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Chinese and Hungarian Financial Relations

Banking and financial relations sometimes precede, sometimes follow, but in all cases reinforce economic and political cooperation. This is also the case between China and Hungary. China, which is increasingly assuming its role as a world power, is - for obvious pragmatic reasons - open towards the Central and Eastern European countries wedged between Asia and Western Europe. It is doing so along traditional Chinese trade routes, as part of the 'One Belt, One Road' programme. In this programme, Hungary can build on its known Eastern origins, its deeper understanding of different political systems, and its multifaceted personal relationships to establish successful economic and political cooperation with the financial sector playing its part.

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As the Chinese saying goes, 'a journey of a thousand miles begins with a single step'. It is fair to say that today these relations are excellent and unique in the Central and Eastern European region. The question is where did this development start, what was the 'first step' and what milestones have brought us here.

Prior signs of financial relations in the socialist era

In modern history, there have been three prominent factors in the development of bilateral relations. Although it is not the subject of our analysis, it is worth mentioning that political relations between the two countries were unproblematic and good even during the time when Hungary was part of the Soviet bloc. Against this background, geopolitical interests have evolved in such a way that the two countries have become mutually interested in developing economic and financial ties, which started to develop at an accelerating pace in the early years of the previous decade.

The first factor was the experience gained during the preparation and implementation of economic reforms in the late 1970s and early 1980s. Hungary was at the forefront among the former socialist countries in this respect. The decade-long achievements, experiences, benefits and pitfalls of the reforms launched in 1968 were instrumental for China in planning the reforms it embarked on in the early 1980s.

Prior signs of financial relations over the past decades

The following is a brief overview of the cornerstones of relationship building over the past two decades, its background and the stages of development that have facilitated it. China experienced years of dynamic, double-digit economic growth as a result of the steady implementation of the economic reform introduced in 1984, with a large inflow of foreign working capital to a lesser extent and of modern technology to a greater extent. However, the sources of this extensive economic growth were exhausted during the global financial crisis of 2007-2009.

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Ensuring sustainable economic growth became a central goal of Chinese economic policy. A key objective was to redirect the substantial industrial surplus capacity accumulated over decades of working capital and technology inflows abroad. To this end, the Chinese government announced a major opening to external markets. The economic, commercial and financial conditions to achieve this target were established. The programme of the "One Belt, One Road" strategy was drawn up and announced. This provided the contractual and infrastructural conditions that allowed and continue to allow Chinese goods to flow westwards. Land transport of goods was ensured through Central Asia and Central-Eastern Europe to Western Europe, i.e. to the European Union's markets (Green Route), or by sea through South-East Asia and South Asia to Africa and again to Europe (Blue Route).

At the same time began the reinforcement and the dynamic expansion of international financial and economic relations. This included opening up business relations, increasing direct investment overseas, and reassessing global economic relations. In this development process, China naturally prioritised the expansion of economic and trade relations with Europe and the European Union. In this framework, the role of the Central and Eastern European region took on geopolitical importance given that it is ultimately the intersection of the two pillars of the One Belt, One Road strategy, i.e. the Silk Road and the Blue Road.

In parallel with China's growth, Hungary also entered a promising phase of economic development in the late 1990s and early 2000s (Pásztor 2020). Overcoming the negative impact of the political and economic transition of the 1990s, Hungary started to build favourable international economic and trade relations and consequently became eligible to join the European Union (Pénzest et al 2014). The Hungarian banking system also underwent significant changes during this period, with the privatisation of banks starting in the mid-1990s and major international banks, mainly from Western Europe, emerging as the most important players on the Hungarian banking market.

Recent financial and banking contacts

Within the framework of events described above, the opening of a subsidiary bank by the Bank of China (BoC) in Hungary in 2003 was a significant milestone in the development of Sino-Hungarian financial relations. In that year, it was already known to China that Hungary would join the European Union in 2004.

The presence of the BoC in Hungary played a pioneering role in the development of Sino-Hungarian financial relations. As one of China's largest banks, it became acquainted with the operational conditions and business potential of a European bank. In its 2013 business objectives, the bank already emphasised that the Budapest-based bank could become a financial hub for the Central and Eastern European region through domestic and international business interactions. It has the potential to become part of the "going global" Chinese economic policy, which assists large and medium-sized enterprises in financing foreign investments and business partnerships.

This experience and insight led to the decision by the bank's headquarters in Beijing to establish the presence of the BoC in Central and Eastern Europe, on the basis of which the bank's regional strategy was developed. Accordingly, the Hungarian subsidiary bank was registered under two categories: Bank of China Limited Hungarian Branch and Bank of China (Hungary) Close Ltd. The regional headquarters is in charge of the supervision and management of the Czech, Austrian and Serbian banking interests. This classification, which covers two operational areas, was registered in April 2020.

