

Making the Financial Markets of Hungary and Slovenia Global

The Structure of Chapters

Dóra Piroška, PhD Candidate at the Central European University
Supervisors: Anna Leander and Béla Greskovits

This paper presents the structure of my Phd thesis, separated into chapters. In each chapter, I outline the structure of my thinking corresponding to the main goal of the thesis and that of the given chapter. Consequently, this paper is more a documentation of my working and thinking, than a coherent set of arguments. Also, the details of the thesis are very much in the making, increasing the obscurity and murkiness of the present paper. As you will see the first chapters are more elaborate than the later ones. Finally, the reading and understanding of the paper may turn out to be a more complicated task than I originally planned, for which I apologize.

1 Chapter: Introduction

- a) Brief presentation of the **puzzle**:
Globalization of financial markets is presented by many researchers and analysts as an irresistible, homogenizing force pushing governments to reorganize their economy according to liberal principles as the only long term successful strategy. Yet, in the last decade the Slovenian and Hungarian governments followed markedly different banking sector policies and still both achieved international political success and economic growth.
- b) **The research question**: how (in what respect) the two countries' banking sector policies developed differently in the era of globalization of financial markets?
- c) why it is worthwhile to answer this question. Why is it important historically / politically? Why is it important theoretically?
- d) **The argument**: Conceptualizing globalization of financial markets as a historically contingent and locally bounded change in social relations as opposed to an irresistible force, allows us to see how, in the two countries, these changes were interpreted in different ways with the help of different discourses on market economy and globalization of finance. As different discourses have been institutionalized, actions and debates were formed within different boundaries of the feasible and imaginable. At the same time, the different institutional solutions also conditioned the discourses about their boundaries: in Hungary a more neoliberal, in Slovenia a more nationalist/welfare-oriented reasoning gained force, empowered actors and helped reshape institutions of finance, with the result of markedly different banking sector policies in similar international environment.
- e) **On methodology**: Historical institutionalism combined with discourse analysis
- f) The structure of the thesis

2 Chapter: Literature review: Globalization of financial markets and its marks on state policy formation

In this chapter I try to accomplish two tasks at the same time. That is, I not only present and evaluate the relevant literature on globalization of financial markets but also develop conceptual tools for the empirical case studies. First, I start by presenting orthodox arguments on globalization of financial markets. I continue with evaluating these theories on different grounds such as their internal cohesion, the models' exogenous assumptions, and finally their applicability to the two selected cases. I conclude that because these orthodox theories can not appropriately handle markedly different policy outcomes under similar circumstances and at the same time trace the marks of globalization, they are not appropriate tools for the analysis of the banking sector policy formation of Hungary and Slovenia. Second, I continue by exploring problem-centered approaches of globalization of financial markets. These approaches instead of starting with an *a priori* notion of globalization put the nature of globalization (of finance) into the center of their empirical analysis. Hence, by using more interpretative methods of analysis these problem-centered approaches work with a new vocabulary in understanding financial globalization. They hold that as the meaning of social action is geographically/temporally/culturally bounded, globalization of finance can only gain meaning within these local boundaries. In other words, globalization of finance is conditioned by the local, historically contingent interpretations. As such the problem-centered approaches are better equipped to account for differences in policy outcomes and simultaneously trace the impact of globalization of financial markets on local settings, including the cases of Hungary and Slovenia in the 1990s. I conclude the literature review with the observation that in the cases of both approaches, that is, in the case of the orthodox and the problem-centered approaches, the concept of globalization can not escape a circular interpretation, which sees it at the same time as a cause and as an outcome. I also observe that the representatives of the orthodox approaches are less vocal and the problem-centered approaches are more explicit about this nature of globalization. Finally, within the framework of the later problem-centered theories of globalization of financial markets I try to develop a detailed theoretical/conceptual toolkit to help conceptualizing globalization through the following empirical analysis.

a) Globalization of finance – in the orthodox economy presentations:

The aim of this section is to outline the most important representatives of the all too powerful, orthodox arguments about how globalization of financial markets affects states' financial market policy formation. After spelling out their major tenets, I will try to show that they do not represent adequate theoretical tools for the analysis of the two selected countries because these theories either would predict closer similarities in the conduct of banking sector policies of the two states. Or, they narrow down the focus of analysis to specific cases and instances of the globalization process, hence would make the spelling out of the conceptual similarities and specific trends of globalization in the two countries more difficult.

In this paper, I mention four clearly different variants of the orthodox approaches and as an example of how I will present them in my thesis I develop one and leave the other three as headings. This one approach sees globalization of financial market

as an outside force pushing governments to adjust their policies to the needs of the major private players of the globally integrated financial markets.

1) In the literature of the politics of financial markets, various scholars (Garrett 1996, Cerny 1998, Kahler 1998, Epstein 1996, Keohane and Milner 1996) developed arguments for the relations of globalization and state policy formations, which can be characterized as outside-in explanations. They all argue that in order to explain the local policy changes there is a need to start with an analysis of the changes in the international financial market (system level) and explain with the help of these changes the particular type of regulatory development on the state level. In most of these encounters, there is an evident, sometimes deterministic causal link between the integration and growth of international financial markets and the particular regulatory development in local realms: domestic institutions are forced to adjust. In other words, a general trend away from financial interventionism towards liberalization and privatization is presented as a quasi-natural, cross-national phenomenon. The persistence of national differences is treated as residual variations which can be ascribed to institutional resistance. In these accounts, the explanatory factor is the interest of the representatives of the internationally active sectors, who exercise positive political pressure on the state. As it follows, in hope for major benefit from doing business in the international playground of financial markets, the representatives of the exposed sectors push governments to remove barriers to capital mobility. In other words, they push governments to re-regulate the domestic financial market, which then enhances their ability to compete internationally. (Frieden and Rogowski 1996)

Paulette Kurzer, in an institution centered version of these explanations, focused on financial and business communities as representatives of the exposed sectors and explained the different timing of the liberalization and privatization of the financial system on the one hand of the Belgian, Dutch and on the other of the Swedish, Austrian state with the different entrenchment of the business communities in international networks. (Kurzer 1993) She observed, that the Belgian and Dutch multinational companies, operated for a longer time and on more diverse international markets than the Swedish and Austrian internationally active trading and production companies. Kurzer also showed that the liberalization and privatization of the Belgian and Dutch financial markets occurred earlier and during a shorter time period than in Sweden and Austria. Thus, she established causal link between the two phenomena, saying that the major reason behind earlier and more profound liberalization of financial markets in Belgium and the Netherlands occurred as it was in the interest of the globally more active business communities to support their trading and producing activities with a similarly globally available banking services. Thus, they lobbied at their national governments to open up the financial markets earlier and more forcefully than their Swedish and Austrian counterparts.

