CRITICAL PHASES IN THE EVOLUTION OF THE HUNGARIAN BANKING SYSTEM AND THE PROCESS OF REGIME CHANGE

The relevance of hindsight

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Kossuth Lajos bronzszobra a miniszteri előtérben (Fekete Tamás, 1988)

ABSTRACT

Major anniversaries of the restoration of the two-tier banking system in Hungary always create an excellent opportunity to submit the evolution of our system of financial institutions to professional analysis – and within it the banking system that plays such a vitally important role in the operation of the Hungarian economy. With the passage of time, at a distance of 30 years, the financial processes of the latter half of the 1980s naturally begin to assume significance in the context of economic history. On the one hand, these circumstances enable a more objective analysis, particularly when the personal experiences of practising professionals are supplemented by the investigations of economic historians dealing with the period concerned. On the other hand, the passage of time also means that the practical significance of events and decisions taken at that time become progressively less important when confronting the tasks of today.

Events that occurred a generation ago will particularly lose their power to explain when the Hungarian financial system – deeply embedded in the processes of European integration – enters a new era; the character of this new era, in terms of economics, financial policy and the institutional framework, is currently still busy taking shape in Europe. Banking union, common deposit insurance, and particularly membership of the eurozone (or any country's absence from these) will soon create a new set of conditions in every EU member state in which the bulk of essential truths accepted until now will become irrelevant. All this, however, is a question of multiple options that lie before us – where the outcome, although not determined by our current circumstances, will be strongly influenced by them.

In the same way, we also know the turning points that took place on the historical path to the present, and how forcefully they have left their impression on our circumstances today. The historical significance of some of these turning points could already be realized at the time: such was the official transformation of the institutional banking system in 1987, a caesura in the history of Hungarian finance. Other essential ramifications occurred later, however, which cannot be tied to any specific calendar date, the true force of their subsequent impact perhaps having been sensed only by a few people at the time. Such was the launch and sudden acceleration of foreign currency loans at the beginning of the millennium, the evolution of a mechanism that led to the formation of a specifically Hungarian financial bubble. The third critical episode worth mentioning is the great financial crisis itself, which in Hungary's circumstances is unequivocally connected to autumn 2008. The next juncture belongs more to the area of political science, being the phase of achievement (or restoration) of national dominance over key sectors that began to unfold in Hungary after 2010.

JEL codes: E60, G21, G28

Keywords: regime change, two-tier banking system, path dependence, convergence

1. INTRODUCTION

The following analysis is an attempt to review these critical moments in history, but not with the wisdom of hindsight, still less with the intention to pass judgement. It does not endeavour to describe trends in the development of the system of financial intermediaries in all their many-faceted, well-substantiated detail, since this article is not a study of banking history or financial institutions; works of this kind already exist and are freely accessible. Even so, as a simple illumination of the aforesaid highly significant episodes makes immediately obvious, events in the Hungarian banking sector are directly and closely intertwined with political circumstances, approaches (ideologies) with respect to the economy, and the development of practical economic conditions. Without taking all these into account, it is not possible to properly interpret earlier events and their consequences that are still felt today. It is the existence and prevalence of the latter which makes it worth looking back on the preceding period, not merely out of interest in our past, but also with a view to identifying and defining today's strategic directions. The course run until today has been strongly shaped, albeit not wholly determined, by decisions taken (or missed) in preceding periods, by dominant views and typical expectations, and naturally by the prevailing features of the formation of both financial and human capital.

Path dependence applies to all social phenomena to a certain extent. The Hungarian banking system is no exception, where the current situation is in no small measure explained by conditions and decisions taken in the period that preceded it. As time passes, however, the explanatory influence of the preceding period progressively diminishes. Many may believe that everything that happened 30 years ago carries only *ceremonial, emotional* significance, while its *substantive* importance is merely secondary. Large banks or international financial institutions will nevertheless mobilize serious financial and intellectual resources to have banking historians write their official histories. And they do so with good reason. In the case of functioning financial institutions, a long history and documented, uninterrupted existence in itself increases trust in the company on the part of business and society, and hence a well-documented past is a measurable component of the value of a company's name. At the same time, a suitably objective, well-substantiated description of past processes and former players helps the institution's managers understand the culture of the organization and identify strong and weak points.

