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# Journal

The Capco Institute Journal of Financial Transformation

# A new world order

**Strategic pivots**

Multinationals in stormy waters: lessons from central Europe to navigate the populist wave

Gerhard Schnyder

KING'S College LONDON
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The Capco Institute Journal of Financial Transformation

# Journal

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2026, Edition 62

# Journal

**Welcome to the 62nd edition of the Capco Journal of Financial Transformation, the second to be published in partnership with King's College London, a world-renowned leader in education and research.**

This year marks the Journal's 25th anniversary and the beginning of **Capco30**, our strategic vision as we build towards Capco's landmark 30th anniversary.

At the heart of Capco30 is The Expert Advantage: our commitment to be the trusted partner clients turn to when the stakes are highest. We are proud to have built an exceptional business by obsessing about our deep expertise, our strong client relationships, our innovative culture and our reputation for impact.

The Journal has embodied that ambition since its launch in 2001. Over the past quarter century, it has brought together leading academics and industry practitioners – including Nobel laureates, international regulators and board members of major institutions – to examine the forces shaping financial services and the wider global economy. We are equally proud to see Capco experts sharing their perspectives alongside such distinguished contributors.

**As Professor Crawford Spence, our editor from King's College, observes in his introduction, this edition might aptly have been titled 'how to survive and thrive in turbulent times'.**

After decades of globalization, firms are both refocusing on local market shifts and new forms of cross-border collaboration. Technology is driving integration as trade barriers rise; financial innovation is accelerating amid monetary realignment and volatile geopolitics; and the green transition is redrawing both energy markets and fiscal priorities.

Edition 62 focuses on the **new world order** emerging from these shifts – and how leaders across financial services and energy are rethinking established assumptions, navigating new risks and identifying opportunities for growth.

The coming decade could bring one of the most consequential reconfigurations of global business and economic systems in generations.

This environment reinforces the importance of expertise, judgement and the ability to turn insight into action. At Capco, we help clients connect vision models and strengthening resilience to reimagining customer experiences and the future of work.

We bring together industry depth, technology and data capabilities, and disciplined execution to help clients navigate the moments that matter most with confidence.

The Journal is one expression of that Expert Advantage: convening leading perspectives, challenging established thinking and helping shape the agendas that will define the future of our industries.

I hope you will find the articles in this edition both thought-provoking and valuable for informing your organization's future vision and strategic decisions.

My sincere thanks and appreciation to our contributors, readers and clients.

**Annie Rowland,** Capco CEO

2026, Edition 62

# Editor's note

KING'S BUSINESS SCHOOL

We could equally have labelled this volume of the Journal of Financial Transformation 'how to survive and thrive in turbulent times', given that each of the articles effectively attempts to tackle this issue in their own unique way. Times are indeed turbulent. Recent months and years have borne witness to increased military conflict, heightened economic shocks and the emergence of new political forces.

These disruptions are often captured in popular discourse by reference to, variously, the decline of the rules based international order, the rise of authoritarianism and the re-emergence of nationalism and protectionism as challenges to globalization. While putting clear conceptual parameters around what is a very unsettled geopolitical period is difficult, there is at the very least little doubt that the world is changing and that a new order is emerging. To paraphrase an old political aphorism: the old is dying and the new is struggling to be born.

This geopolitical reshuffling is the backdrop to the current issue of the Journal. Contributors were asked to think about how financial services and energy might respond to, and indeed themselves help reshape, the new global order that is emerging. What they have presented here can be grouped into four conceptual clusters, each of which makes up a distinct sub-theme in this issue of the journal: colliding worlds; monetary risks; strategic pivots; and private markets.

The first group of articles we refer to here as colliding worlds. The worlds that collide here specifically are those of finance and energy. Each of these forces us to zoom out from financial transactions and investments and think about the wider environmental and material basis for these. For example, Ragland's fascinating look at the arms race for computing power shows how the rapid expansion of data centers is at odds with the way in which existing energy infrastructure is built. Those who will be successful in rolling out advanced computing power are those who will be able to finance and build out alternative energy infrastructure at the same time.

