

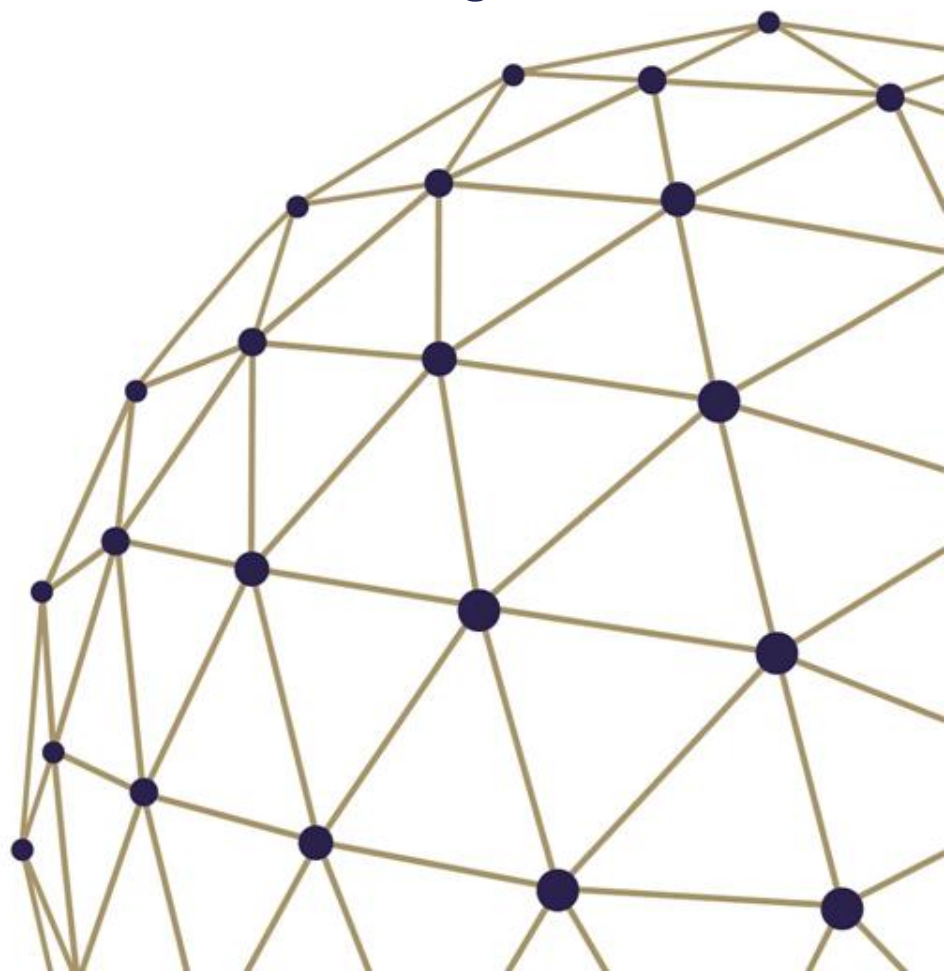


NPL resolution: a macro view

Gergely Fábián

MNB-EBRD workshop on debt Restructuring and NPL
Resolution in Hungary

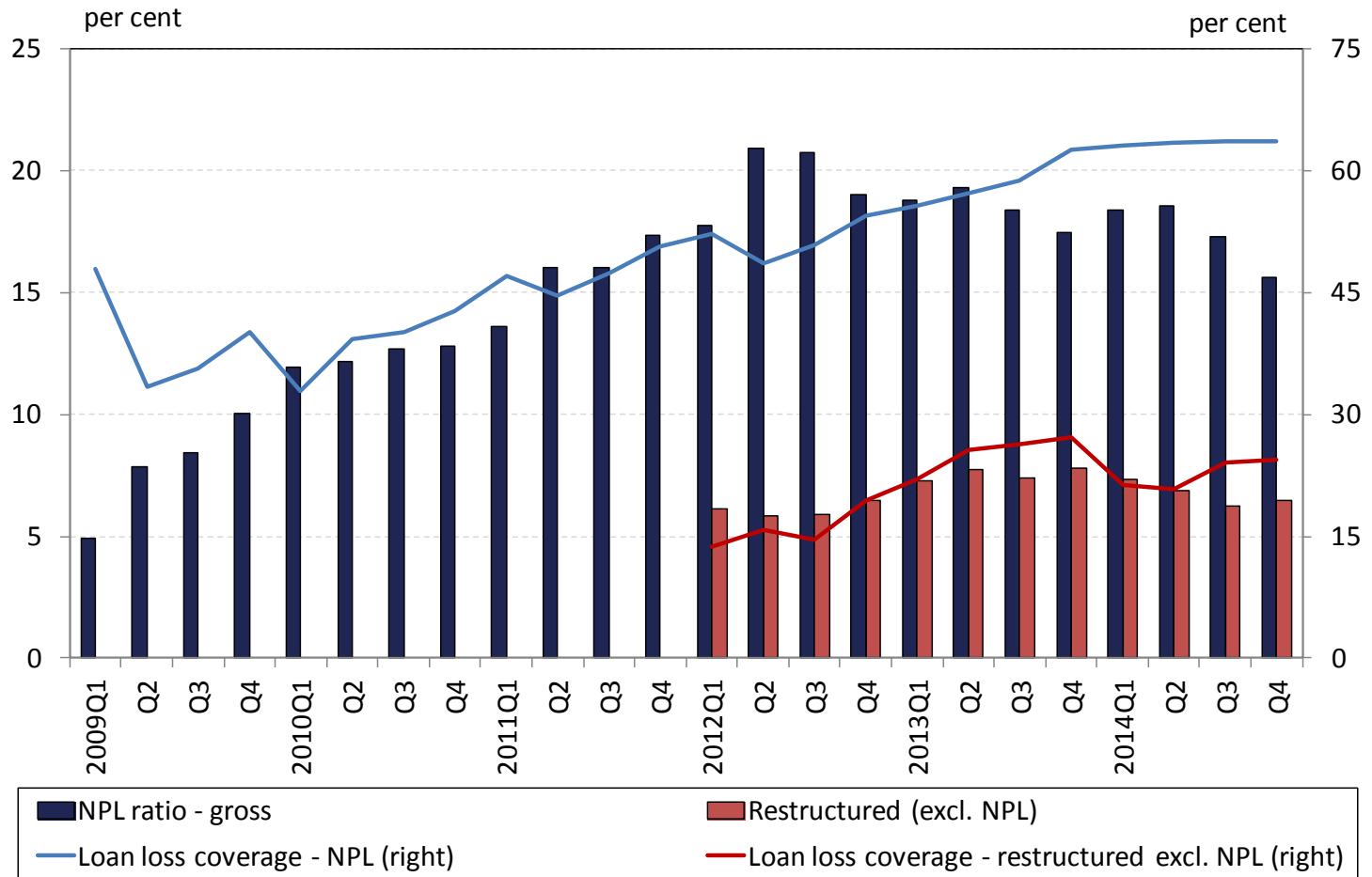
3 March 2015





High corporate NPL has been a problem for years