Critical documentation of the origins and evolution of a country's financial system, however, is different in nature to the history of an individual bank or financial enterprise that is still active today, since a general historical retrospective has no single specific affected party as in the case of a company. A national financial intermediary system has a huge number of both directly and indirectly affected stakeholders. In reality, it is not an analysis of the past of banks and bankers that is the most essential for understanding the problems of today's Hungarian financial system and forming a professional vision for the future. Although the message of the preceding historical era may be important for the profession, it is much more the current perceptions of the diverse affected parties indirectly connected to the world of finance – as well as society's living, shared memory of the path leading to the present – that carries the most immediate relevance in the context of present conditions.

For this reason, in reviewing below a number of critical junctures in the most recent phase of the Hungarian banking system, we primarily examine events not from the perspective of the internal dynamics of the "industry" in question, but rather in the context of transformation of a socioeconomic system. For this, however, we must first deal with questions of terminology, albeit not by bowing to some outmoded academic custom, but rather precisely because, in the relationship between the banking sector and the socioeconomic system that serves as its framework, a narrative that describes the situation and formulates possible directions for the future has always been important, and continues to be important in the present. The course of the banking sector's development has frequently been impacted dramatically by changes in the social environment; in any simplified discussion of these changing conditions, we must remain conscious that the concepts and definitions used often carry value judgements.[1]

2. BANK, BANKER, MARKET ECONOMY, REGIME CHANGE

The restoration of the two-tier banking system in the late 1980s was already the subject of extensive analysis in the contemporary economic, political and financial literature.[2] The idea of radical transformation of the institutional order had essentially been a part of professional and even political public discourse since the reforms of the "New Economic Mechanism" were introduced in 1968. With the loosening (albeit not the complete dismantling) of obstacles to the prevalence of market conditions, the question arose from the start of how to make money circulate within the new system. To put it another way: where and who should decide on the matter of resources for current financing, but mainly investment and development. Long-dormant professional debates, which were only partly nourished by impulses from research circles and tended more to resemble the contradictions and dysfunctional aspects of the mixed – or, more accurately, confused – practice prevalent in reality, were suddenly elevated to a higher level at the beginning of the 1980s, when the Hungarian People's Republic requested admission to the Bretton Woods institutions.

Through membership of the International Monetary Fund (IMF) and the World Bank (IBRD), the government was able to avoid overt international insolvency of the Polish type: the Hungarian state gained access to short-term resources from the IMF to finance its balance of payments under affordable terms of interest,

1 McCloskey (1998) provides a thorough dissection of the linguistic determinism in the conceptual tools, word use, and process of arguing and reaching conclusions in economic analysis.
2 See, for example, Cseresznyák – Kismarty – Járai (1987), Bódy (1988), Antal – Surányi (1987), Ligeti (1987).

and was able to take out loans from the World Bank with favourable interest rates and maturity. However, the conditions also included a commitment to *structural reforms*. From the very beginning, consultants from the two Washington-based organizations perceived and called attention to the backwardness or absence of the financial and legal institutions necessary to sustain the framework of market processes in Hungary. Thus it was that the issue of taxation of personal income and consumer goods customary in the West, the development of a framework for competitive regulation and the call for legalization of (small) enterprises appeared on the Hungarian economic policy agenda in the 1980s, among many other issues. Although contemporary specialist articles and interviews with politicians in Hungary did not say so explicitly, it is fairly likely that the question of the system of financial institutions was also soon raised during talks with the IMF, in the form of vigorous advice or perhaps the imposing of credit conditions.[3]

