

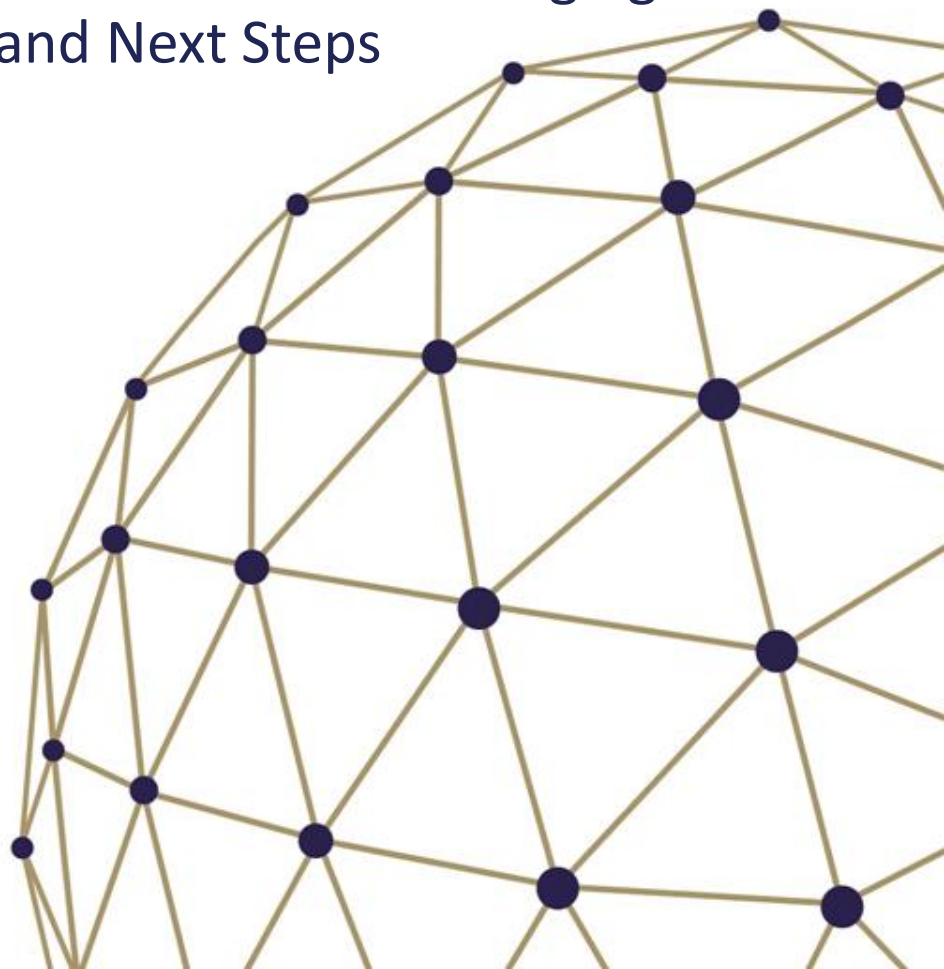


NPL resolution in progress: the Hungarian experience

Gergely Fábián

Vienna Initiative 2: NPL Resolution in emerging Europe: Taking Stock and Next Steps