I see two problems with regards to the above presented outside-in approaches, which render them inadequate for the analysis of the Hungarian and Slovenian banking sector policy formation: they disregard the financial policy shaping forces of the domestic political bargains and the problematique of the different interest formation of the exposed sectors within different local settings.

First, in both cases (in the case of the structuralist and institutionalist explanations) the mechanism through which the interest of the exposed sectors become a pressing force on governments' policy choices, is the changing conditions in the international financial markets. These changes provide the owners of liquid asset holders with greater flexibility in investment decision hence greater power above local fixed asset holders and the state. As these argument go, state policies without any important modifications accommodate to the pressure of the exposed sectors. In other words, the outside-in theories consider the political struggle on the domestic level irrelevant for the actual policy outcomes. (Perez)

Furthermore, these approaches take it for granted that the political interest of the representatives of the exposed sector is to achieve fully liberal conditions on the domestic market. Since they do not problematize the interest formation of these actors nor variants to 'liberal conditions' and the consequent alterations not only in degree but also in nature of the requested "beneficiary" domestic market order, these theories can only analyze functionally similar changes in domestic financial market policies. Consequently, the outside-in approaches are little equipped to account for the differences of the Hungarian and Slovenian banking sector policy formation, which I believe is more in kind than in degree.

Further examples of the orthodox approaches to be developed in the thesis:

- 2) **Haggard/Lee/Maxfield – inside-out – integrated markets enable/force internal actors to reorganize the domestic realm**
- 3) **Perez – conjunct effects – integrated markets themselves emerge as a result of domestic reorganization**
- 4) **Apeldoorn/Sklair – capitalist class**

b) Globalization of finance - in a problem-centered presentation:

In this section, I outline those understandings of globalization of financial markets which in the course of analyzing the state policy formation, at the same time allow for differences in state conducts and incorporate the notion of global change into the explanation of these different outcomes. Common to these approaches is a more sociological view of financial markets as institutionalized social processes guided by historically contingent norms and rules. Moreover, these approaches also look at the meanings of the institutionalized social actions, assigned to them by the actors involved.

1) Blurring boundaries – Sassen/ Jessop

The problem-centered approaches argue that globalization of finance and its effects on politics cannot be understood by strictly separating national and international phenomena. There is a need to provide a combined understanding of the national and international and their interactions. Institutionalized practices that have been taken for granted, such as 'national economy', or 'national financial system' or 'international' trade are in doubts as production disaggregates and diffuses across territorial boundaries. Also, perceptions about 'inside' and 'outside' are strained by the creation of a globally integrated, electronically linked, 24-hour global financial system. (Deibert 1997)

One way to account for the above-characterized nature of globalization of finance is to conceptualized globalization as working within the institutions of the state. That is, to see globalization of finance as an ongoing global process which

materializes in national territories through national institutions of finance. (Sassen 2000) In other words, globalization can be seen as both working within the parameters of existing domestic and international institutions and attempting to modify these institutions, although in a way which allows substantial leeway for different local institutional developments.

2) Transnational political space – Held, etc.

Furthermore, politics of banking in the problem-centered approaches is characterized by the struggle of overlapping political transnational authorities. The state far from being the main organizing unit of politics of finance, finds itself as only one of the many emerging political entities. Also, not only privately organized new entities emerge (such as MNCs and NGOs) in the global system but there are a number of state-created political centers of authority. Thus, globalization can be seen as a heterogeneous process creating multiple and overlapping layers of authority designed to respond to and govern the globalizing economic forces.

3) Redefinition of politics – Bourdieu/ Ruggie/Rosamond

Finally, but not exhaustively, globalization of financial markets can be seen as a process which redefines the political realm. It changes the conventional bargain of politics over the allocation of resources via empowering/disempowering the actors involved, ruling out alternatives and changing the means and methods of legitimizing certain political solutions.

I conclude that for my case, that is for the empirical analysis of the state policy formation in the two selected countries, this third aspect of globalization as understood by the problem-centered approaches is most interesting. Although the two other aspects of globalization, identified in the literature, naturally have played important roles in how the two countries developed different banking sector policies. However, I believe, I can develop a more coherent reasoning about my cases if I narrow down the empirical focus to the redefinition of the political sphere.

c) In my thesis, the focus is on Globalization of finance – a Redefinition of politics:

In this section, I turn to the conceptualization and theoretical sharpening of one specific feature of globalization: to the redefinition of the political. I argue that this redefinition is best captured by looking at four aspects of the changes: (i) to the actors involved, (ii) the power and strength of alternative discourses of truth, (iii) methods of legitimization. (iv) Finally, I argue that these processes are occurring within and through the local institutional settings, that is, the changes are path-dependent. I also hold that although the above changes are characteristics to many social spheres, it is the financial sector where they are most visible. By operationalizing the notion of redefinition of politics along these lines, I strive to formulate conceptually clear tools for the following empirical analysis of Hungary and Slovenia.

In the following, I develop the aspects of the changing political sphere in more details:

(i) In relation to actors, globalization empowers/disempowers actors engaged in politics. It prioritizes private actors over state institutions, mobile asset owner over

fixed asset owners, capital owners over labor owners, internationally organized actors over single actors, etc. Zygmund Bauman gave an exceptionally rich description of the aspects in which globalization changes the actors power positions.

