

## **Western Banks in post-socialist East-Central Europe: Towards new perspectives on financialisation**

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# EAST-CENTRAL EUROPE

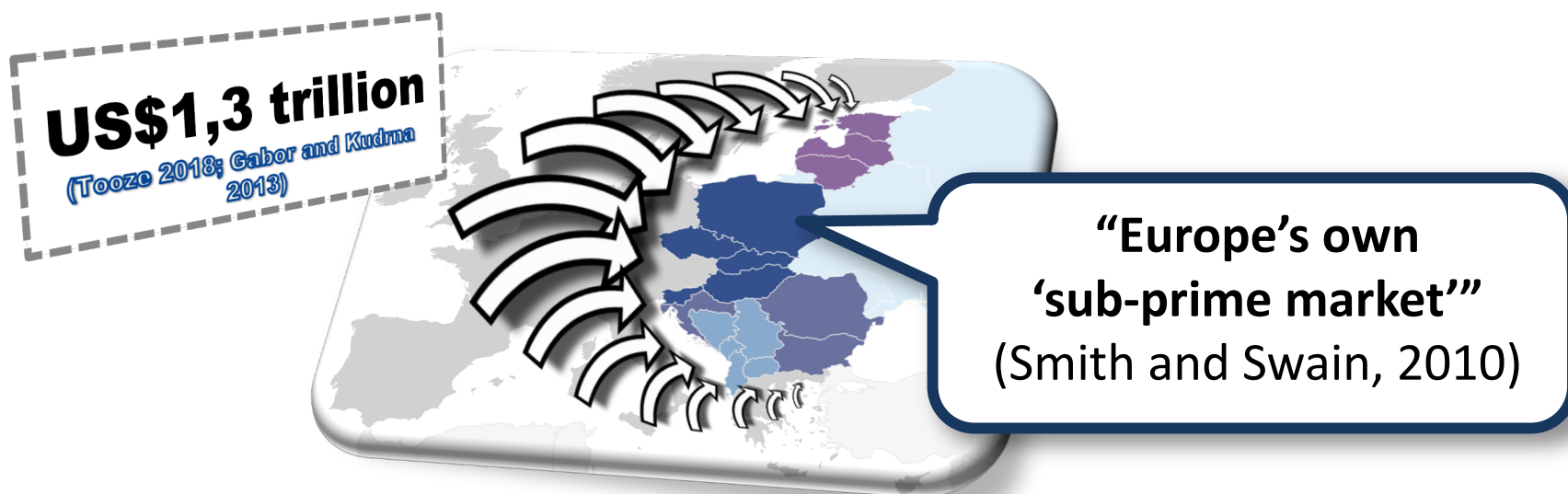
- **East-Central Europe (ECE) = unique opportunity to study financialisation**
- **Provide new perspective on the growing power finance**
- not just **another/different geographical context** (beyond Anglo-Saxon paradigm)
- not just **periphery** (semi-periphery) context
- ECE = unique terrain because:
- former **state-socialist economies**:
  - ... **opposite logics** to financialisation
- Transformation towards market economy:
  - ... turning society **upside down**
- + **speed** of financialisation  
(that followed the collapse of state-socialist regimes)



# WESTERN BANKS

## Western (West-European) banks:

- central role in financialising East-Central Europe
- unprecedented level of **foreign ownership**
- unprecedented rise/speed of (household) **debt**
- creating networks of **‘financial chains’** (Sokol, 2017)
- yet to be fully researched & understood! → **GEOFIN project**