Distressed corporate portfolio in the Hungarian banking sector



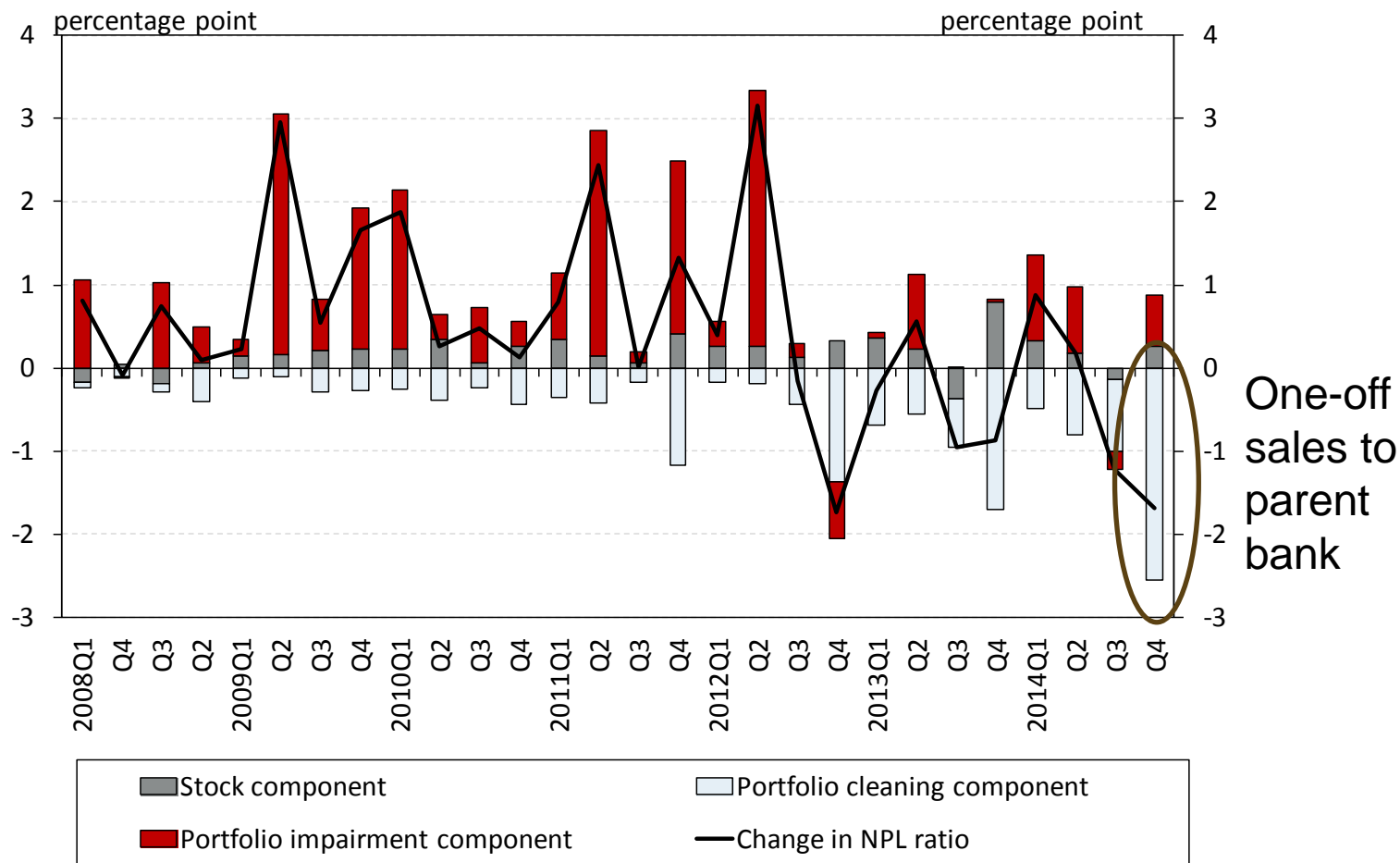
Note: Banking sector does not include foreign branches , cooperative savings. Restructured loans in this decomposition is available since 2012.

Source: MNB.



