

Tasks and Challenges of the Banking Sector from the Perspective of the CEE Countries

Financial Leaders' Forum Budapest on the occasion of the
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Banking Association - April 4th, 2019

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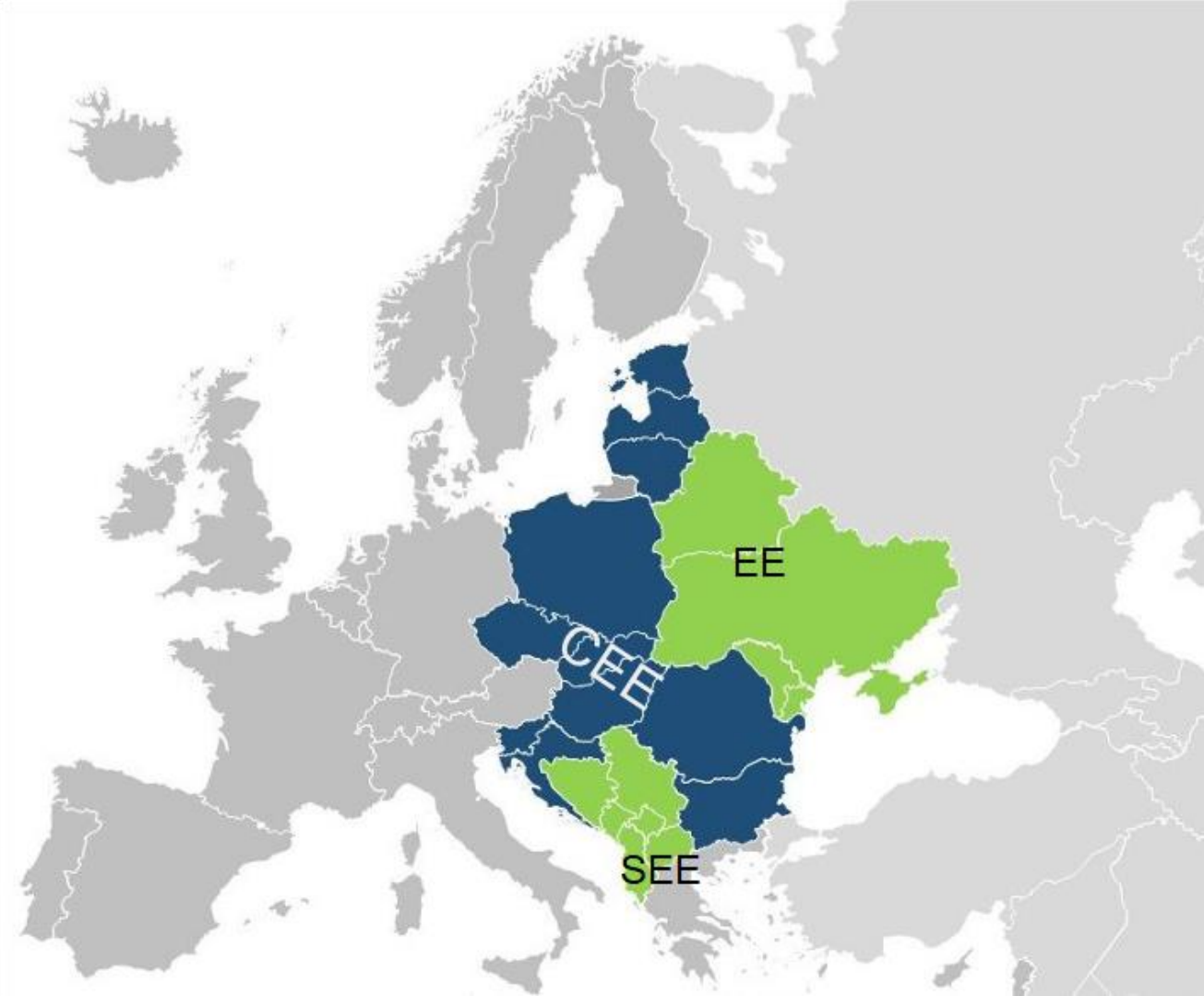
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Topics

- Where do we come from?
- What we had to do?
- Where are we now?
- Where are we going from here?





