TRENDS IN LENDING

2020
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(March 2020)

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The objective of the publication 'Trends in Lending' is to present a comprehensive picture of the latest trends in lending and to facilitate the correct interpretation of these developments. To this end, it elaborates on 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 on access to credit. Price conditions, in turn, show the cost of borrowing for creditworthy customers.

In particular, the key statistics examined in the analysis are the following:

- *The credit aggregates present quantitative developments in economic agents' loans outstanding based on 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 onwards, the analysis presents the trends in lending in the overall credit institutions sector (banking system and 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 in a qualitative manner as well, in the form of the spread over the funding costs, 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 over the reference rate.*
- *Banks active in the given segment provide qualitative responses in the Lending Survey concerning their expectations and the changes in credit demand they perceive. Similar to credit conditions, banks indicate the direction of the change.*

Detailed information on the methodology of the indicators describing the developments in lending is given 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.

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1. EXECUTIVE SUMMARY

Corporate loan growth in the last quarter of 2019 was slower than in the previous quarters due to higher repayments in December, but still increased by more than HUF 1,000 billion during the year as a whole, in line with high corporate investment activity. The annual growth rate of 14 per cent continues to be outstanding internationally. According to preliminary data, the loan portfolio of micro, small and medium-sized enterprises increased by 14 per cent as well in 2019. Companies signed 9 per cent more new loan contracts in 2019, compared with the previous year, amounting to approximately HUF 2,800 billion. At the same time, broad-based credit expansion resulted in higher industrial and regional concentration. The healthier structure of SME lending in 2019 was also supported by the MNB's FGS fix scheme.

The double-digit increase was achieved with unchanged credit supply conditions and a further strengthening of demand, especially for long-term loans. Banks in the Lending Survey still do not plan to tighten their terms, but they remain cautious when financing commercial real estate, especially for housing projects. The rise in interest rates on large-value loans in the fourth quarter is mainly attributable to euro-denominated contracts in the real estate sector.

The portfolio of household loans increased by nearly HUF 300 billion in Q4, reaching an annual growth rate of 17 per cent. Prenatal baby support loans, launched in July, played a significant role in the dynamic expansion, although excluding these the expansion of the loan portfolio would have been 9 per cent. The issuance of prenatal baby support loans was not accompanied by markedly more subdued housing and personal loan issues, and therefore its additional impact is considered to be high for now. As a result, the annual value of new loans increased by more than 50 per cent compared with 2018, reaching a historical peak of HUF 2,300 billion in nominal terms. The interest rate risk of new housing loans is moderate, which is also supported by the continuously increasing share of Certified Consumer-Friendly Housing Loans, currently accounting for 72 per cent. Although, according to the responses of the banks participating in the Lending Survey, the conditions for access to credit did not change, average interest rate spreads increased throughout the year.

The increase in demand is also supported by the measures of the Family Protection Action Plan. With the change in the terms of the Home Purchase Subsidy scheme for families in July, the role of the programme in housing lending increased. Prenatal baby support loan disbursements amounted to HUF 470 billion in 2019; the risk of the portfolio is mitigated by the fact that more than one-third of the nearly 50 thousand contracts are subject to a repayment moratorium, i.e. the loan is free of interest for the customer until maturity. Among debtors, those in the higher-income quintiles with low indebtedness are over-represented.

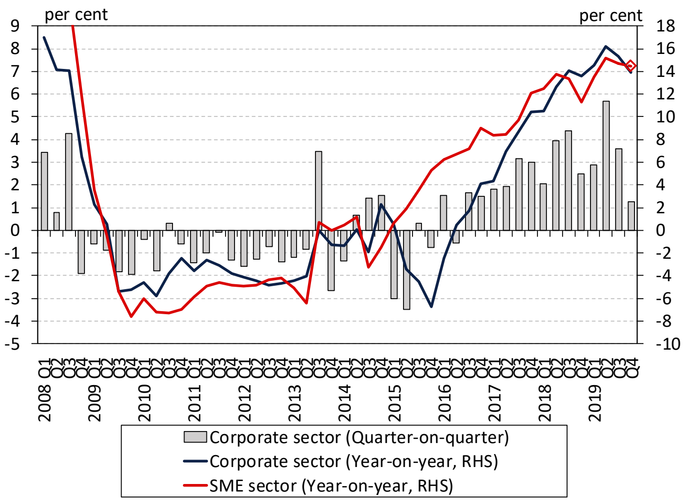
The MNB does not consider the level of credit expansion to be overheated, nor does it identify risks in its structure, taking into account developments in the real economy and the low level of loan penetration. At the same time, the significant outflow of prenatal baby support loans justifies the ongoing monitoring of credit market risk developments.

2. DEVELOPMENTS IN LENDING IN THE CORPORATE SEGMENT

In 2019 Q4 – primarily as a result of the repayments of large volumes in December – corporate credit grew moderately, by HUF 105 billion, as a result of transactions. However, in a year-on-year comparison, the loan portfolio of non-financial companies increased by HUF 1,056 billion, which corresponds to a 14 per cent growth rate. More than half of this increase, which was broadly based in banking and sectoral aspects, was still provided by HUF loans. However, FX loans expanded more than in the previous year, due to several transactions of extremely high amounts. In 2019, the loan portfolio of the SME sector also increased by 14 per cent based on preliminary data. The volume of new contracts in 2019 (without money market transactions) was almost 9 per cent higher than the same value in the previous year. In new lending activities, concentration grew from sectoral, banking and customer aspects. The share of fixed-rate loans increased significantly in the disbursements of low-amount HUF loans, which was supported effectively by the FGS fix product launched in January 2019: credit institutions signed contracts with companies in the value of HUF 300 billion.

Based on the answers given by the banks involved in the Lending Survey, the terms of lending did not change significantly in the corporate segment in Q4 either. While the interest rates of low-amount loans did not really change in the last quarter, high-amount transactions, and within that euro loans, experienced a high increase in interests, primarily because of the composition effect. The majority of banks experienced brisk demand for long-term loans in 2019 Q4 and are expecting a similar trend in the next half-year.

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



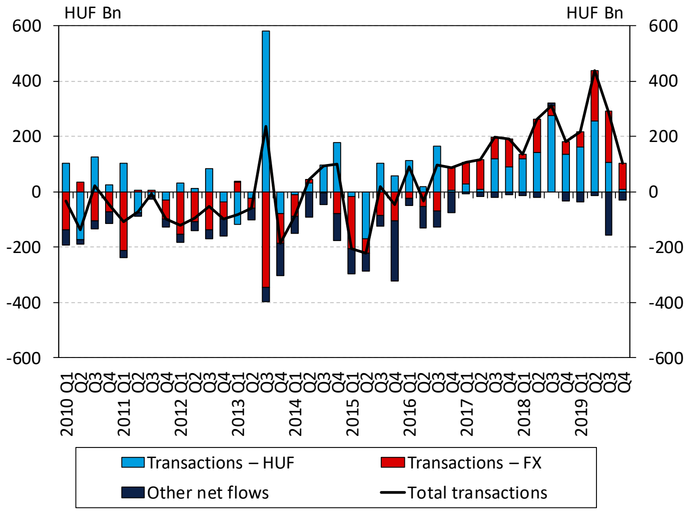
Note: Transaction-based data, prior to 2015 Q4, data for SMEs are estimated based on banking system data. Source: MNB.

