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Varieties of capitalism: Impact of the financial crisis on the emergent varieties of capitalism in Estonia, Hungary and Slovenia

Bachelor thesis

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Abstract

This study investigates the impact of the financial crisis of 2007 on the capitalist development in the CEE countries. Three countries are picked each representing one sub-cluster of the CEE region in order to examine the difference in post-crisis economic development. The comparison of the countries is based on the Varieties of capitalism paradigm approach, linked to the previous studies of CEE countries inspected by adjusted VoC typology. While the study explores differences in macroeconomic conditions of the countries it further examines the roots of the differences in three sectors - export, financial markets and political environment. The first hypothesis attributing better economic performance to settled countries is rejected. The second hypothesis remains affirmative, suggesting association between economic development and supportive governmental policy. The study concludes the export structure to be fostering common economic recovery while the financial market performance and in-crisis policy were most affected by internal decisions which differentiated according to institutional quality.

Anotace (abstrakt)

Tato práce zkoumá vliv světové finanční krize roku 2007 na kapitalistický vývoj v zemích střední a východní Evropy. Každá ze tří vybraných zemí reprezentuje jednu z pod-skupin celého regionu, aby byla nejlépe zachycena rozdílnost pokrizového ekonomického vývoje. Srovnání jednotlivých zemí vychází z teoretického přístupu - Varieties of capitalsim (Variace kapitalismu), který je přizpůsoben a ovlivněn předcházejícím výzkumem v zemích střední a východní Evropy. Poté co je potvrzena rozdílnost ekonomického vývoje v jednotlivých zemích, jsou zkoumány její příčiny a to ve třech oblastech - export, finanční trhy a politické prostředí. První hypotéza, která předpokládá lepší výkonnost vyhraněných modelů je zamítnuta. Druhá hypotéza není vyvrácena a potvrzuje, že ekonomická výkonnost je spojena s podpůrnou vládní politikou. Práce je zakončena konstatováním, že výkonnost exportu obecně přispěla k obnovení ekonomického vývoje ve všech třech zemích, zatímco v oblasti finančního trhu a politických rozhodnutí se země lišily v závislosti na stavu jejich institucionálního rámce.

Keywords

Varieties of capitalism, financial crisis, transition countries

Klíčová slova

Variace kapitalismu, finanční krize, tranzitivní země

Extent of the thesis

65 313 characters (including spaces)

Declaration of Authorship

I hereby proclaim that I wrote my bachelor thesis on my own under the leadership of my supervisor and that the references include all resources and literature I have used.

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Prague, May 14, 2015

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Contents

Acronyms

CEE - Central and Eastern Europe

CME - Coordinated Market Economy

DME - Dependent Market Economy

EPL - Employment protection legislature

ERM - Exchange rate mechanism

EUR - Euro

FDI - Foreign Direct Investment

GDP - Gross Domestic Product

HUF - Hungarian Forint

ICI - Institutional Complementarity Index

IMF - International Monetary Fund

LME - Liberal Market Economy

MNC - Multinational Corporation

NPL - Non-performing loan

SME - Small and Medium Enterprise

OECD - Organization for Economic Cooperation and Development

USD - United States Dollar

VAT - Value added tax

VET - Vocational Education and Training

VoC - Varieties of Capitalism

WEF - World Economic Forum

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Introduction

The economic development in the post-communist countries is subject of interest for various reasons - mainly because the process of implementation of market economy principles into planned production systems and continuous adaptation of old institutional system to new challenges associated with democratization processes. The CEE countries were the most successful among transition countries in the terms of convergence to Western democracies, but the cluster of the CEE countries was not homogeneous in application of market economy principles - rather it exhibited differential development partly identifiable with development in more developed economies. While some countries were already settled models of development from viewpoint of comparative capitalism perspective others performed theoretically contradicting development trajectories. The financial crisis of 2007-2008 put CEE economies under pressure which caused deterioration of the economic potential.

Subject of this thesis is to investigate the various post-crisis developments in three economies of CEE, each from one sub-cluster - Estonia as liberal, Slovenia as corporatist and Hungary as embedded corporatist or dependent economy (designation of Visegrád countries is not fixed - further discussion in chapter 1). Although the transition countries were already examined in the post-crisis period (Myant & Drahokoupil 2011, Becker & Jäger 2010) recent development proved that the effects of the crisis accumulated over longer time period and are still present, especially in the case of Slovenia. The three countries delivered different implications for post-crisis economic development. While Slovenia and Hungary have been commonly marked as settled models of VoC, Hungary is important for two reasons - the model itself is unsettled from VoC viewpoint (one may show whether deeper institutional complementarity is more efficient) and second the political development in Hungary exhibited signs of state capitalism pattern restricting free market principles. The countries are grouped according to methodology of Varieties of capitalism which is a firm-level based theory but for the purpose of the work the methodology is adapted in order to check for the influences affecting transformation of institutional environment. The thesis empirically examines macroeconomic condition of the countries and then search for the sources of differences.

The thesis is structured as follows - after introduction the theoretical concept of VoC and its applications on emerging countries of CEE are presented. It is followed by section explaining the hypotheses and empirical background. In third chapter the post-crisis macroeconomic condition of three countries, the dependent variable, is presented. In the fourth chapter the thesis examines the evidence from three main independent variables - export performance, financial sector performance and political pattern - in order to settle where the roots of the differences are lying. The thesis is closed by conclusion chapter where the results of the research are presented.

1 Theoretical background

1.1 Varieties of Capitalism: Basic theory

Varieties of capitalism is recognized as one of the fundamental approaches in field of comparative politics and economics. The theory was introduced in the work of Peter Hall and David Soskice (2001). It was not the first study of comparative economics in advanced economies of Europe and United States; see work of Shonfield (1965) which is highly admired, Albert (1993) and Hall (1999). Nonetheless the VoC approach managed to reach an essential position in the field and at the same time attracted further investigation of theory and its aspects based on empirical data, mainly institutional coherence yielding two diverged forms of macro-economical setting. The authors postulated a form of theoretical background for comparison of state governance, economic performance and underlying comparative advantages in the field of international trade with goods and innovations. Afterwards they came up with two distinctive categories each with specific criteria applicable in comparison among developed economies (Western Europe, Japan and USA). Those criteria were derived from concept of "institutional complementarity" - it is defined as situation when the shape of institutions suits the proper superior structure of economy which provides those institutions with complementarity advantage. Hall and Soskice (2001) indicate five sub-systems of economy where these mutual advantages subsists - industrial relations, corporate governance, social system, vocational training and inter-firm relations. The object of interest is the basic business structure – a firm. Depending on those factors, primarily on the level and the manner of coordination on the market and the prevalence of specific industries in the economy, authors derived two types - liberal market economy dominated by dynamic innovative sectors (such as informational technologies) and incrementally developing coordinated market economy (heavy industries and manufacturing equipment). The coordination mechanisms are polarized as well – market coordination in LME and strategic coordination in CME. The concept was widened further by Amable (2003) into five categories but not exclusively in accordance with Hall and Soskice (2001). Those five models are established on geography denomination but remain supportive of the

VoC concept - for further information about the application of VoC see summary Table2 in Geffen and Kenyon (2006).

1.2 CEE in perspective of VoC

The breakdown of the "Eastern bloc" in the late 1980's and the beginning of the 1990's served as a trigger for the introduction of capitalist economies replacing socialist planned economies in the countries of CEE. Up to now, during 25 years, the economies of the CEE were heading towards convergence with Western-European developed economies and integration into the established structures of international institutions such as European Union and OECD. All the CEE countries managed to access the European Union proving certain level of sophistication of their economic systems. Nonetheless none of the CEE countries managed to gain sufficient level of economic performance and institutional development necessary to be embodied into group of economically developed countries and VoC typology as well (Myant & Drahokoupil, 2011). Myant and Drahokoupil name four fundamental difficulties causing this - incapability of a country to reach significant position in the global economy based on innovation advantage. Second, a sophisticated and stable institutional environment. Third, an integration process being affected by other factors than simple institutional quality and last, an instability of the economic order as it is understood by Hall and Soskice (2001).

While studying the systematic of the VoC theory in the CEE countries it is relevant to bear in mind that the countries perform imperfect economic system (in the sense of initial inspiration for VoC theory such as economies of USA and Germany). The thesis points out three theoretical concepts which attempts to go over these difficulties. The first sticks directly to the original VoC literature, distinguishes between pure CME and LME (Buchen, 2005). The second attempts to develop newly adapted category of VoC (King 2007; Nölke & Vliegenthart 2009) and the third contradicts with the VoC approach to the extent that it is not applicable on CEE countries (Myant & Drahokoupil 2011; Bohle & Greskovits 2007).

The second approach brought great contribution to the field. Nölke and

Vliegenthart's study brought a new view on the VoC approach adapted for transition countries. Authors declined to work limited by strict distinction of LME, CME and their hybrids, rather they have constructed a new type which fitted best the properties of CEE countries. Dependent market economy (DME) was the newly introduced variety. Same as for CME and LME, authors propose institutional complementarities (to stay in VoC argumentation) which are not based on innovation advantage, but on cheap production of semi standardized industrial goods. DME is dependent, as the name indicates, on external influences (quite contrary to VoC, where foreign manipulation is considered only to extent of global competitiveness in the innovation sphere). Multinational corporations (MNC) and capital they invest in the economy are those influences. All five categories employed by Hall and Soskice (2001) fell under the influence of MNC's and their decisions. Investment incentives are dependent on amount of FDI, corporate governance is controlled from foreign headquarters and innovation is limited. The comparative advantage exists in the form of cheap yet experienced labor force. LME and CME are working properly themselves, not DME, its performance is reliant on foreign decisions and market powers.