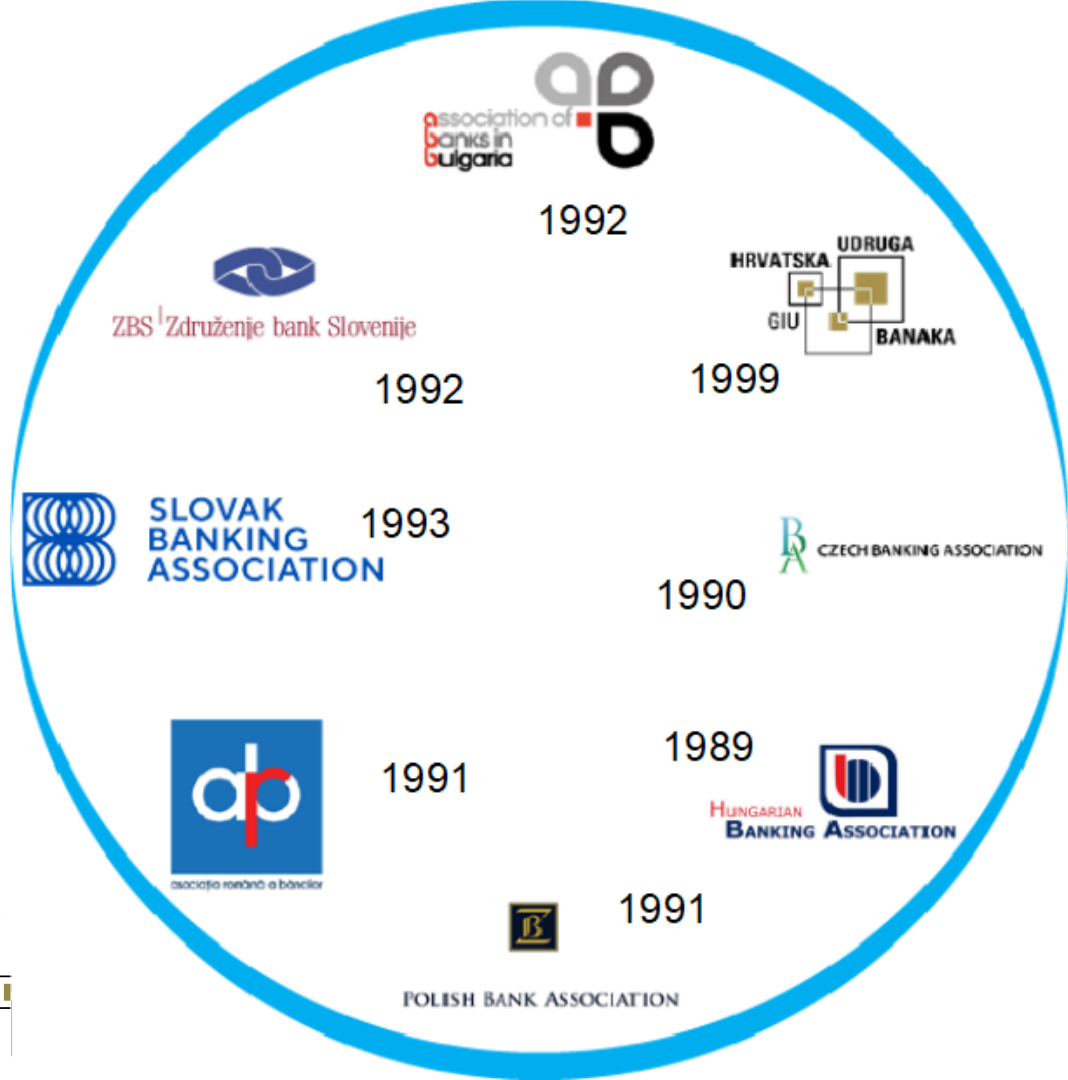
Where do we come from?

- Political & economic system
- Financial sector & banks
- ~~Market~~ Planned economy
- ~~Competition~~
- Employment

What we had to do?

- Transform the economy
 - Privatization – how?
 - Introduce concept of company failure and job loss
- Transform the financial sector
 - Reform/restructure/privatize banks
 - Establish capital and stock markets
 - Form new institutions (e.g. leasing)
- Internationalization/globalization of economic and financial flows
- Gradually join international organizations – EU, NATO, OECD

Throughout these processes banks managed to finance the growth

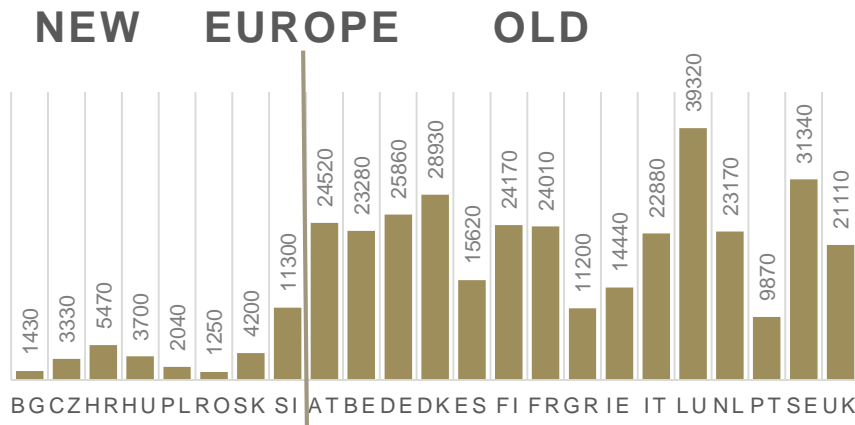


+
 establish
 Banking
 Associations

Starting positions

GNI per capita (formerly GNP per capita) is the gross national income, converted to U.S. dollars using the World Bank Atlas method, divided by the midyear population.