Once IMF membership was secured, organs which were in a position to bargain and negotiate with the two international institutions – the National Planning Bureau, and increasingly also the National Bank of Hungary (MNB) and the Ministry of Finance – became stronger in terms of the balance of power within the government. In retrospect it is impossible to determine what proportion of the agreements concluded with our Washington creditors (and authorized at the highest political level) were "Western dictates," and what kind of reform pledges derived from inner circles. Although Hungary joined the IMF ahead of many other planned economies at the time, for those that followed the list of structural reforms similarly included the creation of a commercial banking system, just as it did the adoption of the institutions of personal income tax and VAT.[4] We may assume that a two-tier banking system was a general recommendation, or indeed a condition for granting credit, on the part of the Washington institutions. At the same time, as a concession on the Hungarian side, the bulk of the professional apparatus of the Ministry of Finance and the central bank in reality stood alongside the country's creditors, as by that time it had become the accepted view that the (more) efficient flow of financial processes presupposed the kind of calculative knowledge and decision-making routines that were a natural feature of the banking system. It is worth noting that, within both the corridors of power and in the industrial and economic spheres, many linked banking reform to the increasing influence and rise to positions of power of officials in the Ministry of Finance and

3 At that time, the IMF's analytical materials – and particularly its discussion documents – circulated in very narrow circles, and were accessible only via a confidential (i.e. secret) procedure.

4 Yugoslavia was a member of the two Bretton Woods institutions from the beginning in 1945, while socialist Romania joined in 1972. Even so, Hungary's entry still precedes Poland's accession in 1986 (its second, since the then still non-Sovietized Poland became a member in 1946, only to withdraw in 1950). Czechoslovakia was only readmitted as a member after the political changes in 1990, and Russian in 1992.

MNB. A key role was subsequently assigned to the ministry and the central bank up until the end of the decade in management of the quickly unfolding financial crisis, and the strength and activity of these institutions increased – although, for precisely this reason, they would also become entangled in numerous uncomfortable and unpopular situations. Consequently, the reappearance of commercial banks (which in itself might have served as tangible proof of the country's progress and a sense of achievement at the social level) was associated with the fiscal tightening dictated by financial leaders and the profusion of austerity measures. The reestablishment of the credit and capital markets spelled major opportunities, rapid career advancement and the chance of numerous favourable changes for those in the profession concerned; for many in society at large, however, all this appeared as only marginal change that was not necessarily to be celebrated.

2.1. Creation versus restoration

The contemporary description of developments as the *creation* of a two-tier banking system – which even persists today – is worthy of attention, since in Hungary's case (and naturally also in the Czech/Slovak and Polish cases as well) the term *restoration*, or recreation, would have been an expression that better corresponds to historical truth. The phrase "creation of a two-tier banking system" can be understood amid the political circumstances of the latter half of the 1980s. It must have been quite a strain for the senior Party leadership to accept the idea on its merits. Resistance was particularly strong among leaders of sectoral ministries and trusts, as well as Party leaders responsible for ideological and propaganda matters, who would not have gladly faced up to the fact that what was at stake was the gradual restoration of the financial system and business culture that broke apart in the early phase of the regime at the end of the 1940s. Less obvious is why the staff of international institutions and representatives of professional circles adopted this word usage. Otherwise, throughout the process of regime change as a whole, *transition* became the accepted term, even though the historical reality in the region of East-Central Europe was the *return to a market economy*.

Recognizing the significance of narratives and word usage, we cannot regard the nature of the conceptual framework in which the state socialist system – then entering its terminal phase – couched its continuous compromises as a rhetorical accident. The avoidance of usage of the words "return" or "restoration," and the prevalence of the word "creation," was not only attributable to immediate power-related factors. It was also surely relevant that by that time, the adult Hungarian (or, for that matter, Polish or Czech) generation could not have had very much personal experience of the world before the Second World War. At the same time, the socialist education system consciously construed the past in a negative light, since it served the regime's self-legitimization in the era of the one-party state to accentuate the weaknesses of the period preceding the Second World War. In international professional and political circles, meanwhile, there was insufficient awareness that Hungarian society – together with other nations in the region in a similar geopolitical situation – had abandoned full-fledged capitalism (albeit with features of the periphery) when it entered the Soviet sphere of interest. Subsequent historical research into levels of economic development showed that Hungary's economic output per capita had come closest to the *Austrian* level – which served as a general point of reference for this country – in the years prior to the Second World War.[5]

