



REPORT

**on developments concerning the Hungarian banking
sector in Q1 2019 and on the activities of the
Hungarian Banking Association**

May 2019 Budapest

I. Executive Summary

In Chapter II of this report, we summarized the main regulatory developments of Q1 with regard to the banking sector.

Two regulations of the European Union were implemented during the quarter. The Ministry of Justice started the legislative transposition of the EU directive serving the encouragement of long-term shareholder engagement, which primarily concerns institutions that provide investment services to customer in the form of public limited liability companies. In addition to this legislative process, the transposition of the guidelines of the EU capital markets supervisor (ESMA) on the proper fulfillment of obligations for informing customers in advance when providing investment services into an MNB recommendation was also completed and published on April 15th.

With regard to domestic legislation, an important development is the legislative work for the introduction and modification of state-supported retail lending facilities under the family protection action plan, effective from July 1st of this year (Support for Parenthood, further conditions for CSOK and the simplification of its administration, the further reduction of the mortgage debts of families with three or more children, vehicle acquisition support for large families). Another important development is the MNB recommendation targeted at converting variable interest loans into fixed interest loans – the majority of which were entered into prior to the entry into force of fair banking rules (most of them as FX loans) – and the aim of which is converting transactions that are still carried out at a variable interest rate. Yet another development worthy of mention is that the Ministry of Justice's decree which intends to raise notarial fees significantly has been postponed further, with the new deadline set of July 1st. Concerning the obligation to indicate the home address of employees with the power of procuration in the company register, we proposed to the Ministry of Justice an amendment similar to the one achieved in the company act in connection with witnesses.

The MNB prepared and sent out several draft recommendations for consultation. Out of these, the recommendation on measuring, managing and controlling credit risk, the recommendation on the internal rules of the personal transactions of capital market institutions, and the recommendations on actions to prevent money laundering have been prepared in line with EU regulations, though not through the authorization of EU legislation or any obligations stated therein, but based on the decision of the Hungarian authorities. The MNB recommendation that aims to extend the settlement of the redemption period of the shares of real estate funds to 180 days was published to serve as a supervisory response measure to internal market processes.

Chapter III includes the essential infrastructural and operational developments within the sector in which the Banking Association played an active role.

As an initiative of the MNB, in collaboration with the HBA and MABISZ, the lending infrastructure will be complemented by a blockchain technology-based database, the aim of which is to keep an up-to-date record of insurances that are considered as collateral for loans. This would be developed with the collaboration of the Banking Association and the Association of Hungarian Insurance Companies (MABISZ). Another important development is that the MNB'S FGS Fix program was launched on January 2nd and that the tender for Certified Consumer-Friendly Housing Loans was modified starting from April. The most significant task in payments was preparing a Feasibility Study conducted in connection with the introduction of the instant payment system and aimed at developing an electronic interbank cash trade marketplace, as well as complementing this study according to the instructions of the Board, a task currently in progress. In addition, we are working on the re-identification of customers according to the new act on the prevention of money laundering by helping the Ministry of Finance follow the process through the weekly collection and summation of data. Consultations are ongoing with regard to the decree on notarial fees and the simplification of unilateral commitment statements. Furthermore, it is important from the point of view of providing services that the

supervisory authority has clearly stated its position on investment fund distribution fees and is open to bilateral consultations on further issues to be interpreted with the distributors concerned.

Chapter IV gives an overview of the internal projects of the Banking Association, as well as of the activities of its working committees and working groups.

The annex contains a list of the EU directives and regulations (Level 1) on finance, published from the start of Q1 until the date this report was published. Furthermore, it contains Commission Regulations completed based on the power of legislation of this level, and dossiers in progress of the same type by providing important information on their current status.

In addition, the annex contains a brief macroeconomic overview and depicts the financial data of the banking sector's institutions, aggregated on an individual basis.

II. Changes to the legal and regulatory environment of the banking sector

1. Important developments in legal harmonization and implementation in Hungary

Transposing the amendment of the directive on the exercise of certain rights of shareholders in listed companies

The Ministry of Justice prepared the proposal on the amendment of certain acts on economic law, which serves the implementation of Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement. Directive 2007/36/EC on the exercise of certain rights of shareholders in listed companies regulates certain rights of the shareholders of public limited liability companies as well as the social obligations which ensure that these rights may be exercised. The modification of the corporate law directive in force focuses on the realization of competitiveness within the framework of capital markets EU objectives.

MNB recommendation on the individual aspects of the adequate fulfillment of precursory orientation obligations normative in investment services

The recommendation serves the Hungarian implementation of the ESMA guidelines published in connection with the MiFID II eligibility requirements. It concerns the supervisory requirements for the substantive issues and technical implementation of eligibility and compliance tests and defines best practices. With regard to investment advice and portfolio management, the recommendation presents the opportunity for an eligibility evaluation which considers the entire portfolio of the customer. This more flexible approach is fundamentally different from previous supervisory requirements, which derived an eligibility evaluation at product-level, in accordance with previous legislative requirements. At the same time, the wording of the recommendation often allows for loose interpretation, which makes it harder to implement. It also raises data protection issues in the case of retail clients due to the level of regulation, and its entry into force one month after it was announced on April 15th does not grant enough time to prepare practices that are adequate for the recommendation.

2. Other significant legislative and regulatory developments in Hungary

Regulations concerning retail lending and support schemes for families

Consultations on the MNB draft recommendation on the **opportunities for exchanging variable interest loans** were completed in the first quarter, where together with the MNB and the member institutions concerned, the issues discussed were the clientele involved in fixing, the contents of the informative letter and the timing of the information of customers.

We consulted on the legislation and government decree for the **Support for Parenthood** (a part of the Family Protection Action Plan): the conditions for applying for the support (which is to be launched on July 1st) are now concluded therein. The issues discussed were ways to facilitate the application of the new scheme in the sector as well as a solution for eliminating the practical problems with the guarantee redemption.

In addition, new favorable regulations concerning both new and used homes were announced with regard to the modification of the **Home Purchase Subsidy Scheme for Families** (CSOK) as part of the program. The regulations for decreasing the **housing-oriented mortgage debts** of families with three or more children have also been announced, where the support for families is realized through an increased amount of support and the broadening of the conditions.

In accordance with efforts for deregulation the **simplification of the financial settlement of CSOK rules** has been consulted on and adopted. It will enter into force in the autumn.

