Review of International Political Economy > Volume 21, 2014 - Issue 4: Assets or Liabilities? Banks and the Politics of Foreign Ownership versus National Control

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# Post-socialist housing meets transnational finance: Foreign banks, mortgage lending, and the privatization of welfare in Hungary and Estonia

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Pages 913-948 | Received 27 Oct 2012, Accepted 17 Apr 2013, Published online: 28 Jun 2013

66 Cite this article ⚠ https://doi.org/10.1080/09692290.2013.801022 Check for updates

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# ABSTRACT

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This paper asks how public policies have shaped the build-up of crisis-prone housing finance markets and whether they have mitigated or reinforced the associated risks for

citizens Hungary much fo to face exist

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financial crisis, however, policies started to sharply diverge. While the Estonian government has relied on market mechanisms and private market actors to cope with the crisis, the Hungarian government engaged in far-reaching interventionist policies to unmake some of its devastating consequences for indebted house-owners. The paper explains its findings by the combination of different welfare state traditions and patterns of party competition.

Q KEYWORDS: Financial crisis banks mortgages welfare state Eastern Europe

### **ACKNOWLEDGEMENTS**

Earlier versions of this paper were presented at the workshop 'Financial Integration vs. Economic Nationalism in the European Union: The sources and consequences of foreign bank ownership', 2–4 February 2012, Josef Korbel School of International Studies, University of Denver; at the Political Economy Research Group at CEU, and prepared for the APSA 2012 Annual Meeting, New Orleans, 30 August–2 September 2012, Panel 'Financial Integration versus Economic Nationalism in the European Union: The sources and consequences of foreign bank ownership'. I am indebted to the organizer and participants of the workshops and panel, and especially to Thilo Bodenstein, Kristin Makszin, Colin Crouch, Zsolt Enyedi, Rachel Epstein, Wade Jacoby, Juliet Johnson, John Zysman as well as two external reviewers for helpful comments. I am also indebted to my interview partners in Hungary and Estonia, who were very generous with their time and information. I also gratefully acknowledge the research assistance of Dénes Csurgó. The research drew its inspiration from my involvement in Gusto, a project on the challenges of economic uncertainty directed by Colin Crouch and financed by the European Commission's FP 7 framework.

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ss franc.

2. The Visegrad countries are Hungary, Poland, and the Czech and Slovak Republics.

- 3. János Kádár was communist leader and General Secretary of the Hungarian Socialist Workers' Party from 1956 until 1988.
- 4. While housing could be purchased as early as 1969 in Hungary, many restrictions made it unattractive to do so (Hegedüs and Szemzö, 2010).
- 5. MDF (Hungarian Democratic Forum) was FIDESZ junior partner.
- 6. In Hungary, the role of commercial and other special banks are distinct. Mortgage banks underlie strict control, but they also have access to special privileges. There are three mortgage banks: OTP Jelzálogbank, then FHB which was set up by the government, and the Unicredit mortgage bank (Molnár, 2010: 14–17).
- 7. For Hungary, a study finds that: 'Between 2001 and 2007, households' exchange rate exposure changed by almost 10 per cent of GDP, as they assumed the majority of the foreign exchange exposure arising from the growth in external debt. In fact, they are the real foreign currency risk-takers' (Király et al., 2008: 230).
- 8. From 2001–2008, Hungary pegged its currency with a flexible band to the euro. After that, it turned to a floating exchange rate regime.
- 9. For instance, while Prime Minister Férenc Gyurcsány already back in 2005 issued a warning on his blog that it would not be good if foreign currency lending increased because of the exchange risk attached to it, opposition leader Viktor Orbán announced in the public TV in 2006 that while it is true that there are risks attached to foreign currency lending, he thinks this should not be of concern for the government, as it was a decision made by the Hungarian people (Free Hungary, 2011).
- 10. This interpretation is offered by the parliamentary subcommittee on the causes of indebtedness (Committee... of the Hungarian Parliament 2012).

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12. I borrow this title from Kattel and Raudla (2012).

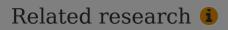
13. This argument runs somewhat against the influential thesis of Timothy Frye that party polarization on the left-right space hinders economic reforms (Frye, 2011). Further research is needed to establish whether my argument indeed holds in the area of macroeconomic and welfare policies.

# Additional information

### Notes on contributors

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Dorothee Bohle is an associate professor in the Department of Political Science at Central European University. She is the author of Capitalist Diversity on Europe's Periphery (Cornell University Press, 2012, with Bela Greskovits) and Europas Neue Peripherie: Polens Transformation und Transnationale Integration (Muenster, Westfaelisches Dampfboot, 2002). Her recent work has also appeared in Capital and Class, Studies in Comparative International Development, West European Politics, Competition and Change, Journal of Democracy, and European Journal of Sociology.



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