

Financialisation, West European banking
groups and postsocialist transformation in
East-Central Europe: Geographies of
subnational banking in Croatia

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Declaration

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Dedication

I dedicate this dissertation to my extraordinary twin daughters, the motivating force behind its every word.

Summary

The overarching aim of this dissertation is to examine the main drivers and manifestations of financialisation in the East-Central European periphery after the collapse of state socialism. To do this, the dissertation takes Croatia as a case study and delves into the role of West European banks in transforming the banking sector at the subnational level. In particular, the dissertation addresses the following main questions: ‘How have West European banks managed to ‘penetrate’ postsocialist Croatia and how has this transformed Croatian banking?’; ‘How do West European banking groups organise their retail banking operations in Croatia?’, and ‘What lending strategies do West European banking groups pursue across the country?’.

The dissertation adopts a mixed-method approach to studying the selected case study of West European banking groups in Croatia. The geocoding methods were adopted to trace the branch locations and flows. More specifically, the Geographic Information System (GIS) and spatial analysis are used to capture, analyse, and present the data on the West European bank branch network in Croatia. The quantitative data is supplemented by multi-method qualitative approaches, namely, document review and interviewing. The relevant qualitative information is primarily obtained via elite and expert interviews with bankers, financial experts, and the officials at the Croatian Central Bank, as well as through the analysis of banks’ balance sheets and financial reports.

The dissertation's central argument is that integrating the Croatian domestic banking system into European and global ‘financial chains’ has been an intrinsically uneven process, which fragmented subnational banking geographies and contributed to increasing inequality across regions. Accordingly, the dissertation finds that, first, mid-tier, West European banks, primarily from geographically proximate countries of Italy and Austria, penetrated the region by exploiting the local financial crises that followed the fall of the socialist regime, often choosing to purchase existing, well-established banks. In doing so, the West European banks established a radically different financial regime than the one that existed prior to their entry, as they transformed the Croatian banking landscape into a shareholder-oriented, distantly governed, highly concentrated, and homogenous financial system dependent on parent bank structures. Second, the transformation of Croatian banking is reflected in the resultant reorganisation of retail banking operations, as the bank branch network shrunk and abandoned previous agro-industrial regions for coastal tourism regions, influenced by the changing earning logic from productive to asset-price-based

profit. Finally, following the new financial logic, banks refocused their lending strategies towards households and, above all, housing with state subsidies, thus establishing an important financial chain between the state, parent banks, and households, through which the value flows from states and households towards foreign parent banks. This redirected lending towards regions where real estate is expected to appreciate, such as coastal tourism regions, which deepens existing regional inequalities between regions and creates new imbalances with the changing economic structure of the country.

The research concludes that the rise of financialisation driven by West European banks has been a critical force in shaping and deepening patterns of geographic inequality in Croatia. Specifically, while some regions grew from FDI and access to credit, others lagged behind, increasing the economic gap between them. In broad terms, the dissertation contributes to understanding how the expansion of West European banks in East-Central Europa and the integration into financial chains has shaped the financial system in these countries, increasing regional asymmetries and systemic economic vulnerability.

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Chapter 1. Introduction

1.1 Research problem

The impetus for this dissertation comes from the recognition that the small banking subculture holds an immense world power and that the structure of this power remains poorly understood. Several authors have started pointing out the significance that banks do not just lend money; by lending it, they create it. The power to create money gives banks immense influence over the economy and society as they determine where and how money is allocated (Graeber, 2011; Ryan-Collins et al., 2011). This gives the banking industry a unique social position; with banks creating, collecting, and allocating resources, the banking industry acts as a gatekeeper for new economic and social value creation. To begin understanding the banking industry's power structure, the dissertation hopes to start peeling the layers of the banking industry itself.

With the research motivation mentioned above, this dissertation focuses on a specific aspect of the banking system – West European parent banks and their East-Central European subsidiaries, during a specific time frame, the postsocialist transformation. Given the literature's assertion that the process of financialisation is the key defining characteristic of the current capitalist transformation (e.g., Harvey, 2010; Sassen, 2010; Hall et al., 2015), the overarching aim of this dissertation is to comprehend ‘What are the primary drivers and manifestations of financialisation in the East-Central European periphery?’ With this in mind, the dissertation dissects this capitalist shift in postsocialist banking and underscores the role of West European capital in reshaping the local banking landscape. To achieve this, the dissertation selects an illustrative case study – Croatia, and delves into the country's postsocialist banking transformation, guided by the West European banks.

Having outlined the dissertation's primary motivation, topic, and research aim, this introductory chapter proceeds to establish the framework of the dissertation through the following chapter structure. Section 1.2 Background of the study aims to position the dissertation within a socio-historical context and the body of relevant academic literature, thereby providing the research's background. The dissertation's main contribution lies at the intersection of the financialisation and banking geography literature. Hence, these areas of knowledge are briefly introduced, and the research problem is situated within broader discussions in these fields of study. Section 1.3 Research aims and research questions elaborate on the dissertation's research aims and introduce the research questions that arise

from it. In doing so, the section narrows the dissertation's focus to specific aspects of West European banks' influence, particularly the transformation of local banking infrastructures, including branch geography and lending strategy. Finally, Section 1.4, Structure of the Dissertation, outlines the dissertation's organisation into chapters and explains how each chapter addresses the research questions and supports the dissertation's arguments, additionally providing a brief overview of the dissertation's overall findings and contribution to knowledge.

1.2 Background of the study

This section introduces the research theme of this dissertation in more detail. It situates it within a historical and spatial context and, secondly, within a body of relevant academic literature. Regarding the former, the dissertation sits at the pivotal moment of East-Central European countries breaking away from socialism and the related profound disruptions and reconfigurations of the economy and society. The goal is to situate the banking transformation within this spatiotemporal context and observe the role of West European bank-driven financialisation at the core of the banking transformation in the postsocialist era. Regarding the latter, the dissertation's main contribution sits at the nexus of the financialisation and banking geography literature. Thus, these bodies of knowledge are briefly introduced, and the research problem is positioned within larger discussions in these fields of study.

Socio-historical context

The dissertation sits at the point of the East-Central European countries' break from socialism, when 'the existing strategies of subsistence, social relations and modes of social reproduction were disturbed, reconfigured and radically altered' (Lazarus, 2012, p.127). This period of transformation and the subsequent formation of the postsocialist new world opened an unparalleled opportunity for learning about transition economies and Western economic and political forms by seeing them through the eyes of those experiencing their very construction. The focus of the dissertation centres on Croatia as its case study. With this in mind, the dissertation identifies and describes several key socioeconomic transformations throughout Croatian postsocialist transformation, described as follows. The first set of transformations is associated with the collapse of Yugoslavia and the establishment of Croatia as an independent country. The new state formation marks a fundamental political shift, marked by the creation of new state institutions, national

identity, and political sovereignty influencing economic policies, governance structures, and social relations. The second set of shifts concerns the transformation from a Yugoslav variant of self-managed socialism to neoliberal capitalism, the process distinguished through the advancement of privatisation, deregulation, and market liberalisation. This also entailed redistribution of ownership, the emergence of new business elites, and the loss of public assets, all contributing to a reconfiguration of power relations and wealth in society. While not extensively elaborated upon in the dissertation, Croatia's War of Independence (1991–1995) deserves mention in shaping the trajectory of economic and political reforms at the point of the state changeover. The war marks a critical feature of Croatia's development trajectory in this period by displacing the population, disrupting territorial cohesion, and leading the new country into long post-war reconstruction, specifically in regions heavily affected by the conflict. The reconstruction and broader integration into global structures, particularly Croatia's accession to the European Union (EU), exposed the country to pressures from international financial institutions, such as the IMF and World Bank, particularly in terms of debt, austerity, and structural reforms. This involved complying with EU standards, changing legal frameworks, and adopting neoliberal economic policies aligned with West European systems.

The rise of financialisation in Croatia occurred alongside these broader sociopolitical and economic reforms. Under these considerations, the dissertation explores how variegated financialisation emerged in Croatia, grafting onto its postsocialist transformation.

In this context, the transformation of the banking sector serves as a key example of how financialisation integrated with, intensified, captured, and reoriented other changes occurring in Croatia during its postsocialist transition, shaping the country's economic trajectory together. Specifically, through the financialisation of the banking lens, the dissertation captures financialising pressures exerted over postsocialist banks as they became increasingly inserted into circuits of global finance. Through this process, postsocialist banking is construed not just as agents of financialisation but also as their objects. In this political and socioeconomic context, banking in Croatia transformed. Today, Croatia has a 'bank-centric financial system' (Dumičić, 2015, p.172), in which West European retail banks play the dominant role through local subsidiaries, with this being a common characteristic in most East-Central European countries (Sokol, 2017a). Echoing what literature (Bohle, 2017, p.4) describes as typical for the East-Central European transitions, privatisation through foreign ownership has also been a critical transformation

strategy for Croatian banking. This led to West European capital playing a vital role in the local banking transformation and integration of local subsidiaries into wider European and global financial chains. To understand the constitution of contemporary banking geography in Croatia, the dissertation provides a detailed account of the postsocialist transformation of retail banking operations in three decades of Croatian transition.

The dissertation focuses on two banking transformations: the transformation of banking infrastructure and the transformation of financial service provision. In this regard, the dissertation first looks at the structural transformation of the banking system. Notably, it follows the changes in banking ownership, from public to private and domestic to foreign, documenting the impact on bank branch networks and branching strategies. Furthermore, the dissertation looks at the upscaling and consolidation processes, with the decreasing number of increasingly distant owners controlling Croatian banking, and the impact of this on investment decisions and regional development. Secondly, the dissertation looks at the transformation of the bank's key financial service, lending. Within this, the dissertation follows the massive expansion of credit, particularly to the household sector and, overall, for housing and consumer purposes. In doing so, the dissertation highlights a pattern of dependent, financialised, and credit-led development which informed this postsocialist transformation of Croatian banking and explores drivers and manifestations of financialisation in Croatian banking.

Research context

The dissertation concurs with the existing literature suggesting that financialisation is a critical feature of capitalist penetration into East-Central Europe's 'transition economies' (Becker & Četković, 2015, p.71). While there are several definitions of financialisation found in the literature, perhaps the most encompassing one outlines financialisation as '[t]he increasing dominance of financial actors, markets, practices, measurements, and narratives, at various scales, resulting in a structural transformation of economies, firms (including financial institutions), states and households' (Aalbers, 2016, p.2).

However, while there is a substantial and growing literature on the financialisation of states, firms, and households – too few studies have given attention to the financialisation of financial institutions such as banks. As Sweeney rightfully notices, while the 'transformation of banking is the defining feature of financialisation,' it has yet to be adequately explored (Sweeney, 2019, p.1053). One could argue that it first had to be financialised before the financial system could start inserting and orchestrating

financialisation processes across different systems. In other words, financial institutions can act both as agents of financialisation and as its objects. Thus, aiming to explain how financialisation penetrates and manifests itself in the East-Central European periphery, this dissertation examines the postsocialist transformation of local financial systems, using Croatia as the case study.

Building on the literature that considers how financialisation latches onto the process of capitalist expansion (e.g. Pike & Pollard, 2010, p.32; Lapavistas, 2013, p.794) and being informed by Harvey's concept of spatial fix, the dissertation detects this West European bank-led expansive dynamics of financial capital as the 'new imperial moment' whereby West European finance comes to dominate new territories in East-Central Europe through regional and financial crises (Harvey, 2003). These expansive tendencies of finance act on earlier forms of subjugation (see Harvey, 1981; 2001). Thus, financialisation represents yet the most recent instrument supporting the historically entrenched pattern of wealth.

In this context, the financial integration of East-Central Europe into broader European and global financial flows appears to be subordinate (Kaltenbrunner & Paineira, 2018). East-Central Europe became a net recipient of capital inflows (Smith & Swain, 2010, p.6), first in the form of FDI and, after it acquired the financial sector, credit capital. Thus, East-Central Europe emerges as a debtor region, dependent on importing capital, which comes with the need for policies geared towards attracting foreign capital, such as high interest rates (Becker et al., 2010, p.228) and, often, foreign-currency denominated loans with overvalued exchange rates (Smith & Swain, 2010, p.16). Debt dependence pressures the production sector, as domestic currency remains highly overvalued to ease the debt return (Becker et al., 2010, p.235). In this context, the East-Central European region faced massive de-industrialization and destruction of the productive sector (Bohle, 2017, p.6), which positions households as a key new debtor (Erturk et al., 2008, p.553). Indeed, Western credit is today primarily oriented towards financing private debt and domestic consumption (Erturk et al., 2008, p.554). Moreover, the weak productive sector results in further dependence on imports of not just the Western capital but also Western consumption products. These dynamics led Smith and Swain to call this region 'Europe's subprime market,' characterised by high credit-fuelled domestic consumption inflating asset prices, which creates an illusion of economic growth (Smith & Swain, 2010, p.16). To advance the theoretical understanding of financialisation in peripheral economies, the

dissertation examines whether and how these processes translate to the case study of Croatia.

Household lending and, above all, the real-estate/financial complex, as most prominently theorised by Aalbers, form the backbone of the new economic and social relations in financialised capitalism (Aalbers, 2016; Van Loon & Aalbers, 2017; Hofman & Aalbers, 2019), rendering the household mortgage market the critical new geography of financial exploitation. In other words, increased lending to households, much of which has been in mortgage lending, is a crucial element of the banks' strategic reorientation towards unproductive credit creation. Since consumer credit does not generate new value in the form of new products or services, the result is the accumulation through placing claims on existing value, through extraction, or, some would argue, interest as a form of rent. In effect, banks profit through asset and consumer price inflation, the phenomenon that literature famously dubs 'profiting without producing' (Lapavistas, 2013).

Building on the concept of 'financial chains' (Sokol, 2017), the research considers credit and debt dynamics as a fundamental structure of the uneven power between the European West and its East-Central European periphery. Financial chains are 'channels of value transfer, as well as social relations that shape socio-economic processes over space and time' (Sokol, 2017). The literature points out that a lesson learned from other global subprime markets is that the consequences of this form of dependent financialisation could be problematic (Nölke & Vliegenthart, 2009; Becker et al., 2010; Bohle & Greskovits, 2012). The concerns range from household vulnerabilities in a regime where basic needs, such as housing or retirement income, must be fulfilled through participation in the financial markets to uneven development between regions in supposedly united Europe (Pike & Pollard, 2010).

The dissertation further explores how uneven financial development plays out at the subnational level through financial exclusion and predatory inclusion. Financial inclusion is a process by which individuals and businesses can access financial products, services, and institutions. It is facilitated through branch and lending geographies and policies. Predatory inclusion, a form of financial inclusion whereby vulnerable households may be drawn into predatory lending contracts (Pollard, 1996), is detected by comparing geographic differences in lending criteria.

In this context, it is essential to recognise that financialisation is inherently a spatial process (French et al., 2011), and attention ought to be paid to geographic issues of location, concentration, distribution, organisation and other spatial aspects of banking and lending.

By exploring these aspects in the context of Croatia, this dissertation aims to contribute to the field of financial geography while responding to the call by Hardt and Negri to start making sense of how capital functions across a wide variety of scapes and scales (2018, p.440).

1.3 Research aim and research questions

As previously indicated, using Croatia's case study, the dissertation seeks to contribute to debates on how financialisation plays out in the specific context of transition economies. More specifically, the dissertation explores the rise of financialisation, driven by West European parent banks, and the related transformation in the local banking sector, consisting of changes in banks' geographies and lending practices, as the defining features of the capitalist turn in Croatia after the collapse of the socialist regime. With this in mind, a set of specific research questions has been formulated to investigate postsocialist debtscapes and subnational banking geographies through a case study of Croatia. These research questions are outlined in Table 1.

Research aim: What are the main drivers and manifestations of financialisation in the East-Central European periphery? A case study of West European banking groups in Croatia.
RQ1. How have West European banks penetrated postsocialist Croatia, and how has this transformed Croatian banking?
RQ2. How do West European banking groups organise their retail banking operations in Croatia?
RQ3. What lending strategies do West European banking groups pursue in Croatia?

Table 1 Research aim and research questions. Source: Author.

The research for this dissertation has been undertaken as part of a bigger European Research Council-funded project, GEOFIN.¹ The dissertation's research questions thus fall under one of the leading research questions of the GEOFIN project: 'How have Western

¹ GEOFIN is a 5-year project that examines the way in which Western banks conquered Eastern Europe following the collapse of communism. East-Central Europe is being used as a laboratory to understand how finance penetrates every nook and cranny of post-communist economies that were previously built on completely opposite principles. GEOFIN is led by Dr Martin Sokol and funded by the European Research Council (ERC) Consolidator Grant (Project 683197). See more: www.tcd.ie/Geography/research/gof/GEOFIN.php

banks managed to penetrate postsocialist East-Central Europe, and how is this linked to wider processes of financialisation in Europe?’ (Sokol, 2017a). The section outlines the dissertation’s research questions.

The first research question (RQ1), ‘How have West European banks managed to penetrate postsocialist Croatia, and how has this transformed Croatian banking?’ emerges from the nexus between commercial banks and their parent banks, where it is hoped that the interrogation into temporal and geographical points of entry helps us understand the reproduction of financialisation in East-Central Europe using Croatia as a case study. With this research question, the dissertation aims to contribute to the current knowledge of the economic and social processes by which financial capitalism reproduces itself and how it constitutes a qualitatively different banking system.

Furthermore, paired with the insights that financialisation is remaking the face of East-Central Europe’s economic landscapes (Becker et al., 2010, pp. 231-232), the dissertation explores the organisation of West European banking groups’ retail banking operations in the postsocialist space, as well as the provision of financial services to households, with a focus on lending. Two research questions emerge in connection with this research aim. The second research question (RQ2), ‘How do West European banking groups organise their retail banking operations in Croatia?’ concerns the spatial pattern of West European bank branch networks in the postsocialist context. This is an essentially geographic question exploring subnational bank branch networks in Croatia, the branch network’s historical changes, drivers that influence the bank branch network, and the ultimate layout of the now-transformed country’s banking space.

Finally, the third research question (RQ3), ‘What lending strategies do West European banking groups pursue in Croatia?’ concerns the role of West European banks’ lending strategies in reflecting and contributing to the transformations of the Croatian banking system. Thus, the research question concerns local lending policies, how these policies translate into concrete lending decisions, how these lending policies and decisions are informed by uneven geographies, and how, in turn, these lending strategies and emerging debtscape contribute to uneven regional development.

Following conceptualisations that financialisation is a structuring mechanism of core-periphery relations and the core infrastructure of global relations of dependency (Posfai, 2018, p.13), the dissertation offers additional insights into credit and debt dynamics described above as the fundamental structure of the uneven power between the European West and its East-Central European periphery. The aim is to point to channels of value

transfer between the European West and East-Central European periphery and to conceptualise what this means for their evolving relations. While this discussion is beyond the scope of a research question, initial insights will be offered on how the above financialisation processes in Croatia are linked to broader financialisation processes in Europe and what consequences affect the financial stability of Europe as a whole. Moving forward, the following section introduces the structure of the dissertation.

1.4 Structure of the dissertation

The dissertation is organised into seven chapters. Following Chapter 1, ‘Introduction,’ Chapter 2, ‘Literature Review’ analyses two separate strands of literature that inform this dissertation – the literature on financialisation and banking geographies. The dissertation detects a gap in the conversation between these two strands of literature, as it remains underresearched how the financialisation, driven by West European banking groups, transformed the banking sector in East-Central Europe following the dissolution of socialist economies and the region’s integration in European and global financial chains.

Chapter 3, ‘Methodology’, accounts for the dissertation’s research design. The Chapter outlines the research questions and describes quantitative and qualitative methods that were mobilised to address them. Specifically, the dissertation adopts a mixed-method approach to studying the selected case study of West European banking groups in Croatia. The geocoding methods were adopted to trace the branch locations and flows. More specifically, the Geographic Information System (GIS) and spatial analysis are used to capture, analyse, and present the data on the West European bank branch network in Croatia. The quantitative data is supplemented by multi-method qualitative approaches, namely, document review and interviewing. The relevant qualitative information is primarily obtained via elite and expert interviews with bankers, financial experts, and the officials at the Croatian Central Bank, as well as through the analysis of banks’ balance sheets and financial reports.

Chapter 4, ‘The Transformation of Croatian banking,’ addresses the first research question, ‘How have West European banks managed to penetrate postsocialist Croatia, and how has this transformed Croatian banking?’. The chapter explores the changes that took place in Croatian banking during the period of postsocialist transformation and examines the role of West European capital in facilitating these changes. Chapter 4 begins by providing an account of Yugoslav socialist banking preceding the postsocialist transformation – socialist self-management, where socialist corporations and their workers

acted as bank owners and banking aimed to supply parent corporations with credit money. After that, Chapter 4 describes the process of West European banking groups' acquisition of the domestic banking sector and the structural changes in branching and lending that ensued. The Chapter argues that the West European capital is constitutive of the financialisation in the East-Central European countries. To illustrate this, Chapter 4 demonstrates processes of spatial fixity that pushed mid-sized West European banking groups in search of better profit margins and unsaturated markets into postsocialist territories. The West European banking groups profited from the local financial crises, variously ignited by the downfall of the socialist regimes, using political and economic instability to obtain much of the domestic financial system in countries across the postsocialist territories. Using Croatia as a case study, the dissertation maps the radical changes that have taken place in the Croatian banking system during the period of foreign bank entry and argues that West European capital established a qualitatively different financial system during the years of their entry. With that, financialisation processes in Croatia act as a West European banks' import, however, in translated form, as the financialisation processes have been transcribed onto spaces with already existing socio-economic make-up that shaped the form financialisation takes in these places. Nevertheless, through these financialisation processes, the postsocialist banks in Croatia became inextricably intertwined with wider European financial chains. Under the umbrella of the financial chains approach, the chapter illustrates the newly developed power relations between West European banks and their subsidiaries and instrumentalises forms of value extractions from, primarily, households to West European banking groups via their subsidiaries. Finally, Chapter 4 serves as a springboard for the subsequent chapters, which explore aspects of Croatian banking in more detail.

Chapter 5, 'The geographies of the bank-branch network in Croatia,' addresses RQ2, 'How do West European banking groups organise their retail banking operations in Croatia?' This chapter, using geocoding methods and analyses, provides a detailed overview of the Croatian bank branch networks, while interviews reveal the logic that informs these geographic branching patterns. In other words, Chapter 5 aims to elucidate the factors that compel banks into specific areas and push them away from other areas. The chapter argues that branches have highly concentrated branch geographies, with bank herding, defined as banks following each other across the territory, featuring high among the characteristics of the new postsocialist banking. This contrasts the regional banking characteristic of the socialist banking period when banks occupied their isolated geographic

and clientelist niches. Moreover, to reveal branching patterns, the dissertation maps branches of various West European banks in Croatia and reveals that there are three key branching patterns – metropolisation, the concentration of branches in and around major cities; suburbanisation, the concentration of branches in residential areas around major cities, and littoralisation, the concentration of branches along the coast. Furthermore, the chapter observes how these spatial patterns have changed over time. Here, the chapter notices that the branch network experienced strong contraction during the period of local financial crisis coinciding with the foreign-bank entry in the late 1990s, with further waves of contraction occurring at the points of mergers and acquisitions of small, regional banks by foreign banking systems. The branch network increased during the 2000s credit boom and continued to shrink ever since the global financial crisis. However, the branch network contraction is a highly uneven process, with several banks continuing to expand into coastal Adriatic Croatia, while most of the branch closures are taking place in agro-industrial regions, such as Slavonia. The chapter then turns to the main drivers of these spatial patterns and notices several branch success indicators governing branch openings and closures, with branching strategies primarily devised in parent bank headquarters. All in all, research shows that banks prioritised regions where financial chains were more stable and established, enabling profit extraction in the shorter term and with lower risks. The chapter illustrates how this has transformed the postsocialist banking space, describing a highly concentrated, oligopolistic, and financialised bank branch network. With that, the dissertation will observe how the banking transformation is reflected in banks' financial services, primarily lending, in the following chapter.

Chapter 6, 'Bank lending strategies in Croatia', observes plans and approaches towards West European banks advancing their business in Croatia, both geographically and in terms of the structure of products and services banks offer. The chapter was written to answer RQ3. 'What lending strategies do Western banking groups pursue in Croatia?'. To answer the question, the chapter observes the policies that West European banks follow and discovers a concrete set of rules that guide individual banks' lending decisions, including how they calculate creditworthiness and where they draw a line between whom they lend to and whom they refuse. The policies follow a strict chain of command, with guidelines devised in parent banks and fluctuating with parent bank goals and circumstances. Moreover, by being integrated into these massive foreign bank systems, Croatian subsidiaries' lending is measured against other subsidiaries in the banking group, which creates a long and potentially vulnerable financial chain existing across different

socio-economic contexts and impacting everyone along the chain. The chapter asks how all this translates into real-life lending decisions: Who is excluded/included, and on what terms? The chapter finds that West European banks developed household lending, which was almost non-existent before foreign bank entry. Conversely, the chapter found a lack of bank capital for the real economy sectors and SMEs. However, even in the seemingly dominant household lending, the chapter finds geographic unevenness and social inequality in households' access to finance, which the chapter describes through financial exclusion processes. Finally, the chapter finds that uneven geographies inform these lending policies and decisions and describes socioeconomic characteristics that attract bank money into different regions or repel it. Previously mentioned processes of metropolisation, suburbanisation and littoralisation feature prominently in West European lending strategies, showing a neat overlap between banks' branch networks and lending strategies. Overall, the chapter unearths the redirected lending towards regions where real estate is expected to appreciate, such as coastal tourism regions, which deepens existing regional inequalities between regions and creates new imbalances with the changing economic structure of the country.

Chapter 2. Literature review

As previously outlined in Chapter 1, this dissertation examines the main drivers, manifestations, and outcomes of financialisation in the East-Central European periphery after the collapse of state socialism. To do this, the dissertation takes Croatia as a case study and delves into the role of West European banks in transforming the banking sector at the subnational level. In doing so, the dissertation engages with two interrelated but distinct strands of literature: the literature on financialisation and, more specifically, the literature on the financialisation of finance and peripheral financialisation, alongside banking geography literature, with a focus on the geographies of post-socialist financial transformations in Croatia and the broader East-Central European region. The aim of Chapter 2 is, thus, to review these two strands of literature, explain how they variously informed the dissertation, and where the dissertation detects gaps in the literature.

The analysis of financialisation literature offers insights into the broader global phenomenon of financialisation, elucidating its underlying mechanisms, drivers, and implications for various economic sectors and regions. This body of work provides invaluable theoretical frameworks and analytical tools to comprehend the intricate processes through which finance and financial institutions exert their influence and reshape socioeconomic landscapes. Moreover, the financialisation of finance literature explores how financial institutions become subject to financialising pressures, thus construing them not just as agents of financialisation but also as their objects. Finally, drawing on arguments from peripheral financialisation literature, which posits that financialisation manifests differently in global peripheries compared to traditionally researched core areas, the literature review explores studies of financialisation in Croatia and the wider East-Central European region. The goal of reviewing this body of work is to uncover the unique dynamics and challenges faced by countries in the periphery and their implications for regional integration and development.

Concurrently, the study of banking geography sheds light on the spatial dimensions of banking, highlighting the geographic distribution of financial

institutions, their networks, and the resultant economic geographies. By exploring the spatial organisation of banking activities, this literature elucidates how geographical factors intersect with financial dynamics, shaping patterns of branching and lending, and with what implications for socioeconomic development.

In synthesising these two strands of literature, the dissertation discerns a significant gap: the precise mechanisms through which West European banks drive financialisation in East Central Europe and in what ways financialisation manifests in East Central Europe. While existing research provides insights into the overarching trends and outcomes of financialisation, there remains a notable dearth of analysis regarding the specific strategies, channels, and impacts of West European banks' involvement in driving financialisation within the context of East Central Europe, following the dissolution of socialist economies, as well as the implications of this for the region's integration in European and global financial chains.

The structure of the chapter unfolds as follows. Section 2.1 reviews broader theoretical approaches to financialisation, unpicking its different interpretations and conceptual limits while particularising how the concept is used in the dissertation. Section 2.2 focuses on the approaches related to the financialisation of finance, using the concept of the financial chain as its backdrop. Section 2.3 explores the concept of peripheral financialisation, examining how financialisation manifests differently in global peripheries compared to traditionally researched core areas. This section also situates the dissertation's case study, Croatia, within the context of peripheral financialisation in the wider East-Central European region. In Section 2.4, the literature on the geographies of banking is thoroughly reviewed, providing insights into the spatial dimensions of banking activities and their implications.

2.1 Theoretical approaches to financialisation

While there are several definitions of financialisation in the literature, perhaps the most encompassing one, building on the work of Epstein, outlines financialisation as '[t]he increasing dominance of financial actors, markets, practices, measurements and narratives, at various scales, resulting in a structural transformation of economies, firms (including financial institutions), states and households' (Epstein,

2005, p.3; Aalbers, 2016, p.2). This definition is developed broadly to capture a broad scope of interpretations and applications of financialisation emerging from the literature. With this definition in mind, this section of the literature review establishes the broader context of the dissertation by outlining the fundamental theoretical approaches and concepts that help us understand financialisation and its dynamics from the economic geography perspective and related disciplines.

In the broadest terms, the dissertation is situated within the literature, theorising the socioeconomic transformations taking place within the context of the collapse of socialism(s) across the globe. The ensuing postsocialism(s) are interpreted not as spatially and temporally anchored in the post-1989 Eastern Bloc but as a global condition characteristic of the changes in the contemporary capitalist economy. By aligning with this anti-particularising interpretation of postsocialism or, as Beller calls it after Wolfe, a structure, not an event (Beller, 2017, p.250), the dissertation infuses the period of postsocialist transition with analytical potency. As Chari and Verdery argue, when postsocialism is interpreted as more than just a chronological designation, the focus shifts from a mere recollection of the social upheaval to spatial and temporal disorientation that point to both profound transformations and continuations in global power relations (Chari & Verdery, 2009, p.11). In other words, in the context of the dissertation on the postsocialist banking transformation, it becomes imperative to question who lays down rules of exchange and how these rules become legally enforceable and come to permeate social obligation and the cultural value system. The context of East-Central European postsocialism does theoretical work by serving as a laboratory for investigating the systemic transformation of economic processes in an accelerated form. In turn, the chapter establishes a framework for analysis of the postsocialist transformation.

With a focus on postsocialist transition as a global condition rather than a localised event, financialisation arguably represents a powerful framework for interpreting this change. In other words, financialisation stands out as an analytical entry point that aims to explain global socioeconomic changes, specifically through the lens of finance and associated power structures. Indeed, several prominent authors have detected that the pivotal moment in recent history is the increasing implications of finance on economic production and, later theorised, social reproduction. The concept first emerged from political economy tradition attempting to account for the transformation of capitalism in late 19th-century industrialisation.

First iterated by Hilferding as ‘Finanzkapital,’ or ‘financial capital’ in translation, the financialisation of the period emerged in the form of monopolistic capitalist cartels created through a fusion of banking and industrial capital (Hilferding, 1910). Particularly, Austrian and German banks, also the centrepiece of this dissertation, captured economic and political power by amassing and concentrating key industries. These resultant industrial conglomerates, resembling structures from oligopolistic economic and social systems, became the signature of the new capitalist phase. Simultaneously, financial capital that fuelled the industries instituted finance as the new driving force exercising control over the economy. Powerful banking groups controlled capital flows, investment decisions, and allocation of resources between the industries, thus exerting key influence on the overall functioning of the economy and society. By observing the growing importance of financial markets in industries and the centralisation of economic power in banks, Hilferding notes that the economic focus shifted from production to financial speculation. From there, the author criticises financial speculation as an instrument for establishing excessive asset-based growth and, resultantly, speculative bubbles that burst in the form of financial crises, not unlike what the world witnessed again during the GFC, one of the crises this dissertation also aims to observe in the context of the case study of the postsocialist banks in Croatia.

Many contemporary political economy theorists faithfully follow Hilferding’s ideas and continue discussing financialisation as something pertinent to capitalism, often interpreting the phenomenon as its newest phase or, differently said, a structural shift within capitalism (Lapavistas, 2009). The famous definition of financialisation emerged from this tradition, as Epstein, focusing on questions of power and its distribution within capitalism, notices financial structures posing an overwhelming influence on other economic sectors (Epstein, 2005, p.3) and becoming too large in comparison (Epstein & Crotty, 2013). This process of financial institutions growing in size and importance to the point of becoming critical economic actors has commonly been called ‘financial deepening’ in works preceding financialisation literature, often bearing positive connotations. However, the concept of financialisation brings a critical perspective to the same or similar processes, drawing attention to questions of corollary socioeconomic changes, including real sector disinvestment and regional inequalities, guiding some of the critical themes of this dissertation.

To operationalise the definition of financialisation, theorists emerging from this tradition focus not solely on the growth of financial intermediation, as illustrated above, but also on the specificities of processes through which financialisation expands and exerts controls over other economic sectors and the overall direction of the economy. The common denominator of these strands of literature is detecting changes to what Van der Zwan captures under the term ‘regimes of accumulation’ (Van der Zwan, 2014, p.99), specified as a sociohistorical pattern of economic growth, capital investment, and distribution of wealth existing at a particular point in time. In the regime of financial capitalism, which Van der Zwan and others pose as the current regime of accumulation, financial activities act as critical drivers of overall economic growth, and relatedly, financial institutions are key facilitators of it. The phenomenon is well conceptualised in Boyer’s notion of a ‘finance-led growth regime’ (Boyer, 2000). In the fashion of other regulation theorists building on the work of Aglietta, Boyer develops empirical models to measure, analyse, and illustrate relationships between financialisation and other economic phenomena to depict its increasing influence (Aglietta, 1979; Boyer, 1990). In doing so, Boyer observes shifts from wage-labour nexus to an emerging multitude and variety of financial market institutions, as well as changes in firm governance that now privileges shareholder value, a monetary policy whose aim becomes establishment and enablement of financial markets, the changing role of government towards fiscal restraint and implementation of international financial norms and, finally, increasing enrolment of households into circuits of finance in various ways. These constitute some of the critical indicators of financialisation that this dissertation later uses to observe the phenomenon in the selected case study.

Perhaps the most relevant indicator of financialisation for this dissertation is the firm’s shareholder value orientation. Boyer (2000) proposes that an equity-based regime is the high point of the finance-led regime outlined above, referring to an economic system where the distribution of wealth and resources are primarily based on equity or ownership stakes in various assets, such as stocks, shares, real estate, and other financial instruments. The concept of an equity-based economy is often associated with shareholder capitalism, where the interests of shareholders and the pursuit of shareholder value play a central role in shaping firm behaviour and economic outcomes. Firstly, shareholder value is given to stockholders, measured as the stock market's share price performance. Effectively, shareholder

value measures the firm's ability to profit and secure returns to its investors (e.g., Williams, 2000; Williams et al., 2000). In short, profits are construed as the sole criterion by which shareholders judge a firm's business. First put forward by Friedman in an epochal essay that makes a direct relationship between the corporate increase of profits and social responsibility (Friedman, 1970), shareholder value orientation has been predominantly informing firms' governance and management ever since the 1970s, redirecting labour and resources towards increasing earnings per share, inserting itself as a dominant regime of value.

Financial geographers approach shareholder value from a predominantly critical perspective. Most relevantly captured by Froud, equity distribution and the ability to participate in financial markets vary widely based on income, wealth, access to capital, and institutional arrangements. The concentration on shareholder value perpetuates the wealth inequality between shareholders and other stakeholders, as financial gains are primarily targeted to benefit those who own the assets, but not those variously impacted by the businesses, such as workers, customers, the environment, or the communities where businesses operate (Froud et al., 2000). In fact, through the discussion on regimes of economic value, anthropologist Graeber and economist Mazzucato both discuss in different ways how shareholder value may contradict the values of other stakeholders. In his critique of shareholder-centric value, Graeber suggests that the focus is narrowed down to financial returns for a small group of people and fails to account for what workers, the environment, or the wider society deem valuable. On the contrary, shareholder value, which often brings cost-cutting measures, such as lay-offs, business relocation, or closure, may contradict what workers and wider communities deem valuable, such as stable employment or income businesses attract to their communities (Graeber, 2001). Similarly, Mazzucato is apprehensive about broader economic thought defining value solely in terms of profit-maximisation, further questioning the nearly unquestioned dogma in the economy that achieving higher profits leads to corporate efficiency, economic growth, and, ultimately, broader social good (Mazzucato, 2017).

The literature finds that the corporations' increasing focus on maximising shareholder value correspondingly leads to a focus on maximising short-term financial gains, a significant shift in corporate strategy succinctly

captured in the quote, ‘From ‘retain and reinvest’ to ‘downsize and distribute’ (Lazonick & O’Sullivan, 2000, p.17). In other words, while traditional corporate strategy involved improving quality, expanding operations, and investing in research and development activities, this long-term strategic planning and business sustainability has been replaced by prioritising metrics related to short-term financial performance. Most eloquently, perhaps, Froud and colleagues from the field of critical accounting describe the effects of financial short-termism as cost-cutting, reduced long-term investment, and precedence of stock buybacks and dividends over sustainable growth (Froud et al., 2000). Along the same lines, Crotty highlights that such ‘impatient finance’ undermines productive investment in innovation, infrastructure, and human capital (Crotty, 2003, p.271). The result, Crotty argues, is a destabilising paradox created by the demand for higher profits from financial markets and the impossibility of achieving this in product markets under the condition of downsized investment (Crotty, 2003, p.278).

This change of accumulation strategies from long-term to short-term investment is accompanied by the shift in investment from the real economy to financial markets. In other words, corporations reorient their products toward short-term gains and divest patient and engaged capital for large, long-term investments in the productive sector (Lazonick & O’Sullivan, 2000; Crotty, 2003). Said more generally, once the finance-dominated accumulation regime is established, it exerts further control over the rest of the economy by governing resource allocation and redirecting resources away from productive activities towards asset-price inflating activities. This is supported by Krippner’s findings that the contemporary regime of accumulation involves a system where ‘profits accrue primarily through financial channels’ (Krippner, 2005, p.174). In such a system, financial activities, such as lending, investment, and asset price appreciation, are critical drivers of economic growth, with productive sectors experiencing disinvestment. In other words, not only does the financial sector expand in size and importance relative to the productive sectors of the economy, but also speculative practices that generate profits are detached from real economic activity. Lapavitsas coins the term ‘profiting without producing’ to assert the financial system’s lack of engagement with productive economic activities (Lapavitsas, 2013).

Empirically, Stockhammer developed a set of indicators evidencing the finance-driven accumulation regime, starting with changes in investment behaviour, such as dividend payouts and stock buybacks at the expense of reinvestment, as previously mentioned, to shifts in wealth distribution seen as the decline of wage share and increase in the profit share in the national income accounts, reflecting the transition from income wage to capital (Stockhammer, 2008).

Notably, Lapavitsas describes this asset-based growth described above as the ‘illusion of growth,’ suggesting that while financialised economic indicators, such as stock market performance, financial profits, and GDP, may show positive trends, these do not reflect genuine economic progress (Lapavitsas, 2009). Instead, aspects of the economy that concern most of the society, such as stagnating wages, declining labour share of income, and increased financial instability, equate to an economic downturn, while the alleged economic growth is unevenly distributed and highly concentrated in the hands of shareholders. Even when using conventional economic indicators, economists De Haas and Naaborg find that excessive asset-based growth enhances the pro-cyclicality of the economy, fuels asset bubbles, and causes long-term financial instability (De Haas & Naaborg, 2006). Several authors argue that financialisation in this form has been the key factor behind the global financial crisis and express concern about the system’s sustainability (Aalbers, 2008; Stockhammer, 2012; Lapavitsas, 2013).

Many studies cited above are criticised for lacking differentiation between financialisation and other restructuring processes, such as globalisation, neoliberalism, digitalisation, and capitalism. While path dependency between different processes has been well documented, few works have directly attempted to disentangle these processes and analyse how they differ and intersect. This conceptual conundrum gave rise to a discussion in the form of a particular theme issue in *Economy and Space*, debating how researchers can achieve more profound conceptual clarity and start distinguishing financialisation from related but separate processes of restructuring. The commonest approach, permeating several studies mentioned in the literature review so far, is distinguishing between neoliberalism and capitalism as -isms, as ideologies and systems, and financialisation as an -isation, a set of material processes and practices, as eloquently iterated by Muellerleile and French (2022, p.137). In other words, capitalism and neoliberalism are captured as

ideologies, and financialisation as its corollary materiality. However, such a dichotomy is not empirically sound. For example, neoliberalism has materiality separate from financialisation, such as public infrastructural decline under the cutback of government spending and its reorientation towards commercial interests. Likewise, financialisation comes with ideology, narratives, and logic that dictate human affect, aspirations, and decisions. While the consensus is that financialisation and neoliberalism are complementary and reinforce each other, this suggests that they may also diverge and contradict each other, as exemplified by reinvestment and firm growth ideals in neoliberal thought and short-term gains and dividends in financialised thought.

Notable attempts at disentangling financialisation from other restructuring processes come from Muellerleile and French, who conceptualise the relationship between financialisation and neoliberalism through the concept of ‘variegated intersections,’ pointing to the multiple, varied ways in which financialisation and neoliberalism intersect and influence each other rather than a single, uniform interaction (Muellerleile & French, 2022). This interpretation of their dynamics encapsulates several case studies on distinctions between financialisation and neoliberalism, emphasising that, while related, they are not synonymous, and they relate in different ways in different contexts.

A prominent case study from this strand of research comes from Davis and Walsh (2017), who are exploring the UK’s economic transition since the mid-1970s, highlighting a shift from Keynesianism towards a market driven by financial elites in the Thatcher era. Within this transformation, the authors detect five critical epistemologies linked specifically to financialisation: money creation in financial markets, the transactional focus of finance, the centrality of financial markets to economic management, shareholder value orthodoxy, and the microeconomic approach to financial calculation (Davis & Walsh, 2017, p.27). In Davis & Walsh’s interpretation, financialisation occurs ‘against a background of neoliberalism,’ with neoliberal trade deregulation making the UK an easy target for takeovers by international financial capital (Davis & Walsh, 2017, p.29). The financialised epistemology that ensued, authors continue, influenced policy shifts and privileged global finance and financial elites over national industry and industrial elites (Davis & Walsh, 2017, p.43). Working from an Irish context and focusing on the financialisation of housing in Ireland, Byrne and Norris (2019) echo Davis and

Walsh's findings by demonstrating how the neoliberal turn in social housing policy facilitated financialisation. Under the influence of deregulated capital flows and marketised housing policy, Irish social housing morphed from state-provided housing to subsidised private rental, the critical aspect of ensuing financialisation (Byrne & Norris, 2019, p.182). The subsequent proliferation of buy-to-let schemes deeply entrenched housing cycles with financial markets and speculative investment activity (Byrne & Norris, 2019, p.185). These case studies position neoliberalism as an enabler of financialisation, paving the way to subsequent financialised restructuring.

Looking at it from another direction, financialisation executes regulatory capture of neoliberal policies, from which it profits and grows, the mechanism widely accepted as typical of financialisation's workings. O'Callaghan and McGuirk characterise this dimension of financialisation as it integrates with broader neoliberal restructuring, describing it as financialisation 'grafting onto' and 'amplifying' broader neoliberal transformation (O'Callaghan & McGuirk, 2021, p.809). Focusing on Ireland and Australia's experiences, the authors describe how neoliberal policies led to a shift from welfare-based housing provision to market-driven models, leading to the residualisation of social housing and subsequent privatisation and marketisation of housing (O'Callaghan & McGuirk, 2021, pp.811-813). In the Irish case, financialisation latched onto these state policies, thus amplifying neoliberal restructuring by capital switching into property, which made housing an investment asset, and increasing the availability of mortgage credit, increasing property prices and unaffordability along the way (O'Callaghan & McGuirk, 2021, pp.815-817). While financialisation in Ireland was led by financial institutions and a set of large-scale corporate landlords, the authors suggest that financialisation in Australia worked through households as agents of financialisation, instigated by a pro-investment taxation regime and a shift to asset-based welfare, eloquently described as 'mum and dad' landlordism (O'Callaghan & McGuirk, 2021, p.818). This comparative study clearly illustrates Muellerleile and French's (2022) points about neoliberalism and financialisation interacting in variegated ways across different geographies, and the exact borders between the two concepts should be analysed in specified contexts.

In addition to the critique of financialisation as undistinguished from other restructuring processes, there comes an even more profound critique calling

financialisation indistinguishable from such processes and, indeed, questioning the very usefulness of financialisation as a concept. Christophers stands at the forefront of this critique, rejecting the concept for its vagueness, lack of distinctiveness, and overextension (Christophers, 2015a; 2015b). Christophers' remarks had opened a debate in *Dialogues in Human Geography*, with contributing authors defending the concept while, at the same time, accepting the critique that researchers ought to be more precise and definitive when using the concept. Aalbers (2016) acknowledges that financialisation has become a catch-all term, yet he argues for its utility in understanding the transformation of economies and societies. Fairbairn (2016) emphasises the importance of grounding financialisation in empirical research to avoid overgeneralisation. Lawrence (2016) discusses the necessity of distinguishing between financialisation and other forms of economic restructuring to maintain conceptual clarity. Murphy (2016) highlights the role of financialisation in exacerbating economic inequalities, stressing the need for precise definitions to address these issues effectively. Ouma (2016) points out that while the term may be broad, it captures significant shifts in global capital flows and their local impacts, urging for a nuanced application. Poovey (2016) critiques the overextension of the term but also defends its relevance in capturing the pervasive influence of financial logic in various spheres of life. Following these lessons from the literature, the dissertation explores the complexities of financialisation, highlighting the variegated nature of financial processes and their entanglement with broader economic and social transformations. The discourse in the dissertation aims to refine the concept to enhance its analytical utility and avoid the pitfalls of conceptual overstretch. The way financialisation is used and interpreted in the dissertation is outlined in the following section.

Variegated financialisation approach

As outlined above, the new structuralist approaches to financialisation have their merits, pointing to the capitalist form that financialisation may take. With the dissertation taking place in the period of capitalist penetration into the postsocialist system, previously built on a vastly different socioeconomic logic, many of the works inform the contextual interpretation of the period in which the dissertation is taking place. In this sense, the dissertation relates to a broader research agenda that explores financialisation as the key feature of contemporary capitalism and, specifically, as

one of the features of the postsocialist transformation of financial systems in East-Central Europe. However, the dissertation interprets financialisation as a specific set of processes, logic, and practices. In this sense, the dissertation disagrees with the perception of financialisation as an epoch of capitalism and a process specific to this era. Instead, it aligns with the longitudinal view of financialisation as a recurrent phenomenon that has manifested in various forms throughout different historical periods. This perspective suggests that financialisation should be understood not as a novel feature of contemporary capitalism but as a recurring pattern that interacts with other economic and social dynamics over time. By adopting this lens, the dissertation emphasises the need to analyse financialisation within broader socioeconomic contexts, thus providing a more comprehensive and nuanced understanding of its implications and variations across different epochs. This is particularly important for a dissertation across socialist and post-socialist periods. The most suitable usage of financialisation for this dissertation is that of variegated financialisation, as explained below.

The dissertation adopts financialisation as a variegated phenomenon, which situates financialisation as a typical trajectory globally but with different local articulations. The dissertation's specific interest is in the articulation of financialisation related to the context of postsocialist transformation in East-Central Europe, which makes this variegated interpretation of financialisation particularly useful in aiding the understanding of the specific processes tied to a broader set of transformations experienced by the dissertation's specific case study. In doing so, the dissertation takes inspiration from other studies employing the concept of variegated financialisation (Aalbers, 2017; Dixon, 2011; Lai, 2017), some even emerging from East-Central Europe (Mikuš & Rodik, 2021).

The starting point for this body of literature is the theory of variegated capitalism, as developed by Peck and Theodore (2007) and built upon thoroughly by Jessop (2014). Initially, the variegated capitalism approach emerged as a response to the varieties of capitalism (VoC) school developed by Hall and Soskice (2001). It was a critique of its static, ahistorical analysis and nationalist bias. Peck and Theodore recognise VoC as canonical in starting a conversation about variety and difference within the global capitalist system previously imagined as monolithic and uniform (Peck & Theodore, 2007, pp. 733-734). However, they critique the scholarship emerging from the VoC school as oversimplifying the diversity of

existing capitalist systems and overlooking their continuous historical transformation by observing them as fixed systems. In other words, the authors arguably insert geography into VoC theory and urge researchers to account for the role of local institutional frameworks and historical context in shaping capitalism in its distinct, localised form. Moreover, the authors notice that the nationalist bias characteristic of VoC constructs capitalism as state-specific, which does not correspond to empirical evidence of capitalist systems interacting across borders and experiencing internal conflicts and contradictions on subnational scales. Above all, the variegated approach pushes away from reification and classification of differences and moves towards understanding how capitalism functions across scapes and scales, thus understanding critical connections and commonalities between different capitalist systems (Peck & Theodore, 2007, pp. 759-760). Focusing on the mechanisms behind the capitalist difference and transformation, Jessop further develops the conceptualisation of variegated capitalism and, most notably for the dissertation, relates financialisation to spatiotemporal fixes to the crises of accumulation inherent to capitalist regimes (Jessop, 2014a; 2014b; in Atzmüller et al., 2019, pp.85-88). However, the fixes financialisation offers create only temporary, partial, and unstable zones of stability amid accumulation crises while creating new and corresponding forms of instability, thus creating new potentials for financial and, more widely, social crises (Jessop, 2014b).

Translating these theories onto financialisation, the dissertation demonstrates how the process varies significantly depending on local conditions and historical trajectories. Projecting variegation onto financialisation urges a recognition of the complex and multi-scalar nature of financial processes, challenging the notion of a one-size-fits-all model. For instance, the system of financialisation is shared between West European banks' home countries and their postsocialist host geographies, yet it is differently articulated, with hierarchical power relations informing these differences. This approach allows for a more nuanced analysis of how financialisation operates within specific locales, acknowledging the diverse ways financial logics are implemented and resisted. By examining these differentiated patterns, the dissertation contributes to a more comprehensive understanding of financialisation as a variegated process that adapts to and is shaped by the specificities of different environments (Coe et al., 2014).

Financialisation of banking

Sokol defines the ‘financialisation of banks’ as the process in which banks become subject to financial market discipline (Sokol, 2017, p.681). The definition follows the observation from economists that, in recent years, banks have transformed their business models, modifying their financial products and services, and extending their activities into new areas, with this adaptation being driven by increasing financial market pressures (Erturk & Solari, 2007, p.386). The literature records the changes ranging from the layout of banking offices to business activities within banks and changes on the balance sheets, all prompted by shareholders, financial metrics, and supporting narratives. Importantly, in the dissertation, financialised banks are observed as crucial nodes in the framework of the ‘financial chain,’ the interconnected relationships and linkages in the financial system that transfer values across space and time, as developed by Sokol (2017). Thus, moving away from the orthodox economy conceptualisation of banks as intermediaries between depositors and borrowers, the dissertation understands financialised banks as value hubs, extracting and siphoning value through a process of constant reinvention of rates and products and relation with other financialised subjects, namely, states, households, and firms. To guide the dissertation's ability to detect financialisation features in Croatian banks, this section of the chapter reviews dimensions and aspects of financialisation within banks as discussed in the literature.

A bank is considered financialised instead of traditional when its primary focus shifts from conventional banking activities, like accepting deposits and making loans, to engaging in complex financial market activities. These activities include trading in derivatives, securitising loans, and creating and selling many ever-increasing financial products. Hardie and Howarth have notably captured this transformation from the bank-based financial system to market-based banking (2013). In their work, the authors classify banks by focusing on market-based assets and liabilities in their balance sheets, specifically on bank reliance on financial instruments actively traded in financial markets to finance their operations and raise funding (Hardie & Howarth, 2013, pp.22-23). Thus, critical indicators of the financialisation of banking on bank balance sheets become securities and derivatives, pointing to the phenomenon Wade strikingly describes as ‘finance financing finance’ (Wade, 2009, p.548). This self-reinforcing dynamic where finance is used to produce further financial products that may not necessarily contribute directly to productive

economic activity but serve only wealth accumulation of the financial sector indicates the new self-serving role of banking. In other words, finance captured banking as another resource for securing wealth extraction.

The theory section on shareholder value, as outlined in the previous section, posits bank shareholders as the critical aspect of banks' financialisation. Under the shareholder value system, banking is driven by sales targets and capital returns, with performance metrics oriented towards return on equity (Erturk & Solari, 2007, p.369). In this system, shareholder value maximisation in dividends and the performance of shares in financial markets emerge as key guiding points for bank business. As an added incentive, bank managers' remuneration is commonly based on reaching profit targets for shareholders, which grows yearly (Erturk, 2016, p.62). Researchers find that shareholder value led to many financial institutions' restructuring, primarily through mergers and acquisitions that boosted various banks' balance sheets (Crowther & Erturk, 2017, p.276). The mergers and acquisitions processes are often accompanied by changes in banks' ownership structure into increasingly dispersed, distanced, and foreign owners (Hardie & Howarth, 2009, p.1021). As the financial chain schema suggests, this shift often leads to increased interconnectedness between different economic agents and regions, giving rise to systemic risks within such a dependent financial system.

The most prominently identified risk is that, in the context of banks' primary concern being profit maximisation for dispersed shareholders and delivering dividends, profits are no longer retained in localities for long-term investment (Froud et al., 2000). As argued earlier, shareholders are primarily interested in short-term returns and supply impatient capital, which leads to banks increasingly deriving profits from financial activities rather than traditional lending. This is followed by a shift from interest income to fee income in banks' balance sheets (Erturk & Solari, 2007, p.370). This rise in fee income relative to interest income further points to banks' new role of sustaining consumption rather than production (Erturk & Solari, 2007, p.370); in other words, what is financed is private debt and domestic consumption rather than production and creation of new societal value (Erturk et al., 2008, p.554). Guided by this logic, financial institutions transformed from being providers of long-term capital to short-term lenders, and their portfolios changed from focusing on corporations to households (Aalbers, 2007; Erturk & Solari, 2007). Consequently, banks have gone through what Erturk and Solari termed the 'retail

revolution’ (Erturk & Solari, 2007). Households became prime consumers of loans, and housing loans spearheaded the banking revolution, as several case studies show (Aalbers, 2017; Bohle, 2017; Sokol, 2017). The socioeconomic effects of this were captured in the financialisation of daily life literature, outlined as follows.

With the discovery of the increased significance of consumer credit (Erturk & Solari, 2007, p.377), several studies started focusing on households and their increased involvement with circuits of finance in their daily lives. Notably, the literature explores how households secure life basics through reliance on financial institutions, especially in the context of simultaneously retracting welfare states (Streeck, 2013). Lapavitsas criticises financialisation in this form as a mode of ‘financial expropriation’ (Lapavitsas, 2013), where households, generally without formal financial literacy, are drawn into the realm of private finance to meet basic needs, including housing, consumption, education, health, care, and provision for old age (Lapavitsas, 2009, p.146). Above all, as Aalbers argues, housing emerges as the central aspect of financialisation in its contemporary form (Aalbers, 2016a). The author discusses how housing has shifted from primarily a place to live to a financial asset. Housing markets have become sites for investment and speculation, attracting significant capital from global financial markets. Specifically, banks and other financial institutions have become deeply embedded in the housing sector, providing mortgages, securitising these loans, and creating complex financial products based on housing assets. Consequently, housing spiralled into a state of crisis everywhere in a row of speculative investment and inflated real estate prices, predatory lending and exclusion, securitisation and derivatives, and lack of financial regulation (Aalbers, 2016b).

The common denominator to financialised bank activity becomes earning from asset-price inflation, referring to the increase in the prices of assets, such as real estate and stocks, driven not by improvements in the underlying value or productivity of these assets but by speculative investment. Mazzucato emerges as a strong critic of the banks’ wealth extraction without contributing to actual wealth creation, leading to an increasing inequality and a disconnection between financial profits and the real economy (Mazzucato, 2017; Mazzucato et al., 2023). Mazzucato and Lapavitsas interpret this bank behaviour as a form of rentierism, establishing it as an essential dimension of bank financialisation. As Lapavitsas explains, rather than producing a product, banks earn from a monopoly over money production, the subsequent lending

of the money to states, firms, and households, and financial speculation (Lapavitsas, 2009). It follows that interest, fees, dividends, and other forms of bank income act as rent and a key mechanism of wealth extraction. Lapavitsas urges that such rent-based extraction leads to further concentration of wealth and power in the financial sector and increasing inequality between different social segments (Lapavitsas, 2009).

