Europeanization or Transnationalism?
Institutionalizing Banking Sector Regulation in Bulgaria and Hungary

Paper prepared for the NIG Annual Conference
Panel "The Evolving Institutional Balance in the European Union"
12-13 November 2009, Leiden, The Netherlands

Work in progress

Comments are very welcome: a.spendzharova@maastrichtuniversity.nl

Aneta B. Spendzharova
Maastricht University
Department of Political Science

Europeanization has shaped significantly our understanding of European policy-making in the past decade. This theoretical framework has helped us gauge the processes through which EU laws and policies are adopted, transformed, and implemented in the domestic political systems of the member states as well as the channels through which member states can "upload" their policy preferences onto the European level (Knill and Lenschow 1998; Radaelli 2000; Cowles et al. 2001; Héritier et al. 2001; Börzel and Risse 2003). The accession negotiations process, in which the Central and Eastern European candidate countries had to adopt and implement the EU *acquis communautaire* in a short period of time, has provided ample empirical evidence that Europeanization matters (Schimmelfennig and Sedelmeier 2005). Specifically with regards to Central and Eastern Europe, the domestic political and institutional reforms have been strongly influenced by the asymmetric effects of conditionality (Dimitrova 2002; Schimmelfennig and Sedelmeier 2004; Vachudova 2005).

Powerful as the Europeanization theoretical framework is, does it apply uniformly across policy areas? An alternative explanation of the observed approximation between domestic policies and those at the EU level refers to broader processes of economic globalization and diffusion of policy paradigms. In that regard, I propose to revitalize *transnationalism* research. The theoretical contribution of transnationalism is that it helps us conceptualize more accurately the linkages between international and domestic politics. Some issues exhibit neither clear-cut inter-governmental dynamics – policy change controlled by states' governments – nor manifestly supranational dynamics – policy transfer from a supranational organization. Instead, we observe extensive transnational linkages among a variety of participants such as private actors, government policy experts, social movement activists, and researchers from academic organizations and think tanks. These linkages tend to be more regularized and in-depth than intergovernmental theories would anticipate, but not as strongly and densely institutionalized as in the supranational framework. It is especially important to analyze the transnational dynamics of policy change in order to have a more in-depth understanding of cross-border policy coalitions and knowledge transfer.

I argue here that transnational relations shaped significantly the banking sector regulatory framework in two new EU member states – Bulgaria and Hungary – after the fall of the communist regimes in 1989. Well before harmonization with the EU *acquis*, the loan conditionality policies of international financial institutions such as the IMF and the World Bank did stipulate clear requirements for Central and East European governments in a range of areas such as acceptable budget deficit, public expenditure, fiscal policy, and administrative restructuring (Stone 2002; Bird and Willett 2003; Fries 2005). However, those agreements did not oblige the recipient states to welcome foreign experts in their public administration and grant them the power to redraw domestic laws and policies. This paper demonstrates that, in practice, transnational actors such as USAID experts working in the Bulgarian bank supervision department and World Bank experts in Hungary had tremendous influence over the emerging banking sector regulatory framework in the two countries throughout the 1990s.

This paper is organized as follows: I first outline briefly transnationalism research and discuss the case selection. I then present the institutional features of the public bank regulatory organizations in Bulgaria and Hungary and the core regulations that they implement. After that, I analyze the role of transnational experts and private actors in the bank regulatory process in the two countries. Lastly, I summarize the findings of the paper.

Transnationalism and domestic policy change

The definition of transnational used here follows Keohane and Nye's (1972: xi) seminal work on transnational relations as "contacts, coalitions, and interactions across state boundaries that are not controlled by the central foreign policy organs of governments." Later on, Keohane and Nye (1974) specified that transnationalism refers to the international activities of nongovernmental actors, distinguishing these from transgovernmental actors such as "sub-units of governments on those occasions when they act relatively autonomously from higher authority in international politics." They demonstrated that the more decision-making is characterized by complex interdependency, the more policy outcomes are shaped by transnational relations.

Transnationalism has also been used widely in legal research to bridge the gap between the domestic and international legal order and account for the existence of law that regulates "actions or events that transcend national frontiers. Both public and private international law are included, as are other rules which do not wholly fit into such standard categories" (Jessup 1956; see also Steiner and Vagts 1976). Under the broader rubric of transnationalism, Anne-Marie Slaughter (2000; 2003) has examined the impact of transgovernmental regulatory networks such as the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissioners (IOSCO).

In political science, in order to achieve more effective generalizations, current research treats sub-units of government as transnational actors as well, given that certain conditions are met. Thus this paper subscribes to Thomas Risse's (1995: 9) refinement of the transnational relations concept and emphasis that *transnational* adds to our understanding of intergovernmental relations only when at least some of the government officials participating in the transnational or transgovernmental coalition "pursue [their] own agenda independent of national decisions." If government sub-units adhere to the preferences of the relevant minister or top government official, transnationalism has nothing to add to state-centric theories of policy-making. In the realm of European financial sector policies, David Cameron (1995) has shown in his analysis of the European Economic and Monetary Union (EMU) that the transnational community of European central bankers was very influential in shaping the EMU. On several occasions, members of this transnational formation, in particular German and Dutch central bankers, promoted their own independent policy preferences rather than the stance of the national government (Cameron 1995: 41).

