CHANGING BANK OWNERSHIP PATTERNS IN HUNGARY

DEVELOPMENT, ECONOMIC NATIONALISM, AND POLITICAL LENDING

by

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Submitted to

Central European University

Department of Political Science

In partial fulfilment of the requirements for the degree of

Master of Arts

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Budapest, Hungary

2019

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Acknowledgments

This thesis could not have been written without the assistance of my supervisor, László Bruszt, whose help I am immensely grateful for. For proofreading and additional advice I am indebted to Eszter Timár from the Center for Academic Writing, as well as Kiera and Ben. I am also grateful to Thomas Fetzer for discussing earlier ideas and drafts in the context of this research, and to Seraphine Maerz and Carsten Schneider for technical assistance in the collection of political speeches. Lastly, I want to thank everyone who agreed to be interviewed and whose expertise constitutes the primary source of the insights presented in this thesis.

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Abstract

What was the purpose of and motivation behind the nationalisations and subsequent re-privatisation of Hungarian banks? Existing research suggests either ideological considerations revolving around the idea of economic nationalism as a principle motivation, or points to the distribution of ownership rights to political cronies. This thesis builds on these explanations by adopting a conceptualisation of economic nationalism as a framing- and legitimisation-strategy, which does not necessarily correspond to material interests. I show that bank ownership changes are indeed politicised in a nationalist manner, therefore constituting a case of economic nationalism. However, the distributive consequences appear to be more selective than the rhetoric of national wellbeing suggests—ownership rights and credit are allocated to a select group of economic actors with close ties to the government while the alleged developmental goals are not realised. This is illustrated on the basis of an analysis of speeches held by the Hungarian Prime Minister, Viktor Orbán, and interviews with Hungarian banking experts that provide insights into the intricate ownership developments and lending practices of the banks in question. Such a two-dimensional analytical framework is ultimately relevant for economic policymaking in Central and Eastern Europe more generally given that the politicisation of economic status as well as rent-seeking incentives continue to attract scholarly attention *but* are a perpetual source of conceptual conflation. Only a separation of political rhetoric, and distributive consequences can provide a holistic picture of such policies.

Keywords: economic nationalism, rent-seeking, Hungary, banking, financial crisis

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List of Abbreviations

BLB	Bayerische Landesbank
BU	Banking Union
CEE	Central and Eastern Europe
DME	Dependent Market Economy
DZ	Deutsche Zentral-Genossenschaftsbank
EBRD	European Bank for Reconstruction and Development
FDI	Foreign Direct Investment
FHB	Földhitel Bank
GE	General Electric
HUF	Hungarian Forint
IFI	International Financial Institution
LDR	Loan-to-Deposit-Ratio
MKB	Magyar Külkereskedelmi Bank
MNB	Magyar Nemzeti Bank
NHB	Növekedési Hitel Bank
NHP	Növekedési Hitelprogram
NPL	Non-Performing Loans
OTP	Országos Takarék Pénztár
PM	Prime Minister
SME	Small and Medium-Sized Enterprise
SZDSZ	Szabad Demokraták Szövetsége

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Introduction

The aftermath of the 2008 financial crisis has resulted in a wide range of economic policies frequently entailing decisive government intervention into financial markets in many EU member states (Claessens 2009). In a number of Central and Eastern European (CEE) countries, these measures amounted to a prevailing 'unorthodoxy' in economic policymaking, including nationalisations and various heterodox monetary tools (cf. Orenstein 2013; Naczyk and Domonkos 2016, 131-136; Dönmez and Zemandl 2019). Existing literature predominantly analyses these polices from the perspective of economic nationalism and related doctrines: analysed states are alleged to give preferential treatment to domestic market actors with potentially detrimental effects for foreign capital (Naczyk 2014; Johnson and Barnes 2015, 544-552; Rupnik 2016, 80-84).

It remains ambiguous, however, who the beneficiaries of these measures are. The label of economic nationalism suggests that economic resources are re-distributed to domestic economic actors generally, implying active empowerment of the domestic economy. Indeed, the support of domestic actors has been identified as one of the crucial features of policies successfully aiming at igniting economic growth in developing economies (cf. Gerschenkron 1962; Chibber 2014), which represents a particular challenge for CEE (cf. Stark and Bruszt 1998; Bruszt and Vukov 2017).

However, such manifest state intervention is also accompanied by incentives to extract private benefits. These apprehensions have a long history, reflected in a literature remarking the presence of rent-seeking when, in absence of institutional safeguards, private economic actors are empowered by means of state intervention (e.g. Hellman et al. 2000; Infante and Smirnova 2009). Under certain circumstances, governments might be inclined to re-distribute state resources to economic actors deemed politically close to the government

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or the governing political party, directly or indirectly channelling resources and market power towards themselves (cf. Hellman 1998; Grzymała-Busse 2007, 10-16; Innes 2014).

In sum, there is both theoretical and empirical ambiguity with regard to policymakers' motivation for the advancement of distinctively interventionist economic reform. In light of the manifestation of economic state intervention *after* the crisis and the relevance of the subject for the region, this contribution is guided by the research question:

> *What are the motivations behind the recent 'interventionist turn' in Central and Eastern European economic policymaking?*

This thesis gives an illustrative answer to this question by conducting a case study of the banking sector reforms in Hungary with specific regard to changes in ownership. After the conservative party *Fidesz*, led by Viktor Orbán, took office in 2010, the government began to promote the consolidation domestic bank ownership, under the premise that 50 per cent of commercial banks should be owned by Hungarians (e.g. Orbán 2014j). Indeed, a number of previously foreign-owned banks were nationalised on the government's initiative between 2013 and 2015 (Djankov 2015, 6) and partly re-privatised to Hungarian economic actors (Voszka 2018, 15-17). This seems to indicate that they constitute an effective case of economic nationalism: resources are re-distributed from foreign to domestic actors.

However, preliminary and largely anecdotal evidence suggests that the real beneficiaries of these changes are the government's closest allies (e.g. Magyar 2016, 199-200; Várhegyi 2017). It is suggested that bank ownership rights are allocated to companies and individual actors with close ties to the governing political elites to serve their own business undertakings in various industries. Both the 'economic nationalism' and the 'rent-seeking' approach appear to lack adequate conceptualisations ultimately resulting in the inability to falsify the presence of the alleged phenomena. No meaningful distinctions between economic nationalism and other forms of protectionism, and between private and public benefits, are outlined or operationalised. This conflict between the 'economic nationalism' and 'rent-seeking' approach is representative of increasing economic state intervention in CEE at large in that it equally points to the question of who the material beneficiaries of these economic reforms are and what kind of political rhetoric was employed to legitimise

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possible reforms. Analysing bank ownership changes in Hungary, thus, engenders the possibility to employ an analytical framework that, in its application, has relevance for the region as a whole, albeit possibly with differing results.

Given the conspicuous character of actively advanced ownership changes in the Hungarian banking sector and the inference one can draw from an analysis of these reforms, this thesis attempts to answer the case-specific research question:

> *What are the reasons for and motivations behind the bank ownership changes advanced and carried out in Hungary after 2010?*

I propose an analytical framework of ownership changes with an underlying typology that categorises these changes based on the distributive consequences, and the extent of nationalist politicisation. The following analysis is based on an examination of political speeches by Viktor Orbán, as well as interviews with experts and their views on the distributive effects of the bank ownership changes. In doing so, I incorporate the theoretical underpinnings of two literatures that, on the one hand, emphasise the nationalist undertones of such ownership changes and, on the other hand, suggest that the material beneficiaries of these changes are indeed not national domestic actors *per se* but a more select group of economic actors close to the government.

I argue that the politicisation of bank ownership in the Hungarian context indeed displays palpable nationalist elements. However, an analysis of the distributive consequences reveals a different prospect, with determinable beneficiaries being largely comprised of a select group of economic actors with close ties to the government (frequently referred to as *oligarchs* or *cronies*). Bank ownership rights were re-distributed to such economic actors which, in part, resulted in a higher degree of 'political lending', i.e. the allocation of loans towards companies with equally close connection to the government without strictly prudent risk assessment. In addition, political rhetoric seems to allude to certain developmental benefits of such domestic banks. The analysed banks, however, seem to fall short of such expectations. Both dimensions, the nature of politicisation and the distributive consequences, have to be taken into account for a holistic understanding of the reasons for bank ownership changes and economic policymaking more generally.

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Reflections on Case Selection and Broader Relevance

As previously indicated, the selection of Hungary as a suitable case for analysis is not grounded in the claim that the observed dynamics are strictly representative of economic policymaking in CEE. Instead, Hungary is chosen by virtue of being an 'extreme' case to the extent that it highlights the theoretical and empirical conflation of (private) interests and publicly displayed ideology. According to Flyvbjerg (2006, 229), "extreme cases often reveal more information because they activate more actors and more basic mechanisms in the situation studied".

Ascribing relevance in that way implies that the causes for 'unorthodox' economic policymaking in Hungary theorised in the literature exhibit a great variety in the motivations, interests and ideas of multiple actors that are claimed to be relevant and therefore merit exploration. As Chapter 1 shows, this is indeed the case: economic policymaking in general, and the ownership changes in various industries specifically, appear to be typical examples of *both* newly emerging economic nationalism, and rent-seeking practices of a particularly overbearing and politicised state bureaucracy. Thus, these changes appear to be driven by policymakers' and economic actors' material interests, as well as the suitability of certain rhetorical frames in the Hungarian political context. This entails the opportunity to study how the conceptual backgrounds of these different perspectives relate to each other, and which actors and outcomes ought to be analysed in order to gauge the nature of such economic policymaking. In other words, the Hungarian case is an appropriate subject of analysis not due to its representative qualities as regards other countries in the region but due to the peculiar nature of economic policymaking in its rhetorical and distributive features.

The banking sector and the observable developments in terms of ownership changes are chosen as objects of analysis because banking sectors are a crucial component of the organisation of economic growth as well as a source of perpetual risk as illustrated by the financial crisis (Cornett et al. 2011; Epstein 2017, 4-9). By extension, banks, their independence as well as their impact on other economic activities remain an important point of contention in contemporary political discourse (Bennett and Kottasz 2012). Thus,

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analysing bank ownership and the nature of political control of banks in a given context constitutes valuable contribution to research on economic policy *discourse* and re-distribution of resources. As Epstein (2017, 4) has emphasised, "there is no other sector that hits on so many critically important social, political, and economic functions at once".

Concerted insights into bank ownership changes in Hungary are of vital importance with regard to existing literature that has only recently categorised Hungary, alongside the other Visegrád states, Poland, Slovakia and the Czech Republic, as *Dependent Market Economies* (DMEs) (Nölke and Vliegenthart 2009). Based on the *Varieties of Capitalism* (VOC) notion of "institutional complementarities", conceptualised in the seminal work by Hall and Soskice (2001), the authors highlight "the fundamental dependence [...] on investment decisions by transnational corporations" and the institutional alignment with this dependence (Nölke and Vliegenthart 2009, 676). This perspective has been amended, notably by Bohle and Greskovits (2012, 13-17), who call for a focus on autonomous political sphere, and on the constant conflict between market, social and political forces faced with the encroachment of market principles on all aspects of societal orders. The attribution of dependence on foreign capital to Hungary, however, is upheld.

The aim of this thesis is not to claim that Hungary has rectified its dependent mode of market organisation in favour of state-centred growth. In fact, as Bohle and Greskovits (2018) show, dependence has *persisted* especially in the manufacturing sector, despite the regained control over non-export-oriented industries. However, the discrepancy between anti-market and nationalist rhetoric, and the occurrence of *private* enrichment by means of *public* policy suggests that such a political approach should be complemented by an emphasis on policymakers' normative commitment to the public interest (or absence thereof), as well as specific modes of legitimising the role of the state on markets. In other words, the dependence on foreign manufacturers notwithstanding, the state takes a coordinating role which is utilised to either empower domestic businesses and broad societal strata, or individually enrich decision-makers and their affiliates (cf. Cerami and Stubbs 2011). Examining the precise way political agency is playing out, thus, constitutes a valuable contribution to the VOC literature in that it shifts the focus from the power of foreign capital to "political aspects of diverse capitalist regimes" (Bohle 2017, 277).

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Lastly, this analysis will contribute to existing research on commercial banking in the region by providing a differentiated examination of how the Hungarian state is attempting to re-gain and retain control over certain lending practices. The elaborate analysis by Epstein (2017, 100-109) shows that there are such cases, notably Poland and to a lesser extent also Hungary, in which political discretion of domestic banks precipitates positive developmental outcomes. This analysis, however, reveals that the more *recent* attempts to influence banks by means of ownership changes in Hungary, that have *not* been taken into account by Epstein, (a) contradict that verdict, and (b) suggest the use of more detailed measures to assess the re-distribution of resources by means of domestic banks, going beyond conventional indicators of stability and the focus on external vulnerabilities.

Roadmap

I proceed as follows: Chapter 1 summarises relevant existing evidence on banking sector reforms, corporate ownership changes, and financial and monetary policy in Hungary in a systematic manner in order to highlight the shortcomings of this literature and emphasise the potential contribution of the suggested analysis of bank ownership changes. Chapter 2 presents an analytical framework suitable for examining the banking sector reform at hand by means of the separation of the two dimensions, political rhetoric and distributive consequences. Chapters 3 and 4 proceed to survey the literature on economic nationalism and political control over the banking sector for theoretical expectations regarding the presence of economic nationalism and the distributive consequences of domestic control over the banking sector. In Chapter 5 and 6 these expectations are applied to the Hungarian case. While the examination of political rhetoric is largely based on a systematic analysis of political speeches given by PM Viktor Orbán, the analysis of distributive consequences relies on a range of expert interviews, and financial data. It is argued that (a) bank ownership changes are politicised in a nationalist manner, (b) in distributive terms, the realisation of private interests appears unequivocal, and (c) the *de facto* developmental benefits remain ambiguous but seem to fall short of any declared or alluded to goals.

