



Agenda Item No.

REPORT

**on developments concerning the Hungarian banking
sector in Q3 2019 and on the activities of the
Hungarian Banking Association**

October 2019, Budapest

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I. Executive Summary

In Chapter II of this report, we summarized the main regulatory developments of Q3 with regard to the banking sector.

A task of primary importance during the quarter was participating in the preparation of the autumn financial omnibus act. Professional consultations on its certain elements were already started in the first half of the summer. In addition to EU legal harmonization proposals (such as the review of the Capital Market act in connection with the Prospectus regulation and the review of the Credit Institutions act in connection with the Capital Requirement regulatory regulation, etc.), the omnibus act also contains amendments to legislation created within a domestic scope (e.g. certain elements of the Act on Credit Institutions, the Consumer Credit Act, the Act on Building Societies). We published our opinion on the draft several times at both professional and management level and we also made complementing proposals for the parts of the legislation concerned, which were not to be modified – these include several wording proposals with the aim of promoting digitalization.

In addition to the above mentioned legal processes, several of the European Banking Authority's (EBA) guidelines were transposed. The MNB recommendation on the specification of types of exposures to be associated with exceptionally high risk contains further complementary rules for the interpretation of the CRR's relevant section, these will have to be implemented from early 2020. Consultations on the MNB recommendation on the remuneration policy and practice to be applied in connection with providing investment services are ongoing, its planned date of implementation is set for early next year. Furthermore, the MNB issued the appropriate regulations through a recommendation transposing the EBA guidance, defining the preconditions of exemption from the fallback mechanism next to the dedicated interface that grants third party service providers access to data from account managing payment service providers based on the authorization granted by PSD 2.

Concerning developments in Hungarian legislation, emphasis should be placed on continued active consultation process on the modifications made to promote the implementation of the government decree and on the regulation for claiming state guarantee in connection with retail lending relevant to the baby boom subsidy. The subsidy was introduced on July 1st as part of the Family Protection Action Plan.

As customer authentication continued, during the quarter we made a proposal to digitalize customer authentication in compliance with the anti-money laundering act. In addition, consultation on issues regarding the ICAAP handbook in connection with the calculation of the PTI continued. In mid-September, the MNB published its recommendation on the internal rules of the personal transactions of capital market institutions, in which it took on a position opposite to ours in the most debated issues (transaction deal permit, maintenance obligation). Furthermore, it issued a management information circular, qualifying it a negative practice to count unsecured retail loans as own contribution for retail mortgage loans.

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

Some important developments in financing were the launch of the MNB corporate bond purchase program, progress in the development of the database with blockchain technology that is capable of keeping an up-to-date register of insurances taken into account as collateral for loans, and the launch of the Energy Efficient Mortgages Pilot Scheme and Green Finance consultation. As regards payments, the live test operation of the instant payment system continued according to the schedule set by the project steering committee. With the PSD 2 Strong Customer Authentication (SCA), rules on access provided to third party service providers have entered into force – practical feasibility problems arose in connection with these at EU level, especially concerning the implementation of SCA. Consequently the implementation of SCA at online card purchases has been postponed to December 31, 2020. In addition to this, ambiguities as to the interpretation of the implementation of the amendment to the EU regulation on cross-border euro payments were clarified by the MF and MNB's resolutions. Following the example of the Consumer-friendly Housing Loans, MNB wishes to launch the Consumer-

friendly Current Account Loan tender along the same lines – the banking community was involved in the detailed elaboration of this tender.

Another important development was the significant increase of OBA contributions for the period of October 2019 to September 2020. The Deposit Insurance Fund consulted with the Banking Association in advance and the OBA Directorate decided on the above mentioned contribution calculation ratio whilst taking into account our suggestions. Yet another important development was that the 22-point digitalization package was completed, then approved by the Board of the Banking Association and finally sent to MNB and the ministries concerned. The package contains proposals in connection with regulatory provisions that pose significant obstacles to digitalization. In addition, it was mentioned during the high-level consultations that an inter-institutional working committee should be set up to promote digitalization – this was received well.

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.

An important development under this category was the review of the Credit Institutions Glossary, with the support of the central bank.

The annex contains a list of the EU directives and regulations (Level 1) on finance, published from the start of Q3 until the date this report was written. 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

Amendments to Hungarian legislation related to the EU Prospectus regulation, Directive CRD IV and Directive MCD

The above mentioned amendments to Hungarian laws related to EU legislation have been reviewed as part of the 2019 autumn financial omnibus act. Since the financial omnibus act includes further amendments to legislation that concerns the sector, these will also be discussed here, within the same chapter.

EU legislation related to the autumn financial omnibus act:

- 1) Prospectus Regulation: The autumn financial omnibus act records rules aimed at the legal harmonization of Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market. In force from July 21, 2019, the rules concern the capital markets act and the MNB law amendment. During the consultations held with the Ministry of Finance (MF) we primarily objected to the narrowing of the definition of private placement, the unlimited passing on of responsibility to the distributor and the unclear definition of cases where a minimum information package must be created. We also sent our proposal promoting digitalization.
- 2) Directive MCD: According to information from the MF, during its inspection of the Hungarian transposition of Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property the European Commission concluded that some provisions have not been fully transposed and it wishes to fix this. The MF's draft however also modifies

the act on consumer credit in addition to the provisions relevant to the MCD: it wishes to introduce a new APR ceiling for which the charges of complementary services must also be taken into account. The Banking Association indicated to the MF that it is necessary to clarify the definition of “complementary services” and due to this, it working on compiling a working paper at the time of this report, as requested by the MF. Furthermore, as initiated by member institutions, the Hungarian Banking Association previously sent its comments to the MF in which it states that the new APR ceiling and its content that they wish to introduce should be examined as to how it complies with EU directives (Directives CCD and MCD).

Other main elements of the 2019 autumn financial omnibus act:

- The financial omnibus act sets the increase of the variable fee of the Supervisory fee to be paid annually to the Supervisory Authority from the current 3.8 thousandth to 4.8 thousandth of the capital requirement calculated according to the Hpt. The Hungarian Banking Association indicated to the MF that according to the statistics published by the MNB and the data of the Central Statistical Office it would be better founded to lower the Supervisory variable fee and therefore asked the MF to neglect its increase.
- The omnibus act also contains the legislation amendments regarding the existence of the building societies after the termination of the state subsidy. The proposal of the MF can be divided into two parts: one concerns the separation of schemes that are affiliated with the state subsidy and schemes that are not, the other concerns the expanding the range of activities allowed by the building societies. At the time of this report, consultations between the MF and the Hungarian Banking Association are ongoing.
- For banks the omnibus act raises the current starting capital requirement of HUF 2 billion to at least HUF 4 billion. This raise must also be applied by the banks already operating.
- The omnibus act introduces changes to the work organization of the National Deposit Insurance Fund (NDIF-OBA) and the Investor Protection Fund (BEVA) by reinstating the old model and establishing a separate work organization.