In our review above, we have highlighted the presence of the BoC in Hungary because the BoC and the strategic decision of the Hungary-based bank to become a regional centre was indeed a milestone in the development of Sino-Hungarian financial relations. In view of these developments, it is not a mere coincidence that the first official visit of the Secretary General of the China Banking Association, Mr. Yang Zaiping, to Hungary took place in the same year,

October 2013. During our meetings and discussions, we were mutually convinced that there are very concrete opportunities for cooperation between the two banking associations. We identified the first steps to be taken to benefit our banking communities.

Following that first meeting, our business contacts became regular. Based on the statement of our common goals and objectives, the two banking associations signed a Memorandum of Understanding in 2015. Under the Memorandum, the CBA and the MBSZ (Hungarian Banking Association) established strong communication links and exchanged expertise of mutual interest, which further strengthened mutual understanding between the two institutions and deepened financial cooperation. All these developments established a solid basis for intensified cooperation, with the CBA and the MBSZ agreeing to develop and expand bilateral cooperation. This enabled the two associations to build a common platform for communication and cooperation between financial institutions in China and Hungary.

Having mutually experienced the rapid and positive development of our business relationship, we renewed the Memorandum between the two banking associations in 2016. In it, we confirmed our mutual commitment to expand bilateral relations. Our common aim is to share best practices in the areas of financial regulation and supervision, digital and FinTech innovation and the development of green financing. Our new and mutually agreed core mission is to support and share economic expertise to improve financial awareness and financial education.

Hungary has traditionally been at the forefront of handling cashflow and payments as well as innovative digital solutions in the Central and Eastern European region (Füredi, 2021). Given the excellent economic, political and financial relations and Hungary's aforementioned leading role, the Chinese and Hungarian central banks reached significant agreements which turned Hungary into a regional renminbi clearing centre. The robust financial ties had a beneficial impact on real economic relations between China and the Central and Eastern European region, as well as on the significance of renminbi in international economic dynamics. Key milestones in this positive trend include:

- In 2013, Hungary signed a renminbi swap agreement with the People's Bank of China (PBOC) which helped further improve trade relations between the two countries and played an instrumental role in reducing financial stability risks.
- In addition to the signing of the swap agreement, in 2015 the Hungarian Central Bank announced the launch of the Renminbi Programme (JRP) and the Budapest Renminbi Initiative, which aims to expand Hungary's investment opportunities and resources.
- Hungary was the first country in the region to be granted stock exchange and interbank bond market investment opportunity on the Chinese market, with a country quota of RMB 50 billion.
- After Poland (2016), Hungary was the second country in the region to have sold one billion yuan worth of Panda bonds on the Chinese market. The Hungarian bond was the first bond made available to other Asian investors through Bond Connect.
- Another important development was the signing of a cooperation agreement between the Central Bank of Hungary and the China Banking and Insurance Regulatory Commission in 2024.

A further important factor in the above achievements is that Hungary also offers the Chinese financial market significant opportunities in terms of financial and financing infrastructure. The Central Bank of China and the Hungarian Central Bank formally announced on 2 October 2015 that the Bank of China Hungary will be authorised to open the RMB Clearing Centre in the country. As the Bank of China Hungary operates within a regional framework and mandate, the RMB Clearing Centre in Budapest can be accessed all across the Central European region. This is a significant move, as Hungary has now also been granted this authorisation, following Hong Kong, Taiwan, Paris, Frankfurt, Sydney and Kuala Lumpur.

In addition to the traditionally strong relations between our countries, the "One Belt, One Road Initiative", later known as the "Belt and Road Initiative" and Hungary's "Eastern Opening

Strategy" have presented historic opportunities. This was largely motivated by the economic and financial challenges posed by the 2008 global financial crisis.

All of this proves that a number of positive factors helped the Hungarian Banking Association to become a founding member of the Asian Financial Cooperation Association. The Hungarian Banking Association was an active participant and contributor in the preparatory process of the establishment of the Association. It has been present at multiple meetings and conferences, such as the Boao Forum held in London and Hainan, at subsequent meetings in Beijing and Shanghai, and finally the Founding General Meeting that formally established the AFCA in July 2017. This occasion was an especially memorable event for the Hungarian Banking Association, as its Secretary General Levente Kovács was elected as a member and one of the Vice-Presidents of the Executive Board. The General Meeting approved the AFCA Statutes and the operational framework was established. The national and international network developed dynamically. Advisory cooperation committees were formed to support operations in which the Hungarian Banking Association is an active contributor. János Müller is Deputy Advisory Director of the Banking Association for the Cooperation Committee of Executive Economists and he is also Vice-Chairman of the Belt and Road Cooperation Committee.

The AFCA Statutes state that it is an open and not a political or governmental association, the purpose of which is to promote cooperation between financial institutions and to reinforce international financial relations. Since its inception, it has grown to become one of the world's foremost international financial organisations, with some 120 member banks, financial institutions and banking associations.

