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Hungary: National Deposit Insurance Fund[1]

Zijin (Phoebe) Lei[2] and Ezekiel Vergara[3]

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Abstract

At the height of the Global Financial Crisis (GFC), Hungary announced changes to its deposit-insurance system on October 8, 2008. The government said that it would increase the deposit-insurance cap from HUF 6 million to HUF 13 million (about USD 31,000 to about USD 68,000), the equivalent of roughly EUR 50,000 (about USD 68,000), in line with a European Union (EU) recommendation. Hungary's finance minister also announced that the state would temporarily provide an unlimited deposit guarantee, following the actions of several European countries. The unlimited guarantee was political, meaning it was not implemented through official legislation. It was effective immediately, while the increased coverage came into effect on October 15, 2008. The National Deposit Insurance Fund (NDIF), Hungary's deposit insurer, administered Hungary's crisis-time deposit guarantee as an extension of its statutory authority; membership was compulsory for most deposit-taking institutions. The following year, in response to an EU directive, Hungary raised the deposit-insurance cap to the Hungarian forint (HUF) equivalent of EUR 100,000, among other measures. In February 2010, the NDIF and government made good on their respective guarantees when one institution failed. Another failure occurred in January 2011, for which each depositor received the HUF equivalent of EUR 100,000.

Keywords: account guarantee, Global Financial Crisis, Hungary, National Deposit Insurance Fund, unlimited deposit guarantee

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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 account guarantee programs. Cases are available from the Journal of Financial Crises at https://elischolar.library.yale.edu/journal-of-financial-crises/.

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Overview

At the height of the Global Financial Crisis (GFC), Germany enacted a temporary unlimited deposit guarantee on October 5, 2008 (Gow and Chrisafis 2008). Two days later, the European Union (EU)'s Economic and Financial Council (ECOFIN) met to coordinate the EU's response to the GFC (EC 2008). Among ECOFIN's recommendations was that EU member states harmonize the amounts insured under their respective deposit-insurance schemes at a minimum of EUR 50,000 (about USD 68,000).[4] Most member states that did not already cover that amount raised their insurance caps in response to the guidance. Several countries also followed Germany and announced unlimited deposit guarantees, including Austria, Slovenia, and Slovakia (AFP 2008; *Sydney Morning Herald* 2008; Bajuk and Kranjec 2008).

Hungary took both measures: raising its insurance cap and announcing a temporary unlimited guarantee (NDIF 2008a). On October 8, 2008, the National Deposit Insurance Fund (NDIF), the existing deposit insurer, increased its insurance coverage per depositor from Hungarian forint (HUF) 6 million to HUF 13 million (about USD 31,000 to about USD 68,000), which was then equivalent to roughly EUR 50,000.[5] The legislature authorized this increase on October 14, 2008, with the increase coming into effect the next day (Government of Hungary 2008). The legislature also eliminated co-insurance, under which depositors were on the hook for 10% of amounts between HUF 1 million and HUF 6 million. In other words, prior to 2008, the

Key Terms

Purpose: To protect depositors, bolster trust in the banking system, and match guarantees made by international competitors	
Launch Dates	*Limit increased* Announcement: Oct. 8, 2008 Authorization: Oct. 14, 2008 Operation: Oct. 15, 2008 *Political guarantee* Announced: Oct. 8, 2008 Operation: Oct. 8, 2008
End Dates	Increases adopted as permanent. Unclear when political guarantee ended
Eligible Institutions	All Hungarian-registered institutions
Eligible Account(s)	Various deposit accounts
Fees	Uniform fees, no more than 0.2% on eligible deposits
Size of Guarantee	Unlimited political guarantee. Legal guarantee of HUF 13 million (then roughly EUR 50,000), and ultimately EUR 100,000
Coverage	HUF 7.6 trillion
Outcomes	HUF 12.4 billion in payouts
Notable Features	Abolition of co-insurance Unlimited political guarantee with no clear end date Cooperation between government and NDIF to pay out unlimited guarantee

[4] On October 7, 2008, EUR 1 = USD 1.36, per Yahoo Finance.

[5] Per Yahoo Finance, on October 7, 2008, USD 1 = HUF 184 and EUR 1 = HUF 250.

NDIF had guaranteed depositors HUF 1 million in full, and 90% of amounts between HUF 1 million and HUF 6 million, for a total of HUF 5.5 million (OECD 2008).

