threats to the financial stability and the very existence of these state-owned companies providing finance and insurance. Setting up process models for financing and insurance of above-the-limit projects enjoying state support will probably require a legislative change of the existing legal regulation, so that EGAP is able to insure large-scale projects in particular in special regime with a reduced need for establishing insurance funds.

In the regime of a pilot project, CEB and EGAP are in the process of preparing conditions for financing and insurance of the 2nd stage of steam-gas combined cycle power plant construction in Iraq's Erbil. The supplier of this turnkey project key is a joint venture between PSG-International and Turkish company Renaissance. This project is worth approximately 500 million USD and represents the first major project of the Czech Republic in Iraq in the energy sector. **Czech deliveries to the project represent more than 70% of the contract value and involvement of about 35 Czech technology suppliers, which translates as approximately 1800 jobs**. Given that this is a significant large-scale project, the government should take a political decision on its implementation.

In order to effectively manage and coordinate the export policy in the financing and export insurance with state support domain, a **Platform for export funding** was established within the framework of *Project No. 5 working team***,** which aims to inform stakeholders about specific plans prepared by the state administration, and on the other hand, to discuss and resolve matters pertaining to business entities including commercial banks.

Appendix IV: Strategy of Czech Export Bank 2014 – 2018

Goal 1. **Support of Exporters in a role of financial suppliers**
(Especially for large-volume business cases)
The Bank will allow to its existing and potential clients to participate in the creation process of internal information base, which will provide an overview of opportunities of domestic companies in the certain sector. The Bank prioritizes export-financing services for products with higher added value and products with a high degree of technological sophistication.

Goal 2. **Increase number of supported exporters**
(Mainly for small and medium exporter)
To be able to do so the bank will indirectly push on engagement larger number of subjects as sub-suppliers for large export project finance by CEB and directly by internal procedure for better identification of potential new exports from small and medium companies.

Goal 3. **Support of investments activities**
(Support of Czech national companies)
The bank will create though internal procedure further conditions for qualify financial (except project financing) and sectorial opportunities for defined and preferred industries. The prime focus is on business profile of investor, territorial aspect and industry investments.

Goal 4. **Territorial Diversification**
(*demarcation of countries based on the recommendation of political concepts and client's demand)*
The bank focus on targeted obtaining, gathering and analysing of territorial information (political, economical, regulatory and legislative features of territory). CEB by providing advisory is aiming to motivate clients to engage in these territories and industries, which were identified with business opportunities. The expansion of the bank abroad will bank used the capabilities of the state to further expansion.

Goal 5. **Concentration on support of export**
(with regards to national interest with high Czech participation)
The bank will take into account and consideration the national interest in state supported export financing based on several criteria: high percentage of Czech participation in trade deal, opening of new

territories for other exporters, export of unique technological know-how and where the realization of the supply helps to develop disadvantage regions of the country.

Goal 6. **Optimizing the relationship**

(to the state budget)

The bank is aiming in the medium term to optimize the used of allocated funds from the state budget for the export support via more efficient used of it. The used of subsidies from the state budget, will be primarily used as an emergency budget, which will be used during the major events such as a large-scale business cases or in the situation of high fluctuation on the financial markets.

Goal 7: **Looking for another ways of support of export**

(and flexibility)

The Bank will use cooperation with other state institution, which are supporting export and entrepreneurship. Another way of the support of export will the bank search according to experience of similar institution abroad (Export Credit Agencies) and based on the feedback and demand from local entrepreneurial communities.

Goal 8: **Ensuring financial stability of Bank**

(and minimize market risk for the Bank and clients)

In the field of financial stability, the bank will apply a conservative approach to asset and liabilities management. Its aim is to maintain adequate profitability, relevant for investor in bonds issued by the CEB.

Goal 9: **Expansion of the investor base**

(for funding)

The bank will build and expand the relationship with investors in order to expand the investor base according to the location of the settlements and the type of investor. The bank will organize regular meetings with investors, actively negotiate, present capabilities of the bank in the press. To ensure greater transparency in the bank at least one a year the bank will offer bond on the open market.