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Chapter 1

Background: Unorthodox Economic Policymaking in Hungary

This chapter surveys existing literature on the ‘interventionist turn’ in Hungarian economic policymaking in order to derive potential reasons for this development. Literature specifically aimed at describing and explaining bank ownership changes is accompanied by analyses of ownership changes in industries other than banking, and more general accounts of efforts to achieve monetary and financial independence. This serves to ground this thesis’ analytical decisions regarding the tracking of both, nationalist politicisation and distributive consequences. Moreover, it highlights that this approach has the potential to disentangle the conceptual ‘mismatch’ that seems to be the source of the contradiction between attested economic nationalism and evident rent-seeking. If economic nationalism, on a policy-level, presupposes that domestic actors *in general* benefit from the implemented policies, how can the real intentions be private in nature? Treating economic nationalism as political rhetoric, which *cannot* be associated with a certain set of policies and distributive consequences, solves this contradiction by splitting the analysis of such economic policies into two distinct parts.

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1.1 The Hungarian Banking Sector in Flux

The economic and financial crisis in 2008 had particularly dire consequences for Hungary as compared to other Visegrád states such as Poland (cf. Dietrich et al. 2011; Myant et al. 2013). The banking sector, however, experienced a somewhat moderated impact of the

crisis. Prior to the crisis, the financial market in Hungary, even in comparison to its fellow Visegrád states, stood out with an extraordinarily high degree of foreign ownership—by the end of 2001, foreign bank ownership had risen to 66 per cent. (Majnoni et al. 2003, 8). This predominance of foreign banks resulted in the widespread apprehension that such banks would significantly cut their capital or withdraw their presence from CEE altogether in times of crisis (Epstein 2014, 854). The fact that foreign bank presence took the form of subsidiaries rather than branches, however, signalled the banks' long-term commitments and ultimately resulted in continued presence of foreign banks throughout and after the crisis (ibid.).[1]

Nevertheless, when *Fidesz* (re-)took office in 2010, the government assumed an ostensibly tough position vis-à-vis foreign banks and introduced a number of highly politicised measures with conspicuous effects on bank ownership. Notably, the government nationalised two commercial banks: *Magyar Külkereskedelmi Bank* (MKB)[2] previously owned by the German *Bayerische Landesbank* (BLB), in 2014 (Láhm et al. 2016), and *Budapest Bank* previously owned by the American multinational *GE Capital*, in 2015 (Mérő and Piroska 2016, 222). In addition, a number of rural saving cooperatives were integrated and their 'apex bank',[3] which was previously owned by the German *Deutsche Zentral-Genossenschaftsbank* (*DZ Bank*),[4] was nationalised in 2013 (Piasecki 2015, 52-53). Lastly, the government acquired a minority share in the Austrian *Erste Bank*, which is often considered to be part of this 'wave' of ownership changes (Várhegyi 2019, 59). MKB and the cooperatives' 'apex bank' were subsequently sold on to private Hungarian actors (Voszka 2018, 15-17).

Literature that assesses bank ownership changes in Hungary after 2010, however, is scant. While Becker (2015, 71) describes ownership changes in the banking sector merely

1. According to Pistor (2012) and Bohle (2018, 208), the so called 'Vienna Initiative'—an agreement between several CEE states and a number of foreign banks—had a similar impact on the banks' continued presence.

2. Transl.: Hungarian Foreign Trade Bank

3. A coordinating "clearing bank" (Király 2016, 6).

4. Transl.: German Central Cooperative Bank

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as the "promotion of national capital",[5] the distributive consequences appear to be more complex. One publication that provides a concise overview of the state of the banking sector under the *Fidesz* government is Éva Várhegyi's (2017) contribution to an edited volume on the "Hungarian Mafia State" (Magyar and Vásárhelyi 2017). She gives a particularly damning account of the measures described above, in that she perceives their "true purpose" to be to serve the government's "own clientele and their 'adopted family', and creating an institutional system suitable for the uncontrolled use of public funds" (Várhegyi 2017, 297). She argues that the promise of capital injections for rural areas and SMEs served as a mere "cover story" (ibid., 302), most notably exemplified by the fate of the saving cooperatives. Lending activity of the now centralised cooperative sector illustrates that, in reality, capital is not redirected towards such rural actors towards Orbán's very own cronies (ibid., 301-302).

This group of economic actors consists of a number of well-connected private actors such as Zoltan Spéder, (former) CEO of *Földhitel Bank* (FHB), a Hungarian-owned bank which acquired majority shares of the saving cooperatives' 'apex bank' and others (ibid., 307-308). More recent media reports, however, indicated a fallout between Spéder and the government (The Budapest Beacon 2016a). Reports, moreover, suggest that Lőrinc Mészáros, childhood friend of Orbán and mayor of his and Orbán's home village Felcsút, is the main beneficiary of the more recent changes. These reports indicate that he became the majority shareholder of the meanwhile re-privatised MKB (HVG 2018). In addition to these pronounced accusations, Julia Király (2016), in an unpublished manuscript, assesses the crisis resilience of the newly created domestic banking sector and concludes that the new ownership structure "seems to be less crisis resilient than the foreign owned one in the 2000s" (ibid., 16). This is inferred from the stability of the foreign-owned parts of the banking sector during the crisis, but no extensive empirical analysis of typical indicators of stability and how these indicators change over time is carried out.

In a more general analysis of the supposed consequences of domestic banks, Epstein (2017, 105-109) claims Hungarian efforts to maintain domestic bank ownership to be a

5. Original: "Förderung des nationalen Kapitals"; own translation

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form of economic nationalism However, she argues that "this brand of economic nationalism has always been part of the political discourse" and is not a recent outgrowth of the national-conservative government (Epstein 2017, 107). This variation of economic nationalism is specifically aimed at "preserving economic policy discretion" which does bring about positive developmental consequences specifically in terms of stability (ibid., 107). It should be noted that this verdict is based on the case of *Országos Takarék Pénztár*, (OTP);[6] a bank that has been subject to politicisation by different governments as well as political intentions in its ownership structure and therefore represents somewhat of an exception (Majnoni et al. 2003, 7; Epstein 2014, 542; Epstein and Rhodes 2019, 8-9). More importantly, the politicisation of financial institutions does not precipitate beneficial developmental consequences as such but only if the governments in question "continue to support political competition and bank discipline alongside embeddedness" (Epstein 2017, 124). Thus, politicising financial institutions as a means of rent-extraction is well within the conceivable realm of possibilities but not independently assessed.

These accounts provide details of ownership changes in the banking sector and enhance our understanding of the close network between political and economic elites and the closed-door politics of negotiating the allocation of ownership rights by means of state intervention. Nevertheless, they fall short of an appropriate analytical framework whose implications would enable researchers to provide systematic evidence of the details and consequences of the government's dealings in the banking sector. In fact, the account by Várhegyi (2017) is so severely undertheorised that accusation of 'mafia' practices are, in absence of a conceptualisation of what qualifies as such a practice, hardly falsifiable. The lack of balancing between stark accusations of corruption and the apparent view held by the government that ownership changes serve the public interest, as well as the unsystematic presentation of evidence call for research which extends the theoretical horizon in multiple ways.

6. Transl.: National Savings Fund

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1.2 Corporate Ownership Changes

Banking was not the only industry that has been 'targeted' by nationalisations and government-advanced ownership changes in Hungary. Affected industries are as diverse as utilities, energy, and advertising (Sallai and Schnyder 2018, 16-18). These industries have in common that they largely comprise immobile capital, i.e. industries which provide products and services for the domestic market and are thereby unable to shift their location abroad (ibid., 17).[7]

Attempts to explain these measures follow a pattern similar to accounts of bank ownership changes specifically. Some authors focus on nationalist undertones in the politicisation of these ownership changes (Naczyk 2014; Becker 2015, 71-72; Isaacs and Molnar 2017, 115-116). In addition, a number of developmental or prudential benefits as declared by the government are claimed to actually be realised (Isaacs and Molnar 2017; Voszka 2018). Others claim that nationalisations constitute a clear-cut case of rent-seeking or even corruption (Laki 2015; Kornai 2015, 282-283; Magyar 2016). Albeit in absence of systematic evidence, the latter engenders different systemic labels such as "patronage state" (Szanyi 2016a), "crony capitalism" (Szanyi 2016b, 40), or "clan state" (Sallai and Schnyder 2018). Generally, the most palpable effect seems to be the significant increase in political leverage in nationalised companies for better or for worse (ibid., 16).

Generally, existing research somewhat sporadically analyse the discourse surrounding corporate ownership changes and nationalisations. It thereby draws the potential material consequences from this very discourse and disregard potentially underlying intentions. While some authors view economic nationalism as a strategy to legitimise economic policies that serve private interests (Naczyk 2014; Magyar 2016, 195), the conceptualisation and delineation of economic nationalism in political speech remains underspecified. Moreover, analyses of the distributive consequences alleging the aim of these ownership changes to be private in nature seem to dismiss both the presence of economic nationalism and the potential positive effects without much conceptual clarity or empirical evidence.

7. See Soós (2017, 259-261) for a similar argument in connection to the 'special' surtaxes.

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1.3 Achieving Monetary & Financial Sovereignty

A somewhat distinct field of the literature focusses on reforms in relation to monetary and financial policies; that is changes in the institutional set-up and conduct by the MNB, positions taken vis-à-vis the prospect of European financial integration as well the influence of foreign capital in the financial sector. This discussion of the wider range of financial and monetary measures, again, attempts to derive indicators of political discourse and operationalisations of distributive consequences that can be implied to the more narrow measure of bank ownership changes.

Johnsons and Barnes (2015) categorise these measures, undertaken by *Fidesz*, in the aforementioned domains as financial nationalism. The authors base their conceptualisation of financial nationalism on Shulman (2000) and claim that measures in that realm are financial and monetary policies aimed *inter alia* at the autonomy of the nation. Financial nationalism is understood as a distinct ideology that, in Hungary, has its roots in the country's history, namely its communist past and the peculiar nature of transition, amounting to an ethnic conceptualisation of the state (Johnson and Barnes 2015, 541-544). This ideology is reflected in the politicisation of the MNB, the rejection of the IMF and its conditionality, as well as the imposition of extra costs on foreign banks (ibid., 544-552). These measures achieved "many of the orthodox economic goals that previous Hungarian governments had failed to attain" (ibid., 551). This is illustrated by the apparent account surplus and decreasing budget deficit but not analysed in further detail.

Similarly, Kudrna and Gabor (2013, 557-558) assert that the Hungarian government was successful in its efforts to shift some of the burdens of easing the debt of Hungarian households onto foreign banks. Again, no assessment is made as regards the systemic consequences on the banking sector in terms of distributive consequences. This can also be exemplified by a number of individual policy measures, such as the imposition of a special banking surtax (Soós 2017), as well as efforts to mitigate the risk stemming from foreign currency loans (Bohle 2014, 935-936). The high degree of foreign currency lending put a substantial burden on Hungarian households; this burden was subsequently eased by way of government intervention (cf. Kolozsi et al. 2015).

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Two measures have received more intensive attention in the relevant literature. First, Hungary refused to join the Banking Union (BU) (Mérő and Piroska 2016), which remains an optional undertaking for non-Eurozone members (Schoenmaker and Siegmann 2013; Epstein and Rhodes 2018). This has been conceptualised as a form of banking nationalism whose ultimate purpose remains ambiguous: it might aim towards "inserting ruling party-related individuals into important decision making positions", or seek to "create [a] regulatory environment more beneficial for local banks" (Mérő and Piroska 2016, 221). However, the authors do *not* give a probative assessment of the precise materialisations. Second, Dönmez and Zemandl (2019) analyse the politicisation of the MNB and note the politically motivated replacement of key personnel justified by a distinctly nationalist narrative, as well as the absorption of banking supervision competencies formerly held by an independent authority (ibid., 131-136). No distributive consequences, e.g. with reference to potential rent-extraction, are operationalised in this account—the absence of independent banking supervision may serve public as well as private interests (cf. Mérő and Piroska 2016, 221).

In sum, research examining financial and monetary measures in Hungary seems to suggest that the politicisation of financial institutions with the declared goal to achieve monetary sovereignty has 'worked' to the extent that they mitigated the degree of risk stemming from the uncertainties of the global financial and economic crisis. At the same time, the growing role of the state on the financial market can hardly be denied regardless of whether it is viewed as an intended or unintended side-effect or in fact the main purpose of such financial policies. This impression is shared by Mérő and Piroska (2017, 477) who state that "the real aim behind the implementation of macro-prudential tools was not primarily to control macro-risk, but more importantly to increase or legitimate state power over banks". This tellingly points to the precise question this thesis is attempting to answer and that has been largely left *unanswered* by the previous analyses: how and why does the government exert its regained leverage over financial institutions and what are the distributive consequences of this exertion?

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Theorised Cause	Advantages & Insights	Shortcomings
Economic nationalism (I): economic nationalism as protectionism	Policies implemented after 2010 are 'non-liberal' and constitute resistance to a variety of foreign actors	No distinction between related concepts; lack of identified nationalist ideology; no separate analysis of addressees and beneficiaries
Economic nationalism (II): economic nationalism as speech	Nationalist ideology is present in ideology and speech	Inference of distributive consequences from political rhetoric
Rent-seeking: coercive and selective nature of individual measures	'Real' beneficiaries of individual policies constituted by 'cronies'; bureaucracy is politicised	Reliance on anecdotal evidence; disregard of potential benefits of interventions; underestimation of speech
Developmental considerations: macro-prudential indicators	External vulnerabilities and dependence is reduced; positive impact on development	Superficial operationalisation; focus of external vulnerabilities; disregard for internal re-distribution

Table 1.1: Explaining the 'U-turn'

1.4 Conclusion

The approaches presented in the last three sections, their presented insights, and their shortcomings are summarised in Table 1.1. Existing analyses, regardless of their substantial focus, are divided into four categories with the former two focussing on ideological labelling, and the latter two emphasising distributive consequences. Authors referring to economic nationalism as a cause of the analysed policies either disregard political discourse (e.g. Johnson and Barnes 2015; Mérő and Piroska 2016) or the distributive details resulting from these policies (e.g. Becker 2015; Dönmez and Zemandl 2019) altogether. They thereby fail to identify the ambiguous character of a measure such as 'nationalisation' given the uncertainty as to which kind of companies are targeted and how they operate following the ownership changes. Existing analyses of the distributive consequences do deliver an analyses of consequences of certain policies beyond mere rhetoric. However, they either disregard the precise re-distribution of resources *within* the country, and focus on the increased leverage of domestic political and economic actors (e.g. Kudrna and Gabor 2013; Isaacs and Molnar 2017), or allege corrupt behaviour on the basis of anecdotal evidence (e.g. Magyar 2016; Várhegyi 2017).