# WESTERN BANKS

- unprecedented rise of **debt**:
  - esp. household / **housing debt**

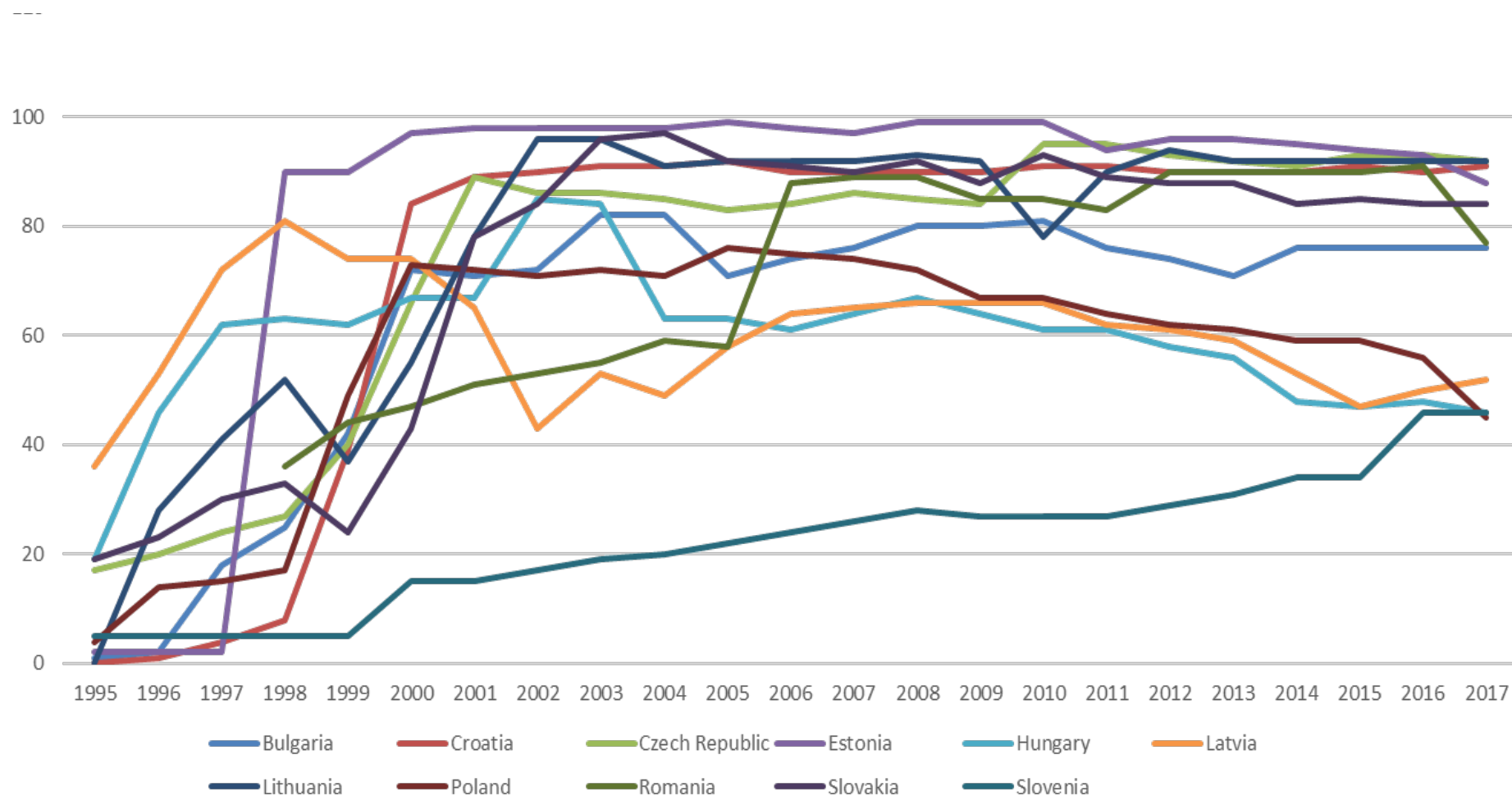


‘mortgage revolution’



(Photos © M. Sokol)

# OWNERSHIP OF FOREIGN BANK ASSETS ON TOTAL ASSETS (1995-2017)



Sources: ECB Central Bank data Warehouse and Claessens and van Horen (2014)



# WESTERN BANKS AGENTS OF DE- AND RE-TERRITORIALIZATION

## Core/semi-periphery

- **De-territorialisation:** the process of undoing what has already been done. To take control away from places that have already been established
- **Re-territorialisation:** an act of re-invention, a redesigning of power through a new form sovereignty bound to globalising and market logic

# DE-AND RE-TERRITORIALIZATION

**De-territorialisation** (dismantling previous banking configuration. The undoing of previous past ties between states and state owned banks)