The NDIF was a government-owned legal entity (Government of Hungary 2010a, Article 110). Membership was compulsory for most deposit-taking institutions, and the NDIF levied flat-rate fees on member institutions for its coverage (Government of Hungary 2010a, Articles 119-21).

Also on October 8, 2008, Hungary's finance minister announced that the government would temporarily guarantee all bank deposits in Hungary (NDIF 2008). This unlimited deposit guarantee, the finance minister stated, came into effect immediately. Hungarian officials gave no indication as to how long the unlimited deposit guarantee would remain in place.

Despite the announcements, international investors continued to dump Hungarian government bonds and other assets and the forint continued to depreciate, creating liquidity pressures for banks (IMF 2011). At the request of the Hungarian government, the International Monetary Fund (IMF), EU, and World Bank (WB) agreed in October 2008 to a USD 25.1 billion package to provide Hungary with sufficient foreign-currency reserves to meet its external obligations, even in extreme market conditions (IMF 2008a). Hungarian officials signed a Stand-By Arrangement (SBA) describing this package with the IMF in November 2008 (IMF 2008b).

In March 2009, the EU required member states to increase their deposit-insurance coverage first to EUR 50,000, and then to EUR 100,000 by December 31, 2010 (EP/EC 2009). The directive also required member states to reduce their payout times to 20 working days.

In response, Hungary's legislature raised the NDIF's deposit-insurance cap to the HUF equivalent of roughly EUR 50,000 in Act XLI of 2009 (Government of Hungary 2009, Article 14). The law shortened the payout time to a maximum of 20 working days (Government of Hungary 2009, Article 3). The law also granted the Hungarian supervisor more authority and required the NDIF to regularly test its payout capacity (Government of Hungary 2009, Article 6). The changes to the deposit-insurance limit came into effect on June 30, 2009; the changes to the payout time, among other changes, came into effect on January 1, 2010 (Government of Hungary 2009, Article 13).

Hungarian authorities later raised the deposit-insurance coverage to the HUF equivalent of EUR 100,000, beginning on January 1, 2011, to comply with the EU's directive (Government of Hungary 2011, Article 101; NDIF 2012).

On February 11, 2010, the Hungarian supervisor withdrew the license of Általános Közlekedési Hitelszövetkezet (AKH), a credit cooperative, triggering the NDIF's guarantee. The NDIF insured HUF 3.3 billion in AKH's deposits, which were owed to 1,190 depositors. The NDIF insured depositors up to the insured cap of EUR 50,000, or HUF 13.6 million per depositor. The ministry of finance covered balances above that cap (Government of Hungary 2010b; NDIF 2011). In 2010, the NDIF had over HUF 90 billion in assets to make such payouts.

On January 3, 2011, the Hungarian supervisor withdrew the license of Jógazda Szövetkezeti Takarékpénztár (JST), a cooperative savings bank (NDIF 2012). The NDIF covered HUF 9.1 billion for 5,329 depositors. Each depositor received up to the HUF equivalent of EUR 100,000, and from the sources consulted, it appears that the unlimited deposit guarantee was no longer in effect.

Summary Evaluation

IMF officials noted Hungary's deposit reforms and temporary unlimited guarantee as elements of the country's financial stabilization package, in their evaluation of Hungary's request for aid through an SBA (IMF 2008b).

Context: Hungary 2008–2010	
GDP (SAAR, nominal GDP in LCU converted to USD)	\$159.9 billion in 2008 \$132.2 billion in 2009 \$132.5 billion in 2010
GDP per capita (SAAR, nominal GDP in LCU converted to USD)	\$15,777 in 2008 \$13,082 in 2009 \$13,223 in 2010
Sovereign credit rating (five-year senior debt)	Data for 2008: Moody's: A3 S&P: BBB Fitch: BBB+ Data for 2009: Moody's: Baa1 S&P: BBB- Fitch: BBB+ Data for 2010: Moody's: Baa3 S&P: BBB- Fitch: BBB
Size of banking system	\$134.3 billion in 2008 \$100.7 billion in 2009 \$101.6 billion in 2010
Size of banking system as a percentage of GDP	84.0% in 2008 76.2% in 2009 76.7% in 2010
Size of banking system as a percentage of financial system	Data not available for 2008–2010
Five-bank concentration of banking system	89.3% in 2008 93.4% in 2009 92.6% in 2010
Foreign involvement in banking system	67% in 2008 64% in 2009 63% in 2010
Government ownership of banking system	Data not available for 2008–2010
Existence of deposit insurance	Yes, in 2008–2010
Sources: Bloomberg; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset.	

