

# Development and prospects of traditional banks in Hungary

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April 4, 2019 – Financial Leaders Forum, Budapest

# **I. Economic outlook**

## **II. Corporate and retail lending**

### **III. Challenges and prospects:**

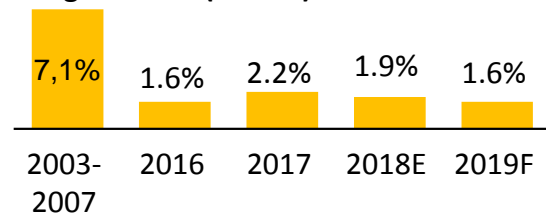
- 1. Low and cyclical profitability, with high tax burden,**
- 2. Complex regulatory environment**
- 3. Using digital technologies, but keeping consultancy services as well,**
- 4. Strong growth potential platform to provide stable financial services**

# Economic growth in 2018 was higher than expected; GDP growth in 2019 can remain strong despite the deteriorating external environment

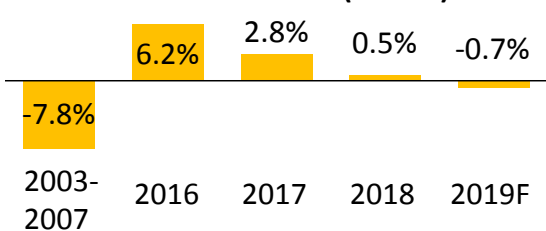
## Balance



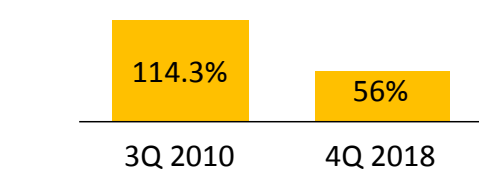
### Budget deficit (GDP %)



### Current account balance (GDP %)



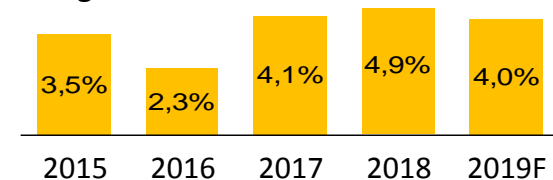
### External debt<sup>1</sup> (in % of GDP)



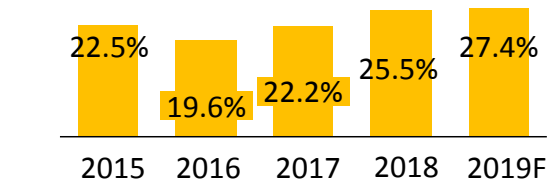
## Growth



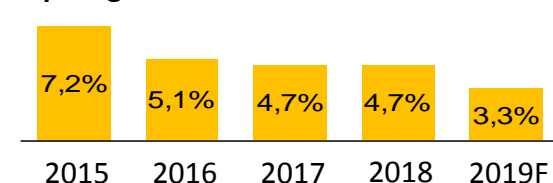
### GDP growth



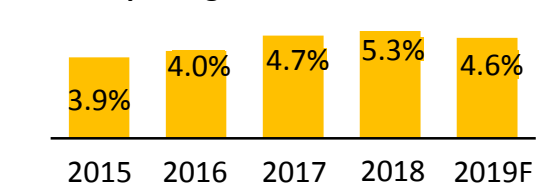
### Investment rate



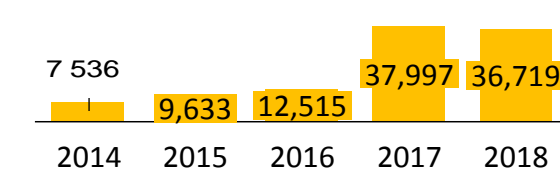
### Export growth



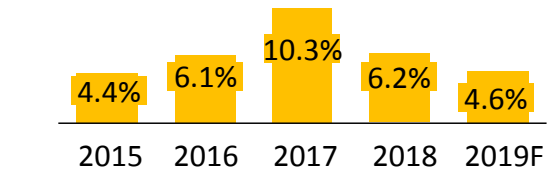
### Consumption growth



### Residential building permits



### Real wage growth



# Low interest rate environment might be sustainable longer than expected

In the 30 years after WWII, developed countries decreased their debt by 55%-points while real interest rates remained negative

