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Report on the Sessions of the Finance, Competitiveness and Responsible Corporate Governance Sections of the Annual Congress of the Hungarian Economic Association in 2018*

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The annual congress of the Hungarian Economic Association (HEA), an organisation with a history spanning back 124 years, was held between 6 and 8 September 2018 for the 56th time, this time in Debrecen. This conference is the one of the most traditional meetings and at the same time the largest conference of the community of economists. A record number of participants, about nine hundred persons, attended the annual congress, and in addition to the opening and plenary meeting a total of 19 section meetings were held. The first two plenary lectures of the event were held by *György Matolcsy*, Governor of the Magyar Nemzeti Bank (MNB), and *László Palkovics,* Minister of the Ministry of Innovation and Technology. It made the event especially relevant that the large investment project of BMW in Debrecen exceeding 1 billion euros was announced one month prior to the roaming conference. In this report, we cover the section meetings of the Finance, the Competitiveness and the Responsible Corporate Governance Sections.

Usually, the meeting of the Finance Section is one of the most important and most well-attended section meetings of the annual congress. This time again, it delivered interesting, exciting and vigorous debates, and the deputy governors and executives of the MNB had panel discussions on the following four major topics with banks' top managers, major actors of the financial and real estate sectors:

1. The biggest challenges faced by the banking system

2. Current issues of the housing market and home creation

3. The subject of self-care

4. Current issues in the fintech sector

* The papers in this issue contain the views of the authors which are not necessarily the same as the official views of the Magyar Nemzeti Bank.

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In the first part of the morning meeting, *Márton Nagy*, chairman of the meeting, Deputy Governor of the MNB and chairman of the Finance Section of HEA, asked *Éva Hegedüs* (Gránit Bank), *Radovan Jelasity* (Erste Bank), *György Zolnai* (Raiffeisen Bank), *Ádám Balog* (MKB Bank) and *László Bencsik* (OTP Bank) about *the major challenges facing the banking system.*

Commercial banks mentioned low profitability among the greatest challenges and a major risk faced by banking system in the next few years, caused by several factors including high and increasing capital requirements, regulatory buffers, the costs of deposit and investment protection, the low net interest margin and the taxes imposed on the sector. Important issues include cybersecurity, cost and operating efficiency and technological developments, since the major technological challenges are focused in the digital space. This is also a regulatory task. One big question is how society can be motivated to take advantage of the technological opportunities and learn to use the digital opportunities. One of the banks' top managers highlighted adaptation to economic cycles: since he anticipates a global recession within two years, partly owing to the effects of the Sino-American trade war, a shock- and crisis-resistant portfolio needs to be built up. It is also necessary to adapt to changing consumer needs. In addition, for human resources it is a serious problem that – owing to the tight labour force – the banks attract IT professionals from one another. Implementation of the instant payment system to be started next year also poses a challenge for the banking sector.

After that, concerning housing loans it was said that households now use credit for about 45 per cent of housing purchases. People learned a lot from the crisis, and they are aware of the difference between loans with fixed interest rates and ones with variable interest rates, but in reality they are only starting to become familiar with interest rate risks, and therefore it is the shared responsibility of the banks and the regulatory authority as to what direction they orient borrowers. Owing to the encouraging actions of the MNB, the average spread of housing loans with fixed interest rates has decreased, and more and more borrowers are taking out housing loans with an interest rate which is fixed for a longer term. The penetration of loans with fixed interest rates in the placement of new loans shows that now customers understand that over the longer term they are better off if their monthly instalments are more predictable. However, in the case of loans with variable interest rates borrowed earlier, it is not easy to make it understood by retail customers that they should switch to loans with fixed interest rates involving the payment of higher monthly instalments. The healthy and persistent maintenance of the new credit cycle is a priority matter of financial stability. One element of this is a stable real estate market, with long-term housing loans available with fixed interest rates.

The next topic of the first part of the section was lending to SMEs, which has been growing dynamically. At some banks, the annual growth rate of the loan portfolio is about 20 per cent. The Funding for Growth Scheme substantially restructured the portfolio of SME loans – with long maturity and fixed interest rates – but since then not many loans of this type have been extended. Banks make efforts to lend with fixed interest rates in the case of corporate loans, however there are banks that experience difficulties in obtaining the required long-term resources. In corporate loans, the period of return on an investment is often 4 or 5 years, and they adapt the maturity of the loans to that.