	1992	1st data
BG	1430	
CZ	3330	
HR	5470	97
HU	3700	93
PL	2040	
RO	1250	
SK	4200	95
SI	11300	97



	1992
AT	24520
BE	23280
DE	25860
DK	28930
ES	15620
FI	24170
FR	24010
GR	11200
IE	14440
IT	22880
LU	39320
NL	23170
PT	9870
SW	31340
UK	21110

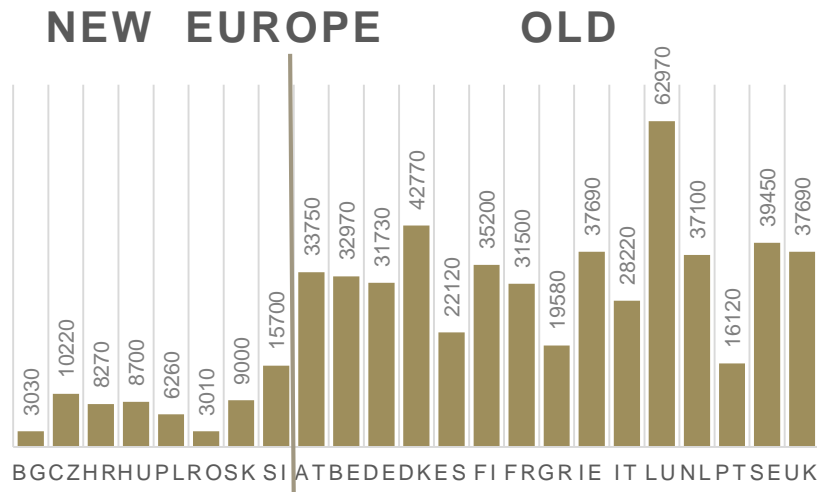
The World Bank's *World Development Indicators* include data spanning up to 56 years—from 1960 to 2016.



On our way

■ Year 2004

	2004	growth
BG	3030	212%
CZ	10220	307%
HR	8270	151%
HU	8700	235%
PL	6260	307%
RO	3010	241%
SK	9000	214%
SI	15700	139%

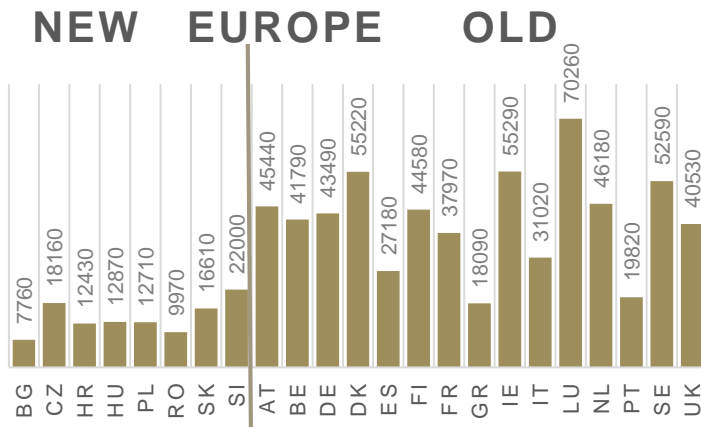


AT	33750	138%
BE	32970	142%
DE	31730	123%
DK	42770	148%
ES	22120	142%
FI	35200	146%
FR	31500	131%
GR	19580	175%
IE	37690	261%
IT	28220	123%
LU	62970	160%
NL	37100	160%
PT	16120	163%
SE	39450	126%
UK	37690	179%

Where did we arrive?

- Year 2017

	growth	2017/2004	2017/199x
BG	7760	256%	543%
CZ	18160	178%	545%
HR	12430	150%	227%
HU	12870	148%	348%
PL	12710	203%	623%
RO	9970	331%	798%
SK	16610	185%	395%
SI	22000	140%	195%



	growth	2017/2004	2017/199x
AT	45440	135%	185%
BE	41790	127%	180%
DE	43490	137%	168%
DK	55220	129%	191%
ES	27180	123%	174%
FI	44580	127%	184%
FR	37970	121%	158%
GR	18090	92%	162%
IE	55290	147%	383%
IT	31020	110%	136%
LU	70260	112%	179%
NL	46180	124%	199%
PT	19820	123%	201%
SE	52590	133%	168%
UK	40530	108%	192%

How well did the transition go?



European Bank
for Reconstruction and Development

TRANSITION REPORT

Table S.1 Sector-level transition indicators overall scores
Banking reform (and interest rate liberalisation)

	1998	2004	2010	2013	2016
Bulgaria	3–	4–	4–	3	3
Croatia	3–	4	4	3+	3+
Czechia	3	4–			
Hungary	4	4	4–	3+	3
Poland	3+	3+	4–	4–	4–
Romania	2+	3	3+	3	3
Slovakia	3–	4–	4–	4–	4–
Slovenia	3	3+	3+	3	3

How well did the transition go?

