THE CENTRAL BANK OF HUNGARY

European Commission
European Banking Authority
European Systemic Risk Board

Ref.no.: 196287-1/2016
Budapest, 23 September 2016

Subject: Magyar Nemzeti Bank – Notification on the modification of the timing of the Systemic Risk Buffer used for the mitigation of systemic risks stemming from problem commercial real estate exposures

Dear Colleagues,

The Magyar Nemzeti Bank (MNB) notifies you on the modification of the timing of the Systemic Risk Buffer (SRB) in accordance with Article 133 (11) of Directive 2013/36/EU. The amendment refers both to the dates of data reference and introduction of the measure. The Financial Stability Board of the MNB has consulted the financial institutions concerned, and has decided to postpone the date of entry into force of the SRB. Credit institutions concerned will be required to maintain the SRB effective from 1 July 2017 instead of 1 January 2017. The size of the institution-specific buffers will be determined based on data related to problem exposures on 31 March 2017 instead of 30 September 2016.

The amendment does not endanger the original aim of the macroprudential measure, while it promotes further, effective cleansing of banks' balance sheets without harming the sustainable contribution of the financial system to economic growth.

Yours Sincerely:

MAGYAR NEMZETI BANK

Barnabás Virág
Executive Director
Monetary policy, Financial Stability and Lending Incentives

Enclosure: General decision of the Financial Stability Board (unofficial translation)

Budapest V. ker., Szabadság tér 9. | Postcode: 1850 Budapest | Phone: +36 (1) 428 26 00 | Fax: +36 (1) 429 8000

Enclosure

General Decision[1]

The Financial Stability Board of the MNB modifies the general provisions for the formation of the systemic risk buffer adopted and published on 6 October 2015 as follows:

The Magyar Nemzeti Bank, deviating from the October 2015 decision of the Financial Stability Board, modifies the deadline for introducing a systemic risk buffer to 1 July 2017, leaving the general provisions for the formation of the systemic risk buffer unchanged.

Accordingly, the Financial Stability Board, amending its 6 October 2015 decision effective from 20 September 2017, determines the general provisions for the formation of the systemic risk buffer – in one coherent framework with the amendments – as follows:

The persistently high volume of problem project loans in the Hungarian banking system poses a key macroprudential risk. The excessively rapid expansion of the stock of non-performing loans and the persistence of problem exposures presents a considerable risk from the perspective of financial stability, since these instruments limit the banking system's ability to support economic growth. In addition, due to their great concentration, the high volume of problem project loans exacerbates stability risks.

Pursuant to European legal requirements effective from 2014 (Regulation [EU] No 575/2013 of the European Parliament and of the Council [CRR]; and Directive 2013/36/EU of the European Parliament and of the Council [CRD IV]), the competent or designated authorities of all Member States may require the financial sector or one or more of its subsets to create a systemic risk buffer in addition to the minimal capital requirement as part of the so-called combined buffer requirement. This requirement may be introduced if it is warranted by the need to prevent or mitigate non-cyclical systemic risks or to boost the financial intermediary system's resilience. In Hungary, in accordance with the provisions in Act CXXXIX of 2013 on the Magyar Nemzeti Bank (hereinafter: MNB Act) and with Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter: Credit Institutions Act), the institution authorised to set a systemic risk buffer requirement is the Magyar Nemzeti Bank (hereinafter: MNB), which is endowed with macroprudential tools.

Based on the above and the decision by the Financial Stability Board, the MNB, acting in its capacity as macroprudential authority, decided to introduce a systemic risk buffer to manage the risks related to project financing loans and real estate exposures deemed problematic.

On the one hand, the systemic risk buffer increases the shock-absorbing capacity of the institutions not curtailing their risky exposures, and on the other hand, it may foster the reduction and cleaning of the stock of risky exposures within a reasonable timeframe. The rate of the systemic risk buffer is determined relative to the individual contribution of a credit institution to systemic risk.

The systemic risk buffer is imposed in proportion to the problem project loans and real estate exposures in Hungary. The systemic risk buffer is not expected to exert a significant impact on the Single Market, since it has to be accumulated with regard only to exposures in Hungary.