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The takeaway of these four approaches for the study of bank ownership changes is threefold. First, it is evident that certain distributive consequences cannot be inferred from nationalist discourse or non-liberal policy-content alone. Instead, the precise policies supposedly falling under that label merit independent examination. Second, the distributive consequences of economic policymaking in Hungary appear to be on the spectrum between public and private benefits. The disagreement between authors alleging rent-seeking and corruption, and those claiming broad domestic strata to benefit from increase domestic leverage, further points to the need of a more intricate analysis of single policy measures. Third, references to economic nationalism still have a place in the analysis of such policies given that the legitimisation of policy change represents an important aspect of the reasons for that change. While economic nationalism might not precipitate, for example, the empowerment of a domestic business class as a whole, grasping the use of nationalist rhetoric enhances the understanding of how policymakers choose to politicise their agenda.

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Chapter 2

Analytical Framework: Politicisation & Distributive Consequences

How can policy-change, i.e. the surge of interventionist policies, and specifically the advancement of bank ownership changes, be explained? The preceding discussion has indicated that the underlying interests, the normative understanding of these interests, and the ability to frame the proposed change are important aspects of an appropriate explanation for changing policies. In order to understand why the Hungarian government has actively changed the ownership structure of several banks, one has to gauge policymakers' and associated actors' material interests, their normative motivation, and their ability to justify such measures in public. This is broadly corresponding to the 'discursive institutionalism' approach presented by Schmidt (2008, 305), who seeks to understand institutional change with reference to both policymakers' and 'background ideational' and 'foreground discursive' abilities. The former "underpin agents' ability to make sense of and in a given meaning context", whereas the latter denote a capability "through which agents may change (or maintain) their institutions" (ibid., 314).

This thesis is following this analytical framework in order to make sense of bank ownership changes in Hungary. Both, policymakers' motivation and their ability to communicate the proposed policies are analysed in detail. The two-dimensional nature of this undertaking is visualised in Table 2.1. Based on existing literature the two proposed dimensions are approximated in a particular manner. The ability to communicate proposed policy changes corresponds to the discussed relevance of economic nationalism. In order to understand whether the ownership changes are indeed politicised and legitimised in a nationalist

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		Material Consequences	
		Private Benefit	Public Benefit
Nationalist Rhetoric	Present	Nationalist Legitimisation for Rent-Seeking	Developmental Economic Nationalism
	Absent	Rent-Seeking (other or no politicisation)	Developmentalism (other or no politicisation)

Table 2.1: Categorising bank ownership changes

manner, Hungarian policymakers' practice of framing these policies has to be analysed separately. In this thesis, such politicisation is shown by analysing a number of speeches held by Viktor Orbán throughout his tenure as PM.

Moreover, in absence of any meaningful measure of what a policymaker's 'real' motivations are, these 'background abilities' are analysed by means of the ownership changes' material consequences. If they indeed favour a select group of political cronies, it would indicate a lack of commitment to 'public interest' politics and private enrichment as a principal motivation. Broad developmental benefits, on the other hand, would indicate a certain understanding of the state's role in the economy and 'public interest' considerations at the heart of the motivation for the ownership changes.[8] The distributive consequences are analysed, here, by means of a number of expert interviews and complementing financial data—particular attention is paid to the precise allocation of ownership rights and the development of individual banks' lending activity following the ownership change. Ascertaining whether allocation of ownership rights and lending activity favour a select group of actors or wider segments of the population, allows for conclusions with regard to the private or public motivations for the ownership changes.

8. See Posner (1974) and Lambsdorff (2002, 117-120) for a discussion of the delineation of 'public interest' politics and rent-seeking behaviour.

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To sum up the argument: bank ownership changes are analysed for their politicisation and their distributive consequences in order to understand the ultimate reasons for the changes. This taps into the broader discussion of economic nationalism, developmental policies and rent-seeking in Hungarian economic policies. Before laying out the details of the resulting categories, it must be noted *what* is being categorised. Given the multidimensional nature of the material consequences of bank ownership changes, solely analysing ownership changes as such would fail to capture important details concerning the way the resulting ownership patterns influence lending. Thus, the unit of analysis is not only constituted by the ownership changes but also by bank practices following these changes.

These two dimensions result in four categories. If nationalist politicisation is absent and the material consequences favour narrowly defined private interests, one is confronted with a case of outright *rent-seeking*. This either constitutes a case of "quiet politics" (Culpepper 2011) wherein private economic interests are served in a covert manner, or is accompanied by other, non-nationalist ways of framing and legitimisation. If nationalist politicisation remains absent but bank ownership changes now favour the public interest, i.e. they fulfil a number of developmental goals, this qualifies as a case of *developmentalism*. If the material benefits of bank ownership changes remain beneficial to the public interest but are politicised in a nationalist way, these changes can be described as *developmental economic nationalism*. Bank ownership changes are justified with broad appeals to national wellbeing and material or immaterial benefits are delineated in a nationalist manner. At the same time, these changes *do* serve public interest; they are conducive to economic development and entail benefits for wide societal strata. Lastly, in absence of public benefits, bank ownership changes justified by nationalist means ought to be labelled *nationalist legitimisation for rent-extraction*. Ownership changes are politically salient and the narratives present in political rhetoric refer to nationalist categories, but the conducted re-distribution serves select business-interests of a few individuals.

The four categories presented are *ideal type* categories to the effect that they are the result of the presumption that the two dimensions are dichotomous whereas, in reality, they are continuous. Realistically, bank ownership changes are likely to fall in between ideal types and contain features of several of the outlined extremes. Bank ownership changes

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may fall on the spectrum between economic nationalism and other forms of politicisation, and conversely, either favour political cronies or larger parts of the population. Accordingly, the analysis (following in Chapter 5 and 6) is *not* aimed at unequivocally ascribing bank ownership changes in Hungary to one of the four outlined categories. Rather, the presented framework serves to highlight the importance and the broad conceptualisation of the two different dimensions, as well as the fact that all combinations of political rhetoric, and distributive consequences are theoretical conceivable.

Moreover, given the conceptual overlap that existing evidence on the subject matter exhibits, concise operationalisations of the described phenomena cannot be extracted. In absence of such operationalisation, showing whether economic nationalism is present or absent and who the bank ownership changes have favoured in material terms remains difficult. Thus, the next two chapters build on the breadth of theoretical accounts of economic nationalism, rent-seeking and developmental economics in order to provide such operationalisation based on unambiguous and theoretically grounded conceptualisations. Namely, it shows how existing literature on economic nationalism and research on state intervention into bank ownership rights derives theoretical expectations on how the reforms manifest themselves in both political rhetoric, ownership allocation and functioning of the banks in question after the ownership changes. Chapter 3 details specifically why economic nationalism ought to be analysed by means of political rhetoric (rather than policy content), what qualifies as economically nationalist rhetoric, and why it cannot replace a *separate* analysis of policy-content and distributive consequences. Chapter 4 proceeds to theoretical expectations regarding the distributive consequences of bank ownership changes and the resulting operationalisation.

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Chapter 3

Economic Nationalism: Policies, Ideas, and Discourse

Economic nationalism has been subject to theoretical and empirical debates for many years. Based on this debate, the following section introduces this argument and concludes that the most appropriate way of conceptualising economic nationalism is to view it as a strategy of legitimising given economic policies observable through political rhetoric. In the subsequent two sections, the features of nationalist speech that are observable in connection to economic policies generally as well as banking in particular, and how these features are operationalised in existing research are discussed.

3.1 Mapping the Conceptual Debate

The essence of the conceptual disagreement with regard to the term 'economic nationalism' revolves around the question as to whether economic nationalism should be defined by its policy-content or its ideological dimensions. The former position is taken by liberal authors such as Johnson (1967, 10), who defines economic nationalism as an "economic program" which "seeks to extend the property owned by nationals so as to gratify the taste for nationalism". As a more recent proponent of this conceptualisation, Pryke (2012, 285) holds that economic nationalism should be viewed "as a set of practices designed to create, bolster and protect national economies in the context of world markets". A number of authors take exception with this view and contend that it conflates nationalism with protectionism, two ideologies with distinct historical and ideational roots that do not necessarily conform programmatically (e.g. Shulman 2000, 366-368).

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Authors subscribing to that objection instead take a constructivist perspective and hold that economic nationalism should be determined and distinguished "by its nationalist content rather than its specific policy prescriptions" (Helleiner 2002, 325). Economic policies that merit the label 'economic nationalism' are those advocated and implemented by (independently defined) nationalists (Shulman 2000, 368). Consequently, economic nationalism can include a wide range of policies including those typically considered to be liberal (Pickel 2003, 118-122; Sheppard 2011).[9] This amounts to a conception based on the works by Friedrich List that distinguishes economic nationalism especially from economic liberalism *as an ideology* in that it promotes the welfare of the nation as opposed to "the welfare of humanity as a whole" (Helleiner 2002, 311).

Such a broad ideological framework engenders the risk of rendering the term 'economic nationalism' conceptually superfluous as, intuitively, all governments strive towards increasing their countries' economic prosperity. However, Helleiner (2002, 326) decisively rejects the claim "that the term [economic nationalism] is increasingly a meaningless one and that research on this topic has reached a dead end" (ibid.). He argues that the analysis of the relationship between "nationalist ontology" and economic policymaking represents a promising area of research. However, the implied view that nationalism as an ideology has an identifiable effect on economic polices points to a further problem. This problem is common to the debate surrounding the effect of ideas and ideology on policies more generally, and holds that ideas serve as mere "post-hoc rationalisations of policies made on the grounds of already given material interests" (Laffey and Weldes 1997, 201). This concern has implications for any researcher intending to examine the effect of economic nationalism on economic policymaking. Namely, whether or not policymakers and other political officeholders are driven by *genuine* ideological concerns, and make according policy choices, is simply not falsifiable as long as material interests are conceivable as alternative motivations.

How can this apparent theoretical dead-end be resolved? An analysis of the effects of ideological party positions and/or voting behaviour on economic policymaking could avoid

9. See Clift and Woll (2012, 312-318) for a similar conception of economic *patriotism*.

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the outlined indeterminacy by exploiting variation in political positions and economic policy choices. Such studies, for example, analyse the relationship between individual and party positions and opposition to different forms of European Integration (e.g. Risse et al. 1999; Hooghe et al. 2002). Granted that this is not feasible for a single case study, the alternative would be to embrace the fact that ideological positioning by policy-makers may not be more than a hook or a legitimisation strategy and analyse framing of policy-measures and political rhetoric in their own right.

In the realm of economic nationalism, this approach has materialised in a number of contributions that, rather than attempting to explain the character of economic policymaking in a given context, explain the *use* of nationalist rhetoric in political debates surrounding economic policymaking. Eichler (2005, 69), for example, understands "economic nationalism as the attempt by the state and societal actors to link economic prescriptions to a particular understanding or 'variant' of national identity in order to create greater legitimacy for their economic policies". Crucially, the abundant use of the nation and national identity should not serve as the *explanans* but as the *explanandum* in an analysis of economic nationalism (ibid., 73). Similarly, the work by Callaghan and Lagneau-Ymonet (2012) shows that the occurrence of economic nationalism does *not* necessarily exclude the possibility that a given policy serves actors' interests independent from any concerns regarding the nation. These approaches differ sharply from analyses that view economic nationalism as a potential cause for a country's choice of economic policy such as the work by Abdelal (2001, 151), who argues that "national identities influence how societies interpret the material facts of their foreign economic relations".

The importance of analysing such framing strategies and labelling them economic nationalism when appropriate should not be underestimated. Identifying whether or not policymakers are able and willing to politicise a given economic policy (be it motivated by material interests or ideological convictions) in a nationalist manner provides an important part of the answer to the question as to *why* and *how* a certain policy is being advanced. A holistic understanding of policy-change ought to include an examination of the strategies employed by policymakers to 'advertise' this change. By extension, identifying nationalism

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as a public sentiment and a legislative strategy can contribute to an integral understanding of policy coordination and the social embeddedness of capitalism.

3.2 Identifying Discursive Economic Nationalism

However, it has yet to be shown how such framing can be identified in political rhetoric aimed at the legitimisation of economic policies specifically in the context of foreign banks and seemingly required ownership changes.[10] Such an attempt faces the challenge that contributions viewing economic nationalism as discourse or framing do not provide a parsimonious conceptualisation of economic nationalism to the effect of identifiable features in political speech.

In order to go beyond an *ad hoc* depiction of economic nationalism in its rhetorical manifestation, this section draws on Shulman (2000), who points out several features of economic nationalism. As discussed, he diverges from the approach employed here in that he views economic nationalism as *ideology* and accordingly analyses party statements and manifestos rather than speech (ibid., 375-386). His application is nevertheless a useful one given that he grounds his analysis of nationalist ideology in the works by Smith (1991), who views ideological components as the basis of nationalist *language* (ibid., 77). Nationalist ideology is deemed to entail the nation's "autonomy, unity and identity" (ibid., 73).