This has strong parallels with Xu and Preda's article looking at the infrastructure of bitcoin mining, which demonstrates in some detail how supposedly digital assets have heavy materiality in terms of both the physical infrastructure that supports them and the energy consumption that goes into their mining and processing. Finally, Savignon takes the energy transition head on by exploring the mechanics and possibilities of carbon credits in Brazil, a country which is characterised by a dominance of renewables in its energy mix. Showing real heterogeneity in how carbon credits are deployed in different sectors in Brazil, this article concludes by outlining how those who are able to integrate thinking around finance, data and energy will be able benefit from and contribute to the energy transition in the Brazilian market.

Monetary risks refer to the various ways in which currencies are embroiled with risk at both the national and transnational levels. As the fundamental means via which deals are transacted, it is perhaps no surprise that we find money, in its various guises, to have so many political inflections. Cryptoassets are often heralded as some kind of safe haven (‘digital gold’) during times of economic and political turmoil and there are many central banks across the globe who are now pursuing digital currency projects of their own. These have significantly lagged the development of private crypto initiatives. One of the reasons for this might be the perceived financial crime risk that is associated with digital currencies in general, something which Tjeransen’s article outlines in detail.

Fiat currencies are also deeply imbricated in geopolitical factors. This is the subject of Hou et al’s article which draws attention to the ways in which currency risk premia are associated with trade imbalances between nations. Such factors are of increasing importance to, not only forex traders, but any organization engaging in currency hedging. Finally, nowhere is the importance of currency to geopolitics more evident than in Zayim’s article looking at how central banks engage in currency swaps with other central banks. Focusing on both China and the US, Zayim shows how each has sought to build up spheres of influence with different counterparties as part of larger attempts to accrue power and minimize geopolitical risk for themselves.

Our third conceptual ‘bucket’ looks at how individual organizations respond to geopolitical shifts. In other words, these articles look at the various strategic pivots that organizations make in order survive and thrive in turbulent times. These strategic pivots can take different forms depending on the geography and industry in question. For example, Schnyder shows how banks in East Central Europe can mitigate risk in response to rising anti-FDI policies in that region. In Scriven’s article the author shows how software delivery needs to be reconfigured in order to overcome increasing regulatory divergence and export controls.

In times of geopolitical uncertainty, capital markets can become less efficient in allocating capital and so firms have to focus more on their internal efficiencies, which is what Gkikopoulos and Stathopoulos illustrate in their article exploring the relationship between firms and banks; such relationships have implications for tax planning and productivity. Political turbulence also impacts hiring strategies, which Nguyen and Sila demonstrate in relation to corporate hiring practices during times of election uncertainty. Finally, Confalone makes a strong case for a strategic pivot towards developing ‘enterprise intelligence’ in the age of AI, a shift which has governance implications for financial services organizations.

The final sub-theme of the issue reflects an ongoing interest that we have had in private markets. The shift from public to private markets is one of the big secular shifts of modern finance, which was dealt with explicitly in issue 61. In this issue, we build on this with two further articles. One of these, by Phalippou, tackles the shift of private equity towards retail investors, outlining the potential risks in selling private equity products that were designed with institutional investors in mind to a less informed and less powerful constituency. Preda and Chen’s article pursues another tack, showing how venture capital funding in Asia and elsewhere has to be cognisant of surrounding government policy imperatives if it is to be successful.

Taken together, these articles argue that financial services are not simply being buffeted by geopolitical change. They are becoming one of the arenas in which that change is negotiated. Through payment systems, liquidity backstops, energy and computing infrastructure, corporate strategy and the evolving boundary between public and private markets, we can see how geopolitical forces manifest themselves and adapt to existing institutional constraints and imperatives.

**Professor Crawford Spence**
King’s College London

# Multinationals in stormy waters:

## lessons from Central Europe to navigate the populist wave

**Author** | **Gerhard Schnyder** | Professor of International Management & Political Economy, Loughborough University

## Abstract

Tariffs, trade wars, (re-)nationalizations, and other nationalist political interventions in the economy create huge costs for firms, especially those who do business across borders. The second Trump administration is at the forefront of such nationalist economic policies, leaving companies reeling and scrambling to change their business models and restructure their supply chains. In East Central Europe (ECE), national populist governments have implemented such policies for over a decade. Therefore, the region can provide important lessons on the impact of populists on multinational companies (MNCs). One thing that emerges clearly from academic research is that MNCs in the financial services sector are particularly exposed to national populists' anti-foreign direct investment (FDI) policies. This article seeks to explain why financial services firms face high levels of political risk and how they can mitigate it. To do that, the article analyzes the ambiguous policies of ECE national populists towards foreign investors and identifies sectoral- and country-level factors that explain variation in political risk that foreign companies face. It also discusses which political strategies firms in the region have adopted to mitigate political risk work and which ones do not, particularly in the financial services industry.

