FINANCIAL STABILITY REPORT, NOVEMBER 2024

100 éve Magyarország gyarapodásáért

Press Conference | 27 November 2024

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Financial System Analysis Directorate

I. Shock resilience of the Hungarian banking sector

II. Trends in corporate lending

III. Trends in household lending

IV. Risks in the housing loan market

KEY TAKEAWAYS OF THE REPORT

- **Hungarian banking system remains stable,** several risks identified in the spring have abated.
- **Shock resilience** is strengthened by outstandingly high profitability, ample liquidity, adequate capitalisation and the high quality of the loan portfolios.
- Return on equity was supported both by volatile and one-off items; **profitability** calculated with these items filtered out may have peaked at the end of 2023.
- In line with global trends, **risks related to domestic commercial real estate lending** continue to deserve special attention.
- **The credit market is characterised by dual trends**: household lending picked up significantly, corporate credit growth decelerated further, owing to subdued credit demand.
- The lending capacity of the banking system is abundant, **no credit supply constraints can be identified.**
- The **stress test** results suggest that the sec**tor would meet the regulatory requirements** on liquidity and capital adequacy even **in the event of a severe shock**.

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I. SHOCK RESILIENCE OF THE HUNGARIAN BANKING SECTOR

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HUNGARIAN BANKING SYSTEM REMAINS STABLE, WITH RISKS IDENTIFIED EARLIER MODERATING

Stability indicators of the banking system

Financial Stability Indicators	2008	2019	2024 H1
Liquid assets / total assets	10.0%	28.2%	33.5%
Loan-to-deposit ratio	152.0%	75.5%	74.9%
Foreign funds / total liabilites	33.9%	12.7%	10.5%
Capital adequacy ratio	12.9%	18.0%	19.6%
Share of loans over 90 days past due	4.6%	2.1%	1.4%
Return on Equity	11.3%	11.6%	26.2%
Operational costs to assets	2.4%	2.0%	1.7%
Household loans outstanding - annual growth rate	19.1%	16.7%	6.0%
Share of FX loans in the household loan segment	66.7%	0.5%	0.3%
Share of floating-rate loans in the household mortgages	77.5%	48.7%	14.8%
Corporate loans outstanding - annual growth rate	6.5%	14.2%	3.7%

The most important challenges of the banking system

Valuation of commercial real estate collaterals

Core profitability* may have peaked

Subdued investment activity and credit demand

Low interest rate spread in the housing loan market

*Profitability calculated with volatile and one-off items filtered out. Source | MNB

THE RISKS IDENTIFIED IN THE SPRING STABILITY REPORT HAVE OVERALL ABATED

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Risk	Spring Stability Report	Since then
LABOUR MARKET	The unemployment rate rose to **4.4-4.5 per cent** at the beginning of 2024	The unemployment rate **has been fluctuating at this low level** since then
INTEREST RATE CAP	**19 per cent** of the mortgage portfolio is under interest rate cap	Declining interest rate environment→ median increase in instalments is **5,000 HUF**
PRENATAL BABY SUPPORT LOAN	**15-25 per cent** of contracts concluded in 2019 did not result in children being born	Deadline **extended by 2 years** *(end of June 2026)*
LIQUIDATION PROCEEDINGS	The number of **liquidation proceedings increased** in 2024 H1	These corporations have a **low level of bank loans outstanding**

Source | MNB

THE SHOCK RESILIENCE OF THE BANKING SECTOR IS STILL STRONG

I. OUTSTANDING PROFITABILITY

- ✓ Outstandingly high profit after tax in H1 — **HUF 934 Bn**
- ✓ Return on Equity — **26%**

II. HISTORICALLY LOW NPL-RATES

- ✓ Continued to decline in the *household* portfolio — **2.3%**
- ✓ Stagnated in the *corporate* portfolio — **3.8%**

III. ROBUST LIQUIDITY POSITION

- ✓ Ample liquidity reserves — **OLB: HUF 20,900 Bn**
- ✓ The banking sector meets regulatory requirements with ample buffers — **LCR: 177%**

IV. STRONG CAPITAL POSITION, HIGH LEVEL OF FREE CAPITAL

- ✓ Strong capital adequacy — **CAR: 19.6%**
- ✓ High level of free capital buffer — **~ HUF 1,970 Bn**

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Note | Data for NPL and capital position refer to June 2024, while data for liquidity refer to August 2024. Profit after tax refers to 2024 H1, Return on Equity is determined on a 12-month basis and is as of the end of June 2024. Free capital buffer is calculated capital requirements valid at the end of June 2024 taken into account, and excluding unaudited interim profit. Source | MNB

PROFITABILITY IN 2024 COULD ALSO BE HIGH, BUT CORE PROFITABILITY MAY HAVE PEAKED

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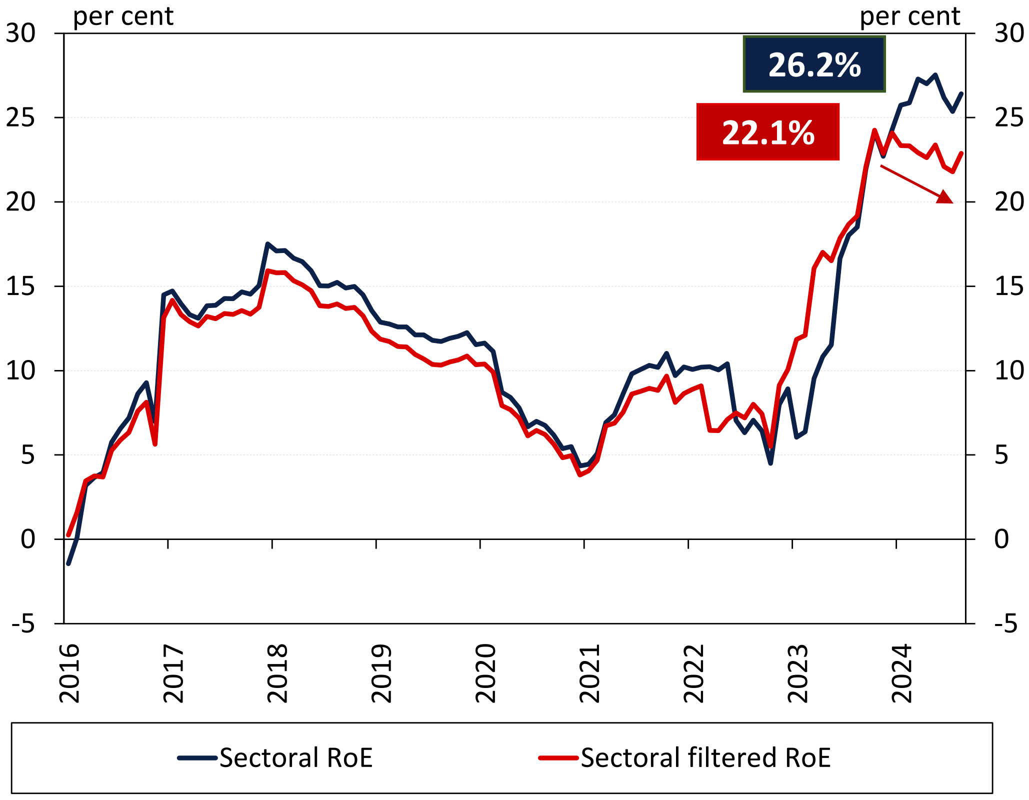

THE 12-MONTH ROLLING FILTERED AND UNFILTERED RETURN ON EQUITY AFTER TAX IN THE CREDIT INSTITUTION SECTOR

Profit after tax 2024 H1:
HUF 934 Bn

− Outstanding dividend income

+ Bank levy*

Filtered profit after tax:
HUF 720 Bn

**In the second half of 2024, the windfall tax – previously accounted for using the discount in effect at the beginning of 2024 – is expected to increase.*

Note | Based on non-consolidated data. As regards filtered sectoral RoE, the sectoral RoE excludes the following one-off items: special tax on financial organisations, windfall tax, dividend income. Return on equity is calculated on the basis of profit after tax, with 12-month average equity calculated without the current year's profit. Source | MNB

