

## Strong declines in trust in the financial system in Hungary and Poland<sup>17</sup>

Results from the OeNB Euro Survey wave 2022

*Im Oktober 2022 wurden in zehn Ländern Zentral-, Ost- und Südosteuropas (CESEE) die Feldarbeiten für die aktuellste Welle des OeNB Euro Survey durchgeführt. Der Schwerpunkt dieses Beitrags liegt auf einigen markanten Veränderungen, die sich gegenüber bisherigen Umfrageswellen hinsichtlich der Einstellung der Befragten zum Thema Finanzmarktstabilität abzeichnen – einem Thema von hoher Zentralbankrelevanz.*

*So schätzten in der aktuellsten Umfrageswelle zwischen 45 % der Befragten in Ungarn und 75 % der Befragten in Bulgarien das Finanzsystem im eigenen Land als stabil ein. Zwischen 40 % der Befragten in Ungarn und 75% der Befragten in Albanien hielten es für sehr sicher, Geld bei einer Bank einzuzahlen. Die Änderungen gegenüber vorangegangenen Umfrageswellen fielen von Land zu Land unterschiedlich aus.*

*Am stärksten nahm das Vertrauen in das Finanzsystem gegenüber 2021 in Ungarn und Polen ab. In Ungarn ist eine Verschlechterung gegenüber 2021 nicht nur bei Einschätzungen hinsichtlich des Finanzsystems zu beobachten, sondern auch bei etlichen Fragen zur Bewertung der wirtschaftlichen Situation. In Polen blieben sonstige Indikatoren der wirtschaftlichen Einschätzung im Vergleich zu 2021 stabil, auch wenn sich seit 2019 eine schrittweise Verschlechterung abzeichnet. Das legt nahe, dass das abnehmende Vertrauen in die Finanzmarktstabilität im Jahr 2022 auf finanzsystemspezifische Faktoren zurückzuführen sein könnte.*

*Wiewohl sich Risiken für die Finanzmarktstabilität nicht aus Veränderungen in den Einstellungen von Einzelpersonen und Umfragen ableiten lassen, basieren Finanzsysteme generell auf Vertrauen; somit wiederum bergen die beobachteten Änderungen durchaus gewisse Risiken.*

During October 2022 the most recent wave of the **OeNB Euro Survey** was in the field in 10 CESEE countries that had not yet adopted the euro.

In this note, we focus on two questions regarding financial stability asking the respondents to express their (dis-)agreement with the following two statements<sup>18</sup>:

- 1) “Currently, banks and the financial system are stable in [MY COUNTRY].”, and
- 2) “Currently, depositing money at banks is very safe in [MY COUNTRY].”

These questions are core questions in the OeNB Euro Survey, having been included in the survey since 2007. Moreover, they are highly relevant for central banks, given the importance of trust in the financial system. The main reason for this note is that we observe strong changes in sentiment in the latest wave compared to previous waves.

<sup>17</sup> Autorin: Katharina Allinger (Referat Zentral-, Ost- und Südosteuropa)

<sup>18</sup> Answer options range from 1 “strongly agree” to 6 “strongly disagree”. In the charts answers 1, 2, 3 (strongly agree, agree, somewhat agree) are combined as “agree” and answers 4, 5, 6 (strongly disagree, disagree, somewhat disagree) to “disagree”.

