



Working Paper Series

GEOFIN Working Paper No. 1

**Western banks in Eastern Europe:
New geographies of financialisation
(GEOFIN research agenda)**

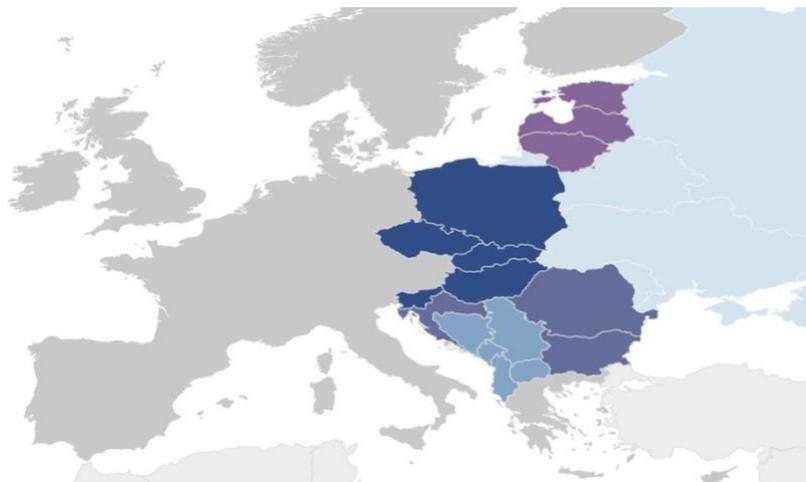
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GEOFIN - Western Banks in Eastern Europe: New Geographies of Financialisation
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Western banks in Eastern Europe: New geographies of financialisation (GEOFIN research agenda)

Martin Sokol

Abstract:

GEOFIN research agenda: Financialisation, or the growing power of finance over societies and economies, is increasingly recognised as the key feature of contemporary capitalism. However, significant gaps in our understanding of this process remain. Indeed, despite growing recognition that financialisation is an inherently spatial process, a geographically-informed view of financialisation remains underdeveloped. In addition, and related to this, the extent and the ways in which post-socialist 'transition' societies in East-Central Europe have been financialised remain under-researched and under-theorised. Yet, the examination of former state-socialist societies (built on the very opposite economic logic to that of financialisation) provides an unmatched opportunity to learn about financialisation itself, how it 'penetrates' societies and with what social and spatial implications. East-Central Europe in this sense constitutes a unique terrain for frontier research. GEOFIN research will address the above shortcomings by producing empirical and theoretical insights to develop a geographically-informed view of financialisation. The objective is to examine how states, banks and households in post-socialist contexts have been financialised and to consider what implications this has for the societies in question and for Europe as a whole. The project will pilot a novel approach based on the concept of 'financial chains' which are understood both as channels of value transfer and as social relations that shape socio-economic processes and attendant economic geographies. A set of interlocking case studies will be mobilised to reveal the different ways in which banks, states and households across post-socialist East-Central Europe are interconnected by financial chains with each other and with a wider political economy. GEOFIN research aims to fundamentally advance our understanding of new geographies of financialisation, opening up new horizons in studies of finance and its future role in the society.

Keywords: geographies of finance; financialisation; East-Central Europe; post-socialism; economic geography; uneven development; banks; state; households; debt; political economy; regional development

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1. Introduction

Financialisation can be simply described as the growing power of finance over societies and economies. Coinciding with the rise of neo-liberalism, financialisation in the advanced capitalist economies has been related to the ascendance of finance, financial capital, financial sector, financial markets and financial logics, with profound implications for firms, households and society at large. There is a growing consensus among social scientists (political economists, political scientists, sociologists, business studies scholars and geographers alike) that **financialisation represents the key feature of contemporary capitalism and its dynamics** (e.g. Epstein, 2005; Krippner, 2005; Froud et al., 2006; Engelen, 2008; Pike and Pollard, 2010; Marazzi, 2011). Simultaneously, there is also a growing recognition that mainstream economics is ill-equipped to fully appreciate the role of finance in the economy and its crisis tendencies (e.g. see Toporowski, 2010; Keen, 2011; Pettifor, 2014). This has been fully demonstrated in the global financial and economic crisis that erupted in 2007/08 and which gave further impetus to the studies of financialisation. Numerous accounts have convincingly demonstrated that financialisation has, in fact, been the key factor behind the crisis (e.g. Aalbers, 2008; Stockhammer, 2012; Lapavitsas, 2013).

