Notification template for national macroprudential measures not covered by of the Capital Requirements Regulation (CRR)/ Capital Requirements Directives (CRD) (other than borrower-based measures)

Please upload this template to

- macropru.notifications@ecb.europa.eu when notifying the European Central Bank (ECB);
- DARWIN/ASTRA when notifying the European Systemic Risk Board (ESRB).

This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure[1].

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority	Magyar Nemzeti Bank (MNB)
1.2	Country of the notifying authority	Hungary
1.3	Name of the macroprudential measure that is notified	Mortgage Funding Adequacy Ratio (MFAR)
2. Description of the measure		
2.1	Description of the measure	The Magyar Nemzeti Bank (MNB) introduced the Mortgage Funding Adequacy Ratio (MFAR) regulation in 2017. As of July 1, 2022, the MNB modified the regulation by accepting FX mortgage bonds and refinancing loans. These funds were required to finance energy efficient (green) mortgages if they were issued after 1 October 2023 to be accepted as stable funds in the MFAR calculation. The current amendment postpones the green requirement by one year to 1 October 2024.

[1] On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

2.2	Legal basis and process of implementation of the measure	As macroprudential authority in Hungary, the MNB has the power to issue legally binding regulations to reduce systemic risks, as stipulated in Law CXXXIX of 2013 on the Magyar Nemzeti Bank (the MNB Act). Article 171 (1) k) kc) of the MNB Act authorises the Governor of the MNB to decree the measures required to prevent the build-up of systemic risks and to reduce systemic risks, and to increase the resilience of the financial intermediary system, within the strategic framework defined by the Monetary Council, based on the decision of the Financial Stability Board, including requirements for the reduction of systemic liquidity risks. Furthermore, Article 4 (7) of the MNB Act states that the MNB shall explore risks threatening the financial intermediary system, it shall help to prevent the build-up of systemic risks and to mitigate or eliminate the systemic risks that may already exist.
2.3	Coverage	The measure applies to credit institutions operating as companies limited by shares and the Hungarian branches of third country credit institutions, as well as the institutions of groups including credit institutions under consolidated supervision. The scope of the measure does not cover the MFB Zrt., the Eximbank Zrt., the KELER Zrt. and building societies not subject to consolidated supervision. A de minimis limit also applies banks with a retail residential mortgage stock of less than HUF 40 billion are exempted.
2.4	Any other relevant information	
3. Timing for the measure		
3.1	Timing for the decision	21/09/2023

3.2	Timing for publication	What is the date of publication for the notified measure? 27/09/2023
3.3	Disclosure	Decree is available (only in Hungarian): https://njt.hu/jogszabaly/2022-22-20-2C
3.4	Timing for application	29/09/2023
3.5	End date (if applicable)	
4. Reason for the activation of the measure		
4.1	Description of the macroprudential risk to be addressed	According to the previous amendment of the regulation in effect from 1 July 2022, FX mortgage bonds and refinancing loans accepted, but new FX funds were required to finance energy efficient mortgages after 1 October 2023. However, the MNB has decided that more preparation time is warranted for fulfilling this requirement. On the one hand, Hungarian mortgage banks have not appeared in the international mortgage bond markets for years; therefore, the issuance of mortgage bonds denominated in FX takes longer than anticipated, including the significant time needed to conduct derivative transactions in international markets to cover FX risks as required by law. On the other hand, due to the significant slowdown in lending dynamics, the build-up of mortgage cover pools, especially green mortgage loans are still a material obstacle for increasing banks' green mortgage bond issuance, irrespectively from the denomination. Possible issuances soon would mark the first issuance of euro currency mortgage bonds in several years, which would contribute significantly to one of the main macroprudential objectives of the regulation, i.e.,

		deepening the covered bond market and diversifying the investor base.
4.2	Indicators used for activation of the measure	The Financial Stability Board of the MNB considers numerous factors while calibrating the measure. These include the maturity mismatch between assets and liabilities of credit institutions, the distribution of the maturity of assets and liabilities, the share of long-term funds relative to all liabilities and indicators related to the development of the mortgage financing market (yields, maturities, issuances, secondary market turnover, market making, ratings, ownership structure, type of interest rates, etc.). The changing macroeconomic environment, regulatory developments affecting mortgage portfolios and bond issuances and information from the issuers and potential investors of mortgage bonds regarding the factors that affect demand used to be considered as well. For the current decision also the developments of lending, including green mortgage lending and the amount and share of green loans were considered as well.
4.3	Effects of the measure	The amendment provides banks with a longer preparation time without posing financial stability risks. The postponement of the regulation allows domestic institutions already making progress in issuances to enter international markets in the short term.
5. Sufficiency, consistency and non-overlap of the policy response		
5.1	Sufficiency of the policy response	The amendment is deemed sufficient in easing the adjustment costs of banks and in preventing anomalies on the mortgage bond market. The risks related to maturity mismatches of banks is still sufficiently mitigated by the current form of the regulation.

5.2	Consistency of application of the policy response	This measure is an amendment of the MFAR requirement, which was introduced to achieve an intermediate objective (Mitigate and prevent excessive maturity mismatch and market illiquidity) specified in the ESRB recommendation ESRB/2013/1. This is a national measure outside the scope of EU legislation; for systemic funding risks, the MNB is entitled, as a national authority, to issue decrees aimed at the mitigation of risks. The requirement encourages the maintenance of prudent liquidity and funding positions and is designed to mitigate excessive maturity mismatches. The current modification has no negative impact on the core financial stability objective.
5.3	Non-overlap of the policy response	The modification is specific to the MFAR requirement and related to the challenges of the current macroeconomic and geopolitical environment for mortgage bond issuances. Therefore, no overlap occurs with the current modification and other policy measures.
6. Cross-border and cross-sector impact of the measure		
6.1	Assessment of cross-border effects and the likely impact on the Internal Market (Article 133(11)(d) CRD and Recommendation ESRB/2015/2[2])	The regulation is not expected to have a significant impact on the cross-border activities of banks, or on the internal market because the current amendment contains only a small modification compared to the previous version of the regulation. The MNB will monitor the impact of the new measure continuously.
6.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	The MNB expects no material leakages and regulatory arbitrage within Hungary due to the targeted and technical nature of the measure. However, the MNB will monitor the impact of the new measure continuously.

[2] Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).

6.3	Request for reciprocation	The MNB does not request the ESRB to issue a recommendation to other Member States to reciprocate the measure as it is not expected to have material cross-border effects.
6.4	Justification for the request for reciprocation	
7. Miscellaneous		
7.1	Contact person(s)/mailbox at notifying authority.	**Mr. Ádám Banai**, Executive Director Executive Directorate for Monetary Policy Instruments, Financial Stability and Foreign Reserve Management Phone: +36 (1) 428 2600/1864 E-mail: banaia@mnb.hu **Mr. Tamás Nagy**, Director Directorate for Financial System Analysis Phone: +36 (1) 428 2600/2639 E-mail: nagyt@mnb.hu

7.2	Any other relevant information.	
7.3	Date of the notification	10/10/2023