After that, Márton Nagy, Deputy Governor of the MNB, brought up the issue that in Hungary, in parallel with the tightening of the balance sheet of the central bank, the ratio of the cash stock has risen to a high level, the second highest in the region, and it is much larger than in the developed Scandinavian countries. In the opinion of the Deputy Governor of the MNB, this huge cash stock should be channelled back into the funding of the economy. If half of this portfolio comprising about 5,800 billion forints was invested in government securities, this could replace the Hungarian government securities portfolio held by foreigners. The high level of cash use is a hotbed for the grey and black economy, and the banking system also supports the reduction of the cash stock, since it is much more costly than scriptural money. According to the executives of the commercial banks, factors that contributed to the emergence of this high stock include the lower interbank interest rate and thus the low deposit interest rates, the duty on financial transactions and the opportunity to withdraw cash free of charge up to 150,000 forints. One step in the right direction is the new rule to take effect from next year that will make bank transfers transaction duty-free under a value of HUF 20,000, which may ease the present situation.

As the last topic of the first part, the number of banks was discussed, which is high in Hungary in an international comparison. Incidentally, this phenomenon is known all over Europe, the European Central Bank is also dissatisfied because after the crisis the European banking market did not undergo a consolidation and ten years has been wasted. The MNB promoted consolidation, but it did not materialise, and no major merger and bank fusions took place. In their responses, the managers of the commercial banks indicated that one can only buy what is up for sale. There were attempts, but the selling owners backed off. They perceive the real problem in that there are nine universal banks with national network operatings in Hungary. In addition, a bank merger is a very complex task. Purchasing a portfolio is much simpler than that and can work in practice as well. The difficulty of planning technical development and the changing vision of the future of the banking sector also impede consolidation. Perhaps, actual consolidation will only take place after another crisis. The branch networks keep shrinking, but there are still too many branches. In the opinion of the MNB, profitability could be improved in this field, as well. The banks were divided in their opinions on this matter, and in many places financial advisory services continue to be provided in the branch offices.

The current issues in relation to the housing market and home creation were put up for discussion in the second block, moderated by *Gergely Fábián,* Executive Director at the MNB responsible for the analysis of the financial system and for lending incentives. The expert participants of this section were *András Becsei,* Vice-President of the Hungarian Banking Association, *Tibor Földi,* Chief Executive Officer of Cordia Zrt., *Gábor Kiss,* Managing Director of Metrodom Kivitelező Kft. and *László Harmati*, Deputy CEO of ERSTE Bank Zrt.

Most of the new home construction projects in Budapest are slated for completion before 2020, but many projects are delayed, partly because the output of the construction industry is reduced by the significant shortage of labour, even though it has been decided that the VAT rate on newly built homes will be restored to 27 per cent from 2020. This could significantly set back the construction of new homes, although new projects have appeared the completion of which is expected after 2020. It was stated by the bank managers that the reserves in the lending resources of the banks certainly cover the additional needs to be generated by the raise of the VAT on new homes. The role of financing provided by banks has been gradually increasing in the housing market. The Hungarian Banking Association noted that it had started discussions with the Financial Ministry on what should be considered an advance payment in the market of new homes, so that banks should be able to finance home purchases safely, and that the government should introduce transitional measures to mitigate the problems arising from the uncertainties about the housing projects in progress. Interest rate fixation has been increasingly common in new housing loans: in the first half of 2018, 77.5 per cent of the contracts on new homes involved interest rate fixation at least for a term beyond one year, however, approximately 60 per cent of the existing housing loan portfolio still has variable interest rates, which represents a risk.

Many people would like to move into a new home, but in Hungary this is still considered a luxury. Since the beginning of 2014 housing prices have doubled in the capital, but even in the countryside, prices have been increasing steeply. As a result of the 27 per cent VAT, from 2020 the square meter prices of new homes in Budapest could exceed 1 million forints. In Budapest, since 2014 investment has been the primary motivation for home buying, to a large extent because of the low interest rate environment. Another grave problem is that the renewal rate of the domestic housing stock is very low in regional comparison, and the condition of a significant part of homes is poor, especially in terms of energy use, and the number of renovations is low.