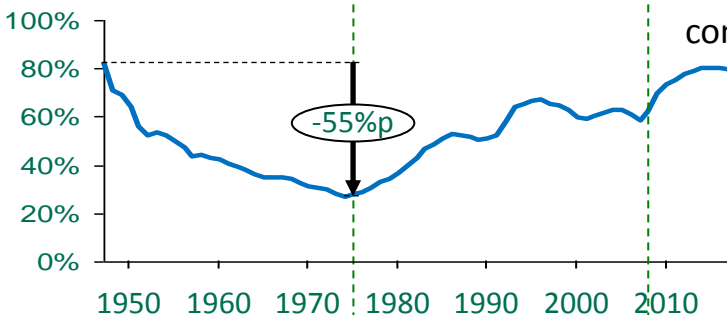
Monetary policy regime

Strong fiscal control

Liberalization

Back to strong financial control?

Debt of developed countries (GDP%)



Average real interest rate

-1.1%

3.2%

-0.6%

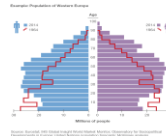
Multiple factors indicate permanently low interest rates

Main issue



Similar to the period after WWII developed countries are highly indebted, central banks tolerate inflation better

Other factors



Savings are higher in an aging population



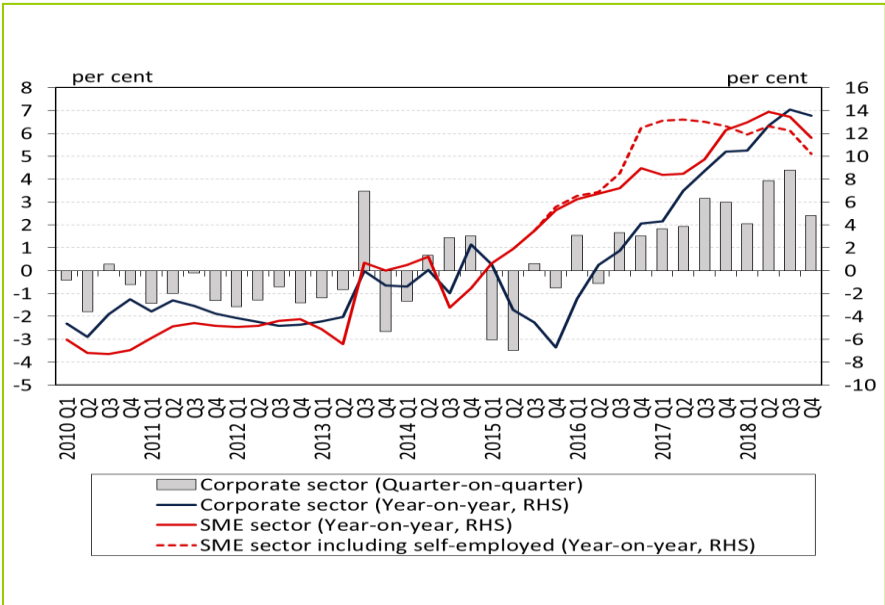
Risk appetite is lower since the crisis, higher demand on the market for risk-free assets



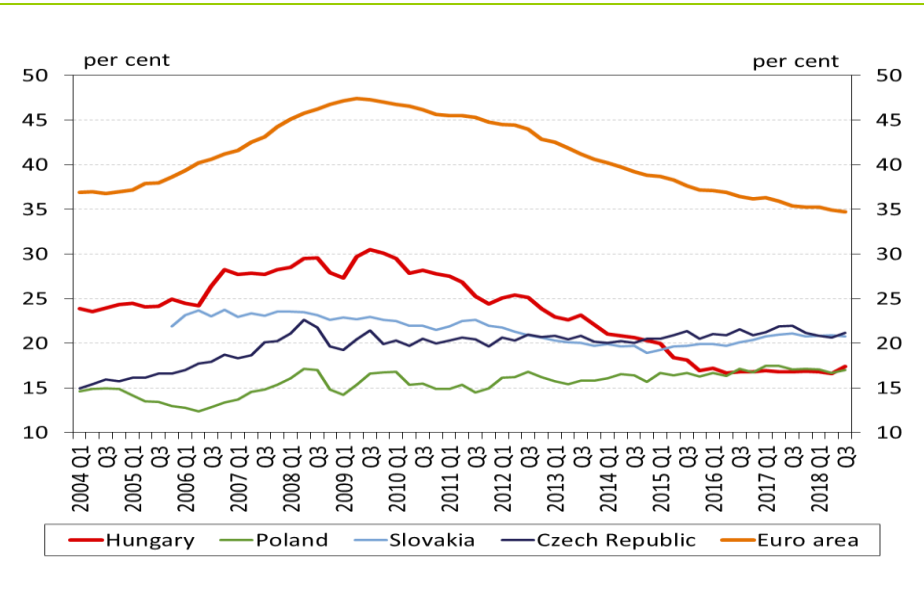
Central bank regulations are leading banks towards government bonds