There has not been notable portfolio cleaning in the past 6 years

Factors affecting changes in the ratio of non-performing corporate loans in the banking sector

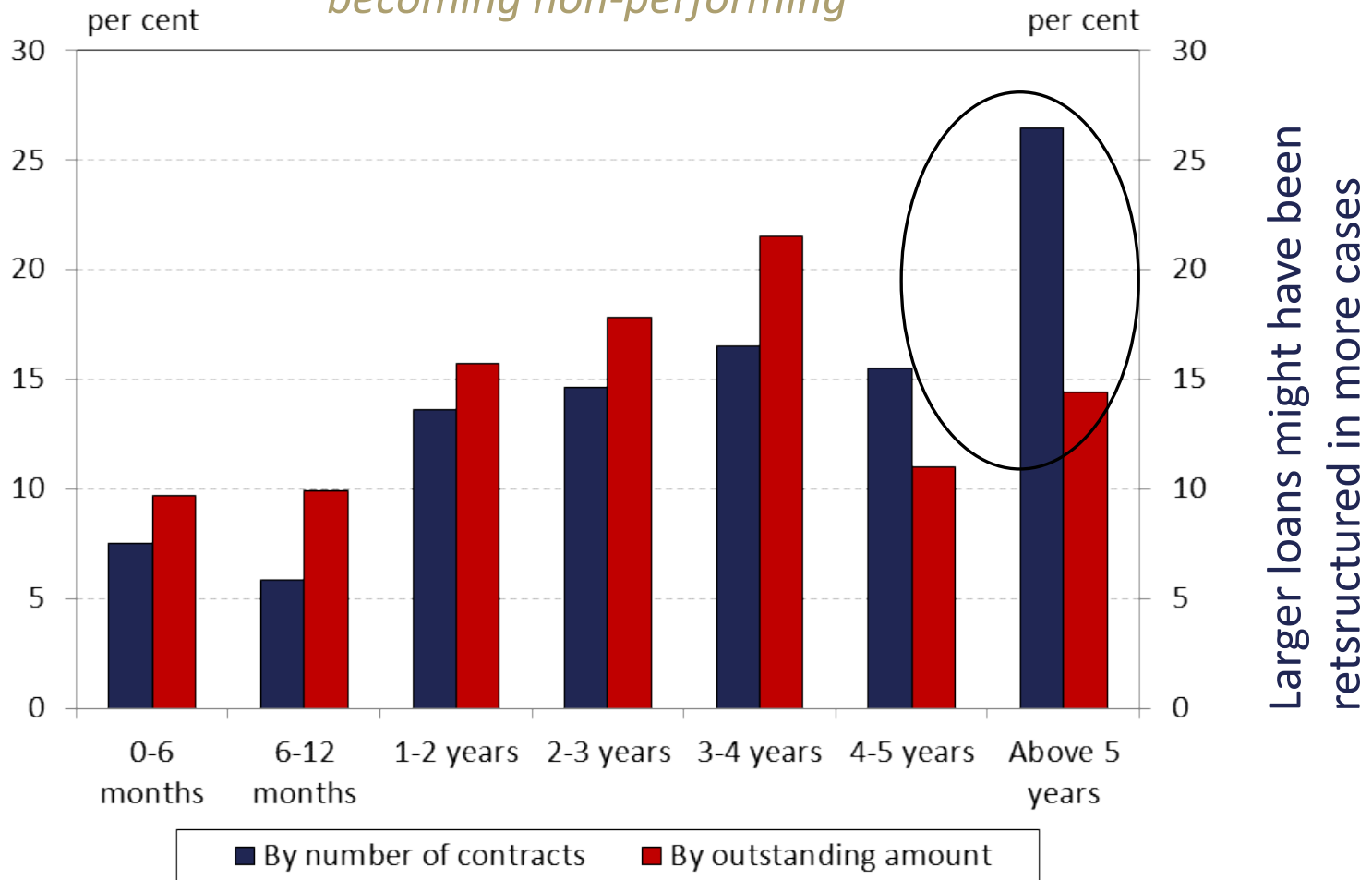


One-off sales to parent bank



As a result, distressed loans are stuck for years

Distribution of corporate NPL according to time elapsed since becoming non-performing

