

Hungary

The tough road to recovery: poor saving capacity despite higher saving propensity

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- The financial crisis and economic recession broke with the trend in previous years and enforced rapid adjustment in households' financial behaviour, with recovery expected only from 2011
- Revalued assets (falling market prices) and liabilities are gradually returning to pre-crisis levels, but in the short term poor saving capacity (despite higher saving propensity) and tighter credit standards may pose an obstacle to improving financial penetration
- A regulatory proposal on FX lending, aiming at reducing households' un-hedged risks, while still keeping lending recovery on a balanced path is in the pipeline

Table 1: Household real and financial indicators

	2006	2007	2008	2009 e	2010 f	2011 f
Per capita net financial wealth (€)	3,609	3,778	2,951	3,312	3,776	4,092
Monthly wage (€)	648	736	799	703	744	788
Monthly wage (% YoY LC)	8.2	8.0	8.7	-0.8	0.6	4.0
Unemployment rate (%) ⁽¹⁾	7.5	7.3	7.8	9.9	10.5	9.5
Home ownership (%)	92.0	91.8	91.0	90.5	90.3	90.0
Household financial assets (% YoY LC)	14.4	11.7	2.5	7.0	6.2	7.4
Household financial liabilities (% YoY LC)	20.3	21.8	29.4	1.3	1.1	6.5
Household financial saving ratio (% GDP)	3.8	1.8	-6.6	4.2	3.9	3.0
Household net financial wealth (% GDP)	38.5	37.8	29.7	34.7	37.5	38.8
Housing affordability index (house price per sqm over gross monthly wage)	0.81	0.77	0.75	0.80	0.80	0.78
Mortgage in % GDP	11.8	12.9	15.5	16.2	15.9	16.3
FX indexed / denominated loans (% total)	42.7	55.1	66.7	66.0	65.0	65.0
Households NPLs ratio (%) ⁽²⁾	3.1	3.3	3.5	7.9	8.3	7.6

Note: (1) According to local definition; (2) Over gross loans

Source: NBH, UniCredit Group CEE Strategic Analysis – UniCredit Bank Hungary Research

In October 2008 global money market turbulence brought Hungary to the brink of sovereign default and only a swiftly arranged EUR 20 bn stand-by credit line granted by the IMF/EU/World Bank prevented this from happening. The National Bank of Hungary (NBH) raised the base rate by 300 bps to 11.50%. Households were hit on both the assets and liabilities side. Despite the relatively conservative wealth portfolio (a high proportion of cash and deposits), the devaluation of capital market and real estate-related financial vehicles caused considerable losses in savings, only partially corrected in 2009. On the other hand, the credit crunch from the banks' side and customers' uncertainty (income, job, outstanding debt) substantially reduced debt accumulation starting from late 2008. This was not however coupled with higher deposit placements or investments, as the deteriorating employment rate and the rise in the number of unemployed offset the potentially higher saving capacity (willingness). The number of jobless has been on the rise again since mid-year 2009 and the unemployment rate stood at 10.4% in October. The anticipated trend in the real economic performance will be unable to support any consolidation progress before mid-2010 and thus no major improvement in labour market conditions is expected.

Households' behavior in using disposable income changed noticeably in the last quarter of 2008, where net financial saving jumped from 1% to 6% and remained stable at 7% in 2009. Overall, after a drop in 2008, a rising saving propensity allowed for improvement in households' net financial position in 2009.

In terms of assets allocation, the pre-crisis trend, namely the shift away from cash and banking deposits toward more sophisticated forms of investment remained intact. For a short period concerns over banking stability and solvency impacted client confidence, but this was restored with the increase in the threshold of deposit guarantees. With the general intent to reduce dependency on foreign funding, banks have launched deposit generation projects in order to improve their loans/deposits ratio. This however triggered large capital withdrawals from AuM and even liquidity problems in real estate funds. Following the capital flight from real estate funds, the Financial Supervisory Authority pro tempore suspended trading in these assets.

Households took advantage of offers from ongoing deposit campaigns, as reflected in the large volume of monthly new business. This however,

given the lack of fresh capital, did not boost total volumes. Households only let their savings “circulate”. Significant new placements occurred in Euro in accordance with banks’ funding needs. The nominal volume increase in 2009 remained flat, with gradual improvement expected on the heels of economic revival, although presumably to a lesser extent than that of the total wealth portfolio.

The most popular financial vehicle in recent years – mutual funds – suffered most from the crisis. In addition to sizeable capital withdrawals, the underlying securities (equities, bonds, treasury bills, etc.) were heavily marked down. This resulted in a more than 25% drop in NAV. After confidence in Hungary gradually recovered, mutual funds started to regain ground driven by the positive performance in equities in addition to base rate cuts, to which institutional investors immediately reacted. This was not the case with households, due to ongoing continued attractive banking offers, less new savings and continued cautiousness. In the medium term decreasing interest rates, an increased risk appetite and the stable performance of funds could attract households back to this vehicle. After the partial correction of asset prices in 2009, we expect mutual funds to become the driver of wealth accumulation in the medium to long term.

Listed shares as the smallest proportion of assets remain an alternative for less risk averse investors. Households’ attitude to stocks has remained ambivalent since the BSE’s capitalisation halved in 2008 with listed shares decreasing by 23% in the wealth portfolio. At the same time, many “newcomers” appeared at the stock exchange to try to optimally time their entry. Unfortunately, price declines continued in Q1 2009, again disappointing investors. Rising prices may increase the share of equities in total wealth, but it will take time to surpass the recent low proportion of below 2%.

Overall, 2009 turned out to be a period of correction in assets’ value coupled with poor saving capacity, whereby the latter could still characterised 2010 as full recovery in household financial conditions is expected only starting from 2011.

The previous years’ double-digit growth rates in retail lending came to an immediate halt in the autumn of 2008, resulting in overall stagnating volumes during 2009. Changes in the housing loans subsidy scheme – as part of the budget restriction – contained the potential shift toward HUF-based products, although continuous base rate cuts may help local currency loans to become a competitive alternative over time.

Since November 2008 the volume of newly-granted retail loans gradually contracted, bottoming out a year later, with a notable change in the FX structure as well. Banks’ constraint resulted even in cessation of CHF- and JPY-based products, paving the way for EUR and HUF loans. 36% of new housing loans are HUF-, 47% EUR-based, while for consumer loans the relation is inverse, compared to an above 80% share of CHF-loans in the pre-crisis period.

An upswing in lending – depending on banks’ willingness and households’ demand – is likely to get underway driven by loans with mortgage collateral for both housing and free purpose from the second half of 2010.

Mounting credit quality problems remain the major driver of banks’ cautious approach toward lending. In Q3 2009, the worst performing products were HUF-based mortgage loans for free purpose and car purchase loans, with an NPL ratio of 42% and 71%, respectively. These however, account for only a minor portion of the total portfolio (< 1%). Dominant products such as FX mortgage loans for housing and free purpose maintain levels of 3.6% and 6.7%, respectively.

On its last session in December, the Hungarian Parliament approved a new regulation (effective from Jan 1st 2010) with the aim of reducing the vulnerability of the Hungarian economy as well as the risks of households. The new regulation is aimed at tightening credit standards by defining payment-to-income (PTI) and loan-to-value (LTV) ratios that reflect the real level of risk and limiting the maximum term of car purchase loans. Furthermore, tighter criteria are introduced for FX-denominated loans.