However, despite the growth of literature on financialisation, significant gaps remain in our understanding of this crucial process. In particular, limited attention has been paid to (a) the way in which states are increasingly subjected to the power of financial markets and financial logics ('financialisation of the state') and (b) the way in which the financial sector can itself be subject to financialisation pressures ('financialisation of finance'). Furthermore, (c) despite a growing realisation that financialisation is inherently a *spatial* process, geographically-informed view of financialisation remains underdeveloped. Finally, (d) the bulk of the literature on financialisation has so far focused on advanced capitalist countries (especially US, UK and Western Europe), while neglecting other geographical contexts. Indeed, **the extent and the way in which post-socialist 'transition' economies in East-Central Europe are linked to the process of financialisation remains under-researched and under-theorised.** This is a significant shortcoming because the examination of former state-socialist societies, built on the very opposite logic to that of financialisation, provides a context in which much can be learned about financialisation itself; the way in which it 'penetrates' pre-existing socio-economic fabric, and with what social and spatial implications. **East-Central Europe in this sense constitutes a unique terrain for frontier research on financialisation.**

Focusing on East-Central Europe, GEOFIN research aims to address the above shortcomings and to move beyond the state-of-the-art by producing empirical and theoretical insights that will help to develop a geographically-informed view of financialisation. **The overarching objective is to examine, from a critical economic geography perspective, the extent and the way in which states, banks and households in post-socialist contexts of East-Central Europe have become financialised and to consider what implications this has for the societies in question and for Europe as a whole.** In realising this objective, GEOFIN pilots a **novel approach based on the concept of 'financial chains' (Sokol, 2015, 2017).**

A 'financial chain' (a prime example of which is credit-debt relationship) is understood both as a channel of value transfer between people and places, and as a social relation that shapes socio-economic processes and attendant economic geographies. The project will thus **provide, for the first time, and in an integrative manner, an in-depth analysis of financialisation of states, banks and households in post-socialist East-Central Europe and how this is linked to wider financialisation processes in Europe.** In doing so, GEOFIN is expected to make an **impact** on several fields of enquiry, namely financialisation studies (which until now had only very limited engagement with post-socialist contexts and neglected geographical analyses); post-socialist geography studies (which, with few exceptions, have so far overlooked the role of finance in post-socialist transformations); and economic-financial geography (which still lacks a comprehensive spatially-informed framework of financialisation). **GEOFIN aims to fundamentally advance our understanding of new geographies of financialisation and will open up new horizons in studies of finance and its future role in the society.**

2. State-of-the-art and beyond

Financialisation has been studied from a number of viewpoints, although largely centred on the most advanced and the most financialised capitalist economies (US, UK and Western Europe). Three *dominant* approaches to financialisation can be broadly identified as (i) *Regime of accumulation* approach, (ii) *Critical social accountancy* approach, and (iii) *Financialisation of everyday life*. I will briefly summarise and elaborate on these in turn (see van der Zwan, 2014, for a detailed reviews).

(i) *Regime of accumulation* approach places emphasis on the macro-economic transformation at the level of national economies. Financialisation is understood as an emergence of a new regime of capitalist accumulation based on finance. The new 'finance-led growth regime' (Boyer, 2000) or 'finance-dominated accumulation regime' (Stockhammer, 2008) is characterised by the shift of investment away from production/manufacturing (which displays signs of declining profitability) and towards finance as the key channel of profit-making. Financialisation thus can be defined as a pattern of accumulation in which 'profits accrue primarily through financial channels' (Krippner, 2005, 174). In this new accumulation regime (and amid neo-liberal retrenchment of the welfare state), real wages of workers are stagnating. Financial instruments of credit (and debt) therefore must be mobilised to compensate for stagnating incomes, in order to prop up aggregate demand and to prevent the system from collapsing. The result of this is (an illusion of) growth, which is based on high levels of indebtedness among workers, and is ultimately unsustainable in the long-run (see also Foster and Magdoff, 2009; Lapavistas, 2009).

(ii) *Critical social accountancy* approach focuses on capitalist corporations and their increasing dependence on financial markets and financial logics (Froud et al., 2006). The emphasis is on the ways in which financialised corporations are increasingly focusing on maximising 'shareholder value' (Lazonick and O'Sullivan, 2000) via (short-term) *financial* gains rather than engaging in (long-term) *productive* investment. The result of this financialisation of the corporate sector is that even non-financial firms are increasingly dependent on financial profits (and indeed many 'manufacturing' firms nowadays draw most

of their profits from their financial arms; see also Krippner, 2005). The imperative of 'shareholder value' mediated via financial markets creates a new form of financial competition in which 'every quoted firm must compete as an investment to meet the same standard of financial performance' (Williams, 2000, 6). The disciplining force of financial markets, in turn, leads to job losses and cutbacks, shifting the balance between capital and workers in favour of the former (see also Froud et al., 2006; Erturk et al., 2008). The growing tendency of firms to raise finance via financial markets (as opposed to traditional borrowing from banks) also has implications for the banks: declining lending to the corporate sector must be compensated for, among other things, by increased lending to households, much of which has been in the form of mortgage lending (e.g. Lapavitsas, 2009; Stockhammer, 2012).