NET INTEREST INCOME WAS SUPPORTED BY AN INCREASE IN INTEREST INCOME FROM OTHER SECTORS

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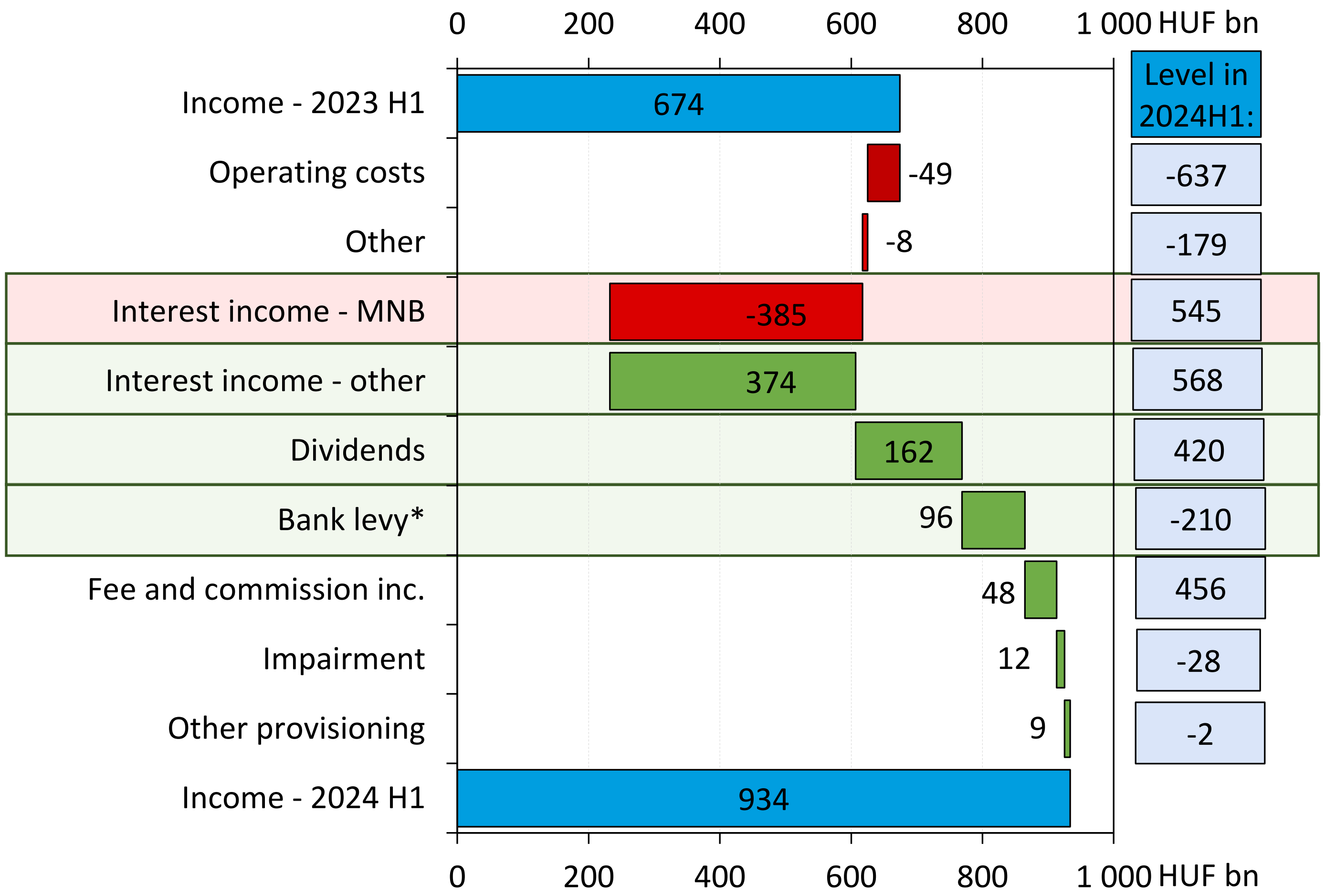

ANNUAL CHANGES IN THE AFTER-TAX PROFIT COMPONENTS OF THE CREDIT INSTITUTION SECTOR

Note | The bank levy* line includes the combined change in the special tax on financial organisations (‘normal’ bank levy) and the windfall tax (extra profit tax). Source | MNB

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THE DEPRECIATION OF COMMERCIAL REAL ESTATE IS A GLOBAL PHENOMENON

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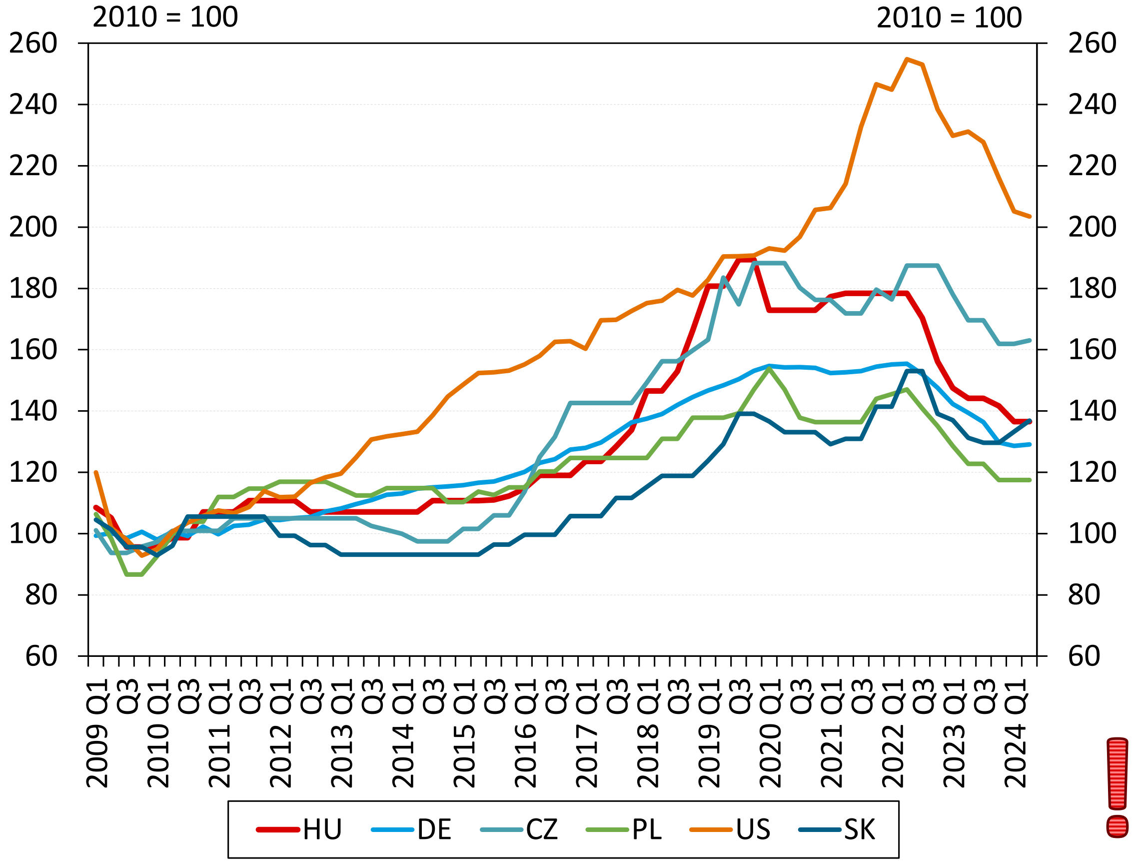


VALUATION OF COMMERCIAL REAL ESTATE IN EUROPE AND IN THE U.S.

Increased financing costs and higher expected yields in an uncertain market have caused commercial real estate prices to decline globally since 2022.

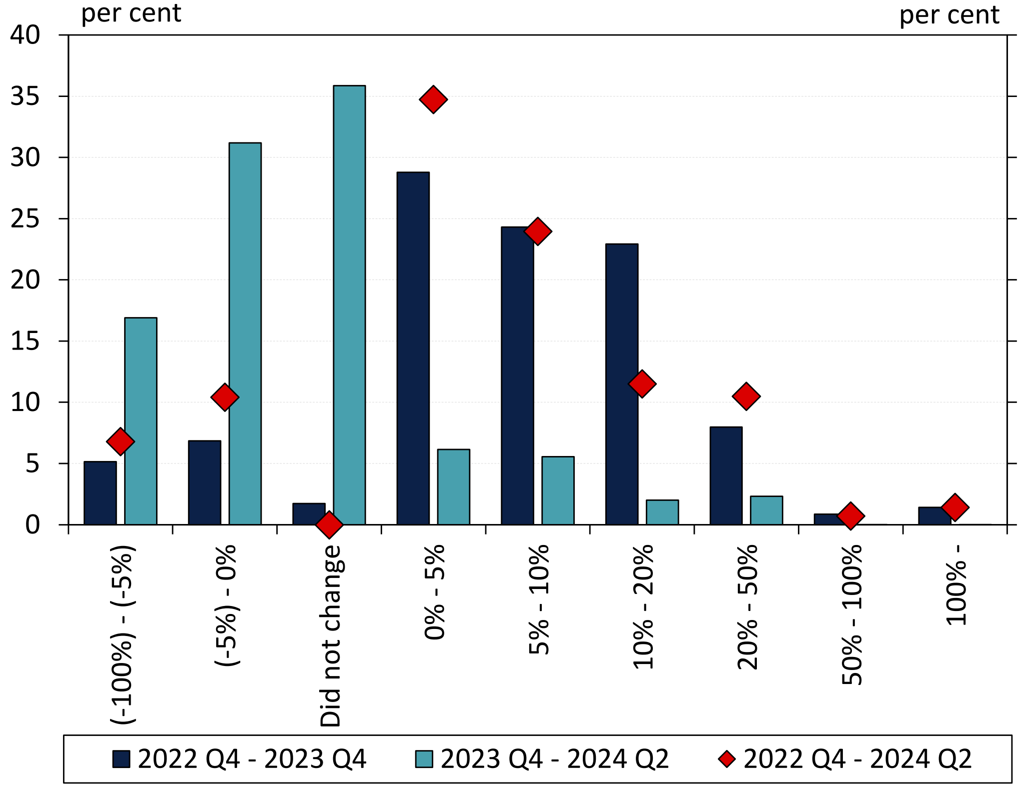
In 2022, a significant price decline began in both the USA and Europe, with a **13-24% decline in value** by 2024 Q2.

In a supervisory newsletter in August, the ECB drew attention to the **common problems identified in relation to the valuation of CRE collateral**.