What is the range of transnational actors analyzed in the literature? Private actors such as individual business interests and sectoral associations seek to influence public policy in the relevant sector of interest (Gilpin 1971; Krause 1971; Katzenstein and Tsujinaka 1995; Slaughter 2000, 2003). Civil society groups, non-governmental organizations and social movements form transnational coalitions in order to exchange experience and strategies how to influence policy in diverse areas such as democracy and human rights, environment, sustainable development (Princen 1995; Tarrow 2001). Political parties and trade unions also act transnationally. We witness this especially in the international congresses of trade unions and political parties with the same ideological orientation such as the Socialist International, bringing together social-democratic parties, and the International Democrat Union and its European counterpart – the European Democrat Union that bring together christian-democratic parties (Kaiser and Starie 2005). The organization and impact of church and religious associations transcends national borders and can impact domestic policy (Keohane and Nye 1971). Last but not least, think thanks and research organizations with a focus on international issues act transnationally by forming policy networks and sending expert teams to countries that have solicited their expertise and recommendations (Heard-Lauréote 2005). After outlining broadly the scope of transnationalism research, let us turn to the case analysis.

Case selection

Why are Bulgaria and Hungary, two new EU member states, compelling cases to investigate the dynamics of banking regulation? New EU member states had to adopt all EU level financial regulations as part of the pre-accession process. At the same time, following the collapse of communism in 1989, Eastern European countries sought to transform their economies and imported extensively best practices from Western industrialized states. Thus new EU member states offer important evidence about policy influences from the EU level due to the accession process as well as the international level due to economic globalization.

Bulgaria and Hungary are also representative of the two most common types of banking supervision organizational structure in the EU. In Bulgaria, a supervision department within the central bank is in charge of monitoring banks and initiating sanctions. In Hungary, an independent agency, the Hungarian Financial Supervisory Authority (PSZÁF), oversees the entire financial sector. Moreover, among new EU member states, Bulgaria and Hungary represent late and early reformers, respectively. Bulgaria experienced a prolonged period of partial reforms and economic stagnation until the late 1990s. In Hungary, market economy transformations took place fairly quickly in the early 1990s

(Dobrinsky 2000; Vachudova 2005). Considering evidence from the two cases, let us examine the institutional structure of the national bank regulators and the core regulations that they implement.

National bank regulators in Bulgaria and Hungary

Due to their proximity to the regulatees, the national public regulators are important actors in the banking regulatory process. With respect to institutional setup, national banking regulators in Europe are either bank supervision departments in the central bank as is the case in Bulgaria or separate financial sector regulatory authorities such as the Financial Services Authority (FSA) in the UK and the Financial Supervisory Authority (PSZÁF) in Hungary. Those organizations carry out on-site bank examinations, monitor compliance with banking sector regulations, and initiate sanctions against banks that have violated the rules.

We need to analyze the role of banking sector regulators in the context of the deep transformations of European economies. Since the 1970s, European states have become less involved in direct ownership and steering of the market. Instead, they have engaged extensively in “the correction of market failures via rule-making” (Thatcher 2002a: 860). This change has led to the rise of independent regulatory agencies (IRAs). Following Mark Thatcher’s (2002b: 956) definition, “an IRA is a body with its own powers and responsibilities given under public law, which is organizationally separated from ministries and is neither directly elected not managed by elected officials.” According to Giandomenico Majone (1994: 89), the high level of technical expertise concentrated in IRAs and their ability to support very specialized policy-making provide an important rationale for setting up such agencies in different policy areas.

Most national banking sector regulators in Europe can indeed be classified as IRAs. We need to note here that IRAs are not part of government ministries and their decisions are more consequential than those of purely consultative agencies and committees. It is beyond the scope of this article to discuss the range of national financial regulatory systems in which independent banking sector regulators are embedded.[1] However, it is worthwhile mentioning that there is no identifiable trend toward adopting one particular banking supervision institutional setup across the EU. Overall, the rise of independent banking regulators on the domestic level has boosted cooperation among experts from the public and private sectors and professionals working in different countries (Thatcher 2002a: 860; Coen and Thatcher 2005).

In Bulgaria, Bank Supervision is a department within the central bank – the BNB. As the BNB was not fully independent from political pressure before the 1996/97 economic crisis, the supervision department could not conduct its activities independently either. In the aftermath of the crisis, the new government introduced a currency board and guaranteed central bank independence. The new Bulgarian Banking Law and Law on the BNB, both

[1] Kremers *et al.* (2003) present a lucid and comprehensive analysis of the pros and cons of a single supervision entity for the entire financial sector versus multiple supervision organizations focusing on specific fields such as banking, insurance, and securities.

adopted in 1997, contained stricter and more precise supervision requirements as well as more severe penalties (Ignatiev and Simeonov 1999). Over time, Bank Supervision gained more independence from political interference and also more organizational responsibilities especially in the realm of granting bank licenses and imposing sanctions (Ignatiev and Simeonov 1999). The Bulgarian government established a separate Financial Supervision Commission in March 2003 that is responsible for the integrated supervision of securities, exchanges, insurance, and pension funds. According to senior supervision professional Tatyana Petrova (2008, personal interview), Bank Supervision is appropriately situated within the BNB, because since the beginning of transition the Bulgarian banking sector has been more developed and complex than securities and insurance.

After the 1996/97 economic crisis, Bulgarian supervisors have taken a more pro-active stance in enforcing bank regulations. Several bank licenses were revoked due to solvency concerns (Ignatiev and Simeonov 1999). Cornerstone reforms in the banking sector and supervision took place by the end of bank privatization. When EU accession negotiations began in 2000, in the words of one supervision professional, “We were able to close the financial services chapters very quickly because after the 1996/97 crisis, we introduced better standards and more discipline in the sector” (Timnev 2008, personal interview). Even when EU bank regulations allow more discretion in national implementation, Bulgaria’s Bank Supervision tends to adopt a more conservative stance to ensure the stability of the financial system and avoid crisis (Anonymous interview 2008).

