

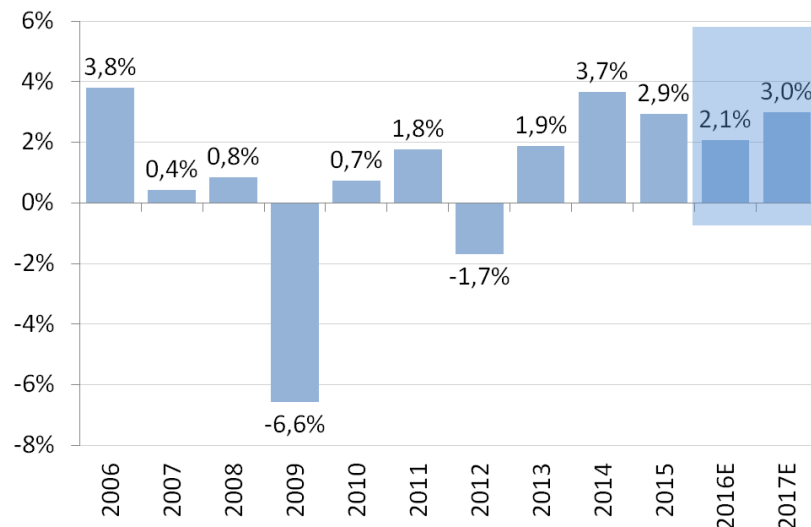
# „ Brave New World for Finance ?”

Presenter: Andras Becsei

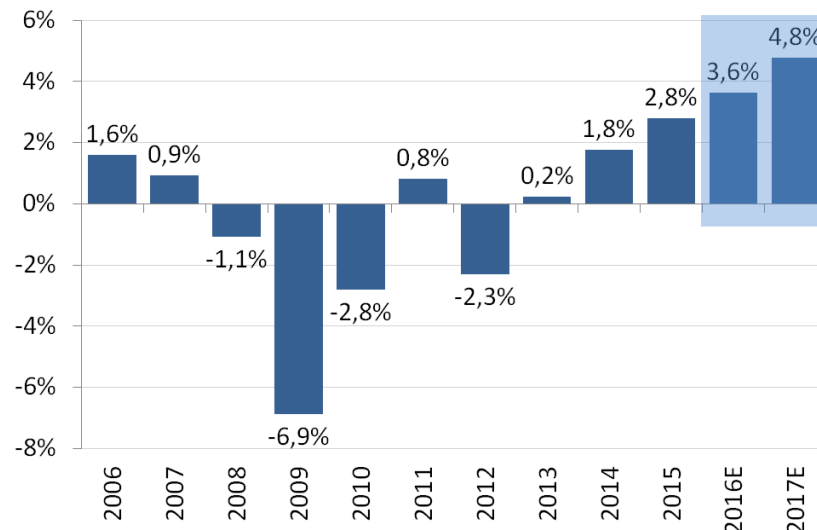
21.10.2016.

# After the decline in the last period, the growth returns again

## Real GDP growth (y/y, %)



## Consumer spending growth (y/y, %)



- 2016: temporary slowdown
- The main driver of growth are consumption and EU funds
- Low interest rates, rising fiscal maneuvering ability

- Household consumption continues to grow
- By 2017/18 number of real estate transaction may speed up even more, and the retail loan portfolio may grow

- Declining GDP due to the crisis
- Decline in lending, real estate market crisis
- The situation is aggravated by the effect of significant amount of previous FX lending
- Heavy loading of credit institutions with sector-specific taxes
- Foreign currency loan lawsuits were launched; the resulting legal settlement has been disputed in EU level still
- After FX lending, the government, the MNB and the Hungarian Banking Association implemented the HUF conversion in cooperation

The financial institutions have completed 2,47 billion EUR settlement. In the process about 6 million transactions were recalculated up to 10 years retroactively, and 4 million notifications were sent with a total weight of 140 tons.