## 1. Introduction

Since Donald Trump's return to power, businesses have anxiously watched the deteriorating relationship between the U.S. and China, the ups and downs in the U.S.'s approach to Russia, and most importantly perhaps the Trump administration's policy on tariffs and trade. As a result of the tariffs on Chinese exports to the U.S., Apple, for instance, has moved parts of its iPhone production from China to India. Trump's economic nationalism is not an isolated case though, but representative of a wider phenomenon of national populist economic policies that have been spreading across the globe. East Central Europe (ECE) has experienced such policies for over a decade and therefore provides a useful laboratory for us to better understand how national populists in power may impact business activity and how business – in turn – can react to the increased political risk.

## 2. National populists' Janus-faced FDI policies

When it comes to foreign direct investment (FDI) policy, national populists in East Central Europe face a fundamental dilemma: On the one hand, these countries have extensively relied – more than most others – on a steady inflow of FDI for technology transfer and upgrading of their post-Soviet productive capacities. This has led to a situation of a strong 'dependence' on foreign multinationals [Nölke and Vliegenthart (2009)]. On the other hand, their nationalist political strategy crucially relies on anti-foreigner rhetoric focused on 'taking back control.' This slogan does not only concern physical borders and immigration, but also the inflow of capital. Attacks on financial investors like George Soros and the Central European University he founded have made headlines outside the region. But multinational companies (MNCs) can also become targets of populists' economic nationalism. Indeed, anti-FDI policies are a common tool used in the region to try to reduce the dependency on foreign capital. A case in point is the partial re-domestication of the banking sectors in Hungary and Poland. The next section shows that national populists in Hungary and Poland use a range of subtle tools to implement their anti-FDI policies in the financial sector.

### 2.1 The re-domestication of finance in Hungary and Poland

The financial industry has become the target of national populists in ECE countries where finance was particularly strongly dominated by foreign capital. In the case of Poland, foreign-owned banks dominated the industry from the late 1990s onwards. After 2015, progressive re-domestication took place under the Law and Justice (PiS) government. By 2018, Polish domestic investors had replaced foreign owners as dominant investors, holding 54.1% of aggregate banking assets.

Similarly, under the Fidesz government after 2010, the largely foreign-dominated banking industry in Hungary saw the proportion of banking sector shares held by domestic owners rise to nearly 50% by 2018. The state owned close to two-thirds of them.

As a result, inward FDI into finance fell sharply both in Hungary (from 17.7% of GDP in 2015 to 9.1% in 2020) and in Poland (from 20.5% of GDP in 2017 to 12.4% in 2020).

These trends were not the result of foreign banks divesting from the region voluntarily. Rather, they resulted from Poland's and Hungary's national populist governments' anti-FDI policies that aimed at reducing dependency on foreign multinationals and transferring ownership to nationals.

The tools used to achieve this goal sometimes included outright nationalization of foreign assets. More often than not, however, they were much more subtle – and harder for companies to anticipate: The strategic use of special laws that disadvantage foreign companies is a prominent tool. Strongly progressive taxes based on company size, for instance, typically are targeted at (large) multinational companies to the advantage of (smaller) domestic firms. Thus, a special banking levy introduced in Hungary in the 2010s taxed the first 50 billion forint of assets at 0.15%, but any additional income at 0.5%, therefore hitting foreign banks harder than domestic ones [Johnson and Barnes (2015)]. Similarly, beyond direct subsidies, public procurement and government advertising are used to privilege domestic firms over foreign MNCs.

These economic strategies often aim at weakening foreign companies and ultimately force their owners to transfer ownership to domestic investors. In the most extreme cases, this is achieved with what one of our respondents called 'mafia-like methods,' which we called elsewhere 'forced buyouts' (FBOs) [Sallai and Schnyder (2021)]. For instance, the use of unannounced tax inspections to put pressure on foreign companies' share price allows the government to force the sale of the business to domestic investors at discounted prices. In other cases, the threat of adverse government action is enough to 'convince' owners to transfer ownership to domestic actors.