Autonomy denotes the desire to self-determination and as little influence by external forces as possible. Following Smith (1991, 76-77), autonomy connects the nation to the state. Autonomous stateness is perceived as a means to "realize the authentic national will" (ibid., 76). In economic terms, this concept does not necessarily manifest itself in protectionist policies; the necessary element of calls for national autonomy is the rejection of such alien influence, which is framed to be a threat for the nation. Shulman (2000, 383-386), for example, shows how Ukrainian nationalists advocated European Integration in order to fend off Russian external influence. Relevant aspects of the concept of *unity* relate

10. Arguably, the emphasis of banks would merit the label of *financial* or *banking* nationalism, as employed by Johnson and Barnes (2015) and Mérő and Piroska (2016) respectively, rather than economic nationalism. However, for the sake of consistency and conceptual clarity, this contribution will continue to use the term economic nationalism even when it strictly concerns financial or banking matters.

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to the view that the national community is indivisible and represents unified interests especially vis-à-vis outside forces (Shulman 2000, 371). This can, for example, be reflected in calls for the eradication or suspension of differences of interest which are outdone by the *common* interest of the nation (Smith 1991, 76). Lastly, the notion of *identity* refers to the peculiar character of every nation and members of national communities (ibid., 75)—rhetorically this would be represented by appeals to that very character be it in religious, linguistic, or cultural terms.

Existing research on economic nationalism vis-à-vis banks is scant and the majority of contributions maintain the equation of financial and economic nationalism with protectionism, i.e. every measure in favour of domestic financial actors and national policy discretion is seen to be nationalist without further justification in terms of crucial ideological reference categories or political speech (e.g. Claessens 2009; Deeg 2012; Epstein and Rhodes 2016). The few contributions that do approach the subject matter by highlighting nationalist rhetoric in connection to foreign banks broadly make reference to the three categories outlined above. Dixon (2004, 60-65), for example, identifies economic nationalism in political speech related to foreign bank ownership in Thailand by statements that compare foreign ownership to colonisations and reject foreign or Western involvement. Similarly, Suginohara (2008) describes nationalist rhetoric in the debate revolving around foreign banks in Japan to entail certain elements of demonising foreign investors across the board with invoked comparisons of foreign funds to "vultures" (ibid., 848) or similarly derogative expressions.

Based on the discussion of the necessary features of nationalist ideology and manifestation of economic nationalism in the context of bank ownership, the features that should be reflected in political speech related to banking in order to qualify as a form of economic nationalism can be summarised as follows:

(a) Rhetoric surrounding foreign banks and foreign economic actors generally relates to national autonomy and the threat thereto posed by foreign actors.

(b) Policies aimed at preempting those threats, and specifically against foreign banks, are justified by appeals to national unity, i.e. calls for overcoming former differences in interests.

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(c) References to the peculiar character of the nation in terms of culture, religion etc. are used as arguments that weigh into a discussion of bank ownership.

The relatively detailed operationalisation of economic nationalism in political rhetoric notwithstanding, one conclusion from the preceding discussion is that nationalist rhetoric and framing-strategies cannot serve as sufficient reason to assume certain beneficiaries of the politicised policies, i.e. domestic economic actors or 'national insiders'. Thus, these distributive consequences need be analysed separately. The following chapter shows how different distributive consequences of bank ownership changes can be operationalised.

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Chapter 4

Domestic Banks and Political Control: Distributive Consequences

Accounts that describe and operationalise the distributive consequences of the establishment of domestic banks associate domestic banks and the resulting policy discretion over their behaviour with certain distributive outcomes. Such accounts can be divided into two broad branches, one associating domestic banks with increased presence of rent-seeking and one associating domestic banks with beneficial developmental outcomes. The purpose of this chapter is to outline the theorised and predicted consequences of bank ownership changes. If ownership and credit are re-distributed to a select group of insiders, it can be inferred that the material interests behind the bank ownership changes are private in nature. Development proving to be stimulated by the bank ownership changes, however, would indicate public interest considerations as the principle motivation. Thus, this discussion is crucial for a holistic understanding of the reasons behind developments in the ownership structure of Hungarian commercial banks.

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4.1 Bank Ownership and Lending as Rents

Rent-seeking by means of economic state intervention is a well-established subject of analysis particularly in public choice literature that, generally, argues that state intervention as such precipitates incentives to extract private benefits (see Hopkin [2002] for a critical overview of this literature). Especially in CEE, many authors have developed more nuanced frameworks and emphasise the role of party competition and adequately

committed political elites in attenuating such incentives (O'Dwyer 2004; Grzymała-Busse 2007, 10-16; Innes 2014). Processes of privatisation take a prominent role in such accounts given that these processes significantly exacerbate the incentives for personal enrichment. More specifically, "the processes of removing corrupt incentives via privatization will in fact simply replace old corrupt incentives with new ones" (Hopkin 2002, 583). The outcome of different privatisation strategies in CEE which, in part, enabled well organised economic elites, such as former state managers, to reap the benefits of imperfect privatisation processes and secure vast amounts of corporate ownership and market power have also been widely analysed (see Hellman 1998; Grzymała-Busse 2003). This points to the relevance of rent-seeking and rent-extraction in the nationalisation and subsequent re-privatisation of banks in Hungary.

Nevertheless, analyses of the details of rent-extraction through commercial banks are relatively scarce. Literature that examines the effects of political connections on preferential treatment in credit-allocations frequently focus on state-owned banks *and* partly leave aside the possibility that such partiality may be politically intended. Analyses, for example, focus on the exploitation of inefficiencies of state-owned banks by the private sector (Guardiancich 2016), preferential treatment of politically connected debtors by state-owned banks (Khwaja and Mian 2005; Claessens et al. 2008), as well as the function of state-owned banks in systems of clientelism and patronage (La Porta et al. 2002).

One rare exception that investigates the preferential treatment of certain borrowers by commercial banks has been provided by La Porta et al. (2003, 258) in what they call the "looting view of related lending". Related lending describes the process of lending in which both the involved bank and the borrowing firm share some significant personnel, e.g. shareholders or directorates. Looting takes place when "close ties between banks and borrowers allow insiders to divert resources from depositors or minority shareholders to themselves" (ibid., 232). More specifically, loans with a high default risk may be granted, given that either the government or minority shareholders (that are not 'related' to the debtor) bear the costs of default.

It can be hypothesised that this form of looting constitutes the exploitation of state-resources or resources held by minority shareholders by the current office holders in favour

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of its political cronies and/or their own private interests, if the outlined ownership structure and the personal connections between lenders and debtors are politically intended. Based on this expectation and the presented literature, the process of political lending as a purpose behind bank ownership changes can be specified as follows.

(a) Re-distribution of bank ownership rights favours individuals with observable and close connections to the office-holding party.

(b) Credit allocation in re-privatised banks favours companies that have connections to the lending bank or are equally politically connected.

(c) Related lending is displaying higher default risks than unrelated lending.

4.2 Domestic Banks and Development

An alternative view of political control over domestic banks holds that such insider-privatisation may indeed be beneficial to economic development. Underdeveloped economies in particular may benefit from such control, given that the process of 'catching up' "requires greater collective mobilization, which in turn requires greater central coordination" for states that enter international and integrated markets at a relatively late point in time (Gourevitch [1978, 885] in an interpretation of Gerschenkron [1962]). Similarly, the close ties between commercial banks and the state may be beneficial to industrial restructuring (Hayri and McDermott 1998), and, more generally "incentives and authority for restructuring and oversight" (McDermott 2007, 242). It should be noted that some authors even take an optimistic view of related lending and perceive it as a means to overcome information shortages in underdeveloped economies. This has been presented by La Porta et al. (2003, 231-232) as an alternative to the 'looting' view and is based on the efficiency-increasing function of close ties between debtors and borrowers as described by Stiglitz and Weiss (1981) as well as Hoshi et al. (1991).

How are such positive developmental effects operationalised? An example is represented by the comprehensive analysis of the role of political control over commercial banks in CEE by Epstein (2017). In her case studies, positive developmental outcomes of domestic banks are "measured in terms of credit provision through crisis as well as relative economic

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stability and risk containment" (Epstein 2017, 88). Stability and the absence of risk are measured, *inter alia*, by "loan-to-deposit ratios, wholesale borrowing for the purposes of lending, and foreign exchange lending" (ibid., 98). These are certainly not the most nuanced measures given the importance of the *distribution* rather than the mere *amount* of credit.

Alternatively, Sabi (1996) compares foreign and domestic banks in the early private banking sector in Hungary and attempts to measure "the responsiveness of foreign banks to the needs of the domestic economy" (ibid., 182). Several measures are employed in order to operationalise a bank's "commitment to the domestic economy" (ibid., 183). This 'commitment' can be perceived in more general terms, namely as a relative increase in domestic lending. Two additional aspects of domestic development are relevant: credit allocation to Small and Medium Enterprises (SMEs) and rural areas. In the Polish context, Feakins (2004) contends that concentration of lending activity on SMEs is, in part, motivated by a "general understanding of the sources of growth and development within the Polish economy" (ibid., 66). The credit access for consumers and enterprises in rural areas, in turn, has been subject to a range of contributions in development economics (e.g. Yaron 1994; Shivamaggi 2000). The observable implications of the claim that a re-emerging and/or retained domestic banking sector has positive developmental consequences for the domestic economy can thus be operationalised as follows:

(a) Domestic banks exhibit a high degree of stability.

(a) Domestic banks provide a stable supply of credit, especially to domestic clients.

(c) Domestic banks facilitate SME access to credit.

(d) Domestic banks provide loans for rural areas.

The two preceding chapters show how economic nationalism, as well as political and developmental lending can be operationalised based on analysis of political rhetoric revolving around bank ownership changes and the distributive effects of these changes. The next two chapters apply these operationalisations to the outlined ownership reforms in Hungary and reveal both their nationalist politicisation and their relatively selective distributive effects.

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Chapter 5

Nationalist Politicisation & Developmental Perspectives

Section 3.2 indicated the rhetorical elements that should be identified in political speech in order for such rhetoric to be considered economic nationalism. This chapter follows-up on this operationalisation by analysing political speeches held by PM Viktor Orbán, in relation to bank ownership, and foreign economic actors more generally. Section 5.1 thereby identifies a range of elements associated with economic nationalism in the analysed speeches. Nevertheless, some rather broad *distributive* goals indicated in the political speeches by Orbán can be identified and are analysed in Section 5.2.

Speeches by Viktor Orbán lend themselves to such an analysis due to the systematic collection of speeches on the online presence of the Hungarian government. The use of Orbán's speeches is partly justified by Hungarian party politics being generally described to be extremely personalised (Batory 2016, 299), with Viktor Orbán being the most prominent and ostensibly charismatic political voice (Pappas 2016; Körösényi and Patkós 2017). More than 600 speeches, in their English translation and with reasonably diversified audiences are readily available.[11] A total of 27 speeches are analysed—a full list of speeches can be found in Appendix B.[12] The analysis below is systematic to the extent that all relevant and available speeches between 2010 and today are analysed for relevant references. This is made possible by tools of automated text analysis.

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11. 'Diversified' refers to the fact that retrievable speeches are addressed to 'ordinary' Hungarians, economic actors, foreign actors, special interest groups etc.

12. Speeches Orbáns second tenure as PM (2010-2014) have been taken off the website and are currently not available. Given that scraping has taken place prior to this, they can be shared with interested readers upon request.

5.1 Economic Nationalism in Orbán's Political Speech

Elements of economic nationalism can be found in two forms in the speeches by Viktor Orbán: some elements appear in connection to the framing of foreign banks, alongside bankers, and other foreign economic actors, whereas others directly legitimise the planned or already realised bank ownership changes. There are observable references to national autonomy, national unity, and national identity, conceptualised by Smith (1991, 74-77) and Shulman (2000, 368-375) as signifiers of (economic) nationalism. Such notions are utilised to legitimise 'unorthodox' economic policies generally and bank ownership changes more specifically.

5.1.1 Framing Banks as an External Threat

Aspects of Orbán's political speeches revolve around the depiction of financial actors that can broadly be characterised as foreign. The importance of foreign banks is frequently not addressed specifically in the speeches at hand; rather, Orbán uses umbrella terms such as financial institutions, multinationals, or banks generally. The characterisation of these actors, the depicted importance of their conduct for the Hungarian nation, and the presented stance as to how the nation should react all carry elements of economic nationalism in multiple ways: foreign banks are claimed to actively compromise national autonomy and national sovereignty. This threat should be countered by representing unified *Hungarian* interests. Lastly, some minor references to a unique Hungarian national identity are visible.

Sweeping stigmatisations predominantly entail comparisons of foreign economic actors to pillagers or even natural disasters. For example, in September 2013, Orbán evoked the consequences of a *Fidesz* election defeat, namely giving "the banks, the speculators and the multinationals a free hand to pillage the country" (Orbán 2013c). Moreover, foreign actors, multinationals and bankers are compared to the Danube Flood in 2013, allegedly sparking a wave of national unity cross-cutting political divides. As brought forward in a parliament-speech in early 2014:

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> This is why we have been able to rise above individual interests and party politics. This is why we are capable of creating national unity while also preserving the values represented by diversity. Remember the great Danube flood! There were no right and left wing people, not city and rural folk there, and not even in-border and cross-border Hungarians, no young and old: only Hungarians working hard to defend their country and each other. And remember the solidarity which came about to combat the bankers, Brussels and multinational monopolies! We had to fight difficult battles to tax the banks and the multinationals, and also to defend the constitution. (Orbán 2014d)

The invoking of such events and the call for the collective defence of the country signifies a particularly strong appeal to national unity.

In the very same speech, the fight between Hungary and the foreign banks is compared to a boxing match with the government choosing "the corner with the red white and green flag" (ibid.). The alleged intention of multinationals and bankers is the outright "assault against Hungarian families" (ibid.). Similar references compare the struggle to tax banks to outright war, with Hungarians representing a "soldier who sits trembling in fear in the trenches awaiting death [and] is mocked by his fellows" (Orbán 2014e). Moreover, "international power groups", are compared to "catastrophes, criminals, speculators and fraudsters" (ibid.). Meanwhile, national unity is directed against "the world of finance, imperial capitals and natural disasters" (Orbán 2014i).