### Refund obligation of the credit institutions due to the settlement (million EUR)

Foreign currency mortgage transactions	
Foreign currency-denominated consumer loans	
Foreign-based car financing transactions	
<b>Total foreign currency denominated transactions</b>	
Total HUF transactions	
<b>Total refund</b>	

### Refund obligation of the 8 big banks due to the settlement<sup>1</sup> (million EUR)

**Total for the 8 big banks: 1880 million EUR**

### The settlement and related Fairbank, HUF conversion processes

	1H 2015	2H 2015
<b>Refund / payment</b>	Accounting for foreign currency-denominated transactions	Settlement of HUF, and final repayment transactions
<b>Notice</b>	Deadline: 30. april 2,1 million notifications	Deadline: 30. sept. 1,9 million notifications
<b>HUF conversion</b>	mortgage transactions Until 31. march	Car financing and consumer credit transactions Until 1. dec.
<b>Initial interest rate and fee levels</b>	foreign currency denominated transactions From 1. february	HUF transactions: From 1. july

- ### Operational challenges related to the settlement
- Around **6 million affected transactions**
  - Complete re-simulation of **more than 10 years of credit history**
  - About **4 million settlement notifications**
  - **140 tons of mailed registered letters**
  - **321 MNB-investigations at financial institutions**
  - **40 special reports**

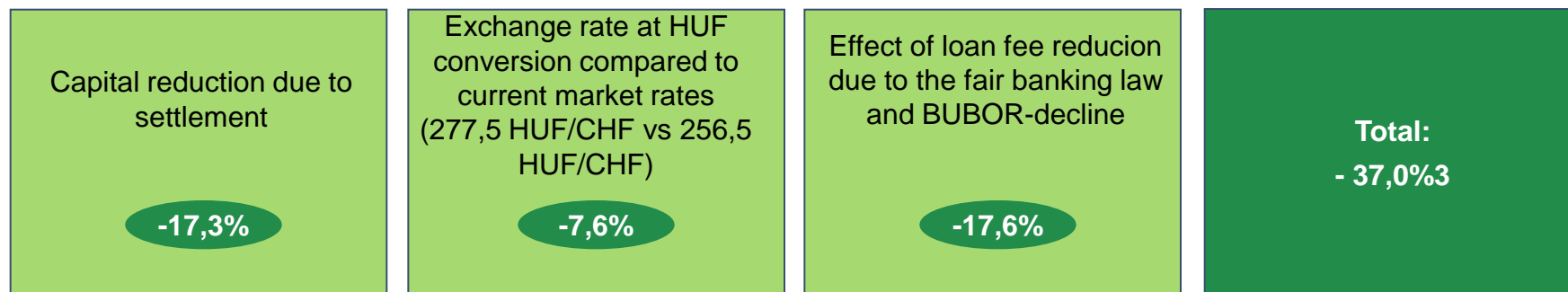
<sup>1</sup> Source : annual reports, press releases, OTP estimates

During the foreign currency-based transactions conversion of stock worth about 10,67 billion EUR took place. CHF mortgage customers' repayment is on average 37% less than it would be in the absence of the settlement and the HUF conversion.

### The stock for HUF conversion at financial institutions<sup>1</sup> (billion EUR)

Foreign currency mortgage transactions	9,7
Foreign currency car financing and consumer credit transactions	
<b>Total stock HUF conversion in EUR</b>	<b>-10,68</b>

### The change in repayment caused by the settlement and the HUF conversion for a typical CHF mortgage customer<sup>2</sup>