The government decree for the vehicle access support program for large families has also been consulted on and has been published; it will enter into force on July 1st. The sector voiced further issues and recommendations with regard to the regulation, consultations on these will take place in the second quarter.

Determining Notary's Charges

Based on the new decree of the Ministry of Justice on Notary's Charges the notarial charges for customers would have increased significantly, which would have considerably raised the expenses of mortgage loan customers as well. Taking into consideration among others things, the consultations initiated by the Banking Association, the Ministry of Justice postponed the decree's entry into force for the third time, setting July 1, 2019 as its new date. New provisions will be elaborated instead of the charges that will not enter into force. To this end, the Banking Association continued to hold many consultations with the Hungarian Chamber of Civil Law Notaries (MOKK) in the first quarter of 2019. Consultations were also held on reduced notarial charges, which is connected to reducing the interest rate risk of retail mortgage loans. These will continue in the second quarter of 2019. The Banking Association aims to decrease the disadvantageous impact of the new decree on home acquisition and to create a reduced tariff related to decreasing the interest risk of retail mortgage loans.

Indicating the home address of employees with the power of procuration in the company register

Concerning the obligation to indicate the home address of employees with the power of procuration in the company register, the Legal Working Committee sent its amendment proposal to the Ministry of Justice. The proposal that was worded to modify the act on public company information, company registration and winding-up proceedings aims to have the headquarters of the credit institution be indicated in the company register in the case of employees with the power of procuration, instead of requiring these employees to indicate their home addresses.

MNB recommendation on measuring, managing and controlling credit risk

The new recommendation will replace the previous MNB recommendation on measuring, managing and controlling credit risk. As part of the modification, Chapter XVI on certain issues concerning the management of credits risk was the exclusive part to be complemented, which had a 10th subsection added to it. The subsection words supervisory requirements for risk-taking with regard to enterprises

that are under the influence of the shareholders of the credit institutions in question, as well as for the management of internal credit. Although the recommendation refers to the relevant preamble of the CRR, there is no independent authorization or obligation is stated in the regulation for the creation of such supervisory recommendations.

Seizing the possibility for comments, we voiced our opinions on both the new subsection and rules that were included from the current recommendation, but which are problematic: we made suggestions for data protection issues, as well as certain operative and documentation issues. The finalized recommendation has yet to be published at the time of the completion of this report.

MNB recommendation on the internal rules of the personal transactions of capital market institutions

Based on MiFID II and its authorization, the MNB wishes to clarify and complement the rules on concluding the personal transactions of employees that are set within the delegated regulation which regulates the organizational requirements and operating conditions of investment firms by issuing a recommendation. ESMA has not prepared a separate guideline for this, therefore the recommendation is not being elaborated on the basis of legal harmonization obligations. The MNB has made a considerable amount of revisions to the first draft created in March, and has taken into consideration the suggestions that it received. In spite of this, the version available from the beginning of May still contains a problematic expectation, according to which the instruments bought must be mandatorily held for 30 days. Plans are for the recommendation to enter into force on July 1st, which leaves very little time for any changes to be made.

MNB recommendation on rules for the redemption of shares of real estate funds

The MNB issued a recommendation to restrict the forced liquidation of real estate properties with very short maturities (T+3) held by real estate funds. In it, it states its expectation for new funds and the new series of existing funds to be marketed with a redemption time of T+180 days. The recommendation requires that the secondary market resale of the series already existing at the time of its entry into force be carried out through incentivizing the introduction of an investment cap. The banking sector's observations have been included in the recommendation, which was published in the beginning of April, however, the MNB did not support the extended implementation time period that we suggested. Consequently, there is only a very short preparation period for carrying out the necessary operative and internal regulatory tasks and for carrying out the IT developments needed for an extended register until the recommendation enters into force on May 15th.

MNB recommendations on actions to prevent money laundering

The central bank published three recommendations on April 1, 2019. The Banking Association's Anti-Money Laundering Working Group voiced its opinion on these in several rounds in the first few weeks of January. Thanks to several rounds of in-person consultations, the recommendations on declaring high-risk transactions, evaluating money laundering risks, and on certain rules on currency exchange contain the majority of the Banking Association's observations. Representatives of the working group have since then conducted several consultations with the MNB on observations that have not been included in the recommendations, and some of these will be included at legislation level during the fall, when the Act on the Prevention of Money Laundering will be amended.

III. The operating environment and activities of the banking sector

1. Corporate Lending

In order to improve the competitiveness of enterprises, on January 2, 2019, the MNB launched a new loan facility called FGS fix. The budget of the facility is HUF 1,000 billion. Similarly to the previous scheme, within the framework of this one, the central bank provides refinancing sources to credit institutions at 0% interest, which they can relend to SMEs at a maximum 2.5% interest margin.

The MNB asked the Banking Association to cooperate in building a database by applying blockchain technology which is capable of keeping an up-to-date record of insurances that are considered as collateral for loans. This would be developed with the collaboration of the Banking Association and the Association of Hungarian Insurance Companies (MABISZ). If the parties concerned agree, the central bank would carry the expenses of the development, MABISZ would take on reporting and operating the system, and the Banking Association's member banks would join in as users. Four consultations were held on this topic throughout the first quarter.

In February 2019 the MNB issued its management information circular on managing the risks of balloon/bullet repayment loans. Based on the questions raised by its member banks, the Banking Association asked the MNB for its resolution on the circular.

2. Retail Lending

The MNB classifies the contract conditions of the mortgage-based, homeownership oriented consumer loans of credit institutions according to the **Certified Consumer-Friendly Housing Loan tender**. The conditions of the tender were modified, effective from April 1st, following consultations conducted in the first quarter. In this context, among others, clarification was gained on the proceeding for cases where conditions of the loan that were laid down in the offer at the time it was admitted are changed. It was also clarified that an interest period switch that was initiated by the client cannot be tied to further conditions not defined in the tender.

3. Payments

The Instant Payments Project

The Instant Payment Project (AFR/AZUR) entered its new phase at the beginning of this year, since the testing of the system has been started by clearing members. To support this, the HBA organized a weekly testing forum for its member banks with the participation of experts from MNB and GIRO Zrt. in order to identify, discuss and resolve issues that arise throughout the process. In parallel, as asked of us by the project, legal experts from our member banks helped in the elaboration of business rules and contracts that concern the system's operation.