While the CEE (as DME are considered Poland, Hungary, Czech Republic and Slovak republic) economies may seem to be uncompetitive in the broader market the reality proved wrong, CEE countries went through period (1990-2007) of remarkable growth and substantial increase in exports, they are competitive in electronics, cars-machinery and heavy industry products. Nölke and Vliegenthart (2007, p.673) compare DME to other CEE country - Romania and shows that it was outperformed by the DME countries.

DME variety stands on strong grounds but it application on post-crisis development is problematic, however it proves similar development as in case of Bohle and Greskovits (2007, 2013) of embedded neoliberal capitalism and comparable forms are covered by Myant and Drahokoupil (2011). It will not be the goal of this work to enlarge any of these three approaches but it will merely concentrate on the effects of the financial crisis on the direction of the three countries towards settled variety of capitalism regardless whether it is pure VoC or other type. The level of consistency of the economy from the VoC viewpoint will however serve as explanatory variable employed in one of the hypotheses.

What has been repeatedly demonstrated in the researches, is that CEE countries are not autarchic i.e. their growth is financialized, their home deposits would not saturate the demand for credit and their banking sector is dependent on larger owners from abroad (the intensity of these characteristics differ significantly among CEE countries). Therefore the issue of the financialization or financialized growth will be further examined as one of the dependent variables causing differing in-crisis performance.

One can see valuable conclusion from the DME model - namely that DME model is transient, its comparative advantage in the cheap labor force is probably going to disperse in the face of opportunities for international enterprises to move the production to areas with lower labor costs in the face of growing wages in DME. Important advice for the policy makers therefore is to enhance domestic innovation and investment in R&D sector to improve the positions of domestic firms on the global market.

The main driving force behind the research in the field of VoC in CEE is that these countries managed to deliver various results facing the same goal. While most of them performed the same steps accomplishing conditions required by the European Union (privatization, price liberalization, liberalization of foreign trade etc.) those countries were not unanimous in their economic policy. Bohle and Greskovits (2007) suggest two main roots of this divergence: path-dependent process of creation of capitalist economy and the contradiction between preservation of the social policy inherited from the old regime. Through protection of domestic industries CEE were facing costly competition coming from more developed parts of the world.

1.3 Estonia and Slovenia, settled models

Estonia and Slovenia were canonically treated as extreme cases of coordination mechanisms in the economy and thus researches repeatedly labeled the countries as ideal cases of VoC typology - Estonia as liberal, Slovenia as coordinated economy (Bohle & Greskovits 2007; Feldmann 2006, 2013; Adam et al. 2009; Buchen 2005; Knel & Srholec 2005). Neither Estonia nor

Slovenia were considered absolutely clear examples of VoC pattern, which was reasoned by incomplete process of transition, those countries were rather heading towards the form. The premise of the polar difference between Estonia and Slovenia remained undoubted until 2007, after the events of the financial crisis when the economic conditions rapidly worsen the canonical position became questionable (Myant & Drahokoupil, 2012). To support the argumentation the data from recent study of Markus and Mendelski (2013) are displayed below. The table shows the ICI index of institutional complementarity, constructed on basis of various indicators from IMF and WEF from years 2001 to 2008 on 27 post-communist countries. Estonia ranked first from the 27 countries with lowest value performing highest level of market coordination, Slovenia is placed on the other side of ranking at 25th place with ICI indicating strategic coordination. Hungary is ranked 7th with score located among medium values with slight inclusion to the liberal model. The thesis will further remain on assertion that Estonia and Slovenia are settled models of capitalist economies. Hungarian position in the index indicates inclusion to market coordination. In next chapter further assessment of the position of Hungary will be made indicating more contradicting results concluding that Hungary is unsettled model.

Table 1: ICI coefficient

country	ICI	Management opposition	Insider protections	Stakeholder networks	Social cohesion	Labor market regulation	Business regulation
Estonia	-11.8	-0.6	-2.7	-2.8	-4.4	0.4	-1.7
Hungary	-4.43	0.1	-2.4	1.2	-1.8	0.0	-1.5
Slovenia	6.84	-0.8	-2.5	3.9	3.0	2.1	1.3

source: Markus & Mendelski, ICI value is sum of sectoral data, lower values indicate market coordination, higher strategic coordination

Social cohesion, Labour market regulation and Business regulation are variables taken from Knell and Srholec (2007)

Management opposition - two variables: Efficacy of corporate boards and Coopration in Labor - Employer relations

Insider protections - two variables: Strengths of Auditing and Reporting Standards and Ease of Shareholder Suits

Stakeholder networks - two variables: Flexibility of Waged Determination and Extent of Disclosure

1.4 Hungary, unsettled model

The application of the VoC theory on CEE countries raises an eminent research questions - whether apply classical firm-centered VoC approach using the five sectors of analysis or release the preconditions of independent business and public environment and broaden the approach to search for the peculiarities of the economy affected by international and political influences. Buchen (2005) was concentrated on the former, he examined empirically the VoC sectors in Estonia and Slovenia, ideal types of coordination. Following section will briefly cover the five VoC categories in the case of Hungary to show whether it fits the canonical classification of LME vs. CME. The examination will rest mainly on the findings of Crouch et al. (2009) and author's research.

Hungary started from a similar position as Slovenia, the level of state control over the market was gradually lowered and the country was open to exports from the Western countries. When the regime fell in 1989 a way towards capitalism was the main goal. The two-level privatization favored managers and employees to purchase shares in companies where they have been previously working. Stock market capitalization level is below 30% (2004 data, same as Buchen). Those facts[1] approximate the corporate governance setting to the stakeholder model (CME). Nowadays the ownership structure of the companies is still influenced by the high shares of MNC's and strong state ownership – there the initial governmental decision determined the nature of corporate ownership by non-discriminating approach to the foreign investors who managed to reach substantial share of ownership in Hungarian companies (Kaminski & Riboud, 2000).

In Hungary there is very low density of trade unions, there are six trade union confederations while the worker participation rate is approximately 10%[2] and the collective bargaining coverage is around 30% - volume very similar to the Estonian one. Therefore the primary level of wage bargaining remains at the firm level. On the side of the employers the situation is analogous – the employers organizations are dispersed. The specific of

[1] Deeper examination of corporate governance would include the executive board structure, stakeholder protection and others.

[2] source workerparticipation.eu

the Hungarian labor force is high proportion of workers in the informal sector. What is contradicting the firm-level industrial relations is the governmental regulation which is highly favorable of collective bargaining law and agreements, also Hungarian tax wedge on labor is considered very high (OECD Social indicators, 2006). Economic policy of recent years favored increasing of the minimal wage and introduction of Job Protection Act. The mismatches of the labor policy with the real development will be further discussed considering the economic performance of the labor market and the policy recommendations of the OECD and others (chapter 4). While the real situation of industrial relations might be considered in accordance with the LME model, the regulations of the government are contradictory.

Inter-firm relations, same as in the case of Slovenia and Estonia, are considered underdeveloped. The institutional setting of the employers relations is not yet developed to the extent which would enhance assumption on which level the cooperation prevails.

In Hungary there are present both types of vocational education – the secondary schools and the vocational training. As in the case of most CEE countries the inherited VET infrastructure was reformed. In 2013, the reform of the VET was introduced with aim to serve the labor market demand better. Accompanied with shortening and intensifying of the education, the stronger involvement of the private companies, to reach level of cooperation with the educational centers and specification of the demanded linkages to practical skills, were performed. The institutional configuration of the vocational training in Hungary after the reforms matches correctly with the institutional complementarity of the CME model.

Employment and unemployment protection are both present in Hungary but are actually quite unbalanced to the side of unemployment protection. Unemployment protection spending accounts for 0.8% of GDP[3]. The number is comparable to the Slovenia and closed to OECD average number (Estonia on the other side spends 0.3%). The maximum duration of the unemployment benefits is 12 months and the gross replacement rate is 60% - one might intuitively and with reference to the Buchen's methodology place the Hungary beside Slovenian and other generous unemployment policies.

[3]source: OECD Statistics

On the other hand the employment protection measures, namely the EPL index computed by the OECD show adverse stance. When averaging the four OECD indicators including indexes of protection of workers against dismissals and regulation on temporary forms of unemployment, the Hungarian index is lower than Estonian – perfect example of an unsettled model, when an individual institutional setting are contradicting.

As in Buchen's case the thesis will follow up with section considering the patterns of FDI and the sources of comparative advantage in the external trade sector. The volume of trade in Hungary is incomparable with the Slovenian or Estonian due to the fact that Hungarian economy is larger in real values. However when comparing shares of exports in percentage of GDP all three countries deliver similar results - Hungarian export accounts for almost 90% of GDP, Slovenia for 75% and Estonia for 85%[4]. The Hungarian export structure is comparable to other CEE countries in the region such as Slovakia, Czech Republic and Poland. The Hungarian international trade comparative advantage lies in the car-manufacturing sector and other manufacturing related to transporting vehicles, manufacturing of electronic and telecommunication apparatuses (Figure 12 in Appendix[5]). The sector of machinery and transport equipment accounted for over 50% of merchandise export value. The main trading partner of Hungary is Germany - one quarter of exports volume is located in there. Other partners account for smaller shares - Slovakia and Romania both around 6%.

With regard to the foreign direct investment inflows in Hungary, the data follows the suggestion similar to the export structure indicators about the dependence on West-European market and important role of manufacturing.