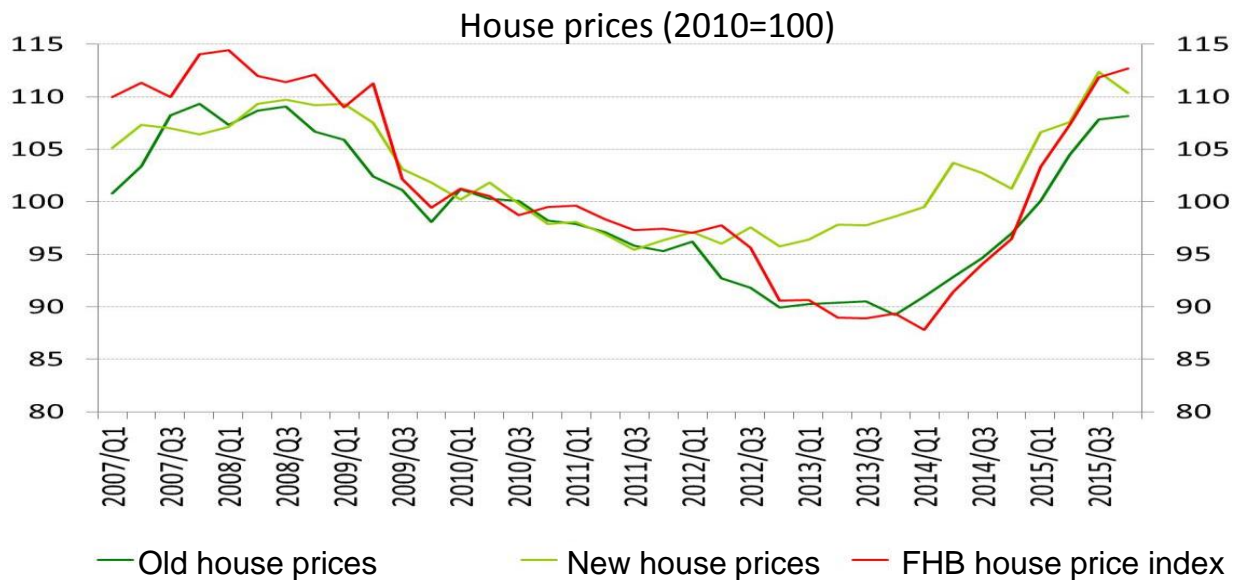
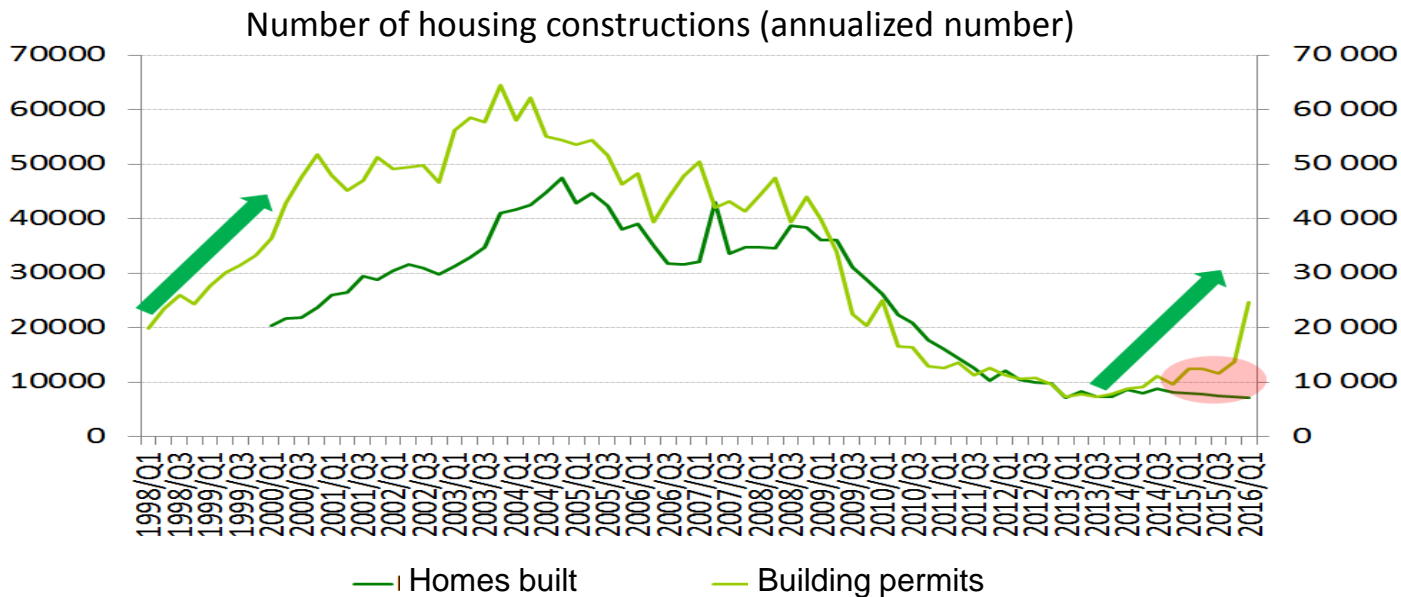


<sup>1</sup> Source : OTP estimation

<sup>2</sup> The typical CHF mortgage customer means the average values for the whole CHF mortgage loans. For the settlement, it is the estimated value of 360 billion HUF refund for live performing loans divided by the estimated whole stock of 2 080 billion HUF. In the case of HUF conversion the difference of the market and fixed HUF conversion exchange rate. During loan fee calculation, for the calculation of the three-month BUBOR value we used the current 0.87%.

