

Cycle Changing Years, Parallel Biographies*

János Müller

*Levente Kovács – József Sipos:
Ciklusváltó évek, párhuzamos életrajzok
Arcképek a magyar pénzügyi szektorból, 2014–2016
Hungarian Banking Association, Budapest, 2017, pp. 244
ISBN: 978-963-331-407-4*

On the occasion of the General Meeting of the Hungarian Banking Association held on 11 May 2017, Levente Kovács, secretary general, published a book with the support of the Board of the Association that may be interesting to the banking community. This meeting is an important event of the banking community, because according to the statutes of the Association, a complete renewal of the leadership must be performed every three years. The occasion and time almost demands the assessment and the evaluation of the situation and development of the banking sector in the wider sense in the given period. Behind and next to these processes there are the people as well, the several thousands of employees of financial institutions and last but not least the leaders of these institutions.

The period of three years between 2014 and 2016 was, hopefully, the closing period of the perhaps most difficult time of the modern history of Hungarian banks, after that the financial institutions can now breath again and concentrate on their future tasks. This condition is reflected and recurred on the pages of the book, partly in the form of a comprehensive professional analysis assessing the period and then within the framework of interviews of the current leaders of financial institutions, presenting their professional past and their own institutions.

In order to present and evaluate the book on its merits, we have to place its message and selected method of editing in space and time. The title itself “Cycle changing years” is thought-provoking, whereas the indicated period, 2014–2016, inevitably points to an era and milestone. The presentation of this cycle is commendable in this respect as well, since it is a part of the well-defined phases of Hungarian banking history.

* The views expressed in this paper are those of the author(s) and do not necessarily reflect the official view of the Magyar Nemzeti Bank.

János Müller, economist. E-mail: mullerj1@t-online.hu.

In order to make this process understandable, we cite it as an indication that Hungarian banking history can be divided into several well defined periods, starting from its foundation in 1841 of the first independent Hungarian commercial bank. In the second half of the 19th century and at the time of the turn of the century more than a dozen significant financial institutions and many savings banks operated. There were 987 banks and savings banks in the country in the first year of the 20th century and their number reached 1,183 in 1905. Thus, the Hungarian banking system, completely corresponding to the European level of the age, was developed, which was made complete with the independent Magyar Nemzeti Bank, created in 1924. With such background, the need for joint representation of the interests of the financial institutions is clearly legitimately. The National Association of Financial Institutions (POE) was established in 1903, whereas the Association of Savings Banks and Banks (TÉBE) was founded in 1919, finally these were merged in 1928 under the name of TÉBE.

Let us take a big step to another major period: *“After World War II, in 1948 the financial institutions in Hungary were nationalised, and a Soviet-type, one-level, centralised banking system was established, as a result of this Magyar Nemzeti Bank performed commercial banking functions, too, whereas the National Savings Bank provided financial services for the population. We have to see that the number and quality of retail services was well behind the pre-1945 level and we cannot talk about securities or capital market services either. This system adapted perfectly to the system of central planning and the planned economy.”*¹

Thus, after 1948 the development of the Hungarian banking system, which started in 1841 and accelerated after 1867, was interrupted in a forced way for several decades. The next phase is already the banking history of the modern age.

The banking reform introduced in 1987 created the possibility of constructing a modern, two-tier banking system. A process lasting several years was started and, if we take into account the initial problems and pitfalls and the teething troubles of the system under development as well, the period when we can already talk about a real, operating two-tier banking system is 1994–95. The Hungarian Banking Association, which has a history of almost three decades, was established in February 1989, shortly after the banking reform. The first years of the two-tier banking system and the Hungarian Banking Association were characterised by consolidation, overcoming the teething troubles of the new banks. The political decision relating to the privatisation of the Hungarian banking system was made in 1994, first in our region. Except for some cases, the banks were taken over by strategic, financial investors. According to the international judgement of the

¹ János Müller, Tamás Kovács, Levente Kovács: *A Magyar Bankszövetség története [History of the Hungarian Banking Association]* Tarsoly Kiadó, 2014:41.

period, one of the best regulated and most stable banking systems was established in Hungary by the end of the 90s. The 2000s, all the way until the international financial crisis that broke out in 2008, represented peaceful development of Hungarian banks and the golden age of their history.

The period between 2009 and 2015, after the international financial crisis, precedes the new cycle described in the book. This is already the history of the recent past, with enormous burdens and ordeals. The consequences and results of this appear vividly in the first chapter where the author, Levente Kovács, secretary general of the Hungarian Banking Association, entitled it aptly as *“Financial sector in the grasp of mistrust”*. For the assessment and professional evaluation, the chapter surveys the developments of the world economy influencing the operation of the banking sector and the developments of Hungarian and international prudential regulation. For the reader the part presenting the situation of the sector of the cycle behind us is probably the most important. It presents the serious inheritance of the years after the crisis and the difficulties of the sector stemming from the elimination of and accounting foreign exchange-based lending, the burdens stemming from the proportion of non-performing loans high in international comparison as well; the negative effect of special taxes and other burdens; and the burdens stemming from the legal decision. Meanwhile the ownership background and structure of the sector was transformed in this cycle, and Hungarian governance and ownership decreased to approximately 50 per cent, corresponding to the intents of the government.