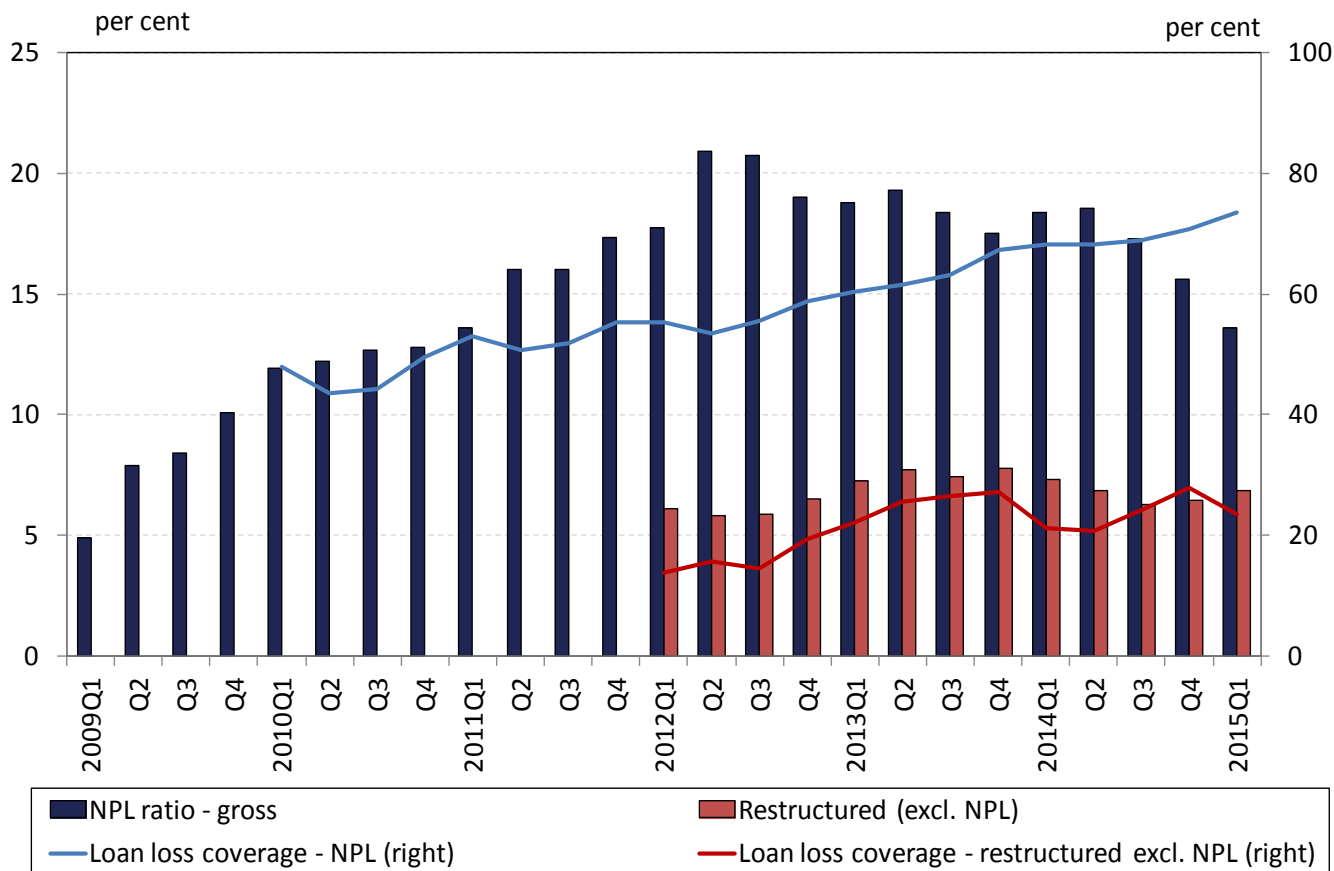
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Stock-taking: things look rosier