Appendix V: Profiles of Interviewees

16thApril 2014, Prague, The Czech Republic;
Prague, Interviewee 1:
Top Management, Project Export Financing and Capital Financing, Commercial Bank
20years of experience in commercial banking, 5 in Czech Export Bank

11th April 2014, Prague, The Czech Republic;
Interviewee 2:
Top Management, Global Markets and Treasury, Commercial Bank
18 years of experience in commercial corporate banking in various global banks

20th April 2014, Prague, The Czech Republic;
Interviewee 3:
Middle Management, Corporate Banking, Commercial Bank
6 years working of experience in commercial corporate banking in major banks

23th April 2014, Prague, The Czech Republic;
Interviewee 4:
Middle Management, Global Banking, Commercial Bank
7 years working experience in global commercial corporate bank

15thApril 2014, Prague, The Czech Republic;
Interviewee 5:
Top Management, Finance and Legal, Credit Export Agency
21 years of experience in commercial corporate banking and 2 years experience in Export Credit agency

11thApril 2014, Prague, The Czech Republic;
Interviewee 6:
Middle Management, Finance, Commercial Bank
14 years of working experience in commercial corporate banking in major banks

22ndApril 2014, Prague, The Czech Republic;
Interviewee 7:
Top Management, Project Financing Insurance, Credit Export Agency
15years of working experience in commercial corporate banking and ECA

22nd April 2014,Prague, The Czech Republic;
Interviewee 8:
Middle Management, Corporate Banking, Commercial Bank
16 years of working experience in global commercial corporate banks

Appendix VI: Outcome of the interviews

- **The CEB specifications and its position within the market**

In the past, when the CEB was established at beginning of 90's, it focused entirely on export financing. The foreign banks, which just entered the market by privatization did not focus on this type of product, therefore, the CEB was the leading bank in export finance resulting in extensive know-how. Currently, the situation is different, as the commercial banks have years of experience with export finance and are able to compete with the CEB. Despite this fact, the CEB is still dominating the market, which can be caused by investments into the high-risk export countries possessing a higher risk than the appetite of commercial banks. However, the commercial banks are active in export financing to less risky countries such as Western Europe or the USA.

The commercial banks have to follow a strict loan application process set by the parent banks, while the CEB loan application is quicker and does not require a lot of bureaucracy.

The dominant position of ECA is perceived negatively, as it is owned by the state and has such a high market share. This decreases the competitiveness of the local exporters as well as competitiveness of the banks. It is assumed that there is not other ECA within the EU region, which has market share above 10%.

Monopolistic position in regards of fix rates: the CEB has guaranteed fix interest rate for long-term period in contrast to commercial banks offering interest according to LIBOR or EURIBOR. However, in theory, it should be possible for the commercial banks to ask for refinancing of the CEB via IMU system, but the procedure is too long and requires a lot of bureaucracy.

The CEB still has a dominant position in export financing caused by inefficient implementation of IMU system, which requires a lot of administration. The model was introduced when there was low liquidity in the market, what is not the case anymore. In addition, the CEB is the administrator of IMU request from commercial bank what is resulting in conflict of interests. However, the government implemented new regulation effective from 2014, which is comparing CIRR rate with -IBOR ones.

The CEB has almost no restriction for certain industries (such as forestry, nuclear energy, weapons), or for countries, what is typical for the commercial banks. The commercial banks have black lists of industries and countries.

In the past, the part of the application procedure was the confirmation of refusal by commercial banks required. Currently, the CEB assumes that the clients are aware of the CEB strategy and ask for financing, which was refused by the commercial banks.

The CEB as export credit agency is offering direct loans, what is not typical for ECAs in developed countries, resulting in increasing dominance on the market. Absence of direct loans offered by ECAs in developed countries, is result of a strong protectivism of commercial banking sector.