With respect to the influence of government ministries and political parties, a long-term supervision professional in Bulgaria stressed that political interference either from the governing or other political parties is now unacceptable (Anonymous interview, 2008). Unlike in Hungary, since the beginning of transition, Bulgaria’s Bank Supervision has not been influenced significantly by the Ministry of Finance (Avramov 2009, personal interview; Ganev 2009, personal interview).

The Hungarian Financial Supervisory Authority (PSZÁF) that currently oversees banking, securities, insurance, and pension funds was established in April 2000. Before the creation of the single financial supervisory organization, Hungary had a joint banking and capital market supervision agency since 1996, and a separate entity for overseeing securities, exchange, and pension funds (Piroska 2004). In her comprehensive analysis of the development of bank supervision in Hungary and Slovenia, Dóra Piroska (2004) has argued that since the 1990s international actors have advocated shielding Hungary’s bank supervision from political interference. In Piroska’s (2004: 8) view, there has been a strong consensus among international experts in favor of independent banking supervision that mirrors the broad international consensus in support of central bank independence (Maxfield 1998; Marcussen 2005; Epstein 2006; Johnson 2006).

The Hungarian case offers important insights into the tension between government ministries and independent regulatory agencies. Before the PSZÁF asserted itself as the main public regulator in the financial sector, the Hungarian Finance Ministry and the Hungarian National Bank also sought to influence bank regulations. According to Piroska (2004: 23), in the early 1990s, the Finance Ministry “often behaved as if the supervision agency was part of its own greater bureaucratic organization.” In fact, the very origins of bank supervision in

Hungary go back to the country's Finance Ministry. In the late 1980s, "6 people at the Finance Ministry supervised the entire banking sector" (Pirsoka 2004: 21). The HNB has been interested in managing the macroeconomic parameters in the sector according to its priorities, but has been willing to leave micromanagement issues to Bank Supervision (Csoór 2006, personal interview). For its part, the Finance Ministry sought to influence decisions regarding bank taxation in order to maximize tax revenues. Yet the two big public institutions, the HNB and the Ministry of Finance, could not agree on the precise role of Bank Supervision which, in the long run, boosted the organization's independent credentials. Successive Heads of Supervision pursued greater independence and legitimacy of the organization. In the words of former Head of Supervision Tamás Rusznák, cited in Piroska (2004: 23), "I wanted the agency not to be supervised by the Ministry of Finance or the government…as in the operation of those two institutions the conflicting goals of fiscal policy and bank supervision become immediately evident."

In sum, we have seen so far that in both Bulgaria and Hungary independent regulatory agencies monitor and ensure compliance with bank supervision rules. Bulgaria's Bank Supervision Department, organizationally situated within the central bank, has enjoyed significant independence from political pressure after the 1996/97 economic crisis and subsequent economic reforms. Hungary's Bank Supervision, situated within the financial sector regulator PSZÁF, faced challenges from the Finance Ministry but has asserted itself as the main public regulator in banking. We now turn to the core regulations implemented by the public regulators.

Core banking sector regulations

This section shows that the public regulators in Bulgaria and Hungary subscribe to the prudential supervision principles developed by the Basel Committee on Banking Supervision (BCBS) which is the main international forum for cooperation on issues of bank supervision and a prime example of a transnational coalition of central bankers (Cameron 1995; Slaughter 2000, 2003). The Committee was established in 1974 by the central bank governors of the so-called "Group of Ten"[2] following serious disturbances in international currency and banking markets. It is hosted by the Bank for International Settlements (BIS) and aims to "improve the quality of banking supervision worldwide by exchanging information on national supervisory issues, approaches and techniques, with a view to promoting common understanding" (BIS 2007). The BCBS is not based on a founding treaty and does not issue *binding* regulations. According to Dieter Kerwer (2005: 619), the committee's main functions are "to act as an informal forum to find policy solutions and to promulgate standards." In 1988, the committee introduced a capital measurement system, commonly known as the Basel Capital Accord or Basel I, which stipulated a minimum capital adequacy standard of 8 percent and provided a common approach to credit risk measurement. This framework has been widely implemented by virtually all countries with

[2] The "Group of Ten" is comprised of 11 industrialized states that consult and cooperate on economic, monetary, and financial matters. Those states are Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States. Luxembourg and Spain are also members of the Basel Committee.

internationally active banks (BIS 2007: 2). In 1999, the committee issued a proposal for a revised Capital Adequacy Framework, known as Basel II, that was adopted in 2004 after extensive consultations with banks, industry groups, and national supervisory authorities (BIS 2007: 3). Yet, as I noted earlier, the Basel Committee has no legal authority to impose its codes and standards (BIS 2007: 1). In the EU, Basel II has been incorporated in the EU's Capital Requirements Directive (CRD) adopted in 2006 and *is* legally binding for all EU member states.

At present, the Basel Committee on Banking Supervision is at the core of a dense international network of banking sector experts and professionals. Susanne Lütz (2000: 7) has examined the changing role of the committee from a forum for multi-lateral negotiations in the 1970s and 1980s to what she calls "a repository of best practices" that shapes policy-makers' and practitioners' approach to bank supervision. In March 1998, the BCBS founded the "Institute for Financial Stability" which trains national supervision personnel. The committee also participates in the "Forum of Financial Stability" that brings together public supervisory authorities and international financial organizations such as the IMF, World Bank, BIS, OECD, and IOSCO.