"Requests to Pay" are a part of the AFR/AZUR project as an optional future function and service. To support its introduction, an independent forum set up within the Payments Working Group is processing questions and debating suggestions – an expert from MNB and the head of GIRO Zrt.'s Request to Pay working group were also invited and participated in this. As a result of the above, GIRO Zrt. finalized the new version of the Rulebook and MNB worded the envisaged system operational rules in the form of a recommendation and the HBA provided its observations to these.

Developing Cash Trade

In close collaboration with the Payments Working Group an expert was invited to prepare a Feasibility Study aimed at developing an electronic interbank cash trade marketplace. The study was presented to the Board at its meeting in February. The Board discussed the topic and invited the Secretary General to conduct further analyses on competition law and development costs in consideration of all potential members, and to afterwards present his findings on the topic to the Board at a later meeting.

4. Other activities

The re-identification of customers according to the Pmt.

The Anti-Money Laundering Working Group held several rounds of consultations with the competent colleagues of the Ministry of Finance and the MNB in connection with re-identification as defined in Section 79 of the Act on the Prevention and Combating of Money Laundering and Terrorist Financing (Pmt.). At the professional consultations, in addition to regulators responding to the questions of the sector, the parties compiled a joint press statement in order to have the largest number of customers possible – who are not fully identified according to the new regulations – submit their data by the end-June deadline. Starting from the time the press statement was released until the set deadline, the HBA will provide information to the Ministry of Finance on the number of completed re-identifications and the preparedness of the sector's actors every month.

Unilateral Commitment Statements

Multilateral consultations were held in the Ministry of Justice on the content-related simplification of unilateral commitment statements with the participation of the Hungarian Chamber Of Civil Law Notaries and the Banking Association. Consultations of this topic will continue in the second quarter of 2019.

The management of investment fund distribution fees according to the MiFID II regime

In September 2018 the MNB indicated that based on the experience gained from supervisory examinations it is necessary to transform the generally applied market practices in order to adhere to the regulations on MiFID II incentives. After the high-level consultations organized by the Banking Association and with the help of the Association of Investment Services Providers, the MNB's position is to expressly reject sustaining the portfolio-based distributor commissions. Instead it would accept the application of up-front and cost-based distribution fees. The MNB also understands that the up-front commissions could result in the artificial increase in the number of transactions, but it has the appropriate methodology to filter this out. During the inspection of distributors it will inspect the soundness of the definition of distribution costs in case a cost-based distribution fee is applied – if necessary, with the help of experts. The MNB only considers it acceptable to sustain portfolio-based distribution fees for the primary circle of distributors and only for retail state securities.

Minutes on the meeting were compiled in February in connection with the above. The MNB maintains the position that the "Questions and Answers" that it released on the topic previously do not need to be reviewed.

IV. The Banking Association's projects and the activities of its working groups and working committees

An overview of the EU Dossiers

The Hungarian Banking Association is dedicated to fulfilling its advocacy activities for its member on the largest scale possible and to actively represent Hungarian market specificities at EU level, already at the preparatory stage of legislation. To achieve this, internal reforms have been initiated in order to carry out its tasks relevant to EU membership more efficiently. The first step of the reform is to evaluate the financial laws at the level of the Lámfalussy proceedings, their chronology, and information relating to legislation. The Hungarian Banking Association is dedicating special attention to have Hungary's standpoints represented through its memberships in ministry, government and EU organizations. Another primary aim of the Association is to improve the information flow with regard to EU legislation: this would greatly help promote member institutions prepare for these regulations on time.

Data Reporting Working Group

- Consultation with the NDIF on the new fee payment regulation (anticyclical index and the introduction of a new period) and on the data reporting requirements related to it.
- At its meeting in Q1, the HITREG Working Group (established to create the Central Bank Analytical Credit Register) reviewed the complete data model and table structures.
- At the end of March, the MNB held a consultation day on renewing payment data reporting. This is primarily necessitated by the transformation of the data needs of the European Banking Authority (EBA) and the European Central Bank (ECB). The plan is to be obligated to fulfil the new expectations from January 1, 2020.

Data Protection Working Group

- In relation to the entry into force of the General Data Protection Regulation on May 25, 2018, the working group formed and provided its opinion on the proposal sent by the Ministry of Justice to amend individual laws in order to comply with the European Union's data protection reform.

Taxation Working Committee

- In January 2019 in-person consultations were held with the Ministry of Finance on the transposition of Council Directive (EU) 2018/822 on amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation (DAC6) into Hungarian law.
- Providing opinions on amending proposals to the tax laws disclosed on March 12, 2019.
- The Banking Association asked the Ministry of Finance to reduce the special banking tax for financial enterprises in proportion to the previously reduced special tax for credit institutions: to 2.6% from the current 6.5%.

Agricultural Working Committee

- The representatives of the Ministry of Agriculture informed us about the data collection of Government Decree 388/2017. (XII.13.) (registered as number 1703) depicting the lending processes of agricultural economy and about the main trends visible from the data collected.
- The workshop entitled "The development of financing processes and support in the food economy in 2018" was held for the fourth time this year with the participation of the Research Institute of Agricultural Economics, the Banking Association and the Ministry of Agriculture's State Secretary responsible for agriculture. The goal was to evaluate the financial processes in 2018 and to review and discuss the tendencies expected for 2019.

Bank Security Working Committee

- Based on the decision of the Board, Mr. Gábor Vörös (OTP) was succeeded by Mr. Gábor Bucsek (OTP) as Chair of the Bank Security Working Committee

Bank Cards Working Group

- Special importance was granted in this quarter to Strong Customer Authentication (SCA), therefore the working group held an extraordinary SCA Bank Card workshop in which both the central bank and card companies participated, separately;
- Merchant Initiated Transactions (MIT) were examined separately from the point of view of SCA, a topic where the European Banking Authority (EBA) also sought the resolution of the European Commission.
- The working group added following the currently forming EU regulation on reducing the Interregional Interchange Fee to its agenda;
- as well as the bank card-related topics of the amendment to Regulation EU 924/2009;
- Studies and professional materials on eliminating cash use will be processed.

Internal Audit Working Group

- Professional consultation for a wide range of audiences organized by the MNB on the central bank's requirements for internal audit departments in connection with the conclusion and follow-up of supervisory inspections. In its opening presentation, the MNB informed everyone about the changes to the receiving system for supervisory data reporting. After this, the supervisory authority informed participants about the role intended for internal audit departments.