<sup>3</sup> The individual effects are multiplicative, i.e  $(1 - \text{all reduction}) = (1 - \text{decrease due to settlement}) * (1 - \text{decrease due to HUF conversion}) * (1 - \text{reduced tariffs due to reduced loan fee reduction})$ , i.e  $(1 \text{ to } 37.0\%) = (1 \text{ to } 17.3\%) * (1 \text{ to } 7.6\%) * (1 \text{ to } 17.6\%)$ . The reduction is meant according to repayment performed at market rate

**In the housing market, after start of the increase in the number of transactions and the price, backed by the new government measures, the number of constructions begin to rise**

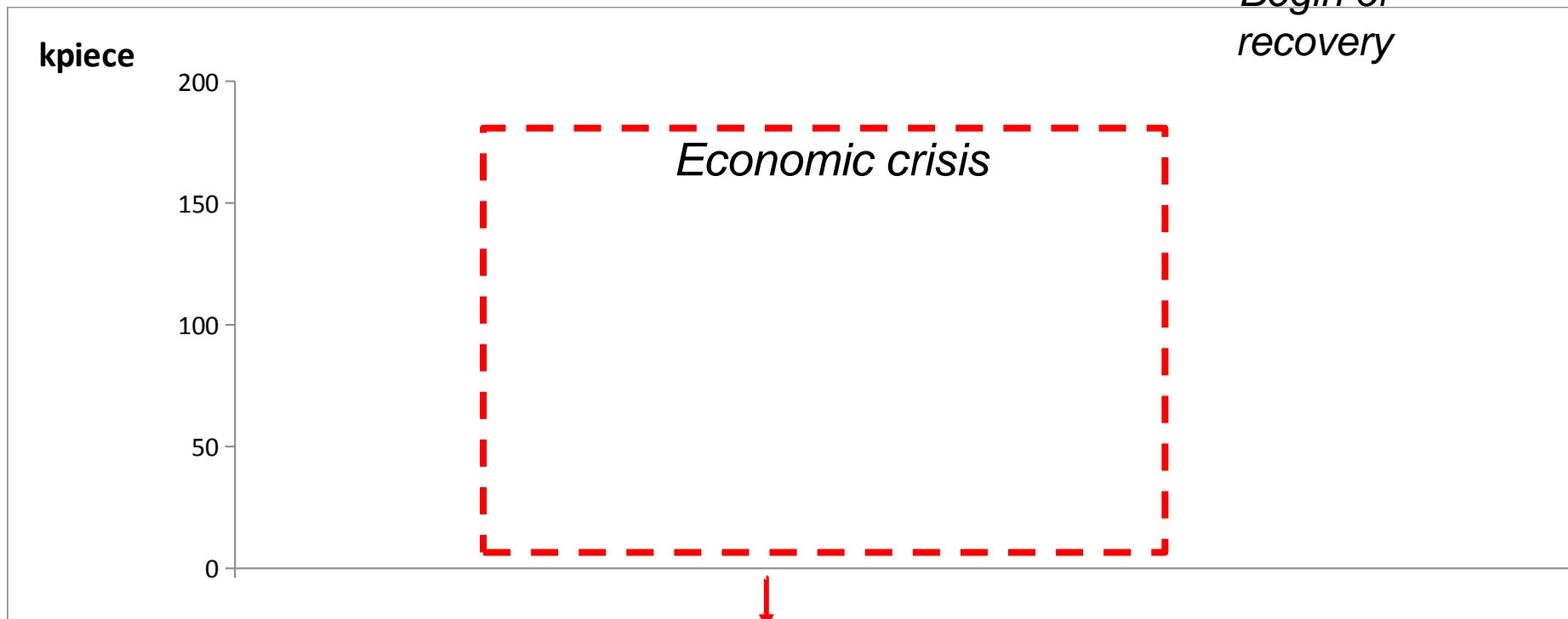


# Hundreds of thousands of pent up demands are expected to materialize (?)

## Changes in the number of real estate transactions

*housing boom peak*