Other authors have likewise noted the secondary role of productive capital in financialised bank operations. In the context of shareholder value maximisation, banks are unwilling to lend to SMEs and corporations because such banks' assets are subject to higher-risk weight under Basel capital rules and hence tend to reduce the return on equity (Erturk, 2016, p.65). On the other hand, fee income is not risk-weighted under Basel and, therefore, does not require risk capital to back it up (Crowther & Erturk, 2017, p. 285). As banks prioritise financial activities such as trading securities, derivatives, and other financial products over traditional lending, there is a decrease in funds available for productive sectors like manufacturing, infrastructure, and small businesses. This can lead to stagnating economic growth and innovation in these sectors. As Stockhammer illustrates, in stagnating wages, households are encouraged to borrow more to maintain their consumption levels, further perpetuating banking financialisation (Stockhammer, 2008). Banks experience pressure to keep 'reinventing' themselves (Erturk & Solari, 2007) and to constantly develop new financial products to continue accumulating profits and, thus, reproducing their growth-dependent existence. Indeed, as Erturk and Solari argue, a firm's access to capital and ability to resist takeover are linked to its current profitability, with the same applying to financial firms (Erturk & Solari, 2007, p.372). Along those lines, Sokol notices that, in some cases, banks borrow money in financial markets to be able to lend at the capacity shareholders demand, thus becoming 'debtors' themselves to lend to NFCs, households, and states (2017, p.681). Much criticism of bank financialisation emerges from such revelations that banks are establishing excessive asset-based growth funded by volatile non-core liabilities, such as interbank loans and credit lines, thus injecting widespread instability in financial systems that now, as argued by the financial chain approach, spread across several not necessarily financial actors (De Haas & Naaborg, 2006; Sokol, 2017).

Finally, research on the financialisation of banking has also revealed the

heterogeneity in this process among banks, with not all banks equally responding to financialising pressures. An excellent example of this comes from German scholarship on savings banks, with, for instance, Flögel (2018) observing that despite the regulatory homogenisation and apparent prevalence of standardised credit rating systems, savings banks still retain considerable flexibility and persist in cultivating enduring relationships with customers rooted in personal acquaintance. Small savings banks, the author continues, capitalise on soft information gathered through personal relationships with clients to make credit decisions, opposite to large, financialised banking systems that rely solely on standardised, shareholder-oriented metrics (Flögel, 2018). Schwan (2021), conducting research with the same bank type and in the same German context, comes to similar conclusions. The author detects the impact of financialisation on savings banks in nearly all ways and forms characteristic of market-based banking, as outlined above: a move away from traditional interest-based income towards fees and commissions, a rise in non-deposit funding, securitisation, bundling and selling off loans, and adoption of advanced risk management practices, such as credit scoring (Schwan, 2021, pp. 424-426). However, Schwan also notices a reversal of the financialisation of banking over time, or definancialisation (Schwan, 2021, p.423). Specifically, the author notices a return to more traditional banking practices in the post-global financial crisis, such as re-emphasising traditional banking values, relationship lending and local community involvement of the bank capital (Schwan, 2021, pp. 427-432). This means a return to more traditional deposit-driven funding, more substantial SME funding, and fewer complex financial products. The findings suggest that, while even savings banks have been financialised, they have retained the ability to revert to traditional practices to cope with crises.

2.2 Theoretical approaches towards studying banking geography

When early geographic research began to take an interest in firm restructuring and the related locations of economic activities, the spatiality of the banking industry largely fell under the radar. For a long time, banks were considered mere intermediaries, passing on resources from savers to borrowers. This seemingly neutral and straightforward business practice went unquestioned, with banks envisioned simply as conduits for the smooth workings of markets. However, critical economists and geographers later focused on the

specificities of bank accountancy and discovered that banks do not just lend money but create it (Ryan-Collins et al., 2011). In other words, banks are the key creators of the money supply in the contemporary world. Banks' power to create money gives them immense influence over the economy and society as they determine where and how money is allocated (Graeber, 2011). This unique social position allows banks to act as gatekeepers for new economic and social value creation, and their decisions on money creation and allocation can significantly reshape the economic landscape (Werner, 2013). Investigating the bank's spatial arrangements and related flow patterns is critical to understanding how banks structure financial capital in different contexts. With this reasoning in mind, this literature review section examines works on banks' spatial organisation and its relation to financialisation processes, starting with the macro-regional scale and moving towards the local scale. Lastly, following general theoretical approaches towards studying banking spatialities, especially in their financialised form, the section focuses on the scholarship related to the dissertation's region of interest, East-Central Europe, and the West European banking systems that have entered the region in the context of post-socialist transition.

Responding to the work of the German location analysis school, perhaps best represented by von Thünen (1826) and Weber (1909), Massey (1973, in Christophers et al., 2018) developed her renowned contribution to industrial location theory. This theory remains relevant for understanding the spatial organisation of different industries, including the banking industry, to the present day. Contrary to the earlier theory's focus on cost minimisation in explaining location choices, Massey injects location theory with a more comprehensive understanding of the forces shaping industrial geography. She argues that socioeconomic contexts significantly influence industrial location decisions, drawing attention to historical and empirically grounded perspectives contrary to previously conceived theoretical models (Massey, 1973, in Christophers et al., 2018). Importantly, Massey demonstrates the dynamic and reciprocal relationship between industrial activities and their geographical settings, asserting an urge towards relational studies of spaces (Massey, 1973, in Christophers et al., 2018). Building on this, Massey's later work illustrates that, due to this relationality, the general tendencies in the workings of capitalism play out locally in contingent and contextual ways (Massey, 1984), complementing the variegation approach of this dissertation. In other words, following variegated approaches stemming from the literature, the impacts of financialisation are not uniform but diverge, contributing to the diversity of banking systems globally. This points to the supposition of the real-life diversity of banking models even under analogous financialising pressures.

Following findings that financial institutions play a crucial role in resource allocation, authors fear that financialisation can exacerbate regional inequalities by concentrating financial services in certain areas while neglecting others. Thus, studying banking geography helps identify these disparities and their implications for regional economic development. Uneven development is central to capitalism's workings as it enables the displacement of crises, as Harvey (1982) explains. Specifically, underdevelopment is actively produced through inclusion under unfavourable terms, and its lag in development is a direct consequence of the relationship with the extractive, developed areas (Smith, 1984). Capital moves back and forth in cyclical building up, abandoning, and reinvesting in different regions. Underdeveloped areas attract capital as risky areas incur higher rates and profit margins. Another aspect of underdeveloped areas' financial capture is states eager to cooperate, thus enabling regulatory capture. A case in point comes from Alessandrini et al. (2009), exploring the geographical organisation of banking systems and the implications for regional economic development. Their research focuses on how banks' spatial distribution affects credit availability and local economies' performance. The research suggests that the concentration of banking services in central regions can exacerbate economic disparities as peripheral regions struggle to secure funding for local businesses. Regions with dense banking networks often have better access to credit and financial services, which can spur economic growth. Conversely, peripheral areas may struggle to attract investment, leading to economic stagnation.

Building on this, researchers like Flögel and Zademach (2017) have explored the geographical variations in banking practices and their impact on local economies. Their studies emphasise the importance of regional contexts in understanding banking activities and financial networks, illustrating how local banking practices can differ significantly within a single country. Regional banks often tailor their services to meet the specific needs of the local population, which can lead to more effective financial support for local businesses and communities. The study shows that regions with more tailored and locally adapted banking practices tend to have better economic outcomes. Local banks that understand the unique needs of their communities can provide more relevant financial products and services, fostering economic growth. This is perhaps especially true of SMEs, which rely heavily on nearby banking services for loans and financial advice. A financialised economy might centralise banking services, making it harder for these businesses to access necessary resources. Indeed, Flögel (2016; 2019) analyses how the physical distance between banks and their clients affects the availability and terms of credit,

with a particular focus on SMEs. The study contrasts the lending practices of large, centralised banks with those of smaller, regional banks. It finds that regional banks are often better suited to understand and meet the needs of local businesses. Additionally, Berger and Udell (2002) provide reasons why small banks are more likely to lend to small firms, while Zarutskie (2013) found that bank size and age significantly determine lending, including to SMEs. Knyazeva and Knyazeva (2012) analyse the role of geographic distance between banks and borrowers in lending decisions in the US, concluding that longer distances result in higher loan spreads.

The concept of ‘financial exclusion’ has attracted considerable attention in geography and beyond. In geography, the term financial exclusion came to prominence in the 1990s through the work of Leyshon and Thrift, who examined limitations of access to banking services in the UK affected by extensive bank branch closures (Leyshon & Thrift, 1993). The period of their writing was marked by the restructuring of the global financial system (Dymski, 1999), disintermediation (Leyshon & Thrift, 1993), rising competition (Yeung, 2009, p.186) and, ultimately, the financial industry’s capital losses (Leyshon & Thrift., 1995, p.323). The response to the crisis was the spatial reorganisation of banking infrastructure and services, resulting in their withdrawal from specific social groups and localities (Leyshon & Thrift, 1993). Leyshon and Thrift explained this process using the concept of flight to quality (Leyshon & Thrift., 1995, p.325), arguing it to be one of the principal mechanisms of financial exclusion. In their later work, the authors identify additional forms of financial exclusion. In reviewing the literature on the financial exclusion of the poor, Koku offers an overview of the five primary forms of financial exclusion Leyshon and Thrift identified earlier (Koku, 2015, p.625). These are summarised as follows: (1) Access exclusion – the limiting of access through risk management, such as credit scoring (Leyshon & Thrift, 1999); (2) Condition exclusion – the conditions attached to financial products not matching the specific potential borrowers’ needs, such as lack of loans for unemployed or singles (Toporowski, 1987); (3) Price exclusion – financial products at unaffordable prices for some (Gloukoviezoff, 2007); (4) Marketing exclusion – localities effectively excluded by targeted marketing (Morrison & O’Brien, 2001); (5) Self-exclusion – people themselves deciding not to use formal financial products (Ford & Rowlingson, 1996).

The literature emphasises the possibility of mutual causality between financial and social exclusion and economic hardship. Financial exclusion, in other words, ultimately results in people’s further economic and social marginalisation, whereas those

marginalised and disadvantaged are likewise usually those who cannot access formal financial services. The literature lists several examples to prove this. Those without bank accounts cannot access the wide range of services for which bank accounts act as a getaway. For example, employers in many countries require employees to have a bank account for paycheque payments, meaning that lack of access to bank accounts results in a lack of access to formal employment (Kempson & Whyley, 1998; 1999). Without access to direct debit, financially excluded individuals often need to pay higher utility bills or cannot avoid paying large lump sums of money for bigger expenses that could be handled more easily when paid in instalments (Chakravarty, 2006). Without credit records, these individuals are unlikely to receive credit from formal lenders, which renders them more vulnerable in dealing with unexpected events during their life course and unable to make more extensive investments into their futures, such as buying a car or a house (Aalbers, 2016). Moreover, financial exclusion rarely means complete separation from financial services; it means exclusion from a specific kind of formal and regulated finance and an unwanted push towards usurers. As Pollard argues, destitute households may be deliberately drawn into predatory lending contracts (Pollard, 1996), whereby the borrowers pay unacceptably high interest rates, have their guarantor forced to repay their loan, or are stripped of their equity through collateral (Maciejasz-Świątkiewicz, 2015, p.91). These developments become especially important during these ‘financial times,’ when access to capital markets is enabled for an increasing number of households and individuals, what is commonly known as the ‘democratisation of finance’ (Erturk et al., 2008). The financialised and highly differentiated access to mortgage markets is steadily growing. Thus, more empirical research on the exact mechanisms of exclusion is needed, as well as the recognition that financial exclusion is not merely a good business practice on behalf of the bank but a politicised process in which finance calculates and classifies risk based upon the discriminatory preconceptions of what constitutes risk or safety (Maurer, 2002, p.29). One well-researched example of financial exclusion along geographical lines is known as ‘redlining’, which the chapter turns to next.

Redlining denotes a process whereby private and public lenders selectively deny mortgage loans based on the assessed desirability of neighbourhoods (Jackson, 1980, p.419). The term was coined by activists in Chicago's Austin neighbourhood in the late 1960s, inspired by lending officials drawing red lines on a map to indicate areas too risky for investment (Norton, 2013, p.3). The practice first emerged as the subject of academic enquiry in the context of research on particularly such racial segregation in the US cities

when it became clear that the division between affluent, white suburbs and decaying, inner-city, black neighbourhoods was spearheaded by lending and investment disparities (Jacobs, 1961, p.11). Indeed, lending practices are instrumental to this income and racial steering. The poor are denied mortgages or are their recipients under unfavourable conditions, such as lower loan-to-value ratios, higher interest rates, and short-term pay-off periods. At the same time, the wealthy are given mortgages with better terms and are, thus, able to afford properties in esteemed neighbourhoods (Jacobs, 1961, p.299). Secondly, redlining has severe implications for decayed inner-city slums and their ability to develop, as residents cannot gain credit to increase the value of their homes through repairs or starting nearby enterprises (Jacobs, 1961, p.300). Furthermore, redlined homeowners cannot sell their properties, as lenders refuse to issue mortgages to potential buyers in red-coloured areas; thus, homeowners cannot capitalise on their property and leave the deprived neighbourhood (Aalbers, 2015, p.102).

Inequalities in housing are often closely linked to other forms of social and economic exclusion (Aalbers, 2005, p.102). The decline of property values in redlined areas is always followed by the flight of other forms of investment (Allard & Danzinger, 2003). Residents of redlined neighbourhoods grapple, thus, not just with the depreciation of their homes but also with a lack of childcare facilities, decaying hospitals, absence of work opportunities, poor public transport, 'bad schools,' and other symptoms of the capital flight (Allard & Danzinger, 2003). Moreover, the effects of this capital deprivation are long-lasting. The literature argues that maps of the previously redlined areas correspond to several contemporary social vices and ills characteristic of impoverished, neglected, or otherwise disadvantaged geographies. These include a significant number of environmentally-induced health conditions in previously redlined areas (Gatrell & Elliot, 2014; Mode et al., 2016), issues with waste removal (Elliot & Frickel, 2013), lack of green zones and industrial pollution (Taylor, 2014). Furthermore, a large body of literature tackles redlined zones as food deserts, whereby authors argue that areas have little access to wholesome, nutritious food and supermarkets while they are, at the same time, overflowing with fast food and junk food shops (Bayani-Rodriguez, 2017; Zhang & Debarchana, 2016).

While open mortgage redlining has been outlawed in the US and other countries, other forms must be tackled to dismantle financial exclusion geographies. While some scholars continue investigating contemporary models of redlining, such as digital and transport redlining, others highlight the replacement of traditional redlining by

contemporary, financially exploitative and exclusionary practices. Among them are the most significant studies by Aalbers (2016) and Wyly and Newman (2002), who suggest that predatory lending and subprime mortgages have, by and large, replaced old redlining practices. In Newman's and Wyly's words, '[a] new generation of subprime and predatory lending institutions, specialising in high-cost, high-risk lending, have replaced the old problems of exclusionary redlining with new dilemmas of exploitative greenlining' (Newman & Wyly, 2002, p.53). Interestingly, the 'exploitative greenlining' targets the same areas once starved of credit (Newman & Wyly, 2002, pp.53-54). Perhaps this is best seen in the proliferation of payday loans in previously redlined areas (Newman & Wyly, 2004, p.58). This may not be surprising if we consider that both aims ultimately involve market segmentation, extracting value from one area of geography and population to be passed onto another area. Inequality is a central consequence of this divisive exclusion-inclusion process; thus, redlining and predatory lending could be seen as two sides of the same coin. Nevertheless, with the surge of financialisation that arose when state socialism collapsed, redlining became a critical yet unexplored process in the East-Central European region. The question of 'redlining in transition' remains unanswered.

In this context, Dymski (1999) discusses the global bank merger wave and its implications for developing countries. The author argues that macrostructural circumstances, such as banks' strategic motives, drive mergers. Nations' banks are targets for acquisition only insofar as they offer customer bases and assets that fit into the strategic orientation of acquiring overseas banks. Adding to this, Dymski notices that these large cross-border banks increasingly engage in harvesting activities, not seeding and cultivating activities, changing the very definition of banking. Understanding the variegated impacts of financialisation and the diversity of banking systems is essential for comprehending banks' complex spatial organisation and broader economic implications.

Financialisation and banking geographies in East-Central Europe

In 1998, just before the massive Western acquisition of East-Central European credit institutions, a debate about financial reforms in transition economies emerged, asking whether domestic governments should rehabilitate existing banks or whether an entry of foreign banks would allow for 'bad banks' to be eliminated and efficient ones to emerge (Classens, 1998). The significance of

this debate lies in the fact that it effectively determined the future of the regime within which the East-Central European financial system today exists. Seeing the contemporary pattern of financial dominance of Western banking groups and commonplace concentration of financial capital in the hands of a few ‘too-big-to-fail’ banks, several authors concluded that the East-Central European countries have effectively renounced the governance of their domestic financial markets and outsourced it to Western parent banks and their home country regulators (Pistor, 2010, p.2).

Much of the reasoning informing this choice of a development model based on the internationalisation of the financial sector was ideological and based on deeply entrenched local distrust towards domestic financial institutions and currencies, as well as a fascination with the European West. As Dzenovska explains, the post-socialist countries imagine themselves as ‘almost-but-not-quite-European’ (Dzenovska, 2013, p.398), positioning themselves as civilisations constantly striving to assert themselves within European modernity. This ‘hyper-neoliberal transformation’ should be understood within the context of post-socialist aspirations of radical departures from the socialist past and new ambitions of nation-state building (Bohle, 2017, p.6). Foreign banks guarantee a booming financial system, as domestic governments are expected to benefit from knowledge transfer from super Western role models (Arkelyan, 2018, p.3). However, risk calculation is inherently political, resting upon racialised constructions of danger and security, which package the Western bank as safe and the Eastern bank as risky (De Goede, 2004, p.197). Ignoring this cultural process informing the internationalisation aspiration, with the proclamation of independence in the late 1980s and early 1990s, the East-Central European countries almost exclusively announced their commitments towards the Euro-Atlantic and the EU integration (Jacoby, 2006; Stubbs & Venancio, 2009, p.31). Thereon, a belief that there is no alternative to Europe and that Europe is a destination still to be reached dominates political and economic life in the post-socialist EU member and candidate states (Živković, 2013, p.1).

Policy changes are crucial for this process of financialisation (Becker et al., 2010). Following the varieties of capitalism theory (Hall & Soskice, 2001) and contributing to the comparative capitalism scholarship, Bohle reviews the

specificities of East-Central European post-socialist capitalism. The author finds that the financialisation of the East-Central European periphery is inextricably embedded within the broader process of EU integration and the belonging policy adjustments (Bohle, 2017, p.3). In her work on the role of the EU in ‘creating capitalism after communism,’ Bohle outlines fundamental principles devised to integrate the post-socialist East-Central European states into capitalist Europe (2017, pp.3-4). Building on the previous literature that points to the EU requirements of liberalisation in capital movements and the openness to foreign direct investment (FDI) for its aspiring members (Bandelj, 2010; Jacoby, 2010), the author reviews the EU Accession Partnership documents and finds that the privatisation through foreign ownership has explicitly been outlined as a critical transition strategy (Bohle, 2017, p.4). This form of subordinate European integration was further perpetuated by establishing European-level institutions and programs to promote ‘transition’ from centrally planned to market economies in post-socialist countries. The most notable of these establishments is the European Bank for Reconstruction and Development (EBRD), under whose sponsorship the East-Central European countries implemented extensive legal and regulatory reforms to support the needs of the developing market (EBRD, 2007). The implemented legal frameworks are, in fact, legislative imports from the EU (Bohle, 2017, p.1), which directly fed into the process of post-socialist Europeanization. In other words, the new member states are formally welcomed into the arrangement but in subordinate positions. Their development is, consequently, illusionary, as the principles informing it set up the new states for failure (Arrighi, 1990). This begs whether the accession process to the EU contributed to a vulnerable and more crisis-prone economic system in the East-Central European region, which Bohle indicates ought to be answered positively (2017, p.1).

While case studies of financialisation in post-socialist countries are few (Raviv, 2008; Becker et al., 2010; Stenning et al., 2010; Gabor, 2011; 2013), they all readily suggest that financialisation in East-Central Europe differs from that in Western Europe. When foreign direct investment (FDI) started pouring into the region in the 2000s, it primarily intended to acquire and capitalise the domestic financial sector (Becker & Četković, 2015). Much like the EU

integration, the financial integration of East-Central Europe into global financial flows was likewise subordinate (Kaltenbrunner & Paineira, 2018). East-Central Europe became a net recipient of capital inflows (Smith & Swain, 2010, p.6), first in the form of FDI and, after it acquired the financial sector, credit capital. East-Central Europe emerges as a debtor region, dependent on importing capital, which comes with the need for policies geared towards attracting foreign capital, such as high interest rates (Becker et al., 2010, p.228) and, more often than not, foreign-currency denominated loans with overvalued exchange rates (Smith & Swain, 2010, p.16). Debt dependence pressures the production sector, as domestic currency remains highly overvalued to ease the debt return (Becker et al., 2010, p.235). The East-Central European region faced massive de-industrialization and destruction of the productive sector (Bohle, 2017, p.6), which positions households as key new debtors (Erturk et al., 2008, p.553). Indeed, Western credit is today primarily oriented toward financing private debt and domestic consumption (Erturk et al., 2008, p.554). Moreover, the weak productive sector results in further dependence on imports of not just the Western capital but also Western consumption products. In other words, Western banks in East-Central Europe ultimately finance the consumption of Western products. In conclusion, the financialisation in East-Central Europe has been spearheaded by West European banks expanding into the region (Balcerowicz & Bratkowski, 2001). Across the East-Central European periphery, transition countries have predominantly foreign financial systems, with processes of mergers and acquisitions integrating domestic financial institutions into multinational financial groups with headquarters located outside their jurisdiction (de Haas & van Lelyveld, 2010). This positions West European banks in East-Central Europe as the crucial lens through which to study the complex financial chains structuring the East-Central European variant of financialisation.

An important work involves Harvey's writing on the concept of 'spatial fix,' which the author defines as a mechanism through which capitalism seeks to overcome crises by expanding into new geographies (Harvey, 1981; 2001). In the financialisation phase of capitalism, declining profitability or overaccumulation crises in home territories are resolved through the expansion of financialisation into new geographies or domains of social life and human

activity. However, Harvey argues that the resolution of the crisis is only temporary. In other words, financialisation does not resolve the crisis inherent to the capitalist system; instead, it further entangles and integrates previously remote geographies to the initial source of instability, allowing instability to eventually spread, resulting in the displacement of the initial crisis. The dissertation's case study Croatia is theorised as the host territory for capitalist crises originating in the West European countries, and the epistemological gap is detected in understanding how capitalist crises of accumulation in the parent banks of the European core drove financialisation to Croatia.

Under the premise of significant returns due to greater interest margins, West European banks caused an explosion of lending in the early 2000s and, consequently, huge credit growth in the region previously untapped by private debt. Belgian, Austrian, and Italian banks went on a spending spree to buy banks in Eastern Europe to achieve higher returns on equity in these higher-margin banking markets and asset growth (Erturk, 2016, p.64). The credit growth was enabled by foreign parent banks, which filled the funding gap through cross-border interbank loans to their subsidiaries. Some of the host countries attempted to curtail the excessive credit growth, which parent banks mostly managed to circumvent by engaging in 'regulatory fix' processes. Pistor illustrates one such example of a regulatory fix – leasing companies (Pistor, 2010, p.10). Leasing companies were largely exempt from regulations despite being affiliated with the banking groups, and thus, much of the excess lending was distributed to leasing companies in the banks' ownership. Streeck further argues that there is a growing inability for transition states to regulatory-react against the West European banks due to themselves being transformed into 'debt states' (Streeck, 2013). In a debt state, the redistributive functions are severely curtailed by the need to reassure creditors about their ability to repay their debts, even if this goes at the expense of their citizens (Streeck, 2013, p.155). Thus, some essential social and welfare functions of the state are dismantled, further opening up space for the financialisation of households who increasingly rely on debt to pay for housing, healthcare, education, and other living expenses.

These dynamics led Smith and Swain to call this region 'Europe's subprime market,' characterised by high credit-fuelled domestic consumption inflating asset prices, which creates an illusion of economic growth (Smith &

Swain, 2010, p.16). A lesson learned from other global subprime markets is that the consequences of this form of dependent financialisation (Becker et al., 2010; Bohle & Greskovits, 2012; Nölke & Vliegenthart, 2009) could be detrimental. Furthermore, Becker et al. used the term ‘peripheral financialisation’ (Becker et al., 2010), Gabor called it ‘dependent financialisation’ (Gabor, 2013), and Lapavitsas ‘subordinate financialisation’ (Lapavitsas, 2013, p.245). What is common to all the approaches is the recognition of ‘inherently predatory’ (Raviv, 2008, p.311) financialisation, which extracts incomes far above their profits in the West while leaving the region increasingly indebted and economically vulnerable (Raviv, 2008, p.299).

The purpose of reviewing this literature lies in its direct relevance to the research on what Searle and Köppe termed local geographies of debt (Searle & Köppe, 2015, p.337), which started developing and transforming with Western banks branching into the East-Central European territories. Parent banks prefer to raise the capital centrally, through their headquarters, and then distribute it via intercompany loans to their subsidiaries (Impavido et al., 2013, p.12), causing competition between subsidiaries for funds and further pressures to raise profits for the shareholder. Furthermore, there is a consistent gap between the importance of the foreign subsidiary at the host level, typically one of the major banks in the jurisdiction, and its relatively small importance within the Western banking group, causing an inherently uneven power relation. As De Haas and Naaborg point out, while Western banks often have systemic importance for the East-Central European countries due to the high concentration of banking and financial capital, these subsidiaries often have only marginal importance to Western parent banks, resulting in the possibility of Western banks to ‘cut and run’ when crises emerge, a theme explored by Epstein (Epstein, 2014). These kinds of development work in support of the argument that financialisation contributes to uneven development (Pike & Pollard, 2010), as well as point to the importance of exploring the ‘financial chains,’ tying Western and East-Central European regions in power relations and value extraction channels (Sokol, 2017).

Western banks developed the hitherto almost non-existent private credit markets with their penetration into East-Central Europe. Ever since, the

financialisation process has been inserting more households into global financial circuits, with many of the detrimental consequences of personal indebtedness only starting to emerge in the last decade. Sokol warns that these processes should be understood as the facets of ‘exploitative inclusion’ (Sokol, 2013, p.507). Several authors claim that the old geography of redlining and financial exclusion has not disappeared but has been replaced – and largely reproduced – by a new geography of predatory lending and overinclusion. This is why Squires (2004) refers to predatory lending as ‘the new redlining’ (Aalbers, 2009, p.38). As mainstream banks have primarily retreated from unprofitable portions of their customer bases, households and former customers became vulnerable targets of fringe banks of various kinds, creating new forms of predatory inclusion (Caskey, 1994; Dymski & Li, 2003, p.199). The dynamic of entering and vacating territory connects to Harvey’s concept of spatial fixity. Smith provides additional insight into the uneven development between invested-in and disinvested regions, which are not faults in the system but inherent and necessary features (Smith, 1984).

The literature further indicates the indispensable role of the states and their interventions in further facilitating financialisation as the dominant regime of accumulation. Graeber and Hilferding both detect the very foundation of financial capitalism in states’ military pursuits for colonial expansion and power consolidation (Graeber, 2011; Hilferding, 1910), so eloquently expressed by Graeber as ‘the marriage between warriors [the state] and financiers constituting the foundation of financial capitalism’ (Graeber, 2011, p.364). Graeber asserts that debt’s critical historical significance in securing financial and social power for the dominant social group and financial instruments can, thus, only be interpreted through the lens of power relations. Specifically, historical cycles of debt and even financial crises are a part of broader economic and political structures in which debt consolidates wealth, solidifies existing power structures, and maintains social hierarchies (Graeber, 2011). Debt is, thus, not only a financial instrument but also a mechanism of control of the existing social relations. Along the same lines, Harvey tackles the contemporary manifestations of imperialism through financialisation (Harvey, 2003). As Harvey argues, driven by capital accumulation on a global scale, powerful states exploit resources, markets, and labour across the globe to maximise profits and assert dominance. These powerful states influence peripheral economies and governments

by controlling essential resources, industries, labour, and profits. In such a way, financial capital shapes global power relations, perpetuating existing power hierarchies between nations.

Furthermore, states create conditions for financialisation, including but not exclusive to deregulation of the financial system, privatisation of public services, tax and monetary policy, austerity, and retracting welfare state. Thus, rather than being an uninvolved bystander, states actively engage in facilitating financialisation and consolidating the power of the financial elites, what Aalbers captures in the term 'real estate/financial complex', conceptualised as the state-finance-real estate 'triangle' sitting at the heart of contemporary global accumulation regime (Aalbers, 2012; Budenbender, 2017). Perhaps this becomes most evident in financial crises, such as the global financial crisis, where states tend to bail out banks using taxpayer money, essentially socialising financial institutions' losses (Hall & Massey, 2010). The bailouts are rarely accompanied by a significant restructuring of the financial system, thus further consolidating the financial system's power and allowing it to accumulate further resources on the back of the crisis, which is captured in Krippner's term 'capitalising on the crisis' (Krippner, 2012). This renders crisis an indispensable part of the system rather than an unpredictable, critical event, the sentiment particularly well captured in the Occupy movement's motto, 'The system is not broken; it was built this way.'

2.3 Conclusion

The main takeaway from the works mentioned in the paragraphs above for this dissertation is that a comprehensive study into financialisation in Croatia ought to situate the local banks within an interdependent and hierarchically structured global economic system and aim to understand the country's role within European and global regimes of accumulation. Moreover, the dissertation detects a gap in understanding of how economic and social power, as described above, penetrates the Croatian economy and how it manifests in the country's postsocialist banking transformation. From the paragraphs above, finance ought to be examined as constituted through networks (Pike & Pollard, 2010; Sokol, 2013), particularly those perspectives that analyse financialisation through the lens of global hierarchical relations

(Kaltenbrunner & Paineira, 2017). Within this view, the dissertation relies on Sokol's approach to understanding financialisation through the concept of 'financial chains,' understood as a channel of value transfer between people and places and as a social relation that shapes socio-economic processes and attendant economic geographies (Sokol, 2013; 2017). The approach suggests that financialisation is a crucial domain in which contemporary core-periphery structures are produced and negotiated, reflecting and reproducing broader power relations within the global political economy.

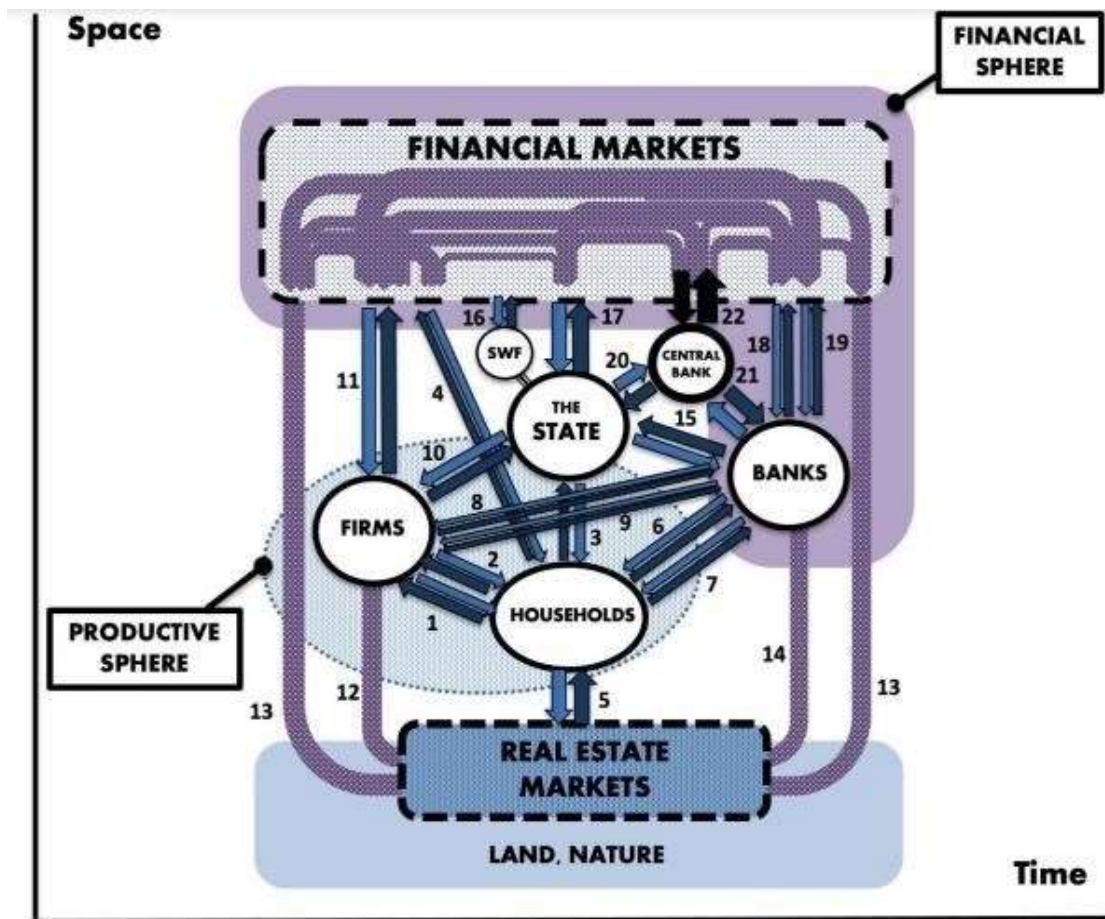


Figure 1 Financial chain schema (Sokol, 2017; 2021)

Chapter 3. Methodology

As indicated in the introductory chapter, methodologically, the dissertation takes the form of a critical case study, in which West European banking groups in Croatia serve as a case in point of the main drivers and manifestations of financialisation in the East-Central European periphery. With this in mind, the purpose of Chapter 3, ‘Methodology’, is to present how the research has been executed and to argue theoretically why the particular method of the critical case study was deemed effective for investigating financialisation in East-Central Europe. The underlying assumption is that the commonly applied quantitative methods are insufficient for understanding the financialisation of the postsocialist space and, thus, this dissertation aims at developing approaches to compensate not just for the existent epistemological gaps in the literature, but also methodological, which is the theme of this chapter.

In terms of structure, this chapter is split into five parts. Following the 3.1 *Introduction*, section 3.2 *Research Design* frames the dissertation within the critical theory paradigm and shows how this philosophical framework has shaped this dissertation's research question and methods. Overall, the function of the section is to present the theoretical framework that guided the research design. The section that follows, namely 3.3. *Methods used* describe the actual execution of the research that informed this dissertation, aiming to provide a good picture of how the research was carried out. The section also provides a detailed account of recruitment processes and procedures, demonstrating that the research was carried out in a manner that conforms to the good research practice codes of the research institution—section 3.4. *Interpretative framework* accounts for the interpretive group of methods, which define the meaning-making strategies applied to collected data. This section turns to the issues of reflexivity and positionality in research and provides a deeper insight into the role of subjectivity in shaping the researcher's point of view. Lastly, section 3.5. *Limitations* present difficulties in gathering data and gaps in archival material and giving information on how these difficulties were overcome and the remaining gaps. Moreover, the section acknowledges the drawbacks of using methodological approaches chosen for this dissertation and demonstrates why these remain the most suitable methods to answer the types of research questions asked in this dissertation.

3.1 Research design

The dissertation is a critical case study, and its research questions and methods flow from the assumption of the critical theory philosophical framework—the function of section 3.2. *Research design* explains the process of selecting an appropriate study design that effectively addresses the research question and aligns with the underlying research philosophy. With this in mind, the section unfolds into three parts that cover three key themes – ‘Philosophical assumptions,’ ‘Research questions,’ and ‘Methods used’. Overall, section 3.2 outlines the critical stage of research that involves planning and designing the research questions and methods, intending to analyse and explain the dissertation’s methodological framework.

Philosophical assumptions

Critical theory constitutes the philosophical underpinnings of this dissertation. Bearing this in mind, the function of this subsection is to explain how critical theory manifests in the context of this dissertation and how it guides the research design. The key is understanding where this dissertation sits regarding the philosophical assumptions about knowledge and the ways to acquire it, relying on Critical theory's ontological, epistemological, and methodological aspects. The centrepiece of the section is Figure 2, which summarises different aspects of methodological and philosophical discovery in this dissertation and explains how research philosophy informs research design and process. In turn, the structure of the subsection follows the structure of Figure 2. The subsection first introduces the overarching philosophical framework that the dissertation is based on – Critical theory, in more detail. After that, the philosophical framework itemises into three key branches of philosophy, namely ontology, epistemology, and methodology, which constitute the philosophical basis of this dissertation by setting up critical philosophical questions the dissertation answers at the point of research design. Finally, while the latter subsections will examine how the philosophical assumptions described in this subsection were considered and used in research practice, this subsection finishes with a note on research strategy and methods emerging from the philosophical assumptions presented.

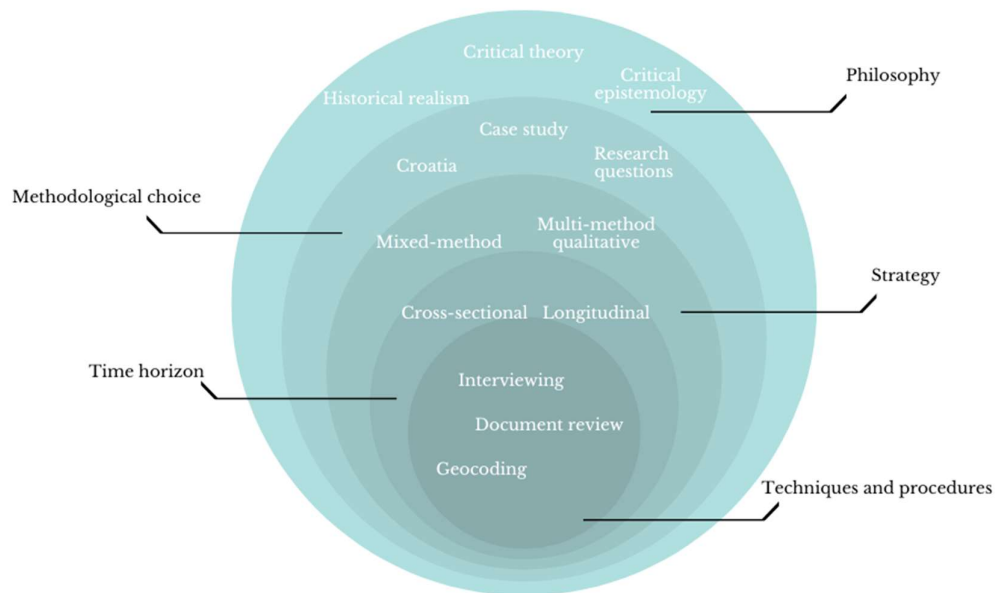


Figure 2 Research philosophy, design, and practice. Source: Author.

Critical Theory

Early in the process of philosophical discovery, this dissertation removed itself from a pure positivist paradigm of fixed, quantifiable realities and positioned itself in relation to critical schools of thought that see the world as constructed through power differentials. Among these schools, the dissertation finds itself most aligned with the Critical Theory stream of thought, initially emerging from the work of the Frankfurt School. As first defined by Horkheimer in the 1937 essay ‘Traditional and Critical Theory’ (Horkheimer, 1972), Critical Theory embraces approaches that decipher ‘Patterns, systems, and authorities that create and deepen power differentials’ (Horkheimer, 1947, p.132). While sympathetic to the classic Marxian quest, modern critical theory cannot be reduced to a class-based analysis, which is at the base of Marxist theory; instead, it explores a broader spectrum of power relationships. Willis continues elaborating on power differentials, asserting that these ‘dominate and subjugate by disenfranchising some groups while giving excessive power and resources to others’ (Willis, 2007, p.85). This influenced what the dissertation is looking at specifically within the theme of the financialisation of the postsocialist space,

and it is geared towards exploring social and power relations between financial subjects and between financial subjects, states, and households.

The power relation that is a crucial subject of this dissertation is the credit-debt relation. The most significant theoretical inspiration is drawn from the work of the GEOFIN project, primarily the writings of Sokol and his theoretical concept of *financial chains*, defined as ‘channels of value transfer, as well as social relations, which make up the contemporary circuits of finance’ (Sokol, 2015). Indeed, from the earliest critical theory writings, capitalist economy has often been one of the key research themes, and this dissertation follows the footsteps of the critical theory pioneers, such as Mounier (1938) and Marcuse (1964), in its aim to uncover the main drivers and manifestations of financialisation in the East-Central European periphery. These early critical theory authors critique the social condition characterised by the primacy of the economy, and this dissertation focuses on financialisation as the most recent phase and the manifestation of this primacy.

In defining financialisation, the dissertation is receptive to authors, especially Gibson-Graham, who questioned large conceptual frames of economic geography as too monolithic and not representative of their study objects (Gibson-Graham, 1996; 2008). Thinking through financialisation in the way it emerges and manifests in the exact context is the response to Cockayne’s work on defining objects of study in feminist economic geography while remaining open to the concepts themselves, developing and giving space to new meanings (Cockayne, 2019).

Figure 2 shows that the dissertation’s ontology is *historical realism* (Lincoln & Guba, 2016). Historical realism suggests that the real exists; however, the current social and political systems distort the real and create a false consciousness in individuals that keeps them from seeing the actual structure of society. The research aims to discover these distortions and the reality behind them. Similarly, *critical epistemology*, defined as a critical study of the origin and constitutions of knowledge, is concerned with deconstructing sociohistorical processes and power relations to know reality. In the context of this dissertation, knowledge is achieved through describing, analysing, and explaining credit-debt relations in the postsocialist context. Furthermore, critical epistemology suggests that the responsibility of such knowledge is socially committed praxis, aimed at not just describing, analysing, and explaining, as mentioned above, but also fostering conversation and reflection, which this dissertation aims to do most strongly in Chapter 7. Conclusions (Castree, 2000; Blomley, 2006).

Notably, the dissertation analyses its research theme within financial geography, where space is an essential critical tool, with socio-political power structures based on ideas about space and different spatial relations. Geographers entered the critical theory by drawing attention to the relations between space, place, and power, exposing the spatial processes that (re)produce inequalities between people and places (Hubbard et al., 2002, p.62). From the earliest geography accounts and the discipline's first definitions, geography committed itself towards taking a critical stance (Kropotkin, 1885). This tradition continues today, with 'alertness to the multiple and imbricated geographies through which oppression and domination are produced becoming more widespread' (Longhurst, 2002; Blomley, 2006, p.89). This set of assumptions guides this dissertation's research design and directly informs methodological choice and research strategy, which are, in turn, presented next.

Case study

A case study constitutes the central methodological choice of this dissertation. In more general terms, the methodology asks the following. 'How can we gain knowledge about the world, or what is an articulated, theoretically informed approach to producing data' (Ellen, 1984, p.9). Critical theorists arising out of the discipline of geography commonly identify *critical case studies*, defined as systematic studies of an illustrative unit within a group, as a methodologically excellent research approach. Such a case study aims to gain deep knowledge of some social setting or phenomenon through prolonged engagement and different forms of triangulation, such as using multiple data sources in an investigation and checking the consistency of findings using various data collection methods. Moreover, geographers have continuously challenged universal spatial laws and the ideas of neutral, frictionless space. Instead, critical geographers advocate for the scholarship that occurs in context and produces 'situated knowledge' (Haraway, 1988). With this in mind, the case study constitutes the backbone of the dissertation's methodology.

Since the dissertation takes a case-study approach, one of the critical tasks of the study design was to define criteria for case study selection at the outset of the study. The critical criteria chosen include the case study's representability and data availability. The former, representability, defines the case study as one that represents the general patterns of financialisation of the postsocialist space. Representability criteria ensure that the case study fits well within the research theme and allows for drawing some conclusions about financialisation in other postsocialist countries. The latter criterion, the data availability, guarantees that the study can be executed as planned and that enough data can be collected

to be considered valid and credible. With this in mind, Croatia was identified as an excellent case for analysing financialisation in the postsocialist space. Croatia experienced one of the earliest West European acquisitions of the domestic financial sector, as early as 1994 when the country was still in the midst of the Independence War (Drašković, 2015, p.16). A massive entry of West European banks followed in the early 2000s (Družić, 2001, p.309; Gregurek, 2001, p.169; Kraft, 2002, pp.12-13), with about 90% of the country's financial assets being consistently foreign-owned ever since (Drašković, 2015, p.16). In addition to the country having a fundamental sociohistorical place in the financialisation of the postsocialist space, there are further methodological advantages in choosing this particular country as the dissertation's key case study. Above all, the researcher's familiarity with the local history, culture and language enabled access to documentation written in the native language and the broader circle of potential research participants, as those unfamiliar with English did not have to be excluded. What further reduced the list of possible case study candidates was the researcher's ethical commitment towards 'at-home research,' in which the author investigates a setting where they have 'natural access' and are active participants (Alvesson, 2009). Before dwelling into the specific research questions asked and methods used to answer them, with an understanding that a reader may not be familiar with the country of Croatia, the section that follows introduces politico-administrative, demographic, and socio-economic context, as well as subnational spatial organisation of the selected case study.

Croatia: facts and figures

This section's main goal is to provide a brief overview of politico-administrative, demographic, and socio-economic indicators in Croatia. The relevant indicators are presented at national and subnational levels, highlighting the uneven regional distribution of their values. This serves as an important context for the research on financialisation in Croatia.

Politico-administrative indicators

- Croatia declared independence from the Socialist Federal Republic of Yugoslavia (SFRY) in 1991, followed by the Croatian War of Independence (1991-1995). The regime preceding Croatian independence was called 'socialist self-management' or 'self-governing socialism,' indicating a social and economic model where firms are

managed by their workers who decide on both production processes and workers' welfare, such as housing construction and allocation. The model represented a 'third way' between Western capitalism and Soviet state socialism.

- Today, the country is a Parliamentary Republic and an EU member-state. Since 2023, the country has also been part of the Eurozone and Schengen. Until 2023, the currency was Kuna (HRK), with the country since transferring to Euro (EUR). The capital city is Zagreb. The three decades of independence have primarily been governed by the conservative-right party Hrvatska demokratska zajednica (HDZ), with two-term exceptions when centre-left party Socijaldemokratska partija (SDP) led coalition governments.
- Croatia splits into four administrative-statistical regions (NUTS 2): Pannonian Croatia, North Croatia, Adriatic Croatia and the City of Zagreb; it further splits into 21 counties (NUTS 3), 128 towns, 428 municipalities, and 6,757 settlements.² Counties, towns, and municipalities are seats of local self-government, while settlements correspond to geohistorical units. A municipality with 10,000 inhabitants or more is granted a town status.
- Geographically, Croatia is in East-Central Europe, on the Balkan Peninsula. The total land surface of the county is 56,594 km², making Croatia a medium European country. The four administrative-statistical regions have an uneven geography, with Adriatic Croatia having 24 705 km², Pannonian Croatia at 23,220 km², North Croatia at 8,028 km², the City of Zagreb at 641 km².

Demographic indicators

- Croatia's total population is 3,871,833 (DZS, 2022, p.13), of which Adriatic Croatia has the highest population share of 1,298,522 (DZS, 2022, p.55), followed by Pannonian Croatia, 1,019,535 (DZS, 2022, p.14). North Croatia has 786,645, closely followed by the City of Zagreb, with 767,131 (DZS, 2022, p.13).
- The Croatian population is distributed rather unevenly. Over half of the Croatian population lives in five counties: the City of Zagreb, Split-Dalmatia, Zagreb County, Primorje-Gorski Kotar, and Osijek-Baranja. The most populated county is the City of Zagreb, with 767,131 inhabitants and a population density of 1,197 per

²<https://mpu.gov.hr/o-ministarstvu/ustrojstvo/uprava-za-politicki-sustav-i-opcu-upravu/lokalna-i-podrucna-regionalna-samouprava/popis-zupanija-gradova-i-opcina/22319>

km², while the least populated county is Lika-Senj, with 42,748 inhabitants and an average of eight people living per km².

- Three towns have a population above 100,000: Zagreb 767,131, Split, 160,577, and Rijeka 107,964. Four other large towns have populations between 50,000 and 100,000, including Osijek 96,313, Zadar 70,779, Velika Gorica 61,075, and Pula 52,220.
- Total (private) households: 1,434,785 (DZS, 2022, p.13), and the average number of household members is 2.7. Among them, Adriatic Croatia has 493,331 private households (DZS, 2022, p.55), Pannonian Croatia 382,535 households (DZS, 2022, p.14), City of Zagreb 299,792, and North Croatia 259,127 (DZS, 2022, p.13).
- Total housing units: 2,350,444, among which 2,015,364 are dwellings for permanent habitation (DZS, 2022, p.13). Among total housing units, Adriatic Croatia has 997,897, among which 755,987 are for permanent habitation, Pannonian Croatia has 567,805 (DZS, 2022, p.14) among which 536,241 are for permanent habitation, City of Zagreb 393,433, for permanent habitation 382,926, and North Croatia 391,309, habitation 340,210 (DZS, 2022, p.13).
- All areas in Croatia have negative demographic trends caused by natural population change (i.e., population ageing and more deaths than births) and outmigration, which intensified following Croatian EU accession. Between the 2011 and 2021 censuses, Croatia lost 413,056 citizens, which brings an overall population downfall in the decade to -9,64%. However, the geography of population flight is highly uneven, with Pannonian Croatia experiencing extreme population flight, surpassing -20% in some Pannonian counties, while the City of Zagreb experienced comparably significantly lower -2.90% population loss. However, looking at the district-level population loss, two city-centre Zagreb districts experienced a population loss –of 15%, while four of the suburbs experienced a population gain of up to +10% (GUGEOSP, 2022, p.9).

Socio-economic indicators

- In 2020, Croatia achieved a GDP of 50,461 million EUR, or 12,468 EUR per capita (DZS, 2023). However, the GDP is extremely geographically uneven, with the City of Zagreb having a per capita GDP nearly double the national average at 21,829

EUR per capita and Pannonian Croatia having a GDP of 8,846 EUR per capita (DZS, 2023). Furthermore, the City of Zagreb has a 33% share in GDP, with most Pannonian counties having between 1-3% share (CMS, 2016).

- The service industry, including retail, holds the biggest share of GDP (HNB, 2023, B-283). While the service industry continues to increase its share in GDP, due to profound deindustrialisation following the dissolution of socialism that continues to this day, manufacturing keeps losing its share in GDP. This is further reflected in the persistent trade deficit, with imports continuously surpassing exports (HGK, 2020, p.4).
- Financial services constitute the bulk of FDI in Croatia, followed by real-estate investment (HNB, 2023, e-u6). Most sources of FDI are West European countries (HNB, 2023, e-u5).
- The structure of employment by sectors shows that most employed are in the services and manufacturing sectors, with a trend of the services industry consistently growing in importance. The Croatian labour market is highly seasonal, with short-term employment increasing each summer due to seasonal jobs in tourism.
- The average net salary was 945 EUR in 2021 (HNB, 2023, e-rs-07). The highest wage was 1,100 EUR in the City of Zagreb in the mentioned year, and the lowest was 777 EUR in Virovitica-Podravina (DZS, 2023, 9.4.1).
- The unemployment rate stood at 8% in 2021. Virovitica-Podravina had the highest unemployment rate, at 16%, or double the national average in 2021. The City of Zagreb and Varaždin County had the lowest national average, with a 3% unemployment rate (DZS, 2023, 9.4.2). Unemployment peaked in 2001 and 2002 and then again in 2013, surpassing 20% (HNB, 2023, e-rs-05).
- All the socioeconomic indicators point to uneven regional development. 2011 Croatia introduced a separate Ministry of Regional Development and EU Funds ensuring equitable development. The Ministry introduced a Regional development index (RDI), which groups counties based on their development and defines regions needing support.

This subsection laid out philosophical assumptions about knowledge and how to obtain it, which guided this dissertation's research design. It was argued that the dissertation

befalls within the critical geography framework, where the purpose is to understand power relations and value transfer channels that underpin the emergence of financialisation in the East-Central European periphery after the dissolution of socialist regimes. Having introduced the chosen case study, Croatia, the chapter turns to the next step in research design: presenting the research questions the dissertation aims to answer and the rationale for selecting them. After that, the chapter introduces methods the dissertation employs to answer its research questions. The subsections contribute to the understanding of the dissertation's research design, which will be followed by an account of how this research strategy played out in practice.

Research questions

As previously argued most prominently in Chapter 2, 'Literature Review,' the dissertation detects a gap in knowledge at the intersection of geographies of postsocialist transformation, financialisation, and banking geography literature. The dissertation contributes to the nexus of these, primarily economic geography literature, by taking an interest in the emergence of financialisation in the East-Central European periphery and the specific form financialisation takes in this context. To research this, the dissertation scales down to a representative case study – Croatia. With this in mind, Table 2 lists key research questions developed to guide the dissertation's research. Firstly, the table lists the central research aim, 'What are the main drivers and manifestations of financialisation in the East-Central European periphery? A case study of West European banking groups in Croatia.' The research aim positions West European banks as the main drivers of financialisation in Croatia, and the dissertation's contribution is to uncover geographic manifestations and implications of this. The dissertation's three research questions directly emerge from this research aim and can be found below the aim in Table 2. Turning now to research questions, the subsection outlines what they are asking and how they intend to develop new understandings about financialisation in the East-Central European periphery.

Research aim: What are the main drivers and manifestations of financialisation in the East-Central European periphery? A case study of West European banking groups in Croatia.
RQ1. How have West European banks managed to 'penetrate' postsocialist Croatia, and how has this transformed Croatian banking?
RQ2. How do West European banking groups organise their retail banking operations in Croatia? 2a. What spatial patterns do branch networks of West European banks take at the subnational level, and how have these spatial patterns been changing over time? 2b. What are the main drivers of these spatial patterns? 2c. How has this transformed the postsocialist banking space in Croatia?
RQ3. What lending strategies do West European banking groups pursue in Croatia? 3a. What specific lending policies do West European banks follow? 3b. How do these policies translate into lending decisions; who is excluded/included, and on what terms? 3c. To what extent are these lending policies and decisions informed by uneven geographies, and how do these lending strategies and emerging debtscapes contribute to uneven regional development?

Table 2 Research aim, research questions, and research subquestions. Source: Author.

The first research question (RQ1) asks, 'How have West European banks managed to 'penetrate' postsocialist Croatia, and how has this transformed Croatian banking?' This question befalls under the theme of the financialisation of banking and explores the postsocialist transformation of banks in Croatia under the direct influence of West European financial capital. In asking this, RQ1 aims to contribute to our understanding of the exact mechanisms through which financialisation emerges in the East-Central European periphery and the implication of this for the local banking structures. The following two research questions are situated on the back of the RQ1 by looking at branch networks and lending strategies that emerge from Croatia's newly formed banking structures.

Specifically, the second research question (RQ2) asks, ‘How do West European banking groups organise their retail banking operations in Croatia?’ This question is explored through three dimensions – (2a) branch networks’ spatial patterns and their change over time, (2b) main drivers of these spatial patterns and, finally, (2c) how these branch network patterns have reshaped the postsocialist banking space in Croatia. Through these three subquestions, RQ2 aims to contribute to understanding spatial aspects of financialisation in the East-Central European periphery or, in other words, spatialising financialisation within the postsocialist context and its impact on the environment where banking activities occur. Lastly, the third research question (RQ3) focuses on lending as the paramount banking activity and asks: ‘What lending strategies do West European banking groups pursue in Croatia?’ Similar to the former research question, RQ3 is explored in three parts. Specifically, the lending strategies of West European banking groups are first explored through their formal lending policies (3a) and then through their real-life lending decisions (3b). Lastly, the third part of RQ3 untangles the two-way relationship between previously mentioned lending policies and decisions and uneven regional development by observing how lending policies and decisions are informed by uneven geographies and how, in turn, these lending strategies and emerging debtscape contribute to uneven regional development. Through the three subquestions, RQ3 studies how financialisation influences lending strategies in Croatia and with what implications for regional development at the subnational level. Altogether, the three research questions contribute towards the research aim, pointing to the main drivers and manifestations of financialisation in the East-Central European periphery using Croatia as a case study.

