





# Weekly Briefing

**Hungary economy briefing:**  
**Hungarian fintech and digitalization in the aftermath of Covid 19**  
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# **Hungarian fintech and digitalization in the aftermath of Covid 19**

*The Covid 19 pandemic had a huge impact on the way we manage our finances. The need for contactless payment modes increased significantly in the wake of the pandemic and the accelerated digitization of businesses. According to McKinsey, the percentage of businesses digitally interacting with their customers increased by 38 percentage points globally (from 20 percent to 58 percent). This element of economic development is critical to understanding how economies are moving through an accelerated phase of modernization, but it is also at the center of geopolitical battles, so that technological collaboration now seems to be an ideology- and politics-laden battleground.*

## **Introduction**

This briefing discusses the spread and development of financial technologies and the digitalization of banking in Hungary. It is mainly based on data from the MNB's Fintech Report, which was recently published (April 2021) and contains the most up-to-date information on the development of this sector. The briefing also looks at the broader perspective, as Hungarian fintech companies need a high-quality network, access to the latest technological solutions and cooperation with the big tech companies, mainly from the US and China, but recently the growing geopolitical tensions between the two countries cast a shadow on Hungary's diversification efforts. For this reason, the analysis also briefly discusses the geopolitical context.

## **The Hungarian fintech sector and digitalization in the banking sector**

According to the MNB report published in April 2021<sup>1</sup>, the Hungarian fintech sector has developed dynamically despite the economic downturn in 2020. In this sector, there are 130 companies putting fintech to the core of their business, of which 77 percent belong to small and medium-sized enterprises. If we consider only the Hungarian-owned companies in the sector, the ratio is slightly lower, 71 percent of which 51 percent are small companies and 20 percent

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<sup>1</sup> MNB (2021): Fintech és digitalizációs jelentés. Retrieved from: <https://www.mnb.hu/letoltes/fintech-e-s-digitaliza-cio-s-jelente-s-2021.pdf>

belong to the category of medium-sized companies. Foreign fintech firms in Hungary tend to be larger firms (39 percent small firms and 24 percent large firms). The reason for this difference can be explained by larger foreign firms that are already on the market and have only recently added fintech to their portfolio. Looking at the specialization of these companies, the areas of financial software development and systems integration (24 percent), payment services (21 percent), and data analytics and business intelligence stand out, respectively. The dynamism of the sector is clearly reflected in the growing number of employees, which doubled between 2015 and 2020.

In addition to the rapid development of the sector, it is important to add that the institutional framework of Hungarian fintech has also changed significantly in recent years. Not only the Hungarian Fintech Association, which is supposed to act as a think-tank of the sector, was established in early 2020, but the MNB has taken significant steps to accelerate the development of the sector. The MNB Governor has shown the MNB's commitment to the development of fintech and digitalization in Hungary on several occasions. In an article<sup>2</sup> on Estonia's economic success, he emphasized the elements of that success that Hungary should follow: "We need a strong vision, a good strategy, a full digital transformation, high investment rates, long-term robust productivity growth, Hungarians coming back from abroad, low public debt, a strong tech sector, lots of innovation, and world-class universities."

It is quite clear that the MNB is playing an extremely important role in this progress, especially in the fintech sector. The MNB has launched the so-called MNB Innovation Hub, which aims to connect players in the fintech sector, and it has also set up a so-called regulatory sandbox where new regulatory and innovative solutions can be tested more easily. The bank is also supporting financial technology learning by launching a chatbot in 2020. On this interface, interested people can get instant answers to their fintech questions and even a mobile application for students has been launched, which also helps spread fintech knowledge.

According to the MNB report, the level of digitalization of the Hungarian banking sector is mediocre, but due to the new needs created by the global pandemic, it has experienced a rapid development in 2020. It should be added that the progress is due to the catching up process of several less digitalized Hungarian banks that were forced to update their services in terms of technology during the pandemic period, so the deviation in digitization performance among Hungarian banks decreased significantly.