(iii) '*Financialisation of everyday life*' approach turns attention to workers and households and the ways in which the increasing enrolment into circuits of finance manifests itself in their daily lives (Martin, 2002). Echoing the pressures imparted on firms, the financialisation of everyday life is turning an individual into a 'financial subject' (Langley, 2008) which is supposed 'to think of himself or herself as a two-legged cost and profit centre' (Blackburn, 2006, 39). Within this strand of work, particular attention has been given to the way in which ordinary people are exposed to financial logics and drawn into consumer credit and debt (Martin, 2002), and how everyday practices of saving and borrowing are now inextricably linked to global finance (Langley, 2008), not least via consumer credit and mortgage debt.

The issue of *debt* in general (and indebtedness of households in particular) has also been highlighted by many commentators as an important aspect of financialisation and therefore deserves further elaboration. Debt has, of course, existed in human society for a long time (Graeber, 2012), and in various forms (Dodd, 2014), 'like a balance sheet that enters into every human relationship and interaction' (ibid, 89). But it seems that the volume of financial debt accelerated dramatically since the onset of financialisation (Stockhammer, 2012; Streek, 2013; Aalbers, 2015), reaching unsustainable levels (Pettifor, 2006; Keen, 2011; Ross, 2013) and triggering the 'great financial crisis' (Foster and Magdoff, 2009).

It is important to note, however, that the crisis has not resolved the issue of debt and this will continue to shape socio-economic landscapes for decades to come. The pervasiveness of debt in today's societies has led some commentators to suggest that debt is in fact 'central to understanding ... neo-liberalism' (Lazzarato, 2012, 25), not least because in neo-liberalism 'what we reductively call "finance" is indicative of the increasing force of the creditor-debtor relationship' (ibid, 23). According to Lazzarato (2012, 7) 'everyone is a "debtor"' now and the 'indebted man' (sic), or *homo debitor* (ibid, 127) 'now occupies the entirety of public space' (ibid, 8). We live in a 'debt economy' characterised by an increasing force of the creditor-debtor relationship, but **we lack theoretical tools to analyse this new 'debt economy'** (Lazzarato, 2012).

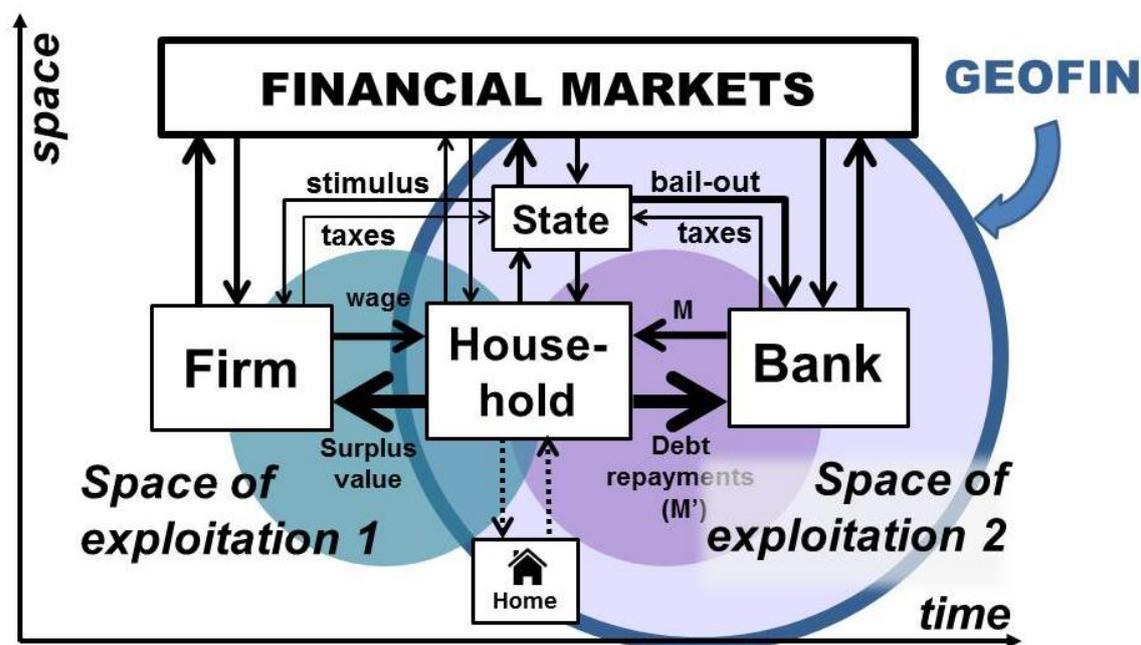


Fig. 1. Financial chains in the 'debt economy' (Source: adapted from Sokol, 2013a)

