Trends in lending

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The objective of the publication 'Trends in Lending' is to present a detailed picture of the latest trends in lending and to facilitate the correct interpretation of these developments. To this end, it elaborates on the developments in credit aggregates, the demand for loans perceived by banks and credit conditions. Within credit conditions, a distinction is made between price and non-price conditions. Non-price conditions influence changes in the clientele considered creditworthy by banks and the conditions of access to credit. Price conditions, in turn, show the price of borrowing for creditworthy customers. In addition, with the help of the Financial Conditions Index (FCI), the analysis summarises the impact of the financial intermediary system on the economy. In particular, the key statistics examined in the analysis are the following:

- *The credit aggregates present quantitative developments in economic agents' loans outstanding on the basis of the balance sheet statistics of the banking sector. Both the volume of new loans and net changes in the banking sector's loans outstanding (net of exchange rate effects) are presented. From 2013 Q4 on, the analysis presents the trends in lending in the overall credit institutions sector (banking system and foreign branches, cooperative credit institutions).*
- *Changes in non-price credit conditions are presented in a qualitative manner based on the Lending Survey, in which the banks that are active in the given segment and jointly cover 80–90 per cent of the credit market indicate the direction of change compared to the reference period. The Lending Survey includes price conditions as well, in a qualitative manner, in the form of the spread on the cost of funds, the premium on risky loans and the fees charged.*
- *The interest rate statistics contain the price conditions, i.e. aggregate interest rates on credit institutions' new loans realised, weighted by the contract amounts. The lending rate can be decomposed into the reference rate and the spread on the reference rate.*
- *Banks active in the given segment provide qualitative responses in the Lending Survey in respect of their expectations and the changes in credit demand they perceive. Similarly to credit conditions, banks indicate the direction of the change.*

Detailed information on the indicators describing the developments in lending and the methodology of the Financial Conditions Index is provided in the Annex at the end of the analysis. Within the publication, the findings of the Lending Survey are presented in a condensed form, but the responses to the questions and the set of charts based on the findings are published in full on the Lending Survey page of the MNB's website.

TABLE OF CONTENTS

1. Executive Summary 5
2. Developments in lending in the corporate segment 7
3. Developments in lending in the household segment 12
4. Annex: Notes on the methodology 17

1. EXECUTIVE SUMMARY

In 2017 Q1, corporate lending continued to grow, as the loan portfolio grew by 4 percent year-on-year on a transaction basis. The lending of the narrow SME sector expanded by 8.1 per cent, within the growth range of 5-10 per cent considered desirable by the MNB, while the broad SME sector including the self-employed sector increased by 12.8 per cent year-on-year. Transactional growth in loans to non-financial corporations amounted to a total of HUF 260 billion. In Q1, the total corporate loan portfolio increased by HUF 108 billion. In the past one year, however, market-based HUF loans also expanded significantly, in addition to the loans granted within the framework of the Funding for Growth Scheme.

Loans in the third stage of the FGS amounted to HUF 132 billion in the first quarter, accounting for 18 percent of new corporate disbursements. The third phase of the FGS concluded with 98 per cent utilisation at end-March 2017, but banks' commitments made under the Market-based Lending Scheme to increase the SME loan portfolio continue to facilitate corporate lending.

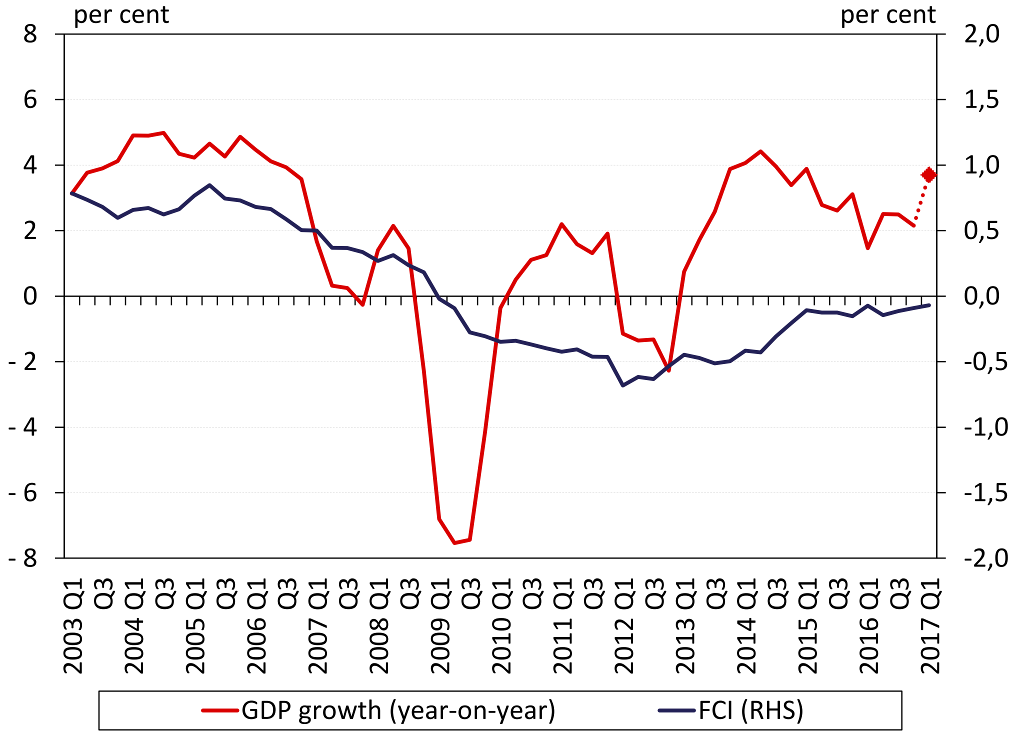
Based on the responses to the Lending Survey, banks expect continued expansion in credit demand, both in the long-term and short-term loan markets. Banks primarily eased non-price credit conditions in the case of small and micro enterprises, while the spreads on small-amount forint loans, mainly in demand by this segment, increased – however this could be the result of composition effect. Looking ahead, banks indicate an easing in price conditions, although no further wide-ranging easing is expected in the standards in the coming half year, in spite of the ample liquidity, increasing market competition and improving economic prospects.

Lending growth in the household sector turned into positive, and thus loans outstanding increased by 1.2 per cent in annual terms. The annual value of household loan transactions amounted to HUF 67 billion, with Q1 contributing to this by HUF 4 billion. The value of loans borrowed by the self-employed sector had a major impact in Q1 as well, but even disregarding this, household lending growth has been steadily improving. The annual average increase in the volume of new loans was around 50 per cent. Within that, new housing loans rose by 44 per cent in the past one year.

According to banks' responses to the Lending Survey, the conditions of both housing and consumer loans remained practically unchanged in the quarter under review. In the case of housing loans no change is expected for the next half year either – though at the time of the survey, final conditions of the certified consumer-friendly housing loans were unknown, and the notification of this may have an easing effect on lending conditions. Against this background, banks continued to perceive a pick-up in credit demand in the case of both products, and looking ahead they expect this trend to continue. The rise in demand is still supported by the Home Purchase Subsidy Scheme for Families (HPS). In Q1, 16 per cent of the new housing loan volume was related to the HPS. Both the average APR and the interest rate spread on new housing loans declined in the period under review, though they remain above the regional average.

Based on the Financial Conditions Index, which summarises lending developments in the corporate and household segments, through its lending activity the banking system exerted an approximately neutral impact on the annual growth of the real economy.