Family Support Working Group

- With the participation of the Ministry of Finance and the Mária Kopp Institute, the Ministry of Human Capacities provided information on the parts of the seven-point family protection action plan that concern the banking sector.
- Collecting the retail banking and HR recommendations of member institutions aimed at supporting families and achieving a positive change in demographics, and starting the elaboration of partial proposals by member institutions.

EXIM Working Group

- Discussing the operational results of the Exporters of the Future Credit Program and reviewing the changes to product conditions in 2019, sample contracts, added value calculators, the modified procedure and updated data sheets;
- Due to the expiration of her mandate Ms. Gabriella Kárpáti (Eximbank) was re-elected as Chair of the working group, with the approval of the Board.

IT Security Working Group

- The raising, systemizing and answering of questions with regard to Strong Customer Authentication (SCA) continued, as part of the preparation process. New questions were sent to the MNB as a result.
- The working group strives to render its work regarding IT security events more effective through the professional collaboration of member institutions. To promote this, a Guideline-type document would be compiled, stating the policies and framework of cooperation with strict adherence to legislative requirements.

Legal Working Committee

- The working committee provided its opinion on the proposal sent by the Ministry of Justice on amending certain economic laws (for details see Chapter II/2).

Mortgage Bank Real Estate Valuation Working Group

The working group dealt with the following topics:

- the impact that regulations on nearly zero-energy buildings have on banking practices;
- the creation of the real estate database for the real estate valuation set in the Competitiveness Program; and
- the capacity to introduce an automatic valuation system.

Mortgage Bank Legal and Capital Market Working Group

- The working groups started preparing for the implementation of the covered bonds directive in its final phase; in addition
- it examined issues with regard to the instant payment system; and
- as part of annual reporting, the working group sent out the stock of existing and newly issued mortgage bonds in Hungary for the ECBC¹'s annual Fact Book and Statistics.

Central Credit Information System Working Group

meeting of the working groups in January representatives of BISZ Zrt. presented

- The current state of the Central Credit Information System (KHR);
- the aims of the upgrade to the KHR in 2019 and the timing of the project;
- The contents of the HITREG Project with regard to the KHR.

SME Working Group

- Consultations were held with the representative of the Ministry of Finance on the previous results of the Economic Development and Innovation Operational Program and on its relevance to SMEs in 2019.
- A consultation was held with the representatives of the Ministry of Innovation and Technology on the information packet for the SME Strategy for 2019-2030.
- The working group elaborated its position in connection with the SME financing policy and commented on the concept paper on the recommended directions of intervention.
- It asked the Ministry of Finance for its position on the issues with limited-use accounts, since working group member are often forced to realize that support contracts/tenders/laws do not manage this issue in the case of the pre- and/or co-financing of supported projects.
- The National Judicial Office provided information on the Judicial e-Payment Portal (launched on March 4th), which will replace previous payment methods.

Leasing Working Group

- The working group discussed the new, modified version of the repayment timing table to be applied when defining the schedule for Eximbank's Exporters of the Future and Export-incentivizing leasing programs, as well as the changes to the rules for evaluating customers.
- Upon request, the Ministry of Interior defined its resolution on the applicability of the Client Setting Register.
- Furthermore, the working group sent its opinion on the draft modifying decree to the 114/2008. (IX. 5.) FVM decree.

Payments Working Group

¹ European Covered Bond Council (EU mortgage bond and mortgage bank advocacy organization)

The experts of the Payments Working Group held regular thematic meetings to deal with topics arising from the currently renewed and expanding domestic infrastructure as well as from European payments regulations.

- Work was continued with participation of experts from MNB and GIRO Zrt. on requests to pay as an optional service of the instant payment system.
- Testing was started on the instant payment system. To process the results and experience gained a Test-Forum was created with the participation of MNB's and GIRO Zrt's experts.
- The PAD Working Group continued the interpretation of the definition catalogue, the harmonization of the fee catalogue and the fee statement with the data to be provided to the PADWEB national comparative page, and organized a consultation with the MNB for the latter;
- In collaboration with the Tax Working Group we provided our opinion on the proposal for Council Directive amending Directive 2006/112/EC on the common system of value added tax as regards the special scheme for small enterprises;
- We discussed the MNB Study on domestic pricing of payment service providers at a consultation together with the MNB;
- The working group also started processing the contents of the amendment to Regulation 924/2009 (Regulation (EU) 2019/518) through a series of professional meetings.

Anti-Money Laundering Working Group

- The working group held its first roundtable discussion on the hot topics of preventing money laundering with the participation of the Ministry of Finance, the National Tax and Customs Administration and the representatives of the Banking Association's AML Working Group (a roundtable discussions will probably be held each quarter from now on).

Széchenyi Card Working Group

- The working group discussed the details of the Agricultural Széchenyi Card Program and issues with regard to the Rural Credit Guarantee Foundation taking on joint and several guarantee, and the new supported facility introduced in the beginning of 2019 (support for the ligneous plants and the pig meat sectors).
- A consultation was held with the National Tax and Customs Administration on the special taxation issues concerning family farms and organic farmers.

Capital Requirements Working Group

- Providing opinion on the MNB draft recommendation on measuring, managing and controlling credit risk (for details, see Chapter II/2).

Treasury Working Group

- Providing an opinion on the MNB draft recommendation on the individual aspects of the adequate fulfillment of precursory orientation obligations normative in investment services (for details, see Chapter II/1);
- Providing an opinion on the MNB draft recommendation on the marketing of the shares of public, open-ended real estate funds (for details, see Chapter II/2);
- Providing an opinion on the MNB draft recommendation on the internal rules of the personal transactions of capital market institutions (for details, see Chapter II/2).

Workout Working Group

- In order to prepare the new act on insolvency proceedings, the working group summarized the standpoint of member institutions to help support the work of the Ministry of Justice's Insolvency Working Committee.

