

Report on the Budapest Renminbi Initiative 2019 Conference*

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On 29 March 2019, the Magyar Nemzeti Bank (Central Bank of Hungary, MNB) hosted its annual conference in the framework of the Budapest Renminbi Initiative for the fifth time.

In his opening speech, *Márton Nagy*, Deputy Governor of the Magyar Nemzeti Bank, noted that the MNB supports the internationalisation of renminbi and reports on the relevant results annually at the conference held in the framework of the Budapest Renminbi Initiative. The MNB takes a wide, open approach to the economic and financing opportunities offered by the Chinese economy, also taking into consideration the global changes. In addition to having taken the first steps for the establishment of a regulatory environment supportive of FinTech companies, the MNB supports the ambitions of Hungarian financial professionals aiming to become leaders in the field of financial innovation.

In his speech, *Levente Magyar*, Deputy Minister at the Ministry of Foreign Affairs and Trade, highlighted that economic ties between Hungary and China have been developing dynamically, and consequently Hungary can report a number of new success stories. In addition to the results of the government and the central bank so far, the various connections between the two countries offer further opportunities for cooperation. The Deputy Minister emphasised the geopolitical importance of the influx of Chinese capital into Europe, pointing out the fact that the number of Chinese investments has also increased markedly over the last 10 years in Hungary.

Qui Yonghao, Vice President of Fudan University, congratulated Hungary for having made the Alipay, the Chinese mobile payment service available in Hungary, as a result of another successful initiative. He appreciated the importance of financial cooperation between the two countries and the “opening to the East” strategy of Hungary, highlighting the Bank of China Hungarian Branch as the first Chinese bank in the Central-Eastern European region, the currency swap agreement, the bond issuance on the Chinese market, as well as the accomplishments in the field of economy, finance, culture and education, including the double degree MBA

* 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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course, launched in Corvinus University of Budapest with Fudan University as the co-organiser, which was implemented with the professional support of the MNB.

Mihály Patai, Chairman of the Hungarian Banking Association¹, highlighted that the banking sector had to learn several important lessons in recent years. The corporate sector had difficulties in accessing credit, but the Funding for Growth Scheme of the MNB supported it in emerging from this adverse situation. The high proportion of retail foreign currency loans carried significant risks, but their conversion into forint contributed to stabilising the Hungarian economy. The ownership structure of the banking sector had also changed, which led to a domestic share of 50 per cent by now. The vast majority of members of the domestic banking system were already profitable in 2018, with favourable liquidity positions and stable capital positions.

Marco Iannaccone, Deputy Chief Executive Officer of UniCredit Bank Hungary Ltd., mentioned that the bank is the first one to make the most common Chinese mobile payment solution available in Hungary. One of the focuses of their strategy is to provide innovative methods to their customers. The service through which Chinese tourists are able to pay to Hungarian merchants using their usual mobile telephone application fits this concept, and this innovative payment solution also provides several benefits to Hungarian retailers.

After that, the Alipay terminal located in the bookstore of Pallas Athéné Publishing House (PABOOKS) was delivered and tested by a purchase.

The professional programme continued with the lecture of *Richard Werner*, Professor of Fudan University, who analysed, among others, why only a few East Asian countries, namely Japan, South Korea, Singapore and China were able to make the transition from “developing country” status to “developed” economies. The spectacular economic development of China could show a good example to the entire world for what is possible if the right policies are adopted. The “Belt and Road Initiative” is a cooperation scheme through which China shares its successful development strategy with the cooperating states, whose economy will likely to benefit far more directly from this than under previous international development opportunities. The internationalisation of the renminbi creates enormous opportunities not only for China, but also for other countries.

Petra Ponevács-Pana, Deputy State Secretary at the Ministry of Foreign Affairs and Trade, appreciated the benefits of the diverse, strong and efficient cooperation between China and Hungary, highlighting, among others, the “16+1” summit and the Economic, Commercial and Financial Forum both held in Budapest, the first Chinese International Import Expo, to which the Prime Minister of Hungary was

¹ Dr Mihály Patai served as Chairman of the Hungarian Banking Association from 15 April 2011 until 21 April 2019.

also invited, along with the dynamic development of the trade relations between the two countries and the export of high quality Hungarian agricultural products. In the field of investments, the Hungarian government aims to establish a research, development and innovation hub (R&D&I hub). The fastest developing segment is that of cooperation in monetary policy, which is perfectly exemplified by the accomplishments of the MNB so far.

