Chaining Households to Financial Markets: Micro-level Interest-Bearing Strategies of Western Banks in Croatia (GEOFIN blog by Petra Rodik)

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The 6th FinGeo Global Seminar in São Paulo, Brazil (15-17 May 2019; http://fingeo2019.com/en/home/) included a session on 'Finance and uneven development in Eastern Europe'. I prepared a paper titled "Chaining Households to Financial Markets: Micro-level Interest-Bearing Strategies of Western Banks in Croatia" (Rodik, 2019a). While I was unable to travel to São Paulo myself, I am very grateful to my colleague and friend Marek Mikuš kindly presented the paper on my behalf.

Building on my previous qualitative and quantitative research of the Swiss Franc mortgage crisis in Croatia (2011-2015) (see Rodik & Žitko, 2015; Rodik, 2019b) and employing the concepts of "financial chains" (Sokol, 2017) and interest-bearing capital (Becker and Weissenbacher, 2007; Becker et al., 2010), my argument in this paper revolves around three claims. The first is that the Western banks complemented their macro-level interest-bearing strategies in East-Central European (ECE) context (such as currency carry trades) with particular interest-bearing strategies at micro-level. These strategies revolved around the task of encouraging households to borrow while at the same time providing them with exploitative mortgage contract terms. Second, within the set of interlocking relations thus established – the financial chains – banks acted as intermediary links, or chains, between households and financial markets. Third, chaining the households to their mortgage contracts. Mortgages, as a long-term form of debt, enable a long-term and steady stream of payments to banks and makes interest-bearing strategies profitable. But the interplay between macro and micro-level interest-bearing strategies is rather unexplored. After a brief Introduction, providing the key figures on household debt in Croatia, I addressed two main questions. First, what strategies banks used to "chain" households to their mortgages? Second: what strategies banks used to enable a steady profit extraction from households.

Analysis of mortgage contracting and repayment illuminates how banks in Croatia used particular micro-level interest-bearing strategies. Given the evidence from other countries we have, I think it is reasonable to hypothesize that similar strategies have been used in other ECE countries as well. In a way, the role of micro-level interest bearing strategies in the ECE context can be compared to the role of subprime mortgage contracts for making profits via securitisation and secondary market trading in the Anglo-American context (see e.g. Langley, 2008). As this clearly illustrates – micro-level interest-bearing strategies "chained" debtors via their loan contracts to the position of a "shock absorber of last resort" (see Bryan et al., 2009) that guaranteed a significant and continuous stream of money and made macro-level interest-bearing strategies so profitable.

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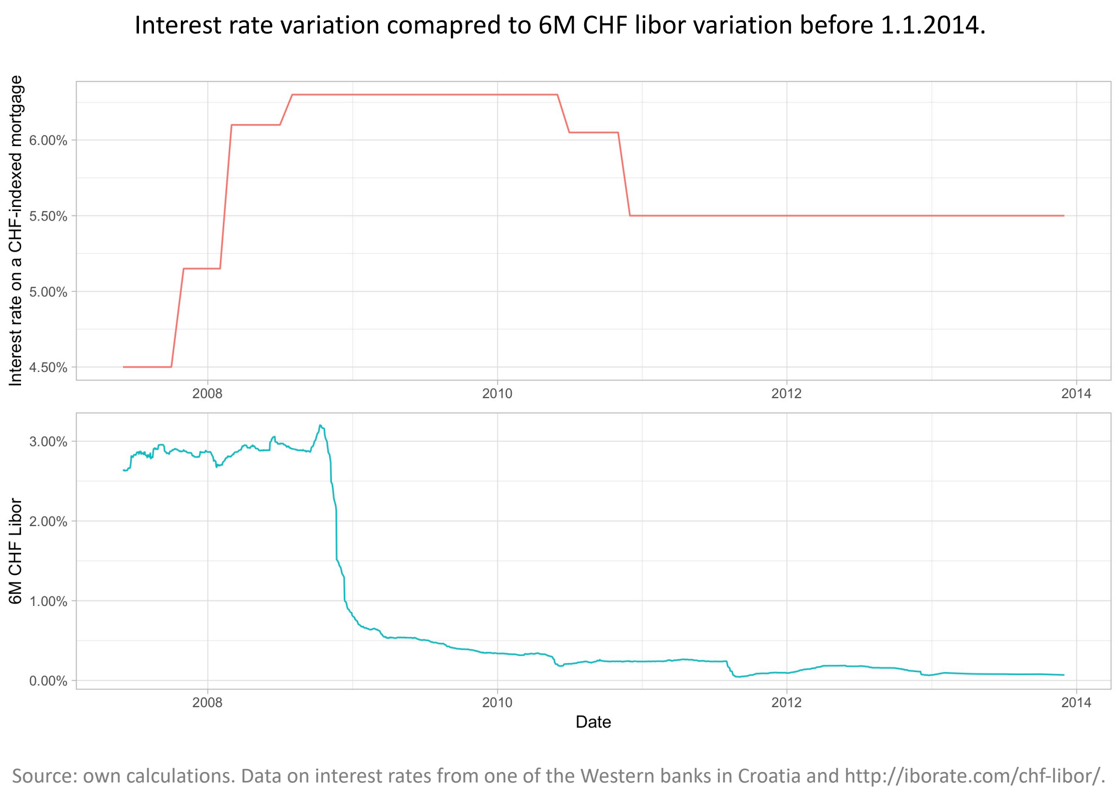

Fig. 1: Interest rate variation on a CHF-indexed mortgage compared to a 6-month Swiss Franc (CHF) LIBOR variation between 2007 and 2014. Source: Rodik (2019a).