In the first afternoon meeting in the section, moderated by *Csaba Kandrács*, Executive Director of the MNB in charge of the supervision of financial institutions, the participants discussed aspects of self-care. The panel consisted of *Anett Pandurics*, President of the Association of Hungarian Insurance Companies, Chair-Chief Executive

Officer of Magyar Posta Biztosító Zrt., *Mihály Erdős*, Chair-Chief Executive Officer of Generali Biztosító Zrt., *Ilona Hardy*, founding Chair of Aranykor Voluntary Pension Fund, *István Máté-Tóth*, Deputy CEO of the Budapest Stock Exchange, and *István Horváth*, Head of the Private Banking Directorate of K&H Bank Zrt.

In Hungary, the ratio of products supporting long-term self-care is low, and an increase in the ratio of savings targeting self-care would be socially desirable. The market actors expect a stronger involvement by the state, in order to enable self-care savings and the development of the stock exchange to support each other mutually. The ratio of government securities is the highest in the life insurance schemes and the voluntary pension funds, the ratio of investment funds is also significant, but only 1.2 and 3 per cent of these funds are invested in domestic shares, respectively. According to the market, one of the reasons is the low level of domestic equity offering. At present, in Hungary life insurers and pension funds typically offer portfolios of fixed composition to most of their customers interested in savings. Higher yields could be accomplished by more active portfolio management, which would also make the recruitment of new members easier. It would go a long way towards the promotion of self-care if the financial literacy and risk appetite of the investors increased, because the mentality of the average Hungarian investor is primarily risk-averse. The approach of Hungarian investors to time also needs to be improved: 3 to 5 years is now considered very long, and for young investors even 2 or 3 years is too long. The membership of the fund sector is ageing, the distribution of members by age shows that the age group of 20 to 30 year-olds is a missing generation. The amendment of the rules on cafeteria is expected to reduce the ratio of employer's contribution. It is important to maintain a predictable regulatory environment and to make asset management more cost efficient.

Over recent years, wages have increased significantly in Hungary. In that context, it was mentioned that, according to the MNB's publication entitled "10-year vision of the future of the insurance sector in 7 points", to achieve the penetration target (3 per cent) average annual growth of 8 per cent would be needed over the next 10 years, but the insurers are pessimistic and only anticipate growth of 3.7 per cent.

The programme of the Finance Section was concluded by a panel discussion on current developments in the fintech sector, moderated by *Péter Fáykiss*, Director of the Macroprudential Directorate of the MNB. Participants of the panel included *László Windisch*, Deputy Governor of the MNB, Member of the Board of the Responsible Corporate Governance Section of HEA, *Gábor Strén*, Account Director of Microsoft Hungary, *Gábor Lemák*, Fintech Strategist of FinTech Group, *Levente Jánoskuti*, Managing Partner of McKinsey, and *Balázs Bíró,* Partner of Deloitte Hungary, Head of the Financial Consulting Division.

The panel discussion began with a vote of the audience performed by smartphones on matters concerning the role of digital transformation and its relationship with profitability. In respect of the current issues of the fintech sector, it has been stated that the exploitation of the opportunity of fintech could improve cost efficiency, and the global income arising from Big Data is expected to increase further. The digital transition is a complex task that affects several fields, and it should be in sync with internal transformation, and a cultural transformation is also needed. The banks could benefit the most from PSD2 (the payment services directive) and related to that, the utilisation of the data assets of banks, if they are open enough and take a creative approach to the challenge. Every bank sees a promising opportunity in PSD2, but the necessary IT development needs pose a very serious challenge. So far, the MNB has held coordination talks with 10 to 15 market actors which are interested in Account Information Service Provider (AISP) service.

The Deputy Governor of the MNB explained that there was no way to know exactly what the actual meaning would be in 5 or 10 years of what we call fintech or technological change today, and what kind of cultural changes will be triggered by it. However, it is known at this point that digitisation and data management and processing will be the domains where development will occur, and the MNB intends to become a pioneer in these fields. Therefore, the MNB has already developed its own fintech laboratory and regulatory testing environment (Sandbox), and is embarking on significant digital investments, since the digital development will also renew supervision. He stressed that this new type of sector should be supervised by a new type of supervisory toolset, and that the Supervisory Authority will also apply artificial intelligence and blockchain technology. Machine learning is intended to be used by the MNB for the processing of the huge volume of incoming information, and blockchain for monitoring home insurance policies concluded for properties underlying the mortgage loans.