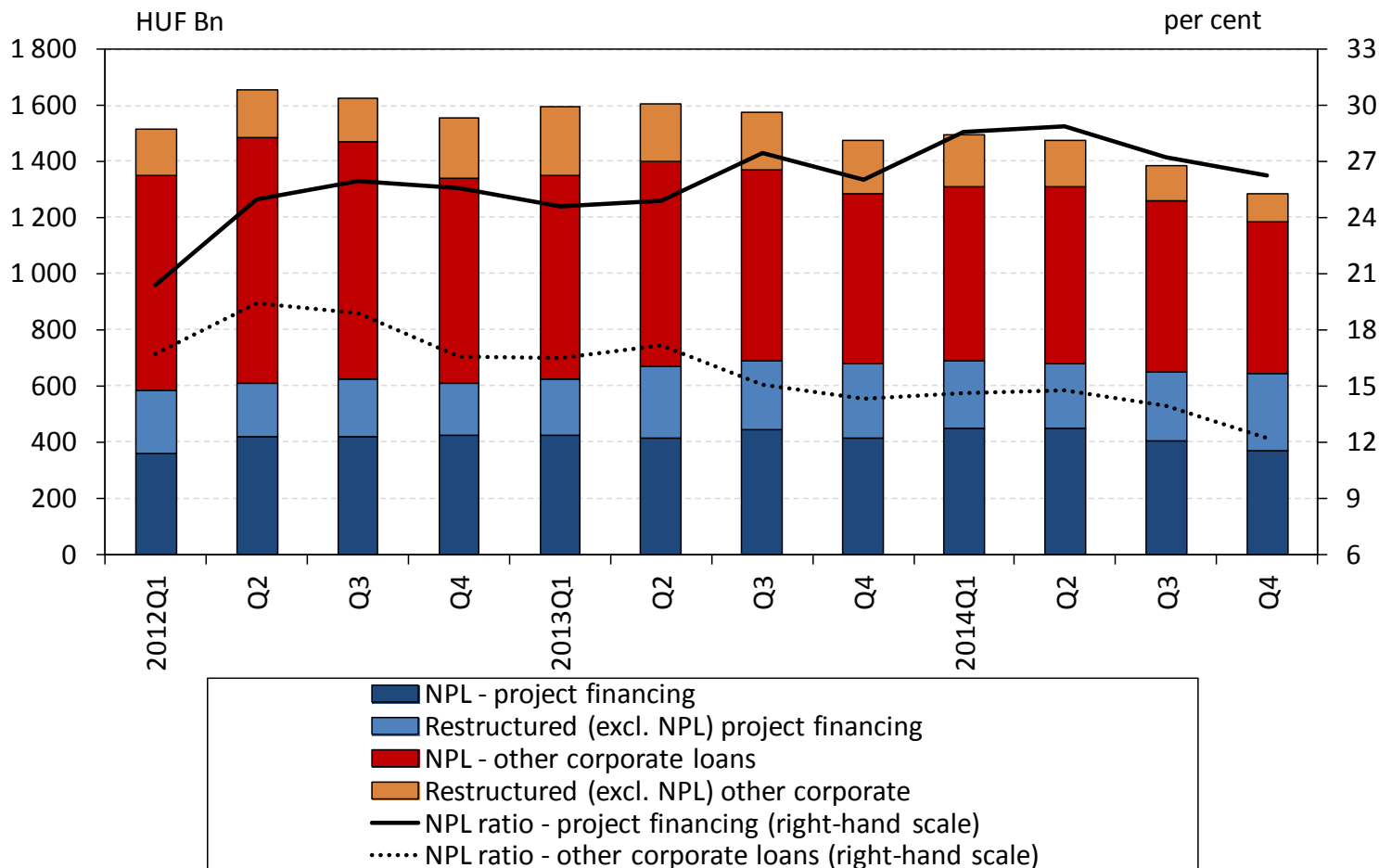


Source: Central credit registry (CCR).



A particular concern is commercial real estate loans segment

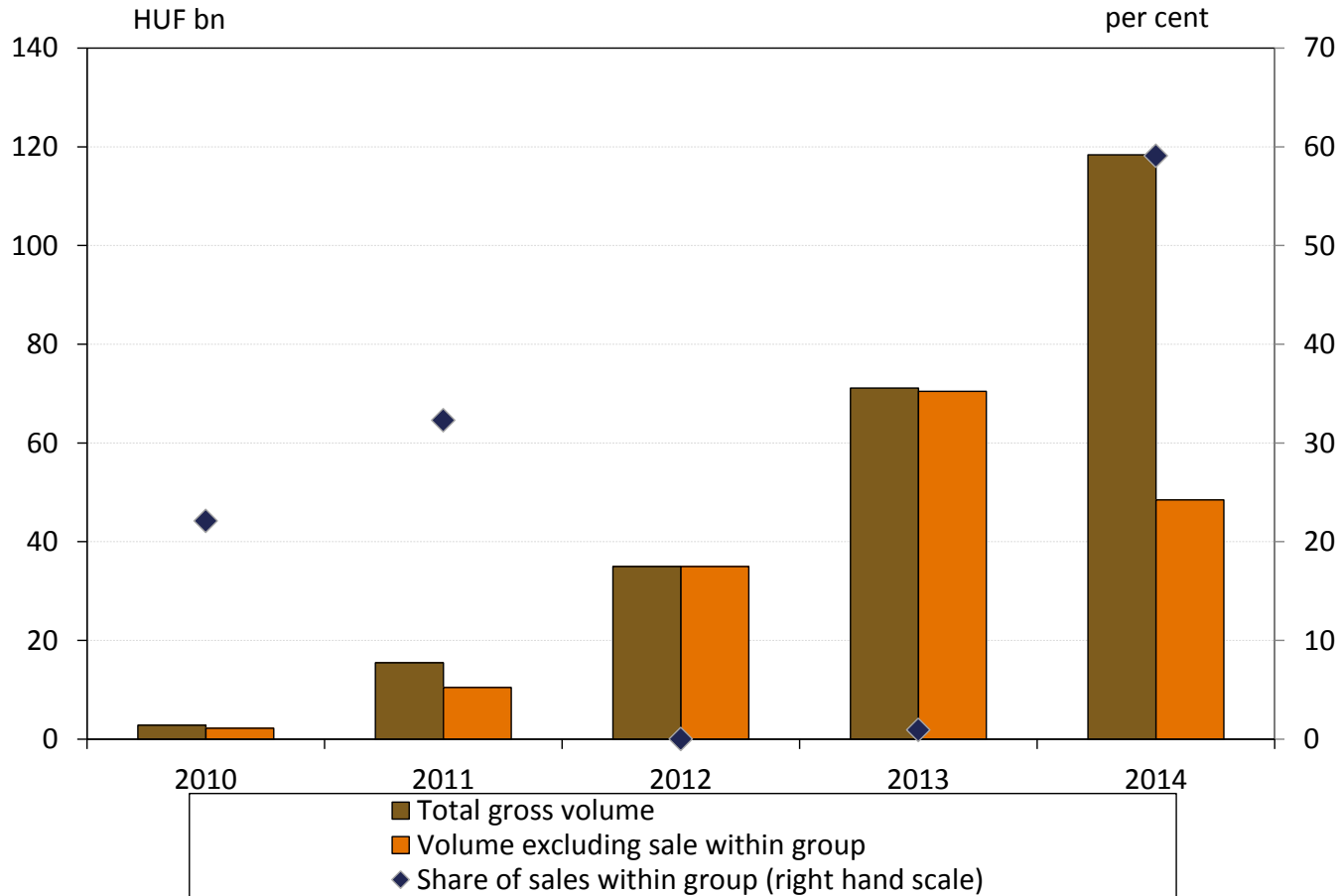
Distressed project and other corporate loans within the banking sector





