



NPLs in Hungary

a regional perspective

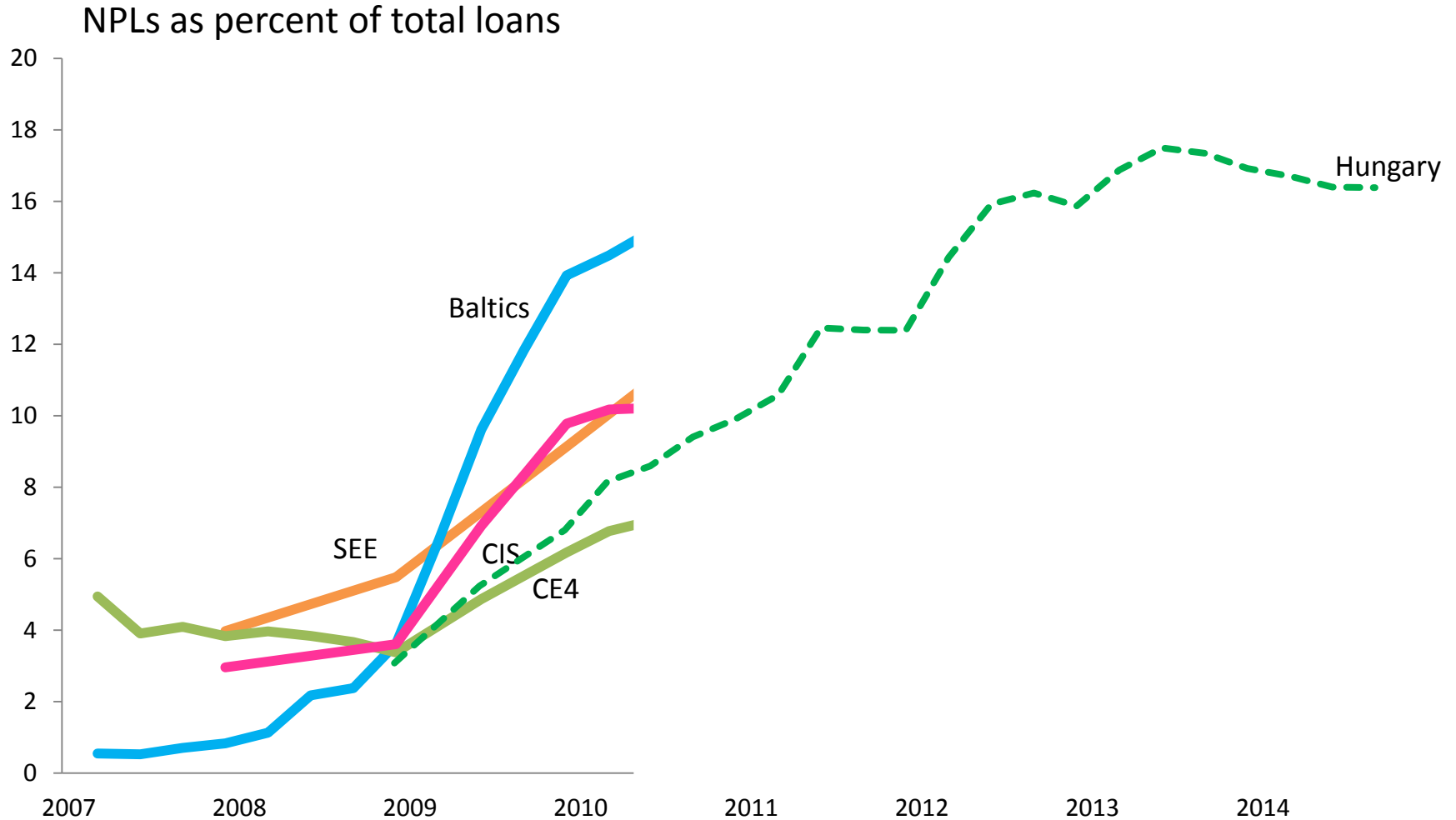
Budapest, March 3, 2015

James Roaf

Senior Resident Representative

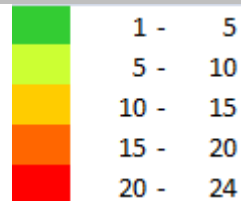
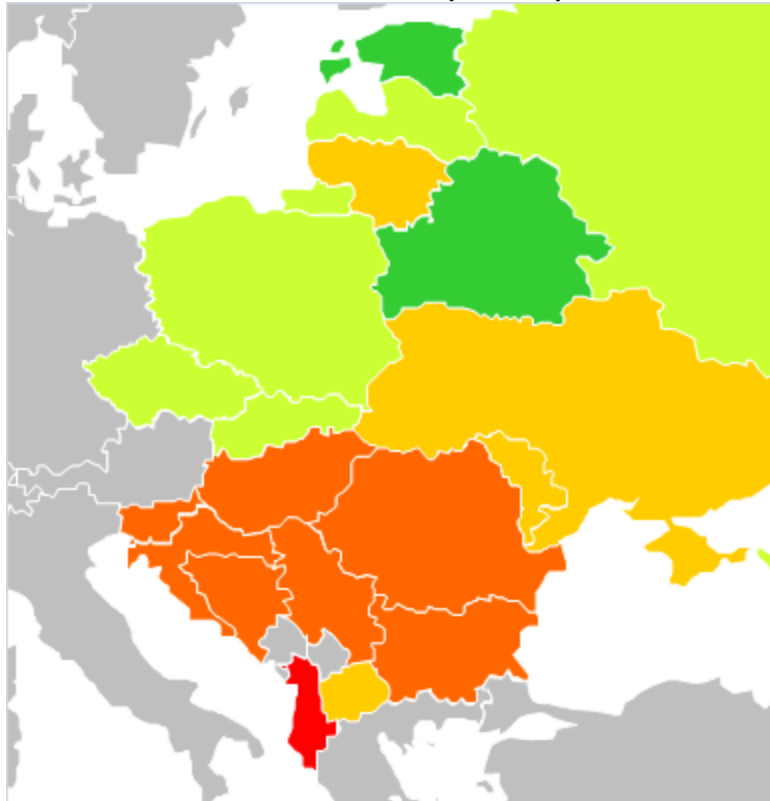
IMF Regional Office for Central and Eastern Europe, Warsaw