(ii) In the era of globalization, description of truth of social reality - as it always has been - is provided by the dominant discourse and gains precedence as a result of the ongoing struggle between dominant and alternative truths visions. However, in the era of globalization alternative sources of truth, especially concerning the organization of the financial sphere are more and more marginalized. Bourdieu and Wacquant in the Cunning of Imperialist Reasoning gave detailed analysis of globalization (in their case the neoliberal discourse) truths abiding capacities.

(iii) Thirdly, methods of legitimization are altered in two ways, by the increasing depoliticization of formerly debatable issues and via the dislocation of the source of legitimacy. First, the intensifying tendency of depoliticizing formerly debatable issues is probably the most visible in the financial sphere. Depoliticization of financial matters has been going on not only through the increasing technicality of financial transactions and the consequently increasing obscurity of financial business. But also it is a by product of the discourse describing the economy along the line of liberal market patterns and as an independent sphere from politics, which holds that banking and finance should not be debatable as public interference decreases efficiency and increases instability. Depoliticization of finance which can be illustrated by the examples of the increasing independence of Central Banks from governments or the privatization of banks all over the world, allows financiers to disregard more easily the local interest as not being strongly tied to it by legal or political obligations and focus their attention to cross-border activities and strive for legitimacy in the community of other international agents (IMF, WB, Basel Committee, multinationals). As a result, although their business seriously alters local conditions, the locality is less capable to influence the financial sphere to adjust to its demands and needs.

Second, the methods of legitimization of banking sector policy changes via the dislocation of the source of legitimacy of state actions from the people to institutions, from the local to the international. The implementation of the European Union banking directives is a telling example for this point.

(iv) I also argue that changes in actors' power, alternatives of truth and methods of legitimacy are all path dependent processes. In other words, I assign important relevance to the historical evolution of social processes, for to see globalization at the same time as a particular and universal process, where the particularity stems from the bidding force of the local.

Finally, it is important to emphasize that I do not mean that globalization of financial markets through the redefinition of politics directly leads to inefficiency or efficiency or the worsening of the economic conditions of the non-financial spheres. The point is not that it is altogether "bad" or "good", but that it is not a faceless, inevitable process and there are scopes and means through which to alter its course, and I would argue they can most easily be found at the local, political level.

d) Conclusion

Thus, the aim of this chapter was both to review the relevant literature of globalization as well as to develop theoretical concepts, indispensable for further empirical analysis. As a result globalization can be traced during a period of

profound political reorganization of the Central and Eastern European countries. Since the developed theoretical grounds allows for a purposefully selective evaluation of the transition process from one political regime to another, from centrally planned economy to market economy.

On these grounds, I first turn to the presentation of the two countries political and economic development preceding the early 1990s political changes.

3 Chapter: Institutions of banking and politics in the two countries before transition

The plan for this chapter is a brief and separate presentation of the two cases' historical background. I intend to embed the presentation of facts into the different theoretical arguments developed within a historically informed transition research. In other words, this chapter combines a review of the literature dedicated to the two countries pre-transition history within the broader aim of searching for the historical specificity of the two cases.

It is important to emphasize however, that I do not claim that globalization of financial markets first effected these countries' policy formation in the 1990s. The intensifying integration of financial matters naturally had impact on the two countries before the transition has started. Nevertheless, the pre-transition period is simply not the focus of this research and therefore I do not endeavor on the theoretically rigorous identifications and differentiations of the globalizing political and economic processes, but rather let the former analysts present the past.

a) Slovenia and the third way of Yugoslavia

- 1) non-alliance politics (e.g. credits were coming from other non allied states)
- 2) active notion of exceptionalism – nationalism

b) Hungary the happiest barrack

- 1) 1956- oppression
- 2) Kádár compromise

4 Chapter: Presentation of the banking sector policies of Hungary and Slovenia in the 1990s

The plan for this chapter is an introduction of the *explanandum*: the diverging lines of the banking sector policies in Hungary and Slovenia, during the last decade. Banking sector policy is conceptualized as a set of decisions made by the authorities of the two countries with regards to the banking sectors. I present separately the most important decisions in Slovenia and in Hungary.

Slovenia:

Since, 1965 the Yugoslav economy had a two-tier bank system, where the Central Bank and commercial bank functions were separated, the commercial banks were subordinated to non-financial enterprises, and the commercial banks were allowed to operate in international markets. The head offices of bank branches were located in the different republics, which fact was used after dissolution to claim nationality for banks. Finally, Yugoslavia was one of the most indebted country in the region and in relation to the financing of the foreign debt, although without being the owner of the banks, the state regularly intervened into the lending policies of the banks.

Still in Yugoslavia, the first banking law which substantially altered the organization of financial activities was the 1989 Bank Law. Within the framework of this Law, all banks were transformed into either public limited liability companies or private companies. The owners of the banks (non-financial enterprises) were transformed into shareholders, and kept their influence over the bank's lending policy. The 1989 Bank Law also allowed for private and foreign investment to banks, nevertheless with important restrictions.

After declaring independence, Slovenia faced numerous financial problems such as the lack of dinar bank notes, the lack of foreign reserves at the Bank of Slovenia and the problem of the unallocated foreign debt. The banking sector was dominated by Ljubljanska Banka, which accounted for 82% of the all assets of the sector, the second largest was Kreditna Banka Maribor with 10% and with few other banks, none of which accounted for more than 0.5% of the total assets. (Mrak 1999) For numerous reasons (e.g. indexation of bank accounts, foreign currency denominated accounts, intensive state intervention to bank's lending policies) most of the Slovene banks at the time of declaring independence were indebted. The bank rehabilitation aiming to increase efficiency in the banking sector started in 1991, with the Law on Rehabilitation, Pre-Rehabilitation and Liquidation of Banks. In that year the most important measure taken by the government was the establishment of the Rehabilitation Agency. However, until 1993 no serious measure were taken into the direction of the actual start of rehabilitating the banks, when with the decrees of the Bank of Slovenia the rehabilitation of Ljubljanska Banka has started. In the next year within the framework of a government bond - bad debt swap the two largest banks portfolios were cleared up, and as a consequence the state became the major owner of them. In other words, in 1994 the Slovenian state nationalized almost 50% of the banking sector assets. (which is pretty amazing as in this time, in all over the world liberalization of banking sector was on the agenda of governments.) In the next year, the problems of the Yugoslav foreign debt service was settled and the Slovene government signed an agreement with the members of Paris Club.