The Hungarian Banking Association also prepared a supplementary proposal package to the autumn financial omnibus act, which was discussed by the Board at its meeting in October and was sent to the MF in mid-October complemented with contents added at the meeting.

Work on the 2019 autumn financial omnibus act is still ongoing at the time of this report since the Ministry of Finance has not yet sent us the latest draft of the omnibus act.

MNB recommendation on the specification of types of exposures to be associated with exceptionally high risk

The MNB compiled its draft recommendation based on and in a similar subject to the guidelines issued by the European Banking Authority in January of this year. The central bank sent the draft recommendation out for opinions in mid-July. The draft recommendation includes further complementary rules to the interpretation of Section (2) and (3) of Article 128 of the CRR. We did not receive any comments from our member banks concerning the contents of the draft and we did not express any opinions towards the MNB, therefore it published the recommendation with unchanged text. The recommendation will enter into force on January 1, 2020.

MNB recommendation on the remuneration policy and practice to be applied in connection with providing investment services

The recommendation serves compliance with the contents of the guidance issued on June 3, 2013 by the European Securities and Markets Authority pertaining to the application of requirements set by the remuneration principles to be applied based on the EU directive on financial markets (MiFID II). Based on the requirements set in the guidance, in the present recommendation the MNB defines its expectations regarding remuneration policy and the practice to be followed by enterprises carrying out investment service activities or providing complementary services. At the time this report was completed the Banking Association is still in the process of providing an opinion on the recommendation. The draft recommendation will have to be implemented from January 1, 2020.

MNB published its recommendation on making use of the exemption from the fallback mechanism

If the account managing payment service providers create the access interface as a dedicated interface, then they must also provide a fallback mechanism. MNB may grant exemption from the fallback mechanism if requested so by the account managing payment service provider. The EBA issued detailed guidelines on the conditions of exemption and the inspection as to whether these conditions are met. The MNB issued these guidelines in the form of a *recommendation*. MNB expects the account managing payment service providers concerned to implement the recommendation from July 8, 2019.

2. Other significant legislative and regulatory developments in Hungary

Tasks in connection with the government decree on the Baby Boom Subsidy

After the Baby Boom Subsidy government decree was published, the Hungarian Banking Association held further consultations with the ministries concerned (Ministry of Finance, Ministry of Human Capacities, Ministry for Innovation and Technology). To help effectively achieve the sector's aims, an expert ad hoc working group was established under the Family Support Working Group for this topic. The ad hoc working group compiled and held several rounds of consultations with the relevant ministries on proposals to amend the government decree. In addition, it provided its opinion on the draft proposal to amend laws concerning the redemption of state guarantee related to the baby boom loan.

Notarial Fees

On July 1, 2019 decree 22/2018. (VIII.23.) of the Ministry of Justice on Notarial fees entered into force. Following the publication of the new decree on fees in August 2018, the Hungarian Banking Association negotiated with the Ministry of Justice and the Hungarian Chamber of Civil Notaries (MOKK) for half a year. In consideration of the consultations held, the entry into force of the decree was postponed several times and as a result of the adopted amendments, the notarial fees related to retail real estate lending may even become half of what was originally published in the Magyar Közlöny – the official gazette of Hungary (the 33% discount stated in Section 11 became 70% with the new Section 38/A). Corporate notarial fees were raised significantly, due among other things, to the ceiling being raised from HUF 200 billion to HUF 1 billion, to the decreased discount in the case of unilateral documents and to the narrowing of the discretion of notaries concerning fee calculation.

Developments related to the anti-money laundering act:

The MNB will amend its decree concerning the implementation of the anti-money laundering act which concerns service providers supervised by the central bank. The amendment's purpose is to grant the opportunity to use the so-called "e-gateway" during customer screening. The Hungarian Banking Association sent its views to MNB in order to ensure that the amendment will serve the purpose that the MNB wishes: keeping up with technological developments.

Even though it is more relevant to the implementation of the EU directive, we wish to hereby indicate that based on information received from the Ministry of Finance (MF), it will likely complete the draft text for the bill serving the domestic implementation of the new anti-money laundering directive (Directive (EU) 2015/849 AML V) towards the end of October – according to the directive, the deadline for this is January 10, 2020.

The Hungarian Banking Association held consultations with the employees of the MF and MNB concerned on certain practical issues that arose in connection with re-authentication in accordance with Article 79 of the anti-money laundering. Furthermore, the HBA contacted the MF and the MNB in connection with implementation issues relevant to the final deadline of the re-authentication: October 31st.

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

The MNB issued the above mentioned recommendation in September, after it was compiled in March, and revised twice following written opinions and verbal consultations on it. Several points that we had previously indicated as problematic from a data protection and labor law point of view were omitted from the final, published recommendation. However, expectations for the transaction deal permit that remains valid for 1 day and the 30-day maintenance obligation in connection with the own-account investments of the employees concerned remained in the recommendation, despite our warnings about practical feasibility problems.

The recommendation has to be implemented from November 1, 2019.

Draft MNB recommendation on the security conditions of the operation of financial institutions

On 09/12/2019 the Banking Association received from the MNB's Regulation Department the new MNB draft recommendation on the security conditions of the operation of financial institutions, elaborated based on recommendation 10/2001 of the Hungarian Financial Supervisory Authority (PSZÁF). This defines the supervisory expectations for the contents of the security regulation, the institutional conditions of secure operation and the tasks of the leaders of the financial institutions and the security department in more detail than was defined before. The old recommendation has also been complemented with the wording of best practices for identifying a secure environment and for relevant risk evaluation. The MNB plans to call for the financial institutions concerned to implement the new recommendation from July 1, 2020.