*Begin of recovery*



Nearly 400 thousand deferred real estate purchase

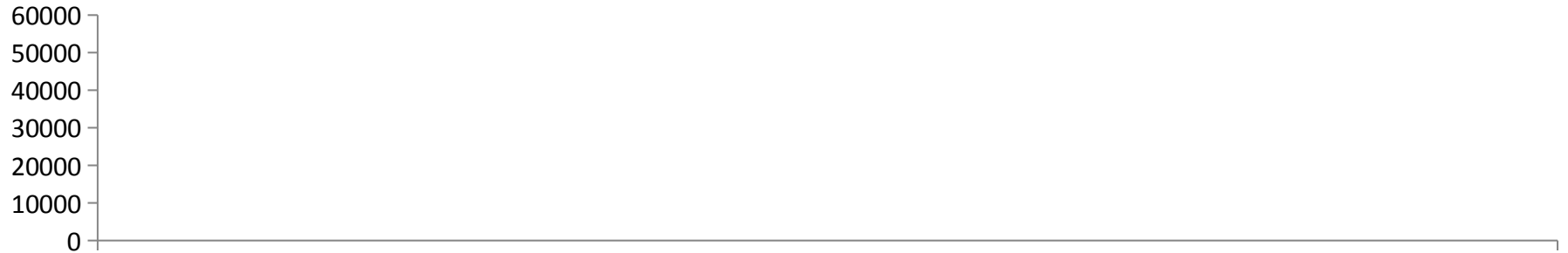
According to the final, 2015 figures 134 thousand housing units were sold, 18% more than in 2014. The housing market expansion was continued in 2016. **In the first quarter of 2016 22% more housing sales were registered compared to the same date of the previous year.**

# New impetus could be given for the building industry by Family Housing Allowance scheme (CSOK)

\* second quarter of 2016

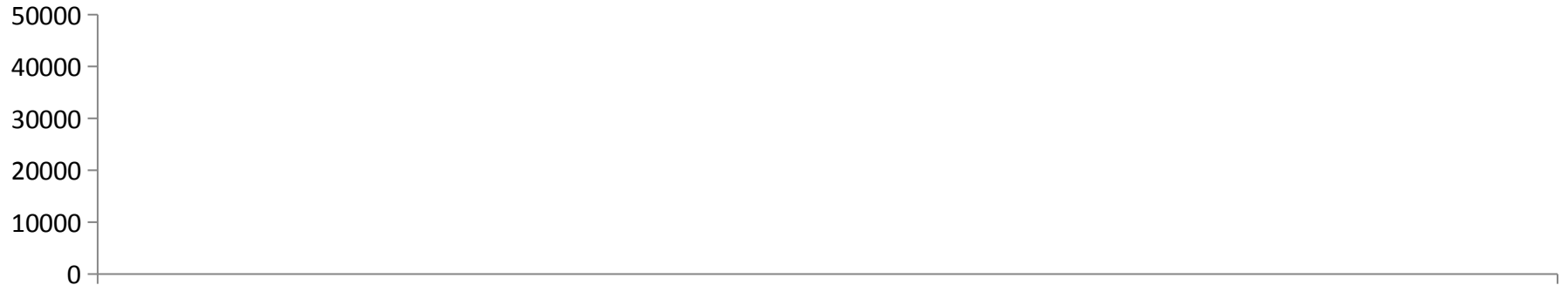
## Building permits (number of apartments)

db



## The number of apartments built

db





For 2-3 years the upward trend will definitely remain, but ...