The process of bank rehabilitation ended in 1997 and unlike in the case of the other countries in the region no serious negotiation has started with foreign investors in relation to the two largest banks until 2000/2001.

In addition to the above acts, the Slovene governments were active in setting up barriers of entry to the financial market, which is also a unique feature of the Slovene banking sector policy among the other Central and Eastern European countries and again counter intuitive for liberal understandings of wealth accumulation. The various barriers of entry to the Slovenian market can be grouped into general barriers to market entry and specific barriers which protected the financial system. To the first group of barriers of entry, which generally protected the Slovene market from foreign investors, belong the constitutional prohibition of foreign legal persons to buy land¹, the long array of sectors where foreigners were restricted to invest, and finally the hindering involvement of state agencies in the course of business registration².

A second group of barriers can be listed specifically with regards to the financial market. Here the most important hindrances are the followings. First, foreign banks were not permitted to open branches in Slovenia, second domestic and foreign investors acquiring an ownership share in domestic banks were treated differently, foreigners less advantageously.³ Third, the start up capital for bank establishment was unusually high, higher than in other Central and Eastern European country⁴. Finally, in the fear of the consequences of the Russian financial crisis, the Bank of Slovenia enacted new restrictions in relation to foreigners willing to purchase shares on the stock exchange. Likewise the Bank of Slovenia introduced various administrative restrictions in the financial sector (40 per cent nonbearing tolar deposit for all foreign financial credits; custodian accounts for foreign portfolio investments).⁵

As these measures created high concentration and little competition in the financial market in order to increase the efficiency of financial intermediation the two large state-owned banks with the leading of the Bank of Slovenia signed an inter-bank agreement on the maximum deposit rate (a cartel agreement). This step was necessary to give a halt to the increase of the price of money and was a substitute to opening up the market and allowing additional capital to enter.

Since 1997, after signing of the association agreement, as a result of the Slovene political will to move closer to the European Union in the last couple of years, the government started to substantially liberalize the banking sector, dismantle many of the above mentioned barriers and start the privatization of the banks. This aim sheds new light to the above discussed elements of the Slovenian banking sector policy. It becomes almost a paradox that the Slovenian authorities at the same time thought to highly protect the internal market and prepare for the membership of an economic union, which clearly prioritize free excess of all parties to member states' economies.

With the new Banking Law of 1999, substantial changes have been made towards the opening up of the Slovenian financial system. Since 1999, foreign banks

¹ Svetlicic, Marjan and Matija Rojec(1998): Short Overview of the Slovenian Economy and Foreign Direct Investment, Eastern European Economics, p69.

² Svetlicic, Marjan and Matija Rojec(1998): Short Overview of the Slovenian Economy and Foreign Direct Investment, Eastern European Economics, p69.

³ Mrak, Mojmir(1999): Restructuring the Banking Sector in Slovenia in View of Accession to the European Union, Journal of Economics, Vol. 47, No.2, pp 202-220

⁴ IMF country report

⁵ Bank of Slovenia, Annual Report, 1997

have been permitted to open branches in Slovenia. The different treatments of domestic and foreign investors acquiring an ownership share in a domestic bank are also abolished. Under the new Law the approval of the Bank of Slovenia is only necessary if the ownership share exceeds holding of more than 10 percent of capital. The new Law also abolished the inter-bank agreement on the maximum deposit interest rates. New banking groups were formed and the privatization of NLB and NKBM has started.

Hungary⁶:

Until, 1987 the Hungarian banking system was a mono-bank system dominated by the National Bank of Hungary. The main roles of the NBH were first, to organize state funding, in which a network of saving banks (the largest was OTP) performed the role of collecting savings, and second, to manage the accounts of the state-owned enterprises. Lending decisions were influenced by the state. From 1979 a degree of foreign bank participation was allowed, with the CIB as an off shore bank and Citibank and the Austrian Unique Bank from 1986. Until 1987 only the NBH was allowed to operate in international financial markets. In 1987 the domination of the NBH ended with the establishment of three commercial banks. At first the new commercial banks were only allowed to provide finance to companies and not to lend to private individuals or engage in foreign exchange trading. From 1988 the new banks became more fully licensed to perform banking services. State intervention into lending policy although reduced in scope remained an important feature of the Hungarian banking sector policy, especially increasingly as the huge foreign debt burden was forcing the government to refinance its obligations.

In the first years of transition a variety of new financial institutions were set up, some with state participation, usually as a subsidiaries of the large state owned banks. Until 1993, the number of banks exceeded 40 out of which more then 20 have been established with foreign participation.

In 1990, the Law on Privatization set up the State Property Agency for enterprises the government planed to privatize and the State Property Management Company for those enterprises which the government initially planned to keep in state hands. The ownership and control over banks was exercised the Ministry of Finance. Hence the privatization projects for banks were supervised also in the Finance Ministry.

In 1991, three laws were enacted by the Hungarian authorities: Bankruptcy Law, Accounting Law and the Law on Financial Institutions which together made the indebtedness of the Hungarian state-owned banks in 1992 starkly apparent. And enforced the government to start the not so long but extremely costly process of bank rehabilitation.