# Stabil growth in corporate lending since 2016; The rate of Hungarian growth is also high among V4s due to low penetration

**Growth rate of loans outstanding of the total corporate sector and the SME sector<sup>1</sup>**



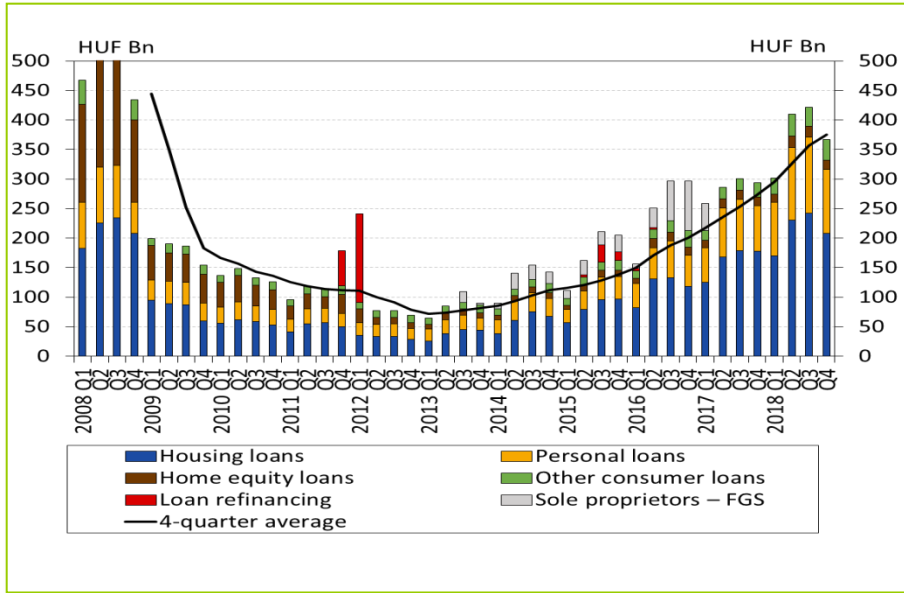
**Corporate credit-to-GDP in an international comparison<sup>2</sup>**



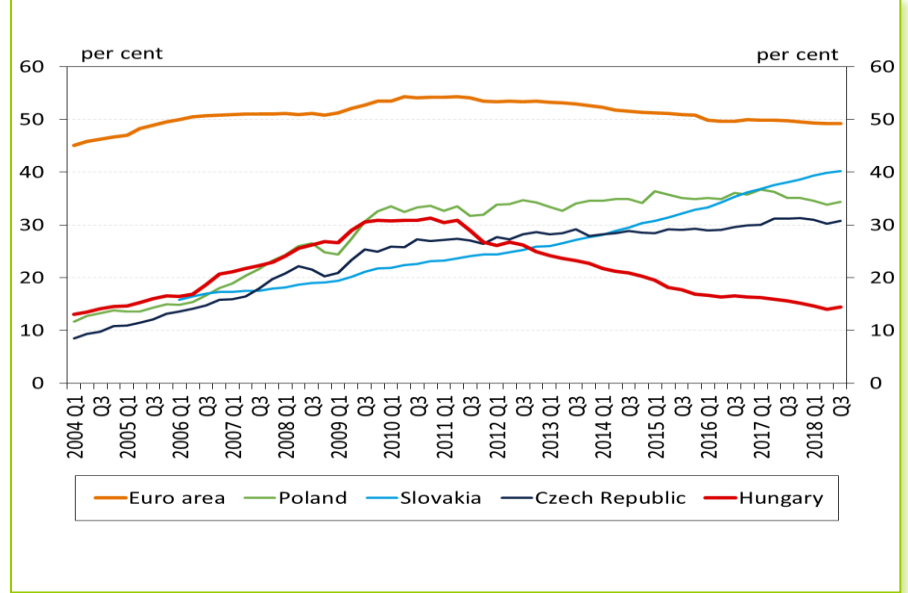
<sup>1</sup>Growth rate of loans outstanding of the total corporate sector and the SME sector, Source: MNB  
<sup>2</sup> Corporate credit-to-GDP in an international comparison, Source: MNB