Financial Conditions Index (FCI) and annual real GDP growth



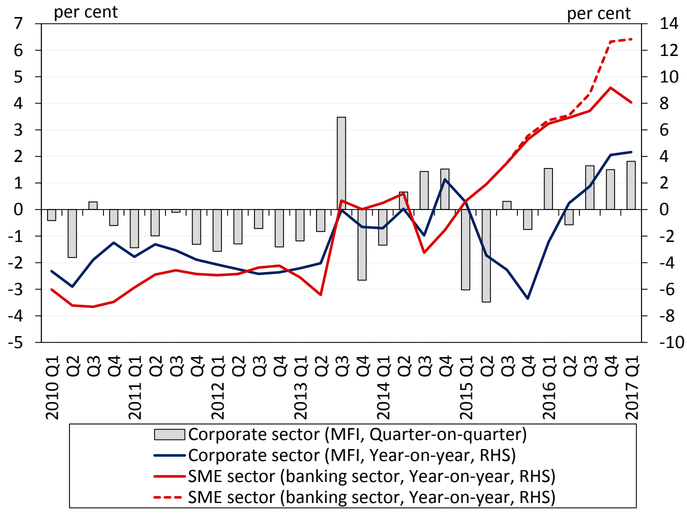
Note: The FCI quantifies the banking system's contribution through lending to the annual GDP growth rate. The 2017 Q1 data for the annual real GDP growth rate is the preliminary estimate of the HCSO.

Sources: MNB, HCSO.

2. DEVELOPMENTS IN LENDING IN THE CORPORATE SEGMENT

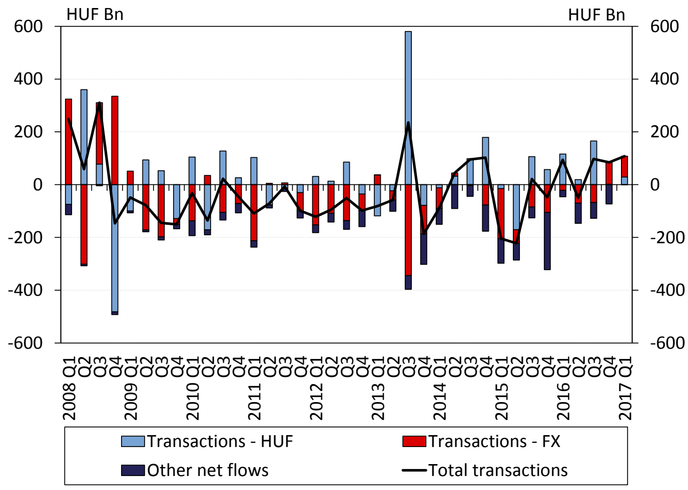
In 2017 Q1, the annual 4 per cent transaction-based growth in corporate lending continued. On a transaction basis, loans outstanding increased by HUF 108 billion in the quarter under review, mainly as a result of the expansion in FX loans. During the past one year, market-based forint loans also expanded significantly, in addition to the loans granted under the FGS, which was closed in March of this year. Lending to the SME sector in a narrow sense grew by 8.1 per cent, and lending to the SME sector including the self-employed rose by 12.8 per cent in annual terms. According to banks' responses to the Lending Survey, the conditions of loans to large corporations remained unchanged, while banks eased credit standards for small and micro enterprises, the demand of which showed a strong increase during the quarter. Spreads on small-amount forint loans increased, while looking ahead banks indicate an easing in price conditions, although no wide-ranging easing of standards is expected. For the banks participating in the survey, the possibility of further easing in credit conditions continues to be provided by the ample liquidity, while the necessity of easing is ensured by the market competition, and improving economic prospects may also have an impact in the next half year.

Chart 1: Growth rate of loans outstanding of the whole corporate sector and the SME sector



Note: Transaction based, prior to 2015 Q4 data for SMEs are estimated based on banking system data. Source: MNB.

Chart 2: Net quarterly changes in corporate loans outstanding, by denomination



Note: Seasonally unadjusted net change in outstanding amounts, with rolling exchange rate adjustment, excluding individual institutional effects. Source: MNB.

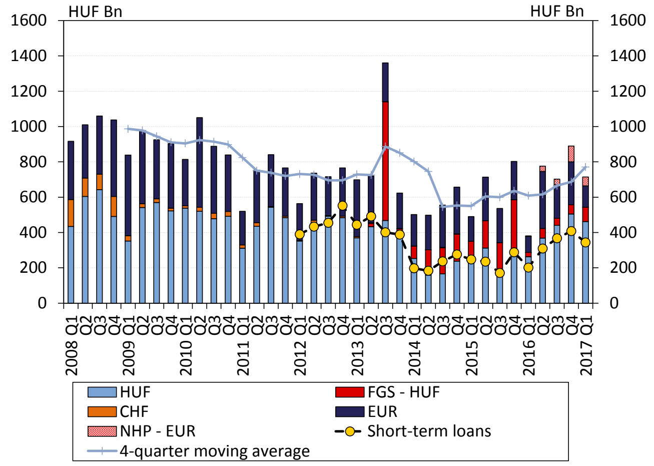
Domestic corporate lending

Lending to micro, small and medium-sized enterprises continued to expand in 2017 Q1. Loans to non-financial corporations increased by more than 4 per cent in the past one year (Chart 1), amounting to a rise of HUF 260 billion on a transaction basis. In the period under review, in addition to the forint loans of the Funding for Growth Scheme, market-based forint loans also expanded considerably, rising by HUF 285 billion. Outstanding loans of the SME sector in a narrow sense increased by 8.1 per cent in annual terms, while the annual growth rate of the outstanding loans of the SME sector including the self-employed[1] amounted to 12.8 per cent. The Funding for Growth Scheme (FGS) and the Market-based Lending Scheme (MLS) also contributed significantly to the lending to small and medium-sized enterprises. The institutions that did not close their positions vis-à-vis the MNB until the end of February undertook a further increase in loans amounting to a total HUF 170 billion for this year. Accordingly, the MNB expects the MLS to remain one of the supporting pillars of corporate lending even following the closing of the FGS. Regarding borrowing by the self-employed, the significant divergence from the underlying trends is primarily attributable to the national land credit programme.

Total corporate loans continued to increase during the quarter. In 2017 Q1, transaction-based growth in credit institutions' corporate loan portfolio amounted to some HUF 108 billion (Chart 2), while the loan portfolio of SMEs declined by HUF 3.5 billion in the quarter as a result of transactions. In contrast to the earlier trend of lending in forints, growth in Q1 occurred predominantly in FX loans, which increased by approximately HUF 79

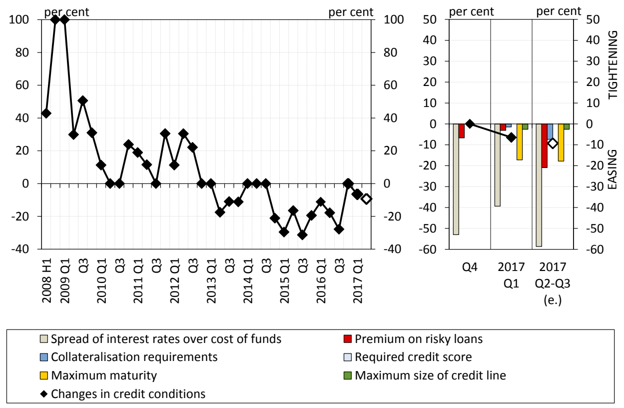
[1] Although the self-employed belong to the household sector in a statistical sense, they also qualify as SMEs based on their activities and legal definition.