Diverging NPL ratios

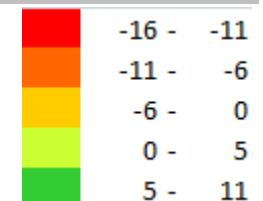
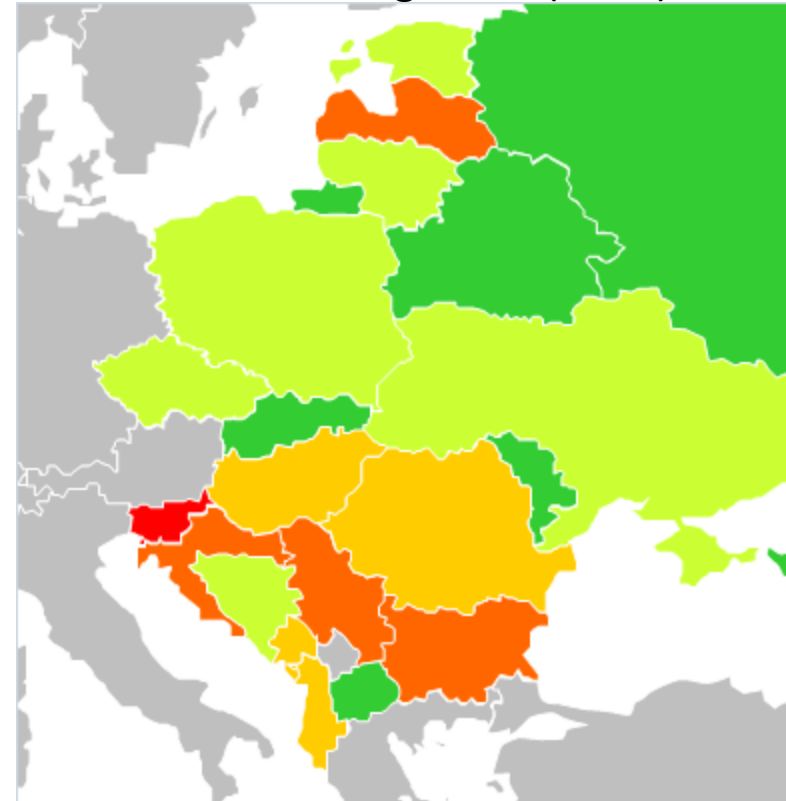


NPLs inhibit credit growth

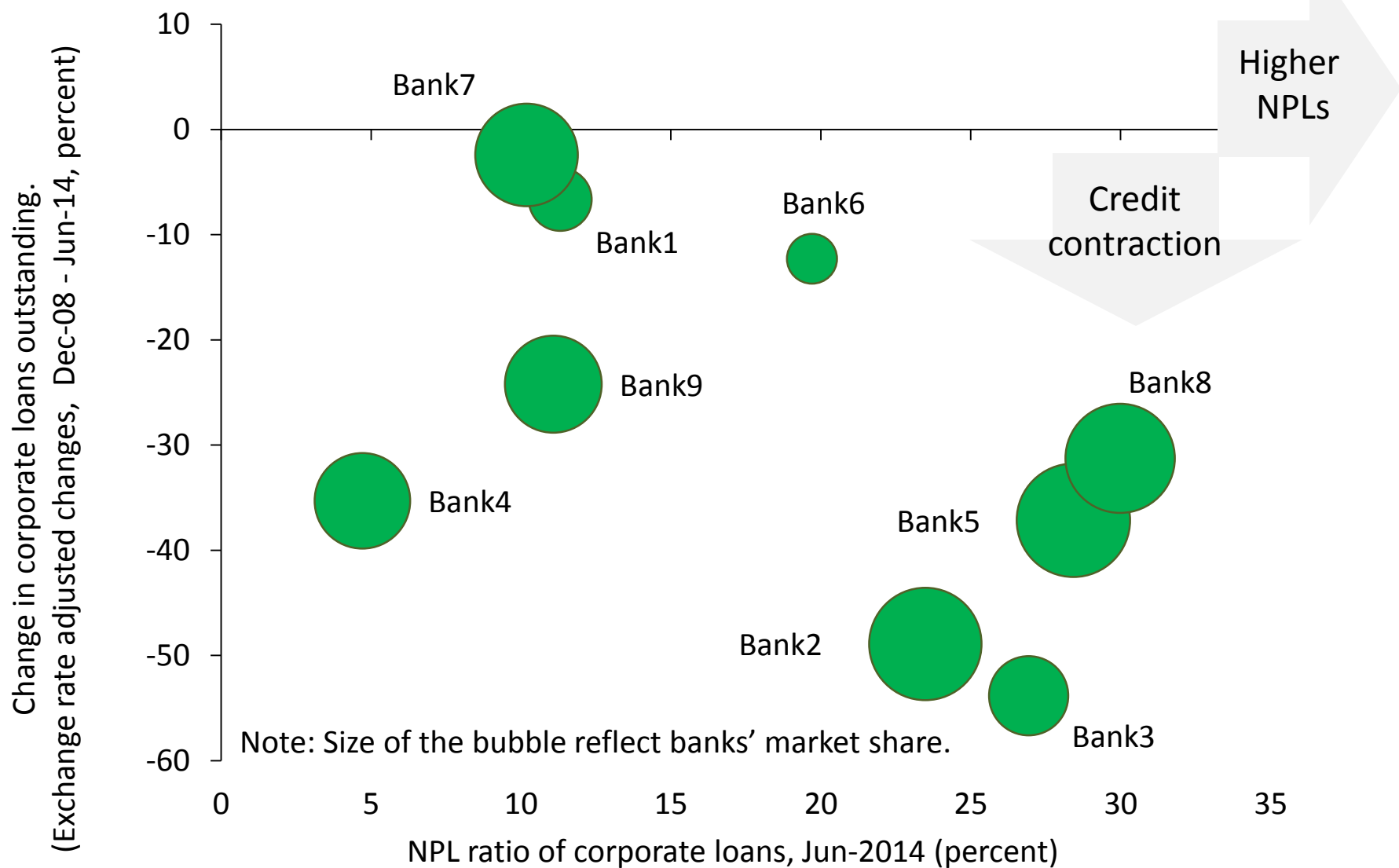
NPLs ratios (2014)