The data explores high importance of the manufacturing sector especially vehicle transport equipment, rubber and plastic products and pharmaceutical products (see detailed breakdown of FDI). The main importers of investment are companies from Germany, Netherlands and Austria. The dependence on German economy is off much higher importance in Hungary than in Estonia or Slovenia. It is due to the car-manufacturing companies such as Daimler, Audi and others who produce cars on large scale in Hungary.

[4]source: Worldbank data

[5]detailed breakdown at UN Comtrade

Table 2: Hungary - Structure of FDI

NACE Rev 2 industry	**2008**	**2013**
Manufacturing(C)	12.1	114.9
Wholesale and retail trade(G)	9.3	-7.5
Transportation and storage(H)	14.8	-28.6
Financial and insurance activities	47.1	78.1
Real estate activities(L)	4.6	3
Country of origin	**2008**	**2013**
Austria	37	-4.6
Netherlands	15.5	-14.3
Germany	23.5	5.3
France	17.9	-30.2
UK	-15.9	7.7
USA	-4.4	-18.5

source: Central bank of Hungary, own calculations
in % of net inflows, data shows countries of significant flow intensity
in 2013 the Ireland accounted for 94% of net inflows of FDI, considering previous values, the effect of financial operation is outlying data point

To conclude, the state of Hungarian economy and the institutional relations in the sectors highlighted by VoC theory attribute the country in the direction of CME model (regarding necessary simplification). It is important that VoC approach is not adapted to effectively predicate the position of the economy in the context of global innovations and economic performance for the under-developed countries dependent on outer stimulation. Nonetheless it might be deduced that Hungary is heading towards coordinated type of economy having the advantage in patient capital sectors such as the car industry and electronic equipment. On the contrary there are present mismatches mainly in the labor policy regulation which supports the case of unsettled economy. Generally the governmental policy is not performing settled form of measures supportive to the CME development enhancing inter-firm cooperation and sector-wide agreements. Ideally the Hungary would be labeled as DME, but for the further examination it will be considered as unsettled economy, especially in comparison with much clearer results of Estonia and Slovenia.

2 Hypothesis and empirical background

The main body of the work is examining the effects of the global financial crisis events and following sovereign debt crisis in the countries of European Union. The major issue of the thesis is concerned about the causes of different in-crisis performance of the economies and what type of the economy was able to recover from the effects of the crisis. Since the thesis is examining only three countries, the specifics of different macroeconomic reactions might be interpreted as country specific cases. Therefore the hypothesis is postulated as -

H0: The effects of the financial crisis were generally less distorting in the countries performing settled VoC typology than unsettled countries.

H1: The effects of the financial crisis were generally less distorting in the countries that were simultaneously following the policy affirmative with their VoC typology, or when unsettled not contradicting the direction formerly established

The first hypothesis is derived on the basis of empirical research examining the VoC typologies according to their economic performance suggesting that extreme values of strategic or market coordination provides higher growth rates than mixed forms with sectors contradicting on the basis of institutional complementarity (Hall & Gingerich, 2009). The second hypothesis is derived on the basis of dynamic political pattern; the firms on their own had to be supported by the governmental policy during crisis and this policy had to fit the VoC typology, otherwise causing damage to the institutional complementarity. Initially the thesis compare the macroeconomic conditions of the countries with the benchmark year of 2007 (except indicators for which 2007 data were not available) to assess whether there was a difference in performance. The empirical examination of economic indicators will be held in three categories which should serve as the explanatory variables related to the concept of VoC methodology but assimilated in order to fit the investigation of VoC in the CEE countries.

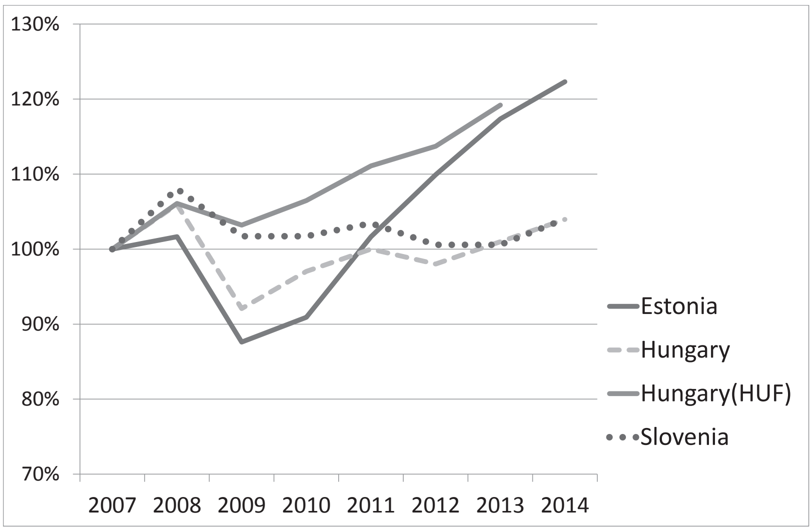
3 Financial crisis and its impact on macroeconomic condition of the countries

The financial crisis which began in 2007 on the mortgage market of USA continuously spread over the developed economies of Europe affecting their financial sectors and further their consumption and amount of investment. The markets of CEE countries which were to large extent dependent on two factors - the inflow of credit and outflow of exported manufactured products into developed countries were strongly hit by the financial crisis as well (Myant & Drahokoupil, 2011). The intensity of international integration was generally higher in the CEE countries than in other transition countries of Eastern and Southern Europe and Central Asia, therefore the effects of the crisis had two-fold implications: firstly, deeper integration within the markets of developed countries would suggest stronger effects of economic downturn caused by declining demand in partner countries, on the other hand the CEE countries were among the wealthiest transition countries (not dependent on remittances) with most developed infrastructure and high amount of public reserves which might have been used for governmental interventions in the economy used to mitigate the breakdown of the demand. These effects are generally useful for explaining the differing impacts of the financial crisis within CEE countries.

Myant and Drahokoupil (2012) analyzed the main effects of the crisis on post-socialist countries thoroughly (the region was examined as group of clusters of similar countries). Authors set Estonia into the cluster of the Baltic States which share common characteristic of financialized growth - the financial channels were the main bearers of the economic decline there. Hungary and Slovenia are located among the group of industrialized CE countries which are dependent on foreign demand for export - there the influence of the crisis went through the demand for exports. The former group of countries was hit by the decline in production and by the absence of credit - their decline in GDP was large. The production of the latter group dropped as well, but not extremely, the absence of the credit was to some extent substituted by home resources. While the repercussion of the crisis on various post-socialist countries differed, the three examined countries were affected in more similar manner than the region as whole.

To clarify the hypothesis, the macroeconomic conditions of the countries after the eruption of the financial crisis are going to be examined. In order to seek for the roots of differing economic performance it will first be settled what is considered as dependent variable. The most basic indicator of real GDP per capita shows that in terms of production Estonia was performing the best reaching level of 122% of year 2007. Slovenia experienced double-dip recession yet overreaching the value of the pre-crisis level by 4%. In the case of Hungary it was decided to use growth rates in home currency together with the values in EUR because of the continuous depreciation of the forint (between 2008/1/1 and 2014/1/1 HUF depreciated by 17%). The implication from the Hungarian figures is twofold then; in the home currency the production growth was strong reaching almost 118% of 2007 level with no signs of double-dip recession, in EUR denomination the figures display growth reaching level of 104% affected partly by the depreciation of the home currency.

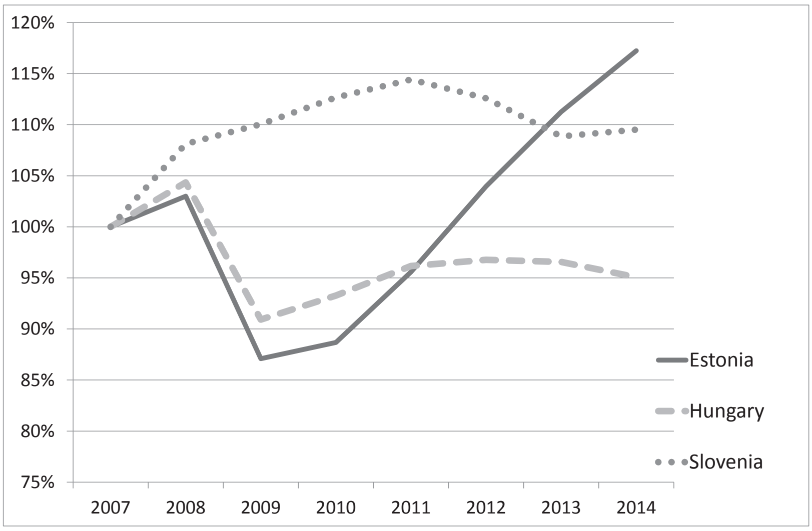
Figure 1: GDP per capita, EUR, base year 2007



source:Eurostat, Hungarian statistical office

It is important to search what factors were pushing GDP down; in case of consumption it might be sign of potential problems, because consumption of households is expected to account for large and stable part of economic production. Slovenia stimulated the economy through the household expenditure early in the crisis as seen in the Figure 2, while the other two countries experienced declining share of consumption with moderation on the side of Estonia. In 2011, Slovenia and Hungarian shares dropped. The second decline in the GDP of Slovenia might be explained by decline in final consumption though. Hungary remained below its pre-crisis consumption at the level of 95%.