Such methods are not limited to the financial sector. In retail, the Hungarian government adopted a series of very creative laws targeting foreign retailers like Carrefour and Spar. Thus, one law prohibited non-family-owned businesses from opening on Sundays – reducing the attractiveness of large supermarkets compared to smaller, family-owned businesses. Moreover, a progressive retail tax was introduced in 2020. The tax rates increase steeply with turnover. Large foreign retail chains – who report consolidated turnover – are taxed at 4.5%, while domestic retailers, who operate via franchise systems and do not consolidate turnover for tax purposes, face tax rates of 0-1%. Importantly, foreign-owned firms are not allowed to restructure into a franchise system that Hungarian retailers use to avoid the tax, which has led to complaints of foreign chains and governments about the discriminatory effect of the retail tax regime [Nemeth (2024)].

In other cases, however, national populists roll out the red carpet for foreign companies, e.g., in the form of generous tax rebates and cheap land deals. German car manufacturers, for instance, are generally very happy with populist economic policies in Hungary and Poland [Sallai et al. (2024)]. Political risk stemming from national populists therefore varies. The next section explores the determinants at both the country and the sector levels.

## 3. Factors determining national populist political risk

### 3.1 Country-level determinants of populist risk

Our research identified three main factors that influence the extent to which foreign MNCs are exposed to political risk in national populist governed countries: Firstly, the degree of authoritarianization of the country's political system; secondly, the degree to which a country's growth model is dependent on FDI; and thirdly, the political alignment between the MNC's home and the host country's government [Sallai et al. (2024)].

Populist parties in government tend to use their power to fundamentally reshape the democratic setup of the country. Examples include reducing the independence of the judiciary (e.g., by replacing judges with new ones close to the government), reshaping electoral rules, and changing political procedures to concentrate power in the hands of the executive [Bartels (2024)]. In that context, the larger the parliamentary majority of a national populist party and the stronger its grip on power, the higher the likelihood of authoritarianization. For instance, Fidesz's two-thirds majority in the Hungarian Parliament allowed Victor Orbàn to adopt constitutional changes that help his chances of staying in power [Sallai and Schnyder (2021)].

Therefore, countries with longer national populist tenure and stronger populist control over parliament are riskier for MNCs. A higher degree of authoritarianism allows populist governments to more easily favor their allies in business and will therefore increase political risk for foreign multinationals. For instance, large parliamentary majorities and reduced opportunities for stakeholder input into the legislative process has allowed the Fidesz government to adopt anti-FDI legislation, like special taxes, without opposition.

A second country-level factor concerns the country's reliance on an FDI-led growth model. After the fall of state socialism, ECE countries generally were very successful in upgrading their manufacturing base relying on inward FDI from Western MNCs [Nölke and Vliegenthart (2009)]. The downside of that growth model is the dependence it creates and the fact that economic decisions are taken outside the country's borders in the headquarters of foreign MNCs. Therefore, this so-called Dependent Market Economy (DME) model increasingly has come under pressure. National populist governments have been particularly active in adopting economic policies aimed at shifting away from FDI-led to more consumption-led growth models. Natalist policies for instance are part of that strategy. For foreign MNCs operating in countries adopting such policies of reducing FDI dependence, political risk may be heightened.

A third country-level factor concerns the political proximity between the MNC's home country and the ECE host country. National populists tend to seek alternative sources of FDI from illiberal countries to reduce dependence on Western sources. Hungary's increasing efforts to attract FDI from China, for instance, can be seen in that light. More generally, national populists often make a point of supporting ideologically aligned governments, as is illustrated by Donald Trump's support for Javier Mielei's government in Argentina when facing a fiscal crisis [Nugent et al. (2025)]. For MNCs from a country whose government is politically and ideologically distant from the populist host government, political risk will be increased.

The fact that political risk stemming from national populist governments is influenced by country-level factors suggests a first way for MNCs to mitigate it, namely location choice. Indeed, the most basic strategy to mitigate country risk is to stay away if the risk is deemed excessive. That rather crude strategy, of course, also means missing out on potential profits that companies in some sectors can make in a politically risky country. Indeed, our research also shows that political risk does not only vary by country, but also by sector, implying that even in a country deemed risky some sectors may face acceptable levels of risk.