Chart 3: New corporate loans in the credit institutions sector as a whole



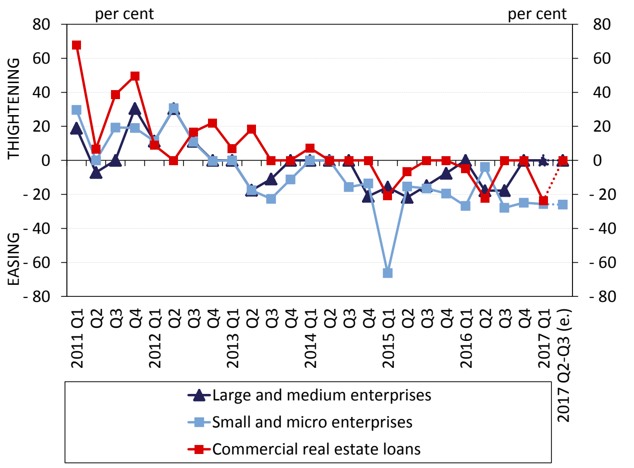
Source: MNB.

Chart 4: Changes in credit conditions in the corporate segment



Note: Net percentage balance of respondents reporting tightening/easing credit conditions weighted by market share. Source: MNB, based on banks' responses.

Chart 5: Changes in credit conditions in the corporate sub-segments



Note: Net percentage balance of respondents reporting tightening/easing credit conditions weighted by market share. Source: MNB, based on banks' responses.

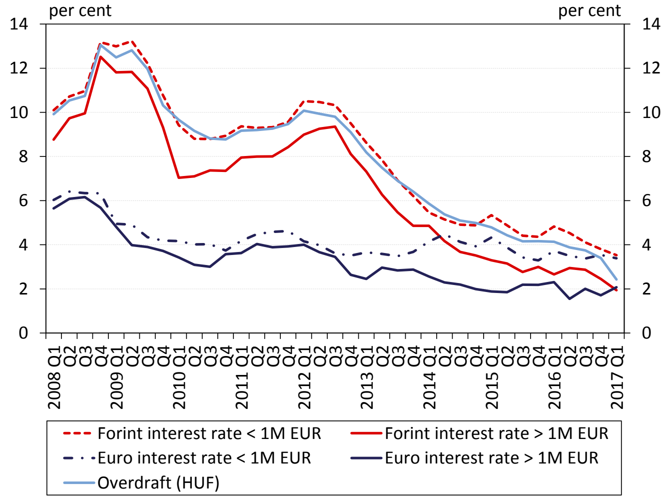
billion, while forint loans grew by HUF 29 billion on a transaction basis. Loans granted in the third phase of the Funding for Growth Scheme increased by HUF 45 billion, of which transactions in the HUF pillar amounted to HUF 26 billion, and transactions in FX loans amounted to HUF 19 billion. No major write-offs and reclassifications (other change in stocks) took place in non-financial corporations' loans outstanding.

Loans contracted under the FGS accounted for about one-fifth of new disbursements. New contracts of the credit institutions sector with non-financial corporations amounted to HUF 715 billion in the first quarter of the year (including money market transactions) (Chart 3). The total volume of new loan contracts in the past twelve months expanded by 26 per cent compared to the previous one year. The strongest increase was observed in market-based forint loans, where issuance exceeded the figure from one year earlier by 74 per cent. Within the annual value of new loans, short-term loans had a significant share,[2] accounting for 46 per cent of all new loans. In Q1, loan agreements with non-financial corporations in the third phase of the Funding for Growth Scheme contributed to the extension of forint loans by HUF 81 billion and of EUR loans by HUF 51 billion in total. Also taking into account the loans granted to the self-employed, the utilisation of the HUF 700 billion available under the FGS reached HUF 686 billion by the closing of the scheme at end-March.

There was no major easing in banks' corporate credit conditions. A net 6 per cent of the banks participating in the Lending Survey eased conditions on corporate loans granted in 2017 Q1. However, looking at the partial conditions, a significant number of banks indicated easing: 39 per cent of them reduced the spread between the cost of funds and the lending rate (Chart 4). The standards were not eased in the large corporations segment, while a quarter of the banks eased the conditions on loans taken by small and micro enterprises, and the same portion of them expect easing in the next half year as well (Chart 5). After a half a year without changes, nearly one quarter of the banks also eased the standards for commercial real estate loans, but they do not expect this trend to continue in Q2 and Q3. Looking ahead, a net 9 per cent of the banks indicated the intention to ease conditions on corporate loans in the next half year, which will most likely be

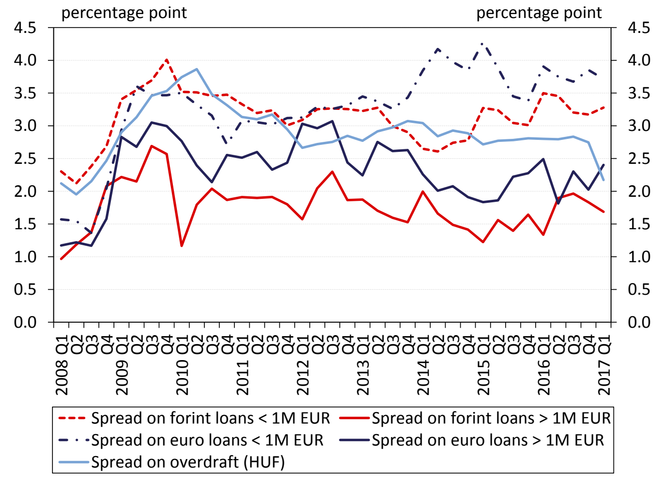
[2] Loans with a maturity of less than one month and the renewal of earlier credit line agreements increase neither the loans outstanding at the end of the month, nor the value of transactions.

Chart 6: Interest rates on new loans to the corporate sector



Note: Loans with variable interest rates or with up to 1-year initial rate fixation. From 2015, based on data net of money market loans exceeding EUR 1 million. Source: MNB.

Chart 7: Interest rate spreads on new corporate loans



Note: Spread on the 3-month BUBOR and EURIBOR. Loans with variable interest rates or with up to 1-year initial rate fixation. From 2015, based on data net of money market loans exceeding EUR 1 million. Source: MNB.

implemented through further easing of price conditions and making longer-term loans available. While in Q1 only the increased competition facilitated the easing of credit standards, during the next half year an improvement in the prospects for economic activity may also give a boost to further easing.