Note | In the case of CEE countries, estimated capital value indices, in the case of the United States, all types of commercial real estate, in the case of Germany, an index estimated based on completed transactions including office and retail real estate. In the case of the EU, an index estimated based on completed transactions including all commercial real estate types. Source | BIS, CBRE, Cushman & Wakefield, ECB

BANKS HAVE TYPICALLY ADJUSTED THE VALUE OF PROJECT LOAN COLLATERAL UPWARDS IN 2023…

…which thus showed a trend contrary to market trends.



DISTRIBUTION OF COLLATERALS OF PROJECT LOANS SECURED BY COMMERCIAL REAL ESTATE BY THE CHANGE IN COLLATERAL VALUES

The appreciation of collaterals by banks did not continue in 2024

NPL-ratio (2024 Q2)	
Commercial real estate loans total	3.7% ↓
Hotel	11% ↓
Industrial-logistics	7% ↓
Office	2% ↑
Housing	1% ↓
Retail	0% ↓

The project loan portfolio – as a proportion of regulatory capital – **is currently moderate** (37%) compared to the level during the 2008 crisis (73%).

Note | In proportion to market value as at end-June 2024. Based on the real estate collateral in the portfolio at the end of 2022 and 2023, as well as the end of June 2024 for office, retail, industrial-logistics and hotel project loans with a completed status. In some cases, the evolution of the collateral value may have been affected by technical factors, including data errors on the completion status of the collateral property and changes in the collateral register. Source I MNB

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THE BANKING SECTOR WOULD FULFILL THE REGULATORY REQUIREMENTS EVEN AFTER THE MATURITY OF COLLATERISED LOANS IN 2025-2026

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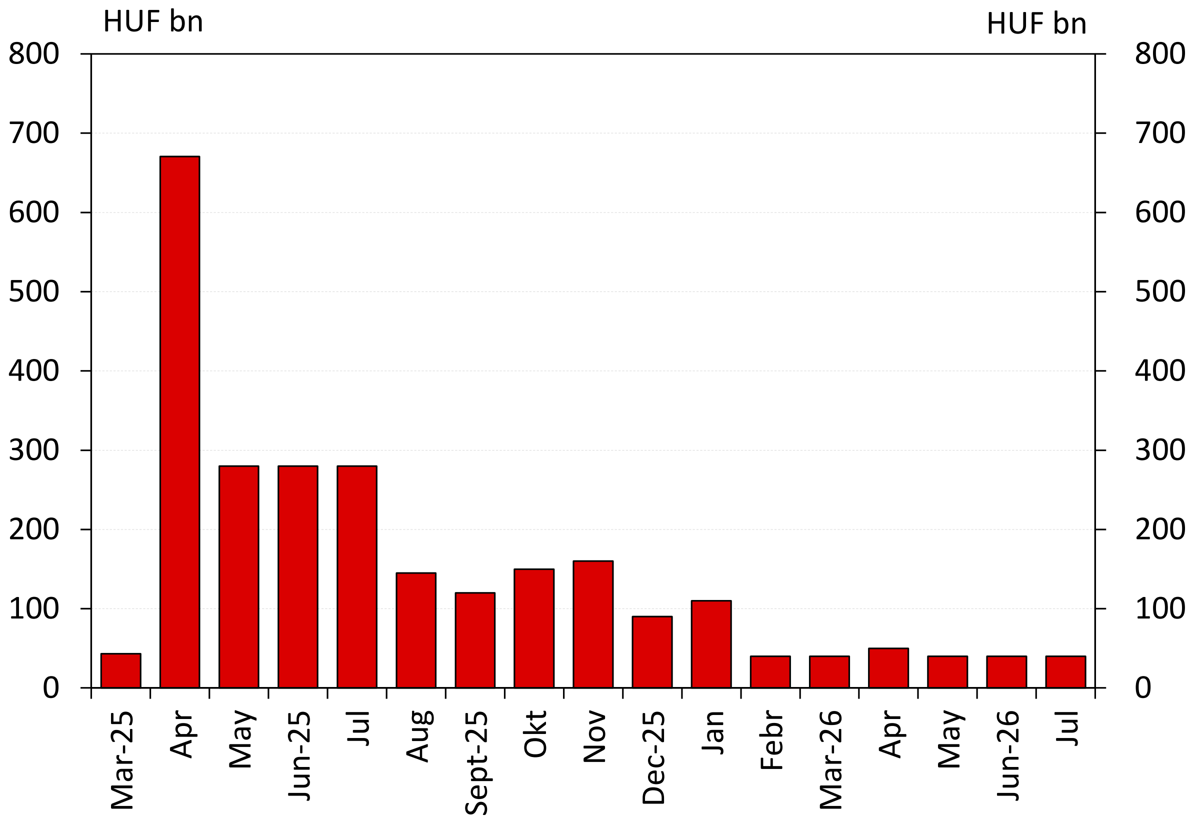

MATURITY STRUCTURE OF LONG-TERM COLLATERISED LOANS

Box 6

March 2025 – July 2026

~2600 HUF bn
collaterised loans mature

Between March 2025 and July 2026

Maturing Government Bonds:
3000 HUF bn

June 2024

Excess liquidity on the reserve account:
5800 HUF bn

Maturing loans does not materially affect the sectoral liquidity coverage ratio (LCR).

Source | MNB

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DESPITE INCREASING CAPITAL REQUIREMENTS IN 2024 AND 2025, THE SECTOR'S FREE CAPITAL REMAINS HIGH

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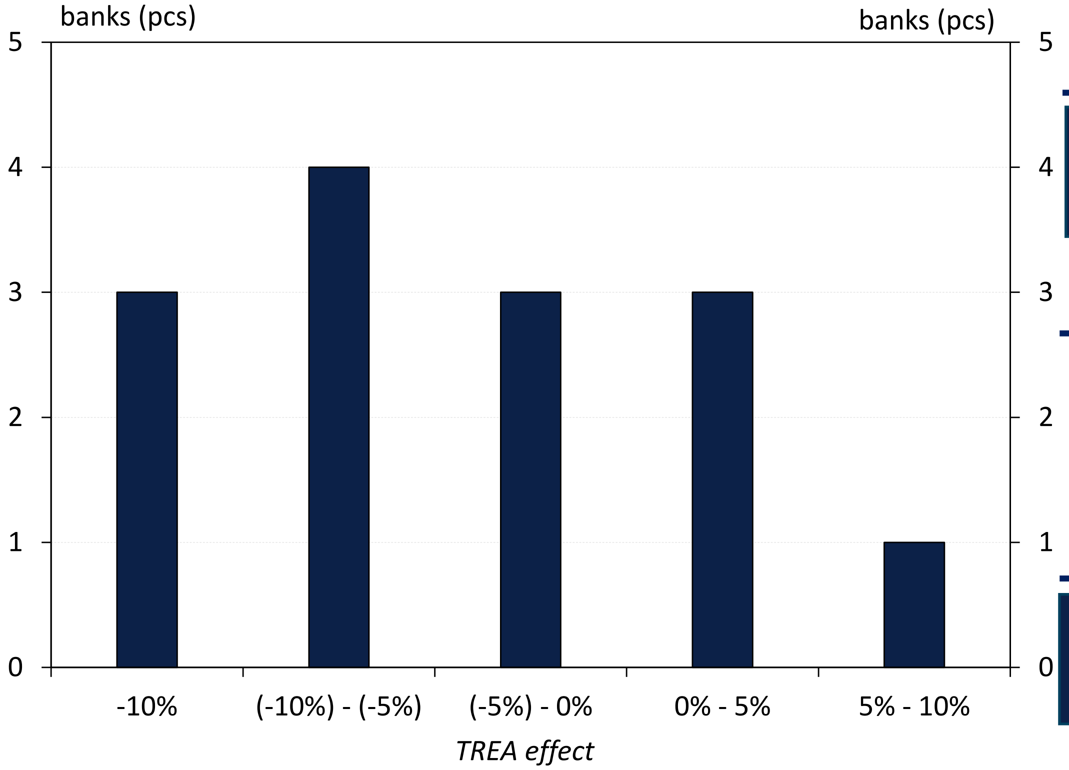

TOTAL TREA IMPACT EXPECTED FROM THE INTRODUCTION OF CRR3

Free capital June 2024: HUF 1,970 Bn

July 2024: CCyB was activated at 0.5% for domestic exposures

Capital requirement: HUF 116 Bn

January 2025: expected impact on capital requirements of CRR3

Capital requirement: ~HUF 150 Bn

July 2025: CCyB will rise to 1% for domestic exposures

Capital requirement: HUF 116 Bn

Free capital: HUF 1,500+ Bn

Does not include the unaudited part of interim profit

Increasing capital requirements do not impede banks' lending activity.

Box 5

Note | TREA: Total Risk Exposure Amount.
Source | MNB, based on banks' responses.

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THE BANKING SECTOR WOULD MEET THE REGULATORY REQUIREMENTS ON LIQUIDITY AND CAPITAL ADEQUACY EVEN IN THE EVENT OF SEVERE SHOCKS

Liquidity stress test

Assumptions

Over the **2-quarter** horizon of the stress scenario we assume a 20-30% drawdown of credit lines, a 10-15% withdrawal of deposits and a 30% withdrawal of owner debts, accompanied by a weaker exchange rate and tighter interest rate conditions.

Liquidity surplus above the regulatory requirement of 100% LCR is over HUF 5,000 billion.