What is clear, however, is that financialisation has dramatically accelerated the enrolment of households into debt-related instruments (e.g. via mortgages, credit cards and other means) facilitating '**financial exploitation / expropriation**' (Lapavitsas, 2013) through the process of '**exploitative inclusion**' (Sokol, 2013a, 507). Financial exploitation/expropriation' is defined as the extraction of 'financial profits directly out of personal income of workers' (Lapavitsas, 2009, 115) – occurring primarily through lending to working people who have been 'increasingly drawn into the realm of private finance to meet basic needs, including housing, consumption, education, health and provision for old age' (Lapavitsas, 2009, 146). This development is significant because, in addition to the 'traditional' exploitation in workplace, a **second 'space of exploitation'** is clearly emerging within the 'debt economy' (Fig.1). The **financial chains** (Sokol, 2015, 2017) between households, banks and states that underpin this **new space of financial exploitation** therefore require urgent attention and form the key analytical focus of this research project.

GEOFIN aims to meet this challenge while addressing a number of **crucial omissions of financialisation literature**:

(a) '*Financialisation of the state*':

To date, the literature on financialisation has paid only limited attention to the way in which the state itself is increasingly subjected to the power of financial markets and financial logics. As I will show below, this is a significant omission. Most accounts of financialisation rightly point to the fact that the states (directly or indirectly) are instrumental in creating regulatory, institutional and other conditions for 'successful' financialisation. The state is thus constructed as an important actor, facilitator and/or promoter in fostering financialisation. Active de-regulation of finance through neo-liberal policies in the US and the UK is a case in point. The importance of state in financialisation has been further highlighted through the

global financial crisis. Indeed, it was state intervention (directly and/or through central banks) on both sides of the Atlantic that prevented the whole financial system from collapsing.

To date, however, the literature on financialisation has paid only limited attention to the way in which the state itself is increasingly subjected to the power of financial markets. This is a significant omission.

Indeed, as Streeck (2013) recently argued, even the most advanced capitalist countries have been transformed, thanks to decades of neo-liberal financialisation, into 'debt states'. In the 'debt state', and in its post-crisis 'consolidation state' sequel, redistributive functions are severely curtailed by the need to reassure creditors about the state's ability to repay its debts, even if this goes at the expense of its citizens (Streeck, 2013, 155). There is no better illustration of these tensions than the current debates about the sovereign debt of Eurozone's peripheral economies (of which Greece is the most extreme example).

All of this is of crucial importance also to post-socialist states, and for a number of reasons. First, hollowed-out 'debtor states' in East-Central Europe may lack the resources to make necessary investments at national level for their long-term economic prosperity and to push their development trajectories towards more value-added, knowledge-based economies. Second, such 'debtor states' may lack the resources for an active regional policy and will find it difficult to support their less favoured regions (see also Sokol, 2013b). This may lead to growing regional polarisation with negative consequences for people in less favoured regions and for a national economy as a whole. Finally, post-socialist 'debtor states' may be forced to dismantle the last remaining remnants of the state-socialist welfare state (be it in housing, childcare, education, healthcare, pensions or social benefits). This in turn creates conditions for further financialisation of households, because many of these will be forced to take on debts to compensate for the declining state welfare. **The 'financialisation of the state' therefore cannot be omitted from the analytical framework of financialisation. GEOFIN will aim to advance our understanding of the role of state in the financialisation process by examining the 'financialisation of the state' in the context of post-socialist East-Central Europe;**

(b) 'Financialisation of finance':

The entire financialisation debate is based on the assumption that finance is gaining superiority over the rest of the economy (see above). Indeed, the accounts of financialisation in which 'finance' came to dominate the 'real economy' are commonplace (e.g. Stockhammer, 2012). There is also a tendency to describe *financial* capital as 'parasitic' vis-à-vis *productive* capital (which actually produces tangible outputs), while others describe the financial sector as having a 'despotic power' over society and economy (Pettifor, 2014). In popular discourse, this often translates into a perception that banks (and bankers) are all-powerful actors that are the movers and shakers of financialised capitalism.

However, this neglects a possibility that financial capital itself may be subject to the very forces of financialisation, including the disciplining forces of financial markets. I refer to this phenomenon as the 'financialisation of finance' (Sokol, 2015, 2017) and suggest that the picture of financialisation is incomplete without considering it and its implications. Indeed, the increasing pressure of financial markets may explain a lot about the strategies banks take, what lending policies they pursue and who (social groups) and where (geography) they

target. In other words, we cannot fully understand what social and spatial patterns of household financialisation banks create without understanding how banks themselves have become financialised. **GEOFIN aims to go beyond the state-of-the-art by initiating a novel line of research which will examine the ‘financialisation of finance’ in the case of Western banking corporations operating in East-Central Europe and will consider what implications this has for geographies of finance at regional, national as well as European levels;**

(c) Financialisation and space:

At first glance, geography may seem rather irrelevant for the study of money and finance. However, as a succession of financial geographers have long argued, money and finance are inherently geographical phenomena (e.g. Corbridge et al., 1994; Leyshon and Thrift, 1997; Martin, 1999; Clark and Wojcik, 2007; Wojcik, 2011). It is also clear that the most recent financial crisis has both geographical origins and geographical consequences (Aalbers, 2009; French et al., 2009; Lee et al., 2009; Wojcik, 2009; Martin, 2011).