Real credit growth (2014)

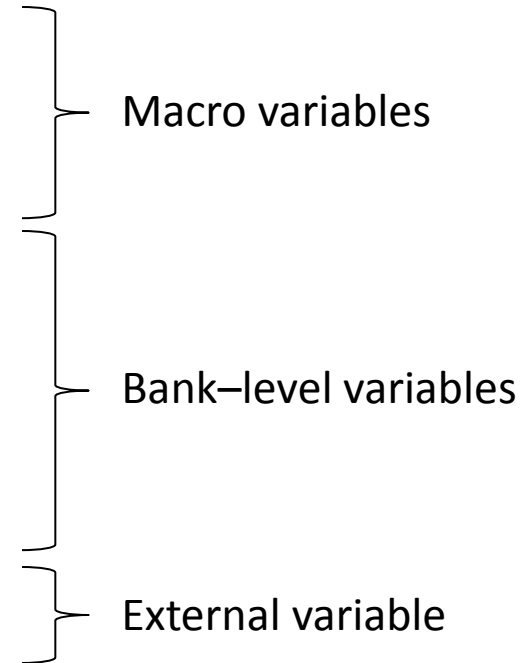


NPLs and credit contraction in Hungary



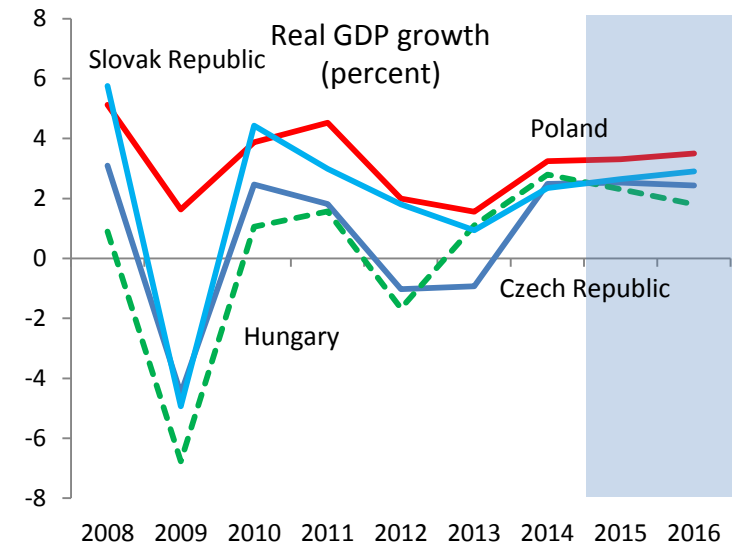
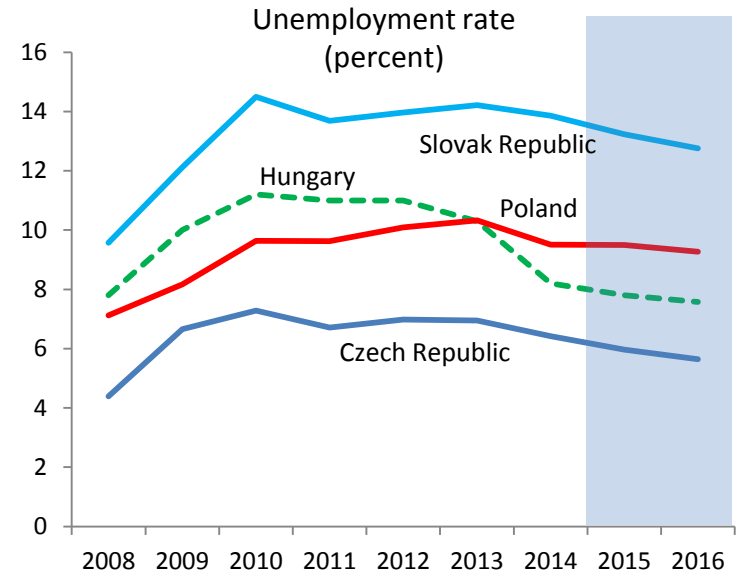
Determinants of NPLs

- Change in unemployment (+)
- Exchange rate depreciation (+)
- Past credit growth, (+)
- Past Equity to Assets ratio (-)
- Past ROE (-)
- Past growth in the Euro Area (-)