The need of liquid assets of banks facing a liquidity shortage is **only HUF 10 billion**.

Solvency stress test

Assumptions

In the stress scenario, the GDP-level falls by 12% **over 2 years**, household consumption drops by 12-13% compared to the baseline scenario, while employment falls by 178,000. All this is accompanied by a substantial weakening of the exchange rate and tighter interest rate conditions.

Alternative stress scenario: *German economic slowdown and lower interest rate environment.*

The sectoral capital adequacy ratio would remain above 20% in both stress scenarios.

HUF 57 billion additional capital is required.

HUF 2 billion additional capital is required.

Source | MNB

II. TRENDS IN CORPORATE LENDING

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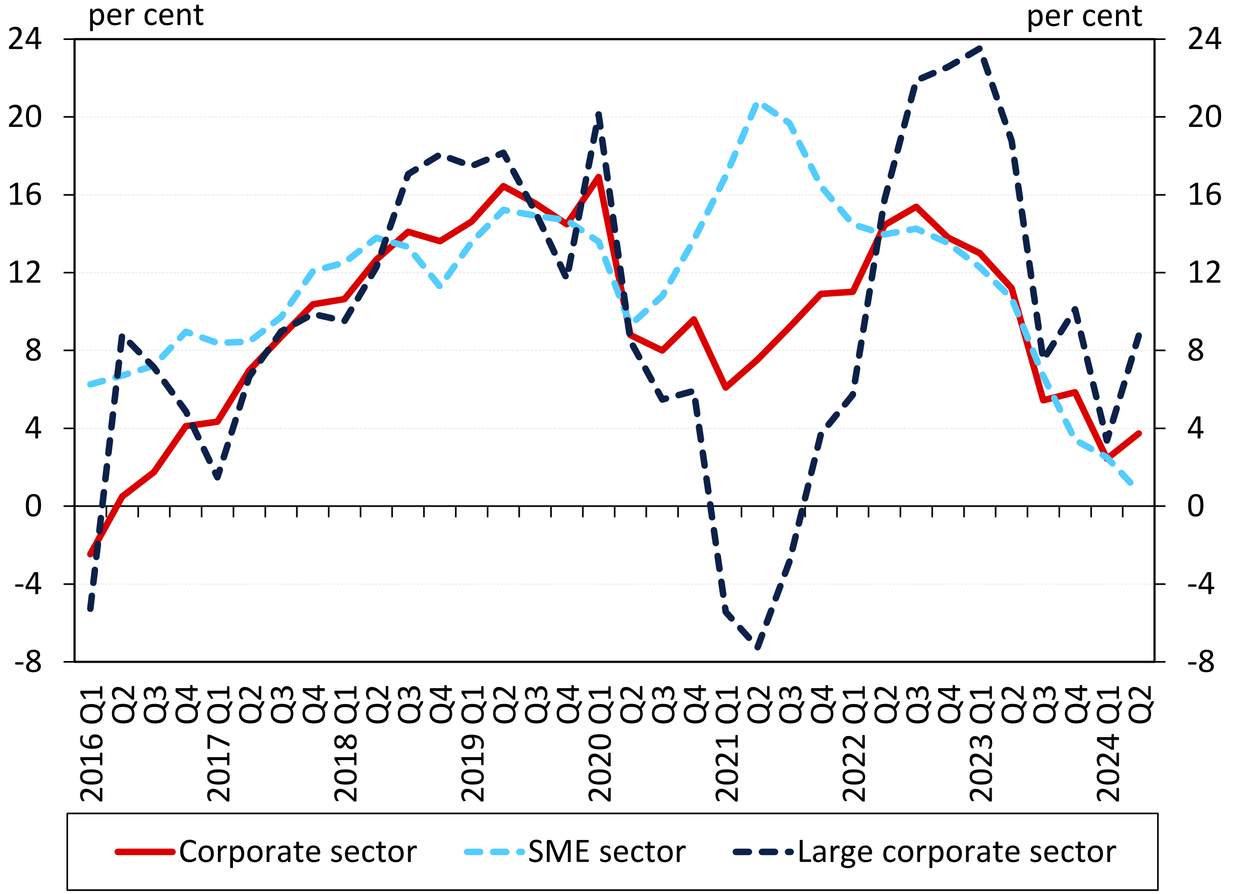
NO RECOVERY CAN BE SEEN IN CORPORATE LENDING



ANNUAL GROWTH RATE OF CORPORATE LOANS OUTSTANDING

Sept 2024 (Sept 2023)

Romania	**10.1%** (12.7%)
Czech Republic	**4.2%** (5.0%)
Poland	**3.9%** (-1.9%)
Hungary	**3.2%** (5.4%)
EU	**0.6%** (0.0%)
Euro area	**0.3%** (-0.5%)
Slovakia	**-2.5%** (5.0%)

Note |Transaction-based, i.e. growth rate calculated on the basis of the value of new disbursements adjusted for repayments, exchange rate effects and other stock changes. Between March 2022 and August 2022, incoming repayments to Sberbank are also taken into account. Source | MNB

THERE IS NO SIGN OF A TURNAROUND IN DEMAND FOR INVESTMENT LOANS YET, AND EXPECTATIONS HAVE ALSO WORSENED

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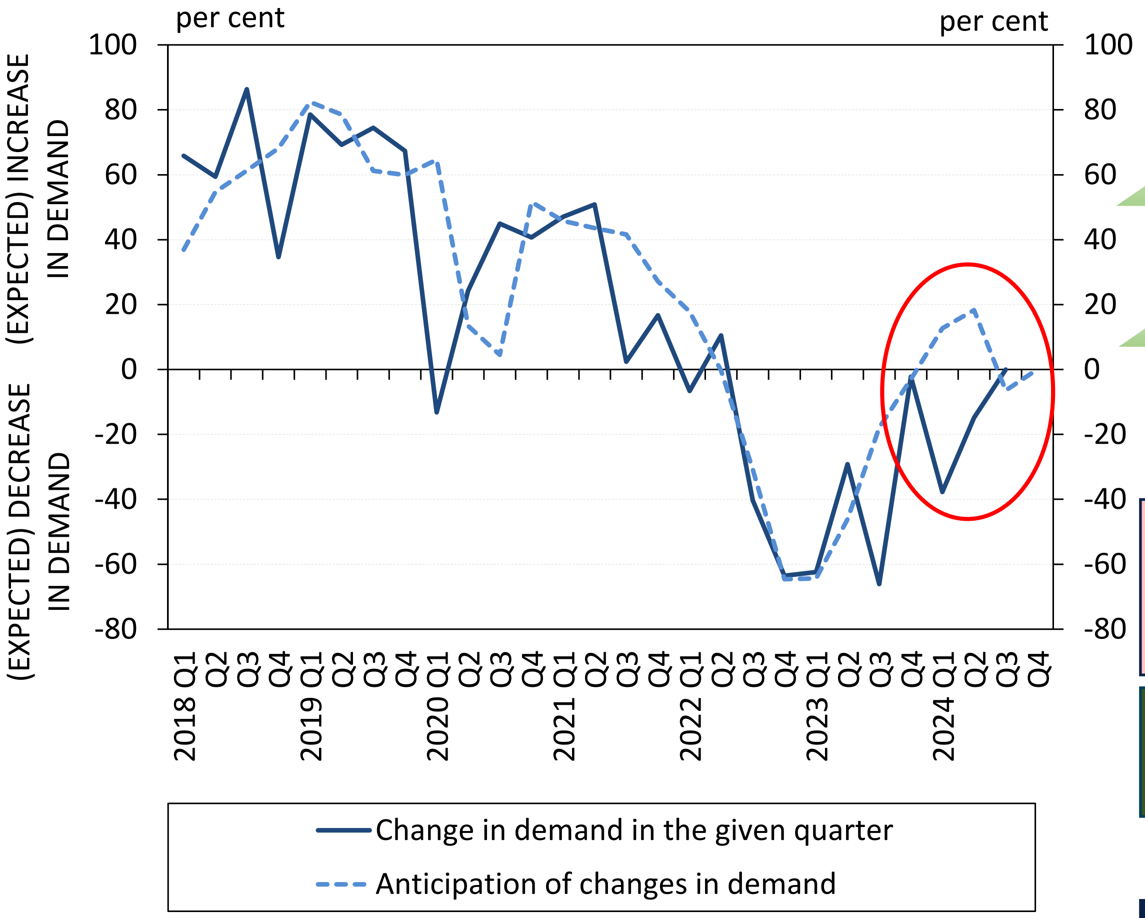

ACTUAL AND EXPECTED CHANGE IN DEMAND FOR LONG-TERM CORPORATE LOANS

Since 2022, a duality can be observed in loan demand

Short-term loans	Long-term loans
FX loans	HUF loans

In the case of investment loans, no significant recovery is expected either.

Based on the MFCI, monetary conditions have a stimulating effect.