The advanced state of the Hungarian system of financial institutions between the two World Wars, the monetized condition of the economy, the establishment of the National Bank of Hungary and its achievements in monetary policy, all serve as good grounds for the assessment that the country was able to depend on a *financial system well suited to the times* in the historical period that closed with the Second World War.[6] However, this had truly been relegated to the historical past by the 1980s, by which time professional skills had become threadbare and an entire generation had all but completely slipped through the net as far as knowledge of commercial finances was concerned. It may have helped somewhat that foreign joint ventures, durable export connections and even foreign financial institutions appeared surprisingly early from today's perspective. As early as 1975, Creditanstalt opened a representative office in Budapest, while the internationally-backed financial institution that would later go by the name of CIB Bank began operations as an offshore concern in 1979. All this occurred in a country where the economy was still predominantly tied to the Moscow-centred system of production specialization known as Comecon; which was a member of the Warsaw Pact set up in opposition to NATO; and which functioned as a one-party system at the time these decisions were made, where banks were to be established in state ownership and their leaders appeared on Party lists of spheres of authority.

Against this ideological and political background and in a contradictory external environment, the banking transformation occurred in a period of accelerating disintegration of the regime. The state-owned banks created after hasty preparations in 1986, based on deficient legal foundations and with limited knowledge of management at their disposal, represented a strange pastiche of credit institutions following Western models and institutions functioning according to the routines of state administration. Based on a few years of these banks' operation,

5 Hungary's level of development reached 75% that of its Western neighbour in 1938, exceeding the 60% level measured in the age of dualism in 1880 (Tomka, 2011, p. 108). This can be measured against our current position of around 56–60% of Austria's level of GDP per capita.

6 Bod (1995)

János Kornai described the situation at the end of the 1980s as a "quasi-market" with "quasi-banks," wherein the reformed socialist system imitated the model of the Western market economy while declining to adopt its basic values and framework political conditions.[7]

The many different compromises of this past phase threw a long shadow over the ensuing years, and on relations between banks and society, and between banks and politics. The banking profession's assessment of itself and the opinions of many external analysts were very positive indeed, the influence of bank leaders in society was strong, and their prestige great (until the shocks and scandals that were soon to follow). The perception that prevails to this day is that Hungary's initial position at the change of regime was improved as a consequence of the reform antecedents to the great political turning-point of 1990, especially the banking reforms of 1986–87, price and export trade liberalization, (spontaneous) privatization, and small enterprises building up into bigger organizations ("business work associations"). At the same time, it is not at all certain that the multitude of compromise solutions that came into being before the requisite legal framework or political preconditions had been established would have provided the Hungarian People's Republic a competitive advantage in the mid to long term.[8] The downturn in the Hungarian economy in the transition period merged with the average in the later V4 countries at the beginning of the 1990s, while growth in the second half of the decade was good, albeit not exceptional by international comparison; for society as a whole, however, all this meant was that nearly a decade was required to regain the (not very high) level of national income of 1989.[9]

In the world of money, too, reality soon appears in a new light. All of the state banks established as a legacy of the period under discussion suffered a serious crisis. The names of MHB and OKHB are lost to posterity in the mists of time, while Postabank, Ybl Bank, Iparbankház, Ibusz Bank and a series of other financial institutions now tend to serve only as reminders of a troubled period. The first few years of transition also brought major financial shocks in other former social-

7 Kornai (1989)

8 A 2001 retrospective analysis by the United Nations Economic Commission for Europe (UNECE) placed the overall initial position of Hungary, among the countries of the region then undergoing regime change, above the positions of Poland, Bulgaria, Slovakia or Romania, but below the level of the Czech Republic, even though Czechoslovakia lost out on a period of reform communism of the Hungarian type in the wake of the violent suppression of its ambitious reforms in 1968. The Czech return to a market economy occurred after a clear political turnaround (the "Velvet Revolution") and drawing of a constitutional caesura. At the same time, in the first few years after 1990, Hungary received very good marks in EBRD transition indices together with the other countries of the region (and somewhat better than the rest) in the areas of liberalization and institution-building. In addition, impressive figures for foreign direct investment (FDI) also indicated the (temporary) Hungarian advantage apparent in this area.

