

# Banking in Cee Countries From the Perspective of the Evolving European Banking System

Judit Burucs

Senior Lecturer, Corvinus University of Budapest

## Abstract

Cross-border banking has become a defining feature of the economic transformation and development of Central, Eastern, and Southeastern Europe (CESEE). Using a comparative case-study design across four host countries (Czechia, Hungary, Croatia and Albania) and two home countries (Austria and Italy), this study examines how power relations between European authorities, home and host countries, and the national interest shaped adjustment within the evolving European banking system, especially through the European Bank Coordination (Vienna) Initiative. This public-private platform emerged during the global financial crisis. The findings are based on various documents that reveal that the Czech National Bank relied primarily on domestic macroprudential instruments and bilateral coordination with parent banks. Hungary initially used Initiative-based stabilization but subsequently adopted nationalist banking policies. In contrast, Croatia's active participation in the Initiative strengthened coordination between home and host supervisors in the Western Balkans. Albania's experience highlights the Initiative's stabilising role in regulatory dialogue and in supporting domestic reforms. From the home-country perspective, Austria played a central role in launching the Vienna Initiative, ensuring the maintenance of cross-border exposures and mitigating systemic risk. Italy represents a hybrid model, where regional engagement remains important but constrained by domestic intermediation and sovereign exposure. The findings also indicate that governors' leadership styles strongly shape national responses to the evolving EU financial governance.

**Keywords:** cross-border banking, Vienna Initiative, EU financial governance

**Jel code:** F36, G21, G28, F55, P16

## Introduction

Following the systemic change, the banking sector reform of Central, Eastern, and Southeastern Europe (CESEE) occurred in two major reform waves. The first wave focused on liberalisation, while the second concentrated on restructuring and institution-building. During the first wave, foreign banks were mainly niche players, offering limited contributions to economic transformation itself (Banai et al., 2010; Barisitz, 2009; Kren et al., 2009). Due to poor loan portfolios inherited from former socialist systems, several banking crises occurred in CESEE, prompting state intervention and bailout measures. The second wave of reforms involved in-depth privatisation to bring in know-how, technology, and capital. The market size of the CESEE region, along with favourable political developments, and especially the substantial profit potential, attracted foreign investments (and investors) in large amounts (Feldkircher, 2017; Barisitz, 2009). Major Western European banking groups, mainly from Austria, Germany, and Italy, purchased large stakes in regional banks, with Austrian banks the most active.

By 2000, foreign banks dominated the CESEE banking sector. Liebeg et al. (2007) stressed that foreign banks brought improved liquidity and more efficient banking operations, but also created challenges. Although foreign banks benefited from cheaper refinancing and access to international capital markets, local banks struggled with high credit risk and other systemic issues. The profitability of these foreign-owned banks varied, with some achieving significant profits despite the economic challenges. For instance, Erste Group reported a 24.5% increase in net interest income in 2008, primarily driven by operations in CESEE, despite a slowing credit demand in Western Europe. Net interest margin in CESEE „rose from 4.1% to 4.6 %, while in the Austrian business, it went up from 1.6% to 1.8%” (Erste Annual Report, 2008).

Through greenfield investments and privatisations, foreign banks gained dominant domestic market positions, fostering modernisation and credit expansion, but also creating an unusually high dependence of the CESEE banking sector on Western European parent banks' strategies and balance sheets. When the collapse of the U.S. mortgage market triggered a global liquidity shock in 2007–2008, these vulnerabilities became acute. Western European banks with large CESEE exposure faced funding shortages, and policy responses that prioritised domestic lending raised concerns about abrupt deleveraging in host economies. Fears of credit contraction and systemic instability prompted the creation of the European Bank Coordination (Vienna) Initiative. This public–private platform brings together international financial institutions (IFIs), EU authorities, major banking groups, and national supervisors. Acting as lenders of last resort, IFIs provided €33 billion by 2010 and secured commitments from banks covering about 60% of CESEE assets to maintain exposure and strengthen local capital (Allen, 2019).

As regulatory reforms and the Eurozone crisis unfolded, the Initiative evolved into a cooperative governance framework designed to safeguard financial stability in CESEE by preventing uncoordinated deleveraging and strengthening cross-border supervisory coordination.

Most studies focused on the immediate effects of the global financial crisis (GFC) on credit growth, liquidity, or systemic risk, with limited attention to the long-term role of a regional cooperative framework such as the Initiative. Additionally, existing research primarily examined the Initiative's impact on specific regulatory or supervisory issues (Spielberger, 2023; Iaydjiev, 2016), while no study aimed to uncover its country-specific impacts. The goal of this article is therefore to carefully examine, across six countries, how power relations among European authorities, home countries (Austria and Italy) and host countries (Hungary, Czechia, Croatia, and Albania) shaped the banking sector's adjustment within the evolving European financial system.