Key Design Decisions

1. **Purpose: Officials modified the Hungarian deposit-insurance system to protect depositors, bolster depositor trust, and match other European countries.**

In October 2008, the European Union (EU)'s Economic and Financial Council (ECOFIN) advised member states to increase their deposit-insurance coverage to EUR 50,000. Hungarian officials followed that guidance, increasing the maximum amount of deposit-insurance coverage to HUF 13 million, then equivalent to roughly EUR 50,000 (Government of Hungary 2008).

However, several countries adopted unlimited deposit guarantees, including Germany, Austria, Slovenia, and Slovakia (AFP 2008; *Sydney Morning Herald* 2008; Bajuk and Kranjec 2008). Given pressures from countries that had announced unlimited guarantees, Hungarian officials announced that the Hungarian government would also provide a temporary unlimited deposit guarantee. The unlimited guarantee was political, meaning it was not implemented through official legislation.

2. **Part of a Package: In October 2008, Hungarian officials adopted a bank-debt guarantee and a recapitalization program backed by an International Monetary Fund Stand-By Arrangement, neither of which was widely used.**

By mid-October 2008, Hungarian officials began discussions with the International Monetary Fund (IMF) on a Stand-By Arrangement (SBA) in response to capital flight and the rapid depreciation of the forint. In late October, the IMF, EU, and World Bank (WB) agreed to a USD 25.1 billion package, mostly to restore the central bank's currency reserves (IMF 2008a; IMF 2011). Hungary also allocated USD 2.7 billion evenly between a recapitalization program[6] to bolster capital ratios at Hungarian banks and a voluntary program to guarantee[7] interbank loans issued by Hungarian banks and wholesale debt contracts with foreign counterparties (Gárdos 2008; IMF 2011; Buchholtz 2020; Buchholtz 2021). Both programs came into effect on December 23, 2008 (Petrovic and Tutsch 2009). Both were undersubscribed by eligible banks: only one bank requested capital, and none applied for the guarantee.

As a result of minimal participation in these two programs and lingering liquidity pressures, Hungary in 2009 allocated the IMF-EU funds to a new liquidity program (IMF 2011). The program, which was introduced on March 11, 2009, provided eligible institutions with loans (Petrovic and Tutsch 2009). The program would provide up to HUF 1.1 trillion (USD 4.9 billion) in foreign-exchange liquidity to domestic credit institutions and subsidiaries of

[6] For more information on Hungary's 2008 Recapitalization Scheme, see Buchholtz 2021. Hungary also implemented a recapitalization scheme alongside a loan consolidation program in response to a recession in 1992; for more information, see Dreyer 2021.

[7] For more information on Hungary's 2008 Guarantee Scheme, see Buchholtz 2020.

foreign banks (Kroes 2010). By January 2010, the liquidity scheme had lent HUF 690 billion (USD 3 billion) to three domestic banks. For more, see Mott and Buchholtz 2022.

3. Legal Authority: To increase depositor coverage, Hungarian officials passed amendments to Act CXII of 1996. Hungary's unlimited guarantee was political, meaning it was not subject to legislative approval.

Articles 97 to 130 of Act CXII 1996 set out the Hungarian deposit-insurance system (Government of Hungary 2010a, Articles 97-130). Prior to October 15, 2008, Hungarian law protected depositors fully up to HUF 1 million, with partial coverage up to HUF 6 million (OECD 2008). Due to financial turbulence associated with the GFC, on October 8, 2008, Hungarian officials announced that they would increase the maximum amount insured by the guarantee and abolish the partial coverage of deposits (NDIF 2008a). On October 14, 2008, the Hungarian national assembly adopted an amendment, which increased the deposit-insurance coverage to HUF 13 million with no coinsurance (NDIF 2008b; Government of Hungary 2008). The amendment came into effect the following day.

On October 8, 2008, Hungary's finance minister announced that all bank deposits in Hungary would receive full protection (NDIF 2008a). The finance minister said that the unlimited political guarantee would come into effect immediately and that the guarantee was not subject to parliamentary approval.

