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Report on the Budapest Renminbi Initiative 2018 Conference*

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On 11 April 2018, the Magyar Nemzeti Bank (MNB, the central bank of Hungary) hosted its annual conference in the framework of the Budapest Renminbi Initiative for the fourth time. The *Budapest Renminbi Initiative 2018* conference featured lectures given by prominent market leaders and experts.

The conference was opened by *Dániel Palotai*, Chief Economist and Executive Director of the MNB. The success of the annual conferences is demonstrated by the continued interest in the event, which also reflects the importance of the internationalisation of the renminbi (RMB). According to experts, the 21st century will be Asia's Century, and thus it is appropriate to address the issue of China's economic performance and the spread of the international use of the renminbi. Dániel Palotai highlighted that the MNB had awarded the 2018's Lámfalussy Prize to Zhou Xiaochuan, Governor of the People's Bank of China, who is one of the key actors in the internationalisation process of the renminbi. China is gradually opening up its economic and financial markets, providing further opportunities for Hungary, in addition to the already close and increasingly strong relationships with China. In November 2017, Budapest hosted the 16+1 Summit, where leaders from China and Central and Eastern Europe had a discussion. Moreover, the 16+1 Central Bank Governors' Meeting will also be held in Hungary in the autumn of 2018. The recent conference is part of this series of high-level events. In his keynote lecture, Dániel Palotai talked about the MNB's role in Chinese-Hungarian financial market development and RMB internationalisation. He presented the correlations between the Chinese and the Hungarian initiatives, and highlighted the achievements of the Budapest Renminbi Programme in the fields of FX reserve portfolio, clearing, financial stability and regulatory issues, and research and academic cooperation. He outlined that the morning panel debate at Lámfalussy Lectures Conference 2018 had approached the main issues of the ongoing global economic transformation from an Eastern perspective. Among the global trends, the increasing prominence of Eastern economies and the emergence of a multipolar global economy are major issues that requires special attention. China is the largest investor worldwide and takes the lead in the field of technological innovations, dedicating the largest amounts

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of resources for such research projects, while working toward direct and indirect value creation. He emphasised that the MNB had already embarked on the New Silk Road, and that the central bank's initiatives were in conformity with the goals of the financial integration pillar of the One Belt, One Road Initiative.

In her lecture on the Chinese-Hungarian financial relations, *Ágnes Hornung*, Minister of State for Financial Policy Affairs at the Ministry for National Economy emphasised that there were already numerous examples of cooperation between China and the Hungarian financial sector as well. Hungary has been a member of the Asian Infrastructure Investment Bank since 2017, and is an investor in the SINO-CEE Fund through Eximbank. In 2015, an agreement on the construction of the Budapest-Belgrade railway line was signed. Furthermore, Hungary can also boast successful bond issuances (panda and dim sum bonds) in the Chinese market.

Florence Lee of HSBS Securities Services gave a lecture on entering the next phase of market liberalisation in China and on the country's integration into the world economy. Following a short overview of China's capital market, she discussed current and future trends and milestones in market development. Describing the possibilities of accessing the securities markets (stock and bond markets) in mainland China (onshore) and outside of China (offshore), she highlighted that regarding the quotas allocated under the Renminbi Qualified Foreign Institutional Investors scheme until the end of 2017, Hungary had the same position as Australia, Canada, Ireland or Switzerland in terms of quota allocations, but out of the 18 countries involved, Hungary was one of the 5 states that had not used from the existing quotas for investments to be made by institutional investors in China's onshore securities market yet.

Viktor Eszterhai, China analyst at Pallas Athene Innovation and Geopolitical Foundation, presented the relationship between Hungary and the One Belt, One Road Initiative from two perspectives: on the one hand as a pool of opportunities, and on the other hand as a serious challenge. He explained the criteria for Hungary to be a bridge or a gateway between the EU and China, and he also reported on the Made in China 2025 programme which may threaten the industry driven countries like South Korea, Germany, Ireland, the Czech Republic and Hungary. He emphasised that Hungary should not only focus on its own goals when considering the opportunities China provides, but it is necessary to both parties to formulate plans and realistic targets.

Presenting a lecture on behalf of Bank of China Head Office, *Yan Bo* highlighted that the renminbi is the second most frequently used currency for China's cross-border transactions, the fifth most frequently used currency in global payments, the seventh largest in foreign exchange reserves, and the eighth most actively used currency on the international FX trading market. China has signed currency swap agreements with a total of 36 countries or regions, and the renminbi had accessed in almost 200 countries. Trade settlements, direct investments, lending and borrowing, liquidity management and other sources of financing are available in renminbi. Yan Bo presented the features of the Cross-Border RMB Index and the Overseas RMB Index, and then highlighted some interesting facts from the White Paper of the Bank of China on RMB internationalisation.