9 For a critical analysis of the processes, see for example Bod (2014).

ist countries, since the inevitable collapse of an overly industrialized economic structure, the flimsiness of state regulation and supervision, and the understandable deficit in professional knowledge together created an explosive mixture.

In any event, the restoration of the Hungarian commercial banking system under uniquely transitional circumstances, and the series of shocks of the two to three years that followed, burdened the relationship between the bank sector and those active within it on the one hand, and the broad strata of society on the other. It was not expected that a mature class of bankers enjoying social prestige would suddenly burst forth fully armed – and indeed this did this happen, though many of the middle and senior managers who began their careers at that time still occupy important positions today. It is incidentally worth noting that bankers rarely define themselves as such in Hungarian word usage; even today, the term *bankos* is more common than *bankár.* We may recall that one political force stigmatized its political opponents for a decade as the "government of bankers" (*bankárkormány*) in order to discredit them in the eyes of the general public.[10]

2.2. Growth with repressed tensions

Hungary's banking sector (and the insurance sector not dealt with here), established at the historical moment before the change of regime, fell into a general crisis not long after 1990, becoming the beneficiary of an enormous bailout by the state, i.e. the taxpayers. What happened afterwards, with privatization and the appearance of prestigious foreign players, is already a well-documented chapter in the system of financial institutions in Hungary (see the cited bibliography). By the end of a ten-year transitional period, the Hungarian banking structure had essentially merged with trends in the region. Of course, there is something unusual about the way in which the Hungarian structure came to resemble that of nations which set off from a somewhat different starting position, and which espoused a different concept of regime change. In practice, the process of privatization was different in many ways in the Czech Republic, Slovakia, Romania, Bulgaria or Poland, and naturally it was also different in Hungary, but strangely enough, the market structure and the ownership structure of banks had become fairly similar by the beginning of the new millennium. At that time, conditions in Slovenia differed the most from other countries, since a local political accord resulted in the evolution of a majority national – i.e. essentially state-owned – structure, which would be seriously shaken during the subsequent period of financial crisis.

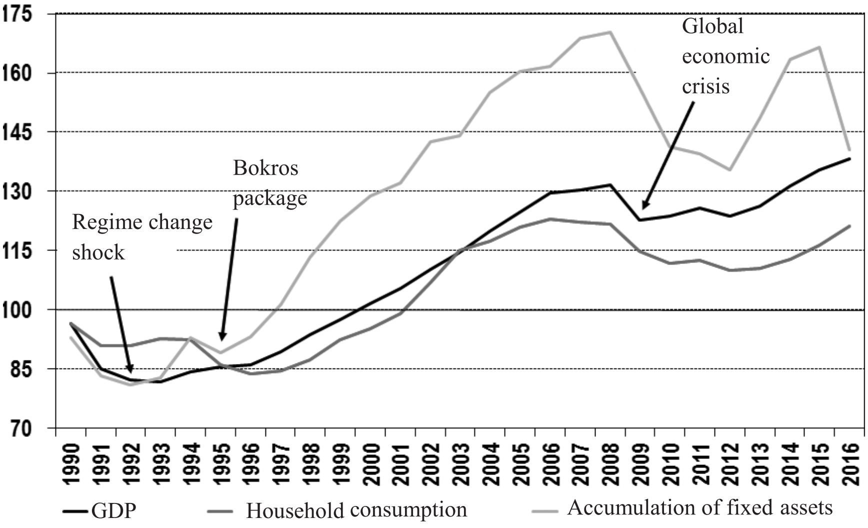
10 This was still well before the financial crisis of 2008, when – explaining Hungary's internal political scuffles in English – I witnessed genuine incomprehension on the part of British journalists, since in Anglo-American culture at least this epithet was regarded more as a matter of curiosity than as an insult.

