MODERN BANKS IN CEE: BETWEEN FOREIGNERS AND THE STATE

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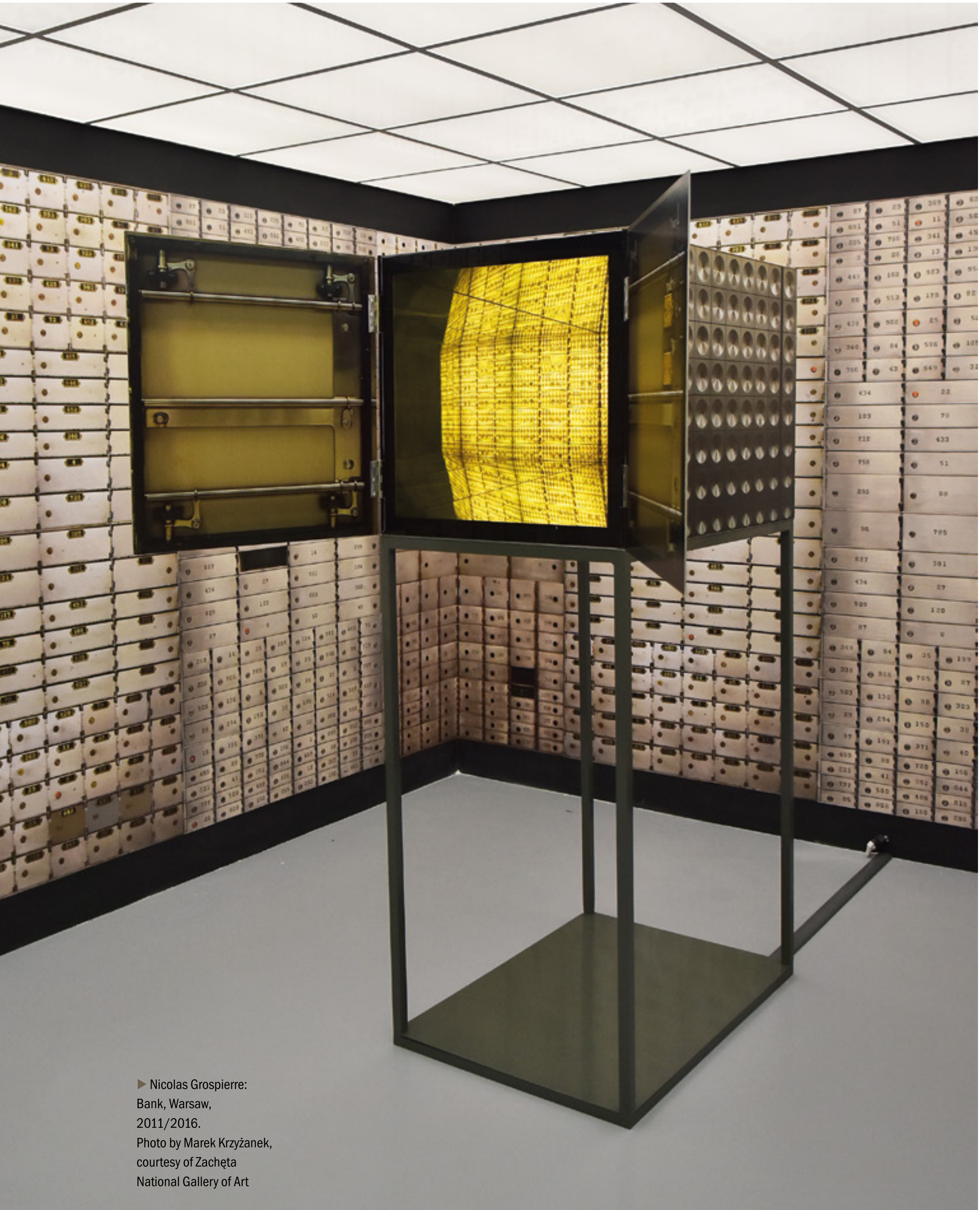
The current Polish and Hungarian governments have been pursuing agendas of creating national banking systems in their respective countries, but the history of CEE shows that the presence of foreign capital has been intrinsic to the creation of the modern banking industry in the region. In his address to guests at the ceremony honouring the start of the 2017 business year, Viktor Orbán laid out the rationale for focusing on decreasing the foreign ownership in Hungary's banking system.

"Although money has no smell, its owners do," the country's Prime Minister told the audience attending the Hungarian Chamber of Commerce and Industry's event. Orbán was referring to the drain of capital from the country in the wake of the 2008 financial crisis. In his view, the outflow happened because the foreign banks, which owned the majority of Hungarian banks, repatriated the money back to their home countries to shield the parent banks from the financial storm.

Regardless of whether Orbán was correct in his assertion, the fact remains that the banking systems of the V4 countries have been largely dominated by foreign owners.

In the history of the Visegrad Group countries, this is nothing unusual: independent, domestic bankers were never critical players on the market. However, at certain times, their governments were.



▶ Nicolas Grospierre:
Bank, Warsaw,
2011/2016.
Photo by Marek Krzyżanek,
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FOREIGN BEGINNINGS

The very first banking houses in the V4 were set up in the Middle Ages by parties from all walks of life, such as local Jews or the Catholic clergy.