Following the short Introduction, section 2 first reviews the main approaches to international financial governance and the role of the international lender of last resort, and then turns to a short discussion of the European financial regulatory framework. Section 3 describes the methodology, including the selection of the six case-study countries. Section 4 presents the economic and financial profiles of these countries regarding cross-border banking. Then it analyses the evolution of each banking sector, focusing on crisis responses, changes in European financial governance, and participation in the Vienna Initiative. The final section discusses the comparative implications of the findings for cross-border banking governance in CESEE and the pivotal role of central bank governors.

## 1. International and European Financial Governance

International Financial Governance (IFG) refers to the set of rules, institutions, and coordination mechanisms through which states and international actors regulate and oversee global and regional financial activity. It encompasses the norms and frameworks that support financial stability, crisis management, and the smooth functioning of cross-border markets (Mishkin, 1999; Frieden, 2016). Although financial stability lacks a single definition, it is commonly understood as the absence of systemic disruption that impairs the real economy (Mishkin, 1999; Minsky, 1992). Most scholars and policymakers treat financial stability as a public good, since instability spreads across borders and undermines growth (Griffith-Jones, 2003). The expansion of cross-border banking raises a core governance problem: while risks are international, policy responsibility remains largely national. Some scholars distinguish between macroprudential and microprudential approaches to financial stability. Macroprudential policy seeks to contain systemic risk and welfare losses, whereas microprudential regulation focuses on the resilience of individual institutions. Sustainable stability depends on the complementarity between these two dimensions, supported by transparency, accountability, and coordination among governments, central banks, international institutions, and private actors (Borio, 2003). Beyond crisis management, IFG also seeks to promote sustainable development through financial system deepening. As Berglöf et al. (2019) argue, regional financial stability therefore requires coordinated international action rather than reliance on markets or a single hegemon. Effective IFG rests on

three pillars: (1) lender-of-last-resort arrangements, (2) regulatory harmonisation, and (3) macroeconomic policy coordination (Frieden, 2016). In practice, however, national priorities, regulatory arbitrage, and fragmented supervision can severely complicate and challenge effective cooperation.

At the international level, the concept of an international lender of last resort (ILOLR) remains contested. Some scholars argue that a true global LOLR is technically infeasible because of currency fragmentation and political constraints (Frieden, 2016). Although home-country authorities sometimes extend support to foreign subsidiaries, such arrangements are fragile in a multi-currency system. Nevertheless, economists tend to argue that ILOLR mechanisms are essential during systemic crises (Mishkin, 1999). Proposals include coordinated central bank networks, an expanded IMF role, or regional safety nets such as the European Stability Mechanism (Eichengreen, 2008; Sobel, 2024).

As a consequence of the GFC first and the European debt crisis next, the EU's financial regulatory framework has been fundamentally reshaped, moving from a predominantly microprudential approach toward an integrated macro- and microprudential architecture aimed at safeguarding systemic stability (Benczes, 2019; Měrő & Piroska, 2013). Before the crisis, supervision operated under the Lamfalussy framework, which combined EU-level rule harmonisation with nationally based oversight, but the crisis unequivocally revealed the limits of such a decentralised system (House of Lords, 2009; European Commission, 2019). In response, the EU launched various reform steps in two main stages. First, macroprudential oversight was centralised in the European Systemic Risk Board (ESRB), aligned with global standards of the Financial Stability Board. At the same time, microprudential supervision was reorganised through the European Supervisory Authorities (ESAs)—EBA, ESMA, and EIOPA—enhancing coordination and information sharing for cross-border banking (Benczes and Rezessy, 2013; European Commission, 2015; Piroska & Podvršič, 2019).

Second, integration accelerated after the eurozone debt crisis with the creation of the Banking Union in 2014, widely viewed as a cornerstone of completing the single market and monetary union (Csaba, 2018; Benczes, 2020). Its three pillars—the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM), and the still-evolving European Deposit Insurance Scheme (EDIS)—centralised supervision, harmonised resolution, and aimed to mutualise depositor protection at the EU level. These institutional changes were complemented by stricter prudential rules under CRD IV/CRR, which introduced higher capital and liquidity standards, including the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), and expanded national macroprudential powers. Together, these reforms strengthened supervisory coordination, reduced systemic risk, and reshaped the balance between national and European oversight, even as cross-country differences persist (Csaba, 2018; Piroska & Podvršič, 2019).

The Banking Union is a core element of the EU's post-crisis financial architecture. Euro-area states participate automatically, while non-euro members may join through a close cooperation arrangement with the ECB, which extends the Single

Supervisory Mechanism (SSM) to their banks (Nieto et al., 2021). Close cooperation improves information sharing, reduces supervisory asymmetries, and mitigates cross-border risks in systems dominated by foreign-owned banks (Darvas et al., 2016; Mérő & Piroska, 2016). However, non-Euro participants have limited formal influence because they lack voting rights in the ECB's Governing Council and access to common fiscal and liquidity backstops, despite representation on the Supervisory Board (Merő, 2019).