V. Annexes

1. Regulatory development in the European Union in Q1

Regulations – Level 1,2 and Level 3 (EBA, ESMA guideline) – published throughout the quarter, up until the time this report was completed²

Title	In effect from	Transposition deadline <i>(only for directives)</i>	Implementation deadline
REGULATION (EU) 2019/630 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) No 575/2013 (CRR) as regards minimum loss coverage for non-performing exposures	26/04/2019	-	26/04/2019
REGULATION (EU) 2019/518 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EC) No 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges	18/04/2019	-	15/12/2019 18/04/2019 19/04/2020 19/04/2021
DIRECTIVE (EU) 2019/713 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on combating fraud and counterfeiting of non-cash means of payment and replacing Council Framework Decision 2001/413/JHA	30/05/2019	31/05/2021	31/05/2021
<i>COMMISSION DELEGATED REGULATION (EU) 2019/348 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria for assessing the impact of an institution's failure on financial markets, on other institutions and on funding conditions</i>	<i>24/03/2019</i>	-	<i>24/03/2019</i>
<i>COMMISSION DELEGATED REGULATION (EU) 2019/442 amending and correcting Delegated Regulation (EU) 2017/587 to specify the requirement for prices to reflect prevailing market conditions and to update and correct certain provisions</i>	<i>09/04/2019</i>	-	<i>09/04/2019</i>

² 15 May 2019

<i>COMMISSION IMPLEMENTING REGULATION (EU) 2019/295 amending Implementing Regulation (EU) No 1011/2014 as regards changes to the model for the payment application including additional information concerning financial instruments and to the model for the accounts</i>	<i>22/02/2019</i>	<i>-</i>	<i>22/02/2019</i>
<i>COMMISSION DELEGATED REGULATION (EU) 2019/411 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards setting technical requirements on development, operation and maintenance of the electronic central register within the field of payment services and on access to the information contained therein</i>	<i>04/04/2019</i>	<i>-</i>	<i>04/04/2019</i>
<i>COMMISSION IMPLEMENTING REGULATION (EU) 2019/482 amending Commission Implementing Regulation (EU) 2016/1368 establishing a list of critical benchmarks used in financial markets pursuant to Regulation (EU) 2016/1011 of the European Parliament and of the Council</i>	<i>26/03/2019</i>	<i>-</i>	<i>26/03/2019</i>
<i>COMMISSION IMPLEMENTING REGULATION (EU) 2019/439 amending Implementing Regulation (EU) 2016/2070 as regards benchmark portfolios, reporting templates and reporting instructions to be applied in the Union for the reporting referred to in Article 78(2) of Directive 2013/36/EU of the European Parliament and of the Council</i>	<i>18/04/2019</i>	<i>-</i>	<i>18/04/2019</i>
<i>COMMISSION DELEGATED REGULATION (EU) 2019/667 amending Delegated Regulations (EU) 2015/2205, (EU) 2016/592 and (EU) 2016/1178 to extend the dates of deferred application of the clearing obligation for certain OTC derivative contracts</i>	<i>30/04/2019</i>	<i>-</i>	<i>30/04/2019</i>
<i>COMMISSION DELEGATED REGULATION (EU) 2019/758 supplementing Directive (EU) 2015/849 of the European Parliament and of the Council with regard to regulatory technical standards for the minimum action and the type of additional measures credit and financial institutions must take to mitigate money laundering and terrorist financing risk in certain third countries</i>	<i>03/06/2019</i>	<i>-</i>	<i>03/09/2019</i>
<i>COMMISSION DELEGATED REGULATION (EU) 2019/462 amending Delegated Regulation (EU) 2017/1799 as regards the exemption of the Bank of England from the pre- and post-trade transparency requirements in Regulation (EU) No 600/2014 of the European Parliament and of the Council</i>	<i>23/03/2019</i>	<i>-</i>	<i>to be implemented from BREXIT</i>
<i>COMMISSION DELEGATED REGULATION (EU) 2019/397 amending Delegated Regulation (EU) 2016/2251 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council as regards the date until which counterparties may continue to apply their risk-management procedures for certain OTC derivative contracts not cleared by a CCP</i>	<i>14/03/2019</i>	<i>-</i>	<i>to be implemented from BREXIT</i>

COMMISSION DELEGATED REGULATION (EU) 2019/396 amending Delegated Regulation (EU) 2015/2205, Delegated Regulation (EU) 2016/592 and Delegated Regulation (EU) 2016/1178 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council as regards the date at which the clearing obligation takes effect for certain types of contracts	14/03/2019	-	to be implemented from BREXIT
COMMISSION DELEGATED REGULATION (EU) 2019/564 amending Delegated Regulation (EU) 2016/2251 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council as regards the date until which counterparties may continue to apply their risk-management procedures for certain OTC derivative contracts not cleared by a CCP	11/04/2019	-	to be implemented from BREXIT
COMMISSION DELEGATED REGULATION (EU) 2019/565 amending Delegated Regulation (EU) 2015/2205, Delegated Regulation (EU) 2016/592 and Delegated Regulation (EU) 2016/1178 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council as regards the date at which the clearing obligation takes effect for certain types of contracts	11/04/2019	-	to be implemented from BREXIT
EBA Guidelines for the estimation of LGD appropriate for an economic downturn ('Downturn LGD estimation')	06/03/2019	-	N/A
EBA Guidelines on the STS criteria for ABCP securitisation	01/01/2019 (published on: 12/12/2018)	-	implementation: 01/01/2019
EBA Guidelines on fraud reporting under the Payment Services Directive 2 (PSD2)	2019.01.01 (published on: 18/07/2018)	-	implementation: 01/01/2019
EBA Guidelines on the conditions to benefit from an exemption from the contingency mechanism under Article 33(6) of Regulation (EU) 2018/389 (RTS on SCA & CSC)	2019.01.01 (published on: 12/04/2018)	-	implementation: 01/01/2019
EBA Guidelines on outsourcing arrangements	2019.09.30 (published on: 25/02/2019)	-	implementation: 30/01/2019 (+1 exception)
ESMA Guidelines on certain aspects of the MiFID II suitability requirements	2019.01.05 (published on: 11/06/2018)	-	immediately

Regulatory dossiers that have not yet been concluded - Level 1

Topic	Normative text of the Commission (date)	Conclusion of the Council phase (date)	Conclusion of the Parliamentary phase (date)	Conclusion of trilogue (date)	Impact on Hungarian legislation (implementation or deregulation; entry into force, transposition deadline, implementation)
<i>Banking package</i> REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL AMENDING REGULATION (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements and amending Regulation (EU) No 648/2012 (amending the CRR) 2016/0360 (COD)	23/11/2016	15/12/2019	14/05/2019	20/05/2019	In effect: likely from June 2019 Implementation: 2 years (6 exceptions)
<i>Banking package</i> DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (amending the CRD IV) 2016/0364 (COD)	23/11/2016	12/02/2019	16/04/2019	20/05/2019	In effect: likely from June 2019 Transposition: 18 months Implementation: 18 months (2 exceptions)
<i>Banking package</i> DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2014/59/EU on loss-absorbing and recapitalisation capacity of credit institutions and investment firms and amending Directive 2014/59/EU and Directive 98/26/EC (amending the BRRD) 2016/0362 (COD)	23/11/2016	12/02/2019	16/04/2019	20/05/2019	In effect: likely from June 2019 Transposition: 18 months Implementation: 18 months (1 exception)

