Péter Csányi

Deputy Chief Executive Officer, OTP Bank

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

Let me start by saying that I believe that this conference is a great opportunity for the Central and Eastern European (CEE) economy and also for the financial sector, because there are relatively few forums where we can openly discuss the real issues that are facing the European economy and the real challenges that we have to face. It is also a good opportunity for me to introduce OTP Group, the success story of OTP, why I think it is one of the biggest success stories, and why it has become the largest and fastest-growing banking group in the region. Finally, I would also like to raise a few issues that I believe need to be addressed at the regulatory level.

A lot has been said so far this morning about the CEE economy. To outsiders, bankers probably seem to be very much numbers people, but we have heard from the different viewpoints today that it is not just about the numbers; it is about the history. It is about understanding the region's culture. It is about understanding how we got to the place we are today. I am pleased that I can share a few of my thoughts about this because I believe that things are a little bit nuanced and not exactly as the media, politicians and regulators put it. This is not just true for the CEE region, but also Hungary. The perception of Hungary was probably better two, three or four years ago than it is today, but believe me when I say we could talk about this at length as well.

Let us just look at some of the numbers for the CEE region. The population is roughly 100 million. It consists of about 10-12% of the total EU GDP, and it has some positives. The GDP of the region, besides being a significant part of the overall EU GDP, still has a lot of potential. Unemployment is typically lower in this region than in the EU. It usually averages between 4-6% compared to 6-7% in the European Union. The government debt ratio is also lower than the EU average. It usually ranges between 30-70% depending on the country, whereas the EU average is more 80-90%. However, inflation is higher, not least because of the recent Hungarian spike. On average, in 2023, it was above 10% in the CEE region while the EU average was 6.4%. The level of development is obviously lower. GDP per capita ranges between 70-75% of that of the EU average.

Looking at these ranges, the CEE region is not a homogenous region, but in some aspects, I believe that it is worthwhile looking at it or trying to imagine it as one economic area. First of all, the lower level of development in terms of GDP per capita provides a lower base from which we can grow. Thereby, it can provide faster economic growth in the medium to long term than the EU average. Foreign direct investment, EU convergence funds in many countries, rising industrial production, and innovation and technological developments provide a good backbone to this future growth.

In some areas, CEE is actually a leader. I will just give you a few examples. Contactless card acceptance has been one of the fastest developing areas in CEE. In Hungary, before the crisis, more than 90-95% of the issued credit and debit cards were already contactless, as were all the terminals. I do not want to insult anybody or take it as a disadvantage, but I was in Austria for a biking trip this summer, and there was an ATM machine on the mountain. In the restaurant, they said 'cash only', so I had to go to an ATM machine and bring out the cash. That is how I could pay for a coffee.

The instant payment scheme in Hungary has been one of the first to be introduced in the region. Just recently, we have introduced NFC and QR payment as well. In some areas, I believe that not just Hungary, but CEE is ahead of the trend. Other areas that provide a good basis for CEE include lower labour costs and relatively good educational levels. It also provides a stable environment for businesses. Even before the Covid crisis, the CEE supply chains were even more integrated into the European supply chains. Hungary, for example, has particularly significant automotive bases within the EU. Lastly, what is worth mentioning is the geographical location. CEE is a key logistical connection for East-West trade in the world.

I believe this convergence in CEE economies is also visible in the numbers. If you look back, GDP growth has been at least 1% higher than the EU average over the last year. In 2025, GDP growth is expected to range between 2.8-3.8% for the CEE economies, while it is only expected to range between 1.4-1.6% for the EU economies.

The CEE economy has good mid to long-term prospects, but I am a banker, so I would also like to talk a little bit about the banking market. The banking market in the CEE region really started developing after the economic transition about three decades ago after the fall of the iron curtain. The local banks in the countries were sold mainly to strategic and financial investors. Only very few have been sold through IPO via the stock exchange. OTP is one example, and some of the Polish banks are also examples of that, but the majority of the banking sector is owned by strategic investors, mainly EU-based banks. The banking penetration is still significantly lower than Western European levels both in the retail and corporate sectors. Household debt in the region is only 20% of GDP on average, while it is 46% in the Eurozone and as high as 90% in Denmark and Sweden, so there is a huge gap to fill.

The fragmentation of the market also needs to be mentioned. We still have a lot of banks in the CEE markets. The market share of the top three banks is below 50% in Serbia and Poland and around 60% on average overall in the CEE without the Baltic states, whereas if you look at the Netherlands and Sweden, for example, it is 88-89%. There is still room for consolidation, which I believe is key in order to reach economies of scale in this market, not just on an individual country level, but already on a regional level.

