



# IT TAKES TWO TO CONVERGE



## Radovan Jelasy/Jelašić

HUNGARY

SERBIA

Radovan Jelasy/Jelašić has been serving as CEO and Chairperson of Erste Bank Hungary since June 2011. He is thoroughly familiar with developments in Central and Eastern Europe and has an outstanding track record that combines management consulting, commercial banking and supervisory experience. He is a member of the board of the Hungarian Banking Association. Since October 2016 he has been a Non-Executive Member of the Hellenic Financial Stability Fund's General Council. He served as Governor of the National Bank of Serbia between 2004 and 2010 and Vice Governor in the previous period starting 2001. As such, he played a critical role in consolidating the Serbian banking and insurance sectors. Previously, he worked for McKinsey & Company and started his banking career with Deutsche Bank, both in Frankfurt.



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Life has been very kind to me by giving me the opportunity, first to witness the very first phase of the transition process in my country, Hungary, until 1992, and later on to proactively shape the very same process in a neighboring country, Serbia, from 2000 to 2010, a country that I treat as my second home. In between, I also gained some valuable experience by getting my MBA in the US and working in Germany, first as a banker and later on as consultant. I am marking the 15th anniversary of the EU Enlargement in Budapest not only as Chairman and CEO of one of the largest Hungarian commercial banks with an Austrian majority owner, but also as a member of the General Council of the Hellenic Financial Stability Fund in Athens, while following very closely what is going on in Serbia and the entire Central, Eastern and South Eastern European financial sector. Convergence has become part of my day-to-day life.

While in different countries (Hungary, Serbia or even Greece), representing various institutions (central bank, banking rehabilitation agency, commercial banking, banking association) and occupying various positions (supervisor and policy maker vs. supervised and policy user), I have observed several developments during the convergence process. Here are some of my lessons.



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1. All of us, especially economists, who have not only seen but also actively shaped the convergence process, should be much more open minded and self-critical. I do not know a single person who would do it the "same way" if they had the chance to do it again. Yes, there are some general rules and laws, but I am certainly not the only one who has experienced that not every instance of private ownership is better than the state. Market forces need constant revision and fine tuning as they cannot and will not regulate everything; and central banks should at certain times be proactive in boosting economies, while in good times they need to curb the overheating of local economies. The question is, of course, the extent to which to do this, as I have seen exaggerations on both sides. My fundamental problem is that it is increasingly hard to openly discuss basic policy issues.

2. We should not forget that convergence is not only about the economy but about people as well! Forty years of different styles of communism on this side of the Iron Curtain shaped us as the "Homo Central European" and we function quite differently from those on the Western side for several reasons: a) we have witnessed economic and political extremes and have been left alone several times over the last decades, resulting in much more fear and frustration b) there are still substantial inferiority complexes, as for decades we were "educated" by westerners not only about what we should do but also how c) compared

to initial promises, the convergence process is definitely going to be longer, more painful and accompanied by more ups and downs than originally expected. Although every country is different, these three factors alone are good reason that more effort should be invested on both sides to better understand the behavior of the Central European average citizen, their main fears and goals and the inner workings of local politics. As a father of three teenagers who do not carry the same baggage, I compare the convergence process to the changing relationships with one's own children as they grow up and gain more self-confidence and independence. I sometimes need to remind myself that their "coming of age" is exactly what I wanted for them! And this is exactly what is going on right now in some Central European countries - as the level of self-confidence increases, we should not be surprised but try to understand it.

3. We need to learn again and again, from both sides, how to appreciate the achievements of the first 15 years in the EU. I remember standing in line in front of the German embassy in Budapest for a visa, and later on my yearly pilgrimage for renewing my residency permit at the Ausländerbehörde in Frankfurt in the late 1990s. These long lines suddenly ended for me after I married my Greek-American wife with her EU citizenship. I even remember the comment of the German civil servant who informed me that I no longer needed to stand in line with the "Yugos" – a strange



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comment for me as a “Radovan” with a Hungarian passport. Compared to that, my eldest son has enrolled in a university in Munich just like any other “normal” student and that is, from my perspective, the fulfillment of a great European dream. Between my first job as an “Ausländer” and my son’s enrollment 20 years later there has been an incredible journey that should be better appreciated on both sides. Frankly speaking, even some small appreciation from the founding states of the EU, for those who work these days in their hospitals, old age homes, construction sites and stores, would work miracles.

4. If something can go wrong, usually it does. My personal experience relates here specifically to FX / CHF lending that in some countries, such as Hungary, reached unbelievable levels while other countries, such as Bulgaria, had no FX lending bubble of this kind. My statement in Serbia, that “CHF loans are for citizens earning Swiss francs”, almost cost me the governor’s position in booming years, while today it is probably one of the most quoted. I do hope that the very same mistakes will not be repeated in a similar way somewhere, though I have my doubts.

5. It is all about ownership of changes. If a government or a country does not have that, the convergence process or any other reform process will create huge frustration, not only for the country that is to be helped but also for the ones that would

like to help. I remember what a great occasion and fruitful relationship it was with all the IFIs in Serbia in 2000-2002 as we were dictating to them the measures, their timing and the ways we were going to carry them out. You can make miracles in a matter of months if there is a minimum political consensus which allows you to concentrate on how and when, rather than arguing and searching for a scapegoat for the “why”.

6. Financial sector is still one of the most discussed sectors, especially in some countries where foreign ownership is falling while local ownership is increasing. I have seen them all, from poorly managed regional banks to well-run local players. After all these years and all the ups and downs in the economy, I can only say that the major line of division is somewhere else, namely strategic owners with sufficient funds, knowledge and regional commitment as compared to those who are opportunistic buyers only. The latter still think that banking is a money making machine while the strategic owners know that those times are over.

7. It is crucial to be very well integrated locally, regardless of the industry you are in. The original expectation that the entrance price paid by foreign investors will give them certain rights disappears after the next election. Therefore make sure that you become local as soon as possible by engaging with both the



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local business and political communities. This has proven to be the best way to manage political risk, the largest challenge for which we still have not found a good remedy.

Sometimes I do play around with the idea of how my life would look today without the transition process. First of all, I would never have met my wife who came to Czechoslovakia in 1990 to teach English in the towns of Zdar nad Sazavo and Svitavy. I would have probably finished my undergraduate study in Moscow instead of Belgrade, not have been able to learn German in Passau, nor study in Chicago, nor work in Frankfurt and Vienna. I would have also not witnessed my father's land being given back to us, or my grandfather being politically rehabilitated for the five years he spent in jails in Hungary. But most of all, I would not be able to see my kids growing up with equal opportunities, like European youth everywhere, and that would have hurt a lot.

I describe myself as a true European - what else can a Serb, born and raised in Hungary, currently working for an Austrian bank in Budapest, with children finishing the German school and a Greek-American wife, say about himself. Our boys are eligible for four passports, excluding the German passport although they were all born in Frankfurt am Main at the Sachsenhausen Hospital. I love Europe, and even more Central Europe and the Western Balkans where I feel as much at home in Belgrade as in

Budapest, where I enjoy every bit of the culture and language from Vienna to Sarajevo, from Zagreb to Tirana, from Athens to Prague.

Life has been very gracious by giving me the chance to be part of this once in a century event. I contributed proudly to this process in the past, and I would do so again in the future if necessary.