<i>Banking package</i> REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) No 806/2014 as regards loss-absorbing and Recapitalisation Capacity for credit institutions and investment firms (amending the SRMR) 2016/0361 (COD)	23/11/2016	12/02/2019	16/04/2019	20/05/2019	In effect: likely from June 2019 Implementation: 18 months
<i>Securitization Directive and CRR</i> COMMISSION IMPLEMENTING REGULATION (EU) .../... of XXX on amending Commission Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council	N/A (EBA consultation concluded on: 28/11/2018, evaluation in progress)	N/A	N/A	N/A	Likely date of implementation: 01/03/2020
<i>Securitization Directive and EMIR</i> COMMISSION DELEGATED REGULATION (EU) No .../.. of XXX [...] amending Delegated Regulation (EU) 2016/2251 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on risk-mitigation techniques for OTC derivative contracts not cleared by a CCP under Article 11(15) of Regulation (EU) No 648/2012 with regard to derivatives used in simple, transparent and standardised securitisations	N/A (EBA final draft: 12/12/2018)	N/A	N/A	N/A	N/A
<i>Sustainable Finance Package</i> Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the establishment of a framework to facilitate sustainable investment 2018/0178(COD)	24/05/2018	N/A	18/04/2019	N/A	In effect from: N/A Implementation: 01/07/2020 (phase 1), other elements: 31/12/2021 and 31/12/2022
<i>Sustainable Finance Package</i> Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on disclosures relating to sustainable	24/05/2018	N/A	18/04/2019	N/A	In effect from: N/A Implementation: 12 months

investments and sustainability risks and amending Directive (EU) 2016/2341 2018/0179(COD)					
<i>Capital Markets Union</i> Covered bond package Directive 2018/0043/COD and CRR 2018/0042/COD	12/03/2018	26/11/2018.	26/11/2018	09/01/2019 - 18/04/2019	In effect from: May 2019 Transposition: November 202 Implementation: November 2021
<i>Capital Markets Union</i> Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the prudential supervision of investment firms and amending Directives 2013/36/EU and 2014/65/EU (ISD) 2017/0358(COD)	21/12/2017	N/A	16/04/2019	N/A	In effect from: N/A Transposition: 18 months Implementation: at the time of transposition
<i>Capital Markets Union</i> Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the prudential requirements of investment firms and amending Regulations (EU) No 575/2013, (EU) No 600/2014 and (EU) No 1093/2010 (ISR) 2017/0359(COD)	21/12/2017	N/A	16/04/2019	N/A	In effect from: N/A Implementation: 18 months
<i>Capital Markets Union</i> Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on facilitating cross-border distribution of collective investment funds and amending Regulations (EU) No 345/2013 and (EU) No 346/2013 2018/0045(COD)	12/03/2018	N/A	16/04/2019	N/A	In effect from: N/A Implementation: 20 days after publication (1 exception: 24 months)
<i>Capital Markets Union</i>	29/06/2017	20/06/2018	12/09/2018	04/04/2019	In effect from: N/A

Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on a pan-European Personal Pension Product (PEPP) 2017/0143(COD)					Implementation: 20 days after publication (1 exception: 12 months)
<i>Capital Markets Union</i> Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the law applicable to the third-party effects of assignments of claims 2018/0044(COD)	14/03/2018	N/A	13/02/2019	N/A	18 months after its entry into force
<i>Capital Markets Union</i> Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures and amending Directive 2012/30/EU 2016/0359(COD)	22/11/2016	16/10/2018	28/03/2018	N/A	In effect from: N/A Transposition: 2 years Implementation: 2 years (1 exception)
Consumer protection directive „omnibus” 2018/0185(COD)	11/04/2018	21/03/2019	21/01/2019	17/04/2019	In effect from: summer 2019 Transposition: summer 2021 Implementation: end of 2021
Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on sovereign bond-backed securities 2018/0171(COD)	24/05/2018	N/A	16/04/2019	N/A	In effect from: N/A Implementation: 20 days after publication
Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on credit servicers, credit purchasers and the recovery of collateral 2018/0063 (COD)	12/03/2018	N/A	N/A	N/A	Transposition: 31/12/2020 Implementation: 01/01/2021 (1 exception)
Amendment of 25 May 2018 to Directive 2011/16/EU on mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements (DAC6)	25/05/2018				Transposition: 31/12/2019 Implementation: 31/08/2020 In effect from: 25/06/2018

Proposal for a COUNCIL REGULATION amending Regulation (EU) No 904/2010 as regards measures to strengthen administrative cooperation in order to combat VAT fraud 2018/0413(CNS)	12/12/2018	N/A	N/A	N/A	In effect from: 01/01/2022
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Regulatory dossiers that have not yet been concluded - Level 2

<i>L1 Regulation requiring delegation</i>	<i>Topic</i>	<i>EBA/ESMA normative text (date)</i>	<i>Approval by the Commission (date)</i>	<i>Impact on Hungarian legislation (implementation or deregulation; entry into force, transposition deadline, implementation)</i>
CRD IV	COMMISSION IMPLEMENTING REGULATION (EU) .../... amending Implementing Regulation (EU) 2016/2070 as regards benchmark portfolios, reporting templates and reporting instructions to be applied in the Union for the reporting referred to in Article 78(2) of Directive 2013/36/EU of the European Parliament and of the Council C(2019)1027	08/02/2019	N/A	N/A
CRR	Draft Regulatory Technical Standards on the specification of the nature, severity and duration of an economic downturn in accordance with Articles 181(3)(a) and 182(4)(a) of Regulation (EU) No 575/2013	16/11/2018	N/A	Implementation: 01/01/2021
CRR	Draft Regulatory Technical Standards on the conditions to allow institutions to calculate K_{IRB} in accordance with the purchased receivables approach under Article 255 of Regulation (EU) 2017/2401 amending Regulation (EU) No 575/2013	N/A (EBA final draft: 2019.04.08)	N/A	N/A
CRR	COMMISSION DELEGATED REGULATION (EU) No .../.. of XXX [...] supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the mapping of derivative transactions to risk categories, for the supervisory delta formula for interest rate options and for the determination of long or	N/A (EBA consultation in progress until 02/08/2019)	N/A	N/A