# 2018 was a turning point in house lending - in 2019, the sector could cross the 1.000 billion threshold

## New household loans in the credit institution sector<sup>1</sup>



## Household credit-to-GDP in an international comparison<sup>2</sup>



<sup>1</sup>New household loans in the credit institution sector Source: MNB

<sup>2</sup> Household credit-to-GDP in an international comparison Source: MNB

## Challenges and prospects:

1. Low and cyclical profitability, with high tax burden,
2. Complex regulatory environment
3. Using digital technologies, but keeping consultancy services as well,
4. Strong growth potential platform to provide stable financial services

# Challenges and prospects I.

## Low and cyclical profitability

### Effects on profitability

#### Negative effects

- Still high special tax (bank levy and transaction tax together),
- Low interest rate environment and decreasing spreads,
- Low average loan amounts
- Complex regulatory environment,
- High operating expenses, with high administrative tasks

#### Positive effects

- Promising economic prospects,
- Active real estate market,
- Sustainable credit growth in the retail and corporate sector,
- Effective governmental and MNB programs - family housing benefit scheme (CSOK, Babaváró támogatás), Mortgage bond purchase scheme

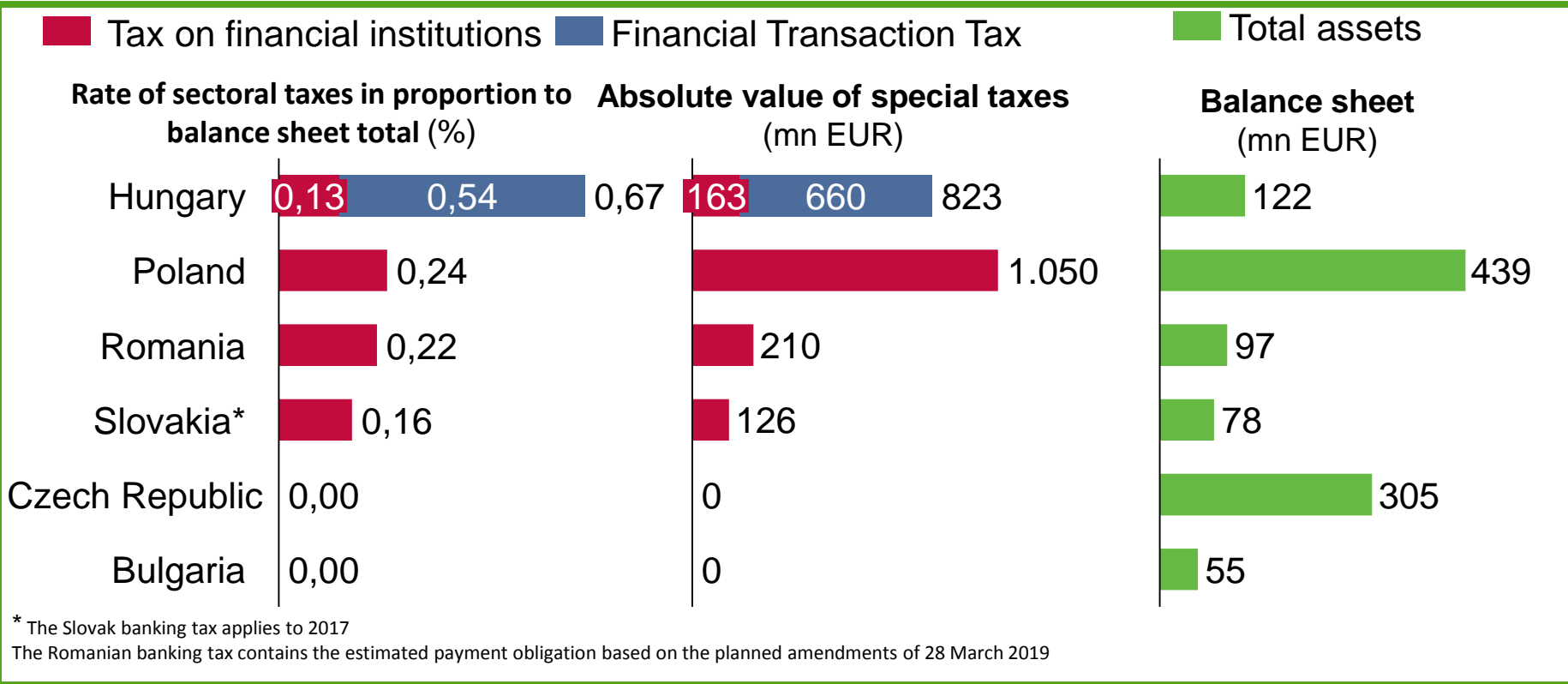
### Normalized ROE of credit institutions in 2018 (Bn HUF)