Multinationals are compared to "governors" who have already "reported for duty" (Orbán 2013c). The notion of 'governors' invokes a clear image of a threat going beyond mere economic harm but, in addition, compromising the nation's independence. In more explicit statements, the fight against the EU and other "beneficiaries of the past" is linked to the achievement of "national independence" and "independent economic policy" (ibid.). The dichotomous framing of this debate manifests itself in according statements by Orbán, for example, distinguishing between losing "a few foreign friends" and gaining "a few million Hungarian friends" (Orbán 2014b).

References to a unique national identity in connection with foreign economic actors appear more rare and can be considered the exception. Such an exception is observable

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in a speech held at a catholic conference in Spain, during which Orbán claims that the country of Hungary was "offered to the Virgin Mary" as opposed to "the safekeeping of a foreign power" or "a financial institution" (Orbán 2012). This is perceived as a motivation to stand up against those outside forces that "undermine Christian culture, Christian civilisation and Christian values" (ibid.). This should be read with some caution in light of the (international and decidedly Catholic) audience of the speech.

In sum, examined speeches exhibit a degree of economic nationalism in their framing of foreign banks alongside other foreign actors. These actors are compromising Hungary's ability to make decisions on its own behalf. At the same time, national unity is invoked by the prevalent comparisons of those actors to military opponents, or natural disasters which the Hungarian nation should stand united against.

5.1.2 Nationalist Politicisation of Bank Ownership Changes

The specific justification of the bank ownership changes carried out between 2013 and 2015 is largely in the spirit of national sovereignty and national autonomy. The aforementioned view that several multinational actors, represent a distinct danger to the country, its prosperity and not least its sovereignty seems to *require* ownership changes. Generally, there seems to some sort of intrinsic merit to a Hungarian-owned banking sector, again manifested in the alleged strengthening of national autonomy.

One of the most notable examples of such rhetoric has been delivered by Orbán in a TV interview in early 2014:

> Look, the language I am about to use has gone out of fashion, but we are patriots and we would like to be good patriots. And we believe that the country is not in control of its own fate if at least fifty percent of the financial sector isn't in Hungarian hands. We are not talking about Hungarian banks, but about Hungarian-owned banks. (Orbán 2014j)

National autonomy is highlighted and perceived to depend on Hungarian bank ownership; foreign bank ownership is compromising the nation's ability to determine its own affairs. Similar references can be found in other public statements (e.g. Orbán 2017a).

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The reason why only certain industries seem to be appropriate subjects to ownership changes while others can remain in foreign hands without much outrage or opposition seems to lie in the strategic importance of some sectors, specifically, banking, energy, and the media. Accordingly, the importance of these sectors is often emphasised when ownership changes are referred to in relevant speeches. In a speech given in summer 2017 in Transylvania, Orbán focussed on "robust majority national ownership [*sic*] in the strategic industries which determine its fate", those strategic industries being "the energy sector, the banking sector and the media sector" (Orbán 2017e). These sectors are also referred to as "critical infrastructure" (Orbán 2017a).

Two implications of national ownership in these sectors have been pointed out by Orbán in a speech in winter 2017 (Orbán 2017b). First, the three sectors are crucial for "the nation's room for manoeuvre". This refers again to the broad notion of "national sovereignty". Second, energy, the media, and banking are claimed to be "the heavy artillery in international relations" and thereby an active instrument to not only retain but also defend the nation's sovereignty against foreign and potentially hostile actors (ibid.). Seemingly, domestic ownership of such strategic sectors is referred to in the same breath as the provision of security within the country. In other sectors which are ostensibly *not* considered critical, national sovereignty is merely reflected in such industries' strength on global markets. Accordingly, Orbán praises the considerable role Hungary and CEE more generally take in cross-border trade with Germany (Orbán 2013a, 2017a).

While the need for Hungarian ownership is frequently reflected in the analysed speeches, specific references to individual banks are rare or even absent. The case of the cooperatives, their integration, and further ownership changes are a striking exception to this rule. These banks seem to be associated with local borrowers and lenders predominantly in rural areas. This is reflected an interview in summer 2016 in which Orbán (2016a) contrasted the cooperative owners with "men in suits with hands not hardened by physical labour, men with elegant ties and probably expensive watches" seemingly dominating other commercial banks. Consequently, the justification for these ownership changes is not a nationalist but a surprisingly 'un-ideological' one—rural owners and lenders cannot easily be framed and stigmatised as a profit-seeking external threat. For example, Orbán

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states "that the reorganisation of the cooperative banking system is a classic achievement of sound professionalism, which deserves acknowledgement" (Orbán 2016a). A similar tone in referring to those ownership changes is observable in another interview in the same year (e.g. Orbán 2016b).

In sum, in the context of nationalist rhetoric surrounding economic policies, direct references to bank ownership, and the planned or already carried out ownership changes, are somewhat more rare than occurrences of economic nationalism generally. As summarised in Table 5.1, however, all elements of economic nationalism outlined in Chapter 3 seem to be reflected in speeches that touch upon foreign economic actors and bank ownership changes. References to national autonomy and unity appear relatively frequently, appeals

Core element	Content	Examples
Autonomy	Foreign actors compromise national autonomy; comparisons of these actors to military forces, 'pillagers', or natural disasters	Orbán (2013c, 2014d, 2014i)
	Domestic banks strengthen national autonomy by contributing to independence and sovereign policy-making	Orbán (2014f, 2014j, 2017a, 2017b)
Unity	Defence against economic actors is compared to (violent) conflict; *explicit* to the unity of the nation in fighting such conflicts	Orbán (2014d, 2014e, 2014j)
	Domestic banks signify strength vis-à-vis external forces, or "heavy artillery"	Orbán (2017a)
Identity	Intertwining economic policy and national identity by invoking the special character of the Hungarian nation	Orbán (2012)

Table 5.1: Nationalist elements political speech revolving around foreign banks

to national identity seem more rare.

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5.2 Signalling Material Benefits

The vague nature of nationalist frames notwithstanding, this section attempts to systematically deduct those elements of Orbán's speeches which refer to material consequences of those ownership changes. This arguably requires a degree of interpretation and implicit

narratives have to be made explicit. It should be noted that one *might* expect part of the declared purpose to be to reduce the amount of foreign currency lending, given that the sheer amount of which had indeed put a significant burden on Hungarian households (Bohle 2014; Kolozsi et al. 2015). While this is a highly politicised subject in the analysed speeches (e.g. Orbán 2013d, 2013c), foreign currency loans are *not* advanced as an argument for more domestic bank ownership. Instead, those loans are politicised in the context of other legislative measures, notably the banking surtax and the aforementioned early repayment scheme (Orbán 2015a, 2015b, 2017c).

Instead, material consequences, as alluded to in Orbán's speeches, can be divided into two categories. First, a foreign-dominated banking sector is repeatedly described as monopolistic and market-distorting—this is claimed to be challenged by the (re-)introduction of a number of domestic banks. This can be interpreted as a manifestation of a rather *orthodox* understanding of economic policymaking with the safeguarding of market competition and antitrust regulation as guiding principles (e.g. Davies 2010). Second and in contrast, a range of statements display the view that banks should improve their credit allocation to SMEs and domestic actors more generally; the distinctly developmental aspect of banking is emphasised.

5.2.1 Restoring Market Competition

A particularly candid example of the focus on market competition is represented by a statement made in an (aforementioned) TV interview (Orbán 2014j), notably *prior* to the implementation of bank ownership changes. Here, he states that "one characteristic of the Hungarian banking system is that there is not enough competition [...]. And I think that some fresh blood would do some good". "Fresh blood" in this instance could be be brought about by ownership changes favouring domestic banks, however, the argument does make an explicit reference as to why competition ought to be increased through domestic bank ownership. Allegations regarding the monopolistic position of foreign banks, partly alongside other industries, prior to *Fidesz* taking office in 2010 is alluded to on multiple occasions (e.g. Orbán 2013a, 2013c, 2013d, 2014f).

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5.2.2 Channelling Credit

In contrast, other speeches seem to allude to increased investment into certain industries, particularly SMEs, by means of credit allocation and capital injections generally. Speaking at the inauguration of a Hungarian food company's production site, Orbán (2014g) declared the aim of raising "the funding available for economic development", specifically with the aim of increasing "the number of export-producing small and medium-sized enterprises in Hungary from two thousand to twelve thousand".

The relevance of the banking sector in such an undertaking is reflected in the specified necessity of having in place "the loan, financing and monetary frameworks required to facilitate such an increase" (ibid.). Similarly, Orbán (2014h) praises *another* company's success by claiming that it

> provides a good example of the fact that the loans, and especially the export loans, provided by the Hungarian banking system, or rather by the part of the Hungarian banking system that is in Hungarian hands, are a must and will continue to be very important.

Such statements provide the 'missing link' between domestic bank ownership and the channelling of loans towards preferred industries, and can be contextualised by further references to the role of the banking sector in lending and credit allocation (Orbán 2014a, 2015c, 2017d, 2018).

Speaking at the inauguration of a plastic processing plant, Orbán traces back the success of that plant's creation to state financing and loan provision by the financial sector. (Orbán 2014a). The MNBs assistance in loan provision by private banks is frequently included in such considerations (e.g. Orbán 2013b, 2014c), though in a speech in spring 2015, Orbán indicated that interventions into the banking sector are, in the long run, aimed at maintaining "a growth course without any kind of assistance from the central bank" (Orbán 2015c). After the vast majority of ownership changes have already been carried out, Orbán expresses his content with the Hungarian-owned financial sector specifically in the context of credit provision for certain sectors and its role in economic development (Orbán 2017d, 2018).

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The tangible consequences that are explicitly and implicitly framed to be the beneficial result of bank ownership changes in the speeches by Viktor Orbán throughout his terms from 2010 onwards are summarised in Table 5.2. References to tangible consequences

Type of Claim	Content	Examples
Liberal	Stimulating competition by introducing domestic banks, and challenging the influence of (foreign) monopolies	Orbán (2014f, 2014j, 2013c, 2013a, 2013d)
Non-liberal	Contributing to the strength and competitiveness of SMEs through targeted provision of loans	Orbán (2014g, 2014h)
	Contributing to domestic economic development more generally, again by means of credit allocation to appropriate companies, sectors and projects	Orbán (2014a, 2015c, 2017d, 2018)

Table 5.2: Summary of ‘promised’ tangible consequences of bank ownership changes

of bank ownership changes exhibit a lack of detail in spelling out these consequences which partly defies precise operationalisation with the purpose of *testing* the extent to which these consequences have been realised. Nevertheless, the qualitative analysis of the distributive consequences of three notable bank ownership changes in Hungary will make reference to the derived ‘promises’.

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Chapter 6

Distribution of Ownership Rights and Financial Resources

This chapter analyses bank ownership changes in Hungary from a distributive point of view. I show that the distribution of ownership rights as well as the mode of credit allocation following the ownership changes, have so far partly favoured a number of political 'cronies', i.e. economic actors deemed to be personal friends and political allies of the governing party and Viktor Orbán. In terms of the potential developmental benefits, the newly embedded banks display a seemingly high degree of stability but little no increase in 'developmental' or more directed lending.

Evidence of these issues is arguably difficult to obtain given the scarcity of readily available quantitative data. The primary source for the following sections is constituted by a number of interviews with experts on the Hungarian banking sector conducted between winter 2018 and spring 2019. Interviewees include current employees of multiple Hungarian banks and other financial institutions who preferred to stay anonymous, Júlia Király, former deputy director of the Hungarian Central Bank, and Gergely Brückner, investigative journalist for the Hungarian news portal *Index* who has been tracking the ownership arrangements in the Hungarian banking sector for many years. Additional interviews have been conducted with the economist and former MP for SZDSZ, Károly Attila Soós, and the Secretary General of the Hungarian Banking Association, Levente Kovács. A full list of interviewees can be found in Appendix A. As the purpose of the interviews is not limited to the observations of opinions on the bank ownership changes but aimed at discovering covert but existing processes, the provided information naturally

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has to be utilised and interpreted with great caution. Where possible, given information has been verified through scholarly and relevant news sources.

Financial data provided by the MNB constitutes an additional source where appropriate, especially in Section 6.2. When available, relevant numbers are displayed for individual banks, i.e. MKB and *Budapest Bank*. With regards to the cooperatives, however, displayed numbers refer to the whole cooperative sector in order to grasp the sectoral change as a whole. This is also made necessary by the swiftly changing structure of this sector—between 2005 and 2017 the number of cooperatives decreased 174 from to 22 (Magyar Nemzeti Bank 2017). Focussing on single cooperative banks and/or their 'apex bank' would fail to take into account these developments.

6.1 Political Control for Private Enrichment

As discussed in Chapter 2, the operationalisation of *private* interests as a possible motivation for the bank ownership changes has to track both the re-distribution of ownership rights as well as the supposedly altered undertakings of the respective banks following the ownership change.

6.1.1 Channelling Ownership Rights

Bank ownership changes in the Hungarian banking system have been considerable in size. The development of bank ownership (in terms of total capital) in Hungary between 2005 and 2018, based on data by the MNB (2018), is depicted in Figure 6.1. This data excludes the cooperative sector whose detailed ownership structure is not directly attainable. In 2015, five years after *Fidesz* took office, the goal of more than half of domestic bank ownership had been reached; the sharp incline just before 2015 is the manifestation of the nationalisations of MKB and *Budapest Bank*, as well as parts of the cooperative sector. The respective processes of changing ownership in the three banks are outlined separately in the following three subsections.[13]

13. The partial ownership change in *Erste Bank*, as outlined in Section 1.1, is, given the lack of outright domestic 'control', beyond the scope of this research.