So what about financialisation? The dominant debates on financialisation lack explicit engagement with space. Indeed, in most writings, the geographical dimension of financialisation is either underdeveloped or neglected altogether. As French, Leyshon and Wainwright (2011, 800) recently argued, the **literature on financialisation has been ‘insufficiently attentive’ to the role of space and place and the geography of money and finance**. This is a serious shortcoming, because **financialisation is a ‘profoundly spatial phenomenon’** (French et al., 2011, 800). They rightly highlight the fact that the literature on financialisation has so far focused on three spatial scales only (national economic space; firm/corporation; household/individual), while neglecting both local/regional and international dimensions, and often treating geography as a ‘mere empirical surface upon which processes of financialisation are enacted and inscribed’ or as an ‘abstract, spatial container of socio-economic relations’ (French et al., 2011, 808). They also argue that in order to address ‘missing geographies of financialisation’, there is a need to move ‘beyond a scalar geographical imaginary’ and towards ‘a network approach to money and finance’ (ibid, 809).

This view has been echoed by others, who see the need to understand finance as part of the networks and circuits of value (e.g. Lee et al., 2009; Pike and Pollard, 2010; Sokol, 2013a). In turn, this opens the way for **defining financialisation as an inherently spatial process**. Indeed, building on the insights by Harvey (1982, 2006) one can re-cast financialisation as ‘a search for a spatial-temporal fix’ (French et al., 2011, 798). French et al. thus argue that there is **‘an urgent need for a much more explicit conceptualisation of the way in which financialisation operates as a form of spatial fixity’** (ibid, 812; emphasis orig.). In this context, and building on Harvey’s related work on *circuits of capital* (Harvey, 1978; 1982; 2006), it has been suggested that financialisation can be understood ‘as capital switching from the primary, secondary or tertiary circuit to ... the quaternary circuit of capital’ Aalbers (2008, 149). However, it should be noted that Harvey’s original theorisation of *spatial fix* and *circuits of capital* pre-dates the acceleration of financialisation and it is not clear if simply adding a quaternary circuit of capital into the equation is sufficient to capture the full complexity of the change and its geography. **Building a geographically-informed view of financialisation is therefore an unfinished business (see Sokol, 2017).**

The lack of geographically-informed thinking also relates to the aforementioned concept of **'financial exploitation'** or **'financial expropriation'** (Lapavitsas, 2013) which has so far been discussed in *aspatial* terms only. The same applies to the debate on debt and debt economy. Lazzarato (2012, 29) rightly points out that debt is a 'mechanism for income redistribution' and that debtor-creditor relationship 'intensifies mechanism of exploitation and domination at every level of society' (ibid, 7). What this omits is the fact that the **debt-credit relationship is an inherently *spatial* relationship – involving both the transfer of values and the stretching of social relations over space – and creating 'financial chains' (Sokol, 2017) in the process. The implications of these 'financial chains' for uneven economic geographies need to be teased out** (see also Sokol, 2013a). At the moment, economic geography does not have a coherent theoretical take on debt. The lack of a coherent theoretical framework on spatialities of credit-debt, however, is a major shortcoming, especially given the crucial importance of debt in the financializing economies. **GEOFIN aims to go beyond the current state-of-the-art by building a geographically-informed conceptualisation of financialisation and specifically addressing the urgent need to develop a geographical approach to credit-debt relationships ('geographies of credit and debt') through the prism of 'financial chains'.**

(d) Financialisation and post-socialism:

A limited engagement of the financialisation literature with the post-socialist context represents another crucial omission in the field of financialisation. Indeed, the bulk of the literature is concerned with financialisation in advanced capitalist countries (US, UK, Western Europe) while neglecting other contexts, including those of 'developing' and 'emerging' countries (Becker et al., 2010; Bonizzi, 2014). As a consequence, **the extent and the way in which post-socialist 'transition' economies in East-Central Europe are linked to the process of financialisation remains under-researched and under-theorised.** It could be argued that this is a significant shortcoming. Indeed, East-Central Europe is not just another geographical context yet to be examined. **The post-socialist context is special – and qualitatively different from any other context – in that the former state-socialist societies were built on the very opposite logic to that of financialisation.** The communist project was about creating a society where money would cease to exist – they would not be needed because the caring, collectivist society would cater for everybody's needs. This contrasts with the increasingly individualistic and competitive financialised capitalism, in which money is (nearly) everything and 'financialised subjects' are expected to secure their own 'financial assets' to cover their needs or to simply survive. **The nature, scale and speed with which members of society had to re-align themselves with the new financial imperatives after the fall of state-socialism is unprecedented.** Post-socialism thus provides a context in which much can be learned about financialisation itself; the way in which it 'penetrates' pre-existing socio-economic fabrics; and with what implications for people and places. **East-Central Europe in this sense constitutes a unique terrain for frontier research on financialisation.**

