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The Characteristics of Hungarian Economic Growth

Summary

When examining Hungarian economic growth, the dynamics of credit and investment play an important role. GDP, as the basis for measuring economic performance, often fails to adequately consider social and environmental factors. Therefore, alternative indicators, such as the Human Development Index and the Gross National Happiness Index, are more closely linked to measuring social well-being and sustainability. Attention to quality investments, which are essential for maintaining economic growth, is particularly important, as these investments foster technological development and the modernization of economic structures. The role of the credit market is also crucial, as appropriate credit provision and financing of investments fundamentally influence economic growth. Despite crises and geopolitical tensions, favourable lending conditions and state-supported credit programs, such as the Széchenyi Card Program, provide significant support for launching investments in domestic businesses. However, the external market environment, high inflation, and financial uncertainties may hold back further investments, which could reduce competitiveness in the long term.

Keywords: SME sector lending, investments, economic growth
JEL codes: Q10, O1, I25, M12

Introduction

Every country strives to ensure that its economic performance grows year after year. There is a well-established metric that has been proven over decades to measure this, i.e., GDP. When we examine international analyses and comparisons regarding economic growth, most analyses provide us with GDP-based comparisons. This may have developed because GDP was the first indicator that had a serious methodology behind it and could be accepted by countries at a global level. Naturally, after a few decades, voices have emerged that explore the deficiencies of GDP-based measurement. This may indeed be considered normal, given that in most cases we can discuss the so-called „life cycle" with regard to products, services, and arguably all other phenomena, which in my view may also be present in GDP-based measurement. All this may be attributed to the fact that – as I have already alluded to above – the world is changing rapidly, technology is developing at a breakneck pace, creating new and new opportunities for us. Numerous international and domestic studies now clearly argue that growth models appropriate for our current times and the methodologies supporting them should be developed (Stiglitz et al., 2009; Csath, 2014; Findrik, 2016). But what is the reason that all authors now argue that we should reconsideration of GDP, which has decades of empirical experience behind it? All authors unanimously argue that GDP cannot adequately demonstrate and analyse the development of social capital. That is, it only deals with numerical development, calculating all items that can be classified into the so-called „*hard*" category. Just to give an example of this, I would like to highlight a case that perfectly demonstrates one of GDP's weak points. Perhaps we all remember the red sludge disaster that occurred on October 4, 2010, which has been Hungary's largest industrial accident to date. After the red sludge disaster, a strong recovery mechanism was set in motion, with many investments and developments that increased Hungary's GDP to a certain extent, but this did not represent real economic development or welfare growth – in fact, it caused a net economic loss overall. As a result of industrial destruction, existing economic values were destroyed (houses, arable land, infrastructure), the replacement of which was not new value creation at all – as we usually refer to in the case of GDP – but compensation for losses. In these cases, it can be established that the financial resources spent on reconstruction could have been used for other, more productive investments, such as education, innovation, economic or business development. An important finding is that the red sludge disaster caused significant ecological damage that neither GDP nor other traditional economic indicators can adequately measure. In other words, this is an event accompanied by environmental pollution that drives economic growth. By the way, this is exactly the situation during recovery work following all natural disasters. I believe that the red sludge disaster given here as an example is a classic case of how GDP alone does not reflect the development of economic and social welfare. Despite the temporary increase in GDP due to reconstruction, the country actually suffered a net loss, since no new values were created, but enormous resources were devoted to restoring a previous state.

We could see a similar example in the case of the series of economic crises that developed after 2020, namely, the ongoing war or the global pandemic. Through incentivizing state intervention, GDP may increase, yet the country's economic and social conditions actually deteriorated (just think of the millions of people worldwide who lost their lives in the COVID-19 crisis). Therefore, according to many economists, including ourselves, GDP should not be used as the sole welfare indicator, but alternative indicators should also be taken into account, such as:

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– the Human Development Index, which examines three categories: long and healthy life, education, and standard of living.*
– the Gross National Happiness Index, an expression first created by the King of Bhutan in 1972, aimed at presenting sustainable development along 9 dimensions in a holistic approach.**

These indicators place significantly greater emphasis on developing health status, expanding learning opportunities, protecting the natural environment Moreover, cultural diversity appears, as does the preservation of psychological and mental well-being (Stern, 2013). Overall, it can be said that new sustainable economic models strongly build on the ESG concept – this is what we contend as ESG consultants.