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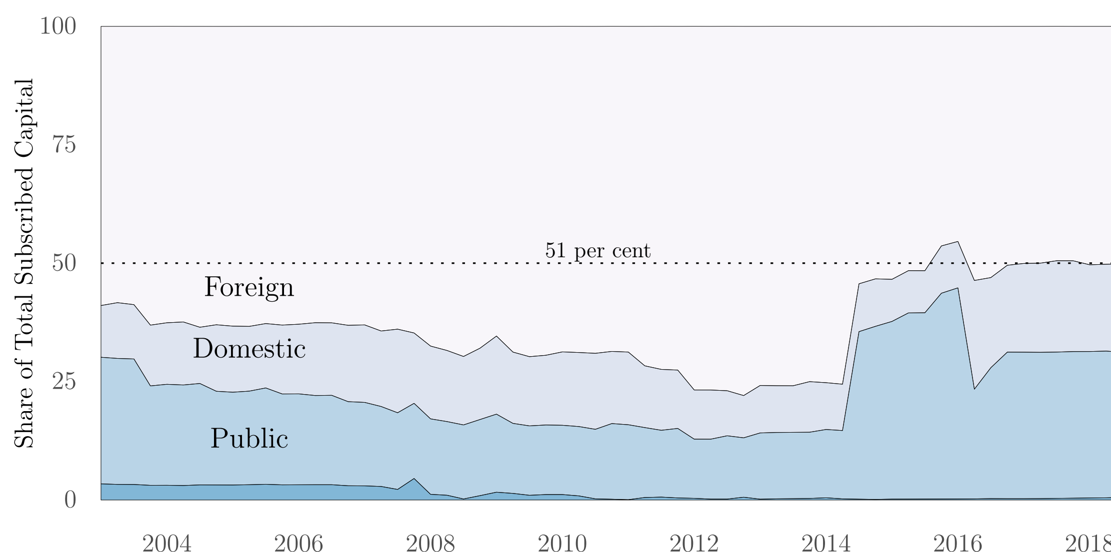

Figure 6.1: Ownership structure of the Hungarian banking sector

MKB

MKB has been owned by BLB, a commercial bank, itself owned by the Bavarian state prior to and throughout the financial crisis. Both banks experienced considerable distress resulting from the crisis and the large share of non-performing mortgage loans. As one interviewee noted, the reason for the bad quality of MKB's real estate portfolio was the adherence to aggressive, market-share-oriented targets (Interviewee 7 2019). As a result of the crisis, *Bayerische Landesbank* had to be consolidated (Trampusch et al. 2014, 148-151), entailing the requirement to sell MKB (European Commission 2012). The MNB offered a bid which, though much higher than previous offers (Interviewee 2 2018), required the Bavarian government to invest in a capital increase prior to the transaction, resulting in a market exchange at an effectively negative price (Interviewee 4 2019).

As one interviewee noted, the Hungarian government had not performed "due diligence" in establishing the final buying price and the quality of the portfolio turned out to be significantly worse than expected (ibid.). The bank had to be put under resolution and it was stripped of its non-performing elements by means of a so-called 'bad bank' (Láhm et al. 2016). This had to be approved by the European Commission which made its approval conditional on restrictions on the bank's future operations with regard to acquisition and real estate finance, the subsequent re-privatisation of the bank, as well as its eventual

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public listing (European Commission 2015).[14] Provided their fulfilment, the restrictions on the bank's operations will expire by the end of 2019. As one anonymous interviewee and conforming media reports suggest, the bank's non-performing portfolio, at the point of resolution, amounted to around 700 million Euro, part of which had be processed through the bad bank (Field 2015; Interviewee 4 2019).

One year after the nationalisation, in 2016, the bank was re-privatised (Magyar Nemzeti Bank 2016). The process of privatisation has been described in similar terms by multiple interviewees (Interviewee 2 2018; Interviewee 3 2018; Interviewee 4 2019). The public tender was in fact not truly public in that the winning bid was pre-determined and politically favoured. This bid exceeded other offers by close to 100 per cent and was made by a Hungarian pension fund and an investor based in Singapore, each exhibiting unclear ownership structures. Subsequently, the ownership structures became more transparent, given that the formerly unknown owners sold their shares on to entities who were unambiguously owned by Lőrinc Mészáros—as mentioned above, a prominent crony of the government. Mészáros is now claimed to own just under 50 per cent of MKB,[15] one additional minority owner being Tamás Szemerey, the cousin of the former Minister of National Economy and current governor of the MNB György Matolcsy. It should be noted that Mészáros was described by multiple interviewees as a 'strawman', more specifically, as a "proxy for the Prime Minister" (Interviewee 4 2019), or "not a brain" but "a name" (Interviewee 3 2018). The presumption is that Orbán himself wants to see his interests represented in those companies controlled by Mészáros who he can expect unequivocal loyalty from.

The Cooperative Sector

The cooperatives were independent and rural banks with high deposits, little lending and unprofessional, if not informal, credit- and risk-assessment (Interviewee 4 2019). The banks were broadly coordinated by an 'apex' bank, i.e. *Magyar Takarékszövetkezeti Bank* (or *TakarékBank*), owned by the German *DZ Bank* (Várhegyi 2019, 59). The former deputy of

14. Such an approval, and the consequential conditionality, had been made a requirement by means of a EU Directive in 2014 (European Parliament and Council 2014).

15. The covert share is claimed to be even higher.

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OTP, Zoltan Spéder, with good connections to the government, began to integrate these cooperatives under the umbrella of FHB and the financial section of the Hungarian post office (The Budapest Beacon 2016b). As a number of interviewees described, considerable pressure was applied to single cooperatives in the process of integration, effectively leaving individual entities no choice but to abandon their independence (Interviewee 2 2018; Interviewee 3 2018). Spéder, however, 'fell out' with Viktor Orbán and was forced to sell his own shares in *TakarékBank* and FHB and give up his management position. The conglomerate brought into being by Spéder is now predominantly owned by a private equity fund which itself is owned by Lőrinc Mészáros—he acquired *TakarékBank* who subsequently became a majority shareholder of FHB. The voiced expectation is that the cooperative sector will be further integrated under the umbrella and leadership of those entities owned by Mészáros (Interviewee 4 2019).

Budapest Bank

Budapest Bank, prior and during the crisis, was a relatively small bank owned by *GE Capital*, the financial service branch of *General Electric* predominantly focussing on SME lending (Interviewee 5 2019a). The notable qualities of the bank, i.e. its well performing portfolio and relatively prudent corporate scoring system have been noted by multiple interviewees. The bank's performance before the crisis fell short of that of other banks with riskier portfolios but, in turn, the bank remained stable during the crisis (Interviewee 4 2019; Interviewee 5 2019a). As regards the reasons for the nationalisations, it appears that the bank saw deteriorating business conditions due to decreasing interest rates and other macroeconomic factors. Moreover, concordant rumours, outlined by multiple interviewees, hold that GE had plans to sell large parts of its considerable manufacturing industry in Hungary. In exchange for the retention of said manufacturing business, *inter alia* a large lightbulb factory, the Hungarian state paying an above-market price for *Budapest Bank* (Interviewee 4 2019; Interviewee 7 2019).

Multiple interviewees have suggested that they expect a merger between all three banks described in this section, MKB, *TakarékBank* and *Budapest Bank* (Interviewee 2 2018; Interviewee 4 2019). Current news reports suggest a forthcoming merger between *Budapest*

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Bank and *TakarékBank* (HVG 2019), or all three banks (Portfolio 2019) but also note other interested banks such as *Raiffeisen Bank* (Csurgó 2019). This would result in the creation of a major credit institution and a significant competitor to the currently largest Hungarian bank OTP, which, as rumours suggest, the government deems to be "too independent" (Interviewee 4 2019). The creation of such a competitor appears to be part of the motivation for such a merger (Interviewee 5 2019a).

In sum, bank ownership changes advanced under the tenure of *Fidesz* and PM Viktor Orbán appear to have channelled ownership rights to a select group of political cronies rather than national insiders generally. Interviewees indicated a considerable degree of political influence in the procurement of MKB, and the multifaceted changes in the cooperative sector point to similar political discretion. If and how *Budapest Bank* will be part of this strategy to direct bank ownership to loyal allied of current political officeholders remains to be seen.

6.1.2 Credit Allocation to Political Cronies

The second dimension of private enrichment concerns the usage of political influence over the bank to alter its lending activity and serve a select group of economic actors. Indeed, lending of the newly established domestic banks, especially within MKB and *TakarékBank*, has been linked to 'political lending' by a number of interviewees (Interviewee 2 2018; Interviewee 3 2018; Interviewee 4 2019; Interviewee 7 2019). Political lending denotes the allocation of corporate loans to companies that either share a common owner with the bank (i.e. Mészaros himself), or are otherwise affiliated with the owner or the governing party. This type of lending is likely to be prevalent in the cooperative sector as well as MKB—*Budapest Bank* was hitherto not singled out as a bank used for similar purposes.

Political Lending

The process of such political lending appears to be enabled by circumventing sound risk-assessment on the part of the respective bank. One anonymous interviewee has given a more detailed account of the process of political lending in more general terms (Interviewee

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5 2019b). It appears that, for certain loan requests from such customers as described above, underwriters are given directives to the effect that usual due diligence in verifying a potential debtor's default risk is suspended. This results in loan requests that might display a high degree of risk but that risk analysts and underwriters cannot 'say no to'. It should be noted, that the interviewee in question argues this process to be, to some extent, applicable to other banks on the Hungarian market, including foreign ones, as well (Interviewee 5 2019b).

In the case of MKB and the cooperatives, the performance of these ostensibly riskier loans seems to depend on the political connections of the debtor in question which may manifest itself through preferential treatment in public procurement or other regulatory easing (Interviewee 4 2019). Given the variety of business undertakings by Mészaros himself or other close allies of the PM, such as Orbán's son-in-law István Tiborcz or his close friend István Garancsi, a wide range of purposes is conceivable.[16] These activities certainly involve the acquisition of new entities—the conglomerate owned by Mészaros alone consists of more than 100 companies, including multiple media outlets, as news reports suggest (Novak 2017). Indeed, a corruption report prepared by the *Civitas Institute* and *Transparency International* (2018, 51; 53) implicates MKB in the provision of loans for the acquisition of media companies by a variety of cronies.

Lastly, as described by one interviewee, individual risk analysts and/or underwriters may be urged to accept certain risky credit allocations against their implicit or explicit recommendation (Interviewee 5 2019b).[17] This may result in a form of compensation effect whereby such employees make up for the lack of discretion in certain deals by being disproportionately prudent in the assessment deals where such political directives are absent. This has been claimed to be market-distorting (potentially to the detriment to economic actors without political connections).

16. These names have been implicated, specifically, in a recent research note prepared by the Corruption Research Center Budapest (Tóth and Hajdu 2018).

17. This was, again, described in the context of a more general applicability.

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Dependence and Risk

Partly in order to respond to claims that political lending mitigates risk in environments that lack informational certainty (see La Porta et al. [2003, 231-232] as outlined in Section 4.1), the implications of such lending for the (covert) quality of the banks' portfolios ought be outlined. The interviewed observers and relevant literature suggest that portfolio quality might be jeopardised by the debtors' *dependence* on the government's benevolence.

Existing research emphasises the Hungarian government's partiality in its regulatory impact on market competition (Laki 2017; Martin 2017; Dostal et al. 2018, 14-15). Notably, the success of businesses with ties to the governing elite is not only facilitated by these ties and political intervention but, as individual cases suggest, seems to crucially depend on it: a deterioration of the relationship with Orbán himself can have severe consequences for individual oligarchs, as exemplified by the fates of Zoltan Spéder, who, as news reports suggest, had to dispose of the entirety of his business activities (Magyari 2016), and Lajos Simicska, whose share in winning public tenders drastically decreased (following a quarrel with Orbán) (Laki 2017, 274). This introduces a certain risk into bank portfolios that cannot be measured by means of available statistics. This kind of *political* risk implies that the default risk of loans resulting from political lending increases drastically once the government changes and the privileges of the previous class of cronies vanishes. It is difficult, if not impossible, to assess whether this risk represents a 'systemic' risk to the extent that it might have an effect on the banking system as a whole. However, credit defaults by the business conglomerates in question would certainly be at the expense of the banks' minority shareholders and, in a more extreme scenario, the taxpayer.

The existence of the possibility of default is best exemplified by the fate of two smaller banks: *Növekedési Hitel Bank* (NHB), owned by the aforementioned Tamás Szemerey, and *Széchenyi Bank*, owned by István Töröcskei, described to be a close friend of former crony Lajos Simicska. Both banks have been described to predominantly rely on political lending by a number of interviews (Interviewee 1 2018; Interviewee 7 2019). While *Széchenyi Bank's* licence was already withdrawn in 2014 (implying the bank's liquidation) (Magyar Nemzeti Bank 2014), the withdrawal of NHB's license dates back only to late March

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2019 (Magyar Nemzeti Bank 2019). These banks were relatively small[18] and are therefore not covered in extensive detail here. It should be noted, however, that conforming media reports indeed attribute these two banks' fates to the prevalent practice of political lending, in part depending on the supervisor's and the government's leniency (Kovács 2014; Index 2015; Brückner 2019).

The specific case of MKB illustrates that the fate of such politically embedded banks does not only hinge on the politically facilitated performance of its debtors' business undertakings but also more directly on the government's goodwill. As noted by one anonymous interviewee, MKB benefited from preferential treatment by the government and the MNB (Interviewee 4 2019). Specifically, the government seems to have directed state-owned companies as corporate clients towards the bank, thereby attempting to ensure the bank's profitability. Moreover, as another interviewee noted, the newly re-privatised banks might receive preferential treatment in the *Növekedési Hitelprogram* (NHP) (Interviewee 7 2019)[19] which could facilitate the expansion of lending activity.