While OTP Bank is probably less well known than some of our western competitors like Raiffeisen or Erste, if you look closely enough, it is an interesting success story. The bank is 75 years old, and as I mentioned earlier, it was privatised through the Hungarian Stock Exchange in 1995. It now has a very diversified institutional shareholding structure and no state ownership. After the privatisation in the early 1990s, which was years ahead of the competition, it invested a lot in digital developments. In 2000, it started an international expansion.

How have we reached such a success story? I would like to tell it from three angles: growth, stability and profitability. How did we grow? We started our international expansion in the 2000s. We have acquired 25 banks in 13 different countries in the region. The last acquisition was in Central Asia. We were the first of the competition to enter that region when we bought a bank in Uzbekistan. Besides acquisitions, we have also been able to demonstrate very strong organic growth. Since 2016, 60% of our growth has come organically. Today, we are an international banking group with over €100 billion in total assets. This growth during the last 30 years has been achieved by always maintaining a conservative business model on risk provisioning, capital management and liquidity management. We have always made sure that we are comfortably above the required regulatory minimums. Even in the 2008 crisis, OTP did not require any capital injection from the state, whereas most of our European counterparts needed some help.

Last year, we proved to be the fourth most stable bank in the stress test conducted by the European Banking Authority (EBA). By growing fast, we put a lot of emphasis on stability. What has the result been? Our return on equity has been around 20% every year since 2017. Last year, we achieved a return on equity of 25%. The combination of the three – growth, stability and profitability – is probably pretty enviable to a lot of bankers in Europe because you may have two of the three but you rarely have all three. I am proud to say that, for the first time in its history, The Banker magazine ranked OTP as the largest bank in the CEE. Based on a complex but objective financial comparison, Standard & Poor's global market intelligence unit ranked OTP as the best performing bank among the largest 50 banks in Europe last year, so I believe we have demonstrated that we have a good track record in managing strong growth.

Obviously, this does not mean that

we face no significant challenges. There is political turmoil, a war raging next door, climate change, inflation – I could go on – that we do not have a direct influence upon. However, I would like to highlight three issues which I think should and can be addressed through joint effort by us in this room. Firstly – and I think there has been quite a bit of discussion about this today already – the regulatory arbitrage between the different countries in Europe, which is especially present in the cross-border financial services. The emergence of fintechs and bigtechs on the European stage, which are gaining a significant market share in a relatively short period of time, is probably not only the result of their superior customer experience. In many cases, they do not need to adhere to the same regulations or pay the same tax burdens in the different countries as local players. To a certain extent, they have to manage different data requirement laws as well.

Even the European Bank of Settlements highlighted this in its 2019 annual report in which it called on the importance of closing these regulatory gaps and enforcing the so-called 'same activity, same regulation' principle to create a level playing field with the incumbents. It is no wonder that some of the fintechs – I will not mention the names – relatively quickly managed to gain 25 million to 30 million customers within the European Union.

The second issue that I would like to highlight is less of a CEE specific issue, but more of an issue in the context of the EU and US playing field. It is capital requirement. The EU's approach is that determining the capital requirement is relatively complex. We have also heard that opinion today. The EU prescribes uniform rules for all member states in some aspects – for example, risk weighted asset calculation methodologies – but it also grants decision making rights to EU bodies, and also to national supervisors, where national supervisors have a flexibility in determining different buffer levels, or the ICAAP and SREP examinations, and so on.

This duality is more complicated and less transparent, which encourages EU-based banks to naturally hold a higher level of buffer than what perhaps is necessary for their US counterparts. We also see the cost of equity difference between EU and US banks. The cost of equity difference is not just big, but it is also increasing over time. A lot has been said about single supervision. This is an area where European banks are losing ground to US counterparts.

The third issue I would like to highlight – as a Chief Digital Officer, I must talk about this – is the importance of technology and technological adaptation. Cloud, AI and quantum computing are all coming our way, and they are all technologies that are crucial for us to implement quickly in order to have a cost-effective operational structure. All of us, and not just regulators, need to educate ourselves on cloud technology because the adaptation of cloud technology in financial services is significantly more cumbersome than in other sectors. I do not want to say which country, but in one of our foreign subsidiaries, we introduced a piece of group lending origination software, and it took us six months to convince the local regulator to allow us to use it in the cloud. With the Digital Operational Resilience Act regulations coming into force next year, if we decide to change a software then we will have to repeat the same process. This time lag to introduce new services and new technologies is much too long.

These are the three main issues that I would like to highlight: the regulatory arbitrage, the difference in the capital requirements between the EU and the US and trying to adopt technology at a quicker pace in financial services. As I said, I believe that CEE is in a good position over the medium and long term. The banking sector has a lot of potential in terms of increasing the penetration of financing in not just the household sector but also the corporate sector. I am very happy that this conference is taking place today and we can discuss it more in one-to-one or more informal conversations. Thank you very much for your attention.