MNB management information circular on the modification of ICAAP, ILAAP, BMA handbooks

According to its management information circular published in March, the MNB expects credit institutions to use the positive debtor's list of KHR (central credit information system) for calculating the payment-to-income ratio (PTI). If a credit institution does not do so, a 1250% risk weight will be

applied during its internal capital calculation in connection with the transactions concerned. We sent our letter in June and received a response from MNB in July, according to which it supports our technical observations. In addition, it seemed open to considering proposals that support the aim of the regulator, but are also capable of managing feasibility issues with regard to rules that affect different institutions in different ways – mainly in connection with our associate members (PVOE, Leasing Association). We sent our proposals (consulted on with our associate members) to MNB in September. In our proposals we suggested ignoring sources received tied to a specific aim by financial enterprises (e.g. investment loans), and in the case of remaining financing sources, applying elevated risk weight with the appropriate part of the transactions concerned, by ensuring voluntary reporting. Expert-level consultations will continue in this topic throughout October.

MNB management information circular on requirements for the evaluation conducted by financial institutions of own contribution necessary for retail mortgage loans

On June 26, 2019, the MNB published its management information circular on the topic above in consideration of the fact that for retail loans certain clients have the opportunity to make up for lack of downpayment with the help of consumer or current account loans. In the interest of promoting responsible lending activity and reducing lending risk, in its management information circular the MNB requires that credit institutions be adequately certain about the client's creditworthiness and indebtedness as well as that they examine the downpayment in the institution's content. In addition the MNB considers it a good practice to make the client provide a declaration about the taken personal loan, current account loan within 3 months of applying for the loan. During the autumn the Banking Association compiled clarifying questions on the management information circular for the Supervisory Authority. Among other things, these concerned the contents of downpayment evaluation and clarification as to how the credit institution is expected to behave.

III. The operating environment and activities of the banking sector

1. Lending

On September 16, 2019 the Magyar Nemzeti Bank (Central Bank of Hungary – MNB) purchased its first corporate bond, as part of the Bond Funding for Growth Scheme (BGS). Under the program, the central bank will buy the bonds of Hungary-based non-financial corporations of good credit rating, with a facility amount of HUF 300 billion. The central bank may also purchase bonds issued in addition to the collateral for corporate debt on both primary and secondary markets.

The MNB launched the new program of the FGS at the beginning of 2019, in order to increase the share of predictable, fixed rate loan products within the financing of investments. According to the data provided by participating credit institutions until 28 June 2019, they concluded loan or leasing contracts with 6,064 enterprises in the amount of HUF 175 billion. The actual outstanding – i.e. already drawn but not repaid – amount is HUF 129 billion. Within the new contracts, the share of new

investment loans and leasing deals are 56 and 44 per cent, respectively. Micro-sized enterprises benefited from nearly half of the provided funds

MNB, the Association of Hungarian Insurance Companies (MABISZ) and the Banking Association consulted on the specified requirements for creating an **“IT system to support the business process of housing insurance registration and the provision of loan collateral through distributed ledger technology”**. This was done in order to build a database with blockchain technology that is capable of keeping an up-to-date register of insurances taken into account as collateral for loans. Both the HBA and MABISZ made a significant number of observations on the specified requirements. The consultations have been concluded.

MNB is planning to create the system in three differing phases. It has not yet established any deadlines for these:

- Phase 1: proving the feasibility of the technology through a solution with 2-3 hubs operating on MNB infrastructure and the infrastructure of one or two appointed insurers;
- Phase 2: supporting real processes and live operation through a solution that incorporates another 3-4 hubs and includes appointed insurers and credit institutions;
- Phase 3: a solution that supports real processes and live operation, with the participation of all Hungarian insurers and credit institutions and a total of 16 hubs. The hubs will be operated by all the insurers and the MNB.

The users of individual participants will be able to access the business function of the system through a graphic user interface (yet to be created) and through the uniform interfaces to be built for the professional systems of credit institutions. The graphic user interface has to be developed for Phase 1, while the interface used for data exchange with professional systems has to be developed for Phase 2 and 3. As part of the current phase opinions for specifications have been collected and the MNB will contact several development companies to ask for their offers.

In early July MNB, joined the Advisory Council of the **Energy Efficient Mortgages Pilot Scheme**, in line with its Green Program. The goal of this initiative is to promote energy efficient mortgages with favorable lending conditions to finance energy efficient property purchases and renovations. MNB expects that the cooperation with its international partners and with the domestic banks participating in the project can not only contribute to the development of risk management related to mortgages but also to the decreasing of the energy consumption of Hungarian households and to the mitigation of related greenhouse gas emissions

In the third quarter the **real estate transaction database** project was carried out with the participation of the MNB Statistics directorate, the Supervisory support department and member banks through the Banking Association. Work during the quarter involved defining the data set to be provided by financial institutions, the costs related to this, as well as the data set that is returned from the valuation database and its data protection and other legal frameworks.

Over the course of the summer, the act on the order of taxation established the **framework to retrieve statements of earnings electronically**. In order to work out the details the MNB launched a consultation in autumn. Opinions were primarily provided on identifiers, the period of retrieval of the statement of earnings, income types belonging to the consolidated tax base and incomes to which special tax applies. To these, the Banking Association mainly compiled questions related to interpretation, as well as asking for clarification on which elements of the sent data set can be made to comply with the MNB decree on regulating the payment-to-income and loan-to-value ratios.

Within the framework of its **Green Program**, the central bank published its Green Finance consultation document in the third quarter. Our member institutions commented on the paper directly. In the document the MNB identified the individual green finance areas (green deposits, loans and bonds) as well as wording measures aimed at developing green finance markets as well as supporting them. The

goal of this document is to, on the one hand debate the proposals, on the other, to inspire the actors of the financial sector to come up with new ideas. The consultation will likely be evaluated during the autumn, in collaboration with the Banking Association.

2. Payments

The Instant Payments Project

In accordance with the original schedule of the instant payments project, the central system's live launch took place on June 3rd. After this, the pilot period was completed as dictated by the contract signed with clearing members. As part of the live test period, clearing members will continue testing and preparation in the order set by PIB, until they start providing services to their customers. Namely, a voluntary test period was conducted from July 1, 2019 to August 31, 2019 and a mandatory test period is being conducted from September 1, 2019 to March 1, 2020. During these, the regulation for backup systems also entered into force and lending on VIBER now also operates beyond work hours. From this period on new functions will not be added to the system, therefore there is no possibility of any additional development burdens arising in the period remaining. At the same time, it is expected of payment service providers to develop the processing of end-user services and request-to-pay messages by March 2nd of next year. Before entering into the mandatory period, the MNB released information on the "tasks to be carried out before the mandatory and live test operation launch", while GIRO organized a consultation on the topic towards the end of August. Mandatory testing began on September 1st within the frameworks depicted above, using the accounts introduced and using small sums (there are no customer entries among these). MNB is strictly monitoring preparations as well as the meeting of test requirements.