	short positions in the Standardised Approach for Counterparty Credit Risk under Article 277(5) and Article 279a(3)			
Securitization regulation	COMMISSION DELEGATED REGULATION (EU) .../... supplementing Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 with regard to regulatory technical standards specifying information to be provided to a competent authority in an application for authorisation of a third party assessing STS compliance C(2019)740	05/02/2019	N/A	Implementation: 20 days after publication
Securitization regulation	Draft Regulatory Technical Standards Specifying the requirements for originators, sponsors and original lenders relating to risk retention pursuant to Article 6(7) of Regulation (EU) 2017/2402	31/07/2018	N/A	N/A
Securitization regulation and CRR	COMMISSION IMPLEMENTING REGULATION (EU) .../... of XXX on amending Commission Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council	N/A (EBA consultation concluded on: 28/11/2018, evaluation in progress)	N/A	Likely to be implemented from: 01/03/2020
Securitization regulation and EMIR	COMMISSION DELEGATED REGULATION (EU) No .../.. of XXX [...] amending Delegated Regulation (EU) 2016/2251 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on risk-mitigation techniques for OTC derivative contracts not cleared by a CCP under Article 11(15) of Regulation (EU) No 648/2012 with regard to derivatives used in simple, transparent and standardised securitisations	12/12/2018	N/A	N/A
Securitization regulation and EMIR	COMMISSION DELEGATED REGULATION (EU) No .../.. supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on the clearing obligation	12/12/2018	N/A	N/A

Prospectus regulation	COMMISSION DELEGATED REGULATION (EU) .../... supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council with regard to regulatory technical standards on key financial information in the summary of a prospectus, the publication and classification of prospectuses, advertisements for securities, supplements to a prospectus, and the notification portal, and repealing Commission Delegated Regulation (EU) No 382/2014 and Commission Delegated Regulation (EU) 2016/301 C(2019)2022	14/03/2019	N/A	Implementation planned for 21/07/2019.07.21
Prospectus regulation	COMMISSION DELEGATED REGULATION (EU) .../... supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004 C(2019)2020	14/03/2019	N/A	Implementation planned for: 2019.07.21
PSD 2	COMMISSION DELEGATED REGULATION (EU) .../... on supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards on the criteria for appointing central contact points within the field of payment services and on the functions of those central contact points C(2019)1997	14/03/2019	N/A	20 days after publication
PRIIPS regulation	COMMISSION DELEGATED REGULATION (EU) .../... of XXX amending Delegated Regulation (EU) 2017/653 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents)	08/02/2019	N/A	Implementation planned for: 01/01/2020

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EBA/ESMA Guidelines under preparation - Level 3

- EBA Draft guidelines on ICT and security risk management
(consultation concluded on 13/03/2019, evaluation in progress)
- EBA Draft Guidelines on harmonised definitions and templates for funding plans of credit institutions under Recommendation A4 of ESRB/2012/2
(consultation concluded on 05/05/2019, evaluation in progress)
- ESMA Draft Guidelines on liquidity stress testing in UCITS and AIFs,
(consultation concluded on 01/04/2019, evaluation in progress)
- EBA Draft Guidelines on Credit Risk Mitigation for institutions applying the IRB Approach with own estimates of LGDs
(consultative period: 25 February to 25 May)

2. Macroeconomic outlook and the Hungarian banking sector's financial indices

The growth rate of the world economy seems to be stabilizing in the first quarter of 2019, although growth is very fragmented in individual regions, as the impact of the trade war between the United States and China becomes clear in the Chinese and European economies, which additionally struggle with structural problems. The IMF reduced expectations for this year and the next further (to 3.3% and 3.6%, respectively). Money market conditions improved at global level due to the strong growth at developed market stock exchanges, while, in terms of the raising of the interest rate for the year, expectations for the reduction of interest by the ECB and the Fed are also noticeable. Oil prices increased significantly at the beginning of the year due primarily to concerns about oil supply, although they still only arrived near the price levels of one year ago.

The growth of the European Union's economy improved considerably in the first quarter, the German economy's growth took a favorable turn, while it is a decidedly positive turn of events that the Italian economy has overcome the technical recession of Q2 of last year. We may therefore say that the prospects, in terms of the real economy, have stabilized. The German economy showed stronger growth, the primary cause of which are consumption and the construction industry (due to good weather conditions), while weak industrial production and export still curb performance. Downward risks continue to be present in terms of future growth prospects, due to the threat of a trade war, internal tension in large EU member states and EU-level political tensions, as well as the uncertain outcome of Brexit.

In the first quarter, the deterioration of the external environment of the **Hungarian economy** stopped, although it still remains quite weak. In spite of this, the domestic **economic growth** reached its peak in 14 years, accelerating to 5.3%, and thus becoming the most dynamic in the EU. *Consumption* dynamics stayed strong despite a strengthening base thanks to the two-digit rise in wages, and therefore managed to remain a defining factor of GDP growth. *Investments* further contribute to growth, with the real estate, industry and services sectors all playing their part. Industry performance accelerated, with the support of inaugurated production industry capacities, the favorable development of industry confidence indices and the recent surge in new industry orders. A very promising sign for future production is that while a decision was made last year in favor of a record quantity of working capital investments (with a value of HUF 1380 billion), this period already saw decisions being made on a volume of HUF 950 billion. *Net export* trends are gradually unfolding: the surplus of foreign trade deteriorated at a significantly lower rate, since increased export partially compensated for strong internal consumption and the need for import due to improving investments. The smaller decrease in the balance sheet may be a result of the fact that the balance of trade stopped worsening.

Employment and unemployment once again showed minimal improvement on the **labor market**, the former increased by .2 percentage points, while the latter stagnated compared to the previous quarter. The increase in the rate of employment slowed due to a narrowing labor supply and the primary and almost exclusive cause is job creation of the primary labor market. The lack of labor supply may effectively limit several sectors, therefore wage dynamics may stay high not only due to the rise of minimum wage and guaranteed wage, but due to increasing market wages.

The annual rate of **inflation** increased from 2.7% to 3.7% from January to March due partly to oil prices and seasonal food prices, however the fast rise of core inflation and core inflation after taxes suggests strengthening price pressure. After last year's 11% rise in wages, this year's increase (which is also a two-digit value) and the rise in demand that it results in can be felt more and more strongly in the prices of certain service providers. Its impact may somewhat be moderated by persistently low imported inflation and reduced wage and enterprise burdens.