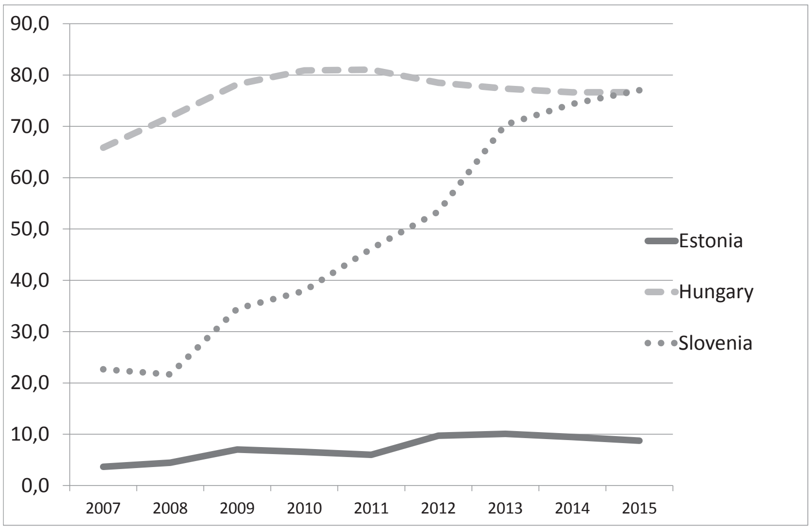
Figure 2: Household consumption, as % of GDP, base year 2007



source:Eurostat

The next indicator is the Maastricht criterion - public debt to GDP ratio. Estonian public debt remained just at the rate of 10% indicating strong fiscal prudence. Hungarian public debt grew steadily and stabilized at the rate around 80% failing to meet Maastricht criterion. Slovenia performed worse while the rapid increase of the debt ended at the level of Hungary. According to OECD forecast the trend of increasing public debt is about to continue and exceed Hungarian level (OECD, 2013).

Figure 3: Public debt as % of GDP - Maastricht criterion

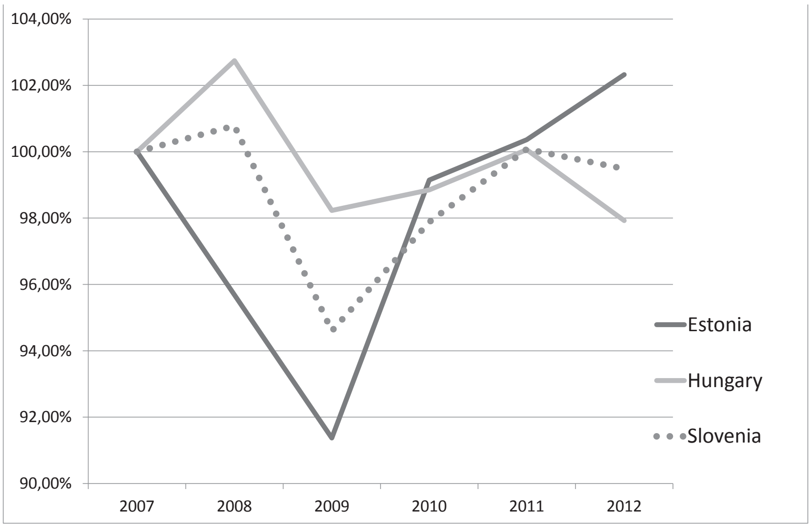


source:Eurostat

The trends on the labor market and the situation of the labor force is explained via two indicators - level of unemployment and labor productivity. The unemployment rates in the overheated economies were located around 5-7% in 2007, in Estonia the boom was extreme but the rate decline steadily to the level of 6.3% at the end of 2014 making Estonia the best performer in this regard (lower rate by 1% than Hungary)[6]. Slovenia proved a distorted economic environment while the unemployment increased steadily with weak signs of cutting the rate down. Labor productivity provides figures that are much more settled (measured as GDP per employed person indicating the amount of production by unit of labor). Estonian labor market managed to exceed pre-crisis level of productivity while Estonia and Slovenia remained just below their 2007 capacities.

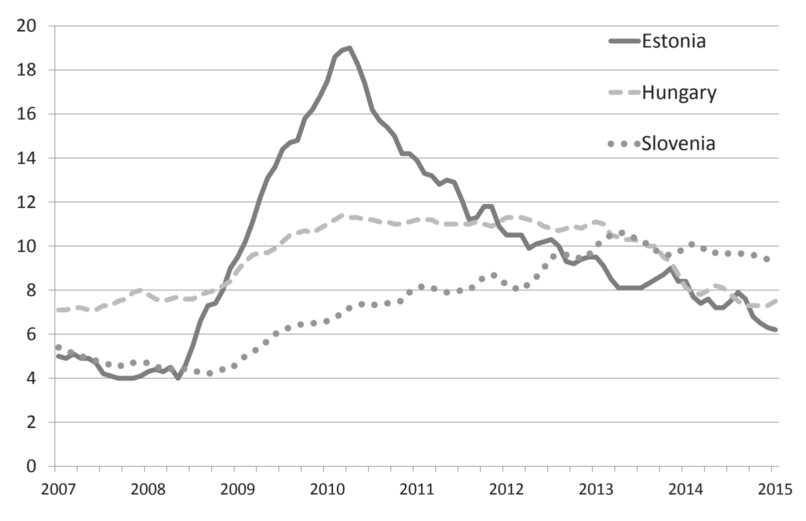
[6]Positive development on the Estonian labor market has been doubted by the authorities since Estonia is the only country from the three to experience net emigration (mainly among young workers). The trend might decrease labor supply, worsen the conditions on labor market and increase dependency on remittances (OECD, 2015)

Figure 4: Labor productivity, base year 2007, GDP per employed person



source:Eurostat

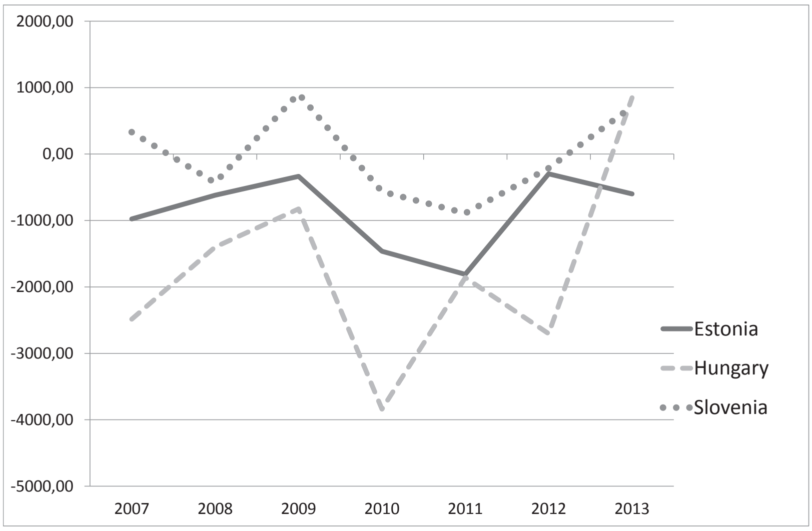
Figure 5: Unemployment rate, % of labor force



source:Eurostat

Relevant factor is the amount of foreign direct investment which proved to significantly shape the economic performance of transition countries. Slovenia as most consolidated of the economies is not strongly dependent on the foreign investing, its position is stable. Estonia and Hungary retained its net inflow position (the figure is in stock USD not related to GDP). Similar trend for all three countries is recent stabilization of the flows suggesting lack of investment incentives.

Figure 6: FDI net inflow in mil. USD (negative numbers indicates net inflow)

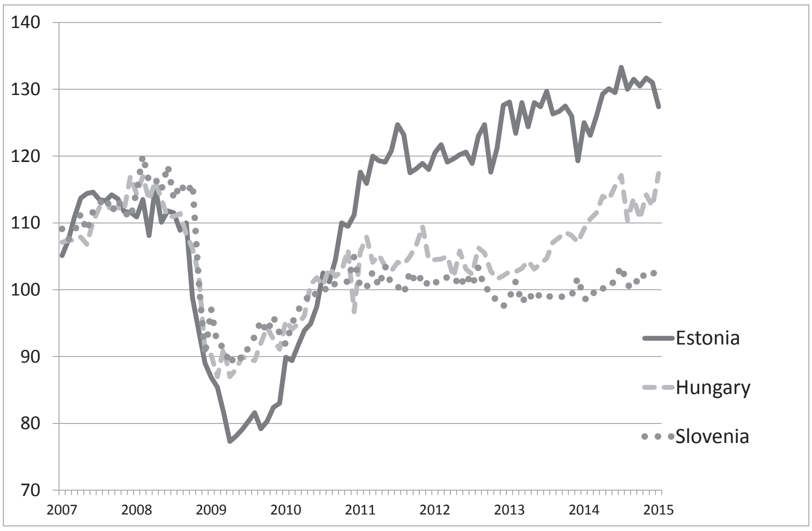


source:Eurostat

The last factor is indicator of industrial production. The industrial performance of Estonia was very strong; Estonia produces relatively high volume of raw material - crude oil, wood etc. which might serve as explanation of fluent industrial production. Slovenia which is not fundamentally dependent on industrial production remained on the base level of 2011. Hungary is placed between the Estonia and Slovenia with increase to the level of 112% of the base year 2010.

