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The Hungarian financial sector and the EU

BOTOS KATALIN*

The Economic Community organized a conference with the title 'The Bank Sector for 20 years'.

They reviewed the development of banks and insurance companies, the major questions regarding their supervision and they concluded that the Hungarian financial sector had clearly integrated into the European Union.

This view was proven by Patai Mihály's presentation on the Hungarian financial sector. We are examining the Hungarian financial system's assimilation into the European Union with the help of this particular presentation, as well.

Key words: market share and ownership structure, credit-deposit indicator, foreign currency credit.

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If we have a look at the market share and ownership structure of the leading Hungarian banks` we can state that the owners of the primary Hungarian bank houses are exclusively owned by European bank houses: KCB, ERSTE, Bayerische Landesbank, Raiffeisen Bank, Unicredit Bank ... OTP, Hungary`s market leading bank, is not qualified as any foreign banks` subsidiary, even though its total balance only accounts for one-fourth of the accumulated total balance of the Hungarian banks. At the time of its privatisation, the management of the bank made its own proposal to the government, which included not only the substantial foreign funds, but the acquisition of shares through replacement tickets, shares issued to employees, insurance share contributions towards social security, as well. By these steps, the OTP has managed to remain a Hungarian bank. Among its owners we can find foreign investors, but as we can see it is not in the hand of any dominant bank houses. Majority of the banks are subsidiaries, which has advantages and disadvantages, as well. Debt Customer Care Line is among its advantages, which was also tested by the present financial crisis. The biggest European banks have taken part in crisis-managements, capital increase and ensuring liquidity. It is also true, that when the global problems have arisen, a quick secession and liquidity diminution could be experienced. However, upon the request of the IMF and the EU, they have completed the responsibilities written in the letters of intent (LoI).

They are paying the banktax as well, with not so much enthusiasm, but acknowledging that other countries have taken it up, as well (the need for harmonizing the bank tax in the EU is on its agenda) If not in Hungary than not anywhere it is more inevitably reasonable to do so. The bank sector has acknowledged profits over the EU level. (Around 2005, the Hungarian ROE /return on equity/ indicators in real terms were about 70-80% higher than the EU banks. For example the expense/income ratio was 48% in 2006, in contrast to the Asustrian-German-Italian banks` circa 60% ratio. In other words, in Hungary the banks have obtained substantial profit – including the mother banks - , so it is rightous to abide in times like these.

Similarly to the bank sector the owners of the Hungarian insurance companies are Europen houses. In the case of the market shares, Allianz is ahead with 22%, followed by Generali-Providencia with 15%. There are many competing with almost the same amount of market share: Groupama Garancia, Aegon, ING, and a few smaller insurance companies.

Among the stock market owners the CEESEG Akziengellschaft is the majority shareholder with 50,45%, but the Österreichische Kontrollbank also has 18,35%. The ratio of the domestic investors in the case of the stocks and shares never exceeded 30%. So, the major buyers in the Hungarian stock market are European investors.

The bank sector handles the deposits and credits of the population. Traditionally the deposit stock more or less has shown stability in the past 20 years, then after the institutional change it has decreased to an extent. The 25% deposit-to-GDP ratio has for many years covered the population's credit need, which reached its lowest level in 1993 (3% deposit-to-GDP ratio). From 2006, the foreign owners financed their Hungarian subsidiaries that were dealing with liquidity problems due to their deposit stock shortage. Due to the foreign currency credit, the bank sector's credit-deposit indicators showed a raise from 81% in 2001 to 160% by the mid-2007, and by August 2010 it has slightly decreased to 147%.

In the case of the Hungarian companies, there have been major changes in their borrowing structure in the past 15 years. While in 1995 the foreign investment financing and the domestic financing were at about the same rate, today this has changed vigorously. The ratio foreign currency credits received from domestic banks increased, however the size of the direct foreign investment financing is about the same. The foreign investment financing though is more or less made in the form of loans through the mother bank. This method of financing showed the largest increase in the past 15 years. The ratio of Forint loans from domestic banks decreased. In other words, the banks are not particularly lending money to the Hungarian companies in the form of Forint. It is almost impossible; hence the Hungarian savings –on average- have been on a low level in the past one and a half decades. The activities of the domestic banks turned to the population, and the households' housing loans stock increased first in Forint, then in foreign currency in the past few decades. After 2003 the foreign currency credit increases. It is obviously connected to the contraction of the housing loans benefits, which was introduced after the first Orban government. The banks, as well as their customers have taken advantage of the cheap foreign currency. The extensive flow of foreign housing credit began (not only in the USA).

By the beginning of 2010 the total household loans were 35% of the GDP, 25 % points worth. Meaning the GDP's one fourth is the housing credit in foreign currency. From closer look, within this ratio the housing credit stock is 16% of the GDP, out of which 10% points are credit in foreign currency, large part of which is in Swiss Franks.

To sum up we can declare that the Hungarian bank system is a European one. The only missing factor now is for the payroll system to be European, as well – then several problems could be more manageable in this crisis-stricken country. However the conception of such is not an easy task at all – not by a long chalk. It is to be feared that in the severe international competition, as well as being contingent on international financing, the country can only be expected to recover slowly. Our real integration to the EU can only happen with the termination of the two-rounded Europe. Let us wait, for the time being.

Translated by Rita Turcsányi

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* The author is a university professor of SZTE GTK Finance and International Economic Relations.

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http://www.southeast-europe.org
dke@southeast-europe.org

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