GKI Economic Research Co.
We analyse and you take the decision.

The situation after the final payback of FX loans

According to the figures of the Hungarian Financial Supervisory Authority, with the final payback of FX loans in one instalment at a fixed exchange rate, 160 thousand contracts with a total amount of more than HUF1200 billion at market rate were closed down. Nevertheless, due to the preferential treatment by the government, those concerned had to pay less than HUF900 billion rather than the amount indicated above. According to the assessment of portfolio.hu, this sum accounts for maximum 18 per cent of the number of those having foreign exchange loans and 21-22 per cent of the stock of FX loans. (For those indebted in Swiss franks, these indicators are slightly higher.) Thus, the losses of banks are more than HUF330 billion. Taking into account the 30 per cent write-down of losses from the bank tax, the net effect totals about HUF230 billion.

In its forecast published in September 2011 assuming the involvement of 20-35 per cent of those concerned, GKI projected the one-off payback of a debt stock valued at HUF1000 billion-HUF1700 billion resulting in losses of banks estimated at HUF200 billion – HUF250 billion. (Nevertheless, at that time the partial involvement of the government in the losses was not on the agenda.) The actual figures indicate that the involvement of the debtors slightly exceeded the lower range of the forecast and bank losses were close to the upper range of the projection. Higher involvement rate would have been realised if banks had provided forint loans quasi automatically to the repayment of FX loans. This seemed to be possible in September; however, it did not prove to be the case actually. The significant weakening of the forint since September bolstered the repayment of FX loans in one instalment, whereas the simultaneous rise of lending rates in Hungarian forints as well as the negative behaviour of the banks restrained the replacement of FX loans by forint one. In fact, only 30 per cent of those having repaid their FX loans in one instalment applied for forint loans. The mentioned weakening of the forint enhanced the losses of the banks (the weaker exchange rate accounted for one sixths of total losses). This explains why the end result approached the upper part of the forecast range. The agreement between the banking association and the government can be interpreted in such a way that the banking system received back the loss-increasing impact of the additional weakening of the forint that have taken place since last September.

The estimates on the sources of the final amortisation of FX loans are rather uncertain. The repurchase of insurances, the redemption of investment units and the contraction of the deposit stock of banks together with new loans provided accounted for only 55-60 per cent of the total repayment of FX loans. Revenues from the sale of real estates – according to market information they jumped temporarily to a three-year peak in January 2012 – cannot be added to this since the buyers, too, had to acquire money in one way or another. Sources withdrawn from business undertakings must have contributed to financing the one-off repayment of FX loans as well, but no figures are available for the size of these transactions and for the employers' contributions allowed by law. Many of those concerned used cash held at home, but this is not a satisfactory explanation at the level of the national economy since by the end of 2011 in Hungary the cash stock relative to GDP, that has always been high by international standards, reached new all-time highs. The major cause of this must have been the demand of a certain part of Hungarian households for increasing cash reservs motivated by the fear from government default. This fact and the increase of deposits allocated abroad indicate that the fall of domestic financial investments was used not only for the one-off repayment of FX loans, but for the transfer of a proportion of saving into instruments considered more secure as well. This means that in the past few months Hungarian households accomplished cash transfers valued at several billions of Hungarian forints aiming at the one-off repayment of FX loans at home and deposits abroad in order to find security.

The perspectives of 700-800 thousand households with FX loans who were unable to repay them in one instalment are still uncertain. The national asset management institution whose objective is to solve the problem of about 1500 households who practically defaulted, started its operation (at least in principle), but its actual role is still opaque. The extension of the pre-set fixed exchange rate and the takeover of interest burdens by the government and the banks may improve the position of many FX loan debtors. Nevertheless, due to-in part-the shortage of resources and confidence caused by the final amortisation of FX loans, the Hungarian economy may fall into recession as a result of which the decline of real earnings and employment may lead to a critical situation for many FX debtors. This may have a serious negative impact on those having replaced their FX loans by HUF ones. The same holds true for those having taken family loans. The contribution of banks and the government valued at about HUF330 billion helped those who would have in the position of financing their FX loans whereas the problems of those in need of help became more serious. The problem of all those having defaulted on FX loans would have been solved from this huge sum as well as from the provisions of banks for these liabilities. (It is a different issue that their simple bail-out would have been harmful from an economic point of view since such a measure would have eroded the willingness to pay by other debtors.)

Simultaneously with the expiry of the possibility of repaying FX loans in one instalment, a report was prepared by experts for the parliamentary subcommittee examining responsibilities for the diffusion of FX loans. This report focused on analysing the issue objectively and on drawing conclusions rather than on looking for scapegoats. It highlighted the responsibility of households unable to understand risks, that of banks that were interested one-sidedly in the extension of loans and thereby in the increase of profits, that of the government as well as of the central bank that strengthened the forint and the weak supervisory authority.

It seems that the government, too, started to draw the conclusions of the one-off repayment of FX loans. An indication for this is that according to news the prime minister does not see any possibility of imposing additional burdens on banks in the context of the bail-out of local governments. In contrast to this standpoint, the constitutional committee of the Parliament is set to propose the government to examine the switch of FX loans of local governments to HUF ones at the original exchange rate at which the FX loans were provided.

Even if this proposal will not materialise, in the next years Hungarian economic participants will suffer from the effects of the failures having made until recently. The final one-off repayment of FX loans undermined the rule of law and legal certainty, and damaged the investment climate. In addition, banks are likely to appeal to the Court of the European Union for the total recovery of their losses by the Hungarian government. If this appeal is successful, the Hungarian government will have to face significant fiscal burdens in the future.

GKI Economic Research Co.