Economic performance of the three examined countries was not uniform. Indicators demonstrate that Estonia went through volatile cycle yet managed to reach solid growth figures, exceeded the pre-crisis output. For the price of an immense increase in unemployment the government did not increase its indebtedness and the recovery from the crisis was rapid. Hungarian economic performance was much more settled. The public debt remained

Figure 7: Industrial production, base year 2006



source:Eurostat

well above the Maastricht threshold, the consumption decreased and the unemployment returned back to the 2007 level. Hungary recovered from the crisis rather gradually while its labor productivity lowered and the forecast suggests slow expansion (OECD, 2014). The macroeconomic conditions were very poor in Slovenia, government got massively indebted during the banking crisis and the production felt two times; the consumption is not increasing and the unemployment remains 5 percentage points above 2007 level. Among three examined countries the effects of the crisis were most severe in Slovenia. The hypothesis *H0* is to be rejected based on the primary observation. From the three countries Slovenia went through period of recession harming governmental finances and the trust in the banking sector. Slovenian case suggests that VoC typology is not decisive for in-crisis economic performance. But the thesis proposes that the scientific investigation of Slovenia overlooked the problematic of neo-corporatism as crooked form of classical corporatism. Slovenian corporatism was implicitly creating room for collapse of economy (political corruption, governance of state banks – see next chapters). Other two countries supported suggested hypothesis, settled Estonia significantly exceeded unsettled Hungary.

4 Factors of different in-crisis performance

4.1 Export performance

The first explanatory variable is export performance - all three countries are trade open and to a large extent dependent on export, since the crisis hit the export sector by drop in demand the inevitable decrease in production of exported goods contributed to the fall in GDP.

The concept of institutional complementarity is directly related to the international trade, export sector reveals which production processes are pervasive in the economy or in which products the economy is competitive in the global perspective. The radical innovators of LME are expected to be competitive in sectors such as telecommunications, IT, medical equipment and have larger portion of export of services than CME. CME's are competitive in heavy-industry products, machinery of equipment, chemicals and other industrialized products. Generally the impact of the financial crisis caused the reduction in the size of exported goods and services in all three countries. In order to inspect the differences behind the macroeconomic condition the closer look at the export performance – including analysis of main sectors and export-target countries – has to be applied. For this purpose the paper is going to use data from UN Comtrade database on individual country surveys from years 2007 and 2013 (see Figure 12 in Appendix).

Sectors of codes 3,6,7 and 8[7] are of highest contribution to the export structure in Estonia , as seen in the Figure 12 the portion of the code 3 (mainly 334 - petroleum oils) has declined but accounts for value of 1,8bln$ [8]. A large portion is covered by manufactured goods (code 6) mostly flat-rolled products of iron and steel, tires and wood manufactures. The largest part comes from machinery and transport equipment especially telecommunication equipment (764) electrical machinery (insulated wires and cables, conductors, electrical equipment distributing electricity - code 77) and road vehicles (78). From the category of miscellaneous manufactures it is wood furniture and clothing. Additionally Estonia energy sector managed to en-

[7]Description of the SITC codes of sectors in Appendix

[8]All three countries are importers of oil, lacking sufficient home resources, therefore the description of oil production gives a biased picture of production process. Nevertheless Estonia closely located to Russian federation benefits from the reproduction of oil

large the production of exported electrical energy ten times to 360mil$.

The export structure is therefore based on primary goods such as fuels, simple-manufacturing of telecommunication equipment and wood manufacturing. Except for the banking sector, the largest companies in Estonia comes from energy and oil shale production (Eesti Energia, Veru Keemia Grupp), car manufacturing (Skinest Grupp) and electrical equipment manufacturing (Ericsson Eesti[9]). There was no substantial change within the export structure during the period. The sectors more related to the LME nature are not significant for the export structure. The impression from the Estonian R&D expenditures and enhancing of innovative projects gives another picture of the Estonian economy. The OECD survey of Estonia (2012) and Kuokstis (2011) explain this paralleled development by argumentation of low-quality exports being pervasive in Estonia. They argument that due to small number of innovative firms which gain substantial investment incentives from the government the country is viewed as liberal. The high portion of IT in services and the number of out-migrating young workers support the argumentation. Main trading partners are the closest neighbors – Scandinavia, Baltics and Russian federation. While a disharmony with the LME model is the only negative factor, the Estonian export regained its pre-crisis performance swiftly and pushed the production upwards. The value of Estonian exports grew during the period from 11bln$ to 18.2bln$. The export structure itself impose a burden on the economy in terms of flexible production complementary with the market coordinated system yet the post-crisis development showed this matters to the lesser extent.

The most important part of the export structure in Hungary remains the machinery and transport equipment sector (code 7) - mainly automobile industry. Other important industries are the chemicals, goods classified by the material and miscellaneous manufactures. During the six years the machinery and transport sector have lost 6% of its portion in export but remained most important keeping the over 50%. Other sectors shares grew slowly - accounts for 11% of the export value maximum. The automobile sector, sectors of industrial manufacturing (such as telecommunication devices, office machines and general industry machinery) and pharmaceutical

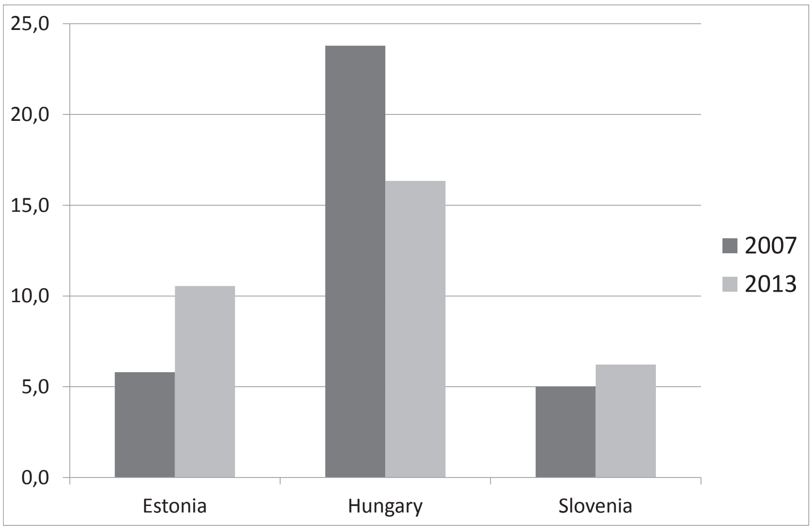
[9]source: GILD Corporate Finance, available at http://www.gildcf.com/

sector remained relevant to the export structure. Except for the multinational giant - MOL group (fuel production)- which comes from Hungary, the most significant enterprises are foreign owned automobile companies – Audi Hungaria, Mercedes Benz, Magyar Suzuki and Bosch group (Budapest times, 2014). There are no significant trends based on the value of individual contributions of the sectors to the export rather there are suggestions of loosing competitiveness in the global perspective. According to OECD (2014) the share of Hungarian exports in the international trade is on decreasing trend (Figure 9). Furthermore the share of high-tech exports which was 21% in 2007 substantially decreased to the 16.1% in 2013 (still keeping 7th place among EU countries; IMF 2014a). CME typical sectors are pervasive in Hungarian export structure indicating high level of robustness to the unstable economic performance since automobile production is set into longer time horizon. Until 2008 the Hungarian exports were steadily growing (with highest growth rates among CE countries, OECD 2014) and reached a value around 110bln$, after the drop in 2009 the trend became started again to rise, but in 2011 moderated on the value of 108bln$. Therefore the financial crisis did not damage export performance while the export structure stayed similar. The growth of the export sector is strongly dependent on the performance of the German economy and since the Germany went through the crisis relatively unharmed the recovery of the Hungarian exports was quick and the exports contributed to the growth rather than to decline.

The value of Slovenian exports rose until 2008 and after the crisis drop stabilized at the pre-crisis level and now accounts for 29bln$. The main export sectors are automobile industry (companies Revoz, TBM, Starkom) and production of pharmaceutical medicament (Krka, Lek). Generally the sectors of chemicals, simple manufacturing, transport machinery and miscellaneous manufactures contribute to export value the most. The petroleum production industry (Petrol) gained higher importance over the seven years, making petroleum oils second largest contributor to export value. As seen from the Figure 12 the shares of individual industries did not change significantly, the position of pharmaceutical sector remain important and automobile production and its subsidies as well, in the sector of machinery the manufacturing of electrical apparatuses and appliances accounts for the largest value. Share of high-tech exports in Slovenia is around 5% indicating low level of sophistication of products. The performance of the export was moderate, while the pharmaceutical sector merely contributed to the growth, the swing to the primitive oil production might be sign of slowdown of the sophistication of the exports. The target countries are similar to the Hungarian case. The CME sectors of pharmacy and automobile construction aimed at exporting in developed Western Europe are unlikely to be contributing to the economic decline of Slovenia, rather opposite.

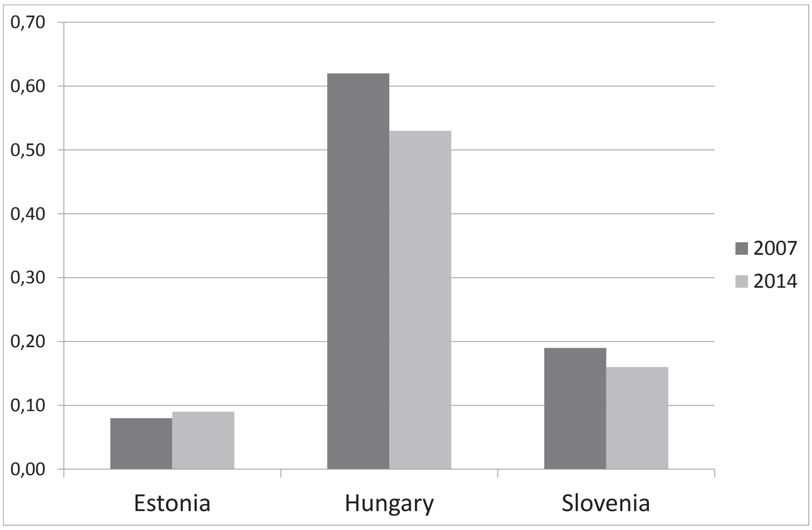
Hungarian and Slovenian exports moderated at the values of pre-crisis level although they never gained the value of 2007 or exceed it. Estonian export value performed in better manner exceeding pre-crisis value already in 2011. There were no significant changes to the export structure suggesting that it is not exposed to high volatility contrary to the financial sector. There are on the other hand potential trends of worsening of industrial conditions in Hungary and signs of slower expansions in Slovenia. The sector performance generally contributed to the economic expansion, because it is jointly targeted at Western European countries which revived from the crisis successfully, in the case of Slovenia and Hungary the export structure fits the CME typology. In the case of Estonia the export performance contributed to the growth even though is not pervasively set to the rapid innovation of high tech products.