CESEE experiences illustrate these trade-offs. Bulgaria and Croatia entered close cooperation, strengthening supervision and facilitating euro adoption (Croatia in 2023; Bulgaria in 2026), while Hungary, Poland, and Czechia opted out to retain national control over banking oversight (Benczes 2025, Nieto et al., 2020; Merő et al., 2016). More broadly, the BU highlights enduring home–host regulatory dilemmas in cross-border banking: home regulators balance domestic stability and international competitiveness, while host regulators seek foreign bank participation without undermining financial stability (Kapstein, 1989; Pistor, 2010). To manage these asymmetries, host countries depend on cross-border cooperation, macroprudential tools, and EU-level frameworks, yet vulnerabilities persist, especially in non-Euro CESEE economies with shallow capital markets.

To help CESEE countries avoid deleveraging first and then obtain adequate access to regulatory and supervisory guidance, the so-called European Bank Coordination (Vienna) Initiative, a public-private platform, was adopted in 2009. Although it emerged during the GFC and functioned initially as only a crisis-management instrument, serving as a lender of last resort, later on it evolved into a complementary layer of the European regulatory and supervisory coordination structure. The activities of the Initiative are guided by a Steering Committee composed of the European Commission, other EU financial institutions, IFIs, and, on a rotation basis, major cross-border banks and national authorities, ensuring consistency with EU oversight. During COVID-19 and the shocks associated with the Russian–Ukrainian war, the Initiative reaffirmed its role as a gap-filling mechanism that complements EU governance and supports financial resilience in the CESEE region.

## 2. Research Design

This article has adopted a comparative case-study approach to examine the banking systems of four host and two home countries within the evolving European banking system. Each country is analysed through the dual lenses of the Vienna Initiative framework and national financial authority responses, combining institutional assessments with financial stability indicators. This allows an evaluation of how international coordination mechanisms interact with domestic regulatory and supervisory practices to preserve financial stability in the region.

Both analytical and institutional relevance have guided country case selection. Hungary was severely affected by the crisis and later pursued bank nationalism, while also acting as a host to foreign banks and a home to OTP Bank. Czechia's role was strengthened by its EU Presidency, which enhanced the credibility and visibil-

ity of the Vienna Initiative (Nieto et al., 2021). Croatia has been selected due to its deepening integration into the EU framework: EU accession in 2013, euro adoption in 2023, and the Croatian central bank governor's chairmanship of the Vienna Initiative Steering Committee from 2016, before becoming ECB Vice-President in 2026. Albania was selected as the first non-EU member to join the Vienna Initiative Steering Committee in 2013, reflecting early engagement in regional financial coordination. On the home-country side, the Austrian National Bank (OeNB) and the Bank of Italy represent the most influential authorities in CESEE, playing key roles in cross-border supervision, crisis management, and capital allocation.

The analysis relies on data provided by national central banks and international financial institutions. The article also used various reports and press releases related to the Vienna Initiative. The analysis draws on publicly available data from the World Bank's World Development Indicators (WDI), the Global Financial Development Database (GFDD), and the Federal Reserve Bank of St. Louis (FRED)<sup>1</sup>.

## 2.1. Economic Overview of the Selected Countries

Key macroeconomic and banking-sector indicators for six European countries are presented in Table 1, highlighting structural differences between host and home banking systems and between EU and non-EU member countries. Hungary and Czechia, with populations of roughly 10 million each, have experienced strong post-transition economic growth, with GDP per capita rising from USD 15,204 to 22,131 in Hungary and from USD 22,774 to 31,706 in Czechia by 2023 (World Bank, 2024; IMF, 2023). Both countries adopted two-tier banking systems, aligned regulation with market principles, and joined the European Union in 2004. Their banking sectors are highly concentrated, with foreign ownership remaining substantial—around 84 per cent in Czechia—while in Hungary it declined markedly from approximately 82 per cent in the 2000s to 64 per cent in the next decade.

In the Western Balkans, Croatia and Albania illustrate different stages of financial development and EU integration. Still, their banking sector is highly concentrated with 90% foreign ownership, reflecting reliance on cross-border banking groups. Croatia, with a population of around 4 million and GDP per capita rising from USD 14,461 to 18,840, became the first Western Balkan EU member in 2013 and introduced the Euro in 2023. Albania, with roughly 2.8 million inhabitants and GDP per capita rising from USD 4,422 to 6,432, remains in the early stages of EU convergence. These host countries are therefore particularly sensitive to shocks transmitted from parent banks and home-country policy changes.

By contrast, Austria and Italy represent advanced home-country banking systems with substantial cross-border activity but limited foreign penetration. Austria's population grew modestly from 8.34 million to 8.93 million, while GDP per capita rose from USD 47,320 to USD 53,830. Italy's population remained near 59 million, with GDP per capita largely stable at around USD 37,000. Banking-

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<sup>1</sup> It should be noted that data on the share of foreign bank assets in total banking assets from FRED are unavailable for several countries after 2013, as this series is no longer updated.

sector concentration is high in both countries, with the five largest banks holding 63–65% of total assets, while foreign-owned banks account for only 9–10% of total assets, confirming their role as primarily home markets.

Overall, Table 1 illustrates the home–host asymmetry in European banking systems. Host countries—Hungary, Czechia, Croatia, and Albania—have high reliance on foreign-owned banks and concentrated financial sectors, making them vulnerable to cross-border shocks and policy changes in their parent banks' home countries.