- The traditionally quick reacting investment customer's activity is probably winding down.
- **The real estate investment returns are already declining.**
- Increasing proportion of the demand is made up from normal life situation housing demands, which constitutes of price sensitive customer groups.
- The occurring of all these factors together would lead to the consolidation of the price level.  
**However, due to the sellers lower price elasticity, the fall in prices reflected also in the statistics may occur later.**

**The number of transactions may set the level of 170-190 thousand in a few years.**

**The annual rate of price increase might decline to a single-digit this year, but the positive trend can last for years.**

**25 thousand new residential property may be demanded each year during the following period.**

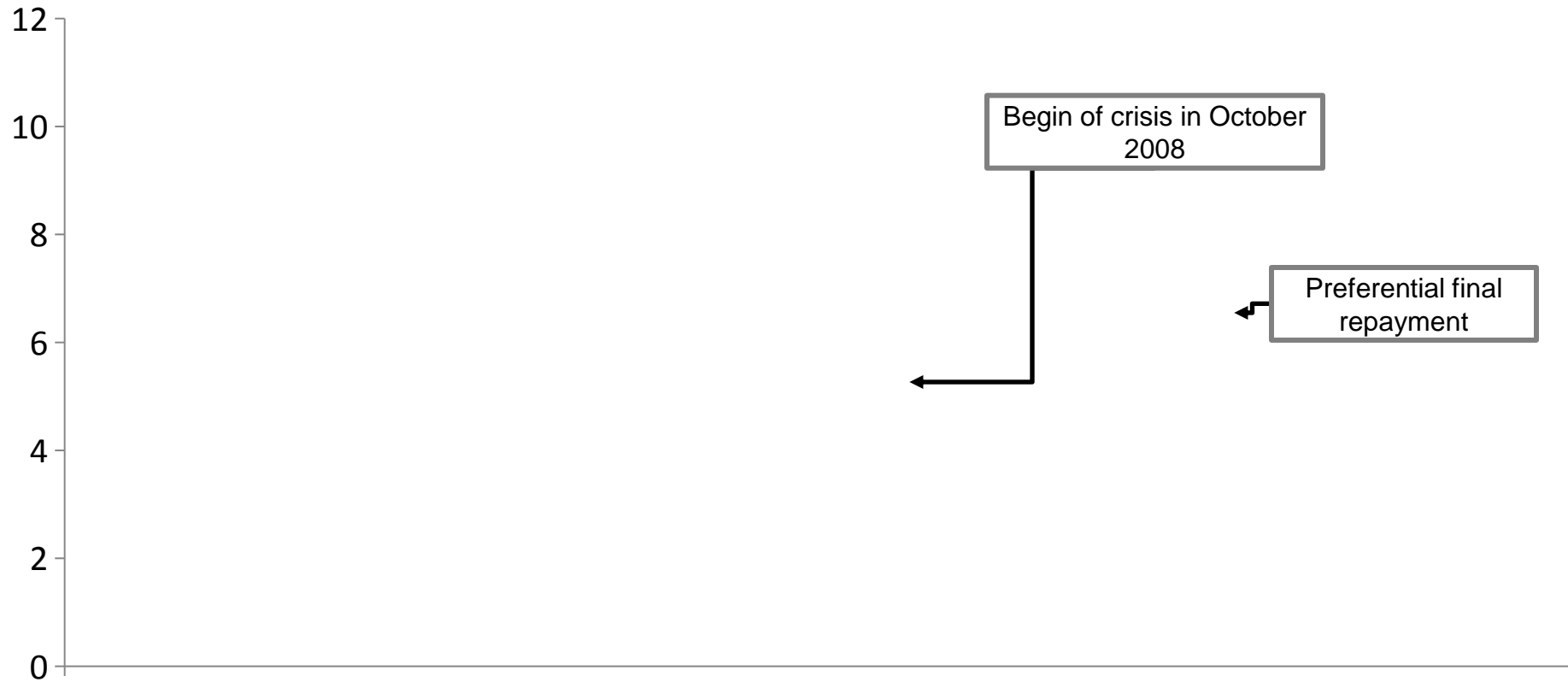
A stylized house icon in a light green color. The letters 'CSOK' are written in a large, dark green, bold font across the top of the house. Below 'CSOK', the words 'Családi Otthonteremtési Kedvezmény' are written in a smaller, dark green font, stacked vertically.