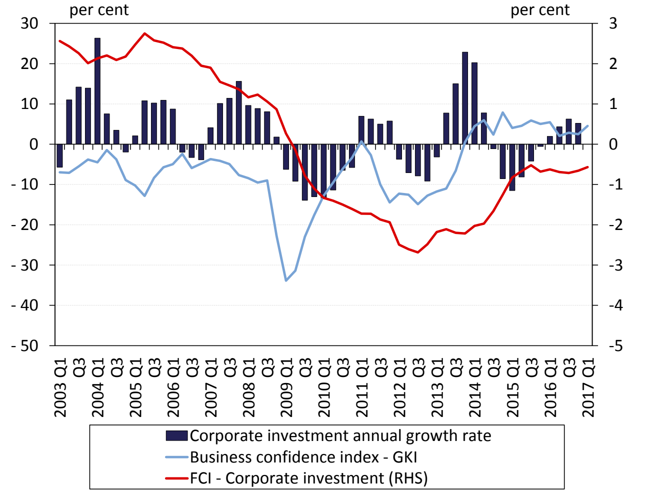
The financing cost of small amount forint loans has reached the level of euro loans. The interest rate on new market-based corporate loans[3] in the case of large-amount forint loans – excluding money-market type transactions[4] – decreased by an average 0.5 percentage point, and 0.3 percentage point in the case of forint loans below EUR 1 million (Chart 6). In parallel with that, the interest rate level of HUF overdrafts was down by 1 percentage point. Developments in the average interest rate spread according to credit size were heterogeneous in the case of forint loans: while the average spread on small-amount loans rose by 0.1 percentage point, the same degree of decline was observed in the case of large-amount ones (Chart 7). As a result, at end-March the smoothed interest rate spreads on small-amount corporate forint loans and on large-amount ones were 3.3 percentage points and 1.7 percentage points, respectively. Developments contrasting the above took place in the financing conditions of EUR loans in Q1. The average interest rate level of large-amount EUR loans rose by 0.4 percentage point, which is completely attributable to the increase in the interest rate spread. The average interest rate level of small-amount EUR loans declined by 0.2 percentage point, 0.1 percentage point of which was the result of a decrease in the average interest rate spread.

The banking sector's lending activity continues to have a moderate contraction effect on corporate investment. In 2017 Q1, the corporate sub-index of the Financial Conditions Index continued to be negative (Chart 8), i.e. the level of corporate investment was slightly reduced by the lending of the banking sector. The business confidence index, which captures expectations, was up compared to December. During the quarter under review, the economic activity indices of the services sector and construction companies increased the most, and improvement was observed in

[3] In the case of new contracts, we examined variable-rate loans or loans with interest rate fixation up to one year. The majority of loans granted under the FGS are long-term loans, and therefore the interest rates reviewed by us are only affected by smaller, short-term FGS loans.

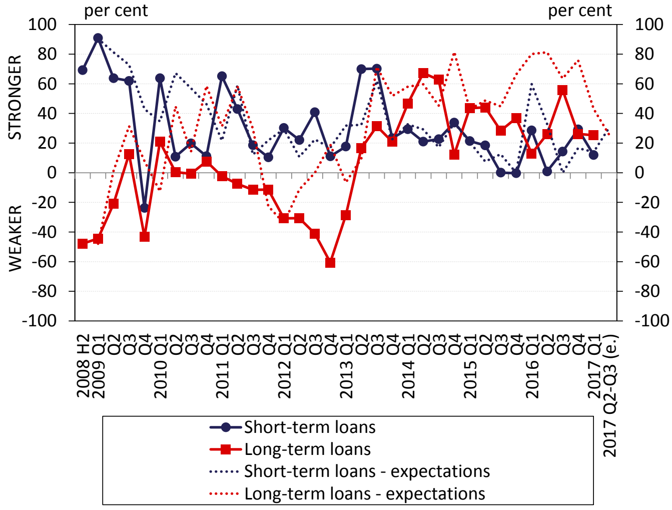
[4] Money market transactions are loans with a value of over EUR 1 million extended to non-financial corporations; their term is short (typically less than 1 month) and they serve to fund some kind of financial operation. It has been possible to exclude money market transactions since 2015, although in the previous period, due to their low weight, they did not significantly distort the observed average interest rates.

Chart 8: Sub-index of the FCI for corporate lending



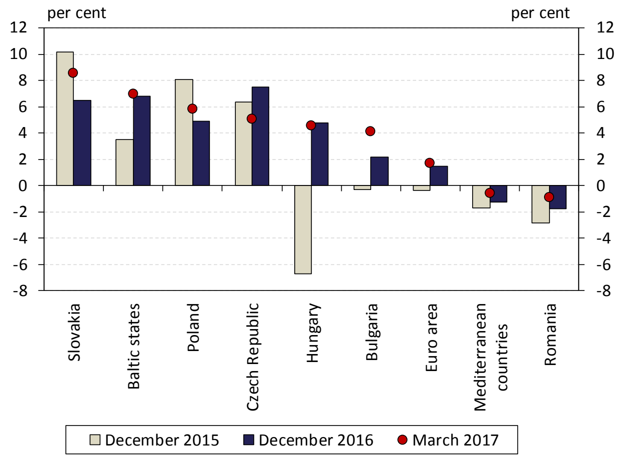
Note: The sub-index of the FCI quantifies the banking system's contribution, through corporate lending, to the annual growth in corporate fixed investments. Sources: MNB and GKI.

Chart 9: Change in credit demand by maturity



Note: Net percentage balance of respondents banks indicating stronger/weaker demands, weighted by market share. Source: MNB, based on banks' responses.

Chart 10: Annual transaction-based growth rate of corporate loans in an international comparison



Note: Mediterranean countries: Greece, Italy, Portugal and Spain. Baltic states: Estonia, Lithuania and Latvia. Sources: ECB and MNB.

production possibilities and the business environment.

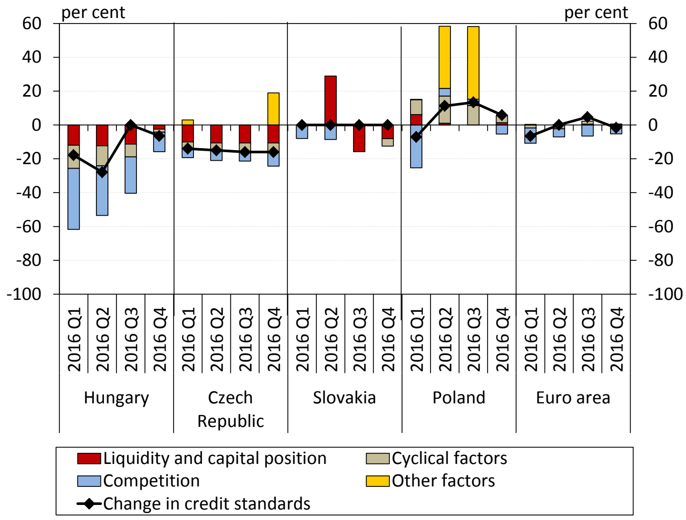
SME demand for loans rose in Q1. Based on the responses given in the Lending Survey, a net one fifth of the banks experienced a pick-up in demand among companies. Banks reported expansion in all categories in breakdowns by currency, maturity and company size as well. Nevertheless, in the case of HUF-denominated and long-term loans, a larger proportion of banks indicated an increase, than in the case of short-term and FX loans (Chart 9). The strongest expansion was observed in credit demand by small and micro enterprises, as around one third of banks perceived a pick-up, taking account of seasonal effects as well. Demand in this category of companies was mainly for long-term forint loans. For the next half year, a net 30 per cent of responding banks expect an increase in demand in the market of short-term loans, and a similar number of them, i.e. 26 per cent, anticipate a rise in demand for long-term loans. 42 per cent expect an expansion in demand in the sectors of large and medium-sized companies, while this ratio is 19 per cent in the case of smaller companies.

International outlook in corporate lending

Expansion in corporate lending is observed both in the euro area and in the region. Within the euro area, corporate loans increased by an average 1.8 per cent in annual terms (Chart 10). Although in Ireland, the Netherlands and Portugal corporate loans from credit institutions continue to decline, an expansion of 2–6 per cent was registered in the majority of the Member States. Corporate lending increased by 7 per cent in the Baltic states and by 6.5 per cent in the Visegrád countries, while non-financial corporations' loans outstanding were down by 1 per cent in Romania in annual terms.