The first wave of credit consolidation started in 1992, which involved replacing bad debt by long-dated treasury bonds. It was the government who determined which loans were eligible for consolidation, as the Budget Act of the year did not specify under what conditions and for how long the consolidation government bond could be issued. The second wave of bank consolidation was performed under the 1993 March Bank Consolidation Act, at this time focusing on indebted banks as opposed to badly performing loans. It required the recapitalization of banks in the form of common stock or subordinated loan capital. Banks were obliged to reorganize their internal management, devise staff trainings, program to

⁶ This presentation draws on C. W. Neale And S. Bozsik (2001): How the Hungarian State-owned Banks were Privatized, In: Post-Communist economies, Vol. 13, No. 2.

modernize the operating system and to prepare for privatization. This recapitalization was followed by two smaller ones.

The question of privatization thus first was gaining momentum in the latter part of the bank rehabilitation process and most of the formerly state owned banks were privatized as of the end of 1995. The Ministry of Finance first expressed its preference for financial or portfolio investors as opposed to strategic investors to banks. The final political solution changed later this course. The state banks earmarked for early privatization were the three giants established by the NBH in 1987 and OTP, the dominant bank in the retail-market. The privatization of MKB started in 1993 and ended in 1994. The privatization of OTP started in 1995 and ended in 1997. Budapest Bank, began in 1994 and ended in 1996, and the only case in which the investor was offered guarantee. MHB started in 1995, etc. In most cases the investment made to these banks were tiny compared to the size of the buying institutions, and the potential returns. The EBRD not only advising the government in the formulation of new legal regulations, but it was also involved in many privatizations as investor.

In 1998, the implementation of EU directives has also started in Hungary, however it did not require substantial re-regulation of the market.

Banking Sector Policy	Hungary	Slovenia/Yugoslavia
Level of indebtedness of the state in the early 1990s	High	Manageable/High
Introduction of two tier banking system	1987	1965
First foreign-owned bank established	1979	1989
First step towards bank rehabilitation	1992	1991
Result of rehabilitation	privatization of major banks	nationalization of major banks
End of rehabilitation	1995	1997
Foreign entry to financial market	the state promoted entry	numerous barriers
Effects of EU negotiations	reevaluating liberalization	opening up the domestic market

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Slovenia/ Asset share of state-owned banks in %		47,8*	39,8*	41,7	40,7	40,1	41,3	41,7	42,2
Hungary/ Asset share of state-owned banks in %	74,4	74,9	62,8	52	16,3	10,8	11,8	9,1	8,6

Resource: EBRD Transition Report, 2001

*in these years the state was a de facto rather than a de jure owner of banks

II. Part of the thesis: Presentation of the empirical case studies: Redefinition of politics/ diverging banking sector policies

In these parts, I would like to delineate two readings of the early banking sector policy formation in Hungary and in Slovenia. On the one hand, I would argue that the marked differences in the early banking sector policy formation of the two states can be understood as the outcome of the kinds of institutions and regulative practice Hungary and Slovenia respectively adopted together with the discursive practices, describing the feasible and imaginable. On the other hand, I would spell out changes in actors, alternatives and legitimizing practices in the two polities, in line with the understanding of globalization theoretically clarified in the literature review chapter.

Also I would try to contrast these developments to changes in the global financial markets. As a result of this two level analysis, the story of banking sector policy formation gets out of its usual analytical framework of the transition state and gains precedence as a process evolving within the broader framework of globalization of financial markets.

The plan for the following chapters is that I select three examples/instances of the banking sector policy formation of the two countries and examine these three examples in depth.

5 Chapter: Liberal versus nationalist/welfare-oriented arguments about the liberalization of the economy and the opening up of the markets: banking sector policy in the early 1990s

The aim of this chapter is to present and discuss the early institutional choices of the two states and establish parallels with the kind of steps they made in the direction towards opening up the financial markets. I will try to show the similarities in the organizing principles of the two parallel processes: more neoliberal considerations in Hungary and much starker nationalist and protectionist logics in Slovenia.

The aim is to show that what seems from afar a single global phenomenon – liberalization of financial markets or the dismantling of activist credit policies - looked at from a closer range in these two relatively similar countries from Central and Eastern Europe – shows less and less similarities. In other words, the process of globalization of financial markets is narrowed down to the individual steps of the two transition states so that to show the local contingencies of a global process. The aim is to show that liberalization was very different in nature in the two countries and was not at all externally forced upon the two states, but rather liberalization or the lack of it represented the conscious choices of the various state actors.

Also I argue that in order to grasp the underlying logic of the diverging lines of the developments we should look at the motives behind the early steps of transition to market economy. While in Hungary there was present a general dissatisfaction with the economic performance of the reformed centrally planned economy, in Slovenia people were more satisfied with their living standards and the performance of the economy. Thus the primary logic of social actions should be found somewhere close to the understanding of the goal of the two countries economic transition. Hence close to the notion of how people imagined the characteristics of the ‘market economy’ in the two countries.

I would potentially argue that in Hungary ‘market economy’ was defined first in opposition to planned economy, second in relation to little state intervention into economic affairs and third and silently as a market order different from capitalism. In Slovenia, as stated in the Constitution the goal of transition was to establish a ‘welfare economy’ with important state participation. Second, market economy was never understood in opposition to the former (socialist) economy but rather it was imagined as an amelioration of it with strong emphasis on the free entrepreneurs. Finally, in Slovenia the consequences of establishing a very small economy and state was one of the central recurring theme of political discussions about the new institutions.

Therefore, the empirical research will start with the understanding of the notion of 'market economy' in the two countries and follows with a quest for the interpretation of global financial markets in the two countries.

In Hungary

With regards to institutional development I will take into consideration the following facts:

- The importance of the Ministry of Finance in economic policy formation as opposed to the Ministry of Economy. It was an important feature of the Hungarian institutional setting as the main concern of Finance Minister is usually the equilibrium of the budget as opposed to the primacy of growth which usually is more the concern of Economic Ministries.
- The high level of independence the Central Bank.
- The network type relation of bankers and firm managers the new system inherited from the past, which was an effective mechanism to assure credit to firms from banks after the halt in direct state subsidies. And which also resulted in the high indebtedness of the banks. (Bartlett 1997, Stark and Bruszt 1998)
- The positive early experience with foreign investors.
- The weak civil society and also the not so strong tripartite institutions.