# CSOK

Családi  
Otthonteremtési  
Kedvezmény

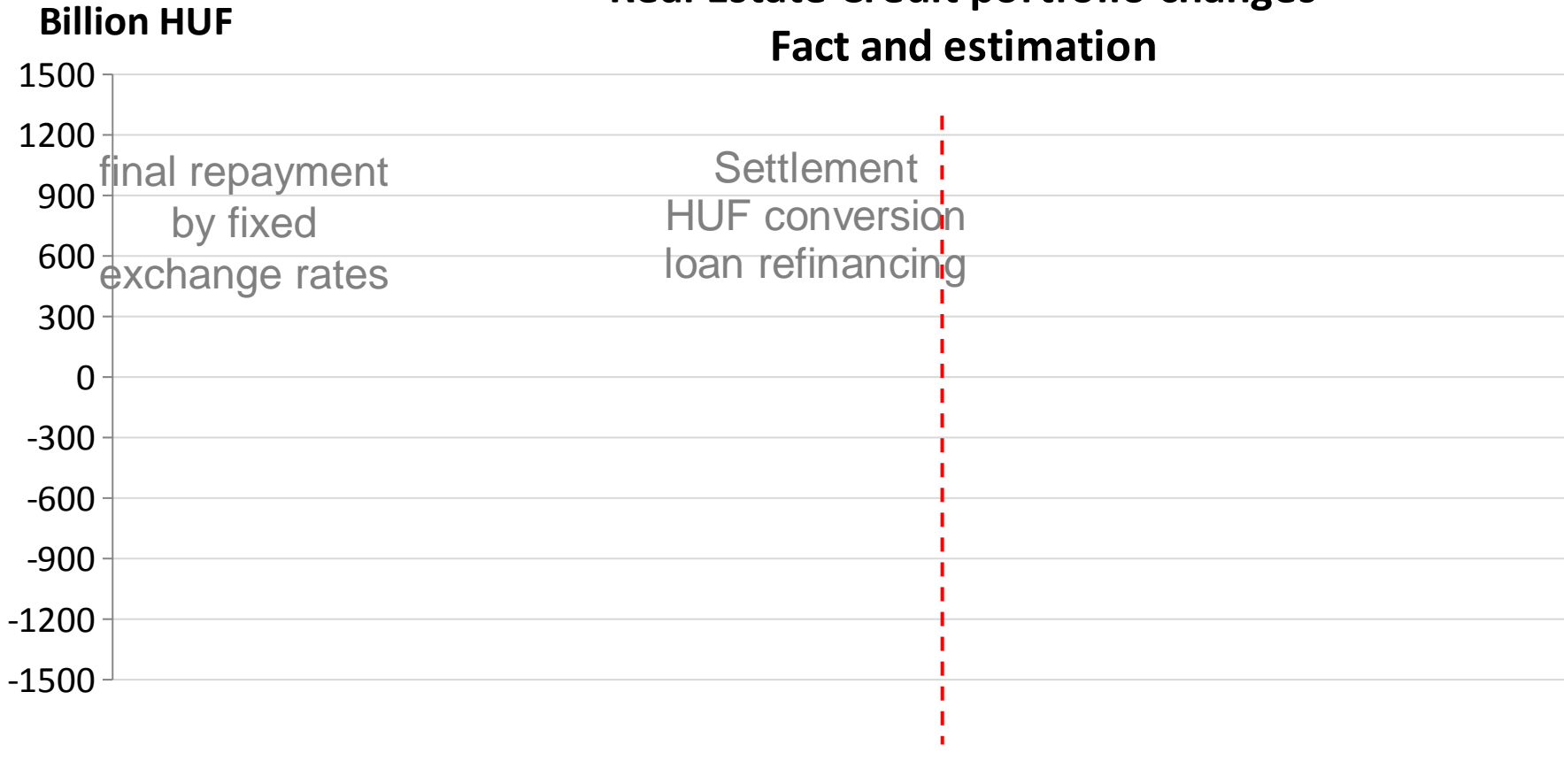
**Family Housing Allowance scheme (CSOK)**

## Changes in the monthly contracted amount of real estate loans offered to households for currency breakdown (billion HUF)