## 3.2 Sector-level determinants of populist risk

Our research shows that at the sector level political risk stemming from right wing populists in government varies on two key sectoral dimensions: the political and the economic strategic value of a sector to the regime [Schnyder et al. (forthcoming)].

The distinction of sectoral strategic value stems from Rosie Hsueh's (2016) work. She defines the political dimension of strategic value as considerations of external and internal security that make some sectors critical for political regime stability.

Economic strategic value, on the other hand, refers to a "sector's contribution to the national technology base and the growth and competitiveness of other sectors and the rest of the economy" [Hsueh (2016, p. 89)].

This has implications for the political risk exposure of foreign firms active in different sectors (see Table 1). The riskiest sectors are those with high political strategic value but (relatively) low economic strategic value. The media sector is an example of that. National populist parties rely particularly strongly on generating popular support through their media strategy. As a result, they may consider control over the media as a key element of regime survival. Therefore, firms active in the media sector face high levels of political risk in national populist governed countries [Schnyder et al. (2024)].

In sectors where political strategic value is low, but economic strategic value high, political risk is relatively low, because nationalist populists benefit from technology transfer via inward FDI and do not gain directly in terms of political stability from taking over such sectors. That is the case of car manufacturing, explaining its relative immunity to national populist political risk.

Sectors with low economic and political strategic value may still experience considerable risk, because in those sectors national populists may choose to implement anti-FDI policies to signal to voters the government's commitment to 'taking back control' – and can do so without causing significant economic damage. An example is the retail sector in Hungary, where domestic retailers could replace multinational retail chains relatively easily, notably due to the relatively low-tech nature of the sector and therefore the absence of dependence on inward technology transfer via MNCs.

Finally, cases of high political and economic strategic value pose a real dilemma for national populists. The financial sector is a case in point. This sector is important to achieve regime stability (e.g., by controlling interest rates, lending to households, etc) and other political goals (e.g., industrial policy by channeling credit into specific industries). However, ECE countries are also reliant on capital from outside the country. Indeed, in these countries, financial resources are notoriously scarce, leading to a high dependence on foreign banks [Piroska and Epstein (forthcoming)]. Financial services also increasingly rely on high tech controlled by multinational banks' headquarters. Retaking control of the finance sector is hence politically valuable for a national populist government but comes at a certain risk of disrupting capital and technology transfers. Here, an important indicator for financial market firms to consider is the national populist government's economic strategy. Many populist governments do not have particularly cohesive economic strategies [Benczes and Szabó (2023)]. Yet, some do develop sophisticated industrial policies, which has led scholars to describe countries under their control as 'conservative developmental states' [Bluhm and Varga (2020)]. In such cases, the political strategic value of the financial sectors increases because control over financial flows is crucial for the implementation of the national populist industrial policy. This may lead to a situation where the political gain from re-nationalizing or re-domesticating financial services firms outweighs the risks associated with losing access to foreign capital and technology in the short term. Poland under the Law & Justice (PiS) government may illustrate this case most clearly.

Our research on Hungary and Poland suggests that two additional risk factors contribute to enhanced political risk for financial service firms: The relatively long tenure in government and strong grip on power, which creates more leeway for bold action against foreign investors.

**Table 1:** Sectoral characteristics and economic and political strategic value and exemplary sectors

| | | Political strategic value | |
|---|---|---|---|
| | | High | Low |
| Economic strategic value | High | Banking and finance | Manufacturing |
| | Low | Media | Agriculture and forestry<br>Retail |

**Source:** Schnyder et al. (forthcoming)

The next sections explore what strategies foreign companies operating in countries with national populist governments have used – successfully or otherwise – to mitigate political risk.

## 4. Political risk mitigation strategies

How can MNCs – especially those in the exposed financial sector – mitigate their exposure to populist political risk? The next two sections explore the role of political ties and country embedding in international institutions.

### 4.1. Political ties: risk mitigation or trojan horse?

Corporate political strategy has become increasingly sophisticated. Large multinational companies have developed government affairs departments that use professional political strategies such as lobbying, campaign financing, and the provision of information to governments and parliaments.