Stronger cleaning is needed in the CRE segment

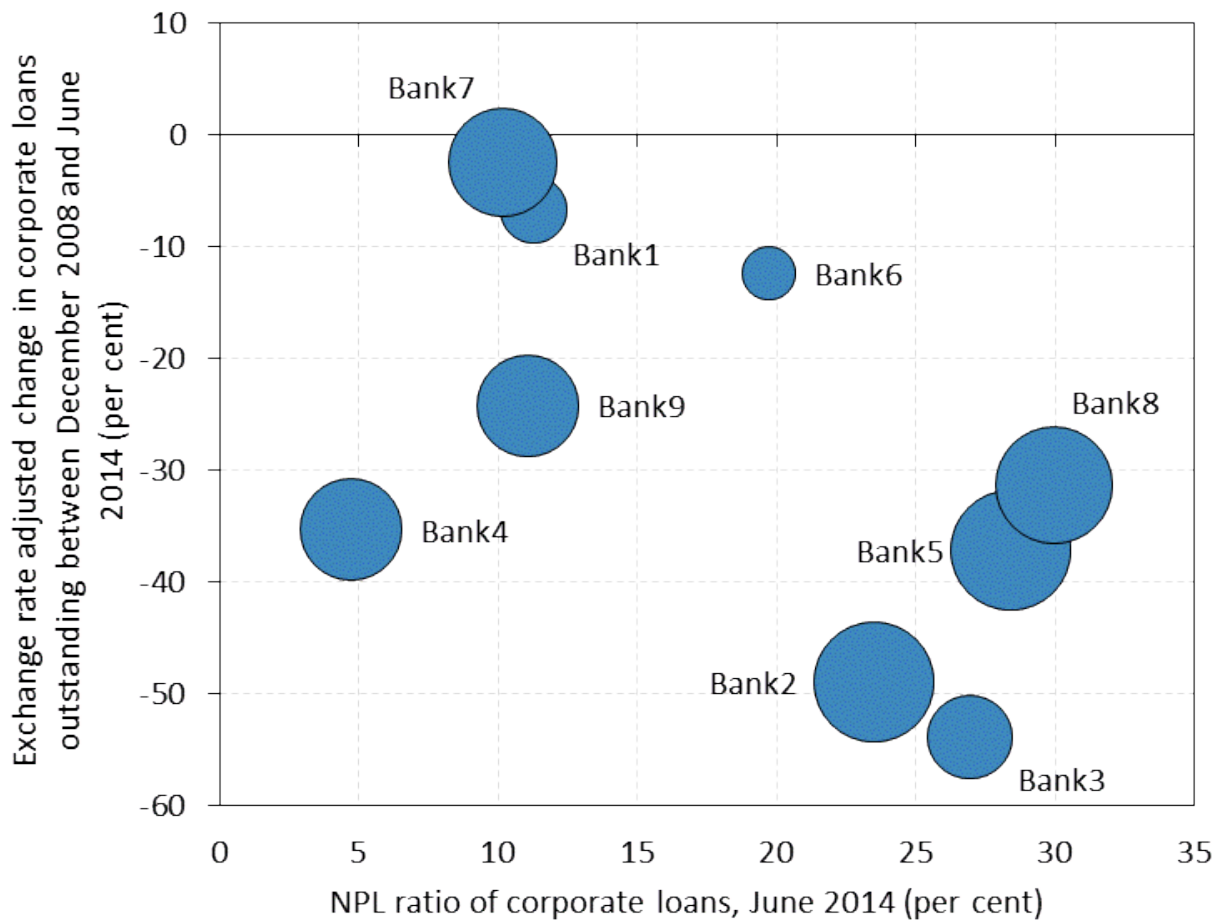
Sales of distressed project loans in the banking sector





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 is tied
- Resources are tied
- Excessive risk aversion
- Higher funding costs

Source MNB.



Why is it not cleaned?

Excess supply and a lack of demand for distressed assets

Subdued capacity of domestic players

Concealing losses in books

Accommodative monetary policy helps banks procrastinating.

