Notification template for national macroprudential measures not covered by of the Capital Requirements Regulation (CRR)/ Capital Requirements Directives (CRD) (other than borrower-based measures)

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This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure[1].

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority	Magyar Nemzeti Bank (MNB)
1.2	Country of the notifying authority	Hungary
1.3	Name of the macroprudential measure that is notified	Mortgage Funding Adequacy Ratio (MFAR)
2. Description of the measure		
2.1	Description of the measure	The Magyar Nemzeti Bank (MNB) introduced the Mortgage Funding Adequacy Ratio (MFAR) regulation in 2017, according to which household mortgage loans with a remaining maturity of over 1 year must be financed in a certain proportion by long-term funds covered by household mortgage loans (mortgage bonds or refinancing loans given by mortgage banks). The MNB has modified the regulation by postponing the tightening measures set to step into force on 1 October 2023 for an indefinite period until market conditions

[1] On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

		improve. The postponed measures are the following: the increase of the required minimum level of the MFAR from 25 to 30 percent, the limitation of bank cross-ownership of mortgage bonds and the requirement of introducing all mortgage bonds taken into account in the ratio calculation to regulated markets. Other smaller amendments were also made which became necessary because of an amendment to the Act on Mortgage Loan Companies and on Mortgage Bonds coming into effect on 1 January 2023. The amendment created a new method for mortgage banks to refinance commercial banks' mortgages on a portfolio basis besides loan-by-loan refinancing. As this method has the same characteristics from a financial stability point of view as the already existing methods, it was necessary to make it eligible as stable funding in the MFAR.
2.2	Legal basis and process of implementation of the measure	As macroprudential authority in Hungary, the MNB has the power to issue legally binding regulations to reduce systemic risks, as stipulated in Law CXXXIX of 2013 on the Magyar Nemzeti Bank (the MNB Act). Article 171 (1) k) kc) of the MNB Act authorises the Governor of the MNB to decree the measures required to prevent the build-up of systemic risks and to reduce systemic risks, and to increase the resilience of the financial intermediary system, within the strategic framework defined by the Monetary Council, based on the decision of the Financial Stability Board, including requirements for the reduction of systemic liquidity risks. Furthermore, Article 4 (7) of the MNB Act states that the MNB shall explore risks threatening the financial intermediary system as a whole, it shall help to prevent the build-up of systemic risks, and shall help to mitigate or eliminate the systemic risks that may already exist.
2.3	Coverage	The measure applies to credit institutions operating as companies limited by shares and the Hungarian branches of third country credit institutions, as well as the institutions of groups including credit institutions under consolidated supervision. The scope of the measure does not cover the Magyar Fejlesztési Bank Zrt., the

		Magyar Export-Import Bank Zrt., the Központi Elszámolóház és Értéktár (Budapest) Zrt. and building societies not subject to consolidated supervision. A de minimis limit also applies: banks with a retail residential mortgage stock of less than HUF 40 billion are exempted.
2.4	Any other relevant information	
3. Timing for the measure		
3.1	Timing for the decision	15/12/2022
3.2	Timing for publication	22/12/2022
3.3	Disclosure	Decree is available (only in Hungarian): https://njt.hu/jogszabaly/2022-22-20-2C
3.4	Timing for application	01/01/2023
3.5	End date (if applicable)	
4. Reason for the activation of the measure		
4.1	Description of the macroprudential risk to be addressed	According to the previous amendment of the regulation in effect from 1 July 2022, the previously announced tightening of the regulation (the increase of the required minimum level of the MFAR from 25 to 30 percent, the limitation of bank cross-ownership of mortgage bonds and the requirement of introducing all mortgage bonds taken into account when calculation the ratio to regulated markets) was postponed to 1 October 2023.