However, national populist governments' disregard for formal parliamentary procedure and the rule of law makes such sophisticated political strategies less effective [Schnyder and Sallai (2020)]. During 'democratic backsliding,' consultations about legislation are shortened (in some cases reduced from months to days), purely symbolic, or completely abolished. Parliamentary debate is replaced with governmental control over the legislative process. For companies this means the number of access points to influence legislation is drastically reduced and the timeframe to do so shortened. One of our interviewees put it in the following way:

> *In Hungary it is not worth representing interests, because today in the parliament a 'voting machine' operates.*

"In Hungary it is not worth representing interests, because today in the parliament a 'voting machine' operates" [Sallai and Schnyder (2021)].

In such situations where formal channels of political activity are closed down, companies are increasingly forced to revert to political ties – one of the oldest and most basic political strategies. Indeed, appointing politically well-connected figures – such as former ministers or members of parliament – to your board of directors has long been used as a way of getting a sitting government's ear or curry its favors.

However, research on corporate political activity has shown that political ties are a double-edged sword. Ties with politicians from a given political party may be an asset when the party is in power but turn into a liability when it is voted out or – worse – removed in a revolution [Darendeli and Hill (2016)].

That risk is heightened still by the fact that national populist leaders tend to increasingly centralize power over the course of their tenure. In the extreme case of long-ruling populist leaders, the power elite may become so restricted that only ties with the leader and their immediate entourage will be useful, which increases risk further in times of regime change.

Moreover, national populists' economic strategies to 'take back control' means that political ties pose additional risks for MNCs. A case in point is the one of prominent Polish bankers who turned on their foreign owners.

Jan Krzysztof–Bielecki was Prime Minister of Poland in 1991 and became president of the Italian-owned Bank Pekao between 2003 and 2010. He was first economic adviser to Prime Minister Donald Tusk's liberal government from 2010 to 2014. However, during the PiS majority government, he helped the government re-polonizing of Bank Pekao in 2016 [Naczyk (2022)].

Similarly, Mateusz Morawiecki held the post of chairman of Bank Zachodni WBK (BZ WBK) between 2007 and 2015. He too was adviser to the liberal Tusk government, but joined the PiS government after 2015 to become PM from 2017 to 2023. He was actively – albeit ultimately unsuccessfully – involved in trying to orchestrate a Polish takeover of BZ WBK who was owned by the Irish AIB [Naczyk (2022)].

The two cases indicate that high-level political ties – which may be deemed necessary to mitigate political risk in uncertain national populist contexts – can easily become Trojan horses when these politicians join the nationalist movement and use their inside knowledge to help implement nationalist strategies.

The cases of the financial sector in Hungary and Poland show the difficulty multinational firms may face to manage political risk in cases where a bold and strongly established national populist government is in place. Even strong political ties may not be sufficient to mitigate the risk. Slovenia constitutes a contrasting case, which hints at another important factor in understanding how national populism affects foreign firms. Namely, the countries embedding in international institutions such as the E.U.

## 4.2 E.U. sheltering of Western banks in Slovenia

In Slovenia, Janez Janša's national populist SDS party was in power for ten of the past 21 years. He pursued similar nationalist economic policies to the ones adopted in Hungary and Poland. Yet, these strategies have been less successful than in the other two ECE countries. Partly, this is explained by their shorter periods in government, compared to Poland and especially Hungary, which – as mentioned above – is an important factor determining the extent to which national populists can subject the economy to their control.

There is another factor, however, which explains why even when they were in power, Slovenia's national populists were less successful in implementing their nationalist economic policies, namely Slovenia's stronger embedding in E.U.

