MATOLCSY PREPARES TO PUT CENTRAL BANK TOOLS TO USE

Newly appointed central bank governor György Matolcsy has yet to announce exactly which tools the National Bank of Hungary will put to use, but now there is an internal call for study papers that may give market participants an indication of the options on the table.

GERGŐ RÁCZ

After being named the successor to András Simor as head of the central bank, Matolcsy made it clear that things will indeed be different and that the MNB will be looking into new methods to support its primary mandate of preserving price stability and keeping inflation in check, and will also play a more active role in supporting government economic policies and fueling growth.

MATOLCSY: IN GENERAL, THE MNB SHOULD BE MORE SUPPORTIVE OF THE GOVERNMENT.

Prior to his appointment Matolcsy was already speculating that the level of international reserves monitored by the central bank is unnecessarily high, while the interest rate is likewise high and hinders corporate lending and arguing that, in general, the MNB should be more supportive of the government.

At his first committee hearing as candidate for MNB governor, Matolcsy spoke of a possible 16 tools that could potentially be put to use to support central policy, once their impacts have been properly evaluated. Coincidentally, the central bank has invited its own employees to submit research papers evaluating the past and the future in exactly 16 categories.

EASING ALL THE WAY

In the past, government officials, while being only carefully critical of the central bank also strongly hinted that they would prefer the MNB take a page out of its bigger peers' playbook in a bid to fuel the economy. It is no wonder that there are invitations for central bank researchers to explore the benefits of the quantitative easing steps in the United States as well as similar measures taken by the European Central Bank and the Bank of England.

Simor's MNB rejected such measures, saying they could be effective only in countries where the base rate is essentially 0%, as in the United States. In somewhere like Hungary, where the base rate was closer to 7% at the time, the effect would be contrary to the goal, he argued and would raise stability concerns.

The current monetary easing cycle that was commenced last August by the so-called external members of the Monetary Policy Council is also set to continue, in line with widespread market expectations. A call for papers under the subject "the positive effects of the MNB's rate cutting measures of the past months for the financial sector and the real economy" hardly points towards a reversal.

Simor also rejected the government hopes of reducing the base rate, claiming it has no effect whatsoever on economic growth, because the muted lending activity in Hungary is caused by the banks' lack of willingness to lend in the uncertain environment that is Hungary's economy. Since the main issue for businesses is their low capitalization, they consequently lack the ability to raise the down payments for any developments. He argued that if companies weren't eligible to get a loan to start with, they would hardly care what interest rates various products come with.

FALL IN LINE

The "guided" nature of the 16 subjects is also an indication of the kind of professional work that Matolcsy's central bank wants of its employees, many of whom were dismissed from their posts shortly after his arrival.

While staff research, and especially the periodic quarterly report, previously served as the basis for policy decisions that Simor and his two deputies observed, the external members often ignored it.

Now, with papers called to evaluate the responsibilities of the proliferation of foreign currency loans as well as the adverse impact of the previous central bank's management neglecting to employ certain monetary tools, it is clear that opinions dissenting from the government's already established approach will not be appreciated.

The best pieces will be rewarded with HUF 300,000 with the final submission date being set for April 7.

Matolcsy will most likely announce the first specifics on March 26 following a rate-setting meeting of the Monetary Policy Council, the first for Matolcsy and the newly appointed members of the panel.

EXPERT OPINION

SECURITISATION, THE OLD-NEW ALTERNATIVE FINANCING TOOL

Market players are talking about reviving the securitization market as an alternative financing solution for corporates in the European market. A few years ago, securitization was blamed for triggering the financial crisis, however, there are now signs of change, with issuers slowly beginning to reconsider the market as investor appetite returns.

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What is this magic word "securitization"? It is a method of finance whereby a lender, instead of lending money to a company to finance its general business, and looking to the company to repay that lending from the profits of that business as a whole, agrees to look solely to the assets which are the subject of the securitization for repayment. This should be distinguished from a secured loan: in a classic securitization, the borrower does not borrow money and grant security over an income-producing asset to ensure repayment, he sells the income-producing asset and the money he receives for that sale does not constitute a debt from a legal perspective.

Securitization is a relatively new financial technique, although it now accounts for a large portion of the funds raised in the international capital markets. The first transactions were done in the United States in the 1970s, using first mortgage loans and then credit card receivables. The first European transactions were carried out in the United Kingdom in the late 1980s, and also involved mortgage loans. Nowadays, securitization is a mainstream financing technique employed by almost all financial institutions worldwide and most large corporations in Western Europe. The technique has always been attractive to emerging market participants, allowing them access to cheaper funding than they can otherwise obtain.

STRUCTURE OF SECURITIZATION

In a securitization transaction the entity that is selling the income-producing assets and receives the funds realized by the securitization is the "originator".

The income-producing assets sold by the originator are the "receivables". The list of the types of receivables which have been used for securitizations is long; starting with mortgage loans and credit card receivables, the technique has since been applied to a wide variety of trade receivables, toll road receipts, bank loans, leasing payments, student loans, health care facilities, car loans, non performing loans etc.

The entity to which the originator sells the assets is the "issuer", usually a special purpose vehicle ("SPV") created specifically for the purpose of the transaction. The issuer/SPV raises funds to purchase the receivables from the originator by issuing notes in the capital markets ("asset backed securities" or "ABS"), which are purchased by "investors".

In a classic securitization, the transfer of the receivables to the issuer should be done by way of a "true sale" – i.e. should be done in such a manner that it will survive the subsequent insolvency of the originator so that no liquidator or third party creditor of the originator will have a claim to the receivables.

RATIONAL FOR SECURITIZATION

Different market players have different reasons for deciding to use securitization as a financing tool. For some, very large issuers it makes sense to diversify their sources of funds as much as possible. For financial institutions such as banks, mortgage lenders and credit card providers, securitization is an invaluable risk management tool, allowing them to remove assets representing business already done from their balance sheets, freeing up regulatory capital to allow them to do new business and originate new assets. With the advent of the Basel III capital adequacy rules, derecognition is increasingly being superseded by other motivations for securitization.

For emerging market issuers, the greatest attraction of securitization is almost certainly the cheaper cost of funds they can obtain, as compared to straight unsecured borrowing.

HUNGARY

There have been very few securitization transactions in Hungary and the financial crisis halted the appetite of originators and investors for new transactions. Although there is no dedicated law on securitization in Hungary, those few transactions that were closed before the financial crisis are sound evidence that securitization is possible under Hungarian law. Nevertheless, a separate law – if implemented at all in the future – would give more comfort to the parties to a securitization transaction.

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