The Competitiveness Section of HEA held its section meeting for the third time this year. The primary aim of this section is to call the attention of economists to the importance of the topic of competitiveness and to its economic and social significance. Similarly to recent years, the section had the opportunity of having a foreign presenter this year as well, in the person of *Martin Kern*, Acting Director of the European Institute of Innovation and Technology (EIT). In addition to the various points of view, the presenters concurred that Hungary has one option to avoid the middle income trap, and it is to increase the competitiveness of the economy.

In his lecture, Mr Kern presented in detail the model that has been built up and followed by the institution, the purpose of which is the promotion of innovation and competitiveness all over Europe. In his presentation, he expressed his appreciation for the city of Debrecen which in recent years has been able to take a significant step towards improving competitiveness, which was reflected later on in winning the BMW investment as well. According to Mr Kern, it is a misconception that there is no way to impact the processes of innovation. It is possible to influence and improve innovation as well, but this requires the cooperation of many actors and for a sufficiently long period of time, in order to develop a well-operating innovation ecosystem. Having realised that, EIT has developed innovation communities throughout Europe where the business sector, educational institutions and research institutions develop the innovation ecosystem while helping one another. The EIT also assigns resources to the various aims, in the Union budgetary cycle between 2014 and 2020 they have a budget of 2.4 billion euros. During their history, companies participating in their programmes have enabled the creation of 6,100 highly-qualified jobs. The presenter also mentioned such Hungarian success stories as OptoForce, Powerwhale and imagiCase.

In his lecture, Mr *László Papp,* Mayor of Debrecen, presented the urban and economic development concept that has played a crucial role in the decision of BMW in favour of the city for the construction of its new factory. Almost two decades ago the city stood at a crossroads: the area, considered a backwards region in the European Union, had no other option than making a move towards industries of high quality and value added. The development of the local infrastructure was a special priority, between 1998 and 2014 the transport network was established that is a real match for that of Budapest. Local education is traditionally a strong point of the city, Debrecen is home to one of the largest universities of the country, among others. In the city of 210,000, the ratio of students is about 30 per cent. Given this background, when the development strategy was implemented, the renewal of education was one of the focus points. Mr Papp highlighted the existing Vocational Training Centre of Debrecen, the main mission of which is to increase the number of students in vocational schools by 30 per cent annually. Going beyond that, for example, it was an important aspect in the decision on the BMW project that the city should have an educational institution that is capable of providing a high level of education also in a foreign language, from kindergarten until the end of the secondary school: this function is fulfilled by the International School of Debrecen.

According to the Mayor, a professionally operating, well-organised background mechanism is essential for any good economic development strategy (such as the first Phoenix Plan). After the rationalisation of the development activity, the non-profit enterprise 'EDC Debrecen' was established, which focused on the management of liaising with foreign investors, as well as on SME and urban development. The application of local incentives makes the city even more attractive, which is one of the reasons why a fund of 2 billion forints was created for companies intending to set up a site in the city. The local airport is expected to stimulate a dynamic increase, and several infrastructure projects are in progress under the New Phoenix Plan of 200 billion forints. The investments reported between 2016 and 2018 in a total value of over HUF 500 billion confirm the viability of the concept and may serve as a model to follow by other Hungarian cities as well, added Mr Papp.

Dániel Palotai, Chief Economist and Executive Director of the Magyar Nemzeti Bank, presented the 180 points recommended by the MNB for the improvement of competitiveness. In 2016, the central bank started to deal with competitiveness in more depth at the request of the Government, the first two major milestones of which was the monograph titled Competitiveness and Growth, and the Competitiveness Report, which was first published in 2017. It was a continuation of this workshop that the collection of proposals of the central bank consisting of 180 points was created in 2018, with the aim of signposting a roadmap to sustainable convergence for Hungary. According to Mr Palotai, Hungary needs to move onto a knowledge and capital intensive trajectory of growth based on a turnaround in competitiveness. According to the Chief Economist of the central bank, with the reform actions formulated, it is a feasible aim to approach the level of development of Austria in just more than a decade.