Corporate lending in Hungary

Corporate lending expanded by 14 per cent in 2019. Over the past year, the outstanding loans of non-financial corporations rose by HUF 1,056 billion based on the transactions, corresponding to annual growth of 14 per cent (Chart 1). The significant expansion of the portfolio could be attributed to almost identical growth in HUF and FX loans, but the latter, starting from a lower base, increased more, by 16 per cent, while HUF loans expanded by more than 12 per cent, in a year-on-year comparison. In addition to the broad-based expansion both in terms of sectors and banks, multiple exceptionally high-amount transactions also contributed to the growth in lending that reached pre-crisis levels. Both large corporations and SMEs dynamically increased their outstanding loans, the SME sector's outstanding loans grew by 14 per cent according to preliminary data.

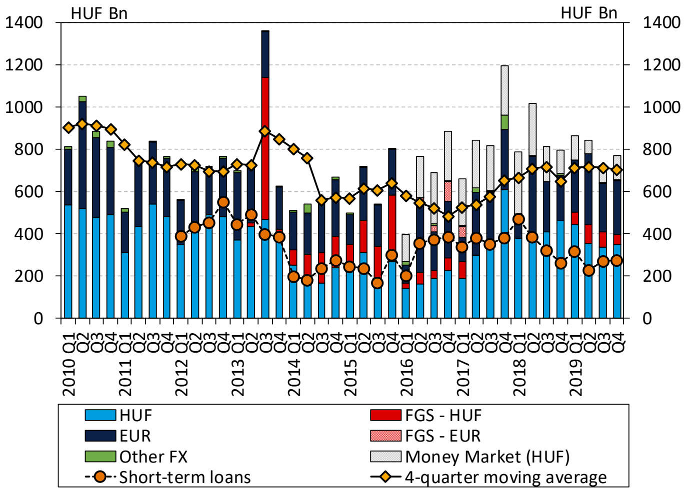
Due to the repayments of large volumes in December, the quarterly value of transactions remained moderate. As a result of disbursements and repayments, the loan portfolio grew by HUF 105 billion in the last three months of 2019 (Chart

Chart 2: Net quarterly changes in the corporate loan portfolio by currency



Note: Adjusted for impact of change in some banks' accounting standards at the beginning of 2017. Source: MNB.

Chart 3: New corporate loans in the credit institution sector



Source: MNB.

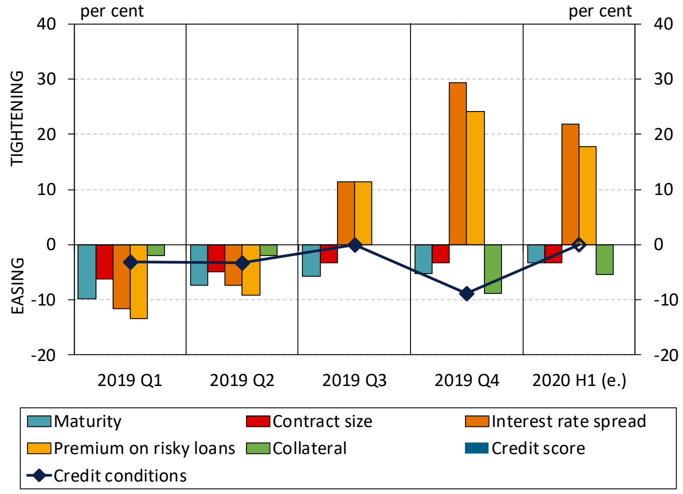
2). The vast majority of the increase in Q4 – that can be considered low when regarding the seasonality –, HUF 96 billion can be attributed to FX loans, while HUF loans increased by HUF 9 billion only. As a result of the high investment activities of companies, in the case of HUF loans the growth in transactions was facilitated by loans with terms over one year, while among euro transactions that dominated the FX loans, mainly short-term loans and loans over 5 years increased in this quarter.

Real estate deals and the manufacturing industry contributed most to the annual growth. As a result of the transactions, the loan portfolio of the real estate sector increased by HUF 158 billion in 2019 Q4, mainly because of long-term euro loans. However, the dynamic expansion of the historically high volume of loans in the manufacturing industry was slowed down by a large amount of FX repayments at the end of the year. Therefore, the increase in the last quarter was only HUF 5 billion as a result of the transactions. The growth of transactions in 2019 Q4 was primarily hindered by the transactions in the transportation and storage, and financial and insurance activities[1] sector, mainly due to the large amounts of repayments in December. However, looking at the annual loan transactions, the manufacturing industry made an outstanding contribution to the annual growth of lending. Thus, together with the real estate sector, they were responsible for almost 50 per cent of the transaction growth of HUF 1,056 billion in 2019.

The volume of loan contracts in 2019 exceeded the value of the previous year by 9 per cent. Over the past 12 months, without money market deals, companies concluded new loan contracts in the total value of HUF 2,830 billion. In 2019 Q4, new contracts were concluded in the value of HUF 655 billion, with HUF loans dominating (Chart 3). Looking at the new issues, the concentration grew from a banking, sectoral and regional perspective, and the ratio of large transactions (over HUF 5

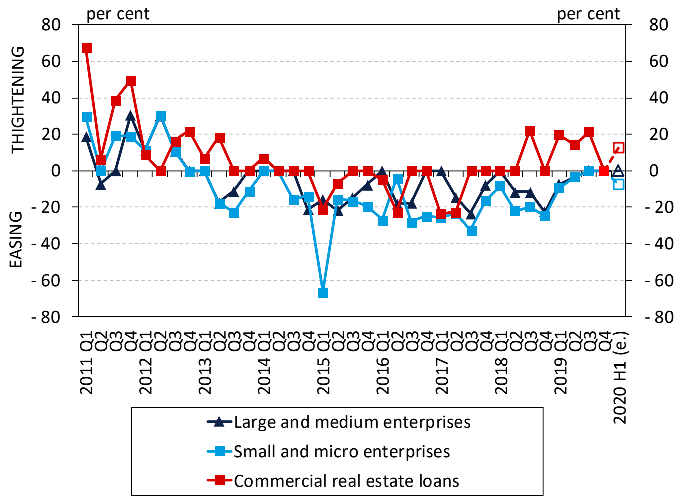
[1] The sector mainly includes holding companies and does not include financial intermediary companies.

