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The Hungarian Bank Recapitalization Program

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The Hungarian Bank Recapitalization Program (1993–1994)[1]

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Abstract

Hungary implemented a number of new policies from the late 1980s to the early 1990s, shifting from a centrally planned economy to a market economy. Despite the top-down market reforms, Hungary lacked the knowledge to build a fully functional financial system. Eventually, an economic turmoil caused by the collapse of eastern markets and fragility in the financial system led to the banking crisis of 1992–1993, revealing the undercapitalization of the financial system. The government implemented the recapitalization, or "bank consolidation," as part of a stabilization program. It injected capital into banks in three stages—in December 1993, May 1994, and December 1994—so that their capital ratios would be raised to the 8% Basel accord minimum. The government expected recapitalization to address imprudent lending behaviors (the flow problem) by tying receipt of the funds with banks' commitment to improve their risk management and controls. The asset purchase could only improve the quality of banks' existing portfolios (the stock problem). Banks were required to submit restructuring plans ("consolidation plans") upon participating in the capital injection, although some banks received the capital even if they did not provide adequate plans. Along with the recapitalization program, prudential regulation and accounting standards were amended. The recapitalization was successful overall, although larger banks benefited more than smaller banks.

Keywords: broad-based, broad-based, capital injection, capital injection, centrally planned economy, Hungary, transition economy

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[1] This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering broad-based capital injection programs. Cases are available from the *Journal of Financial Crises* at
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The Hungarian Bank Recapitalization Program (1993–1994)

At a Glance

Prior to the transition to a market economy, the banking system in Hungary was based on a "monobank" system, under which the majority of the financial services were provided by the National Bank of Hungary (Magyar Nemzeti Bank, or MNB) (Neale and Bozski 2001, 148). As in other centrally planned economies, lending and credit creation in Hungary were often politically determined. To transition toward an open-market-oriented economy, Hungary implemented a number of new policies from the late 1980s to the early 1990s. For instance, in 1986, Hungary introduced a two-tier banking system, separating the central bank from newly chartered, state-owned commercial banks, thereby separating monetary policy from commercial financial intermediation (Neale and Bozski 2001, 149, 150–51). In and after 1991, Hungary introduced the Accounting Act (which set new accounting standards), the Bankruptcy Act, and the Banking Act (which addressed loan qualification, regulations on provisions, and other microprudential policies) (Tang, Zoli, and Klytchnikova 2000, 13).

Summary of Key Terms	
Purpose: To assist firms and to inject capital into banks to raise their capital ratios to the 8% Basel accord minimum (Neale and Bozski 2001, 153).	
Launch Dates	December 1993, May 1994, December 1994 (IMF 1995, 155)
Usage	Total: HUF 169.1 billion ($1.3 billion) (IMF 1995)
Eligibility	Banks whose capital ratios did not meet the regulatory standards in each phase. The rule was flexible, and larger banks tended to receive more capital (Balassa 1996, 15)
Administrator	Government, mostly led by the Ministry of Finance
Legal Authority	The recapitalization process was authorized by the Bank Consolidation Act of 1994. Parliament passed each process, taking a step-by-step approach (Balassa 1996, 32)
Notable Features	The recapitalization was implemented in three stages (December 1993, May 1994, and December 1994) (IMF 1995, 155); the recapitalization prepared banks for privatization and purchase by foreign investors (Bonin and Schaffer 1995, 73)

Despite the top-down market reforms, Hungary lacked the knowledge to build a fully functional financial system. Commercial banks struggled with nonperforming loans that were inherited from the MNB during the socialist system (Balassa 1996, 23). Commercial bank managers and supervisors lacked knowledge and management skills, which further deteriorated banks' balance sheets. As many other transitioning countries, Hungary hired International Monetary Fund (IMF) experts, advisors, and economists but with moderate achievements. Eventually, the economic turmoil caused by the collapse of eastern markets revealed the undercapitalization and fragility in the financial system and led to the banking crisis of 1992–1993 (Balassa 1996, 23). Between 1990 and 1993, real GDP in Hungary fell by approximately 20% (Nováková 2003, 24).

