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Housing Finance in the Aftermath of the Foreign-Currency Mortgage Crisis in Eastern Europe: Editorial

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Abstract: *This special issue expands on the existing research on foreign-currency lending and the forex loan crisis in Eastern Europe by investigating other forms of housing-related finance and post-crisis developments. Bringing together hitherto disparate strands of research, our issue traces the linkages between macroeconomic developments, state measures, class dynamics, and social movements in the aftermath of the forex loan crises in Latvia, Romania, Croatia, Bosnia and Herzegovina, and Hungary as part of their long-term trajectories of housing finance. We find that despite different political-institutional articulations, these trajectories all feature a new expansion of lending based on a bifurcation of the credit market into more secure, often subsidised mortgage lending aimed at better-off debtors and more risky non-mortgage loans used for housing purposes by more precarious households.*

Keywords: debt crisis; debt management; Eastern Europe; foreign-currency lending; housing finance.

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Introduction

Multidisciplinary scholarship on the expansion of mortgage debt in Eastern Europe in the 2000s and its subsequent crisis in the first half of the 2010s is now relatively well-developed. However, three weaknesses remain that limit our comprehensive understanding of the long-term trajectory of Eastern European housing finance. First, the attention to the boom in the 2000s and to the post-2008 crisis in housing lending was not accompanied by similar region-wide attention to subsequent developments. Second, there has been a persistent split between scholarship with a mainly political-economic focus, largely concerned with the macroeconomic, policy, and party-political dimensions of the boom-bust cycle, and sociological and anthropological scholarship, concerned with household-level experiences, debtor movements, and implications for social inequality. Third, in terms of the analysis of various forms of housing finance, the most attention by far has gone to foreign-currency (forex) loans and, among them, Swiss franc (CHF) loans especially as a particularly troubled and politicised form of housing finance. This collection of articles therefore looks ‘beyond the franc’ in two ways: we explore what happened after the CHF loan crisis subsided, and we trace the role of other modes of housing finance throughout the studied period. In addition to this long-term perspective, instead of focusing on particular stages we adopt a holistic approach that highlights the linkages between macroeconomic developments, state policies, class dynamics, and housing policies in our five case studies: Bosnia and Herzegovina, Croatia, Hungary, Latvia, and Romania.

FX loan crises and post-crisis reorganisations

Political economists and geographers interpreted the 2000s boom and the 2010s bust in forex housing loans in Eastern Europe as a consequence of the region’s dependent (peripheral, subordinate) financialisation (Ban and Bohle 2021; Ban, Scheiring and Vasile 2021; Becker et al. 2010; Bohle 2018; Büdenbender and Lagna 2019; Dal Maso 2022; Gabor 2010). This process was based on hierarchical financial relationships between Western European core economies and Eastern European semi-peripheries. The key actors were subsidiaries of Western European banks that came to dominate local banking through post-socialist privatisation. Using money-market borrowing and loans and deposits from their mother companies, the subsidiaries imported a large volume of financial capital and invested it more profitably than they could have in the more saturated and regulated core markets. Lending to households was one of main targets, resulting in major mortgage and housing booms in the run-up to the Global Financial Crisis (GFC) (Bohle 2018: 199).

As well as higher interest rates than in the core, this lending boom was characterised by risky and exploitative practices enabled by lax regulation. Scholars paid the most attention to forex loans, which were typically designed in such a way that debtors owed their debts in a ‘hard’ foreign currency but had to make their monthly payment instalments in the local currency according to the current exchange rate. This was the banks’ strategy of ‘single-currency carry trade’ (Gabor 2010: 257), whereby they were able to make a profit on cross-currency interest rate differentials, while dumping the associated currency risk onto debtors. The consequences became visible after the GFC, as franc exchange rates increased in multiple stages, and this was then translated into a surge in the debtors’ repayment burden. However, euro and domestic-currency loan holders were also affected by interest rate increases, stagnating or falling incomes, collateral devaluation, and euro appreciation in countries without a euro peg. Governments responded to forex loan crises in various ways, ranging from making comparatively extensive and 'unorthodox' interventions in creditor-debtor relationships in Hungary to continued non-interventionist neoliberal orthodoxy coupled with an 'exit to the euro' (which eliminated euro loans as forex debt) in Estonia and Latvia (Bohle 2018).