Lack of concluded deals lower interest

Licensing for entry

Pricing mismatch

Sluggish legal procedures

Wait-and-see strategy by banks

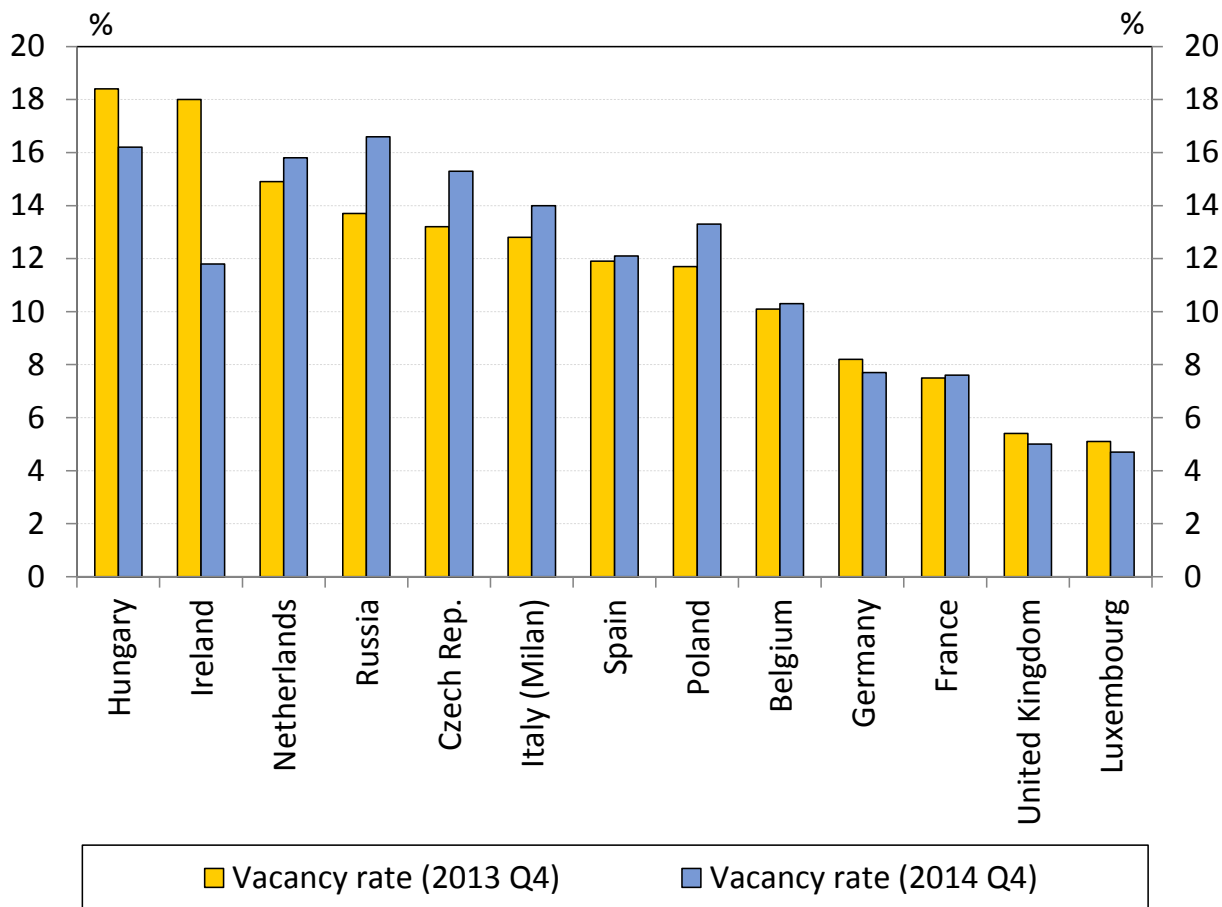
Not just price, but size, proper information issue

Laissez-faire by authorities



High vacancy in international comparison, but there is an improvement recently

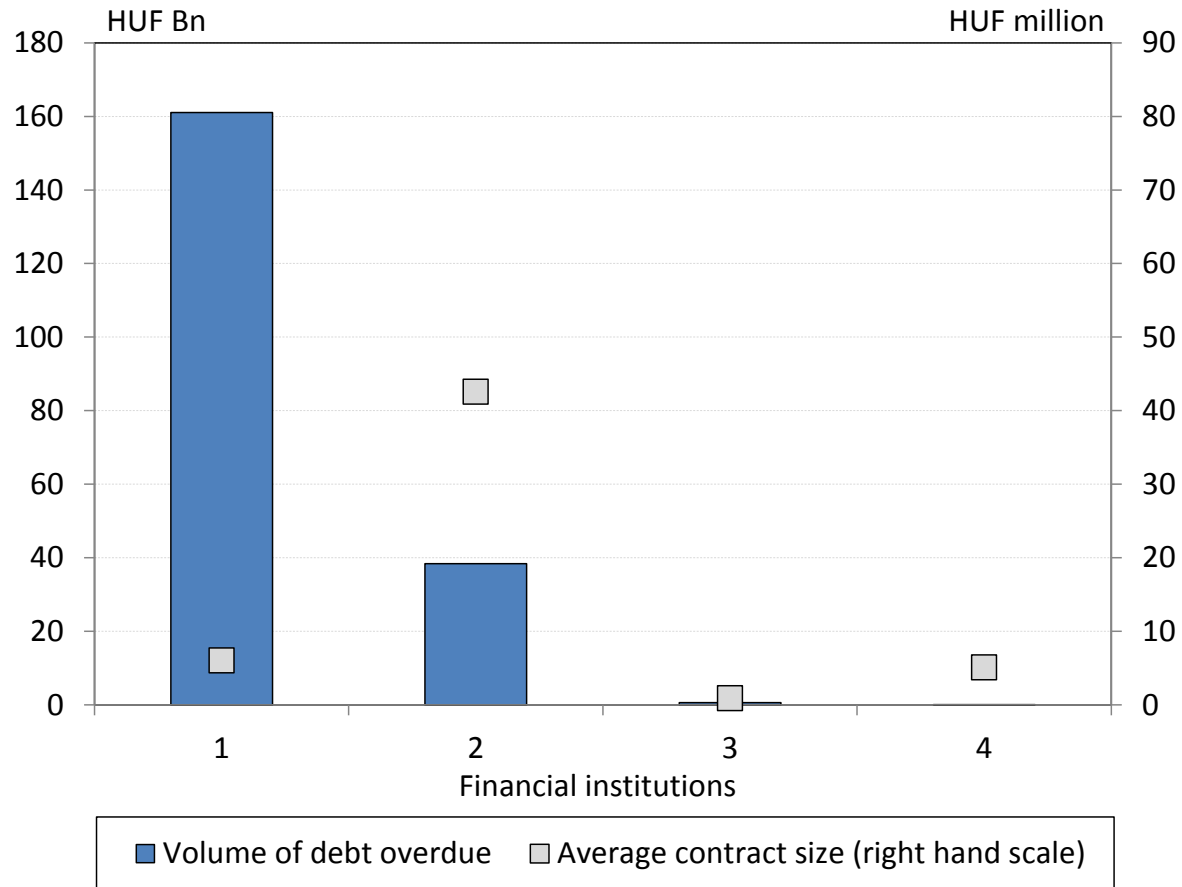
Vacancy rate of capital city office markets in international comparison