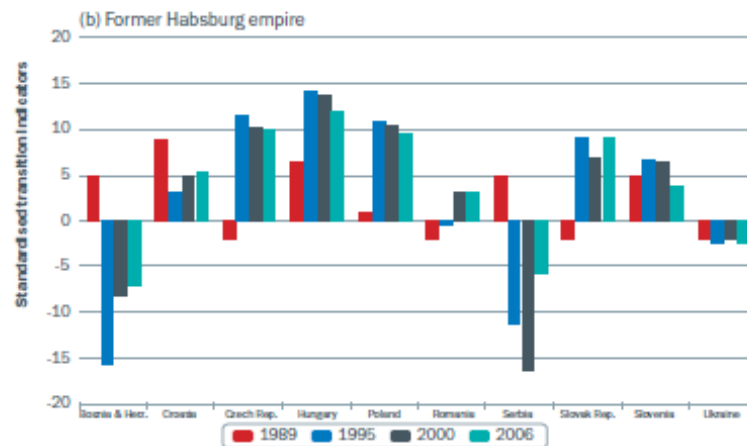
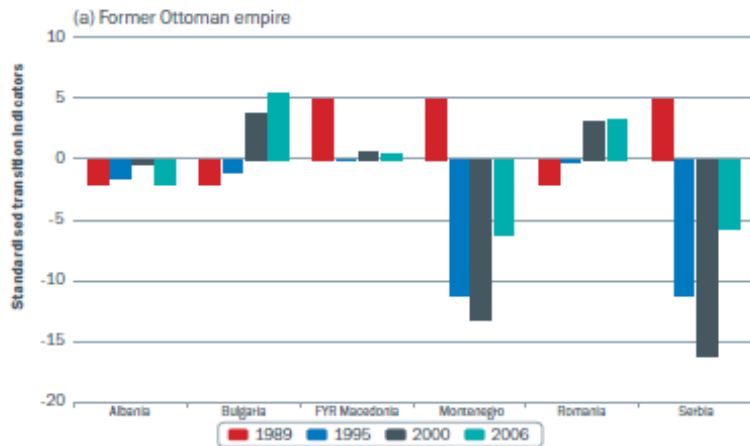
EBRD TRANSITION REPORT 2018-19 WORK IN TRANSITION

STRUCTURAL REFORM

TABLE S.1. Transition scores for six qualities of a sustainable market economy

	Competitive		Well-governed		Green		Inclusive		Resilient		Integrated		Average
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Bulgaria	5,9	5,9	5,7	5,8	6,2	6,0	6,4	6,2	6,8	6,8	6,9	6,8	6,32
Croatia	5,8	5,9	6,0	6,2	6,5	6,2	6,3	6,4	7,3	7,2	6,9	6,9	6,47
Hungary	6,5	6,5	5,9	5,9	6,3	6,3	6,8	6,8	6,8	6,8	7,5	7,6	6,63
Poland	6,6	6,5	6,9	7,1	6,9	6,9	7,1	7,0	8,0	7,9	6,8	6,8	7,05
Romania	6,2	6,2	5,8	5,8	6,2	6,0	5,3	5,3	7,2	7,2	6,8	6,7	6,25
Slovakia	7,0	7,1	6,1	6,1	6,8	6,8	6,7	6,6	7,8	7,8	7,4	7,5	6,97
Slovenia	7,2	7,2	6,6	6,7	7,3	7,0	8,0	7,8	7,8	7,8	7,4	7,3	7,38

Chart 3.1.2. There are large variations in transition indicators within former empires



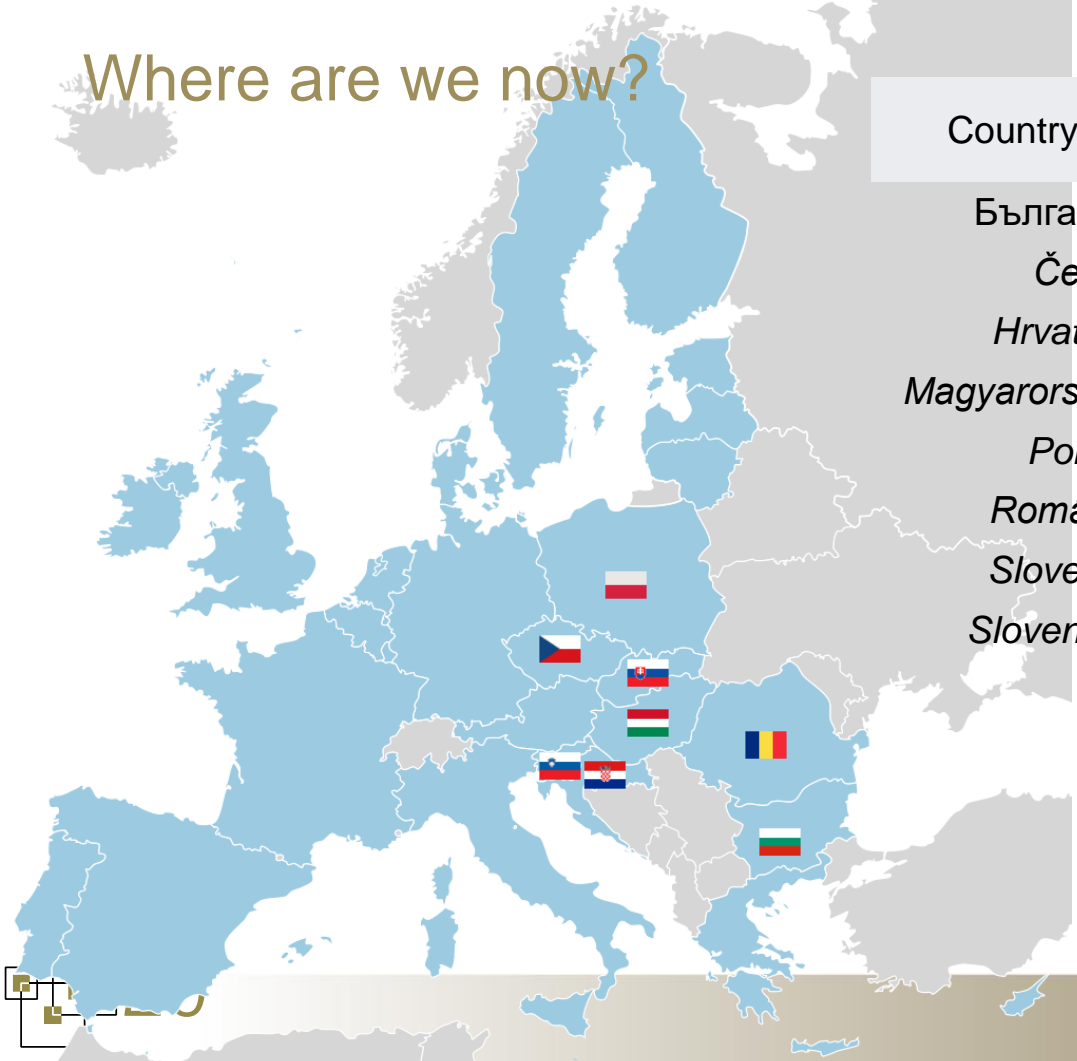
Source: LITS (2006) and authors' calculations.