The **general government deficit** is only HUF 39 billion up until now, this is the lowest it has ever been for the first four months of the year. The primary reason for the deficit the pre-financing of projects to

be funded from EU sources – this amounts to a total of HUF 489 billion, while the EU has only transferred HUF 306 billion. Therefore, not considering this, a HUF 144 billion surplus appears in the first four months of the annual budget. Revenue is increasing dynamically in almost all tax types, with revenues from VAT rising the most spectacularly: by 32%. The relevant ministry believes that the 1.8% target budget deficit calculated with EU methodology (EU pre-financing adjusted) can be kept to; state debt-to-GDP ratio may continue, despite the pre-financing of EU payments. Based on the financial accounts published by the MNB, the state net lending capacity (surplus) was HUF 182 billion, which accounts for 1.8% of the GDP. The state debt-to-GDP ratio calculated with Eximbank decreased to 70.1%.

Even though the robust surplus of external accounts became more moderate owing to a surge in internal demand, external balance indicators turned out favorably. The capital account may improve substantially due to the increase in EU transfers, which may contribute to **net lending** rising to over 5% of the GDP.

The Magyar Nemzeti Bank (central bank of Hungary) announced the transformation of its **set of monetary instruments** as well as the phasing out of certain instrument and the introduction of a new one. It also announced that it is preparing to normalize monetary conditions. The MNB Monetary Council significantly transformed monetary policy instruments starting from the beginning of the present year. Looking forward, the central bank wishes to create the monetary conditions necessary for sustainably reaching the target inflation through an optimal combination of two instruments – the swap portfolio granting forint liquidity and the interest rate corridor. At the same time, interbank forint liquidity, which remains significant, keeps short-term yields well under the 0.9% base rate. Short-term yields may remain well under the base rate in the coming months, which may result in the central bank base rate staying ineffective until the mid-term and perhaps staying persistently unchanged. The Monetary Council believes that the present conditions cannot be sustained in the mid-term due to tax-adjusted core inflation, therefore the currently applied non-traditional set of instruments may be narrowed down in the future. In order to increase the proportion of fixed rate lending to SMEs, the Funding for Growth Scheme Fix was introduced in early. The central bank will sterilize the liquidity emerging within the Scheme through a preferential deposit design yielding interest at the base rate. In order to improve the efficiency of the monetary policy transmission the Monetary Council will launch its bond acquisition program on July 1, 2019, with a budget of HUF 300 billion. The Bond Funding for Growth Scheme (BGS) is the new monetary policy tool with which the Council aims to achieve the targeted diversification of the financing of the domestic corporate sector. As part of the program, the central bank will buy the well-rated bonds issued by non-financial enterprises. The MNB will neutralized the surplus money gained from the bond acquisition by means of a preferential deposit instrument with base-rate interest.

The MNB Monetary Council kept the base rate at 0.90% in March, while raising the overnight deposit interest by 10 basis points, to -0.05%. At the same time, overnight credit interest stayed at 0.90%. In addition, the MNB Monetary Council will reduce the size of the surplus liquidity targeted for elimination in the second quarter by HUF 100 billion to HUF 300-511 billion from 400-600 billion in Q1, and will take this into consideration when defining the set of central bank swap instruments. This step was necessary because tax-adjusted core inflation surpassed the 3% target level in February. At the same time, the Monetary Council announced that an uncertain international environment and external inflation which continues to be quite low are causes for caution, therefore these steps do not indicate the beginning of a new cycle. Due to the above, the Monetary Council will decide on the necessary monetary condition each quarter when the Report on Inflation is published.

With regard to the **EUR-HUF** exchange rate, the forint strengthened compared to the euro during quarter to 313 HUF/EUR and the returned to 320-3025 HUF/EURO after decision on interest in March.

*Important financial indices in Q1 of 2019
(aggregated data from individual bank reports)*

Billion HUF	2018 Q4	2019 Q1	Δ%
Balance Sheet ¹⁾	39,283	40,280	2.5%
Loan portfolio (customer, gross)	18,396	18,621	1.2%
Corporate loans (gross) ²⁾	9,806	9,783	-0.2%
Retail loans (gross)	6,180	6,244	1.0%
Foreign (gross)	3,150	3,244	3.0%
Credit impairment, margin and accumulated interest	-679	-664	-2.1%
Interbank deposits, loans ³⁾	8,045	7,795	-3.1%
Securities	11,619	12,346	6.3%
Government securities	8,472	9,103	7.5%
Liabilities	34,900	35,764	2.5%
Customer deposits	22,353	22,552	0.9%
Issued securities	2,400	2,301	-4.1%
Interbank deposits, loans ⁴⁾	8,447	8,794	4.1%
Equity	4,383	4,516	3.0%
Loan-to-deposit ratio (aside from interbank)	82.3%	82.6%	

¹⁾ While forint and euro stocks grew (by 3.8% and 1.6%, respectively), stocks denominated in these decreased by a far greater value than the weakening of the forint with respect to other important currency types.

²⁾ The expansion of the forint portfolio almost fully compensated for the significant decrease in foreign currency loans (primarily in euro) to foreign enterprises.

³⁾ Domestic forint interbank deposits fell significantly; restructuring was noticeable in foreign deposits, from other currency types into euro exposures.

⁴⁾ Non-domestic interbank deposits grew by 8.5%.

Billion HUF	2018 Q1	2019 Q1	Δ%
Profit before taxes ¹⁾	189.9	139.0	-26.8%
Profit after taxes	175.5	133.2	-24.1%
ROA (before taxes, annualized) ¹⁾	2.1%	1.4%	-
ROE (before taxes, annualized) ¹⁾	18.2%	12.5%	-
Interest profit	196.0	198.1	1.1%
Profit from fees and commissions	125.5	138.8	10.6%
Dividend	80.0	76.2	-4.7%
Other profit	-65.0	-88.8	37.5%
General Administrative expenses	163.3	175.6	7.5%
Personnel-type expenses	86.5	100.2	15.8%
Provisioning and impairment loss	30.9	13.5	-56.5%

¹⁾ In Q1 2019 the value of the dividend, not counting provisions and impairment loss, was HUF 19.4 billion, the annual ROE and ROA calculated based on this were 4.4%, and 0.5%, respectively.