General Decision[1]

The Financial Stability Board, following its decision made on 18 March 2020, suspends the application of the general requirements for the formation of the systemic risk buffer for an indefinite period; therefore, the general provisions for the formation of the systemic risk buffer adopted on 6 October 2015 and most recently amended on 8 August 2019 shall not apply from 1 January 2021 based on data as of 30 September 2020.

The Magyar Nemzeti Bank modifies, with its decision of 8 August 2019, the general provisions for the formation of the systemic risk buffer, established by the Financial Stability Board in October 2015 and amended in September 2016, and sets the deadline for the introduction of the modified systemic risk buffer requirement to 1 January 2020.

Accordingly, the Financial Stability Board determines the general provisions for the formation of the systemic risk buffer, applicable from 1 January 2020, – in one coherent framework with the amendments – as follows:

The excessively rapid, adversely structured and concentrated build-up of commercial real estate project-financing exposures in the Hungarian banking system poses a key macroprudential risk. In connection to the project-financing segment characterised with high procyclicality owing to the peculiarities of the commercial real estate market, a shock can lead to considerable losses in the banking system through non-performing loans, and even the solvency of banks can be damaged. The persistence of accumulated non-performing portfolios in turn may limit banking system's role in supporting economic growth.

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 is warranted by the need to prevent or mitigate non-cyclical systemic risks or to boost 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 revise the systemic risk buffer to prevent risks related to commercial real estate project financing loans.

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[1] Unofficial translation.

On the one hand, the systemic risk buffer increases the shock-absorbing capacity of the institutions that develop excessively large risky portfolios of project-financing loans and do not curtail their problem exposures, and on the other hand, it may encourage institutions to follow less risky project-financing practices and to remove problem stocks from their balance sheets or to keep such portfolios at a low level. 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 domestic problem project loans and real estate exposures as well as domestic foreign currency exposures qualified as non-problem carrying future risks. The expected impact of the systemic risk buffer on the Single Market is not significant, since it must be accumulated only with regard 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.

The size of the systemic risk buffer depends on the ratio of the weighted sum of problem exposures and foreign currency exposures qualified as non-problem 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 the weighted sum of problem exposures and foreign currency exposures qualified as non-problem exceeds 30 percent of the capital requirement and the non-weighted, aggregated gross value of problem exposures and foreign currency exposures qualified as non-problem is greater than HUF 20 billion, the systemic risk buffer is set at or above 1 percent. The systemic risk buffer rate cannot be higher than 2 percent.

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 credit institutions operating as private limited companies (hereinafter: credit institutions) and to the members of the groups containing the credit institution and subject to consolidated supervision (hereinafter: credit institution groups), 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 formed 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 weighted sum of problem exposures and foreign currency exposures qualified as non-problem to domestic (Hungarian) 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, except for 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. Foreign currency exposures qualified as non-problem mean the gross value of domestic commercial real estate project loans in foreign currency and not classified under problem exposures in Clause 5.

7. The weighted sum in Clause 4 includes 100 percent of the value of problem exposures and 5 percent of the value of foreign currency exposures qualified as non-problem.

8. The problem exposures and foreign currency exposures qualified as non-problem concerned, as well as the domestic (Hungarian) Pillar I capital requirement consolidated at the relevant level are determined on the basis of the data reported in quarterly reports L70 and L71 in accordance with the MNB Decree on the reporting obligations for the central bank information system to be fulfilled primarily in the relation to carry out the basic tasks of the Magyar Nemzeti Bank by the credit institution or credit institution group in question (hereinafter: quarterly data reports), and, related to problem exposures and foreign currency exposures qualified as non-problem, other data available to the MNB within the scope of its tasks defined in the MNB Act.

9. 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 percent of the domestic (Hungarian) risk weighted assets. Should the weighted sum of problem exposures and foreign currency exposures qualified as non-problem exceed 30 percent of the domestic (Hungarian) Pillar I capital requirement and should the non-weighted, aggregated gross value of the problem exposures and the foreign currency exposures qualified as non-problem be at least HUF 20 billion, the systemic risk buffer rate shall be set at or above 1 percent.

Weighted sum of problem exposures and foreign currency exposures qualified as non-problem as a proportion of the domestic Pillar I capital requirement, if the non-weighted, aggregated gross value of problem exposures and foreign currency exposures qualified as non-problem exceeds HUF 20 billion	**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%

10. 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

11. The individual decisions governing the systemic risk buffer rate shall be made by the MNB in the fourth quarter of 2019 based on 2019 third quarter data. Consequently, the revised systemic risk buffer must be maintained from 1 January 2020.

12. 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 quarterly data reports and the other data concerning problem exposures and foreign currency exposures qualified as non-problem available to the MNB within the scope of its tasks defined in the MNB Act.

13. 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.