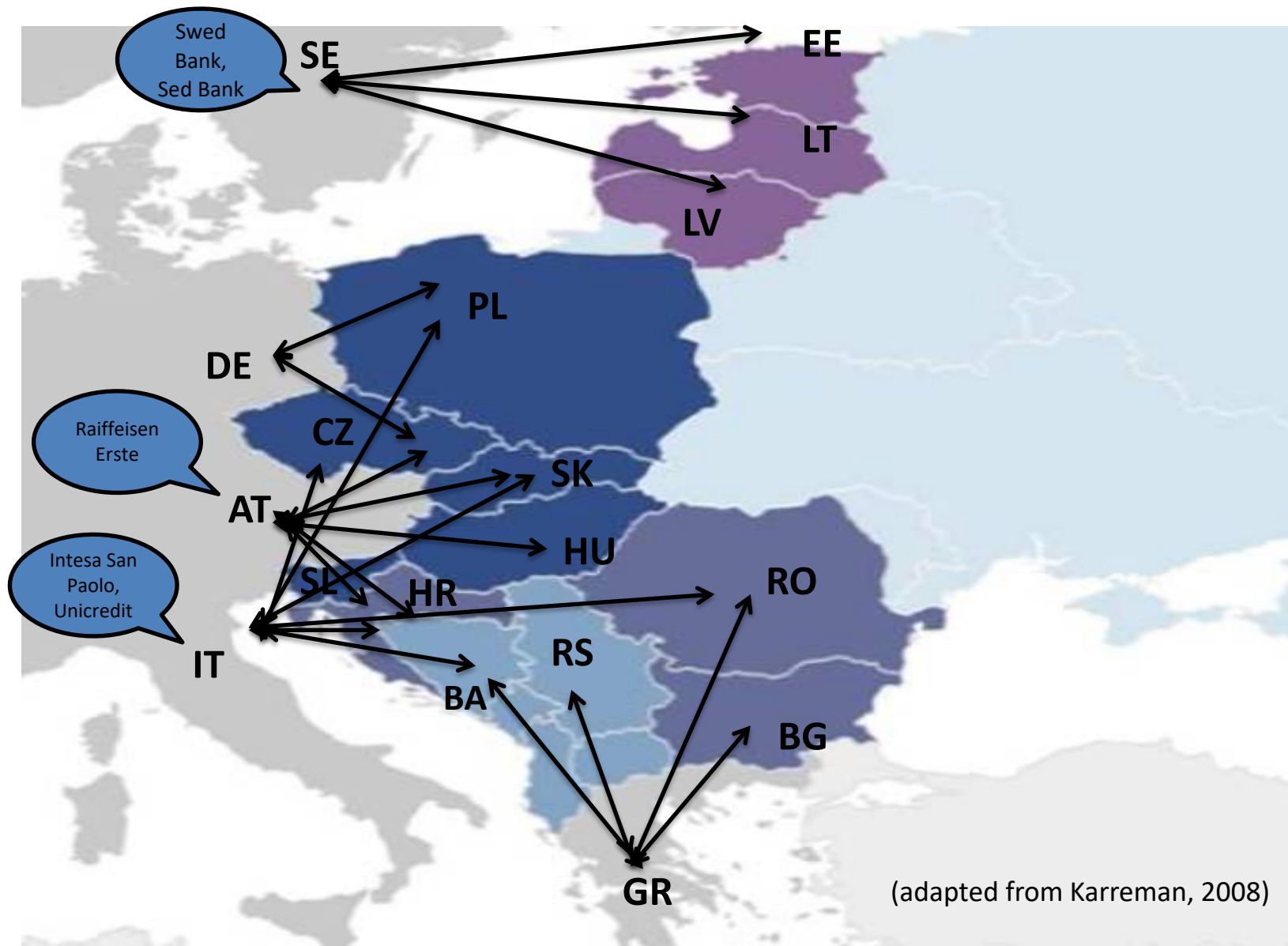
- Early 1990s- end of 1990s: Transformation of the mono-banks branches into SOCBs and “petty liberalization” (Barisitz 2008). Repeated crisis: SOCBs non-performing loans (Barisitz 2008). Negative narrative of planning economy, “Excess demand” (Gabor 2012).

**Re-territorialisation** (redesigning a new disciplining power through the forces of financialisation):

- Early 2000s until the crisis: “in depth privatisation” (Barisitz 2008). Shift from the “**patient finance**” which had dominated the ECE banking system to an “**impatient finance**” based on risk and speculation (Gabor 2010).