Chart 4: Changes in credit conditions in the corporate segment



Note: Net ratio is the difference between tightening and easing banks weighted by market share. Source: MNB, based on banks' responses

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



Note: Net ratio is the difference between tightening and easing banks weighted by market share. Source: MNB, based on banks' responses

billion) also increased from 31 per cent in the previous year to 36 per cent. The share of long-term loans (over 3 years) in new loan contracts grew significantly in 2019. This was facilitated by the FGS fix product too, launched at the beginning of the year, under which credit institutions signed contracts with corporate businesses amounting to HUF 265 billion in 2019.[2]

In this quarter, the terms of lending did not change substantively in the corporate segment. A net 9 per cent of the responding credit institutions reported an easing of lending conditions. Credit institutions emphasised the easing of collateral requirements and the increase in the longest available tenor and loan amount. On the other hand, a net one quarter of the banks reported a tightening in the price conditions of lending (Chart 4). As to the first half of 2020, all institutions involved in the survey expect unchanged lending conditions, similar to their expectations indicated in the previous four Lending Surveys.

The credit conditions did not change in any of the corporate size categories in 2019 Q4. While in the previous quarters, a net one fifth of the responding credit institutions reported a tightening in the conditions of loans extended for commercial real estate, in 2019 Q4 they all reported unchanged lending conditions (Chart 5). For 2020 H1, a net 9 per cent of the banks indicated unchanged lending conditions for large companies and easing conditions in the case of small and micro enterprises. For commercial real estate lending, banks continue to be cautious, with a net 12 per cent planning to implement tighter conditions, especially for housing projects.

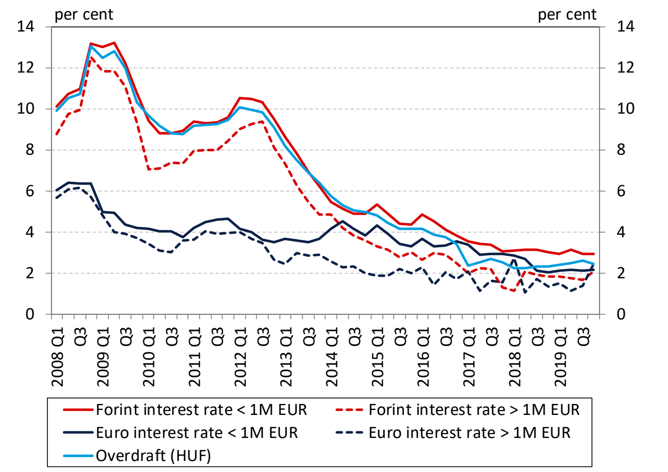
The financing costs of high-amount euro loans have increased. The average interest level[3] of euro loans over EUR 1 million – excluding money market transactions[4] – increased by more than 1

[2] The volume is net of the loans issued by financial enterprises and loans acquired by self-employed entrepreneurs.

[3] In the case of new contracts, we examined variable-rate loans or loans with interest rate fixation up to one year.

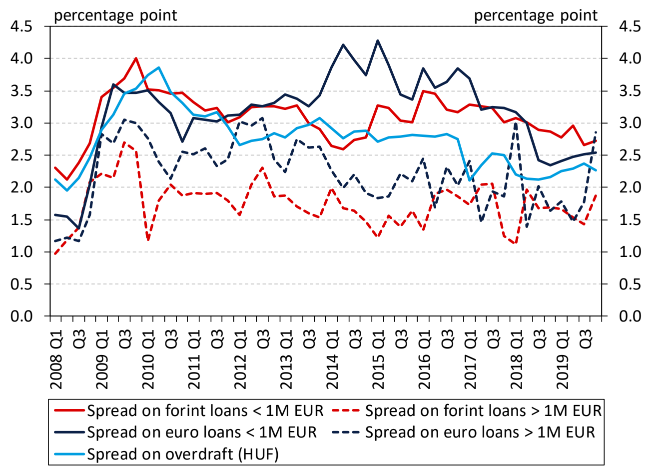
[4] Money market transactions are loans with a value of over EUR 1 million extended to non-financial corporations; their term is short (typically less than 1 month) and they serve to fund financial operation. It has been possible to exclude money market transactions since 2015, although in the previous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

Chart 6: Interest rates on new corporate loans



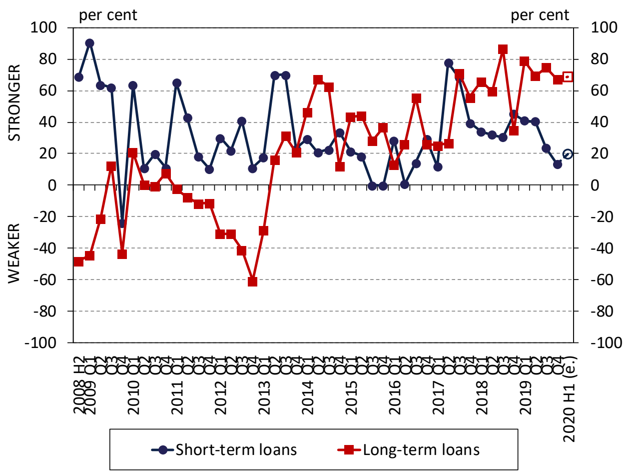
Note: Loans with variable interest rate or with up to 1-year initial rate fixation. From 2015, based on data net of money market loans exceeding EUR 1 million. Source: MNB.

Chart 7: Interest rate spreads on new corporate loans



Note: Spreads on the 3-month BUBOR and EURIBOR. Loans with variable interest rate 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 8: Changes in credit demand by maturity