Financial instruments of credit and debt that took nearly a century to emerge in the US (Hyman, 2011) were in East-Central Europe constructed from scratch and practically overnight. The scale of the challenge has been recently recognised by the International Monetary Fund (IMF, 2014, 41), noting that banks in the communist era had a purely passive role, administratively channelling resources into politically-selected tasks, while 'services

provided to the general public were very modest or non-existent'. The collapse of state-socialism left a 'vacuum in the supply of financial services' on the one hand and 'inexperienced clients' on the other (IMF, 2014, 42). This vacuum has been rapidly filled by foreign (predominantly West European) banking groups, who took over the communist banking sector. Western banks now own the bulk of the banking assets in East-Central Europe and enjoy the overwhelming market share there (Raviv, 2008; Smith and Swain, 2010; IMF, 2014). Within less than a decade, Western banks transformed the financial system in the region beyond recognition and, by the early 2000s, began to create new patterns of indebtedness by pursuing 'an aggressive strategy of expansion of cross-border lending' (IMF, 2014, 42) to the tune of US\$450 billion (IMF, 2014, 46).

The implications of these dramatic shifts have not yet been adequately addressed by the financialisation literature. Direct accounts of financialisation in the post-socialist context are very few indeed (Raviv, 2008; Becker et al., 2010; Stenning et al., 2010; Gabor, 2011, 2013; see also Bohle, 2014; Rona-Tas and Guseva, 2014; Gal, 2014); predominantly focusing on selected aspects of the change such as central banking, low-income households or credit card markets; and (with few exceptions) not considering its geographical dimensions. What all commentaries indicate, however, is that financialisation in East-Central Europe differs from that in the West. Thus Becker et al. (2010) used the term 'peripheral financialisation' when discussing Serbia and Slovakia, and Gabor (2013) described the case of Romania's central banking as 'dependent financialisation'. This echoes the notion of 'peripheral financialisation' and 'subordinate financialisation' that Lapavitsas (2013, 245 and 293) used to describe financialisation in developing countries and peripheral Eurozone countries respectively (see also Bonizzi, 2014). Meanwhile, it has been argued that Western financial expansion into Poland, Czech Republic and Hungary was 'inherently predatory' (Raviv, 2008, 311) and that Western financial institutions in Central Europe were able to 'extract rent incomes far in excess of their profits in the west' (Raviv, 2008, 299), while leaving the region increasingly indebted and economically vulnerable. In a similar vein, Smith and Swain (2010, 3) taking a macro-regional perspective on the recent crisis, suggest that East-Central Europe has emerged as a 'debtor region' and 'Europe's own "subprime" market' (Smith and Swain, 2010, 16). The sentiment about Central and Eastern Europe becoming 'sub-prime' is echoed by Gabor (2011, 2) who also argued that financialisation has left the region 'highly vulnerable to volatility in international financial markets' (Gabor, 2011, 12).

What these accounts indicate is the highly problematic ways in which East-Central Europe has been integrated into circuits of Western finance, ways which clearly go against the European Union's own goals of economic, social and territorial cohesion. This 'integration' and the transformation from 'actually-existing socialism' into 'financialised capitalism' in East-Central Europe, and the way in which this transformation has been impacting on people and places, therefore, calls for an urgent examination from a critical economic geography perspective. **GEOFIN aims to advance the state-of-the-art by providing, for the first time, and in an integrative manner, an in-depth analysis of the ways in which states, banks and households in post-socialist East-Central Europe have been financialised, how this is linked to wider financialisation processes in Europe; what new geographies that have been produced in the process at different geographical scales; and with what implications for people and places.**

3. Research questions and objectives

Key research questions:

A number of key research questions emerge from the above, all **requiring urgent attention**:

- To what extent is the process of financialisation in post-socialist East-Central Europe different from financialisation in the West and what role have state-socialist legacies played in this?
- How have Western banks managed to 'penetrate' post-socialist East-Central Europe and how is this linked to wider processes of financialisation in Europe?
- How have post-socialist states in East-Central Europe been inserted into the circuits of Western finance and with that implications?
- How have households in post-socialist East-Central Europe engaged with the new financial system?
- What role has geography (space, place and scale) played in the above processes? What implications does this have for the theorisation of financialisation?
- What lessons can be learnt from the East-Central European experience in the search of sustainable financial futures in Europe that would be compatible with the EU's commitment to economic, social and territorial cohesion?