This is also highlighted by Csath (2022) in her article when she states that „from the perspective of development level, ecological sustainability and green growth in general are also important". Vonnák (2022:21) notes in parallel that „from the perspective of environmental sustainability of economic growth, the emission of greenhouse gases (GHG) and its impact on climate change represents the greatest challenge of our time." Perhaps this is the reason why we are committed to sustainability, which is perhaps proven by the fact that in 2024 we founded the ESG Alliance, which is „one of Hungary's defining organizations that has taken up the cause of sustainability, social responsibility, and responsible corporate governance. Its mission is to particularly support domestic micro, small and medium enterprises alongside large companies in transitioning to the green economic model..." (https://www.esgszovetseg.hu/szovetsegunk/). The ESG Alliance has also set as a further goal the importance of education, since growth cannot be achieved without current knowledge.

We believe that Nobel Prize winner Stiglitz also refers this when he states that if a country does not want to remain on the periphery, it is necessary to create a learning society, which means that a lot must be invested in knowledge and health, because we can only provide good performance and improve competitiveness if we have adequate health. However, all this is not a one-time investment, but a continuous one, one of whose foundations is sustainability. (Parragh-Tóth, 2022; Greenwald -- Stiglitz, 2017).

If we accept the above, then we can also see that investments and developments are needed, but it is no longer sufficient to think in terms of quantitative investments; rather, there is a need for qualitative investments. Moreover, taking this further, there is a need for qualitative developments that, by adapting to the given economic structures, are also capable of modernizing the country's economic framework, thereby resolving structural problems. Germany is now an excellent example of this, struggling with serious competitiveness problems, the roots of which I believe should be sought in the structural framework.

Possible Sources of Economic Growth

Numerous models exist regarding what a national economy tries to build on to ensure economic growth. Many argue – for example, Magdolna Csath (2014) in Hungary – that economic growth can basically be built around three elements:
– a growth model based on natural minerals and resources (see, for example, Arab countries where oil and natural gas represent the engine of growth)
– knowledge-based growth models (I would include Finland and Estonia here)
– a growth model based on cheapness (countries where activities focus on the lower part of the value chain, see the assembly work phase in the automotive industry).

This approach is also valid; however, it may be worth highlighting Kim's (2017) approach, according to which six growth models exist, as seen below:
– consumption-driven,
– export-driven,
– based on oil wealth,
– based on savings,
– based on government (public) consumption, and
– domestic investment-driven model.

It can be seen that there is also transferability between models, since natural resources are included in both approaches. We consider it particularly worth highlighting the export-driven growth model, perhaps precisely because I referred to the German economic model above, which centres around export orientation. What should be seen is that the export-driven growth model can lead to strong global dependence, which carries strong risks in the event of an unexpected economic crisis. This is exactly what could be seen during the COVID-19 crisis, and the situation is similar now in Germany, whose economic effects have been slowing German economic growth for years. However, it is important to see that I am not arguing that export-oriented economic growth is not good, but rather that this is not the only path that leads to growth. I am convinced that we should/ought to think in terms of a growth mix. I would note that since one of the most popular growth models was export-driven, more and more countries have gone for this model year after year, thereby also increasing competition between countries (Palley, 2002; Palley, 2011).

What encouraged countries to switch to the export-oriented growth model was, in our opinion, nothing other than the high growth rate achieved. A good example of this is China, where export revenues created the opportunity for the Chinese government to finance more advanced technologies and know-how imports, which promoted incredible technical – but also social – development. It is also worth noting that a further advantage of the export-based growth model is that it creates many jobs, primarily in export-producing sectors and in related services, thereby providing a solid foundation for the longer-term sustainability of growth.

We consider it important to highlight that there is another trend, namely, the domestic demand-driven growth model, or the consumption-driven model (Kim, 2017), the essence of which is that domestic consumption has a positive effect on growth. That is, the more the population spends, and correspondingly the less it saves.

