

Budapest as Eurasia’s Emerging Financial Hub – Report on the Budapest Renminbi Initiative Conference*

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On 4 May 2023, the Magyar Nemzeti Bank (MNB, the central bank of Hungary) hosted the Budapest Renminbi Initiative Conference on “Financial Interconnectivity and the Green Transition” for the seventh time. To strengthen good relations with China, this year the series of events launched by the Magyar Nemzeti Bank in 2015 focused on renminbi financing, Budapest’s role as a financial hub in the Central and Eastern European region, and the green and sustainable financial activities of central banks, with the participation of renowned domestic and international experts. The speakers agreed that financial cooperation is one of the catalysts for relations between China and Central and Eastern Europe, which is increasingly emphasised, inter alia, in the framework of the Belt and Road Initiative announced by China. The event also confirmed the important role central banks can play in ensuring the stability of the green transition, which contributes to energy security and stabilising supply chains through price stability and the promotion of green investment.

Hungary’s geographical location places it in a strategically important position in terms of East-West relations in the Central and Eastern European (CEE) region. With its developing infrastructure, favourable business environment, and stable political and economic situation, the country has the potential to grow into a trade and financial centre linking the two continents, promoting to the competitiveness of the CEE region. Recognising the potential of the region and the country, in recent years Hungary and the region have become a preferred investment destination for an increasing number of Asian countries, including China.

In March 2015, the Magyar Nemzeti Bank launched the Renminbi Programme to support the internationalisation of the Chinese currency, with a view to reinforcing the increasingly close economic and financial ties between Hungary and China, and to strengthen Budapest’s regional role. The MNB’s Renminbi Programme rests on four pillars: investing part of the MNB’s foreign exchange reserves in Chinese

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currency, maintaining a swap agreement with the Chinese central bank to prevent and manage potential liquidity problems, contributing to the development of the renminbi payment infrastructure, and supporting the use of the renminbi and the cross-border activities of Chinese banks in financial stability and supervision. In the same year, as a development of this initiative, the Monetary Council of the Hungarian central bank took a decision to enter the Chinese bond market.

In parallel with the launch of the programme, the central bank launched the Budapest Renminbi Initiative Conference, which aims to strengthen the relationship with the People's Bank of China (PBoC) and to encourage dialogue on the importance and impact of the internationalisation of the renminbi. The initiative was intended to take part in the growth of the international weight of the renminbi, to contribute to the development of Hungarian-Chinese foreign economic relations, and to reinforce the position of Budapest in Chinese and Central European relations. With this initiative, the Magyar Nemzeti Bank aims to broaden the range of domestic investment and financing sources and to encourage the growth of cross-border economic activity. In line with these objectives, the Budapest Renminbi Initiative Conference, held for the seventh time in 2023, focused on the situation and vision of Chinese banks operating in Hungary, the internationalisation of the renminbi and the green finance tasks that are increasingly important for central banks as well.

The conference was opened by *Mihály Patai*, MNB's Deputy Governor responsible for international relations, cash logistics, financial infrastructures, digitalisation and lending incentives, who stressed that the Chinese economy had quickly recovered from the recession caused by the coronavirus pandemic thanks to its outstanding crisis management. The PBoC's various instruments had successfully counteracted the negative effects of the pandemic, thus helping to stabilise domestic and international renminbi markets. He also pointed out that China was at the forefront of many aspects of today's megatrends. These included the development of digital central bank currency, which could undoubtedly reshape the way we think about money and central banking, and the importance of developing green finance. The Deputy Governor also referred to the growing links between the Hungarian and Chinese financial systems and the cooperation between the two countries' central banks to ensure financial stability. As a result of Hungarian-Chinese cooperation, Chinese financial institutions and the financial innovations they brought with them had made Budapest an emerging financial hub in the Central and Eastern European region.