With regards to banking sector policy:

- I may consider the new laws setting up the framework of market economy
- The three steps of bank consolidation, and their political consequences

In Slovenia:

With regards to the institutional development I would probably look at:

- Parliament/government/civil society: the distance institutionalized between politics and an active civil society. Nationalist argument gained strength at both levels. However, political actors pursued a double strategy of different political talks with the west (more neo liberal) and with the domestic constituents (more nationalist).
- Cross ownership in bank – enterprise relations, similar networks as in Hungary, with the important difference that in Slovenia the networks were formally institutionalized.
- Indebted banks
- Less independent Central Bank than in other CEEC.
- Three then later two-chamber parliament, the representatives of the civil society, trade unions and managers of socially of the lower chambers owned enterprises voted against privatization programs several times. A chamber non existent in the Hungarian institutional setting.

With regards to banking sector policy I consider to investigate:

- Yugoslav banking sector liberalization
- Bank rehabilitation: The long delay of bank privatization
- The barriers of entry into the financial markets

As the empirical research is not conducted for this chapter it is hard to conclude now. Therefore, it is also difficult to establish the promised links between the general theoretical discussion of globalization of finance and the findings of this chapter. For these reasons, I leave the development of the conclusion for a later stage of the research.

6 Chapter: Globalization of finance and the state's policy choices: the example of the connections between the social construction of foreign debt burden and banking sector policy formation

“Another bestseller could well be Constructing the Deficit. Of course the deficit was brought into being by a great deal of borrowing in the course of the recent history; that is not what would be in question. The topic of this imagined bestseller would be the construction of the idea of the deficit. We can foresee the argument. The idea of the deficit was constructed as a threat, a constraining element in the lives of many, an instrument for the restoration of the hegemony of capital, and for the systemic and ruthless unweaving of the social net. It was constructed as a device for encouraging poor people willing to consign them to yet more abject poverty.” Ian Hacking(1999): The Social Construction of What? p13-14

The issue of foreign debt refinancing I believe, is a particularly good example for my thesis as on this example I can at the same time show how the institutionalization of the discourse about the importance of debt service affected the banking sector policy formation in the two countries, as well as outline the changes in local politics in relations to actors, alternative solutions and alterations in methods of legitimization. For, foreign debt is at the same time an important building block of the international organization of finance, in addition its reimbursement has been at the heart of the economic policy formation in the two countries.

The starting point will be the following observation: The settlement of the foreign debt in the two countries need not have been conducted in the way that it was. Foreign debt burden was not determined by the nature of things. Foreign debt burden was brought into existence/shaped by social forces, history, all of which could have been different. I will try to show that the concept of the foreign debt burden and the matrix of rules, practices, and infrastructure in which it was embedded were not inevitable at all.

On the example of the foreign debt I will try to show how the locally/temporally/culturally bounded interpretation of the global financial markets conditioned the banking sector policy formation in the two countries. I will argue that the institutional developments in the two countries enabled/empowered different kinds of discursive understandings of globalization of financial markets which then guided different social actions. In Hungary, the settlement of the foreign debt burden was constructed as inevitable, in Slovenia as an opportunity to establish Slovenia as a ‘normal’ country in the world financial community. I will show how the differences in the boundaries of imaginable and feasible in the globalized financial system conditioned different actions.

The argument put in a bit simplistic way: as the Hungarian financial institutions were under strong influence of the economists, their thinking and understanding of global financial markets gained power. Since economists tend to believe that global financial markets remember debtors' behavior, in Hungary a strong feeling gained force among the elite which disfavored debt relief or debt rescheduling. Hence throughout the 1980s and 1990s even at the cost of "unweaving of the social net", timely satisfied foreign creditors demands. In Slovenia, the issue of the Yugoslav debt was linked to the establishing of the statehood of the new country. Initially and legally, for the reimbursement of an important part of the unallocated portion of the Yugoslav debt, Slovenia was responsible alone. (Due to the 'joint and several liability' clause of one of the agreement signed in 1988) However, Slovenia by claiming dissolution of Yugoslavia and not the secession of Slovenes argued for a reallocation of the unallocated debt among successor states. Thus, Slovenia went against the words of the contract, Yugoslavia signed once with the London club members and instead of satisfying the words of the contract and satisfying all the demands of the foreign creditors, managed to renegotiate the allocation of the debt by 1995.

These arguments are naturally simplistic at their current form and one of the aims of further research will be to enrich the above descriptions.

Furthermore, in both cases there is a link between the foreign debt settlement and the banking sector policy formation. In Hungary many researchers argue that the quick privatization of the banking sector was in line with the need of satisfying foreign creditors and timely finance the matured debt. In Slovenia, the link between foreign debt settling and banking sector policy formation is to be found at the time of nationalizing of the two largest state-owned banks in 1994. Which was done in line with a need to clarify the exact portion of Slovene end-users from the unallocated Yugoslav foreign debt, and to claim responsibility for reimbursement only for this share of the Yugoslav unallocated debt. Hence in Hungary to certain extent the privatization of the banks could be explained by the issue of foreign debt whereas in Slovenia although in a much more limited extent the nationalization of the banks can be linked to the foreign debt burden.

In the case of Hungary:

First, the argument would start at the early 1980s when it became obvious that Hungary is a heavily indebted country and the financing of the economy from outside on the long run may run serious into difficulties. The main focus of inquiry would be the unique behavior of the Hungarian financial elite of not asking for debt rescheduling. The questions I will try to answer are the following:

- Why were there no (little) incentives within Hungary to ask for debt rescheduling during the 1980s?
- Why after the change of the economic regime was there no strong trial of rescheduling again?
- What were the argument within the first government which supported the financing of the debt?
- What role did the institutions play? What kind of institutions?