The main reason for the restraint in lending is insufficient demand factors

Note | Net percentage balance of respondent banks indicating stronger/weaker demands, weighted by market share. In the survey, the banks provide their expectations six months in advance, so the time series of expectations in the figure for each quarter is the average of the expectations of the previous two quarters. MFCI: Monetary Financial Conditions Index.
Source | MNB, based on banks' responses

A 3 PER CENT INCREASE IN CORPORATE LOANS OUTSTANDING IS EXPECTED IN 2024

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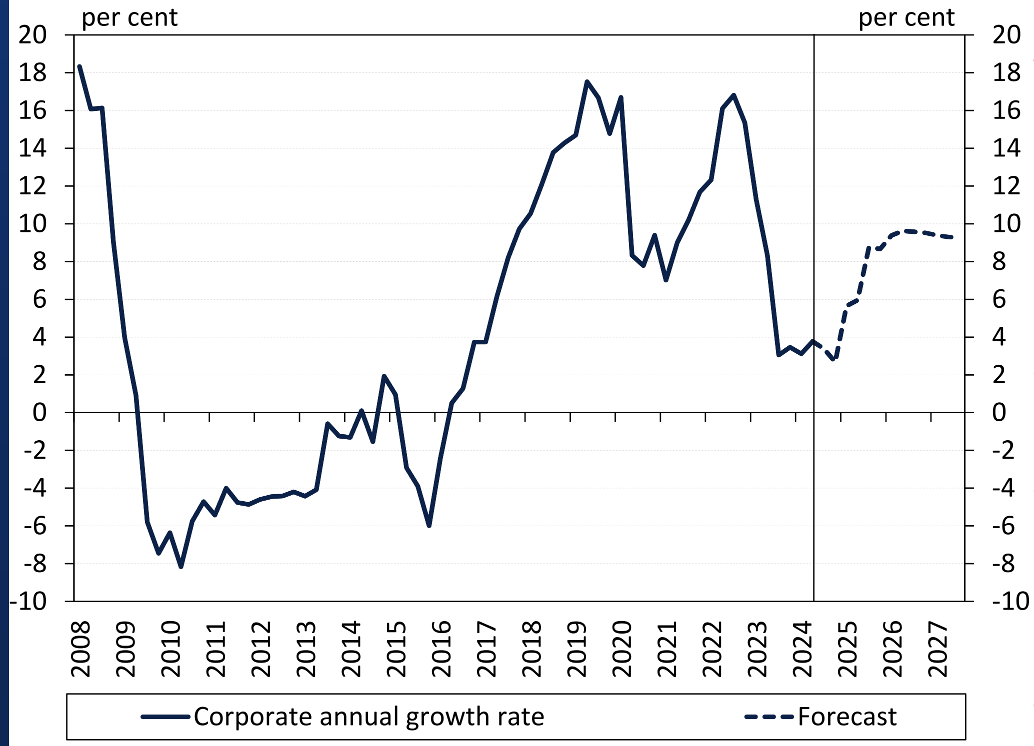

FORECAST FOR CORPORATE LENDING

Credit conditions 2024 Q4-2025 Q1:

Unchanged

Tightening: Commercial real estate loans

Credit demand 2024 Q4-2025 Q1:

Increasing demand: FX loans

Unchanging demand: short-term loans, HUF loans

Consistently low demand for long-term loans

Economic environment

Lower inflation

Decreasing interest rates

Stabilizing economic environment

High accumulated liquid assets

Note | Transaction-based annual growth rate based on data from the financial intermediary system. Does not include the impact of the Sándor Demján programme. Source | MNB

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III. TRENDS IN HOUSEHOLD LENDING

HOUSEHOLD LENDING IS PICKING UP AS FUNDAMENTALS IMPROVE

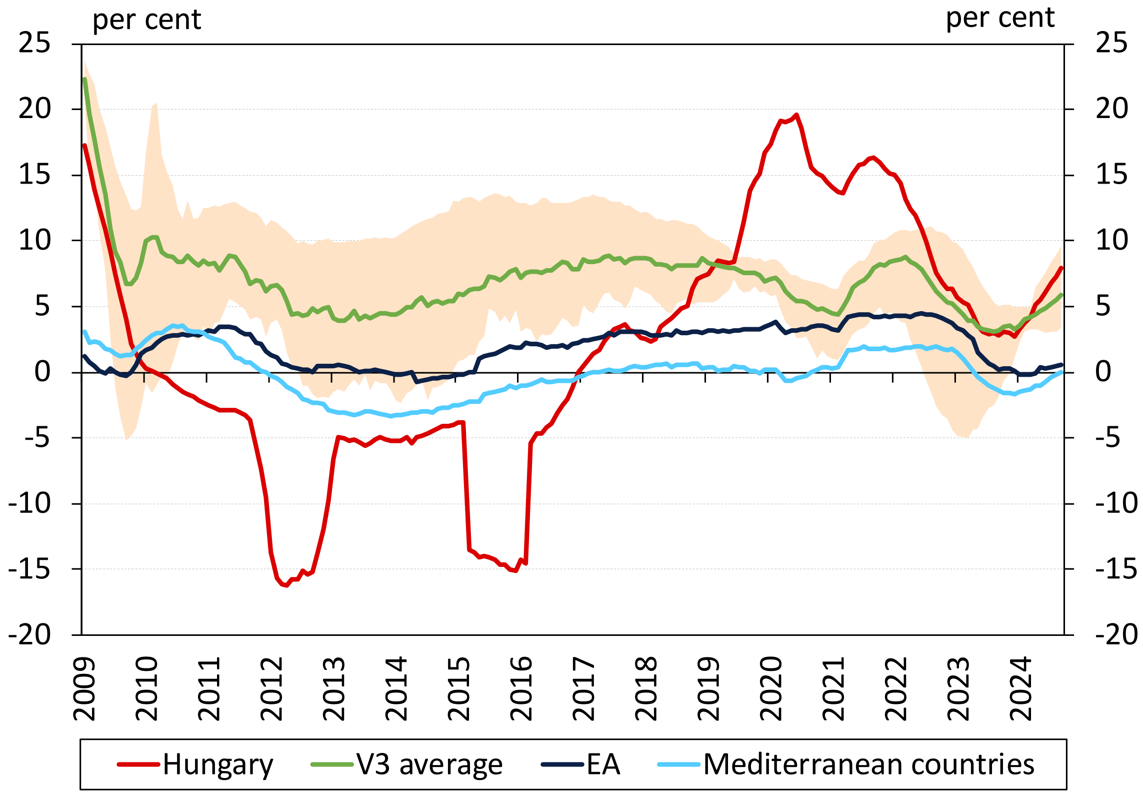
Average wages are growing at a double-digit rate

With inflation curbed, real incomes also began to rise

Credit conditions have become more favourable

Employment is at a historic high

Improving consumer confidence



ANNUAL GROWTH RATE OF HOUSEHOLD LOANS OUTSTANDING

Sept 2024 (Sept 2023)

9.6% (4.4%)

7.9% (2.8%)

5.7% (-1.9%)

5.0% (5.1%)

3.3% (5.0%)

0.9% (0.1%)

0.6% (0.2%)

Note | The yellow area indicates the range of the countries in the region (Czechia, Poland, Romania, Slovakia). EA: Euro area. Mediterranean countries: Spain, Greece, Italy, Portugal. Source | MNB, ECB.

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AFTER BOTTOMING OUT AT THE BEGINNING OF 2023, THE VALUE OF NEW CONTRACTS IS GROWING DYNAMICALLY

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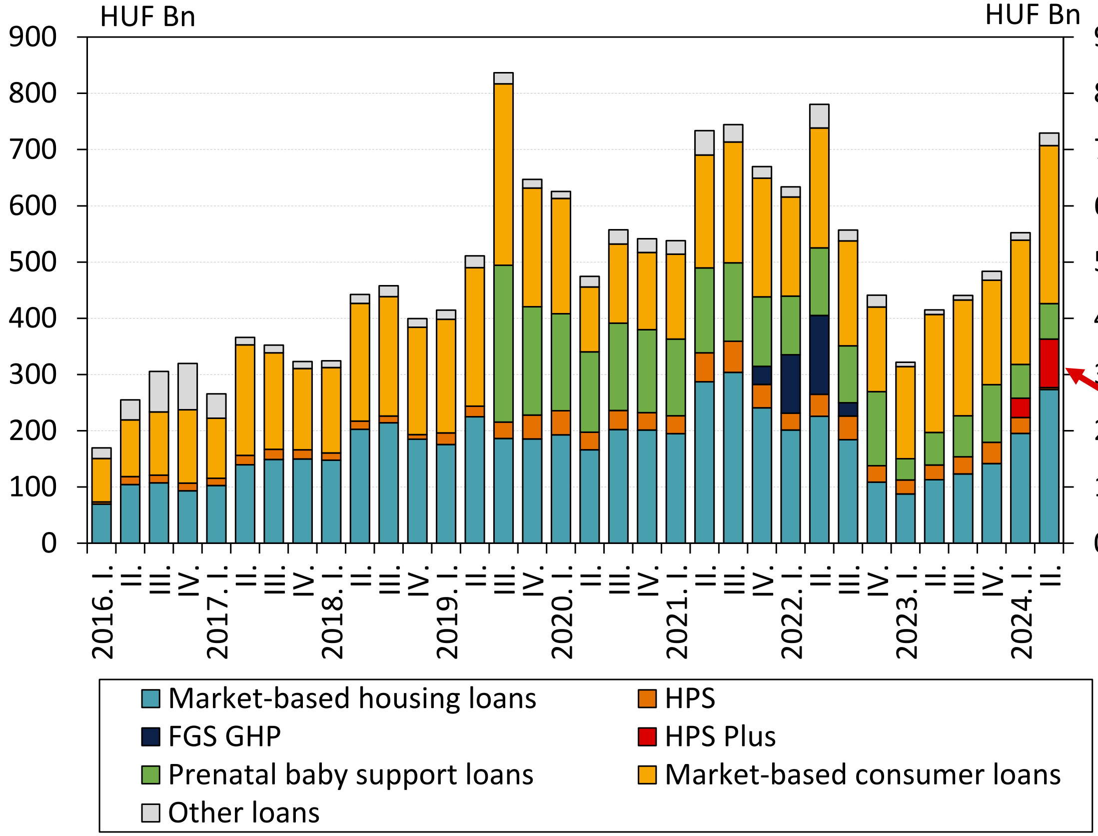
Lending for house purchase increased by two-and-a-half times year-on-year