What is certainly worth stressing is that companies' access to credit, financial products and business services genuinely improved a great deal in this period. With respect to access to credit, this is clearly demonstrated by the World Bank's "Doing Business" assessments measuring the conditions for conducting business in Hungary, as well as the position Hungary occupied in other international country rankings of competitiveness. In Hungary, as elsewhere, improving standards were principally attributable to the collective appearance of foreign-backed, well-capitalized financial institutions with a well-developed banking culture. In the corporate business, perhaps too many players appeared; certain major foreign banks trusted in the continuous expansion of the Hungarian market, while others simply followed their country's big companies onto the otherwise limited but promising Hungarian market. Later, when the pace of growth of the Hungarian economy fell persistently short of the dynamics of the "golden age" of 1997–2005, and stimulae from the state greatly decreased in value, the overcrowding of the Hungarian banking market was soon thrown into sharp relief.

In the retail business, however, the level of competition, modernization and acquisitive endeavour was nowhere near as conspicuous as that directed at companies. This is not so surprising given that the dynamics of household incomes lagged behind GDP growth for a long time after the macroeconomic adjustment of 1995 (the *Bokros* package), and slowly rising household forint incomes enabled only a moderate increase in banking activity.

Figure 1

GDP and its main components



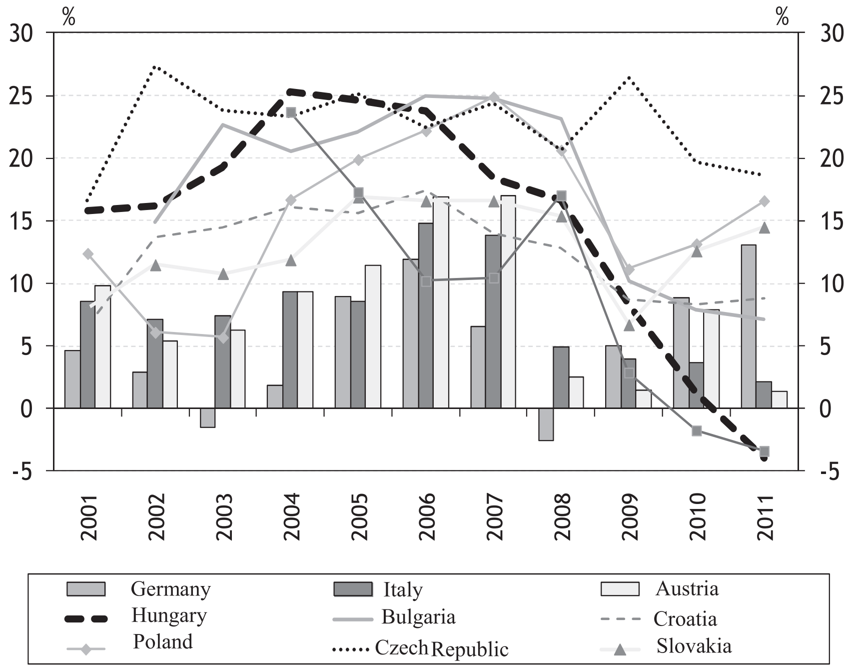
Source: GKI

The path of Hungarian GDP and the evolution of the two major income components shown in Figure 1 suggest a conspicuously modest set of economic dynamics from today's perspective. The hard facts in the second half of the period undoubtedly cooled the hopes of those who would have liked to build the growth strategy of banks on financing of Hungarian market players and families. On such a slowly expanding market, consolidation of the system became inevitable sooner or later, with some exiting and others merging. Naturally, we know this only with hindsight; those entering the Hungarian market in 1998 saw perhaps the most successful country of the first decade following the change of political system in the region, and looked ahead to the acceleration of growth in Hungary with the optimistic expectations of the turn of the millennium. The second decade also brought economic growth, mainly in export sectors, while household incomes also rose, albeit from a modest base and at a moderate pace. The appearance and rapid spread of foreign currency-denominated products then changed the situation, as the decade of the 2000s became a golden age for Hungarian banks.