Low capacity from domestic players

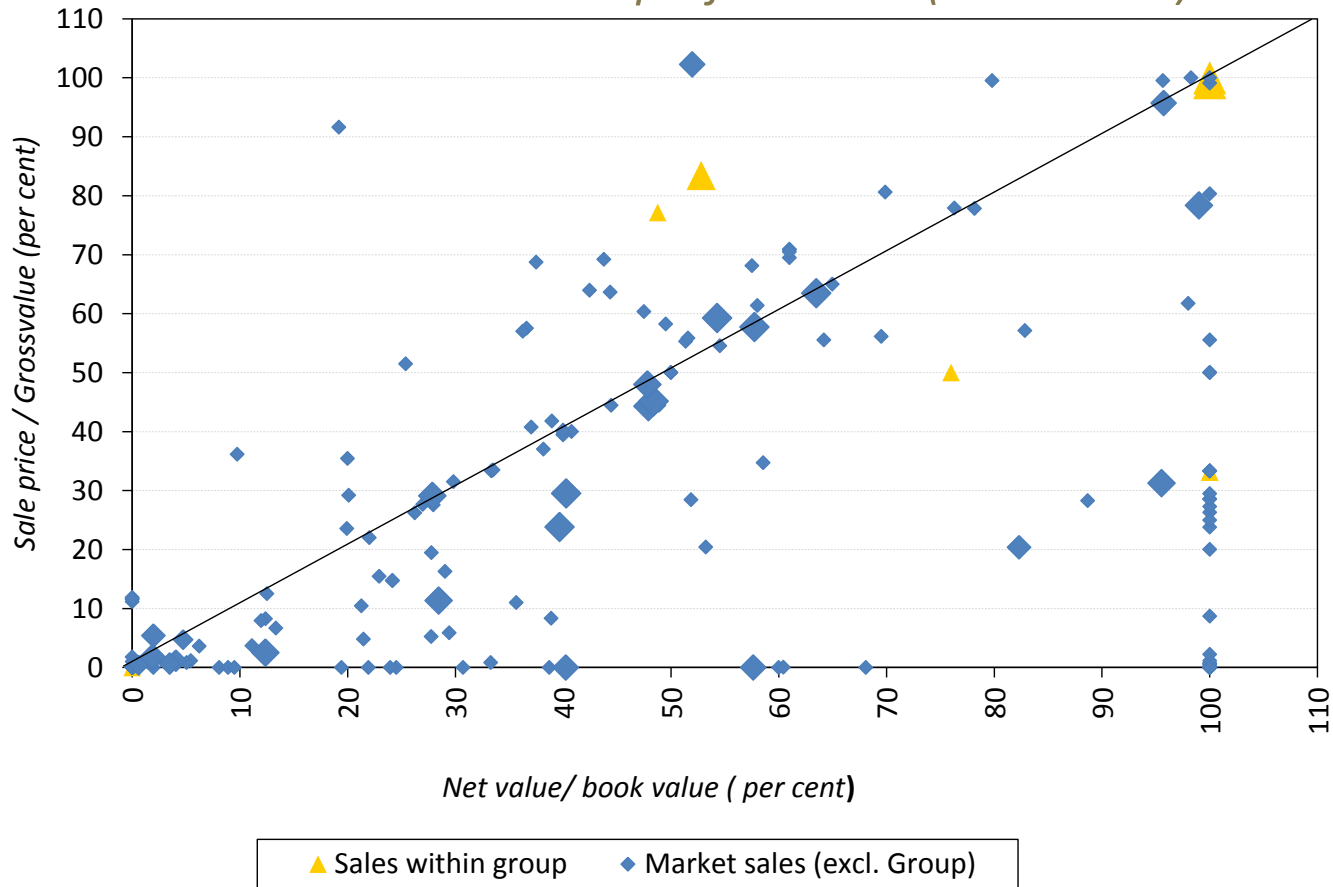
Non-performing corporate exposures of workout factoring companies and the average contract size (end 2014)