On March 11, 2009, EU authorities required EU member states to first increase their deposit-insurance coverage to EUR 50,000, and then to EUR 100,000 by December 31, 2010 (EP/EC 2009). To comply with this directive, Hungarian officials adopted an amendment to Act CXII of 1996, raising the deposit-insurance limit to the HUF equivalent of roughly EUR 50,000 (Government of Hungary 2009, Article 1). The change came into effect on June 30, 2009 (Government of Hungary 2009, Article 13). Later, to meet the EU's requirements, Hungarian authorities raised the deposit-insurance coverage to the HUF equivalent of EUR 100,000, beginning on January 1, 2011 (Government of Hungary 2011, Article 101; NDIF 2012). To do so, the government adopted another amendment to Act CXII of 1996.

4. Administration: The NDIF administered Hungary's deposit-insurance system. It cooperated with the ministry of finance on the unlimited deposit guarantee.

Pursuant to Act CXII of 1996, the NDIF was established to administer Hungary's deposit-insurance system (Government of Hungary 2010a, Articles 97-8). The NDIF was a legal, state-owned public entity (Government of Hungary 2010a, Article 108). The NDIF also administered guarantees on deposits (Government of Hungary 2010a, Article 103; NDIF 2021).[8] As such, the NDIF administered the increased deposit-insurance coverage as an extension of its statutory authority.

A managing director carried out the NDIF's day-to-day operations and implemented the decisions of the NDIF's board of directors (Government of Hungary 2010a, Article 113). The

[8] The state had guaranteed all deposits in full prior to 1993, when banks were government-owned under the Communist system.

board of directors appointed and could dismiss the managing director (Government of Hungary 2010a, Article 112).

The NDIF cooperated with the Hungarian supervisor and the Hungarian central bank to collect data about credit institutions (Government of Hungary 2010a, Article 115). The NDIF could also request data from specific credit institutions in order to carry out its statutory functions.

The NDIF cooperated with the ministry of finance to implement the government's unlimited political guarantee. The NDIF paid depositors in full and received reimbursement from the government (Government of Hungary 2010b; NDIF 2011).

Hungarian law also permitted a voluntary deposit-insurance system, subject to various restrictions (Government of Hungary 2010a, Articles 128-30). From the relevant documentation, it appears that there was no voluntary deposit-insurance system in Hungary.

5. Governance: A board of directors governed the NDIF. The NDIF was also subject to audits.

A board of directors was responsible for governing the NDIF (Government of Hungary 2010a, Article 110). The board was composed of public and private individuals. Board members included the ministry of finance's administrative undersecretary, the vice president of the Hungarian central bank, the chairman of the Hungarian financial supervisor, two representatives from credit institutions, and the managing director (NDIF 2009). A chairman and a vice president would be selected from these members, though the managing director was barred from holding either post. The board's powers included the ability to decide the budget, determine the arrangements of payouts, and establish the NDIF's fee policy, among others (Government of Hungary 2010a, Article 111). To fulfill these tasks, the NDIF could utilize the Hungarian supervisor's services.

The NDIF was also subject to audits by the State Audit Office (Government of Hungary 2010a, Article 109).

6. Communication: The government communicated that their original changes to the Hungarian deposit-insurance system were meant to bolster depositor confidence. Later changes, they said, were adopted in compliance with EU law.

On October 8, 2008, when Hungarian officials announced both changes to the deposit-insurance system and the temporary unlimited political guarantee, they stressed that the changes were adopted to further depositor trust and to compete with guarantees adopted in other countries (NDIF 2008a; *Sydney Morning Herald* 2008). The governor of Hungary's central bank, who was present at this announcement, said that there was neither demand nor need for central-bank action. The preamble to the amendment increasing depositor coverage in 2008 further stated that such a change was meant to secure deposits and further trust in the banking system (Government of Hungary 2008).

By October 13, Hungarian officials were in negotiations with the IMF for an SBA. When they signed the SBA in November, they suggested that the government had taken supererogatory action by increasing depositor coverage and providing an unlimited deposit guarantee (IMF 2008b). Nevertheless, they said that they remained ready to take further action if necessary.

Following changes to EU law, Hungarian officials increased the maximum amount that the NDIF insured (Government of Hungary 2009, Article 1). This change, Hungarian officials noted, was a direct response to the 2009 EU directive on deposit insurance (Government of Hungary 2009, Article 14).