Developments in connection with the implementation of Regulation EU 924/2009

During the implementation of the Regulation, in order to interpret its content correctly and uniformly, and with the aim of establishing an appropriate practice based on it, the HBA contacted the Ministry of Finance and the central bank with a request.

From the Ministry we mainly asked for guidance on how to interpret the provisions of the Regulation with regard to realizing pricing requirements while considering the relevant provisions of the Act on Credit Institutions (Hpt) as well as expecting them to confirm that "discount forint charges" and the domestic fees set in the legislation are not subject to the regulation. The professional opinion of the Ministry expressed that the Regulation takes direct effect in domestic legislation, and therefore the implementation of its provisions is mandatory, even if they contradict the Hpt. Concerning the "discount" it confirmed that euro transaction fees do not have to be calculated in accordance with these ("discount") fees.

We contacted the MNB for its position in order to gain a definition on which domestic payments correspond to which euro payments. In its response, the MNB indicated which criteria can be applied during the correspondence process: channels used for initiation, execution and completion, the level of automation, any type of payment guarantee, the legal stance of the customer and their relation to the payment service provider, as well as the cash-replacement instrument used. Based on these criteria SEPA Inst payments correspond to IG3, SEPA CT to IG2, and non-SEPA payments correspond to VIBER payments.

The entry into force of PSD2 security requirements

Preparing for strong customer authentication (SCA) as required by PSD2 was a primary task in this period. We held regular SCA consultations with MNB and the representatives of the card companies, as well as continually monitoring international developments. The opinion of the European Banking Authority (EBA) from June 21, 2019 (EBA-Op-2019-06) granted the opportunity for the given national authorities (in Hungary the MNB) to make individual decisions about the limited-time extension of the strong customer authentication requirement deadline. The decisions could be made at national level with the help of individual assessments from each bank with regard to purchases made with payment cards in e-commerce. Through organizing consultations, the Banking Association gave its active support to carry out the situation assessments between the authority and member banks effectively both for online bank card payments and for contactless technology. On September 10th in light of the time requirement of development processes, the MNB's Financial Stability Council granted another 12 months' preparation time to service providers to introduce strong customer authentication in online bank card payments. The EBA did not release any information on a common, harmonized EU-level grace period before the end of September.

Starting from September 14, 2019 all account managing financial service providers who have accessible accounts online must provide for secure access to these through an interface (API) that makes it possible for the new actors of the payments market, the so-called third party service providers (payment initiation service and account information service providers), to communicate with the payment service provider of their client through a secure channel.

Developments in connection with the SZÉP card

In order to expand the use of SZÉP cards, we made concrete proposals for the strategy of the amendment of acts and in connection with amending government decree 76/2018. (IV.20.) on the rules for the issue and use of Széchenyi Recreation Cards:

- exempting SZÉP card allowance from social contribution tax;
- a budget with discount tax, to be defined in proportion to the prevailing minimum wage;
- ending the distinction of sub-accounts ("pockets");
- using up balance;
- the chargeability of card fees.

3. Other Activities

The National Deposit Insurance Fund (NDIF - OBA) and the Investor Protection Fund (BEVA)

With the amendment of the August 29 financial legislation package, the Ministry of Finance proposed to **separate the work organization of OBA and BEVA**. This would completely separate the previously existing deposit and investor protection funds. Although the regulation falls under EU scope, the relevant directives do not provide for the separation of the work organizations, it is member states who have the right to decide on the matter. In the third quarter the financial legislation is currently under (preliminary) expert consultation.

The OBA held several round of consultations with the Banking Association, also including the Integration Organization of Cooperative Credit Institutions on the parameters of **fee payment for the period between October 1, 2019 and September 30, 2020**, based on which the fee calculation ratio was defined as 0.095%, the base fee as 20% and the correction coefficient as 123%.

The deposit insurance fund consulted with the Banking Association in advance and the OBA directorate decided on these fee rates taking into consideration our suggestions. In addition to reducing the financial burdens on financial institutions, during the consultations the Banking Association also paid special attention to having a safely achievable target level, even with reduced fee payment. The fee was therefore determined with the careful consideration of cases concerning the sale of debt from OBA liquidation and recovery from normal liquidation.

With regard to the settlement of the fee difference, we took note that in order to ensure the continued operation of OBA, possible overpayments resulting from the fee reduction will be counted in next quarter's fees.

Digitalization proposal package by the Hungarian Banking Association

A well-functioning banking system is one of the cornerstones of economic prosperity, and so implementing the sector's digitalization ambitions as fast and as efficiently as possible is of key importance for the national economy, too. In order to promote this, topics and themes that have been identified by the Banking Association's working groups as important for increasing the efficiency of digital banking and lending processes have been collected. Thus, a set of proposals consisting of 22 points was compiled. If applied, these would significantly promote progress in digitalizing banking processes.

The set of proposals includes important initiatives that would render banking administration digital and paper-free and steps, upon taking which banking services would become more efficient and less costly to use. Amendments to laws and development in banking are both necessary to realize these aims. In addition, the proposals also emphasize reducing cash use, digitalizing mortgage banking, and making already existing central databases (e.g.: data from the tax authority, the Central Identification Agent, etc.) accessible. The proposals have been sent to the Ministry of Finance, to the Ministry for Innovation and Technology and to the Central Bank of Hungary and have been published in the 2019/3 issue of *Economy and Finance* to make them publicly available to experts.

Changes made to professional training in finance

The Economics and Administration Sectoral Skill Council was set up in spring of this year. The Council proposed the following to the Ministry for Innovation and Technology (ITM - the institution overall responsible for professional training): the significant reduction of the number of training classes in the high school system within the fields of finance, accounting, customs, taxation and administration to two basic, comprehensive training classes; the introduction of training classes in individual, sub-sectoral fields for adults, conducted at training institutions or as accredited corporate training and with professional training/examination by authorities.