The basic equation looks like this: Y = C + I + T, where
Y= income
C = consumption
I = savings
T = tax payment

* https://www.ksh.hu/docs/hun/xftp/gyor/jel/jel308042.pdf
** https://real.mtak.hu/149424/1/7893-Cikk%20sz%C3%B6vege-35560-2-10-20220302.pdf

From the above, it follows that the higher the share of the population's available income spent on consumption, the stronger the growth model based on domestic consumption becomes. For this, among other things, retail trade turnover must remain on a sustainably growing path.

To demonstrate, we can state the following: If the population's income in Hungary increases, for example, due to the effect of minimum wage increases, family tax refunds, or the provision of 13th monthly pensions, then households have more disposable income. Supposing the population uses this additional income for consumption (for example, for durable consumer goods, food, services), then domestic demand begins to grow. This increased demand stimulates the domestic production and service sector: shops, hotels, restaurants, small businesses achieve growing revenues, can expand, hire workers. Thus, incomes increase again – and this closes the positive economic spiral, which is one of the key elements of the growth model based on domestic consumption. The model illustrates that the intensification of household consumption not only increases commercial turnover, but through a multiplier effect, it feeds back to GDP, employment, and investments.

This model can be more advantageous mainly for countries where there is a larger domestic market. The great advantage of the model is that it is not exposed to strong global competition, and is even less sensitive to crises. Many also argue that the domestic demand-based model can generate „higher quality" growth and „healthier" competition (Kiss, 2022).

Considering the above two models, we believe that one and perhaps the most important difference is that while in the first case, i.e., in the case of export orientation, companies represent the determining role, in the latter case primarily the population and the government appear as consumers. From the perspective of this paper, the analysis of businesses is more relevant, so we consider the export-orientation model more important. However, if we consider which model might be relevant for Hungary, we believe that an additional aspect must be incorporated, namely, the role and significance of investments.

Parragh and Tóth (2021) wrote the following in their book: „The domestic growth model has been fundamentally consumption-centred in recent decades, which may not be the one and only opportunity with the country's long-term economic interests and our endowments. The model relevant to us – based on additional international experience – would be the investment and export-driven model. This is capable of creating the technical, technological base that we need for long-term balanced development free from cycles, for production representing higher added value. A shift in this direction occurred after 2010. This is proven by the fact that by the end of the decade, the Hungarian investment rate reached the forefront of the region and the EU."

Credit and Investment-Based Growth Model

We would like to open this chapter with Solow's (1991) thought as a theoretical model, since he claimed that capital and labour are definitely needed for economic growth, but he also incorporated technological knowledge as a new element. Solow argued that „investments primarily cover the wear and depreciation of accumulated capital, so the economy does not grow proportionally with new investments." (Csath, 2014:124). He also establishes that in order for economic growth to be sustainable, the level of investments must definitely be increased, but in such a way that developments strongly appear in technological development and knowledge expansion as well. We strongly agree with this model, and below we try to highlight that there is enormous need for investments, but there is even more need for „smart investments." However, the availability and activity of financial resources and the financial institutional system are indispensable for this.

The relationship between corporate lending and economic growth plays a fundamental role in the development of modern economies. Many economists and economic experts, such as Hicks, have pointed out that the economic growth of the industrial revolution was not only due to technological development, but also the appropriate financing environment. The technological innovations already existed, but without ensuring the necessary capital and liquidity, those large-scale industrial changes that contributed to economic growth could not have been realized. The possibility of industrial development was ensured by the availability of appropriate financial instruments, such as credit markets. The efficient improvement of capital allocation, which commercial banks can achieve through the application of appropriate lending practices, increases the investment capacity of companies. In parallel, economic growth also accelerates, as companies are able to invest in technological developments and increase their production capacities. Financial stability and favourable credit conditions provide companies with opportunities for growth, while money markets mediate the flow of capital between different segments of the economy.

The expectations related to banks' corporate social responsibility, which also shape lending practices, deserve special attention. The totality of these factors helps businesses contribute more successfully to economic development. All these factors reinforce the approach that corporate lending is crucial for sustainable economic growth, as the appropriate financial environment promotes technological development and the enhancement of industrial competitiveness.