The NDIF later said that it had effectively communicated these program changes through printed and electronic materials and provided assistance to banks with respect to the changes (NDIF 2009; NDIF 2010).

7. Size of Guarantees: The NDIF raised its guarantee to HUF 13 million per depositor, then the equivalent of roughly EUR 50,000, and later to EUR 100,000. The government also announced an unlimited political guarantee.

Prior to the GFC, the NDIF insured HUF 1 million in full, and 90% of amounts above HUF 1 million, up to HUF 6 million (total of HUF 5.5 million) per depositor per institution (OECD 2008). Following the changes in October 2008, the NDIF guaranteed HUF 13 million per depositor per institution, eliminating the 10% co-insurance provision (Government of Hungary 2008, Article 1).

Directive 2009/14/EC required all EU member states to insure at least EUR 50,000 immediately, and to further increase their respective coverage to EUR 100,000 by December 31, 2010 (EP/EC 2009). To comply with this directive, Hungarian officials increased coverage to the HUF equivalent of EUR 50,000, starting on June 30, 2009 (Government of Hungary 2009, Article 1). Hungarian officials later increased depositor coverage to EUR 100,000 beginning January 1, 2011, to comply with the EU's directive (Government of Hungary 2011, Article 101; NDIF 2012).

In addition to these legislative changes, the government also adopted a temporary unlimited political guarantee, beginning on October 8, 2008 (NDIF 2008a). In an International Association of Deposit Insurers (IADI) survey, Hungarian officials said that they had ended their unlimited deposit guarantee in an immediate fashion (IADI 2012). It is unclear when this occurred and whether it coincided with the changes to increase depositor coverage to EUR 100,000 on January 1, 2011.

The NDIF covered 48% of bank deposits and 83% of deposits in credit and other cooperatives at the end of 2009, based on the HUF 13 million deposit-insurance cap (NDIF 2010).

8. **Sources and Size of Funding: The NDIF had various sources of funding, including one-time fees, annual fees, and funds from liquidation. The NDIF could borrow to fulfill its obligations and then impose special fees to repay the loan. The government's unlimited political guarantee was funded by the central budget.**

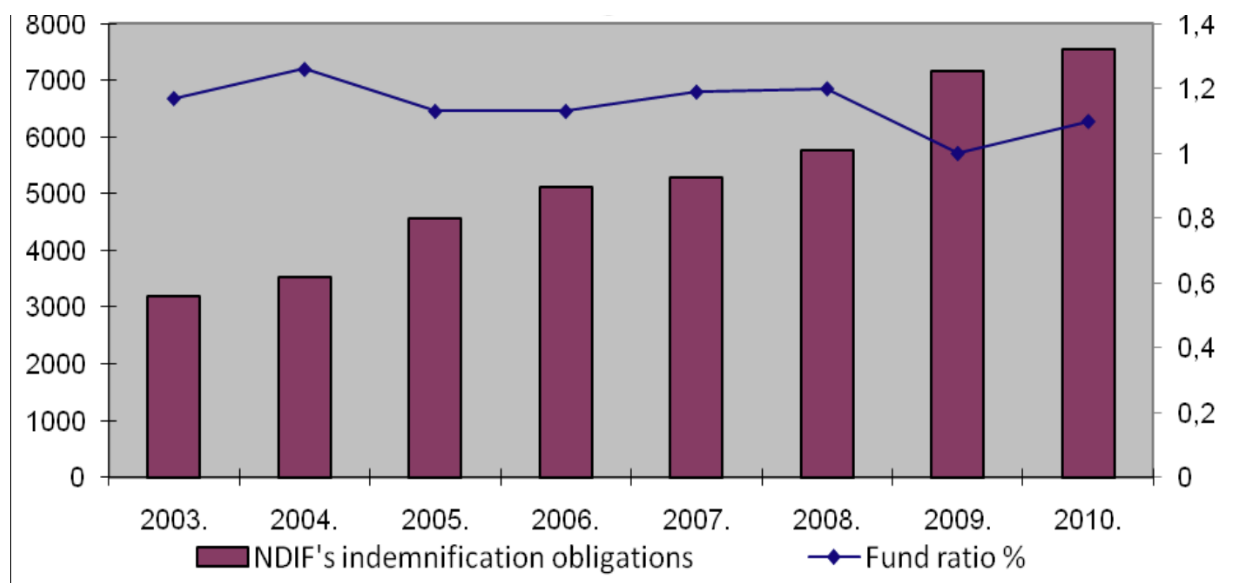
Articles 118 to 122 set out the funding sources available to the NDIF (Government of Hungary 2010a, Articles 118-22). The NDIF was allowed to collect one-time membership fees, worth 0.5% of the institution's capital base, along with annual fees. The NDIF's annual fees were uniform. Annual fees, however, were capped at 0.2% of an institution's insured deposits. The NDIF could also collect additional fees if institutions engaged in risky behavior, which could not exceed 0.3% of covered deposits. Hungarian law allowed the NDIF to invest its funds in government securities or to deposit its funds with the Hungarian central bank. The NDIF also received 80% of fines collected by the Hungarian supervisor.