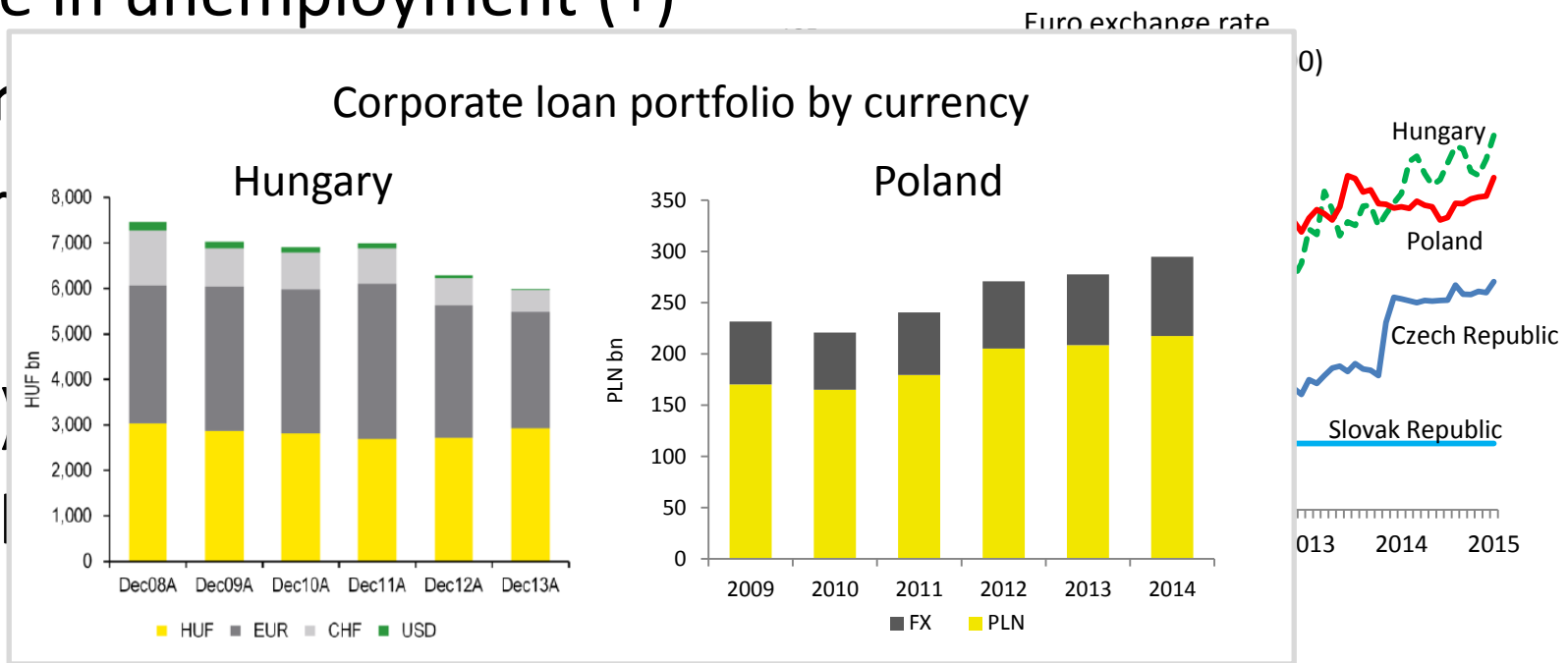
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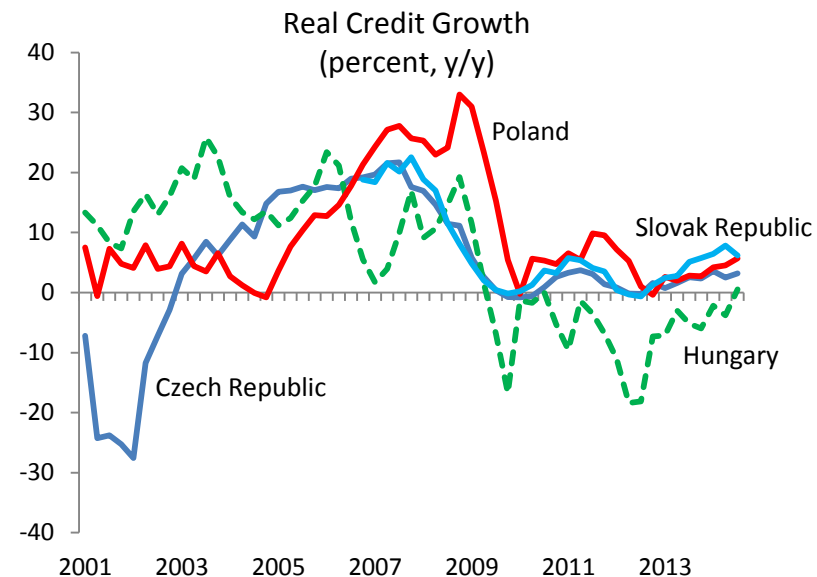
Determinants of NPLs