In our opinion, a prerequisite for further growth will be that the credit stock of the corporate sector continues to expand. Alongside the expansion of lending, the development of the capital market is also necessary in the Hungarian economy, as the diversification of corporate capital structure would reduce risk and holds further growth potential (Varga et al., 2019).

The domestic growth model in recent decades has been primarily characterized by an internal focus on consumption which began to shift in the right direction following the 2010 elections, as a growth concept focusing on investments and exports—alongside consumption—has increasingly strengthened in the Hungarian model. The success of this is proven by the fact that by the end of 2020, the Hungarian investment rate reached the top ranks in the region and the EU. The appreciation of domestic savings has gained an increasingly prominent role in the Hungarian economic model, both among the population and businesses, and we too have begun to shift toward a savings-based investment-driven model, which fully corresponds to the economic model of the world-renowned Nobel Prize-winning economist Rostow, according to which an investment rate of around 20% ensures sustainable development for developed countries. Based on the experiences of recent decades, it can be definitively stated that those countries

were able to develop sustainably and make spectacular progress where the investment rate consistently remained around 25 percent (such as *Japan, South Korea, Singapore, China*).

In the early 2010s, the domestic investment rate was around 15% of GDP (and an investment rate below the EU average characterized the Hungarian economy at that time), but by 2019, the investment rate approached 30% (it was 28.6 percent), which represented the highest proportion in the entire union. Between 2013 and 2020, the investment rate was on average around 23 percent. Looking at recent years, this value has consistently remained above 20 percent. Investments broke records both in 2021 and 2022, all while war, sanctions, the energy crisis, and inflation struck the Hungarian economy almost simultaneously. In 2021, investments amounted to 12.5 trillion forints, then in 2022 to 15 trillion forints (*thereby exceeding 23% of GDP*). These numbers confirmed that with appropriate confidence and the effect of strengthening capital attraction, businesses are open to launching new and new developments.

Based on the above, it is clear that investments represent one of the most important bases of Hungarian economic growth, so our general conclusion remains that a high-quality investment rate that best adapts to Hungarian economic characteristics, and export-driven economic policy represent the most important bastions of economic stability and convergence. Investments definitively increase GDP, and according to general economic principles, every investment is reflected twice in the gross domestic product: on the one hand, through the implementation of the concrete investment, and on the other hand, following the activation of the investment, through the activity carried out during its useful life, i.e., during the operational period. However, we argue that it is worth examining the additional effects of investments even beyond this, and it is worth analysing the qualitative changes as well as the improvement of efficiency and productivity behind every investment.

This also confirms that every investment has a multiplicative effect, which can be further strengthened if developments are realized in sectors where growth capacity is strongly present. I myself consider the micro- and small business sector to be such a sector, as this sector still has untapped potential in terms of size growth, naturally taking into account the principle of economies of scale.

However, the consistently improving trend of investment activity broke in 2023, as confirmed by the fact that the volume of investments decreased by approximately 8.5% compared to the 2022 value. According to Hungarian Central Statistical Office (KSH) data, investment performance fell by 9.6% in the first quarter of 2024, by 16.8% in the second, by 15.4% in the third, and by an additional 2.2% in the fourth quarter. The Hungarian Central Statistical Office registered approximately a 14% decline for the entire year 2024.

Behind this lie several causes:

– the „economic crunch" phenomenon after the coronavirus pandemic
– collapsing domestic consumption and lack of demand
– soaring inflation and still high price levels
– the narrowing of EU sources
– expensive financing due to the extremely high-interest rate environment, which worsens the return on investments and extends their payback period, which in itself increases risk
– the precautionary motive is presumably present in the pricing of loans as well, i.e., businesses are waiting for interest rates to moderate further
– the strengthening of the precautionary motive in bank lending *(behind which may presumably lie the economic outlook, specific problems of industries, changes in risk tolerance, and the increase in the default rate linked to the SME sector)*
– weak external economic conditions
– increasing uncertainty due to geopolitical tensions
– much higher energy prices and investment costs than before lack of adequately qualified labour