Is there evidence that national banking regulators in Bulgaria and Hungary use the Basel regulatory framework? The Basel Accords developed by the BCBS for advanced industrialized countries, and taken up by many emerging economies, have been adopted in Bulgaria and Hungary as well. Yet, in the early 1990s, despite the existence of legal provisions to implement the Basel I capital adequacy ratio of 8 percent, the governments of both countries lacked political will to enforce compliance (Piroska 2004: 13; Ignatiev 2008, personal interview). In both countries, the banking sector supervisory organizations did not have sufficient operational independence from the government to pursue rule enforcement single-handedly (Piroska 2004: 13; Ignatiev 2008, personal interview). The implementation of Basel I and, subsequently, Basel II was stricter and more successful following the completion of bank privatization in Hungary by 1997 and the economic reforms in Bulgaria after the 1996/97 crisis.

In both Bulgaria and Hungary, bank privatization brought in foreign banks, mostly based in Western Europe, that pushed for the implementation of the Basel regulatory framework with which they were familiar from their domestic regulatory context. Appendices I and II summarize the key privatization deals in the two countries and the major banks that participated in the process. Bank privatization started earlier in Hungary than in Bulgaria. According to political economist László Csaba (2006, personal interview), the aim of the initial economic reforms in Hungary was to correct the economic policy shortcomings of the previous regime. Privatization was a convenient way to address the lack of domestic capital, introduce better managerial skills, and boost economic development. The 1994 socialist-liberal cabinet led by Prime Minister Horn aimed to complete the privatization of the banking sector by the end of its four-year term. By 1997, the state, which had dominated the banking system in 1994, retained a majority stake only in two banks: the Hungarian Development Bank and Eximbank (Andor 2002).

The privatization of Bulgarian banks following the 1996/1997 crisis is regarded as one of the country's cautious transition success stories (Barisitz 2001; Yalamov 2007, personal interview). Until 1997, the state-run Bank Consolidation Company (BCC) that was founded in 1992 to improve the functioning of the banking system had not completed a single privatization deal. At the end of 1997, 28 commercial banks were active, most of which were still owned by the state. The 1997 Kostov and the subsequent 2001 Sakskoburggotski governments completed the bank privatization process. By 2003, the share of private ownership in the banking sector had reached 97.6 percent of bank assets. Only two banks remained state-owned: the Ministry of the Economy owned Nasurchitelna Banka and Sofia municipality owned Obshtinska Banka (Anglelov and Chobanov 2004). Officially, the bank transformation and privatization process was completed in 2003 with the sale of DSK to Hungarian banking group OTP (Vachkova 2004).

Overall, the harmonization with international standards such as the Basel Accords and "best practices" in prudential supervision in Bulgaria and Hungary was achieved largely during the bank privatization process. The government withdrew as an active participant in financial intermediation and credit allocation and focused on defining and strengthening its role as a public regulator. Thus in contradiction to the findings of Europeanization research in other policy areas, the EU's pre-accession conditionality did not have a strong impact on Bulgaria and Hungary's banking sector regulatory institutions, rules, and implementation procedures. It reinforced the institutional reforms undertaken earlier.

Hungary applied for EU membership in 1994 and started accession negotiations in 1998, while Bulgaria applied for EU membership in 1995 and started accession negotiations in 2000. From the 31 accession negotiation chapters,[3] Chapters 3 (Freedom to Provide Services) and 11 (Economic and Monetary Union) are the most relevant for banking. Let us now review Bulgaria and Hungary's progress in adopting and implementing EU banking regulations. Harmonizing the banking sector *acquis* was much faster and less problematic than other policy areas such as minority rights and the rule of law. Largely due to the regulatory reforms undertaken in the wake of the mid-90s banking crises, both Bulgaria and Hungary had put in place legal and institutional structures modeled after "best practices" in advanced industrialized economies well before the start of EU accession negotiations.

Bulgaria closed provisionally Chapter 3 very quickly compared to other policy areas: It took less than a year to harmonize the country's legislation and practices with those of the EU (European Commission 2008a). As summarized in the Commission's monitoring report, by the time of accession in 2007, the Basel II capital requirements were fully incorporated in national legislation. Furthermore, "banking supervision is well equipped and competently supervises the banks…the capacity and expertise of the supervision has been constantly upgraded (European Commission 2005a: 31). It took only a month to harmonize Chapter 11 legislation (European Commission 2008b).

Hungary opened Chapter 3 in 1999 and closed it provisionally in 2000 (European Commission 2008a). Similar to the dynamics in Bulgaria, Chapter 11 was closed faster, for

---

[3] Since 1998, the European Commission has published annual reports on the progress of each candidate country toward membership in the EU. The *acquis communautaire* is organized in 31 negotiation chapters, based on which the Commission specifies pieces of legislation that need to be adopted or amended to achieve full compliance.

several months in 1999 (European Commission 2008b). According to the European Commission's assessment, "the Hungarian Financial Supervisory Authority essentially has the required infrastructure and human resources to deal with the *acquis*-related tasks in the field of financial institutions" (European Commission 2003: 22). With respect to Chapter 11, the Commission concluded that "Hungary has met the commitments and requirements arising from the accession negotiations and is in a position to implement the *acquis*" (European Commission 2003: 33).

Transnational expert networks

Let us now examine more closely the role of transnational experts in redesigning the banking sector regulatory framework in Bulgaria and Hungary after 1989. In general, experts have become important participants in policy-making because of their knowledge and grasp of complex technical issues (Levi-Faur 2005). Mark Thatcher (2002b: 966) has pointed out that policy-making used to be "the preserve of small and closed policy community, dominated by civil servants and powerful incumbent interests, especially suppliers." By contrast, understanding the accumulation and transmission of knowledge across expert networks has become crucial in order to grasp contemporary policy-making in Europe (Kohler-Koch and Eising 1999; Knodt 2004; Kohler-Koch and Rittberger 2006). As Hooghe and Marks (2001) have shown, EU policy-making in particular has become less hierarchical and increasingly relies on dynamic networks which involve public authorities as well as private actors and sector-specific stakeholders.

