

Hungary

Lack of credit demand in an uncertain banking environment

Hungarian bank branch networks are quite evenly spread across the country with a mixture of areas served only by domestic banks and those that have both foreign and domestic bank branches (Chart 1). Foreign-owned banks are perceived as strong competitors for retail, small and medium-sized enterprise (SME) and large enterprise lending. Unlike in most other CEB countries, Hungarian domestic private banks (in particular OTP with regards to retail lending) are still seen as a strong domestic competitor.

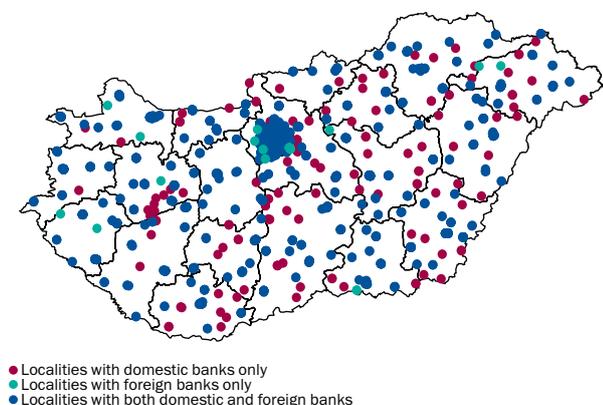
Hungarian banks were hit hard by the financial crisis of 2008-09 and have since witnessed significant changes in the banking environment. When questioned about the main constraints towards lending, banks gave very different answers in 2011 when compared to 2007 (Chart 2). Insufficient credit demand, including a lack of creditworthy customers, has jumped to the top of the list of constraints on SME and large enterprise lending. In addition, bank funding has become more of a constraint. Bank

lending in Hungary therefore seems to be held back by a combination of supply and demand factors.

The financial crisis also resulted in a shift in perception of the regulators of Hungarian banks. The proportion of banks that “agree” or “strongly agree” with the statements that the banking regulator is “fair and impartial”, “quick and efficient” and “able to enforce its decisions” is now the lowest of any country in the region (Chart 3). Hungary has also experienced the most significant drop in the percentage of banks that agree with the statement “interpretations of banking laws and regulations are consistent and predictable”, from 75 to 27 per cent of all banks that participated in BEPS II.

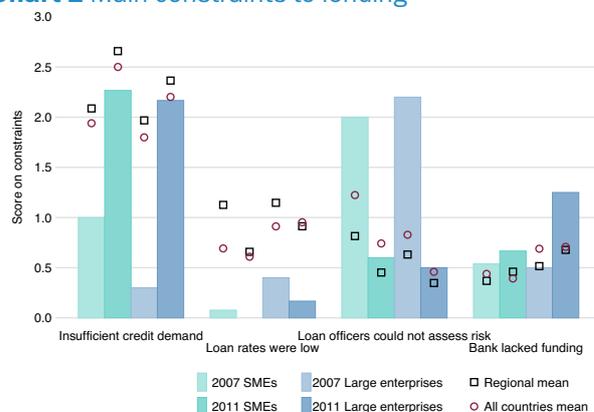
This change in Hungarian banks’ judgment of the regulatory environment may also be affecting their day-to-day lending business. When compared to the rest of the CEB region, Hungary has a higher proportion of banks who “agree” or “strongly agree” with the statement “Uncertainty over future law and regulations disposes my bank to restricting credit” (Chart 4).

Chart 1 Bank localities by ownership



● Localities with domestic banks only
● Localities with foreign banks only
● Localities with both domestic and foreign banks

Chart 2 Main constraints to lending*



*The constraint score runs from 0 to 3 with 0 signifying no constraint and 3 signifying the main constraint

Chart 3 Perception of the banking regulator

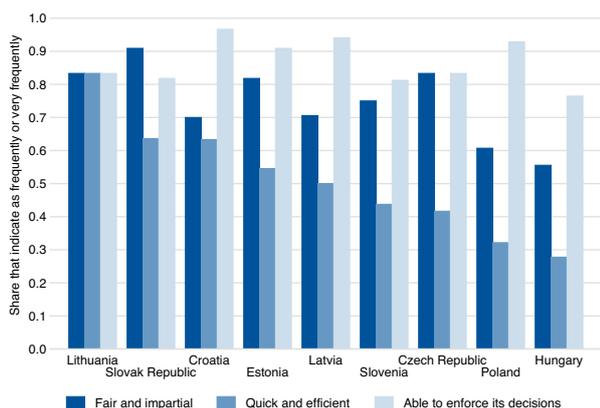


Chart 4 Uncertainty over future laws leads to...

