General Decision[1]

The Financial Stability Board of the MNB determines the general provisions for the formation of the systemic risk buffer 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 contributes to the prevention or mitigation of non-cyclical systemic risks or if it boosts 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.

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[1] Unofficial translation

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 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 each credit institution operating as a private limited company (hereinafter: credit institution) and to the members of the group containing the credit institution and subject to consolidated supervision (hereinafter: credit institution group), 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 created 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 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 Pillar I capital requirement consolidated at the relevant level are determined on the basis of the data reported quarterly – in accordance with the MNB's decree – by the credit institution or credit institution group in question (hereinafter: quarterly data reports).

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 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 fourth quarter of 2016 on the basis of 2016 Q3 data. Consequently, the systemic risk buffer has to be maintained from 1 January 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 data reported.

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.