In theory, the CEB represents the institution, which should focus on national interest and offer sufficient funding for the local exporters.

The CEB is lending with CIRR and usually adds three basis points to increase its profit.

The CEB had a key role during financial crisis, because it helped local exporters to focus on the foreign market and do business abroad.

Firstly - the ultimate question is - why should it (have a competitive advantage)? Its capital is coming from the state and it can raise funding at or around government levels. Their cost of borrowing is linked to the explicit Government guarantee - maybe increased slightly due to low liquidity of the debt. In other words CEB is not a large issuer and its issuance usually ends up in local banks' balance sheets and does not get traded. So their ability to provide export financing is linked their borrowings against the state backup - so the bank is effectively lending the Government's money. Secondly - the financial sector itself has some 700 billion CZK of excess liquidity that the CNB has been sterilizing over the years in repo trades against an artificial CNB debt. These 700bn represents money that the local banks have not found any sensible use for. With the export (state) guarantee provided by EGAP, the efforts by the CEB to "compete" where the corporate banks "do not have the appetite" seems to be an obvious oxymoron. Back to the question - of course the CEB has a competitive advantage arising from the State guarantee.

The assumption that the CEB is not insuring the high risk deals, because it is obligated to insure only 92% is false, because all the deals which goes to high risk countries, classified by OECD has to be covered by EGAP. Only the deals within the EU are not insured.

Deals, which face values less than 50 millions EUR does not need to be insured.

The CEB is not offering fixed interest rates according to CIRR, but it add margin in order to create profit. Despite the fact, that the CEB is the state institution and its prime aim is not to make profit but increase the presence of the Czech republic on international trade. The bank should not make the losses, which would have to be paid by government, so by the taxpayers.

The prime aim of the CEB is to be complementary to the economy. The CEB is aiming to be partner with other banks on the market, and not to be their competitor, which is taking over their customers. The customers come to the CEB because cannot be served by corporate commercial banks due to various political and economical reasons. Currently, the CEB is not able to initiate syndicate or club deals, because it was temporary unable by CNB until the internal procedure would be improved. On the other hand, it is important to mention that the CEB would invite other banks in these deals depending on their sector limits.

The CEB is dominance in export financing, however, the quality of the deals is questionable.

The rise of the insurance premium of the EGAP is not considered to be expensive, because it in compliant with OECED regulations. It does not have connection with the low credibility of the loans.

Clearly a state owned bank-lending money rose technically against the state guarantee, so it has built a portfolio of good and bad export loans. It has been an important partner to a number of commercial banks. Its debt represents a good opportunity to improve return on state debt for an investor that does not expect liquidity and market making on the debt. It co-existence with EGAP has been raising justified doubt about it mission.

Decision-making when granting a loan in the CEB starts with the creditability of the lender, which is evaluated by risk-management team. However, if the deal would represent high credit risk the approval would not be granted. Plus, the deal has to consist of at least 50% Czech production from its total value. On the other hand, there are not restrictions in terms of region or industry, but the sector limits. The decision is not based on the location or the stable political regime, because all of the loans outside of the EU are insured by EGAP.

Focus on pro-export activities and export expansion of the local companies.

The CEB is one of the most corrupted state institutions, what result in a bad image and decrease of trust. The CEB processes are not transparent.

The CEB recently experienced reputational loss.

The CEB has a dominant position. Some years ago 70% of all deals covered by the EGAP belonged to CEB (during the financial crisis).

Currently, the CEB is focusing on the high amount of the funding, despite of its low equity and state guarantees.

The role of the CEB is not complementary, because it focuses more on the profitability than on the export support, which should be the prime aim of the ECA.

Bad reputation is based on the bad management decision in previous years and risky transactions, which failed. Likewise, the high level of political involvement in the decision-making process causes a bad image.

The CEB had the biggest growth during the latest financial crisis, however this growth was too high and not sustainable, what is currently the cause of the CEB problems.