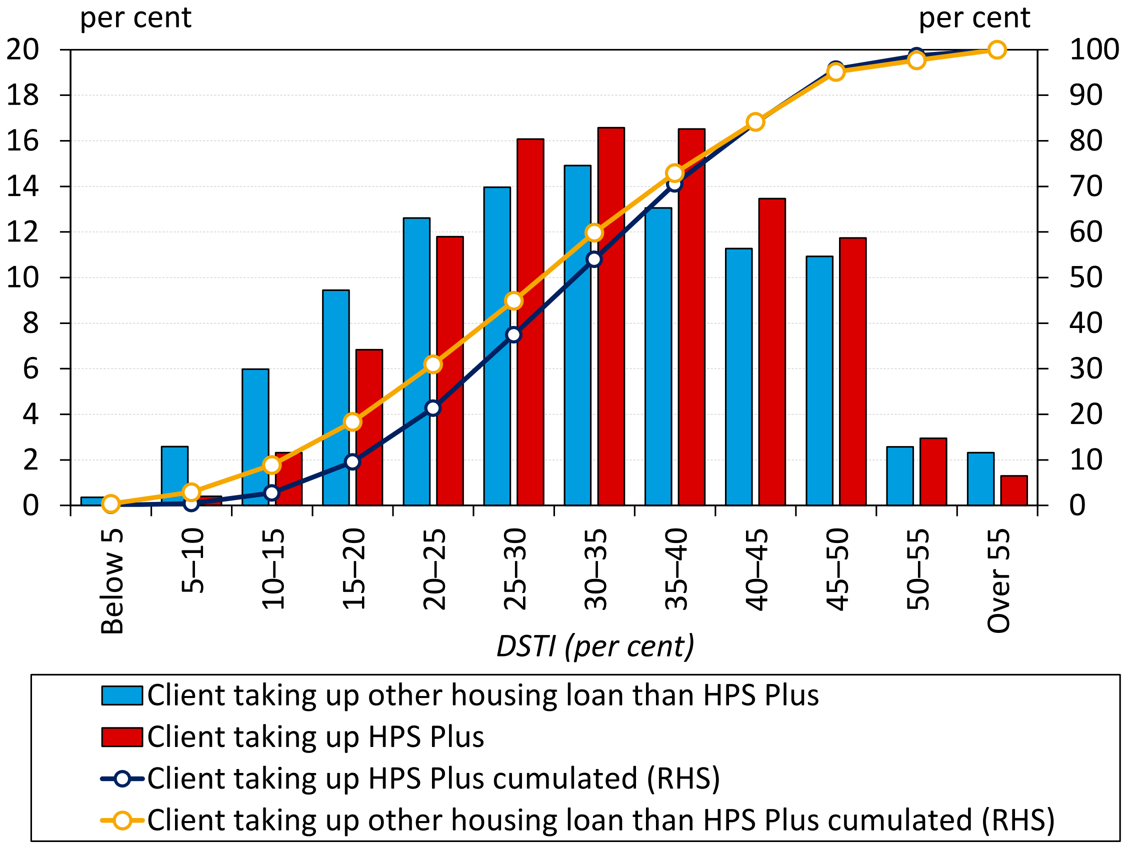
NEW HOUSEHOLD LOANS IN THE CREDIT INSTITUTION SECTOR

In terms of new housing loan contracts, the **number of new customers** and their **average contract size are also increasing.**

Since its launch in January 2024, **HPS Plus has accounted for 22 percent of total housing loan disbursement**.

Due to the higher available loan amount of HPS Plus, **fewer clients take out market-based and subsidized loans at the same time.**

BASED ON THE RISK INDICATORS, HPS PLUS LOANS DO NOT POSE A RISK TO STABILITY



DSTI DISTRIBUTION OF HOUSING LOAN DEBTORS TAKING UP HOUSING LOAN IN 2024 H1

Box 3

HPS Plus (Jan–Aug):

- ✓ **Loan amount:** max. HUF 15, 30 or 50 million
- ✓ **Maturity:** min. of 10, max. of 25 years
- ✓ **Interest rate:** fixed and max. 3 per cent *(room for banking competition)*

7,400 contracts
HUF 200 billion

Number of assumed children: 55 per cent committed to one, 41 per cent to two, 4 per cent to three children

Debtor profile: younger and lower-income borrowers

DSTI: median 34 per cent (market-based housing loans: 32 per cent)

LTV: median 63 per cent (market-based housing loans: 51 per cent)

Note | DSTI: debt-service-to-income ratio. If a client has more than one loan, all their outstanding loans have been taken into account during the calculation. LTV: loan-to-value. Source | MNB

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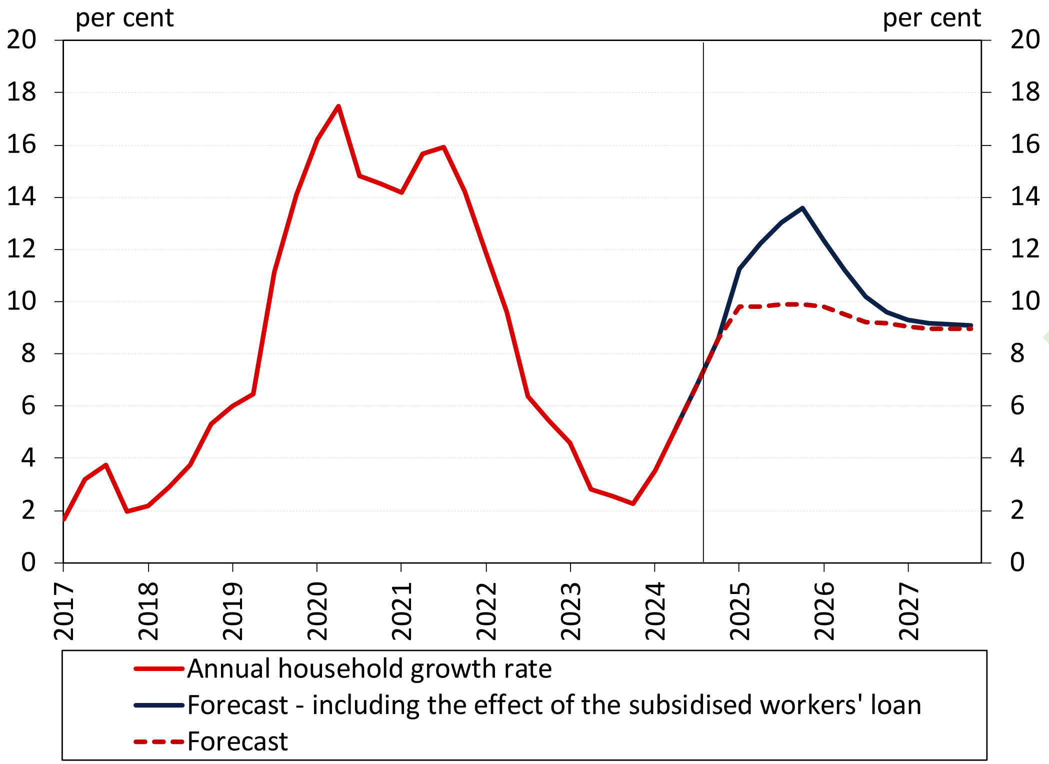
THE ANNUAL GROWTH RATE OF HOUSEHOLD LOANS OUTSTANDING MAY ACCELERATE TO CLOSE TO 9 PER CENT IN 2024



HOUSEHOLD LENDING FORECAST

Note | Transaction-based annual growth rate based on data from the financial intermediary system. Source | MNB

Credit conditions 2024 Q4-2025 Q1:

Housing loans - easing

Consumer loans - unchanged

Credit demand 2024 Q4-2025 Q1:

Increasing demand: housing loans

Demand for consumer loans remains high

Economic environment

Lower inflation

Improving consumer confidence

HPS Plus

HPS Plus might provide an average of **28 per cent** of the annual housing loan disbursements.