After studying the dissertation’s research questions, the chapter now turns to the methods used to answer them. Notably, the subsection that follows briefly outlines the rationale that informed the selection of the dissertation’s methods in the research design leg of the study. A separate section, 3.3 Methods Used, will show how the dissertation’s methods have been used in the research process.

Methods

The dissertation adopts a mixed-method approach to studying the selected case study of West European banking groups in Croatia. In other words, the dissertation employs both quantitative and qualitative methods to tackle the research problem. The goal is for the quantitative and qualitative approaches to supplement each other by providing results of a different nature. A significant advantage of using methodological triangulation is that one

can be more confident in the validity and credibility of a result if different methods lead to the same conclusion. At the same time, the contradictions in results emerging from different methods of enquiry serve as a fertile field for further questions and insights. By approaching data from different angles, the dissertation can gain insights into the complexity and multifacetedness of financialisation in the postsocialist space. With this in mind, the subsection outlines the key methods used in this dissertation, first quantitative, then qualitative.

In terms of quantitative methods, the dissertation detects a set of geographic methods as an excellent starting point from which it starts to analyse the financial system in Croatia. Namely, the Geographic Information System (GIS) was chosen for its sensitivity to the role of space, place, and scale in leading to distinct bank branch networks and lending patterns. Thus, GIS was used to analyse spatial data and allow for insights into the spatialisation of financialisation in postsocialist spaces. Furthermore, aware of the epistemological critiques of the GIS used to emphasise positivist exploration (Kwan, 2007; Leszczynski, 2009), this dissertation employs hybrid qualitative-quantitative GIS practices, which employ GIS epistemology as an entry point for its critical applications. In other words, the spatial data are explored, described, explained, and expanded upon through qualitative methods. In doing so, the dissertation responds to the insistence of authors, such as De Haas and Naaborg, who point to methodological inadequacies in investigating financial links between financial institutions through purely quantitative means (De Haas & Naaborg, 2006). This brings us to the qualitative methods used in this dissertation.

The dissertation employs multi-method qualitative approaches, namely, document review and interviewing. Both qualitative methods involve collecting non-numerical data through observational and dialogical techniques. On top of selecting the two methods, Carspecken's work guided the dissertation on how these qualitative methods are used within the critical theory paradigm (Carspecken, 1995). The semi-structured approach to interviewing was chosen because it limits the dialogue to the issue of interest, yet it also allows for themes relevant to the interviewee to emerge, as well as the follow-up questions to gain a more in-depth understanding.

Having explained how methods were integrated into the research design, section 3.3 *Methods Used*, explains how methods were implemented in the research process. Notably, the dissertation borrows from the pragmatist research approach that suggests adopting a method that answers each research question in the best way possible. Consequently, methods emerge from research questions as techniques used to answer them.

Since the type of method chosen is directly related to the research question asked, the structure of section 3.3 follows the research questions. It describes different data collection and analysis techniques used to answer them.

3.3 Methods used

The following paragraphs are dedicated to explaining the application of a method in practice. The critical question of this section is which methods were used to answer particular research questions and how the research for this dissertation has been carried out. With this in mind, the structure of the section revolves around the dissertation's three research questions, accompanied by the precise procedures developed to answer them.

To reiterate RQ1, which is available in Table 2, the research question asks: 'How have West European banks managed to 'penetrate' postsocialist Croatia, and how has this transformed Croatian banking?' RQ1 positions itself as a descriptive question, requiring methods that explore what characterises the phenomenon of West European bank insertion in the Croatian banking sector and its consequences on the local banking structures. The critical method for this question is the document review, by which the dissertation explored historical documentation related to West European bank entry. The documents were sourced from the Croatian Central Bank (in original: Hrvatska Narodna Banka or HNB from here), local retail banks, West European parent banks, and internet archives. The document analysis focused on both the establishment of the new forms of banking and the context of financialisation within which this was happening, demonstrating the phenomenon of financialisation of banking itself. Furthermore, several senior bankers who were employed during this period of West European bank entry recounted their memories of the West European bank entry era in semi-structured interviews. While interviews did not constitute the central method for this research question, they added rich ethnographic detail and explanations that could not be gathered solely from the documentation. Together, the two methods helped elucidate the mode and context of West European banks' expansion in Croatia, the resultant formation of new financial chains between the two European regions, and how this has reshaped the local financial system in Croatia. The dissertation's following two research questions build upon the results from the RQ1 and the methods that correspond to their probe into the structure of this new financialised form of banking in the case study of Croatia.

Moving on to the following research question, RQ2 asks, 'How do West European banking groups organise their retail banking operations in Croatia?' and explores the issue

through three subquestions. The first subquestion (2a) examines, ‘What spatial patterns do branch networks of West European banks take at the subnational level, and how have these spatial patterns changed over time?’ To answer the question, geocoding methods were adopted to trace branch locations. More specifically, the GIS spatial analysis was used to capture, analyse, and present the data on the bank branch network in Croatia. The data on street addresses of branches is publicly available on bank websites; therefore, there were no difficulties reconstructing branch geographic coordinates and mapping these patterns to address subquestion 2a. The starting dataset includes 823 branches owned by 20 banks operating in Croatia.³ The West European bank dataset, defined as those majority-owned banks by West European shareholders with information collected from the Croatian Central Bank (HNB, 2018, pp.64-94), includes 12 banks out of 20 and 508 branches out of 823. The branches were mapped for each bank separately. Such a layered, bank-per-bank approach to mapping allowed for comparison between different West European banks, contributing towards the development of identity and difference in the geography of banking. Additionally, mapping individual branch networks allowed for the compare and contrast approach between West European banks, the key subject of this study, and other bank sets, such as domestic banks or banks owned by non-Western banking groups.

Three banks act as scaled-down case studies within the large-scale case study of Croatia, and their branch networks and lending strategies are explored and compared in the greatest detail throughout the dissertation. These banks are Zagrebačka Banka (owned by UniCredit S.p.A.), Erste & Steiermärkische Bank (owned by Erste Group Bank AG and Steiermärkische Bank und Sparkassen AG), and Raiffeisen Bank Hrvatska (owned by Raiffeisen Bank International). The criteria for choosing the three banks specifically include their systemic importance for the Croatian financial system and their mutual specificities in terms of their country of origin and mode of entry. Namely, Zagrebačka Banka is an Italian-owned bank, while Erste & Steiermärkische Bank and Raiffeisen Bank Hrvatska are Austrian banks. Furthermore, the former two banks were brownfield investments in Croatia, with parent banks investing in existing banks. At the same time, Raiffeisen Bank Hrvatska was a greenfield investment, a new bank built from scratch. The

³ However, there is a minor discrepancy between the hand-collected website data presented in the dissertation and the branch number data banks released in some of the banks’ most recent Annual Reports (2021). Namely, PBZ reports 157 branches; in other words, seven branches more than it is presented here. Erste&Steiermarkische Bank and Raiffeisen Bank both report a branch less than what the website shows, and ZABA reports two branches more than what the website shows. Since none of the discrepancy is greater than 5% and the Annual Reports fail to list branch addresses, the dissertation proceeds with using the hand-collected data.

goal is to determine whether the country of origin or the mode of entry consistently relates to specific banking geographies and with what consequences. Finally, all three banks showed they were forward and open when accepting interviews, which was methodologically important in choosing banks with accessible data.

The second part of the first subquestion (2a) asks how the spatial patterns of the West European bank branch have changed over time. The data for this part of subquestion (2a) were collected primarily using the document review method. Historical data on previous bank locations are available through several online archives, such as the Wayback Machine.⁴ and the Archive Today⁵. The software allows for the retrieval of archived versions of web pages across time. Although not all periods are covered, enough of the Croatian banks' website histories can be retrieved to reconstruct the historical locations of their bank branches. These data were complemented with the analysis of banks' strategy documents, press releases, newspaper articles, etc., as well as the Croatian Central Bank's regular publication, The Banks Bulletin⁶, which gives an annual overview of developments in the Croatian banking sector. The first goal of this part of the subquestion (2a) was to observe general trends in the historical evolution of bank branch networks in Croatia and examine bank branches being established, relocating, merging, closing, and staying across regions. In addition to investigating these cross-regional general trends, the document review examines the overtime changes in branches of the three focal West European-owned banks, as identified above. The selection of the banks was explicitly guided by the intention of an enquiry into the contrasting branching logics of different, systemically important West European banks.

The subsequent subquestion (2b) on the drivers that underpin the current spatial patterns of bank networks required going a step further and enquiring about the factors behind these geographic expressions. While some data on the reasoning behind branch openings and closures are available in the bank strategy documents and annual reports, most of the information was gathered through interviews with senior managers at selected banks. This was complemented by interviews with bank branch network directors, managers of newly opened branches, and recently closed branches.

While each interview schedule was tailored to a particular position and role the participant held in the financial sector, a standard list of questions asked to answer the RQ2

⁴ <https://archive.org/web>

⁵ <https://archive.ph/>

⁶ <https://www.hnb.hr/en/analyses-and-publications/regular-publications/banks-bulletin>

can be found in Appendix 1 of the dissertation. The interview would usually consist of 12 questions. The first three questions elicited information on the role of the interviewed banker and their department. Participants were asked to respond using broad and detailed descriptions. The following seven questions were designed to measure the constructs of priority regions and banking deserts, branching strategy and criteria, difficulties encountered and future branching prospects. The interview ended with two open-ended survey questions that asked participants to indicate if anything important to them had not been mentioned and if there were anyone they would recommend talking to next, using a snowball recruitment technique. The researcher's familiarity with the native language was particularly useful in studying the dynamics of openings and closures and their logic, as the interviews with responsible managers could be conducted in the local language. To have abundant time in the field to produce thick descriptions and concrete details, the researcher spent two months researching abroad at the case study of choice – Croatia.

The fieldwork was especially relevant for subquestion 2c, which investigates how the abovementioned developments transformed the postsocialist banking space in Croatia. More specifically, this is an enquiry into the changing character and purpose of banking and lending from the former Yugoslav to the contemporary Croatian period. The relevant information was obtained via expert interviews with financial experts, academics, and the officials at the Croatian Central Bank, as well as through the analysis of banks' history documents, often published at the point of different jubilees denoting essential anniversaries. To gain a richer picture of the changing nature of banking, the researcher also attended events and seminars organised by different banks in Croatia.

As stated earlier in the chapter and elsewhere, RQ3 asks, 'What lending strategies do West European banking groups pursue in Croatia?' Similarly to RQ2, RQ3 also consists of three subquestions. Firstly, through the first subquestion (3a), the research explored the development of lending policies of Western banks operating in Croatia and the extent to which geography features these policies. To do so, the research process inquired into targeted customer geographies and knowledge of the market fuelling these targets, loan recovery procedures, profit margin objectives, and the limits to the independent lending policy formulation posed by the local Croatian regulation and parent-bank directives. Most of the information was gathered through interviews with senior bank managers and document reviews of headquarters or parent bank directives related to lending policies when interviewees were willing to share. The dissertation aims to provide a complete overview of the lending policies of those banks that have the most extensive geographic

distribution of their branches and that made themselves available for interviews, namely, as mentioned earlier, Zagrebačka banka, Erste & Steiermärkische, and Raiffeisen Bank Hrvatska.

The second subquestion concerns how these Western banks' lending strategies and policies translate into concrete lending decisions (3b). To answer this question, the dissertation reviewed the guidelines used by credit departments of the three selected Western banks to reach decisions on loan applications. While some written guideline documents were made available to the researcher, most information was accessed through interviews with credit brokers and bankers in charge of credit scoring, paying attention to a 'relational, micro space framework' (Ettliger, 2003) to explain loan decisions. The goal was to identify terms and conditions by which loan applicants are granted or denied the funds. Insights emerging from this question have shed light on financial inclusion and exclusion dynamics and the factors that inform it. While interviews provided preliminary insights into where and to whom banks lend, this was followed up by a document review, by which the dissertation analysed Western banks' annual financial reporting on their retail lending activities in Croatia. The dissertation focused on lending indicators pointing to the geographically differential lending, such as the data regarding the distribution of banks' profitability, such as the returns on average assets and equity, as well as the distribution of credit risk, primarily measured through a share of non-performing loans in different Croatian subnational geographic scales. The answers to subquestion 2c provided insight into how assets/debts are distributed in the subnational space.

Finally, the third subquestion (3c) asks, 'To what extent are these lending policies and decisions informed by uneven geographies and how, in turn, do these lending strategies and emerging debtscapes contribute to uneven regional development?' Croatia is characterised by extreme regional differences in development and the economic and subsistence strategies of the region's populations. The literature extensively documents the unprecedented scale of uneven development in Croatia – including both the decline of some and the growth of other regions (CMS, 2016, p.1) and urban spaces (Spevec & Klempić Bogadi, 2009, p.455) in the postsocialist period. The third subquestion concerns the role of West European banks' lending strategies in reflecting and contributing to these inequalities. To answer this question, the collected data on bank lending was matched with the Croatian central government's tri-annually Index of Regional Development and other available measures of uneven regional development and urban segregation. The index consists of several socio-economic indicators that aim to show the development level of local and

regional government units. The two strands of data allowed for insights regarding the correlations between the uneven development and Western banks' lending strategies, as well as the bigger debates regarding the relationship between financialisation and growing inequalities.

3.4 Analysis of data

While previous sections focused on how research data had been collected, this section looks at how data was analysed and interpreted. Thorne notices that data analysis and interpretation are 'the most complex phase of research and one that receives the least thoughtful discussion in the literature' (2000, p.68). Indeed, in the bid to acknowledge this critique, this section of the chapter discusses the procedures of the analytical and interpretive set of methods, which explain how the collected data was categorised, managed, interpreted, and summarised to answer the study's research questions. The structure of the section is split into two parts – the analysis of the quantitative data and the analysis of the qualitative data.

When analysing the first line of quantitative data, namely the branch spatial patterns, the foremost step taken was to look at density and clustering phenomena to detect geographic concentrations of branches. This was done at various subnational scales, starting from inter-country regions, moving onto administrative county-level and district-level, and ending with city-level scale, with an example of the City of Zagreb. The concrete analytical instruments involve measuring proximities to other branch neighbours by measuring the existence of other branches in four-kilometre radiuses, replicating the study previously done by the Austrian Central Bank in the countries with Austrian subsidiary banks (Beckmann et al., 2018). Furthermore, the dissertation records absolute branch numbers at different geographic scales, as listed above, and the overlap of branch numbers with the socioeconomic characteristics of the area, such as the population and poverty data. Using the network analysis, instruments are deployed to detect agglomerations and spatial discontinuities in bank branching, which guided further analyses of spatial interactions between branches. Moreover, besides looking at the branch densities and the absolute branch number counts, the analysis centred on bank diversity at the same geographic scales. This subnational diversification of banking analysis detects monopolies and niches, giving vital insights into banking choices and financial inclusion themes. The same significant themes of concentration and clustering, diversity, and distribution were applied to data on the spatial distribution of debt and lending. The analytical tools position geographic

epistemology as one of the critical lenses through which the banking sector can be understood and evaluated. Finally, the quantitative spatial data described above were given a time dimension, where expansive and contracting dynamics in branching were observed over time. Moreover, the branching trends were plotted against regulatory changes and historical events to ascertain the context of bank branch spatial patterns and possible catalysts of that change. The backbone of the analysis looks at different paths of development of individual bank branch networks, detecting the periods of upswing and downturn, with further analysis detecting what drove these trends.

Braun and Clarke (2006) argued that thematic analysis should be a foundational method for qualitative analysis. The authors define thematic analysis as a ‘method for identifying, analysing, organising, describing, and reporting themes found within a data set’ (Braun & Clarke, 2006). As the previous sections showed, narrative data emerged from various qualitative research techniques, primarily semi-structured interviews and fieldwork observations. To analyse these descriptive texts, interviews were first transcribed, and transcripts were coded to facilitate the categorisation and labelling of data into identifiable and workable themes, as suggested by Braun and Clarke and by following trustworthiness criteria as defined by Nowell et al. (2017). Discussion chapters emphasise the themes that recur throughout the dataset, with trends and patterns in data being the critical matter of inquiry in this data analysis. In other words, the excerpts were chosen if other data and participants were repeating the same point. After the transcripts were checked for common themes, data outliers were also identified, and further analysis focused on finding explanations. Such an analytical approach, as described here, allowed for highly focused data segmentation and discussion chapters to present and describe the results systematically and in detail. It is also important to note that all the interviews were conducted in Croatian; thus, transcribing and coding also required translation. Lastly, while the dissertation’s timeline includes the particular period for analysis and interpretation of data that preceded the write-up, the notes about research progress in the form of ‘reflective writing’ in the research diary were also made a part of the research process, with common themes and contradictory experiences that were emerging along the way given a special note. Overall, the dissertation aims to remain faithful to Baxter and Eyles’s rigour criteria and ‘demonstrate the relevance of the single case (credibility) and to move beyond it (transferability) with a degree of certainty (dependability and confirmability)’ (Baxter & Eyles, 1997, p.521). The research diary also made notes of difficulties encountered so that the research process could be improved along the way. Some of these difficulties are

presented in the next section, 3.5 Limitations, which specifies the key methodological issues of this dissertation and how the researcher managed to overcome these.

3.5 Ethics, limitations and other considerations

Ethical approval for this research was obtained from the School of Natural Sciences (SNS), Trinity College Dublin (TCD), following two streams of ethical assessments. Namely, the procedures of this study were first guided by the GEOFIN Project's Ethics Protocols, as approved by the School's Research Ethics Committee (REC). The four project-related protocols emerging from this involve: 1. Recruitment of Participants.⁷; 2. Safety of Participants⁸; 3. Safety of Research Team Members⁹; and 4. Data Protection¹⁰. Secondly, the dissertation has further been formally approved by the SNS's Ethics Committee through a separate PhD-specific Ethics Application. All of this ensures that the dissertation abides by the principles of research ethics upheld by the research institution.

As per ethical protocols for the Recruitment of Participants, the starting criteria for selecting the subjects included their ability to provide free and informed consent. Further eligibility criteria required individuals to have current or past employment in the banking industry or a substantial knowledge of the banking and finance segment relevant to the dissertation. Indeed, most participants in this study were recruited from the banking sector. At the same time, the second stream of informants consists of academics, financial experts, policy-makers, and other stakeholders who have stakes in the financial industry. These were elite or expert interviews, with sources chosen based on their position and expert knowledge corresponding to the dissertation's research questions and guided by McDowell's theoretical considerations in identifying and interviewing elites (McDowell, 1998).

Potential interviewees were, by and large, located and contacted through social media, primarily LinkedIn and email advertisements, requesting their participation. Upon inviting the participants for an interview, the purpose of the research was clearly explained through the Information Sheet, and the participants were directed towards resources where further information is available, such as the GEOFIN project's website and social media. Around 300 potential participants were contacted, and the response rate was around 10%.

⁷ 1a. Gatekeeper agreement 1b. Inclusion and exclusion criteria 1c. Home visiting

⁸ 2a. Vetting of research team 2b. Police checks 2c. Distress of participants

⁹ 3a. Lone Worker Policy

¹⁰ 4a. Protection of data during fieldwork transportation and storage & compliance with GDPR 4b. Information and Consent Sheets

A smaller research sample was predicted, and there was difficulty in obtaining interviewees due to bank secrecy compliance requirements. While the small sample size represents a methodological limitation since the small size of the dataset compromises the validity and generalizability of the studies' results, the sample has been robust enough to address the research aims and the point in data collection and analysis when the information given produced little or no new data has been reached. This was achieved by emphasising fewer in-depth interviews with highly knowledgeable banking officials, which produced thorough and meaningful findings. Namely, the average length of the interview is over an hour, with the longest interview being 01:53:11h in length. The dissertation sits on 34 interview hours, spread out over 32 interviews and 29 research participants. Three interviews were repeat interviews, where the research participant was contacted twice for an interview, usually due to their consecutive employment in multiple financial institutions. Following the interview, the participants were thanked for their time and effort, and about a third of the research participants were contacted again for follow-up questions. In the follow-up phase of the study, participants were asked for information that was detected as missing or unclear when interview transcripts were checked, as well as about any changes that may have happened since the initial interview. Regretfully, most interviews were conducted virtually, primarily using the Microsoft Teams and Zoom platforms, due to the context of the global pandemic. The data were recorded on a digital audio recorder when the interviewee granted permission. Table 3 outlines the abovementioned information about the anonymised research participants and how the interviews have been conducted in more detail. Following Hitchings and Latham's critique on the current lack of reporting on interview details in economic geography (Hitchings & Latham, 2020), the table lays out as much detail as ethically possible about the interviewees and the interviewing process. In the text, I01 to I32 refers to interview numbers 1 to 32.

Interview no.	Institution	Role	Interview type
1	Real-estate agency	CEO	Phone
2	University	Senior academic	Online
3	University	Senior academic	Online
4	University	Senior academic	Online
5	Science institute	Researcher	Online
6	Retail bank	Credit officer	Face-to-face
7	Central bank	Senior manager	Online
8	Retail bank	Credit officer	Face-to-face
9	Political movement	Researcher	Face-to-face
10	Retail bank	Credit officer	Online
11	Retail bank	Financial analyst	Face-to-face
12	Retail bank	CEO	Face-to-face
13	Retail bank	Credit officer	Online
14	Political movement	CEO	Phone
15	Retail bank	Head of the retail network	Online
16	Retail bank	Board member	Online
17	Retail bank	Board member	Face-to-face
18	Banking association	Senior Consultant	Online
19	Retail bank	Board member	Online
20	Retail bank	Software engineer	E-mail
21	Retail bank	Head of the retail network	Online
22	Retail bank	Credit officer	Online
23	Credit brokerage agency	Credit broker	E-mail
24	Retail bank	Regional director	Online
25	Credit brokerage agency	CEO	Online
26	Credit brokerage agency	Credit broker	Online
27	Retail bank	Regional director	Online
28	Debtors' association	Board member	Online
29	Retail bank	Chief economist	Online
30	Political movement	Board member	Online
31	Real-estate agency	CEO	Face-to-face
32	Real-estate agency	Agent	Face-to-face

Table 3 Research participants and interview data. Source: Author.

While some of the data collection strategies consist of analysing existing datasets and collecting the information available from online sources, which bear no risk for anyone, other fieldwork-based records and interview data fall under the GDPR definition of personal data and, thus, must be handled with special care. Steps taken to protect research participants include ensuring that personal data collected in fieldwork is pseudonymised or fully anonymised as soon as possible. In contrast, files containing unique identifiers, such as personal identification and contact data, including audio recordings, were kept separately from pseudonymised datasets and locally on password-protected drives accessible only to individual GEOFIN Team Members who are in some capacity responsible for the dissertation. Furthermore, since this type of research bears the risk of disclosing sensitive insider business information, research participants were given the option to authorise interviews in a manner of continued informed consent, by which they could contact the researcher during the entire length of the study and request to see how the information given had been used. This allowed research participants to enforce the rights to data rectification, restriction of processing and the right to object (GDPR Articles 16, 18 and 21) to any particular portion of the transcript. Several interviewees enforced this right, and all continued authorising the interview for use in this dissertation. The informed Consent Form, which served as an agreement between the researcher and the research participants and outlines responsibilities and risks recognised by both parties involved, is attached in Appendix 2 of the dissertation.

This section looks at the methodological limitations encountered in this dissertation, emerging from theoretical and practical applications of the method. The goal is to show evidence that the researcher reflected on how the research process influenced the data collected and conclusions drawn and to name the unpredictable events that limited the researcher's investigative view. The first methodological concern is universal to all research, and it concerns the fact that 'observations are not made in a vacuum but are guided and shaped by prior questions, problems, hypotheses, conjectures or theories' (Sayer, 1992, p.55). In other words, researchers observe through the theoretical lenses of their training, the theories they are aware of, and the sociocultural environment they were brought up in, influencing what they see. This has long been captured in Haraway's concept of 'situated knowledge,' which posits that the knowledge gathered reflects the context and conditions in which the knowledge is embedded (Haraway, 1988). Furthermore, Haraway suggests that the way to reflect on positionality and how it shapes the research is through considering oneself throughout the work and realising that what we are writing is situated knowledge.

Simandan builds on Haraway's conceptualisation and provides an insightful categorisation of situated knowledge-related epistemic gaps: (1) 'possible worlds versus the realised world', (2) 'realised world versus witnessed situation', (3) 'witnessed situation versus remembered situation', and (4) 'remembered situation versus confessed situation' (Simandan, 2019). Building rapport with interviewees before interviews proved invaluable for accessing and discussing research data, with interviewees taking an interest in the research as much as I did in what they had to say. The knowledge emerging from this interaction was situated in the context of a diversity of standpoints and experiences of my interviewees, as well as the power dynamics, differences, and similarities in identity and social position of me as a researcher and the interviewees. The researcher is both a cultural insider and outsider (Mullings, 1999), a Croatian, but not a banker, taking an interest in banks and finance, but not from the mainstream banking culture perspective of increasing efficiency or profitability. Some interviewees knew my family and wanted to 'help,' others agreed to interviews through strictly professional channels, such as banks' PR departments. This all influenced the data gathered in the research and the way it was interpreted.

The subsequent line of limitations concerns methodological inadequacies, which stem from the fact that no one method answers the research questions perfectly. As the literature suggests, the issue detected stems from this dissertation's methodology, particularly the challenge of integrating data from disparate mixed and multiple methods. In other words, the difficulty was avoiding what Barnes and Sheppard call 'fragmented pluralism' and integrating the different approaches (Barnes & Sheppard, 2010, p.194). The dissertation integrated the disparate data through the process of cross-examination. The cross-examination means that the data were re-checked across different methods, namely by presenting some of the interviewees with spatial data and asking them to reflect or examining bank documentation specifically for spatial data.

Furthermore, the nature of the dissertation topic was at the heart of limitations regarding data gathering. Due to bank secrecy legislation at the heart of the banking employees' work contracts, the issues of anonymity and research participant protection became principal. However, even with anonymity protection procedures in place, a few bankers agreed to talk, and the traditional snowballing technique proved difficult as the interviewees refused to make their participation in the research known among their colleagues. However, the researcher compensated for the limited interview numbers by conducting long, in-depth interviews and maintaining prolonged relationships with key informants through e-mail and phone communication, where the interviewees were

regularly asked to reflect on the excerpts of writing or confirm data segments. Moreover, the data gathering issues emerged as gaps in archival material, as much of the information about the financial systems before the contemporary accounting practices went unrecorded. These were compensated for by talking to senior and retired bankers who shared their memories and recollections about the period of the foreign bank penetration in the case study of Croatia.

Finally, as anyone writing a dissertation in the early 2020s, the limitations imposed by the COVID-19 pandemic significantly impact the final form of this dissertation. Online interviews replaced face-to-face interviews in the majority of the interviews. At the same time, the prolonged exposure to the case study through fieldwork and the Croatian banking sector in situ was substituted with a thorough and rigorous document review. The resultant dissertation is, to an extent, different than initially planned; however, the research adapted to new circumstances and developed methods that could provide insights into drivers and manifestations of financialisation in East-Central Europe, using the case study of West European banks in Croatia.

Chapter 4. The transformation of the Croatian banking

This chapter offers a comprehensive view of the banking transformation in Croatia after the fall of the socialist regime, with a particular focus on the pivotal role of West European banks. Their penetration, the resultant changes in banking structures, and the new owners' approaches to lending have significantly shaped the region's financial landscape and, relatedly, broader socioeconomic context. The chapter interprets West European banks as drivers of variegated financialisation in the region, with supportive roles played by other actors in the 'financial chain,' as conceptualised by Sokol (2017), such as home-country parent banks and host states. Notably, West European banks' penetration occurs on the back of several other transformations in the region—the socialist downfall and emergence of capitalism, neoliberal government policies and related deregulation. To understand the key manifestations of financialisation in the region in this context, the dissertation analyses a broader set of transformations and detects the points in time and space where financialisation 'grafts' onto these broader processes to use the metaphor from O'Callaghan and McGuirk (2021, p.811). The research for this chapter was driven by the dissertation's first research question (RQ1), 'How have West European banks managed to 'penetrate' postsocialist Croatia, and how has this transformed Croatian banking?'

To that end, the chapter finds that West European banks are the key drivers of financialisation in Croatia, with the financialisation of banking being one of its central features. Specifically, West European banks penetrated the region by exploiting the local financial crises that followed the fall of the socialist regime, often choosing to cheaply purchase existing, well-established banks and reform them rather than initiate greenfield investment and set up new banks from scratch. Notably, faced with big players and high competition at home, it was mainly the mid-tier European banks rather than the largest global banks that expanded into Croatia. For these mid-tier banks, expansion into riskier but more profitable markets was a means to compete with larger banks at home and survive. Consequently, the growth of these middle-sized parent banks depended on extracting profits from the European periphery. Mid-tier banks had to extract higher profit levels than their home countries, resulting in worse financial conditions for their clients in host peripheral markets, such as Croatia. In other words, the parent banks outsourced the

competition costs in the European core to the continent's periphery, which directly shaped the unfavourable conditions under which the periphery became financialised. After arguing that the postsocialist transformation of banking in Croatia is intrinsically tied to broader processes of financialisation of banking in Europe, the chapter examines how, in penetrating Croatia, West European banks established a radically different financial regime than the one that existed prior to their entry and that was built upon the socialist financial logics. The main argument here is that integrating the Croatian domestic banking system into European and global 'financial chains' via West European parent banks has been an intrinsically uneven process, which fragmented subnational banking geographies and, in doing so, contributed to increasing inequality across regions.

The structure of the chapter is chronological. Table 4 below outlines the major events in the transformation of Croatian banking, and the structure of the chapter follows that periodisation. The chapter first introduces the Yugoslav banking variant as the point of departure of the banking transformation. Thereafter, the chapter captures the early period of transformation, primarily consisting of stabilisation, rehabilitation, privatisation, and internationalisation of the banking sector. Following the structural reorganisation of banking, the chapter introduces the credit boom in the run-up to the 2008 crisis and explores how banking in Croatia was transformed in the wake of the crisis. Finally, the chapter examines the latest banking trends, which act as a stepping stone to discussion chapters that follow and analyse West European bank branch networks (Chapter 4) and lending strategies (Chapter 5).

SOCIALIST PERIOD	
Yugoslav banking (1948-1989) (4.1)	
Communal banks: six regional state banks for lending to agricultural co-ops under strict state planning	1948-1952
Monobank: single national bank branched across SFRY	1952-1955
Regional banks: banking disintegrates in federative regions	1961
Self-management banking: the state enables firms to establish their banks; the state social investment funds are transferred to these banks	1964
Rise of central banking: The National Bank of Yugoslavia and eight national banks for each of the republics	1971
POSTSOCIALIST PERIOD	
Stabilisation period (1989-1998) (4.2)	
Law on banks and other financial institutions: Banks formally transformed into joint-stock companies and foreign ownership legalised)	1989
Transformation of social enterprises: Banks privatised indirectly with social enterprises that owned them, made legally legible by the market	1991
Linear rehabilitation, including state bonds and frozen deposits	1991
Stabilisation program: HRK informally pegged to EUR	1993-2023
Many newly established domestic banks	1991-1998
First banking crisis	1994
First foreign bank entry	1994
Bank Rehabilitation and Restructuring: Targeted rehabilitation and restructuring of chosen, structurally-significant banks	1994-1998
Law on banks: policies geared towards securing FDIs	1998
Internationalisation period (1998-2002) (4.3)	
Massive foreign bank entry	1999-2002
Consolidation of the banking system	1999-2002
Credit boom period (2002-2008) (4.4)	
Lending boom, especially targeting households and based on capital borrowed from parent banks	2002-2008
Construction boom	2002-2008
Marginal reserves: HNB try at curtailing FX credit boom	2004-2008
The global financial crisis (2008-2015) and banking in the crisis aftermath (2015-today) (4.5)	
Regulatory easing	2008-2018
Swiss franc crisis	2015

Table 4 – Chronology of the banking transformation in Croatia. Source: Author; based on Četković (2015) for the Yugoslav period and HNB Bank Bulletin set of publications for the Croatian period. The Table is inspired by earlier Barisitz's periodisation (2008).

4.1 Yugoslav banking

This section describes the characteristics of Yugoslav banking and the Yugoslav banks' gradual transformation under financialisation pressures. It shows that Croatia was open to early forms of financialisation in the form of radical dependencies on Western capital already during the Yugoslav period, as separately argued by Ćetković (2015) and Živković (2013; 2016). These early forms of financialisation experienced by Croatia, while it was still a member of the ex-state, differ from the financialisation Croatia experiences today, thus contributing to the variegated financialisation thesis and the urge stemming from the literature to examine connections and commonalities, as well as disconnects between different financialised systems (Peck & Theodore, 2007). It also challenges the idea of financialisation as a set of processes specific to capitalism. Instead, an interesting early finding and hypothesis for future research is that financialisation emerges as a set of processes that can exist in different socioeconomic systems, including that of the socialist self-management system characteristic of Yugoslavia, and connections and commonalities between variegated capitalist systems ought to be also examined across systems. This leads to a critical question of how Yugoslav financialisation shapes the subsequent process of financialisation and capitalist penetration in postsocialist Croatia. The section hopes to answer this question and contribute to the dissertation's research aim of understanding drivers and manifestations of financialisation in the East-Central European region. The argument is that the crisis spillover from Yugoslavia opened new opportunities for financial capital's capture of the independent country's key financial assets. In other words, previous financialisation is fuelling a new one in systemic and self-reinforcing dynamics extending across different political and socioeconomic systems.

To this end, the section outlines several banking reforms taking place in the Socialist Federal Republic of Yugoslavia (SFRY), which reveal patterns of growing dependency on foreign finance. The critical aspects of the Yugoslav variant of financialisation are international credit money to finance production and exports, monetary policy that aims to protect the value of credit money to support international capital flows, and widespread dollarisation of the economy and broader society as a consequence of both (Živković, 2016). Seeing that the pattern of financial dependency of Yugoslavia on Western banks started as early as the 1970s, the section argues that the Yugoslav region is among the first sites of West European financial experimentation that eventually led to the subordinate financialisation of the region in its present form. Overall, the task of the section is to chronicle these beginnings of financialisation in the East-Central European periphery.

In doing so, the section shows how the region has been gradually inserted in the workings of global financial capitalism and contributes to the dissertation's central argument that this integration of the Croatian domestic banking system into European and global financial chains has been an intrinsically uneven process, which fragmented subnational banking geographies and contributed to increasing inequality across regions.

Banking Reforms and the Rise of West European Finance Capital

At its inception, the Yugoslav regime resembled the Soviet regime. Speaking of the financial system, in the early Yugoslav banks, lending was subjected to strict state planning and was dependent on the necessities defined by the socialist authorities. From the establishment of Yugoslavia in 1948 to 1952, Yugoslavia had 89 communal banks, accompanied by six regional state banks, all exclusively servicing agricultural co-operatives with credit money (Ćetković, 2015). At the time, Yugoslavia was envisioned to be the food producer for the USSR and to, in turn, receive industrial goods produced by the Soviet's core. In other words, Yugoslavia was to act as the Soviet satellite state. The conflict between the two superpowers emerged in the context of Yugoslav's ambition to build a Balkan federation. The idea of the Balkan Federation emerged several times throughout history (Hassiotis, 2010). However, perhaps the most relevant attempt to bring it to life is the Yugoslav leader's Tito struggle to unite Yugoslavia, Bulgaria, Greece and Albania. In this form, the Balkan Federation went directly against the Cold War division of spheres of influence that Churchill, Truman and Stalin agreed upon in 1945. It was one of the main points of conflict between Yugoslavia and the Soviets. To free itself from the Soviet sphere of influence and pursue the idea of Balkan Regional integration, Yugoslavia became a non-aligned country with the so-called Tito-Stalin split in 1948 (Živković, 2013). This was reflected in banking as the monobank experiment, an attempt at even stronger centralisation and nationalisation between 1952 and 1955 (Ćetković, 2015). During this period, the Yugoslav banking was centralised entirely in a single National bank, with branches all over the Yugoslav territory.

Before the 60s, both the monobank and the idea of the Balkan Federation failed. This initiated the early deconsolidation of Yugoslav banking and its gradual dependency on West European financial capital. Namely, liberation from the Eastern sphere of influence would not be possible without the Yugoslav turn to the Western market for agricultural exports and capital imports (Živković, 2013). However, as the European Economic Community (EEC) established stricter internal financial policies and

discriminated against external borrowers and traders, Yugoslavia needed to integrate into the EEC to gain access to West European markets and finance. Specifically, the European market was the key importer of Yugoslav raw food produce until 1962 when the EEC introduced the Common Agricultural Policy (CAP) and effectively closed off the EEC agro-market. Thus, Yugoslavia opened its borders to the EEC capital to receive Western credit money, technology, and the market to export predominantly agricultural produce. These market reforms of the 1960s were the first to explicitly tie economic efficiency with opening up to foreign capital in the state's official narratives – as the Yugoslav leader proclaimed at the time, 'The more aid, the faster socialism will grow in our country' (in Živković, 2013, p.2).

The region's onset of foreign financial capital was further exacerbated by banking reforms ensuing throughout the 60s (Ćetković, 2015), followed by a twofold banking consolidation and geographic disintegration process. Namely, with the failure of the monobank experiment, communal banks were re-established, along with the three new specialised financial institutions – the federal-level banks for agriculture, investment, and foreign trade (Ćetković, 2015). Communal banks also become classified based on their business practices and are known as commercial, investment, or savings banks (Ćetković, 2015). In 1964, the Yugoslav state transferred the money from its social investment funds to banks, leading to banks for the first time owning capital, having the function to finance investment and being free to make their own lending decisions (Ćetković, 2015). This reform also allowed for banks to be established by workers and corporations, which became one of the hallmarks of the Yugoslav system of workers' self-management. These banks were called *internal banks*, and they allowed for the workers' self-financing of the production of their corporations and the needs of the workers' families, such as housing and consumption. The first consequence was the vast consolidation of banks – from 217 banks operating in 1964, Yugoslavia came down to 111 banks by 1967. Following the reforms, the credit market disintegrates for the first time and starts operating regionally (Ćetković, 2015). National banks for each republic were established and acted much like central banks of today – issuing currencies, regulating the money supply, and foreign exchange operations (Ćetković, 2015). This decade was also marked by the further intensification of Yugoslav's international orientation through the establishment of the Yugoslav Bank for International Economic Cooperation. This marks the start of the Yugoslav model of self-management banking, which is unique in the East-Central European region.

Yugoslav self-management and the dissolution of the socialist banking

The Yugoslav self-management model differs from other socialist regimes, such as the rigid Soviet regime. In the Soviet regime, the state regulates and dictates the allocation of resources based on the planned economy. When it comes to banking, lending is subjected to strict planning concerning necessities as defined by the state. In the Yugoslav model of self-management socialism, the management of companies is separated from the state. Workers of individual firms govern their production, labour process and sales and secure workers' needs, such as housing, home appliances and cars. Finally, the Yugoslav banking model under self-managed socialism meant workers' organisations of individual firms founded and ran banks independently. In other words, firms had private banks attached to them, with the sole goal of financing the firm and workers' needs. It is critical to note that since the banks' function was to supply their parent corporations with credit (HNB, 1997, p.20), in granting this credit, it was not particularly important whether the debt could be returned (HNB, 1995, pp.52-53). As Coats, Škreb and Ahec Šonje argue, risk and price of risk were not considered as a factor of the credit decisions, and money was only a bookkeeping device, serving the resource allocation to different sectors (Ahec Šonje, 1996, p.45; Coats and Škreb, 2002, p.2).

Initially, banks' lending practices were funded through workers' deposits and specific state funds, such as those for investment or housing. However, by the 1970s, these investment activities were already well above the savings potential of the Yugoslav economy (Ćetković, 2018). The consequence was the growth of Yugoslav reliance on imported Western capital, mainly in the form of Western banks' credit to the Yugoslav state and domestic banks (Unkovski-Korica, 2015). Western credit was primarily used to finance Yugoslav production and ensure the viable exporting sector. When the EEC placed trade barriers following the 1970s recession, Yugoslavia became even more indebted to international financial markets to compensate for the trade deficits. Yugoslavia was in a financial crisis in the same years, directly resulting from its inclusion in global financialised capitalism. The Yugoslav debt economy necessitated the overvaluation of the Yugoslav dinar, which made the repayment of foreign currency-denominated credit easier and made production expensive and exports uncompetitive. The foreign debt of Yugoslavia was concentrated mainly in a few West European countries, which had a share of 67% in outstanding Yugoslav debt in 1978 (Marković, 1979, pp. 64-65). Yugoslavia applied to international financial institutions such as the IMF for loans to repay its previous

obligations. The international financial institutions required Yugoslavia to apply structural adjustment programs oriented towards austerity and pushing the country towards a market economy. This threw Yugoslavia into an economic crisis from which it did not recover until its dissolution in the 1990s (Ćetković, 2018).

Herewith, Yugoslavia displays among the earliest cases of what several authors define as contemporary Visegrád countries' model of dependent financialised development, where credit finances manufacturing sectors and, under this influence, the debtor state develops a growth model based on credit imports that finance production exports (Becker & Ćetković, 2015, p.71; Bohle, 2017, p.2). This model is vulnerable, indeed, as the depreciation of the national currencies implies a disaster for debtors, whose debts are denominated in foreign currencies, yet keeping the local currency overvalued reduces the competitiveness of the productive sector these credit-led exporting countries depend upon (Becker et al., 2010). This threw Yugoslavia into an economic crisis, often blamed as one of the critical causes of its dissolution (Unkovski-Korica, 2015). Above all, Ćetković explains that the rising foreign indebtedness, influenced by the reliance of Yugoslav banks on foreign funds to expand loans to the domestic non-financial sector, was characteristic of the late Yugoslav period of banking, which eventually led to its demise (Ćetković, 2015). The process marks an increasing peripheralisation of the region, where the region is rendered a subject of value extraction through growing financial dependence on the core. Moreover, seeing that the West European core regularly consists of the same countries throughout the region's imperial, socialist and postsocialist periods, namely Italy and Austria, it is essential to note that the concept of 'transformation' should be used cautiously (Gille, 2010, p.10). More specifically, the continuity between the imperial, socialist and market-economy periods, where the common denominator is Europe's traditional core's extraction of value from its periphery, is vital to note that financialisation is the most recent phase in the long history of power relations and value extractions. As famously proclaimed in the title of his work, 'Nothing new in the East!' (Gunder Frank, 1992) and as Živković notably asks, 'Transition or repetition?' (2015).

An essential continuity between the periods exists in the debt of Yugoslav banks and enterprises later inherited by the new states and turned into public debt, together with the 'old deposits' that were kept in dissolved banks, such as the National Bank of Yugoslavia. This directly shaped the unfavourable terms under which Croatia was financialised following the dissolution of Yugoslavia. Moreover, foreign ownership over critical assets, such as the financial sector, was instituted for the first time and continues to

be a common feature of financialisation in East-Central Europe today. This points to the origin of these financialised dynamics in the Yugoslav attempts at insertion into European and global financial chains and the failure to do so on an equal footing. This leads to the next section, which covers the period of turbulence following the dissolution of one state and the war-ridden building of the successive and multiple attempts at stabilising the new state's financial system.

4.2 The Stabilisation period 1989-1998

As the previous section on the history of financial institutions and regulations in Yugoslavia has shown, the SFRY had a very different financial system from anybody else. Early in the country's history, the monobank system and strict state planning typical of socialist states' banking were dissolved in favour of self-managed banking whereby workers' organisations founded and ran banks independently. The function of Yugoslav banks was to supply resources to those enterprises whose workings were geared towards servicing political and social bodies, and the return of debt was not of prime importance (Družić, 2001, p.293). It is in this context that the Croatian banks were first privatised. The newly privatised banks were largely insolvent when observed through the capitalist lens. This section describes early Croatia's attempts at stabilising the new country's banking system and exiting the crisis inherited from Yugoslavia. The section argues that the West European banks' penetration occurred in the context of a local financial crisis when foreign investors used the crisis to buy cheap. Moreover, the section observes the spatial fix (Harvey, 2001), where a financially hungry territory attracted risk-tolerant, mid-cap West European banks, which were squeezed out of their home markets by bigger players. These bigger players, consisting of large, globally significant banks, have not penetrated the case study of Croatia. However, the first section looks at the stabilisation period and HNB's work to transform banks into capitalist institutions, rehabilitate their balance sheets, and make them attractive to foreign investors and financial capital. It is on the back of these state policies that financialisation develops through the process of regulatory capture, as it poses as the best, if not a single, solution to the postsocialist restructuring of the financial system in policy and a broader narrative.

State-led rehabilitation and restructuring of the Croatian banking system

The first step in the banking transformation involved rendering banks into legal institutions with a 'recognisable form of market ownership' (Čučković, 1998, p.173), which involves

structuring them in a way that complies with the European legal frameworks and economic structures, the process Pataccini refers to as ‘Europeanisation’ (Pataccini, 2022, p.649). This was done through two legislative changes. Firstly, in 1989, Croatian banks were transformed from socialist institutions to joint-stock companies, guided by the *Zakon o bankama i drugim finansijskim institucijama* (in translation Law on banks and other financial institutions) (Sabor, 2005a, p.12). The Law stipulated that the shares in founding funds be transformed into company stocks and that the one-owner-one-vote system be abolished and reconstructed as votes based on the percentage of ownership (Jankov, 2000, p.2). Moreover, it redefined banks from self-managed financial institutions to financial institutions that can internally decide their governance structure (HNB, 2005, p.4). With this, 22 banks became joint-stock companies in 1989 (Čučković, 1998, p.173). Secondly, in 1991, the *Zakon o pretvorbi društvenih poduzeća* (in translation Law on Transformation of Social Enterprises) guided the privatisation of social enterprises, which indirectly led to the privatisation of banks in the enterprises’ ownership (Sabor, 2005a, p.12).

However, the HNB’s ex-president Maletić suggests that nothing has changed in how banks conducted their business following their transformation into joint-stock companies and privatisation. The title of ownership now existed, but the owners were still social enterprises (Sabor, 2005a, p.12). Barisitz refers to this type of privatisation as ‘surface privatisation’, describing it as ‘partial,’ ‘insider’ or ‘non-conventional privatisation’ (Barisitz, 2008). Above all, the Croatian regime of the 1990s was considered authoritarian (Finn, 2019). In such a regime, assets are distributed to client groups and people closely related to the Party in power. Effectively, the privatisation of enterprises and banks was used to distribute assets to the privileged social groups and to stabilise the authoritarian regime of the 1990s (Kasapović, 2001). In the same vein, with the stabilisation of banking taking place during the time of the Independence War 1991-1994, during the early 1990s, big banks were mandated to provide financing to those companies necessary for winning the Independence War despite the low returns (Deskar-Škrbić et al. in Petak and Kotarski, 2019, p.189). One of the dominant examples was Privredna Banka Zagreb’s financing of the oil industry INA, as outlined in Petak and Kotarski’s work (2019). Overall, banking remained oriented towards servicing the social and political body rather than focusing on profits, let alone their maximisation.

Due to the lack of profit orientation characteristic of the socialist system, Croatia inherited an insolvent banking system from Yugoslavia, with non-performing loans amounting to twice the banks’ equity in 1989 (Jankov, 2000). To rehabilitate the banking

system, the government engaged in what Barisitz calls ‘linear rehabilitation’ (Barisitz, 2008). To boost the banks’ equity, the Croatian government issued bonds to troubled enterprises that used the bonds to pay off their debts to banks (Jankov, 2000, p.3). In doing so, the government re-valued banks’ assets but also wholly altered the books of the Croatian financial system by rendering securities more critical than loans in terms of bank assets throughout the 1990s (HNB, 1995, p.49). By 1992, state bonds comprised 44.7% of total bank assets (Jankov, 2000, p.3). In 1994, total securities surpassed total long-term credit, amounting to 16.6 billion HRK (2.2 billion EUR) and long-term credit, amounting to 14.7 billion HRK (1.9 billion EUR) (HNB, 1995, p.49). Already here, the postsocialist state has positioned itself as the debtor of the last resort and as a critical link in the financial chain, enabling and accelerating financialisation processes, even when they counter the neoliberal logic of the free market and retrenchment of public intervention (Peck & Tickell, 2002). This pattern repeats in the foreign-ownership period where, due to the falling creditworthiness of the population, the state steps in with interest-rate subsidies to support banks’ solvency and profits. The state’s role in facilitating regional financialisation was and remains an important driver and manifestation in East-Central Europe. The Croatian state supports this argument with yet another intervention in early banking rehabilitation, as follows.

Another form of bank insolvency that Croatia inherited from Yugoslavia stemmed from the break-up of banks from the *Narodna Banka Jugoslavije* (NBJ) (in translation, National Bank of Yugoslavia, the Yugoslav central bank) and the consequent inability to collect their claims on the NBJ (HNB, 1997, p.3). Above all, as NBJ deposited all the foreign currencies, banks could not pay out foreign currency savings back to households that had them deposited in the banks (HNB, 1997, p.3). The government intervened to remedy this by turning foreign currency deposits into public debt (HNB, 1997, p.4). The phenomenon is often called *frozen deposits*, as the government ‘froze’ the deposits for three years to ease the liquidity pressures on banks that paid the deposits out in instalments (Reininger & Walko, 2005, p.111).

The abovementioned linear rehabilitation measures resulted in a temporary stabilisation but without a fundamental change in the banks’ business model that would stabilise banking long-term. In other words, bank business had not changed with this bank rehabilitation, as state bonds came unconditionally, meaning they required no business restructuring on behalf of the banks. Moreover, the regulatory environment of the period was nearly non-existent. Bank licencing policies were liberal, and regulatory and

supervisory systems were lenient (Barisitz, 2008), which led to ‘suddenly everyone wanting to have a bank,’ as the I04, an academic who spent the period in question interning in the newly forming Ministry of Finance, recalls. Figure 3 illustrates this point the I04 is making. The number of newly established banks soared in the early to mid-1990s. Croatia went from having 22 banks in 1989 to 28 banks the following year, 1990. By 1997, the number of banks reached 60, with more than thirty new private banks being established.

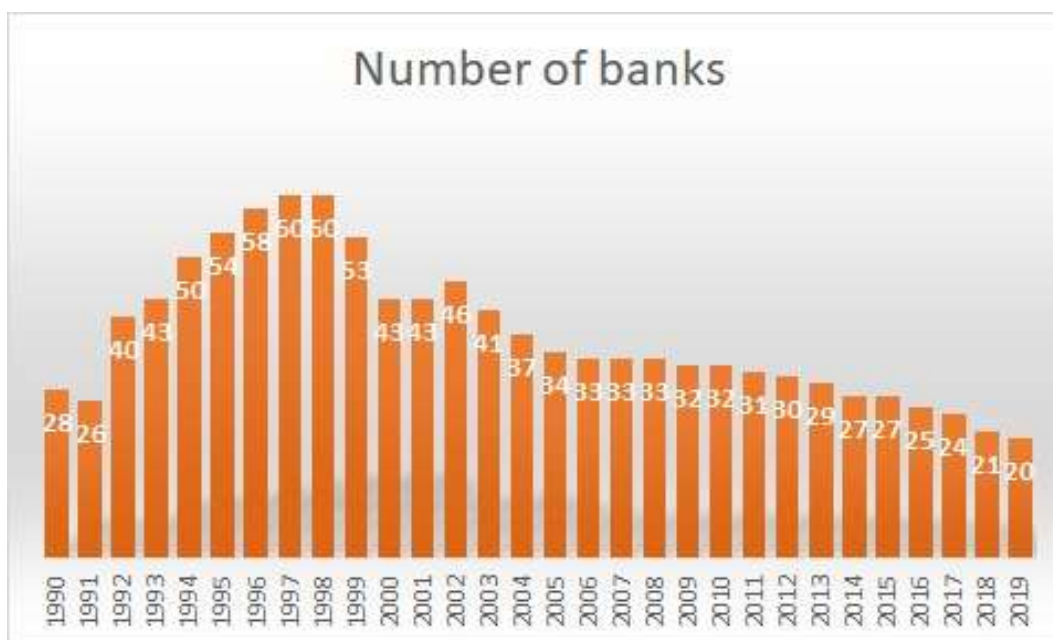


Figure 3 The number of banks in Croatia. Source: Author's elaboration based on HNB regular publications: HNB Bulletin for years 1990-1994, HNB Bank Bulletin for years 1995-2019.

Of the 22 banks Croatia inherited from Yugoslavia, two operated country-wide, Zagrebačka Banka and Privredna Banka Zagreb. At the same time, the rest were small, regional banks, each focusing mainly on the city of its origin and surrounding areas, with banking lines closely following political lines and the principles of relationship lending (Ahec Šonje, 1996, p.45). The newly-founded private banks were similar to the latter, small, occupying specific markets or niches (Ahec Šonje, 1996, p.48). These banks were often still learning the banking business. They were more readily interested in short-term profit over expansion, marking a wave of short-lived domestic financialisation through newly forming local banking elites, many of whom later gained prominent positions in foreign banking groups (Ahec Šonje, 1996, p.48). Despite the rise in banks, the overall concentration in the Croatian banking sector remained high. In 1995, the two largest banks mentioned earlier, Zagrebačka Banka and Privredna Banka Zagreb, had a market share in

total assets of 53.7%. Croatia continues to have a two-bank system, in which two major banking groups, namely Zagrebačka Banka and Privredna Banka Zagreb, consistently dominate the economic landscape.

The four largest banks, Zagrebačka Banka, Privredna Banka, Erste& Steiermärkische Bank and Raiffeisenbank Austria, had a market share in total assets of almost 70% (Reininger & Walko, 2005, p.111), with the share increasingly growing with the foreign-ownership and further consolidation of banking through mergers and acquisitions by new foreign owners. The Hrvatska Narodna Banka (HNB) (in translation Croatian People's Bank, which is the Croatian Central Bank) called the Croatian banking system an 'oligopoly' because only a few banks dominate the entire financial industry (HNB, 1997, p.10), as illustrated in Figure 4 below. Sellar argues that international banking groups favour this model, as their strategy commonly involves the acquisition of the largest bank in each Eastern European country (in Grandi et al., 2019, p.97).

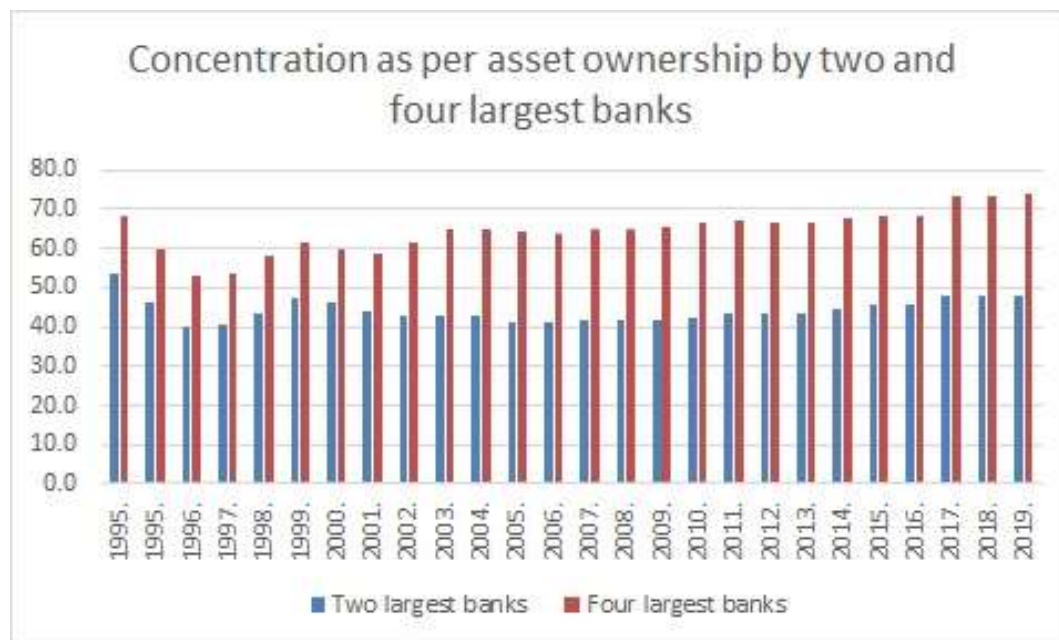


Figure 4 Concentration of the Croatian banking system. Source: The author's elaboration is based on HNB's regular publications, such as the HNB Bank Bulletin.