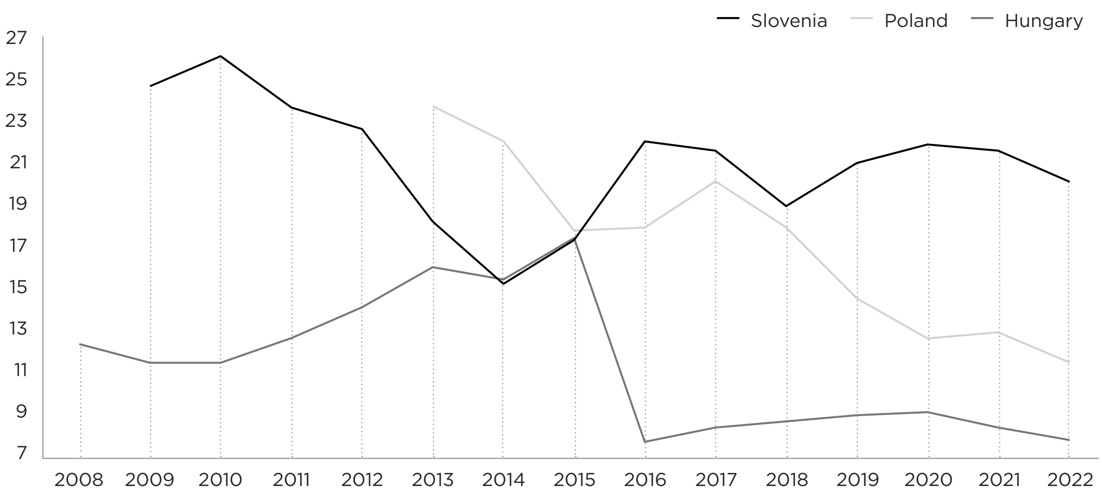
institutions compared to Hungary and Poland. Contrary to Hungary and Poland, Slovenia joined the European Banking Union (EBU) after its establishment in 2014.

The 2008 Global Financial Crisis hit Slovenian banks hard, with many of them registering a large number of non-performing loans. The Slovenian government undertook a series of capital injections, which led to a strong increase in public indebtedness. In 2013, the ECB successfully demanded a comprehensive restructuring of the Slovenian banking sector, leading to the nationalization of the two largest banks, NKBM and NLB. The new Single Supervisory Mechanism (SSM) implied that EBU member Slovenia's 'significant' banks were subject to the ECB capital adequacy standards and to regular reviews. As a result, the government's leeway to show leniency on capital requirements was curtailed and capital injections became impossible. This meant that ultimately the privatization of the banks became inevitable.

Privatizations were very unpopular and triggered massive protests and public mobilization by political parties, trade unions, civil society organizations, and leading economists. Privatization also implied increases in inward FDI into the Slovenian banking sector at a time where Hungary and Poland went the other way. The hedge fund Apollo Global Management acquired 80% of NKBM shares. NLB's share ownership became dispersed, but the European Bank for Reconstruction and Development (EBRD) became one of the largest minority shareholders before Bank of New York Mellon took control.[1]

It would, therefore, appear that national populist anti-FDI strategies were prevented in Slovenia by its membership in the EBU, which conferred the ECB the power to enforce privatization [Schnyder et al. (forthcoming)]. EBU membership meant that PiS's bank repolonization strategy or the Hungarian banking nationalism was not an option for Slovenia. Overall, contrary to Hungary and Poland, inward FDI into Slovenia has increased following the establishment of the EBU in 2014 (see Figure 1).

**Figure 1:** FDI inflow in financial services and insurance as a percentage of FDI between 2005-2021 in Hungary, Poland and Slovenia




**Source:** Schnyder et al. (2025)

[1] https://www.nlb.si/shares, last accessed August 23, 2024.

The resolute intervention of the ECB in the Slovenian banking sector case contrasts with the remarkable reluctance of the European Commission to intervene in Hungary and Poland to oppose policies that may be seen as discriminatory against E.U. multinationals, such as special and sectoral taxes. In the latter case, E.U. institutions – including the European Court of Justice (ECJ) – have generally shown remarkable leniency towards national populists' anti-FDI policies. This leniency may be surprising at least from the point of view that the E.U. is a 'liberalisation machine,' which primarily defends the interests of Western multinationals [Buch-Hansen and Wigger (2010)].

Our research suggests that a key reason why the ECB has been less lenient towards nationalist economic policies has to do with the difference in its institutional setup compared to the Commission and the ECJ [Schnyder et al. (2025)]. With its extensive supranational powers and wide-ranging isolation from politics, the ECB does not directly rely on member state governments' support to carry out its mandate. The Commission, on the other hand, has increasingly become reliant on member state support for its integration agenda, leading to what some have called 'vertical bilateralism' [Höpner (2024)] where the Commission tends to negotiate compliance with directives rather than punishing member states. Similarly, the ECJ has been considered to become increasingly politicized. Michael Ovádek's research finds that the court "systematically adjusts its rulings in response to Member States's preferences" [Ovádek (2021)]. The ECB, on the other hand, remains largely isolated from politicization and pursues its technocratic mandate more independently from member state preferences than E.U, institutions that are less isolated from politics [Epstein and Rhodes (2016)]. As our own research shows, supranationalism and technocracy help explain the ECB's greater effectiveness in challenging economic nationalist policies in Slovenia [Schnyder et al. (2025)].

