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FOREIGN CURRENCY LOANS IN POLAND AND HUNGARY – A COMPARATIVE ANALYSIS

Abstract:

Foreign currency loans have been used commonly in many developing countries in Europe since 2005-2006. In particular, they were granted to retail clients to finance a purchase of real estate. As interest rates in many Eastern European countries were permanently higher than in Switzerland and eurozone, the domestic as well as foreign owned banks had started to sell mortgages in foreign currencies, predominately in Swiss franc and euro. The mentioned loans, due to reduced interest, had increased creditworthiness of borrowers in foreign currency, as well as they become even more available than the domestic loans. Also, such loans were also allowing buying more expensive real property. In fact within 2-3 years they gained substantial share in many domestic credit markets. Because repayment of such loans has become dependent strictly on exchange rate of foreign currencies, they've started to expose large group of domestic borrowers onto fx risk. This risk has become crucial especially in Eastern Europe countries like Poland or Hungary, which keep floating exchange rate regimes and have dominant share of foreign currencies loans in the banking assets. As far back as 2008, and then in 2011 the fx risk related to such loans has materialized due to unexpected rise of the value of CHF.

The goal of this paper is to present the phenomenon of using foreign currency loans in Poland and Hungary for purchasing real estate where such loans concentrate substantial share of banking assets. The authors will present the nature, conditions and premises of taking of such loans with using a comparative analysis between Poland and Hungary. The paper will also contain an analysis of an influence of such loans onto borrowers, banking sectors and systemic risk in both countries. The authors will conduct statistical analysis of the exchange rate of PLN and HUF to present potential fx risk of foreign currencies loans. Finally the paper will describe legal and financial supervision solutions applied in both countries to diminish the risks related to the loans.

Keywords:

foreign currency, loans, risk

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