On behalf of SWIFT, a presentation was given by *Morgane Donck*. SWIFT continuously monitors the internationalisation of the RMB, and based on this, she discussed how the share of the renminbi in domestic and international payments changed between 2012 and 2018. The share of commercial payments in RMB, sent from China to Belt and Road countries increased significantly, especially in renminbi hubs, e.g. the growth in Hungary was 100 per cent between 2014 and 2017. She presented the development of the ratio of transactions made between Hungary and China in renminbi and in other currencies from 2015 in monthly breakdown, and she analysed, in a global context, the RMB's share in usage for payments ending in China.

The second part of the conference was opened with a lecture by *Sándor Pataki*, Director at OTP Bank Nyrt. He emphasised that the growth of the financial sector in China indicated challenges and opportunities as well, pointing out that several specific measures can be expected in China from 2018–2019. In July 2017, OTP Bank opened a representative office in Beijing. The observer status for a two-year period is a great opportunity to study local conditions, to obtain information and to identify potential business partners. The bank would like to seize the opportunities offered by China, but this requires a perfect knowledge of the legal environment. He highlighted that growth in China is now taking place according to new priorities and that the weight of internal consumption is increasing significantly. At the same time, the financial intermediary system is facing new challenges; for a foreign bank it is important to be aware of the specific business opportunities.

The issue of RMB global clearing services was presented by *Shan Yao*, on behalf of Bank of China Head Office. Following an overview of the renminbi global clearing system, he presented the Bank of China's RMB clearing services, which are available for the retail and corporate sectors, as well as for financial institutions and stock exchanges. Discussing the strengths of the bank, he highlighted its leading international role in RMB clearing services, its unified international payment platform and its global risk management system.

On behalf of the Budapest Stock Exchange, *Dániel Körmöczi*, Deputy CEO, gave a lecture on Chinese-Hungarian capital market opportunities. He underlined that one of the main features of the Chinese stock exchanges was the dominance of retail investors: they account for more than 80 per cent of trading volumes. By contrast, the proportion of retail investors on the Budapest Stock Exchange is only 25 per cent, but the dominance of foreign institutional investors is very strong. China's stock exchanges have expanded considerably in the past few years; they have stakes, among others, in the Pakistan, Philippines and Kazakhstan Stock Exchanges, but also cooperate for example with the German Stock Exchange. Regarding the issuance of shares, Asia and China have been leading at international level in initial public offering since 2014, with the Shenzhen, Shanghai and Hong Kong Stock Exchanges on the three steps of the rostrum in 2017.

Ren Zhe, Deputy Representative at the London Representative Office of the People's Bank of China (PBOC), gave a presentation on the recent developments of FinTech regulation in China. The scope of the regulatory framework in China extends to payments, online lending, investment and insurance services, but there is no single regulatory authority and regulatory approach. Industry self-discipline is concentrated in the hands of a finance association that forms a bridge between industry and regulators. Innovation is increasingly gaining ground through self-regulation, enhancing at the same time the understanding of FinTech activities and contributing to creating a healthy operating environment, a common goal for market players, which results in considerable risk mitigation and an improvement of efficiency as well. Characteristics of the non-bank payments regulation include stricter Know Your Customer requirements, tiered regulatory regime where payment institutions with a better rating are subject to fewer regulatory scrutiny, and an emphasis on small-amount transactions. The representative of the PBOC also talked about central bank digital currencies. In connection with a central bank-issued digital currency (CBDC), the speaker pointed to the fact that, since commercial banks are also subject to the obligation, exchanging end-of-life banknotes requires considerable resources in China. A CBDC can be tracked more easily, making transactions more transparent. Furthermore, commercial banks are allowed to conclude contracts exclusively with the retail sector with coverage of 100 per cent.

The central bank's view on FinTech was presented by *Lajos Bartha*, Executive Director of the MNB. He highlighted some experiences and lessons could be learned from the Chinese FinTech-story for the MNB as well, including comprehensive services extending beyond the payments, innovative marketing methods, discounts at merchants, and a relatively loose regulatory approach in the initial period, based on more personalized marketing and strong consumer relationship based on the utilization of customer-data. The Magyar Nemzeti Bank effectively supports FinTech innovations, in the context of which it had launched two initiatives: an Innovation Hub and a regulatory service platform (Regulatory Sandbox). With the implementation of the new European regulatory framework, third-party payment providers will appear as new payment service providers, wedging in between consumers and their current payment service providers, and it will be easier for

FinTech companies to enter the payments market. The MNB has initiated and coordinated the implementation of the instant payment system which will provide new opportunities for further innovation, besides its numerous positive impacts, from the aspect of both the market players and the central infrastructure.

On behalf of the Hungarian Chamber of Commerce and Industry, *Mária Tényiné Stark* gave a lecture on Hungarian companies on the New Silk Road. She said that the One Belt, One Road Initiative, which Hungary was the first to join, had opened up new perspectives, and that the country could host the highest amount of Chinese direct investments within the CEE region. The biggest challenge for Hungarian firms was posed by the enormous size of projects, the lack of capital and financial means, the lack of market information, the project partners, and language knowledge. Several institutions provide information and help to find partners; one of them is the Hungarian-Chinese Committee of the Hungarian Chamber of Commerce and Industry, which helps to protect the general interests of 125 Hungarian companies, and assists them in becoming more internationalised in the Chinese market.