All of these may encourage companies to be cautious and postpone planned investments. It is, however, also worth mentioning that

– state investments were postponed one after another (resulting in a 25-40% decline in certain sectors)
– due to the slowdown of the construction industry and infrastructure development projects, many companies were forced to make layoffs and capacity reductions
– companies show less willingness to invest during crises, as preserving liquidity is the main goal
– significant expansion of liquid asset holdings characteristic of both large companies and SMEs (exceeding 20 trillion forints as well).*
  • It is worth noting that in our experience, significant volume investments are mainly implemented by businesses in relatively stable liquidity positions. This is clearly visible, for example, in the case of the Széchenyi Card Program loan scheme, as during the stabilizing phase of the coronavirus crisis (second half of 2021), enterprises embarked on investment implementation with strengthened liquidity.

The above factors together contributed to the fact that market-driven, investment-oriented lending could not get started in 2024. Additionally, a rather unfavourable trend also appeared to be strengthening, namely that enterprises began turning toward foreign currency loans.

According to the latest Hungarian Central Statistical Office (KSH) data, the volume of investments decreased by 12.1% in the first quarter of 2025 compared to the same period of the previous year. The decline is primarily visible in industries dependent on external demand fluctuations, especially in Hungarian manufacturing, which significantly depends on the performance of the European economy. Germany in particular, as the most important trading partner, struggles with competitiveness problems that are consequences of high energy prices and over-regulation.

By now it can be definitely stated that the German economic model is running out of steam. In 2023, Germany was the only major economy that shrank, and presumably it will grow more slowly than the USA, Great Britain, France, or Spain in the next 3-5 years. Germany's prolonged economic and competitiveness problems (declining exports and high energy costs) have already made their way into the bloodstream of the Hungarian economy over the past year, as Germany is one of Hungary's most important economic partners (a significant part of Hungarian exports, approximately 25%, is directed to

* In the EU, Hungarian companies have the third highest amount of liquid financial assets relative to their bank loans, after Ireland and Malta.

Germany). German infrastructure continues to suffer from an investment deficit, the primary source of which is the automotive industry coming to a standstill (which is traditionally one of the most important partner sectors of the Hungarian economy). The situation is further worsened by the fact that in Germany, more and more companies engaged in energy-intensive industrial activities are taking their investments abroad. The impact of these problems also affects the domestic export-oriented industry, reducing demand and postponing necessary investments. Additionally, tariff policy unpredictability further increases industrial uncertainty, which also prompts companies to adopt a more cautious stance.

For the long-term sustainability of Hungarian economic growth, it is essential that the dynamics of corporate investments be revitalized. Although currently the capacity utilization in the sector and company feedback point more toward cost optimization, it is expected that in the coming period, corporate developments will primarily focus on rationalization, increasing efficiency, and reducing costs. The increase in production costs and the restraint of external demand justify this conservative approach, which prompts company leaders to be cautious in planning investments.

Although a slow expected upturn in corporate developments may begin, it is increasingly necessary for the economy to regain greater momentum. Companies must deploy all available tools to support growth with efficient investments despite economic uncertainties. In the coming years, investment activity is expected to gradually increase, but for the economy's competitiveness to be restored, not only cost optimization but also commitment to quality, sustainable investments are necessary. It is the responsibility of companies and decision-makers to take all necessary steps for the development of the economy.

However, it is worth highlighting that as long as international political and economic uncertainty and non-transparent and well-plannable external market prospects are present, credit demand for corporate investments may remain restrained. Therefore, it can also be concluded overall that currently it is primarily not interest rate levels that influence corporate investment decisions, and perhaps not even banks' willingness to lend, but rather external factors play a decisive role. It is worth just highlighting the „Trump tariff model," which has an apparent and significant impact on the entire world. I will not write about this in detail yet, as the tariff policy directions are only taking shape at the time of preparing this paper.

Nevertheless, we definitely think that in this transition period (restoration of external and internal stability/expectations), we must again decisively turn to the already and numerously tried and tested state-supported credit constructions, as they were used, for example, during the COVID-19 pandemic. The negative economic effects of the pandemic were successfully counterbalanced, for example, by broad-spectrum direct support for business investments and low-interest loans, the effects of which lasted spectacularly until mid-2022.