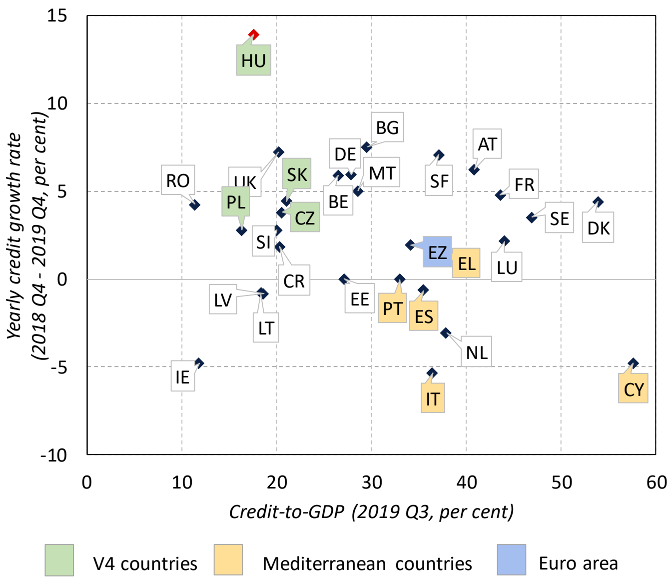


Note: Net ratio is the difference between banks indicating stronger and weaker demand, weighted by market share. Source: MNB, based on banks' responses

percentage point in Q4, reaching 2.5 per cent by the end of 2019. This surge is mainly explained by the composition effect: in the last quarter of the year, the share of FX loan contracts over HUF 5 billion related to the real estate sector grew significantly. These were provided with interest rates of 2.3 per cent on average by credit institutions. After the slow decline experienced in previous quarters, the average interest rate of high-amount HUF loans reached 2.1 per cent by the end of the year, which was also facilitated mainly by large individual loans. Two thirds of HUF loans over 5 billion extended in the last quarter were taken by companies involved in the real estate and construction sectors, with interest rates of 2.6 and 3.2 per cent respectively. Interest rates on low-amount loans did not really change much during the year, sitting at 2.1 per cent for FX loans and 2.9 per cent for HUF loans in the last quarter. The interest level of overdrafts declined slightly: the average interest rate for HUF corporate overdrafts dropped to 2.5 per cent by the end of the year (Chart 6). In the case of all three product types and all loan size categories, the increase in interest rates in 2019 was explained by increased spreads, considering the relative stability of HUF and EUR reference rates (Chart 7).

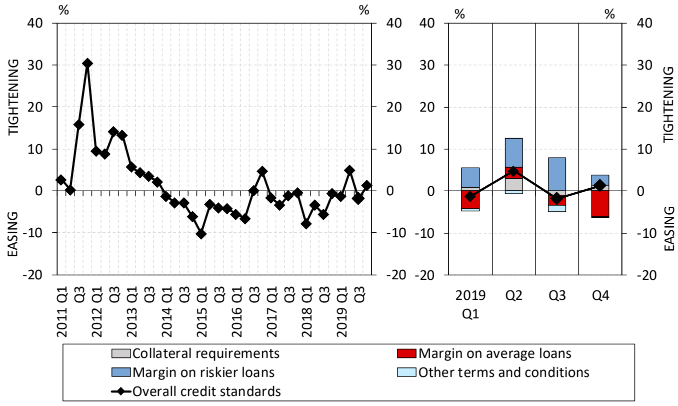
Demand for long-term loans increased further. Similar to the results of earlier Lending Surveys, a net two-thirds of the responding credit institutions experienced increased demand for long-term loans in the last quarter of 2019 too. The demand for short-term products increased less, a net 13 per cent of credit institutions reported mounting interest. Banks still reported increasing activity in connection with HUF lending (roughly a net 55 per cent of banks). Most of them expect stronger demand for long-term loans in the next half-year too.

Chart 9: Annual growth rate of corporate loans and credit-to-GDP ratio



Source: ECB

Chart 10: Changes in conditions on corporate loans and factors resulting in changes in the euro area



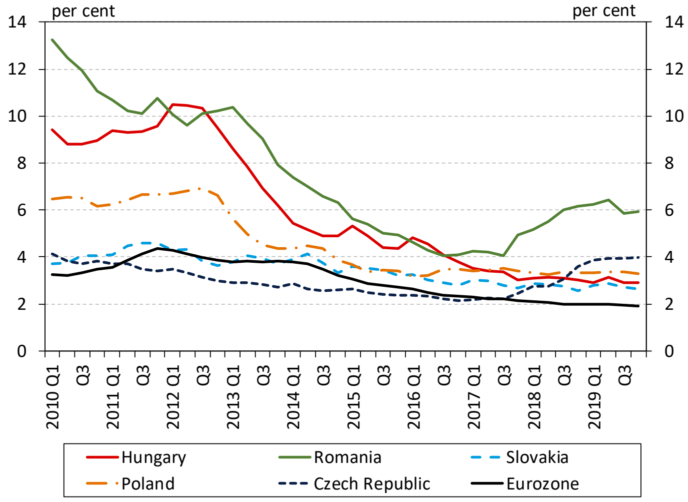
Note: 'Other terms and conditions' contain non-interest fees, the size of the loan, the covenants and the maturity. Positive values indicate a tightening of conditions, while negative values indicate easing. 'Overall credit conditions' show the general developments in the conditions of access to loans, while the individual sub-conditions depict the changes in the conditions on loans already taken out. Source: ECB

International developments in corporate lending

Annual Hungarian loan dynamics are still outstanding among the countries of the EU. Apart from the annual growth in Hungarian corporate loans outstanding, the other Visegrád countries also experienced a higher number of transactions than the euro area average, which was 2 per cent last year with a high degree of heterogeneity (Chart 9). In 2019 Q4 the United Kingdom experienced a rise in corporate lending, and the loan dynamics of Croatia and Belgium also improved in the last three months of the year. Among the Mediterranean countries, corporate loans outstanding in Italy and Cyprus decreased on an annual level, and the Baltic states also closed the year with remarkable negative loan dynamics. Similar to other Visegrád countries the domestic corporate credit-to-GDP ratio is still low by international comparison, despite the double-digit loan dynamics.

Corporate lending conditions did not change significantly in the eurozone, either. In Hungary, the Czech Republic and Slovakia, the conditions of access to loans did not change significantly in Q4 (Chart 10). At the same time, lending conditions in Poland tightened, primarily because of the higher financing costs on the market and other cyclical factors. Overall, lending conditions did not change in the eurozone, only the terms for the SME sector were tightened slightly by the banks. Looking at the four largest Member States of the euro area, conditions were tightened in Spain and France mainly because of the uncertainties in economic prospects and stronger risk aversion, while in Germany and Italy, lending conditions remained unchanged. According to expectations, companies can get access loans with basically unchanged conditions in the first half of 2020 too.

Chart 11: International comparison of interest rates on small-amount corporate loans extended in domestic currency



Note: Variable-rate loans below EUR 1 million, with maturities of up to one year; therefore, FGS loans with the maximum 2.5-percentage point spread are not included. Source: MNB, ECB, national central banks.

By annual comparison, loans became more expensive in some countries of the region. Except for Slovakia, other countries in the region did not see any significant changes in the average rates of interest and spreads in the last quarter (Chart 11). On an annual level, however, the average lending interest rates increased in both Slovakia and the Czech Republic, with a slight increase in spreads too. The increase in Czech lending rates in the last period was primarily facilitated by the gradual increase in the PRIBOR since 2017. The almost 6 per cent corporate interest rates observed in Romania are the highest in the region.