Distressed corporate portfolio in the Hungarian banking sector

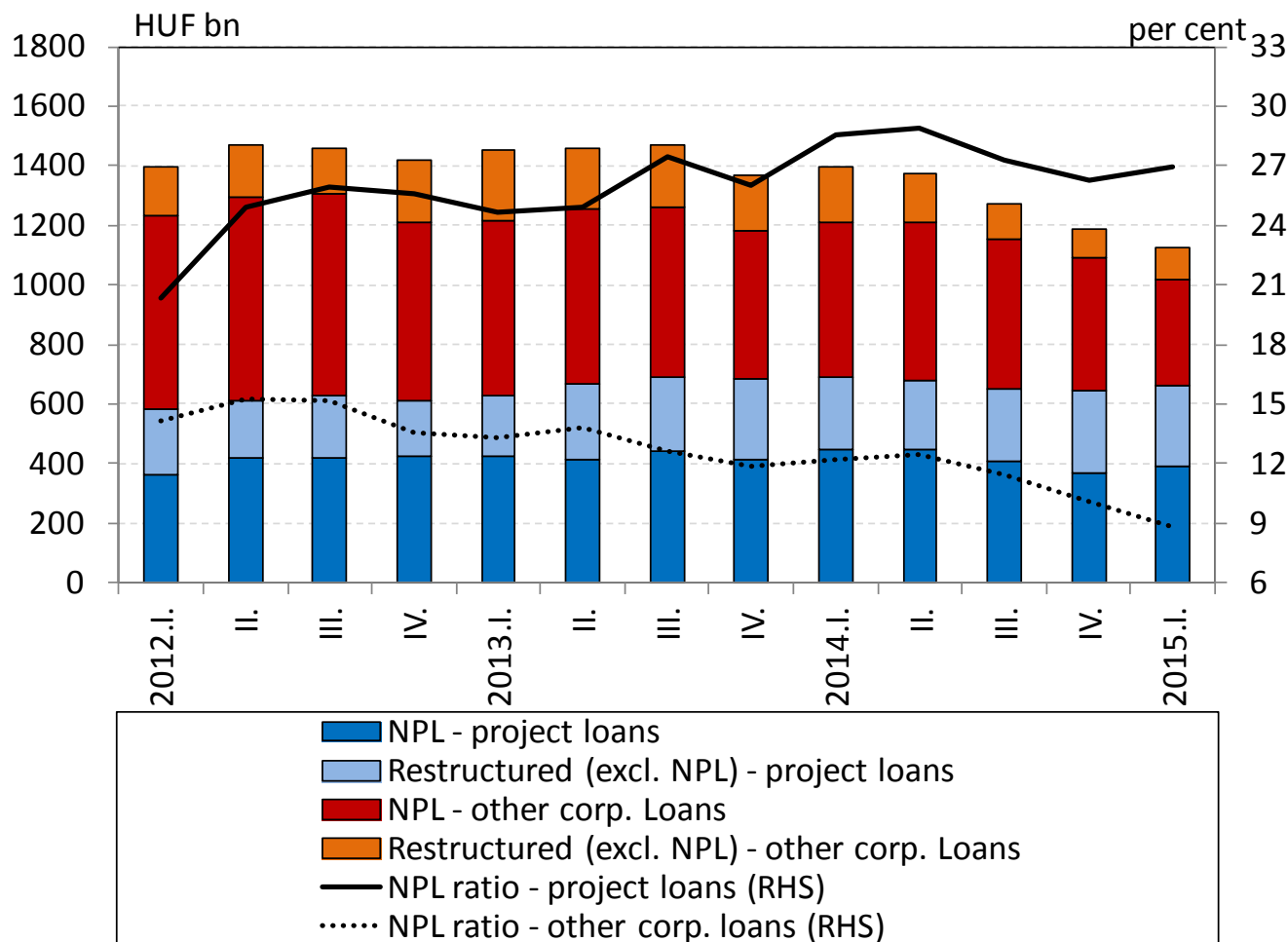


Note: Banking sector does not include foreign branches , cooperative savings. : Data on restructured loans is only available since 2012 in this decomposition.



But commercial real estate exposure remains a particular concern

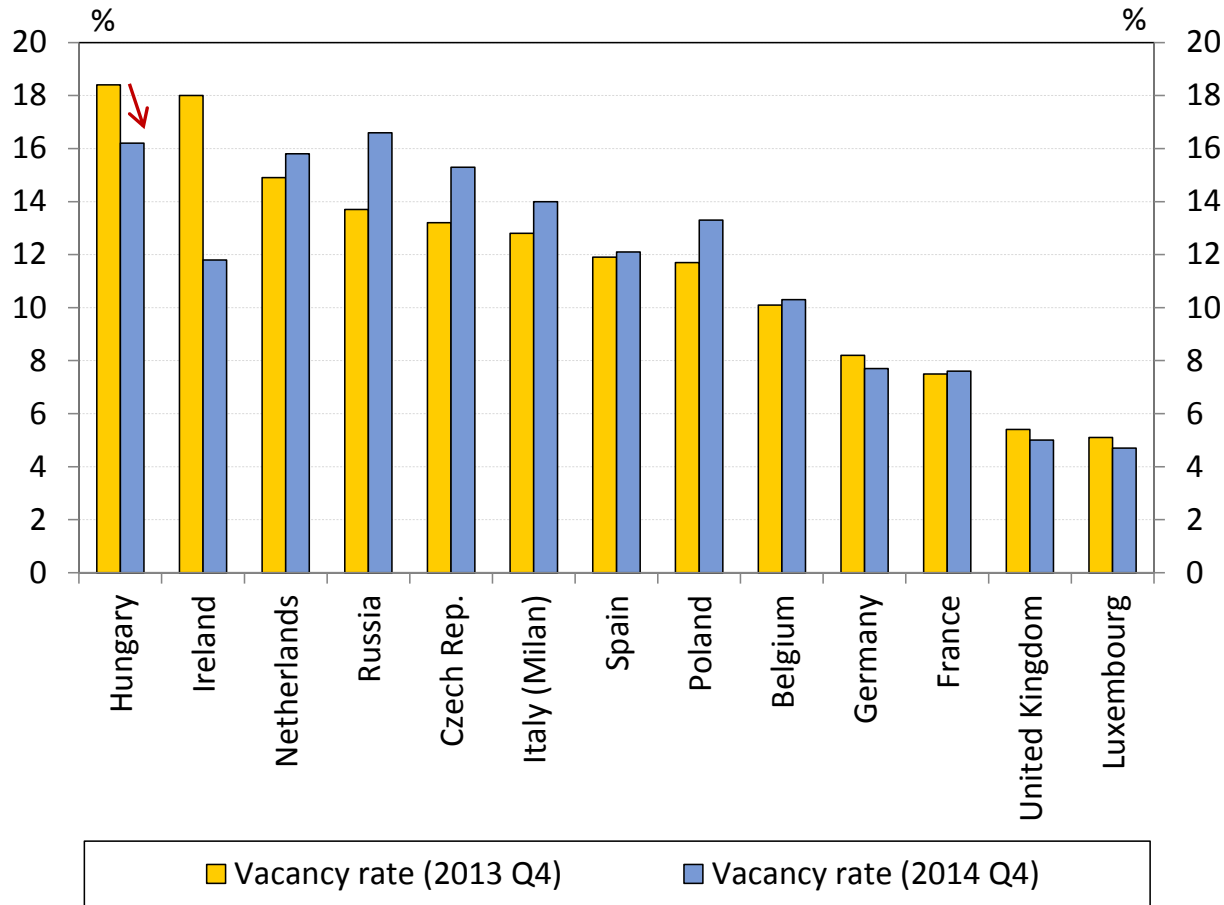
Distressed project and other corporate loans within the banking sector





