Institutions complain of 'brutal' treatment

Hungary

The economic crisis coupled with policies of the centre-right government have had a severe impact, says **Kester Eddy**

When István Karagich advertised for a financial assistant in March, he was overwhelmed with applications.

"We got 400. We used to get about a 100 for a job like this. It just shows how many have been laid off in [the] financial sector," says Mr Karagich, chief executive of Blochamps Capital, a finance consultancy in Budapest.

The global economic crisis, coupled with the policies of Hungary's centre-right Fidesz government, led by Viktor Orbán, have had a severe impact on the country's banking sector.

Precise figures for job losses are hard to come by, but, as an example, the Hungarian unit of Raiffeisen, the Austrian bank group, has shed 800 – more than one in five – of the 3,800 employees it had in 2008, when the crisis began. MKB, the Hungarian subsidiary of Bayerische Landesbank, announced another 165 redundancies this month.

The financial data are also depressing.

"We estimate the entire loss in the banking sector [for 2011] at about Ft300bn (€1bn)," says László Bencsik, deputy chief executive of OTP Bank.

The financial crisis has affected all central and eastern Europe's banking sectors, but, having survived the immediate crisis and its aftermath in 2009, Hungary's banks have been increasingly under the cosh since Mr Orbán's government took power in 2010.

That summer, desperate for revenues and seeking to avoid the political backlash from putting up personal taxes, the regime imposed an "extraordinary" banking levy – making it retroactive for the whole of 2010 to boot.

Tamás Bernáth, head of financial services advisory at PwC, the consultancy, says: "I blame the banks for making some of their problems through reckless lending. But this was brutal. Sure, there are other banking taxes in the world, but at 0.5 per cent of total assets, it's about six times larger than in Austria."

Hungary had another problem. In order to access credit but avoid the high interest rates on forint-denominated loans, from about 2000, households began taking out mortgages in foreign currencies – mostly Swiss francs.

While this seemed like a good idea at the time – when the franc was worth Ft150 – from late 2010 it began a sharp appreciation, peaking within a whisker of Ft270 in summer 2011.

With tens of thousands of home-owners struggling to make monthly repayments, the government pushed through legislation, forcing banks to accept lump-sum loan repayments at the artificially depressed rate of Ft180 to the Swiss franc – with the banks taking the exchange rate loss.

As a result, 170,000 loans, worth some Ft1,300bn (€4.5bn) – or 25 per cent of the total portfolio of Ft5,200bn in foreign denominated mortgages – were repaid in late 2011 and this year.

"This was huge," János Müller, chief adviser of the Hungarian Banking Association, told a Budapest conference last month. "The total loss for the banking sector was Ft370bn; it means the sector showed a negative result in 2011 for the first time since 1992."

Notable exception: OTP was one of the few banks that reported a profit in 2011 Bloomberg

OTP was one of the few banks that reported a profit in 2011, but it was a struggle.

"Including the one-off measures, the return on equity for OTP in Hungary was 4.5 per cent: now, by buying 10-year government bonds, you can get between 8 and 9 per cent," says Mr Bencsik.

> 'The banking sector is the engine of the economy. With no loans, there'll be no economic growth and no new jobs'

While the government thought it had done a good job, critics said the move had mainly benefited the well-off, rather than those unable to cope with their bloated monthly payments.

The banks, meanwhile, quietly seethed. Heinz Wiedner, chief executive of Raiffeisen Bank in Hungary, says "I'm still upset every time I think about the [mortgage] repayment act, because it solved neither the government's nor the country's problems. It helped those people who primarily either had the money somewhere, or who were able to get very good refinancing.

"These were the best clients, who would have been able to repay their loans anyway."

The move also contributed to the weakening of the forint, Mr Wiedner says, adding to the burden for those stuck with their original foreign currency loans.

In addition, Mr Müller points out, banks have cut lending – in particular, credit to small businesses – also hampering growth.

Meanwhile, government measures continue to evolve.

In an effort to ease the mortgage burden further, the government has negotiated a new scheme of deferred repayments, whereby losses are shared between the state and banks. And, while it has promised to halve the bank tax next year, and phase it out altogether in 2014, last week it announced a levy of 0.1 per cent on financial transactions.

This move was criticised by the banking association, which said it broke an agreement that precluded new taxes on the sector that it had signed with the government in December 2011.

Others said it would be costly to implement and encourage yet more businesses to migrate to the grey economy.

For all its problems, Mr Müller insists the sector is solid, with an average capital adequacy ratio of 13.4 per cent, although non-performing corporate loans had climbed to a worrying 15.4 per cent at the end of 2011.

Mr Müller thinks the risk of a credit crunch is the greater threat. "The banking sector is the engine of the economy. With no loans, there'll be no economic growth and no new jobs."