Table 1. Some Macroeconomic Indicators and the Concentration of the Banking Sector

Countries	Population in Million		GDP/capita USD		GDP growth in %		Unemployment rate in %		Concentration, Portion of the five big banks in %		Share of Foreign Banks
	2009	2024	2009	2024	2009	2024	2009	2024	2009	2022	2009 (2013)*
Albania	2.90	2.47	4 422	9910	2.70	4.83	13.08	10.25	73.08	74.01	90 (81)
Croatia	4.1	3.87	14 461	22250	-6.81	7.29	9.20	5.24	55.20	66.20	90
Czechia	10.40	10.91	19 817	29560	-4.80	4.00	6.70	2.51	77.49	75.00	84
Hungary	10.03	9.56	13 040	20770	-6.74	7.22	10.03	4.43	79.96	60.91	82 (64)
Italy	59.56	58.92	37 099	38590	-5.30	4.80	7.70	6.78	54.90	62.58	9.00
Austria	8.34	9.17	47 320	54760	-3.59	4.82	5.37	5.44	52.68	64.79	10.00

Source: Edited by the author based on the World Bank Database

Note: \*The number in brackets shows the value in 2013, if the value changed.

## 2.2. Evaluation of the Banking Sector of Selected Countries

### 2.2.1. Hungarian Banking Sector

By 2008, Hungary had undergone two waves of privatisation involving green-field investments and sales to foreign strategic investors. As a result, the banking sector's structure was as follows: foreign ownership accounted for 71% (24% Austrian banks, 20% Italian banks, 14% Belgian banks, and 13% German banks), while domestic ownership accounted for 29% (Szombati, 2012). German banks (e.g., Commerzbank, Deutsche Bank) were primarily focused on the corporate sector. In contrast, Austrian (e.g., Erste Group, Raiffeisen Bank International (RBI)) and Italian banks (e.g., UniCredit, Intesa Sanpaolo) dominated the retail market.

These foreign banks had enjoyed significant profits since 2001, strengthened by favourable interest rates and government policies that promoted lending, particularly in the mortgage market, and by poorly designed regulations. By 2004, beneficial lending conditions began to deteriorate (high interest rates), and banks started offering foreign-currency-denominated loans (low interest rates). This shift led to Hungarian households' heavy reliance on foreign currency loans, with over 60% of household debt denominated in Swiss francs by 2008, exposing the economy to significant exchange rate risks (IMF, 2011).

The GFC severely affected Hungary, which is highly reliant on external financing. By 2008, public debt approached 70% of GDP and external debt nearly 100% due to fiscal and current account deficits (IMF, 2011). The forint depreciated sharply (~16%) in October 2008, investor confidence collapsed, Treasury bond issuance stalled, and FX reserves proved insufficient. The MNB's request for an EUR–HUF swap line from the ECB was rejected over operational and currency risks (Király, 2019; Bod, 2010; Spielberg, 2023).

In response, Hungary sought IMF assistance and entered into a USD 25 billion financing arrangement with the IMF, the EU, and the World Bank to stabilise liquidity and restore investor confidence (MNB, 2008, p. 1). The Vienna Initiative was crucial, with financial support under JIFIAP and major foreign banks—including, among others, Erste, RBI, Intesa Sanpaolo, and UniCredit—committing to maintain funding for Hungarian subsidiaries through 2009 (MNB, 2024). By 2010, markets stabilised, confidence returned, and the government successfully issued bonds, although the new government later suspended IMF/EU negotiations and did not draw on remaining tranches (Bod, 2010a).

After 2010, several scholars examined the Hungarian banking sector, observing a shift towards „banking nationalism” (e.g., Mérő & Piroska, 2016). This trend involved placing individuals affiliated with the ruling party in key decision-making positions and directing public and private funds to political allies. The ownership structure of Hungary's banking sector underwent a dramatic shift after 2012, with a significant increase in domestic ownership. This shift reflected the Hungarian government's increasing ambition to assert greater control over the banking sector (Benczes and Orzechowska-Waclawska, 2024). In 2022, the state-controlled entity, the Hungarian Bank Holding, was established to consolidate and strengthen Hungary's banking sector by integrating several previously private banks into a centralised, government-backed and nationally owned financial group. While the creation of the holding strengthened the banking sector, it has also faced criticism for its political influence and lack of transparency. Hungary's decision not to join the Banking Union has led to distinct regulatory treatment for domestic banks, most notably OTP Bank. Because the European Central Bank does not directly supervise the OTP Group, which holds more than 20% of the domestic market share and maintains a substantial presence across CESEE, supervisory responsibility remains at the national level.

The Vienna Initiative have contributed to the stability of the Hungarian financial sector. Hungarian authorities and OTP Bank, as a regional banking group, have become increasingly engaged, contributing to the Initiative's activities through survey participation and involvement in both the Working Groups and the Full Forum. However, neither the Hungarian authorities nor OTP Bank has held membership on the Steering Committee.