		However, the complex situation due to the inflationary challenges of the economy and the geopolitical tensions driven by the war in Ukraine necessitates the further postponement of the MFAR tightening. Macroeconomic and financial market uncertainty has increased, while banks face significant challenges: they need to issue a significant amount of MREL-compliant securities that might substantially reduce demand for mortgage bonds; the recently extended interest rate freeze measure of the government reduces the mortgage bond eligible loan portfolios because of the interest rate match requirements of the Act on Mortgage Loan Companies and Mortgage Bonds limiting the amount of mortgage-based funds that can be raised. Furthermore, the conditions of the mortgage bond market and investor behaviour have changed significantly due to changing macroeconomic and geopolitical conditions, which makes accommodation of banks to the previously planned tightening of the regulation challenging and costly, possibly leading to unintended impacts of the requirement.
4.2	Indicators used for activation of the measure	The Financial Stability Board of the MNB considered numerous factors while calibrating the measure. These include the maturity mismatch between assets and liabilities of credit institutions, the distribution of the maturity of assets and liabilities, the share of long-term funds relative to all liabilities and indicators related to the development of the mortgage financing market (yields, maturities, issuances, secondary market turnover, market making, ratings, ownership structure, type of interest rates, etc.). The changing macroeconomic environment, regulatory developments affecting mortgage portfolios and bond issuances and information from the issuers and potential investors of mortgage bonds regarding the factors that affect demand were also considered.

4.3	Effects of the measure	The amendment supports banks' adjustment without excessive burdens and their compliance with the MREL regulations without significantly increasing financial stability risks. The target date for the introduction of the tightening will be determined in the future depending on the normalization of the economic and financial market environment.
5. Sufficiency, consistency and non-overlap of the policy response		
5.1	Sufficiency of the policy response	The amendment is deemed sufficient in easing the adjustment costs of banks and in preventing anomalies on the mortgage bond market. The risks related to maturity mismatches of banks is still sufficiently mitigated by the current form of the regulation.
5.2	Consistency of application of the policy response	This measure is an amendment of the MFAR measure which was introduced to achieve an intermediate objective (Mitigate and prevent excessive maturity mismatch and market illiquidity) specified in the ESRB recommendation ESRB/2013/1. This is a national measure outside the scope of EU legislation; for systemic funding risks, the MNB is entitled, as a national authority, to issue decrees aimed at the mitigation of risks. The requirement encourages the maintenance of prudent liquidity and funding positions and is designed to mitigate excessive maturity mismatches.
5.3	Non-overlap of the policy response	The modification is specific to the MFAR requirement and related to the challenges of the current macroeconomic and geopolitical environment for mortgage bond issuances. Therefore, no overlap occurs with the current modification and other policy measures.
6. Cross-border and cross-sector impact of the measure		

6.1	Assessment of cross-border effects and the likely impact on the Internal Market (Article 133(11)(d) CRD and Recommendation ESRB/2015/2[2])	The regulation is not expected to have a significant impact on the cross-border activities of banks, or on the internal market because the current amendment contains only small modifications compared to the previous version of the regulation The MNB will monitor the impact of the new measure continuously.
6.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	The MNB expects no material leakages and regulatory arbitrage within Hungary due to the targeted and technical nature of the measure. However, the MNB will monitor the impact of the new measure continuously.
6.3	Request for reciprocation	The MNB does not request the ESRB to issue a recommendation to other Member States to reciprocate the measure as it is not expected to have material cross-border effects.

[2] Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).

6.4	Justification for the request for reciprocation	
7. Miscellaneous		
7.1	Contact person(s)/mailbox at notifying authority.	**Mr. Ádám Banai**, Executive Director Executive Directorate for Monetary Policy Instruments, Financial Stability and Foreign Reserve Management Phone: +36 (1) 428 2600/1864 E-mail: banaia@mnb.hu **Mr. Tamás Nagy**, Director Directorate for Financial System Analysis Phone: +36 (1) 428 2600/2639 E-mail: nagyt@mnb.hu
7.2	Any other relevant information.	
7.3	Date of the notification	05/01/2023