Hungary

Hungarian banks covered by the survey account for 73 per cent of the country's total banking assets, with the majority owned by domestic banks (Chart 1).[1] Two-thirds of banks in Hungry expect their branch networks to decline over the next five years, while the rest expect no meaningful change (Chart 2).[2] This anticipated decline is slightly below the average in Central Europe and the Baltic States (CEB), but higher than the EBRD economy average.

Nearly 90 per cent of Hungarian banks have explicit environmental policies and targets, while almost 80 per cent have climate change policies and targets, exceeding CEB and EBRD regional averages by around 20 percentage points (Chart 3). However, only 44 per cent of Hungarian banks have explicit social policies and targets, some 26 and 33 percentage points below the averages of the CEB and EBRD economies, respectively.

When lending to small and medium-sized enterprises (SMEs), the proportion of Hungarian banks undertaking environmental, social and governance (ESG)-related impact assessments lags the CEB average (Chart 4). This is especially the case with regard to social impact assessments where, on average, Hungarian banks lag the CEB and EBRD economies by 30 and 35 percentage points, respectively (Chart 4).

Moreover, while the proportion of Hungarian banks providing loans for the specific purpose of improving the energy efficiency of SMEs and/or corporate clients is on par with the CEB average, the share of banks providing loans to improve the energy efficiency of commercial real-estate is among the lowest of the countries surveyed.

Chart 1 Branch presence of surveyed banks

Chart 2 Branch network expectations over the next five years

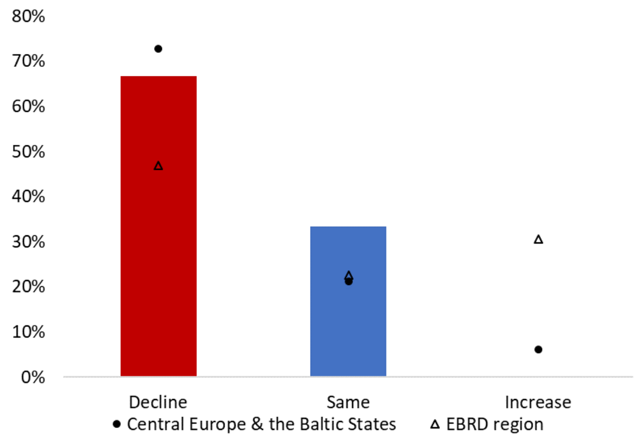


Chart 3 ESG policies and targets

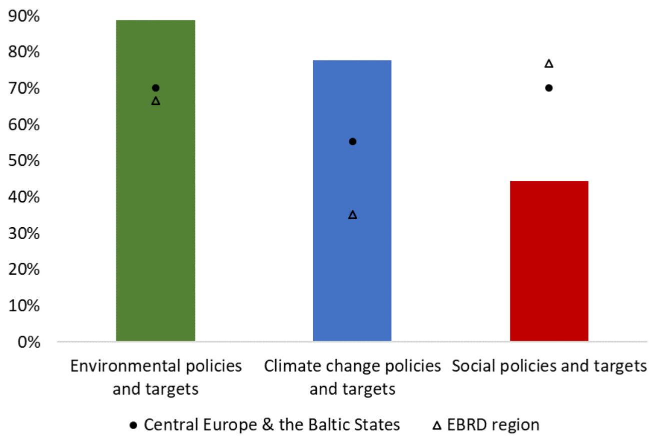
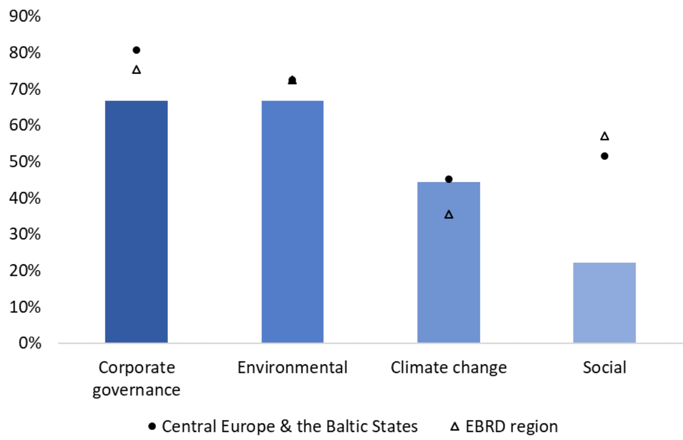


Chart 4 Impact assessment of SMEs before loan approval



[1] Domestic banks account for 68 per cent of these banking assets.
[2] Bars in charts 2, 3, 4, 7 and 8 refer to the percentage share of banks in Hungary.