These big banks inherited most of the 'bad debt' from Yugoslavia but continued accumulating it in Croatia, resulting in the first banking crisis in Croatia in 1994. The logic of Yugoslav banking as servicing of banks' owner-enterprises sipped into the early years of Croatian banking. HNB points to extending large credit sums to bank shareholders and other political allies as the biggest reason for Croatian bank failures in the early 1990s

(HNB, 1997, p.20). The data supports this claim. In 1995, the five largest Croatian banks extended almost half their total credit to shareholders. Namely, 46.7% of total big banks' loans went to bank owners and their often-problematic enterprises (HNB, 1997, p.21). Only 14 banks out of 54 did not extend credits to their shareholders that year (HNB, 1997, p.21).

While the 'linear rehabilitation' at the start of the 1990s resolved the banks' insolvency in the books, it did not solve the liquidity problem, as the bonds were not marketable, and the state rarely met its obligations (Jankov, 2000, p.3). Thus, the big, old banks, burdened by non-performing assets from the past and present (Ahec Šonje, 1996, p.48), needed money to maintain their daily operations (Ahec Šonje, 2006, p.51). By demanding excess reserves and obtaining overpriced loans from other banks, as well as intervention loans from the HNB with a high penalty interest rate (Ahec Šonje, 2006, p.51), the failing banks have caused a rise in interest rates in the market and insufficient supply of bank credit (HNB, 1997, p.5). Moreover, when using the HNB's loan, the bank's and clients' accounts are blocked, which causes depositors to panic (HNB, 1997, p.5; Ahec Šonje, 2006, p.51). Eventually, four big banks became illiquid in 1994 and 1995: the Bank of Slavonia, Bank of Rijeka, Privredna Banka Zagreb, and Bank of Split, owning 35,5% of the total financial assets (HNB, 1997, p.8). At this point, the Bank of Split had bad assets 2.3 times higher than its capital, while almost a third of all bank assets were bad assets in the Bank of Rijeka (Jankov, 2000, p.3). Privredna Banka Zagreb had bad assets 2.7 times higher than its capital (Jankov, 2000, p.3), and the bad assets of this bank amounted to 25.1% of the total assets of the Croatian financial system (Jankov, 2000, p.4).

The 1994 *Zakon o sanaciji i restrukturiranju banaka* (in translation, Law on Bank Rehabilitation and Restructuring) guided the rehabilitation and restructuring of the aforementioned big banks. Unlike the linear rehabilitation of 1991, this rehabilitation involved restructuring the banking system, establishing a qualitatively different system than the one that existed before the Law. The rehabilitation started with a liquidity injection from the government, which stabilised market interest rates (Ahec Šonje, 1996, p.56). The government then estimated the bad assets to be 45% and has written these off against the banks' guarantee capital (Jankov, 2000, p.4). Then, the government recapitalised the banks to the minimum capital adequacy ratio level with government bonds (Ahec Šonje, 1996, pp. 56-57; Jankov, 2000, p.4). Simultaneously, the ownership structure changes proportionally to the government's cash and bond injections (Ahec Šonje, 1996, pp. 56-57). In other words, the state assumes the bank shares, and the old owners, which were, by and large, corporations in the state ownership, were resolved of ownership titles (Jankov,

2000, p.4). Lastly, the state hired new management and directorial teams (Jankov, 2000, p.5). The new management started restructuring the banks' business, often with the help of foreign experts. In Ahec Šonje's words, rehabilitation is an 'exit strategy'; it breaks links between old management and old state-owned enterprises (Ahec Šonje, 1996). It is also notable that the first foreign bank entry coincides with the first local financial crisis, with Raiffeisen Bank establishing the first foreign bank in Croatia in 1994, conforming with the dissertation's finding that West European banking groups exploited local financial crises to establish their presence in the region.

The 1994 Law has been put into action again closer to the end of the decade during the second domestic financial crisis in 1998. While the first crisis entailed big, old banks, the second included the fast-growing, small, and medium, often newly established banks. These banks financed loans out of capital, charged higher interest rates and had larger interest spreads (Ahec Šonje, 1996, p.47). For example, the average interest on deposits in these banks was 12%, while the average in stable banks was 8% (Jankov, 2000, p.5). This goes hand in hand with the previous observation that these banks were interested in short-term profit over expansion (Ahec Šonje, 1996, p.48). Above all, these liquid banks earned high interest rates on the interbank market by covering illiquid problem banks in the 1994 crisis (Ahec Šonje, 1996, p.49). Due to their small size, the Croatian government had no interest in rehabilitating most of these banks, marking the end of regional banking in Croatia and paving the way to massive international banking systems. Bank after bank fell in the 1998 crisis. Namely, while only two banks left the Croatian financial system during the earlier crisis in 1994 (HNB, 1995, p.130), a striking number of 19 banks disappeared from the Croatian financial market with the second crisis in 1998 (HNB, 2001, p.131). Five of the 19 banks were acquired by other banks, and the rest went bankrupt (HNB, 2001, p.131). Two banks were rehabilitated, Dubrovačka Banka and Croatia Banka, which represented about 7% of the total banking sector assets. Bank rehabilitation resulted in changes in banking power structures, with banks rehabilitated in 1994 and 1998 taking the leading market role (HNB, 1999, p.1). In other words, the rehabilitation process reconstructed more than half of the Croatian financial assets and has shaped today's banking system (DAB, 2005, p.1).

Emergency legislation followed the 1998 crisis, the *Zakon o Bankama* (in translation, Law on Banks). 1998 marks a starting point for the large-scale restructuring of the Croatian banking system: the new Law standardised capital calculation, accountancy, supervision, and reporting. The Law requires banks to have a written lending policy and

outlines management practices governing assets and liabilities (Kraft et al., 2001, p.3). This Law also propelled bank universalisation. Specifically, the Law, for the first time, allows banks to offer financial and non-financial services to their clients, such as different insurance policies or leasing products (HNB, 2002, p.7; Galac, 2003, p.10), futures and pension funds (Kraft, 2003, p.1). The range of services banks could now offer to their clients grew exponentially.

In addition to domestically propelled legislative changes, many of the changes were suggested and even demanded by international financial groups. Indeed, during the 1990s, Croatia joined several international financial organisations, which helped transform its financial system, mainly through transforming central banking and regulatory environment. Indeed, the earliest task of the HNB upon its establishment was to create foreign reserves to build legitimacy and credibility with foreign banks and other financial institutions. In the early 90s, 95% of HNB assets were foreign currency assets, amassed through buying foreign currencies from commercial banks (HNB, 1994, p.29; HNB, 1995, p.7). For the same reasons, the HNB requested that retail banks keep a percentage of their deposits in foreign bank accounts, which caused much discontent among the domestic banks as they needed to borrow from foreign banks. The general sentiment was that they were forced to borrow their own money (Kraft et al., 1998, p.15). Coats and Škreb describe the transformation of Croatian central banking with the help of the IMF, the World Bank, the European Commission, and the USAID (Coats & Škreb, 2002, p.2), while the HNB itself explains in more detail how joining the IMF ensured that Croatian financial system received international recognition, enlarged access to funds, as well as it served as the first condition for financial cooperation with state-creditors and foreign commercial banks (HNB, 1993, p.76). Through Stand-By Arrangement (SBA) and Systemic Transformation Facility (STF) lending instruments, the IMF conditioned financial reforms (HNB, 1995, p.43). For example, the HNB was to stop with automatic commercial bank lending and to introduce lending to commercial banks as 'discretionary privileges,' or the HNB was to prevent lending to specific corporations and to penalise commercial banks that would lend to any owner-enterprise without the HNB approval (HNB, 1996, pp.59-60). The IMF guided amendments to the Law on money transfers and the Law on banks and savings banks (HNB, 1996, p.59). Furthermore, HNB sent its employees to get training in international financial groups, such as the Austrian Bankers' Club or Credit Suisse (HNB, 1994, p.94). The path to internationalisation of the financial sector was finally open.

Very early on in the country's history, the HNB took a stance that liberalising foreign lending based on market principles is critical to the postwar reconstruction of Croatia and the subsequent development (HNB, 1993, p.31). Harmonising domestic legislation with the legal framework of the EU became a precondition to Croatian entry to the EU (Ružić, 2006, p.4). Articles 49 and 50 of the Croatian constitution legislated free-market competition and neoliberalism as the fundamental principles that constitute the legal basis of Croatian polity (Ružić, 2006, p.5). European banking was set up as a norm, and alternatives were closed off as local elites worked with Western financial agents to establish a modernised postsocialist space in Croatia. In this context, when the state's Agency for Rehabilitation looked to fulfil its legal obligation to identify desirable investors and privatise banks following their rehabilitation and restructuring, it looked outside Croatia (Ahec Šonje, 1996, p.57; HNB, 1997, p.7). With the fall of public bank ownership, as depicted in Figure 5, foreign ownership rose as the state sold banks to West European banking groups. From here, foreign-owned banks have started to dominate the Croatian financial landscape. Three out of five banks acquired following the 1998 crisis were acquired by foreign banking groups, namely Bayerische Hypo und Vereinsbank, Erste Bank and the Steiermärkische Bank und Sparkassen AG jointly, all of which initiated their expansion strategy into East-Central Europe, particularly during those late 1990s. Moreover, in 1997, Croatia received its first credit rating, which marked the start of a period of intense foreign investment (Kraft et al., 1998, p.1)—the years that followed marked a period of massive internationalisation and more intense financialisation in Croatian banking. The following section will observe this new phase in Croatia's banking development.

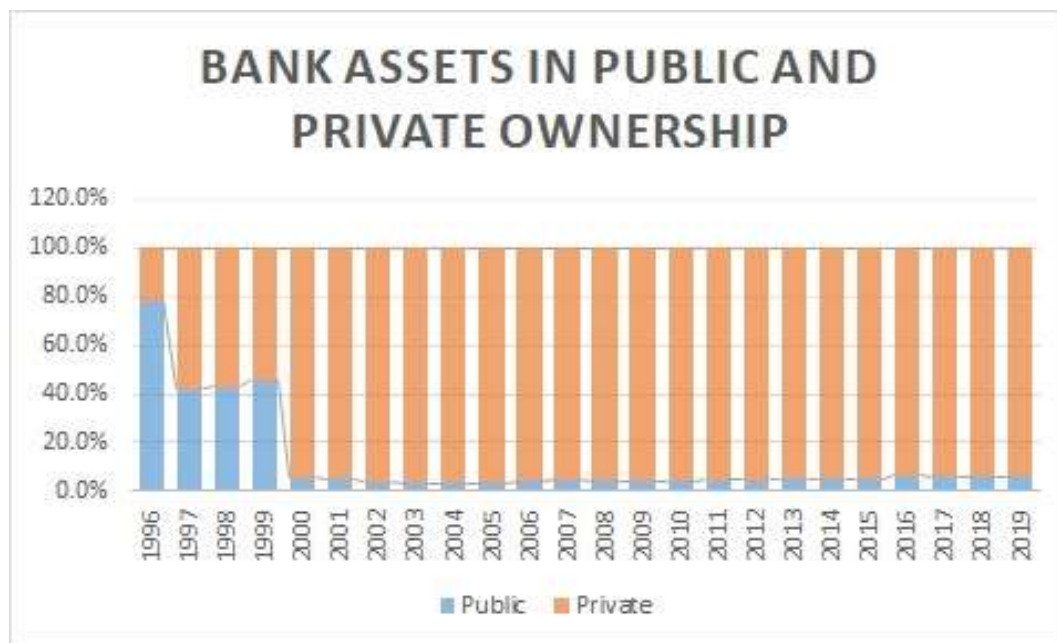


Figure 5 The decline of public bank ownership. Source: The author's elaboration is based on HNB regular publications: HNB Bank Bulletin 1995-2019.

4.3 The Internationalisation period (1998-2002)

'Politics geared towards local austerity, with clear European vision, has no substitute. Even if there is a substitute, I assure you that no one rational would choose it.'

– Marko Škreb, Governor of the Croatian National Bank (1996-2000) (HNB, 1996, p.12)

As the above quote from the former HNB Governor shows, the alternatives to transitioning to Western economic and political forms were closed off in the early days of the Croatian break up from Yugoslavia. Indeed, while each of the East-Central European countries followed a different model of transition towards a market economy, all were in various ways committed to the idea of neoliberalisation and capitalist development (Stenning et al., 2010, p.4), as well as the Euro-Atlantic and the EU integration (Stubbs & Venancio, 2009, p.31). As Habermas formulates it, these were catch-up revolutions (Habermas, 1990), which situates postsocialist countries in the time-space of alleged belated modernity. Western Europe exists as a benchmark to be reached, a norm. Western Europe ceases to be a merely geopolitical formation and assumes the form of normative power, guiding the 'less mature' postsocialist nation-states towards their status of truly European countries (Dzenovska, 2013, p.396). From this, the dissertation finds that internationalisation and related dependency are key manifestations of financialisation in Croatia and are key instruments of the Croatian banking system's peripheralisation. The

peripheral status implies the lack of possibility of making significant economic and political choices on one's terms, which the dissertation finds is the defining point of the parent-bank-subsidiary relationship in Croatia and broader monetary politics. This is one of the prime examples of financialisation occupying neoliberal narratives and grafting onto them. As the newly independent state started elaborating on development strategy, the same could not have been imagined without international financial groups leading the way.

The onset of foreign ownership in the Croatian banking system

The 'internationalisation' narrative was commonly employed in the early postsocialist transformation of Croatian banking. For example, in 1999, the state hired foreign 'privatisation experts,' primarily West European banking and political elites, to guide the country's bank privatisation processes and legislations (Jankov, 2000, p.4). In 1993, HNB reached out to commercial banks in Germany, Austria, Italy, Switzerland, the UK, Sweden, Hungary, Turkey, and the USA, presenting and 'selling' the local financial system as a good investment opportunity (HNB, 1994, p.58). Moreover, the 1993 Stabilisation program, which fixed foreign exchange rates and prices by informally pegging HRK to EUR, propelled a wave of interest from foreign investors (HNB, 1999, p.1). Technological advances, such as the 1993 SWIFT system that allowed domestic banks to communicate with foreign banks and between each other, made banking between parent banks and subsidiaries technologically possible (HNB, 1994, p.59). In 1995, after the signing of the Dayton treaty and the region's post-war stabilisation, several foreign bank representatives visited HNB, further enquiring about the domestic banking system (HNB, 1996, p.64). The state's rationale for attempting to attract foreign investors was based on suppositions that, due to the lack of capital to rehabilitate the banks, the state would more easily stabilise the new country's financial system through foreign investors who could save the industry, both through their capital and know-how (Kraft, 2003, p.9).

While already the 1989 *Law on banks and other financial institutions* allowed foreign bank ownership in Croatia (HNB, 2005, p.5), the first foreign bank was not established until 1994 when Austria opened Raiffeisen Bank Austria (RBA) (HNB, 1995, p.47; p.64). However, foreign banks maintained only marginal importance in the Croatian financial system until the late 1990s, as foreign banks owned no more than 10% of total financial assets until 1998 (Galac, 2003, p.2). Nevertheless, foreign banks kept increasing their presence, and by 1996, Croatia had four foreign bank subsidiaries and one foreign bank branch (HNB, 1997). In the year 2000, foreign banks, for the first time, owned the

majority of assets in the Croatian financial market (Galac, 2003, p.2). The foreign bank market share has remained high ever since, with foreign banks continuously owning over 90% of the total financial assets in Croatia since the 2000s. Figure 6 illustrates this radical inversion of bank ownership from domestic to foreign in the late 1990s and early 2000s.

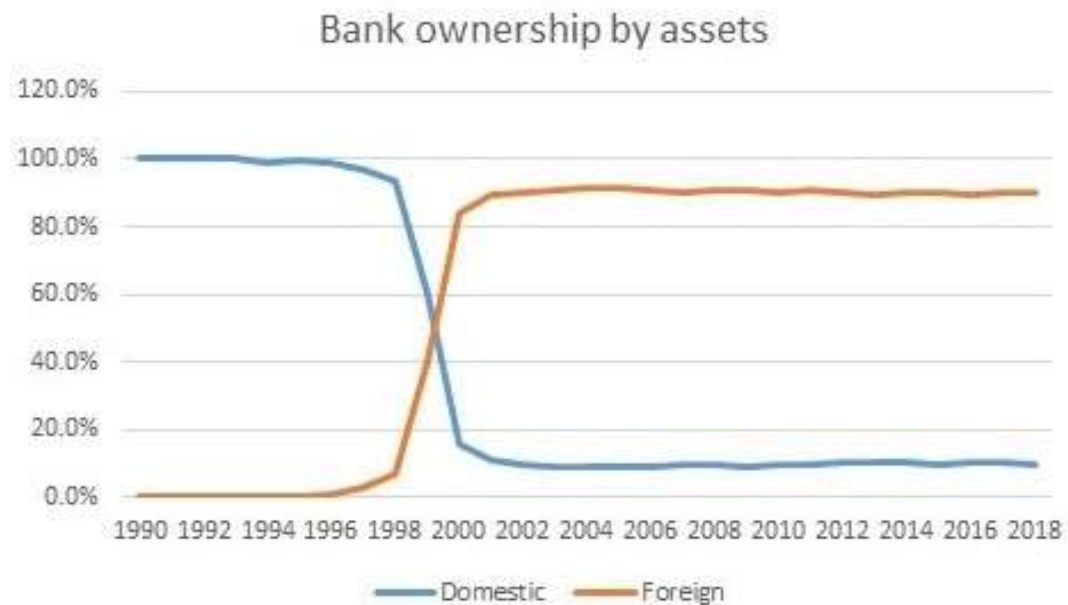


Figure 6 Radical inversion of bank ownership in Croatia from domestic to foreign. Source: Author's elaboration based on HNB regular publications: HNB Bulletin for years 1990-1994, HNB Bank Bulletin for years 1995-2018.

Croatian variant of foreign bank ownership is characterised by a single foreign owner who regularly represents more than 90% of foreign-owned bank shareholders (Deskarić et al., 2019, p.192). Countries of origin of foreign parent banks are primarily centred on the 'old' EU members; namely, Austria and Italy consistently feature as the most prominent parent bank home countries, owning close to 80% of total foreign banks assets since the wave of massive foreign-bank entry (HNB, 2019, p.7). In other words, most Croatian foreign banks entered from neighbouring countries with strong historical ties, valid for most of East-Central Europe (De Haas & Naaborg, 2006, p.174). The largest Italian subsidiaries are Zagrebačka Banka, owned by UniCredit S.p.A., and Privredna Banka Zagreb, owned by Intesa Sanpaolo Holding International S.A. (HNB, 2019, p.80, p.90). The largest Austrian subsidiaries are Raiffeisenbank Austria, owned by Raiffeisen SEE Region Holding GmbH and Erste&Steiermärkische Bank, jointly owned by Erste Group Bank AG and Steiermärkische Bank und Sparkassen AG (HNB, 2019, p.58; p.82). Foreign banks that own majority banking shares in Croatia also own banks in other countries in the ECE, which reveals the parent banks' regional strategy (Kraft, 2003, p.9).

Kraft notices that a relatively small number of banks own the vast majority of financial assets in the ECE region (Kraft, 2003, p.9), supporting the hypothesis that the penetration of West European banks in East-Central Europe is a form of spatial fixity, as theorised by Harvey (1982; 2006). Mid-tier, West European banks enter risky, peripheral markets due to pressing competition at home by large, often global banks, which positioned themselves as market leaders (De Haas & Naaborg, 2006, p.165). Indeed, when foreign banks entered Croatia, these banks experienced a decline in growth across the EU countries, whereas Croatia marked continuous and speedy development in these years (Kraft, 2003, p.2). The expansion of foreign banks to Croatia, thus, allowed the parent banks to compensate for saturated markets at home. In I07, a senior manager in the Croatian Central Bank, who was interning in Italy at a major national bank, explained that more prominent players forced out the parent banks as the ECE opened as the only territory where they could spread. I07 sums it up by saying, 'Mid-sized and expanding banks had no margins left back home, so they came to Croatia to grow'.

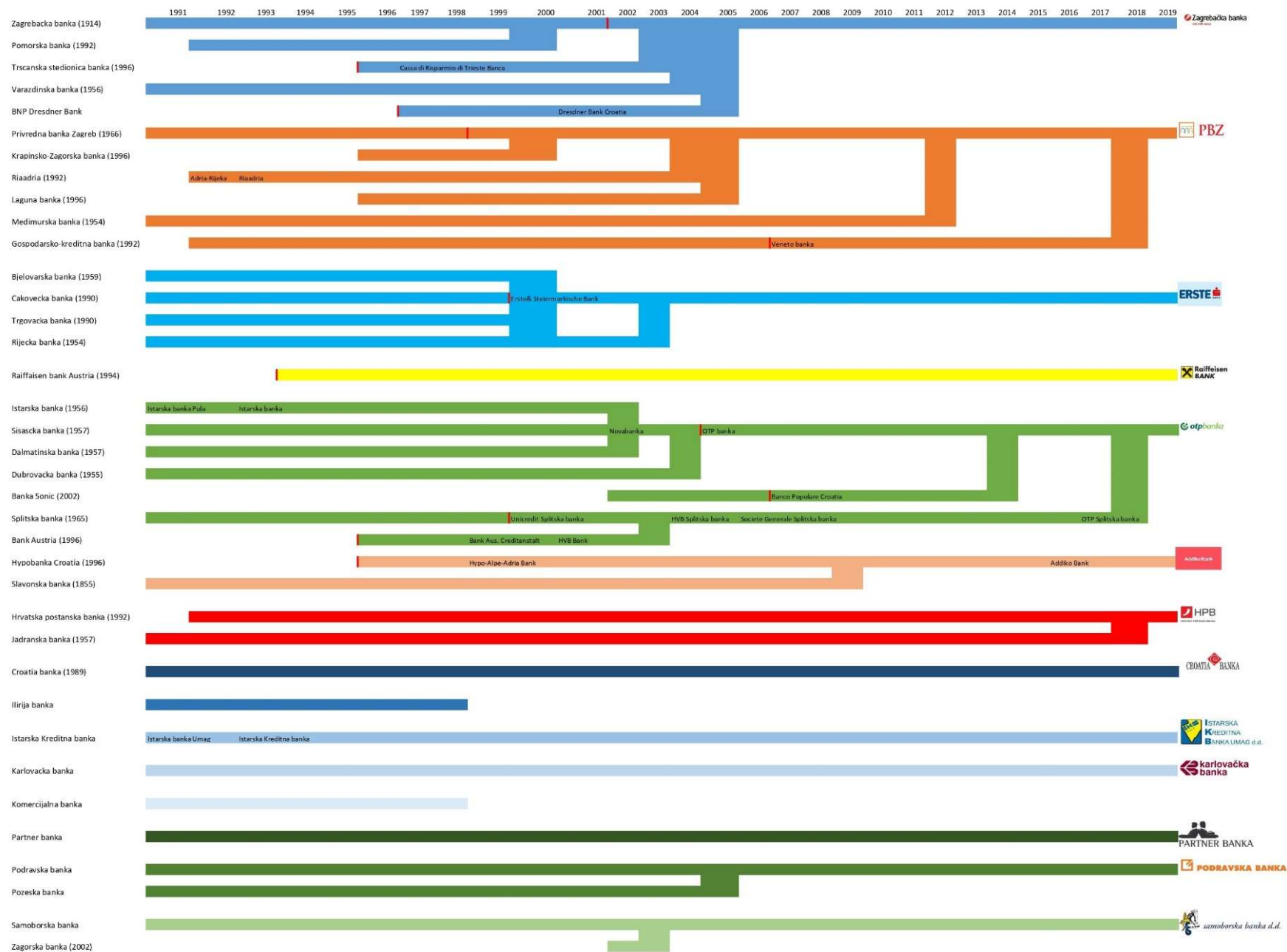
In addition to high competition at home and related low-interest rates and profitability acting as push factors, Kraft noticed there were also pull factors in the ECE markets that make the operations there attractive (Kraft, 2003, p.2). Among the pull factors that make up the main motives for foreign banks to enter transition economies, the author names the availability of a large pool of underserved clients in the underdeveloped credit markets, low competition from other banks and, consequently, significant interest rate margins (Kraft, 2003, p.2). In surveying parent banks, Kraft finds that most banks mainly quote the interest margin as the main reason for entry, followed by the new client base and untapped potential of the Croatian household lending market, which was utterly undeveloped hitherto (Kraft, 2003, p.13). The third reason is the competition in the home market, and, finally, some banks entered Croatia as they followed big, non-financial corporations from their home countries (Kraft, 2003, p.13). Geographic proximity is also prominent among the reasons for banks' regional banking strategies (Kraft, 2003, p.14). However, seeing that foreign bank entry occurred massively at a single moment, it is also essential to acknowledge that international banking groups moved with crises, a dynamic predicted by Krippner (2012) and captured in the term 'capitalising on crises.' From the domestic perspective, the Croatian state loosened the administrative requirements after the financial crisis, seeing the FDI as an opportunity to recapitalise banks and re-establish a functioning banking system. From the foreign banking groups' perspective, local crises

were an opportunity to buy cheap banks with already established customer base and infrastructure rather than build from scratch (Havrylchyk & Jurzyk, 2010, p.15).

Except for Raiffeisen Bank, which was established as a greenfield investment, all other major subsidiaries mentioned above were established through mergers and acquisitions of existing domestic banks. Indeed, while the first foreign banks in Croatia were greenfield start-ups (Kraft, 2003, p.1), these newly established banking investments in Croatia maintained small percentages in the country's total financial assets (Kraft, 2003, p.1). The vast majority of foreign banking in Croatia established itself through acquiring the domestic banking sector. Moreover, in doing so, foreign banks employed economies of scale as entry strategies (Kraft, 2003, p. 3). Foreign financial groups selected domestic banks with substantial market power (Havrylchyk & Jurzyk, 2010, p.5), often the biggest Croatian banks, herewith making them a part of large financial conglomerates with a wide variety of financial products (Kraft, 2003, p.3). Havrylchyk and Jurzyk argue that size is an essential bank characteristic that explains the foreign bank's decision on which domestic banks to acquire (Havrylchyk & Jurzyk, 2010, p.15). Some authors are critical of this dynamic, claiming that foreign banking groups cherry-pick the best ECE banks for their portfolios rather than looking into improving these banks and providing know-how (Bonin et al., 2003, p.1), as the Croatian state argued they will when presenting the privatisation program to the public. This also marks the beginning of the significance of shareholder value for international parent banks, as perhaps most famously theorised by Froud et al. (2000). Hoping to secure immediate returns on their investment and please shareholders, parent banks acquired existing business base and knowledge capital, rather than commit time and patient finance, as introduced by Crotty (2003), towards building up new banks.

In addition to acquiring the largest and the most established banks on the market, another element of the economies of scale in West European banks' strategy is acquiring and merging many smaller banks on the market (Havrylchyk & Jurzyk, 2010, p.4). In the early 2000s, small banks, which occupied specific market niches and geographies, competed well with big banks for deposits. After big banks were outsourced to foreign banking groups, they obtained the ability to borrow from their parent banks. Indeed, the period from the foreign bank entry until the 2008 global financial crisis is marked by credit expansion based on borrowing from parent banks (Brkić & Sabić, 2014, p.13). Small banks could not borrow internationally; thus, they focused on deposits as the primary funding source, encouraging depositing with comparably higher savings interest rates. Higher passive interest, however, also increased interest rates on the lending side, rendering

smaller domestic banks uncompetitive in the lending market (Ljubaj, 2005, p.17). Several domestic banks could not cope with the competition posed by the foreign banks, therefore exiting the market, often in the form of acquisitions, but also in the way of bankruptcies (Kraft, 2003, p.3). From 60 banks Croatia had in 1997 and 1998 at the peak of the pre-crisis period, it went to 53 banks in 1999 and 43 banks in 2000 when foreign banking groups started operating more intensively in the Croatian territory. The number of banks has kept falling steadily since a mere 20 banks were operating in Croatia in 2019, as Figure 3 has previously shown. The graph detailing the totality of mergers and acquisitions initiated by West European banks in Croatia can be found in Figure 7 below. Overall, Figure 7 illustrates the trajectory of banking financialisation in Croatia. The specific process represented here involves the tendency of financialisation to seek returns on investment, rendering more and more assets tradable, thus often losing their connection with the real economic value underwriting these assets (Deruytter & Waiengnier, 2018, p.43). The exact process of financialisation took place with the banks. West European banks' shopping spree, as seen in Figure 7, was followed by a wave of mergers and acquisitions of additional regional banks, disengaging them from their locales and their traditional economies and reorienting towards shareholder value maximisation for dispersed and distant owners. Thus, West European banks act as drivers of financialisation in local banking and, relatedly, the broader socioeconomic system these banks serve.





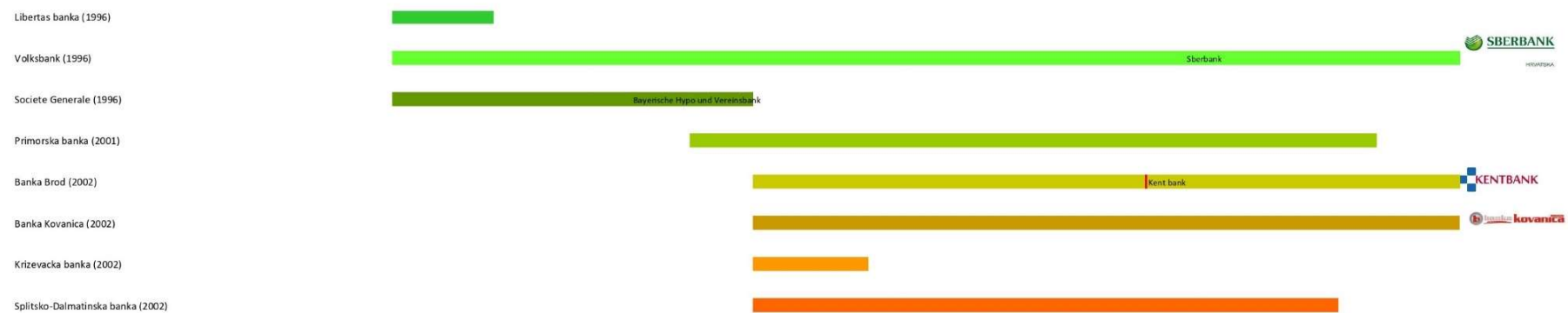


Figure 7 Total mergers and acquisitions in the Croatian banking sector. Source: Author.

Upon deciding to spread into the ECE, foreign banks have a choice of how they will spread to a new territory, as a subsidiary or a branch. While branches are considered a part of the home bank and can draw on total banking group capital (De Haas & Naaborg, 2006, p.178), subsidiaries are separate legal entities. Funds between parent and subsidiary are not reallocated through orders but in the form of lending to, or taking additional equity in, these subsidiaries (De Haas & Naaborg, 2006, p.176). Most foreign banks currently operating in Croatia are subsidiaries of parent banks, which points to a mechanism of extraction of parent banks from subsidiaries. Specifically, parent banks put forward subsidiaries' expansion strategies, often requiring subsidiaries to take loans from parent banks to finance the expansion. This crucial financial chain drives financialisation in Croatia, as value flows upwards from subsidiaries to parent banks who dictate the expansion and local banks' indebtedness on the back of that expansion. In the Croatian case, in the 1990s and first half of the 2000s, foreign banks kept re-investing the profits in their subsidiaries under the logic of expansion. However, later years saw the repatriation of the gains in the parent bank's host countries as dividend payouts (Kraft, 2003, p.29). With Croatian accession to the EU, the payment of dividends to parent companies has increased (De Haas & Naaborg, 2006, p.178). The parent bank subsequently uses this excess capital in other parts of the multinational banking group where more profit opportunities exist (De Haas & Naaborg, 2006, p.178).

Multinational bank holdings exhibit varying levels of centralisation of operations between parents and subsidiaries, and the internal market is contingent on the circumstances in both the home and host country, as well as other host countries of the owner group. For instance, De Haas and Naaborg (2006) have discovered that credit growth at a particular subsidiary is negatively correlated with loan growth in other subsidiaries of the same bank holding, which is consistent with 'winner-picking' behaviour. Subsidiaries' credit growth may depend on the total amount of consolidated group capital, which authors call the intra-bank contagion. In situations of home or third-country losses, parent banks may choose to lower the credit targets of their subsidiaries or restructure their portfolios to focus on fewer high-quality clients. Moreover, in times of losses at home, parent banks may decide to transfer subsidiaries' profits to the head office through extraordinarily high dividends. Reflecting these concerns, Kraft finds it problematic that critical investors in the Croatian banking sector are nearby countries whose business cycles correlate highly with Croatia's (Kraft, 2003, p.34). The author argues that the business cycle proximity does not

allow for risk diversification, making the local financial system more volatile and vulnerable. Furthermore, Kraft notes cases where the parent bank's home country crisis caused a credit crunch and a resultant recession in the host countries (Kraft, 2003, p.4). The imminent local crisis is especially likely when most parent banks come from the same home country, close to the Croatian case where banks come from predominantly two countries.

In addition to the credit outflow concerns, the subsidiary banking form raises troubling questions about rehabilitation and restructuring responsibilities. Legally, as a subsidiary is a separate legal entity, parent banks have no legal obligation to rescue them in times of crisis. In other words, the 'lender of last resort' role is left to host countries (De Haas & Naaborg, 2006, p.187). Indeed, the case of Bayerische Landesbank abruptly withdrawing from Riječka Banka following the revelation of illicit foreign currency trade and leaving the further resolution to the Croatian government has sent a negative impression to the Croatian public about the ability and the willingness of parent banks to support their subsidiaries in times of need (De Haas & Naaborg, 2006, p.188). The Bayerische Landesbank sold back the Bank of Rijeka to Croatia for a symbolic \$1, making this a clear example of the 'cut-and-run' strategy in the early 2000s (Sabor, 2005, p.4). The worry is especially disquieting in cases where a local subsidiary is of systemic importance for the host country while it holds but marginal importance in the foreign banking group (De Haas & Naaborg, 2006, p.188). For this reason, De Haas and Naaborg find that the host-country government usually has a role in saving the failing subsidiary (De Haas & Naaborg, 2006, p.188). Despite all that, many parent banks also assume the role of the lender of last resort, as leaving the subsidiary to go bankrupt represents a grave reputational risk for the group (De Haas & Naaborg, 2006, p.188).

4.4 The Credit boom (2002-2008)

In the early days of lending in Croatia, up until the 2000s, local patriotism constituted a significant reason for clients to borrow from a particular bank, and this was especially true for rural geographies removed from cities (Kraft et al., 1998, p.13). Similarly, banks conducted business with cherry-picked customers, made up of closed clientele circles established through previous relationships and friendships; the dynamics authors generally call 'relationship lending' (Kraft et al., 1998, p.14). There were no large-scale marketing campaigns; banks contacted suitable clients directly, offering loans (Kraft et al., 1998, p.13). The biggest banks only broadly formulated their lending policy with the help of outside parties, such as auditors. In contrast, most smaller banks had no formal lending

policy, conducting lending entirely at an employee's discretion (Kraft et al., 1998, p.3). Only two banks used any credit-scoring system for commercial loans until 1996 (Kraft et al., 1998, p.9). 1997 marks the start of a new lending development phase in Croatia, marked by an elaboration of lending policies and unprecedented credit growth to non-state sectors. Rodik describes the period that followed as the one spearheaded by liberalised financial markets, integration of the Croatian banking sector with the European banking sector, procyclical fiscal policy, informally pegged exchange rates, dropping interest rates, and unlimited foreign borrowing by subsidiaries of foreign parent banks (Rodik, 2019c, p.41). Moreover, consumerism entered a new phase of expansion in the early 2000s, accompanied by the democratisation of lending (Rodik, 2019c, p.41) and the development of banking structures and marketing (Rodik, 2019c, p.42). Aiming to explain the transformation of the lending market on the back of the West European banking groups' penetration, the section investigates the period of the credit boom in the 2000s, interpreting it as another aspect of the emergence of financialisation in the region.

Interbank loans and the growth of West European banks' lending in Croatia

Havrylchyk and Jurzyk argue that foreign bank ownership is among ECE's prime propellers of credit growth (Havrylchyk & Jurzyk, 2010, p.17). De Haas and Naaborg confirm this stipulation in their work (De Haas & Naaborg, 2006, p.160), as well as Kraft, who noticed foreign banks having had much faster credit growth than domestic banks during the late 1990s (Kraft, 2003, p.27). Finally, HNB confirms that the most substantial financial assets growth in 1998 occurred among the newly acquired foreign banks, which had just started winning the market, enabled by cheap credits obtained from their parent banks (HNB, 1999, p.2). From the late 1990s to the mid-2000s, the banking sector constituted the biggest single debtor to foreign capital (Rodik, 2019c, p.60), with early 2000s credit growth being almost entirely driven by subsidiaries taking loans from parent banks (Ivčić et al., 2008). Indeed, intra-group lending between euro-area parent banks and their local subsidiaries was the dominant form of capital inflows in the pre-crisis period (Brkić, 2019, p.15).

This points to interest spread as Croatia's biggest source of bank profits (Rodik, 2019c, p.64). Foreign bank subsidiaries had access to cheap international money, which they sold at a much higher price domestically. Several authors have shown that interest rates ECE subsidiaries offer are generally higher than interest rates their parent banks offer in their home countries, as well as parent banks often have a much more significant percentage of loans with fixed interest rates than subsidiaries of those very banks have in

Croatia (Rodik, 2019c, p.45). In this type of carry-trade business strategy, an essential factor in the profitability of foreign banks is HNB, creating a stable foreign exchange policy (Rodik, 2019c, p.62). In other words, the main task of HNB is to preserve the exchange stability between HRK and EUR by preventing HRK from appreciating or depreciating (Dumičić et al., 2017, p.6). To keep HRK stable, HNB continuously purchases extra EUR from commercial banks, protecting debtor-creditor original contract amounts (HNB, 1996, p.53). More than a supervisory body, this instance, among others, shows that HNB posits itself as an active player in the banking market once again.

Credit expansion soared throughout the early-to-mid the 2000s. RBA, for example, in 1999 increased assets by 50% and in 2000 by 70% (Rodik, 2019c, p.67), while the total financial system increased assets by 17.3% from 2001 to 2002 (HNB, 2003, p.23), another 17.2% from 2002 to 2003 (HNB, 2004, p.20). Credit growth slowed slightly in the next two years due to HNB's anti-credit bubble policies. Annual asset growth of 12.3% marked the period from 2003 to 2004 (HNB, 2005, p.28) and 13.5% growth was noted from 2004 to 2005 (HNB, 2006, p.20). The HNB's policies during that period were geared towards making international borrowing expensive, which they hoped would slow down credit growth based on this internationally borrowed capital. Namely, in 2004, HNB introduced 'marginal reserve,' a mandatory reserve on foreign liabilities (HNB, 2004, p.24; Ivčić et al., 2008, p.2). In 2005, the regular reserve rate grew twice, from 24% to 30% in the first part of the year and to 40% in the summer months (Ivčić et al., 2008, p.2).

Despite the HNB's efforts, banks' asset growth recovered to 17% in 2005-2006 (HNB, 2007, p.12). This was due to banks trying to circumvent the HNB policies by restructuring their liabilities. Specifically, to avoid foreign currency reserve requirements, banks first started issuing securities, which were then purchased by the parent banks rather than borrowing directly. This lasted until 2006 when HNB introduced a 55% reserve requirement on securities (Ivčić et al., 2008, p.2). Moreover, banks started borrowing in HRK with currency clauses rather than foreign currencies. A currency clause is a hedging instrument that pegs the agreed amount of credit to the exchange rate of a foreign currency. The loan amount granted is denominated in a foreign currency, but all payments associated with such a loan are made in the domestic currency. Again, this lasted until 2006 when HNB re-categorised HRK loans with currency clauses as foreign currency loans and included them in the foreign currency requirement (Ivčić et al., 2008, pp.2-3). In 2007, the HNB introduced more direct credit bubble preventative measures. Namely, the HNB required banks to purchase HNB bills for 50% of the amount for which their credit growth

exceeded the 12% ceiling set for 2007 (Ivčić et al., 2008, p.3). This measure, however, disproportionately hit the small banks that had not yet expanded their business, especially as it came at the very end of the credit boom and the start of the global financial crisis. The asset growth dropped to 13.3% in 2006-2007 in the pre-crisis period and 7.2% at the very onset of the crisis between 2007-2008 (HNB, 2009, p.9).

The share of loans in total assets also increased during the years of the credit boom; for example, from 43.4% in 2001 (HNB, 2004a, p.23) to 52.3% in 2003 (HNB, 2004, p.25) and 61.6% in 2006 (HNB, 2007, p.14). It is important to note that household loans as a share of total loans increased substantially, as Figure 8 shows. Household lending had been almost entirely uncharted territory before the first wave of foreign bank entry in the second half of the 1990s, with claims on the household sector making up 3.8% of total assets in 1993 and 8.9% in 1996 (HNB, 1997, p.4). Following the massive foreign bank entry, household loans comprised 47.8% of total loans in 2003 (HNB, 2004, p.42) and 50.7% in 2007 (HNB, 2008, p.17). This reveals that foreign banks' focus has been on retail clients. Indeed, De Haas and Naaborg confirm that expanding the retail banking concept to ECE has been the strategic focus of many parent banks operating in the region (De Haas & Naaborg, 2006, p.168).

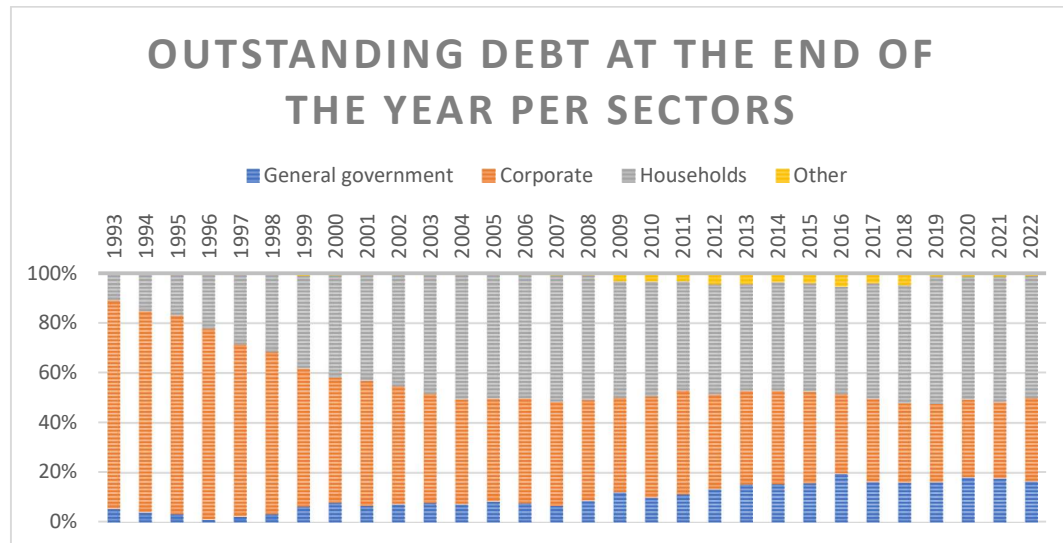


Figure 8 Composition of bank lending in Croatia, 1993-2022. Source: Author's elaboration based on HNB regular publications HNB Bulletin for 1993-1994 and 2019-2022, and HNB Bank Bulletin for 1995-2019.

Household lending

In the case of Croatia, household loans comprised 17.4% of the GDP in 2001 and 40.8% of the GDP in 2008 (Rodik, 2019c, p.39). There are two critical segments of household

lending: consumer loans and housing loans. Before the foreign bank's entry, consumer loans comprised only 6% of GDP in 1995, which climbed to 20% in 2002 (Kraft, 2003, p. 27). In 2022, consumer loans constitute about half of total loans to households. Considering these are usually relatively small amounts, the volume of people holding consumer loans is beyond significant. For example, with a population of 4.4 million, in 2007 already, Croatia had 7.7 million credit cards (Burić, 2010, p.151). On the other hand, mortgage loans constitute the largest segment of household credit in Croatia, as seen in Figure 9 (Rodik, 2019c, p.47).

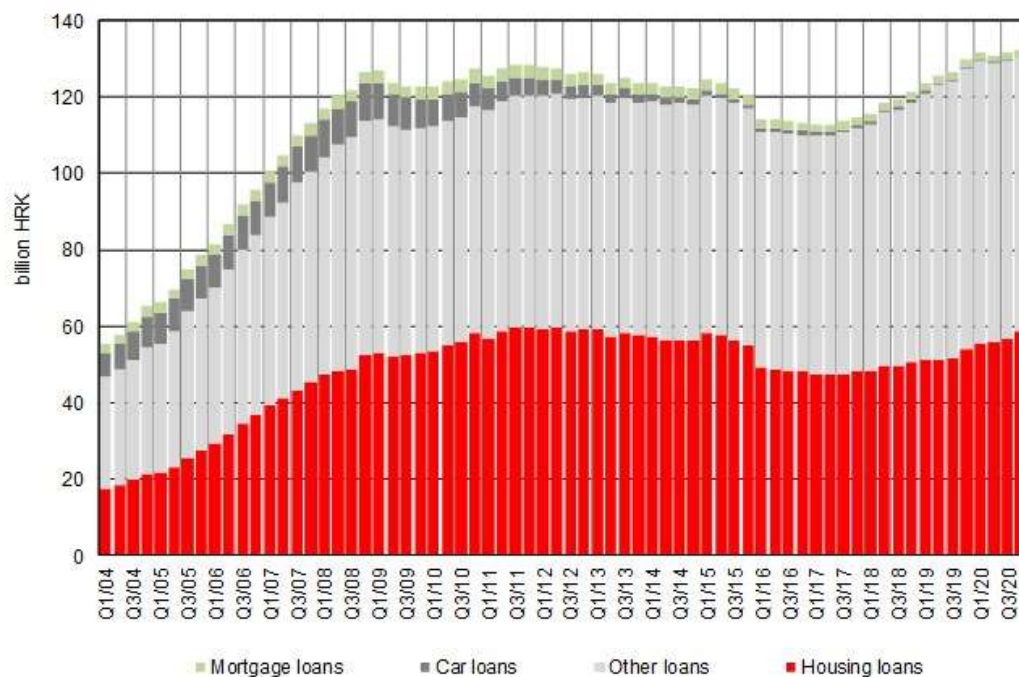


Figure 9 Structure of household lending in Croatia. Source: HNB Bank Bulletin, 2021.

Croatia is a super-homeownership state, with over 90% homeownership rate (Marčetić, 2020, p.9). However, this statistic hides overcrowded living conditions within multigenerational families and the inability of younger generations to secure housing anywhere else but on the mortgage market (Marčetić, 2020, p.10). Indeed, the Croatian mortgage market developed with almost non-existent rental rights and regulations and a vanishing public housing fund (Rodik, 2019c, p.42). First, to explain the former, we ought to emphasise the Croatian rental law being geared towards protecting the landlord and encouraging short-term lets as an indirect fuel to the country's single biggest service industry – tourism. For example, the taxing system charges 10x higher tax on long-term

rental units than short-term rental units. Moreover, even what the Law on rentals covers is barely enforced in practice. Rodik estimates that less than 10% of rental apartments were registered in 2005 when the housing boom peaked (Rodik, 2019c, p.70).

Regarding the vanishing public housing fund, we must refer to the years of public housing privatisation. Between 1991 and 1997, the existing public housing fund was privatised based on legislation similar to Thatcher's Right to Buy Housing Act of 1980. This resulted in Croatia having the lowest public housing stock in the EU; 2% of total housing belongs to the public housing fund, while the EU average is 15%. This housing transformation was achieved first and foremost through the 1991 Law on sales of apartments with tenant rights. Herewith, Croatia allowed citizens to cheaply purchase apartments previously owned and supplied to them by social enterprises where they worked. With this, homeownership in Croatia skyrocketed. After that, any new public housing measures were marked by privatisation, deregulation and finding answers to housing issues on the market (Rolnik, 2010).

The most notable and long-lasting public housing program is executed through the state-owned Real Estate Agency program (APN), which splits into two phases. In the pre-crisis period, in this section of the chapter, APN focuses on publicly built apartments sold cheaply and is often limited to specific segments of the population, such as war veterans or war refugees. Herewith, banks invested in the construction sector in parallel to approving housing loans, often positioning themselves as the only acceptable source of finance for purchasing the apartments built and leaving customers with no other banking choice (Rodik, 2019c, p.59). During those years, Croatia based its economic expansions mainly on housing construction. The government eased the change of land purpose, even from protected to construction zones. With this, public land has been transformed into private ownership suitable for construction, including the factories, military complexes, and coast and islands. Locations for new construction projects were based not on human-centred planning but on the location of these large-scale, single-owner, once-public lands.

The most significant rise in housing loans was noticed in the pre-crisis period between 2004-2008, during which the housing credits grew by 202% (Marčetić, 2020; Vizek, 2009). A path towards a debt-run economy, mainly based on the real estate market, has been established during this period. Aggressive marketing of household lending dominates the period (Galac, 2003, p.4) and lowers lending standards. The reduced criteria for obtaining a loan, which marked the period between 2004 and 2008, significantly increased the credit risk (Ivčić et al., 2008, p.13), as well as transferred risk from capital

markets to households (Rodik, 2019c, p.42). Above all, Rodik points to how problematic the household lending developments were in the context of high information asymmetry between banks and clients, enabled by the lack of regulation of how banks conduct their business. From the perspective of financialisation, loans to households are often analysed in a ratio of loans to SMEs, as many authors argue that the shift from productive investments to extracting profits directly from families and individuals is the fundamental feature of financialised capitalism (e.g. Lapavistas, 2013). The argument goes that Western credit is today primarily oriented towards financing private debt and domestic consumption (Erturk et al., 2008, p.554). The simultaneous disinvestment in the productive sector results in its weakening and further dependence on imports of Western capital and Western consumption products. In other words, Western banks in ECE ultimately finance the consumption of Western products. These dynamics led Smith and Swain to call the ECE region ‘Europe’s subprime market,’ characterised by high credit-fuelled domestic consumption inflating asset prices, which creates an illusion of economic growth (Smith & Swain, 2010, p.16). As Ivanov notes, ‘[f]inancial system in Croatia finances personal consumption and imports, and minimal investments’ (Ivanov, 2005 in Kunac, 2018, p.33).

In line with this, foreign banks generally lend less to SMEs than private domestic banks (De Haas & Naaborg, 2006, p.161). Moreover, unlike domestic SMEs, SMEs and other corporations in foreign ownership have access to cheaper international capital through the parent corporation or a foreign bank from the same host country, making them a formidable competitor to domestic SMEs (Bule & Cudina, 2019, p.9). Consumer banking, claims Kraft, is a banking segment where banks do not necessarily need to know much about their customers to conduct business effectively, unlike SME financing, naming this as a reason for foreign bank retail orientation (Kraft, 2003, pp.2-3). However, the mode of foreign bank entry through purchasing domestic banks and employing local staff raises questions about the validity of the conclusion that domestic banks are more familiar with the customer base and points to strategic and profitability reasons. Whichever way, except in 2006, when lending to the corporate sector briefly surpassed household lending, Croatian lending has seen consistent investment in consumption rather than production (Ivčić et al., 2008, p.9).

However, a particular aspect of household lending in ECE in general, and in Croatia, is the importance of exchange risk, as most household loans are foreign-currency based. Currency-internationalisation started in Yugoslavia in the 1960s due to local currency inflation since 1982 (HNB, 1996, p.37), remittances and a tourism-focused

economy (Dumičić et al., 2017, p.4). During Yugoslavia, the Deutsche Mark was the currency of parallel importance to HRK (HNB, 1996, p.36) and a primary savings currency (HNB, 1996, p.28). With the 1993 Foreign currency law in Croatia, HNB further liberalised foreign currency business, as all citizens can now buy foreign currencies, deposit foreign currencies in their banks, and trade with foreign money (HNB, 1994, pp.21-22). In 1995, the Croatian government entitled HRK convertible into other currencies, which allowed residents to participate in transactions with non-residents and buy foreign currency with domestic currency (HNB, 1996, p.60). Likewise, non-residents can freely transform domestic currency into foreign currency and transfer the latter to their international accounts (HNB, 1996, p.60). Any foreign currency transformation limitations counter Article 8 of the IMF statute, and thus, this was one of the crucial reforms required by the international financial community (HNB, 1996, p.61). Based on data from the OeNB Austrian Central Bank survey on the usage of EUR in ECE, it is visible that 80-90% of local Croatian deposits were in foreign currencies by 1994 (Dumičić et al., 2017, p.3). HNB provides a more conservative estimation, saying that, by the end of 1995, foreign currency deposits surpassed local currency deposits (HNB, 1996, p.25). In either case, a trend towards saving in foreign currencies dominated the Croatian banking landscape and peaked in 2002 with the announcement of Croatian EU candidacy.

Moreover, with the Deutsche Mark's abolition in 2001, Croatian citizens brought their home-kept savings to banks to have them converted into Euros (Kraft, 2003, p.27). With this, the total of local foreign currency deposits skyrocketed. Foreign banks transferred the deposits to parent banks to protect against a feared massive withdrawal of deposits following the conversion payout deadline in the new year (Kraft, 2003, p.27). However, after receiving the reassurance that the account holders were not withdrawing their deposits, parent banks returned the money to their subsidiaries, and the latter used the money to start massively issuing foreign currency loans (Kraft, 2003, p.27). During domestic bank lending, even though a high percentage of liabilities was in foreign currencies, as the preceding text shows, most bank assets were in local currency (HNB, 1996, p.70). Foreign currency lending started with the foreign-bank entry, representing a transfer of exchange risk from banks to borrowers who still earn their wages in local currency (Dumičić et al., 2017, p.5).

The geographical scope of lending expansion in Croatia

Credit growth was geographically uneven. In 1997, with the first massive wave of foreign bank entry, credit expansion was most prominently featured in the south of Croatia, the Dalmatian coast (Kraft et al., 1998, p.2). West of the country followed, namely the Istrian peninsula, then the East with the region of Slavonia (Kraft et al., 1998, p.2). Credit expansion was the slowest in the northern Croatian areas, including the capital, Zagreb (Kraft et al., 1998, p.2). The authors explain this with the South having the lowest starting point due to the war devastations and rehabilitation of the most prominent southern banks, such as the Bank of Split (Kraft et al., 1998, p.2). Moreover, the spike in tourism increased lending activity (Kraft et al., 1998, p. 2). Authors Krišto Tuškan found a correlation between county development and branching, noticing that less developed counties often have fewer banks, and some regions only have a choice of one or two banks. Indeed, different banks focus on different counties – OTP is prominent in Dubrovnik and Zadar County, ex-Hypobank, now Addiko Bank focuses on Osijek, and Erste Bank is dominant in Primorje-Gorski Kotar County. In contrast, almost all banks are in Zagreb and Varaždin counties (Rodik, 2019c, p.73).

Credit growth, however, does not mask the reality that a significant number of the population remained financially excluded from the credit market. The previous text already mentions the inability of younger generations, often working in seasonal tourism-related labour, to access housing loans (Ivčić et al., 2008, p.13). This was exacerbated by the foreign borrowing-based growth escalating real-estate prices. The price per square meter rose by 68% between 2003 and 2007 (Brkić, 2019, p.8; Ivčić et al., 2008, p.27), with housing prices not following the labour prices (Žapčić, 2018). Excessive consumption permeated the market, with overindebtedness, defined as debt compared to income was very high, and no regulations existed at the time to control the debt-to-income ratio (Ivčić et al., 2008, p.2).