Rob Loewy gave a presentation on behalf of the Bank of China London Branch on the development of the Chinese financial markets. As a result of the gradual opening-up of China's financial market the domestic financial assets held by overseas entities increased over fourfold in the bond market and threefold in the equity market between 2013 and 2018. The renminbi is an icon of an even more significant China, which is why the reforms must continue, in the FX market, among others. The China Interbank Bond Market has now become the third-largest OTC fixed income market in the world, with more than 1,200 overseas investors entering this market by the end of 2018, and the tendency of growth is also expected to continue in the future.

Dániel Palotai, Executive Director and Chief Economist of the MNB, talked about the global role of China in the new economic world order. He emphasised that the financial and economic ties of Hungary with China are developing at a fast pace and that the volume of commercial relations had significantly increased in recent years, while the growing number of Chinese citizens settling in or visiting Hungary and the significant deepening of the connectedness of tertiary education provide further significant growth potential. In addition to supporting the internationalisation of Chinese currency, the Renminbi Programme of the MNB and the Budapest Renminbi Initiative have accomplished significant results since 2015 in the Hungarian context as well, which is exemplified by the current presentation of the Alipay terminal.

The series of professional lectures was continued by *Gergely Gabler*, Director of the MNB, who presented Hungarian innovations and FinTech-related topics from a regulatory point of view. From the aspect of the central bank the aim is to develop a framework, which will adequately support the spread of innovations, while minimising risks. The MNB has implemented two solutions to resolve the supervisory dilemma, i.e. the choice between applying excessive restrictions or taking the approach of non-intervention. Through the launch and operation of the "innovation hub" and the "regulatory sandbox", the central bank provides a regulatory support platform and regulatory test environment for participating FinTech companies. The next step in the innovative solutions of the MNB is the launch of the instant payment system.

Representing UniCredit Bank, *Bence Marosi* talked about the global cooperation between the Bank and Alipay, which made available from that date forward the Chinese mobile payment service for Chinese customers in Hungary as well. The

appearance of Alipay terminals in Hungary is beneficial for both the merchants and the users of the service. The number of tourists arriving from Asia and mainly from China in European countries has been increasing dynamically, and experiences show that the visitors coming here are quite willing to use their usual mobile payment solutions in foreign countries as well, therefore this service is expected to ramp up quickly in Hungary too.

Trinh Anh Tuan, Head of Corvinus FinTech Center, presented Chinese, Swiss and American FinTech solutions among the current developments and highlighted that Hungary also supports innovative start-up enterprises through more and more forums (for example, by the establishment of dedicated labs). Corvinus FinTech Center intends to coordinate and develop university education, research, the community of stakeholders and innovation in the field of financial technology and digital transformation. It focuses, among other things, on the application of artificial intelligence in finance, the digital wallet and blockchain.

Speaking about the Chinese shadow banking system, *Qian Jun*, Dean of Fudan University, presented what caused the fast penetration of one of the most important factors of the sector – the wealth management products offered by banks – and what the risks of these phenomena are, including rollover risks. He also highlighted the major differences between the relevant products of the four large banks and those of smaller institutions. The expansion of the shadow banking system not only intensified competition in the field of deposits, but also among institutions, while also having an effect on monetary policy decisions.

The conference was closed by the lecture of *Xiaoqiong Hu*, the representative of Alipay. She explained that the globalisation-related aims of Alibaba Group focus on (i) buying, in order to boost imports, (ii) selling, in order to scale out exports, (iii) the global digital financial platform, (iv) the establishment of a global logistic network and spreading the solutions worldwide, furthermore, (v) leisure, primarily travelling. The community of over 870 million users are able to use the payment and transfer service at anytime, anywhere, online and off-line. In China, the rate of mobile payment penetration has been increasing dynamically, not only in cities, but also in rural areas. The credit service provided by the company is also gradually expanding: the number of customers and repeated usage rate keeps increasing, as does the amount of the average monthly spending.

To close the conference, Dániel Palotai expressed appreciation for the speakers, the lectures that were provided and also for the Alipay terminal delivered as part of the conference, as the latest milestone in Hungarian–Chinese cooperation. He also expressed his hope that in the event to be held next year new accomplishments will be reported.