Detailing the proposed actions, he said that in the new financial model resources should be provided in a manner adapted to the life cycles of companies, by a financial intermediary system that is more competitive and better meets demands for loans. He pointed out that the productivity of Hungarian undertakings is significantly lower than the level of competitors operating in the western and northern parts of Europe. The shortfall is especially high in the SME sector, which essentially needs innovation and an increase in foreign trade activity to overcome the lag, and economies of scale must also be exploited. An active labour market and wage policy are of crucial significance, which is compatible, among others, with the continuation of the reduction of taxes on labour. However, in the tight, mobile international labour market, a cheap labour force is more of a disadvantage than an advantage in terms of competitiveness. The robust economic growth necessary for convergence can be accomplished through durable increases in wages, for which it is essential to increase productivity. In addition, sustainable convergence is impossible without an efficient state, and therefore the rationalisation of bureaucracy and the acceleration and digitisation of processes are absolutely necessary. At the end of his lecture, the Chief Economist of MNB said that Hungary also needed a demographic reversal, high quality education and the growth of the number of years spent in good health for successful convergence.

Mr *Gábor Balázs Veress* from the General Department of Competitiveness of the Ministry of Finance started his lecture with a presentation on how competitiveness is measured internationally. Each of the WEF, the IMD, the World Bank and the German-Hungarian Chamber of Commerce and Industry applies a different methodology to measure competitiveness. In the compression of the data, the lack of transparency and representativeness, the use of subjective surveys and the arbitrary nature of the weighting raise problems. Typically, Hungary is in the middle of the list, but there are promising signs and good examples, such as Debrecen. In its 2017 publication on the competitiveness of cities, the World Bank ranks Debrecen the first of 22 cities, and it ranked highly in other areas as well.

In his opinion, the establishment of the Competitiveness Council also indicates that a turnaround in competitiveness could take place in Hungary. In the ministries efforts aimed to promote competitiveness are under way, such as the development of electronic services in public administration. Work is in progress at the tax authority and the financial ministry as well, to enable enterprises to process their tax reports much faster, on the model of the e-szja (electronic personal income tax). According to Mr Veress, undertakings can anticipate a great step forward within 1 or 2 years.

He also highlighted that an increase in productivity is the key to improve productivity. Progress has been made on several fronts: thus, as a result of the economic policy decisions of recent years, a labour-and investor-friendly environment has been established, and investor satisfaction has improved, which provides a good basis for continuing these efforts. Despite that, the country needs to address several challenges. He is of the opinion that tax administration should be reduced, the entire financial infrastructure should be developed, and furthermore, the potential for innovation and the quality of public administration services should be improved.

Magdolna Csath, Member of the Competitiveness Council, presented the soft factors of competitiveness and their situation in Hungary, from an international perspective. At a lower level of development, competitiveness is shaped by the so-called hard factors, such as low taxes or flexible labour market, because these factors enable the appearance in the economy of those elements of the value chain that are less knowledge-intensive. However, in time these hard factors prove to be insufficient, and therefore focus shifts to soft factors, such as knowledge, the spread of entrepreneurship and increasing resilience to crises, as well as strengthening social capital and the level of trust. According to Ms Csath, trust is the new currency in the world (and not only data, as others claim). The sharper focus on soft factors is especially important in a world where robotisation and the rapid transformation of artificial intelligence could bring about changes in the structure of the economy, according to the member of the Competitiveness Council. Social, demographic and ecological sustainability are important elements of a competitiveness model ensuring sustainable competitiveness, in addition to economic sustainability. This also means a shift from a quantitative to the qualitative approach, and from short-term thinking to longer-term thinking in terms of how competitiveness is understood. Hungary is lagging behind in this field: for example, Hungary is in a good position in terms of human capital capabilities, but not in such a good position in terms of the development and efficient exploitation of human capital.

She noted that the productivity of the domestic SME sector is indeed lower, but the productivity of domestic large corporations also lags behind their international competitors. And when the smallest companies are assessed, not only aspects of efficiency should be considered, but also, for instance, their role in shaping the quality of life of the respective communities. Carrying on this train of thought, GDP as the central benchmark of development could also be challenged. According to Ms Csath, affluence and well-being are two different concepts, and therefore in addition to or instead of increasing GDP, one could also define such targets as increasing the number of years spent in good health.

Zsombor Essősy, President of the Hungarians in the Market Club, held the closing presentation of the competitiveness section. At the beginning of his lecture, he mentioned that within the space of a few years the general mindset regarding competitiveness has changed. He approved that now the focus is on innovation, increasing the productivity of the entire corporate sector and the development of human capital. He noted that it is essential for Hungarian enterprises to exploit the opportunities offered by the 4th Industrial Revolution. In the opinion of Mr Essősy, the biggest impediment to this is that the productivity and innovative capability of Hungarian enterprises are low in international comparison.