**Foreign banks entrance:** Credit boom, FX loans, rise of mass indebtedness

# CORE SEMI-PERIPHERY SPATIAL HIERARCHY





# HOME AND HOST COUNTRY RELATIONSHIP

## Subsidiaries :

**Penetration via M&A** (foreign banks in a local vest).

Subject to their **host country regulators**

- Regulatory arbitrage
- Financial stability (no contagion)
- Contingent allocation of funding via internal/debt capital market (de Haas and Naaborg 2005)
- Externalisation of risks to the households via foreign loans carry trade activities (Raviv 2009, Rodik and Zitko 2015, Gabor and Kudrna 2013)

# SUBSIDIARIES STRUCTURE DURING THE CRISIS

**GFC:** On 31 October 2008 Paul Krugman's blog opened with 'Eastern Europe 2008 = Southeast Asia 1997.'

Imminent **foreign banks “cut and run”** ?

- **“The Vienna Initiative”:** EU credit institutions (European Bank for Reconstruction and Development EBRD, the European Investment Bank EIB), WB and IMF, Home and host governments central banks committed to a funding package **24.5 billion Eur.**
- **V.I.:** key to ensure banks commitments (Hungary, Romania and Latvia effective recapitalisation).
- Banks wouldn't have “cut and run” because subsidiaries structure. Commit to their second home market; long term horizons; mass market strategy (Epstein 2014; and Grittersova 2014 ).

# SUBSIDIARIES AS MAIN FORM OF CAPITAL EXTRACTION

**After the crisis.** Banking re-leveraging through subsidiaries as these to could rely on **local deposits**.

**Major banks in CEE, Erste, Raffeisen, Unicredit and Banca Intesa operate** exclusively through subsidiaries In ECE.

- **Unicredit new expansion plan 2019-2020.**

Re-balancing of the bank organization:

- Greater weight to the Foreign Banks Department (managing the 11 bigger subsidiaries in CEE).
- Marginalisation of domestic business in Italy (more risky and less productive) in favor of foreign assets.

# SUBSIDIARIES BETWEEN MARKET-BASED AND BANK-BASED ACTIVITIES

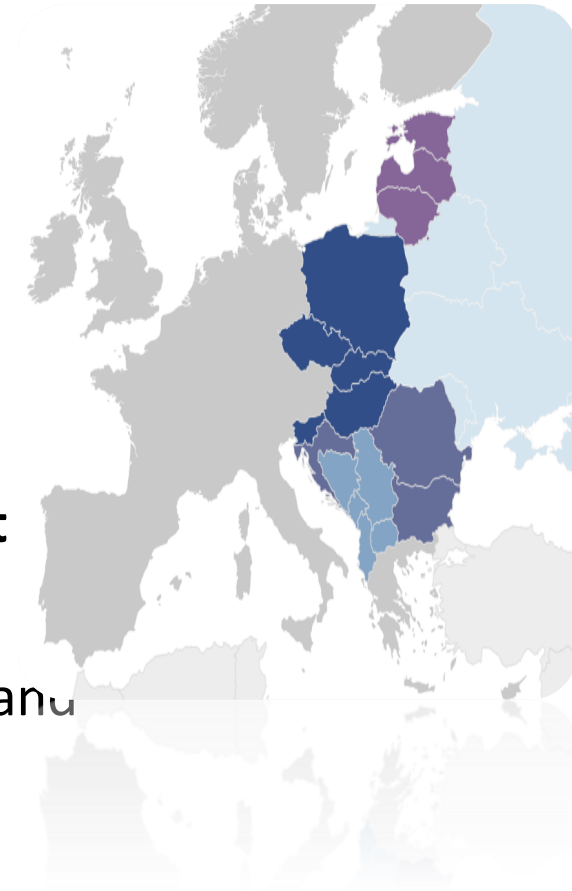
Banks operate as a 2 faced-Janus;

- **Bank-based** activities in host countries and
- **Market-based** activities in home countries

After the crisis, the same banking system that, through megabanks, implemented the austerity policies reducing lending to their subsidiaries (and creating poverty); through subsidiaries can now **gather deposits and** renewing new **pattern of the credit/debt process, in a circular motion** (Lazzarato 2017).

# CONCLUSION:

- **Post-socialist East-Central Europe:**
  - **unique opportunity** to study financialisation
  - potential to provide **new perspectives**
- **Western banks:**
  - unprecedented level of foreign ownership
  - unprecedented rise/speed of (household) **debt**
  - networks of **‘financial chains’** (Sokol, 2017)
  - **parent-subsidary** relationships key to understanding operations in ECE





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**Thank you!**