However, the focus on forex loans has overshadowed other forms of housing finance as well as relevant developments after the forex loans crises subsided in the mid-2010s. The result is a less than comprehensive understanding of the long-term trajectories of housing finance in the region. One exception is Bródy and Pósfai (2020), who pointed to a new lending cycle in Eastern Europe from around 2015 onwards. They argued that the structure of this new lending is different: owing to more stringent post-crisis regulation, mortgages have become accessible only to relatively prosperous middle-class borrowers (who also benefited from government mortgage subsidy schemes), while less wealthy borrowers have been forced to rely on more expensive consumer loans also for housing-related purposes (Bródy and Pósfai 2020: 5–6, 49). However, it remains unclear to what extent this pattern can be generalised for the region at large.

This collection of papers unites a focus on the macroeconomic aspects of dependent financialisation and the post-crisis financial reconfiguration in the region with an analysis of political and policy reconfigurations, including social movements. It specifically highlights the issue of class in the formation, onset, and aftermath of the forex debt crises and the post-crisis lending booms. While recent work on, for example, the US, the UK, and Australia has turned its central focus to the relationships between class and housing debt (Adkins, Cooper and Konings 2020), this has not been the case in the Eastern European literature. Here, there is a persistent split between the above-mentioned research on macroeconomic, policy and the electoral aspects of the post-crisis period and the sociological and anthropological literature on household financialisation (Mikuš and Rodik 2021; Rodik and Žitko 2015), housing debt (Csizmady, Hegedűs and Vonnák 2019; Halawa 2015; Pósfai, Gál and Nagy 2018), and debtors' mobilisations (Dolenec, Kralj and Balković 2021; Florea, Gagyi and Jacobsson 2018; Mikuš 2019; Szabó 2018). The latter scholarship has sometimes engaged with issues of class, but not in a systematic and comparative manner.

In terms of how the forex crises and their management were connected to the post-crisis economic and political reconfigurations across the region, Ban and Bohle (2021) and Ban, Scheiring and Vasile (2021) have proposed the most comprehensive comparative framework to date. They explain the post-crisis regimes' capacity to decrease foreign financial exposure and repress the structural power of foreign banks by: (1) the centrality of FDI or finance for the country's dependent development model; (2) the government's capacity to intervene in the financial sector as opposed to being hindered by international institutions, the central bank, or the parliamentary opposition; and (3) the political legitimacy of such policies based on a successful consolidation of a supportive social bloc that bridges different interest positions. In this framework, Hungary is the model of successful post-crisis financial reconfiguration and Latvia is the prototype of no reconfiguration owing to a finance-led growth model.

While the Orbán regime's 'financial nationalism' (Johnson and Barnes 2015) and its successful channelling of the politicisation of the forex loan crisis into electoral and social support for financial nationalist policies (Karas 2021) stands out, our focus on class dynamics reveals the crucial shared characteristics of post-crisis debt politics in the countries of the region. Linking

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these lessons to existing research on economic and political contexts, our case studies offer long-term takes on how the conditions were created for the forex loan crises, how the rollout of the crises became politicised through interactions between affected groups and post-crisis politics, and how the politics of debt management laid the groundwork for a new lending boom. By examining different factors of relevance in different contexts, these studies demonstrate how the politics of the forex debt crises contributed to the reorganisation and renewed expansion of housing lending in the late 2010s, a process that created the current conditions of the region's credit and housing markets, now on the brink of a new post-pandemic crisis.

