Q&A

PETER CSÁNYI

Member of the Board of Directors
and Deputy Chief Executive Officer,
Chief Digital Officer– Otp Bank

CEE – Is Europe's growth engine in need of repair or just maintenance?

What are the main structural challenges that the CEE region is facing in terms of growth and financing model and how are they evolving?

CEE economies strongly benefited from the decades of globalization due to their high openness. Their annual GDP growth reached 3% on average, twice as much as the growth in core Europe, that is, the advanced western countries that founded the euro area. The drastic changes in the global environment, and the shift from globalization to a more fragmented world, again poses significant short and medium-term challenges to CEE. The war, sanctions and the energy crisis in 2022 and 2023 had many unfavorable consequences in the region. These economies faced unprecedented issues in trade, skyrocketing inflation and interest rate shocks, and the purchasing power of wages shrank, leading to a slowdown in GDP growth and even a mild recession. Most of these economies are gradually recovering, but weak growth in the euro area, structural problems in German car manufacturing, the shift to a permanently higher yield environment, and the unavoidable fiscal adjustment, are clear drags on short-term growth prospects in CEE.

The labor markets of CEE economies are changing fast too. In the past decades, the region was attractive due to its relatively skilled and cheap labor. As western FDI and EU funds gradually replaced the capital stock lost around the transition, more and more people in CEE became active. By now, most CEE countries are experiencing a shortage of skilled labor, particularly in fields like technology and digitalization. Employment rates have reached the EU average, unemployment has fallen to multi-decade lows, and labor costs are rising at a double-digit pace.

Regarding financing, the main challenge is to adapt to the recent shift in the global yield environment. CEE economies have lower overall corporate and household indebtedness than Western economies, so this is unlikely to lead to serious problems. However, the financing of public debt could be a more serious issue in countries where the deficit is well above the targets and the credit rating is just above the investment grade level. In CEE external financing, FDI and EU funds play a significant role, and as in the medium term the availability of EU funds will be more restricted, this would require adjustment as well. The role of banks in financing the economy is smaller in CEE than in core Europe. Client loan to GDP is below 40%, while it is 90% in the euro area - partly because of the role of non-resident companies in CEE, which have access to foreign banks and are financed mainly from abroad.

All in all, these factors will likely result in mid-term headwinds to GDP growth in CEE. While we expect these economies to grow faster than core Europe and the convergence to go on, the pace of growth might temporarily slow down compared to that of the past three decades.

What are the expected benefits from a genuine Banking Union? What are the challenges to overcome?

The Banking Union requires strong foundations: robust and harmonized financial regulation, and the ECB as a neutral, supranational supervisor, which now engages in discretionary decision-making previously reserved for member states.

A genuine Banking Union's advantage can lie in its ability to define and implement its integration goals. The EU needs an EU-level strategy in order to respond quickly and effectively to tackle a financial crisis and safeguard financial stability. The benefits of such integration can indeed be significant and visible in times of crises. However, the level of integration is a matter of both the will and capability of the participants. Another relevant factor is that financial regulation is currently a shared competence between the EU and the member states. The Banking Union's efforts to deepen integration are reshaping the financial regulatory framework. National decision-making has become more limited, while the role of the ECB has increased even in countries where local supervisors are the designated banking authorities. This creates special situations where, for instance, one of CEE's largest banking groups is not directly supervised by the ECB as a banking group, but some of its member institutions are. In such cases it requires additional attention to comply with both national and European rules and expectations, which are not always aligned, and can be very challenging too. For example, the principle of "same activity, same regulation" is a subject of debate on how to achieve a level playing field for all kinds of providers, both credit institutions and fintech companies. The idea is that to ensure equal treatment, the same regulation should apply to all players that provide the same service, regardless of their legal structure. This is for the benefit of the customers too. But that would require a shift from an entity-based approach to a uniformly applied activity-based one across the EU, and the joint efforts of the regulator and the industry.

How is digitalisation expected to progress in the financial sector in the next 5 years? Will it lead to a significant transformation of the sector? What role are traditional financial players, fintechs and Big Tech companies expected to play in this evolution?

Compared to other industries the banking sector has faced, and still is facing, stricter regulatory barriers when it comes to digitalization. Over the next 5 years, the most obvious expectation for the sector's transformation is that digitalization will transform the areas where its role has so far been less significant. Customers' digital maturity and expectations keep increasing and, as mobile has become the dominant channel of banking, the quality of the mobile app becomes the key factor defining customer experience.

Consequently, mobile-centered service offering becomes standard as banks adjust their product and channel strategies, developing mobile lead enabled end-to-end sales journeys and hyper-personalized digital communication. Besides the ever-expanding sales- and engagement-related features, the redesign of self-service processes relying on virtual assistant capabilities and AI-supported knowledge base become general practice, while robotization plays a crucial role in providing clients with fast, seamless and cost-efficient processes. True digital banking leaders ensure not only that all the banking-related needs of their customers are met within their mobile app but enrich their offers with beyond-banking services too. In the meantime, traditional channels continue to handle complex requests and the advisory role of branches becomes more prominent.

Excellent customer experience and the highest level of trust are the foundation of market leadership. As financial fraud has grown exponentially in recent years, the continuous improvement of preventive measures to secure customers' finances will be key in retaining the client base.

What we also see is that the roles of financial market players have blended, and the boundaries have started to blur. Fintech companies offer a growing range of financial products (although some players' potential impact on the market seems to be overestimated), Big Tech companies leverage their vast consumer data to provide competitive credit services, while banks opened towards granting beyond-banking services as they experiment with expansion. As a result, digital ecosystems offering services from different industries are being built, often via the collaboration of partners coming from different fields.

What is OTP's perception of the priorities for the next European political cycle in terms of digital finance policy? Should the focus be on implementing the frameworks already adopted, addressing emerging trends, new risks or challenges or developing more specific rules in certain areas such as AI or cyber-risk?

In her speech in the EU Parliament on July 19, Ursula von der Leyen very rarely mentioned specific actions in the Financing or Banking sectors that her next Commission will target. When compared to her speech 5 years ago, where a lot of concrete regulatory actions such as MIFID or Taxonomy were anticipated, it clearly shows a different focus.

Naturally, the banking and financing sectors are essential to helping Europe's competitiveness, and financing the infrastructure and technology needed to transition towards a greener economy.

In the digital field, we see that the development of technology can impact how banks manage their ICT risks. A major threat is linked to the upcoming quantum computer technology and the massive cybersecurity risks it represents for many sectors, including the financing sector. Here we support all the initiatives already taken by the Commission such as the Quantum Technologies Flagship; hoping that the R+D budget be increased beyond the 1 billion Euros already committed; the European High Performance computing Joint Undertaking; and of course the European Joint declaration on Quantum Technologies, where Hungary joined seven other Member States to speed up the processes to make Europe the safe Quantum Valley. It is critical for our industry that this new technology be properly regulated and developed in Europe if we want to limit tomorrow's cyber threats.

Nonetheless, DORA, the EU AI Act, among other similar regulatory initiatives, are good examples for the progress already made on the regulatory side.