Objectives:

In order to address the above questions, GEOFIN pursues the following interlinked **objectives**:

Objective A: To examine the ways in which post-socialist states in East-Central Europe have been inserted into the circuits of Western finance, what role state-socialist legacies played in the process and what implications this has for financialisation.

Objective B: To examine the ways in which Western banking groups managed to 'penetrate' post-socialist East-Central Europe, how this financial expansion differed from other contexts and how this is linked to wider processes of financialisation in Europe.

Objective C: To examine the ways in which households in post-socialist East-Central Europe have engaged with the new financial system, to what extent they experience financial exploitation and how this varies across different geographical settings.

Objective D: To advance theoretical understanding of financialisation based on a geographically-informed view, focusing on states, banks and households in the post-socialist context and the way in which these actors are interconnected with each other and with a wider political economy via 'financial chains' across different spatial scales (from local/regional and national to European and global) and through time.

Objective E: To assess the implications of the East-Central European financialisation experience for wider Europe and to develop alternative narratives of sustainable financial

futures in Europe that would be compatible with the EU's commitment to economic, social and territorial cohesion.

4. Methodology

GEOFIN research pilots a **novel approach** based on the concept of **'financial chains'** (Sokol, 2017). *Financial chains*, prime examples of which are credit-debt relationships, are understood both as channels of value transfer (between people and places) and as social relations that shape socio-economic processes and attendant economic geographies. **The 'financial chain' metaphor therefore has a double meaning: it connotes both the way in which actors are interconnected with financial linkages (which transfer values over space and time) and the way they are 'chained' to each other in a social relation, shaping each other's actions in the processes** (Sokol, 2017).

However, the examination of 'financial chains' (and how they contribute to financial exploitation) represents a methodological challenge because it implies a mobilisation of both quantitative measures such as financial flows (data on which are often missing) and social relations (which cannot be easily quantified). Standard quantitative approaches cannot work here. The existing data on household debt, for example, are often aggregated at the national level and even central banks and regulators have difficulties of knowing of what is happening at the regional level. Besides, the figures describe the volumes of lending advanced to households, while the 'financial chain' logic suggests that the focus should be on money flowing in the opposite direction – i.e. value extracted from households over time and across space and beyond national boundaries. What is needed therefore, is hands-on research that will try to capture the mechanisms of how 'financial chains' function in space and time.

GEOFIN aims to make first inroads into such research by mobilising a set of interlocking case studies of three groups of actors in the 'debt economy': states, banks and households. Looking separately at financialisation of states, banks and households respectively has its own merits. But the value of GEOFIN rests in its effort to elucidate the ways in which all three actors are interconnected, with each other and with a wider political economy, by financial chains; and how this produces new geographies and new spaces of financial exploitation. East-Central Europe is an excellent terrain for this, because most 'financial chains' have been created anew there.

Empirically, the project focuses on 'new' EU members – i.e. post-socialist countries with fully liberalised financial systems (which was one of the accession conditions) and thus fully exposed to the forces of Western finance. The effects of this exposure have been highly uneven both within and between countries, both reflecting, and contributing to, uneven economic and monetary landscapes of

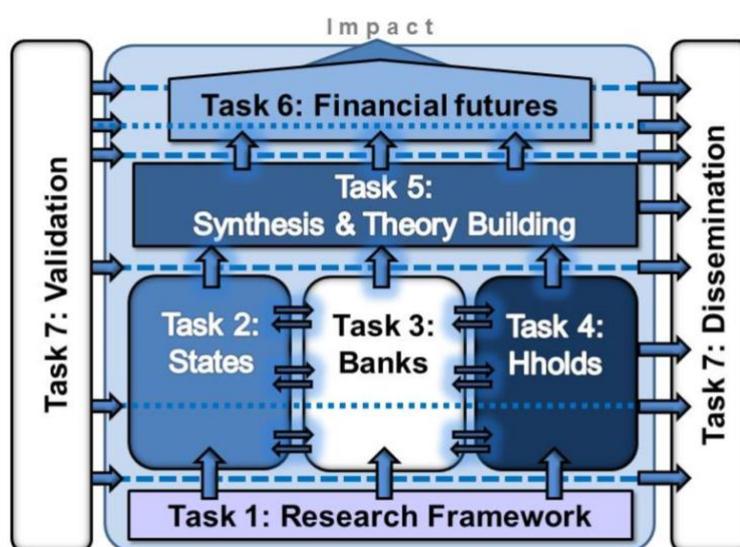


Fig. 2. GEOFIN Project Structure, Tasks & Intermediate Stages

East-Central Europe. To capture this diversity, GEOFIN aims to pilot the ‘financial chain’ approach using three national case studies, choosing one from ‘Central Europe’ (Poland, Czech Rep., Hungary, Slovakia or Slovenia; last two being also Eurozone members); one from the ‘Baltics’ (Estonia, Lithuania or Latvia; all in the Eurozone) and one from ‘South-East Europe’ (Romania, Bulgaria or Croatia; none in the Eurozone). Detailed analysis of these countries and their households will be undertaken. Simultaneously, in-depth case studies of Western banks operating in East-Central Europe will be undertaken. The project involves the following tasks (see **Fig.2**):