The Czech National Bank is the main regulator of the CEB, because there is not parent bank as it is for the majority of the corporate banks on the market, except PPF Bank, which is Czech. Therefore, CNB is closely monitoring and regulating the functioning of the CEB and considers it as the important bank in the market.

In practice, the prime driver is to make a high value deals, because the CEB is eligible for 1% of total value of the loan. This made the CEB more profit oriented than it should be.

The CEB was set up after the revolution, when the banking market was not stable and sufficient. This is also a reason, why the most of the western countries do not have ECA, which is providing funds as their banking system is highly developed.

It would be ideal when the CEB is funding countries classified from 0-3 and always cooperate with the commercial banks.

- **Competition on the market**

The main competitors in project export financing are ING, CSOB, based on history, and UniCredit, Raiffeisen Bank and Komercni Banka. Other banks are not that active as due to the large number of the banks, the differentiation is high.

The CEB is focusing on the volume of the transactions, while commercial banks are profit oriented.

Project export finance represents a small portion from the commercial banks' portfolio.

Every bank has its own specialty and customers do not have any bargaining power, however, the competitors are the prime drivers. Customers want to negotiate better conditions of the contract and always compare the offers with the products and services offered by rivalry bank, which is the key characteristic of their negotiation. Therefore, their power is low but the competition is fierce. In addition, the banks are not competing on the price. They do not want to lend "cheap" money to corporate clients, but rather focus on sophisticated services, as the interest income is the major driver of the revenue.

The companies are also seeking for the trustworthy institution, which are not investing in the risk deals and are aware of the reputational risk. This was strengthened after the global financial crisis.

The suppliers are mainly IT, PR and Marketing services and their power is relatively high, because there is not that high competition between them and the banks has to be compliant with the decision of the parent bank.

Market does not offer the substitute product to loans.

The market has a large number of banks in comparison to the developed countries.

Historically, Czech people are very rigid and the change of the banks is perceived very negativistic. People are not willing to change the banks even with better conditions. This is the main reason why the market leaders have such a high market share, because there were the state banks, which were later privatized and were the only banks in 90'which offered corporate banking services giving them the competitive advantage against its foreign rivals.

There is not price competition, because the banks have a lot of cash to offer and the top tier companies are able to negotiate the price. These companies are CEZ, Budějovický Budvar, Prague Airport, Plzensky Pivovar, Skoda, Doosan etc. so there are banks which are not even making profit to lend money to these institution with dumping prices.

The market is dominated by 4 banks (CS, KB, CSOB and UNICREDIT). Despite to a large level of concentration there is a strong competition among individual players. Small to medium banks are strengthening the position and driving innovation. The sector is highly over-liquated. These banks are traditionally very strong in the Czech Republic, offer wide selection of services and have an extensive network of branches. This goes in hand with a large retail customer and deposit base. As a result these banks have an excess of liquidity, which they need to place in the market, which is often done at a very competitive price.

Market is so small that there is no price competition, but everything is based on the Relationship of the certain RMs and the companies. Because of the small banking sector there is high fluctuation of RMs so they are rotating within the banks quite often. On the contrary, the most of the RMs have private businesses and usually are involved in the company.

Companies influence the competition too, however it depends on the financial position of the company and a specific financing requirements. The top tier companies have a significant bargaining power and are able to squeeze margins in their favour.

The competition is tough in the Czech banking sector, but as described above, those are little different segments. Some commercial banks have special departments for export financing, but usually they provide financing only in the territories in which their regional office is located. Also, some countries are on the Black list for the commercial banks.

The competition is fierce and it is hard for the new entrants to gain a significant market share. This is also the reason of the rigid, conservative Czech mentality that people are not willing to change things.

- **Relationship of CEB and other commercial banks**

The CEB is considered as a competitor to the commercial banks in export financing, however it is also partners in syndicated deals and Club deals usually greater than EUR 50-100 mil. The preparation of the procedure takes from 6 months to 3 years.