- Change in unemployment (+)
- **Exchar**
- Past cr
- Equity
- ROE (-)
- Growth



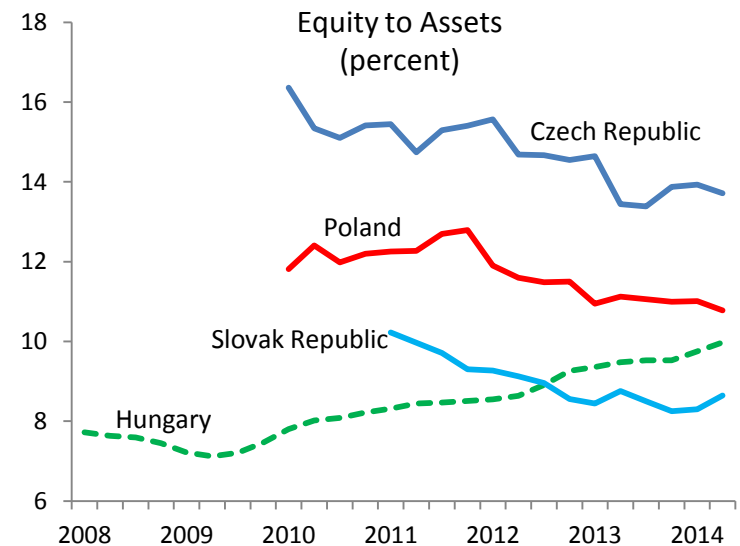
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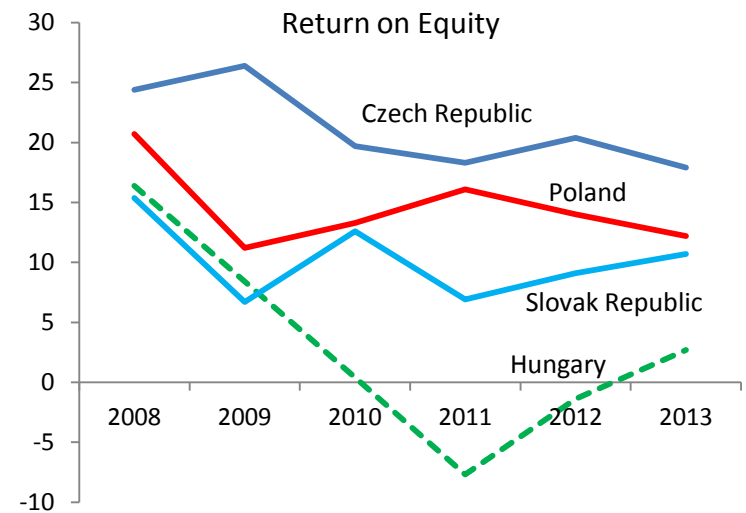
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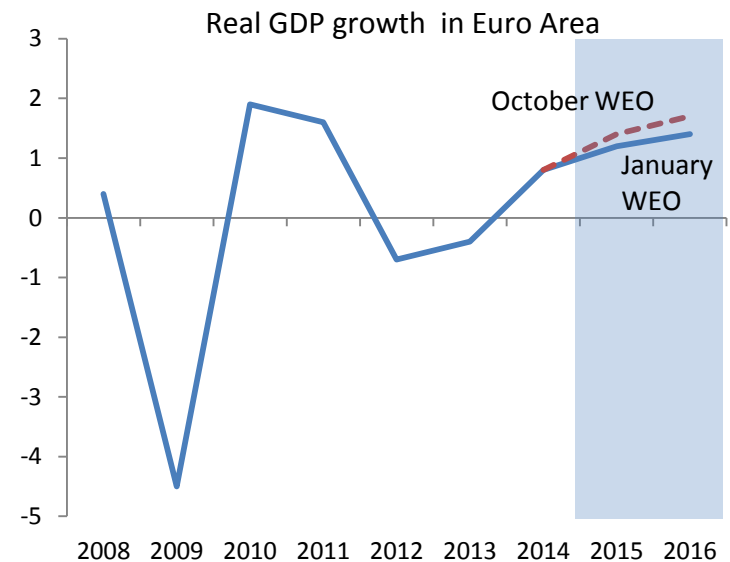
Determinants of NPLs

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- Growth in the Euro Area (-)



Determinants of NPLs

- Change in unemployment (+)
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- **Growth in the Euro Area (-)**