The credit boom stopped with the onset of the global financial crisis. 2008, Croatia started feeling the first sign of the global financial crisis. Inter-group money dried out due to the crisis in parent banks (HNB, 2009, p.8). Moreover, the risk premium for ECE grew, which resulted in the effective foreclosure of international long-term financing (HNB, 2009, p.13). The HNB calls this a ‘contagion’ passed on from Western markets to domestic markets through parent banks and emphasises that countries dependent on external financing are the most vulnerable to these spillover crises (HNB, 2009, p.12). The following section details this phase of Croatian banking and shows how Croatian banks were transformed.

4.5 The Global Financial Crisis, its aftermath and banking after the crisis

The first sign of the global financial crisis was the depositors' panic. Deposits were initially retrieved from foreign banks, and depositor trusts were only recovered with ensured deposits increasing from 100,000 HRK (13,250 EUR) to 400,000 HRK (53,000 EUR) (HNB, 2009, p.8). The real sector was affected as Croatian exporting slowed down due to the recession in the EU (HNB, 2009, p.9). As the entire economy slipped into a recession, banks faced a significant deterioration in asset quality. The increase in default rates was the most common among construction and real estate development companies. The performance of housing loans worsened as well, but to a lesser extent: by the end of 2015, as much as two-thirds of total loans to the construction sector were classified as non-performing. As for loans to real estate development companies, the share of bad loans reached the highest level in late 2014, when it stood at 40%. Meanwhile, in the category of loans for house purchases, the share of non-performing loans never exceeded 10% (Brkić, 2019, p.8).

Despite all this, all major Croatian banks remained well-capitalised throughout the period and kept a solid deposit base. Unlike previous crises, banking system rehabilitation was unnecessary (Brkić, 2019, p.1). The resilience of Croatian banks largely stemmed from their high initial capital and liquidity buffers. The prudential measures introduced by the HNB between 2004 and 2008 to slow down domestic placement growth based on external sources resulted in the replacement of interbank lending ('other investment' in parent bank balance sheet) with capital injections (treated as FDIs) for parent banks to circumvent these costly restrictions (Brkić, 2019, p.15). Nearly 40% of total direct investment from 2003 to 2007 was allocated to financial intermediation, 12% to construction and real estate development, while less than 20% of total investment went to the manufacturing industry (Brkić, 2019, p.15). The indirect result was a notable increase in the capital adequacy ratio at the system level, a significant factor behind Croatian banks' impressive resilience during the global financial crisis and its prolonged aftermath (Brkić, 2019, p.15). What is more, during this period, following both domestic prudential measures and EURIBOR growth between 2005 and 2007 (Ivčić et al., 2008, p.21), banks turned to domestic deposits as the new source of funds, which lessened subsidiaries' dependence on parent banks funds (Ivčić et al., 2008, p.1).

In its reaction to the crisis, Croatia realised that monetary policy is limited in a highly euroised small open economy where the exchange rate must be stable and cannot

depreciate to stimulate exports because the debt would go up (HNB, 2009, p.17). Instead, in 2008 and 2009, one could observe a decisive cut in regulatory burden, which released abundant liquidity (Deskari-Škrbić et al., 2019, p.196). Foreign currency assets were freed up by cancelling marginal reserve requirements (HNB, 2009, p.8). The reserve requirement rate and the minimum reserve requirement on foreign currency claims were reduced (HNB, 2009, p.9). HNB sold foreign currency in its accounts to retail banks (HNB, 2009, p.9), even at the expense of HNB international reserves dropping due to this help given to banks (HNB, 2009, p.8). Dividend-retention measures were stricter (Deskari-Škrbić et al., 2018, pp.198-199). Furthermore, in 2009, the HNB terminated the special reserve requirement on banks' liabilities arising from issued securities and revoked the obligation to purchase compulsory HNB bills.

The only year marked by negative RoE is 2015 when the Croatian Government passed a law that capped the HRK–CHF exchange rate for Swiss franc-denominated loans following the Swiss franc crisis. Soon afterwards, the largest bank in Croatia, Zagrebačka Banka, owned by Italian Unicredit, filed a lawsuit against the Republic of Croatia at the International Centre for Settlement of Investment Disputes (ICSID). It is yet to be seen how this issue will play out, but this is the first case of an openly antagonistic relationship between a large part of the Croatian banking system and the Croatian Government since 2000 (Deskari-Škrbić et al., 2018, p.193). Croatian citizens do not save much in Swiss Francs, but Franc-based lending was established on low-interest banks were paying when borrowing in international capital markets in Swiss Francs. The resultant interest was lower for household borrowers (Dumičić et al., 2017, p.6). Franc-denominated assets comprised 18% of total bank assets in 2008 (Dumičić et al., 2017, p.6). Monthly charges for debtors increased two-fold, for some events three-fold, and promises bank sellers tend to make while selling Swiss Franc loans, such as the free-of-charge conversion of loan to Euros, had not been met. After the government involvement and the order for the exchange rate to be capped at 6.39 HRK in 2015, the share of Swiss Franc loans deflated to 2%, in massive discontent among banks (Dumičić et al., 2017, p.6). Activists from 'The Franc' association commonly point to banks' privileged position in Croatian society. 'Banks pay no value added tax on any of the services they provide,' 'Banks pay no state tax on transactions,' and 'Banks have never been under the inspection of State audit' (Petranović, 2015) are some of the assertions made by the association pointing to the privileged place banking holds in the Croatian society.

Following the global financial crisis, bank earnings heavily rely on state subsidies, primarily the APN program. Post-2011, APN became a program of state-subsidised private-bank borrowing. In other words, the state subsidises a part of the loan the debtor takes from private banks. There are many criticisms of the APN program in this form. The apparent first argument is that APN is only geared towards house-buyers and those buying houses on loan, neglecting all others who require a different solution to their housing problem, such as rental or social housing. Moreover, the program only applies to those who are credit-worthy. Seeing that the criteria for creditworthiness are a job with an indefinite contract and above-average pay and having collateral, a guarantor, and a co-debtor, many were excluded from the APN program, especially the younger generations who needed it the most. A not-commonly discussed elephant in the room is also the transfer of public funds to private banks, which poses doubts about the measure being sincerely designed towards increasing home ownership or is a measure to pump the economy and asset prices, which resonates with Aalbers theory that ‘housing financialisation never intended to rise home-ownership rates but to stimulate the economy’ (Aalbers, 2016, p.55). Nevertheless, due to public housing unavailability, rental market insecurity, and state supports available only in the form of credit easing, homeownership came to locally represent the only safe way of securing one’s housing (Marčetić, 2020). As one news article comments, ‘The fertile ground for riding the wild mortgage horse has been born.’

The mortgage system is based on the homeownership ideology, which functions in a way that makes people believe that by becoming a homeowner, they abandon working-class life and become middle-class, clearly noted in the financialisation of daily life literature. The social costs of the above-described housing financialisation are severe and problematic for an entire generation. To name but a few processes, Croatian youth leave their parental home the latest in the EU. 80% of youth (18-34) still live in their parental home (Žapčić, 2018). The process of suburbanisation ensues as tourists move into cities and citizens move out. As Marčetić notes, while Zagreb marked the growth of population between the years 2001 and today, the most central neighbourhoods marked a considerable drop. Specifically, the most central neighbourhood marked a 20% drop in population during this period. With the unavailability of living spaces making them too expensive for local citizens, sources of income were also severed as local shops were replaced by fast food bars and others, often through foreign concessions. Due to the lack of social housing, people are doomed to deal with unpredictable, contingent, precarious real-estate markets, even pushed to do so by subsidising partial interest rates. The state had not protected the most vulnerable

citizens. It had not even retreated from the housing market, allowing for its ‘invisible hand’ kind of self-regulation. However, it actively encouraged construction and banking industries by stimulating housing loan borrowing for houses constructed through public subsidy and the private construction market.

Protections for debtors only came following the financial crisis. Law on retail lending was only established in 2009 following the credit boom that tied many households to contract obligations (Rodik, 2019c, p.76). Moreover, it was not until 2015 that the government regulated the form and content of information banks give to their clients in contracts (Rodik, 2019c, p.77). The amount of maximum interest rate was fixed following the credit boom in 2008 as well (Rodik, 2019c, p.77), and it was not spelt out until 2014 how changeable interest can be calculated; instead, interest was changing at the discretion of directors of a bank (Rodik, 2019c, p.77). Rodik calculated that some originally marketed interest rates would bring banks losses (Rodik, 2019c, p.80), which means banks would purposely attract clients with low interest that would soon change (Rodik, 2019c, p.79). Moreover, banks could unilaterally change many contract elements throughout the period, such as fees or administrative expenses (Rodik, 2019c, p.78). Contract asymmetry permeates the period. The first protections for borrowers came from several articles in the 2008 Enforcement Act, which protected 2/3 of average pay from repossessing (Rodik, 2019c, p.77). The protections were not implemented until 2010, when the State Financial Agency established protected accounts (Rodik, 2019c, p.77). Moreover, banks now need to consider the minimal amount that needs to be left for people to leave off when determining creditworthiness (HNB, 2019, pp.7-8). However, this only applies to housing loans, which explains non-housing related (purposeless) long-term consumer loan growth since 2018 (HNB, 2019, p.8). For debtor information, banks can refer to the Croatian Credit Information Agency (HROK), a private company in charge of the national debtors’ register. The register was established in 1996 in an almost informal manner by 20 retail banks. Banks are obliged only by a system of reciprocity to share information on their clients; namely, if a bank shares info on their clients, it also has access to information on other banks’ clients. Throughout the banking business, banks know much more about the client than the client knows about the bank and product they are buying, not due to often assumed financial illiteracy but the very design of these contracts being unstable and changeable. However, despite the vast information asymmetry, banks and customers are considered equal contract parties. This leads us to where we are today, which will be examined in the

following two chapters with a specific focus on bank branch networks and lending strategies.

4.6 Conclusion

Aiming to explain how financialisation penetrates and manifests itself in the European periphery, this chapter looks at the transformations of the Croatian banking system during two decades of Croatian postsocialist transition. The main research question answered in this chapter is RQ1: ‘How have West European banks managed to ‘penetrate’ postsocialist Croatia, and how has this transformed Croatian banking?’ The chapter argues that mid-tier, West European banks, primarily from geographically proximate countries of Italy and Austria, penetrated the region by exploiting the local financial crises that followed the fall of the socialist regime, often choosing to purchase existing, well-established banks. In doing so, West European banks established a radically different financial regime than the one that existed before their entry, as they transformed the Croatian banking landscape into a shareholder-oriented, distantly governed, highly concentrated, and homogenous financial system dependent on parent bank structures. In doing so, the chapter tells a story of Croatian banking transformation, setting up the stage for understanding how financial chains between West European parent banks and their Croatian subsidiaries were established, thus setting the stage for the coming chapters that further examine power relations and channels of value transfer between the European West and ECE periphery.

Chapter 5. The geographies of the bank-branch network in Croatia

From its definition and the findings of the previous chapter, financialisation is revealed as a process that organises different segments of society into a hierarchical power structure using different financial mechanisms. As Sokol (2017) conceptualises it, this structure creates a chain of relations that governs the flow of financial value. International financial capital enables control of crucial resources, including host financial systems, thus securing a pipeline for value extraction. Within this chain, bank branches emerge as a crucial nexus governing value flow from households and SMEs to subsidiary banks in host countries and, ultimately, parent banks and their shareholders. Vice versa applies as well, as capital investment flows down from parent banks and, occasionally, shareholders when they turn dividends into investment capital. In this sense, the positioning of branches determines where credit is allocated in the economy, making them critical geographies for negotiating modern monetary relations. Branches are the critical geography for transforming the financial economics of abundance into a policy of scarcity. Specifically, branches are the infrastructure where the infinite money-making capacity of banks, as explained by Ryan-Collins et al. (2011), morphs into socially and geographically rationed credit, thus enforcing monetary scarcity and securing banks' power position. Thus, the geographic spread of banking gives perhaps the best insight into this redistribution and allocation of wealth across one society and, as interests this dissertation, sheds light on how the variegated financialisation of banking in Croatia, driven by West European banking groups, influences uneven development. Branches are still the main channel through which banks attract deposits and issue most of their loans. It is through branch positioning that banks decide where to allocate credit in the economy. In other words, branches constitute the critical geography where the re-organisation of resources in any one society occurs. The question of the distribution of bank branches concerns us as branch accessibility is a critical element of access to finance, and the absence thereof may leave the local population vulnerable to predatory or more expensive lending.

With this in mind, this chapter is dedicated to answering the dissertation's second research question (RQ2), which inquires the following, 'How do West European banking groups organise their retail banking operations in Croatia?' With this question, the

dissertation seeks to understand how West European banks structure and manage their retail banking operations in the county and how, in turn, these retail banking operations drive financialisation in the region. To answer this question, the chapter studies the spatial pattern of West European bank branch networks, focusing on their present distribution and how it has changed over time. The goal is to track and trace bank branch movement across space to detect and describe geographical trends and tendencies in branch networks. Furthermore, the chapter observes the drivers behind these spatial patterns, focusing on the logic that informs them. Relying particularly on interviews with bankers and financial experts to elucidate the issue of how bankers make choices about where to locate their branches and why, this subquestion examines what drives banks into specific areas and drives them out of other areas. By explaining this, the chapter gives insights into the issues of access to finance and resource allocation across subnational space. Having introduced the chapter's purpose, the introduction next turns to key findings before turning to the chapter's structure.

In broad terms, the dissertation contributes to understanding how the expansion of West European banks in East-Central Europe and the resultant integration of the domestic financial sector into wider financial chains has shaped the financial system in these countries, increasing regional asymmetries and systemic economic vulnerability. The chapter contributes to that understanding by examining geographically uneven bank branch geographies and finding that West European banks ration branches to different regions based on their future expectations of the region. This supply-driven market type, based on where West European banks want to go, drove branches out of previously agro-industrial regions, once prominent in the socialist regime, into tourism/real estate regions, favoured by financialised capitalism that profits from asset-price bubbles. Arguably, such fragmented subnational banking geographies are contributing to increasing inequality across regions, with regions labelled as those of predicted decline experiencing further lack of investment, while predicted growth regions are experiencing a massive influx of investment, followed by price inflation and a myriad of related social problems, such as unaffordable housing. Overall, by examining the spatiality of the financial industry in Croatia, the chapter aims to contribute the situated, contextual understanding of variegated financialisation as it lands in postsocialist Croatia and, subsequently, locate the country within the European and, more widely, global financial chains.

5.1 The subnational spatial pattern of retail bank branches

This section describes the postsocialist banking landscape by conducting a bank branch network analysis in Croatia's case study. The key research question answered here is the first subquestion (2a) to the second research question (RQ2), which concerns 'What spatial patterns do branch networks of West European banks take at the sub-national level, and how have these spatial patterns been changing over time?'. With this question in mind, the section's first task is to map the Croatian banking system and locate the West European banking groups within the branch network. The data contains 823 branches owned by 20 banks. Table 5 summarises these 20 banks operating in Croatia and outlines their parent bank's origin country and branch numbers. West European banks are further highlighted in bold.

Branch network ownership

Relying on data from Table 5, complemented with interviews, this section examines the concentration of branch ownership among foreign and domestic banks in Croatia, exploring how this distribution reflects broader financialisation trends and impacts regional financial inclusion and economic inequality. By analysing the spatial-temporal patterns, drivers of these patterns, and their socio-economic consequences, the section provides a comprehensive understanding of the variegated financialisation in the Croatian banking sector and, relatedly, the broader socioeconomic context. The first issue the section considers is the concentration of branch ownership. Table 5 reveals that 11 foreign banks own over 80% of branches in Croatia, compared to 9 domestic banks owning about 20%, with 668 foreign-owned and 155 domestically-owned branches. The results correspond to the previous chapter's findings about the Croatian financial system being highly concentrated in the hands of foreign banking groups, and the make-up of branch ownership resembles wider bank ownership. The literature forecasts this finding *en masse*, with increasingly dispersed, distanced, and foreign owners widely cited as one of the prime indicators of financialisation (Hardie & Howarth, 2009, p.1021). This is especially true of variegated financialisation in East-Central Europe where, except for a few recent nationally-led variegations of financialisation, such as in Hungary and Poland, financial systems across the ECE region generally belong to the same West European owners who transformed the region in their secondary home market (Epstein, 2014, p.869). To exemplify, I16 and I17, board members of the same retail bank, held positions in different subsidiaries of the parent bank in different countries prior to their current positions at the Croatian subsidiary. Both interviewees testify to parent banks' issuing regular reports

comparing their subsidiaries in terms of profit-making and even informal competitions developed between different subsidiary employees. This points to Croatian branch networks in foreign ownership becoming increasingly integrated with previously unrelated financial systems in other ECE countries through their parent banks, forming new dependencies and risks of instability transmission along the financial chain.

Turning to the ownership structure of foreign bank branches, out of 668 foreign branches, 508 are West European-owned, primarily by Italian and Austrian banking groups, and a minor share of branches belong to San Marino. Specifically, Italy owns 278 branches of three banks; similarly, Austria owns 218 branches of three banks, while San Marino owns 12 branches of a single bank. The largest branch network belongs to Privredna Banka Zagreb (PBZ), a Croatian bank owned by the Italian Intesa Sanpaolo group, with 150 branches, nearly as many branches as all the domestic banks own together. The data indicate that Italy and Austria are the key investors in the Croatian financial sector. Both countries have geographic proximity to Croatia and a historical vested interest in the region, claiming parts of Croatian territory as their own until the 20th century. It is essential to examine financialisation as the most recent phase in the long history of core-periphery relations and the most recent instrument of value extraction. In other words, current forms of financialisation act upon already established inequalities, sustaining and deepening them, a phenomenon Harvey (2003) examines in his work on new forms of imperialism through capturing and controlling crucial resources, such as banking infrastructure.

The 160 non-Western branches belong to a bank from Hungary, another one from Russia, one from Turkey, and the final one from Czechia. Only the Hungarian branches belong to a large bank. Indeed, 113 out of 160 of these non-Western branches are run by the Hungarian capital. The Russian bank has 30 branches, the Turkish bank has 15 branches, and the Czech bank has two branches, making this bank the smallest bank in Croatia regarding the branch network. The small branch networks of most non-Western banking groups indicate these groups being latecomers to the Croatian banking market, with most of these banks entering in the most recent years, decades after the West European banking groups. Moreover, with the financial system being well established, as indicated in the previous chapter, non-Western banking groups are often penetrated by occupying sectoral and geographic niches, such as specific corporations and their business area. These banks' various strategy documents reveal that their branches are also focused on the corporation at hand and are relative to its size. Sberbank has a relatively large branch network following the country's largest agribusiness conglomerate, Agrokor. At the same

time, J&T acts as a foot-in-the-door for the Czech capital, and thus, the network remains limited to only two branches. OTP is an outlier –likewise a latecomer, it opportunistically bought a sizeable regional bank when French Société Generale was abandoning its East-Central European investments, thus growing its branch network from a limited number of scattered branches to an extensive, well-connected network, arguably driven by state-led financialisation emerging in the country and pushing expansion into East-Central Europe, similar to the expansion of West European banks.

155 domestically owned branches are spread out between one mid-tier bank, Hrvatska poštanska Banka (HPB), and eight small Croatian banks. Two of these are state-owned banks, namely HPB and Croatia Banka. The remaining six are in private, domestic ownership, of which 54 branches are in Croatian state ownership, and 101 are in private, domestic ownership. Notably, banks in domestic ownership have significantly smaller branch networks than their West European counterparts, with the most extensive single network of 43 branches belonging to a public bank, HPB. Traditionally, as the bank's strategy documents reveal, HPB is deeply intertwined with the elderly customer base and public pension payouts since the bank was once owned by the Croatian Pension Insurance Institute (HZMO) before being acquired by the Government. It is tied to postal services, with post offices serving as mini-branches offering essential banking services. This business model renders HPB perhaps the most accessible bank for basic services despite the initially skinny-looking branch network, pointing to growing state-led forms of financialisation in Croatia, like Hungarian and Polish models. This trend has been exacerbated by the Russian-Ukrainian conflict and the related crises in the Russian banks, including Sberbank operating in Croatia. HPB cheaply acquired Sberbank in the wake of the crisis, thus growing into the fifth-largest bank in Croatia and establishing an even deeper state-finance nexus. Overall, the data reveal a branch network with ownership concentrated in large Italian and Austrian banks, with some non-Western capital, primarily Hungarian, extensively seeping into the region in recent years and the growing trend of state-led financialisation.

Bank	Parent bank country of origin	Branch totals
Privredna Banka Zagreb (PBZ)	Italy	150
Erste&Steiermarkische Bank	Austria	118
OTP Banka	Hungary	113
Zagrebačka banka (ZABA)	Italy	106
Raiffeisen bank	Austria	64
Hrvatska Poštanska banka	Croatia	43
Addiko banka	Austria	36
Sberbank ¹¹	Russia	30
Istarska kreditna banka	Croatia	24
Agram banka	Croatia	23
Podravska banka	Italy	22
KentBank	Turkey	15
Karlovačka banka	Croatia	13
Slatinska banka	Croatia	13
Banka Kovanica	San Marino	12
Croatia banka	Croatia	11
Samoborska banka	Croatia	11
Imex banka	Croatia	10
Partner banka	Croatia	7
J&T Banka	Czechia	2

Table 5 List of banks operating in Croatia in 2022, their parent institution's countries of origin, and the numbers of their branches. Source: Developed by the author from bank branch address data found on each bank's WEB page.

Branch densities

The subsequent issue regarding the West European branch spatial patterns concerns the branch densities. Regarding countrywide bank branch density, with 823 bank branches in the Croatian territory of 56,594 square kilometres, the average number of bank branches

¹¹Sberbank was acquired by HPB in 2024. It is listed here separately as data for the dissertation was collected prior to this acquisition, but the implications of the changes have been interpreted in text.

per 1,000 km² is 69. Moreover, translating density in terms of population numbers, a single branch, on average, serves 4052 customers¹². Similarly, the IMF's online database, the Financial Access Survey, calculates that, in 2020, Croatia had about 27 branches per 100,000 adults. This branch per capita ratio is somewhat higher than the EU average of 21 branches per 100,000 adults and significantly higher than the ratio in Austrian parent banks' country of origin, with Austria featuring a mere seven branches per 100,000 adults. Croatian banks' other principal parent bank country, Italy, counts 38 branches per 100,000 adults, placing Croatia somewhere between the Austrian and Italian model of branching densities, both of which are typical of their respective regions, with the European North displaying a generally lower ratio of branches per capita than the European South. This gives us a first glimpse into the evidence of the heterogeneity of spatial patterns among the Western bank owners in Croatia, which, to be demonstrated, inscribe themselves onto the country's branching patterns, although not necessarily by transposing their home market strategies. Italian-owned PBZ has the largest branch network, seemingly faithfully transposing the Italian heavily-branched banking model. However, the significantly smaller Austrian-owned Erste&Steiermarkische Bank contains a branch network considerably larger than the much larger Italian-owned ZABA. In the search for an explanation, the clues lead to parent banks' diverging strategies in ECE. Intesa Sanpaolo, the owner of PBZ, applied a selective and conservative expansion model, cherry-picking fewer ECE countries for its portfolio but amassing a significant presence in those few countries (Valdemarin, 2018). On the other hand, UniCredit, ZABA's owner, applied a more aggressive, rapid, and diversified expansion model with centralised decision-making and management across subsidiaries (Sellar in Grandi et al., 2019). As a result, ZABA's branch network has been rationed over the years, with branches becoming more streamlined, focused, and centralised. On the contrary, PBZ's network has been adjusted to a multiplicity of local partnerships, exhibiting a more decentralised branching model. Moreover, it may be significant that, while UniCredit is an Italian bank, its expansion to the ECE was mediated through its acquisition of Germany's HypoVereinsbank Group and its Austrian subsidiary, Bank Austria, meaning that the Italian bank inherited the scarcer Austrian branching model.

Continuing with the theme of branch density, it is crucial to note that although Croatia has a considerable branch network, as stated above, not all areas are covered by the

¹² Calculated as a total of 15+-year-olds as recorded in the Croatian census 2021 divided by the number of branches total.

banks equally. As Beckmann et al. indicated in 2013, ‘Croatia has the lowest bank branch coverage rate among the EU countries, indicating that Croatian banks tend to cluster branches together and operate only in certain regions’ (Beckmann et al., 2018, p.34). To substantiate these claims, the authors further assert that less than 10% of bank branches in Croatia are located more than five km from the nearest other bank branch and, conversely, about 90% of branches are in the proximate vicinity of another branch (Beckmann et al., 2018, p.34). Speaking of districts, out of 547 districts, 375 have no bank branches, representing the shocking size of this branchless area. Seventy districts have a single branch, 30 districts have two branches, and 20 districts have three branches. Fewer and fewer districts will have more branches, with only 10 out of 547 districts having four branches, six districts having five, and three districts having six branches. Two districts have eight and nine branches, respectively. As noted earlier, the absolute leader among the districts is the City of Zagreb, which, with 153 branches, is the only district with over 100 bank branches. Split sits behind Zagreb with 48 branches, followed by Rijeka with 30 branches and Osijek with 28 branches, with urban bias again emerging to the surface.

This forms a branch spatial pattern characteristic of highly concentrated bank geographies. By observing other countries’ clustering patterns in the Beckmann et al. data set, it is notable to mention that it is the domestically-owned banks in Hungary, Poland and Romania that have a decidedly higher share of branches five km further from any other branch, while in Albania and Czech Republic it is particularly Austrian banks that locate their branches remotely when compared to domestic banks and non-Austrian foreign banks (Beckmann et al., 2018, pp. 33-34). The authors conclude, ‘There is no typical foreign bank location policy, but foreign banks’ location policies differ between countries’ (Beckmann et al., 2018, p.34). This opens the Croatian question tackled in this section – what is the foreign bank location policy in Croatia? To answer the question, the abovementioned countrywide branch numbers will be ascribed to finer geographical nuancing in the following paragraphs, and the clustering phenomena will be described and analysed at various geographic scales. Namely, the following text will explore macro-regional branching patterns, examine branching patterns at the county level, and review individual foreign bank geographies. As a broader spatial unit that groups several counties under common geographical and economic characteristics, a region provides a more generalised picture that can emphasise bank branching macro-trends and their broader influences, such as larger economic shifts, regional banking policies, or cultural landscapes. On the contrary, a county-level view provides a localised, detailed perspective, which allows for identifying

small-scale differences in branching patterns and related social, economic, or demographic variables. This lens could highlight trends influenced by local governance, community practices, and administration-related economic contexts. Finally, an individual bank view allows for insights into different strategies between individual banks.

Regional branch densities

With a goal of enriching the understanding of banking's role beyond national averages, the first geographic scale at which we will evaluate Croatian bank branch distribution is that of administrative regions. The approach allows a nuanced understanding of how banking networks adapt to regional socioeconomic characteristics, revealing potential inequalities between thriving and struggling regions. Croatia has four such regions, as previously outlined in the description of a case study in Chapter 3. Methodology – Pannonian Croatia, lying on the East Croatian plain; Adriatic Croatia, based along the Adriatic coast and the Istrian peninsula; North Croatia, surrounding the country's capital, Zagreb; and, finally, the City of Zagreb, the country's capital. The critical step in the regional spatial branch network analysis is comparing density and clustering phenomena between these administrative regions. For these purposes, the section breaks down the geocoded data of 823 bank branches operating in Croatia into regions and compares the emerging datasets to reveal differential regional branch densities. The regional distribution of total bank branches in Croatia is depicted in Figure 10 below.

Regional distribution of bank branches in Croatia

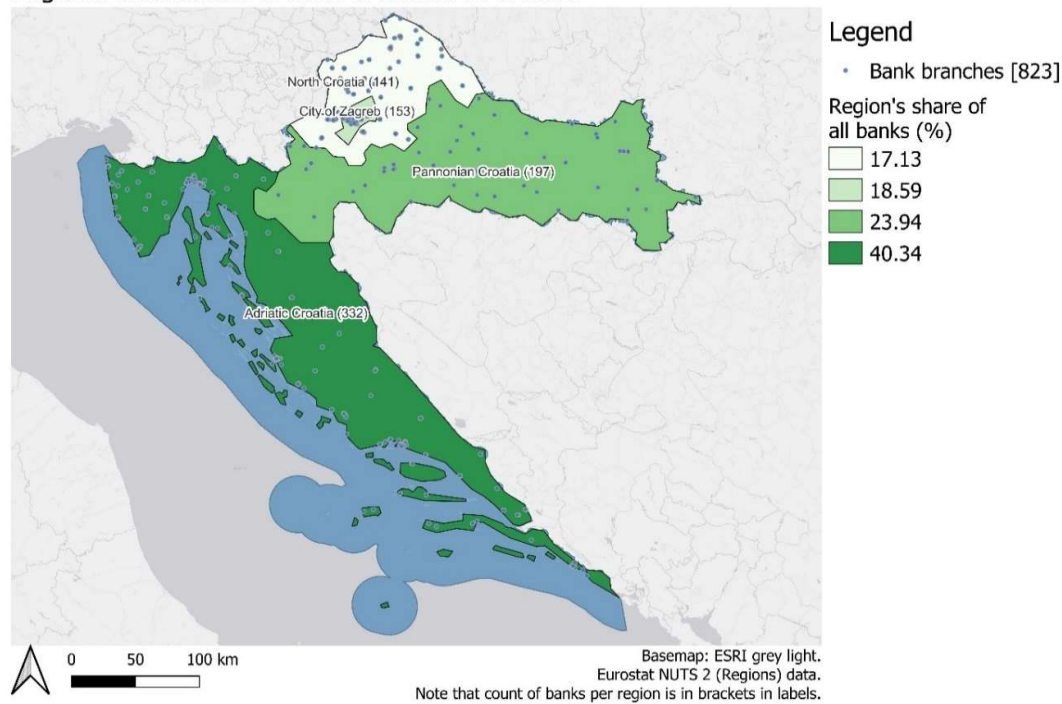


Figure 10 Number of bank branches per administrative region. Source: Author

Figure 10 reveals most of the capital streams to the coastal Adriatic Croatia region. With its 332 bank branches, the Adriatic region contains nearly half or 40% of all the country's branches. The Adriatic region consists of three geohistorical regions: the coastal Dalmatia, the Istrian peninsula, and the mountainous Lika. The two geohistorical regions have a comparably developed bank branch network, with 186 branches scattered across Dalmatia and 136 in Istria. In other words, some 25% of Croatian branches are in the Dalmatian macro-region, while some 15% are in the Istrian macro-region. However, Lika is the country's banking desert, with only ten branches in the geohistorical region. As the literature asserts, capital must be 'fixed' somewhere, and this 'somewhere' must be 'constructed;' these assets must be made 'investable' through regulations, political narratives, and the configuration of economic and social relations (Deruytter & Waiengnier, 2018, p.43). The underlying fixed capital on which financialised profits are created in the coastal and peninsular regions includes real estate, primarily for tourism. The branch density in the region reflects the financialised bank strategy to profit from asset-price inflation, leading banks to expand south where such earnings are possible through building, renovating, and otherwise investing in property. Croatia's attractive holidaying landscapes drive the demand, emerging as the country's comparative advantage. However, the demand

is also driven by the state's reorientation towards a service-based economy and tourism as the primary economic sector. Neoliberal policies of deregulation, trade liberalisation, and privatisation brought about an industrial decline as industry downsized and finance moved to less investment-intense and quick-profit sectors. Monetary policy, consisting of overvalued local currency and high interest rates, attracted international finance yet rendered heavy industry expensive and, coupled with trade liberalisation, uncompetitive. Fiscal policy similarly offered tax incentives for finance and real estate sectors, contrary to manufacturing, which has even seen rising costs following environmental regulations. Financialisation grafted onto these neoliberal developments and started a southern expansion of various bank branches, resulting in a dense branch network, as illustrated in Figure 10. As I15, a Head of the retail network of a major Italian bank that started its southern expansion following the original bank's acquisition, eloquently explains, 'Everyone wants a slice of the tourism cake.' A prominent issue emerging from this is what I09, an architect and activist local to the Adriatic coast, calls the 'concretisation' of the Adriatic coast. I09 expresses outrage with new builds unaffordable to locals sprawling along the coast, often enclosing access to once public beaches or, at the very least, obstructing the view with its tall, multi-storey, and multi-apartment structure. The architect also pointed out a narrow strip of the coast the further south down the map one looks, with the sea at one side and mountain at the back, suggesting that there is nowhere for new builds to go but high up in the air, resulting in an extreme form of concretisation and exorbitant rents and property prices.

While all the country's banks have branches in Dalmatia, the Hungarian-owned OTP largely dominates the Dalmatian region. The OTP supremacy in Dalmatia comes unsurprisingly, seeing that the OTP is a successor of the largest Dalmatian regional bank, Splitska Banka. 'Every Dalmatian had savings in Splitska banka,' the Dalmatian local I09 notes, illustrating the historical significance and reputation that the bank held in the region. Moreover, before an opportunity to acquire Splitska Banka with the Société Générale's retreat from the East-Central European market, OTP acquired several smaller regional banks associated with the Adriatic coast, namely Dalmatinska Banka, Istarska Banka, Sisačka Banka, Dubrovačka Banka and, finally, Banco Popolare Croatia, slowly building up its southern network. Croatia had previously had foreign bank owners from non-EU countries and West European countries, such as Switzerland or San Marino (HNB, 2013, p.6). It even had foreign owners from Eastern European countries, such as Serbia or Turkey (HNB, 2013, p.6). However, these foreign owners often held but one minor bank,

occupying a specific market niche and locality. The OTP bank, however, acquired a series of small, regional Croatian banks and rose to fourth place among the largest Croatian foreign-owned banks. Thanks to these mergers and acquisitions and bankruptcies, Dalmatia has no regional banks left. The last two regional banks were Jadranska Banka and Credo Banka, with the former being acquired by HPB and the latter declaring bankruptcy in recent years. With the literature pointing out the importance of regional banks for local real economies, it is significant to note that Jadranska Banka departed perhaps the last industrial stronghold in Dalmatia – the city of Šibenik and its suburbs. With the retreat of industry, the area becomes investable from the viewpoint of financial capital, thus allowing financialisation to once again graft onto neoliberal transformation and morph old industries into asset-price-inflating properties.

Regarding the branch spatial patterns, the Dalmatian region shows clear evidence of littoralisation, the concentration of branches along the coast, with only a handful of branches located in the Dalmatian inland. Lika, the mountainous and sparsely populated region of Croatia, is an extreme example of this by being almost entirely circumvented by the banks. Namely, three banks have a total of 10 branches at four different locations in Lika. The bank locations in Lika closely follow the highway that connects the country's north with the coast, indicating that these branches may primarily serve transient populations, such as tourists travelling from the north towards the coast in the south. Further north-west in the Adriatic region are the Istria and Kvarner regions, which banks have always favoured. Several interviewees have claimed this region was difficult to penetrate due to heavy bank competition and client loyalties to existing banks. Similarly to the Dalmatian region, all major banks are in Istria, mainly along the Istrian coastline. Above all, Erste&Steiermärkische Bank dominates the Istrian region. This results from Erste&Steiermärkische Bank acquiring Riječka Banka, the leading regional bank, and inheriting its branches and a large customer base. Moreover, Istria exhibits intraregional differences between coastal and inland banking. Indeed, while both Dalmatian and Istrian regions are coastal, the Dalmatian region shows more evident evidence of littoralisation, the concentration of branches along the coast. In contrast, Istrian branches reside both on the coast and inland. What is more, while both Erste&Steiermärkische Bank and OTP have some branches in the Istrian inland, most of the continental branches belong to a small, domestic, regional bank, IKU, one of the few such banks that remain in Croatia. It is also notable that both Erste & Steiermärkische Bank and OTP located their Istrian inland branches at the same localities as IKU, speaking to banks locating their branches near the

competitor branches and benefiting from the existing local banks' know-how. This contrasts the broader narrative that West European banks are bringing the know-how to East-Central Europe, showing that the knowledge flows both ways.

Pannonian Croatia has about a quarter of the country's branches. The administrative region consists of two distinct geohistorical regions: Slavonia, an agro-industrial plain, and Central Croatia, a primarily old industrial region. With 127 branches, the Slavonian region fares similarly to Istria in terms of branch numbers; however, seeing that Slavonia is a much larger region, we may conclude that this agricultural, Pannonian basin-based region is a somewhat more neglected region in terms of branch numbers. Moreover, the easternmost Slavonian region is the most striking example of bank clustering in Croatia, as the region exhibits a relatively sparse branch network.; however, it has a relatively large number and variety of banks. The City of Osijek emerges as a regional financial centre. Not only do different banks branch close together in Osijek, but even each bank separately tends to have multiple branches in Osijek. Most other Slavonian regions have fewer banking choices, and customers seemingly need to cross greater distances to reach the closest branches. It is notable to mention that three key bank players serve non-urban locations in Slavonian counties – Privredna Banka Zagreb (PBZ), which historically emerged from the Farming Association operating in Slavonia and Central Croatia; Addiko Bank, an Austrian successor of Slavenska Banka, the key regional bank of the Slavonian macro-region; and Slatinska banka, the only remaining Slavonian, domestically-owned regional bank. Not a single bank stands out as the regional leader, with most key banks having a similar branch presence in the number of branches and even similar branching locations.

Thinking back to Chapter 4 and the Yugoslav agro-industrial orientation, particularly this Pannonian region, represented the centre of the Yugoslav economy, attracting foreign capital to increase production and exports. Financialisation, thus, brought the subnational reorganisation of regions, with once prominent agro-industrial regions now lagging behind coastal regions and real estate economies. The surviving agriculture primarily takes the form of OPG, an agricultural business comprised of members of the same household, literally translated to family farms. These farms are financed as SMEs, pointing to the importance of regional banks in Slavonia that would have better access to soft information and be more likely to finance them, as the literature suggests (Flögel, 2018). In addition to the mentioned Slatinska Banka, Slavonia has a foreign-owned small regional bank, Podravska Banka, which a single Italian family owns. It is translating the Italian bank-SME model to this region.

The remaining two regions must be interpreted in a way that is relative to each other. The City of Zagreb, the country's capital, locally designated as a county in and of itself, has 153 branches in 641 km² territory. This means that, on average, there is a branch every four km². The City of Zagreb emerges as the country's absolute bank density leader, and no other territory in the country even approximates Zagreb's branch density. To exemplify, in the most sparsely branched county, the mountainous County of Lika-Senj, which is 5,353 km² large, a single branch covers a territory of 535 km². The North Croatian region surrounding the capital is experiencing debranching with key Zagreb banks acquiring North Croatian banks and centralising operations in Zagreb, as was the case with ZABA acquiring Varaždinska banka, as well as other banks located in the capital to capture higher traffic and assuming that North Croatian population is proximate enough to travel to the capital.

To summarise, the regional view shows staggering distributional inequalities in Croatian branch patterns. The branch distribution speaks to three major regional branching processes: metropolisation, suburbanisation and littoralisation. In other words, bank branch concentration is significant in cities, commuter belts, and along the Adriatic coast. Across the regions, bank branches in Croatia exhibit a strong urban bias. Specifically, Zagreb, Rijeka and Split, marked with red stars in Figure 11, are the only Croatian cities with more than 100,000 inhabitants and are the exact cities with the highest branch concentration in a single territorial unit, showing that bank concentration and population concentration are related spatial phenomena. The heavy branch presence in these three urban sites also overtures significant concentration patterns within these macro-regions. Indeed, as Figure 11 shows, branches exist in much scarcer spatial patterns outside the macro-regional urban centres. The same pattern applies even to the two scarcely branched regions, Slavonia and Lika, where Osijek and Gospić act as the macro-region population and bank centres. The following paragraphs turn to the county-level analysis of the bank branch spatial pattern, which allows us to understand better differences in branching within the regions and compare how the branch patterns correspond to the social configurations of the Croatian population at the administrative level of NUTS 3 regions.

Bank branch locations in Croatian administrative regions

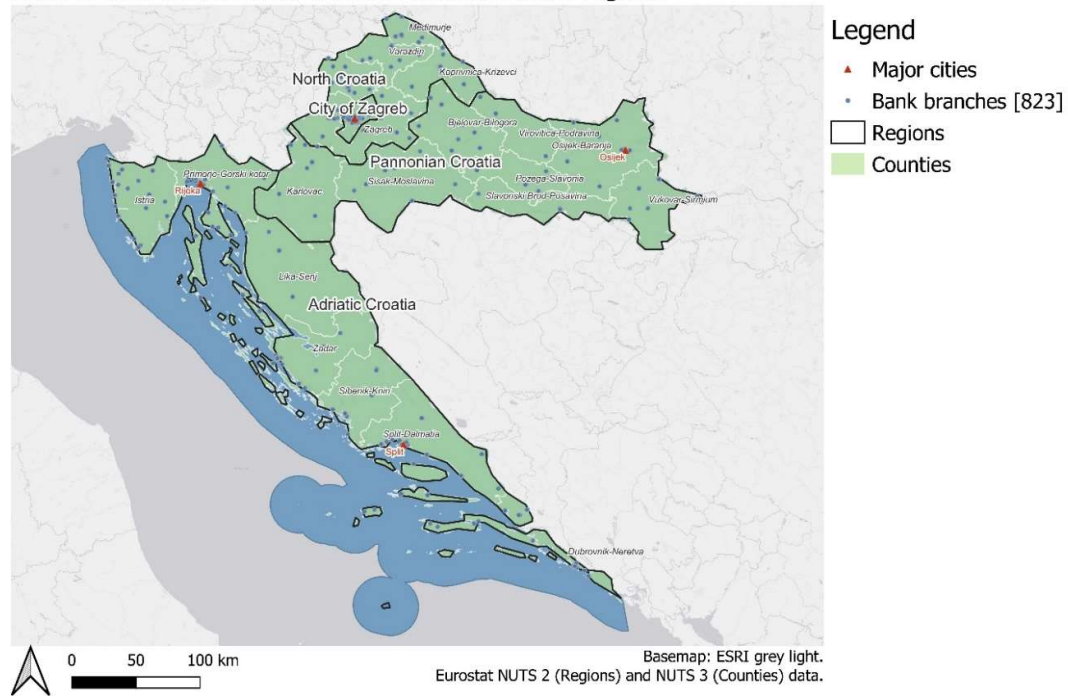


Figure 11 Number of bank branches per geohistorical macro-region. Source: Author.

Bank branch spatial patterns at the county-level

This subsection observes county-level trends in branching, such as branch placements shaped by local industries, municipal policies, or demographic shifts, to capture localised nuances that might be obscured by the regional level observed in the previous subsection. The county-level lens also reveals variations in branch access across smaller urban centres and rural areas, shedding light on county-specific development priorities and economic disparities. With this in mind, the county-level spatial pattern of bank branches, as depicted in Figure 12, shows that banks are not distributed uniformly. Previously, the uneven branching geographies inside the regions were described through the urban-rural divide. The county view evidences this further, with the capital city Zagreb leading the way. This reflects banks mimicking and, perhaps, feeding into the prominent local processes of metropolisation and suburbanisation, whereby banks concentrate their branches around major cities and commuter and residential belts. The most branch-dense counties are those with the country's largest urban areas, Split-Dalmatia County, growing around Split, and Primorje-Gorski Kotar County, growing around Rijeka. Interviewees spoke about ZABA's branching strategy in the south, explicitly naming the gulf surrounding Split as their current

key target, with the city itself saturated with banks. However, the commuter towns are still laying relatively bank-bare and open to their banks' spread. This confirms that staggering distributional inequalities in Croatian branch patterns have already been noted between urban and rural geographies.

County-level distribution of bank branches in Croatia (graduated)

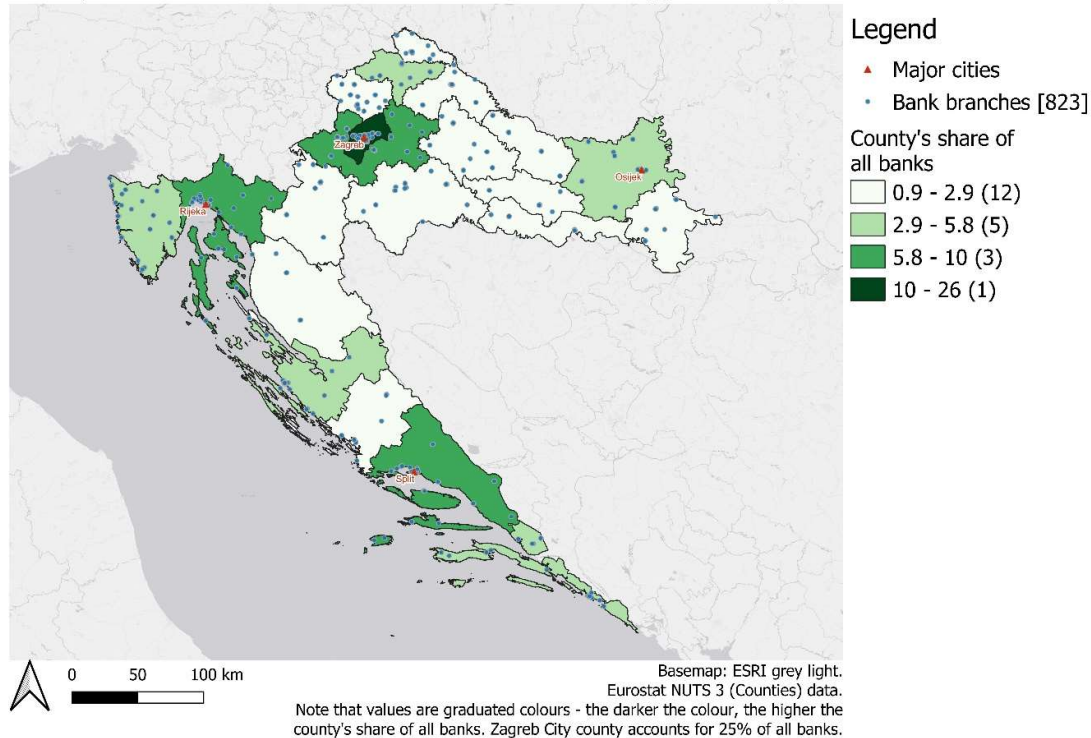


Figure 12 County-level distribution of bank branches in Croatia. Source: Author.

The pattern of the counties' capital cities as the most banked areas repeats itself almost exclusively. To give a few examples, Požega, the centre of Požega-Slavonia County, has 11 branches, meaning only five remaining county branches are distributed in towns in other areas of the County. Slavonski Brod, the capital of Brod-Posavina County, has 13 of the 19 branches the county holds, meaning that six remaining branches are distributed in the rest of the county. Slavonian counties are notorious for having branches highly concentrated in urban areas, with four out of five Slavonian counties having 50% or more of branches located in the county capital. An exception to this is Vukovar-Srijem County, which seemingly has two financial centres that share the majority of the county's branches. North Croatia exhibits more decentralised branch coverage, with only three out of eight North Croatian counties having a county capital containing 50% or more branches. Krapina-Zagorje County is the most decentralised of the counties in this region, with only seven out of 23 branches in the county's financial capital, Zabok. Moreover, Zabok is not

even the region's administrative centre; this would be Krapina, while Zabok is the county's industrial centre. Lastly, using the bank view, it is essential to note that several remote locations in Krapina-Zagorje County are serviced by the small, regional, domestic bank Samoborska Banka, giving us a glimpse into differing branching strategies between traditional Croatian regional banks and present-day Western banking groups. The County of Istria shows high decentralisation. Namely, multiple urbanities are targeted inland and on the Istrian coast. Pula, the county's capital, holds 17 out of 65 branches. On the contrary, the neighbouring Rijeka-Gorski Kotar County shows staggering centralisation, with about half of all the county's branches located in and around the county's capital, Rijeka. Dalmatian counties continue to have a similar pattern of urban bias, and the cities of Zadar, Šibenik, and Split hold most branches in their respective counties. Namely, Zadar has 26 out of 36 branches that operate in the County of Zadar, Šibenik has 13 out of 21 branches that operate in Šibenik-Knin County, and Split has 53 out of 96 branches in Split-Dalmatia County. Dubrovnik-Neretva County shows more branch decentralisation, with only 13 out of 33 branches operating in the city of Dubrovnik. All this shows that urban bias is one of the key descriptors of the subnational spatial pattern of retail bank branches in Croatia.

Another commonly used measure of bank branch spatial patterns is the measure of branch per capita data, as depicted in Figure 13. The Istrian region emerges as the density leader. Indeed, some of my interviewees testify that this region is historically vital to Western banks and the local banking elites, making the region almost impenetrable. Istria has strong historical and geographic ties to Italy. The Italian city of Trieste, separated from Croatia by a 25-kilometre strip of Slovenian territory, is the nearest big city for much of the region. Moreover, Trieste is nearer to Budapest, Hungary, than Milan, which shaped its strong historical ties with East-Central Europe. The Italian language stands as the region's administrative language, in addition to the Croatian language. Moreover, Istria has historical and geopolitical significance for Austria, with the controversial former governor of the Austrian southernmost region, Carinthia, perhaps summarising Istria's position the best in his beloved motto, 'Carinthia as far as the sea.' Finally, Istria is famous for the presence of the domestic regional bank Istarska Kreditna Banka Umag (IKU), one of the last remaining regional banks in Croatia. With the city of Rijeka as its capital, Istria's neighbouring Kvarner region features third on the list of county-level branch densities. Dubrovnik-Neretva County, located on a narrow strip of land in southern Dalmatia, is the second most dense banking geography in Croatia at the county level. However, this geography features substantial seasonal population number changes, with the temporary

population numbers skyrocketing in summer and branches bearing shockingly higher numbers of customers. Two Slavonian counties, Virovitica-Podravina and Požega-Slavonia, have the fourth and fifth highest county-level branch densities, reflecting the broader demographic movements involving the massive vacating of the Slavonian region.

Ratio of population and number of bank branches per county

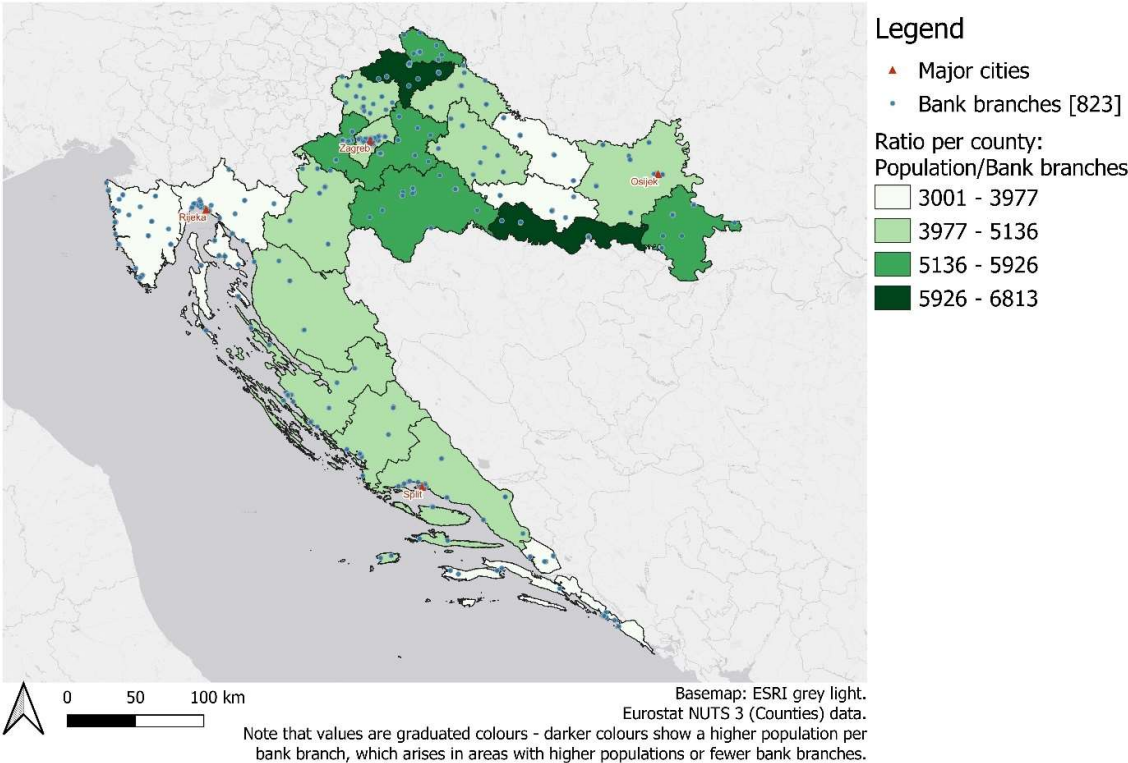


Figure 13 Branch per capita data for Croatian counties. Source: Author.

In addition to the numbers of available branches per county varying, as the previous figures show, it is essential to note that some regions with a seemingly high number of branches lack the variety of banks and, thus, the customers potentially lack a choice of whom to bank with. Table 6 depicts how many banks operate in each administrative county. The HNB concentration measure HHI reveals a moderately concentrated market, with an index measuring 1,627.08. However, the HNB’s HHI measure fails to account for geographic factors, such as banks operating in specific areas of the countries and, perhaps, holding monopolies within those specific marketplaces. While it is out of the scope of this thesis to calculate concentration indices for subnational geographies, bank branching patterns may give us some insight into where different banks operate and which regions are deprived of a range of banking choices.

Most counties have ten or fewer banks operating in them, meaning half of all the Croatian banks or less. The City of Zagreb is the most bank-populated county, where all banks have at least one branch except one. The city's surrounding county, the county of Zagreb, already shows a significantly lower bank variety with nearly half the number of different banks as the city. Similarly, two other Zagreb's neighbouring counties, the County of Krapina-Zagorje and Koprivnica-Križevci, have the second and third lowest bank variety in Croatia, right behind the Lika-Senj County. This indicates that satellite cities, those smaller municipalities adjacent to a principal city or a metropolitan area, are left branch-vacant, possibly under the assumption that the customers will travel to the nearby metropolitan area for banking and other services. The same pattern is replicated in Slavonia, with Osijek-Baranja County having various banks, while the adjacent Slavonian counties show very little bank diversity. Again, the same repeats in Dalmatia, with Zadar County and Split-Dalmatia County showing a relatively good number of bank choices while their adjacent counties are neglected.

County	Number of banks operating in this county
City of Zagreb	19
Primorje-Gorski Kotar	16
Osijek-Baranja	15
Split-Dalmacija	15
Varaždin	13
Zadar	13
Požega-Slavonia	12
Brod-Posavina	12
Zagreb	11
Istria	11
Karlovac	10
Virovitica-Podravina	10
Vukovar-Srijem	10
Bjelovar-Bilogora	10
Međimurje	9
Sisak-Moslavina	9
Šibenik-Knin	9
Dubrovnik-Neretva	9
Koprivnica-Križevci	8
Krapina-Zagorje	7
Lika-Senj	3

Table 6 The number of different banks that have their branches in a specific county. Source: Author.

To conclude this subsection, the preceding paragraphs examine the spatial distribution of bank branches across Croatian counties, revealing how branching strategies reflect local economic and demographic dynamics. The text finds that branches concentrate heavily in urban centres and capital cities like Zagreb, Split, and Rijeka, contributing to regional inequalities. Suburban and rural areas, including commuter towns, remain underserved, reinforcing an urban bias. While some regions, like Istria and Dubrovnik-Neretva, display higher branch density due to historical, geopolitical, or seasonal factors, others, such as Slavonian counties, suffer from declining populations and branch centralisation. The subsection also emphasises that bank variety varies by region, with Zagreb hosting nearly all Croatian banks, while satellite cities and neighbouring counties lack similar access. Additionally, the Istrian region's banking history and ties with Italy and Austria reflect unique regional patterns, with local banks like Istarska Kreditna Banka still holding sway. Overall, the uneven distribution and lack of bank diversity in certain areas suggest monopolistic tendencies in local markets.