State-subsidized loans played a significant role in corporate investments, including the investment-type loan products of the Széchenyi Card Program. This has been confirmed on numerous occasions by studies from the Hungarian National Bank (MNB) as well. For example:

– In the document titled „Lending Processes" published in September 2023 (https://www.mnb.hu/letoltes/hitelezesi-folyamatok-2023-szeptember-hu.pdf), the Hungarian National Bank wrote approvingly that the SME segment, the expansion significantly exceeding the first quarter can primarily be explained by the ramp-up of new corporate lending incentive programs available at extremely favourable client interest rates, the Széchenyi Card Program MAX+ launched on December 23, 2022, and the Baross Gábor Reindustrialization Loan Program.
– Then in its report published on February 21, 2024, the Hungarian National Bank reports that in the fourth quarter, the share of supported loans was 41 percent, while in the first half of 2023 it still reached 56 percent.

These data clearly confirm what a decisive role state-subsidized corporate loans, more specifically investment-type loan products, played in the economic growth model also represented by the Ministry for National Economy. State-subsidized constructions strongly contributed to GDP growth as well.

It is particularly important that within the framework of the Széchenyi Card Program, currently and continuously, nearly 120,000 businesses have active loans, totalling nearly 4,100 billion HUF, which represents approximately 5% of the GDP values of 2023 and 2024. It is also outstandingly important that within the active portfolio, the stock of investment-type loans represents 30% – although 2023 was a strongly more restrained year in terms of investments – which is extremely important considering the domestic investment-based economic growth model.

Experience of the Past Few Years in European SME Lending

The pandemic initially brought about significant changes in the dynamics of corporate lending, as companies had to face increased financial constraints. The disruptions caused by COVID-19 led to a significant decrease in companies' asset values and an increase in default risks, which resulted in an adverse cash flow shock that reduced the general liquidity of corporate bond markets across Europe and beyond (Almaghrabi, 2022). This liquidity crisis necessitated more cautious lending practices on the part of banks, which strained their relationships with corporate clients. Companies relying on debt financing experienced increased financial constraints, which were exacerbated by government restrictions aimed at curbing the spread of the virus, having a differentiated impact on corporate lending based on companies' relationships with banks (Hasan et al., 2021).

In the context of EU countries, the dynamics of corporate lending changed as companies tried to restructure debts and manage refinancing risks. The growing demand for sustainable financing became a central theme, and many companies were forced to transform their governance and disclose more about environmental and corporate social responsibility (CSR) metrics to secure favourable credit conditions. The role of environmental disclosures in influencing banking lending decisions became increasingly important, where companies prioritizing sustainable practices are in a better position in terms of access to capital (Hui et al., 2024).

The transition toward sustainability is also reflected in regulatory changes: EU Directive 2014/95/EU strengthens mandatory non-financial reporting, aimed at improving the quality of disclosures regarding sustainability commitments (Veltri et

al., 2022). This shift toward sustainability is intertwined with global trends, where companies are audited not only for their financial performance but also for their environmental impact (Alsayegh et al., 2020). This multifaceted approach to corporate governance includes increased transparency regarding ESG (environmental, social, and governance) commitments, which has become a critical factor for banks when making lending-related decisions. Furthermore, the post-panic era has not only reinforced the importance of sustainable practices but has also brought innovative financial products aimed at supporting companies in navigating financial constraints.

Reliable analyses indicate that despite the initial shock caused by the pandemic, changes in lending practices within the EU are capable of developing into more sustainable and resilient financial ecosystems. These ecosystems are expected not only to promote corporate growth but also to contribute to long-term sustainability goals and improve corporate performance amid uncertain economic conditions (Fatouh et al., 2021).

The coordinated monetary response aimed at reducing lending rates in the early phase of the pandemic succeeded in reducing the general costs of corporate borrowing (Altavilla et al., 2020). This was primarily achieved through the implementation of measures such as targeted longer-term refinancing operations, which actually provided cheaper sources for banks, thus enabling them to offer lower interest rates to corporate borrowers. However, as the economic environment began to move toward recovery, banks faced increasing uncertainty regarding credit quality, especially concerning bad loans. The downgrading of many corporate borrowers imposed higher risk premiums on loans, thus increasing the interest rates on non-performing loans (Hasan, Politsidis, et al., 2021).