“The tax and other burdens of the Hungarian banking sector are unparalleled at the international level. Everybody has great expectations regarding the planned and started tax reduction, since the permanent and organic development of the national economy depends on this. However, we have to face the fact that despite the reduction of special bank taxes occurred until now, Hungary is still at the very beginning of the list in international comparison.” – This is the author’s characterisation relating to the situation that developed, then he establishes *“The Hungarian economy cannot be competitive without a competitive banking sector.”*²

One of the first thoughts of the reader of the book may be why the past three years are identified by the authors as the change of the cycle. What is behind the indication “cycle changing years”? May one think on the period closing the consequences of the 2008 financial crisis or perhaps the coincidence that not only did the Banking Association had renewal of leadership in 2014, but there were parliamentary elections as well and the new government started its operation then and an economic policy turn could occur? These may also be possible and real alternatives.

² Cited book, p. 19.

However, reading the personal interviews, we can find a third description: When asked by the interviewer about the primacy of politics, Mihály Patai, president of the Banking Association and CEO of UniCredit Bank, says the following: *“We can talk about a world trend here as well. In the couple of decades before 2008 the power of supranational enterprises and financial organisations operated as a power significantly determining politics. This has changed everywhere as a result of the crisis, by today politics has regained its primacy. The level of regulation of the financial sector has increased and the clout of consumers has a much greater weight as well. Hungary is special in this area in as much as direction is exercised by a political elite that outlines its objectives much more distinctly than the average and the social problem of foreign currency lending has strengthened the amplitudes among which the processes have occurred.”*

The next question and the answer to this was as follows: *“Looking at it from the chair of a bank leader, are these – political primacy, strong level of regulation, tough consumer protection – the additional costs of recovery from the crisis? According to the answer of Mihály Patai, “this is different and more, this is a new cycle. (highlighting by me: J.M.) In the following decade, perhaps decades, both the strong political hand and the same type of regulation and consumer clout will remain and will be critical in the operation of the banking system.”³*

Thus, a new cycle has arrived, which can last for decades according to the president of the Banking Association. The reader cannot help asking whether the cycle changing will, with these properties, be advantageous or disadvantageous for the operation of the banks. Following the train of thought of the president, we can say that the answer to this question will be provided in many years or even decades.

The second method intended to present the cycle appears in the title and subtitle of the book: *“parallel biographies”* and *“Portraits from the Hungarian financial sector”*. It was an appropriate and good decision by the editors to present leaders of Hungarian banks and financial institutions in the framework of personal interviews, with some brief biographies in retrospect. I think and believe that the memories of the personalities determining today’s banking history are at least as important for the researchers of the future as the documented archive materials. Thus, this book may become an interesting historical document with the passing of time.

The book presents and interviews 36 leaders of financial institutions. In and of themselves all are different, yet they have one common characteristic by all means, the love of the profession and the intent of building a successful future of their institution. As an example, we underline two brief quotes from two interviews.

³ Cited book, p. 235.

Replying to the question *what experiences were drawn after 2008 that can be used in the future as well*, Sándor Csányi, CEO of OTP Bank, summarised one of the main messages of the cycle after the crisis as follows: *One experience is that it is a wise thing if a bank pursues a conservative business. This risk-avoiding and calm behaviour has become the trademark and most important tradition of OTP. "This tradition obliges all of us. It is not by chance that OTP was last to join foreign currency lending. All along we have attempted to be in control of risks, we have paid attention to provisioning and stayed away from promising, but not appropriately established projects in the corporate market as well. The other experience is that the domestic financial culture and the financial knowledge of borrowers are very modest. Unfortunately, this risk has stayed with us even after the crisis and if it does not change significantly, we will not be protected against new and newer social landslides."*⁴

In the midst of all the events continuously surrounding the banking sector, the reader may not even notice that there are two characteristic features of the presented portraits of bank leaders which have been developed mainly in the cycle analysed in this book. One of these is that the number and proportion of bank leaders of foreign citizenship have decreased significantly. After the start of the bank privatisation (1995) and until the end of the last decade, at least half of the CEOs of banks were foreign citizens, their number was between 15 and 18. Indeed, their weight was so large that a Foreign Banker's Club existed and operated within the framework of the Banking Association. In the past two decades their activity has had a positive effect on the operation of the banking sector in Hungary. At the time of the writing of these lines, only five banks have a foreign leader. I read with interest the interviews prepared with them, I cite one of these. Claus Windheuser, CEO of Commerzbank, a German bank with a great history, is a dynamic, young leader, who has led the bank since the end of 2015. The question asked from him was as follows: *"Your arrival coincided with the perhaps most difficult period of the history of the two-level Hungarian banking system written since 1987. How do you see the situation and outlooks of the sector?"* Claus Windheuser replied as follows: *"The regulatory environment in both Hungary and the EU has and will become stricter. In the corporate business line, which is the primary activity of Commerzbank Zrt., market competition is increasingly keen and price competition and risk-assuming willingness are especially aggressive, similarly to the period before the financial crisis erupted in autumn 2008. Digitalisation represents an enormous challenge for everyone, I think that nobody can tell what the effect of this will be and what the banking sector will look like in ten years."*⁵ Thus, the German banker, with fresh eyes, yet already in knowledge of the market, confirms that competition is intense

⁴ Cited book, p. 187.

⁵ Cited book, p. 67

in the area of corporate lending, which includes aggressive pricing and greater risk appetite as well.

Another typical characteristic of the parallel biographies is that the average age of the bank leaders has decreased significantly. Thus, in addition to the cycle change, a new generation has appeared, i.e. there has been a change of generation as well.