The other provisions in the MNB Act, in the Credit Institutions Act and in Regulation (EU) No 575/2013 of the European Parliament and of the Council – with the exception of Articles 458–459 of Regulation (EU) No 575/2013 of the European Parliament and of the Council – are not sufficient or appropriate for managing the risks linked to project financing loans and the related real estate exposures, as these instruments are not targeted enough, they have limitations and they cannot manage the associated negative effects that are multiplicative at the system level.

The size of the systemic risk buffer depends on the ratio of the gross stock of problem exposures to the domestic Pillar I capital requirement imposed on the credit institution or on the group containing the

[1] Unofficial translation.

credit institution and subject to consolidated supervision. If this stock exceeds 30 per cent of the capital requirement and is greater than HUF 5 billion, the systemic risk buffer is set at or above 1 per cent. The systemic risk buffer rate cannot be higher than 2 per cent.

Scope of persons covered and application

1. The requirement to accumulate a systemic risk buffer as defined in Section 35/A of the MNB Act and Section 92 of the Credit Institutions Act (hereinafter: systemic risk buffer) pertains to credit institutions operating as private limited companies (hereinafter: credit institutions) and to the members of the groups containing the credit institution and subject to consolidated supervision (hereinafter: credit institution groups), with the exception of Magyar Fejlesztési Bank Zrt., Magyar Export-Import Bank Zrt. and KELER Zrt.

2. The systemic risk buffer is determined in view of the data reported for Hungary on a consolidated basis, and it needs to be formed for Hungarian exposures on a consolidated basis.

The rate of the systemic risk buffer and the method of application

3. The rate of the systemic risk buffer is determined relative to the individual contribution of the credit institution or credit institution group to systemic risk.

4. The individual contribution to systemic risk is established in view of the proportion of the problem exposures concerned to the domestic (Hungarian) Pillar I capital requirement.

5. Problem exposure refers to the gross value of domestic commercial real estate project loans or domestic on-balance sheet held-for-sale real estate. Domestic commercial real estate project loans need to be taken into account if they are:

a. loans past due by over 90 days;

b. restructured project loans, with the exception of loans restructured more than a year ago that have become performing loans since then; or

c. other project loans deemed non-performing by the credit institution.

6. The problem exposures concerned and the domestic (Hungarian) Pillar I capital requirement consolidated at the relevant level are determined on the basis of the data reported in quarterly reports L70 and L71 in accordance with the MNB Decree on the reporting obligations for the central bank information system to be fulfilled primarily in the relation to carry out the basic tasks of the Magyar Nemzeti Bank by the credit institution or credit institution group in question (hereinafter: quarterly data reports), and, related to problem exposures, other data available to the MNB within the scope of its tasks defined in the MNB Act.7. The systemic risk buffer rate shall be determined based on the calibration table below, provided that the systemic risk buffer calculated shall not exceed 2 per cent of the risk-weighted assets. Should the risky exposures exceed 30 per cent of the domestic (Hungarian) Pillar I capital requirement and should the relevant stock's value be at least HUF 5 billion, the systemic risk buffer rate shall be set at or above 1 per cent.

Problem exposures as a proportion of the domestic Pillar I capital requirement	Capital buffer rate
0.00 – 29.99%	+0.0%
30.00 – 59.99%	+1.0%
60.00 – 89.99%	+1.5%
above 90.00%	+2.0%

8. The systemic risk buffer rate for the credit institutions and credit institution groups is set by the MNB in individual decisions.

Starting date of maintaining the systemic risk buffer and review of the buffer rate

9. The individual decisions governing the systemic risk buffer rate shall be made by the MNB in the second quarter of 2017 on the basis of 2017 first quarter data. Consequently, the systemic risk buffer has to be maintained from 1 July 2017.

10. The decisions by the MNB on the systemic risk buffer rate for the individual credit institutions and credit institution groups shall be reviewed annually based on the relevant quarterly data reports and the other data available to the MNB within the scope of its tasks defined in the MNB Act.

11. In accordance with Section 141/A(1)(a) of the MNB Act, The European Commission, the European Banking Authority, the European Systemic Risk Board and the competent or designated authorities of the EEA member states or third countries concerned have been notified in advance of determining the systemic risk buffer rate.