According to the then newly introduced accounting and regulatory standards, as of December 31, 1993, nonperforming loans amounted to HUF 418 billion, approximately more than 70% of the loans in the financial system (Balassa 1996, 13). (See Figure1; IMF 1995, 154.)

Figure 1: Hungary Banks' Loan Portfolios, 1991–1994

	December	September	December 1/	December 2/	September	December 3/	December 4/	September
	1991		1992			1993		1994
				(In billions of forint)				
Stock of loans classified as problematic	152	262	276	193	262	352	547	597
Of which:								
Under observation	--	--	--	--	--	--	124	200
Substandard	30	41	37	40	31	82	55	39
Doubtful	82	96	60	66	89	84	115	90
Bad	40	125	179	87	142	186	253	268
				(In percent)				
Share of problem loans in the total stock of enterprise loans	19.9	34.1	35.9	27.4	34.9	46.2	71.7	68.9
Share of bad loans in the total stock of enterprise loans	5.2	16.3	23.3	12.4	18.9	24.4	33.2	30.9
Share of problem loans in the total stock of loans	9.4	16.2	16.9	11.1	14.0	17.5	22.2	25.8
Share of problem loans in the total loans of the large SOCBs	...	...	...	12.4	...	25.1	32.1	38.8

Sources: National Bank of Hungary, and Ministry of Finance.

1/ Prior to loan consolidation.
2/ After loan consolidation.
3/ According to 1991 classification rules.
4/ According to 1993 classification rules.

Source: IMF 1995.

Consequently, the government implemented a number of stabilization measures, including nonperforming loan purchases in 1992–1993 (Dreyer 2021), privatization, and foreign ownership takeover in 1995–1997. One of these stabilization measures was the recapitalization program in December 1993, and May and December 1994, in which the government provided new capital by acquiring common stock or subordinated loans issued by the commercial banks.[3]

The previous governmental intervention, an asset purchase program from 1992 to 1993, turned out to be insufficient to remedy banks' impaired balance sheets; thus, alternative approaches to address the nonperforming loans were considered (Balassa 1996, 13; Dreyer 2021; IMF 1995, 147). Consequently, the government planned the recapitalization package based on advice from the World Bank and the International Monetary Fund (Balassa 1996, 13). The recapitalization was expected to stop existing imprudent lending behaviors and improve bank governance by requiring banks to sign agreements with the government, while the asset purchase program could only improve the quality of banks' existing portfolios (IMF 1995, 147).

The government recapitalized banks over three stages (Neale and Bozski 2001, 153). (See Figure 2.) First, in December 1993, capital was injected into eight participating banks

[3] Note that the recapitalization program is sometimes referred as "bank consolidation."

(Magyar Hitel Bank [MHB], Kereskedelmi és Hitelbank [K&H], Budapest Bank [BB], Mezobank, Takarekbank, Agrobank, Dunabank, and Iparbankhaz) to raise their capital adequacy ratios to 0%, from an estimated negative 15%. Second, in May 1994, capital was injected to the three largest banks (MHB, K&H, and BB) and four other smaller banks so that their capital ratios would reach 4% (IMF 1995, 155; Neale and Bozski 2001, 153). Lastly, in December 1994, four large state-owned banks received a capital injection to boost their capital ratio to 8%. While the first two capital injections took the form of equity purchase by the government, the last capital injections of December 1994 took the form of 30-year subordinated loans from the government (IMF 1995, 149). In exchange for the recapitalization, banks committed to reforms, which ultimately prepared them for privatization (Neale and Bozski 2001, 153). As shown in Figure 2, while the estimation varies amongst literature, approximately HUF 165 billion to HUF 180 billion was injected throughout the recapitalization process. It cost approximately 5% of Hungarian GDP (IMF 1995, 155; Nováková 2003, 27).

Figure 2: Hungary Consolidation Usage Amount

	December 1992	April 1993	May 1993	December 1993	May 1994	December 1994
			(In billions of forint)			
Program						
Loan consolidation	81.3	14.7	2.6	56.5	--	--
Bank recapitalization	--	--	--	129.9	23.0	16.2
Total	81.3	14.7	2.6	186.4	23.0	16.2
In percent of corresponding year's GDP	2.8	0.4	0.1	5.3	0.5	0.4
			(Cumulative stock)			
CCBs issued to the banks	81.3	96.0	98.6	285.0	308.0	324.2
CCBs in percent of 1994-GDP	1.9	2.2	2.3	6.6	7.1	7.5
CCBs in percent of end-1994 broad money	4.1	4.8	4.9	14.3	15.4	16.2

Sources: National Bank of Hungary; and staff calculations.