Comparative lessons

In this issue, Andris Saulītis shows that Latvia's orthodoxly neoliberal management of the post-2008 loan crisis created two equally individualised yet socially polarising paths for debtors: a complicated and poorly accessible insolvency procedure for better-off debtors, and repayment through work migration for the rest. In Croatia, debtors were more successful in obtaining favourable government measures, yet, as Marek Mikuš shows, the credit expansion in the late 2010s, shaped by lending re-regulation and state subsidies, created a new pool of risky debt that is today threatened by a pandemic-related economic downturn. Mihail Dumitriu and Ioana Florea argue that in Romania's management of the crisis, debtors of different status received differential treatment and the post-crisis boom generated a broader polarisation between more secure, state-subsidised mortgages and consumer loans used by lower-income and precarious households. In Hungary, Agnes Gagyi shows that the Fidesz government's political support for forex debtors was coupled with substantive help mainly for better-off debtors and was accompanied by a subsidised housing lending boom that excluded precarious strata while creating a new pool of debtors threatened by the pandemic crisis. Zaira Lofranco's study on Bosnia and Herzegovina registers a class-based polarisation between mortgage and consumer loan markets that already existed during the 2000s FX boom and was further deepened by the government's 'laissez-faire' post-crisis regulation of lending and a new lending wave.

Our main comparative finding is that despite significant differences between our cases in terms of the regulation and politicisation of existing and new debt and the wider policy regimes emphasised by comparative political economy, we have seen a region-wide trend towards a class-based bifurcation of the household credit market. Better-off debtors enjoyed more benefits from government policies, individual debt reconstruction or refinancing, and interest rate trends. Worse-off debtors (with insufficient incomes to access refinancing, already in default, or with consumer loans for housing purposes) were more likely to be pushed into coping in silence. The re-regulation of credit markets led to stricter lending terms that excluded households in the worse financial situations. State mortgage subsidies were then used in most of our cases to broaden the scope of this new, more regulated lending, while this also caused housing prices to rise. Precarious households that did not qualify for this market were channelled towards consumer loans, micro-credit, and non-bank loans that come with higher risks. Compared to the 2000s FX boom, the inclusion of middle-income households in housing finance thus occurred in a different way: while FX loans penetrated these strata through risky market-based instruments, post-crisis booms were based on the governments' use of state subsidies to facilitate or increase the attractiveness of their ostensibly more secure but, amid new housing inflation, still speculative and increasingly large mortgages.

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As regards the politicisation of the debt crises, their management, and the new booms, we see that the same structural bifurcation of credit markets – and consequently households' access to housing finance – occurred across significantly different constellations of political processes, yet the political effects were very similar. Political tensions resulting from disproportionate debt burdens of FX debtors were silenced or channelled in a different direction through varied means or were even used to construct the bifurcated post-crisis model. In none of our cases did broader social struggles take shape around the contradictions between the social and financialised functions of housing.

Latvia's dependence on foreign (mostly Swedish) banks and foreign (mostly Russian) deposits prevented the significant re-regulation of lending and compensation for debtors. Instead, the government used internal devaluation and public-sector and wage cuts and it accelerated euro accession to eliminate the exchange rate risk. The costs of the FX loan crisis were borne by households. Indebted households in better positions, which in other countries were the ones most likely to make politicised demands for state intervention, turned to insolvency, a complex and expensive process that nevertheless offers significant benefits to those able to access and complete it. The other main path, chosen by debtors in worse positions, was work migration in order to be able to service debt. The banking lobby's continued influence on policy-making has in recent years resulted in the roll-out of two more individualised (and largely dysfunctional) debt management procedures. Saulītis's account of individual solutions and their class-based bifurcation describes a model in which the absence of explicit political claims was coupled with an orthodoxly neoliberal approach to managing the crisis that only reinforced the inherently unequal situation of individualised coping.

In Croatia, we see a case where the largest coordinated debtors' movement in the region (Dolenec, Kralj and Balković 2021; Mikuš 2019) achieved a relatively pro-debtor approach to managing the Swiss franc loan crisis through its multi-pronged activism as well as electoral politics. This experience also stimulated individual debtors to adopt a more assertive approach to banks. Mikuš shows that political and financial elites subsequently used a new programme of mortgage subsidies to support the relaunch of a more regulated mortgage market, thereby accelerating a new housing boom, while advancing the process of eurozone accession as the path of least resistance for getting rid of the remaining FX debt. In parallel, a short-lived but marked expansion of consumer lending occurred partly as a subprime extension of housing lending. The overall outcome was continued housing and household financialisation through a bifurcated credit market with somewhat reduced yet persistent and unequally distributed risks for debtors.