What has been the role of transnational expert networks in formulating banking regulations in Bulgaria and Hungary since 1989? Following the collapse of the communist regime in 1989, the Bulgarian National Bank (BNB) became the country's central bank. Experts from the bank, including the supervision department, took part in short-term training programs abroad and interacted with their international counterparts (Roussenova 2007, personal interview). However, as one interviewee pointed out, "political pressure on the BNB was very strong at the time" and that restricted the subsequent implementation of the international regulations and practices to which the national experts had been introduced (Ignatiev 2008, personal interview).

After the severe financial crisis in 1996/97 and early elections, a new center-right government in Bulgaria embarked on a course of comprehensive economic reforms (Dobrinsky 2000; Vachudova 2005). This government welcomed foreign advisors and respected the independence of the BNB. In the area of banking supervision, my interviewees from the BNB's supervision department singled out USAID as the organization with the most significant and lasting impact on the development of supervision rules and practices in Bulgaria (Roussenova 2007, personal interview; Petrova 2008, personal interview). In the aftermath of the 1996/97 crisis, ten USAID experts worked closely with Bulgarian supervisors on a wide range of issues in the period 1998-2003. They helped draft the new Bulgarian Banking Law and develop supervision handbooks. They also accompanied Bulgarian supervisors on their on-site examinations and assisted with data collection and analysis (Ignatiev 2008, personal interview). As one interviewee has summed up, "the USAID experts provided very useful and relevant advice, they monitored and gave us feedback on how we implemented the new supervision guidelines" (Anonymous interview

2008). Here we have to note the importance of Bulgarian supervisors' active interest and willingness to learn more about international rules and practices. According to senior supervisor Tatyana Petrova (2008, personal interview), the leadership of the BNB and the Supervision Department recognized the potential benefits of USAID expertise and sought to cooperate with the US agency. Petrova also stressed that Bulgarian experts took an active role in evaluating and selecting the best practices that were most relevant for the domestic conditions.

The presence of USAID experts over an extended period of time contributed to a process of updating supervision rules in Bulgaria through dialogue and social interaction rather than mechanical rule transfer. Bulgarian supervision professionals took the initiative to "write up, improve, and specify a lot of internal rules and principles regarding licensing, on-site examinations, and sanctions" (Timnev 2008, personal interview). Thus when EU experts visited Bank Supervision in order to evaluate Bulgaria's readiness to apply the *acquis communautaire* in financial services, they found very few issues that still needed to be resolved. EU financial sector experts spent relatively little time in the organization and had a minimal impact on the way bank supervision is practiced in Bulgaria (Ignatiev 2008, personal interview).

For their part, Hungarian banking sector experts enjoyed a very permissive environment in the early 1990s with respect to the content of the new banking sector laws, including supervision rules. According to long-term supervision professional Klára Csoór (2006, personal interview), experts had a carte-blanche to put in place the policies that they deemed necessary. Private actors also played a role in the development of bank supervision in Hungary. In the early 1990s, the Hungarian supervisory organization had limited personnel for on-site bank examinations. On several occasions, Bank Supervision contracted major international audit companies to carry out the on-site examinations on behalf of the organization in order to conduct the risk analysis of the banks' portfolios (Piroska 2004: 18).

Hungary actively participated in economic reform programs organized by international actors such as the IMF and the World Bank in the early 1990s. The World Bank in particular ran a project to assist Hungarian legislators with drafting the new banking laws and advocated establishing an independent banking supervision agency (Piroska 2004: 10). Even though the World Bank organized training seminars for Hungarian bank supervisors, in the end, it was a strategic domestic decision to establish and develop independent bank supervision, recruit and train professional supervisors (Csoór 2006, personal interview). USAID experts helped prepare the guidelines for on-site bank examinations in Hungary, but they had a more limited role than in Bulgaria (Piroska 2004: 16).

According to long-term supervision professional Katalin Mérő (2006, personal interview), the overall stabilization of the Hungarian banking system and introduction of prudential supervision practices took place by the end of the bank privatization in 1997, well before the beginning of accession negotiations with the EU. The start of the Lamfalussy process in the EU increased transparency and led to better coordination of supervision practices among member states (Mérő 2006, personal interview). Mérő emphasized that it was not joining the EU that caused the adoption of international bank supervision standards in Hungary. In her own words, “we did that earlier because most Hungarian private banks prefer to operate according to common international rules” (Mérő 2006, personal interview).

In sum, the analysis has shown that international experts from USAID provided important assistance to Bulgarian supervision professionals in the period 1998-2003. World Bank and, to a lesser extent, USAID experts conducted training for Hungarian bank supervisors in the early and mid-1990s.

Transnational private actors

To what extent do private actors influence bank regulations in Bulgaria? Supervision professionals maintain contacts with the commercial banks on several organizational levels: Experts, directors, and even BNB governors if there is a serious issue that needs to be resolved (Timnev 2008, personal interview). Supervisors aim for active cooperation with their counterparts in the commercial banks and strive for “very professional and respectful relations” (Petrova 2008, personal interview). Professionals working at the commercial banks are frequently in contact with the Bank Supervision Policy and Methodology Department, headed by Tatyana Petrova, to receive methodological recommendations and practical advice. Those contacts are problem-driven rather than codified (Petrova 2008, personal interview).