Note: CCBs are "credit-consolidation bonds."

Source: IMF 1995.

Summary Evaluation

While the asset purchase scheme prior to the recapitalization program was considered ineffective (Dreyer 2021), the capital injection program has received positive evaluations from a number of studies (IMF 1995; Neale and Bozski 2001). The confidence of domestic depositors as well as foreign investors recovered, and Hungary benefited from the subsequent high capital inflow per capita (Neale and Bozski 2001).

Balassa (1996) finds that the recapitalization was successful overall, though the successes seemed to be unevenly spread. Large banks that were recapitalized avoided bankruptcy, saw positive cash flow, and had their capital adequacy ratios improved. However, smaller banks that received limited capital did not necessarily see much recovery on their balance sheets and suffered from persistent losses (Balassa 1996).

On the other hand, Bonin and Schaffer (1995) criticize the design of the recapitalization scheme. First, they argue that, though the first capital injection, in December 1993, was meant to boost the capital adequacy ratios of participating banks to at least 0%, five of the eight banks still had negative capital adequacy ratios at the end of 1993 after taking account of this first tranche recapitalization (Bonin and Schaffer 1995). Furthermore, Bonin and Schaffer (1995) note that the design of the recapitalization was flawed, given that banks with low capital received more capital support, regardless of their bad capital management in the past, and argue that the plan could have been designed better if the government had considered future foreign investors and the privatization process.

The restructuring measures, including the recapitalization, were inevitably costly. Until the end of 1994, approximately HUF 330 billion worth of "consolidation government bonds" were issued. By mid-1996, the value of the consolidation government bonds issued reached HUF 360 billion, increasing the gross debt of the country. The debt service further burdened the government's budget. The net interest payments on government bonds reached approximately 1.2% of GDP in 1994 and further rose to 1.6% of GDP in 1995 (Balassa 1996).

As a result of the recapitalization, the government's direct ownership of banks increased significantly. According to the IMF (1995), as a result of the two capital injections in December 1993 and May 1994, the state ownership share in seven of the eight participating banks rose sharply, to more than 75%. The state ownership share of large participating banks was well above the legal maximum (25%) mandated by the Act on Financial Institutions, and therefore, the target date to reduce state ownership below the legal maximum was extended to 1997. For the banking sector as a whole, the share owned directly by the state increased from 38% at end-1991 to more than 67% at end-1994 (IMF 1995).

Lastly, the recapitalization and consecutive reforms, particularly the regulatory reforms, changed the market shares of banks; for instance, according to Neale and Bozski (2001), the share of corporate lending of Magyar Hitel Bank dropped from 50% to 7% as a result of multiple reforms and increasing competition in the sector.

The multiple reforms were authorized by a combination of banking, accounting, and bankruptcy laws, an overhaul that shifted the entire Hungarian financial system. As Dreyer (2021) explains, in December 1991, the Hungarian government introduced the Banking Act, which required banks to reach a capital adequacy ratio of 8% by 1994 and accumulate loan-loss reserves. This act also introduced three categories for rating loan portfolios (Ábel and Bonin 1993) and established the State Banking Supervisory Agency (SBS) (Borish et al. 1996). The establishment of the Banking Act was followed by the enactment of a new bankruptcy law, which became effective on January 1, 1992, requiring any company with any outstanding debt that was more than 90 days in arrears to initiate bankruptcy proceedings (Ábel and Bonin 1993).