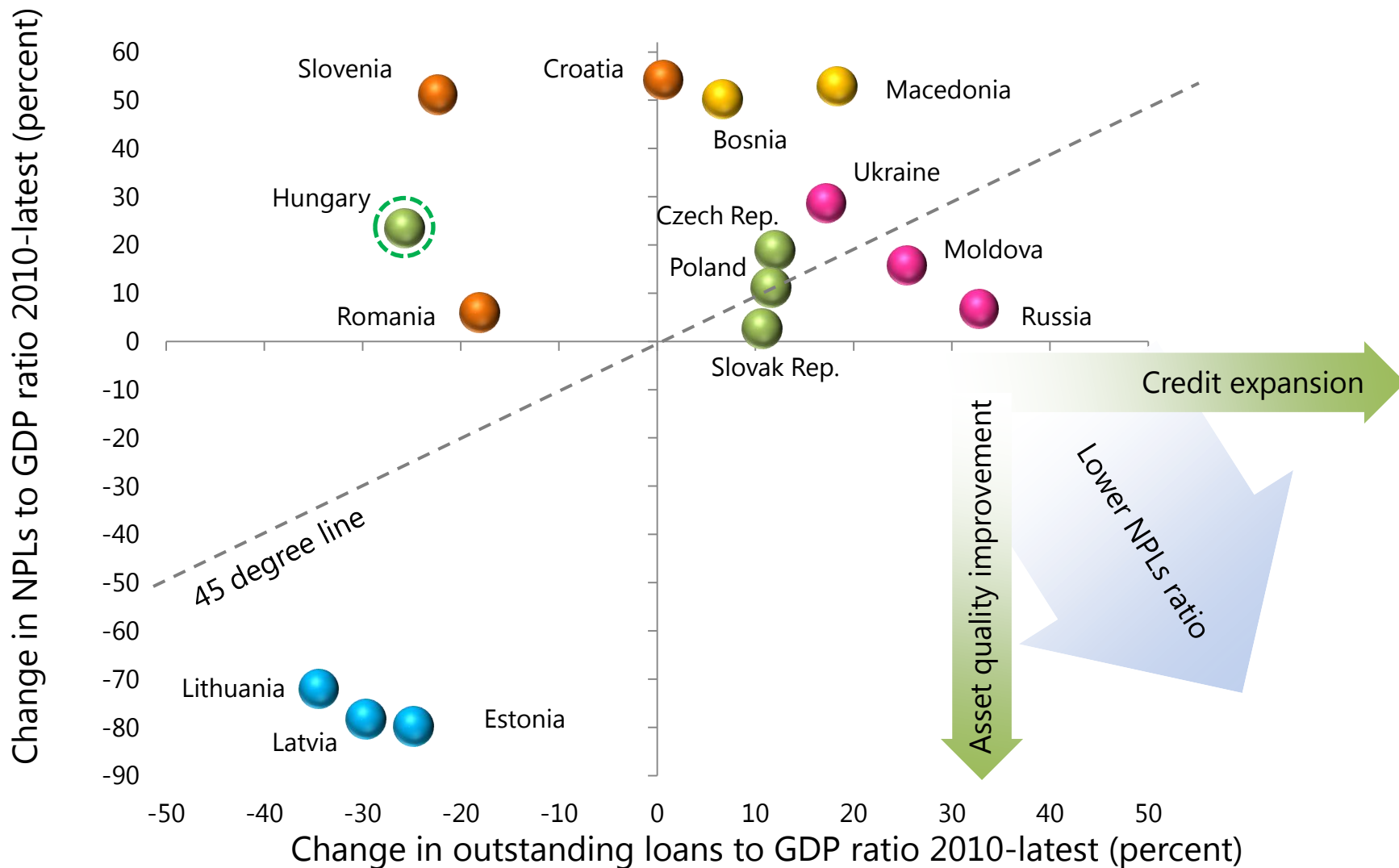


NPL determinants and consequences

	Impact on NPL ratio* (1pp shock)	Result of NPL ratio shock* (1pp shock)
Credit to GDP ratio	-0.7pp	-1.7pp
Real GDP growth	-0.6pp	-1.0pp

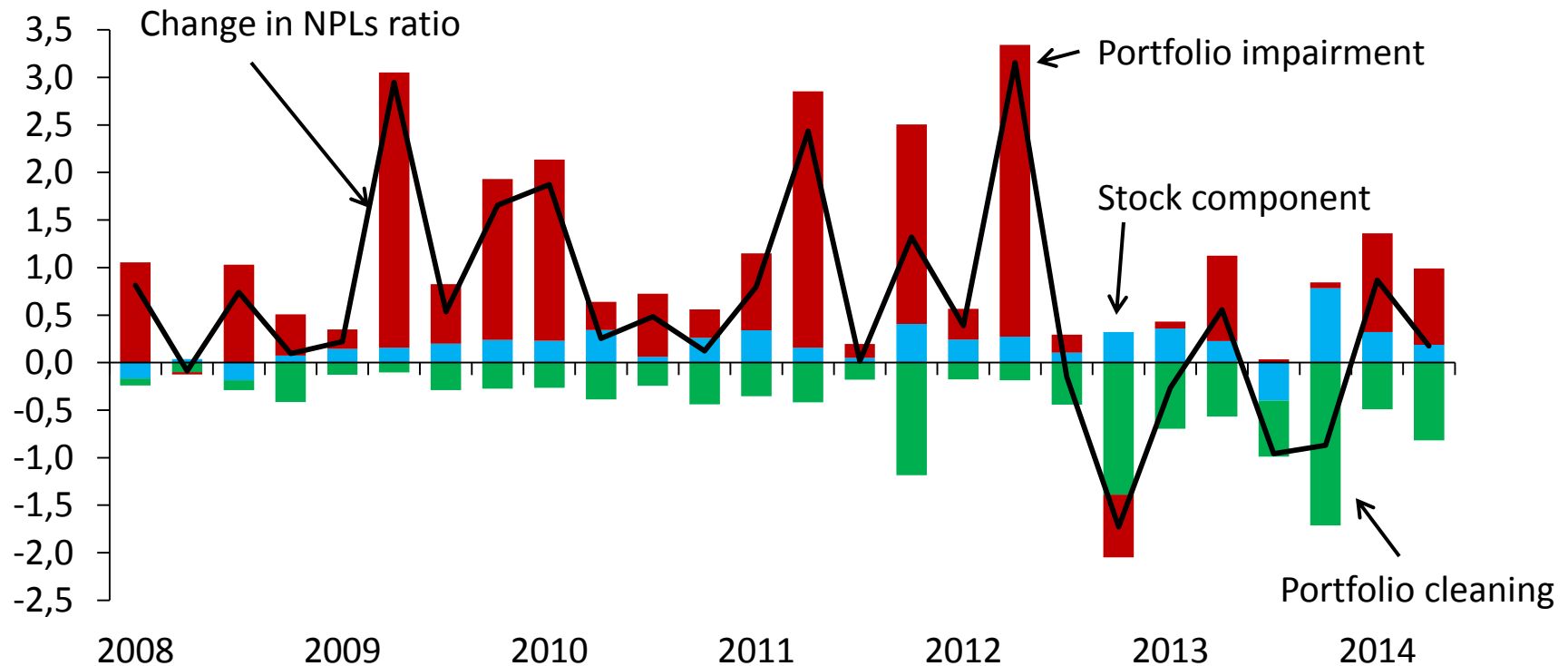
* Point estimates of 4-quarter cumulative impact based on panel VAR model.