### 2.2.2. Czech Banking Sector

In the early 1990s, the Czech banking sector experienced rapid entry by private banks that outpaced supervisory capacity and market discipline (Bárta & Singer, 2006). Partial privatisation, combined with continued state ownership and soft lending to corporatised firms, and weak bankruptcy and collateral enforcement, led to the accumulation of non-performing loans and structural fragility by the mid-1990s. When growth slowed in 1997, crisis resolution relied on state-backed asset management institutions—most notably Konsolidační banka and later the Czech Consolidation Agency (ČKA)—which absorbed distressed assets and recapitalised banks, socialising losses while preparing the sector for eventual privatisation (Bárta & Singer, 2006).

By the late 1990s, large-scale privatisation transferred most Czech banking assets to Western European parent banks. The three largest banks—Česká spořitelna (Erste), Komerční banka (Société Générale), and ČSOB (KBC)—accounted for more than half of sector assets, consolidating foreign dominance (CNB, 2019). By 2001, privatisation was largely complete, and subsequent restructuring proceeded with limited state intervention, resulting in foreign ownership of 80–90% of total assets by 2008 (Frait et al., 2011). Enhanced supervision, governance, and prudential regulation under the Czech National Bank (CNB) strengthened capitalisation and profitability, enabling Czech banks to enter EU accession with resilience and to weather the global financial crisis with strong balance sheets, negligible foreign-currency household lending, and ample liquidity (CNB, 2009). During the global financial crisis, Czech banks proved resilient. Profitability remained positive, non-performing loans rose only moderately (~3.2% by end-2008), and a structural liquidity surplus with limited reliance on interbank markets supported funding. Credit growth stalled in 2009, particularly for corporates, but the system avoided the large-scale bailouts seen elsewhere. Deposit protection was strengthened, aligning with EU directives by 2010 (CNB, 2009).

After the global financial crisis, the central bank combined accommodative monetary policy with macroprudential tools, including a one-sided exchange-rate commitment in 2013 to counter deflation (Hlédik et al., 2016). These measures supported mortgage lending and preserved profitability and capital buffers, while borrower-based limits and countercyclical capital buffers helped manage credit cycles. Throughout the 2010s, Czech banks remained profitable, liquid, and well-capitalised, with returns often exceeding EU averages (CNB, 2020). During COVID-19, capitalisation remained robust, supported by foreign parent banks (IMF, 2022), and, despite inflation, tightening, and windfall tax debates, banks in the early 2020s sustained strong profitability due to higher net interest margins (CNB, 2024; CNB, 2022).

The Czech Republic formally engages in the Vienna Initiative, but it is mainly passive. In contrast to Hungary, Czech banks entered and weathered the crisis with high capitalisation, strong domestic funding, and sustained profitability under

a conservative supervisory regime. Rather than participating actively in a coordination framework that could signal fragility, the CNB relied on its established prudential toolkit and direct bilateral communication with foreign parent banks.

### 2.2.3. Croatian Banking Sector

In the early 1990s, Croatia's economy faced severe shocks, including the devastation of war and hyperinflation exceeding 1,500% by 1993. The introduction of the kuna in 1994 stabilised prices, but the banking sector remained fragile, burdened by state ownership, weak risk management, and rising non-performing loans. The banking crises of 1998–1999 exposed systemic vulnerabilities, prompting government interventions through recapitalisations, closures, and regulatory reforms that eventually created opportunities for foreign strategic investors. In the aftermath, Croatia accelerated the privatisation of major banks. Privredna banka Zagreb and Zagrebačka banka were sold to Italian banking groups Intesa Sanpaolo and UniCredit, respectively. At the same time, Austrian institutions—including Erste, Raiffeisen, and Hypo Alpe-Adria—entered the market aggressively. By 2004, foreign-owned banks controlled more than 90% of total banking assets, one of the highest shares in the region (Reininger & Walko, 2005).

During the mid-2000s, Croatia experienced rapid growth in household mortgages and consumer loans, fuelled by rising incomes, EU accession prospects, and abundant cheap foreign funding. To moderate this expansion, the CNB introduced a 1% monthly limit on credit growth after 2006, which constrained lending by smaller banks, such as Banco Popolare (Dumičić & Ljubaj, 2018). This period was also characterised by extensive financial euroisation, with a large proportion of loans denominated in or indexed to the euro or Swiss franc. The central bank implemented macroprudential measures—including higher reserve requirements on foreign borrowing, credit growth limits, and stricter provisioning—to temper the credit boom. Nevertheless, by 2008, over 70% of household and corporate loans were in foreign currency, creating significant currency mismatches between kuna income and foreign-currency obligations (IMF, 2008). Despite these risks, the central bank's cautious policies ensured that the financial system and the exchange rate remained stable during the global financial crisis of 2007–2009, supported by well-capitalised banks and accumulated liquidity buffers (Parac et al., 2023, p. 194).

Croatia joined the European Union in 2013, marking a major milestone in its integration into the European financial system. Cooperation with the ECB began in 2020, bringing major banks under the Single Supervisory Mechanism, and the adoption of the euro in 2023 eliminated currency risk, reduced market fragmentation, and improved liquidity and safety-net access. During the COVID-19 pandemic and the subsequent period of high inflation, the banking system demonstrated resilience, supported by temporary loan moratoria, flexible supervision, and robust capital and liquidity buffers (IMF, 2022).

