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**THE SPREAD OF RETAIL FOREIGN CURRENCY LOANS IN HUNGARY**

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**Abstract**

*We chose the problem of the currency loan for our topic because the over-indebtedness of the Hungarian population is a timely and controversial topic. In our opinion, it is important not only for the banks and the government how creditability is changing in Hungary but also an essential question for the dwellers because there are so many people without using modern financial tools in our country.*

*In our paper we examine the changing of the currency loans and bank loans in forint through a case-study and we make a conclusion which loan was the more favourable one. Furthermore, we examine a process to trace down the reasons of evolving, proceeding and managing the crisis. After the accession to the EU, the currency based credit exposure became widespread in the Hungarian bank system and from this aspect we would like to begin and analyse the process. The problems related to loans are continually growing during the years. The questions occur when and how this unbearable situation should have been solved. In our work we analyse the relationship between the past years and the growing exchange rates. We examine different rescue packages and whether they make people's lives easier. We have heard a lot about the exchange rate gap. In our study we present the different terms to use this kind of aid.*

**Keywords:** *foreign currency loans, retail, exchange rate, CHF*

**JEL:** *H81, D14*

**A lakossági devizahitelek elterjedése Magyarországon**

**Összefoglalás**

*A magyar lakosság eladósodottsága sokak számára egy aktuális és vitatott téma. Nem csak a bankok és a kormány számára fontos, hogy miként alakul a hitelezés Magyarországon, hanem az emberek számára is egy mindennapos kérdés, ugyanis egyre kevesebben vannak ma Magyarországon, akik nem használnak fel a hétköznapi élethez modern pénzügyi eszközöket.*

*Cikkünkben egy esettanulmányon keresztül vizsgáljuk, a devizahitelek és a forintbitelek változását és így következtetünk arra, hogy melyik hitel volt a kedvezőbb. Továbbá egy folyamatot vizsgálunk, hogy felvázoljuk a válság kialakulásának főbb okait, folyamatát és kezelését. Hazánk Európai Unióhoz csatlakozását követően a magyar bankszektorban elterjedt a deviza alapú hitelezés, ebből az aspektusból szeretnék kiindulni és a folyamatot elemezni. A problémák a hitelekkel kapcsolatosan folyamatosan sorakoztak fel az eltelt évek alatt. Továbbá, elemezzük, hogy mit csinálnak most a bankok így, hogy a lakosság bizalmatlanná vált velük szemben. Napjainkban előtérbe került a problémakör, a hozzá kapcsolódó kormányzati intézkedések, amik majdnem minden bankot érzékenyen fognak érinteni. Összességében elmondható, hogy nem lehet a problémát teljes mértékben a bankokra hárítani. Kérdéses az is, hogy például a média*

*vagy a pénzügyi ismeretek megléte milyen hatást gyakorol a lakosság eladósodottságára.*

**Kulcsszavak:** *devizahitelek, lakosság, árfolyam, CHF,*

### **Introduction**

A lot of people face the problem of foreign currency loans in Hungary nowadays. The basic question is how this dependence on foreign currency was started in our country. What is foreign currency loan, actually? It is a form of loan expressed in another currency than the forint. To present a short historical background, we must say that approximately it was in 2003 when foreign exchange loans began to spread in the country, or to be more precise, foreign currency appeared even in 2000 through the credit dealings of MKB bank. We had to wait for another 3 years for the big change, i.e. the banking practice for managing foreign currency loans. This problem has adverse impacts on the Hungarian households and also has serious financial consequences. Problems were continuously arising during the past years. Moreover, the media has a vital role in this desperate situation. The basis and source of information for our research is the interview with a branch manager of one of the commercial banks from which conclusions were drawn. Finally, the changes in exchange rates were also being monitored and compared from 2007 up to date.