Balance sheet	
Total assets	39 380
Total credit (gross)	20 769
Equity	4 382
P&L Statement	
Total income	1 477
Operating costs	-818
Risk cost	-99
Bank levy and transaction tax	-266
Pre-tax profit (without dividend)	293
<b>Post-tax profit (without dividend)</b>	<b>267</b>
<b>ROE (without dividend)</b>	<b>6,2%</b>



# Challenges and prospects II.

## Still high tax burden



**Maintaining the volume of lending that support economic development would create a HUF 100 billion tax burden for banks in the next 5 years.**

# Challenges and prospects II.

## Complex regulatory environment



### EU legislation

- MiFID II
- GDPR
- PSD2
- Covered bond directive
- EBA & ECB guidelines

### Domestic legislation

- Acts
- Ministerial decrees
- Government decrees

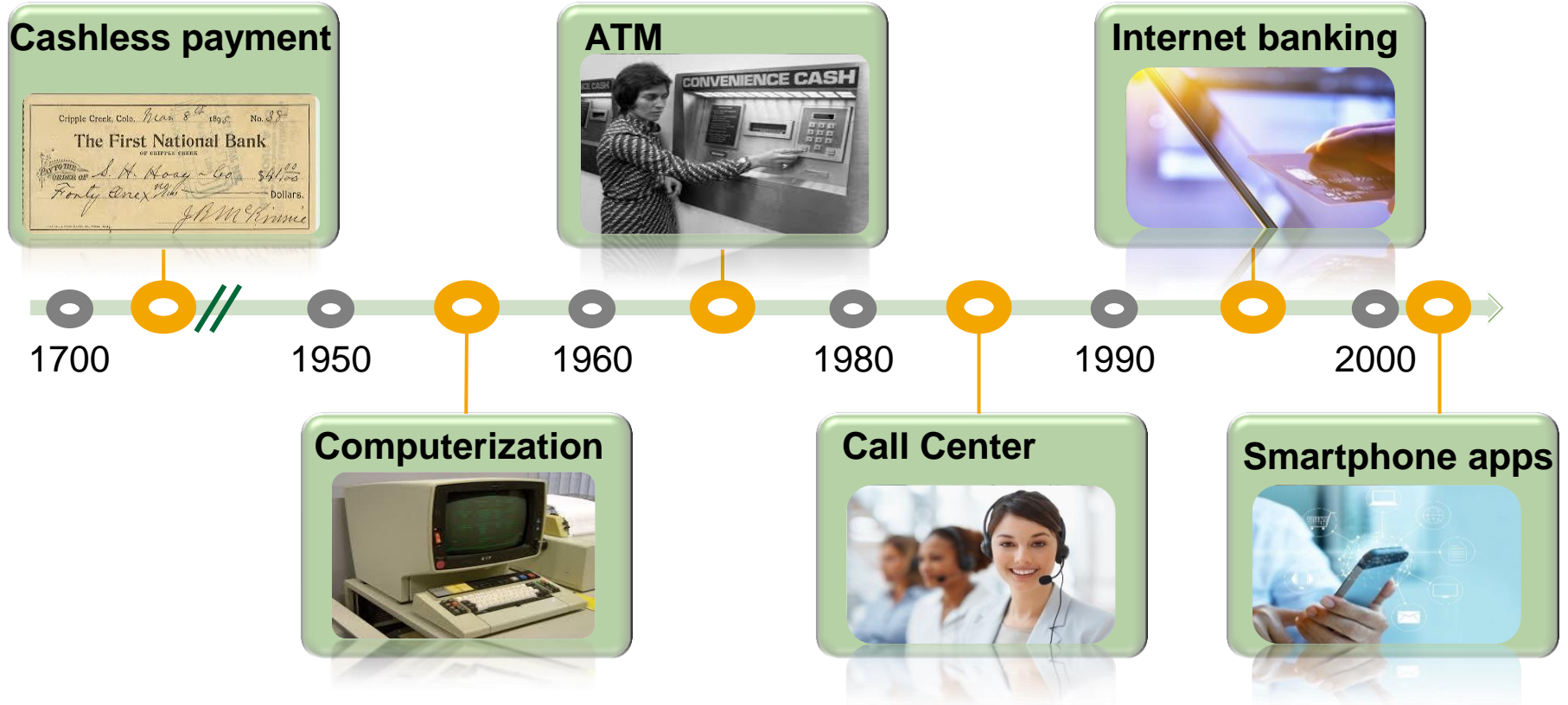
### Legislation of the Central Bank

- MNB decrees
- Guidelines
- Certified Consumer-Friendly Housing Loans
- Mortgage Funding Adequacy Ratio (MFAR)
- Instant payment

**Compliance related IT developments tie up 50% of the capacities.**

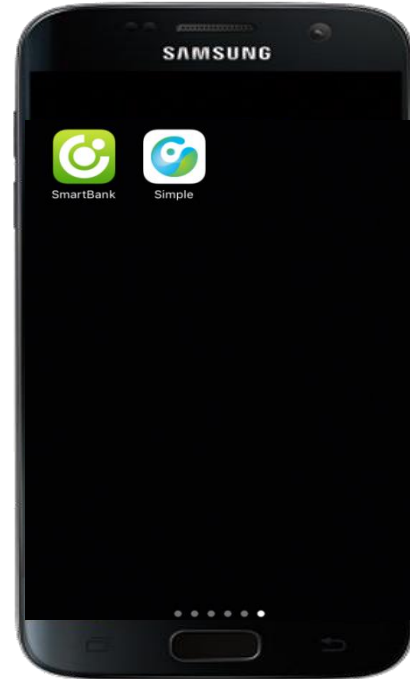
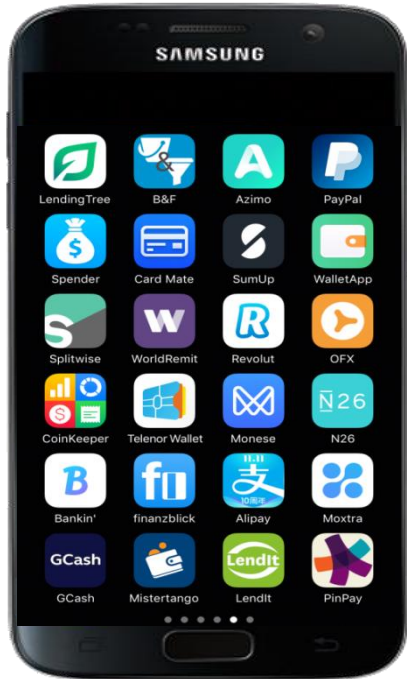
# Challenges and prospects III.

## The sector has successfully coped with similar challenges



## Challenges and prospects III.

The next step in digitalization: manage our finances on a single platform



## Challenges and prospects III.

Changing customer needs - the role of bank branches is also changing



This is where we started...



... and we are on the way to...