Foreign banks entered the market in both Bulgaria and Hungary during the privatization process. They have a say in regulatory issues through their participation in the national peak associations of commercial banks. In Bulgaria, Bank Supervision’s Legal Department regularly consults the Association of Banks in Bulgaria, the main peak association in the sector, regarding any forthcoming regulatory changes. The Association receives drafts of planned regulatory changes, submits written positions on the drafts, and often puts forward proposals for regulatory changes in line with the needs and preferences of its members (Ivanova 2009, personal interview). In turn, supervision experts usually take into account the Association’s feedback, as long as it “does not contradict the established goals and principles of the organization” (Timnev 2008, personal interview). Supervisors also maintain contacts with commercial banks’ private auditors in order to check how a different organization assesses banks’ risks and verify the reliability of banks’ self-reported information (Petrova 2008, personal interview).

Similarly, the main peak association in Hungary, the Hungarian Banking Association (HBA), participates in the drafting and discussion of laws affecting the banking sector. The association presents and advocates policy proposals based on consensus among its 44 members. It also reviews the regulatory proposals of the Hungarian National Bank and closely cooperates with the Hungarian Financial Supervisory Authority (HBA 2009). As the Association’s annual reports demonstrate, its comments and proposals regarding banking sector regulations are taken seriously and frequently incorporated in forthcoming legislation (HBA 2001-2008). A member of the European Banking Federation, the HBA also pushes for the application of international banking standards domestically and training activities for professionals working in the commercial banks. Thus we have established that national banking sector regulators in Bulgaria and Hungary consult regularly private actors.

Conclusion

In both Bulgaria and Hungary, independent regulatory agencies monitor and ensure compliance with bank supervision rules. Bulgaria's Bank Supervision Department, organizationally situated within the central bank, has enjoyed significant independence from political pressure after the 1996/97 economic crisis and subsequent economic reforms. Hungary's Bank Supervision, situated within the financial sector regulator PSZÁF, faced challenges from the Finance Ministry but has asserted itself as the main public regulator in banking. The public bank regulators in Bulgaria and Hungary subscribe to the prudential supervision principles developed by the Basel Committee on Banking Supervision (BCBS) which is a prime example of a transnational coalition of central bankers.

Compliance with international standards such as the Basel Accords and "best practices" in prudential supervision in Bulgaria and Hungary was achieved largely during the bank privatization process during the 1990s. The government withdrew as an active participant in financial intermediation and credit allocation and focused on defining and strengthening its role as a public regulator. Thus in contradiction to the findings of Europeanization research in other policy areas, the EU's pre-accession conditionality did not have a strong impact on Bulgaria and Hungary's banking sector regulatory institutions, rules, and implementation procedures. Transposing the *acquis communautaire* relevant for the banking sector only reinforced the preceding reforms. Transnational experts have played an essential role in banking sector regulatory policy in Bulgaria and Hungary. The empirical analysis has shown that USAID experts provided important assistance to Bulgarian supervision professionals in the period 1998-2003. World Bank and, to a lesser extent, USAID experts coached and consulted Hungarian bank supervisors in the early and mid-1990s. Finally, private actors, through the national peak associations of commercial banks, have actively influenced the bank regulatory process.

Appendix I: Key bank privatization deals in Bulgaria

Bank name	Year of privatization	Method of privatization/details
OBB Obedinena Bulgarska Banka (United Bulgarian Bank)	1997 2000	EBRD, foreign strategic investors Openhaimer and Co., and Bulbank 90% share sold to National Bank of Greece
First Investment Bank	1997	European Privatization Investment Company (Austria) and the EBRD
Postbank	1998	US-Greek consortium (US Insurance company ALICO and the Greek European Financial Bank Group (EFG).
Expressbank	1999	Societe Generale
Hebrosbank	1999 2004	Regent Pacific Group (UK) Bank Austria Creditanstalt - HVB Bank Biohim
Biohim Later - HVB Bank Biohim	2002	Bank Austria Creditanstalt (Austria)
Bulbank (former Foreign Trade Bank)	2000	UniCredito Italiano and Allianz Holding (Germany)
DSK Darzhavna Spestovna Kasa (State Savings Bank)	2003	OTP (Hungary)

Appendix II: Key bank privatization deals in Hungary

Bank name	Year of privatization	Method of privatization/details
MKB Magyar Külkereskedelmi Bank (Hungarian Foreign Trade Bank)	1994 1996 2001	25% stake sold to Bayerische Landesbank (Germany) 16% stake sold to EBRD 8.2% stake sold to Deutsche Investitions und Entwicklungsgesellschaft (Germany) 25.8% stake sold to Bayerische Landesbank (Germany) consolidation: 99.68% stake owned by Bayerische Landesbank (Germany) and its subsidiary Bank für Arbeit und Wirtschaft AG (Austria)
OTP Országos Takarékpénztár És Kereskedelmi Bank (National Savings and Commercial Bank)	1995 1997	20% initial international stock exchange offering (Luxembourg) 13.4% stake for domestic offering 25% secondary stock exchange offering 3.6% stake sold to domestic retail investors 5% stake sold to management and employees
Budapest Bank	1995	27.4% stake and operational control given to GE Capital (US) 32.4% stake sold to EBRD
Dunabank	1996	Acquired by ING – Hungary (Netherlands)
Magyar Hitel Bank (Hungarian Credit Bank) later ABN AMRO Bank Hungary	1996 2005	89% stake sold to ABN AMRO merger with K&H Bank
K&H Kereskedelmi És Hitelbank (Commercial and Credit Bank)	1997 2000 2005	56% stake sold to consortium of Belgian-based Kredietbank – KBC and Irish Life Assurance merger with ABN AMRO Bank Hungary KBC bought 40.2% ABN AMRO stake, thus gaining full control of K&H
Mezőbank	1997	84% stake aquired by GiroCredit Bank (Austria), which merged with Erste Bank (Austria) in 1997
Postabank	2003	Sold to Erste Bank (Austria)

Appendix III: List of interviews

Bulgaria

Anonymous interview: Bank Supervision BNB, 13 May 2008.