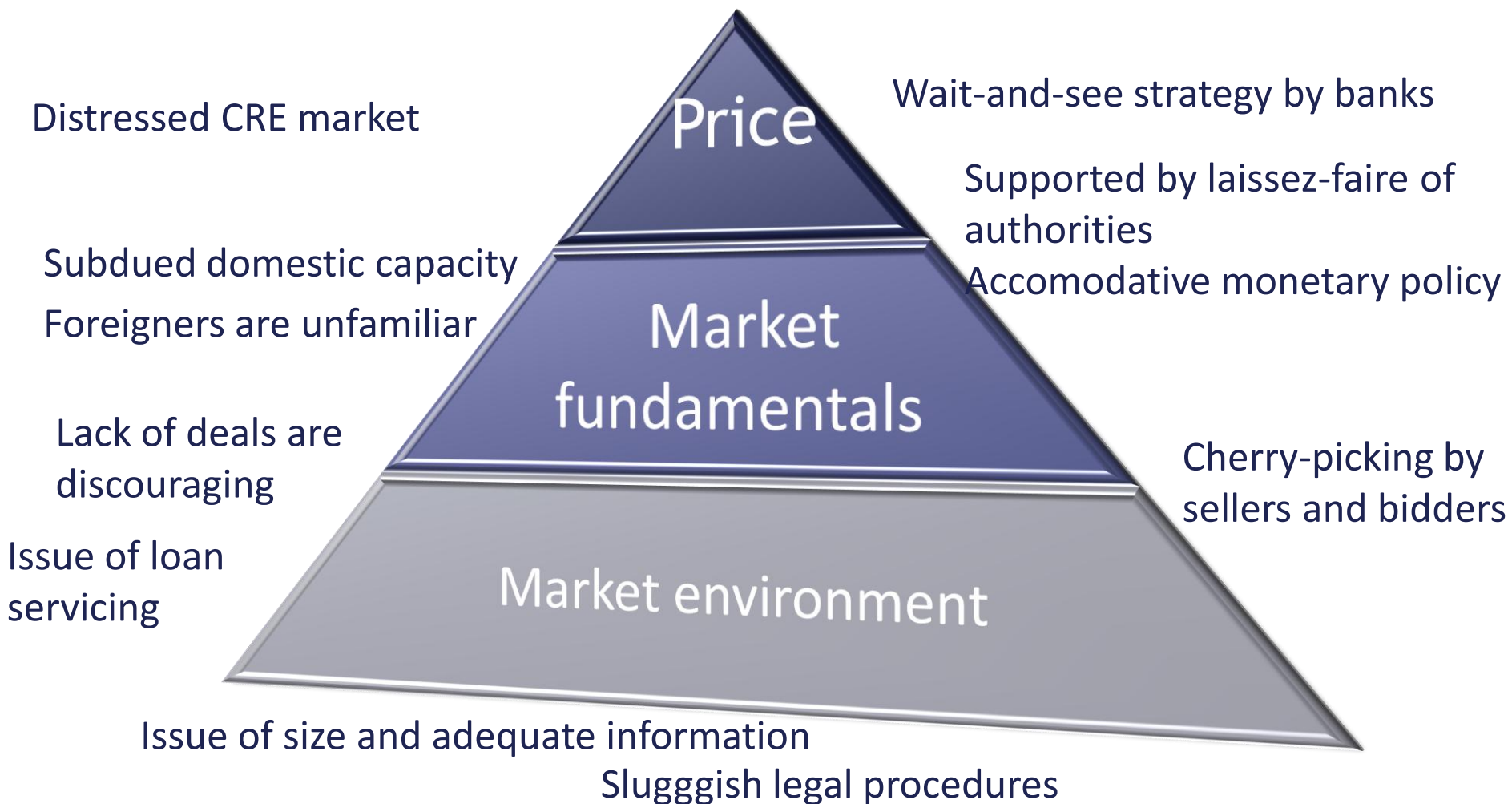
Improving CRE market and resolution of a large bank may intensify cleaning, but it would take still too long time