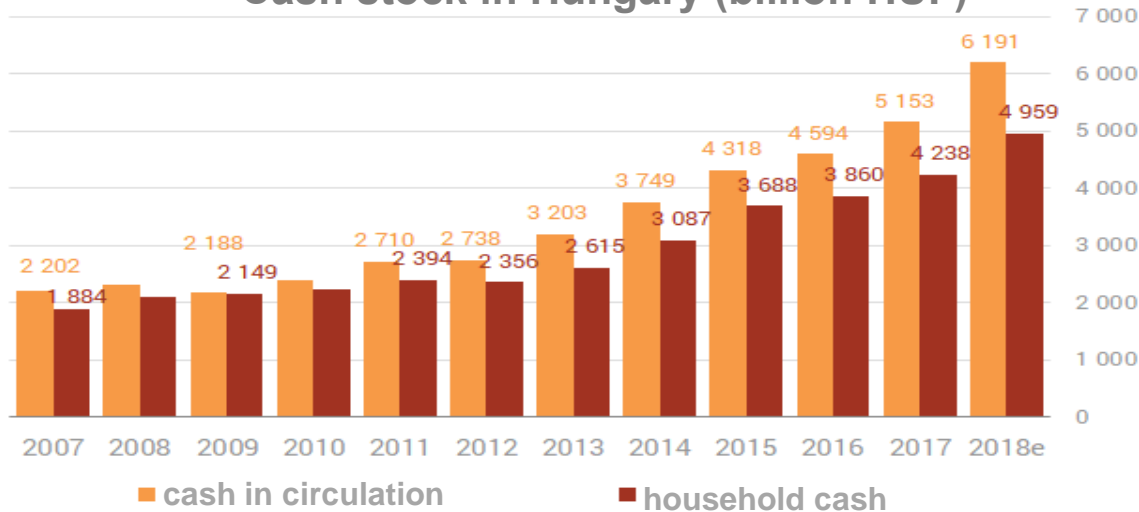
...the branch of the future.

## Challenges and prospects III.

### Digital revolution is influenced by local features

The traditionally high cash stock slows down the spread of innovative payment methods

Cash stock in Hungary (billion HUF)<sup>1</sup>



Main obstacles:

- low credit amounts in regional comparison (with the same cost)
- Still high tax burden,
- Complex regulatory environment - Compliance with domestic and EU regulations entails significant development capacities

# Challenges and prospects IV. - Despite the digital revolution the banking sector is still dominated by traditional universal banks

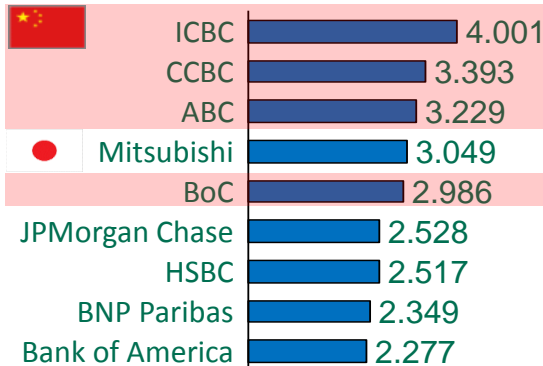
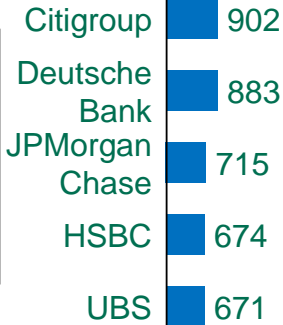
## Big banks further strengthened their position

Total assets, USD  
bn

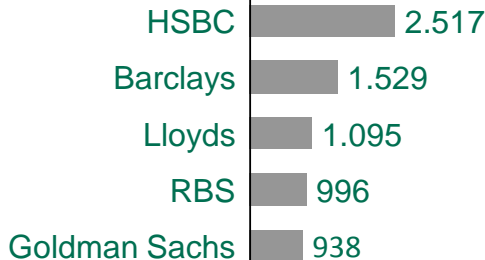
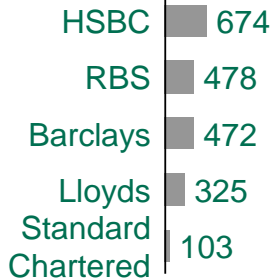
2000

