KEY TAKEAWAYS FROM THE MNB'S NOVEMBER 2024 FINANCIAL STABILITY REPORT

HUNGARIAN BANKING SYSTEM REMAINS STABLE, PREVIOUSLY IDENTIFIED RISKS HAVE ABATED

Valuation of commercial real estate collaterals

Downward trend in core profitability

Subdued investment activity and credit demand

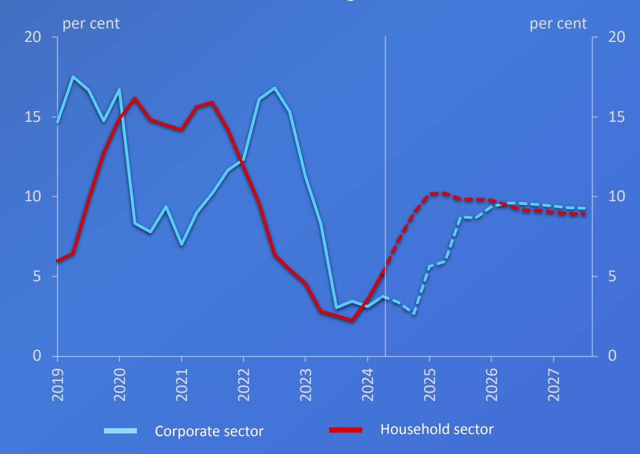
Low interest rate spreads in the housing loan market

CHALLENGES TO THE BANKING SECTOR

1. TRENDS IN LENDING

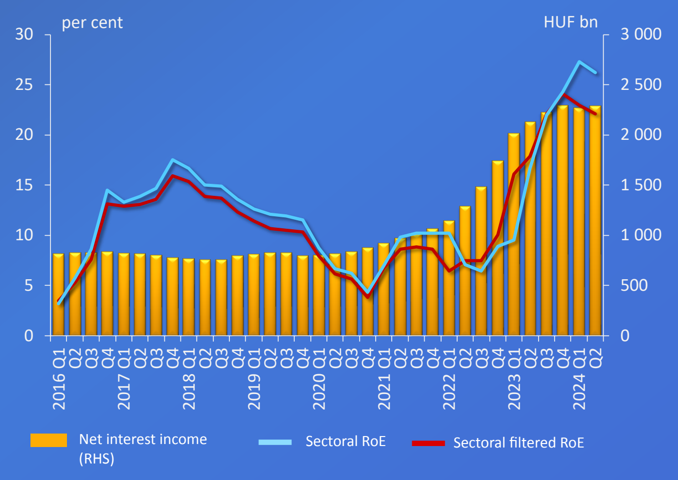
- Lending in Hungary is characterised by dual trends. The corporate loan portfolio is expected to grow by 3 per cent and the household loan portfolio by 9 per cent in 2024.
- Corporate credit growth has decelerated further and there are still no signs of a turnaround in demand for investment loans.
- Household lending is picking up, driven by improving macroeconomic fundamentals, bank competition and the Home Purchase Subsidy Plus Scheme for families.
- Subdued corporate lending is mainly due to insufficient demand factors, while supply conditions are supportive.

Annual credit growth



Note: Transaction-based annual growth rate based on data from the financial intermediary system. The time series do not include the impact of the subsidised workers' loan or the Demján Sándor Programme. Source: MNB.

Development of net interest income and RoE indicators of the credit institution sector



Note: Core profitability or filtered Return on Equity (RoE) is calculated by removing volatile and one-off items: special tax on financial institutions, windfall tax, dividend income. RoE is calculated on the basis of profit after tax, with 12-month average equity excluding the current year's profit. Source: MNB.

2. PROFITABILITY

- Profitability in 2024 may be high, but core profitability possibly peaked at end-2023.
- Interest income from the MNB is falling; so far the decline has been offset by interest in-come from other sectors.
- In 2024 H1, due to the increased competition caused by the APR ceiling, market-based housing loans were issued at an interest rate spread of around zero.

3. SHOCK RESILIENCE

EVALUATION OF CURRENT SITUATION	CURRENT NEWS
NPL rates are historically low	Upside risks from the commercial real estate market
Liquidity in the banking sector remains robust	Banking sector would comply with regulatory requirements even after the maturity of secured loans in 2025–26
Capital adequacy at historically high level	Rising capital requirements do not impede banks' lending activity

Sectoral CAR would also remain stable at around 20 per cent over the two-year horizon of the stress scenarios