Spatial patterns of different banks

The following paragraphs explain the banking spatial patterns from the perspective of the different banks' geographic reach. There are differences in branching between different banks. In these paragraphs, we start questioning the particularities of West European bank branch patterns compared to domestic branches or foreign but non-Western banking groups. This approach attempts to contribute to the development of identity and differences in the geography of banking. The aim is to develop bank typology, showing how banks work. An informant describes his experience with bank typologies well,

'I worked in the banking sector for the past 11 years, and during that time, I worked in four banks. I first worked for Volksbank, a typical Austrian bank. Sberbank acquired Volksbank, and I experienced the Russian approach to the market here. I worked for an Italian bank for a few years, and now work for a domestic bank. Through all that, I saw how Western banks viewed the market, how Russians viewed the market and, lastly, how we (Croatsians) view the market.'

With this, the informant indicates that different banks approach banking differently and affirms the attempt to try to understand their differences. The most limited geographic reach has the previously mentioned Czech J&T bank, which, although de iure a universal bank,

instead acts as an investment bank for home country clients with its two branches located in the cities of Varaždin and Zagreb in the north of Central Croatian region. After acquiring VABA Banka, J&T closed all the bank's branches except the headquarters in Varaždin. Then, it opened the second branch on the 8th floor of a building in the central business district in Zagreb. As a banker from a competitor bank in Varaždin comments, 'If your branch is located on the 8th floor of a building in Zagreb, it means you are not interested in customers walking in.' With this, the interviewee argues that a small, foreign bank sometimes renounces branching in the local territory and, thus, acquiring the local customer base, as the bank's customer base lies, in fact, in the parent bank's country. The bank's goal is to serve as a channel for investment, in this case for Czech and Slovak capital.

What follows is several banks with few branches but strategically positioned in regional centres, often a branch per regional capital city. These are two domestic banks, Partner Banka and Imex Banka, Turkish-based Kent Bank, and a San Marino-based Banka Kovanica. Moreover, several regional banks are tied to their specific locale within Croatia. These are, by and large, old domestic banks, such as Istarska Kreditna Banka Umag, based in the Istrian region, Samoborska Banka, based in the Central Croatian town of Samobor, Karlovačka Banka, based in the Central Croatian town of Karlovac, and Slatinska banka, based in the Slavonian town of Slatina. Similarly, few banks have branches across several regions but focus specifically on their origin regions. Such region-focused banks are domestically owned Croatia Banka and Italian Podravska Banka, which have a strong Slavonian presence and fewer branches in a few regional capitals nationwide.

What follows are spatially universal, Croatia-wide dispersed banks, with branch numbers indicating mid-sized banks. One of these is a Croatian Hrvatska Poštanska Banka (HPB), while the remaining two belong to foreign banking groups, Russian Sberbank and Austrian Addiko Bank. While these banks have multiple branches in locales across the Croatian territory, some spatial preferences remain. All three mid-tier banks have an overwhelming share of their branches in Zagreb. Banks that remain are massive, foreign systems, and due to their structural significance, more attention will be given to them in this text. One of them is a semi-peripheral bank, Hungarian OTP. OTP Bank established itself as the key Dalmatian bank through its southern acquisitions. Namely, through the most recent acquisition of Splitska Banka, OTP became the coastal region's leading bank. Even earlier, however, OTP acquired small regional banks associated with the coast, such as Dubrovačka Banka, Dalmatinska Banka and Istarska Banka. The second OTP's core region is Sisak, where OTP acquired Sisačka Banka. I13 testifies to a branch with 14

counters in Sisak, allegedly the largest bank branch in Croatia, which OTP inherited from Sisačka Banka. OTP also ensured a minor presence in Slavonia through Banco Popolare, previously Banka Sonic. The remainder are massive, West European-owned banks. Three major West European banks were chosen. The goal is to explore the branching strategies of Zagrebačka Banka, Erste&Steiermärkische Bank, and Raiffeisen Bank. The intention of enquiring into the contrasting branching logic of different Western banks guides the selection of the banks.

Zagrebačka banka (ZABA)

ZABA bank branch network by counties

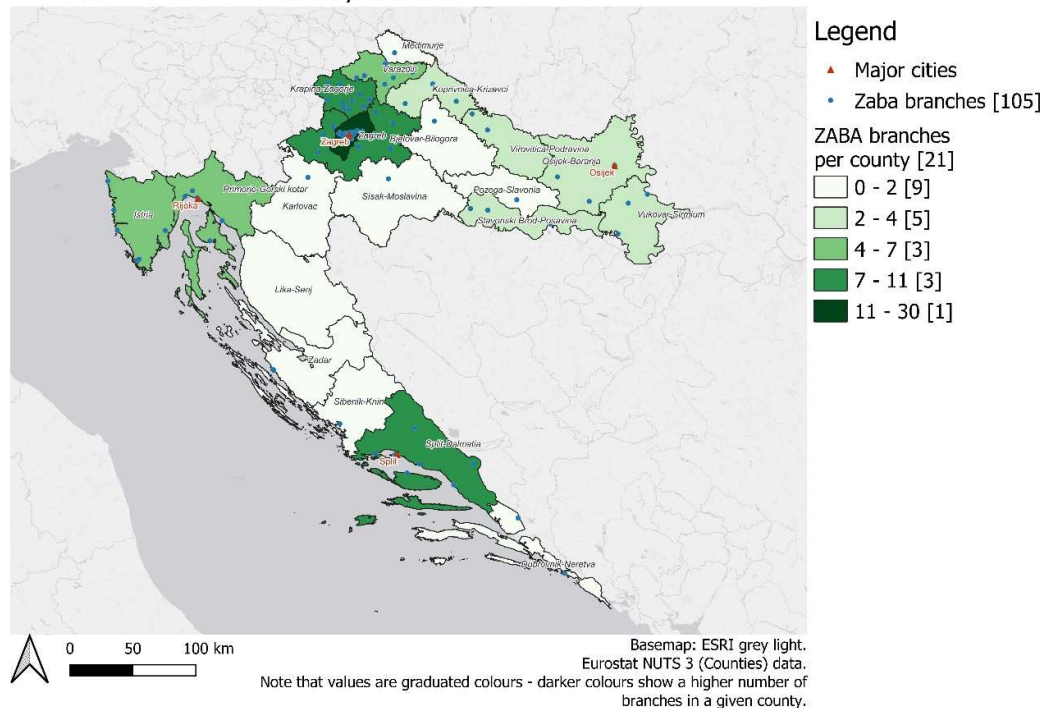


Figure 14 Distribution of Zagrebačka banka branches. Source: Author

Branch-wise, the smallest among them is Zagrebačka Banka (ZABA), which, however, is the biggest bank in terms of banking assets. In other words, ZABA is Croatia's biggest bank in terms of banking assets and takes fourth place in terms of the number of branches. ZABA's branch pattern is depicted in Figure 14. An interviewee summarises ZABA's branching pattern well, 'We are a universal bank, covering the entire Croatian territory, but we are also called Zagrebačka banka, and so our branches are focused on Zagreb and its surroundings.' In other words, Zagrebačka Banka's core market is Zagreb, and from there, the Bank spread to the Varaždin region by acquiring Varaždinska Banka, rendering its branches mostly scattered across the North Croatian region, with Zagreb as the epicentre. Zagreb makes up the bank's natural territory. Traditionally, the bank has had strong historical ties to SMEs and the local government, which gives the bank a strong and stable depositor base in the area. Moreover, ZABA has a strong presence in industry-rich regions surrounding Zagreb, such as Krapina-Zagorje and Varaždin counties, further showing the bank's branches following the regional SME networks. Outside ZABA's core regions, Zagreb and North Croatia, ZABA has a strategic presence in bigger towns in Slavonia and

Istria macro-regions, showing the bank's strong urban focus. The bank has no presence in the mountainous region of Lika and has a weak presence in Dalmatia.

Most of the ZABA branch network was already there when Zagrebačka Banka was established and built by its predecessor, Yugobanka. However, the southern and eastern expansion of Zagrebačka Banka is only about ten years old, as the ZABA's predecessor was more strongly focused on Zagreb and its surroundings. Zagrebačka Banka achieved the most extensive expansion around 2010 when 5-6% of new branches opened. The bank settled in a few urbanities along the Dalmatian coast by acquiring several small Dalmatian banks.

However, the planning for these branches started just before the global financial crisis, during a period of optimism. Most of these branches have since closed because they could not grow during the crisis years. As my interviewee proposes, 'The network is getting smaller, not bigger. Multiple branches in close geographic proximity are consolidating.' Indeed, the network of 106 branches is the lowest number since the earliest published data on the ZABA's branch numbers in 2005. ZABA had 127 branches in 2005, climbing to 136 between 2009 and 2011. Except for 2015-2016, when the branch numbers were again near the highest mark, the branch numbers continued to drop at a slow pace, a branch or two per year. However, ZABA lost 15% of its branches between 2020 and 2021, dropping from 125 to 106. The closures coincide with the COVID-19 pandemic and the 2019 earthquake that had an epicentre in Zagreb, pointing to population processes, such as remote working and suburbanisation, as well as the physical destruction of the branch buildings and adjacent real estate, the potential key culprits of the significant recent branch closure. However, the downward trend was there regardless.

The interviews reveal that the Dalmatian coast is the market where ZABA wishes to have a more substantial presence. ZABA has closed some of its remote branches in other northern regions, such as the Okučani branch in Slavonia and the Labin branch in Istria and is attempting to establish a presence in commuter belts of larger urbanities in the Dalmatian region, such as in Kaštelanski Zaljev and Solin in the vicinity of Split. However, the penetration is challenging due to heavy bank competition spearheaded by the OTP. Nevertheless, the most recent branching moves show a southern turn in ZABA's strategy. Several interviewees from competitor banks in the North Croatian region note the waning branch presence of ZABA in the regional counties, exemplified by the closure of its Krapinske Toplice and Hum na Sutli branches in Krapina-Zagorje County. The latter locale is often dubbed the 'headdress of the Croatian economy' due to several thriving industries

in the region, and the branch closure of ZABA as an SME-focused bank comes as perplexing at first. However, as the section on drivers of bank spatial patterns explains, consumers favour bank-denser areas. They may travel to a further location with several banks rather than conduct business at home with a limited number of local banks. Krapina-Zagorje County is, indeed, an administrative unit with the second lowest variety of banks in the country, which may have encouraged ZABA to close some of its Krapina-Zagorje operations and position itself adjacent to other banks in Zagreb, with this counting on the customer base to be willing to travel to Zagreb. It is significant to note that the coast was the first ambition of the Italian parent bank UniCredit. Indeed, UniCredit first bought Splitska Banka in the year 2000, which it sold two years later to purchase Zagrebačka Banka, as the HNB competition review prevented UniCredit from owning both banks.

Erste&Steiermärkische Bank

Erste&Steiermärkische bank branch network by counties

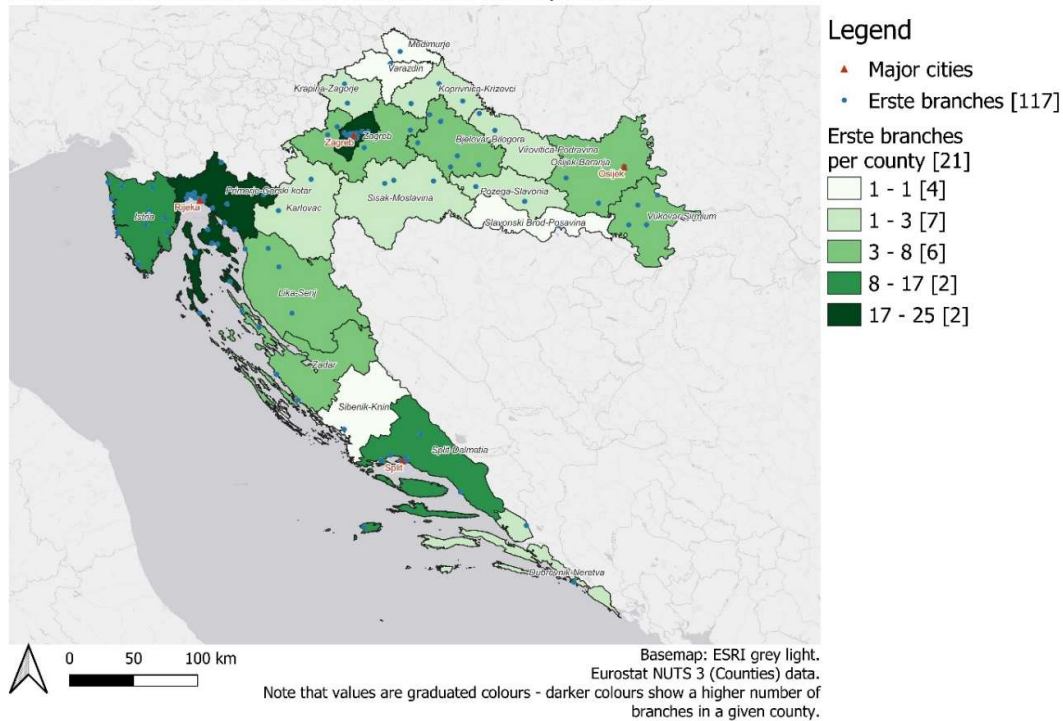


Figure 15 Distribution of Erste&Steiermarkische Bank branches. Source: Author

Erste&Steiermärkische Bank ranks third among Croatian banks by asset size and second by branch number. The Bank's branch distribution is depicted in Figure 15. Erste&Steiermärkische emerged from numerous small, independent financial institutions scattered throughout the Croatian territory. Erste&Steiermärkische Bank grew primarily through these acquisitions. In the early 2000s, it went from being a small regional bank to one of Croatia's large, systemically important banks. This translates to branch numbers jumping from around 30 in 2000 to about 126 in 2002 when Erste&Steiermärkische Bank acquired its key legacy bank, Riječka Banka. Erste&Steiermärkische Bank gained a presence in today's most important business regions through these acquisitions. Thus, Erste&Steiermärkische Bank's 'natural habitats' are Bjelovar, Čakovec and Rijeka, following the respective acquisitions of Bjelovarska Banka, Čakovečka Banka and Riječka Banka. Moreover, Erste&Steiermärkische Bank acquired Trgovačka Banka Zagreb to gain a presence in Zagreb. This means that Erste&Steiermärkische Bank has two core geographies, some 300 kilometres apart. Erste&Steiermärkische Bank has three primary markets: Rijeka, Zagreb and Bjelovar. These are the Bank's so-called natural habitats or legacy markets, areas the bank inherited through its acquisitions of Bjelovarska Banka,

Trgovačka Banka Zagreb and Riječka Banka. Erste&Steiermärkische Bank also acquired Čakovečka Banka; however, as seen in Figure 15, the map of Erste&Steiermärkische Bank's branch distribution shows but a single branch in Čakovec and even the neighbouring Varaždin county, meaning that Erste&Steiermärkische Bank deprioritised and debranched the Čakovec regions following the acquisition.

Branch closures following mergers and acquisitions are a commonplace occurrence. In addition to the example of the Rakove branch closures mentioned above, I22, the bank's long-term employee, testifies to many small branch closures following the Erste&Steiermärkische Bank's acquisition of Riječka Banka. 'Every village in Gorski Kotar had a Riječka banka branch,' the interviewee asserts. These small branches were usually staffed by a single employee, servicing a village of 50 people. Erste&Steiermärkische Bank closed some of these branches; however, the bank remains dominant in some rural areas, such as Lika-Senj County, where few banks exist, but this county neighbours the Erste&Steiermärkische Bank's key market County of Rijeka-Primorje. As my interviewee explained, banks sometimes keep their branches for political reasons, such as reputation, even if those branches are borderline profitable. The branch transformation impacts the total number of branches, gradually reducing over the years. The maximum number of branches was 130 in 2011, and it sits at 118 today. Nevertheless, Erste&Steiermärkische Bank has at least one branch in every county in Croatia.

In addition to the overall branching landscape changes, a silent transformation occurs within branches. New branch design forces clients to use ATMs and online services, while branches orient their service to higher-grade transactions. Mechanical or automated bank visits have reduced with technological developments. In contrast, big bank products, such as mortgages, require fewer bank visits, and these differences render distance to a branchless important, I29 claims. Other branch specifications, such as ample parking and private meeting areas, have become vital. Thus, Erste&Steiermärkische Bank is closing transactional branches in smaller towns and villages and opening big supermarket branches, so-called advisory branches. For example, I29 suggests that. Erste&Steiermärkische Bank considers it more sensible to have ten big branches instead of 40 smaller branches in big cities like Zagreb, rationalising this with the difference in how bank clients use the bank. At times, branch closure is accompanied by a direct reorientation of consumer habits; for example, the closure of the Brinje branch in 2022 was followed by a workshop on good financial habits focused on online banking training.

Raiffeisenbank (RBA)

RBA bank branch network by counties

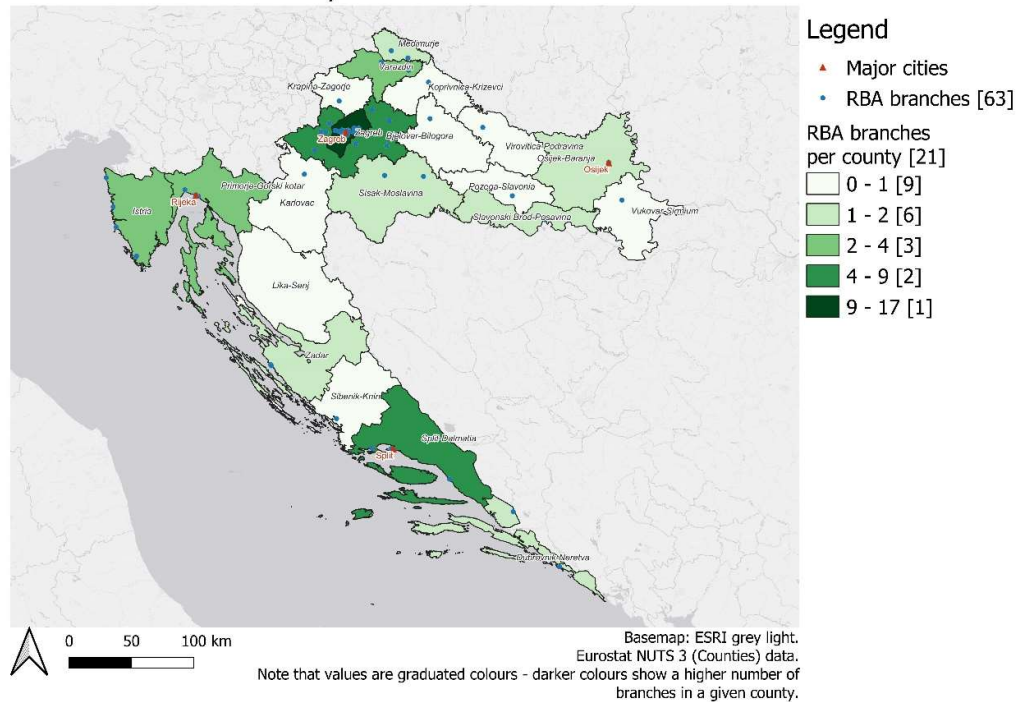


Figure 16 Distribution of RBA branches. Source: Author

Raiffeisenbank is a unique West European bank in Croatia in several ways. RBA Croatia is owned by several regional Raiffeisen banks, which function as cooperatives. Out of 2100 RBI branches, the vast majority are in CEE. Raiffeisen Bank is the one without heterogeneous roots as the RBA mode of entry differs from that of the other banks. Namely, unlike all other foreign banks in Croatia, Raiffeisenbank is a greenfield investment. RBA's choice of entry is not uniform across the CEE region. For example, RBA was a brownfield investment in Slovenia and Bosnia and Herzegovina but a greenfield investment in Croatia. The choice of the type of entry relates to the timing of entry – no banks were being sold under the political regime existing in Croatia in 1994 when RBA decided to invest in the country's banking sector.

Greenfield foreign banks have different branching styles and approaches. Free from preexisting banking geographies, RBA could decide more deliberately where to open their branches. In 2002, the RBA branch network was small, containing perhaps a dozen branches. Time-wise, RBA branches multiplied in the pre-crisis years, during the period an interviewee calls the *Golden Age of Banking*. This ex-RBA banker, I07, testifies to a period when the bank opened 8-10 new branches per year, almost one branch per month. RBA

opened 65 new branches during the length of employment of my interviewee. These new branches were mainly situated in cities and large towns. RBA's branch spread strategy was to target urbanities and open further branches in the same localities when the business outgrew the branch.

The RBA's branch network has stagnated since after the global financial crisis and related profit crunch. I07 explains, 'Shareholder needs to be pleased, and shareholder is merciless.' Staff and branches are the first expenses cut when profits stagnate or fall. I10, who works at an RBA branch in Osijek, mentions a branch closed in the Slavonian town of Đakovo. An ATM remains in Đakovo town, but the first next branch is 50km away, in Vukovar, I10 continues. Moreover, the interviewee describes a new 'cheaper' branch design, which forces clients to use ATMs and online services while branches orient their service to higher-grade transactions. Attempts to change client habits do not always work, which puts pressure on nearby branches that continue to offer face-to-face services, as is the case in their Osijek branch following the opening of the RBA digital branch, I10 complains.

5.2 The changes in bank-branch spatial patterns over time

This section looks at the chronological changes in bank branch spatial patterns or how the branch distribution has changed over time. The section recognises four chronological changes in branching patterns – establishing, relocating, merging, and closing bank branches- and looks at the events that expand on contract branch networks. While observing the branch networks of three case studies in section 5.2, it was hinted towards two key events that dramatically changed the branching network: mergers and acquisitions and, secondly, the global financial crisis, with the first one being in direct relation to West European banks financialisation pressures, and the latter more related to the global crisis of late-stage capitalism. Figure 17 depicts the net change in branches during the observed period, highlighting these dynamics.

Grade of change in the number of branches between 1999-2023

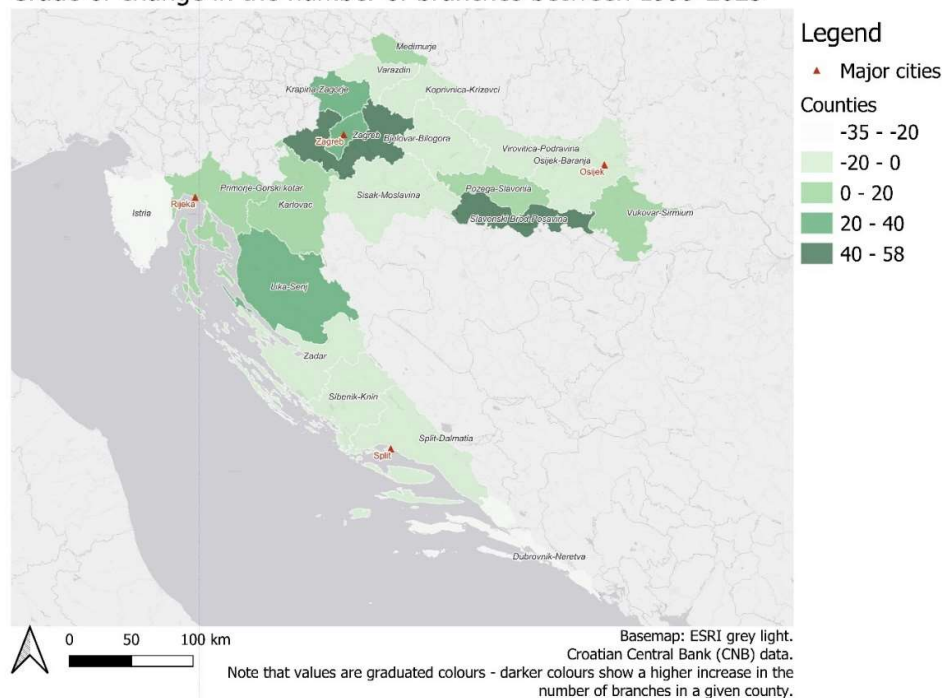


Figure 17 Grade of change in branches over time. Source: Author

As seen in Chapter 4, Transformation of Croatian Banking, the period of the 90s was riddled by a wave of mergers and acquisitions. I19 titled this period ‘The campaign of too many banks,’ during which the state actively sought foreign investors to restructure the local financial system. The ‘Campaign’ resulted in the massive exit of banks from the market, and this section’s task is to observe what happened to the branch network during the period.

Above all, interviews testify towards clustering following bank mergers and acquisitions, as the dominant bank often chooses to close branches of the subordinate bank in the transaction. The pattern repeats itself consistently across the banks. HPB Jadranska banka, debranches Šibenik region. OTP closed several. Slavonski Brod lost štedionica, purchased by VABA, and moved headquarters to Varaždin. Erste purchased Riječka Banka and Čakovečka Banka. Italy-owned banks seem more resistant to these dynamics than Austria-owned banks, which reflects the acquisition differences – Italian parent banks acquired big, stable banks. At the same time, Austria purchased small banks needing investment. Italian-parent bank branches remained more stable over time, while Austrian-parent bank branches experienced more fluctuation in the branch network. An even greater clustering effect follows bank bankruptcies, whereby the disappearance of small,

regional banks from the market left different geographies without local banks (e.g., Županjska banka, Županja in Slavonia, Credo banka, Split, Glumina banka, Svetice area of Zagreb, and Kaptol banka in the Upper Town Zagreb).

In addition to the decline of the overall branch numbers, the changes in branch densities are notable, with banks reducing their geographic reach. Branch relocations are a part of the adjustments to the location strategy. The relocations vary from seemingly minor adjustments within a specific locale, such as moving a branch to a nearby, more suitable building or a different location within the city, to severe relocations to redirect the banks' target regions. Notable is a recent trend of several smaller branches merging into fewer, larger branches. This is part of what bankers I interviewed often termed *branch network optimisation*. The phrase also suggests magnetic dynamics in Croatian branching patterns, whereby the presence of branches attracts more branches to arrive in the area, and fewer branches choose to locate in remote areas where no other banks operate. Such dynamics of simultaneous branch openings in already branch-rich areas and branch closures in neglected regions indicate that the two processes mirror each other and require us to turn our attention to where these divergent yet concurrent processes play out.

Returning to Table 5 data, there is a discrepancy between banks' asset size, as presented in the previous chapter, and bank branches, with domestic banks consistently having below 10% share in total bank assets but, as indicated above, around 20% share in the branch network. This shows domestic banks may rely on branches more heavily than foreign ones. Explanation derives primarily from the technology transfer from parent banks to their subsidiaries, with interviewees from large banking conglomerates discussing much more elaborate software and procedural systems than interviewees from the remaining domestic banks. 'Technology transfer' is understood in the way introduced by Chari and Verdery as including more than just money, equipment, or know-how; it also involves different values and expectations, reorganisation of work, and, perhaps most significantly, new norms and operational standards (2009, p.274). Thus, in addition to more sophisticated software and digital banking infrastructure, foreign banks also seem to build flexibility into their branches in multiple ways. I08, a major foreign bank credit officer, describes regular digitalisation campaigns in their bank, during which her main job is to walk the customer queue and enquire about what business brought them to the bank. If the business could have been done through the banking app, they would have assisted the customer in downloading the app and shown them how to use it. The interviewee described this insightfully: 'I am doing the job that may leave me jobless in the future.' I08 discussed a case of a competitor

bank. Likewise, a large foreign banking conglomerate opened a branch in a relatively remote, unbanked area, trained the locals to use their app through seminars and one-on-one meetings, then shut the branch and moved it out of the area.

The global financial crisis was equally crucial in redefining Croatia's bank branch networks. The number of branches peaked in 2009, with 1297 branches operating at the end of the year (HNB, 2010). Bank branch establishment is part of the politics of expansionism, whereby banks attempt to acquire new territories. As noted, banks establish new branches through mergers and acquisitions or greenfield investments. The branch numbers have been gradually declining since, with a more intense decline commencing in 2017. Eighty-four (84) branches closed between 2017 and 2018 (HNB, 2018, PI1), another 64 in the following year (HNB, 2019, PI1) and 60 between 2019 and 2020 (HNB, 2020, PI1). After that, closures seem to be levelling off. The timeline indicates a strong branch growth driven by foreign capital in the early 2000s, the period one of my interviewees termed the *Golden Age of Banking*. The growth lasted until the global financial crisis, when banks started contracting their operational units.

Different financial services serve different stages of the postsocialist banking transformation process. First comes the venture capitalist. Then, follow the banks. Other financial businesses follow the banks, and the most notable among them are, perhaps, debt collectors. I06 points out that debt collectors popped up in Croatia following the foreign bank entry and that this was encouraged by the Croatian state in several ways. First and foremost, debt collectors remain unregulated in Croatia, leaving them open space to set repayment terms and enforcement strategies as they see fit. I06, employed by one such debt collector firm, expressed concerns and grievances over debt collectors' enforcement methods, particularly regarding household debt collection. Namely, debt collection often involves throwing the debt's net on other household members, elderly parents, or older student-population children, entangling them into debt even before they start their first job. Some debts with debt collectors entered the statute of limitation period. However, since the debt collectors have no legal obligation to inform the debtor that their debt is under the statute of limitation, many debts are reopened. Banks have several incentives to sell on their debts. First, debt sales clean their bad assets and free banks to lend more. Moreover, the Croatian state gives tax incentives for debt sales. Debt collectors will, furthermore, sell corporate debts to LTDs, who will buy these debts for real estate that's in them. For a small amount of money, LTDs gain real estate of high value in bankruptcy proceedings. LTDs often use the acquired real estate as collateral to gain more debt, from which the profit goes

back to the banks. After all, debt collectors act as an extension of banking power through this bank-debt collector-LTD nexus. This points to the need to look at space relative to the elements surrounding the location. In other words, we need to look at where banks locate their branches next rather than where they are. While this section examined the geography of bank branch networks, the following research questions require me to investigate the factors behind these geographic expressions. In turn, the following section explores what drives these spatial patterns.

5.3 The drivers of subnational bank-branch pattern

This section considers theories when explaining the drivers of branching structures. One of the most crucial decision-making processes in banking is optimally locating new branches. Despite the recent digitalisation efforts, the branch remains the most critical channel for forming a customer base, collecting client information, and even distributing credit. In other words, the location of the bank branch affects the size and volume of deposits and credit and, ultimately, the bank's profit. However, the irresolution of what makes an optimal bank branch network gives rise to numerous interpretations and theories on the most efficient way a bank can distribute its branches in space. Thus, networkology or studying better ways for banks to organise their operations and resources becomes every bank's business. This part of the chapter aims to empirically identify and theoretically explain how bankers decide on branch locations. That way, the section aims at answering the sub-question (2b) on the drivers that underpin the spatial patterns of bank branches, thereby contributing to the relatively scarce literature on bank location determinants. To reiterate, subquestion 2b asks, 'What are the main drivers of these spatial patterns?' Most of the data presented in this section comes from interviews with bankers and banking specialists. While traditional indicators, such as market size, continue to influence branch distribution significantly, interview findings highlight additional factors, such as institutional priorities and lending strategies, also contribute to branch location decisions. In other words, the interviews show the complexity of location choices, stemming from conflicting quantitative and qualitative criteria and multiple decision makers operating at various scales, from the branch to the parent bank. The paragraphs that follow, in turn, show the results of my enquiry about the factors behind the bank branch geographic expressions described in section 5.2. on the subnational spatial pattern of retail bank branches and the chronological changes in branching patterns.

The analysed branch bank patterns and interview results suggest that newly-opened branch locations heavily rely on the previous existence of another branch in the area, owned by either a competitor bank or the bank of the incoming new branch itself. Inspired by the magnetics of money approach, whereby it is explained that possessing a sheer quantity of money is enough to attract more at exponential rates, here we can talk about the magnetics of branches, which asserts that the number of branches of other financial institutions in the region is an essential factor in banks choosing their new branch locations. In other words, banks consider proximity to important neighbours to be one of the vital geographical characteristics when considering a location for their aspired new branch.

Interviewees name several reasons for this seemingly strong preference for following other branches rather than entering virgin territories. The most persistently mentioned reason for these branch agglomeration phenomena is the exploitation of localised knowledge spillover. Namely, the ability to acquire local know-how in new business geographies is vital, and the way to acquire the know-how is through competitor branches, primarily by acquiring their banking staff and client information. Regarding the former, a domestic bank owner, I12, claims, ‘We would not enter a new market before we found a suitable person to run the business. This person was usually a banker from a competitor bank.’ The bank owner continues to give an exhaustive list of branches their bank opened during her directorship and describes from which competitor banks their bank managers were employed. Indeed, most bankers I interviewed worked at multiple banks during their careers; in other words, they have been bank-hopping and bringing banking and clientele knowledge to the new bank. Similarly, when a branch outgrows itself, namely when it can no longer manage the number of available clients, owner banks are tempted to open another branch near the existing branch, often promoting staff from the existing branch to the new branch and encouraging a spillover of the number of clients. Moreover, the existence of another branch in the area means that another bank has been collecting and recording the spending and creditworthiness of the population living in the area. The incoming bank can take advantage of the existing bank’s records to enhance its knowledge of the potential customers in the area.

The data-sharing interdependence between banks has been further exacerbated by HROK, an information-sharing platform where participating Croatian banks voluntarily contribute information on their clients’ debts. This branching strategy, among other things, has led to another frequently mentioned driver of bank branch spatial pattern: exploiting the economies of density, which will be explored. Consumers favour bank-denser areas and

may travel to a further location with several banks rather than a single local bank. A more significant number of banks equals significantly higher chances of loan approval, as Qi et al. found. For example, if the entrepreneur visits a locality with only one bank branch, the probability of getting a loan is 20%. However, if another locality has six bank branches, the probability of getting a loan is more than three times as high (Qi et al., 2021). Thus, since the consumer will go to a location where they expect to be approved for a loan more quickly, banks will be encouraged to close their remote branches and position themselves adjacent to other banks, causing a state of related variety where the key to choosing a location is the proximity to important banking neighbours. This is in line with the fact that present-day banks can now more safely borrow to distant customers since, with HROK and similar data records, there is less reliance on soft information and more reliance on complex data. Zagreb, Croatia's capital city, is the densest banking market in Croatia. Indeed, as seen in section 5.2., all but one Croatian bank has at least one branch in Zagreb. Branch localities in Zagreb overlap because several banks' branches are located at the same address. This branching logic favours big, universal banks, which can easily adjust their branch network, over traditional, small, regional banks Croatia once used to have, as described in previous chapters.

At times, a bank follows the bank owner's other financial businesses, such as consulting, brokerage, or investment business, which then acts as a foot in the door for the bank. The bank branch often starts sharing an office with the old business. VABA Bank was, perhaps, the best example of such spatial dynamics, where the bank followed the broader net of financial services and took over its customer base. Similar branching logic consists of following existing business partners across the territory. This is, perhaps, most clearly exemplified by Sberbank. Sberbank entered Croatia by financing Agrokor, the largest domestic retail conglomerate. I21 explains that the client base's size defines a new branch's starting position. If a bank originally had many clients, when a new branch opened, several existing clients would automatically seep into the new branch, often covering the minimum of its profit needs. The new branch starts from scratch if a bank has a small client base. Thus, Sberbank, a new bank with a small client base, has chosen different channels for acquiring new clients, primarily tied to its financial alliance with Agrokor. Agrokor is a massive system consisting of multiple firms, each of whom has different financing needs. Sberbank branch network follows these companies, covering their financing wishes and developing partnerships with different Agrokor firm managers so they can promote banking products among their staff. This branching logic speaks to the

sticky location phenomenon, or banks staying in locations where they have business partners and local knowledge.

The mode of Western banking group entry directly informs the branching network. Greenfield and brownfield entries can be differentiated. Brownfield investments consist of foreign banking groups acquiring established domestic banks. In the case of brownfield investments, branches often remain limited to so-called banks' core or legacy markets. Legacy markets are the markets banks inherited when they acquired domestic regional banks. One of my interviewees, I22, called these geographies banks' natural habitats, and, seeing that most domestic banks were small, local banks, the acquisitions rendered foreign acquiring banks focused on delimited locales. Most banks, especially Italian banks, keep the original branding of the regional banks they acquired, benefiting from local loyalties and familiarities. The client does not readily know that Zagrebačka Banka is, in fact, a UniCredit subsidiary or that Privredna Banka Zagreb is an Intesa subsidiary. Austrian banks seemingly prefer re-branding the domestic branches and baptising them with Austrian names.

I15 names 'profitability and potential' as reasons for ZABA branch closures, paired with population growth and employment statistics. 'The first nearest location is near enough, there are no jobs, there are no people' is how my interviewee summarises ZABA's reasons for leaving different locations. Likewise, the interviewee cites population censuses and estimates as reasons why ZABA recently opened a branch on the island of Krk and why the bank is attempting to open a branch in the Kaštelanski Zaljev and Solin. Krk, the interviewee notes, is one island that has recorded continuous population growth in the past few censuses, while the area of Kaštelanski Zaljev and Solin is where families and professionals who cannot afford Split's real estate and rental prices live. Naturally, branches become a part of the general population's social and physical mobility, and social inequality manifests in the Croatian banking system. As noticed earlier in the chapter, branch densities follow the same spatial paths as the broader demographic processes in Croatia, feeding off and feeding into them, and ZABA branches are no different.

Perhaps non-intuitively, RBA had not established its branches in virgin territories where no other banks were present. On the contrary, RBA opened branches in geographies that had shown to be profitable for other banks and where it could benefit from the competitor's know-how, primarily by acquiring its baking staff. The same narrative exists among several localised domestic banks aiming to spread cross-country. Acquiring local know-how in new business geographies is crucial for the bank's expansion. While this

section looks at the location as a static network of points, the following section will look at the location as a process by focusing on the changes within the network and the logic that informs the network's spatial pattern.

5.4 Conclusion

The guiding question of this chapter RQ2 asks, 'How do West European banking groups organise their retail banking operations in Croatia?' Through the research presented in Chapter 5, 'The geographies of the bank-branch network in Croatia,' the dissertation concludes that, since their arrival, West European banking groups organised their operations nationally, expanding their territorial reach beyond the preceding banks' original territories. This expansion aligns with the model of 'universal banks,' a characteristic of financialisation. This strategy is often driven by considerations of asset-price profitability and the potential of a particular location rather than the needs of particular regions, establishing a supply-side-driven banking system in Croatia. To support the overall RQ2 response, the dissertation asked a number of subquestions, which are answered as follows.

2a asks, 'What spatial patterns do branch networks of West European banks take at the sub-national level, and how have these spatial patterns been changing over time?' The dissertation finds that, with the disappearance of local and regional banks following the collapse of state socialism, Western banks boosted a substantial consolidation of the banking sector. In broad terms, this translated into a contraction of the branch network and the vacancy of the geographies previously served by local banks, mainly in the agro-industrial regions. Instead, Western banks' branches are concentrated in the country's capital and financial centre, Zagreb, and tourist regions. Overall, the geographic conditions influenced the spatial patterns of banks, as they concentrated on regions where the geography favoured the short to medium-term appreciation of assets.

Furthermore, in inquiring 2b. 'What are the main drivers of these spatial patterns?' the dissertation finds that banks' decisions regarding the location of their branches are primarily influenced by the presence of competitor banks or their branches with expanding customer volumes, pointing out that, as part of their strategy, banks opt to position their branches in well-established banking markets, which also imply lower risks. This points to interdependence, knowledge, and data-sharing among banks as critical drivers of branch location decisions, further exacerbating the concentration and uneven distribution of bank branches in the subnational space. All in all, research shows that banks prioritised regions

where financial chains were more stable and established, enabling profit extraction in the shorter term and with lower risks.

Finally, in asking 2c. ‘How has this transformed the postsocialist banking space in Croatia?’, the dissertation finds that the transformation of the bank branch network is closely connected to the process of financialisation of Croatian banking, as it reflects the uneven way in which different regions were integrated into the European and global financial chains with the changing dynamics of the local economy under financial pressures. Regions that were once agro-industrial powerhouses have experienced a decline in importance in the postsocialist era due to their lack of competitiveness under open market conditions. At the same time, sectors like tourism and real estate have gained prominence, driven by West European capital investment in banking and other sectors, and influenced by the changing logic of profitability from productive to asset-price-based profit.

The branch distribution illustrates the differentiation in how various regions of Croatia are integrated into the European financial chains. The section on bank branch determinants highlights that the domestic banking geography is produced through its position in the European and, more widely, global financial chains. Namely, the changing importance of the local economy that reorients to satisfy the global financial order. This generally includes the waning importance of now deindustrialised regions and the growing importance of tourism and real estate, all reflected by the littoralisation, metropolisation and suburbanisation processes in bank branching.

Chapter 6. Bank lending strategies in Croatia

This chapter provides a critical analysis of bank lending strategies in Croatia. Specifically, the chapter will examine ‘What lending strategies do West European banking groups pursue in Croatia?’ (RQ3). Bank strategies are defined as banks’ plans and approaches towards advancing their business, both geographically and in terms of the structure of products and services banks offer. This will be done in the following way. First, Section 6.1 will explore ‘What specific lending policies do West European banks follow?’ (RQ3a). Lending policies are a concrete set of rules that guide individual banks’ lending decisions, including how they calculate creditworthiness and where they draw a line between whom they lend to and refuse. In turn, Section 6.2 will explore ‘How do these policies translate into lending decisions; who is excluded/included, and on what terms?’ (RQ3b). In this section, the chapter examines how banks’ lending policies translate into specific spatio-social debt patterns. Furthermore, recognising that banking strategies are not inscribed onto blank slate geographies but onto full-fledged spaces with particular socio-economic characteristics, Section 6.3 investigates subnational geographies of credit and debt in Croatia. The section aims to answer the following subquestion: ‘To what extent are these lending policies and decisions informed by uneven geographies, and how, in turn, do these lending strategies and emerging debtscape contribute to uneven regional development?’ (RQ3c). Focusing on the connection between bank lending and local and regional development, this section considers bank strategies’ implications on the growth and decline of different spaces and how these spaces are disparately integrated into wider European financial chains. Finally, Chapter 6 will conclude with Section 6.4.

6.1 West European banks’ lending policies in Croatia

This section contributes to the chapter’s goal of providing a critical overview of lending strategies in Croatia by examining the specific lending policies followed by West European banks (RQ3a). As outlined above, lending policies are defined as guidelines that set the terms on how and to whom banks will loan funds. The policies originate from different actors in the financial chain. While the regulator has proposed some of these policies, such as the capital adequacy ratio and loan-to-income limit, the banks primarily define most of their lending policies, such as credit scoring procedures or loan-to-value ratios. The section attempts to determine the role of different stakeholders and strategies around risk,

emphasising the role of West European banks' lending policies in driving its definition and quantification. In terms of the structure, the section starts by explaining the historical introduction of contemporary lending policies to post-socialist Croatia. From there, it continues to review specific lending policies defined by and for particular West European banks. Finally, it examines regulatory intervention into banks' lending policies and how regulation shapes them. Altogether, the function of this section is to explore who gets the loan, why, and under what conditions.

History of lending policies in Croatia

As previously noted in Chapter 4, the lending strategy of a Yugoslav socialist bank is based upon self-management principles. As Warren and Škreb eloquently describe, 'Risk and price of risk are irrelevant in socialism – money is only a bookkeeping device, serving the resource allocation to different sectors' (Coats & Škreb, 2002, p.2). In other words, Yugoslav banks took on an administrative role of distributing resources based on the planned economy. The work of a socialist bank was not motivated by profit-making principles; instead, the goal of banking was to service the needs of socialist enterprises and their workers, including workers' housing and consumption needs. The socialist banks funded their lending through workers' deposits and state funds, establishing closed ecosystems where workers funded banks and banks, in turn, funded their enterprises that also covered their household needs. In the context of 'surface privatisation' (Barisitz, 2008, p.7) and war-induced disarray, Croatian banking continued to function as a 'parastate' institution, allocating resources to enterprises favoured by the autocratic Croatian state throughout the 1990s (Gregurek, 2001, p.174). Most importantly for the section's research question, this first post-socialist decade remained void of any substantial risk-informed lending policy as it exists today. In other words, bank lending policies lacked formal creditworthiness criteria and credit-scoring instruments, with lending decisions taking place mainly at the management's discretion (Kraft et al., 1998).

The real strategic turn in Croatian banks' lending policy occurred with the foreign privatisation of Croatian banking. The dissertation repeatedly demonstrates that foreign banking groups have profoundly shaped Croatian banking financialisation. This West European influence over the domestic banking system is evident in banks' lending policies, as foreign parent banks govern the very definition and application of the lending policy's organising principle – the risk. Namely, interviewee I16, a member of the board of directors in charge of retail operations in one of the biggest foreign-owned banks in Croatia, recalls

that West European banks introduced the concept of risk to Croatian banking during the takeover. There are two specific administrative units through which the concept of risk was imported into Croatian banks from the West, the interviewee I16 suggests – the compliance and risk departments. On the one hand, the compliance department ensures banks adhere to relevant regulations and outlines associated reporting procedures to supervisors and parent banks. On the other, the risk department governs exposures and associated lending controls, including how banks define stability and instability, safety and danger, and how this translates into banks' lending decisions. Furthermore, I18, a prominent Croatian Banking Trade Association member, argues that West European banks introduced policies and instruments that uphold risk as the fundamental organising principle of banks' lending decisions. The literature supports these statements. Bohaček claims that the foreign owners brought credit-scoring technology to Croatian banks (Bohaček, 2003), while Kraft observes banks increasing reliance on digitalised and automatised credit-scoring methods following the foreign bank entry (Kraft et al., 2000). Seeing the importance of risk for banks' lending policy, the following paragraphs explore the idea of risk, including its technical, moral, and political meanings.

Lending policies in practice

Credit scoring has been extensively covered in the literature on financial geography (e.g., Leyshon & Thrift, 1999). As the literature shows, answers to the questions of who gets the loan, why and under what conditions are formulated in banks' risk departments. Banks use the concept of risk as a lens through which they view prospective clients. However, as Beck notices, 'Risk is open to interpretation, casually designable, and infinitely reproducible' (Beck, 1992, p.56). Such an indeterminate nature of risk allows banks to define, legitimise, and justify procedures of monetary distribution applied by bank workers. Thus, to examine banks' lending policies, the section explicitly evaluates the concepts of risk and the related idea of creditworthiness and looks at banks' risk departments and risk-evaluation processes, above all, credit scoring. In this section, risk, rather than being an analytical tool, as represented by banks, becomes an object of study in and of itself. Responding to De Goede's call for the 'repoliticisation of the notion of risk' (De Goede, 2004), the section critically examines the definition and criteria of the notion of risk as deployed by the banks. With this, rather than accepting that something is risky as a given, this is an attempt at politicising the bigger social and economic justice question.

Each loan starts with an application to the bank. When receiving the application, the bank decides whether the applicant satisfies a set of criteria to qualify for a loan. If so,

the bank further decides the loan amount available to creditworthy applicants. While discussing the methodological difficulties relating to the Bank Secrecy Act and the inability to access interviews with I08, a personal banker in one of the significant Croatian banks asserted that ‘the bank secrecy extends beyond bankers withholding information from outside parties, that bankers are not allowed to communicate some information about the client to the client themselves’ (I08). A client’s risk profile is one such piece of information they do not receive about themselves from their banks (I08). Indeed, credit scoring did not exist until late in Croatia. Even now, credit scores are not numbers but communication about creditworthiness by bankers processing loan applications (I02). It is not transparent why someone is creditworthy. Even at the point of loan decision, there is no written explanation for the banks’ decision (I01).

While the research question RQ3a primarily concerns lending policies directed at households, it is first necessary to mention that SMEs are generally considered ‘riskier’ than households in lending terms. Practically, this means that loans to SMEs are refused more commonly than to households, and when granted, they are given under harsher lending conditions, such as higher interest rates (Kolaković et al., 2019). Herewith, the size of an SME is relevant, as smaller SMEs are regularly financed under worse conditions than bigger SMEs (Kundid & Ercegovac, 2011). Indeed, the size of an enterprise is essential, even with household financing. As measured by the number of employees, loan applicants working for larger employers score higher than loan applicants working for smaller employers, credit brokers I25 and I26 assert. While more information about household financing will be given later in the section, this paragraph points out that bank lending to small businesses, and even to employees of these small businesses, is continuing to decline.

This declining investment into productive capital and, above all, SMEs has been noted in the literature as one of the hallmarks of the financialisation process. SMEs require long-term investment and may incur extended payback periods, while financialisation reorients investments towards short-termism. In doing so, economic activity moves away from production activities towards asset-based growth, the phenomenon Lapavitsas terms ‘profiting without producing’ (Lapavitsas, 2013). Investment flows are further hindered towards smaller firms than large ones, with standardised and impersonal financing systems holding a bias towards established, larger, and easily legible systems. The phenomenon described highlights how financialisation can have implications for overall economic development. When financial resources primarily flow to established corporations, it can stifle diversification, innovation, and job creation within the economy. This can perpetuate

a reliance on a limited number of dominant players and hinder broader economic growth. Moreover, this poses the centrality of labour relations for credit risk calculations, which the following paragraphs demonstrate further.

Household credit is based on credit scoring, while credit scoring is only one element of corporate credit (I18). Similarly, I25 claims that they, as credit brokers, target exclusively households, as no universal creditworthiness rules are defined for firms in Croatia. Thus, my research explored the concepts of creditworthiness and credit scoring in more detail to understand how banks operationalise risk in household financing. The credit score is determined through a statistical model and built upon 40-60 characteristics, credit broker I26 explains. The same credit scoring technique has been used in the West for over 50 years, Head of Retail I15 adds. The goal of credit scoring, interviewee I26 continues, is to predict who may default on the loans and who will likely pay it back based on previous statistical data. The main criteria for consumer lending include the individual's income, the quality of the firm they work in, and documentation that the person is regularly receiving their pay. The creditworthiness characteristics, thus, are primarily demographic information, including gender, age, marital status, and dependents. Furthermore, the banks calculate the creditworthiness of the company where the applicant works, their contract type and length of employment. Finally, banks look at previous debt repayment and credit cards. Creditworthiness criteria are defined at the parent-bank level. Banking group members can be granted certain exceptions by the parent bank. Still, these are given sparingly and are consistent with the rule, and the local risk department must be highly efficient for exceptions to be granted (I15). In borderline cases, the parent bank acts as the Chief risk officer, often through the Supervisory board, which almost exclusively consists of parent bank members.

Employment status is among vital creditworthiness criteria, with most banks automatically eliminating any applicant that works on a temporary contract, such as labour contracts relating to seasonal work. The Croatian job market is very precarious, with many jobs existing only during the summer tourism season, making many who depend on this employment rhythm noncreditworthy (I09). Another eliminatory criterion is whether an applicant works at a solvent corporation. For example, Following the COVID-19 pandemic, businesses seeking state support during lockdown have been systematically excluded from loan approval processes. This exclusion extends beyond the firms themselves and affects individual employees who attempt to secure personal loans, creating widespread financial ineligibility for those associated with previously supported entities. The support included

subsidies for fixed expenses and subsidies for keeping employees, granted by the Croatian Bank for Rehabilitation and Development, so-called HAMAG BICRO loans. In conclusion, with this subsidy, firms became automatically noncreditworthy without knowing, including all the firm's employees. In addition to the minimum criteria of the permanent work contract and employment in a solvent company, banks stipulate further conditions on where their borrowers must be employed. One bank requires the borrower's employer to hire a minimum of 10 workers, with this, for example, excluding borrowers employed in small enterprises. The second bank demands the employer to have an A, B, or C corporate credit rating, while the third bank requires the employer to be in business for at least two years. Moreover, higher credit is often given to those who spend extended periods with their current employer, with a minimum of eight months of employment, to qualify for a loan in the first place. To conclude, credit-scoring an individual client involves credit-scoring a corporation where the applicant works. Banks analyse how successfully employers do business and if they are indebted; based on that, they decide the employees' creditworthiness when they apply individually (I26).

Banks exhibit a preference for lending to individuals in sectors deemed secure, such as public service, military, or municipal employment. In contrast, those employed in the private sector or self-employed encounter significant challenges in obtaining loan approvals, as they are perceived to present a higher financial risk (I01). Moreover, banks prefer to lend in urban areas, mostly seen through the loan-to-value ratio (LTV). More specifically, while banks give between 80-100% of the loan value in relation to real-estate value, a higher balance is given to real estate in cities and on the coast, and lower ratios are seen in rural areas (I26). LTV is also higher when a loan is subsidised by the state, such as the APN program. I08 suggests that LTV usually is around 85%, while it is 90-100% with APN subsidy. Banks will also provide preferential treatment to specific segments of the population they wish to target – the IT sector, medical doctors, and workers of certain corporations are some examples. The preferential treatment usually implies that banks offer some segments of the population a lower interest rate (I25). On the contrary, higher costs and interest rates are charged to poorer households (Searle & Köppe, 2015, p.320). As interviewee I08 suggests, poorer households do not usually qualify for a housing loan; poorer households need to take all-purpose consumer loans, which incur significantly higher interest.

Regulatory intervention in lending policies

Croatian National Bank (HNB) is one of the few central banks during the last two decades that heavily relied on the use of countercyclical macroprudential policy to smooth out the financial cycle and safeguard the stability of the banking system (Lim et al., 2011; Dumičić, 2017 in Bambulović & Valdec, 2018, p.2). Some HNB policies were directed at banks, such as the ‘marginal reserve’ instrument, which attempted to curtail the pre-crisis credit boom by making foreign borrowing of Croatian banks very expensive, thus inserting itself in the financial chain between subsidiaries and parent banks were borrowing from. Other measures involved limiting how much creditworthy individuals can borrow, such as the 2017 HNB regulation of how banks can define creditworthiness. Ever since, creditworthiness has been legally defined as the portion of wage and its minimum total that must be unburdened by debt. The HNB regulated this social minimum that each person must have after their monthly mortgage payment. While some welcomed the measure as an assurance that debtors will maintain a liveable minimum, I25 suggests that the action significantly reduced the number of people who qualify for a housing loan. ‘The population today is less creditworthy than before, the reason behind it being the HNB changing the formula. Before, 2/3 of a wage could have been used for a loan repayment’ (I08). On an average wage in Zagreb and without other debt commitments, the I25 illustrates that one can afford to buy an apartment of approximately 20 sqm². People cannot afford real estate of sizes suitable for living, the I25 adds. Similarly, I08, while testing their bank’s new app, realised their bank does not pay enough for them to obtain even the smallest loan in addition to the mortgage. ‘I qualified for a consumer loan before the new HNB formula,’ I08 adds (I08).

This regulation introduced a minimum income threshold that must remain available for individuals after loan repayment, which banks are now required to factor in when assessing creditworthiness. However, this rule applies exclusively to housing loans (HNB, 2019, pp. 7-8). Consequently, the demand for more expensive, no-purpose, short-term consumer loans has seen notable growth since 2018, as these loans do not fall under the same restrictions. Furthermore, the HNB creditworthiness definition allows wealthier clients to be approved for a larger debt service-to-income ratio (DSTI). The social minimum equals the minimum wage in Croatia and is around 550 EUR. One must earn 25% above the minimum wage to qualify for a housing loan. If a person earns 8/9 or less of the average wage, max DSTI is 25%. Moreover, if a person earns an average wage of under 1000 EUR, DSTI is 33%. DSTI is 40% if a person is earning 1000 EUR, 50% if earning 1200 EUR, and it continues to increase from there. HNB finds in its

Macroprudential Diagnostics publication that 50% of all housing loans are issued with DSTI higher than 40%, marking a significant debt burden (HNB, MD, 2021, p.13¹³).

On top of the legal minimum, banks apply their creditworthiness calculations, which can change daily. Credit brokers from interviews I25 and I26 testify that when banks make the creditworthiness criteria stricter, it is much harder to give options to their clients. Moreover, creditworthiness calculations are not uniform across the banks. Three banks outlined their exact creditworthiness criteria in the interviews. Creditworthiness in the first bank closely follows the repossession law calculations. The second bank allows debtors to use up to 45% of their income towards debt repayment, with a minimum remaining amount equalling 3,000 HRK (400 EUR). The third bank's only requirement is that the minimum remaining monthly amount after the loan repayments is 2,500 HRK (320 EUR). Furthermore, it varies what different banks count as income. The first bank counts the wage, any incoming rent, and transportation bonus, albeit not for housing loans. This bank does not include child benefits. The qualifying income total is divided by existing loan obligations and the amount that must be loan-free to receive a coefficient that tells the loan amount a person can receive (I08). A certain percentage is reduced if the applicant has an overdraft (I26). The coefficient is higher in banks that count additions on wage, such as transportation and warm meals (I10) or maternity leave income (I23).