BOX 1: LENDING EXPECTATIONS OF THE BANKING SYSTEM

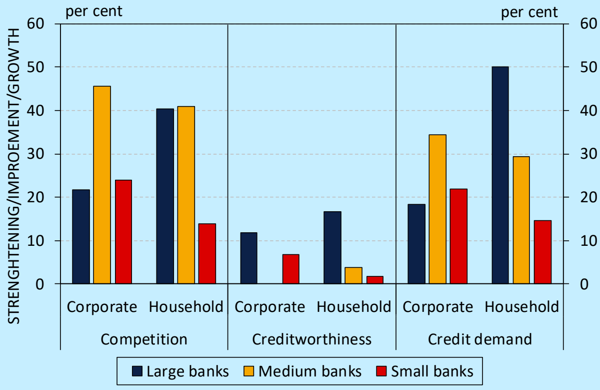
The MNB conducted a Bank Sentiment Survey among domestic credit institutions for the second time in January 2020. The objective of the survey was to assess the banking sector's perception of the economic situation and its strategic plans. Similar to the third quarter,[5] 92 per cent of the sector (in terms of total assets) responded, therefore the results are suitable for evaluating the situation of the entire banking system.

In Q4, the sector's perception of the economic situation improved slightly. Factors related to lending had a positive impact on this: **market competition intensified, customers became more creditworthy, and the demand for loans increased in the second half of the year**. In a breakdown by bank size, large banks perceived the improvement in creditworthiness as well as the stronger retail credit demand the most.[6] On the other hand, banks of medium size were more affected by increasingly intensive competition and expanding demand in the corporate loan segment. Looking ahead, competition will get more intensive in both business segments.

As much as 80 per cent of the responding banks are planning to increase the volume of their corporate (total corporate and SME) and household (mortgage, consumer) loan portfolios. However, a smaller percentage of banks would increase the commercial real estate loan portfolio compared to the previous quarter. This can be explained by the less favourable assessment of the cyclical position of the real estate market. A slight improvement is expected in the portfolio quality of corporate loans in the banking system, while that of mortgage loans will not change.

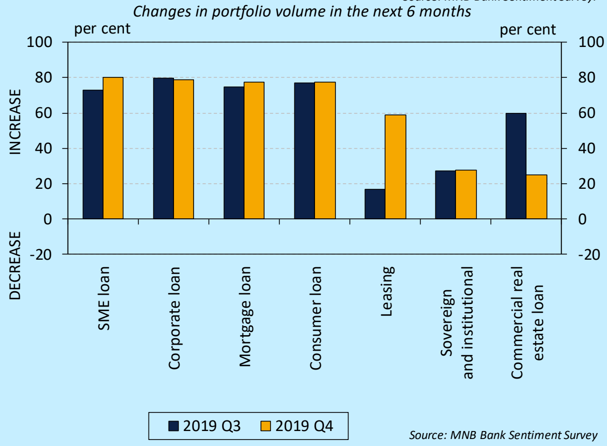
It is striking, however, that a large share of banks indicated that the quality of the consumer loan portfolio would probably deteriorate in 2020 H1, but a quarter ago this trend was not evident at all. The latter phenomenon is probably not related to the prenatal baby support loans that can be classified as consumer loans, since they are typically taken out by higher-income customers, similarly to housing loans (See Box 2).

Competition, creditworthiness and credit demand by bank size



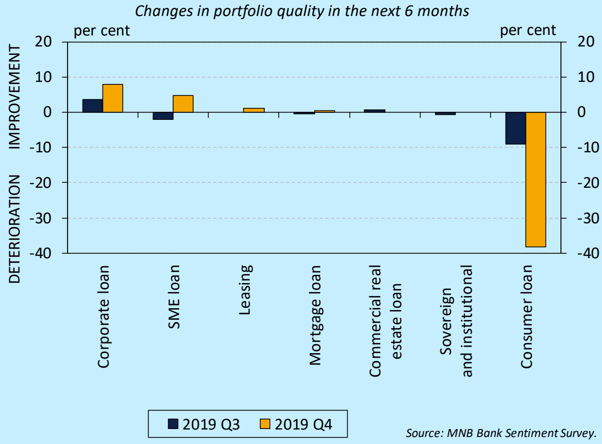
Source: MNB Bank Sentiment Survey.

Changes in portfolio volume in the next 6 months



Source: MNB Bank Sentiment Survey

Changes in portfolio quality in the next 6 months



Source: MNB Bank Sentiment Survey.

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[5] See Box 4 in the MNB Financial Stability Report December 2019 for the results of the previous quarter (https://www.mnb.hu/letoltes/financial-stability-report-2019-december.pdf)

[6] The responses were weighted by the total assets of the banks, and thus a diffusion index was calculated: in the case of responses given on a scale of 5, the factors pointing to deterioration in economic activity were given a negative, while the ones pointing to improvement were given a positive value; a slight deterioration (improvement) was taken into account with a weight of 0.5 (-0.5), and a major deterioration (improvement) with a weight of 1 (-1).

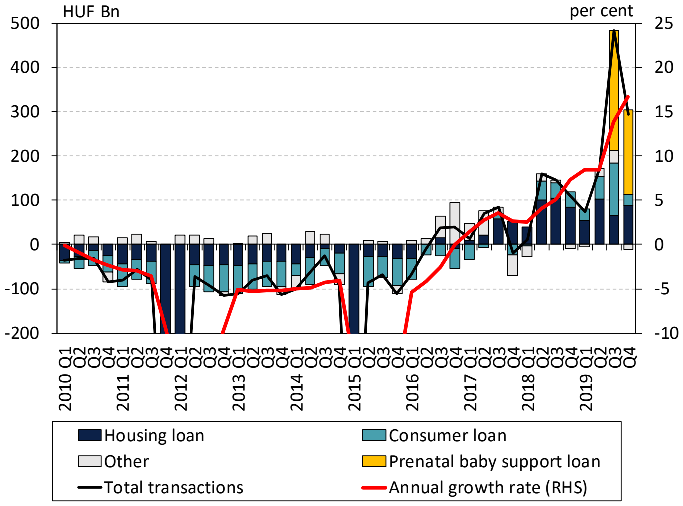
3. DEVELOPMENTS IN LENDING IN THE HOUSEHOLD SEGMENT

In 2019 Q4, household loans outstanding increased by nearly HUF 300 billion, and thus the annual growth rate of the loan stock amounted to 17 per cent. The strong household loan dynamics were essentially due to the prenatal baby support loans launched in July, as HUF 470 billion was disbursed from this product in the second half of last year. Disregarding this product, the annual growth rate would have been a remarkable 9 per cent. No substantive decline can be seen in lending for housing purposes or in the case of personal loans, in fact, in the former segment, banks saw a further increase in demand, therefore the additionality of the prenatal baby support loan still exceeds its crowding-out effect. The value of new household loan disbursements increased by more than 50 per cent and reached HUF 2,300 billion last year. The terms and conditions did not change in any of the loan segments in Q4, but in 2020 H1, the conditions of access to loans may tighten in the case of personal loans.