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<sup>2</sup> Matolcsy György (2021): Miért pont Észtország? Növekedéshu. Retrieved from: <https://novekedes.hu/mag/matolcsy-gyorgy-miert-pont-esztorszag>

In order to accelerate the development and guide the strategies of Hungarian banks, the MNB also issued digitalization guidelines for Hungarian banks in April 2021. In addition to the technological development of Hungarian banks, the MNB accelerated the flow of money by launching Instant Payment System in April 2020, which enabled a transfer in five seconds. After the introduction of the system, 40 percent of the money flow off the Hungarian economy was immediately channeled to Instant Payment System.

### **The link between economy development and new technologies in finances**

As we could see, fintech development is at the heart of the development strategy of the Hungarian economy. And we also know that international cooperation is a key element in this area, because Hungarian fintech companies are basically only doing incremental technology development based on breakthrough innovations that are still coming from big tech companies, especially American and Chinese companies in this sector.

With the growing geopolitical tensions between the U.S. and China, Hungarian efforts to diversify technology transfer from China have been questioned by several analysts and the country seems to be forced to take sides. The Hungarian Prime Minister told the media at a press conference (June 10, 2021) that Hungary perceives cooperation with China as a business, neither ideology nor politics shape these relations. He confirmed that Hungary is not afraid of ideological influence from China or Vietnam, as the countries have repeatedly affirmed. He pointed to the practice of 'democracy export' of Western countries, when he said: "We instruct them in matters which we should not be instructing them in."<sup>3</sup> He also indicated that Hungary has a strong interest in maintaining and strengthening cooperation with China in this area as well.

Chinese companies are not entering the market as fintech providers. Alipay has been available through UniCredit since 2019, but the service is only accessible to Chinese tourists, and despite geopolitically motivated predictions, Alipay has not taken the lead in the Hungarian market and is not dominant. At the same time, Huawei can be an important partner in the modernization of the Hungarian Internet network. According to index.hu, Huawei currently provides internet to one million Hungarian households, but could play an even more significant role if an agreement is reached between the government and Huawei. The company's new technology, called AirPON, which works like a kind of large router, would eliminate the need

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<sup>3</sup> Vaski, Tamás (2021): Orbán: Hungary-China Cooperation Needed in "New Economic Order" Retrieved from: <https://hungarytoday.hu/hungary-china-cooperation-fudan-university-orban/>

for fiber optic cables. In addition, using the new technology can reduce the time it takes to build the network by 70 percent.

It is obvious that the big American companies like Google, Amazon, Facebook, Apple and Microsoft have a much more significant role in dynamically shaping Hungarian financial technology solutions now. In particular, fintech solutions developed for Hungarian banks can play a crucial role in this development. According to the Bank of International Settlements, large tech companies account for 11.3 percent of global financial services revenue. There is no Hungarian data yet, but we can assume that the share of these companies is not lower than the global average and we can add the ratio must be increasing. In the contactless payment sector, there are two American companies that dominate the Hungarian market. Besides the android mobile banking solutions (OTP Bank, Budapest Bank, K&H Bank, etc.), Apple pay, and Google pay mark the frontrunners. And we must also mention the growing role of the so-called neo-banks like Revolute, which has around 250,000 customers in Hungary.

### **Summary**

After the third wave of the pandemic, the Hungarian economy is facing a period of rapid economic growth. The development of fintech is crucial in this regard, as this technology permeates the entire economy, and the positive or negative impact of this sector can be felt in every business transaction. We have seen that policy makers are aware of this challenge and are making significant efforts to promote this segment of the economy. In this segment, the major American tech companies are dominant in providing fintech services, but Huawei also has an opportunity to contribute to building a faster internet network that fintech solutions depend on. We have also seen Covid 19 be an accelerator of this progress, as the need for contactless and instant payments has grown significantly in the Hungarian economy over the last 12 months.