What happened next during and after this golden age – namely, the accumulation of foreign currency debt, followed by the crisis and its diverse political and professional consequences – is likewise the subject of very thorough analysis, discussion of which would be surplus to requirements here; although the wave of state intervention, extending from the prepayment of Swiss franc loans at a dictated exchange rate to the "holding to account" of banks, was in itself a consequence. One reason for this was, of course, the boom in lending which took place in the period around Hungary's gaining of EU membership. Here we may save ourselves the trouble of repeating explanations of the excessive lending at that time – which can be described as a bubble with hindsight – or criticisms of banking decisions. Nevertheless, it is also worth bearing in mind that at the time, even Hungary's political class believed in an early entry into the eurozone. Back in 2002, before Hungary had secured EU membership, *Viktor Orbán* spoke of adopting the euro as soon as possible, and government leaders who followed him – until the huge deterioration in our entry test data – continued to reinforce expectations among clients and bankers that the forint would be discontinued by a fixed deadline.

No matter how political trends and incentives evolved, the fact remains that banks did very nicely in Hungary for many years, essentially until 2010. The contrast is particularly sharp measured against the return on equity (ROE) of German, Austrian or Italian banks. Naturally these are settled markets on which competition is much more intense than in East-Central European countries, and where banks' domestic profitability is typically less than on the European periphery. As far as the profitability of banks in Hungary is concerned (where two-thirds of institutions are partly in foreign ownership), in the first decade of the new millennium profits, though not extreme in value compared to the other new member states, significantly exceeded West European standards. There were numerous reasons for the record profits in Hungary: the rapid escalation of lending; the charging of a greater interest margin than customary elsewhere; and loose debtor credit ratings, which of course would later have repercussions in the growing number of non-performing loans. In any event, in the wake of the Hungarian political changes of 2010, it is not at all surprising in hindsight that the politicians then ascending to power saw a sector that was rolling in money. It speaks volumes that the introduction of the bank levy (which, as a new tax, should theoretically have counted as an unpopular austerity measure in the eyes of public opinion) actually increased the government's popularity. An unusual social reaction of this kind is attributable to the sudden shattering of social prestige and support for the sector, and indeed for the market economy as a whole – which is, of course, not a phenomenon unique to Hungary.

Figure 2
Profitability of the Hungarian banking system
(return on equity [ROE], percentage)

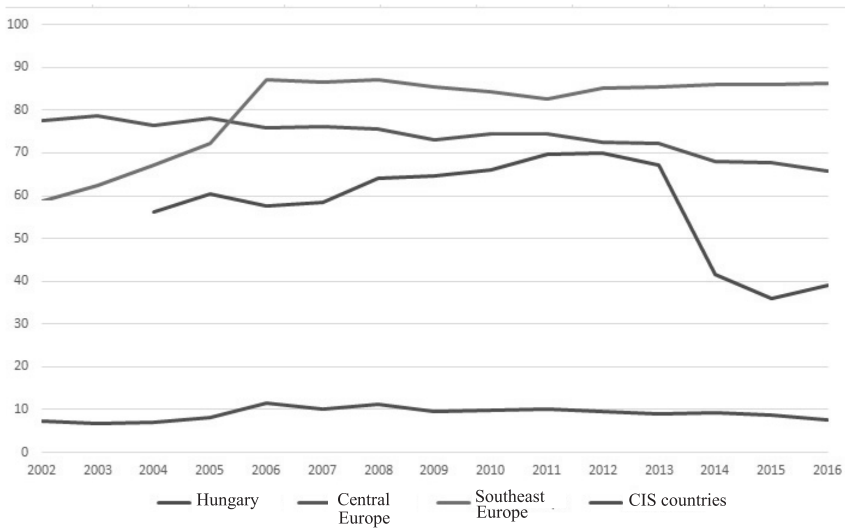


Source: MNB (2012): Financial Stability Report (November 2012)

This is how we arrive at the formulation of a striking government policy with respect to the banking sector in Hungary (where "the Hungarian share of ownership must be increased to above 50 percent") and the consequent transformation of the ownership structure in reality.

