GAZDASÁGI
VERSENYHIVATAL

Competition shall be improved through legislative measures on the building society market

The Gazdasági Versenyhivatal (GVH – Hungarian Competition Authority) presented, within the framework of a press conference, the major results stemming from the sector inquiry conducted on the building society market that was launched in the summer of 2010. According to the GVH, effective competition can be achieved in the sector concerned, but this is dependent on the widespread development of the elements of the price regulation. Due to the particularities of the Hungarian building society market, namely, the low credit loaning activity and the high interest rates, it would be desirable to regulate the achieved yield of the investments.

Based on the low interest rates offered by the market players and moreover, on the general features of the market, such as the low number of market players and the relationship between the incumbents and the potential competitors, the GVH launched a sector inquiry in the summer of 2010. According to the report prepared at the end of the sector inquiry, competition on the building society market should be improved through legislative measures.

In Hungary the low deposit and credit loaning-rate products are typically reserved for saving purposes. Thus the construction has only reached its original aim of providing housing loans combined with low interest rates that are built on low deposit rates, to a limited extent.

In Hungary, due to the special characteristics of the building societies (the low interest rates, low credit activity and very high interest rate environment), they can achieve a significant amount of profit. According to the GVH, intensive competition can be effectuated in Hungary (in the form of better proposals), but in order to achieve this goal a widespread development of the elements of the price regulation - in particular in the field of the investment policy - may be necessary. The GVH established that it would be expedient to modify the legislative environment in a way, which allows that if at some point in the future the market is governed by processes similar to the previous market situation, that one part of the profit gained on investment activity can be conveyed to such clients who would like to use the products only for saving purposes.

The possible appearance of new market players may result in market revitalisation: the most significant entry barrier seems to be the uncertainty of the regulatory environment. As regards the latter, the long-term sustainability of the state aids has to be highlighted, because with the expected expansion of the market concerned, the interest for requiring state aids can be increased three to four fold. In the course of the development of the market (for instance from the perspective of new entrants), the sustainability of state aids is crucial, therefore it should be considered whether the current funding rates can be still upheld in the case of an expanding market structure; because by maintaining the amount of grants, the reduction of the grant rates may be justified, too.

The state sponsored activity of the building societies can create effective competition for the raising of funds and loaning activities of the commercial banks. In this context, it should be considered to reduce the rate of the bridging loans too, since these immediate loan facilities are in fact the direct substitutes of the loaning activity of the commercial banks, and do not belong to the essential features of the building societies.

The short summary, the detailed proposals and the full text of the report on the sector inquiry can be found on the GVH's website:
http://www.gvh.hu/gvh/alpha?do=2&st=1&pg=71&m5_doc=7138&m81_act=13

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Hungarian Competition Authority
Communication Group

Further information:
Katalin GONDOLOVICS
Hungarian Competition Authority
Mail: 1054 Budapest, V. ker. Alkotmány u.5.
Postal address: 1245 Budapest, 5. Pf. 1036
Tel: (+36-1) 472-8902
Email: press@gvh.hu
http://www.gvh.hu