Significant heterogeneity in market prices

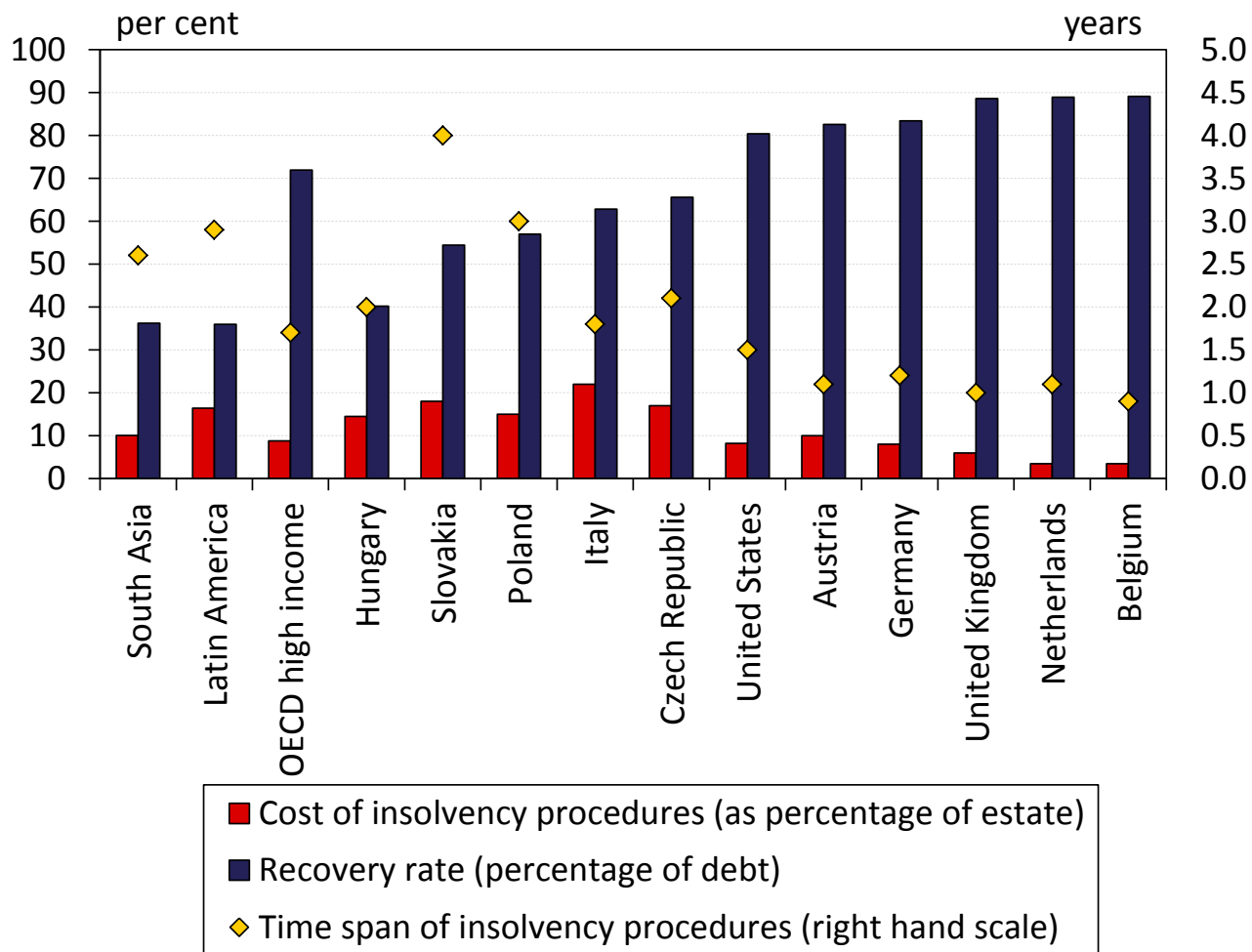
Sale prices and net values compared to gross value of individual distressed project loans (2010-2014)





Room for improvement in insolvency procedure, but not at any cost

Efficiency of insolvency procedures in international comparison





MNB's approach

- **Co-operation with EBRD** from February 2014 on the legal and regulatory framework
- **Setting-up an AMC (MARK Zrt)** to tackle the problems in the CRE segment
- **Tighter prudential rules**, justified by the uncertainties in the balance-sheets from stuck portfolio

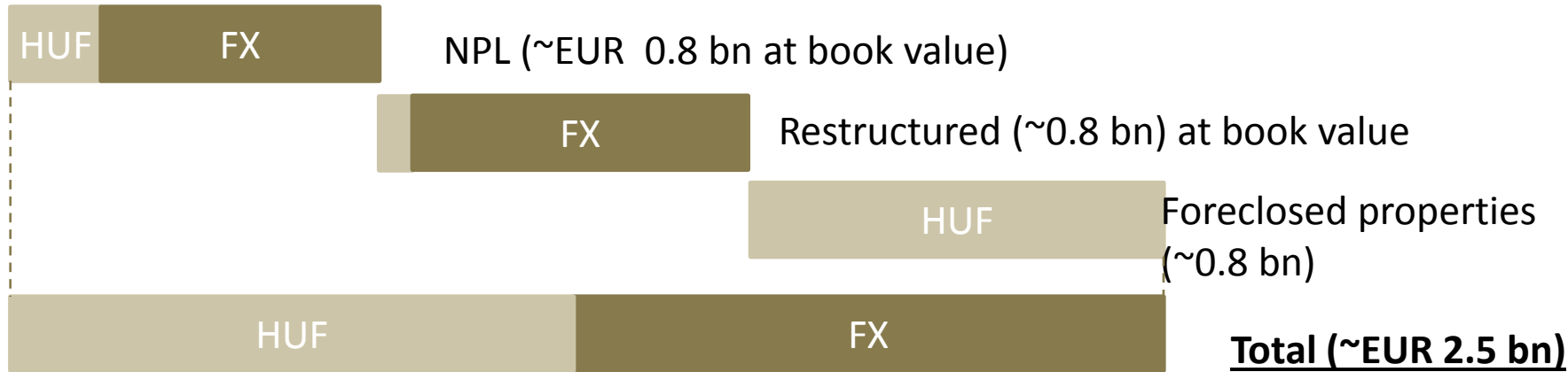


The established asset management company is MARK-et tool for portfolio cleaning

- **Specialized, separate commercial operator, a willing buyer acting knowledgably**
 - with a sole focus on maximizing profit
 - 10-year horizon with a limited enrolment window
 - With professional staff
 - Marked-based funding and prudent valuation based on thorough due diligence
- **Following discussions with ECB and EC the strategy is changed – Shift to market pricing**
- **IMF technical assistance on operations, hence working group with banks**
- **In the following months finalizations of operations**



Targeted and focused solution with limited risks



Take-up is planned to be EUR 1 bn at transfer prices; it can increase, if demand is higher

Potential portfolio is estimated to be around EUR 2.5 bn, less than 500 deals

Limited: less than 2.5 per cent of the MNB balance-sheet...



Concluding remarks

- Muddle-through is not a solution, it is bad for the economy
- A sluggish portfolio cleaning stemming from market frictions justifies intervention
- Laissez-faire is over and was a wrong approach
- MNB wants fast and material portfolio cleaning
- The legal and regulatory environment needs to be streamlined
- MARK helps eliminating frictions in cleaning