# Building up of mortgage portfolios to be expected again

## Real Estate Credit portfolio changes Fact and estimation



Change in stock

- 681

- 285

- 237

- 852

+ 115

+ 226

+ 336

**One of the most important tools of self-reliance and financial awareness**

**More than 3.7 million housing saving contracts since 1997**

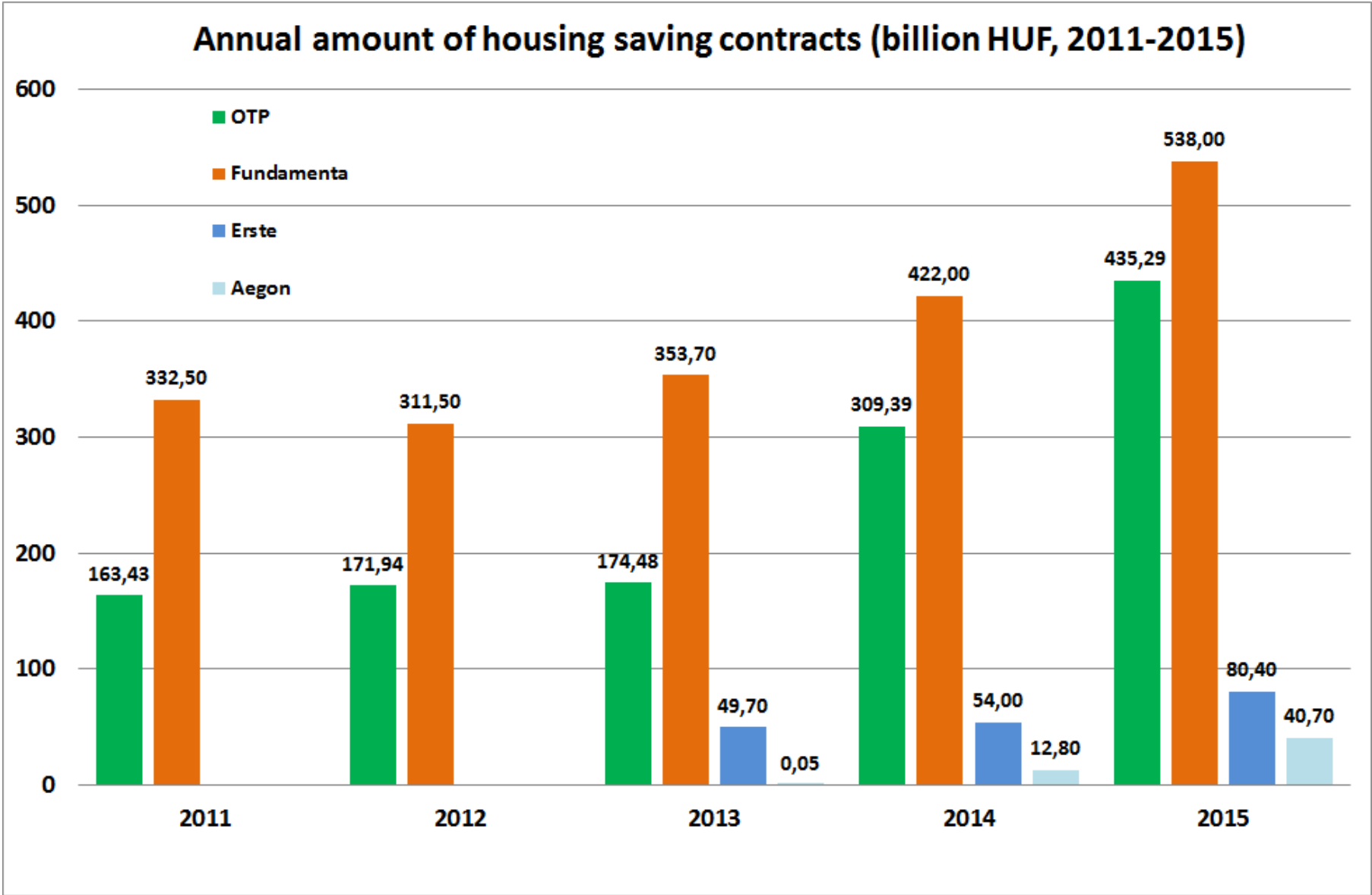
**250 billion HUF contribution to the reconstruction, purchase and construction of apartments in 2015**

**Economic Catalyst – contribution to boosting the housing market**

**Whiten the economy sector with positive balance for the state**

**Financing of general government**

In addition to the dynamic growth in the past years, in 2016 a further increase can be observed



**Thank you for your attention!**