Avramov, Roumen: Academic and NGO Expert, Center for Liberal Strategies (Programme Director Economic Research), 25 March 2009.

Ganev, Georgy: Academic and NGO Expert, Center for Liberal Strategies (Programme Director Economic Research), 25 March 2009.

Ignatiev, Petar: Analyst, United Bulgarian Bank. Previously: Expert, Bank Supervision BNB, 13 May 2008.

Ivanova, Kalina: Association of Banks in Bulgaria (ABB), 26 March 2009.

Petrova, Tatyana: Director, Bank Supervision Policy and Methodology BNB, 16 May 2008.

Roussenova, Lena: Member of the BNB Governing Council 1996-97, 22 July 2007.

Timnev, Tihomir: Expert, Bank Supervision Legal Department BNB, 15 May 2008.

Hungary

Andor, László: Academic, 18 April 2006.

Csaba, László: Academic; Previously Hungarian Finance Minister, 11 April 2006.

Csoór, Klára: Senior Counsellor in PSZÁF, 12 April 2006.

Horvath, Julius: Academic, 13 April 2006.

Mérő, Katalin: Managing Director of PSZÁF, 19 April 2006.

Soós, Károly Attila: Researcher; Previously Member of the Hungarian Parliament, 10 April 2006.

Bibliography

Andor, L. (2002). *Hungary on the Road to the European Union. Transition in Blue.* London: Praeger.

Anglelov, G. and Chobanov, D. (2004). "Vavezhdaneto na valutnija bord – osnova na ikonomicheskata stabilizacija." *Anatomija na prehoda. Stopanska politika na Balgaria ot 1989 do 2004.* Sofia: Ciela Publishing.

Bank for International Settlements (2007) 'History of the Basel Committee and its Membership', <http://www.bis.org/bcbs/history.pdf>.

Barisitz, S. (2001). "The Development of the Romanian and Bulgarian Banking Sectors since 1990." *Focus on Transition I/2001*. Austrian National Bank Paper.

Bird, G. and Willett T. (2003). "IMF Conditionality, Implementation and the Political Economy of Ownership." Manuscript.

Bonin, J. and Wachtel, P. (1999). "Lessons from Bank Privatization in Central Europe." World Bank and Federal Reserve Bank of Dallas Conference, 19-20 November.

Börzel, T. and Risse, T. (2003) 'Conceptualizing the Domestic Impact of Europe', In *The Politics of Europeanization*, edited by Kevin Featherstone and Claudio Radaelli, Oxford: Oxford University Press, 55-78.

Cameron, D. (1995) 'Transnational relations and the development of the European economic and monetary union' in Risse-Kappen, T. (ed) *Bringing Transnational Relations Back In*. Cambridge: Cambridge University Press.

Coen, D. and Thatcher, M. (2005) 'The New Governance of Markets and Non-Majoritarian Regulators', *Governance: An International Journal of Policy, Administration, and Institutions* 18(3): 329-346.

Cowles, M., Caporaso, J. and Risse, T. (eds) (2001) *Transforming Europe: Europeanization and Domestic Change*, pp.217-37. London: Cornell University Press.

Dimitrova, A. (2002) 'Enlargement, Institution-building and the EU's Administrative Capacity Requirement', *West European Politics* 25(4): 171-190.

Dimitrova, A. (ed.) (2004) *Driven to Change: The European Union's Enlargement Viewed from the East*, Manchester: Manchester University Press.

Dobrinsky, R. (2000) 'The transition crisis in Bulgaria', *Cambridge Journal of Economics* 24: 581-602.

Epstein, R.A. (2006) 'Cultivating Consensus and Creating Conflict. International Institutions and the (De)Politicization of Economic Policy in Postcommunist Europe', *Comparative Political Studies* 39(8): 1019-1042.

European Central Bank (2005) 'Banking Structures in the New EU Member States', Frankfurt: ECB.

European Central Bank (2008) 'EU Banking Structures', Frankfurt: ECB.

European Commission (2003) 'Comprehensive Monitoring Report on Hungary's Preparations for Membership', http://ec.europa.eu/enlargement/archives/key_documents/reports_2003_en.htm

European Commission (2005a) 'Bulgaria: 2005 Comprehensive Monitoring Report', http://ec.europa.eu/enlargement/archives/pdf/key_documents/2005/sec1352 _cmr_master_bg _college_en.pdf

European Commission (2005b) 'White Paper. Financial Services Policy 2005-2010.'

European Commission (2008a) 'Enlargement Archives. Enlargement Process. Negotiations of Chapter 3', http://ec.europa.eu/enlargement/archives/enlargement_process

European Commission (2008b) 'Enlargement Archives. Enlargement Process. Negotiations of Chapter 11', http://ec.europa.eu/enlargement/archives/enlargement_process

Featherstone, Kevin and Claudio M. Radaelli (eds) (2003) The Politics of Europeanization. Oxford: Oxford University Press.

Fries, S. (2005). "Politics of Banking Reform and Development in the Post-Communist Transition." EBRD Working Paper.

Gilpin, R. (1971) 'The Politics of Transnational Economic Relations', International Organization 25(3): 398-419.