The interest rate risk of newly extended housing loans is moderate: during 2019 Q4 one in every four housing loan contracts was concluded with the interest rate fixed until maturity, and another 45 per cent have 10-year interest rate fixation periods. As a result of the changes in the terms of the Home Purchase Subsidy Scheme for Families (HPS), almost one quarter of the housing loan contracts concluded in the fourth quarter, i.e. HUF 55 billion, was related to this benefit. Furthermore, 72 per cent of housing loans with interest rate fixation periods of at least 5 years were Certified Consumer-Friendly Housing Loans.

The dynamic credit outflow does not represent a financial stability risk at the moment. On the one hand, Hungary still has one of the lowest household credit-to-GDP ratios among the Member States of the European Union. On the other hand – with intensive wage dynamics and favourable labour market developments – the debt cap rules in force since 2015 and the increased penetration of housing loans with longer interest rate fixation periods also support the maintenance of the households' repayment ability. Financial stability risks are further mitigated by the fact that – as reported by the banks – prenatal baby support loans in the initial period were taken by wealthier customers with better ratings and low indebtedness, but the significant volume of credit outflow requires the continuous monitoring of loan market risks.

Chart 12: Quarterly transactions of the household loan portfolio by loan purpose

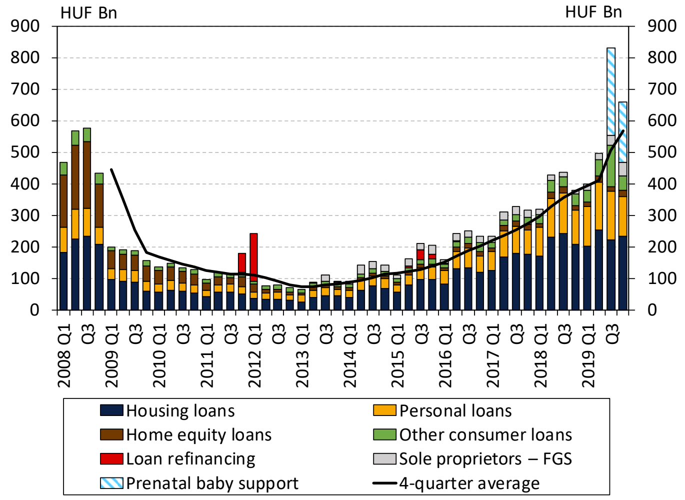


Note: The transactions reflect the effect of the settlement. Source: MNB.

Domestic household lending

Household loans outstanding expanded by 16.7 per cent last year, mainly because of the prenatal baby support loans. In 2019 Q4 credit institutions' household loans outstanding increased by almost HUF 300 billion, as a result of disbursements and repayments (Chart 12). 70 per cent of the increase in the household credit stock could be attributed to consumer loans, and within that mainly to the prenatal baby support loans introduced in July. Under this product, more than HUF 190 billion was disbursed in the examined period (during Q3, in the initial rush after the introduction of the product, over HUF 270 billion was disbursed). All this was accompanied by the continuous and slow contraction of home equity loans, as well as the more restrained increase in personal loans in Q4,

Chart 13: New household loans in the credit institution sector



Note: Loan refinancing indicates only refinancing related to the early repayment scheme and the FX-conversion. Other consumer loans include vehicle loans, hire purchase and other loans. Source: MNB.

Table 1: Number of contracts and average contract size of new housing and consumer loans

		2018 Q4	2019 Q4	% change
Number of contracts (thousands, annually cumulated)	Housing loans: purchases of used homes	73.6	64.4	-12.5
	Housing loans: renovation and other	19.1	15.4	-19.6
	Housing loans: construction or buying of new homes	13.6	16.3	19.7
	Personal loans	289.1	308.8	6.8
Average contract size (HUF million)	Housing loans: purchases of used homes	8.6	10.1	17.4
	Housing loans: renovation and other	4.1	4.9	19.5
	Housing loans: construction or buying of new homes	11.4	13.2	15.8
	Personal loans	1.6	1.9	14.9

Note: Loans from the credit institution sector. Source: MNB.

because of seasonal effects. Housing lending expanded more than in Q3, despite the less dynamic housing market at the end of the year. In a year-on-year comparison, the portfolio increased by more than HUF 1000 billion (45 per cent of which was prenatal baby support loans),[7] which corresponds to annual growth of 16.7 per cent. Adjusted for prenatal baby support loans, household lending increased by 9 per cent.

Apart from housing loans, new lending was dominated by prenatal baby support loans. In Q4 of last year, the credit institution sector concluded new loan contracts with households in the value of HUF 615 billion[8] (Chart 13), so in the whole of 2019 – essentially thanks to the extremely high volume of new disbursements in the second half of the year – gross household lending increased by more than 50 per cent, i.e. by HUF 2,300 billion. Lending for housing purposes had the highest volume in Q4 (more than HUF 230 billion, 7 per cent growth per annum),[9] but the volume of prenatal baby support loans was also significant in the examined period (over HUF 190 billion). Because of seasonality, the volume of new personal loan disbursements was moderate in Q4 (HUF 126 billion), but the provision of this product still increased by 23 per cent in 2019. Based on the rate of expansion, no crowding-out effect from prenatal baby support loans was detected in H2, neither in the case of housing loans nor for personal loans.

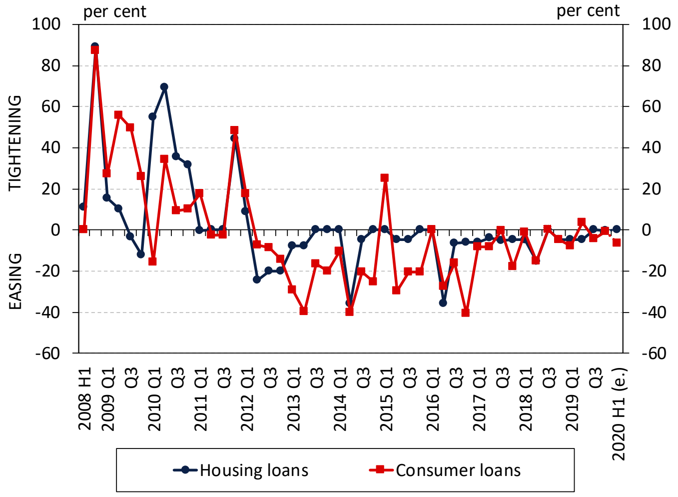
In line with housing market developments, the average loan volumes increased in the case of all loan purposes. Last year, owing to the dynamic housing market, the number of loan contracts concluded for the purpose of constructing or buying new homes increased (Table 1). At the same time, the number of loan contracts concluded for the purchase of used homes dropped, which could partly

[7] In 2019, banks provided loans secured by securities, i.e. lombard credit of HUF 125 billion too, and four-fifths of this was disbursed in the period from July to September. This was all probably influenced by the Hungarian Government Security Plus (MÁP Plusz) as well, introduced in June, but because of the tightening of the MNB instruments and the modification of the ÁKK (Government Debt Management Agency) terms and conditions coming into force in mid-October, the increase in the portfolio of lombard credit slowed significantly after October.