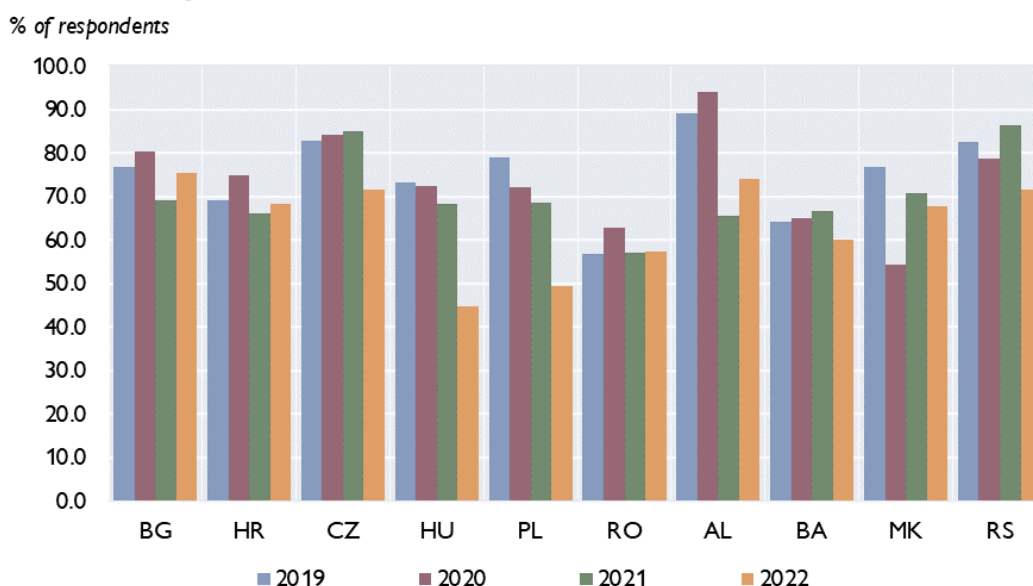
## Country comparison

The share of respondents agreeing with the two statements tends to vary widely across countries<sup>19</sup>. In the most recent wave 2022, the share of people who agreed with the statement “Currently, banks and the financial system are stable in [MY COUNTRY]” ranged from 45% in Hungary to 75% in Bulgaria. Regarding the statement “Currently, depositing money at banks is very safe in [MY COUNTRY]”, the shares ranged from 40% in Hungary to 75% in Albania (see charts 1 and 2).

In 2022, changes in the shares compared to previous waves show very different dynamics across countries. In many countries, shares have been relatively stable since 2019. In some countries there was even an improvement in 2022 compared to 2021 (e.g., in Bulgaria and in Albania<sup>20</sup> for the statement regarding the stability of the financial system).

Yet, for several countries the most recent data show a marked drop in agreement, most noticeably in Hungary, Poland and to a lesser extent in Czechia and Serbia.

**Chart 1. Share of respondents who think the financial system in their respective countries is stable**



Source: OeNB Euro Survey waves 2019-2022. Notes: Data are weighted. Don't know/ no answer coded as missing. Share of respondents that answered strongly agree, agree or somewhat agree to the statement: “Currently, banks and the financial system are stable in [MY COUNTRY].”

<sup>19</sup> All statistics reported in this note are calculated using post-stratification survey weights used to improve the representativeness for the populations.

<sup>20</sup> In Albania a sharp drop occurred in 2021 with a mild recovery in 2022.

**Chart 2. Share of respondents who think that depositing money at banks in their respective countries is very safe**



Source: OeNB Euro Survey waves 2019-2022. Notes: Data are weighted. Don't know/ no answer coded as missing. Share of respondents that answered strongly agree, agree or somewhat agree to the statement: "Currently, depositing money at banks is very safe in [MY COUNTRY]".

For the perceived stability of the financial system the declines were 24 ppts to 45% (Hungary), 19 ppts to 50% (Poland), 15 ppts to 72% (Serbia) and 13 ppts to 72% (Czechia), respectively. Hungary and Poland thus dropped to the bottom of the ten countries in this wave (see chart 1).

For the perceived safety of depositing money at banks the decreases were 25 ppts to 40% (Hungary), 14 ppts to 59% (Poland), 18 ppts to 66% (Serbia) and 14 ppts to 73% (Czechia), respectively. Hungary now has the lowest shares in the region, while Poland still had somewhat higher shares than Bosnia and Herzegovina and Romania (see chart 2).

### Changes in Hungary and Poland

This section focuses on Hungary and Poland which exhibit the sharpest drops and now have some of the lowest values of trust in the financial system in our sample of ten countries. A closer inspection reveals differences between the two countries with respect to the development of other economic sentiment variables.

In Hungary, several economic sentiment questions in the survey reveal a pronounced worsening compared to 2021: the indicators for the expected economic situation of the country over the next 12 months and for the trustworthiness and stability of the Hungarian forint over the next 5 years deteriorated strongly compared to last year. Also, the share of Hungarian respondents who said they trust the government decreased strongly. Trust in domestic and foreign banks also decreased.

In Poland, these indicators remained relatively stable compared to 2021, but most have deteriorated markedly since 2019.<sup>21</sup>

<sup>21</sup> The indicator for the expected economic situation of the country as well the indicator for trust in the government have worsened every year since 2019 in Poland, with the percentage point change declining from year to year. Moreover, in 2021 we saw a large drop in the trustworthiness and stability of the Polish Zloty compared to previous waves, while trust in banks dropped sharply between 2019 and 2020.