The advantage of commercial banks is in its negotiation skills in syndicate deals, where commercial banks are able to arrange better conditions and higher credit condition from the debtors.

Commercial banks constantly maintain the relationship with the CEB, which is able to approve high amount of deals in short period of time, while they sell it to the commercial banks. Furthermore, the CEB is a prime initiator of large syndicated deals.

Club deals should be preferred before the syndicated. In syndicated deals one bank is dominating, negotiation the contracts and than the others are invited to participate. CEB should not do it because the negotiated conditions are not always favourable for commercial banks, in contrast to club deal where all parties involved are participating in the negotiating processes.

The CEB is not taking that much business from other commercial banks, but is negatively impacting the local (Czech) economy by its decisions and selling not good deals to other players at the market.

Only to a certain extent, some of the companies rather take loan from the CEB because of the low administration requirements, while with the commercial banks the administrative and other requirements are relatively high in comparison to the CEB.

The CEB was established in late 90's when banking sector was in its early stage, during this period the CEB was leading institution, because of the money available for funding, which with which other banks were not able to compete and the state guarantees. However, currently the local leaders have a lot of free cash to operate with and experienced people in project export financing.

The CEB is financing the deals in high-risk countries, which are restricted for the commercial banks, however, even the CEB should not invest in these countries, because of the risk, which it might bring to the exporter.

The competition is within CEB and other banks is OK, because the CEB is targeting the customers, who would not be served by the commercial banks due to the political or economic risks in the exporters country.

On the other side, the relationship is cooperative, because commercial banks are organizing different seminars, which are focusing on export countries and most of the time these seminars are in cooperation with the CEB. However, the seminars are fully financed by the commercial banks.

- **Possible threats to the CEB from commercial corporate banks**

The CEB focuses on high-risk countries, which do not represent appetite for the commercial banks

The CEB should be active in the restricted industries/ countries, where is no appetite of commercial banks.

The CEB should finance the high-risk transactions, industries, countries and long-term (over 5 years) loans and commercial banks should focus on short-term loans.

The advantage of the CEB is that it promotes Czech national interest, therefore, it is up for any project, which would help economy and country to grow. In a contrary, the commercial corporate banks present on the market are mostly focusing on the interest of their parent bank, e.g. Komercni Bank focuses on France, Commerzbank focuses on Germany, Erste on Austrian interest.

Lack of regulations for the CEB is causing that not all loans has to be insured, so the CEB does not need to insure the high risk loans, which would need to be insured if they would be offered by a commercial bank.

There is low risk of systemic crisis, due to sound economic environment and a stable banking sector. No banks received state aid during the recent global crisis and liquidity remained stable (Banks having cca 30 billions EUR free cash to operates).

The threat is the CEB, because it is destroying local economy and competitiveness of local exporters.

Another threats, represented by the CEB is the decisions to invest in the high-risk regions, which are restricted to other commercial banks.

Another threats, represented by the CEB is the distortion of the market.

Inefficient IMU system has been put in place, however, there is no case one of the banks have used it, so there is no procedure guideline developed.

One of the best solutions would be to close the CEB and have only EGAP supporting exporters, while the funding could be provided from the commercial banks.

In the above context, I believe the decision makers should clearly decide whether the state needs to lend actively (and compete the already over liquid market) or a policy support body shall suffice. Merger with EGAP would be an obvious solution.

The future of the CEB according to government could be: firstly the function of the CEB and EGAP would be the same only the Act 58/1995 Coll would be revised, secondly the CEB would loose its banking license and would become no-banking institution or thirdly, the CEB would become an agency monitored and managed by the government. For the CEB, the most relevant solution would be the first one.

There are no threats for the CEB caused by other the commercial banks. The Czech banking sector is well consolidated and is focused on its current business and territories. In my opinion, they will focus on the current scope in which they operate without further major extension of its territories. Hence, here I can see the potential upside for the CEB in the future.

The threat can arise from joining the European Banking Union, which would bring additional and probably tough requirements for the banks, which are operating within the union.