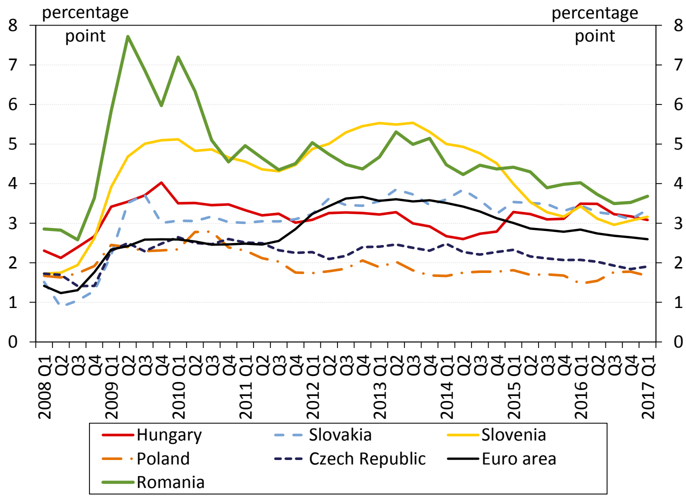
Corporate credit conditions eased again in the euro area for the first time after a half year. Based on the banks' responses to lending surveys, corporate credit conditions eased slightly overall in the euro area, with a net 2 per cent of banks easing the conditions of credit accessibility (Chart 11). One key reason for this is pressure from competition on banks, while – according to euro area banks – willingness to take on risk has already become a factor pointing to tightening. Looking at the partial conditions, the most significant easing was observed in the spreads on less risky loans. As a result of the low interest rate environment and the demand for working capital financing, corporate credit demand increased in the quarter under review, although with

Chart 11: Changes and factors contributing to changes in corporate credit conditions in international comparison



Note: Category values are derived from the arithmetic average of the factors thematically classified therein. Positive values indicate the tightening of standards, while negative ones indicate the easing thereof. Sources: MNB, ECB, national central banks.

Chart 12: International comparison of interest rate spreads on small-amount corporate loans extended in domestic currency



Note: Variable-rate loans with maturities of up to one year; therefore, FGS loans with the maximum 2.5 percentage point spread are not included. In the case of Hungary, from 2015, based on data net of money market loans exceeding EUR 1 million. Sources: MNB, ECB, national central banks.

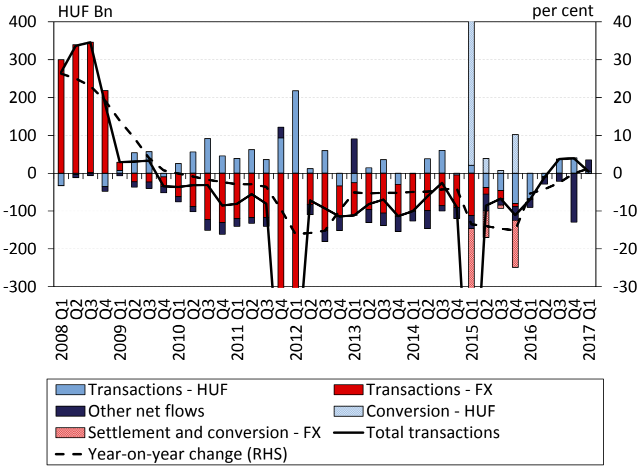
significant heterogeneity across countries. Regarding the CEE region, corporate credit conditions tightened slightly in Poland, remained unchanged in Slovakia, and eased again in the Czech Republic.

The average financing cost of corporate loans rose slightly in the region. The average interest rate on corporate loans with a volume of less than EUR 1 million did not change in the euro area in 2017 Q1, remaining at 2.3 per cent (Chart 12). With the exception of Poland and Hungary, the average interest rate level of corporate loans increased by roughly 0.1–0.2 percentage point everywhere in the region. Interbank rates, which serve as reference rates, remained unchanged in the case of the Visegrád countries, and thus the change in spreads equalled that of the interest rate levels. Accordingly, by end-March, small-amount corporate loan spreads reached 2.6 percentage points on average in the euro area and the Visegrád countries. Consequently, the Hungarian spread level cannot be considered high compared to the regional average.

3. DEVELOPMENTS IN LENDING IN THE HOUSEHOLD SEGMENT

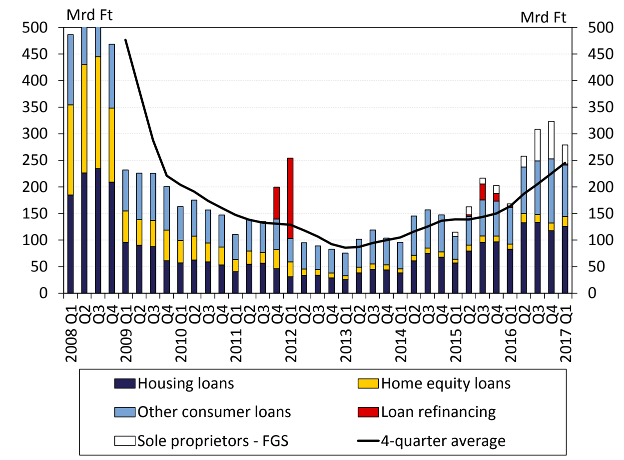
In 2017 Q1, the value of household loan transactions amounted to HUF 4 billion. The rate of annual growth continued to improve, as loans outstanding expanded by 1.2 per cent on a transaction basis. Borrowing by the self-employed sector once again had a major impact on transactions during the quarter, but retail loan growth also steadily improved, and loans outstanding declined by a mere 2.2 per cent in annual terms. The volume of new loans outside the FGS amounted to HUF 241 billion in the quarter under review, expanding by an annual average of some 50 per cent. Within the total volume, new housing loans increased by 44 per cent in the past one year. According to banks' responses to the Lending Survey, conditions for both housing and consumer loans remained practically unchanged in the quarter under review, and in the case of housing loans no change is expected for the next half year. Against this background, banks continued to perceive a pick-up in credit demand in the case of both products, and looking ahead they expect this trend to continue. The rise in demand is still supported by the Home Purchase Subsidy Scheme for Families (HPS). In Q1, 16 per cent of the new housing loan volume was related to the HPS. Both the average APR and the interest rate spread on new housing loans declined in the period under review. However, the level of spreads can still be considered high in a regional comparison.

Chart 13: Net quarterly change in household loans by denomination



Note: Seasonally unadjusted net change in outstanding amounts, with rolling exchange rate adjustment. The annual change in the outstanding amount reflects the effect of the settlement. Source: MNB.

Chart 14: New household loans in the entire credit institutions sector



Note: Loan refinancing indicates only the refinancing related to the early repayment scheme and the conversion into forints. Source: MNB.