### **Literature review**

Approximately it was in 2003 when foreign exchange loans began to spread in the country, or to be more precise, foreign currency appeared even in 2000 through the credit dealings of MKB bank. We had to wait for another 3 years for the big change, i.e. the banking practice for managing foreign currency loans. This promising idea originates from the Austrian market as it was used by the clients who live close to the Swiss border so also worked there and earned their payment in fran. This did not pose any risks to them as their salary was covered so even a huge exchange rate difference did not mean a problem. People can easily become indebted when they count with another currency than their national one.(Klapper, 2012)

### **Material and methods**

In our examination we analysed the growth rate of exchange rates through a research. In addition, the critical years are presented when the EUR, USD and CHF rates were strikingly high. We also introduce our primary research in which a 100-member sample was used to find out which banks are most preferred by the respondents. We also examined the number of loan applications based on the sample and later divided into foreign exchange and forint-based loans.

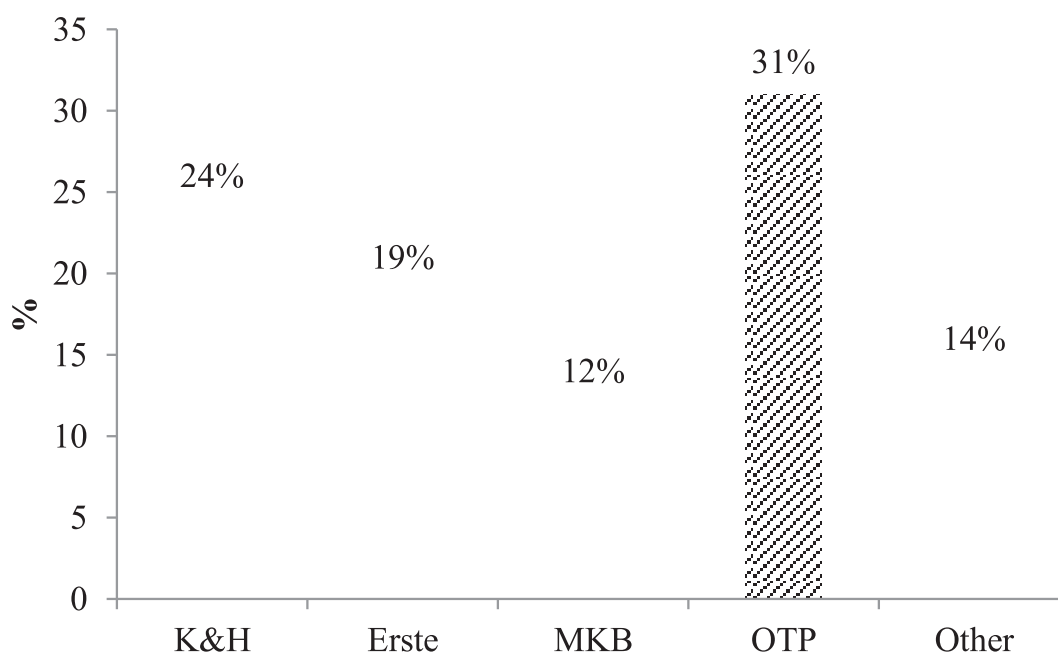
**Table 1 The fluctuation of exchange rates**

Date	Exchange rate of the franc in HUF	Exchange rate of the euro in HUF	Exchange rate of the dollar in HUF
01 Jan 2007	157.05	252.08	191.22
01 Jan 2008	153.01	254.10	176.51
01 Jan 2009	172.94	263.54	188.81
01 Jan 2010	183.38	273.89	192.26
01 Jan 2011	220.34	276.18	209.85
01 Jan 2012	262.03	319.45	245.00
01 Jan 2013	237.87	287.50	216.65
01 Jan 2014	244.45	298.72	217.27

Source: Compiled on the basis of <http://www.mnb.hu/arfolyam-lekerdezes>  
(Source: own compilation)