The intensifying inflationary pressure from 2021 further aggravated the situation. As inflation rates rose across the EU, the ECB responded with interest rate adjustments aimed at curbing potential economic overheating, but the increasing inflation led to higher lending rates (Islatince – Firat, 2022; Tiarawati & Hertina, 2024). Amid rising inflation, companies struggling with cash flow problems found it difficult to repay loans, which increased the quantity of non-performing loans in bank portfolios.

The latest data starting from 2024 continue to show high volatility, indicating that corporate borrowing remains sensitive to broader economic conditions. This may reflect companies' ongoing adjustments in response to changing financing costs, economic uncertainty, and changing investment strategies.

Several key factors likely contributed to the trends observed in corporate loan volumes:

- *Monetary policy decisions*, as ECB interest rate changes directly influence borrowing costs. Periods of lower interest rates generally encourage corporate lending, while interest rate increases can suppress borrowing activity.
- *Corporate investment cycles*: Businesses modify their financing strategies based on economic conditions, investment needs, and expected financial risks.
- *Macroeconomic environment:* Inflation, supply chain disruptions, and geopolitical uncertainties (such as the energy crisis and conflicts) likely influenced corporate credit demand.
- *Psychological and precautionary factors:* Business leaders' confidence regarding economic prospects significantly influences corporate willingness to borrow, as does the defensive reflex against future market uncertainties. Under the impact of financial and geopolitical turbulence, companies often apply a „wait-and-see" strategy, even when objectively available and favourable financing constructions are at their disposal. Borrowing decisions thus do not form exclusively along macroeconomic and interest rate environmental factors, but the subjective risk perception of companies and precautionary motive also strongly prevail. Consequently, the volume of lending often falls short of the level justified by economic fundamentals, particularly during periods when contradictory expectations develop regarding the direction and timeframe of the economic cycle.

Looking to the future, corporate lending volume will likely be influenced by the stability of ECB interest rates. If interest rates stabilize or decrease, lending volumes may continue their upward trend. However, if economic uncertainty persists or recessionary pressure emerges, small businesses may become more cautious about borrowing. Additionally, regulatory changes and new financial instruments (e.g., fintech lending solutions) may reshape the small business lending environment.

Furthermore, fiscal policies, such as government investment incentives and green financing initiatives, may impact lending trends in certain sectors. The interaction between credit supply (banks' willingness to lend) and credit demand (companies' willingness to borrow) remains a key factor in shaping eurozone corporate loan volumes.

In summary, corporate lending in the eurozone over the past four years has been shaped by a combination of extraordinary economic shocks, policy responses, and changing financial conditions.

Conclusion, Recommendation

The growth of the Hungarian economy is closely linked to the development of investments and credit market dynamics. For sustaining economic growth, it is particularly important that companies invest in appropriate, quality investments that contribute to the modernization of economic structures and technological development. The external economic environment, especially geopolitical tensions and the competitiveness problems of the European economy, significantly affects the Hungarian export-oriented industry and through this, the extent of investments.

From the perspective of economic growth, it is crucial that government support schemes, such as the Széchenyi Card Program, continue to contribute to corporate lending and developments. However, due to external demand fluctuations, high inflation, and financial uncertainties, it is becoming increasingly difficult for companies to finance investments. To improve the dynamics of corporate lending, it would be important to stabilize the financial environment, reduce interest rates, and promote innovative financial solutions, such as fintech lending opportunities.

For future economic growth, it is necessary to stimulate investments, paying special attention to quality and sustainable developments. Promoting public and private sector cooperation, as well as taking sustainability goals into account, can ensure long-term growth. Companies must deploy all available tools to remain competitive despite current economic uncertainties. In the coming years, a gradual increase in investments

is expected, but this requires the safe and stable relaunch of the economy and the provision of appropriate support. For companies, investment in innovation and sustainability may become a key element in maintaining competitiveness.

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