Under the guidance of the ITM in late September the relevant modifications have been made to the National Qualifications Register (OKJ) with regard to vocational training. The two training types concerned have been named: *Financial/Accounting Administrator* and *Corporate Management Administrator*.

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

Extraordinary General Meeting

To fill the vacated Presidential and previously vacated Member of the Board posts, the Hungarian Banking Association held an extraordinary General Meeting on July 1st, where it elected new officials.

Members elected the following officials:

- András Becsei, President
- Radovan Jelasity, Vice-President
- Éva Búza, Member of the Board
- József Vida, Member of the Board

The Activities of Working Groups

Data Reporting Contacts

- At the meeting of the HITREG working group, established by MNB to create the central bank analytical credit register, the central bank informed participants about the latest changes that became necessary before starting the test period.
- In response to the request of member banks, we managed to agree with MNB on expanding the publication of data on foreign subsidiaries.
- With regard to comments on the 2020 draft MNB decree: in response to the Banking Association's request, the introduction of mandatory data reporting to the real estate transaction database has been postponed.

Taxation Working Committee

- Volunteer experts from the Working Committee held two meetings on clarification issues concerning the rules entering into force with Act XXXVII of 2013 on Certain Rules of International Administrative Cooperation in the Field of Taxes and Other Public Charges, (DAC6), as well as to prepare a resolution towards the Ministry of Finance and the National Tax and Customs Administration.

Agricultural Sector Working Committee

- In response to the request of the working committee, the Public Warehousing Department of the Government Office of the Capital City of Budapest prepared the 2018 report on the public warehousing market. The report revealed that the value of public warehousing tickets amount to HUF 76.75 billion, which is a stable, average value when observing the trend in the volumes of the last five years.
- Consultations were held with the representative of the Ministry of Agriculture (AM) to elaborate Hungary's Digital Agriculture Strategy for 2019-2022, which the government adopted with Government Decree 1470/2019. (VIII. 1.).
- The working group provided its opinion several times on AM draft decree 42/2019. (IX. 20.) on interest support for agriculture, forestry and food industry investment loans, which will be published on September 20th.
- The food industry is the third most significant sector within the processing industry with an annual production value of HUF 2,748.6. Therefore consultations were held with the representative of the AM on Hungary's Food Industry Development Strategy, on the Hungarian Codex Alimentarius and High Quality Produce trademark system.

Baby Boom Subsidy Ad Hoc Working Group

- The working group held regular meetings and consulted regularly with the departments and ministries concerned. It compiled questions and asked the relevant ministries and

departments for their resolutions, while at the same time monitoring the IT developments that were necessary.

- Based on the experience gained in the past few months a summary of the proposals to modify the government decree on the Baby Boom Subsidy was prepared. The proposals have been sent to the ministries concerned (to the Ministry of Finance and the Ministry of Human Capacities) and an in-person consultation on the modifying proposals also took place with the representatives of the ministries.
- Several rounds of consultations were held with the representatives of the Hungarian State Treasury in connection with forwarding data and filling out tables. In addition, further need for data was expressed by the government, which will demand extra developing.
- Several rounds of consultations were held with the representatives of the Central Bank of Hungary.

Bank Cards Working Group

- Preparing for Strong Customer Authentication (SCA) was a very important part of this time period. More information on this is available in the PSD 2 summary section.
- The working group prepared for the bank card aspects of the amendment of Regulation (EU) 924/2009;
- it held consultations in connection with the MNB's change in the order of bank card data reporting; and
- in collaboration with the professional department of the National Bureau of Investigation it prepared to participate in the international E-Commerce Action Day.

Internal Audit Working Group

- The working group prepared working materials concerning the rules of the Hpt on internal audit and the internal control system. Before sending it to the MF the Legal Working Committee will provide an opinion on these in order to ensure that they also receive a professional legal review.

Family Support Working Group

- Questions and experience in connection with the "Village CSOK" were discussed at working group meetings with the participation of the government (several ministries).

Digitalization Working Group

- The working group prepared a comprehensive proposal package to reduce the amount of cash. The package also contains numerous proposals for digitalization. The proposals worded in the Study have been incorporated into the Hungarian Banking Association's 22 points on digitalization, based on the Board's decision.

Energy Working Group

- Professional consultation was held with the representatives of the Regional Centre for Energy Policy Research, the Hungarian Energy & Utilities Regulatory Agency (MEKH) and the Ministry for Innovation and Technology (ITM) on the financing of renewable electricity auctions.
- The MNB sent us the consultative document entitled Green Finance in Hungary for opinion. Based on the recommendations received, it is likely to create its final package of measures in autumn 2019.
- Before the disclosure of the documentation of MEKH's Renewable Support System (METÁR) aimed at green premium-type support, the working group held several consultations with the participation of the ITM. The first METÁR tender was published on September 2, 2019 and took into account the observations made by the working group.

IT Security Working Group

- The previous chair of the working group, Mr. György Pávlicz (K&H Bank) resigned from his post as leader of the working group on 06/20/2019. In light of the unprecedented situation and to fill the post of chair, a written nomination and voting procedure was held between the members of the working group. A proposal was created from the result of the vote and on the new candidate for chair. This was discussed by the Board at its meeting in October and approved with a unanimous vote: Mr. István Ragó (Erste Bank) became the chair of the IT Security Working Group.

Real Estate Valuation Working Group (Mortgage Banks)

- The authorization for the use of new homes and the statutory certificate may only be obtained if they meet the requirements for near-zero energy buildings. Due to the approaching deadline, institutions have (already) worded their significant concerns about lending and accepting collateral. Evaluating the ministry's response to these was also on the agenda in Q3.
- The working group collaborated with the MNB to ensure that data reporting on the data transaction database can be achieved and to establish the legal framework of the database.
- It consulted with the Central Bank of Hungary on the MNB Green Finance Valuation. This was followed by a market consultation process in which member institutions participated directly.

Mortgage Bank Legal and Capital Markets Working Group

- Applying to the Implementation Task Force for the ECBC¹ Covered Bond Directive and regulatory package and carrying out related tasks in the third quarter.
- It consulted with the Central Bank of Hungary on MNB Green Finance lending. This was followed by a market consultation process in which our member institutions participated directly.