For multinational banks this hints at another important country-level factor to consider when assessing political risk stemming from national populists: the extent of technocratic and supranational international organizations that a national populist country is member of. While technocracy and supranationalism are often considered to undermine democratic control over the economy, in the case of national populists, supranationalism and technocracy may constitute a roadblock to illiberal interventions in the economy. This may be interpreted as an attack on national sovereignty and the preferences of democratically-elected governments, but in the case of increasingly authoritarian and kleptocratic tendencies in national populist countries [Sallai and Schnyder (2021)], it may put a halt to the further concentration of economic power in the hands of the populist elite.

## 5. Conclusion

Overall, then, countries run by national populist governments in ECE have constituted particularly challenging contexts for foreign MNCs and banks in particular.

Given the extensive periods of national populist governments, the region provided a laboratory and training ground for firms to learn from various political risk mitigation strategies. Our research provides a roadmap towards successful political risk management strategy for companies facing similar challenges in other parts of the world as well.

Location choice – deciding to invest or not, 'stay or go' in a given country – based on country-level risk factors is one possibility. For financial services firms, one key country-level factor is whether national populist governments pursue a "conservative developmental state strategy" [Bluhm and Varga (2020)]. Those who do tend to be particularly risky for financial market firms because the sector becomes politically strategically valuable, potentially outweighing the government's concern with cutting off transfer of capital and technology from outside the country. Where national populist governments have more haphazard economic strategies, financial services' high economic strategic value that relies considerably on capital and knowledge transfer from abroad will be less exposed. We can draw the following practical lesson from this insight:

**Lesson 1.** For financial services firms, it is worth analyzing a country's economic policy closely to assess the extent to which a government is likely to aggressively intervene in the financial sector to achieve its strategic development goals. Countries with a very ambitious developmental strategy are more likely to nationalize banks and other financial services firms, which should be factored into any country risk assessment.

This also suggests more broadly that country-level assessments of political risk alone are too crude to make sound investment decisions. Our research shows large variations in risk exposure depending on the economic and political strategic value a host government associates with a given sector. Political risk is highest in sectors that are considered as high political strategic value, but that add relatively little value or technology to the country's economy. It is lowest in sectors that add much value and technology to the economy, but control over which is not considered politically important. Risk is more difficult to assess in sectors where both political and economic value are high, or both are low. As a result, a second lesson can be drawn:

**Lesson 2.** In their location choice, beyond country-level risks, investors should consider political risk at the sectoral level. A thorough analysis of a national populist government's economic strategy can help assess which sectors the government may consider particularly politically valuable (and hence may seek to control) and which ones it may consider economically valuable (and hence may consider too risky to disrupt). Which sectors fall into which category will also depend on the country's economic structure and its place in the world economy. These factors, therefore, need to be taken into account as well.

Yet, the rather crude location choice approach may mean missing out on opportunities that exist in risky countries. Here, the risk mitigation strategies of foreign MNCs in ECE can provide more nuanced insights for companies beyond the region. I have particularly highlighted the importance of political ties as a way of mitigating political risk in contexts where more professional corporate political strategies lose value. However, I also argued that such ties can be used against the firm in question. These insights suggest a third lesson.

**Lesson 3.** In countries governed by national populists, ties with politically well-connected individuals – e.g., through managerial and board positions – are an important complement to professional, market-based forms of political activities. However, very careful selection and due diligence will be required to avoid appointing political actors that enhance rather than reduce political risk. Here, a thorough understanding of the political power relations and allegiances in the country, possible electoral trends and social movements leading to regime changes, as well as an analysis of individual actors' past and present political affiliations and incentives are crucial to make the right choices.

Such strategies may not completely shelter MNCs from populist anti-FDI policies, but they may help them weather the stormy waters of the national populist wave better than would otherwise be the case.

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