Hungary Context 1991–1994	
GDP **(SAAR, nominal GDP in LCU converted to USD)**	$33.4 billion in 1991 (HUF 2,498.3 bn) $37.3 billion in 1992 (HUF 2942.6 bn) $38.6 billion in 1993 (HUF 3548.3 bn) $41.5 billion in 1994 (HUF 4364.8 bn)
GDP per capita **(SAAR, nominal GDP in LCU converted to USD)**	$3,219.77 in 1991 $3,597.11 in 1992 $3,726.83 in 1993 $4013.94 in 1994
Sovereign credit rating (five-year senior debt)	Data not available in 1991–1994
Size of banking system	$28.2 billion in banking system assets in 1991 $28.9 billion in banking system assets in 1992 $28.6 billion in banking system assets in 1993 $29.2 billion in banking system assets in 1994
Size of banking system as a percentage of GDP	Banking system assets equal to 84.4% of 1991 GDP Banking system assets equal to 77.3% of 1992 GDP Banking system assets equal to 74.1% of 1993 GDP Banking system assets equal to 70.4% of 1994 GDP
Size of banking system as a percentage of financial system	Data not available in 1991–1994
Five-bank concentration of banking system	41.5% of total assets in 1991 43.7% of total assets in 1992 42.7% of total assets in 1993 38.6% of total assets in 1993
Foreign involvement in banking system	14.7% foreign or jointly owned in 1991 15.3% foreign or jointly owned in 1992 28% foreign or jointly owned in 1993 31.1% foreign or jointly owned in 1994

Government ownership of banking system	90% majority ownership (assets) in 1990 27% majority ownership (assets) in 1995
Existence of deposit insurance	"Until 1993 deposits were unlimitedly guaranteed by the state"
Source: Ábel and Szakadát 1997, 161; Borish et al. 1996, 11, Hungarian National Deposit Insurance Fund (OBA/NDIF) website; IMF 1995, tab. 69, 156; World Bank Population Data.	

Key Design Decisions

1. **Part of a Package: The recapitalization of Hungarian banks was part of "consolidation" initiatives by the government in early 1990s that also included purchasing nonperforming assets and restructuring state-owned debtors.**

The recapitalization of Hungarian banks in early 1990s was part of "consolidation" that began in mid-1992. The consolidation took three forms (Neale and Bozski 2001):

Asset purchases—Asset purchases through the Loan Consolidation Program involved substituting bad debt for long-dated (20-year) Treasury bonds with a variable interest rate, linked to the Treasury bill yield of the previous quarter (see Dreyer 2021).

Recapitalization—The government recapitalized banks by purchasing common stock or subordinated loans.

Debtor restructuring—This process endowed capital directly to banks' debtors to improve their financial conditions preparatory to their own privatizations.

Each process took several stages. The recapitalization was implemented over three stages: in December 1993, May 1994, and December 1994 (IMF 1995). Balassa (1996) argues that the step-by-step approach taken by the government had negative consequences. The author argues that uncertainty, combined with the slowness of the legislation process, may have led to technical complications and a decline in efficiency. Balassa further argues that the slow and politically turbulent legislative process hindered public understanding of the details of the program and the importance of the consolidation processes. The author laments that "it might have been more expedient to implement the consolidation of the banking sector on the basis of one or more laws . . . Perhaps, had that been the case, less mistakes would have been made during its implementation" (Balassa, 1996).

2. **Legal Authority and Communications: The recapitalization process was authorized by the Bank Consolidation Act of 1994.**

The recapitalization process was authorized by the Bank Consolidation Act (Neale and Bozski 2001). Yet, Neale and Bozski (2001) argue that the legality of early consolidation processes was "flimsy." The budget law of 1993 authorized the government to issue credit consolidation bonds (CCBs) to fund its interventions. The law did not specify the limits of issuance and other details; the government took care of such details through executive orders.

3. **Administration/Governance: The Ministry of Finance (MOF) took the initiative in the consolidation process, as well as in the development of the supervisory and regulatory system.**

The Ministry of Finance took the initiative in the consolidation process, as well as in the development of the supervisory and regulatory system (Neale and Bozski 2001).

4. Eligible Institutions: Capital was injected in financial institutions that did not meet capital ratio regulatory requirements.

Capital was injected in financial institutions that did not meet capital ratio regulatory requirements (Balassa 1996). The threshold of the targeted capital adequacy ratio and the targeted banks evolved over time. Larger banks and state banks were more likely to receive capital. Furthermore, after the second capital injection, in May 1994, participating financial institutions were required to submit “consolidation plans,” detailing the modernization of business policies, management, and risk management (see the Restructuring Plan section for further details) (IMF 1995).