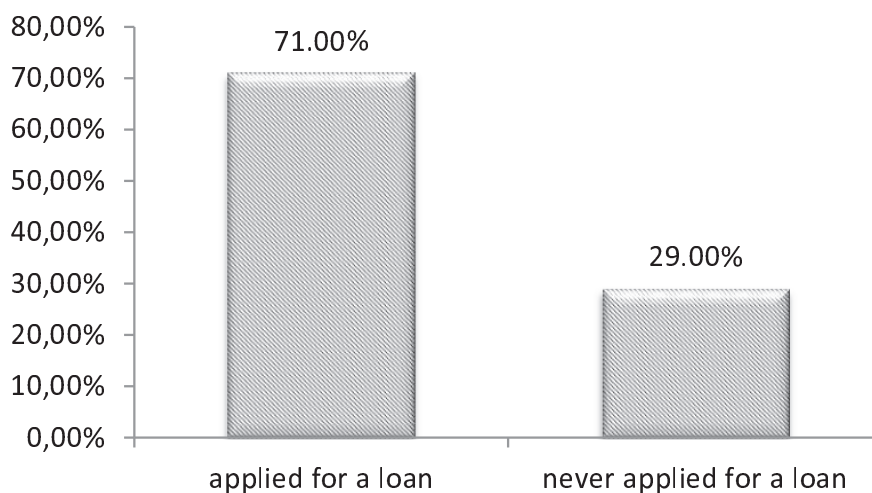
Table 1 presents the critical years regarding the financial situation of the clients. It is clearly shown that in 2012 exchange rates were outstandingly high and it was impossible to foresee how long it would last. In our opinion such an increase in exchange rates can only be put up with by the households who had some savings.

Primary research was carried out and correlations were explored by crosstab analysis. First, we examined which bank was the most preferred one by the respondents and how many percent of the clients had loans. Different age groups were analysed in the research from 21 to 89. We experienced that people were reluctant to give away information on banks as a sign of distrust. In the analysis a 100-member sample was used. We also analysed how the foreign exchange policy of the single banks influenced loan applications.



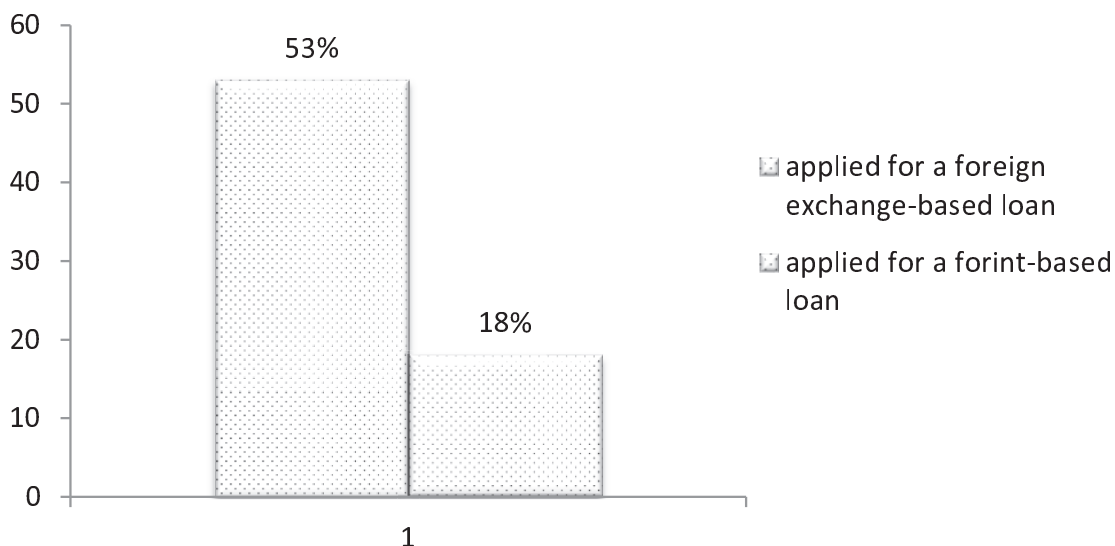
**Figure 1 Breakdown of respondents by account managing banks**  
 Source: own compilation

First, we examined which bank was the most popular. The diagram below illustrates that most respondents had an account with OTP followed by K&H and then Erste in the middle of the rank. Finally, there comes MKB and other banks in line. We took into consideration the most popular banks in Hungary and the survey shows that 14% other banks is quite insignificant when compared to the popularity of OTP



**Figure 2 Presents the proportion of loan applications by the clients.**  
 Source: own compilation

Seventy-one percent has already applied for a loan. In this case both foreign exchange-based and forint-based loans were counted. A slight proportion of the respondents, i.e. 29% has never applied for a loan.