Héritier, A. (ed.) (2001) *Differential Europe. The European Union Impact on National Policymaking.* Boston: Rowman and Littlefield.

Hungarian Banking Association (2001-2008) 'Annual Report on Activities', from from <http://www.bankszovetseg.hu/ bankszovetseg.cgi>.

Hungarian Banking Association (2009) 'Introduction', from <http://www.bankszovetseg.hu/ bankszovetseg.cgi>.

Hooghe, L. and Marks, G. (2001) *Multi-Level Governance and European Integration,* New York: Rowman and Littlefield.

Ignatiev, P. and Simeonov, R. (1999) 'Structure and Conduct of Bank Supervision in Bulgaria', in *Banking Sector Management under Currency Board,* Sofia: Institute for Market Economics.

Johnson, J. (2006) 'Postcommunist Central Banks: A Democratic Deficit', *Journal of Democracy* 17(1): 90-103.

Kaiser, W. and Starie, P. (2005) *Transnational European Union. Towards a common political space.* London: Routledge.

Keohane, R. and Nye, J. (1972) 'Transnational Relations and World Politics: An Introduction', *International Organisation* 25(3): 329-249.

Keohane, R. and Nye, J. (1974) 'Transgovernmental Relations and International Organizations', *World Politics* 27: 39-62.

Kerwer, D. (2005) 'Rules that Many Use: Standards and Global Regulation', *Governance* 18(4): 611-632.

Knill, Christoph, and Andrea Lenschow (1998) 'Change as "Appropriate Adaptation": Administrative Adjustment to European Environmental Policy in Britain and Germany', *European Integration Online Papers* 2(1): 1-25.

Knodt. M. (2004) 'International Embeddedness of European multi-level governance', *Journal of European Public Policy* 11(4): 701-719.

Kohler-Koch, B. and Eising, R. (eds) (1999) *The Transformation of Governance in the European Union*, London: Routledge.

Kohler-Koch, B. and Rittberger, B. (2006) 'Review Article: The "Governance Turn" in EU Studies', *Journal of Common Market Studies* 44(1): 27-49.

Krause, L. (1971) 'Private International Finance' *International Organization* 25(3): 523-540.

Larsen, P.T. (2006) 'Basel II best for biggest in bank's view', *Financial Times*, 10 April 2006.

Levi-Faur, D. (2005) '"Agents of Knowledge" and the Convergence on a "New World Order": A Review Article', *Journal of European Public Policy* 12(5): 954-965.

Lütz, S. (2000) 'Beyond the Basel Accord: Banking Regulation in a System of Multilevel Governance', Paper presented at the 41st Annual Convention of the International Studies Association, Los Angeles, CA, 14-18 March.

Majone, G. (1994) 'The Rise of the Regulatory State in Europe', *West European Politics* 17(3): 77-101.
Marcussen, M. (2005) 'Central Banks on the Move', *Journal of European Public Policy* 12(5): 903-923.
Maxfield, S. (1998) *Gatekeepers of Growth: The International Political Economy of Central Banking in Developing Countries,* Princeton: Princeton University Press.
Piroska, D. (2004) 'How Is the Global-State Formed? Internationalization of Global Norms by Local Institutions: Banking Sector Supervision in Hungary and Slovenia', Paper Presented at the 6th Annual Meeting of the Society for Comparative Research, University of California – San Diego, 14-15 May.
Princen, T. (1995) 'Ivory, conservation, and environmental transnationalism', in Risse-Kappen, T. (ed) *Bringing Transnational Relations Back In*. Cambridge: Cambridge University Press.
Radaelli, C.M. (2000) 'Whither Europeanization? Concept Stretching and Substantive Change' *European Integration Online Papers* 4(8): 1-28.
Risse-Kappen, T. (ed) (1995) *Bringing Transnational Relations Back In*. Cambridge: Cambridge University Press.
Schimmelfennig, F. and Sedelmeier, U. (2004). "Governance by Conditionality: EU Rule Transfer to the Candidate Countries of Central and Eastern Europe." *Journal of European Public Policy* 11(4): 661-679.
Schimmelfennig, F. and Sedelmeier, U. (eds) (2005) *The Europeanization of Central and Eastern Europe.* London: Cornell University Press.
Slaughter, A.M. (2000) 'Governing the Global Economy through Government Networks', in Byers, M. *The Role of Law in International Politics.* Oxford: Oxford University Press.
Slaughter, A.M. (2003) 'Global Government Networks, Global Information Agencies, and Disaggregated Democracy', *Michigan Journal of International Law* 24(Summer).
Stone, R. W. (2002) *Lending credibility: the International Monetary Fund and the postcommunist transition*. Princeton, N.J.: Princeton University Press.
Szapáry, G. (2002) "Banking Sector Reform in Hungary: What Have We Learned and What are the Prospects?" *Comparative Economic Studies* XLIV (2): 103-124.
Tarrow, S. (2001) 'Transnational Politics: Contention and Institutions in International Politic', *Annual Reviews of Political Science* 4:1-20.
Thatcher, M. (2002a) 'Analyzing Regulatory Reform in Europe', *Journal of European Public Policy* 9(6): 859-872.
Thatcher, M. (2002b) 'Regulation after Delegation: Independent Regulatory Agencies in Europe', *Journal of European Public Policy* 9(6): 954-972.
Vachkova, M. (2004). "Bankite v Centralna i Iztochna Evropa izlizat ot zonata na zdracha." *Kapital*, broj 40.
Vachudova, M.A. (2005) *Europe Undivided: Democracy, Leverage, and Integration After Communism*, Oxford: Oxford University Press.