A co-debtor or guarantor is available if a person's income is insufficient. In other words, creditworthiness gets better with a co-debtor. Co-debtor and guarantor are forms of collateral; they secure interest payments until the real estate is sold in the coming years (I08). On top of it, since co-debtors and guarantors are often family and friends, their existence allows for moral pressure for loan repayment (Kraft et al., 2000, p.7). Kraft finds that using co-debtors and guarantors is extremely common (Kraft et al., 2000, p.6). The aforementioned moral pressure is also a significant strategy in housing loans, with the fear of losing one, most commonly, only family home, being a strong motivator to continue repayments. (Epstein, 2014, p.3)

Banks can also render a person creditworthy by offering them a different credit product. With the onset of Swiss franc loans, real-estate agencies felt a sudden rise in creditworthy individuals. People who would not usually be creditworthy suddenly were. People who could not take out loans in EUR could be in CHF (I01). Rodik offers an in-depth case study of CHF loans in Croatia (Rodik, 2018), further substantiated by Figure 18

¹³ <https://www.hnb.hr/documents/20182/3765564/h-mpd-13-2021.pdf/>

below, clearly depicting a strategic reorientation towards carry trade profits described by Gabor (2011).

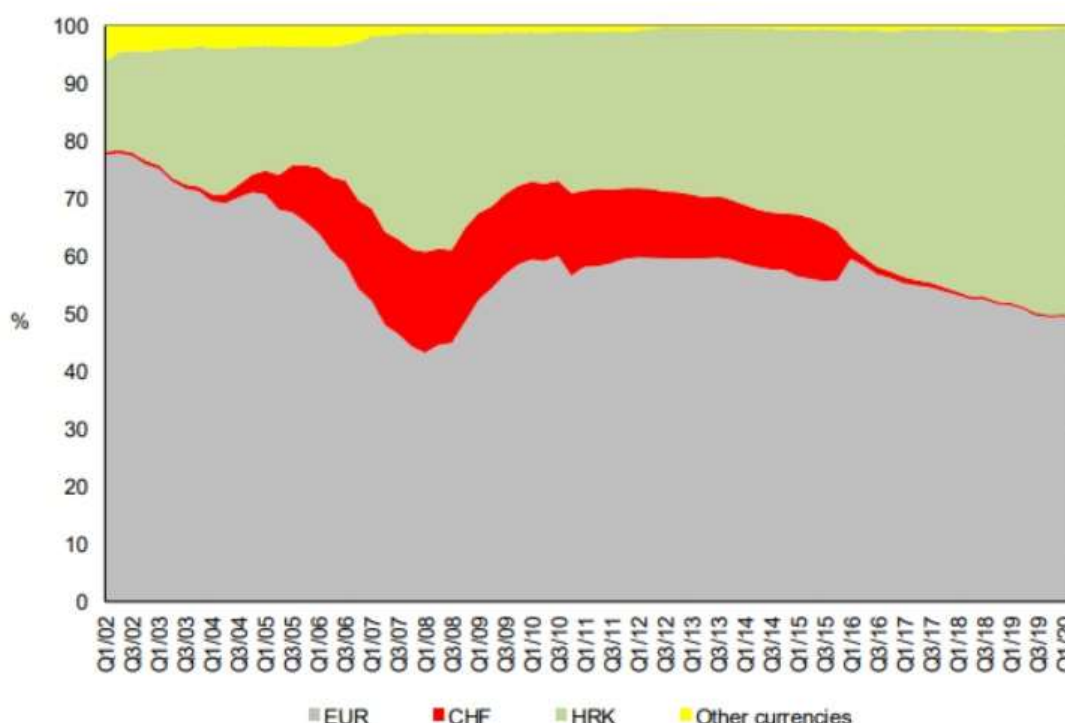


Figure 18 CHF crisis. Source: HNB, Table SPF.

6.2 West European banks' lending decisions in Croatia

'Banks usually grant loans to middle-aged, married males who own homes in urban areas and, on average, have less than one child. He is middle-aged and usually works in a private or public company dealing in the tertiary sector of economic activity. He has a permanent working contract for full-time working hours.' (Herceg, 2011, p.12)

Lending policies typically involve analysing factors such as credit history, income level, employment stability, and existing debts. Lending institutions use this information to make lending decisions and determine the terms of the loans, including interest rates, loan amounts, and repayment schedules. Aiming to analyse West European bank lending strategies (RQ3), the following section focuses on lending decisions, defined as the socio-spatial outcomes of the lending policies described in section 6.1. The section aims to understand 'How do these lending policies translate into lending decisions; who is

excluded/included, and on what terms?’ (RQ3b). The structure of the section follows RQ3b components. Thus, the section first looks at the lending structure, focusing on to whom banks lend and to whom they do not. Secondly, the section observes the types of debt banks offer and under what terms.

Croatian banks primarily exist as universal banks, covering investment and retail activities. However, investment activities remain underdeveloped in balance sheets, with most banks de facto operating as retail banks. As retail banks, the balance sheets reveal that banks generally value the private debt segment more. Paired with insights into the lack of SME financing in Croatia, the data signifies a decisive strategic turn of West European banking groups in Croatia towards household financing. As Figure 19 shows, since the early 2000s, household debt consistently makes up about half of all outstanding debt that banks have extended, while corporate debt has been consistently dropping from over 80% in the early ‘90s to about a third of outstanding debt in the most recent years. Furthermore, likewise supporting the conclusion about the strategic prevalence of household financing, Household Finance and Consumption Survey (HFCS) finds that ‘41% of households are in some way indebted’ at the time of his research (Kunovac, 2020, p.274). This statistic contributes to the finding of the strategic significance of household debt for foreign parent banks in Croatia. Household financing, which now dominates bank portfolios, hardly existed before the West European banks’ entry.

This finding was predicted by the significant amount of literature that now almost univocally describes financialisation through the banks’ strategic reorientation towards forms of unproductive credit creation, such as household lending (e.g., Montgomerie, 2020; Stockhammer, 2012). Banks develop a unique way of making profits through asset and consumer price inflation rather than providing resources for creating new value, such as new employment or increased production. As Lapavitsas argues, since consumer credit does not generate new value, such as new products or services, the result is the accumulation through placing claims on existing value or, differently said, through extraction (Lapavitsas, 2013). Others theorise that harnessing interest is a form of rent (e.g. Raviv, 2008). As Erturk et al. argue, ‘this positions households as a key new debtor’ (Erturk et al., 2008, p.553), in agreement with the results emerging from the data.

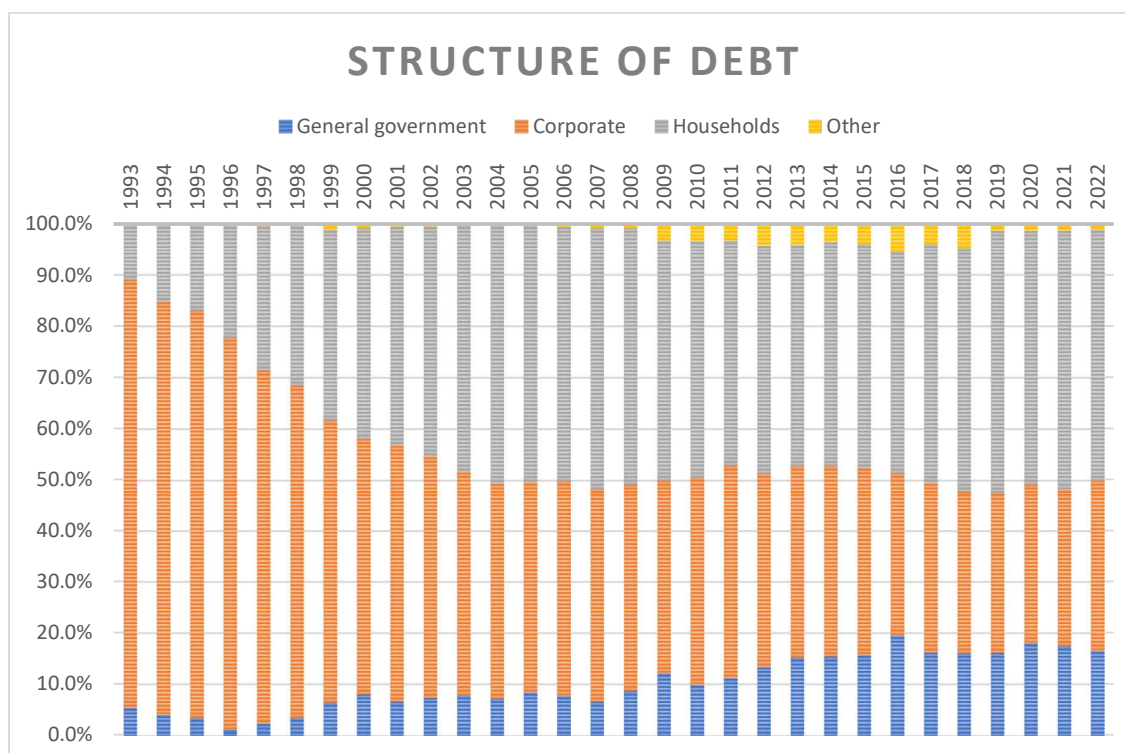


Figure 19 Outstanding debt at the end of the year per sector. Source: Author adapted from HNB Table D5)

The predominance of household debt has directed my dissertation and the remainder of this section towards focusing on the household financing aspect of the bank's business. However, an additional note should be made about the element of financialisation visible in Figure 19, which entails the lack of patient investment capital and the resulting lack of new value creation in society. This specifically pertains to SMEs in Croatia. The interviewees readily claim that large corporations and industrial complexes that survived the postsocialist, deindustrialising era receive the credit under privileged terms at foreign parent banks directly or have foreign banks entering the market to specifically service them and their employees, such as is in the case of Sberbank and the retail conglomerate Agrokor (I05, I21). In addition to financing domestically-owned, large industries, some foreign banks entered the market by following large corporations from their home countries. This suggests that financialisation can result in a concentration of credit and capital in the hands of established corporations, while SMEs face challenges in accessing favourable credit terms. The privileged terms granted to large corporations by foreign parent banks entering the market reinforce power structures within the economy and hinder economic development and diversity. SMEs, however, operate in a tight corridor between large corporations and households, with few bank credit opportunities. To reiterate the argument, the new value-creation is limited, with the amount of credit lent to SMEs being restricted,

as this leads to businesses reducing further investment. The limited investment commonly manifests as stagnant or reduced staff numbers and wages. In other words, the banks' credit rationing leads to rationing in other markets. Credit rationing to businesses, arguably, eventually limits the other side of the bank's business, household financing. The conditions of household financing, as will be later illustrated in more detail, rely directly on the labour process, the labour process that now stagnates at best and renders workers noncreditworthy in their private loan applications. These processes reveal the potential vulnerability and instability of the new financialised forms of banking, as previously theorised by Minsky through his concept of procyclicality (Minsky, 1992).

Households Finance and Consumption Survey found that, in the past three years of those households that applied for a loan, 19.6% were rejected or received a smaller amount, and a further 7.6% did not ask for a loan because of expected rejection (HFSC, p.55). Previous authors found cherry-picking practices at work, 'We would rather pick our customers than have customers pick us' (Kraft et al., 1998, p.13). While banks take very similar information on clients during the credit scoring process, as observed in the previous section, the decisions that banks make from that information vary. For example, all banks have an upper age limit for an applicant when the last payment is due; however, in some banks, an applicant should not be older than 67, while in other banks, the maximum age required is 75. Similarly, banks will take information on the type of employment contract. However, while some require full-time employment, others do not mind seasonal contracts if an applicant has a consistent track record of these temporary contracts. Some banks will not accept maternity pay, while others will. Some banks give higher credit scores to people with their employer for a more extended period, while others may even disqualify a person from credit if they have been with their employer for under a year. When looking at credit cards, some banks will calculate the entire credit card spending limit as previous repayment obligations, while others will only consider the used credit amount. Large banks commonly require an applicant to be a bank client for a specific number of years. Loyalty to a bank, Kraft notes, works best when the bank can offer a wide range of services. Small banks have difficulty following this strategy (Kraft et al., 2000, p.5).

Looking at the household debt structure more closely, Figure 20 shows that it consists of two main components—housing loans and 'other consumer loans.' Housing loans are specific-purpose loans used to purchase, build, or renovate homes. Other consumer loans include short-term general-purpose loans, such as cash and overdrafts, with a minor share of specific-purpose consumer loans, such as student loans. Speaking of

household debt in West European Europe, Searle and Köppe remark that ‘housing is the key contributing factor to household debt, but there is an increasing relevance of debt in financing personal consumption’ (Searle & Köppe, 2017, p.328). Both forms of debt seem equally prominent in Croatia, albeit cash loans and overdrafts continuously lead by a slight difference in total loan amounts, as seen in Figure 20. Additionally, in terms of debt volume, defined as the number of borrowers engaged with the two forms of debt, a far greater number of people are repaying cash loans and overdrafts than housing loans. For example, referring to the Household Finance and Consumption Survey (HFCS), Kunovac finds that 9% of households reported mortgaged debt, while 36% reported repaying cash loans and overdrafts (Kunovac, 2020, p.274). Furthermore, interest profit constitutes 67.6% of all banks’ profits (HNB, Bank Bilten 32¹⁴, 16). The primary source of interest profits comes from general-purpose loans, with almost a third being based on these expensive loans (HNB, Bank Bilten 32, p.17).

The findings indicate that consumer loans may currently form the bulk of West European bank strategy, echoing Erturk’s findings that West European credit is today primarily oriented towards financing private debt and domestic consumption (Erturk et al., 2008, p.554). Moreover, the weak productive sector that follows massive de-industrialization and destruction of the productive sector in the post-socialist period (Bohle, 2017, p.6), as well as the bank disinvestment from the productive sector, results in further dependence on imports, not just the West European capital, but also West European consumption products. These dynamics led Smith and Swain to call this region ‘Europe’s subprime market,’ characterised by high credit-fuelled domestic consumption inflating asset prices, which creates an illusion of economic growth (Smith & Swain, 2010, p.16). The data on the amassing of consumer credit shows the predatory inclusion of populations on the fringes of the labour market, such as the working poor, unemployed, students and others who rely on cash loans and overdrafts as the new subsistence strategy in the region.

Bobek notices crucial new debt dynamics, also visible in Figure 20 – the steady growth of housing loans. As the author discovers, housing loans in the ECE are comparably lower than in their West European counterparts; however, the speed of growth of housing loans is far more significant in the ECE, meaning that the ECE countries are not only catching up but potentially on the path to surpass the West European housing loan levels (Bobek, 2021). In the case of Croatia, the HNB vice-governor Švaljek notices that lending

¹⁴ <https://www.hnb.hr/documents/20182/2868711/ebilten-o-bankama-32.pdf/>

in the country has generally stagnated since the global financial crisis, except for housing loans that grow in double-digit percentages year-by-year. Thus, the remainder of the section looks more closely at the West European bank strategies on housing loans.

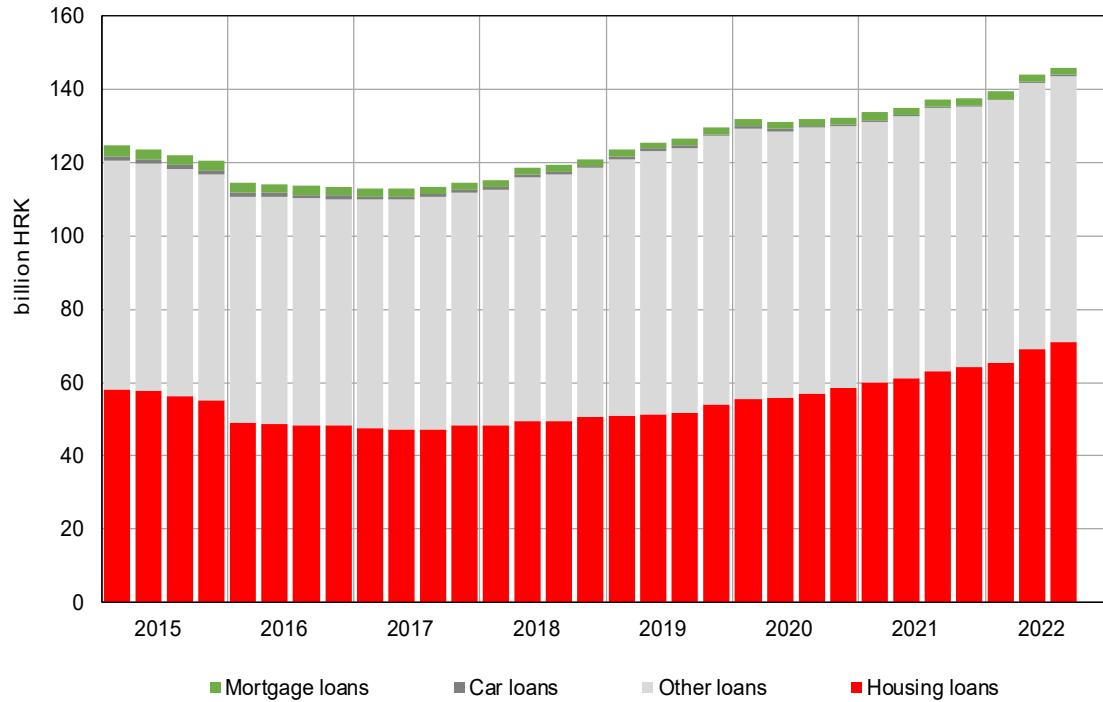


Figure 20 Structure of household loans. Source: HNB, SPF Table.

Banks strategically prefer to lend against collateral rather than against future cash flow because collateral addresses credit risk (Epstein, 2014, p.3). This business logic renders Croatia a perfect site for housing financialisation. 85% of Croatian households own the household's primary residence (Kolaković, 2020, p.268). This confirms Epstein's remarks that, following the socialist regime and the housing privatisation of the '90s, a high rate of homeownership was developed, which now constitutes a large capital stock that can be mobilised as collateral to secure loans for financing property acquisition, improvements, business activities and personal consumption (Epstein, 2014). As carriers of financialisation in the region, West European banking groups recognised, captured and re-encoded the social meaning of housing, turning homes into a financial product.

The lack of collateral, or its insufficiency, often renders the loan applicant noncreditworthy. Previous studies have found that this banking strategy discriminates against business investments, as insufficient collateral or guarantee is why so many enterprises do not have access to finance (Kolaković et al., 2019, p.7). However, a similar

applies to housing loans. Banks compare the creditworthiness coefficient with real estate value, and it is vital to have a good value of the real estate as collateral to receive the loan, as I08, personal banker, suggests. Banks commonly have subsidiary companies that execute real estate evaluation, such as ZANE in Zagrebačka Banka or PBZ Real Estate in Privredna Banka Zagreb, as experienced by I01, a real estate agent. The literature suggests that the banks' real estate evaluators rate highly three types of real estate – office spaces because these are quickly sold on, first homes because of deep psychological pressure on repayments, and coastal apartments because of their constant appreciation through asset inflation (Galac & Dukić, 2005, p.22). Moreover, I01 asserts that essentially, real estate evaluation consists of two parameters – building value multiplied by location, indicating that the banks' strategy for housing loans has a strong spatial dimension. In other words, what can be concluded from the I01 assertion is that household financing follows geographies where people have valuable real estate for collateral, such as the coast, where real estate constantly appreciates or Zagreb, where constant immigration puts pressure on housing needs—section 6.3. Subnational geographies of credit and debt in Croatia confirm and further illustrate these spatial characteristics of West European bank lending strategy. At the same time, the following paragraphs detail the West European banks' strategies relating to household lending in times of deep imbalances between local incomes and inflated house prices, which render homes unaffordable for many.

Croatia has 1,438,423 households, 3,888,529 million people and 2,350,444 housing units (HZS Census 2021). In the last ten years, between the censuses 2011 and 2021, the numbers of households and population decreased by 5.31% and 9.25%, respectively, while the number of housing units grew by 4.21% and now amounts to almost a million more housing units than households. During the same period, the average price of an apartment grew by about 30%, which is 4% above the EU average, according to Eurostat Housing Price Statistics¹⁵. Even Zagreb, the country's capital and financial centre, experienced conflicting trends of population flight and housing bubbles that should not coexist according to traditional economic theory. What potentially explains this is the trend of real estate explicitly built for tourist purposes, especially along the coastline. There is also a significant trend of foreign cash buyers, with 30% of all real estate traded in Croatia in 2022 sold to foreign citizens, with this trend jumping to nearly 50% in some regions, such as Istria. Moreover, HNB argues that APNs have the most substantial upward pressure on

¹⁵ <https://ec.europa.eu/eurostat/web/housing-price-statistics>

housing prices in Croatia, with prices skyrocketing as soon as the new round of APNs is announced (Kunovac & Žilić, 2020). This led Marčetić to criticise the claims about the alleged relationship between housing prices and housing demand, pointing to housing divorcing from its social function and becoming a financial product (Marčetić, 2020).

Croatia's financial industry tops all other industries multifold in the amount of received FDIs with 10,084.4 million EUR received between 1993 and 2022 (HNB, Table U6). Moreover, real estate purchases are a runner-up, with 4,133.9 million EUR invested during the same years (HNB, Table U6¹⁶). This points to the real estate/financial complex, as first theorised by Aalbers (Aalbers, 2013; later Budenbender, 2017), forming the backbone of the new channels of value transfer between West European banking groups and the post-socialist territories, as captured in Sokol's financial chain approach (Sokol, 2013; 2017). With the literature further widely pointing to the real estate/financial complex standing at the heart of the housing bubbles (Aalbers, 2012; Budenbender, 2017; Sokol, 2022), it becomes crucial to acknowledge the state's prominent role in cementing this financial chain. Specifically, in Croatia today, the main driver of the housing market is, allegedly, the Croatian state (I01). More specifically, a real-estate agency owner, I01, states, 'State subsidy APN encourages real-estate sales – without the state subsidies, the real-estate market would be sluggish' (I01). Similarly, the PBZ Management board president, Dinko Lucić, adds that continued housing loan growth is tightly intertwined with state subsidies. Indeed, APNs accounted for a quarter of real estate transactions in 2020 (HNB, Financial Stability 22, p.27¹⁷). APN constitutes a central value transfer mechanism from the state to West European parent banks. Due to the state subsidy's key role in banks' lending strategy, the following paragraphs will describe how the subsidy functions in more detail.

The named subsidy is popularly dubbed APN, which is short for the state-owned Agency for Transactions and Mediation in Immovable Properties (*Agencija za pravni promet i posredovanje nekretninama* in Croatian). While the Agency generally manages Croatian citizens' housing needs and living conditions, the APN is currently the state's only substantial instrument to help citizens fulfil their housing needs. In recent decades, there have been other subsidy measures, such as tax-free purchases of the first real estate and state-built apartments for sale at prices lower than the market price, but these were all

¹⁶ <https://www.hnb.hr/documents/20182/121231/e-u6.xlsx>

¹⁷ <https://www.hnb.hr/en/-/financijska-stabilnost-22>

replaced by the APN in 2017. APN essentially entails the state subsidy of the interest rate for the first 5-7 years, which partially helps with the monthly repayments in the early stages of a loan and, thus, allows more people to qualify. The APN program is designed for young borrowers, with the age limit set to 45 years of age, and targets first-time buyers or young, growing families that want to buy a bigger home (APN¹⁸). There is a deadlock between banks and households where credit becomes intertwined with the idea of constituting family, life progression, and success. This points to an increasingly intimate relationship between financialisation, indebtedness, and social reproduction (Fraser, 2014). The critical strategy of the West European banking groups remains to maintain debt-based monetary streams by capturing means of social subsistence. In other words, APN reproduces the logic of the financialisation of everyday life.

Several banks say that they only offer long-term loans with the help of special government programs. This indicates that the problem of long-term funding sources remains acute for many Croatian banks (Kraft et al., 2000, p.5), with the state's critical role in maintaining the bank-household financial chain. The state deploys further indirect instruments to seal the bond between banks and households. A housing activist, I09, asserts that Croatia has the lowest public housing stock in the EU, with only 2% public housing fund in the total housing units; the EU average is 15% (I09). The rental market is highly unregulated. Most tenants rent without any rental contract. If they are fortunate enough to receive the contract from their landlord, the minimum legal standards primarily protect and benefit the landlord rather than the tenant (I09). The rental insecurity involves difficulties in finding a rental for families with children or pets or those belonging to minority ethnic groups, as well as uncontrolled rental costs, little to no eviction notice, and the poor quality of housing as many of the rental properties lack investment and upkeep (I09). Without safe and regulated rental options, and with state subventions geared only towards loan-based house-buyers, borrowing from a bank is the only way people can fulfil their housing needs and leave overcrowded family households (I09). This leads to borrowers attempting to get a loan in all possible ways, under any conditions and, with this, potentially ending up in predatory debt relations (I08).

The politics of state subventions dominate the new profit extraction model of West European banks in Croatia. Above all, since APN involves the state subsidising the first few years of a loan when borrowers mostly repay the interest and not the principal, the state

¹⁸ <https://apn.hr/>

effectively subsidises the bank profits, establishing a financial chain where value flows from the state to West European parent banks. In other words, as I09 criticises, the public budget to resolve the housing crisis is transferred to banks as profit; this only fulfils the housing needs of those who are creditworthy. Furthermore, this normalises that financial products are the way to ensure basic human needs and removes debate from structural issues, such as why we need financial products for fundamental rights in the first place (I02). Explaining this using the concept of financial chains, APN establishes a power relation where banks sit above the states and extract value from them. In other words, value flows from states to banks. Moreover, state intervention enables banks to extract value from households by acting as an overarching guarantor.

When speaking of the state's role in encouraging bank activity, it is essential to note that not all banks receive the privilege of such a financial stimulant as the APN. I11 explains that their and many smaller banks do not partake in the APN subsidy as follows,

'All banks can apply to participate in the APN loans, and the state decides which banks will be accepted into the program. To be accepted by the state, banks must implement new systems. We wanted to enter the APN program but lacked technical support from the parent banks; we could not adjust our programs (I11).

Indeed, in 2018, ten out of twenty banks participated in the APN program (APN, 2018). Among them, PBZ accounts for 35.4% of total APN contracts, ZABA for 27.3% of APN contracts, and Erste&Steiermarkische Bank for 15.9%. The most detrimental consequence, however, is that, in four years of its existence, APN strikingly rose real-estate prices (I01, I25, I26). A real-estate agency CEO I01 explains,

'APN subsidies are usually offered once or twice a year. Many buyers will search for homes in months preceding the APN application deadline, during the so-called APN waiting period. The buyers place their deposits during the APN waiting period and wait for the state to announce the APN commencing. As soon as the state announced the APN application deadline, real-estate prices exploded and rose higher than their market value' (I01).

This contributes to understanding how banks profit from asset-price inflation since moving away from productive capital. When asset prices rise, borrowers may be more willing to take on loans, especially secured loans backed by appreciated assets, such as

mortgages. Moreover, banks benefit by having a higher level of security for their loans as the value of collateral increases. Overall, banks incur higher income from interest, fees related to servicing the loan, and liquidating the collateral among defaulted loans. However, this form of asset-price inflation-sourced profits comes with a downfall. Excessive asset-price inflation can lead to asset bubbles, market instability, and potential loan default risks once borrowers become overleveraged due to wages not keeping up with price increases. On the contrary, wages stagnate at best, and they may also fall due to a lack of investment in productive capital and a resultant inability for businesses to expand. From a home-buyer perspective, this makes housing in Croatia even more unaffordable and unattainable.

Banks undergo periods of more relaxed or restrictive lending policies (Herceg, 2011). I15 argues that this is often dictated by the West European parent bank, in dynamics they call ‘control tighten’ and ‘control loosen’. The rapid lending expansion can be seen in the early 2000s when foreign banks were established in 1996 and 1997 (HNB, Survey 9). Policies do not necessarily change, but their interpretation and the amount banks are willing to lend to creditworthy individuals. There was a notable shift in banks’ behaviour after the onset of the global financial crisis as the ‘macroeconomic environment became a less important determinant of credit growth with bank-specific characteristics becoming its main driver’ (Bambulović & Valdec, 2018, p.1). Moreover, it is notable that West European banking groups increased direct lending to the state following the financial crises (Krišto & Tuškan, 2016, p.3). While the literature widely discusses the state as the lender of the last resort when discussing financial crises, it fails to notice the state as the debtor of the last resort as one of the features of the financial chain tying West European banking groups and East-Central European countries. Namely, to ensure the West European banks’ continuous presence in the ECE territories, host states ensure these banks have someone to lend to, either directly or through state-subsidised interest rates, which ensures increasing the creditworthiness of the population.

To conclude, it is crucial to notice that West European banks’ strategy is, by and large, to offer small and expensive liquidity loans for personal consumption with little long-term investment. At the same time, long-term loans are offered with governmental reassurance through interest rate subsidies. The following paragraphs explain banks’ debt sales strategies at the branch level.

Bank-branch debt sale strategies

'Clients, by and large, associate banks with deposits and loans. When a client comes to deposit their money or apply for a loan, our sellers are encouraged to offer other financial products. Thus, credit usually drives other products' (I15).

'Bankers are here for sales. Bankers do not need to deposit or withdraw money. It is all about sales. A complaint or reclamation can become a sale if you handle the situation well. No client should leave your desk without being offered an additional product' (I08).

'Rather than measuring quantitatively how many products I have sold in a certain period, the bank measures cross-selling, or how many different products I have sold to each client. It is more important that I sell multiple products to a single client than that I make many new credits. This way, clients remain on board for a long time. As a personal banker, I almost become a member of the family. I know my client's spouses, children, and significant life events; I am opening accounts for children starting their first employment, children I have known since they were babies' (I22).

The quotes above illustrate how bank tellers and retail bank director perceive their work—primarily as sales. Interviewee I22 echoes this view, explaining that her daily tasks are assessed based on 'client profitability'—the metric their bank uses to measure sales performance. The shift in banking logic, as noted by I22, stems from a changing relationship between the bank and its clients. This highlights how the financial chain functions as a network, extending not only into the future of individual debtors but potentially to the next generation through inherited debt. It also broadens into debtors' social circles, affecting family and friends.

In terms of financial products, smaller, domestically-owned banks remain loyal to the banks' initial calling of lending and transacting, as they rarely offer side products. Zdenko Adrović, previously a board member at Raiffeisenbank Austria and Privredna Banka Zagreb and now a director of the Croatian banking association, eloquently summarises the central idea: 'If you have no mom bank and dad bank, you need to be conservative' (HUB Conference). On the contrary, the range of products in big, foreign-owned banks continues to expand, including various types of insurance, credit cards, internet and mobile banking services, investment options, breakdown assistance, and home repair services. Bank tellers and sales director describe this aspect of banking as resembling a financial supermarket (I08, I21). While big banks claim that these untypical new products

give the bank new value, not the least through securing commission payments from the parent banks (I21), smaller banks argue that, through these new financial products, banks have forgotten what purpose they serve (I12).

Each product has a specific target (I21). I08 further explains that these targets are handed down from the parent banks as annual sales plans. They specify the volume of each product that branches are expected to sell and signify the West European origin of local debt sale strategies. The decision about the product to offer is based on the customer's supposed needs, life stage income, and deposit profile. In bigger, foreign banks, the bank software scans the client profile and recommends the suitable financial product for that client to the bank teller. Similarly, the bank software may juxtapose all the bank's products and those that the client currently has, and the teller offers the products the client does not yet have or bundles up the ones the client has in product packages. Citing the Bank Secrecy Act, I12, a CEO of a small-domestic bank, wondered if this side of the bank business is, in fact, illicit, claiming that the information about clients' accounts ought to be private and not allow bank tellers to base their product offerings upon the clients' income and deposit information (I12).

In addition to selling a loan, banks manage the loan portfolio and ensure it continues to 'perform,' meaning that debtors continue to repay the loan and the related interest. The loan becomes classified as non-performing if the borrower produces no payment for 90 days (I03). The HNB stipulates that banks are to have no more than 5% of such non-performing loans in their portfolios. To recover its intended profits, banks will first activate agreed collateral to collect funds, such as a guarantee deposit, an insurance policy, a co-debtor or a guarantor. If the activation of such safety instruments fails, banks instigate involuntary payment collection in an enforcement procedure. The state's Financial Agency (FINA) collects the monetary funds based on a promissory note on the banks' behalf, echoing Mbembe's writings of state agencies that act as a debt-collector on behalf of the foreignised banking system (Mbembe, 2011). Moreover, when debtors default on a loan and the state fails to collect the debt on the banks' behalf, banks turn unrecoverable loans into ownership over debtors' other assets or collateral. In other words, banks re-appropriate non-performing loans and transform them into products that can be sold and generate profit (Mikuš, 2020). At the end of 2022, 230,687 individuals had their bank accounts 'frozen' by FINA. About 40% of them involve bank-initiated account blockades (HUB Conference). The blocked accounts superseded the number of 300,000 between the years

2014-2018 when their numbers peaked (FINA). The enforcement costs befall the debtor, which increases the initial debt amount exponentially.

The repossession based on movable assets and real estate is conducted in court proceedings. Due to Croatian courts being, by and large, inefficient, and slow, banks are reluctant to initiate the process unless rather valuable real estate is in question, I06, a debt collector claims. Thus, a loan quality portfolio is primarily governed by debt sales to debt collection agencies (HNB Bilten 32, p.4). In other words, the number of non-performing loans decreases through debt sales to debt collectors rather than through a realistic improvement of the loan portfolio. While debt collectors have existed in Croatia since 2007, banks only started selling debt to debt collectors in 2014 when legislative changes allowed this type of business (Škorić, 2018). In 2014, 17.2% of all loans were non-performing loans (Klepo, 2018), and debt collectors emerged as a quick solution to the problem of bad debt. The Croatian state further encouraged debt sales through tax relief. A former banker working at the debt collection agency gave an in-depth insight into this aspect of bank lending strategy (I06). The first issue I06 mentions is that debt collectors are unregulated; they have no supervisor, so their methods are often questionable and disloyal (I06). The I06 describes strategy meetings where the employees are instructed on pursuing debt collection. The most notable examples involve targeting households with college-aged children and instructing indebted parents to make their children take a consumer loan to pay off the parents' debt (I06). The I06 deems this strategy as particularly striking as it involves indebting a generation that did not even start to create profit (I06). While debt sales act as a mechanism for banks to eliminate non-performing loans, bad debts remain outside bank balance sheets, with highly unregulated debt collectors. 'Debt collectors do the same job as banks yet are not part of banking legislation. Croatia is El Dorado for debt collectors (I06). Analog to foreign banks, debt collectors are also, by and large, foreign firms based in Western Europe (I02). Borrowers play no part in agreeing to their debt sales, and who owns their debt is entirely out of the debtor's control.

While most banks sell debt in debt packages to debt collectors, they can equally sell the debt to any third party, physical or legal person, even cross-border. The price of debt is equally unregulated, with debt collectors often paying between 20-30% of the total loan value for a loan package (I08). When asked about how banks conduct financial analyses to estimate that selling the debt is better than collecting the debt internally, I06 explains that a bank's core business is not to collect debts; the bank does not care about the principal but about the interest, which is higher in the first years before repayment troubles kick in for

most borrowers. On the other hand, debt collection is the debt collectors' core business. Like banks, debt collectors' businesses are separated into retail and corporate activities. Debt is collected from retail customers through various forms of psychological pressure, while earning from corporate debt often comes from selling on the debt (I06). Namely, I06, who works at the corporate department of a debt collection agency, claims the following,

'Debt collectors, by and large, know they cannot collect the debt from corporations; the banks have already tried and failed. However, valuable real estate comes in the package with debt, allowing debt collectors to sell personal debt, often to construction businesses. This way, construction businesses gain highly valued real estate for little money and use it to build hotels, casinos, etc. Banks add another link to Croatia's financial chains by selling debt to debt collectors. As for the banks, once the balances are freed of bad debt, banks can lend again.'

6.3 Subnational geographies of credit and debt in Croatia

The aim of section 6.3 is to examine where West European banks in Croatia lend and where they are reluctant to lend and to explore the logic that guides these geographic lending patterns. With this, the section examines the local geographies of debt and highlights distinct debtscape, defined as subnational spatial diversity of debt geographies. The section aims to provide a descriptive and critical review of Croatian debtscape orchestrated by West European banking groups. With this, the section aims to answer the research subquestions, 'To what extent do uneven geographies inform these lending policies and decisions?' (RQ2c).

In outlining lending policies and decisions of West European banking groups in the previous two sections, it had already become evident that these strategies and policies have a spatial dimension. The task of this subsection is to analyse what geographic characteristics draw banks and their capital into specific areas and what geographic characteristics drive banks out of other areas. 'Geography plays an important role in credit scoring' (I18). As interviewee I18 elaborates, 'Regions where a loan applicant lives, and their economic sectors are essential factors in determining the applicant's creditworthiness.' First, one of the elements in credit scoring is where the applicant lives (I18). 'Some regions are more developed, they earn more; some are less developed, this is where the risk is higher' (I18). Interviewee I05 evokes I18 words by suggesting that the

risk is more significant where clients are poorer, in regions that transitioned more slowly, occupied areas, or areas with weak industries. On the other hand, the interviewees mention that some of the ‘attractive’ regional characteristics that impel lending are the regions’ growth prospects, existing client relationships, absence of entry barriers, and low physical distance. In other words, banks target more prosperous areas with a more positive outlook. Moreover, banks look for connections to different regions, often following existing or connected clients into new areas. As a result, client and debt segmentation follows regional lines. This subsection introduces demographic and socioeconomic indicators for different regions in Croatia and continues to show how debt geographies correspond to and emerge from this local uneven development.

Administratively, Croatia consists of 21 counties, grouped into four regions: the City of Zagreb, North Croatia, Adriatic Croatia, and Pannonian Croatia. Table 7 orders counties from richest to poorest based on GDP per capita. The table reveals that the wealthiest counties are the City of Zagreb and the coastal Adriatic Croatia. In contrast, the poorest counties are primarily located in the Pannonian plain of Slavonia. In turn, the section analyses debt volumes on a subnational level more closely and answers how debt volumes relate to the socioeconomic makeup of different subnational geographies. As seen in Table 7 and illustrated in Figure 22, over half of all debt is based in the City of Zagreb. With this, Table 7 detects the City of Zagreb, Croatia’s capital, as an internal financial centre. Indeed, throughout recent years, the City of Zagreb has continuously received over half of all loans banks extended in Croatia. That figure stands at just under 55% at the end of 2021, as Table 7 shows. The second after Zagreb in terms of the quantity of extended credit is Split-Dalmatia County, the central county of coastal Croatia. At the end of 2021, Split-Dalmatia County held 5.6% of the country’s credit and was the only other Croatian county with more than a 5% share in total debt, as Table 7 shows. Nevertheless, the amount of credit extended in Split-Dalmatia makes up merely a tenth of the credit received by the City of Zagreb, highlighting a significant concentration of credit and debt in Croatia.

Zagreb and Split are the capital cities of two primary Croatian regions, continental Croatia and coastal Croatia. Thus, the abovementioned findings also point to a twofold bias in bank lending in Croatia – the capital city of Zagreb and the coast. The data on subsequent debt centres strengthens this premise of the capital and the coast receiving the bulk of credit from West European banking groups operating in Croatia. Among the top five counties in debt quantities, three are coastal counties, and two are the capital and the city’s greater area.

To specify, two coastal counties that follow Split-Dalmatia County in terms of debt quantities are Istria and Primorje-Gorski Kotar, each having a 4.6% share in the total debt, and the fifth most credit county is Zagreb County, with a 4.4% share in the total debt. So, the total for a greater Zagreb area is 59.4%, and the total for the coastal regions is 20%. These two regions account for nearly 80% of Croatia's debt. This reveals the processes of metropolisation, the concentration of debt in large cities, and littoralisation, the concentration of debt along the coast, faithfully describe lending geographies in Croatia. In answering RQ2c, it is essential to note that Zagreb and the coast are already the most developed regions in Croatia, and debt seems to follow existing developmental lines, potentially exacerbating them further.

Furthermore, this spatial pattern of debt indicates a significant difference between continental and coastal debtscape, with continental debtscape showing a more concentrated debt structure and coastal debtscape showing a more dispersed debt structure. Specifically, Zagreb and its most adjacent surroundings seem to significantly amass debt at the continent, leaving other continental counties financially neglected. On the contrary, coastal counties have a more comparable debt standing, with multiple counties sharing similar debt totals. Specifically, in addition to the group mentioned above of three coastal counties with a share in total debt of about 5%, namely Split-Dalmatia, Istria and Primorje-Gorski Kotar, there is a second group of smaller coastal counties with a total debt share of about 2%, consisting of Zadar and Dubrovnik-Neretva counties.

The exceptions are Šibenik-Knin and Lika-Senj counties, with a share in debt below all other coastal counties, which stand at 1% and 0.4%, respectively, indicating that these counties comprise coastal sites of potential financial exclusion. While Lika-Senj is a mountainous, sparsely populated county and, thus, the lack of credit may be expected, Šibenik-Knin owes its financial neglect to the survival of the large, heavy industry and complementary late entry to tertiary sector activities, such as tourism, which stalled the tourism-related housing boom and related credit boom experienced by the rest of the Adriatic coastal region, as I07 explains. Interviewee I18 further portrays Šibenik-Knin County as a region of slow transition and late deindustrialisation. Above all, Šibenik-Knin County is an area that suffered heavy destruction and occupation during the Independence War. Interviewee I18 indicates that areas that suffered more in the war often transitioned more slowly. As such, the area relied on primary and secondary business activities for longer; however, tertiary activities with, above all, tourism are catching up. With them, so are household debts, primarily housing loans. The same theme reappears in interview I20,

where the interviewee expects that Šibenik-Knin and other such counties with high corporate debts will move more towards household financing soon, deducting from such existing trends. Moreover, it is notable that, until 2018, Šibenik-Knin retained its local bank, Jadranska Banka. This was one of the last remaining regional banks surviving in that form from the socialist period, as mentioned in Chapter 4. This may also be part of the reason behind higher corporate debt levels. As section 6.2. demonstrates that under the influence of proximity and familiarity, small regional banks seem to lend more to small and medium enterprises in areas where they operate. In 2018, Jadranska Banka was acquired by the largest state bank, HPB, perhaps further entrenching the move towards household financing.

None of the abovementioned core lending counties in terms of debt volumes are located in Eastern Croatia, and the only Northern Croatian county where lending volume nears the 5% share in total loans is the County of Zagreb, attached to the City of Zagreb. Of 12 counties with a share in total debt of 1.5% or less, ten are in Northern and Pannonian Croatia. Thus, there is an indication that the Northern and Eastern Croatian regions could be debt-deprived areas. Table 7 and Figure 22 were created to illustrate this striking uneven distribution of debt volumes.

Osijek-Baranja County, with a 3.2% share in total debt, is the Eastern Croatian County with the highest percentage of the debt. No other county in the East Croatian region exceeds the share in total debt above 1%. Similarly, Varaždin, with a 1.9% share in total debt, is the Northern Croatian County with the highest share in total debt. Likewise, no other county in the Northern Croatian region exceeds the share of debt above 1%. Both Osijek-Baranja and Varaždin can be considered regional capitals in their respective regions. Thus, inferring from this data, the findings point to a lending bias towards regional capitals. Specifically, counties where regions' capital cities are located are also counties with the largest concentration of debt, with the country's capital city leading the way. Zagreb, Split, Rijeka, Pula, and Osijek are these leading cities. These findings are also consistent with the previous chapters that point to strong urban bias in Croatian lending, seeing that the counties with the most credit are the largest Croatian cities.

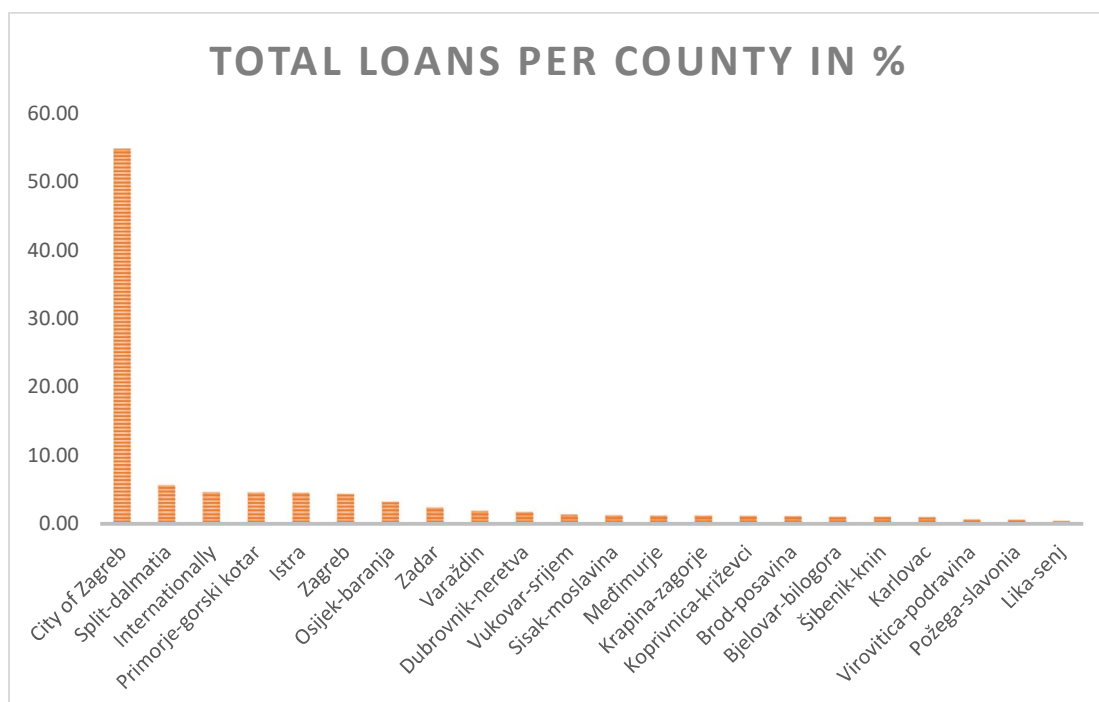


Figure 21 County-level distribution of total loans, including state, household, and corporate loans (the reference year 2021). Source: Author, based on HNB Table SV4 data.

County			Economy		Debt	
County		Population	GDP (billion EUR)	GDP (per capita)	Share of debt per county	
					Total loans	Household loans
1	City of Zagreb	775 424	17,544	22,695	54.77	25.99
2	Istria	205 825	3,126	15,570	4.57	5.77
3	Primorje-Gorski Kotar	306 159	4,270	14,797	4.60	7.67
4	Dubrovnik-Neretva	123 047	1,587	13,277	1.76	3.5
5	Varaždin	185 756	1,865	10,899	1.93	3.74
6	Zadar	160 506	1,797	10,803	2.40	4.38
7	Međimurje	120 790	1,142	10,302	1.23	2.43
8	Šibenik-Knin	114 344	1,027	9,713	1.02	1.87
9	Zagreb	309 369	3,011	9,710	4.36	8.44
10	Split-Dalmatia	459 818	4,278	9,636	5.63	9.98
11	Lika-Senj	53 006	0,436	8,878	0.44	0.95
12	Koprivnica-Križevci	125 352	0,979	8,711	1.17	2.13
13	Osijek-Baranja	329 465	2,572	8,684	3.22	5.85
14	Karlovac	142 313	1,035	8,301	0.99	2.29
15	Bjelovar-Bilogora	133 198	0,925	7,986	1.02	2.04
16	Krapina-Zagorje	143 465	1,021	7,919	1.22	2.67
17	Sisak-Moslavina	182 615	1,309	7,868	1.26	2.86
18	Vukovar-Srijem	195 771	1,171	6,730	1.41	2.47
19	Požega-Slavonia	84 897	0,499	6,620	0.61	1.17
20	Brod-Posavina	177 558	1,016	6,607	1.13	2.34
21	Virovitica-Podravina	93 952	0,536	6,525	0.65	1.26

Table 7 Share of debt per county in %. Source: Author.

Table 8 compares counties' respective population and household debt shares to observe the per capita figures. While more about household debt distribution will be written later in the text, it is now essential to observe whether the share of population corresponds to the share in household debt, under the premise that 'debt follows population,' so readily argued by several interviewees (I02, I15, I18) and discovered in Chapter 5. With this in mind, Table 8 provides a county-level breakdown of the detected discrepancies between

population and household debt shares. As Table 8 shows, there are six counties where banks lend more than what is the county's share of the population. The City of Zagreb has 6.19 percent points more loans than the population. The city's satellite county, Zagreb County, also experiences more loans than what is its share of the total population, along with the counties of Primorje-Gorski Kotar, Dubrovnik-Neretva, Istria, and Zadar, all coastal counties. The findings again confirm that the capital city and sections of the Adriatic coast are the debt epicentres. On the other hand, the remaining 15 counties all experience a shortfall of debt compared to their share of the population. Among the top five counties with the highest negative debt-to-population ratio, four counties belong to the Eastern Croatian region. Osijek-Baranja County, the fourth most populous county, is surpassed by Istria County in terms of share in household lending despite having a significantly larger population. Osijek-Baranja County has a population size comparable to Primorje-Gorski Kotar County but has significantly lower household debt. This finding confirms that Osijek-Baranja County is situated in Eastern Croatia and confirms the Croatian East's previous discovery as a potential site for redlining processes. Redlining in transition countries thus follows the lines of the dissolving agro-industrial regions, as the new bank owners focus on short-term profits through asset-price inflation in sectors that do not require heavy investment, such as agriculture or industry.

Split-Dalmatia County is the most surprising result among the counties with a high negative debt-to-population ratio, faithfully following Zagreb as a runner-up in debt quantities. However, this data reveals that the share of Split-Dalmatia County's household debt is lower than the share of its population. Several interviewees provided their views regarding the reasons behind this. I15 suggests that the currently existing principal bank in the area, OTP, safeguards its market share and obstructs entry to other banks. The literature gives weight to this argument by claiming that the expansion of lending into Dalmatia was spearheaded by big banks (Galac & Dukić, 2005, p.7), suggesting that the capital may still be moving southward. Furthermore, I06 points out that Split-Dalmatia County is already overbuilt and, at the same time, exceptionally geographically constrained by existing in a tight corridor between the mountain and the sea, which may mean less room for further financing of development and residential. Lastly, I18 suggests that, in recent years, cash buyers, often foreigners with greater purchasing power or savers who deem real estate the safest form of investment, purchase 50-60% of the real estate. Cash buyers, moreover, dominate the coast, where houses are mostly built and bought for tourist purposes rather than as homes.

Counties	Share in population	Share in household debt	Discrepancy
Vukovar-Srijem	3.7	2.47	-1.23
Brod-Posavina	3.37	2.34	-1.03
Split-Dalmatia	10.93	9.98	-0.95
Osijek-Baranja	6.67	5.85	-0.82
Sisak-Moslavina	3.61	2.86	-0.75
Šibenik-Knin	2.49	1.87	-0.62
Karlovac	2.9	2.29	-0.61
Virovitica-Podravina	1.82	1.26	-0.6
Bjelovar-Bilogora	2.63	2.04	-0.59
Požega-Slavonia	1.66	1.17	-0.49
Koprivnica-Križevci	2.61	2.13	-0.48
Krapina-Zagorje	3.11	2.67	-0.44
Varaždin	4.12	3.74	-0.38
Međimurje	2.72	2.43	-0.29
Lika-Senj	1.11	0.95	-0.16
Zadar	4.13	4.38	0.25
Dubrovnik-Neretva	2.98	3.50	0.52
Zagreb	7.73	8.44	0.71
Istra	5.04	5.77	0.73
Primorje-Gorski Kotar	6.86	7.67	0.81
City of Zagreb	19.8	25.99	6.19

Table 8 Discrepancies between county-level shares in population and shares in debt (the reference year 2021) (in percent points). Source: Author.

The latest DZS census finds that Croatia lost nearly 10% of its population in the last decade. Croatia now has 3.888.529 citizens, which is almost a million fewer citizens than in 1991 when Croatia announced its independence with 4.784.265 citizens. While nearly all areas experienced a population loss, there is a striking disproportionality in population loss. Namely, Zagreb and its suburbs, the Istrian peninsula, and the central and southern Adriatic coast experienced a below-average population decline. The pattern of below-average population declines overlaps neatly with the banks' lending geographies. Namely,

banks' preference for Zagreb and its surroundings is visible, and lending focuses on the Istrian peninsula and central and southern Adriatic coast. Lastly, isolated areas of population growth on some Croatian islands correspond to the banks' newly developed interest in the Adriatic islands recorded in interviews (i.e., I12). I24 explains, 'Banking's biggest goal is to predict which markets will be growth markets in the future. In other words, skate where the puck is going.' With this prognosis, the chapter theorises that banks often seal the regions' fates and entrench and exacerbate existing inequalities, as the following subsection will show. The result is the population's tendency to flee the disinvested areas lacking employment prospects. The findings point to highly uneven geographic patterns in quantities of advanced credit, which also correspond to regional inequalities.

Subnational diversity in forms of debt

Having reviewed the geography of total debt volumes, the section now turns to analyse subnational differences in types of debt. Publicly available data on the geographic distribution of debt covers the debt volumes per county and only since 2018 (HNB Table SV4¹⁹). Thus, data on the geographic distribution of debt types have been accessed almost exclusively through document review and interviews with economic researchers and highly-positioned bank officials. The section demonstrates that different types of debt are made available to different regions. First, Table 9 adapts the information Krišto and Tuškan collected directly from the HNB in 2013 on the types of debt different counties hold, defined as total bank loans to households, firms, and states. The table allows us to detect the subnational spatial diversity of debt, which this dissertation refers to as *debtscapes*. A key limitation of the dataset is that higher household debt in Zagreb may not reflect distinctive economic behaviour but rather the impact of high property prices. Similarly, firm debt levels might appear comparable across regions, even if access to financing remains relatively unchanged. This ambiguity in the data complicates the interpretation of regional debt distribution patterns, making it difficult to draw precise conclusions about economic dynamics in different areas. However, the dataset still provides valuable insights by capturing general patterns of debt distribution across households and firms, offering a useful starting point for regional comparisons.

¹⁹ <https://www.hnb.hr/documents/20182/9783f875-5d21-7766.959e-532c7350296e>

State debt is defined as debt to the central state and the local government. Table 9 shows that the City of Zagreb is an absolute leader in state financing. Krišto and Tuškan find that an 89.3% share of total bank loans to the state is granted in the capital city (Krišto & Tuškan, 2016, p.9). Moreover, 2/3 of all corporate loans were granted in five counties – the City of Zagreb, Istria, Split-Dalmatia, Primorje-Gorski-Kotar, and Zagreb County, with the City of Zagreb receiving nearly 40% of all corporate loans in 2022 (HNB, Table SV4)

The data from Table 9 shows that household financing markedly spearheads the debt in every single county, bar the City of Zagreb and Split-Dalmatia County, where corporate debts rank higher. Few other counties have comparable household and corporate debt levels – Primorje-Gorski Kotar, Varaždin, Koprivnica-Križevci, Osijek-Baranja and Šibenik-Knin. These are, by and large, counties with the most developed industry, which goes in hand with Krišto and Tuškan's conclusion that the more developed the industry in the county, the relatively less household financing in total debt (Krišto & Tuškan, 2016, p.9). In other words, some regions have more loans for firms, which results in comparably fewer loans for households in the overall debt structure. I15 has suggested that, in most cases, a single big firm skews the data and inflates the statistics on corporate funding. By exemplifying the case counties mentioned above, the interviewee specifies that Primorje-Gorski Kotar is a county characterised by surviving big and expensive industries, such as the shipbuilding industry, which sees the concentration of corporate debt. The remaining counties have large food production industries, such as Vindija in Varaždin County, Podravka in Koprivnica-Križevci County, and Žito and Belje in Osijek-Baranja County. Osijek-Baranja County additionally has numerous family farming enterprises, and Varaždin has numerous boutique factories involved in textile production. However, I15 argues that, by and large, a handful or a single prominent industry can skew the data in an otherwise commercially weak area and produce lower relative levels of household debt than average.

