Financial and Economic Review, Vol. 14 Issue 4., December 2015, pp. 184–187.

Future of the banking sector in the Central and Eastern European region – Report on the joint conference of the Hungarian Economic Association and the Magyar Nemzeti Bank*

Tamás Rózsás

On 30 September 2015, the Hungarian Economic Association and the Magyar Nemzeti Bank held the first of what is intended to become a series of joint conferences on the future and the prospects of Central and Eastern European banking sectors. At this prestigious professional event, governors and deputy governors of the region's central banks and leaders of Hungarian commercial banks shared their views on the development, future, challenges and tasks of the banking sector, and proposed strategies with which the sector can meet the challenges of our times and prepare for those expected for the future.

The conference was opened by György Matolcsy, Governor of the Magyar Nemzeti Bank. In his opening address the Governor stated that central banks today needed to return to more traditional roles while also keeping the required part of the unorthodox measures they were forced to adopt during the crisis. Commercial banks, in turn, should assume a leading role in financial mediation.

The opening address was followed by a presentation by Marek Belka, Governor of the National Bank of Poland, on the effects of low interest rates and weak euro area growth on the economies of the CEE region. The Polish governor described how low interest rates in Poland, Hungary, the Czech Republic and Lithuania contributed to robust GDP growth last year through corporations' access to low-cost loans and through the pick-up in household lending.

In his presentation, Erdem Başçi, Governor of the National Bank of Turkey focused on prudence as a fuel of balanced growth, emphasising the importance of rational macroprudential policies. The Turkish Governor explained that interest rates were around 25 per cent in Turkey before the crisis, and they were cut back to around 2 per cent during the years of the crisis. In addition to consistently falling global interest rates since the 1980s, tighter macroprudential policies had been essential

* The views expressed in this paper are those of the author(s) and do not necessarily reflect the offical view of the Magyar Nemzeti Bank.

Tamás Rózsás is an analyst at the Magyar Nemzeti Bank. E-mail: rozsast@mnb.hu.

in the reduction of the interest rate and hence, in the emergence of healthier Turkish lending practices.

On behalf of the National Bank of Romania, Deputy Governor Bogdan Olteanu talked about Romania's difficult but successful fiscal consolidation and the main issues faced by the Romanian banking sector. While Deputy Governor Olteanu admitted that the previously envisaged adoption of the euro in 2019 no longer appears to be realistic, he said that there is social consensus in Romania about the necessity of accession to the euro area. Regarding the status of the banking sector the Deputy Governor explained that, following the downward trend observed in financial intermediation in recent years, 2015 saw a moderate recovery in lending, primarily owing to leu-denominated household and corporate loans. In line with regional trends, interest rates have fallen in Romania in recent periods, although with some lag compared to other economies of the region due to higher Romanian inflation. Finally, with respect to Romanian banks operating with Greek capital, Mr Olteanu pointed out that the prudential indicators of the banks concerned are adequate.

The next presentation was delivered by Stanislava Zadravec Caprirolo, Vice-Governor of the National Bank of Slovenia, who offered a regulatory and risk-based approach to the future of the banking sectors of the Central and Eastern European region. In the opinion of the Deputy Governor, a healthier proportion could be achieved between capital assets and bank financing if the weight of the latter was reduced. Generally speaking, there is room for consolidation in the banking system, which, in the Slovenian banking sector, translates into a declining number of banks.

The morning session closed with the presentation of Andreas Ittner, Deputy Governor of the Austrian central bank. The Deputy Governor discussed the substantial exposure of Austrian banks to Central and Eastern Europe, the heterogeneity of the region and the lessons drawn from the period of the crisis. Among the lessons he mentioned the threats posed by excessive credit growth relative to deposit growth, the use of foreign currency loans as a mass product, risk-taking without adequate buffers, excessive optimism and uncoordinated action. At the same time, Mr. Ittner pointed out that – considering that the region's growth exceeds growth in the euro area – it is still worth having a presence in the Central and Eastern European region; moreover, due to borrowers' higher risk-sensitivity and the role of macro and microprudential supervision, credit supply is more sustainable.