The Vienna Initiative played a critical role in stabilising Croatia's foreign-dominated banking sector, supporting cross-border funding and preventing disorderly deleveraging. The Initiative also helped with NPL management; NPLs decreased from around 17% to 2.4% by the end of 2024 (NPL Monitoring). Within the Steering Committee, home and host supervisors were Austria and Croatia in 2013, with the CNB governor serving as chairman from 2016. Cross-border banking groups, including UniCredit and Raiffeisen Bank International, were represented, while OTP Bank became the fourth-largest bank in the domestic market. This framework reinforced supervisory cooperation, stabilised cross-border operations, and supported the continued development of Croatia's banking sector.

#### 2.2.4. Albanian Banking Sector

In the 1990s, state-owned banks dominated, but hyperinflation, instability, and the collapse of pyramid schemes undermined public confidence and the financial intermediation system. Guided by the IMF and World Bank, Albania privatised and restructured its banks in the early 2000s, including the sale of the largest bank, the Savings Bank of Albania, to Raiffeisen Bank International in 2004. By 2006, foreign banks—primarily Italian, Greek, Turkish, and Austrian—controlled over 90% of banking assets. (IMF, 2008), stabilising the sector, deepening intermediation, and integrating Albania into regional banking networks. The Bank of Albania strengthened supervision, modernised infrastructure, liberalised interest rates, and aligned policies with EU standards, while the Albanian Financial Supervisory Authority (AMF), established in 2006, oversaw insurance, pensions, and capital markets.

Albania's banking sector has been shaped by a series of major shocks, which have strengthened its engagement with the Vienna Initiative. During the 2008–2009 GFC, deposit withdrawals, exchange rate pressures, and reductions in foreign bank exposure led domestic banks to curtail lending sharply. (IMF, 2008; Sejko, 2019; Tushaj, 2010). Subsequent regulatory tightening in home countries, such as Austrian requirements in 2011, further exposed the vulnerability of small host economies, exemplified by Raiffeisen Albania's sale of government bonds equivalent to approximately 3% of GDP (Allen, 2019; World Bank, 2017).

The establishment of the European Banking Union reinforced cross-border supervisory challenges, prompting Albania to join the Vienna Initiative 2.0 Steering Committee in 2013. This membership enhanced coordination between host and home supervisors, supported cross-border financial stability, and facilitated mechanisms to mitigate the risks associated with foreign bank withdrawals (Sejko, 2019). High NPL ratios, exceeding 24% in 2014, were driven by government arrears, sectoral overexposure, and loans denominated in foreign currencies without adequate hedging (World Bank, 2017). Albania joined the NPL Initiative in 2014 and implemented comprehensive legal and institutional reforms, including updates to the Civil Procedure Code, Bankruptcy Law, Private Bailiffs Law, and property registration procedures. These measures, combined with tailored resolution strategies, reduced the NPL ratio to ~4% by 2023 (Vienna Initiative, 2024). OTP Bank also entered the Albanian market in 2019 through the acquisition of Société Générale Albania.

Albania's experience underscores the pivotal role of the Vienna Initiative in stabilising a small, foreign-dominated banking sector. By coordinating parent bank support during crises, facilitating regulatory dialogue, and complementing domestic reforms, the Initiative enhanced Albania's financial resilience and cross-border risk management (Sejko, 2019). Albania joined the Vienna Initiative 2.0 Steering Committee in 2013 as a representative of non-EU host countries. While Austria represented the Home countries, Raiffeisen Bank International represented a cross-border banking group. These arrangements strengthened coordination between host and home supervisors, supported financial stability, and enabled Albania to engage effectively in mechanisms designed to mitigate cross-border risks. On 23 October 2015, Albania formalised its commitment by signing a Memorandum of Cooperation, reflecting the Initiative's broader role in coordinating the European Banking Authority and six Southeastern European nations (Sejko, 2019, p. 289).

### 2.2.5. Austrian Banking Sector

Following the political and economic transformation of Central and Eastern Europe after 1989, Austria's financial system rapidly reoriented toward cross-border banking. Geographical proximity, historical ties, and first-mover advantages enabled Austrian banks to expand aggressively into transition economies. Throughout the 1990s and early 2000s, institutions such as Erste Bank, Raiffeisen, and Bank Austria (later UniCredit Bank Austria) acquired and established subsidiaries across CESEE, positioning Austria as a regional financial hub. The Austrian central bank (Oesterreichische Nationalbank, OeNB) became one of the most important home supervisors for CESEE banking systems.