Vacancy rate of capital city office markets in international comparison





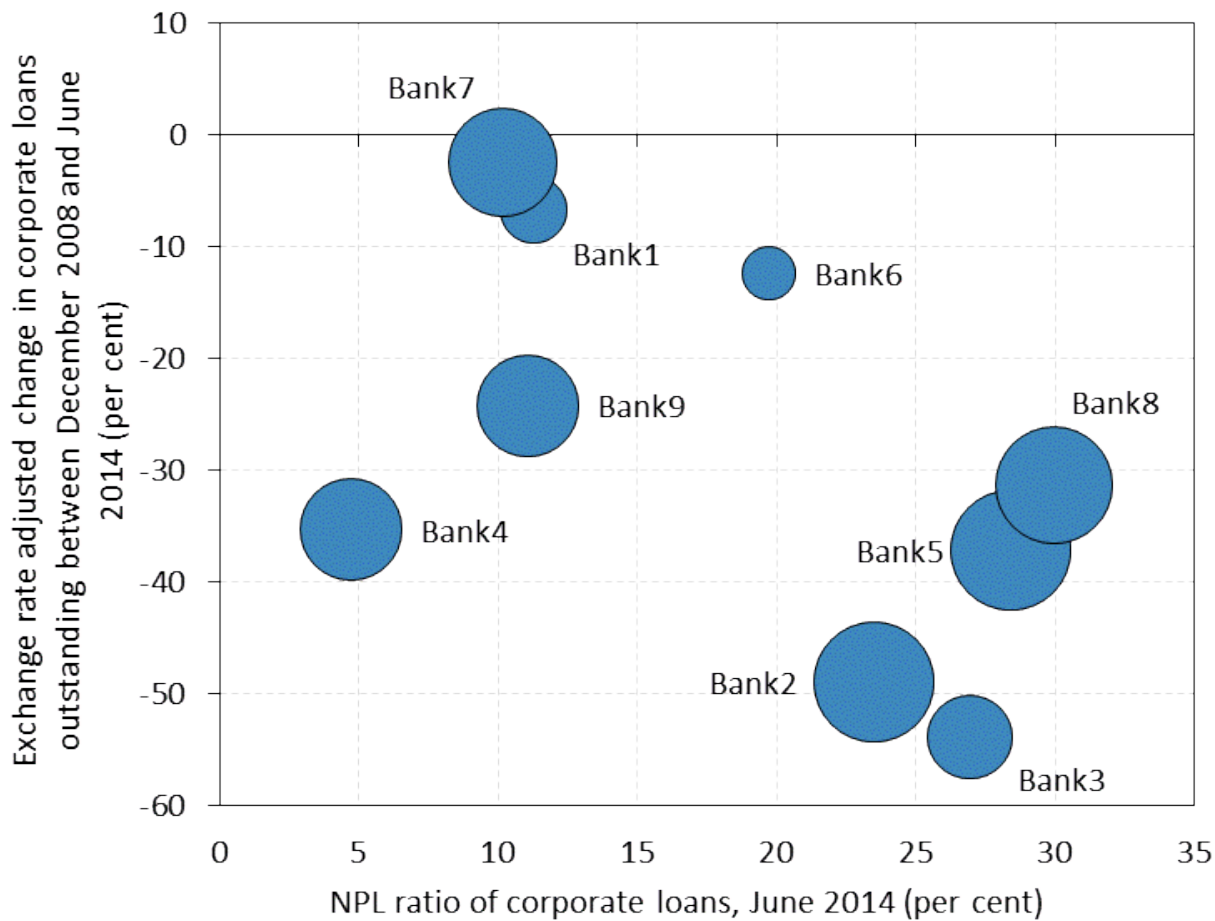
Why is it not cleaned?





NPL weighs on lending, but not a peril to financial stability

Corporate lending and non-performing loans



- Uncertainty in LGD
- Funding needs without interest income
- Opportunity costs as funds and capital are tied
- Resources are tied
- Excessive risk aversion
- Higher funding costs

Source MNB.



What can be done?