Thus, it seems that in Hungary economic sentiment has overall worsened markedly since October 2021. This is in line with evidence from the consumer confidence index for Hungary published by the European Commission on a monthly basis. This index also deteriorated markedly between autumn 2021 and autumn 2022, reaching a trough in October 2022 and having recovered somewhat since.

It is difficult to determine what caused the deterioration in economic sentiment reflected in the consumer confidence survey or the OeNB Euro Survey in Hungary. However, it seems consistent with the most recent economic developments in Hungary<sup>22</sup>. Within the financial system, high inflation, depreciation pressure on the currency and rapid increases in interest rates coupled with strong – and partially controversial<sup>23</sup> – government interventions may have worsened confidence. Government interventions included, for instance, an extra profit tax (announced in May 2022) an increase in the bank levy and transaction levy, the extension of the interest rate cap and a fourth phase of the COVID-19 moratorium. All these factors together will weigh on banking sector profits in 2022 and 2023 – even though the effects might be partially offset by higher net interest income.

In Poland, the deterioration in perceived financial system stability and perceived safety of depositing money at banks seems to be more explicitly related to recent developments in the financial system itself rather than to general economic developments. Again, it is impossible to determine the precise causes, but there are several possible factors that might have played a role: Like in other countries, the size and timing of interest rate hikes has been widely debated. One aspect of this debate has been the vulnerability of borrowers to interest rate hikes, given the high share of borrowers with variable-rate mortgages in Poland<sup>24</sup>. On top of this, intense discussions have surrounded the timing and procedure of official communication by the Polish National Bank (Narodowy Bank Polski/ NBP) on monetary policy decisions<sup>25</sup>. In October 2022, a simmering internal dispute resulted in an open letter of a dozen former Polish central bankers. The letter expressed concerns regarding limiting the access of members of Poland's Monetary Policy Council (MPC) to NBP analyses and attempts to prevent MPC members from expressing dissenting views on monetary policy matters in public<sup>26</sup>. These and similar news have likely reached the broader public via the media and might have influenced individuals' opinions on financial stability. In addition, Getin Noble Bank, one of Poland's top ten banks (even though small by asset size with around 1.5% of total banking sector assets), was put into resolution shortly before the OeNB Euro

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<sup>22</sup> For a broad overview see some recent OeNB publications regarding [recent economic developments](#) and the [outlook](#) for CESEE.

<sup>23</sup> In its [November 2022 Financial Stability Report](#), the Hungarian national bank, Magyar Nemzeti Bank, noted, for instance, that: “The interest rate cap measure significantly reduces the repayment burden of the debtors concerned. On the other hand, it weakens the monetary transmission, has a negative effect on the domestic financial culture and increases the moral hazard.” (see page 30).

<sup>24</sup> This led the Polish government to launch a payment holiday program. The payment holiday can be used to postpone repayments of (one) mortgage loans (taken out to finance a household's own housing) for a maximum of eight months between mid-2022 and end-2023.

<sup>25</sup> See, e.g.: <https://www.bnnbloomberg.ca/governor-tightens-grip-over-polish-central-bank-s-narrative-1.1618328>

<sup>26</sup> See, e.g.: <https://www.bloomberg.com/news/articles/2022-10-18/former-polish-central-bankers-slam-governor-in-public-dispute>; <https://wyborcza.pl/7,75968,29038859,byli-prezysi-nbp-i-byli-czlonkowie-rpp-protestuja-i-krytykuja.html?disableRedirects=true>

Survey fieldwork started. On 30 September 2022, the Polish national resolution authority (Bankowy Fundusz Gwarancyjny) formally declared the bank “failing or likely to fail”. The bank had experienced problems since 2016 and recovery measures were insufficient to restore financial health. This news might also have negatively affected confidence of the population in the banking system.

### **Implications and caveats**

The fact that we only have a year-on-year comparison prevents us from drawing more precise conclusions regarding the reasons for the deterioration in individuals’ financial stability views. We cannot judge whether the deterioration in trust is, for instance, a short-term over-reaction to a salient piece of news on people’s minds in October 2022 or a longer lasting and/or more gradual development.

Generally, it should be noted that the changes in individuals’ views on financial stability which are discussed here should not be overrated and / or interpreted as true financial stability risks. Individuals are prone to overreact to economic and financial news, particularly in times of high uncertainty. For an assessment of actual financial stability risks, the analysis of banking-sector data and of local central banks’ analyses are more reliable sources. Nonetheless, financial systems need trust to function and marked shifts in the population’s trust are not without concern or risk, especially in the currently volatile and uncertain economic and geopolitical situation.