38 per cent of the HPS Plus loans may appear on the market **as additional loans.**

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IV. RISKS IN THE HOUSING LOAN MARKET

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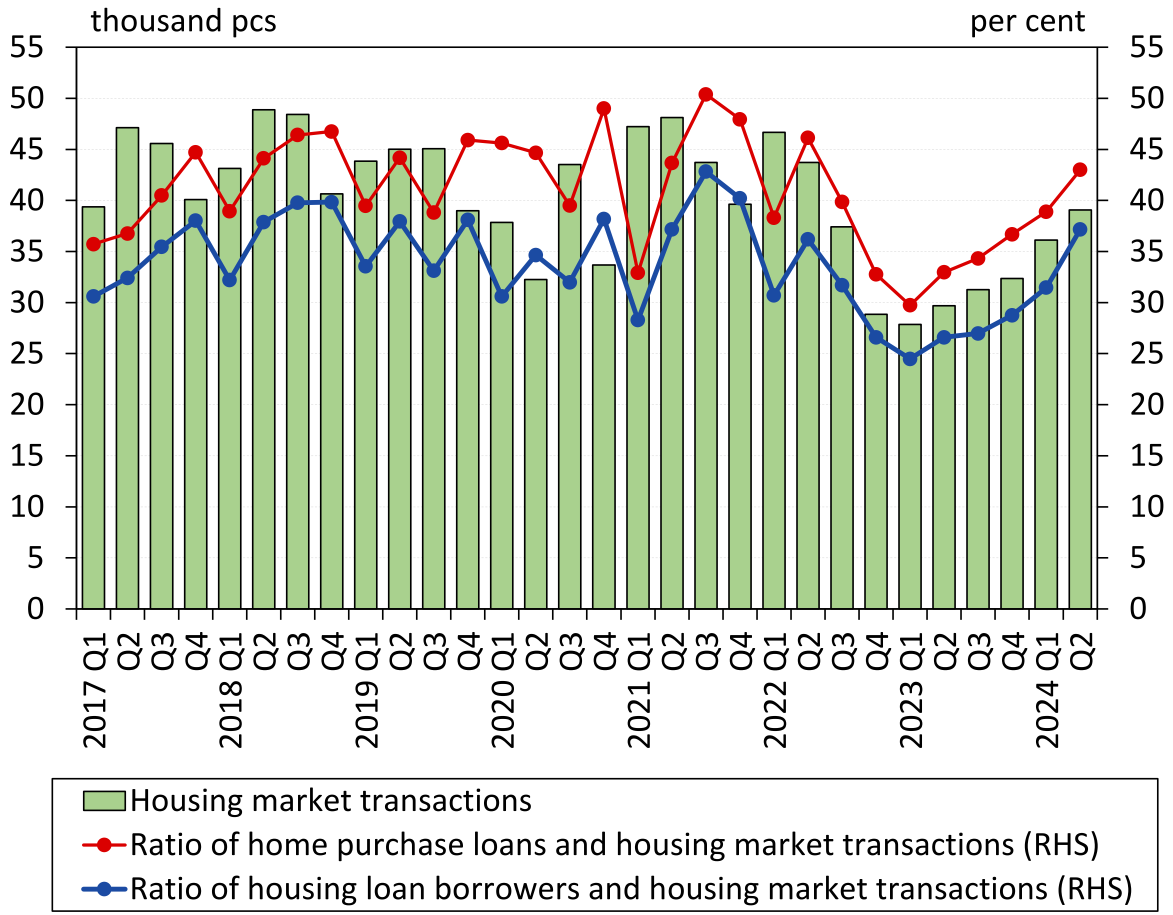
THE SIGNIFICANT INCREASE IN LENDING FOR HOUSING PURPOSES SUPPORTED THE GROWTH IN HOUSING MARKET ACTIVITY



THE ROLE OF LENDING IN HOUSING MARKET TURNOVER

2024 Q2 vs. 2023 Q2

Housing market transactions

+32%

Housing loan *borrowers*

+84%

Ratio of housing market sales financed with credit

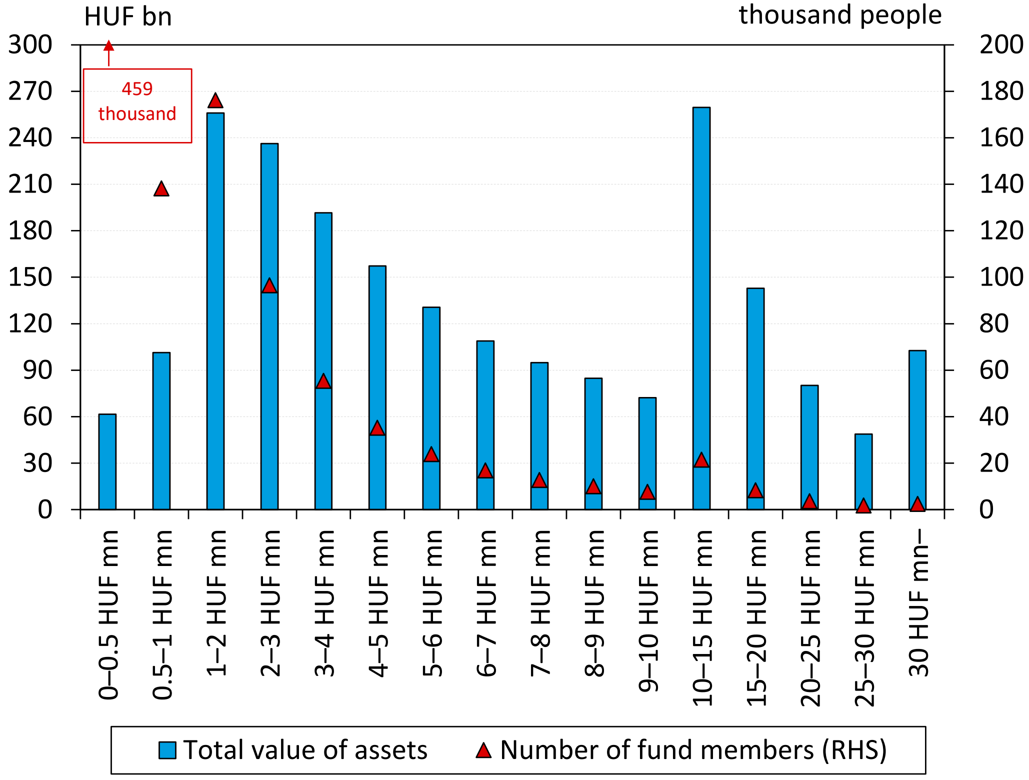
2023 Q2 vs. 2024 Q2

27% → 37%

Note | The number of borrowers is lower than the number of housing loan contracts, as a household can take out several loans to purchase the same home. Source | MNB

HUNDREDS OF BILLIONS OF FORINTS MAY FLOW INTO THE HOUSING MARKET FROM VOLUNTARY PENSION FUND SAVINGS

Voluntary pension fund savings will be able to be used tax-free for housing purposes in 2025



DISTRIBUTION OF VOLUNTARY PENSION FUND ASSETS AND MEMBERS BY THE INDIVIDUAL ACCOUNT BALANCE OF MEMBERS

Box 2

- Downpayment for housing loans, repayment of mortgages, purchase of property, home renovations
- Own use or transfer to a family member
- In 2025 only, up to a maximum of three payments

The government expects that 14% of the wealth in voluntary pension funds may flow into the housing market: **HUF 300 bn**

Average account balance: **HUF 2 million**

The distribution of fund assets is uneven → nearly three quarters of the members are not expected to generate additional housing market demand

Ratio and savings of members under 41 years is low → not sufficient for a downpayment

Note | Data as of 30 September 2024. Source | MNB

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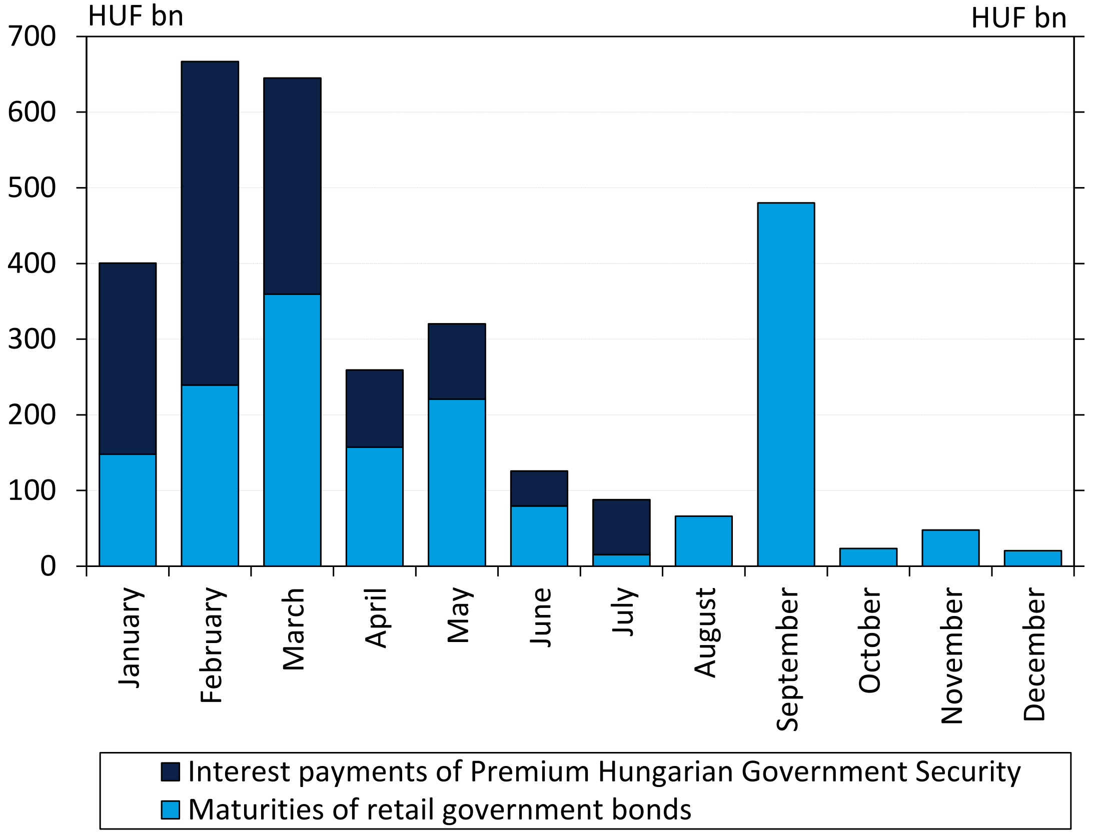
SUBSTANTIAL FUNDS MAY FLOW INTO THE DOMESTIC HOUSING MARKET AS A RESULT OF A REALLOCATION OF HOUSEHOLD WEALTH