**Figure 3 Breakdown of respondents by loan type**  
Source: own compilation

Figure 3 examines 71% of those who has already applied for a loan but in this case foreign exchange-based and forint-based loans were examined separately. We concluded that 74.65% of the respondents were indebted in foreign exchange. In the next phase our primary research was used by applying methodology to find out the correlation between the single financial institutions and the clients applying for loans. First of all, Chi-square trial was used. It is suitable to examine how theoretical distributions match the data of the sample. Afterwards, Chuprov’s association coefficient was applied (Szűcs I, 2002). We can interpret data in the following way: in the case of 0 there is no connection while 1 stands for a strong correlation. However, we have to mention that these values are never reached only approached (Murry R. S).

$$acs = \sqrt{\frac{\max[(k_1 - 1), (k_2 - 1)]}{\min[(k_1 - 1), (k_2 - 1)]}} \cdot T, \quad T = \sqrt{\frac{x^2}{n \cdot (k_1 - 1) \cdot (k_2 - 1)}}$$

The results of the primary research were further analysed. After the Chi-square trial the correlation between the banks and the clients with loan applications was sought based on the methodology of Yule and Chuprov (Majoros, 2004)

Its result is: **aCS= 0.65295**

In Chuprov's association the correlation is of medium strength between the banks and their clients.

In our research we also consulted a branch manager of a commercial bank. During the interview the most significant conclusion was that unfortunately, the financial literacy of Hungary is not developed enough and basic mathematical calculations should be taught even from the elementary school. Unfortunately, lack of financial literacy prevents us from thinking over financial decisions thoroughly. (Botos et al, 2012)

In Hungary the National Bank was one of the first ones to work out a thorough definition that includes several parts of the concept of financial literacy. (Luksander et al, 2014)

*'Such a level of financial knowledge and skills with the help of which one can identify basic financial information necessary for making conscious and careful decisions and after obtaining them one can also interpret them and make a decision by being aware of its possible financial and other consequences in the future'.* (National Bank of Hungary, 2008)

This definition is quite close to the concept of financial literacy. To measure financial literacy, several methods are applied just like in the case of its definition.

### **Conclusions and recommendations**

According to our examinations the exchange rate fluctuation in itself is not a serious problem that is difficult to manage. However, it requires the cooperation of financial institutions, the government and the clients alike. The media has a lot of responsibilities as more news based on reality should be included in a journal or the television and the originally negative public opinion of debtors should not be accelerated. The result of standardisation is not surprising as OTP is one of the most popular banks in real. It did not come as a surprise, either, that most people have already had and applied for a loan and most of it is based on foreign exchange. This statement serves as a great explanation. In our opinion we can conclude that one of the principal reasons of our indebtedness is a huge amount of foreign currency-based loans. There are some for whom taking up a foreign currency-based loan is just the first step in the line of other loans. They were unable to pay back their huge foreign currency-based loans so that is why they applied for another loan just to cover the former one. So, they easily fell prey to the vicious circle.

### **Summary**

As a consequence of the anomalies of the American real estate market and the crisis, the fate of the banks seems to have been written. Commercial banks could count on a downward tendency, which was proved. We also have to note, however, that this crisis really had a great role in the indebtedness of the Hungarian people but in our opinion the biggest problem in our country is lack of financial literacy. It is clearly seen in our primary research that three-quarters of our 100-member survey are indebted in foreign currency. We think that this problem should be divided into three parts: financial institutions, the clients and the government. Taking responsibilities by all the three parties could serve with a possible solution to the problem as financial institutions alone cannot be made responsible for all the problems. Definitely, it is the government who

has to blame for the poor exchange rate policy between 2011 and 2012 and it was them who waited too long with the different rescue programmes. The banks are also at fault as some of them did not give proper information to the clients and raised the exchange rate unilaterally. And finally, the clients are also to blame as in many cases they were not cautious enough and asked for a higher loan than their salary could afford. It does not matter how much we would like to examine the problem of foreign exchange-based loans from only one aspect, it cannot be done without considering its complex nature.

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