2017

Global

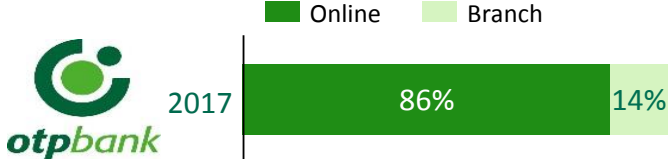


United Kingdom

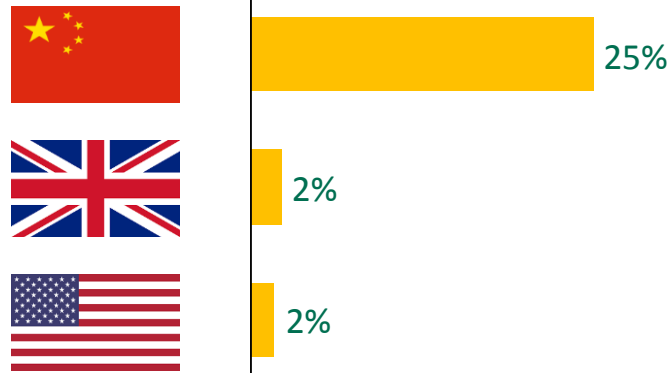


## Digital players have only achieved a significant market share in China

Share of routine transactions made online and in branches within OTP (%)

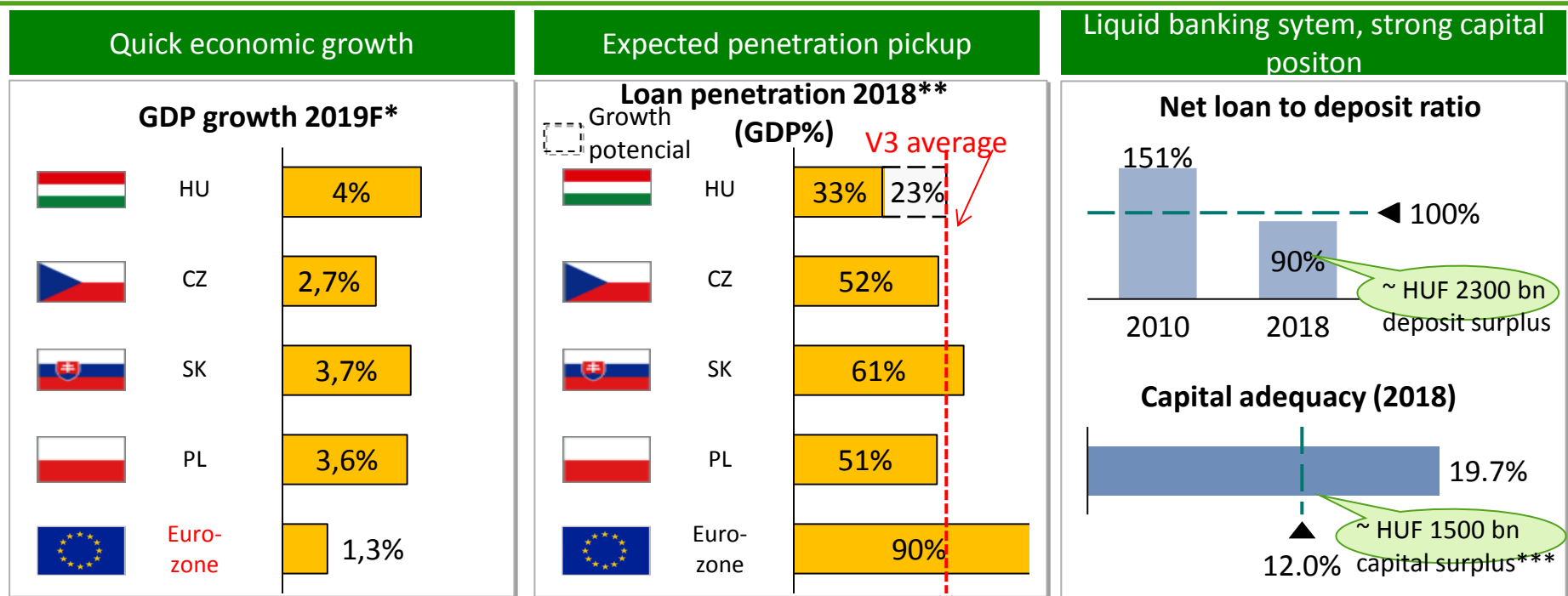


Share of P2P unsecured personal loans within the biggest banking systems in the world (%)



# Challenges and prospects IV.

## The Hungarian banking sector still has a huge growth potential



**STRONG GROWTH POTENTIAL**

\*Eurozone data is a forecast, \*\*Aggregate penetration of retail and corporate sectors \*\*\*Estimated minimum CAR including capital buffers is 12%

Source: Eurostat, NBH,



**Thank you for your attention!**