Figure 8: Share of high-tech exports, in % of total exports



source:OECD

Figure 9: Share in world exports, in %



source:World bank

4.2 Financial market performance

Since the main transmission mechanism of the crisis was the financial sector, it is relevant to search for specific financial market developments in the examined countries, which might caused various macroeconomic performance. One of the common factor characterizing transition countries was the immaturity and possible vulnerability of the financial sector (Myant & Drahokoupil, 2011). Contrary the underdeveloped financial sector is less likely to spread the instability. The financial sector in CEE countries was monitored to be dependent on foreign financing – mainly the Baltic States; the Visegrád group was regarded as rather self sufficient. When economies were hit by the credit crunch the Baltic countries suffered the largest drop in output because of the vulnerability caused by high solvency risk and exposed maturity structures of loans (Myant & Drahokoupil 2011, chapter 17). The traditional VoC approach attributes the LME model higher openness towards international financial flows while the CME is expected to raise investment on home deposit basis. High level of market capitalization, stronger volatility of international capital flows and liberal regulation are the main signs of LME. Therefore LME is expected to be more exposed to the financial instability than CME. In this section the structure of financial account of countries, the conditions of the bank industry and other financial indicators will be examined to indicate whether the different behavior of financial market influenced the overall macroeconomic conditions.

The Estonian financial sector corroborates the view of the country as liberal and open to business activities. A small level of regulation over the capital flows fosters investment; but is also responsible for excessive real estate bubble. Main issues which caused the effects of the economic decline so striking were caused by the high level of private sector indebtedness and extensive financial account deficit (Myant & Drahokoupil, 2011). Currently the financial sector appears to be in significantly better conditions. According to OECD (2015) the risks endangering the financial sector are absent. The central bank introduced new macro prudential policy framework to acquire control over capital flows most exposed to external shocks. Generally the conditions of the financial sector are adequate - the level of private indebtedness declined as well as the share of non-performing loans. Private sector credit flows which were peaking in the pre-crisis years indicate moderation. The balance of payments values shrank after the crisis and currently remain at relatively low level, which is sign of financial flows easing. At the same time Estonia utilizes FDI net inflows. The level of stock market capitalization remains low (Figure 10). The banking sector is dominated by Scandinavian banks which helped to restore the financial sector stability (OECD 2015; IMF 2013). In essence the Estonian financial market recovered from the financial crisis and underwent regulatory processes to prevent sector from external shocks; no signs of excessive financial flows are present. The recovery of the financial sector therefore contributed to the positive conditions of the whole economy.

The other two countries were not exposed to the financial stimulation as in the case of the Baltic countries. The Hungarian financial sector was adversely hit by the financial crisis and Hungarian government had to ask IMF for assistance program in October 2008. A high proportion of FX mortgages and other foreign-nominated loans exposed households to the risk of insolvency, when their loans appreciated together with western currencies (Bohle & Greskovits, 2013, chapter 6). The recovery of the market is rather slow - the share of NPL's loans is high - see Figure 11. On the other hand the regulatory mechanism to convert most of the FX mortgages had been launched (despite concern of foreign owned banks) and the central bank issued FGS program (Funding for growth scheme) to enhance investment on the SME level. Generally the burden of the regulation over the sector is quite high (OECD, 2014). IMF (2014a) suggested that the recovery of the bank portfolios is proceeding steadily but the financial inter-mediation is affected by high tax burden. However the exposure to the instability is partially decreased by the termination of FX mortgages. The pervasive foreign ownership of banks (Table 3) might not be accused of either positive or negative influence on spreading instability. Recent development pointed to political decision of higher influence of the state in the banking sector (FT, 2014)

Adoption of Euro in 2007 diminished the risk of excessive loans in foreign currency in Slovenia and enabled financial sector with access to the

Eurozone financial market. The pre-crisis market was characterized by significant portion of state-owned banks and lower portion of foreign owned banks than in other CEE (Table 3) and relatively low stock market capitalization (Figure 10). After the accession to the Eurozone, the loan to GDP ratio grew dramatically (from 40% in 2003 to 92% of GDP in 2011) signaling an overheating of the financial sector. Additionally most indebted were construction and real-estate sectors (OECD, 2013). When demand for exports had dropped, after the primary effects of the crisis, the economic downturn was strong (8% decline of GDP in 2007). The crisis development was similar to the other CEE countries so far. In 2012 the GDP declined again due to the banking sector collapse. Three largest state owned banks (NLB, NKBM, Abanka) performed poorly and increased their portion of NPL's to level of 19% of GDP (OECD, 2013). Slovenian government was forced to provide banks adequate financial support in order to recapitalize them. The situation required establishment of "Bank asset management company" which served as supervisor over restructuring. Government was recommended to decrease substantially its ownership shares in the banks and additionally in the business sector as well (IMF, 2014b). Overall the banking crisis had negative impact on amount of credit, consumer's demand and generally prolonged the recession of the economy. Consequently the credit to households and SME's is on declining trend and the demand is generally decreasing. The financial sector contributed to the decline of the Slovenian economy and massive increase in public debt. The necessity of privatization not only of the banks is the most recent issue for the government.

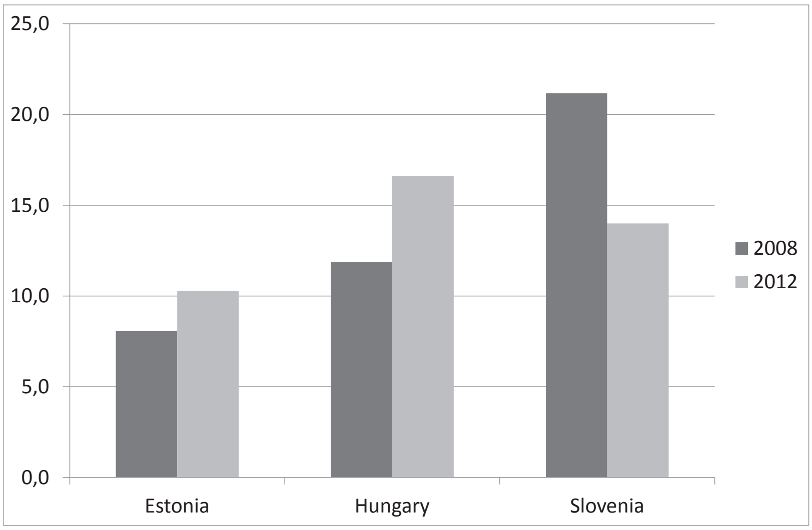
Table 3: Foreign ownership of banking sector

country	Estonia	Hungary	Slovenia
foreign ownership	98.3%	81.3%	29.5%

source: EBRD, asset share of foreign-owned banks, data from 2009

The financial sector performance reveals part of the roots of the economic conditions of the countries - where Estonia retrieved from the crisis partly due to well capitalized Scandinavian banks and implementation of appropriate regulation, Slovenian state banks got into problems due to the loose

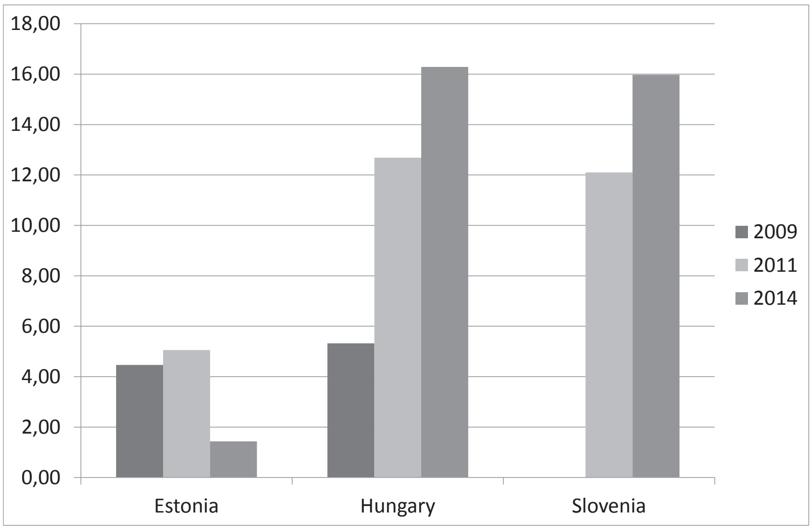
Figure 10: Market capitalization, in % of GDP



source:OECD

control of the state. Estonia which was hit exceptionally by the dry out of the financial inter-mediation is now in better shape than the other two countries. The crisis exposed the Slovenia banking sector to stress which it was not able to cope and the government had to recapitalize from its own resources to avoid bailout. The Hungarian financial sector is recovering in slower pace not contributing to the growth and amount of credit is continuously decreasing. Recent disputes of governmental authorities and managers of the branches of foreign owned banking houses might signal tougher conditions for banking sector (Bloomberg, 2015). Government initiated special bank sector taxes during 2010 with promise to cancel it after the process of restructuring of foreign nominated loans; one of the examples of political patterns present in the broad economic conditions. The effect of the pattern will be subject of the next chapter.