[8] Without loans extended to independent entrepreneurs under the FGS.

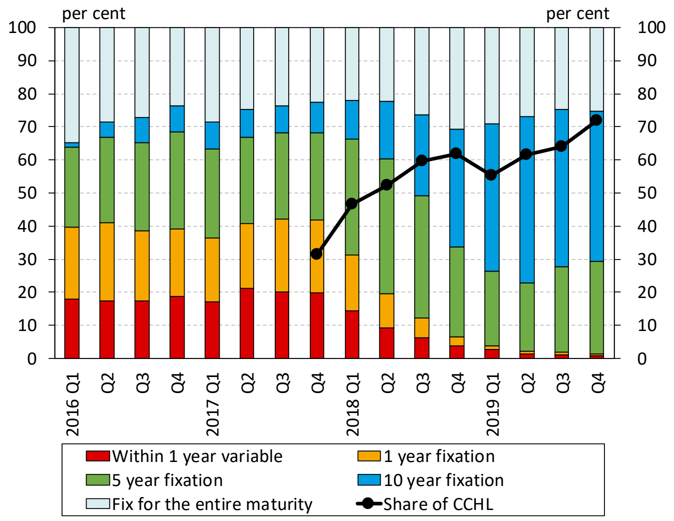
[9] In the past 12 months, a total of HUF 910 billion was granted by the banks as housing loans, which exceeds the pre-crisis level in nominal terms, but in real terms it is only four-fifths of that.

Chart 14: Changes in credit conditions in the household segment



Note: Net ratio is the difference between tightening and easing banks weighted by market share. Source: MNB, based on banks' responses

Chart 15: Distribution of the new housing loan volume by interest rate fixation, and the share of Certified Consumer-friendly Housing Loan products



Note: Share of CCHL products compared to new issues with at least 3 years of interest rate fixation (at least 5 years since 2018 Q4) excluding disbursements by building societies. Source: MNB.

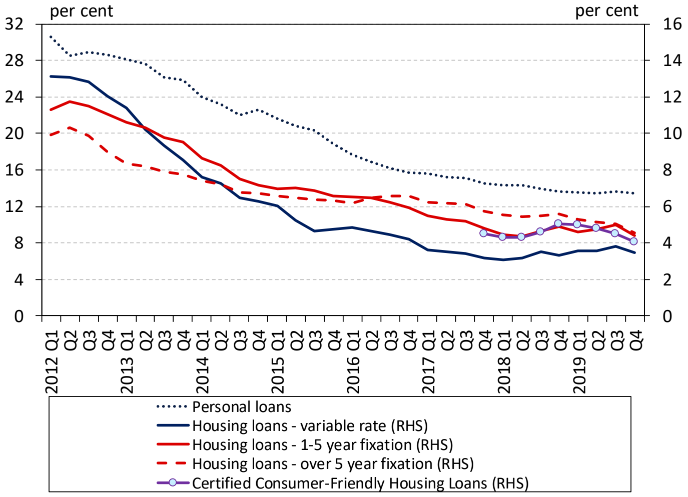
be attributable to the introduction of the MÁP+ government security, as this may have reduced the demand for loans related to the purchase of homes for investment purposes.[10] The decline in contracts concluded for renovation and other housing purposes may have been triggered by the favourable terms of personal loans. Parallel to the rising prices on the housing market, the average loan volumes increased by HUF 1.5 million in the case of used homes, and by HUF 1.8 million in the case of building or buying new homes, in one year. In the case of new homes, the average maturity of the loans was almost 20 years, and for used homes it was over 18 years last December.

Banks offer housing and consumer loans under unchanged loan conditions. Based on the answers given to the Lending Survey, banks did not ease the terms of housing loans in 2019 Q4 either. However, looking at the individual conditions, a net 40 per cent of respondents reduced the spread rates, which was explained by the need to maintain their market positions (Chart 14). Banks may offer housing loans with unchanged conditions in the next six months too, and only the spreads may be eased. In Q4, the terms of consumer loans did not change either based on the answers of the banks, which might be the case in 2020 H1 too, although one quarter of the banks are planning to tighten the conditions of personal loans.

The interest rate risk of housing loans disbursed in 2019 is negligible. In 2019 Q4, one in every four housing loan contracts was concluded with interest rates fixed until maturity, which represents a slight decrease from the same period of the previous year. However, the ratio of housing loans with interest-rate fixation periods of 5 and 10 years is increasing, and their shares reached 28 and 45 per cent respectively in new lending (Chart 15). The share of loans with variable rate or up to 1-year fixation – that are exposed to the highest risk – dropped below one per cent in the examined period. Interest rate fixation for longer periods is greatly facilitated by the popularity of Certified Consumer-Friendly Housing

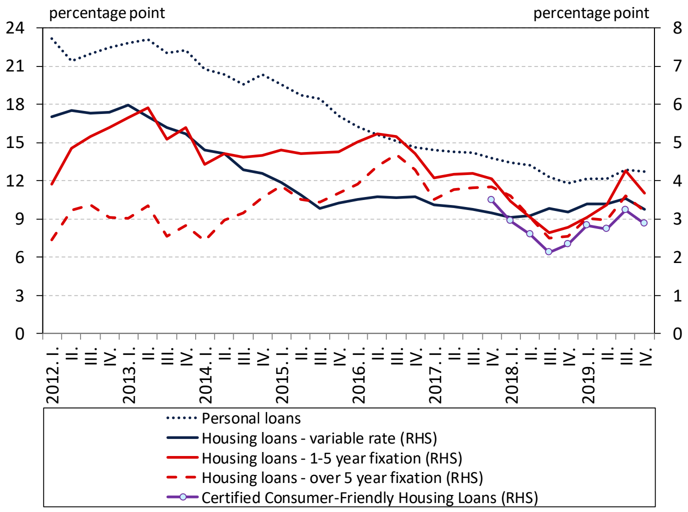
[10] More details: MNB Housing market report, Box 3 (https://www.mnb.hu/en/publications/reports/housing-market-report/housing-market-report-november-2019)

Chart 16: Annual percentage rate of charge on 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: In the case of variable-rate housing loans or ones with up to 1-year interest rate fixation APR-based smoothed spread over the 3-month BUBOR, while in the case of housing loans fixed for a period longer than one year, the APR-based smoothed spread over the corresponding IRS. For personal loans, APR-based smoothed spread over the 3-month BUBOR. Source: MNB.