Note: See note on Chart 3.1.1.



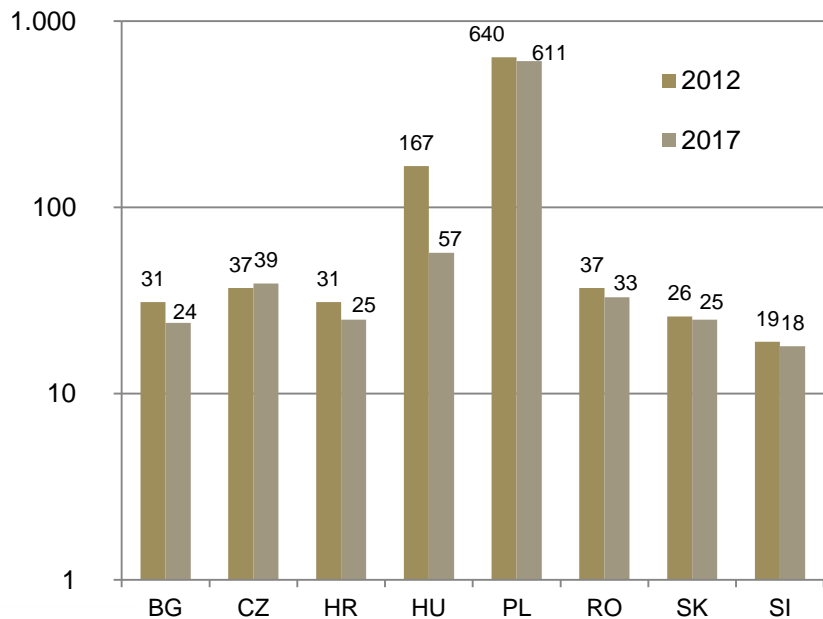
Where are we now?

Country	Population	Area (km ²)	GDP (MM \$)	GDP p. c.(PPP)
България	7,101,859	110,994	55,824	21,686
Česko	10,467,628	78,866	205,270	35,512
Hrvatska	4,154,213	56,594	57,073	24,423
Magyarország	9,797,561	93,030	136,989	29,473
Polska	37,972,964	312,685	547,894	29,521
România	19,638,309	238,391	199,093	24,508
Slovenija	2,065,895	20,273	49,570	34,407
Slovensko	5,435,343	49,035	99,869	33,025
	96,633,772	959,868	1,351,582	29,069



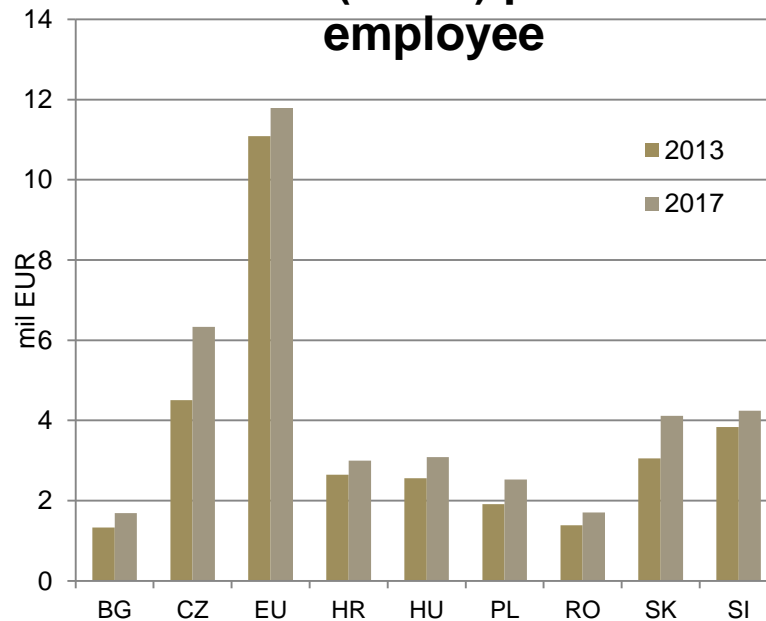
Banking in CEE (1)