Credit contraction exacerbates NPLs problem in Hungary...



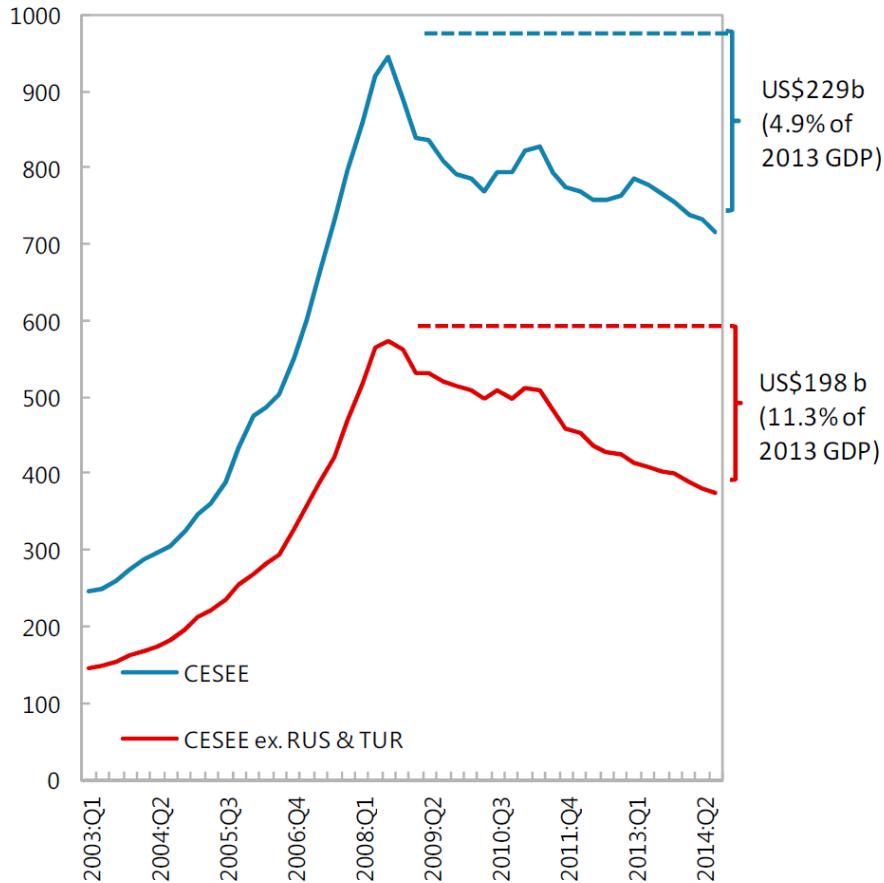
...while portfolio cleaning continues.

Factors affecting changes in NPLs in corporate sector in Hungary
(percentage point)

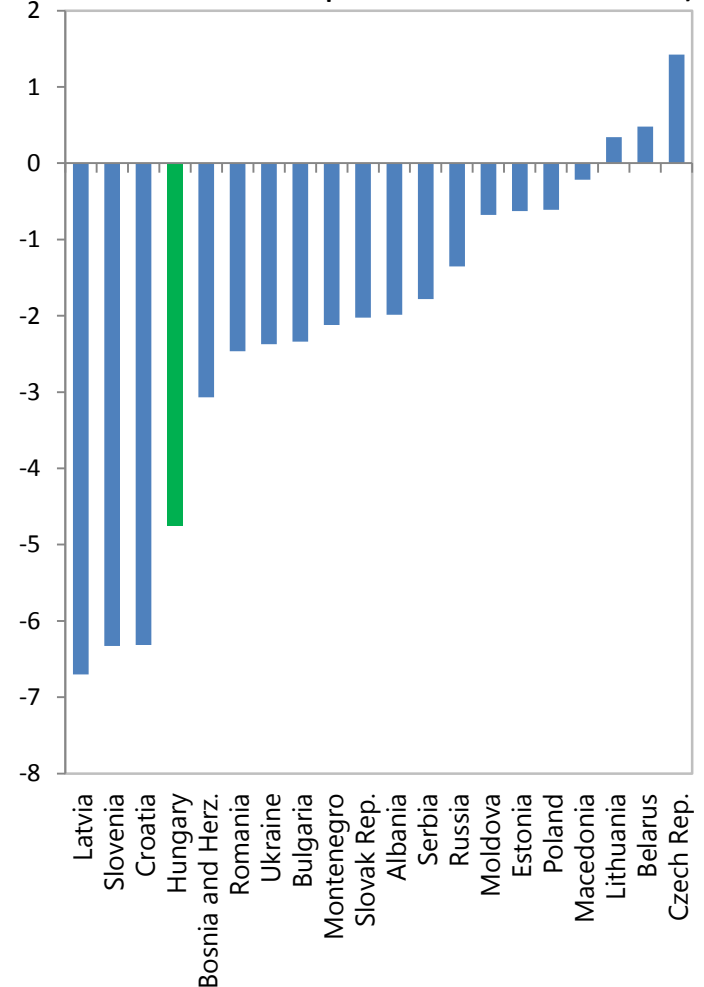


Credit contraction: Deleveraging

External Position of BIS-reporting Banks
(USD billions, exchange rate adjusted)