Figure 11: Share of NPL's of total loans



source:OECD; Slovenian data in 2007 not available

4.3 Political pattern

In general, the economic crises augment the importance of policy elites in shaping the economic performance. By stimulating the economy government might protect either interest groups or economy as whole. The political pattern thus played a significant role in stimulation of the economy and consequent differing results. The political pattern and economic performance are closely linked since political actions contribute to the economic performance which again contributes to the impression from the government publicly enhancing re-election. However it also gives room to the populists and politically extreme movements which might cause opposite - distortion of economic performance. Considering the sophistication of theoretical argumentation of VoC, the thesis thereby provides illustration of ideal in-crisis reaction of governmental policy in accordance with the VoC typology[10].

The difference in the reaction to the crisis is based on the concept of coordination. In LME the coordination of the economy is at low level, gov-

[10]The ideal reaction to the crisis from perspective of the VoC models is author's suggestion rather than conceptualized approach, but it is important to outline the processes for better understanding of the real events

ernment is not intervening in the economy even in the face of drop in output, preservation of an economic efficiency is achieved through austerity measures - government is not increasing social spending in order not to increase indebtedness, the taxes are left flat or with low level of redistribution. The government is not enhancing any form of coordination among employers and employees, because the former demand lay-offs in order to protect the production process, labor is not skilled and thus it is easier to decrease the amount of employees. The government is responsible for preserving the liberalism on the labor market. In the CME, on the other hand, the coordination of the economy which is pervasively performed on the non-market level requires coordination form the political sphere. While the employers benefit from the high skilled workers who are scarce, it is important to reach consensus in tripartite negotiations. Special working programs are introduced in order to decrease pressure on the firms which face decline in demand, these programs are ideally supported by the governmental contributions. The level of indebtedness is increasing, the coordinated economy is stimulated in order to decrease the level of redistribution. Special taxes and contributions are introduced. In case of LME, the effects of the crisis are more severe but last shorter period, for the price of painful austerity the economy recovers faster. In case of CME, the effects of crisis are moderate, the governmental indebtedness increases and the recovery last longer. The austerity measures are less adverse, the coordination of the government steadily declines after the crisis.

The second hypothesis suggests that political pattern contributes to the growth, provided it is in accordance with the country typology or at least is not deforming the institutional complementarity. The five categories fall under the influence of the government [11], therefore it is important that they are treated as integrated mechanism where uneven intrusion might cause destabilization of the system. Importantly, the political reactions were various in the CEE countries (Myant, Drahokoupil & Lesay, 2013), depending on the depth and polarization of political representation as on the scope of disposable economic resources. Simultaneously with the policy actions,

[11] At least partially, influence of the government is most intense in the employment protection legislature, corporate governance legislature, vocational training system and trade unions negotiations

dichotomous political pattern was derived - social democratic approach identified with the Keynesian economic theory and neo-liberal approach identified with the neo-classical theory. Considering the VoC typology, the social democratic approach should follow the CME and neo-liberal the LME. Furthermore the national governments themselves might have gone through transformation during the elections initiating either preservation or alteration of the approach. In the next part it will be revealed that the main political interventions were exhibited in the sector of employment protection and industrial relations. The sectors of inter-firm relations, corporate governance and training were put to lesser attention.

Estonia as liberal market economy was generally highly exposed to the booming real estate bubble and expansive credit flows. At the time the crisis erupted the government was formed by leading Reform party (central-right), social democrats and national conservatives. The governmental decision to stick perfectly to the liberal approach policy (which compelled the Social Democrats to leave the coalition) and not intervening in the economy matches with the expected political pattern one should expect of the liberal model. Rather severe pro-cyclical spending and massive layoffs led to the increasing social inequality. Although the situation was socially inconvenient there were no demonstrations among the public (in other Baltic countries however, it was not the case). Government pursued policy of fixed exchange rate regime (currency board), even during the crisis for two reasons. First, was the awareness over the conditions of highly indebted financial sector with large shares of foreign nominated loans and second, the policy of Euro zone acceptation which declared fulfillment of ERM II criteria. The labor market proved to be highly flexible and unable to hinder the liberal development, the decrease in employment and unemployment was substantial - employment decreased by 10% in 2009 (Krillo & Sallo, 2011). The conformation with the crisis was accompanied by introduction of increased VAT tax, new labor policy act and special duties on fuel and pollution charges (Feldmann, 2013). The Reform party won the election of the 2011 and managed to form coalition with national conservatives again which ensured further political stability.

Political development in Hungary exhibited mismatches already before the crisis and therefore the political pattern was more vulnerable to the potential outer shocks. Social Democrats who governed the country from 2002 continuously implemented generous social policy thus creating extensive public debt (Myant, Drahokoupil & Lesay, 2013). Although the government was re-elected in 2006, cabinet of premier Gyurcsány decided to instantly adopt austerity measures in order to preserve a stability - the popularity of the government felt immediately and the political tensions erupted in open riots and more extreme form of political environment (Bohle & Greskovits, 2013). Hungary entered the crisis already in the state of austerity and pro-cyclical policy and the liberal pattern was clearly discernible. In 2008 the situation even worsened and the government had to adopt new austerity measures included in the rescue package issued by IMF and EU. Gyurcsány's cabinet resigned and new government relied on cooperation with Fiscal council and Reform Alliance – the institutions established to provide necessary agreements and surveillance over the austerity measures and simultaneously prevent other interest groups to block these processes (the role of trade unions was not taken into consideration (Myant, Drahokoupil & Lesay, 2013). The liberal pattern remained decisive as long as the new elections in 2010 swept the restored social democratic government away. Newly established government of premier Orbán began to implement a specific policy which was often referred to as "Orbanomics" (Reuters, 2013). New economic policy included flat tax rates, mitigation of wealth redistribution and reduction of employment protection. The tripartite council was *de facto* dissolved (Toth et al. 2012). The implementation of strong regulation (indirect taxation) on the side of the banks, telecommunication and energy sector contributed to the fiscal consolidation but at the same time imposed premise of excessive state interventions. The liberal pattern had signs of a mismatch as well - the interventions in the wage settings and centralization of public sector services (Szabo, 2013). Orbán's idiosyncratic policy which mix nationalist and neo-liberal agenda is considered as merely effective (Reuters, 2015) but on the other hand regulation of foreign-owned sectors such as banking and telecommunication signals populism and is potentially deforming the image of the country in viewpoint of foreign investors.

According to Stanojevic there were processes in Slovenia which accompanied decreasing level of corporatism already before the crisis (Stanojevic, 2012). The abrogation of compulsory membership in the Chamber of Commerce and Industry, reform of taxation and other factors accounted for increasing influence of liberalization (Bohle & Greskovits, 2013). In 2008, just before the crisis, cabinet of Borut Pahor (Social Democrats) took governance and had to react on the emerging events. The social pattern in the economy included fiscal stimulation and coordination on the level of tripartite. In 2009 trade unions supported the novel public sector austerity package and contributions to the employers, who had to decrease working hours (Feldmann, 2014). But early achievements were later spoiled by publicly rejected reform packages (in Slovenia public referendum might vote down the laws). The European integration and restarted privatization ironically contributed to the liberalization of the coordination mechanism which ruled out coordinated reaction. In 2012 the new conservative government gained power and had to cope with post-crisis development which initiated yet another (banking) crisis. The political turmoil, which was gaining intensity since crisis erupted, peaked at the point when the highest authorities were accused of political corruption and faced legal prosecution - public responded through infamous "Maribor protests" (Reuters, 2012) which spread over the country. The turbulence distorted the political system - Jansa's cabinet was voted non-confidence in parliament and another cabinet was established. The situation peaked in 2014 when elections were won by Miro Cerar's political subject, established weeks before the elections. The new cabinet would necessary have to cope with international pressures to finish necessary privatizations and at the same time be able to justify austerity measures publicly.

Slovenia is an example of political pattern that dissolved in the deep waters of disunited political elites (constantly changing governments). Estonia on the other hand performed better with stable governmental settings and clearly defined political pattern. In Hungary the influence of populist pressures led to substitution of the leftist coalition which initiated implementation of austerity by nationalist government practicing partly neo-liberal and partly nationalist agenda (non applicable to the VoC methodology). The *H1* hypothesis is to be confirmed on the grounds of Estonian and Hungarian experience - while Estonia stuck to the liberal pattern and recovered swiftly, unsettled Hungary pursued partly liberal pattern and partly nationalist pattern and recovered slowly. Slovenia was expected of sticking to the coordination mechanism but effective coordination agreement was not to be achieved - after the banking crisis the political elites involuntary had to implement liberal policies. Those policies were already present in the Slovenian economy from early 2000's. Due to lack of long term perspective the result of hypothesis remains unclear in Slovenian case.

4.4 Other factors

The three explanatory variables which were used to examine the different in-crisis performance were chosen with regard to the region specifics, including high dependency on foreign production (affecting export performance and home production) and institutional instability connected with strong influence of informal institutions, which is difficult to observe from distant sight. The peculiarities of in-crisis performance are generally dependent on broader spectrum of specific sector-stabilizing processes. One unmentioned sector is monetary policy. In this aspect, the analysis explored interesting similarity of the countries, all three were reluctant to the use of monetary easing instruments - Estonia was determined to hold the exchange rate fixed, Hungary was burdened by high portion of foreign nominated loans and Slovenia, already part of Eurozone, had to stick to the EU legislation. Other factors would include robustness of independent home production, level of substituting effect between exports and home consumption and other aspects of home based resilience to the decreasing demand.