Based on Krenn & Pühr (2009, p. 107), Losoncz (2010, p. 72), and Liebeg et al. (2007), Western European banking groups accounted for nearly 90% of loan stocks in several host countries. Austria held the largest exposure in the region: by 2008, the loan stock transferred to CESEE amounted to approximately 80% of Austria's GDP. By the end of 2008, around 40 Austrian banking subsidiaries operating in CESEE and the CIS accounted for more than 30% of the Austrian banking sector's consolidated assets. These operations generated about EUR 2.9 billion in pre-tax profits, helping to offset losses from domestic business and other global markets. No single CESEE country accounted for more than 20% of total Austrian exposure, indicating a geographically diversified strategy. Foreign ownership positively affected interest margins, as subsidiaries of Austrian groups could refinance more cheaply than domestic competitors. They benefited from internal capital markets and implicit parental guarantees. Profitability varied across countries, but several Austrian banks remained resilient despite deteriorating global conditions.

As the GFC deepened, home-country authorities took decisive action to stabilise banking systems by providing liquidity, easing monetary policy, and engaging closely with the ECB. In several cases, political pressure led home supervisors to prioritise domestic stability over the funding needs of foreign subsidiaries. This created tensions between national interests and host-country financial stability

in CESEE. Raiffeisen and Erste received state capital injections and guarantees, while authorities encouraged retaining taxpayer-backed liquidity at home, even as subsidiaries faced funding shortages abroad. Raiffeisen Bank International was among the first to call for coordinated action (Király, 2019). By October 2008, its CEO, Herbert Stepic, recognised the systemic nature of the problem and initiated communication with other Western banking groups, arguing for a concerted response involving policymakers, including the ECB, European Commission, EBRD, EIB, finance ministries, and central banks from CESEE countries (Stepic, 2019). In 2011, Austrian authorities introduced further regulatory tightening in response to lessons from the crisis. These policies directly influenced host-country banking sectors by constraining excessive credit growth, strengthening risk management practices, and mitigating the risk of sudden funding reversals, particularly in smaller CESEE economies heavily reliant on Austrian banking groups (Allen, 2019).

Under the Banking Union, Austrian authorities strengthened regulatory oversight and aligned domestic supervision with evolving EU frameworks. The OeNB, in cooperation with the ECB, expanded consolidated supervision through supervisory colleges, ensuring coordination between home and host regulators on capital adequacy, liquidity management, and risk controls.

Austria played a central role in the creation of the first version of the Vienna Initiative, which ensured that parent banks maintained exposures in host countries, preventing disorderly deleveraging and mitigating systemic risks across the region. Nagy-Mohácsi (2019, p. 371) highlighted that the success of the Vienna Initiative can be attributed to Thomas Wieser, who, as Director General of the Austrian Ministry of Finance, managed to align the interests of sovereign nations. He demonstrated that beyond Austria, other countries like France and Italy would gain. Austria was a member of the Steering Committee several times.

### 2.2.6. Italian Banking Sector

Italy occupies a distinctive position among home countries in CESEE banking due to the historical evolution of its financial system, the prominence of large domestic banking groups such as UniCredit and Intesa Sanpaolo, and its structural exposure to sovereign risk. Although Italian banks expanded into the CESEE region during the 1990s and early 2000s, their degree of internationalisation remained moderate compared with peers such as Austria and Germany.

Despite privatisation, modernisation, and consolidation, the Italian banking model before the GFC remained relatively traditional. Bank balance sheets were dominated by customer lending, with derivatives accounting for only about 3 per cent of assets, and a substantial share of portfolios consisted of domestic government securities. This structure generated significant sovereign exposure, which became a critical vulnerability during the euro-area sovereign debt crisis. As Quaglia (2014) emphasises, Italian banks' reliance on domestic public debt strengthened the sovereign–bank nexus, allowing fiscal stress to transmit into banking fragility rapidly.

The sovereign debt crisis of 2010–2011 marked a turning point. Large holdings of Italian government bonds raised funding costs and weakened capital positions as spreads widened (ECB, 2011). At the same time, Basel III implementation and the 2011 EBA stress tests increased capital and liquidity requirements, encouraging banks to reduce risk-weighted assets and deleverage (Quaglia, 2014). Consequently, Italian banks shifted their CESEE strategies away from aggressive expansion toward locally funded, more conservative subsidiary models, thereby slowing credit growth in host economies. ECB liquidity support through the Long-Term Refinancing Operations (LTROs) stabilised funding conditions and helped prevent abrupt retrenchment from foreign markets (ECB, 2012).

For Italy as a home country in the CESEE region, the crisis produced mixed implications. While domestic pressures constrained outward lending, Italian banks—particularly UniCredit—remained important players in the region. Their continued presence was supported by coordinated European policy frameworks, notably the Vienna Initiative, which aimed to avoid disorderly deleveraging and preserve financial stability in host countries. Italian authorities and banks committed to maintaining exposures in CESEE, and later, the focus shifted toward supervisory coordination and macroprudential dialogue (Vienna Initiative, 2018). Italy became the first home country, and UniCredit the first banking group, to join the Steering Committee, reflecting its role as both a regional lender and a policy coordinator (Sejko, 2019). The Bank of Italy, in cooperation with the ECB, strengthened transaction approval processes, capital oversight, and risk governance. Quaglia (2014) argues that effective crisis management requires not regulatory relaxation but EU-level simplification and harmonisation, notably through the Banking Union and the Single Supervisory Mechanism, to reduce uncertainty and improve cross-border supervision. Overall, Italy illustrates a hybrid home-country model in CEE: cross-border banking engagement remains regionally important but constrained by deep domestic intermediation and sovereign exposure.