In line with our commitment to the successful development of the AFCA, we organised the first international conference "AFCA CEE Financial Summit Forum - New Chapter of Asia - Europe Financial Cooperation" in Budapest in November 2017. The event was a major success with participants from more than 20 countries and five continents. The timing was also convenient as the sixth China - CEE Premier Summit was taking place at the same time. At our meeting in November 2017, we signed a significant document as the first European banking association, entitled "Memorandum of Understanding on Strengthening the Asia-Europe Financial Cooperation", which marked another milestone for our future cooperation. "The signing of the memorandum is beneficial for the AFCA, with the support of the MBS, in order to pave the way for its economic ties with Central and Eastern Europe, create a platform to promote financial cooperation between Asia and Europe and effectively pursue the development of the Belt and Road strategy. The implementation of this objective will enable the achievement of the ultimate goal, i.e. the bridge-building role of the financial cooperation between Asia and Europe," states the document.

The objectives of this document were therefore to establish a regular networking mechanism for financial cooperation in Asia and Europe, to develop the conditions for joint representation of interests, and to support the Hungarian Banking Association in its role as a bridge for financial cooperation in Asia and Europe. It is however to be noted that the Memorandum, albeit concluded between the AFCA and the Hungarian Banking Association, goes far beyond that. Following the signing of the Memorandum, the Hungarian Banking Association praised the importance of the Summit in these terms:

"At this regional conference, the first to be held in Europe outside Asia, we have demonstrated that the AFCA principles of openness, connectivity, greater cooperation, collaboration and shared benefits can work well in practice. The two-day conference included a number of important events: a Board of Directors and Supervisory Board meeting, a plenary session, a high-level financial executives' forum. As previously mentioned, the importance of the special conference was that it was made an official part of the 16+1 Summit, with Hungary as the host country, with the participation of the Prime Ministers of sixteen Central and Eastern European countries and the Prime Ministers of China. This high-profile international event has in itself helped to create a platform to promote financial cooperation between Asia and Europe and better serve the development of the Belt and Road Initiative. It has also highlighted the recognition that

we have a common interest in building financial relations between Asia and the Central and Eastern European region." (Kovács 2017)

Minister of Finance Mihály Varga welcomed the Finance Summit with the following words:

"As Hungary's Minister of Finance, it is a great honour to welcome the representatives of the countries that have joined the Asian Financial Cooperation Association, in Budapest. I am very pleased that today we have concluded a cooperation agreement between the AFCA and the Hungarian Banking Association. This indicates that the AFCA has decided to regard Hungary as a bridge to Europe. I hope and believe that, much like the Bank of China Clearing House, this initiative will be successful. The facts show that Sino-Hungarian financial and economic relations have been reinforced, driven by mutual trust. Optimally, the financial developments will contribute to the growth of the real economy. As Henry Ford once said, "The greatest use of capital is not to make more money, but to use money to do more to improve lives." (Varga 2017) Following the remarkable year of 2017 discussed above, the expansion and the strengthening of banking relations between Hungary and China continued. The Hungarian Development Bank and the China Development Bank (CDB) signed a cooperation agreement in 2018. As a result of this cooperation, the China Development Bank opened an independent representative office in Budapest in 2022. Its significance was further enhanced by the fact that the "Austrian Operations Group" of the China Development Bank is a Budapest-based team, which coordinates the bank's Austrian and Hungarian interests.

Another important milestone in our bilateral banking and financial relations was the opening ceremony of a branch of the China Construction Bank (CCB) in Budapest in April 2023. It is ranked as the world's second largest financial institution by assets. Speaking at the opening ceremony, Mihály Patai, Deputy Governor of the Hungarian Central Bank, said, "The opening of a new branch is a result of the increasingly close interconnection between the Hungarian and Chinese financial systems. The Bank of China already established itself in Hungary in 2013. The Central Bank is playing an active role in strengthening financial relations between the two countries, and the CCB's representation in Hungary will further enhance the successful cooperation."

Undoubtedly, the new branch will contribute to the further expansion of Sino-Hungarian economic, financial and trade relations by opening up new development opportunities and helping Hungarian companies enter the Chinese market and attract Chinese investment. Another important step in the development of our banking relations was the opening of an OTP Bank Representative Office in China in 2014.

Finally, the international conference on the occasion of the 35th anniversary of the founding of the Hungarian Banking Association held on 10 May 2024 and attended by the President of the Chinese Banking Association provided an opportunity to further strengthen our bilateral relations. In his welcome speech, Mr Zhou Gengqiang praised our relationship: "Today we celebrate the HBA's unwavering commitment to promoting ethical practices, fostering collaboration, and enhancing the overall health of our banking sectors, just like the missions that CBA has. The strong partnership between our two Associations has been a testament to the shared values we uphold and the mutual benefits we derive from our collaboration. We are looking forward to our continued cooperation in the future."

Conclusion

Promoting pragmatic, government-led cooperation and translating it into economic relations requires banking support (Kuttar, 2022). The banking sector of both countries have a role to play in this respect. The Hungarian banking sector, with the support of the Hungarian Banking Association, has assumed an active part in building bilateral economic relations. The emergence of Asian banks in Hungary and their becoming a regional hub is an exceptional achievement, which demanded the personal involvement, efforts and commitment of Chinese and Hungarian bankers, in addition to the political will.

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