He was followed by *Yang Chao*, Minister-counsellor and Chargé d'Affaires ad interim of the Embassy of the People's Republic of China in Hungary. In his speech, Yang first praised the importance of the conference, which he believed could play a leading role in the development of financial relations between Hungary and China. According to Yang, in today's fast-changing and uncertain world, the

internationalisation of the renminbi (RMB) could be particularly important, as the diversification of different currencies could ensure stability in international payments and reduce dependence on a single country. The PBoC had signed swap agreements with more than 40 countries, and in 2022 it provided the opportunity to engage in RMB clearing to 31 clearing banks in 29 countries. He added that in 2022 the value of cross-border RMB payments exceeded RMB 42 trillion (equal to USD 6.05 trillion). Furthermore, in March of this year, the renminbi took first place in Chinese payments for the first time, pushing the US dollar into second place. He stressed that China's economic and financial stability could further boost confidence in the renminbi, as some countries, taking advantage of the hegemony of their currencies, generated strong dependency in international finance, especially with regard to developing countries. Yang also stressed in his speech that China remained committed to common global development and peace, and highlighted the three global initiatives launched by the Chinese President to provide Chinese solutions to global problems. These included the Global Development Initiative, the Global Security Initiative and the Global Civilisation Initiative. China and Hungary had a comprehensive strategic partnership based on mutual respect and common interests. In his view, the relationship between the two countries had become even closer during the pandemic.

The next featured speaker at the conference was *Xu Chen*, Chairman of the Bank of China (Europe) S. A. In his presentation, he mentioned issues of global concern such as supply chain fragmentation, inflation, climate change risks and the Russia-Ukraine war, all of which were leading to fragmentation and regionalisation of the global community. To avoid this, cooperation could be the key and a more balanced and diversified global financial system was needed to minimise risks. He noted that the global use of USD had become a sort of weapon that undermines the credibility and stability of the global financial system. He explained that international use of the renminbi similar to the euro could significantly reduce these risks. In addition, he pointed out that an increasing number of countries were tending to settle transactions linked to China in renminbi. However, with regard to the international use of the renminbi, he pointed out that it still lagged significantly behind the US dollar and the euro.

The last speaker at the opening ceremony was *Zhang Jun*, Dean of the School of Economics at Fudan University. According to Zhang, the gravity of the world economy was shifting eastwards, mostly due to the rapid development of the Chinese economy. In his speech, he highlighted China's economic strengths, which both justify and encourage the global use of the Chinese currency. He believed that the One Belt, One Road programme initiated by the Chinese government and the connectivity and financial cooperation that was developing through it both encouraged and made the increasing use of the renminbi inevitable.

Budapest as a financial hub in the Central and Eastern European region – Renminbi financing and Chinese banks in Hungary

The first panel of the conference, organised in cooperation with the Hungarian subsidiary of the Bank of China, focused on Budapest as an emerging financial hub in the Central and Eastern European region, and examined the opportunities for renminbi financing in Hungary and the role of Chinese banks. Panel participants discussed the business opportunities for Chinese players in the CEE region and provided insights into the domestic and regional activities of the world's largest financial institutions.

As a lead-in to the panel discussion, *Li Kexin*, CEO of the Bank of China (CEE) Zrt., praised the favourable business environment in Hungary, which was attracting an increasing number of Chinese financial institutions and companies to the country. He explained the operations of BOC Budapest and its role in the internationalisation of the renminbi as the first clearing bank in the region, and the importance of the Central and Eastern European region in these processes.

Li Kexin's presentation was followed by a moderated panel discussion. The panel was moderated by *László Vastag*, Executive Director of the MNB's Prudential and Consumer Protection Supervision of Money Market Institutions. Panel participants were *Chen Zhangqing*, Deputy General Manager of China Construction Bank (Europe) SA, *Zhao Xiaowei*, Assistant General Manager of ICBC (Europe) S. A. Luxembourg, and *Fang Ruixue*, Chief Representative of the China Development Bank Budapest Representative Office. Chen Zhangqing explained that a country's geographic location, regulatory and business landscape, and similar policy stance with partner countries were key factors in becoming a regional centre or in playing a HUB role in cooperation between two regions. Fang cited Hong Kong as an example, which had also made significant progress in internationalising the renminbi thanks to its role as an intermediary between East and West.

Next, Zhao cited the example of Chinese commercial banks operating in Europe, which also acted as a bridge between China and Europe, as an example of the internationalisation of the renminbi. He said that Chinese banks in the region aimed to support Chinese customers and to develop relations between the two regions. In terms of international engagement, Fang noted that China Development Bank, unlike commercial banks, was a development bank that provides medium- and long-term financial support for infrastructure and rural development projects, and supported Chinese companies' entry into international markets. At the end of the discussion, concerning the regulatory environment and supervision, the Chinese speakers agreed that cooperation between the Chinese and Hungarian central banks, with particular focus on digital technologies, could make a major contribution to overcoming regulatory barriers.