## Findings and Conclusion

The GFC revealed the depth of financial interdependence between CESEE's banking sectors and those of Western Europe. Dense cross-border banking networks confronted multinational groups with a collective-action dilemma: whether to maintain exposures in CESEE or engage in rapid retrenchment to preserve their liquidity and profitability. Most host authorities lacked effective lender-of-last-resort capacity, making unilateral responses insufficient. Against this background, home and host regulators converged on preserving systemic stability, leading to the European Bank Coordination (Vienna) Initiative 1.0, an ad hoc crisis-management framework, and to the IFIs behaving as lenders of last resort. As EU financial governance later became more institutionalised, the Vienna Initiative 2.0 took on a new function, complementing the new supervisory architecture and providing a safety net for structurally vulnerable CESEE financial systems.

This article analysed, across 4 host and 2 home countries, how power relations among European authorities, host and home countries, and the national interest shape adjustment within the evolving European banking system, namely how they reacted to the GFC and the new EU financial governance. From a constructivist perspective, participation in transnational financial regimes reflects not only material exposure but also the ideas, identities, and strategic interpretations of policymakers (Haas, 1992; Wendt, 1999; Finnemore & Sikkink, 1998). Central bank governors function as epistemic and normative agents who frame cooperation either as a stabilising opportunity or as a constraint on national sovereignty, thereby shaping national adjustment paths within European financial governance.

Among host countries, Hungary illustrates a shift from crisis coordination to selective control. Under András Simor, the Vienna Initiative was used to secure financial support during the IMF–EU programme and to secure parent-bank commitments, thereby limiting disorderly deleveraging. Under György Matolcsy (2010–2025), engagement became embedded in a broader strategy of financial nationalism, including the conversion of foreign-currency debt, special bank taxes, and the strengthening of domestically owned banks (Mérő & Piroška, 2016). By contrast, Czech governors, including Zdeněk Tůma (2000–2010) and Miroslav Singer (2010–2016), emphasised institutional self-sufficiency and limited exposure, thereby keeping Czechia outside the Vienna Initiative framework. Subsequent governors, Jiří Rusnok (2016–2022) and Aleš Michl (2022–), reinforced this sovereignty-oriented stance through macroprudential measures and encouragement of local funding retention (CNB, 2010, 2022, 2025).

In the Western Balkans, Croatia highlights the Initiative's stabilising role for small, foreign-bank-dominated systems. Croatian leadership ensured the maintenance of parent-bank exposures and deep EU-level coordination. The governor, Boris Vujčić (2012– present), who has chaired the Initiative's Steering Committee since 2016 (CNB, 2013), was nominated as the ECB's next vice president on January 19, 2026. In Albania, Governors Ardian Fullani (–2014) and Gent Sejko (2015– present) facilitated active participation in Vienna 2.0 despite Albania's non-EU status, addressing risks from Greek bank deleveraging and strengthening domestic resolution frameworks, aligning its regulatory framework with EU standards, and fostering regional supervisory cooperation. Overall, the Vienna Initiative provided a safety net for transitional and vulnerable systems, supporting Croatia's EU accession and Albania's regulatory alignment.

Home-country cases further demonstrate leadership-driven variation. Austria, with extensive CESEE exposure, was deeply engaged in the Vienna Initiative, led by Thomas Wieser (Ministry of Finance) and Herbert Stepic (CEO of the RBI). Governors Ewald Nowotny (2008–2019) and Robert Holzmann (2019–2025) leveraged the framework to secure commitments from parent banks, coordinate macroprudential policies, and balance domestic stability with regional responsibility. Italy, with a predominantly domestic banking sector, adopted a more selective,

sovereignty-conscious approach. Under Governors Mario Draghi (2006–2011) and Ignazio Visco (2011–2023), Italian authorities prioritised capital strengthening, liquidity, and national resilience while engaging with transnational platforms such as the Vienna Initiative primarily in a coordinating capacity.

Since the Global Financial Crisis (GFC), banking systems in both host and home countries have undergone significant adjustment within the evolving European banking system, shaped by cross-border exposures, domestic regulatory capacities, and engagement with the European Bank Coordination (Vienna) Initiative. Host countries followed divergent paths: Hungary moved from coordinated stabilisation to financial nationalism, Czechia relied on prudential self-sufficiency, Croatia strengthened home–host supervision, and Albania used the Initiative to stabilise a foreign-dominated system and align with EU standards. Austria actively coordinated cross-border exposures, while Italy focused on domestic stability and selective engagement. The European Commission–led Vienna Initiative secured the dominant role of key stakeholders in CESEE, stabilising the region and preventing disorderly deleveraging. Yet, credit-to-GDP remains far lower in host countries than in home countries, underscoring enduring asymmetries in financial intermediation and limiting their capacity to support economic development.

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