Figure 3

Proportion of market share of foreign-owned banks



Source: Raiffeisen Research, 2017

Ownership structure may also change by organic, business means if both foreign and domestic-owned banks increase their balance sheet footing and capital, but domestic banks – enjoying, for example, certain benefits of local knowledge, and linguistic, cultural or cost advantages – tend to be more dynamic than their foreign-owned competitors. This was the situation in the Hungarian banking system within the Austro-Hungarian Monarchy, from the 1870s right up until its dissolution. The banking sector remained mixed in ownership, with ownership proportions changing only rather slowly and in their own organic way.

Compared to the will of the impatient politician or the impulses of the political commentator with the nation at heart, change of this kind comes too slowly, however. In most countries of the East-Central European region, the financial sector became suddenly majority Western-owned around 1990, although the process of increasing national ownership began, albeit slowly at first, a decade later. Hungary's trajectory was different: here, the enforcement of political intent is apparent in the data. Many different movements have otherwise occurred in the region in recent years, for example in Slovenia, where the share of foreign banks has grown (from a fairly low base) compared to other countries, by means of the belated launch of a privatization process in reaction to the severe decline in capital of domestically owned banks. In Hungary, on the other hand, the foreign proportion of ownership has significantly fallen, particularly for as long as OTP counts as a Hungarian-owned player (a classification adhered to in Figure 3). Since OTP is a stock exchange-listed company, it can be classified in several different ways, but it is regarded as Hungarian in public opinion and – due to the nature of its management – even by professionals as well. In any event, the goal appointed by Prime Minister *Viktor Orbán* – for more than half of Hungary's banking sector to be in Hungarian hands – has duly been achieved within a few years. This has not taken place as a consequence of organic market growth, however – at least it would be hard to demonstrate a process of improvement in the competitiveness of domestic players of the kind familiar from economic history. Immediate or gradual withdrawal from the market following state buyouts of existing foreign banks, or the deterioration of prospects for operation on the Hungarian market for others, has played a role in the achievement of the appointed goal.

Some countries in the region, such as our Czech or Slovak partners or all the Baltic countries, are happy with their foreign-owned banks, which – backed by the technical, management and financial capital of their parent companies – contribute to the competitiveness of their respective countries by providing services of a high standard. For small open economies with banking systems organically incorporated into the international system of financial institutions (and, in terms of ownership structure, largely globalized), the balance of benefits and disadvantages will only become known during the next critical phase to come.

3. CONCLUSIONS

We cannot avoid the same question in knowledge of the distinctive path that Hungary has followed in recent years. As we have seen, the rebirth of the Hungarian commercial banking sector in 1987 was a consequence of political decisions, albeit backed by serious financial and economic factors. Politics also played a critical role at subsequent junctions along the path. For this reason, professional analysis must always look at how determinative external factors take shape. Under Hungarian political conditions of recent years, responding to dissatisfaction with our fate embedded in the Western economic space thus far, the government forces have turned towards the concept of an expanding state and increasingly centralized government. This has created a brand-new situation for the banking sector in Hungary. How successful a model this expanding, active and often market-superseding state can become under European conditions and with Hungary's specific features – and how sustainable all this will prove – goes far beyond our topic of discussion here. Our conclusion can only be that, in its nature and operating logic, the banking system that provides the framework of international financial processes functions under powerful social and political influences, and that these external social factors strongly impact the future path of development and the junctions along this path.

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