SME Working Committee

- Within the framework of the project aimed at establishing uniform micro and small enterprise loan application the MNB, in collaboration with KAVOSZ Zrt., created and - for the purpose of a first round of consultation - presented the new realization concept to the representatives of the Banking Association. The new concept is built on increased activity on the part of the intermediary institution and the personal appearance of a representative from the enterprise. In addition, they also presented the offer scheme related to credit and account management conditions, which ensures the comparability of the new concept.
- Consultations were held with the representatives of the Hungarian Chamber of Civil Notaries on the electronic administration applied in notarial proceedings.
- Consultations were held with the representatives of the Prime Minister's Office on changes to the professional steering of the real estate registry and cartography.

Communications Working Group

- We continued the informative communications statements with regard to the mandatory data reconciliation required by the act against money laundering and terrorist financing. We informed the public about obligations, tasks and the fact that Parliament postponed the deadline to October 31, 2019. Our member institutions informed their customers through active, autonomous communication (on emphasized parts of bank web pages and through direct channels).

Retail Lending Contacts

¹ European Covered Bond Council – A European advocacy body

- Consultation was held with the participation of the MF and the Prime Minister's Office on the clarification of certain issues related to CSOK and the Village CSOK. As part of this, the procedure to be followed in cases where mixed support is aimed for, compliance with the concepts of residence and housing were examined, it was clarified what kind of constructive work belongs to the category of modernization, as were the contents of a foreign social security, in addition to the hedge value of collateral. The Ministry of Finance gave its resolution for all of the above, which has been forwarded by the Banking Association to its member banks.
- As part of the financial laws, the MF defined proposals regarding consumer loans, which propose the introduction of a new type of Annual Percentage Rate ceiling. Several expert consultations were held on this subject and expert materials have been prepared as well - consultation on these is ongoing.
- The MNB clarified the conditions for electronic administration, for charges arising until payment and for the withdrawal of discount for the Certified Consumer-friendly Housing Loan. Experts provided their opinions to these. The modifications will enter into force on October 1st.
- Experts held several rounds of consultations on the simplification of the settlement system for state housing support and on installing all the related tasks at MÁK (Hungarian State Treasury).

Building Society Working Committee

- The working committee held its inaugural meeting in the third quarter, where it formally accepted its Order of Business, elected the chair of the working committee with unanimous vote as well as electing the chairs of the Building Societies Legal and Bank Operations Working Groups.
- The working committee reviewed the possibility of becoming a member of the European Federation of Building Societies (EFBS), the range of advocacy topics, and recorded the fundamental principles for delegating EU experts.
- The working committee discussed the legislation amendment proposals that concern building societies, which, on the one hand also regard the rules for the activities they may carry out and on the other hand, the rules related to saving schemes that are not concerned with state support.

Building Society Legal Working Group

- The working group provided its opinion on the laws from the autumn financial acts that concern building societies, taking into account the guidance of the Working Committee, and also worded several complementary proposals to aid in the operation of building societies.
- It took preparatory steps in elaborating a financial, government decree-level bill. Consultations on this bill are still ongoing.
- It prepared a proposal on the details of EFBS membership for the Working Committee.

Leasing Working Group

- At its meeting the working group started elaborating its proposal for the simplification of official vehicle registration and digitalization, illustrating it with a flow chart.

Documentary Transactions Working Group

- Exchange of letters with the representative of the Prime Minister's Office in connection with our questions regarding government decree 191/2009. (IX.15.) on construction work activity.

Payments Working Group

- The testing of the instant payment system continued, as did the processing of the results and experiences gained with the participation of experts from MNB and GIRO Zrt.

- The PAD working group continued its work on client information issues related to the practical implementation of EU regulations, among others the publishing of the English version of “Hungary’s final national register of the comparability of payment account charges”.
- Work on processing the final contents of the amendment of Regulations (EU) 924/2009 (Regulation (EU) 2019/518), as part of which we requested the resolutions of both the MF and the MNB with regard to the uniform and correct interpretation of the regulation.

Anti-Money Laundering and Anti-Terrorist Financing Working Group

- the working group participated in the meeting on modifying the act on money laundering (Pmt.) due to the implementation of Directive AML V, which was held at the Ministry of Finance. Discussion was held on the concept for amending the Pmt. and the direction to be taken for the modifications was presented and debated.
- The working group provided its opinion to the provision of the MNB anti-money laundering act’s implementation that concerns service providers supervised by MNB.

Capital Requirement Regulation Working Group

- The working group commented on the autumn financial omnibus act’s proposals related to the capital requirements regulation.

Treasury Working Group

- The working group provided comments to the amendments to domestic legislation related to the EU Prospectus Regulation and to the 2019 autumn financial omnibus act; the working group participated in the consultation with the Ministry of Finance.
- The working group commented on the MNB recommendation on remuneration policy and practice to be applied for providing investment services.

V. Annex

1. . Regulatory development in the European Union in Q2

Regulations² – Level 1,2 and Level 3 (EBA, ESMA guideline) – published throughout the quarter, up until the time this report was completed³

Title	Date of Announcement	In effect from	Transposition deadline (only for directives)	Implementation deadline
Capital Markets Union REGULATION (EU) 2019/1156 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on facilitating cross-border distribution of collective investment undertakings and amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014	12/07/2019	01/08/2019	-	01/08/201 (exc. 02/08/2021)
Capital Markets Union DIRECTIVE (EU) 2019/1160 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directives 2009/65/EC and 2011/61/EU with regard to cross-border distribution of collective investment undertakings	12/07/2019	01/08/2019	02/08/2021	02/08/2021
Capital Markets Union REGULATION (EU) 2019/1238 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on a pan-European Personal Pension Product (PEPP)	25/07/2019	14/08/2019	-	Publications of the RTS defining specifications + 12 months
ESMA Guidelines on risk factors under the Prospectus Regulation	01/10/2019	04/12/2019	04/12/2019	04/12/2019

² This table does not contain changes related to the sanction list, on which MNB provides information regularly

³ 4 October 2019

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>NPL Package</i> 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)	14/03/2018	27/03/2019 N/A ⁴	N/A	N/A	in effect from: publication + 20 days transposition: 31/12/2020 implementation: 01/01/2021
<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 investments and sustainability risks and amending Directive (EU) 2016/2341 2018/0179(COD)	24/05/2018	N/A	18/04/2019 (03.28?)	N/A	In effect from: N/A Implementation: 12 months
<i>Sustainable Finance Package</i>	24/05/2018	N/A	26/03/2019	N/A	In effect from: date after publication, N/A Implementation: immediate

⁴ On 27 March 2019 Coreper approved the mandate for negotiations with the European Parliament on the part of the Non-Performing Loans directive on the development of secondary markets for sales of non-performing loans
Work is still ongoing in a Council working party on the accelerated extrajudicial collateral enforcement part of the directive.

Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks 2018/0180(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 The European Parliament's text adopted after review by a legal/linguistic expert 10/10/2019	In effect from/likely date of publication: November 2019 Transposition: April 2021 Implementation: April 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 Transposition: 18 months
<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)	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 amending Directive 2014/65/EU on markets in financial instruments 5 2018/0047 (COD)	08/03/2018	24/06/2019	27/03/2019	N/A	In effect from: N/A transposition: entry into force of the Crowdfunding regulation + 6 months implementation: at the same time as the implementation of the Crowdfunding regulation
<i>Consumer protection directive „omnibus”</i> Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Council Directive 93/13/EEC of 5 April 1993, Directive 98/6/EC of the European Parliament and of the Council, Directive 2005/29/EC of the European Parliament and of the Council and Directive 2011/83/EU of the European Parliament and of the Council as regards better enforcement and modernisation of EU consumer protection rules 2018/0185(COD)	11/04/2018	21/03/2019	21/01/2019	17/04/2019	entry into force: 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
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

⁵ Modification related to the EU Regulation on European Crowdfunding Service Providers (ECSP) for Business

Regulatory dossiers that have not yet been concluded - Level 2

L1 Regulation requiring delegation	Topic	EBA/ESMA normative proposal (date) text	Approval by the Commission (date)	Impact on Hungarian legislation (implementation or deregulation; entry into force, transposition deadline, implementation)
CRR	COMMISSION DELEGATED REGULATION (EU) No .../... of XXX Supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 with regard to 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	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 specifying the conditions to allow institutions to calculate KIRB in relation to the underlying exposures of a securitisation transaction in accordance with the provisions set out in Part Three, Title II, Chapter 3 of Regulation (EU) No 575/2013 for the calculation of capital requirements for purchased receivables	EBA final draft: 08/04/2019	N/A	N/A
CRR	COMMISSION IMPLEMENTING REGULATION (EU) No .../... amending Implementing Regulation (EU) 2016/1799 as regards the mapping tables specifying the correspondence between the credit risk assessments of external credit assessment institutions and the credit quality steps set out in Regulation (EU) No 575/2013 of the European Parliament and of the Council	ESA final draft: 20/05/2019	N/A	Implementation: 20 days after publication
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	N/A (EBA consultation concluded on: 28/11/2019,	N/A	N/A

	delta formula for interest rate options and for the determination of long or short positions in the Standardised Approach for Counterparty Credit Risk under Article 277(5) and Article 279a(3)	evaluation in progress)		
CRR (COREP)	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	EBA final draft: 28/05/2019	N/A	likely dates of implementation: 01/03/2020 and 01/04/2020
CRR	COMMISSION IMPLEMENTING REGULATION (EU) .../... of [] amending Implementing Regulation (EU) 2016/1646 as regards the main indices and recognised exchanges in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms	N/A (EBA consultation concluded on: 05/07/2019, evaluation in progress)	N/A	20 days after publication
Financial Conglomerates Directive	COMMISSION IMPLEMENTING REGULATION (EU) No .../... laying down implementing technical standards with regard to supervisory reporting of risk concentrations and intra-group transactions according to Directive 2002/87/EC of the European Parliament and of the Council of XXX	N/A (ESAs consultation in progress, until 15/08/2019)	N/A	likely date of implementation: 01/01/2020
PSD 2	C(2019)1997 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
Securitization Regulation	COMMISSION DELEGATED REGULATION (EU) .../... supplementing Regulation (EU) 2017/2402 of the European Parliament and of the Council with regard to regulatory technical standards on the homogeneity of the underlying exposures in securitisation C(2019)3785	28/05/2019	N/A	20 days after publication

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)
- ESMA Draft Guidelines on liquidity stress testing in UCITS and AIFs,
(consultation concluded on: 01/04/2019, 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)
- EBA Draft Guidelines on Credit Risk Mitigation for institutions applying the IRB Approach with own estimates of LGDs
(consultation concluded on: 25/05/2019, evaluation in progress)
- ESMA Guidelines for reporting under Articles 4 and 12 SFTR
(consultation concluded on: 29/07/2019, evaluation in progress)
- EBA Draft Guidelines on loan origination and monitoring
(consultation concluded on: 30/09/2019, evaluation in progress)
- ESMA Draft Guidelines on disclosure requirements under the Prospectus Regulation
(consultation concluded on: 04/40/2019, evaluation in progress)
- ESMA Draft Guidelines on certain aspects of the MiFID II compliance function requirements
(consultative period: July 15 to October 15, 2019.)
- ESMA Draft Guidelines on performance fees in UCITS
(consultative period: July 16 to October 31, 2019)
- EBA Draft Guidelines on the determination of the weighted average maturity of the tranche in accordance with point (a) of Article 257(1) of Regulation (EU) No 575/2013
(consultative period: July 31 to October 31, 2019)

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

According to the data available, the growth rate of the world economy continued to slow in the first two months of Q3, 2019. Growth proves very fragmented in individual regions, as the impact of the trade war between the United States and China becomes clearly noticeable in the Chinese and European economies, which additionally struggle with structural problems. The IMF further reduced expectations for this year and the next (to 3.2% and 3.5%, respectively). Money market conditions became volatile at global level due to the strong direction changes at developed market stock exchanges, while both the ECB and the Fed may significantly ease monetary conditions, which has led to a plunge in bond yields globally with a record number of bond yields falling into the negatives. Oil prices decreased significantly mid-year due primarily to concerns about demand – this tendency was only temporarily disrupted by attacks against the Saudi oil facilities – and have thus become much less expensive compared to a year ago.

The growth of the European Union's economy will likely continue to slow down in the third quarter. The slight contraction of the German economy due to a fallback in industrial production is decidedly unfavorable and economic indicators may possibly point towards a mild technical recession. Prospects have therefore become worse in terms of the real economy. Downward risks continue to be present in terms of future growth prospects, due to the threat of the escalation of the trade war, internal tension in large EU member states and EU-level political tensions, as well as the outcome of Brexit which continues to remain uncertain.