Improving legal and regulatory environment of NPL resolution

Tightening prudential rules to safeguard financial stability

AMC:

Centralized bad banks to address potential systemic financial system and solvency concerns

- Stabfund by Swiss National Bank
- NAMA, SAREB and DUTB involving state aid

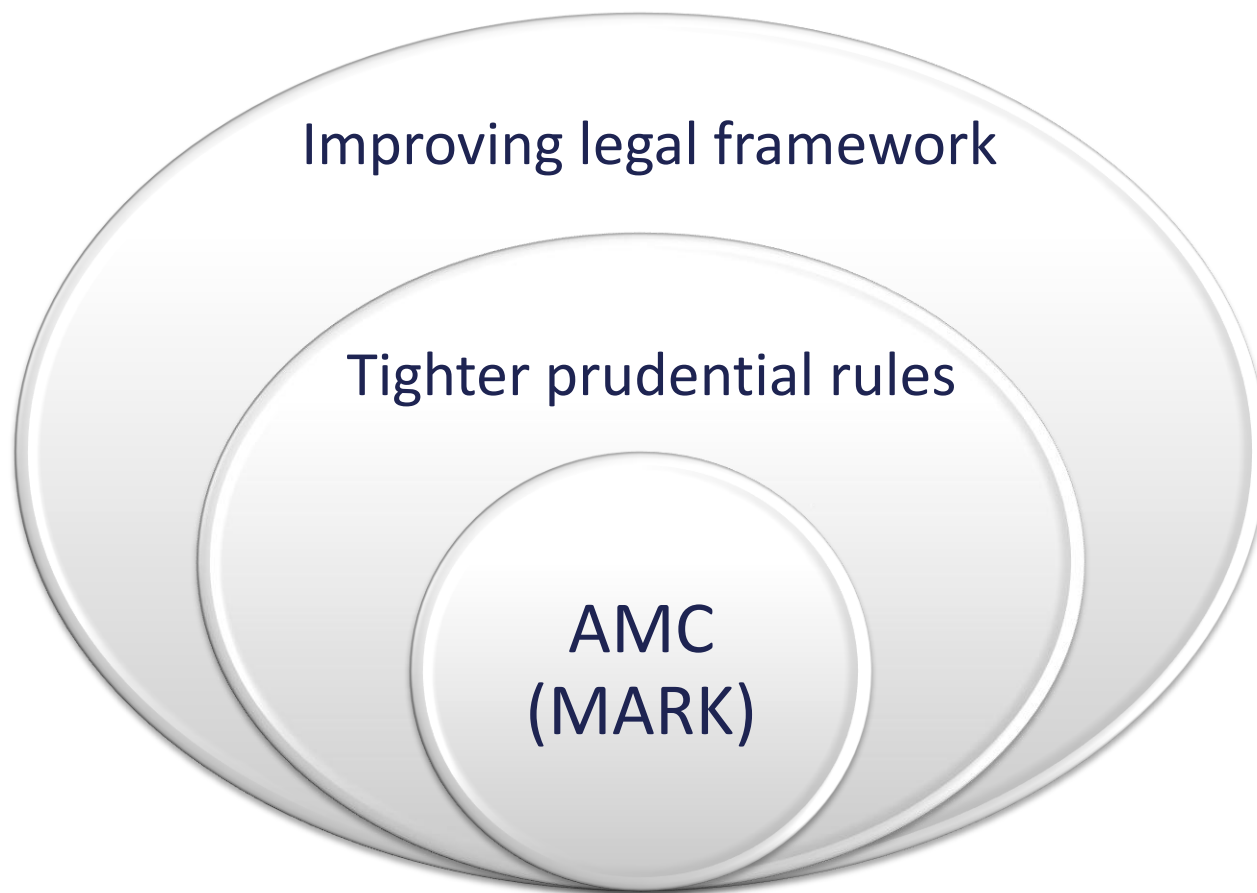
High NPL, but no solvency risk

- In this case AMC can be established only on market–basis



MNB's integrated approach

The clear goal is to increase the contribution of the banking sector to economic growth by eliminating the burdens and lurking risks of distressed loans from their balance-sheet