Prior to the first capital injection, in December 1993, the Ministry of Finance identified 10 significant financial institutions (Magyar Hitel Bank [MHB], Kereskedelmi és Hitelbank [K&H], Budapest Bank [BB], Mezobank, Takarekbank, Agrobank, Dunabank, Iparbankhaz, Konzumbank, and Realbank) and further determined whether to inject capital to those banks whose capital adequacy ratios were negative (Bonin and Schaffer 1995).[4] Realbank underwent a management buyout and was privatized, and it became apparent that the capital adequacy ratio of Konzumbank was above 8%. Ultimately, the other eight banks (MHB, K&H, BB, Mezobank, Takarekbank, Agrobank, Dunabank, and Iparbankhaz) received the first round of capital injections, in December 1993 (Bonin and Schaffer 1995) (See Figure 3).

[4] Furthermore, some savings cooperatives and other smaller-scale banks from the consolidation program and the “sour sixteen,” selected large state-owned institutions employing in excess of 7% of the industrial labor force, were also included (Bonin and Schaffer 1995).

Figure 3: Banks' Capital Adequacy Ratios (CARs) below Zero after the Capital Injection in December 1993

Hungarian Bank Recapitalization

Bank	A	BB	D	I	K&H	M	MHB	T
1. Equity (before)	1.5	7.6	1.0	1.1	13.5	2.4	15.3	1.4
2. Equity (1993)	4.2	12.6	5.3	2.1	47.3	8.5	70.1	10.2
3. CAR (1993)	(1.2)	(0.7)	(8.6)	11.6	0.02	(3.4)	1.2	(4.2)
4. Equity (1994)	5.0	17.2	5.8	2.1	52.3	9.4	74.1	11.6
5. Total ReCap	2.0	9.6	4.8	0.8	38.4	7.0	58.8	10.2
6. Assets (1993)	31.7	156.6	11	6.3	231.7	34.5	433	37.3
7. State Ownership	30.0	68.4	94.6	83.1	84.4	75.0	89.0	85.8
8. MoF Share	28.0	39.9	81.0	13.8	74.0	75.0	78.0	85.8
9. (Recap/Eq)%	40.0	55.8	82.6	38.1	73.4	74.5	79.4	87.9
10. Subordinated debt issues	n.a.	3.9	0.1	n.a.	4.7	0.3	5.9	0.5
Bank	A	BB	D	I	K&H	M	MHB	T

Total Recap: Ft. 131.6 bn.
(114.4 - first tranche + 17.2 to bring CARs to 4%)

Total Equity (before): Ft. 43.8 bn.

Total Subordinated Debt Issued: Ft. 15.4 bn.

Explanation:

1. Bank equity before recapitalization.
2. Bank equity end-93 after first tranche of recap and including other capital increase (e.g., Agrobank had increase in equity of 1.5 bn. in addition to recap).
3. Capital adequacy ratio after first tranche of recap. ( ) is negative.
4. Equity after second tranche to raise CAR to 4%.
5. Total injection of Treasury bonds.
6. Total Assets (end 93).
7. Consolidated government ownership in percent (AVU, AVRt, MoF).
8. MoF share due to recap.
9. Recap as percent of total equity (5/94).
10. Subordinated debt issue (Tier II capital), end-1994.

Note: A=Agrobank, BB=Budapest Bank, D=Dunabank, I=Iparbankhaz, K&H=Kereskedelmi és Hitelbank, M=Mezobank, MHB=Magyar Hitel Bank, and T=Takarekbank.

Source: Bonin and Schaffer 1995, 69.

In the second injection, in May 1994, banks with capital adequacy ratios below 4% were eligible. The Ministry of Finance injected capital so that banks' capital adequacy ratios would reach 4%. Finally, in the third injection, in December 1994, four large state-owned banks received capital so that their capital adequacy ratios would reach 8%, the ratio required by Bank for International Settlements rules (Balassa 1996). The Basel accord called for a minimum ratio of capital to risk-weighted assets of 8% to be implemented by the end of 1992. This framework was introduced not only in Group of Ten countries but also in virtually all countries. Hungarian banks were required to reach a capital adequacy ratio of 8% by 1994.