However, it wasn't until the XIX century when the modern banks were created. All in all, the modern banking system in what are now the Visegrad countries was created mostly by foreign investment, according to Ivan Berendt, renowned CEE historian and professor of history at the University of California in Los Angeles.

In 1819, during the Austro-Hungarian Empire, a group of Austrians from different backgrounds came together and set up the first savings bank in the region. Erste Österreichische Spar-Casse, today known as Erste Bank, opened its first branch in the church of one of the poorest districts of Vienna. From there, the bank expanded into almost every corner of the vast Empire. In only 10 years after its birth, it had offices in such cities as Győr, Brno, Bratislava, Jarosław and 50 other towns and cities. And almost 200 years on, Erste is still among major players in Hungary, Slovakia and the Czech Republic.

But the region's first joint-stock banks (i.e. the ones which most closely resembled the banking institutions as we know them today) started to be created only in the second half of XIX century.

The first 'real' bank in CEE was again born in the Austrian capital but originally the idea came from Frankfurt.

It all started when the Jewish banker Mayer Amschel Rothschild decided to send his five sons to five different cities in Europe to help establish local branches of his growing banking empire. The family – which is today best known for assembling probably the greatest wealth in history – was represented in Vienna by Mayer's second son, Salomon.

Similarly to his other four brothers who operated from Frankfurt, Paris, London and Naples, Salomon achieved tremendous success. Not only did he create Credit-Anstalt – which for a decade was the only universal banking institution operating in the Austria-Hungary Empire – but, in 1867, he also set up the first modern bank in Hungary – Magyar Általános Hitelbank.

Through Credit-Anstalt, the Rothschild family heavily influenced the economic development of the region. The most striking example is perhaps their financing of the first ever railroad in the Habsburg Empire which used steam engine locomotives. Constructed in the 1840s and 50s, it connected Vienna with the now-Polish city of Bochnia.

After Salomon Mayer's bold start, several joint-stock banks were established across the region. Just three years after the Rothschilds created a similar institution in Budapest, Leopold Kronenberg set up the first modern bank in Warsaw, Bank Handlowy; a considerable feat for a Polish entrepreneur to accomplish as Warsaw, at the time, was under the rule of the Russian Empire. Only a year later, Handlowy registered its first "successful" contribution to the history of Polish banking which sparked competition: Kronenberg's largest business rival, the Epstein family, did not want to fall behind so they decided to open Bank Dyskontowy Warszawski.

However, even these two institutions, set up by local Varsovian Jews, were largely under the influence of foreigners: Handlowy was closely connected with the French Credit Lyonnaise and Dyskontowy with Deutsche Bank, following the established regional pattern of relying heavily on foreign capital.

STATE CONTROL

At the turn of the century, the majority of the shares of Hungary's largest banks were foreign-owned. The same was true for the Russian-annexed Polish territories whereas in the whole of the Habsburg Empire, Austrian capital dominated.

This arrangement was disrupted by the two world wars; after which, communism rewrote the rules. For instance, in communist Poland four banks (including Handlowy) were allowed to exist but only because they were state-owned and served different parts of the economy; essentially, the system became a state monopoly, with only a few minor differences.

After the period of the communist rule, the V4 countries saw many local banks being sold to European and international financial conglomerates, such as Austrian Erste, Italian Unicredit and Belgian KBC. Bank Handlowy, which had existed continuously for 131 years, was sold to the US giant Citibank in 2001.

This selling spree led to a spike (again) in foreign ownership in the CEE banking sector. In 2015, the average foreign ownership ratio in Poland, Czech Republic, Slovakia, Hungary and Slovenia stood at 62%, returning to the end-of-the-XIX-century levels, according to the study CEE Banking Sector Report published by Raiffeisen Research last year.

However, this has been slowly changing due to the unusual market activity of Polish and Hungarian states. Since the Raiffeisen study took place, the market saw a major takeover. The troubled Italian banking giant UniCredit agreed to sell its stake in Bank Pekao, the second largest lender in Poland, to the country's and the region's top insurer PZU for €2.5 billion.

Poland – with its agenda of 're-polonising' banks that was set up by the previous government and continued by the current one – has been slowly decreasing the sector's foreign ownership. It is following in the footsteps of Hungary, where, under Victor Orbán's rule, domestic ownership of the banking sector has gone up from around 30% to well above 50%. Both current governments of Poland and Hungary believe that foreign ownership of local banks is harmful to their economies.

This is a striking contrast with other V4 members, the Czech Republic and Slovakia, where foreign ownership ratios still stand at 82% and 98% respectively. Contrary to Victor Orbán's belief, this doesn't seem to affect their economies, which are now healthier than those of Poland and Hungary.

Nevertheless, the recent attempts of the two countries to increase control of their banks has only been met with limited success as it was both governments who have taken over ownership of parts of the banking system (for instance, insurer PZU's controlling stake is in the state's hands).

Therefore, their key goal of increasing local ownership of the banks is not exactly working out, and the bank ownership structure might soon resemble a mix of the XIX century model with the communist mock-up. Will there ever come a time when the local private businesses will get seriously involved?

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