Second, while drawing a general picture of the internal discourse, I would also try to show what other example existed in debt rescheduling in the 1980s and early 1990s.

Third, the link between foreign debt refinancing and banking sector policy is the 1995 quick privatization of the banking sector to foreign hand in hope to at the same

time generate income to finance the debt as well as increase efficiency within the banking sector by cutting of the banks from the state.

In the case of Slovenia:

The argument would start at the independence of Slovenia in 1991, and would discuss in detail the three major financial problem the new country had to cope with: the lack of financial reserves, the lack of dinar bank notes and the problem of the unallocated Yugoslav debt.

Including others I would also consider the following factors:

- the importance of independent statehood
- the ‘several and liable’ cause to the Paris club debt (Slovenia should have financed the whole debt)
- the importance of establishing Slovenia as a normal country in the international financial markets

The link to banking sector policy formation is the 1994 nationalization/separation of the old and new banks, which aimed to clarify the ownership of the assets hence aimed to clarify the Slovenian bank accounts and banks’ portion of the non-allocated debts.

In the concluding part I would go back again to the two cases and consider how they fulfill or not the theoretical expectations of globalization of financial market as developed in the theoretical chapter.

7 Chapter: The role of the EU: Example of opening up of the Slovene market as opposed to restrain criminality in the Hungarian banking sector

In this chapter I try to evaluate the impact of EU on these two countries starting from the entry negotiations. With the beginning of association negotiations, EU’s power to condition local policy formation is increased. It shapes to an increasingly large extent the room for maneuvering of private agents as well as for other international organizations in influencing the state’s banking sector policy in the two countries. However, at this time, the different directions of the EU’s influence on the two countries banking sector policy are emphasized. (more liberal in Slovenia and less liberal in Hungary)

In the case of Slovenia I would consider:

- The EU’s discursive power and its various channels: legal regulation of banking, country reports, monetarism, EMU etc. and contrast it to a very low EU membership popularity among the Slovenian electorate.
- The EU’s productive power: Slovenian banking sector policy is reformulated more in line with EU than with Slovene preferences.
- I would spell out the parallel redefinition of politics (actors, legitimacy, alternatives)

In the case of Hungary I may look at:

- The EU's praise of the well functioning banking sector. That it satisfies many neo-liberal criteria, it is highly attractive location for investment, etc.
- The EU attempts at suggesting the tightening of the banking regulation so that Hungary be not the most important center of money laundering in European
- I would spell out here as well the parallel redefinition of politics (actors, legitimacy, alternatives)

8 Chapter: Conclusion

Literature Considered

- Abel, I. and Szakadat. A. (1998). "Bank restructuring in Hungary." Acta Oeconomica 49: 170.
- Bank of Slovenia (2000). Annual Report 1999. Ljubljana, Bank of Slovenia: 47-50.
- Bruszt, L. D. Stark (1998). Post-socialist Pathways: transforming politics and property in East Central Europe. Cambridge, Cambridge University Press.
- Adolf Bibic (1996): Slovenia's political society before the challenges of Europeanization, In: Danic Fink Hafner and Terry Cox: Into Europe? Perspectives from Britain and Slovenia, Scientificlibrary, Faculty of Social Sciences Ljubljana
- Cerny, Philip G. (1998). "Politicizing International Finance." Millennium: JIS 27(2): 353-361.
- Colin Crouch, Wolfgang Streeck, Ed. (1997). Political Economy of Modern Capitalism: Mapping Convergence and Diversity. London, Thousand Oaks, New Delhi, SAGE Publications.
- Collier, D. (1991). The comparative method: two decades of change. Comparative Political Dynamics. Rustow and Erickson, Harper Collins.
- EBRD (1998). Financial Sector in Transition. London.
- Epstein, Gerald (1996). International Capital Mobility and the Scope for National Economic Management. States Against Markets: The Limits of Globalization. D. D. Robert Boyer. London, New York, Routledge: 211-227.
- Evans, Peter (1997). "The Eclipse of the State." World Politics 50: 62-87.
- Frieden, Jeffery, Ronald Rogowski(1996). The Impact of the International Economy on National Policies: An Analytical Overview. Internationalization and Domestic Politics. Robert O. Keohane, Helen V. Milner. Cambridge, Cambridge University Press
- IMF Staff (1997). Hungary - Selected Issues, International Monetary Fund: 95-99.
- IMF Staff (2000). Republic of Slovenia - Selected Issues, International Monetary Fund: 53-63.
- Garrett, Geoffrey, Peter Lang (1996). Internationalization, Institutions, and Political Change. Internationalization and Domestic Politics. Robert O. Keohane, Helen V. Milner. Cambridge, Cambridge University Press: 48-79.
- Gerschenkron, A. (1962). Economic Backwardness in Historical Perspectives. Cambridge, Massachusetts, and London, England, The Belknap Press of Harvard University Press.
- Greskovits, B, Bohle D. (2001): "Developmental paths on Europe's Periphery: Hungary's and Poland's Return to Europe Compared", Polish Sociological Review, 2001
- Grieco, Joseph C. (1995). "The Maastricht Treaty, Economic and Monetary Union and the Neorealist Research Program." Review of International Studies 21: 21-41.
- Guillén, Mauro F. (2001 forthcoming). "Is Globalization Civilizing, Destructive or Feeble: a Critique of Five Debates in the Social Science Literature." Annual Review of Sociology 27.
- Haggard, Stephan, Chung H. Lee, Sylvia Maxfield, Ed. (1993). The Politics of Finance in Developing Countries. Ithaca and London, Cornell University Press.