The NDIF could borrow from the central bank or credit institutions in order to make depositor payouts. To repay these loans, the NDIF could impose extraordinary fees on member institutions, which could not exceed 0.2%. In the case of payouts, the NDIF received the right to the liquidated assets (Government of Hungary 2010a, Article 107).

At the beginning of 2008, the NDIF's deposit insurance covered HUF 5.8 trillion in deposits (NDIF 2009). That rose 24% to HUF 7.2 trillion at the beginning of 2009 with the higher insurance limit (NDIF 2010). Figure 1 illustrates this growth in the NDIF's insured deposits.

The NDIF had HUF 69 billion in liquid assets at the beginning of 2008 available to pay depositors in the event of a bankruptcy. That resulted in a fund coverage ratio of 1.2%, as the NDIF calculated it. The ratio remained above 1% from 2008 to 2010 (Figure 1).

Figure 1: NDIF Insured Deposits (HUF billions) and Fund Ratio (January 1)



Source: NDIF 2011.

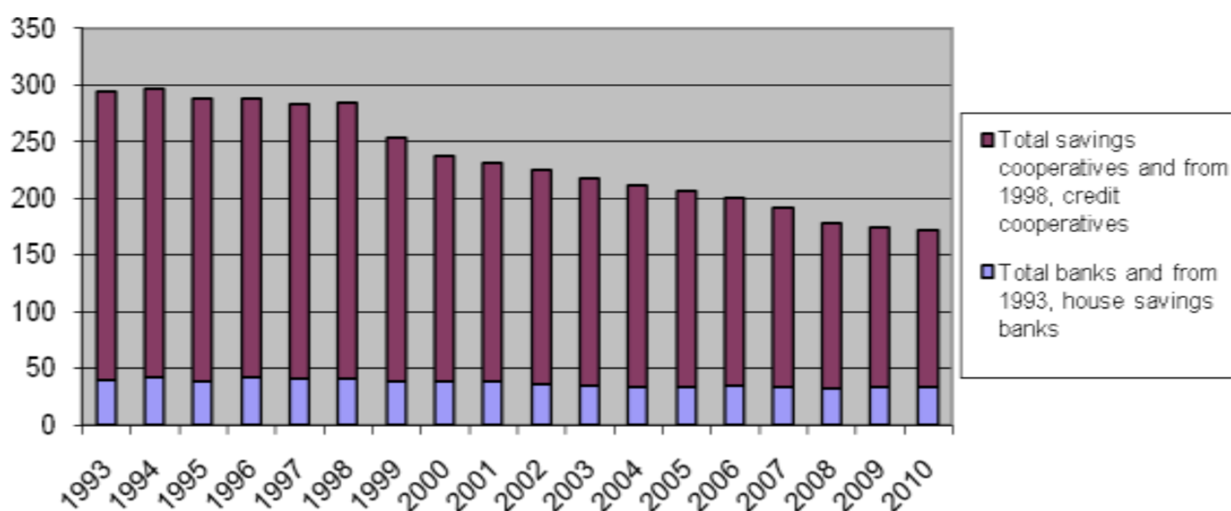
As for the government's unlimited deposit guarantee, the guarantee was funded through the government's central budget, as noted in the case of AKH (NDIF 2011; Government of Hungary 2010b).

9. Eligible Institutions: Membership in the NDIF was mandatory for most credit institutions. It is unclear which institutions received coverage under the government's unlimited guarantee.

