



EUROPEAN CENTRAL BANK
EUROSYSTEM

EN

ECB-PUBLIC

OPINION OF THE EUROPEAN CENTRAL BANK

of 11 June 2021

on the regulation of the forint maturity mismatch of credit institutions

(CON/2021/22)

Introduction and legal basis

On 19 May 2021 the European Central Bank (ECB) received a request from the Magyar Nemzeti Bank (MNB) for an opinion on a draft MNB Decree replacing the MNB Decree 20/2015 (VI. 29.) on the regulation of the forint maturity mismatch of credit institutions (hereinafter the 'draft decree').

The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union and the sixth indent of Article 2(1) of Council Decision 98/415/EC¹, as the draft decree concerns rules applicable to financial institutions insofar as they materially influence the stability of financial institutions and markets. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

1. Background and purpose of the draft decree

- 1.1 When the long-term foreign currency mortgage loans were converted into forint in 2015, the forint maturity mismatch increased substantially in the domestic banking system, as mortgage loans converted into forint had maturities of over 10 years, which were financed by short-term forint funds². To tackle the maturity mismatch, the MNB introduced the mortgage funding adequacy ratio (hereinafter the 'MFAR'). The MFAR requires that credit institutions must finance a given part of their forint residential mortgage loans with long-term mortgage-backed liabilities³. In 2017, the minimum ratio was 0.15, and this ratio was increased to 0.20 in 2018 and 0.25 in 2019⁴.
- 1.2 In order to channel long term funding for mortgage lending, the MNB disincentivised cross-ownership of mortgage bonds by other credit institutions. In the light of the pandemic situation, in March 2020 the MNB eased this by temporarily removing the cross-ownership adjustment coefficient⁵.
- 1.3 The draft decree introduces a preferential treatment for green mortgage bonds and green refinancing loans by providing that credit institutions may take into account green mortgage bonds issued and green refinancing loans received with a 150 per cent weighting when calculating the MFAR. As noted in the explanatory memorandum accompanying the draft decree, the preferential treatment is

¹ Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions (OJ L 189, 3.7.1998, p. 42).

² See the Magyar Nemzeti Bank, Macroprudential Report 2017, available at: <https://www.mnb.hu/letoltes/makroprudencialis-jelentes-en.pdf>.

³ See the Magyar Nemzeti Bank, Macroprudential Report 2017, available at: <https://www.mnb.hu/letoltes/makroprudencialis-jelentes-en.pdf>.

⁴ See the MNB Decree 55/2016 (XII. 22.) amending the MNB Decree 20/2015 (VI. 29.).

⁵ See the MNB Decree 5/2020 (III. 19.) amending the MNB Decree 20/2015 (VI. 29.).

introduced because the MNB considers that green lending and green mortgage bond issuances have a positive impact on financial stability. These instruments may also have a lower credit risk as a result of lower utility costs and house prices that are more resilient to shocks. Furthermore, a more diversified mortgage bond investor base facilitates the stable funding of the banking system.

- 1.4 Instead of introducing an autonomous definition of green bonds the draft decree provides that all mortgage bonds qualify as green if, based on documentation publicly disclosed by the issuer, they are in conformity with the Green Bond Principles 2018 issued by the International Capital Market Association⁶ or the Climate Bonds Standard V3.0 issued by the Climate Bonds Initiative⁷, and this conformity is certified by an external party.
- 1.5 In parallel with the preferential treatment of green funds, the draft decree introduces a number of further changes to support the objectives of the MFAR regulation: (i) the required level of the MFAR will increase from 0.25 to 0.30; (ii) green mortgage-based funds must have an original maturity of at least 5 years instead of the 3-year limit applicable to other funds; (iii) all mortgage bonds must be listed on a stock exchange in order to be eligible for inclusion in the calculation of the ratio; and (iv) the restrictions on cross-ownership by other credit institutions which were suspended due to the coronavirus pandemic will be reintroduced in an amended form, disincentivising such cross-ownership by applying a correction factor, which is calculated based on the ratio of mortgage bonds owned to total assets.

2. General observations

- 2.1 The MNB launched its 'Green Programme' in 2019 to mitigate the risks associated with climate change and other environmental problems, to expand green financial services in Hungary, to widen the related knowledge base in Hungary and abroad, and to reduce financial market participants' and its own ecological footprint⁸. The ECB welcomes the MNB's commitments relating to environmental sustainability⁹. As the ECB has recently noted, physical risks and transition risks associated with climate change may cause abrupt changes in prices and thereby threaten price stability¹⁰.
- 2.2 The ECB broadly welcomes policies and initiatives that contribute to mitigating risks related to climate change. Although methodologies to assess the magnitude of climate-related risks for banks and financial stability are still in their infancy, it is increasingly clear from available estimates that the impact of these risks is likely to be significant¹¹.

⁶ Available at: <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/>.

⁷ Available at: <https://www.climatebonds.net/climate-bonds-standard-v3>.

⁸ Available at: <https://www.mnb.hu/greenfinance/english>.

⁹ See paragraph 2.1 of Opinion CON/2021/12. All ECB opinions are published on EUR-Lex.

¹⁰ See paragraph 2.4 of Opinion CON/2021/12.

¹¹ See paragraph 2.4 of Opinion CON/2021/12; European Central Bank, Financial Stability Review May 2021, p. 12.

2.3 The ECB acknowledges that there is some preliminary evidence of a risk differential between green and other assets¹². In order to ensure that the prudential framework remains risk-based, evidence relating to the risk differential of green and other bonds should be taken into consideration when calibrating a dedicated prudential treatment. The ECB therefore notes the importance of collecting and assessing data on the riskiness of green mortgage loans and bonds. Regarding the proposed preferential treatment of green mortgage bonds and green refinancing loans in the numerator of the MFAR, the ECB recognises the challenges inherent to the task of providing such analysis and encourages the MNB to continue to make efforts in this direction to ensure the proper calibration of the measure in the coming years. As the prudential policy for climate change is rapidly evolving at both the European and global level, the ECB also fully supports the ongoing alignment of the MNB's regulatory approaches to ensure consistency, specifically with forthcoming Union green bond standards.

This opinion will be published on EUR-Lex.

Done at Frankfurt am Main, 11 June 2021.

[signed]

The President of the ECB

Christine LAGARDE

¹² See also the Bank of England Staff Working Paper No. 852, Benjamin Guin and Perttu Korhonen, 'Does energy efficiency predict mortgage performance?', January 2020, available at www.bankofengland.co.uk; The Energy efficiency Data Protocol and Portal Final report on correlation analysis between energy efficiency and risk, available at www.eedapp.energyefficientmortgages.eu; and the EconPapers report No. 2020:06, Monica Billio, Michele Costola, Loriana Pelizzon and Max Riedel, 'Buildings' Energy Efficiency and the Probability of Mortgage Default: The Dutch Case', available at www.econpapers.repec.org.