There were a few exceptions to the eligibility rule. For instance, in May 1994, the National Savings and Commercial Bank (Országos Takarék Pénztár, or OTP), one of the largest commercial banks, received a HUF 5 billion capital injection twice in 1993 and 1994, even though its capital adequacy ratio had already exceeded 4% and even though it was not designated as one of 10 banks nominated by the government in December 1993 (IMF

1995). Furthermore, smaller banks did not participate in the last round of capital injections, in December 1994, as it was assumed the smaller banks would be able to raise their capital ratios through privatization and partnerships with larger banks (Ábel and Szakadát 1997). The deviation in implementation varied with discretionary governmental judgments.

5. **Size: There was no preannounced size of the injection, but the government injected approximately HUF 165 billion to HUF 180 billion (equivalent to 5% of then GDP) of capital over the three stages. The recapitalization process cost approximately 5% of Hungarian GDP in 1993.**

While estimations vary, approximately HUF 165 billion to HUF 180 billion was injected throughout the recapitalization process. It was approximately 5% of Hungarian GDP in 1993 (IMF 1995; Nováková 2003). The first capital injection, in December 1993, was the largest in terms of size, totaling more than HUF 100 billion (see Figure 2 in the "At a Glance" section above).

6. **Source of Injections: The government issued more than HUF 350 billion in credit consolidation bonds to inject capital.**

The budget law of 1993 authorized the government to issue credit consolidation bonds. The CCBs issued under the budget law of 1993 had a maturity of 20 years, and interest was to be paid twice yearly, compared to the formerly issued CCBs, which paid interest once a year (Ábel and Bonin 1992; IMF 1995). CCBs were deployed both in the loan consolidation program (see Dreyer 2021) and the recapitalization program (IMF 1995). In the recapitalization, the government acquired the equity in the banks by purchasing newly issued shares with CCBs (IMF 1995).

Until the end of 1994, approximately HUF 330 billion worth of CCBs were issued by the government, and by mid-1996, the number reached HUF 360 billion (Balassa 1996). The CCBs were also used (1) to purchase HUF 1.9 billion in equity from existing commercial bank shareholders; (2) to grant the savings cooperatives HUF 5.9 billion in subordinated loans and to increase their capital by HUF 2.7 billion; and (3) to grant the OTP a HUF 5 billion subordinated loan (IMF 1995.

While the state later sold some of the banks above their book values after the recovery, the cost of the consolidation (including other nonrecapitalization measures) was expensive, burdening the state budget. As Figure 4 shows, despite the successful privatizations, the total proceeds (HUF 98.9 billion) from selling the privatized banks covered only 35% of the consolidation costs (Neale and Bozski 2001).

Figure 4: Privatization Revenue Relative to Consolidation Cost

Bank	Consolidation cost (HUF billions) (1)	Privatisation revenue (HUF billions) (2)	(2)/(1) (%)
OTP	16.6	53.0	319.0
MKB	16.5	8.0	49.0
Budapest Bank	28/40	12.0	43/30.0
Takarékbank	12.7	4.4	35.0
Altalanos ErtForg. Bank	1.6	0.5	31.0
Mezobank	20.8	4.0	19.0
MHB	123.9	12.0	10.0
K & H	56.6	5.0	9.0
Dunabank	5.3	–	–
Postabank	15.0	–	–
PKB	–	6.2	
Total	282.0	98.9	35.0

Source: Csabai, 1997, p. 69.

Note: Postabank was privatized in 2003.

Source: Neale and Bozski 2001, 166.

7. Individual Participation Limits: There seem to have been no fixed participation limits.

There seem to have been no fixed participation limits.

8. Capital Characteristics: The Ministry of Finance recapitalized the banks using two methods: equity acquisition and the extension of 30-year subordinated loans from the government.

The first capital injection, in December 1993, took the form of voting shares. The government recapitalized eight banks by purchasing newly issued banks' common stocks with CCBs (IMF 1995). The second capital injection, in May 1994, took a mixed form. For the three large banks, capital was injected by acquiring additional common stocks with voting shares so that their capital ratios would reach 4%. For the four smaller banks, the Ministry of Finance acquired voting shares to increase capital to a 2% capital ratio level; the remaining 2% was filled with subordinated loans (Balassa 1996).