Conclusion

The theoretical concept of VoC and its applications on CEE countries turned out to be more complicated than the application of the concept on developed economies of Western world. Underdeveloped institutional setting lacks substantial assumptions which are taken for granted elsewhere. Conformation of the concept to the specifics of the region generated three approaches - one stick conservatively to the pure VoC without modification, second approach developed adaptation of VoC variety - Dependent market economy and third approach declined to utilize the VoC at all. Each of the approaches contributed to examination of the region specifics and important similarities were explored - dependency on foreign ownership, high importance of exports and objective of integration among transnational institutions. The differences in the region divided CEE countries into three clusters - liberal Baltic States, corporatist Slovenia and dependent Visegrád states. Each examined country represent one cluster and the countries differ in the level of intensity of the VoC typology (settled Estonia and Slovenia, unsettled Hungary). Following the VoC methodology and previous research it was claimed that settled models are expected to perform better macroeconomic condition while unsettled models are expected to be adversely hit by the crisis. The political management of the economy should contribute to the institutional environment of the country (from the perspective of VoC) as well, in order to preserve the complementarity among sectors.

During and after the crisis the economic conditions of the countries experienced various development. Estonia went through volatile cycle with rapid decline of output and increase in inequality followed by rapid recovery. Hungary experienced moderate recovery of the production accompanied by sharp alternation of governmental policy during the period. Slovenia diminished the effects of the crisis at the beginning by fiscal stimulation, but the effects affected the economy with delay. The banking sector consequently entered into crisis 6 years after the first effects of the crisis, the foundations of the Slovenian corporatism were put to the test and international authorities required liberalization of the economy. The hypothesis of better in-crisis performance (predicated to settled models) was rejected by the Slovenian case.

The performance of the countries in the area of international trade contributes to the recovery of the economies altogether. The reason behind is robustness of export structure targeted at countries of Western Europe, which went through the crisis relatively unharmed (such as Germany and Scandinavia). The endurance of incrementally producing industries such as automobile sector and semi-industrialized equipment manufacturing contributed to the recovery as well. The financial market indicators interpret major differences among countries. Estonia and Hungary, under the control of divisions of foreign banks, recovered from the crisis due to the implementation of regulative procedures. While in Estonia the shock was severe, the recapitalization of the banks and stabilization of market prices proceeded smoothly, in Hungary the pre-crisis issues and state interventions caused moderation of the recovery accompanied by the international supervision which was lately abandoned - the sector however is considered stagnating. Unproductive management of Slovenian state banks caused the repetitive slow-down of economy. The destabilization of the sector is too recent to effectively assume whether the reaction to the crisis contributed to growth or decline.

Political reactions to the crisis also differed across countries. Estonia political elites stuck to the liberalism and supported theoretical approach of VoC of governmental reaction to the crisis. Hungary experienced replacement of one political pattern by the opposite one. While the country faced the process of inevitable austerity measures the governmental decision were not extremely divergent. Nonetheless the contribution of the political pattern in the case of Hungary is complicated to evaluate. Unpopular regulatory interventions restored the economy sufficiently but the image of Hungary as democratic regime was eroded (Bohle & Greskovits, 2013) therefore the implication from the political pattern contributed rather negatively to the recovery. Slovenian unstable political pattern impaired the stabilization of the economy, the authorities were not successful in coordination of the in-crisis economy and even exploited themselves to the investigation of illegal actions. Public responded to the instability by favoring recently established political movement. The political development supported the hypothesis of supportive governmental policy contributing to the recovery of the economy, when the development is affirmative with recommendation of VoC approach.

Table 4: Summary of individual sector contribution to the in-crisis performance

Sector	Estonia	Hungary	Slovenia
Post-Crisis Development	Fast Recovery	Slow Recovery	Stagnation
Export	Positive	Positive	Positive
Financial Market	Positive	Neutral	Negative
Political Pattern	Positive	Negative	Negative

source: Author's estimation, the contribution range from negative-neutral-positive

Estonian liberal model was exposed to large criticism after the crisis, but the swift recovery to the pre-crisis level proved the scholars wrong. As small and open economy, Estonia still remains exposed to the outer effects but the consistency of liberalism should favor another swift recovery. The institutional setting, which is not completely identified with the liberal model in all categories of VoC, was able to react to the crisis in more liberal manner than other LME's (i.e. Great Britain). The small and relatively unimportant position of the country in context of Central and Eastern Europe intensifies the willingness of the citizens to be incorporated into the international institutions. Since the liberalism is maintained in the system for a consistent time period the institutional response to the crisis was uniform - strong belt-tightening of the economy led to significant success in post-crisis recovery of economy. In Hungary the political heritage of social policies led to creation of institutional system not settled from the VoC viewpoint. In 90's the Hungary was considered as one of the front runners in post-communist Europe experiencing successful inflow of foreign investment and rising production (Bohle & Greskovits, 2013). Nevertheless populist policies of adverse political environment led to worsening of the economic conditions. The crisis hit the Hungary already in state of introduction of austerity measures. Hungary, best described as DME - dependent on MNC's which account for large portion of employment and production – decided to decrease the dependence on foreign affiliates (except automobile sector). Strong nationalist policy with high regulation and partial nationalization (nationalization of pension funds) was implemented. The political constellation favours indication of democratic "backsliding" (Agh, 2013). The image of Slovenia as symbol of successful corporatist economy was adversely damaged by the crisis. Slovenia as one of the pure models of strategic coordination experienced massive problems during crisis associated with political instability. Whether the banking crisis of 2013 was caused by transient omission or is deeply integrated in the system is to be investigated. Further development in Slovenia remains unclear since the new elections favored new and unsettled political movement. Partial liberalization of the coordination mechanism seems inevitable.

There are three development patterns observable in the post-crisis development - liberalizing (Slovenia), radicalizing (Hungary) and conservative one (Estonia). While CEE represent successful transition countries, the various impact of the crisis explores broader variation of the institutional background there. In-crisis development explored differences which were not observed during tranquil economic conditions. More importantly the source of the development pattern should be examined in detail by future research. External effects of transnational regulation were more pervasive in Estonia and Slovenia, where it was accompanied by mutual cooperation of the home governance advised by international authorities. On the contrary, in Hungary the external effects of transnational regulation (which were present already before crisis) gave rise to nationalist policy of self government rejecting transnational interference into the economy (present in financial sector as well). The mixture of external/internal and liberalizing/radicalizing/conservative patterns is more plentiful than in other transition economies. Hungary which represents potentially uncertain socio-economic development will probably have to alleviate its radicalizing domestic governance in order to retain the benefits of foreign investment incentives. As CEE capitalist regimes are going to develop it is relevant to investigate whether the demarcation of their production processes (seen form the perspective of Voc or other concepts of comparative capitalism) has impact on the velocity and manner of their economic convergence. Financial crisis marked an end of one period, after crisis the development of CEE rest upon experience form the crisis but at the same time on the pre-crisis period of successful transformation.

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Appendix

UN Comtrade database - SITC codes

SITC Section 0 - Food and live animals

SITC Section 1 - Beverages and tobacco

SITC Section 2 - Crude materials, inedible, except fuels

SITC Section 3 - Mineral fuels, lubricants and related materials

SITC Section 4 - Animal and vegetable oils, fats and waxes

SITC Section 5 - Chemicals and related products, n.e.s.

SITC Section 6 - Manufactured goods classified chiefly by material

SITC Section 7 - Machinery and Transport Equipment

SITC Section 8 - Miscellaneous manufactured articles

SITC Section 9 - Commodities and transactions not classified elsewhere

Export strucutre of merchandised goods (excluding services) by UN Comtrade methodology

share in % , value in bln. of dollars

country	Estonia				Hungary				Slovenia			
	2007	share	2013	share	2007	share	2013	share	2007	share	2013	share
sectors	11,0	100%	18,2	100%	94,5	100%	108,0	100%	26,5	100%	28,7	100%
3	1,3	11,7%	1,8	9,9%	2,6	2,8%	3,9	3,6%	0,5	1,9%	2,1	7,3%
5	0,6	5,2%	1,1	6,0%	6,8	7,2%	12,4	11,5%	3,6	13,6%	5,3	18,5%
6	1,9	17,4%	2,7	14,8%	8,7	9,2%	11,5	10,6%	6,6	24,9%	6,0	20,9%
7	3,1	28,0%	5,8	31,8%	55,0	58,2%	56,3	52,1%	10,7	40,4%	10,2	35,5%
8	1,6	14,5%	2,6	14,3%	7,2	7,7%	9,8	9,1%	3,3	12,5%	2,8	9,8%
share of services			5,5	30,2%			20,4	18,9%			6,6	18,7%

Top 3 target countries

Estonia	2007		2013	Hungary	2007		2013	Slovenia	2007		2013
Finland	17,9%	Sweden	17,4	Germany	28,4%	Germany	25,6	Germany	18,9%	Germany	20,9
Sweden	13,3%	Finland	16,6	Italy	5,6%	Romania	6,2	Italy	13,3%	Italy	11,6
Latvia	11,4%	Russia	11,7	France	4,7%	Slovakia	6,1	Croatia	8,0%	Austria	8,1

source: UN Comtrade database, own calculations