- Haggard, S., Shugart, M. Kaufman, R. (1997). Politics, Institutions and Macroeconomic Adjustment: Hungarian Fiscal Policy-Making in Comparative Perspective. Budapest, Collegium Budapest.
- Helleiner, Eric (1996). Post-Globalization: Is the Financial Liberalization Trend Likely to Be Reversed? States Against Markets: The Limits of Globalization. Robert Boyer, Daniel Drache. London, New York, Routledge: 193-211.
- Hirschman, Albert O. (1982). Shifting Involvement: Private Interest and Public Action. Oxford, Blackwell.
- Hirst Peter, Thompson, G (1996). Globalization in Question. London, Polity Press.
- Kahler, Miles, Ed. (1998). Capital Flows and Financial Crises. Ithaca, New York, Cornell University Press.
- Katzenstein, Peter J. (1985). Small States in World Market: Industrial Policy in Europe. Ithaca, London, Cornell University Press.
- Keohane, Robert O., Helen V. Milner, Ed. (1996). Internationalization and Domestic Politics. Cambridge Studies in Comparative Politics. Cambridge, Cambridge University Press.
- King, Robert O. Keohane and Sidney Verba (1994). Designing Social Inquiry: Scientific Inference in Qualitative Research, Princeton University Press.
- Kornai, J. (1996). Adjustment without recession: A Case Study of the Hungarian Stabilization. Budapest.
- Kurzer, Paulett (1993). Business and Banking: Political Change and Economic Integration in Western Europe Ithaca, Cornell University Press.
- Linz, Juan J., Alfred Stepan (1996). Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-Communist Europe. Baltimore and London, The John Hopkins University Press.
- Loriaux, Michel, Meredith Woo-Commings, Kent E. Calder, Sylvia Maxfield, Sofia Perez (1997). Capital Ungoverned: Liberalizing Finance in Interventionist State. Ithaca, New York, Cornell University Press.
- Maxfield, Sylvia (1998). Effects of International Portfolio Flows on Government Policy Choice. Capital Flows and Financial Crises. Miles Kahler. Ithaca, New York, Cornell University Press: 69-93
- Maxfield, Sylvia (1997). Gatekeepers of Growth: The International Political Economy of Central Banking in Developing Countries. Princeton, New Jersey, Princeton University Press.
- McNamara, Kathleen R. (1998). The Currency of Ideas: Monetary Politics in the European Union. Ithaca, New York, Cornell University Press.
- Minniti, Maria, Lidija Polutnik (1999). "Financial Development and Small Firms Financing in Slovenia." Comparative Economics Studies XLI(2-3(Summer/Fall)): 111-133.
- Mittelman, James H. (1997). Ed. Globalization: Critical Reflections. L. Rienner, Boulder, Colo.
- NBH (2000). The Hungarian Banking Sector Developments in the First Half of 2000. Budapest, National Bank of Hungary: 3-8.
- Mrak, Mojmir(1999). Restructuring the Banking Sector in Slovenia in View of Accession to the European Union, Journal of Economics, Vol. 47, No.2.: 202-220
- Offe, C. (1996). Capitalism by Democratic Design? Democratic Theory Facing the Triple Transition in East Central Europe. Varieties of Transition. Cambridge, Polity Press.
- Palan, Robert, Jason Abbott, Phil Deans (1996). State Strategies in the Global Political Economy. London and New York, Pinter.

- Pauly, Louis W. (1997). Who Elected the Bankers?: Surveillance and Control in the World Economy. Ithaca and London, Cornell University Press.
- Pérez, Sofia A. (1997). Banking on Privilege: The Politics of Spanish Financial Reform. Ithaca, London, Cornell University Press.
- Polanyi, Karl (1957, c1944). The Great Transformation. Boston, Beacon Press.
- Powell, Walter W., Paul J. diMaggio, Ed. (1991). The New Institutionalism in Organizational Analysis. Chicago and London, The University of Chicago Press.
- Ragin, Charles (1987). The Comparative Method: Moving Beyond Qualitative and Quantitative Strategies. California, Berkley, University of California Press.
- Ribnikar, Ivan and Elton G. McGoun(1999): The Financial Sector and Transition in Slovenia, manuscript
- Sassen, Saskia (2000). "Excavating Power: In Search of Frontier Zones and New Actors." Theory, Culture and Society 17(1): 163-170.
- Sica, Vincent (2000). "Cleaning the Laundry: States and the Monitoring of the Financial System." Millenium: JIS 29(1): 47-72.
- Smith, Steve, Martin Hollis, (1990). Explaining and Understanding International Relations. Oxford, Calderon Press.
- Sobol, Dorothee. M. (1998). Central and Eastern Europe: Financial Markets and Private Capital Flows. Capital Flows and Financial Crises. Miles Kahler. Ithaca, New York, Cornell University Press: 186-229.
- Stallings, B. (1992). International influence on Economic Policy: Debt, Stabilization, and Structural Reforms. The politics of economic adjustment: international constraints, distributive conflicts, and the state. Stephan Haggard and Robert R. Kaufman with contributions by Peter Evans Princeton, N.J., Princeton University Press.
- Stiblar, F. (1999). Bank Rehabilitation in Slovenia. Financial Sector Transformation. Mario Bleher. M. Skreb. Cambridge, Cambridge University Press.
- Strange, S. (1986). Casino Capitalism. Oxford, New York, Basil Blackwell.
- Steimo, Sven, Kathleen Thelen, Frank Longstreth, Ed. (1992). Structuring Politics: Historical Institutionalism in Comparative Analysis. Cambridge, Cambridge University Press.
- Tanzi, V. (1998). Essential Fiscal Institutions in Selected Economies in Transition. Budapest, Collegium Budapest.
- Várhegyi, É. (1999). Bankprivatizáció. Budapest, ÁPV Rt. megbízásából Kultúrtrade Kiadó Kft.
- Verdier, Daniel (2000). "State and Finance in the OECD: Previous Trends and Current Change." Politics & Society 28(1): 35-65.
- Wade, Robert (1996). Globalization and Its Limits: Reports of the Death of the National Economy are Greatly Exaggerated. National Diversity and Global Capitalism. D. Berger Suzanne, Rondald. Ithaca, New York, Cornell UP: 60-89.
- Zysman, John (1983). Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change. Ithaca, London, Cornell University Press.