Moreover, the practice of political lending can be expected to hinge on the discretion of the supervisory authority. While supervisory authorities should generally be expected to exercise due diligence in the application of macro-prudential rules, in Hungary, bank supervision is conspicuous for being absorbed by the MNB by way of a political initiative (Dönmez and Zemandl 2019, 134). The politicisation of the MNB itself has been noted by multiple authors (e.g. Johnson and Barnes 2015, 547-549; Dönmez and Zemandl 2019, 134-136), which, by extension, puts the independence of the supervisory authority into question. Indeed, the possibility of the supervisory authority turning a blind eye vis-à-vis political lending in politically embedded banks has been noted by two anonymous interviewees (Interviewee 4 2019; Interviewee 7 2019). Such a differential treatment would create an additional strand of dependence.

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18. In 2012 *Széchenyi Bank* held assets amounting to around 0.07 per cent of the whole commercial banking sector (excluding cooperatives), while NHB's share in total assets 2015 amounted to 0.13 per cent (Magyar Nemzeti Bank 2017).

19. An MNB programme aimed at providing cheap liquidity to banks under the condition that enlisted banks use these resources to invest in increased domestic lending.

In sum, insights from multiple of the conducted interviews indicate both differential treatment of bank clients by MKB and the newly integrated saving cooperatives as well as differential treatment of these banks by the government and the MNB. This points to the fact that the bank ownership changes did, at least partly, serve private enrichment. Loans are directed to businesses unified by the categorical loyalty to current political officeholders. The observations, thus, seem to be congruent with the expectations outlined in Section 4.1—observers agree that a directed mode of credit allocation is present at least in MKB and the saving cooperatives. The precise extent to which MKB and the saving cooperatives (a) engage in this kind of lending, and (b) depend on the government's regulatory ease is naturally difficult to estimate.

6.2 Stability, Development, and Competition through Domestic Banks

Measures for potential positive effects of the (re-)establishment of a domestic banking sector are composed of more traditional measures of stability, the banks' lending activities and, partly overlapping with the other two, those benefits alluded to in the speeches by Viktor Orbán. The necessary analytical tools are partly impaired by the absence of relevant data on individual bank level, i.e. certain measures of lending activity and portfolio composition are only made available by the MNB on an aggregated level. This section is assembling relevant and available measures in order to assess the developmental impact of the bank ownership changes. The data shows that prudential indicators do not exhibit a lack of stability in the analysed banks in comparison to pre-crisis levels as well as the banking sector as a whole. However, both the stability indicators and sector-wide measures of lending activity depict little increase of lending into the desired sectors of the Hungarian economy. The alleged positive impact of the bank ownership changes on competition in the banking sector cannot be substantiated.

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6.2.1 Stability

Arguably one of the most widely used measure of risk is the loan-to-deposit ratio (LDR). The LDR measures the extent to which loans are financed by deposits and thereby represents an indicator of liquidity risk, i.e. the risk of a bank falling short of liquidity requirements for example during an economic downturn (Berg 2012; Van den End 2016; Epstein 2017, 98). Based on historical benchmarks, Van den End (2016, 247-250) determines a range between 80 and 120 per cent to be appropriate—this range has been set as legal limits by national central banks or International Financial Institutions (IFIs). While a high LDR poses a significant risk to a bank, a low LDR puts a bank's ability to act as a financial intermediary into question (ibid., 248). Given limitations of the available data, the precise LDRs are not listed here in detail: the calculations LDRs requires data on a level of aggregation which is not made available by MNB data for individual banks. The general development of loans and deposits, calculated with the available, flawed data, seems to indicate a steadily decreasing LDR for both MKB and the cooperative sector since the crisis, approaching 50 per cent in 2017 (Magyar Nemzeti Bank 2017). This indicates that the banks are in fact stable but exhibit lending levels low enough impair their designated functions. *Budapest Bank* exhibits a less erratic and generally higher LDR at a level which indicates stability and static levels of lending (ibid.).

In the broader context of stability, Dr. Levente Kovács, Secretary General of the Hungarian Banking Association has indicated, an additional reason for the bank ownership changes is constituted by the aforementioned apprehension that,

> naturally, it may be reasonable for an internationally owned bank to concentrate its efforts on its parent bank's base market at the time of the most severely critical crisis and to thus perhaps decide to leave the markets of its subsidiaries. (Interviewee 6 2019)

Even if an outright retreat from the market remains unlikely for foreign banks (cf. Epstein 2014), one anonymous interviewee has noted that foreign banks are more likely to halt their lending activity in times of crisis (Interviewee 5 2019a). This has been described as the "sudden stop" phenomenon, whereby foreign capital flows come to a complete halt

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(Roubini and Setser 2004, 50-51; Joyce and Nabar 2009). Arguably, a degree of political steerage could prevent such severe repercussions from portfolios fraught with risk and liquidity-concerns, as it has been observed in the Polish case (Epstein 2017, 92). These benefits may materialise and thereby become verifiable in the future.

6.2.2 Development

The discussion of LDRs already indicated the shortage of lending in MKB and the cooperative sector. This can be analysed in more detail by means of individual data on overall lending, again made available by the MNB (2017). Figure 6.3 depicts the overall level of lending of MKB, *Budapest Bank* and the cooperative sector. Unsurprisingly the

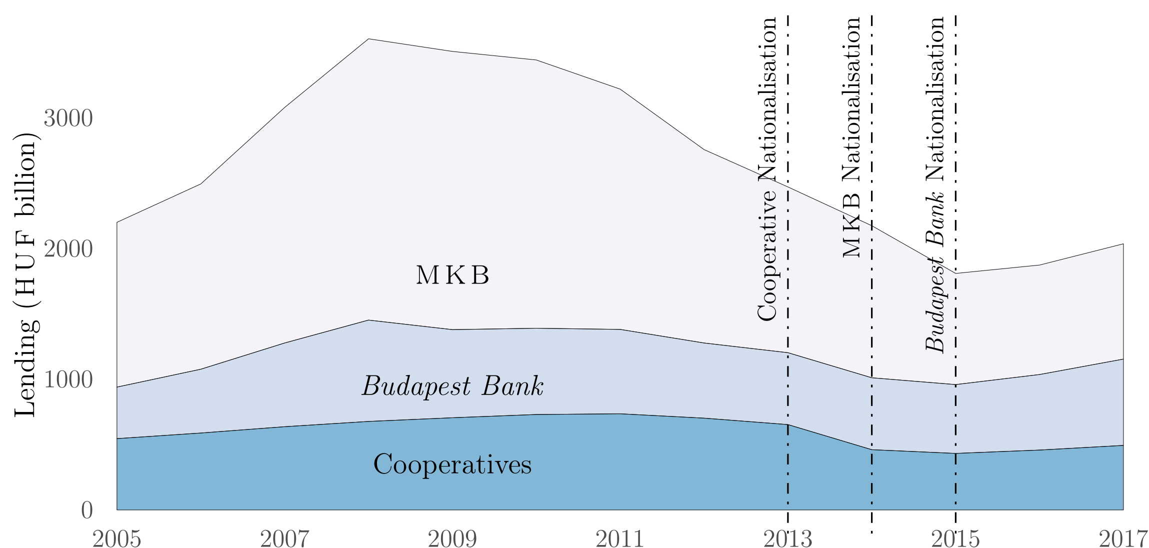

Figure 6.2: Lending of analysed banks

observed data for MKB matches the development of the LDR in that overall lending steadily declined from 2008 onwards. It should be noted, however, that MKB is heavily impaired in its credit allocation by the conditions set by the European Commission as previously discussed (European Commission 2015). The cooperatives, again somewhat expectedly, maintained a low but steady level of lending until the point of nationalisation and integration 2013; subsequently, it considerably decreased. *Budapest Bank* saw a slow increase in lending until 2008 and relatively stable levels until 2017—in fact, it is the only bank out of the three that has increased lending in comparison to pre-crisis levels.

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A further approximation for banks' developmental function, as suggested by Sabi (1996, 183), is the ratio of loans to total assets, representing an indicator of the extent to which banks engage in their function of lending as opposed to other financial undertakings. The 'loan ratios' for MKB, the cooperative sector, *Budapest Bank* and the total for all domestic banks,[20] are visualised in Figure 6.3, based on data made available by the MNB (2017, 2018). The corresponding numbers indicate a considerable decline in the loan-ratio

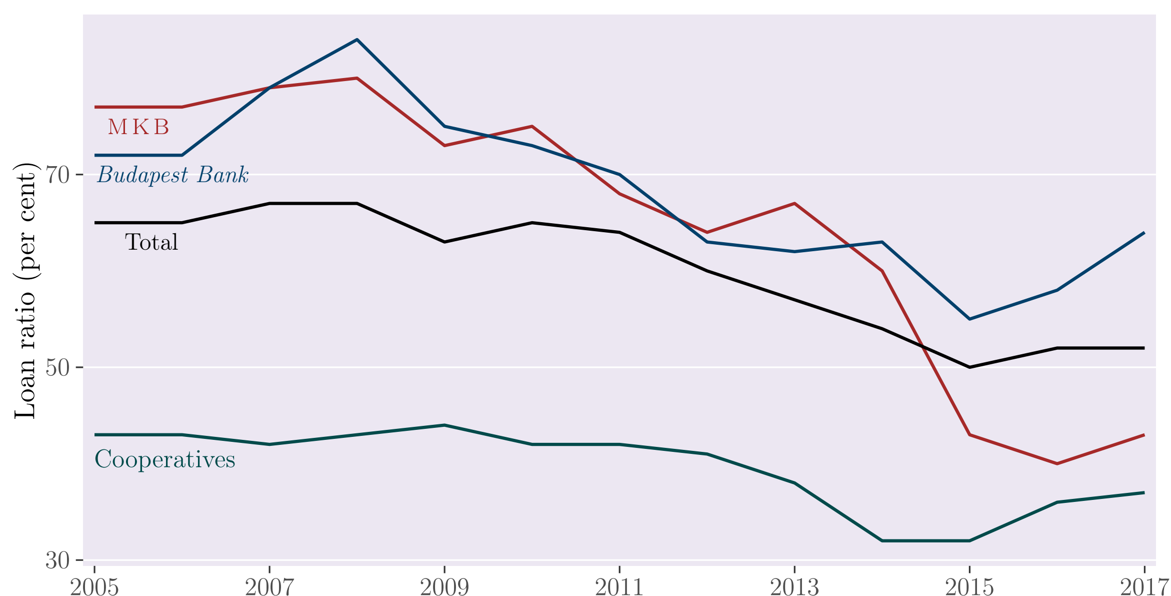

Figure 6.3: Loan-ratio of analysed banks

following the financial crisis, especially in the cases of the cooperatives and MKB. In 2017, only between 30 and 50 per cent of total assets comprised loans whereas the commercial banking sector totals above 50 per cent. *Budapest Bank*, albeit also experiencing a decline following the crisis, exhibits a loan-ratio that is more than 10 per cent higher than the banking sector total. In sum, available data signify low levels of lending of two of the three nationalised banks following the crisis, the nationalisations and the respective re-privatisations.

Further measures are only available for the Hungarian banking sector in an aggregated form—this includes lending to SMEs, households and levels of project finance, i.e. loans for financing domestic development projects (Magyar Nemzeti Bank 2018). The share of

20. The 'total' loan ratio excludes the cooperative sector but nevertheless serves as an appropriate (i.e. the only available) benchmark.

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these three lending categories are visualised in Figure 6.4.[21] Little seems to have changed

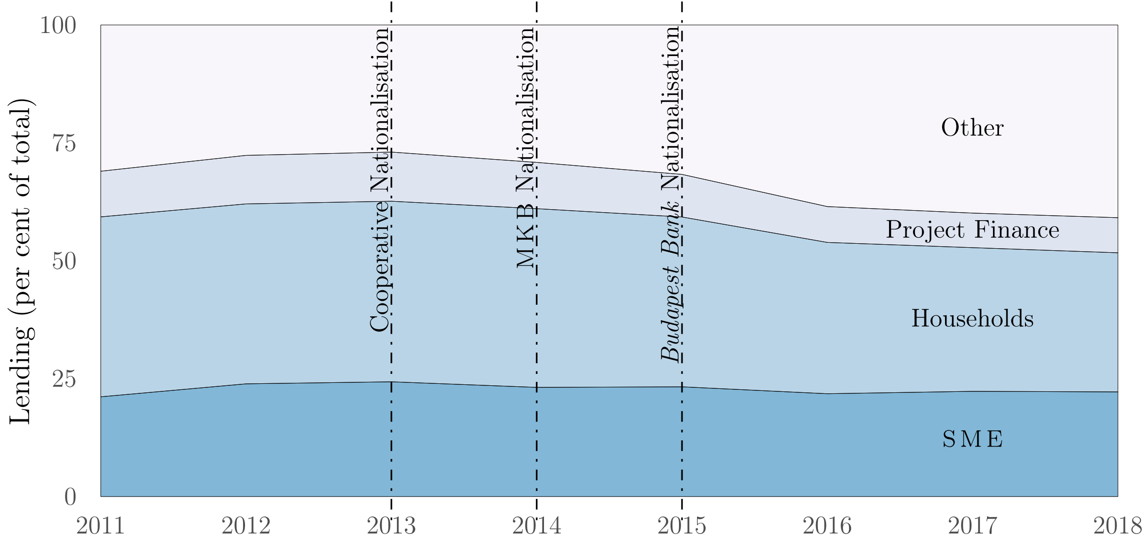

Figure 6.4: Sector-wide loan composition (I)

between 2011 and 2017 regardless of the analysed ownership changes. While the relative numbers suggest a small decline in household lending and project finance, as well as a small decrease in SME lending, the absolute numbers show a decline of more than 25 per cent in household lending and project finance as well as a 2 per cent decline in SME lending.

The Hungarian banking sector's commitment to the *domestic* economy can be further summarised by laying out the general level of lending to domestic customers as opposed to foreign ones, and is visualised in Figure 6.5, again based on data by the MNB (2018). In relative and in absolute terms, lending to foreigners has increased between the run-up to the crisis and 2018—from less than 12 to over 15 per cent of overall lending and by over 20 per cent in absolute terms (ibid.).