The third capital injection, in December 1994, took the form of a 30-year subordinated loan. In order to offset the budgetary impact of the lending, interest payments on CCBs and on the subordinated loans were adjusted (IMF 1995).

Figure 5: Expenditure on Consolidation 1992–1994 (HUF millions)

Bank	Credit consolidation	Debtor consolidation	Capital increase	Subordinate loans	Total
OTP	6 473	133	5 000	5 000	16 606
MKB	14 500	2 034	–	–	16 534
MHB	30 135	29 086	58 820	5 891	123 932
K & H	9 549	3 954	38 373	4 714	56 590
Budapest Bank	11 857	2 666	9 649	3 861	28 033
Postabank	–	13 322	–	–	13 322
ÁÉB	1 541	311	–	–	1 852
WestLB*	2 709	62	–	–	2 771
Konzumbank	10 383	2 009	–	–	12 392
Takarékbank	1 724	276	10 150	537	12 687
Mezobank	4 961	28	14 857	1 000	20 846
Polgári	2 628	–	–	–	2 628
Dunabank	484	–	4 807	–	5 291
Iparbankház	4 719	–	800	–	5 519
Others	2 655	–	1 841	10 459	14 955
Total	104 318	53 881	144 297	31 462	333 958

Note: *WestLandesBank acquired the former state bank Altalanos Vallalkozasi Bank (AVB)—the General Bank of Venture Financing.
Source: *Világgazdaság*, 7 June 1995.

Source: Neale and Bozski 2001, 155.

9. Restructuring Plan (1): As a precondition of the May 1994 recapitalization, banks were required to submit medium-term restructuring programs, or "consolidation plans."

As a precondition of the May 1994 recapitalization, banks were required to submit "consolidation plans." The consolidation plans prescribed management strategies for bank reorganization and required the banks to participate actively in enterprise debt resolution programs (Balassa, 1996; IMF 1995). The enterprise debt resolution program involved determining the circle of clients to be dealt with in the course of debtor conciliation, another program run by the government (Balassa 1996). The agreements based on the consolidation plans also detailed certain bank restructuring procedures on an individual (bank-by-bank) basis (Bonin and Schaffer 1995).

Amongst three banks that received capital in December 1994, only BB had submitted a consolidation program acceptable to the government by the end of 1994. The government rejected the plans submitted by MHB and K&H. These two banks submitted revised consolidation plans and eventually replaced top management in late 1994 and early 1995, in order to obtain the government's approval. With some delay, all banks, including MHB and K&H, received the capital (IMF 1995; Neale and Bozski 2001).

10. Restructuring Plan (2): The majority of banks established separate units or departments to deal with capital injections and nonperforming loans.

Establishing separate units effectively prepared banks to separate their "good banks" from "bad banks" for privatization.

The majority of banks created a separate internal or external workout unit to deal with the nonperforming loans. Separating the liquidation process from normal bank business not only avoided unintended disruptions in the financial system but also prepared banks for privatization by separating "good banks" from "bad banks." Some banks sold their nonperforming loans to private liquidation organizations (Nováková 2003). For instance, in order to deal with their nonperforming loans, Budapest Bank formed 2B Ltd., K&H and Mezobank jointly set up Kvantumbank, and MHB established Risk Ltd. (Neale and Bozski 2001).

11. Exit Strategy: An exit strategy was not announced, but the goal was to privatize the commercial banks.

No further detail was found for this Key Design Decision.

12. Other Regulatory Changes: As a part of banking sector reform, prudential regulation as well as accounting standards were amended.

In the 1990s, Hungary adopted new banking sector reform policies, including updated banking, accounting, and bankruptcy laws, overhauling the entire Hungarian financial system. In December 1991, the Hungarian government introduced the Banking Act, which required banks to reach a capital adequacy ratio of 8% by 1994 and accumulate loan-loss reserves (Ábel and Szakadát 1997; Dreyer 2021). This act also introduced three categories for rating loan portfolios (Ábel and Bonin 1993) and established the State Banking Supervisory Agency (Borish et al. 1996). The establishment of the Banking Act was followed by the enactment of a new bankruptcy law, which became effective on January 1, 1992, requiring any company with any outstanding debt that was more than 90 days in arrears to initiate bankruptcy proceedings (Ábel and Bonin 1993).

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