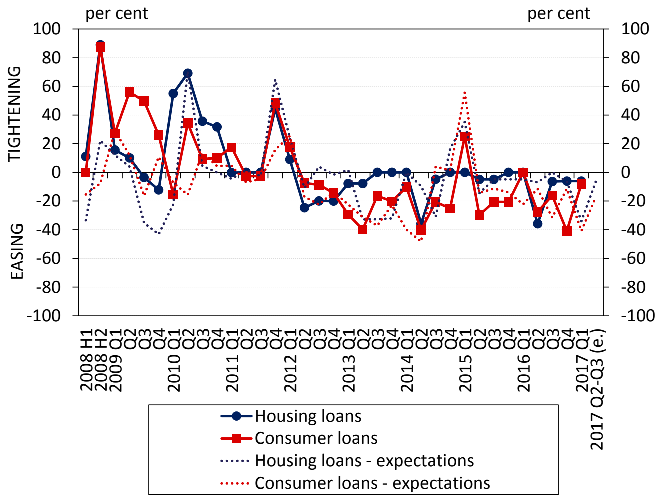
Domestic household lending

Lending to households expanded in annual terms. In 2017 Q1, loans of credit institutions granted to households increased by HUF 4 billion as a result of transactions (Chart 13). In the period under review, write-offs and reclassifications resulted in a rise of HUF 30 billion. Transactions resulted in a HUF 5 billion increase in forint loans and a HUF 1 billion decrease in FX loans. As a result of transactions, housing loans rose by HUF 7 billion and consumer loans fell by HUF 58 billion, while the volume of other loans increased by HUF 55 billion during the quarter, which is mainly attributable to the loans to the self-employed sector.[5] Overall, annual household loan transactions amounted to HUF 67 billion, representing growth of 1.2 per cent. This was significantly influenced by a HUF 45 billion increase in loans to the self-employed sector, but even disregarding this, the contraction in retail loans still decreased, reaching 2.2 per cent at the end of March. The value of retail transactions was reduced by HUF 8 billion from the sale of an individual loan during the quarter. The improved growth in household loans was driven by a pick-up in new lending accompanied by higher principal repayments.

The volume of new contracts increased by some 50 per cent in annual terms. The volume of credit institutions' new household loan contracts amounted to HUF 241 billion in 2017 Q1, after adjustment for the FGS loans granted to the self-employed sector (Chart 14). The volume of new loans was up from the previous year by an annual average of 49 per cent. The annual growth in the case of housing loans amounted to 44 per cent, while home equity loans increased by 50 per cent and other

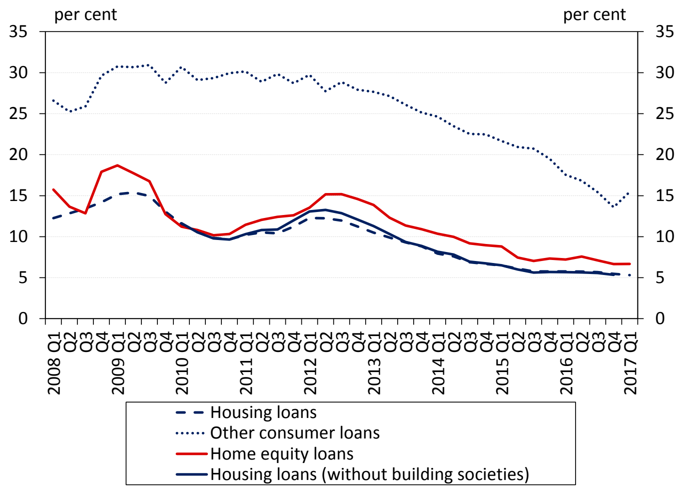
[5] The statistical category of households includes both retail customers and the self-employed sector (sole proprietors and small-scale producers).

Chart 15: Changes in credit conditions in the household segment



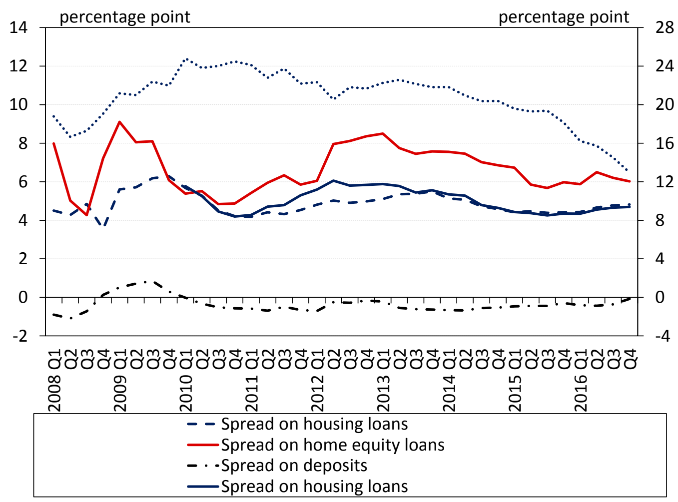
Note: Net percentage balance of respondents reporting tightening/easing credit conditions weighted by market share. Source: MNB, based on banks' responses.

Chart 16: APR of new household loans



Note: Quarterly average of lending rates on newly disbursed loans. Source: MNB.

Chart 17: Interest rate spreads on new household loans



Note: Quarterly average of the interest rate spreads on the 3-month BUBOR. Spreads based on the APR. Source: MNB.

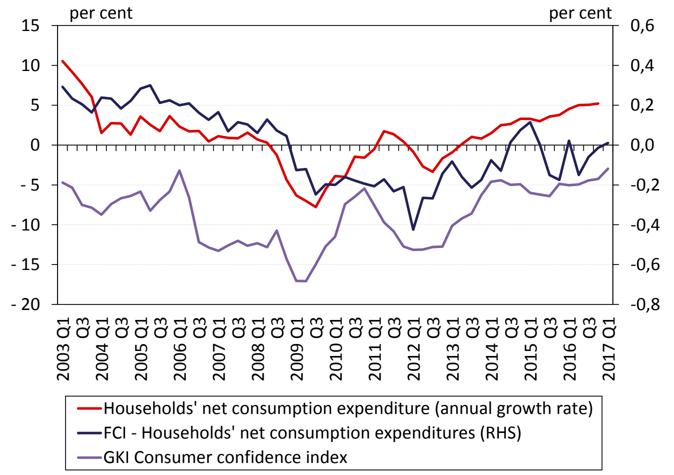
consumer loans by 59 per cent. Within that, new personal loans were up by 54 per cent in annual terms. The share of loans for the construction or purchasing of new homes accounted for 19 per cent of new housing loans in 2017 Q1.

Despite the expectations, credit conditions essentially did not ease. In the Lending Survey, a net 6 per cent of the banks reported a general easing of the standards for housing loans (Chart 15). Nevertheless, considering the partial conditions, a significant proportion of banks indicated easing: in net terms, half of the responding banks reduced the spreads, 34 per cent of them allowed longer maturities, and another 6 per cent each eased the maximum loan-to-value ratio and the required credit score. Tightening took place regarding the payment-to-income ratio in the quarter under review. Nearly two thirds of the responding banks explain the easing of housing loan conditions with their market share objectives, half of them with developments in the housing market and one third with the ample liquidity. A net 8 per cent of banks eased the conditions for consumer loans in 2017 Q1. A small proportion of banks reported easing of the conditions for both housing loans (6 per cent) and consumer credit (17 per cent) planned for the next half year.

The average financing cost of housing loans decreased during the quarter. The average APR on new forint housing loans declined by 0.2 percentage point to 5.3 per cent in 2017 Q1 (Chart 16). In terms of interest payment, credit costs varied: the average smoothed APR on variable-rate loans was down by 0.2 percentage point, while the smoothed APR on fixed-rate housing loan products remained unchanged. During the quarter, the composition effect explains a 6-basis point decline in the developments in the average APR: compared to the previous quarter, the ratio of fixed-rate loans (typically involving a higher APR) within new loans decreased by 3 percentage points to 56 per cent. The average of spreads declined by 0.1 percentage point in the period under review, thus amounting to 4.3 percentage points at end-March (Chart 17). The apparent contradiction to the Lending Survey concerning the reduction of spreads may still be attributable to the financing of new, riskier customers.