All Hungarian-registered institutions were required to join the NDIF (Government of Hungary 2010a, Article 97). To apply for a banking license in Hungary, applicants needed to include a copy of their declaration of accession to the NDIF (Government of Hungary 2010a, Article 18). Foreign branches of Hungarian institutions were required to join the NDIF, though they could receive coverage from their host country as well. Foreign banks operating in Hungary but domiciled in the EU were not required to join the NDIF, as EU law required such banks to be covered in their home country. Foreign banks operating in Hungary but based outside of the EU could receive coverage from the NDIF unless prohibited by their home country. If a foreign-bank branch did not join the NDIF, the institution was required to inform customers about any depositor protections, undertakings by the parent company to compensate depositors, or agreements to ensure depositor compensation.

By year-end 2008, the NDIF insured 178 institutions (NDIF 2009). That number fell to 174 by year-end 2009 due to mergers (NDIF 2010). The NDIF insured 172 institutions at year-end 2010 after one failure and one merger (NDIF 2011). Figure 2 illustrates this trend over time. While most of the insured institutions by number were cooperatives, banks accounted for more than 80% of insured deposits because of their larger average size.

Figure 2: Total Number of NDIF-Insured Institutions



Source: NDIF 2011.

It is unclear which banks received coverage under the government's unlimited political guarantee. When the political guarantee was announced, Hungary's finance minister did not specify whether coverage extended to all banks, only Hungarian-authorized banks in Hungary, foreign branches domiciled elsewhere, or foreign-bank branches of Hungarian institutions (NDIF 2008a).

10. Eligible Accounts: Both the NDIF and the government guarantee covered a variety of deposit accounts.

The NDIF covered all deposit accounts that were not excluded by Article 100 of Act CXII of 1996 (Government of Hungary 2010a, Article 99). Excluded deposits included those deposited by state-owned companies, financial institutions, and the central bank (Government of Hungary 2010a, Article 100). The NDIF covered foreign-currency deposits denominated in euros, in the legal tender of EU member states, or the legal tender of Organization for Economic Cooperation and Development (OECD) states.

When Hungary's finance minister announced the unlimited political guarantee on October 8, 2008, he stated that the range of guaranteed deposits would not change, giving the appearance that the government planned to fully insure all NDIF-insured deposit types (NDIF 2008a).

11. Fees (A): The NDIF collected one-time admissions fees and uniform annual fees from member institutions. It could levy additional fees if institutions engaged in risky activities.

Article 119 of Act CXII of 1996 permitted the NDIF to collect fees from member institutions (Government of Hungary 2010a, Article 119). The NDIF was allowed to charge institutions a one-time fee, calculated as 0.5% of the institution's capital base (Government of Hungary 2010a, Article 120). The NDIF also levied annual uniform fees on member institutions, which considered an institution's standing with respect to NDIF regulations and whether the institution was subject to other insurance arrangements (Government of Hungary 2010a, Article 121). The NDIF could also use credit ratings to determine fees. Fees were paid quarterly, and Hungarian law stipulated that fees could not exceed 0.2% on covered deposits.

If an institution engaged in risky activities, the NDIF could levy additional fees (Government of Hungary 2010a, Article 121). This additional fee could not exceed 0.3% of covered deposits. In such a case, the NDIF could request opinions from the Hungarian central bank and supervisor, and the credit institution could comment.

The premium rate was 0.009% at the beginning of 2008. At the end of 2008, the NDIF's board more than doubled the premium rate to 0.02%, effective at the beginning of 2009. After doubling the compensation limit to EUR 100,000, the NDIF set the premium rate at 0.06% in 2011 (NDIF 2009; NDIF 2012).

In 2008, the NDIF collected HUF 1.0 billion in annual fees; it collected no one-time fees or risk-taking fees in that year (NDIF 2009). In 2009, the NDIF collected HUF 2.3 billion in annual fees and HUF 10 million in one-time admissions fees (NDIF 2010). In 2010, the NDIF

collected HUF 2.4 billion in annual fees and HUF 228,000 from two members for risk-taking (NDIF 2011).

Fees (B): The NDIF could charge special fees to repay loans.

Article 119 of Act CXII of 1996 allowed the NDIF to borrow from either the central bank or credit institutions. To repay these loans, the NDIF could levy additional, special fees on NDIF-insured institutions (Government of Hungary 2010a, Article 121). Article 121 of Act CXII required that these fees be uniform, and that the extent and timing of the fees be in accordance with the loan-repayment conditions. The same article prohibited these fees from exceeding 0.2% of insured deposits.