MATURITIES OF RETAIL GOVERNMENT BONDS AND INTEREST PAYMENTS OF PREMIUM HUNGARIAN GOVERNMENT SECURITY IN 2025

2025

PMÁP interest payments

Government bond maturities

Reallocation of household savings portfolio

Decline in PMÁP yields

According to the MNB's survey: 26% of respondents plan to sell their retail government bonds (19% plan to sell only a portion)

Housing market demand may increase → rise in housing prices → worsening housing affordability

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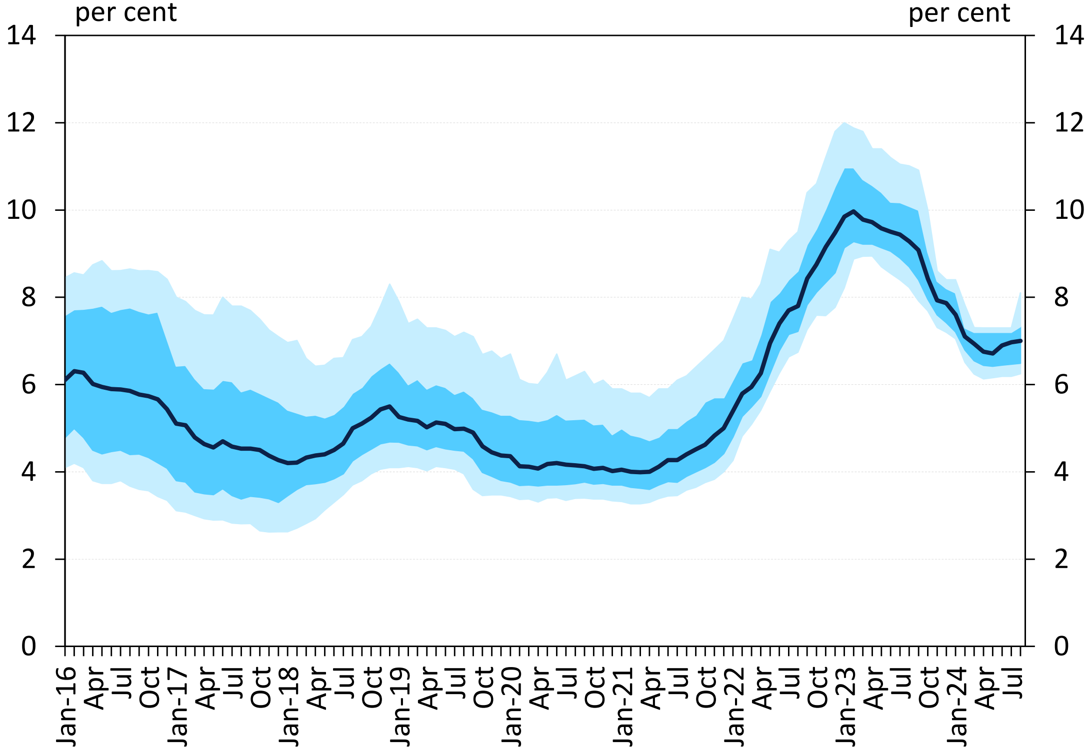
THE VOLUNTARY APR CEILING REDUCED THE PRICING RANGE FOR HOUSING LOANS SIGNIFICANTLY

The voluntary APR ceiling was in place **between October 2023 and June 2024**.



DISTRIBUTION OF THE APR FOR NEWLY DISBURSED MARKET-BASED HOUSING LOANS

The **average APR** for market-based housing loans **dropped from 8.7 per cent 6.7 per cent.**

This effect **would have been much lower without the APR-ceiling**.

Banks contracted 87 per cent of the market-based housing loan volume with an APR below the effective ceiling.

The APR distribution narrowed significantly.

It did not crowd out riskier customers

The APR ceiling was a barrier to risk-based pricing.

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Note | The p10-p90 range shows the values between the 10th and 90th percentile, the p25-p75 range shows the values between the 25th and 75th percentile. Excluding building societies. Source | MNB

MARKET-BASED HOUSING LOANS WERE ISSUED AT AN AVERAGE INTEREST RATE SPREAD OF AROUND ZERO

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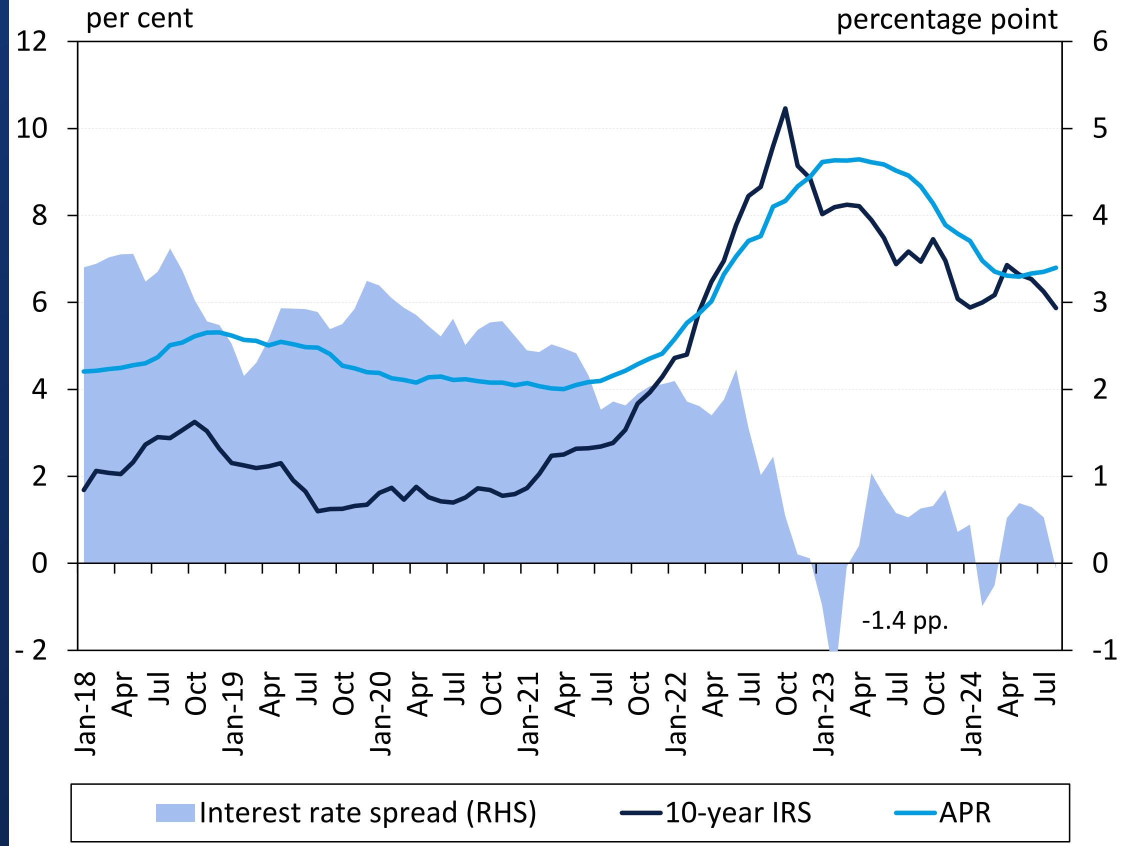

FINANCING COSTS OF NEW MARKET-BASED HOUSING LOANS

Intensified banking competition due to APR-ceiling

In 2024 H1, **market-based housing lending** was offered at the cost of funds, i.e. **with an interest rate spread of around zero.**

In the longer term, interest income that does not cover credit risk costs and operating costs may pose a stability risk to the financial intermediary system.

Note | Averages weighted by contract volumes. Spreads were calculated on the basis of relevant BIRS data observed four months prior according to interest-rate periods. Source | MNB

KEY TAKEAWAYS OF THE REPORT

- **Hungarian banking system remains stable,** several risks identified in the spring have abated.
- **Shock resilience** is strengthened by outstandingly high profitability, ample liquidity, adequate capitalisation and the high quality of the loan portfolios.
- Return on equity was supported both by volatile and one-off items; **profitability** calculated with these items filtered out may have peaked at the end of 2023.
- In line with global trends, **risks related to domestic commercial real estate lending** continue to deserve special attention.
- **The credit market is characterised by dual trends**: household lending picked up significantly, corporate credit growth decelerated further, owing to subdued credit demand.
- The lending capacity of the banking system is abundant, **no credit supply constraints can be identified.**
- The **stress test** results suggest that the sec**tor would meet the regulatory requirements** on liquidity and capital adequacy even **in the event of a severe shock**.

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THANK YOU FOR YOUR ATTENTION!

MAGYAR NEMZETI BANK

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