The numbers represented in Figure 6.4 and 6.5 should be read carefully. Given that the cooperative sector is excluded and the remaining market share of the two analysed banks is accordingly small, it is impossible to determine which banks' practices drive these general developments. As far as developmental goals are emphasised on a more abstract

21. Again, these numbers only include banks 'operating as joint stock companies', i.e. excluding the cooperative sector.

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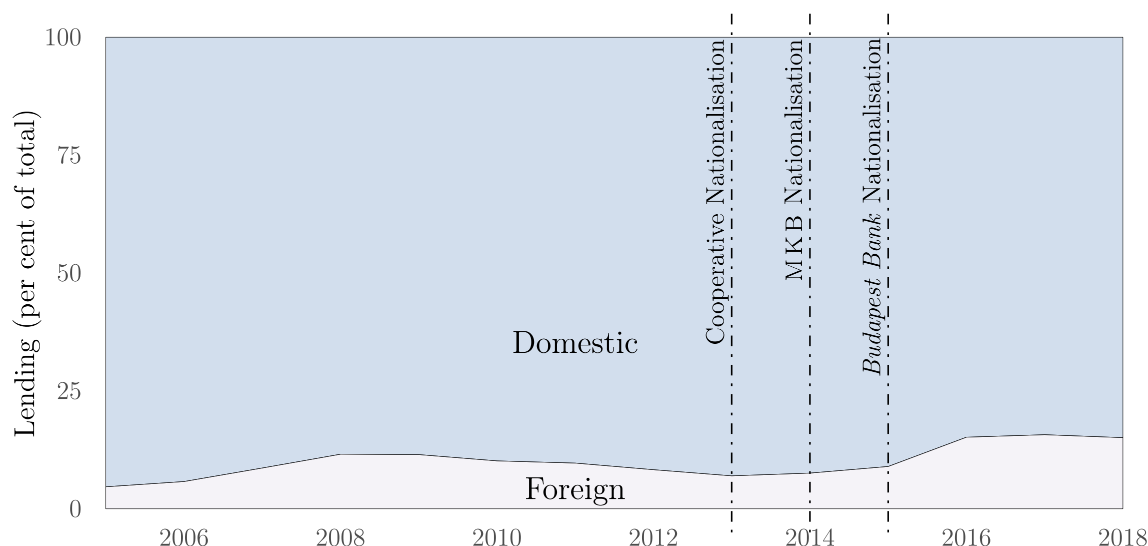

Figure 6.5: Sector-wide loan composition (II)

level, these numbers indicate that common indicators of banks' developmental functions have not considerably improved.

6.2.3 Competition

Lastly, the alleged impact of bank ownership changes on market competition cannot be substantiated by existing data. As an approximation, the degree of competition in the banking sector can be measured as market concentration, i.e. the market share of the largest Hungarian banks. Again, based on data made available by the MNB (2018) presented in Table 6.1, one can conclude that market competition has not considerably increased since the ownership changes. The market shares of the five and ten largest banks have only decreased by less than 3 per cent respectively.

Market share of	2006	2008	2010	2012	2014	2016	2018
Ten largest banks	73.1	73.8	74.2	73.4	70.7	71.0	70.6
Five largest banks	51.0	52.4	52.3	51.4	49.4	49.6	49.9

Table 6.1: Concentration of the Hungarian banking sector

The assessment of the developmental effects of the bank ownership changes exhibits considerable flaws that are predominantly rooted in the poor quality of available data. As far as those data can nevertheless serve as indicators for the banks' developmental role, one

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can conclude that stability has indeed been restored and/or maintained, while the goal of using lending as a motor for growth and development has not been achieved.

6.3 Summary

The findings presented in this chapter are summarised in a simplified manner in Table 6.2. On balance, the ownership changes have favoured a select group of economic actors

	Ownership	Pol. Lending	Stability	Development
MKB	Selective	Present	Restored	Absent
Budapest Bank	In Transition	Unclear	Unchanged	Unchanged
Cooperatives	Selective	Present	Unchanged	Absent

Table 6.2: Summary of distributive consequences

both in terms of ownership rights and in terms of financial resources. At the same time, the developmental potential of a domestic banking sector hypothesised in the relevant literature is not realised. The banks' stability appears either unchanged or somewhat improved. However, the presented MNB data do not capture the degree of political risk entailed in political lending practices with the potential to ultimately impair stability.

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Conclusion

The substantive findings presented in this thesis have generated evidence for three distinct arguments. First, bank ownership changes in Hungary carried out following the initiative by the governing party *Fidesz* and PM Viktor Orbán are politicised in a nationalist manner and, therefore, constitute an effective case of economic nationalism. Second, in distributive terms the ownership changes themselves, namely the nationalisation and partial re-privatisation of a number of banks, have predominantly granted ownership rights to economic actors with close ties to the government or so called 'cronies'. Moreover, the change in lending practices in at least two of the three analysed banks seem to favour these very cronies—this is reflected in practices labelled 'political' or 'related' lending. Third, the developmental goals—partly hypothesised by the literature on effective economic state capacities and partly pronounced by Viktor Orbán himself—fall short of these very hypotheses. Taken together, the analysed reforms appear to correspond to the category of *Nationalist Legitimisation for Rent-Seeking* as conceptualised in Table 2.1.

These arguments differ from existing literature in that they do not claim that the ownership changes constitute a case of economic nationalism simply by virtue of being 'non-liberal', 'protectionist', or 'unorthodox'. While the attestation of economic nationalism is upheld, albeit qualified by political rhetoric rather than policy content or ideology, it is argued that economic nationalism does not (necessarily) precipitate certain benefits for domestic economic actors or 'national insiders' generally. That is, in contrast to what is argued in existing accounts, the distributive consequences cannot be inferred from either the ostensibly nationalist rhetoric or the contention that the analysed policies are at odds with an existing liberal consensus. Instead, the case of bank ownership changes in Hungary illustrates that economic nationalism, reflected in political rhetoric, can be used

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to legitimise policy measures which are motivated by interests detached from any concern for the nation, i.e. national autonomy, unity and identity. These interests appear to be distinctly *private* in nature and unrelated to the *public* interest in economic prosperity and economic status for domestic market actors.

The findings yielded by the employed analytical framework do *not* constitute a principle incongruity to the existing VOC literature which emphasises Hungary's dependence on foreign manufacturing companies (Nölke and Vliegenthart 2009; Bohle and Greskovits 2012, 138-181). Revealing whether the state, under conditions of pronounced external dependence, has a developmental agenda and/or uses its leverage to extract resources for private enrichment does not produce insights about this dependence *per se*. However, the presented insights suggest that the 'dependence' perspective should be complemented by a more attentive analysis of the role of the state and political leverage in the organisation of certain segments of the economy. This partly shifts the focus from the seemingly more significant industries dominated by foreign capital on to those sectors which the state is able to influence without risking to deter its principle source of economic growth (i.e. multinational manufacturers). In these 'less important' segments of the economy, the state's (non-)commitment to serving the public interest, as well as ways of effective politicisation still matter and merit independent examination.

Limitations

The collection of evidence for the presented arguments have been most severely impaired by the limitations common to the study of informal processes of political control and rent-seeking, not least because the analysed processes take place within the 'black box' of individual companies and are therefore removed from the public sphere. In order to circumvent these problems, this thesis has relied on the views of a number of experts. Although feasible precautionary measures have been taken, this is no guarantee for the complete impartiality of the presented views. I hope to have put the respective opinions and observations into sufficient perspective in order to render the findings somewhat more robust. Generally, the sheer congruence in statements by interviewees from different

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occupational backgrounds with a professional interest in obtaining knowledge and expertise in the outlined subject area is indicative of these views being relatively accurate. Any residual doubt could only be dispelled by means of analysing data that is hitherto not made public, such as statistics displaying the share of 'insider lending' within each bank as collected by the supervisory authority.

A further challenge this research has faced concerns the precise mechanisms of control within a given bank. While a simplified version of the presented argument might hold that the owner of a bank and/or even political officeholders have the ability to dictate the approval and rejection of any loan, this is unlikely to hold true in reality. Large banks are organisation with complex and multilayered organisational structures (cf. Schaad et al. 2001; Berger and Udell 2002, 38-43), and the relationship between shareholders, employees, management and regulators can be expected to be accordingly intricate. Studying how exactly political directives play out in such a complex accumulation of interests represents a worthwhile subject of analysis in its own right as it speaks to the professional independence of private economic actors on a lower level and, thus, an important aspect of capitalist organisation. This thesis, however, has limited itself to the *results* of the potential presence of such political influence, thereby indicating that this type of discretion, however it may be shaped or constrained, indeed exists and effects the lending practice of the analysed banks.

Relevance & Outlook

Multiple interviewees have indicated the incomplete nature of the consolidation of the Hungarian banking sector. With the merger between MKB, *TakarékBank* and *Budapest Bank* looming, and the conditions set by the European Commission for the resolution of MKB running out by the end of 2019, one can expect considerable changes in the overall structure of the banking sector as well as the lending practice of the 'mega bank' which remains to be established. The incomplete nature of the assessment of the *distributive* consequences of the bank ownership changes could be rectified in the future by the setting in of 'business as usual'. The re-established unfettered discretion to attract new corporate

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clients and expand the portfolio may, again, result in increased developmental or political lending on an even bigger scale. Following the evidence presented in this thesis, one could expect that the service of private interest is at least part of the purpose of any discretionary practices in the Hungarian banking sector.

As outlined earlier, the relevance of this analysis is not grounded in the claim that Hungary represents a typical case as regards the nationalist politicisation and distributive consequences of corporate ownership changes and economic policymaking more generally. Instead, I argue that the applied analytical framework, which takes into account these two dimensions, is of avail for the examination of post-crisis economic policymaking in CEE. The need for effective economic state capacities has been amplified and pushed to the fore of public debate by the financial crisis in that considerable state intervention was required in order to mitigate some of its most severe consequences (Claessens et al. 2010). This continues to pose the question as to how and why such interventions are being politicised and who ultimately benefits. As this thesis has shown, neither ascribing certain ideologies to such economic policymaking, nor establishing the 'winners' of the re-distribution of resources are trivial exercises.

Finally, the utilised framework paves the way for two kinds of comparative analyses with the potential to produce valuable insights in the future. First, the guiding questions proposed by Verdery (1993, 39), point to the importance of revealing more profound causes for the nationalist politicisation of certain policies:

> What is the context in which one or another definition or symbolization of nation operates? What is it accomplishing? Is it doing work for arguments aimed elsewhere rather than at national questions per se?

Why, for example, are bank ownership changes in Hungary not politicised in a social-democratic manner? Given the ideological profile of the governing party, the answer to this question hardly seems pertinent, but the conspicuous prevalence of nationalist framing in the Hungarian context (e.g. Fox and Vermeersch 2010; Bartha 2011; Varga 2014) nevertheless indicates the importance of comparative causal analyses. On the one hand, establishing variation in the politicisation of similar economic policies can point to

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the causes for the prominence of nationalist politicisation. On the other hand, establishing variation in policies that are politicised in a similar, that is nationalist, manner would reveal the particular nature of economic nationalism in a particular context and which policy-content it appears to be conducive to.

Second, the intricate analysis of the distributive consequences of a given economic policy enables future research to investigate the long-term causes of these consequences, going beyond the mere existence of material interests of political and economic actors. The work by Epstein (2017, 87-124), for example, shows that "bank-state ties", i.e. political control over domestic banks, may implicate positive developmental benefits as long as policy-makers commit to those conditions typically associated with stable and disciplined banking. Why exactly do certain policymakers commit to such values, as is the case in Poland, while others, for example in Bulgaria, or—as this thesis has shown—Hungary, do not? Existing research on rent-seeking, development and state capacities theorises several reasons such as "robust [party] competition" (Grzymała-Busse 2007, 10), "initial elite commitment to democratic values" (Innes 2014, 89), or the existence of "developmental alliances" (Bruszt and Karas, forthcoming). Applying these hypotheses to different domestic banking sectors in CEE would reveal why increased state agency plays out in different ways in different contexts, and, by extension, points to the ideal 'mix' of institutional choices during the transition which precipitates effective economic state capacities ultimately determining an economy's developmental path.

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Appendix A: List of Interviews

Interviewee 1. 2018. *Personal Interview with Karóly Attila Soós, Hungarian Economist and former Liberal MP with Expertise in Banking,* November.

Interviewee 2. 2018. *Personal Interview with Júlia Király, an Expert on the Hungarian Banking Sector and Current Board Member of a Large Multinational Bank,* November.

Interviewee 3. 2018. *Personal Interview with Gergely Brückner, Investigative Journalist at Index partly Specialising in the Hungarian Banking Sector,* November.

Interviewee 4. 2019. *Personal Interview with an Expert on the Hungarian Banking Sector with Particular Expertise in Mergers and Acquisitions,* March.

Interviewee 5. 2019a. *Personal Interview with a Senior Expert with Experience in Corporate Lending and Underwriting in Hungary,* April.

———. 2019b. *Personal Interview with a Senior Expert with Experience in Corporate Lending and Underwriting in Hungary,* March.

Interviewee 6. 2019. *Personal Interview and Communication with Levente Kovács, Secretary General of the Hungarian Banking Association.* April - May.

Interviewee 7. 2019. *Personal Interview with a Bank Analyst at a Hungarian Bank,* April.

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Appendix B: List of Speeches

Orbán, Viktor. 2012. *Prime Minister Viktor Orbán's speech delivered at Madrid's Saint Paul University on 17 November (English),* November. Accessed April 6, 2019. http://2010-2014.kormany.hu/en/prime-minister-s-office/the-prime-ministers-speeches/prime-minister-viktor-orban-s-speech-delivered-at-madrid-s-saint-paul-university-on-17-november-english.

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Appendix C: List of News Reports & Other Primary Sources

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