12. Process for Exercising Guarantee (A): Three triggers could activate the NDIF's exercise. The NDIF would then pay out depositors, including those under the unlimited political guarantee. The legislature changed the law in 2009 to shorten the amount of time allowed for payouts.

Articles 105 and 106 of Act CXII of 1996 set out the NDIF's exercise process. The NDIF could be triggered by the freezing of deposits, supervisory action, or the initiation of liquidation proceedings. The NDIF was required to publish news of the guarantee's exercise, and the payout procedure, in two national dailies. Following Hungary's 2009 amendment to the deposit-insurance system, the NDIF also had to post this information on its website (Government of Hungary 2009, Article 4). The NDIF would reach an agreement with the failed institution as to how to perform the tasks associated with payouts. The NDIF would then pay depositors up to the insured limit, with the NDIF gaining the right to reimbursement in liquidation (Government of Hungary 2010a, Articles 105, 107). Payments would be made via transfer to another credit institution, check, or direct payment. The NDIF would not pay compensation of HUF 500 or less.

Under the Hungarian government's unlimited political guarantee, the ministry of finance entered into an agreement with the NDIF, according to which the NDIF would cover balances above the deposit-insurance limit, which would be reimbursed from the central budget (NDIF 2011; Government of Hungary 2010b).

Following Directive 2009/14/EC, the EU required all member states to reduce their payout times to 20 working days (EP/EC 2009). In line with this directive, in 2009, Hungarian authorities passed Act XLI of 2009, which reduced the payout time to a maximum of 20 working days, with the possibility of a 10-day extension (Government of Hungary 2009, Article 4). To meet this new timetable, Hungarian authorities required both the NDIF and credit institutions to maintain up-to-date information systems and to test their payout capacity (Government of Hungary 2009, Article 6). The NDIF reported that, to meet this requirement, it implemented a new high-capacity server and purchased new data software (NDIF 2010).

In 2010, AKH failed, and the NDIF was activated (NDIF 2011). The NDIF insured HUF 3.3 billion in deposits, which were owed to 1,190 depositors. The government's political guarantee provided for compensation above the threshold (Government of Hungary 2010b).

In 2011, JST failed, and the NDIF was again activated (NDIF 2012). In the case of JST, depositors were reimbursed the HUF equivalent of EUR 100,000, totaling HUF 9.1 billion owed to 5,329 depositors.

Process for Exercising Guarantee (B): The NDIF was required to test its payout capacity.

Following changes to the deposit-insurance system in light of Directive 2009/14/EC, the NDIF was required to regularly test its payout capacity, so as to ensure a maximum payout time of 20 days (Government of Hungary 2009, Articles 3, 6). This provision came into effect on January 1, 2010 (Government of Hungary 2009, Article 13).

13. Other Restrictions on Eligible Institutions/Accounts: NDIF-insured institutions were subject to heightened monitoring and data requirements.

According to Act XLI of 2009, which increased Hungary's deposit insurance to the HUF equivalent of EUR 50,000, the Hungarian supervisor was allowed to monitor institutions' compliance with deposit-insurance regulations, particularly with respect to data (Government of Hungary 2009, Article 6). Notably, institutions were required to maintain data to allow for the potential payout of deposits.

14. Duration: The changes to the deposit-insurance limit were adopted as permanent. It was unclear when the temporary unlimited political guarantee expired.

When the government legislated to increase the Hungarian deposit-insurance limit, the changes were adopted as permanent, first to HUF 13 million, and then to EUR 50,000 and EUR 100,000 (Government of Hungary 2008; Government of Hungary 2009, Article 1; Government of Hungary 2011, Article 101).

On October 8, 2008, when the Hungarian finance minister announced an unlimited deposit guarantee for deposits in Hungary, he did not say when that political guarantee would expire (NDIF 2008a). Even after the initial announcement, it was unclear when the unlimited guarantee would be removed (FSB 2010; IADI 2011). In an IADI survey, Hungarian officials said that they had ended their unlimited deposit guarantee in an immediate fashion. It is unclear when this occurred and whether it coincided with the changes to increase depositor coverage to EUR 100,000 on January 1, 2011.

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