In the opinion of the President of the Hungarians in the Market Club, Industry 4.0 is changing our entire lives, and therefore holistic thinking is recommended, but we should not think in terms of renewing only one particular area, in isolation. Education, training and attitude-shaping should be considered an integral part of the strategy, since today in many cases students should acquire professions that do not even exist as yet. He especially highlighted economic flexibility, which could become very significant in the future, for reasons that include the fast changes in consumer preferences.

The Responsible Corporate Governance Section represented itself as a standalone section for the second time. This year the invited presenters and professionals discussed two different topics: one was Brexit and the related geopolitical, economic risks, while the other was about practical aspects of responsible corporate governance.

The Brexit panel kicked off with the introductory presentation of Mr *Gary Campkin.* Mr Campkin is the Head of London-based TheCityUK independent interest representation group. The significance of the financial industry is clearly shown by the fact that it is responsible for approximately 10 per cent of the total GDP of

Great Britain, employs about 2.3 million people and contributes to exports by an amount exceeding GBP 68 billion, it is also the largest contributor to the budget. In fact, London is the most important financial centre in the world. Currently. The Brexit referendum resulted in a clear decision: the United Kingdom is going to leave the European Union in 2019. Mr Campkin emphasised in his lecture that the country will leave the EU, but not Europe. However, the challenges affecting the financial sector are nothing new, and the exit will only strengthen them. What are these challenges?

- How can London retain its role as a global financial centre?
- How can the industry address the effects of digitisation?
- The increasing role of FinTech/RegTech/LawTech
- Green finances
- Cybercrime
- The personnel environment of the industry: recruitment, training and retention of staff
- Changes in the image of the industry

Solutions to these challenges should be found together with the stakeholders (such as the government, the industry, the general public). The aim is to preserve continuity after Brexit as well, so that the transition is smooth in terms of fulfilling existing contracts and commitments. None of the parties is interested in a "no deal Brexit", so this continuity will survive in some way.

Finally, he highlighted three challenges concerning the European Union after Brexit: 1) The departure of the United Kingdom will leave the capital market of the European Union much weaker, 2) New trade agreements are necessary, 3) The United Kingdom was a strong influencer of opinions in the European Union. The country's exit will result in the establishment of new groups, and the Visegrád countries also need to find their place in this new constellation of forces.

The panel discussion that followed the introductory presentation was moderated by *István Máté-Tóth*, Deputy CEO of the Budapest Stock Exchange, who first asked the participants what could be the outcome of the negotiations. *Noémi Holecz*, Senior Analyst at Equilor, highlighted the integrated nature of corporate value chains, mentioning Airbus as an example: it is not possible to remove by a political decision any single element of the production process that extends through a long value chain. At the same time, the EU is interested in imposing worse conditions on a departing country than those applicable to the remaining members, and therefore the rights of the Britons will be reduced, regardless of the manner of the exit.

Ákos Kuti, Senior Analyst at MKB Bank, noted that for the last two years the negotiations have not progressed at all and very few decisions have been made. At present, any of the outcomes is equally likely to happen. Uncertainty makes it more difficult for corporate managers to make long-term decisions. This uncertainty is compounded by the slowdown in growth and the closing of the output gap in the European Union, and therefore Brexit carries significant risks.

According to *István Madár*, Lead Analyst at Portfolio.hu, in an economic sense everyone would be interested in close cooperation between the EU and the United Kingdom, but the EU intends to send the messages that it will not support cherry-picking and non-membership in the EU should be subject to worse conditions. There are conflicts within the UK government as well concerning the negotiating strategy. The dividing line will be probably between “no deal” and “hard Brexit”: any scenario could happen.

The second question was about the various interests of the City, the United Kingdom and the EU and the possible ways to align these. Gary Campkin noted that no significant decision is ever made without a crisis. An agreement will be reached and neither party is interested in a “no deal” scenario. This time, the agreement is different from the earlier ones in that it is not aimed at convergence, but rather at the management of divergence. The UK has always represented pronounced opinions in the great debates of the EU, the remaining EU members will find it a challenge to strengthen their own voices.