The afternoon session was opened by a presentation of Chairman and CEO of MKB Bank, Ádám Balog. The focal point was an analysis of successive generations' use of banking services and the trends observed in this regard. The key thought of the presentation was the importance of understanding that increasingly important but less loyal Y and Z generation customers demanded non-traditional, more technology-savvy services with a broader service content.

The next speaker, Chairman and CEO of UniCredit, Mihály Patai, dedicated his presentation to the weakness in bank lending, pointing out that the root cause of the malady is not necessarily the limited supply of credit. Comparing the countries of the region, Mr Patai said that there were no complaints about the volume of credit in countries with a lower ratio of non-performing loans. At the same time, the losses sustained by the Hungarian banking sector were higher than average, and the share of bad debts is high. After Hungary's accession to the EU, EU funds took over the role of working capital investments at a rate comparable to that of the Marshall plan, which was supplemented by the Funding for Growth Scheme especially in vehicle manufacturing and agriculture.

The next presentation on the prospects of the banking sector was held by László Bencsik, Deputy CEO of OTP Bank. He commended the positive effects of the conversion of foreign currency loans and the self-financing programme, and touched upon the relationship between lending and economic growth and the key role of the Magyar Nemzeti Bank in establishing the conditions for growth and lending. He also outlined the structural features and problems of the Hungarian economy that impede bank lending. Regarding the prospects of the Hungarian banking sector, Mr Bencsik said that, as opposed to the other Visegrád countries, the Hungarian banking sector had been producing losses for years; however, without the bank levy and the other extra burdens, over the medium term Hungarian large banks may achieve a return of around 10% once again, amid declining costs of risk.

Éva Hegedűs, Deputy Chairperson and CEO of Gránit Bank, dedicated her presentation to the banking sector of the future. While the crisis deteriorated the earnings potential of the banking sector, a spectacular market shift failed to materialise, the CEO pointed out. At the same time, future success hinges upon the rethinking of the strategy, technical developments, cost reduction and credible bankers. She explained that the strategy of Gránit Bank combines innovation with conservatism; she talked about the stable performance of the Bank and the ongoing implementation of new electronic solutions.

Next, Levente Szabó, CEO of Takarékszövetkezeti Bank presented the history and current European situation of the sector of cooperative credit institutions, and described the reasons, results and expected further steps of the recent integration process. Finally, he presented the typical indicators and the performance of the sector, pointing out that thanks to the integration, the cooperative bank sector stands better chances to become a driver of Hungarian economic growth, which was a previously unattainable achievement.

Finally, Márton Nagy, Deputy Governor of the Magyar Nemzeti Bank, gave a presentation on the status of banking sectors across the Central and Eastern European region comparing Hungary to its regional peers in terms of the dynamics of corporate and household portfolios, the ratio of non-performing loans, the credit-deposit ratio, capital adequacy, return on capital employed and the operating expense ratio. He emphasised that, at 65.66 per cent, the Hungarian banking sector recorded the worst operating expense ratio of the ten countries included in the comparison. According to the indicators, the banking sectors of the region can be divided into two distinct groups. The banking sectors of the vanguard boast healthy growth, while laggards – including Hungary – continue to face grave problems.

The conference was closed by Árpád Kovács, President of the Hungarian Economic Association who, in reference to the ample criticism received by the Hungarian central bank in recent periods, stressed that in addition to maintaining price stability, the Magyar Nemzeti Bank also took upon itself to restart and encourage lending to stimulate the economy. At the same time, the professional community had already agreed at the itinerant conference of economists in early September that the Funding for Growth Scheme of the Magyar Nemzeti Bank is the sole driver of corporate lending today, and therefore, its continuation is essential.