Number of banks



Source: ECB, national central banks

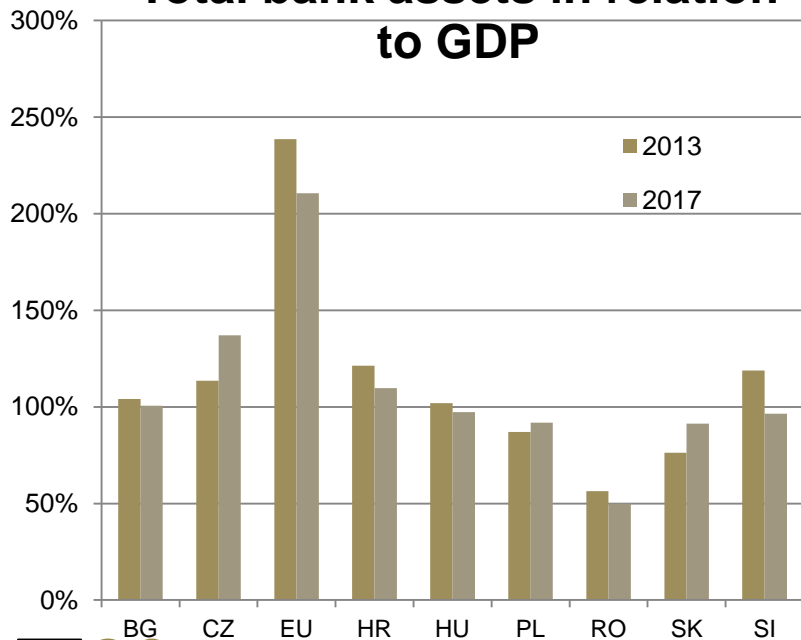
Assets (mil. €) per bank employee



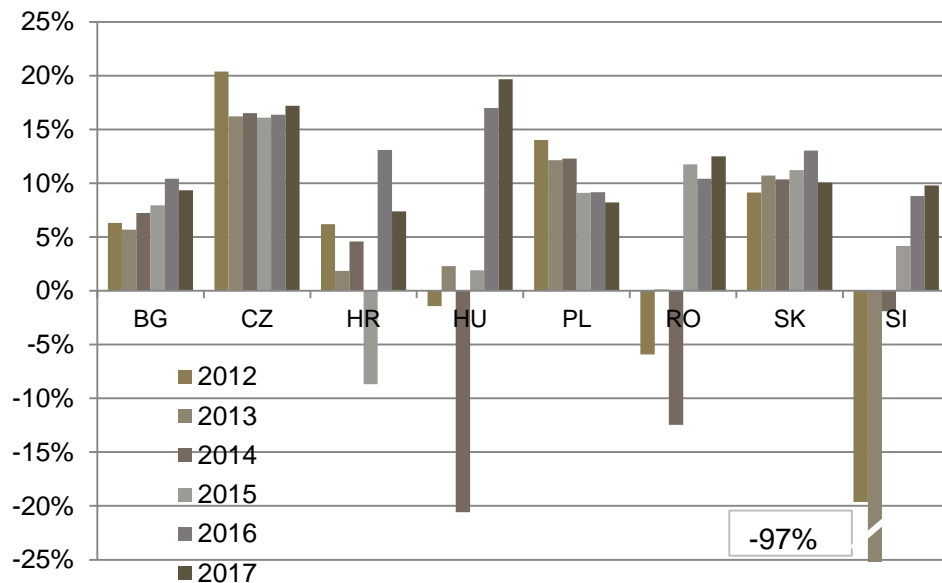
Source: ECB, national central banks

Banking in CEE (2)

Total bank assets in relation to GDP



Return on banks' equity (ROE)