Ákos Kuti highlighted the impacts of conflicts: on the one hand, the US-China customs war has already had a tangible impact on the pricing of certain products in import substituting products as well, Brexit could bring about a higher price level. On the other hand, these processes could rearrange supplier chains as well, transactions could slow down, which could restrict growth.

Ms Noémi Holecz noted in her contribution that businesses adapt to the circumstances in every situation. At present, London is the financial centre of the world, which is enabled, to a not insignificant extent by the fact that it provides access to the European markets applying more permissive rules than those of the EU. This will cease with the loss of the so-called “passporting” right and the single centre may be replaced by a fragmented array of new, smaller centres.

István Madár noted that Brexit directly affects our region to a small extent only, but in an indirect manner it still impacts us by creating growth-reducing effects on the EU. Considering all of the risks affecting the world, at present the crisis of especially vulnerable countries (Turkey, Argentina) and the vulnerability of Italy are more significant than Brexit.

The second panel was titled "Responsible corporate management in practice". As the first presenter, *Balázs Bodzási,* Department Head of Economic Law at Corvinus University of Budapest and President of the Responsible Corporate Management Committee (FTB) of the Budapest Stock Exchange, presented the recent history of responsible corporate management in Hungary and the most important elements of the Recommendations adopted by the FTB this year. The activities of companies listed on the stock exchange may have impacts that go beyond their existence, which is why the need for responsible corporate management has been formulated. Since 2004 the BSE has summarised these principles in its Responsible Corporate Management Recommendations. Companies listed on the BSE submit a report annually based on the "comply or explain" principle. The newly adopted Recommendations affect, among other things, shareholder's rights, the conduct of the general meeting and remuneration, and must be taken into account from 2019.

Attila Chikán Jr., Chief Executive Officer of the company Alteo, presented the importance of responsible corporate management through their own example. Since its launch, the company has consciously prepared itself for being listed on the stock exchange, and for the challenges caused by the resultant higher level of publicity. Being listed on the stock exchange enables more transparent operation, for which the Recommendations provide appropriate support.

As the third presenter, *Ákos Lukács*, Senior Manager at Deloitte in charge of sustainability and climate change, presented the increasing role of this line of business. Environmental aspects play an increasing role in policymaking, the effects of these must be included in the business decisions of companies as well. For example, in the budget of the EU for 2021 to 2027, 40 per cent of the costs of the Structural Fund, Cohesion Fund of that time will be aimed at climate proof, which will thus open up development areas and markets.

The panel discussion that followed the lectures was moderated by *Balázs Bozsik,* Sales and Marketing Director at the BSE, who asked the presenters about the role of stock exchanges in responsible corporate management. Concerning the matter, Mr Bodzási highlighted the current problem of generational turnover, which may be resolved by the institution of fiduciary asset management and by the stock market.

Attila Chikán Jr. highlighted the long-term approach of listed corporations and company building, which may provide a solution to the agent-client problem existing between the owner and their manager, for the management of conflicts of interest. Alteo anticipated becoming a listed company in 2008, at the time of its establishment already, which provides excellent long-term funding for a rapidly growing company. A listed company is being exposed to higher publicity, which incurs higher initial costs, but over time these costs are recouped through reduced employee turnover and the reduction risk premiums. The management needs to be more disciplined because of the regular reporting obligations.

Ákos Lukács pointed out that sustainability is about the accomplishment of long-term objectives, however, action must be taken today. Long-term aims may be included in the core business activity by conscious regulation.

Zsombor Essősy, President of the Hungarians in the Market Club, also mentioned that being listed on the stock market would mean a significant jump between levels for smaller companies, which would also be important because the performance of smaller Hungarian family-owned companies depends solely on the founding owner, which is reflected by the deteriorating profitability of these companies.

Richárd Végh, Chairman-Chief Executive Officer of Budapest Stock Exchange, also emphasised in his contribution that every company should already set the target of becoming eligible for the stock exchange at the time of establishment. The significance of stock exchange Recommendations is that as long as the manager of the company is also the owner, it is easy to observe the rules that I have made myself, but when there are several thousand owners, the operating principles must be set forth in writing. In the Budapest Stock Exchange two-third of the investors are foreigners, which is proof that they have trust in Hungarian companies. Therefore, regardless of being listed in the Hungarian stock exchange, it is important for every company to implement regulated operating conditions and manage the stakeholders. Therefore, the responsible principles of corporate management facilitate the sustainable development of companies, and are essential above a certain size.