Sustainable finance, green finance and the potential of central banks

The second panel explored the opportunities for sustainable finance, green finance and central banks. Participants addressed the issue of environmentally sustainable financial transition and the key role of central banks in the further development of green finance asset markets.

As a featured speaker in the panel, *Ádám Banai*, Executive Director of the MNB's Monetary Policy Instruments, Financial Stability and Foreign Reserve Management, outlined the Hungarian central bank's green mandate and its green monetary policy instruments and strategy. In his presentation, he stressed that the MNB applied its green instruments not only in the areas of monetary policy, reserve management, macro-prudential policy and financial supervision, but also aimed to reduce emissions from its own operations. In his presentation, Banai explained the Green Home Programme, the Green Mortgage Bond Purchase Programme and the sustainable directions of collateral management. He pointed out that green bonds accounted for around 10 per cent of the mortgage loan portfolio. He highlighted that the annual Task Force on Climate-related Financial Disclosures (TCFD) report published by the MNB had been well received by the market. The report covered 98 per cent of the MNB's activities and was therefore considered to be very comprehensive.

To open the panel discussion, moderator *Péter Pál Kolozsi*, Head of the MNB's Directorate Monetary Policy Instruments, Foreign Exchange Reserves and Risk Management, highlighted that the focus of the global economy was shifting towards Asia, and the continent could provide guidance on sustainability solutions. He added that climate change was already underway and therefore adaptation and implementation tools must be put in place in the very short term. Next, *Wing Thye Woo*, Distinguished Professor of economics at the University of California, Davis, said that the current decline in greenhouse gas emissions was mainly the result of production losses due to the pandemic. Moreover, most of the money that could be spent on climate change had been spent by governments to deal with the pandemic. He stressed that climate change was only one aspect of sustainable development, but that economic dynamism and stability should not be neglected, as that leads to increased inflation.

Zhang Bei, Deputy Director-General for Research Bureau at the PBoC, agreed with Adam Banai that there was currently no established formula for achieving sustainability, and that it was the total amount of work in different areas that would determine the extent of success. He noted that China's central bank was currently working on developing green financial standards, not only to support the sharing of environmental information, but also to establish a green financial rating system for financial institutions, provide structural policy tools for green

and low-carbon development, and conduct risk analysis and testing on climate change. He emphasised that green loans accounted for 10 per cent of total loans in China's financial system at the end of 2022, representing a 4.4 per cent increase compared to 2018.

Alain Naef, Research Economist at Banque de France, said that the analysis of the green measures introduced by the Chinese central bank in 2018 was also important as it well illustrated the mechanism of the measures' impact on green bonds. He added that so far, only China and Europe had developed relevant taxonomies, but their weakness was that due to the specificities of the energy mix, clean coal and natural gas were still part of them.

Professor Woo went on to explain that while Europe and China were working hard to achieve net zero emission targets, their success was not enough to curb the process, as developing countries need to achieve it as well, and they were not able to do it on their own. As a potential solution, he suggested that if China were to provide them with a larger amount of renminbi subsidies, it would not only help them achieve their green targets, but would also contribute greatly to the internationalisation of the renminbi. In his speech, Professor Woo also underlined that real success could only be achieved through private sector involvement, but that a leading state was needed that creates opportunities to finance the objectives by expanding the portfolio of development banks. This could be China, which had already shown the way by setting up the Asian Infrastructure Investment Bank (AIIB).

Following the panel discussions, a speech by Deputy Governor *Mihály Patai* concluded the conference, reflecting on the speeches, noting that China had grown into a major global player in trade both as a supplier and as a market, and by the mid-2010s it had become the world's largest trading country, the largest export destination for nearly 40 countries and the largest source of imports for some 70 nations. This shift was also marked from a financial perspective: while the dollar continued to dominate global trade, the share of Chinese renminbi-denominated trade had increased nearly fivefold over the past decade. He also pointed out that the RMB had been playing an increasingly important role in central banks' international foreign exchange reserves in recent years, and the number of central banks investing in renminbi-denominated assets was also rising.

The full event can be viewed on the conference website: <https://www.youtube.com/watch?v=yelbxMKq7IQ>