Task 1: Research framework - establishing working definitions, concepts and analytical categories of financialisation through an in-depth review of existing definitions of financialisation, via a series of interactive *think-ins* with the core team members and through interaction with the *Academic Advisory Panel* (AAP; see below).

Task 2: States - addressing **Objective A** by: (2.1) analysing existing secondary data (e.g. economic and financial indicators; public debt figures; sovereign credit scorings; government bonds yields; etc.) for all East-Central European countries – compared with each other and their Western counterparts; (2.2) documentary analysis of relevant ‘internal’ (domestic) and ‘external’ (EU) policy, regulatory, institutional and financial frameworks for a narrower selection of 5-6 states; and (2.3) in-depth case studies of three states, involving face-to-face semi-structured interviews with government officials; national agencies responsible for managing public debt; central banks; financial analysts; academics and local experts. In addition, further interviews can be undertaken with relevant European and international institutions (e.g. European Commission, ECB, EBRD, IMF, WB, OECD); bond market players and/or international investors.

Task 3: Banks aims to address **Objective B** by: (3.1) analysing existing secondary data pertaining to relevant Western banking groups; (3.2) documentary analysis of relevant policy, regulatory and institutional frameworks and market pressures guiding/affecting their operation; (3.3) close examination of strategies and structures of 10 major banking groups; and (3.4) in-depth case studies of the five largest banking groups and their financial flows. This can be complemented by (3.5) an analysis of a selection of sub-national banking geographies in three countries. Tasks 3.4 and 3.5 may also involve face-to-face semi-structured interviews with bank officials (both current and former; at the parent bank and the East European subsidiary) and a range of stakeholders including: industry insiders, EU banking supervisory/regulatory bodies, ECB, IMF, Vienna Initiative, industry analysts, and/or industry bodies (e.g. European Banking Federation).

Task 4: Households aims to address **Objective C**. The Task involves: (4.1) analysis of existing secondary data pertaining to the financialisation of households across East-Central Europe (e.g. mortgage markets data; credit card penetration; overall household indebtedness); (4.2) detailed analysis of local policy, regulatory, institutional and financial frameworks in 3 selected countries, complemented by semi-structured interviews with local agencies and experts in each country; (4.3) household surveys in 3 regions in each country (up to 350 households in each region); and (4.4) up to 35 in-depth semi-structured interviews with selected households in these regions.

Task 5: Synthesis & Theory Building aims to address **Objective D** by synthesising the research findings of Tasks 2-4 in an integrative way.

Task 6: Financial Futures aims to address **Objective E** through (6.1) research team *think-ins* (e.g. *brainstorming, creative scenario-building workshops*); (6.2 and 6.3) two dedicated 'Financial Futures' focus groups (with AAP/SAP members, invited experts and specialist NGOs) and (6.4) on-going engagement with wider academic community, stakeholders and the public.

Task 7: Validation and Dissemination efforts include a range of activities aimed at both validating and disseminating research findings. **Validation** can be facilitated via two panels: (a) an interdisciplinary **Academic Advisory Panel (AAP)** involving top academics in the field of financialisation drawn from the Global Network on Financial Geography (FinGeo - <http://www.fingeo.net>); (b) **Stakeholder Advisory Panel (SAP)**. Both panels will provide specialist input to GEOFIN via on-going e-communication and via meetings, international seminars, focus groups and a final conference.

5. Conclusions

While financialisation is increasingly recognised as the key feature of contemporary capitalism, a geographically-informed view of financialisation remains underdeveloped. In order to address this, GEOFIN research uses post-socialist East-Central Europe as a terrain in which to study the financialisation process and its implications for the societies in question and for Europe as a whole. The project pilots a novel approach based on the concept of 'financial chains' which are understood both as channels of value transfer and as social relations that shape socio-economic processes and attendant economic geographies. A set of interlocking case studies is being mobilised to reveal the different ways in which banks, states and households across post-socialist East-Central Europe are interconnected by financial chains with each other and with a wider political economy. GEOFIN aims to fundamentally advance our understanding of new geographies of financialisation, while opening up new horizons in studies of finance and its future role in the society.

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Western Banks in Eastern Europe: New Geographies of Financialisation

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