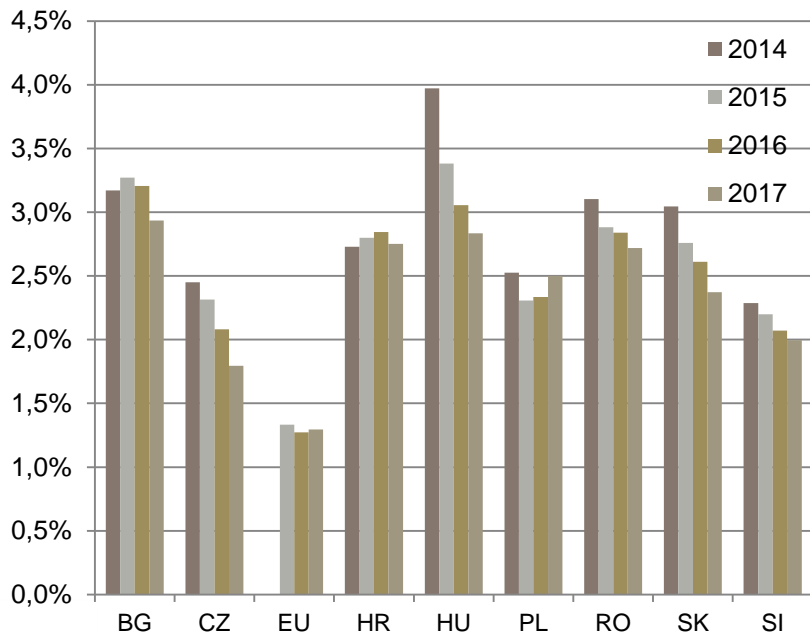


Source: IMF, national central banks



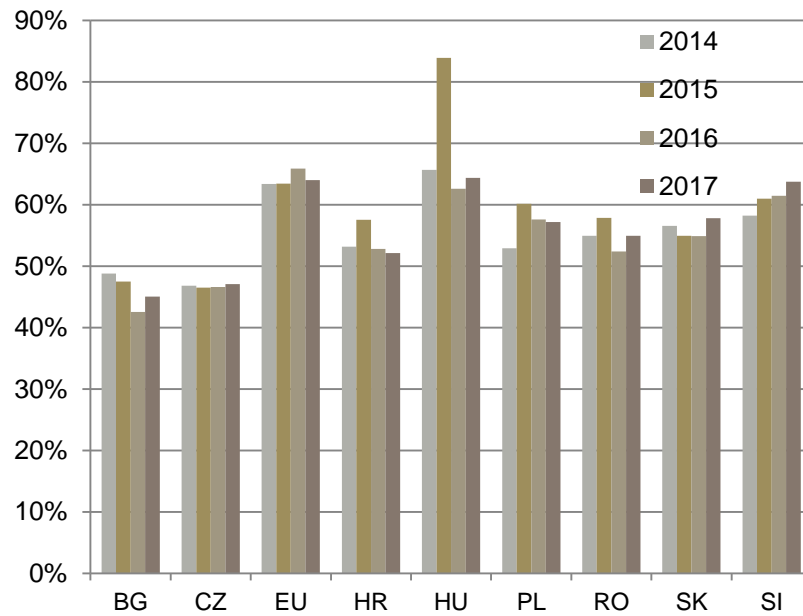
Banking in CEE (3)

