Swiss drama: 'Forintization' saves the day

When the Swiss franc was allowed to soar against the euro, markets around the world were rattled, but Hungary proved relatively well protected. We look at how it happened and what it means for the near future.

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A worker at a money changer on Erzsébet tér changes the rates on a board on January 15, the day the decoupling of the Swiss franc pushed the euro up to 322 forints.

Photo: MTI/ Tamás Kovács

Although the decision by the Swiss National Bank (SNB) to remove the cap on the euro on January 15 led to large exchange rate fluctuations on forex markets, its impact on the Hungarian market was limited mainly due to the fortuitous timing of the "forintization".

"In the wake of the Swiss developments, a lot of Hungary's wealthiest see the revaluation of their assets because of their corporate loans," says Blochamps Capital CEO in a note sent to the *Budapest Business Journal*, "while those who haven't brought back their funds from Switzerland pop their Don Perignons together with the rich Germans, who transferred part of their private and corporate assets to Swiss banks to escape German taxes."

As a result of the SNB's surprise move, the currencies of the CEE countries, including the forint, depreciated sharply against the Swiss Franc. "Such a shock would have sent the forint rate falling through the floor before, but now it had only a limited – and diminishing – impact on the Hungarian currency," OTP chief analyst Gergely Tardos tells the *BBJ*. Government measures aimed at decreasing and eventually eliminating forex debt have reduced Hungary's vulnerability to such shocks. According to economy minister Mihály Varga, Hungary has been spared HUF 1 trillion of extra liabilities due to the phasing out of foreign currency denominated debt.

The official HUF/CHF exchange rate was 319.27 on the day of the SNB's move, up from 266.33 a day earlier. Before the *BBJ* went to press, the forint was trading at around 315 against the Swiss franc and was strengthening against the euro, especially after the European Central Bank's (ECB) announcement of its extended asset purchase program (also known as quantitative easing or QE) on January 22. The official forint rate against the euro reached 311.40 a day after the announcement. The ECB decided to include bonds issued by euro area central governments, agencies and European institutions and increased combined monthly asset purchases to €60 billion.

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Due to the perfect timing of the conversion of forex mortgage loans, for which the often-criticized Hungarian government was widely praised, the turmoil following the decision to allow the Swiss franc to float free and untethered had practically no impact on mortgage debtors of forex loans. Other countries, such as Poland and Croatia, even asked for more information on the Hungarian model for phasing out forex loans. However, not everybody would welcome such ideas. UniCredit outgoing CEE chief, Gianni Franco Papa was cited by portfolio.hu as telling a recent Euromoney conference that he would not like to see other countries introducing similar measures.

It began with borrowers' relief

The legislation on fair banks and the forint conversion of forex and forex-based consumer mortgage loans was approved by Parliament in November 2015, a mere two months before the Swiss drama. Under the scheme, exchange rates were set at CHF/HUF 256.5 and EUR/HUF 309 and thus, forex borrowers were spared incurring extra debt totaling some HUF 700 bln, according to Varga.

The remaining forex loans, mainly consumer and car loans, amount to about CHF 2 bln, which is only a fraction of the original total, says Tardos. This, together with CHF 2.2 bln in corporate loans, accounts for 3.5% of Hungary's GDP; Hungary is among the more protected countries As for state debt, compared to 2010, the lower share of forex debt within the total has reduced the costs of servicing debt by some HUF 170 bln, said Varga. Due to last year's debt assumption of local governments, these costs dropped by another HUF 85-90 bln. As a whole, the total amount spared for Hungary is some HUF 1 tln, he calculates.

Much ado nothing

The BUX Index was down 2.36% on January 15, mainly due to a plunge of OTP shares on concerns that banks' non-performing loans would jump due to debt other than mortgages, although the bank immediately said that it had hedged itself against the strengthening of the Swiss franc. Erste analysts say that despite the huge turmoil, the whole thing was: "Much ado about nothing, as on the Hungarian capital market Magyar Telekom and MOL has no Swiss franc exposure. OTP Bank and FHB Mortgage Bank has a CHF 1 bln and a CHF 5 million exposure, respectively. Pharmaceutical producer Richter has some exposure what with its Swiss subsidiary and some CHF loans. On the other hand, the weakening forint helps its export sales."

No intervention

The National Bank of Hungary (MNB) confirmed in a statement released shortly after the SNB's move that the exchange rate volatility will have only a limited effect on the Hungarian economy and financial system, as all the banks had already acquired the Swiss Francs they needed by the end of 2014. The MNB provided banks almost €9 bln from its international reserves for the loan conversion. Forex mortgage loan holders have already been paying their monthly installments at the fixed rate since January 1, 2015. The MNB pointed out that at the January 15 official rate monthly installments of CHF loan holders would have become 25% higher. This amounts to an increase of HUF 15,000 in the case of the average CHF loan holder.

The MNB said in a statement published on January 21 that in the short run, no central bank measures are necessary on the domestic investment market because of the sharp strengthening of the Swiss franc. Data submitted by investment companies and fund managers thus far show that losses exceed a combined HUF 10 bln by a few hundred investors. Altogether ten investment funds, all absolute yield funds, lost more than 5% of their net asset value, or a combined HUF 24 bln on January 15. However, this is only approximately 0.5% of the net asset value of the entire sector.