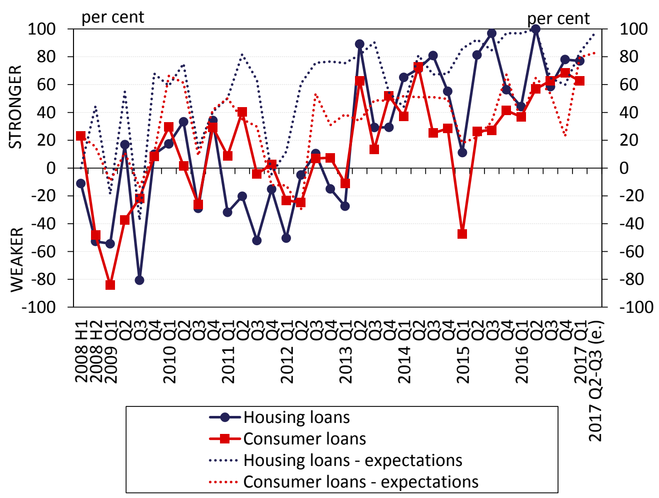
Both the APR and spread on unsecured consumer loans increased. The interest rate level of mortgage-backed consumer loans remained unchanged, while rates on other consumer loans were up by 1.9 percentage points

Chart 18: Sub-index of the FCI for household consumption expenditures



Note: The FCI quantifies the contribution of the banking sector's lending activity to the annual growth rate of household consumption expenditures. For technical reasons, the chart indicates one one-hundredth of the GKI index. Sources: MNB and GKI.

Chart 19: Credit demand in the household lending segment



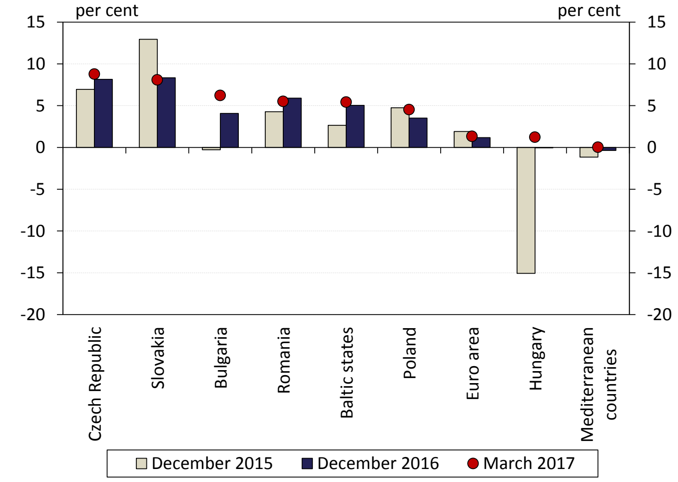
Note: Net percentage balance of respondents banks indicating stronger/weaker demands, weighted by market share. Source: MNB, based on banks' responses.

in Q1. Consequently, at end-March 2017, the average interest rate level of mortgage-backed consumer loans was 6.7 per cent and that of other loans was 15.5 per cent (Chart 16). Interest rate spreads in the case of home equity loans increased by 0.4 percentage point to 6.4 percentage points, while following a 2.3-percentage point fall, spreads in the case of unsecured consumer loans reached 15.2 percentage points by the end of the quarter (Chart 17).

On the whole, the financial intermediary system has a neutral effect on the consumption of households. In 2016, households' consumption expenditures increased by 4.9 per cent, and according to the MNB's forecast, a further rise of 5.1 per cent is expected for 2017. The improvement in economic activity was accompanied by a further rise in the consumer confidence index in Q1. According to the MNB's business activity survey, the stronger consumer confidence is explained by the improvement in forward-looking expectations regarding households' financial and employment situation, but inflation fears had a negative impact in March. According to the consumption expenditure sub-index of the Financial Conditions Index, the overall impact of lending in the financial intermediary system on the consumption expenditure of households was neutral (Chart 18).

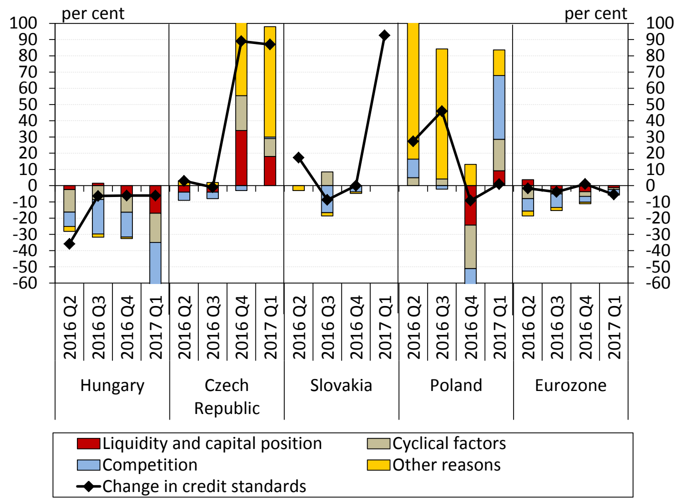
Demand for housing loans is expected to continue growing. In 2017 Q1, around three quarters of the banks participating in the Lending Survey perceived an increase in demand in the housing loan segment and 63 per cent of them in the consumer loan segment. In the next half year, 83 per cent of the banks expect a further pick-up in the demand for consumer loans, while in the housing loan market almost all banks expect an expansion in demand. The demand for housing loans is also increased as a result of the utilisation of the Home Purchase Subsidy Scheme for Families: between early January and end-March loans amounting to HUF 20 billion were extended under the scheme, accounting for 16 per cent of new housing loans.

Chart 20: Annual transaction-based change in household loans in an international comparison



Note: Mediterranean countries: Greece, Italy, Portugal and Spain. Baltic states: Estonia, Lithuania and Latvia. Sources: ECB and MNB.

Chart 21: Changes and factors contributing to changes in housing loan conditions in an international comparison



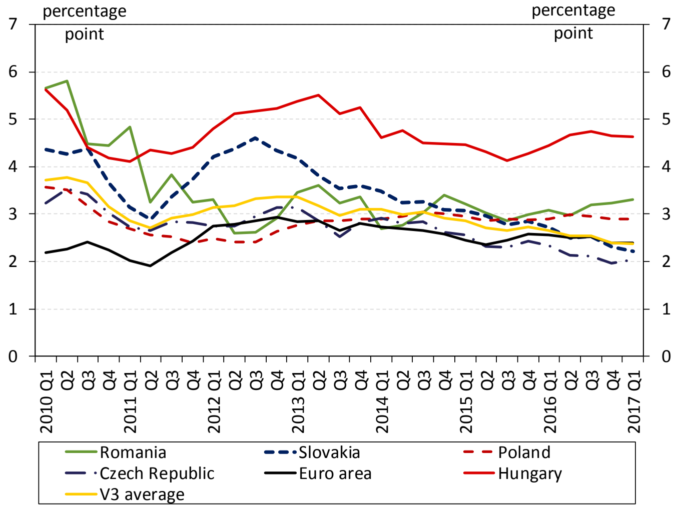
Note: Category values are derived from the arithmetic average of the factors thematically classified therein. Positive values indicate the tightening of standards, while negative ones indicate the easing thereof. Sources: MNB, ECB, national central banks.