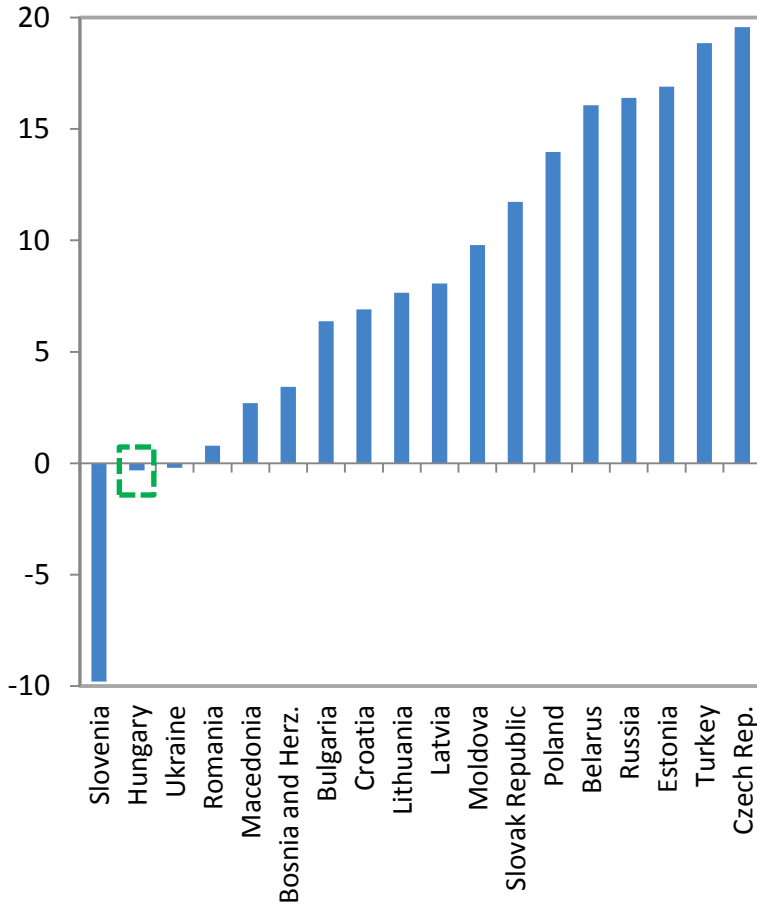


External Position of BIS-reporting Banks
(exchange rate adjusted changes, 2013Q4 -2014Q3, percent of 2013 GDP)

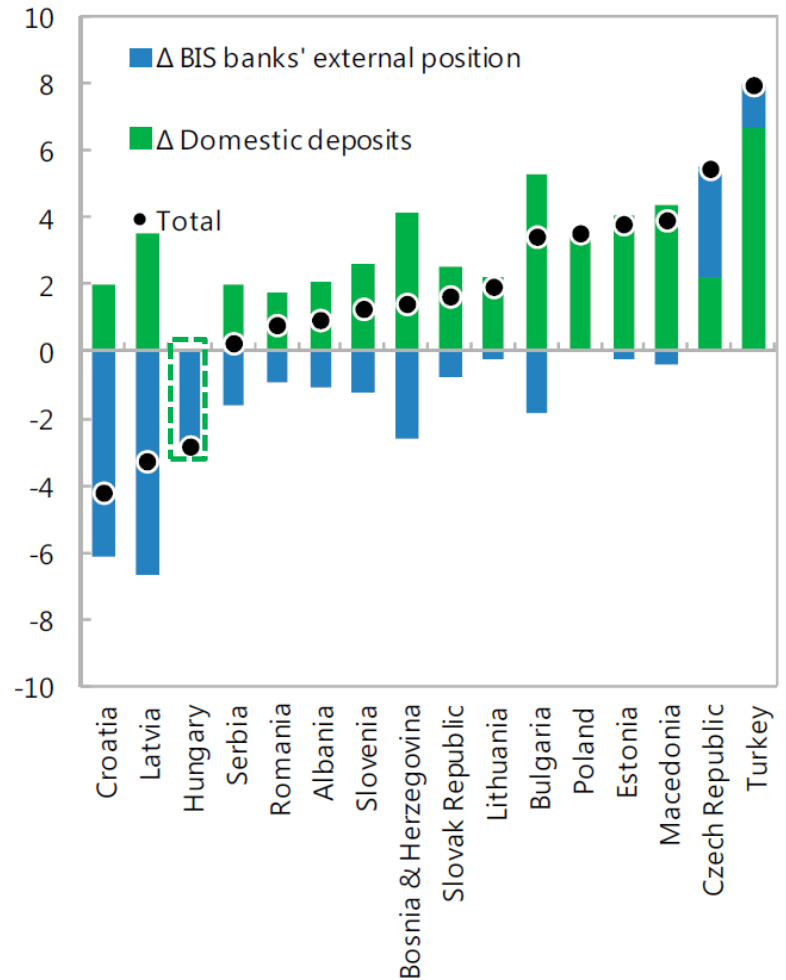


Credit contraction: Bank funding

Banks' Return on Equity
(average 2011q1-2014q3)



Main Bank Funding Sources, 2014q3
(y/y change in percent of GDP, XR-adjusted)



Findings of 2012 NPLs Report

Factors behind slow resolution of NPLs include:

- Delays and weaknesses in enforcement of collateral
 - Underdeveloped frameworks for going-concern or out-of-court restructurings lead to lengthy and inefficient liquidations
 - Absence of insolvency frameworks for natural persons leaves debt lingering on bank books
 - Weakness in legal institutional frameworks delay resolution and overload court systems
 - Tax systems disincentivize recognition of losses
 - Lax banking supervision provides disincentives for NPL resolution
 - Underdeveloped markets for distressed assets
 - Collective action problems
- *Need comprehensive, tailored, coordinated approach*
 - *Avoid direct government intervention/subsidy*
 - *Improve NPL transparency and data consistency*

Thank you