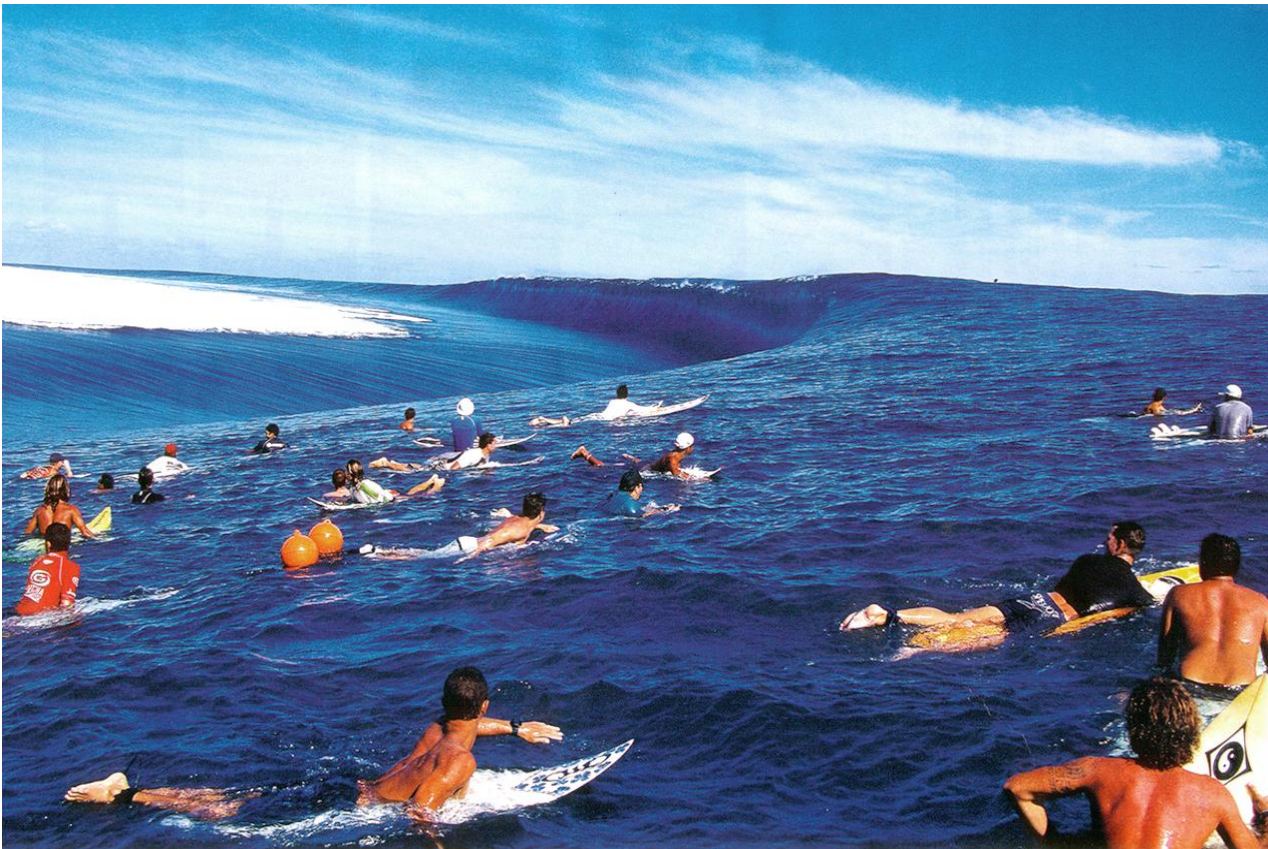




What needs to be done? Waves are needed to attract surfers

Committed institution, motivated experts

„the MNB shall support the maintenance of the stability of the financial intermediary system, the enhancement of its resilience, its sustainable contribution to economic growth”.



Listening to best practices

Strong cooperation

- *Cooperation with EBRD*
- *2 IMF technical assistances*
- *Cooperation with the Banking Association*



A professional MARK-et operator with a 10-year business plan to tackle the problem

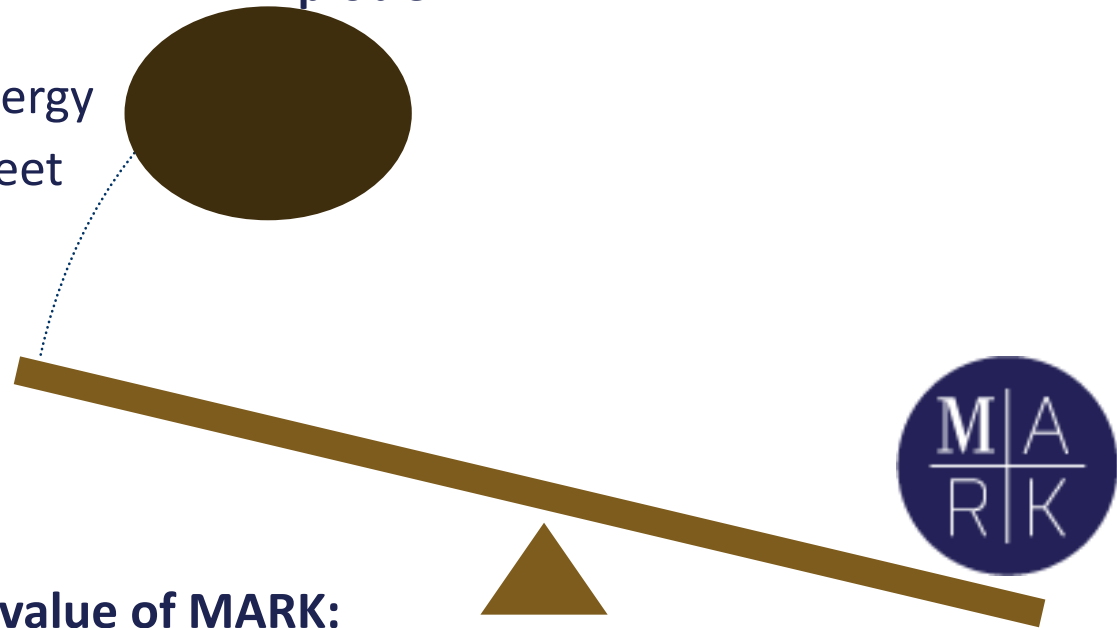
Pro for the banks:

They can free up

- Resources
- Management concerns and energy
- Lurking risks in the balance-sheet

They can focus on new business opportunities

Distressed CRE
problem



Added value of MARK:

- Long-term view, while banks can focus on lending
- Bundling of assets, creating size
- Broader restructuring toolkit
- State-of-art servicing platform



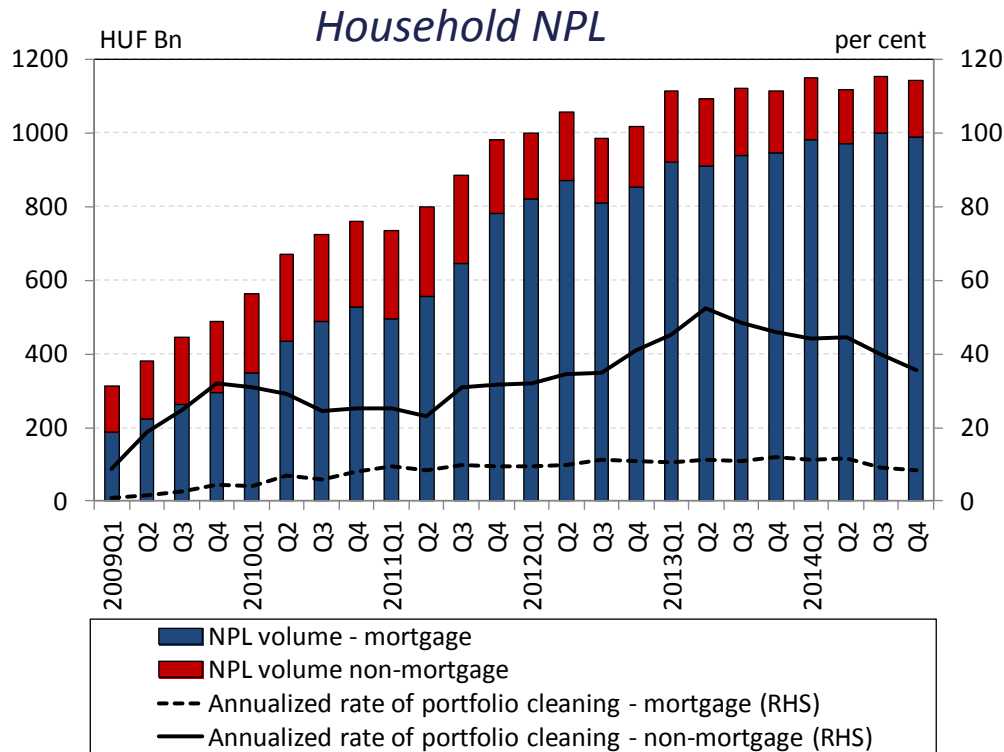
MNB-EBRD workshop follow-up till 2016 Q1

- Re-examine the existing **licensing requirement for NPL purchasers** in line with other countries in the region;
- **Considering tax relief and other incentives** for banks and debtors for cancellation of debt and debt for equity swaps in a restructuring context;
- Greater cooperation among banks to promote early **out of court restructuring** and applying the Budapest corporate restructuring principles;
- **Considering a more significant role for banks as creditors in bankruptcy (reorganisation) procedure as well as in the liquidation procedure and the appointment of the insolvency office holder;**
- Using the recently established **asset management company (MARK)** on a fully commercial basis with strengthened governance to promote a secondary market for NPLs.



What about household exposure?

- 19% NPL ratio and it has not decreased
- Concentrated in the mortgage loans segment



Ongoing actions:

- Raising the capacity of the National Asset Management Company (NET)
- Personal insolvency regime

Further steps are needed:

- Fostering of sustainable restructuring
- But addressing moral hazard
- Addressing administrative obstacles

Source: MNB.

Thank you for the attention!

Gergely Fábián, Director, Financial system analysis

Fabiang@mnb.hu