Regional centres like Zagreb, Split and Rijeka would have more corporate debt than an average county. I15 indicates that this may follow that proximity is more important for household lending than SME lending. In other words, SMEs go to regional centres to apply for loans, where a more competitive environment may mean they are more likely to get a loan approval under more favourable conditions. On the other hand, households may seem more reliant on the convenience of proximity and their local bank. Paired with the data on proximity being an essential factor for banks to be willing to lend to SMEs, these data may offer a glimpse into some of the geographic factors implicated in the lack of SME funding

in Croatia. However, as the dataset does not differentiate between loans by branch, client location, or bank headquarters, the proximity argument remains an interpretative assumption rather than a statistically proven outcome. Acknowledging this limitation, future research would benefit from more granular, quantitative data to confirm or challenge the role of proximity in lending dynamics.

There are spatial differences in the types of financial product availability. Zagreb houses most of the banks' headquarters. Krišto and Mandac suggest that Zagreb, as the financial centre, has a wide range of complex financial products and services. At the same time, the rest of the country is primarily based on transactional and crediting activities (Krišto & Mandac, 2014, p.72). Following this finding, Krišto and Tuškan reveal that most savings are based in financial centres (Krišto & Tuškan, 2016, p.3). In other words, with interest rates on savings at an all-time low and customers searching for alternative savings plans, often in the form of pension plans or investments, savers may pledge their savings to financial centres with greater availability of different savings modes. This potentially leaves poorer countries with fewer savings and more debt. The remaining 14 counties, as Table 9 shows, all have household debt average or above, with Karlovac and Sisak-Moslavina leading the way with over 70% share of household loans in the counties' total loans. Considering Karlovac and Sisak-Moslavina are among the least developed counties, Krišto and Tuškan's argument of the higher levels of household debt in poorer areas also stands in this instance (Krišto & Tuškan, 2016, p.9).

County	Households	Firms	State
Bjelovar-Bilogora	62.9	33.5	3.6
Brod-Posavina	64	34.5	1.4
Dubrovnik-Neretva	62.3	35.6	2.1
City of Zagreb	28.7	46.3	25
Istra	58.9	39.1	2
Karlovac	71.5	27.1	1.4
Koprivnica-Križevci	51.4	46.6	2.1
Krapina-Zagorje	66.9	28.8	4.2
Lika-Zenj	69.6	24.4	6
Međimurje	60.3	37.3	2.4
Osijek-Baranja	51.5	45.6	2.9
Požega-Slavonia	64.2	32.3	3.5
Primorje-Gorski kotar	50	47.8	2.2
Sisak-Moslavina	72.2	26.6	1.2
Split-Dalmatia	44.7	53.2	2.2
Šibenik-Knin	51.1	45.9	3
Varaždin	50.7	47.6	1.7
Virovitica-Podravina	58.5	37.6	3.9
Vukovar-Srijem	60.4	38.9	0.6
Zadar	59.5	38.3	2.2
Zagreb	69.3	30.1	0.7

Table 9 Structure of lending in each of the counties in %. Adapted from Krišto and Tuškan, 2016, pp.9-10.

To conclude, the analysis suggests that lending patterns closely reflect each region's economic and demographic landscape, potentially reinforcing preexisting inequalities. Regions are granted varying types and amounts of debt, influencing their access to financial resources and perpetuating uneven development. Geography plays a pivotal role in credit allocation, as project location is a key factor in determining profitability, with better locations securing more extensive loans (I01). This geographic differentiation is not only a business strategy but also a risk management practice, as banks diversify by categorising areas into distinct credit zones. Such lending practices reflect a socio-spatial reorganisation, where financial institutions manage economic crises by redistributing capital across space.

This process temporarily mitigates systemic risks but often deepens regional disparities by channelling resources to more advantaged locations.

Household debt geography

After reviewing the geography of different types of debt, namely state, corporate, and household debt, the chapter examines the geography of household lending in more detail. The dissertation finds that the debt concentration is less prominent in household lending than in state and firm lending, which led my interviewee to call household lending ‘aregional’ (I18). Nevertheless, there are some arguably significant regional differences in household debt distribution. Figure 23 shows that half of the household debt is held by the population of four counties – the City of Zagreb, Split-Dalmatia County, Zagreb County, and Primorje-Gorski Kotar County. This evokes findings from the preceding paragraphs that the available resources are divided between the households in the capital and at the coast. To specify, the City of Zagreb is the most credited county, with a share of about a quarter of all the country’s household loans. Another 8.5% of household loans go to the City’s greater area, the County of Zagreb. Nearly 10% of household loans go to Split-Dalmatia County, the second most credited county, and 8% to Primorje-Gorski Kotar. The chapter examines the geography of household debt, starting with Table 10, and as illustrated by Figure 21.

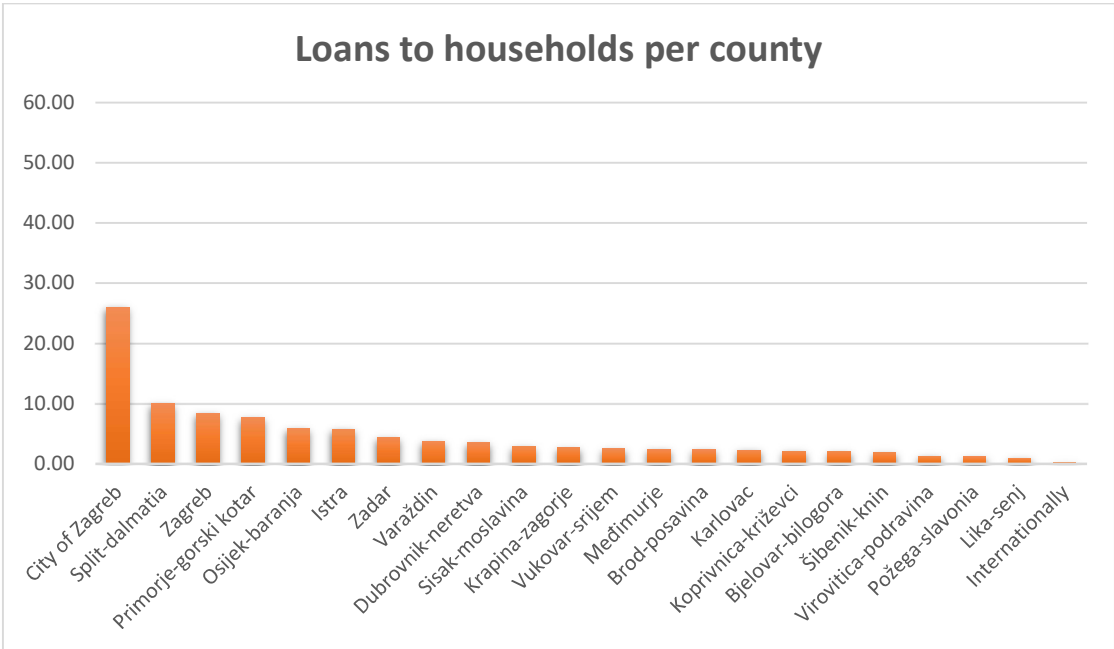


Figure 22 County-level distribution of household debt (The reference year 2021). Source: Author, based on data from HNB Table SV4).

County	Housing loans	Overdraft	Credit cards	Car loans	Other
City of Zagreb					
City of Zagreb	83.4	7.9	5.1	3.5	2
Northern Croatia					
Zagreb	75.4	12.2	6.8	5.4	0.2
Varaždin	70.5	13.3	6.1	8.9	1.1
Krapina-Zagorje	64.4	17.1	8.7	9.4	0.4
Koprivnica-Križevci	71.5	12.4	6	8.9	1.2
Međimurje	75.4	9	3.7	10.6	1.3
Adriatic Croatia					
Split-Dalmatia	78.8	10.5	5.5	4.9	0.3
Primorje-Gorski Kotar	81.8	7.7	4.2	6	0.3
Istra	83.3	7.1	3.9	5.4	0.2
Zadar	81.1	9.2	4.2	5.1	0.2
Dubrovnik-Neretva	84.9	7.2	3.9	3.6	0.4
Šibenik-Knin	72.7	14.2	4.9	7.7	0.5
Lika-Senj	75.2	14.2	4.2	6.2	0.2
Panonian Croatia					
Bjelovar-Bilogora	71.9	15.5	5.2	6.4	1
Brod-Posavina	73.4	14.2	5	7	0.3
Karlovac	66.4	17.8	5.7	9.3	0.7
Osijek-Baranja	77	10.5	4.4	7.9	0.3
Požega-Slavonia	76.4	12.4	3.6	7.4	0.4
Sisak-Moslavina	65.7	17.6	6.9	9.5	0.4
Virovitica-Podravina	75.5	13.2	5.7	5.4	0.3
Vukovar-Srijem	69.2	15.3	5.2	9.7	0.5

Table 10 Structure of household lending in each of the counties. Adapted from Krišto & Tuškan, 2016, pp.10-11.

Share of loans to households by county

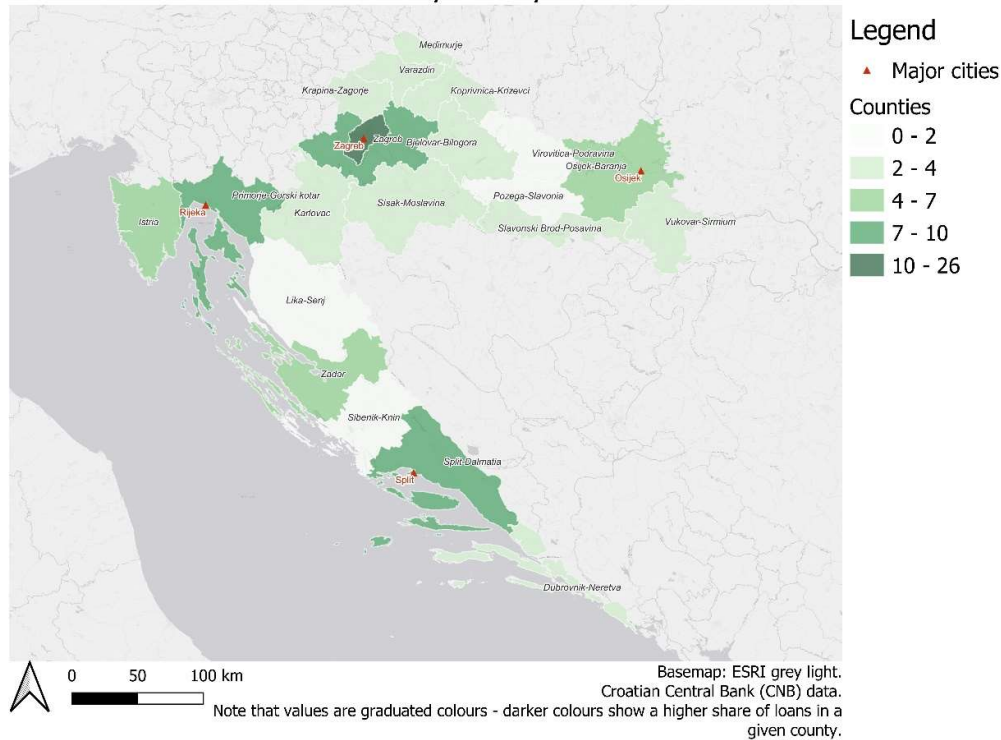


Figure 23 County-level distribution of total loans in %. Source: Author.

Some qualitative differences in subnational household lending are indicated by Krišto and Tuškan, supporting the dissertation's argument that there are significant differences in the types of household credit regionally. As visible from Table 10 and as argued by Krišto and Tuškan, Eastern Croatia has a significantly higher proportion of overdrafts and credit card debt (Krišto & Tuškan, 2016, p.11). Looking at the data in more detail, overdrafts amounted to about 10% of total debt at the national level at the time of writing, and credit cards amounted to about 5% of total debt. Subnationally, only six counties had below-average levels of overdrafts, all but one being the most developed and wealthiest counties located at the coast or the capital city. The highest level of overdrafts exists in counties adjacent to Zagreb, Karlovac, Sisak-Moslavina, and Krapina-Zagorje, nearly double the national average. Similarly, while the data on credit cards is somewhat more variable, the trend of less credit card debt in more affluent counties and more credit card debt in poorer counties is noticeable. The same trend applies to car loans, with poorer counties having more car loans than prosperous counties. The reasons behind these lending patterns lay in the previous section on lending policies and decisions. Namely, in poorer

counties, loan applicants are generally considered non-creditworthy for large loans, such as housing loans. Instead, loan applicants are granted smaller, all-purpose loans.

While there is an above-average level of account overdrafts and other short-term consumer loans in the Eastern counties, coastal counties and Zagreb dominate Table 10 with mortgaged housing loans. In other words, the wealthiest counties have an above average housing and mortgage loan levels, with Dubrovnik-Neretva having the highest share at 84.9%, followed by the City of Zagreb at 83.4% and Istria at 83.3% (Krišto & Tuškan, 2016, p.10), likely related to elevated housing prices. At the same time, the wealthiest counties have the least consumer debt or overdrafts, including Dubrovnik-Neretva, Istria, the City of Zagreb, and Primorje-Gorski Kotar, all of which have under 8% overdrafts.

Following the conclusion from section 6.2. of the importance of collateral, it is safe to conclude that household financing follows where people have valuable real estate as collateral, such as the coast where real estate constantly appreciates or Zagreb, where immigration and the need for housing dominate. This signals financialisation logic seeping into the region as banks reorient towards short-term, asset-price inflation-based earnings. Arguably, this reoriented different regions' economies according to the West European parent-bank agenda, as even traditionally agro-industrial regions are attempting to develop tourism, abandoning traditional sources of income for local populations.

Interviewees readily suggest that loans vary geographically according to their purpose. The Dalmatian region has tourism loans, while Slavonia has agricultural loans. Cities with large industries have specific loans pertaining to the industry, such as shipbuilding in Rijeka and Pula (I26). Economic researcher I29 claims that one of the critical tasks of the research department is to review whether the bank's exposure matches the economic structure of each county, as well as the GDP structure and employment rates (I29). In line with the research, banks aim to have more exposure to wealthier counties (I29). Commenting on the geography of housing loans, Interviewee I01 argued that mortgages vary in purpose across the county. The most clear-cut difference is that, in coastal counties, mortgages are taken to build real estate for tourist purposes while, in continental Croatia, real estate is purchased as homes.

As argued in section 6.2., lending to different geographies is part of banks' risk diversification strategy, with geographic concentration now entering the risk calculation as per prudential requirements. However, multiple interviewees noted that 'Croatia is too small to be considered a separate market,' indicating that subnational geographic debt

diversification is potentially not entering some of the banks' risk calculations. Indeed, when reviewing banks' public announcements on prudential requirements, it was noted that the two largest West European banks, Zagrebačka Banka and Privredna Banka Zagreb, failed to produce local, subsidiary-level geographic diversification calculations and had only made group-level geographic diversification based on a national scale of countries where the banking groups operate. On the contrary, the third West European bank by size, Erste&Steiermärkische Bank, in addition to publishing national scale geography diversification for the banking group, has also published sub-national geography diversification for the group's subsidiary in Croatia based on regional divisions. This data confirms the literature claiming that foreign capital in the banking sector is not a monolith (Iwanics-Drozowska & Witkowski, 2016), which has an important implication for the integration of various West European bank subsidiaries and geographies they differently serve into wider European financial chains. While further, in-depth case studies on individual banks would be highly beneficial, some insights can be drawn from how different banks part and parcel the geography they serve.

Despite the large number of banks in Croatia, competition remains limited. In many local areas, a single bank holds a dominant market share. It is still the case that only two banks are present on a national level, and even these two banks are actively trying to improve their ability to provide banking services throughout Croatia. With the largest regional banks having come under the ownership of much larger foreign banks, most new banks expressed an interest in becoming national-level competitors (Kraft et al., 2000, p.9). Differences in business practices of foreign and domestic banks are well documented in the literature (Claessens et al., 2001; Kraft, 2002; De Haas & Lelyveld, 2006; Arakelyan, 2018). Local economists also find that foreign and domestic banks have different business models regarding lending to the private sector in Croatia (Bambulović & Valdec, 2018, p.1). Foreign banks are mainly larger banks with a relatively broad base of customers, while domestic banks are mainly smaller banks operating in specific niches (Bambulović & Valdec, 2018, p.15). Bigger banks seem to be moving towards universal lending and a high level of integration with the banking group. In comparison, smaller banks operate in geographic and sectorial niches. Foreign banks can always turn to their parent banks when in need of funding. In contrast, domestic banks, on the other side, can increase credit supply only if they have sufficient liquidity reserves (Bambulović & Valdec, 2018, p.15). However, bigger banks cannot expand their credit portfolios further (Bambulović & Valdec, 2018, p. 15). Galac and Dukić further confirm this by suggesting that the size of a

bank is correlated with geographic spread (Galac & Dukić, 2005, p.7). Smaller, often SME-oriented banks stay in their area, while household-focused banks spread into other areas (Galac & Dukić, 2005, p.7). Interviewee I12 confirms this connection between smaller banks and spatially proximate SMEs, ‘We live where we work, we know everyone here,’ indicating that smaller banks are often tied to SME financing in geographic niches.

Bambulović and Valdec noticed a shift in banks’ behaviour after the onset of the global financial crisis as the macroeconomic environment became a less important determinant of credit growth, with bank-specific characteristics becoming its main driver (Bambulović & Valdec, 2018, p.1). In agreement with this, interviewees testify that different banks are associated with various types of debt. PBZ is dubbed ‘the state bank.’ At the time of Intesa Sanpaolo’s takeover of PBZ in 1999, the Minister of Finance, Bozo Prka, became President of the Board of Directors (I08), exemplifying strong, enduring ties between PBZ and lending to the state.

While most banks have a country-wide strategy with some regional focus related to the regional banks, they emerged when lending moved from regional to nationwide. In other words, Croatian banks are part and parcel of Croatian territory based on the regional heritage from which banks emerged. This finding is consistent with the Chapter 5 conclusion that the legacy of regional banking in socialist Yugoslavia continues to shape lending geographies in Croatia today. Namely, banks remain wedded to the regions they traditionally serve. Although many banks are attempting to fund outside their home region, this has proven harder than lending at home.

I15 illustrates this in the example of ZABA. For ZABA, Zagreb is a ‘domicile market,’ a geography where the bank is dominant by far. In other areas where ZABA is not dominant but is competitive, quality customer service and user-friendly digital platforms may compensate for the lack of market leadership (I15). In regions where ZABA is not at home, and other large banks predominate, so-called secondary markets, such as in Dalmatia where OTP is domicile, ZABA needs to relax its conditions or offer certain privileges to compete with market leaders, such as individual price exceptions or discounts to attract clients (I15). In some regions, such as Istria, I15 describes it as almost impenetrable due to the region’s strong orientation towards its traditional banks, such as domestic bank IKU and Erste&Steiermärkische Bank. These findings show that credit flows always encounter specific histories, geographies, and forms of social difference embodied in different spaces. These spaces debt itself and may pose a limit to the import of financialisation processes in the form that they exist in their origin countries.

Furthermore, within their specific bankscope, banks divide the geography they manage into multiple parts. Depending on the bank's current management style, any bank may have anywhere from one to nine subregions, and these geographical scales are continuously reproduced. Each terrain is assigned a value that can be exploited. The EU CRB-C Form 8 covers how each bank segments geography and is now demanded by the ECB as a regular form of reporting. However, some West European banks fill in the form at the group level and report national geographies, failing to report on the subnational geographies of each of the subsidiaries.

Some of the interviewees have heavily criticised the former 'geographically-blind' approach. I15 illustrates this approach using the example of ZABA and the Varaždin region. ZABA acquired Varaždinska Banka and started applying new credit ranking technology, effectively lowering creditworthiness for much of the population in the area. I15 explains that Varaždin is a region brimming with 'boutique factories,' many small production firms in industries such as textiles. I15 describes this region as providing secure, stable, and permanent employment, albeit in low-wage professions. Thus, I15 suggests that they would like to see their bank lending more to households and SMEs in the area and adjust creditworthiness calculations to consider the specificity of the local economy. However, the parent bank is geared towards universalising lending criteria across the Croatian territory, and there is little space for the subsidiary to manoeuvre. Moreover, when banks are insensitive to local specificities, different spaces and places must adjust to the new forms and sources of capital if they hope to thrive in the financialised world. This phenomenon has been sufficiently covered in the 'financialisation of daily life' literature (Martin, 2002), which explains how individuals fashion themselves into 'mortgageable' people to survive in the financialised world, what Colau calls *Vidas Hipotecadas* or *Mortgaged lives* (Colau, 2012). Similar processes can be noticed at the scale of subnational geographies aiming to fashion themselves to attract banks and their capital.

6.4 Conclusions

This chapter analysed the lending strategies of West European banks in Croatia, focusing on how these strategies have shaped financial practices and regional development. The entry of foreign banks led to a shift in focus toward household lending, particularly through state-subsidised mortgage loans. This created a financial chain linking the state, foreign parent banks, and households, with value flowing out of the country towards parent institutions. By prioritising lending to regions where real estate prices are expected to rise,

such as coastal tourism areas, banks have deepened existing regional inequalities and contributed to new economic imbalances, leaving agro-industrial regions underfunded. Furthermore, the chapter revealed that lending policies are heavily standardised and determined by risk criteria imposed by the parent banks. These policies are often detached from local conditions, creating mismatches between perceived and actual risks. The reliance on parent banks' risk assessments reinforces core-periphery dynamics, where financial practices in Croatia are shaped by the interests of banking groups headquartered abroad. Croatian subsidiaries must align their lending strategies with parent banks' priorities, competing with other subsidiaries across different markets and socio-economic contexts.

A key consequence of these lending strategies is financial exclusion. Banks prioritise borrowers already financially secure, namely, those with stable incomes, established credit histories, or valuable real estate, while low-income individuals are left with limited access to credit or are offered high-interest consumer loans. Privileged social groups, including war veterans and those in certain professions, benefit from favourable loan conditions, reinforcing socio-economic divides. As a result, a two-tier lending system has emerged, further concentrating wealth and excluding vulnerable groups. The chapter also highlighted how lending strategies reflect and reinforce uneven geographies. Banks focus on areas with quick asset-price inflation, such as coastal regions driven by tourism, while avoiding agro-industrial regions that require longer-term investment. This approach worsens regional disparities and limits opportunities for peripheral areas to build sustainable economic assets or upgrade production capacities.

In summary, the lending strategies pursued by West European banks in Croatia follow a strict hierarchy dictated by parent banks, resulting in a financial chain tying local states, West European banks and households. While these strategies have expanded household lending, they have neglected key sectors of the real economy, such as SMEs and agriculture. Ultimately, these lending practices have contributed to financialisation in Croatia, reinforcing socio-economic and geographic inequalities rather than fostering balanced regional development.

Chapter 7. Conclusions

The overarching aim of this dissertation is to examine the main drivers and manifestations of financialisation in the East-Central European periphery after the collapse of state socialism. To do this, the dissertation takes Croatia as a case study and delves into the role of West European banks in transforming the banking sector at the subnational level. With this research aim, the research concludes that the rise of financialisation driven by West European banks has been a critical force in shaping and deepening patterns of geographic inequality in Croatia. The dissertation argues that integrating the Croatian domestic banking system into European and global ‘financial chains’ has been an intrinsically uneven process, which fragmented subnational banking geographies and contributed to increasing inequality across regions. Specifically, while some regions grew driven by FDI and access to credit, others lagged, increasing the economic gap between them. However, it is essential to note that geographic conditions have also shaped this process. Specifically, financial investments and even the presence of foreign banks neglected the declining agro-industrial regions located in the country's interior to concentrate on those areas where geographical conditions favoured the appreciation of assets, such as the coast and large cities, driven by the boom in the tourism sector. In broad terms, the dissertation contributes to understanding how the expansion of West European banks in East-Central Europe and the integration into financial chains has shaped the financial system in these countries, increasing regional asymmetries and systemic economic vulnerability.

This chapter synthesises the research's main findings, contributions, and implications. The structure of the chapter flows as follows. Section 7.1 Overview of the study ‘looks back’ at the main areas covered in the writing of the dissertation and summarises key findings from each chapter. Furthermore, Section 7.1 concisely outlines how each chapter answered original research questions, and section 7.2, a ‘Discussion of the findings,’ considers the relevance, impact and implications of the dissertation and its findings. The section also describes the consequences of the dissertations in terms of methodology, ethics, and social impact. Finally, it illustrates how the dissertation is a theoretical and social intervention relevant to the ‘real world’ beyond the research context. Finally, Section 7.3, ‘Recommendations for further research and policy’, highlights new questions emerging from the dissertations, as well as the dissertation’s limitations, to make contributions to future research.

7.1 Overview of the study

This section has two roles: first, it demonstrates how each chapter answers the original research questions, and second, it synthesises key themes covered in each chapter.

Chapter 4, ‘The transformation of Croatian banking’, is dedicated to answering the RQ1 ‘How have West European banks managed to ‘penetrate’ post-socialist Croatia and how has this transformed Croatian banking?’. The research finds that mid-tier, West European banks, primarily from geographically proximate countries of Italy and Austria, penetrated the region by exploiting the local financial crises that followed the fall of the socialist regime, often choosing to purchase existing, well-established banks. In doing so, West European banks established a radically different financial regime than the one that existed before their entry, as they transformed the Croatian banking landscape into a shareholder-oriented, distantly governed, highly concentrated, and homogenous financial system dependent on parent bank structures.

The chapter finds that the processes of spatial fixity pushed mid-sized West European banking groups into post-socialist territories in search of better profit margins and unsaturated markets. The West European banking groups profited from the local financial crises triggered by the downfall of the socialist regimes by using political and economic instability to obtain most of the domestic financial system in countries across the post-socialist territories. Using Croatia as a case study, the dissertation maps the radical changes that took place in the Croatian banking system during the period of foreign bank entry and argues that West European capital established a qualitatively different financial system during the years of their entry. With that, financialisation processes in Croatia act as a Western-European banks’ import, however, in translated form, as the financialisation processes have been transcribed onto spaces with already existing socio-economic make-up that shaped the form financialisation takes in these places. Nevertheless, through these financialisation processes, the post-socialist banks in Croatia became inextricably intertwined with wider European financial chains. The newly established financial chains create and perpetuate geographically uneven and socially unequal landscapes, which have implications for financial stability and sustainability locally and on the European scale.

After Chapter 4 sets the scene for the post-socialist banking transformation piloted by the West European banking groups, the next two chapters are dedicated to understanding the changes that take place in local banking through two different aspects—changes in the

banking infrastructure, especially bank branches, and changes in banking activities, especially lending.

Chapter 5, 'The Geographies of the bank-branch network in Croatia,' answers RQ2, 'How do West European banking groups organise their retail banking operations in Croatia?' The research shows that, since their arrival, West European banking groups organised their operations nationally, expanding their territorial reach beyond the preceding banks' original territories. This expansion aligns with the model of 'universal banks,' a characteristic of financialisation. This strategy is often driven by considerations of asset-price profitability and the potential of a particular location rather than the needs of specific regions, establishing a supply-side-driven banking system in Croatia. To support the overall RQ2 response, the dissertation asked several subquestions, which are answered as follows.

2a asks, 'What spatial patterns do branch networks of West European banks take at the sub-national level, and how have these spatial patterns been changing over time?' The dissertation finds that, with the disappearance of local and regional banks following the collapse of state socialism, Western banks boosted a substantial consolidation of the banking sector. In broad terms, this translated into a contraction of the branch network and the vacancy of the geographies previously served by local banks, mainly in the agro-industrial regions. Instead, Western banks' branches are concentrated in the country's capital and financial centre, Zagreb, and tourist regions. Overall, the geographic conditions influenced the spatial patterns of banks, as they concentrated on regions where the geography favoured the short to medium-term appreciation of assets.

Furthermore, in inquiring 2b. 'What are the main drivers of these spatial patterns?' the dissertation finds that banks' decisions regarding the location of their branches are primarily influenced by the presence of competitor banks or their branches with expanding customer volumes, pointing out that, as part of their strategy, banks opt to position their branches in well-established banking markets, which also imply lower risks. This points to interdependence, knowledge and data-sharing among banks as crucial drivers of branch location decisions, further exacerbating the concentration and uneven distribution of bank branches in the subnational space. All in all, research shows that banks prioritised regions where financial chains were more stable and established, enabling profit extraction in the shorter term and with lower risks.

Finally, in asking 2c. 'How has this transformed the post-socialist banking space in Croatia?', the dissertation finds that the transformation of the bank branch network is closely connected to the process of financialisation of Croatian banking, as it reflects the

uneven way in which different regions were integrated into the European and global financial chains with the changing dynamics of the local economy under financial pressures. Areas once agro-industrial powerhouses have experienced a decline in importance in the postsocialist era because of their lack of competitiveness under open market conditions. At the same time, sectors like tourism and real estate have gained prominence, driven by West European capital investment in banking and other industries and influenced by the changing logic of profitability from productive to asset-price-based profit.

Above all, Chapter 5 finds that branches remain the most crucial channel for acquiring and servicing clients and, thus, focuses on West European bank branching strategies. The chapter illustrates that branches have highly concentrated branch geographies, with bank herding, defined as banks following each other across the territory, featuring high among the characteristics of the new post-socialist banking. This contrasts the regional banking characteristic of the socialist banking period when banks occupied their isolated geographic and clientelist niches. Moreover, to reveal branching patterns, the dissertation maps branches of various Western-European banks in Croatia and shows that there are three key branching patterns – metropolisation, the concentration of branches in and around major cities; suburbanisation, the concentration of branches in residential areas around major cities; and littoralisation, the concentration of branches along the coast.

Additionally, the chapter observes how these spatial patterns have been changing over time and notices that the branch network experienced strong contraction during the period of local financial crisis coinciding with the foreign-bank entry in the late 1990s, with further waves of contraction occurring at the points of mergers and acquisitions of small, regional banks by foreign banking systems. The branch network increased during the 2000s credit boom and continued to shrink ever since the global financial crisis. However, the branch network contraction is a highly uneven process, with several banks continuing to expand into southern Adriatic Croatia, while most of the branch closures are taking place in Northern Croatia and Eastern Croatia.

Lastly, Chapter 6, 'Bank lending strategies in Croatia', observes plans and approaches towards Western-European banks advancing their business in Croatia, both geographically and regarding the structure of products and services banks offer. The chapter was written to answer RQ3's asks, 'What lending strategies do West European banking groups pursue across the country?'. In answering this question, the dissertation finds that, following the new financial logic, banks refocused their lending strategies

towards households and, above all, mortgage loans with state subsidies, thus establishing a crucial financial chain between the state, parent banks, and households, through which the value flows from states and households towards foreign parent banks. This redirected lending towards regions where real estate is expected to appreciate, such as coastal tourism regions, deepens existing regional inequalities between regions and creates new imbalances with the changing economic structure of the country. Finally, this also points to the state's role as a key factor in facilitating West European banks-led financialisation in Croatia. Three subquestions guided the research that informed the main finding outlined here, which are answered in turn.

3a asks, 'What specific lending policies do West European banks follow?' The dissertation finds that lending policies increasingly rely on quantifying and standardising credit scoring. These policies are influenced by risk criteria set by West European parent banks. As a result, the perception of risk becomes detached from the local context, leading to a mismatch between the risk assessments and the actual long-term risk conditions in the local market. Moreover, by applying risk criteria dictated by the parent bank, the banking sector also reproduces the asymmetric power relations between the core and the periphery, where the former shapes the financial system and conditions of the latter.

Moreover, 3b asks, 'How do these policies translate into lending decisions; who is excluded/included, and on what terms?' In answering this question, the dissertation reveals that the prioritisation of shareholder-value-oriented lending to more established and financially secure borrowers contributes to the concentration of capital and perpetuation of already existing inequalities between households with sufficient income, an established credit history, homeowners with valuable real estate, and low-income individuals without significant assets, leading to their financial exclusion. A two-tier system emerges where the already privileged social groups, including war veterans, families, or desirable professions, are granted favourable lending terms, including loan types, amounts and interest rates. In contrast, already poor households are granted loans with unfavourable and riskier terms, often in the form of high-interest consumer loans.

Finally, 3c wonders, 'To what extent are these lending policies and decisions informed by uneven geographies and how, in turn, do these lending strategies and emerging debtscapes contribute to uneven regional development?' The dissertation discovers that uneven subnational geographies play a crucial role in shaping bank lending strategies, with lending patterns reflecting a bias towards regions where banks can exploit asset-price inflation, such as geographically constrained coastal areas with the tourism sector, and

against agro-industrial regions, which require larger and more committed investment patterns uncharacteristic of impatient finance. In doing so, such lending strategies exacerbated the existing economic and geographic imbalances, as banks focused on extracting short-term profits instead of promoting structural changes or upgrading in peripheral regions, thus offering no alternative to asset-deprived agro-industrial regions to develop assets and production.

Additional observations include that the financial industry rests on the logic of social hierarchies, as seen through its multiple client segmentation procedures. The idea of socially optimal resource allocation leads to lending to households as a low-risk, high-return segment. However, this means risk transference to households and vast networks of family and friends that act as guarantors. In this process, justified by the notion of risk, the most impoverished parts of the population and the poorest geographies are redlined from access to banking resources. Relationships of unequal power and enduring hierarchy, as captured in the notion of financial chains, are developed and continuously reproduced under the condition of bank monopolisation of resources and few financial alternatives. Finally, the prevalence of household debt indicates a system where households are chained to financial markets through West European banks' interest-bearing strategies. This establishes new forms of economic dependence and new modes of development. Following the geopolitical unmaking of eastern Croatia as an industrial region, reliance on debt-based consumption ensues in the form of short-term specific-purpose loans. In the capital, Zagreb, the state becomes the bank's biggest debtor and arguably loses the function of impartial and uninfluenced supervision. The loosening of regulations related to the state being the largest debtor can be explained through the alignment of interests between the state and the financial sector. When the state is highly indebted, it is incentivised to ensure that banks, often holding large amounts of government debt, remain profitable and stable, as they play a critical role in financing public debt. Looser regulations can support banks by enhancing liquidity, reducing capital requirements, allowing riskier lending practices, and stabilising demand for government bonds. This dynamic reflects a form of regulatory capture, where state policies favour financial institutions to maintain market confidence and avoid disruptions in public debt financing. Essentially, the state prioritises short-term financial stability (and its ability to borrow) over stricter regulatory control, creating a dependency loop, as banks rely on sovereign debt to meet capital requirements, and the state relies on banks to absorb debt issuance. In this context, the coast sees strong manipulation of the

housing market, resulting in local populations priced out from the cities to make room for hotels and Airbnb, while houses are converted to new touristic uses.

Related to this, the chapter examined how banks' lending policies translate into specific spatio-social debt patterns. Commercial banks operate as supply-driven systems in which they choose how much they can and are willing to lend and to whom by defining lending conditions and criteria. As a result, commercial banks are granted the power to take charge of the allocation of resources in one society and the purchasing power. The section noticed a strong chain of command in which Croatian subsidiaries are increasingly integrated into foreign banking groups with less and less space for independent lending decisions. The key argument is that West European capital is constitutive of new local debt geographies.

Uneven geographies inform lending policies and decisions and, consequently, lending strategies. Through an analytical and critical lens, the section examined the structure and geography of credit in Croatia today and showed how socioeconomic characteristics of different regions condition banks' lending decisions. Rather than uneven geographies being a side effect of financialisation processes in Croatia, the unevenness is a constitutive and necessary part of the system, which allows for risk diversification and spatial fixes to crises inherent to the financialised capitalist system, in fashion first postulated by Smiths (1984) and empirically explained through interviews expressing the necessary subnational diversification to sustain profit flows and mitigate risks, thus maintaining the hierarchies that underpin local and global financial markets. The result is a highly concentrated lending geography whereby different geographies are incorporated differently within a single banking entity, with different loan volumes and loan types approved in different geographies. Thus, capital accumulation relies on subnational geographies' spatial fragmentation and zonification. Chapter 6 outlined that money in Croatia is concentrated in particular territories, populations and activities. Per Kaltenbrunner's conclusions that patterns of bank ownership and lending are cementing existing hierarchies and further deepening asymmetries between the core and the periphery (Kaltenbrunner & Panciera, 2018), the section notices similar processes taking place at the sub-national level. While this is out of the scope of this dissertation, the chapter gains early insights into the arguments of Pike, Pollard and Sokol that these lending relationships cement and exacerbate uneven development and how this may play out in the specific case study of Croatia (Pike & Pollard, 2010; Sokol, 2016). This makes the connection between bank lending and local regional development important for future research.

Overall findings and contribution

To date, very few studies or conceptual approaches have explained how financialisation penetrates and manifests in the East-Central European periphery and how it produces uneven development. This dissertation aims to contribute to filling in this knowledge gap. The research concludes that the rise of financialisation driven by West European banks has been a critical force in shaping and deepening patterns of geographic inequality in Croatia. The dissertation argues that integrating the Croatian domestic banking system into European and global ‘financial chains’ has been an intrinsically uneven process, which fragmented subnational banking geographies and contributed to increasing inequality across regions. Specifically, while some regions grew driven by FDI and access to credit, others lagged, increasing the economic gap between them. However, it is essential to note that geographic conditions have also shaped this process. Specifically, financial investments and even the presence of foreign banks neglected the mountainous and declining agro-industrial regions located in the interior of the country to concentrate on those areas where geographical conditions favoured the appreciation of assets, such as the coast and large cities, driven by the boom in the tourism sector. In broad terms, the dissertation contributes to understanding how the expansion of West European banks in East-Central Europe and the integration into financial chains has shaped the financial system in these countries, increasing regional asymmetries and systemic economic vulnerability.

7.2 Discussion of the findings

As the previous section showed, the dissertation provides a systemic record of the post-socialist transformation of Croatian banking under the influence of West European banking groups. The dissertation aims to advance our understanding of financialisation by examining how it plays out in the European postsocialist periphery. It shows that, while the financialisation of Croatian banking originated in Western Europe, there is something qualitatively different about financialisation as it plays out in the East. In line with this, the dissertation makes three main contributions: theoretical, empirical, and social.

The theoretical contribution of the dissertation includes the intervention in understanding the concept of financialisation and how it plays out in the European periphery. The dissertation's findings assert that one cannot discuss financialisation without emphasising the shift in the spatial organisation it has brought about, both in terms of

subnational geographies within Croatia and broader European powers. The dissertation sits at the intersection of financialisation, post-socialist transformation and banking geography works of literature. By analysing the structural and spatial banking transformation under the influence of financialisation imported by the West European banking groups, the dissertation contributes towards our understanding of financialisation as an inherently spatial process. Furthermore, the dissertation relies on the financial chains approach as a new way of seeing the complex networks of global finance. By clarifying the relationship between parent banks, subsidiaries, states and households, the dissertation aims to add value to the financial chain approach and help explain power relations and value transfers at work in the case study of Croatia. Through this analysis, the dissertation bears witness to an expansionary Western-European financial model that is fuelling speculative, asset-priced bubbles in the East-Central European periphery, with financialisation thus becoming the contemporary infrastructure for global relations of dependency and systemic economic vulnerability. This lens allows for the supposedly abstract process of financialisation to be located in specific institutions and geographies, with West European banks positioned as vehicles of financialisation in the region and Croatian subsidiaries as arguably vital yet the most overlooked aspect of the post-socialist transformation in this financialised form.

The dissertation builds on and contributes to work in financial geography. Although many studies have examined different aspects of financialisation, there has not been a strong focus on the East-central European periphery and how financialisation is qualitatively different yet related to financialisation at the European core, nor on the transformation of banking. As such, this dissertation provides additional insights into financialisation as one of the key yet relatively understudied features of capitalist penetration into the East-Central European countries since the dissolution of the old state-socialist system and banks as both the subject and the object of financialisation in the region. This dissertation differs from previous studies on financialisation in the European periphery by identifying its West European origins in parent banks and the model of subsidiaries as the critical mechanism through which value is extracted from the East-Central European periphery and siphoned back to the European core. In doing this, the dissertation draws strongly on the work of GEOFIN scholars, above all, Sokol, who, in various ways, conceptualise and investigate aspects of power relations and forms of value extraction emerging from the Western-European banks' penetration into East-central Europe, as captured in the metaphor of financial chains. This brings us back to the very motives for the dissertation. Banks in Croatia are consistently considered one of its most

successful industries. However, these successes of the financial system do not translate into the real world, with the region still inflicted by various postsocialist predicaments, such as population flight and limited work opportunities. The research questions are propelled by this concern about the disconnect between banks and societal benefits, aiming to discern the relationship between banking and various aspects of regional development. The approaches taken led me to the dissertation's empirical contribution, which the text turns to next.

Regarding the dissertation's empirical contribution, it is relevant to consider the implications of what the dissertations had done regarding interventions to methodology and ethics. Firstly, financialisation remains underresearched in the post-socialist context, and even fewer studies exist on the particular case study of Croatia. Accordingly, the dissertation explores the impact of financialisation on banking transformation by mapping individual banks' networks. Such a layered, bank-per-bank approach to mapping allowed for comparison between different Western banks, herewith contributing towards the development of identity and difference in the geography of banking. Moreover, to date, there is a limited number of studies in financial geography in which bankers were interviewed. This approach adds new light to our understanding of financial phenomena from a territorial perspective, illustrating how banking activities and their implications are deeply geographically embedded.

From the perspective of financial chains, as outlined by Sokol, and to determine the role of different stakeholders and strategies around risk, long-term loans offered with government subsidies, such as those under Croatia's APN housing loan program, illustrate the complex interplay between the state, banks, and households in distributing and managing financial risk. The APN scheme, which provides state-subsidised housing loans, exemplifies how governments can intervene to derisk specific lending segments. By subsidising a portion of loan repayments, the state reduces the risk for banks and borrowers, encouraging homeownership and providing stability in the housing market. However, these programs create financial dependencies along the chain, as banks become reliant on state-backed guarantees to extend affordable loans, and households depend on subsidies to maintain their debt obligations. This dynamic aligns with Sokol's notion of interconnected financial chains, where risks are distributed but not necessarily reduced; in other words, risk is merely shifted from one actor to another. In the case of APN loans, the Croatian government absorbs part of the financial risk that would otherwise deter private banks from offering long-term credit at favourable rates. However, this reinforces banks' preference for

lower-risk lending strategies, such as mortgage lending, while other sectors, particularly SMEs, remain underfinanced. Meanwhile, households assume long-term debt obligations, assuming that future financial conditions will remain stable, making them vulnerable to economic downturns or subsidy reductions. As a result, the financial chain formed through these subsidised loans reflects cooperation and fragility. While it provides temporary relief and incentivises housing development, it also locks stakeholders into roles that limit flexibility. The state shoulders the burden of derisking, banks prioritise state-supported lending over more productive but riskier investments, and households are nudged toward homeownership as a primary asset class, often at the expense of more diverse financial security strategies.

It was a challenge but a critical ethical intervention to write the dissertation by ensuring bankers' complete anonymity while, at the same time, providing valuable information about the banks they talked about in the interviews. Bankers' testimonies are also crucial to the dissertation's social impact. Indeed, the dissertation was written with societal commitments extending beyond the research. Namely, seeing that money creation in the European periphery (and beyond) is nearly wholly left to retail banks and that not only do retail banks create money, but they also decide who can use it and for which purpose, it is becoming increasingly important to understand and talk about banks outside economics departments. The dissertation aimed to reopen big questions in socioeconomic thinking and tackle themes of financial imbalances, geographically uneven development, and social inequality. The research has been done to push future research towards sustainable and distributive banking futures and stronger common instruments to spread wealth across society between different Croatian regions subnationally and wider European regions. This leads us to recommendations for future research and policy that the dissertation turns to next.

7.3 Recommendations for further research

This section aims to build up on the significance of the findings, as argued in the previous section, and stretch the dissertation to highlight areas emerging from this scholarship and to open up pathways to future research. With this, the section raises talking points about what questions may have inadvertently been answered along the way that are not the original research questions and what additional questions the research raises. Finally, the section outlines what went wrong during research to highlight the dissertation's limitations and reflect on what could or should have been done differently.

The dissertation's original aim was to focus solely on household financing. However, as several research participants expressed their anxieties and concerns regarding the other side of the lending coin, namely the lack of SME financing, the dissertation included these observations regarding SME financing, or the lack thereof, under ethical consideration of staying as authentic as possible to themes interviewees deemed necessary in the context of western-European bank operations in Croatia. Although SME financing was not part of the research questions, the dissertation provides valuable insight into how foreign-bank governance may impede SME financing, potentially detrimental to the country's sustainable development and labour processes. This, in turn, became highly relevant in the theoretical understanding of household financing as a number of interviewees suggested that, in the context of firms being unable to obtain credit, these firms cannot expand their production, employ more people or raise wages. This leads to a stagnating economy at best, which impacts households in two ways. For example, firstly, it makes them rely on bank short-term credit to compensate for the lack of wages and, secondly, potentially renders them noncreditworthy long-term, as disinvested real-economy results in riskier creditworthiness profiles. Thus, there is a possibility that by disinvesting in the real economy, banks are creating a loop where perceived risk attracts more risk, further entrenching already existing uneven development and social inequalities. This may be especially true for countries with banking profiles, such as Croatia, where bank diversity is lacking in accepting different risk profiles. In other words, few large banking groups own most of the financial system, set similar rules and serve similar populations, thus deepening existing social asymmetries. More empirical research is required into how these lending strategies and emerging debtscapes contribute to uneven regional development and with what socioeconomic consequences. This is the research question this dissertation hoped to tackle but could not due to the wrong profile of research participants, namely SME owners and households who ought to have been interviewed using a more ethnographic approach. In contrast, this dissertation focused on interviews with bankers and financial experts. Thus, the theme remains a recommendation for future work.

Another area for reflection and future research involves speculating on the future of Western bank strategies in Croatia and the state's perhaps surprising and evolving role in the financial sector. Given the patterns observed, it is likely that Western banks will continue to pursue lending models that prioritise low-risk, high-return segments, such as government-subsidised and secured mortgage lending, while further sidelining SME

financing. This tendency raises concerns about the sustainability of the Croatian economy, as underfunded small and medium-sized enterprises are critical drivers of innovation, job creation, and regional development. If current trends persist, Croatia may increasingly rely on household credit, perpetuating a cycle of debt dependency, consumer lending, and underinvestment in productive sectors.

The state's role in propping up and derisking the financial sector has also emerged as a central issue. In times of economic volatility, West European banks may lean on the Croatian government to stabilise the financial environment, particularly through state guarantees or liquidity injections. This places the state in a precarious position, as it must balance attracting foreign capital with safeguarding public interests. The research suggests that this dynamic can result in governments taking on the risks associated with private banking operations, creating moral hazard. Banks, secure in the knowledge that the state will intervene if instability arises, may be disincentivised from shifting their strategies toward riskier but socially productive lending, such as SME loans. The findings further point to a scenario where the Croatian state could become more involved in derisking SME financing by introducing credit guarantees or co-investment schemes. However, such interventions come with limitations. First, there is the question of whether the state has the fiscal capacity to sustain these measures long-term. Second, there is the risk that government involvement might crowd out private initiatives, making banks even more reluctant to extend credit to SMEs without public backing. Additionally, reliance on state-led derisking strategies could exacerbate uneven development, with urban centres or politically connected regions benefiting more than rural or peripheral areas.

These dynamics highlight the need for future research to explore the intersection between financial governance and public policy, particularly the state's capacity to influence lending practices without deepening existing social asymmetries. What remains to be explored is how banks, governments, and other stakeholders could collaboratively create frameworks that reduce the perceived risks of SME financing while also fostering sustainable economic growth. This includes examining whether alternative financial models, such as credit unions, ethical banks or public banks, could offer more inclusive solutions where private banks have failed. Addressing these questions could help illuminate more sustainable pathways for Croatia's financial sector beyond its dependence on household lending and foreign-owned banking groups.

Appendix 1. Interview schedule

Introductory questions

1. Who are you, and what is your role and your department's role within the bank?
2. Who do you and your department report to, and which departments do you oversee?
3. How many employees are there within your department?

Key questions

4. What is the overall strategy of your branch network?
5. What are the priority regions that you branch to, and from which regions is your bank absent? (1a)
6. Who decides about the branching strategy, and on what basis? (1c)
7. Have you always focused on these regions, or how has your geographical focus changed over time? (1b)
8. How do you evaluate which branches are profitable?
9. What challenges do you experience in trying to implement your branching strategy? (1c)
10. What future trends in your branching strategies do you predict? (1b)

Closing questions

11. Is there anything important that hasn't been mentioned?
12. Is there anyone you would recommend I talk to next to give more insight into how banks operate geographically? What is the best way of contacting them? (subquestion)

Bucket question(s)

13. I am aware that you previously held a role as X in Y bank. How does the Y bank's geographical strategy differ from your current bank's strategy? (1a)
Had the Y bank followed the same line of command in deciding the branching strategy, and what criteria had they used to decide their target geographies?
14. Your bank has subsidiaries in X and Y countries. Who decided on this international branching strategy, and on what basis were these particular countries and regions chosen for your international operations?

Appendix 2. Informed consent form (ICF)

INFORMED CONSENT FORM

- I confirm that I have received Information Sheet explaining what this PhD research study is about.
- I voluntarily agree to participate in this research study.
- I understand that even if I agree to participate now, I can withdraw at any time without any consequences of any kind.
- I understand that I am free to decline to answer any particular question you do not wish to answer for any reason without any consequences of any kind
- I understand that I can withdraw permission to use data from my interview within two weeks after the interview, in which case the material will be deleted.
- I have had the purpose and nature of the study explained to me in writing and I have had the opportunity to ask questions about the study.
- I understand that participation involves an interview about: my work at banks and financial institutions; my knowledge of services they provide; my attitudes to credit and debt
- I understand that the interview will take about 30-60 minutes.
- I understand that there are no costs to me for participating in the study.
- I understand that there are no known risks if I decide to participate in this research study.
- I understand that I will not benefit directly from participating in this research.
- I understand that all information I provide for this study will be treated confidentially.
- I understand that in any report on the results of this research my identity will remain anonymous. This will be done by changing my name and disguising any details of my interview which may reveal my identity or the identity of people I speak about.
- I understand that disguised extracts from my interview may be quoted in books, academic publications, conference presentations, Working Papers and other publications.
- I understand that if I inform the researcher that myself or someone else is at risk of harm they may have to report this to the relevant authorities – they will discuss this with me first but may be required to report with or without my permission
- I understand that signed consent forms and original audio recordings will be retained in safe location in Trinity College Dublin until the expiration of retention period (normally 10 years after the end of the project) after which they will be safely destroyed (deleted and/or securely shredded as appropriate).
- I understand that a transcript of my interview in which all identifying information has been removed will be retained for future research purposes (in an academic electronic database).
- I understand that under freedom of information legislation I am entitled to access the information I have provided at any time while it is in storage as specified above, quoting the Interview Code below
- I understand that I am free to contact any of the people involved in the research to seek further clarification and information.

- I understand that I will be provided with a signed copy of this Informed Consent Form.
- Permission to use audio-recording during the interview (circle as appropriate):
 1. I agree to my interview being audio-recorded (but I understand that recording can be stopped at any time).
 2. I do NOT agree to my interview being audio-recorded.

Interview Code: _____

_____	_____	_____
Name or pseudonym under which you want to be known (or leave blank)	Signature of participant	Date
_____	_____	_____
Name of a researcher	Signature of researcher	Date

If you have any questions about the study, please contact:

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Sara Bencekovic, PhD student, Trinity College Dublin

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Appendix 3. Research information sheet

RESEARCH INFORMATION SHEET

I would like to invite you to take part in my PhD research project. Before you decide you need to understand why the research is being done and what it would involve for you. Please take time to read the following information carefully. Ask questions if anything you read is not clear or if you would like more information. Take time to decide whether or not to take part.

WHO WE ARE AND WHAT THIS STUDY IS ABOUT?

The GEOFIN research study is being conducted by Dr Martin Sokol and his research team in the Department of Geography, Trinity College Dublin, Ireland. GEOFIN is a 5-year project funded by the European Research Council Consolidator Grant Scheme (Project number: ERC-2015-CoG – 683197). The overall objective of GEOFIN is to examine how states, banks and households in post-socialist contexts of Central and Eastern Europe have been financialised and to consider what implications this has for the societies in question and for Europe as a whole. Financialisation refers to a growing power of finance over societies and economies. Better understanding of the process of financialisation will help efforts to build more stable and more equitable financial system in Europe benefiting all its citizens.

As part of this research, my PhD project is focusing on sub-national banking geographies in Croatia – part of the research theme on the financialization of banks. Aiming to explain the particular ways in which financialisation penetrates and manifests itself in the European periphery, my PhD project examines how do Western banking groups organize their retail banking operations in the post-socialist space, what lending strategies do Western banking groups pursue in the post-socialist space and, finally, what do these emerging debtscape mean for West-East economic relations and financial stability of Europe as a whole.

WHAT WILL TAKING PART INVOLVE?

Participation in this PhD project is through an interview which takes about 30-60 minutes. The questions in the interview will be about your work at banks and financial institutions,

knowledge of services they provide, attitudes to credit and debt and any related issues. Interviews may be audio-recorded, but only if you are comfortable with it. Also, even if you will agree to audio-record your interview, it can be stopped or interrupted at any time at your request without a problem.

WHY HAVE YOU BEEN INVITED TO TAKE PART?

You have been selected for this project based on your expertise in the area. Your participation in the project will be greatly appreciated.

DO YOU HAVE TO TAKE PART?

Participation in this project is completely voluntary and you do not have to take part if you don't want to. There are no consequences of any kind if you decide not to participate in this project. If you agree to participate, you can withdraw at any time without any consequences of any kind. Also, during your participation in the interview you are free to decline to answer any particular question you do not wish to answer for any reason without any consequences of any kind.

WHAT ARE THE POSSIBLE RISKS AND BENEFITS OF TAKING PART?

There are no known risks if you decide to participate in this research project. Also, there are no costs to you for participating in the project (apart from kindly giving your time). You will not benefit directly from participating in this research, but your participation will help to build more stable and more equitable financial system in Europe benefiting all its citizens in the future.

WILL TAKING PART BE CONFIDENTIAL?

All information you provide for this project will be treated confidentially. Any report on the results of this research your identity will remain anonymous. This will be done by changing your name and disguising any details of your interview which may reveal your identity or the identity of people you speak about. Disguised extracts from your interview may be quoted in books, academic publications, conference presentations, Working Papers and other publications. (Please note that if you inform the researcher that yourself or someone else is at risk of harm they may have to report this to the relevant authorities – they will discuss this with you first but may be required to report with or without my permission). All information that you provide will only be identified by an Interview Code

to protect your identity. No-one besides myself and the Principal Investigator will be able to link the Interview Code with your name as this information will remain confidential and will be protected under the relevant EU and Irish legislation.

HOW WILL INFORMATION YOU PROVIDE BE RECORDED, STORED AND PROTECTED?

Before taking part in the interview, you will be asked to sign an Informed Consent Form that will list your rights and provide details how the information you provide will be recorded, stored and protected (and you will be provided with a copy of this Informed Consent Form for your own record and safekeeping). The signed consent forms, completed surveys, notes, original audio recordings (if any), and transcripts of any such recordings will be retained in safe location in Trinity College Dublin until the expiration of retention period (normally 10 years after the end of the project) after which they will be safely destroyed (deleted and/or securely shredded as appropriate). Data from your completed survey and/or transcript of your interview (in which all identifying information has been removed) will be retained for future research purposes (in an academic electronic database). Under the freedom of information legalisation you are entitled to access the information you have provided at any time while it is in storage as specified above, quoting your Interview Code. You are free to contact any of the researchers involved in the research to seek further clarification and information.

WHAT WILL HAPPEN TO THE RESULTS OF THE STUDY?

Anonymised data from your survey and disguised extracts from your interview may be quoted in books and other academic publications such as journal articles, conference presentations, on-line Working Papers and others. GEOFIN will actively disseminate the results of the study.

WHO SHOULD YOU CONTACT FOR FURTHER INFORMATION?

If you have any questions about the study, please contact:

Sara Bencekovic, PhD student, Department of Geography, Trinity College Dublin, Ireland.

Email: bencekos@tcd.ie

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Ireland.

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THANK YOU FOR KINDLY CONSIDERING PARTAKING IN THIS STUDY!

Sincerely,

Sara



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