Net interest margin



Source: ECB, IMF, national central banks

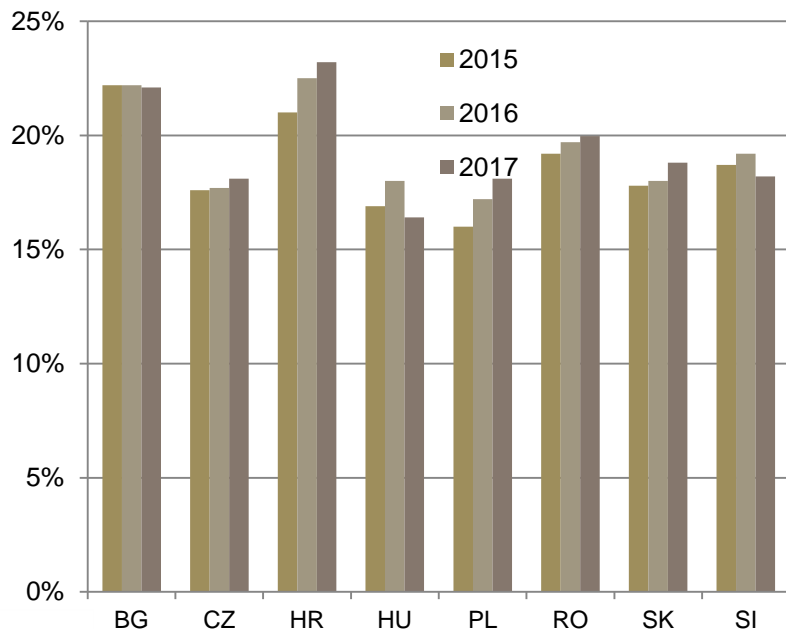
Cost income ratio



Source: ECB, national central banks

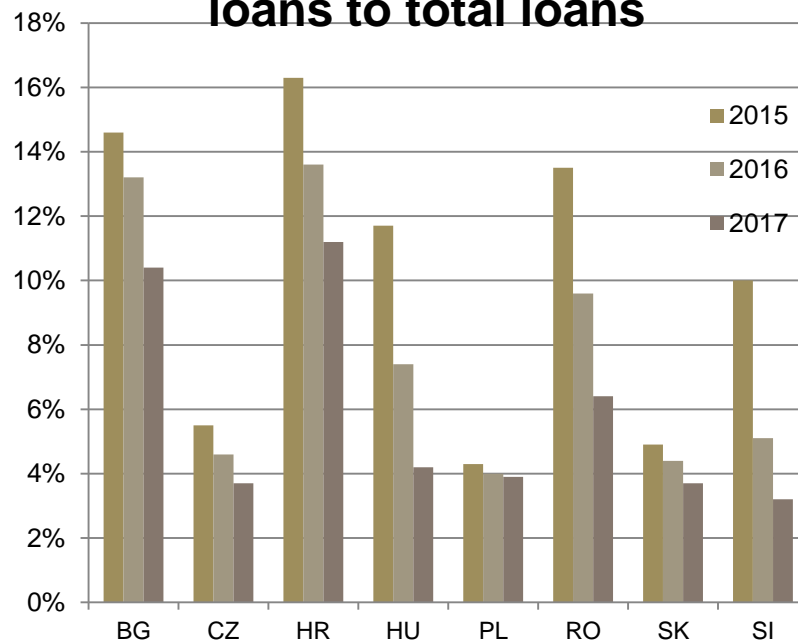
Banking in CEE (4)

Capital adequacy of banks



Source: IMF, national central banks

Ratio of non-performing loans to total loans



Source: IMF, national central banks

Costs of bank recovery in the EU since 2008

	GDP	Capital injection		Impaired assets		Guarantees on liabilities (b)		Other measures	
	2015	Total approved	Used	Total approved	Used	Maximum approved	Used	Maximum approved	Used
Belgium	410.4	23.3	20.8	28.2	21.8	275.8	45.8	20.5	0.0
Bulgaria	45.3	0.0	0.0	0.0	0.0	0.0	0.0	1.7	0.0
Denmark	271.8	14.6	10.8	2.3	0.3	580.0	145.0	4.9	2.0
Germany	3,032.8	114.6	64.2	82.8	80.0	447.8	135.0	9.5	4.7
Ireland	255.8	91.6	62.8	57.2	2.6	376.0	284.3	40.7	0.9
Spain (c)	1,075.6	174.3	61.9	139.9	32.9	200.0	72.0	30.0	19.3
Greece	175.7	59.6	46.6	0.0	0.0	93.0	62.3	8.0	6.9
France	2,181.1	29.2	25.0	4.7	1.2	319.8	92.7	8.7	0.0
Croatia	43.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Italy	1,642.4	25.8	11.8	0.4	0.0	80.0	85.7	0.0	0.0
Cyprus	17.6	3.5	3.5	0.0	0.0	6.0	2.8	0.0	0.0
Latvia	24.3	0.8	0.5	0.5	0.4	5.1	0.5	2.1	1.0
Lithuania	37.3	0.8	0.3	0.6	0.0	0.3	0.0	0.0	0.0
Luxembourg	51.2	2.5	2.6	0.0	0.0	4.5	3.8	0.3	0.1
Hungary	109.7	1.1	0.2	0.1	0.1	5.4	0.0	3.9	2.5
Netherlands	676.5	39.8	23.0	30.6	5.0	200.0	40.9	52.9	30.4
Austria	339.9	40.1	11.8	0.6	0.5	75.0	19.3	0.0	0.0
Portugal	179.5	34.8	15.3	4.4	3.1	28.2	16.6	6.1	3.8
Slovenia	38.6	4.5	3.6	3.7	0.3	12.0	2.2	0.0	0.0
Sweden	446.9	5.0	0.8	0.0	0.0	156.0	19.9	0.5	0.0
United Kingdom	2,580.1	114.6	100.1	248.1	40.4	364.5	158.2	39.9	33.3

Source: European Commission

Conclusion

- CEE countries are open economies with stable and secure banking sector, representing a sizable share of the EU
- Capital adequacy and liquidity of banks prove their readiness to finance growth in the medium and the long term
- Perspective is bright, but challenges remain

Challenges for banks in 2019 and beyond

- Increasing number of consultations on regulations, technical and regulatory standards
- Particular accent on digital (r)evolution - EC, ECB, EBA
- Forthcoming European elections - New European Parliament and new European Commission to be established in 2019
- Increasing role of supervisory authorities (ECB, EBA, ESMA, ENISA ...) - Supervisory authorities are more and more concerned by the impact of digital developments and change of business models on the financial stability.
- Competitiveness of the EU - Changing landscape to which the banking sector has to adapt: New business models, new actors (Fintech, Bigtechs, Regtech etc.)



Data economy
Access/sharing



Crypto-
assets/ICOs



Prudential
perimeter,
supervision &
digitalisation



EU competitiveness
& fair competition
(Including platform)



Cloud



Cybersecurity

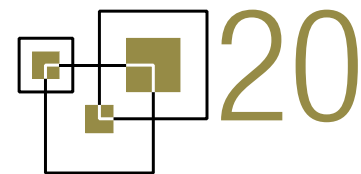


Payments



Innovation
(DLT/Blockchain, AI, eID,
EU Framework of
experimentation,
RegTech)

Thank you for your attention!



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