In line with the EBRD region as a whole, when it comes to the adoption of digital technologies, more than half of Hungarian banks view corporate lending, followed by trade finance, SME lending and leasing, as the businesses with the most to gain from fintech (Chart 5). Conversely the share of Hungarian banks that perceive fintech as a threat to asset management, retail lending and trading and sales is above the CEB and EBRD regional averages.

Hungarian banks are ahead of the CEB and EBRD regional averages in their uptake and use of biometric authentication for customer identification services, with 78 per cent of banks citing commercial use of the technology (Chart 6). More generally, however, Hungarian banks lag the CEB economies in the commercial use of digital technologies. Reflecting this hesitancy, almost 90 per cent of banks surveyed said they were concerned about IT security and regulatory uncertainty with regard to fintech.

Only a third of Hungarian banks say they accept online applications for loans, compared with an average in the CEB and EBRD economies of just under half. More than half of Hungarian banks surveyed say they do not face strong competition from internet banks in lending to SMEs and retail clients; all banks are of the same view with regard to lending to large enterprises. About a quarter of participants report strong competition from internet banks in the retail lending segment, just below the CEB and EBRD regional averages.

When it comes to lending to innovative industries, such as information technology (IT), chemicals and pharmaceuticals, all of the banks surveyed in Hungary say they provide loans to firms in these sectors. Such loans make up 13 per cent of bank loans (by volume), above the CEB and EBRD regional averages of 8 per cent and 10 per cent, respectively (Chart 7). Even so, local banks continue to face a variety of lending constraints in this regard. Notably, loan officers' inability to obtain sufficient and correct information to evaluate credit risk is a difficulty that Hungarian banks tend to cite more frequently than their CEB and EBRD peers, on average (Chart 7).

Chart 5 How fintech will affect banks' business lines

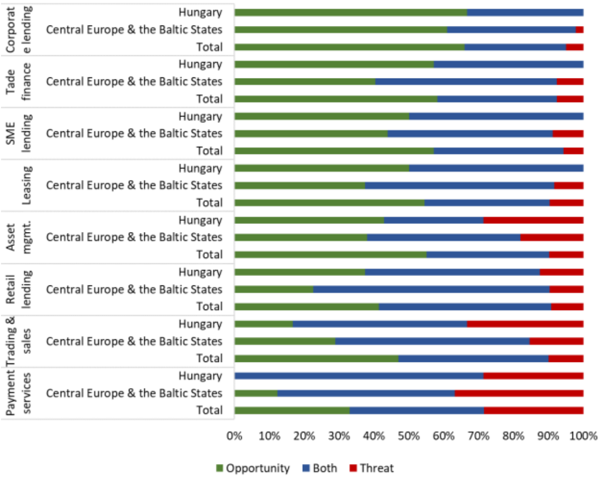
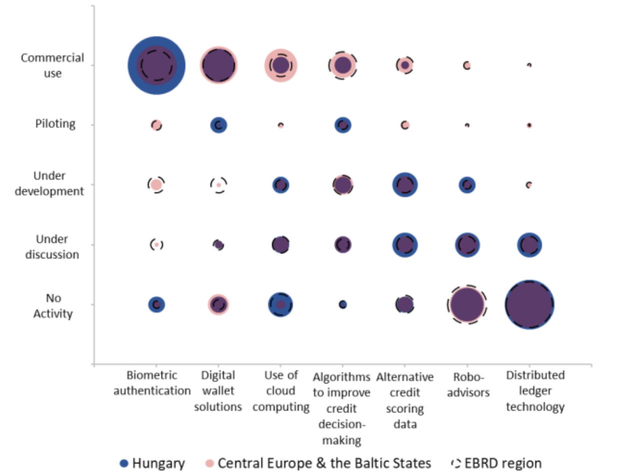


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Lending to innovative industries

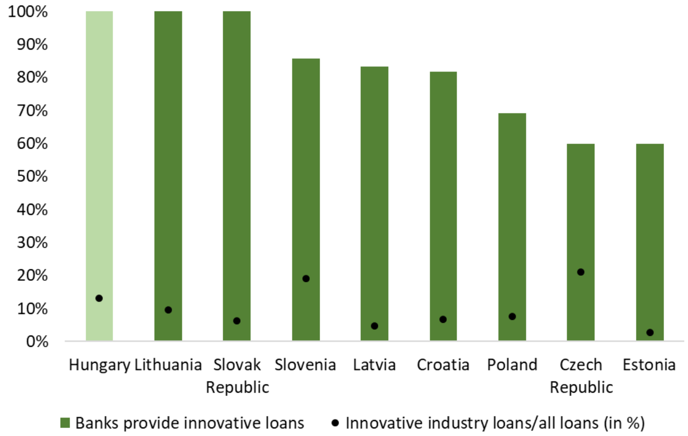


Chart 8 Constraints on lending to innovative industries