In the first two months of the quarter, the external environment of the Hungarian economy once again weakened. In spite of this, domestic economic growth will likely barely decelerate, proving to be the most dynamic growth currently demonstrated in the EU. Consumption dynamics will probably stay strong despite a strengthening base thanks to the continued, significant rise of wages, and will therefore it is likely to remain a defining factor of GDP growth. As regards expectations for investments, they will further contribute to growth, while net export trends are gradually unfolding: the surplus of foreign trade may continue to deteriorate at a lower rate than in the previous quarter.

Employment and unemployment once again showed minimal improvement on the labor market: in August/June the former increased by .8 percentage points, while the latter decreased by .4 percentage points compared to the previous quarter. The increase in the rate of employment slowed due to a narrowing labor supply, the primary and almost exclusive cause of which is job creation in 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 also due to increasing market wages.

The annual rate of inflation decreased from 3.3% to 2.8% from July to September due partly to oil prices and seasonal food prices, however both the fast rise in core inflation and core inflation after taxes peaked in the spring months, therefore price pressure seems to be easing up. 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 only amounted to HUF 304 billion up until end-September, this is the second lowest it has been for the first 9 months of the year since 2001. The primary reason for the deficit is the pre-financing of projects to be funded from EU sources – which up until now amounts to a total of HUF 1077 billion this year, while the EU has only transferred HUF 932 billion. Therefore, not considering this, a HUF 158 billion deficit appears in the first nine months of the annual budget. Revenue is increasing dynamically in almost all tax types, with revenues from VAT rising the most spectacularly: by 19%. The relevant ministry believes that the 1.8% target budget deficit calculated with EU methodology (EU pre-financing adjusted) can still be kept to and that the reduction of the state debt-to-GDP ratio may continue, despite the pre-financing of EU payments.

Although the robust surplus of external accounts is becoming more moderate owing to a surge in internal demand, external balance indicators also turned out favorably. The capital account may improve substantially due to the increase in EU transfers, which may contribute to net financing capacity rising to over 3% of the GDP.

In order to improve the efficiency of monetary policy transmission the Monetary Council launched its corporate bond purchase 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 purchases bonds of good rating issued by non-financial enterprises. The MNB will neutralize the surplus money gained from the bonds purchased by means of a preferential deposit instrument, also yielding interest at the base rate.

The MNB Monetary Council kept the base rate at 0.90% in September, as well as keeping the overnight deposit interest at -0.05%. Overnight credit interest stayed at 0.90%. In addition, the MNB Monetary Council will increase the size of the surplus liquidity targeted for elimination in the fourth quarter by HUF 100 billion to HUF 300-500 billion from 200-400 billion in Q3, and will take this into consideration when defining the set of central bank swap instruments. This step was necessary because tax-adjusted core inflation was much less than what the MNB predicted. 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. Consequently, the Monetary Council will decide which monetary conditions are necessary on a quarterly basis. Since, as the international outlook becomes worse, expectations increase greatly for the leading central banks to lower their interest rates and core inflation after taxes seems to be becoming milder as well, the Monetary Council may wait before taking further steps in the quarter. It will continue to decide on which steps to take from quarter to quarter.

The EUR-HUF exchange rate gradually increased from 323 to 336 HUF/EUR, thus the forint reached its historically lowest value ever. At the end of the quarter the common foreign currency was worth HUF 334.70.

*Important financial indices in July/August 2019
(aggregated data from individual bank reports)*

HUF billion	2019 Q2	August 2019	Δ%
Balance Sheet ¹⁾	40,522	42,056	3.8%
Loan portfolio (customer, gross) ²⁾	19,372	20,104	3.8%
Corporate loans (gross)	10,212	10,463	2.5%
Retail loans (gross)	6,408	6,699	4.5%
Foreign (gross)	3,271	3,499	7.0%
Credit impairment, margin and accumulated interest ³⁾	-616	-579	-6.0%
Interbank deposits, loans	7,787	7,835	0.6%
Securities	11,836	12,268	3.6%
Government securities	8,587	8,933	4.0%
Liabilities	36,014	37,432	3.9%
Customer deposit ⁴⁾	22,387	23,088	3.1%
Issued securities ⁵⁾	2,293	2,449	6.8%
Interbank securities, loans	8,819	9,128	3.5%
Equity	4,509	4,623	2.5%
Loan-to-deposit ratio (gross, interbank not included)	86.5%	87.1%	-

- 1) Both forint instruments and foreign currency instruments denominated in forint increased, with the increase of the latter exceeded the rate by which the forint weakened (in the case of the euro by little, and considerably in the case of other foreign currencies).
- 2) Increase in the forint stock was below average, while it was above average in foreign currency stock. In corporate lending, the expansion of euro lending volumes was the most significant. Euro volumes quadrupled in the public finances sector, which also expanded significantly in nominal terms, by HUF 187 billion.
- 3) Credit impairment loss decreased further, although by less than before, at a rate of 2% in the case of corporate loans and almost 6% in the case of retail loans.
- 4) Corporate deposits increased significantly, by nearly 6%, expansion was below average in all other sectors. The lengthening of average maturities continued.
- 5) Securities with a maturity of more than two years increased by over 10%, maturities lengthened.

HUF billion	August 2018 ¹⁾	August 2019 ¹⁾	Δ%
Profit before taxes ²⁾	420.5	376.3	-10.5%
Profit after taxes	396.0	354.2	-10.6%
ROA (before taxes, annualized) ²⁾	1.7%	1.4%	-
ROE (before taxes, annualized) ²⁾	15.1%	12.5%	-
Interest profit	508.6	535.4	5.3%
Profit from fees and commissions	356.2	392.4	25.9%
Dividend	86.7	99.1	14.3%
Other profit ³⁾	-92.7	-152.9	64.9%
General administrative expenses ⁴⁾	465.0	473.6	1.8%
Personnel-type expenses	258.2	273.7	6.0%
Provisioning and impairment loss	-71.7	-38.8	-45.9%

- 1) Cumulative values at the end of August
- 2) At the end of August 2019, profit, not counting the dividend, provisions and impairment loss, was HUF 238 billion, the annual ROE and ROA calculated based on this were 7.9%, and 0.9%, respectively.
- 3) While business profits fundamentally improved, other financial and deposit services saw their profit decrease by 25%. Other profit, which is usually negative, deteriorated by one-sixth of its original value.

- 4) The significant growth of personnel-type expenses related to other expenses was somewhat compensated for by the moderation of rents.