International outlook in household lending

Household lending increased in both the CEE region and the euro area. In 2016, the annual average growth rate in the euro area amounted to 1.2 per cent and even exceeded 1.3 per cent in 2017 Q1 (Chart 20). Households' debt increased in most Member States in annual terms. By contrast, due to the unfavourable macroeconomic indicators, households in Greece continue to restrain consumption, which resulted in a nearly 3-per cent contraction in lending. A decline in loans outstanding is typical of Cyprus and the Iberian Peninsula as well. In Ireland, the decline supports households' sustainable debt servicing, as the amount of loans outstanding can be deemed significant in an international comparison. In the CEE countries, an increase in household debt was observed: the annual increase in lending to households was 8 per cent in Slovakia, 9 per cent in the Czech Republic, 6 per cent in Romania and 5 per cent in Poland.

Housing loan conditions eased in the euro area and tightened in the region during the quarter. According to the lending survey of the European Central Bank, euro area banks eased conditions for housing loans, which was mainly attributable to the steady increase in competition among banks. Meanwhile, one quarter of the banks perceived a pick-up in demand. Contrary to European trends, credit conditions tightened in the Visegrád countries: some 90 per cent of banks tightened in Slovakia and the Czech Republic. In Poland, housing loan conditions were not tightened in spite of the fact that all factors pointed to the other direction (Chart 21). The risks perceived in the housing market and the entry into force of the macroprudential recommendation regarding the reduction of loans with an LTV ratio above 80 per cent are behind the tightening implemented in the Czech Republic. In a similar manner, in Slovakia the limits that entered into force on 1 January 2017 concerning the maturity and LTV of newly granted loans as well as the constraint regarding the payment-to-income ratio active as of 1 March may explain banks' responses.

Chart 22: International comparison of spreads on housing loans extended in domestic currency



Note: APR-based spreads above the 3-month interbank interest rate in case of loans with variable rate or with up to 1 year fixation. APR-based spreads above the 3-year IRS in case of loans with over 1 year fixation Sources: MNB, ECB, EMF, Datastream, national central banks.

On the whole, the costs of new housing loans did not change in the euro area and the region. In 2017 Q1, the average APR on newly granted housing loans in the euro area was unchanged at 2.3 per cent. Of the countries in the region, interest rates rose by 0.1 percentage point in the Czech Republic, Slovenia and Romania. They remained unchanged in Poland, while the average interest rate on housing loans denominated in domestic currency declined by 0.1 percentage point in Slovakia. With a comparison of housing loan APRs with funding costs[6] adequate to the fixation period, the Hungarian level of interest rate spreads can be considered high in an international comparison as it is more than 2 percentage points higher on average than the regional average (Chart 22).

[6] Interest rate swap that captures the cost for the bank of interest rate fixation for 3 years.

4. ANNEX: NOTES ON THE METHODOLOGY

The analysis is based on statistical data and the findings of the Lending Survey.

1. *Credit aggregate and lending rate data*

One of the statutory tasks of the Magyar Nemzeti Bank is to publish statistical data regarding the functioning of the system of credit institutions and the financial position of the country. The statistics compiled, the press releases presenting the main data and the methodological descriptions of preparing the statistics are available on the MNB's website at: https://www.mnb.hu/en/statistics

2. *Lending Survey*

The Lending Survey facilitates the analysis of how major banks perceive and evaluate market developments and how they develop their respective strategies, in particular their lending policies. In the case of the household segment, a total of 11 banks were involved in the interviews. 9 banks responded to questions related to housing loans, while 10 banks and 11 financial enterprises answered questions on consumer loans. Based on data from the end of 2017 Q1, the surveyed institutions accounted for 85 per cent of the banking sector in the case of outstanding housing loans and 94 per cent in the case of outstanding consumer loans. The corporate questionnaire was completed by 15 banks in total, which represent 92 per cent of the corporate loan market, while the market share of the 14 banks responding to the questionnaire related to commercial real estate loans is 95 per cent.

The survey consists of a standard questionnaire in each segment. The retrospective questions refer to 2017 Q1 (compared to 2016 Q4), whereas the forward-looking questions concern the next half-year period, i.e. the one covering 2017 Q2 and Q3 (relative to 2017 Q1). The current questionnaire was completed by the senior loan officers between 3 and 20 April 2017.

To indicate changes, the survey uses the so-called net change indicator, expressed as a percentage of respondents. This indicator is calculated as follows: market share-weighted ratio of respondents projecting a change (tightening/increasing/strengthening) minus the market share-weighted ratio of respondents projecting a change in the opposite direction (easing/decreasing/weakening).

The detailed findings of the Lending Survey and the set of charts are available at: https://www.mnb.hu/en/financial-stability/publications/lending-survey

3. *The Financial Conditions Index (FCI)*[7]

Numerous indicators and hence a substantial set of information are available regarding the functioning, status, environment and performance of the system of financial intermediation. In order to condense the information relevant to the financial system and to describe the underlying processes, many central banks (including the Magyar Nemzeti Bank) apply factor models, which allow them to present key information extracted from hundreds of time series in a few variables, i.e. factors. Based on the results of the factor model, the FCI discussed in the publication shows the contribution of the banking sector to the annual real GDP growth rate.

The database used for the factor analysis is composed of individual bank data; namely, certain aggregate indicators of the nine largest banks and of the rest of the banking sector. From the panel database consisting of 10 banks, the following indicators were included for the purposes of the factor analysis:

- Liquidity:
  - liquid assets as a percentage of the balance sheet total
  - stable funding as a percentage of the balance sheet total
  - FX swaps outstanding as a percentage of the balance sheet total
- Capital:
  - own leverage
  - parent bank leverage

[7] Hosszú, Zs. (2016): The impact of credit supply shocks and a new FCI based on a FAVAR approach, *MNB Working Papers* 2016/1, Magyar Nemzeti Bank.

    - capital buffer as a percentage of the balance sheet total
- Risk:
    - changes in the proportion of non-performing portfolios
    - cost of provisioning as a percentage of the total portfolio
    - risk-weighted assets as a percentage of the balance sheet total
    - interest and commission revenue as a percentage of the balance sheet total

The question to decide during factor analysis is the exact number of estimated variables that can capture the essential information contained by the data. The MNB decided this question based on the factors' impact on macroeconomic variables: inserted in a VAR (vector autoregressive) model, the first two financial factors proved to be significant. At the same time, these two factors explain around 50 per cent of the variance of bank data.

The factors and the VAR model were estimated in accordance with the methodology presented in Koop and Korobilis (2014).[8] Based on the relationship between the factors and the original variables, the two factors were respectively interpreted as an indicator gauging banks' lending capacity, and as an indicator capturing banks' willingness to lend; at the same time, only the factors' change over time has significance; their level does not; in other words, a single data point does not carry information in itself. With that in mind, the final FCI was quantified based on the effect of these two factors on macroeconomic variables. According to the FAVAR estimate, as opposed to the factor measuring lending capacity, after the crisis the factor expressing willingness to lend significantly influenced changes in outstanding borrowing. Thus, the FCI was identified as the impact of banks' willingness to lend on GDP. The indicator is interpreted very similarly to the previous FCI: it shows the contribution of the banking sector to the annual real GDP growth rate through the sector's lending activity. In other words, if the FCI takes a value of 1, one percentage point of the annual growth rate of GDP can be attributed to the lending activity of the banking sector.

In addition to the total impact of the FCI on GDP, sub-indices can also be calculated on the basis of the VAR model. The FCI's corporate lending sub-index indicates the contribution of the banking sector's lending activity to the annual growth rate of corporate fixed capital investment. The FCI's household consumption expenditure sub-index quantifies the contribution of the banking sector's lending activity to the annual growth rate of household consumption.

[8] Koop, G. and Korobilis, D. (2014): A new index of financial conditions, European Economic Review, vol. 71, pp. 101–116.

TRENDS IN LENDING

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