In Romania, the politicisation of the debt crisis intersected with waves of post-crisis anti-corruption demonstrations, the latter of which were ultimately channelled into supporting the anti-poor, pro-market agendas of right-wing governments. Dumitriu and Florea trace how debtors, segmented according to the type of debt they held – standard mortgages, home-equity loans, consumer loans, and utility arrears being the main categories– were further polarised by post-crisis policies that favoured middle- and high-income debtors through both redistribution and 'timid' lending re-regulation. Although some better-off debtors (e.g., those with pre-2008 Swiss franc loans) struggled financially and fought for legal compensation and state help without much success, this group of debtors generally supported austerity measures to maintain collateral values and benefitted from policies that favoured higher-income categories, such as new mortgage subsidy programmes. Conversely, those people who were only able to access consumer loans and in particular those who had utility debt were left without any help. The

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political articulation of their problems occurred instead through struggles related to wages or housing poverty, both of which were ultimately overshadowed in the political arena by the more successful anti-corruption coalition.

In Hungary, Fidesz first embraced debtors' politics, then channelled this political rhetoric into the legitimation of measures that benefitted domestic finance capital and middle- and high-income groups. The regime ultimately silenced worse-off debtors who were excluded by its measures and left to cope on their own; the reverberations of this widespread social trauma were felt for a long time and resurfaced as a component of the opposition parties' campaign in 2021. Hungary is a prime example of the debtors' struggles being used to propel a pro-capital reorganisation of the financial market. Yet, while Hungary's financial nationalist reconfiguration is treated as an outlier model in the region, our comparison suggests that the long-term effects of differential debt crisis management and credit market bifurcation during the new lending boom are common characteristics among the countries, despite the different shares of domestic and foreign banks in in their markets.

Lofranco's Bosnian case study underlines the importance of credit market bifurcation. It documents a strong polarisation between stable-income households able to access mortgages and the households that took out non-mortgage loans for housing purposes already during the FX boom. In a post-war environment characterised by particularly high levels of precarity, another important trait of lending was the extensive reliance on guarantors – to the extent that the politicisation of the debt crisis happened not over home foreclosures or evictions, but over the struggles that these guarantors experienced. The reaction of politicians to this problem (a new law protecting guarantors) was combined with the banks' institutional shift towards loan insurance, domestic currency lending, and micro-credit. Left with individual debt restructuring/refinancing as the only solution, better-placed FX debtors became a market for new loans with stretched-out maturities, while those who were unable to access refinancing had to resort to working in multiple jobs or obtaining micro-credit or informal loans. This study shows how the same effects of post-crisis regulation – the bifurcation, stabilisation, and widening of the credit market – play out differently in a more precarious environment and without state subsidies.

Conclusion

Our five case studies describe different models of post-crisis reorganisation of housing-related lending, with Latvia and Bosnia and Herzegovina being the most paradigmatic cases of maintaining their orthodoxly neoliberal pre-crisis regimes, Hungary being a case of financial transformation to the benefit of domestic capital, and Croatia and Romania falling in-between. Despite these differences, we find a similar long-term post-crisis trend in all of these cases: a relaunching of the credit and housing cycle based on an increasingly bifurcated credit market, and a lack of any substantial shift away from housing policies that are centred on homeownership and private housing finance. We see this trend as the main outcome of the broader social politics of the forex loan crises. It is reinforced by various institutional policies on the part of governments and banks, with debtors' activism sometimes also playing a supporting role. At the same time, this trend itself is not at issue in explicit political conflicts, and debtors' political achievements typically remain limited to narrow interest-based concessions for better-off debtors. The unequal effects of the debt management strategies and

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the bifurcation of new lending have created the conditions for another wave of debt crisis in the post-pandemic context, with potential roots in the ongoing precarity of a part of the old debtor cohort, the expansion of the less regulated credit market segment, and the growth of interest rates on ever-larger mortgages from the recent record-low levels.

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