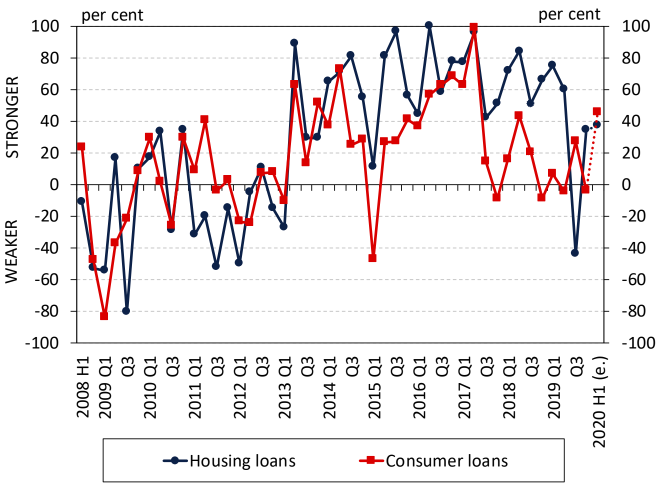
Loans, which amounted to 72 per cent of housing loan disbursements in the fourth quarter. In the case of new loans, the MNB intends to promote extended interest-rate fixations by differentiating debt cap rules[11] by interest-rate fixation period. Moreover, the MNB also issued a recommendation[12] for the existing portfolio to make sure that financial institutions make customised contract modification offers to their customers, presenting the possibility of re-contracting with longer interest rate fixation of at least 5 years. The number of affected customers could be around 130,000, who have variable-rate mortgage loans with a remaining maturity of more than 10 years.

Spreads have increased since the beginning of the year. Long-term funding costs (relevant IRSs) increased slightly in the fourth quarter, but the annual percentage rate of charge (APR) of housing loans dropped in this period (Chart 16). As a result, the spreads of products with an interest rate fixation of more than 1 year but no more than 5 years dropped by 0.5 percentage points, and the spreads of products with an interest rate fixation of more than 5 years dropped by 0.4 percentage points during the quarter (Chart 17). The average spread of housing loans with an interest rate fixation of more than one year but no more than 5 years was 3.7 percentage points in December, while the spread of products with an interest rate fixation of more than 5 years reached 3.2 percentage points. The spread of CCFHL products was even lower, 2.9 percentage points. The average spread of personal loans was 12.7 percentage points in December. However, looking at last year as a whole shows that the drop in APR did not match the extent of the decline in funding costs experienced during the year. Therefore, compared to the beginning of 2019, increased spreads were observed in all monitored product categories.

[11] As of 1 October 2018, payment-to-income (PTI) differentiated by interest-rate fixation periods was defined, and as of 1 July 2019, the regulation allows for higher instalments in the case of HUF 500,000 or higher net monthly incomes only.

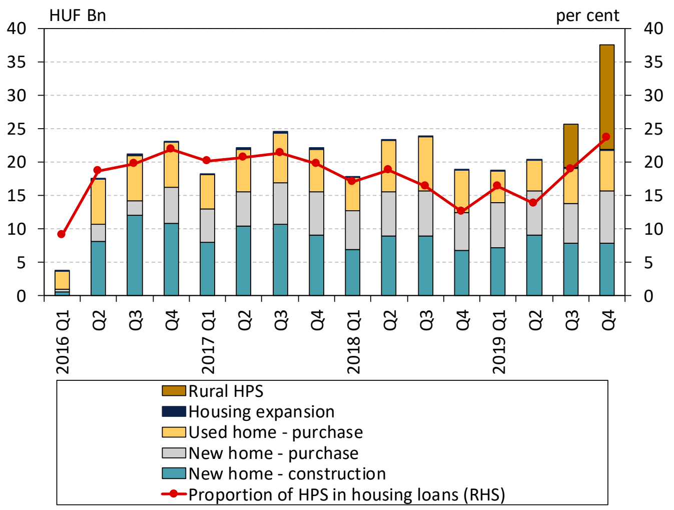
[12] Recommendation 9/2019 (IV.15) of the Magyar Nemzeti Bank on the interest risks of variable-rate mortgage loans and on fostering the provision of information on the management thereof (https://www.mnb.hu/letoltes/9-2019-kamatkockazat.pdf)

Chart 18: Credit demand in household lending segment



Note: Net ratio is the difference between banks indicating stronger and weaker demand, weighted by market share. Source: MNB, based on banks' responses

Chart 19: Volume of HPS-contracts by purpose

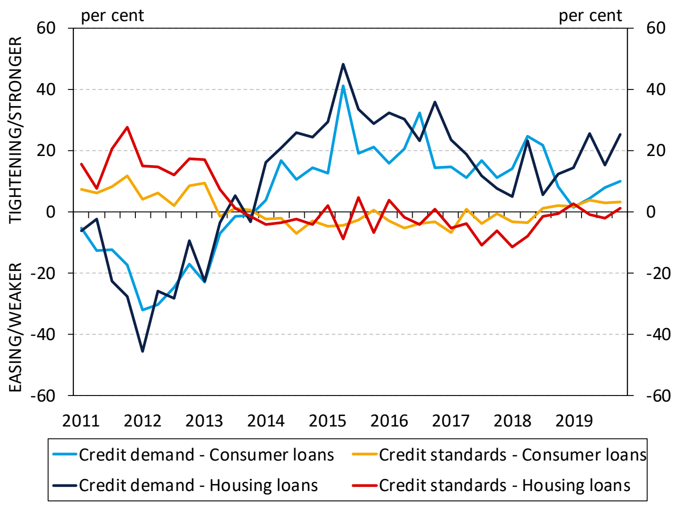


Note: The Rural HPS can be used for the purchase of used homes, as well as the renovation and expansion of homes. Source: MNB, Ministry of Finance

Demand for housing loans kept increasing. A net 34 per cent of banks giving answers under the Lending Survey experienced growing demand for housing loans, and they expect a further increase in the next half-year too (Chart 18). In the case of consumer loans, they indicated an altogether unchanged situation, but the picture is different for each product category. In the past quarter, banks experienced a decline in the demand for home-equity loans, while the demand for vehicle loans increased. In the "other" category that includes personal loans and hire-purchase and other loans there was no change compared to the previous quarter. Looking ahead to the next half-year, however, stronger demand for consumer loans is expected, which affects all product categories.

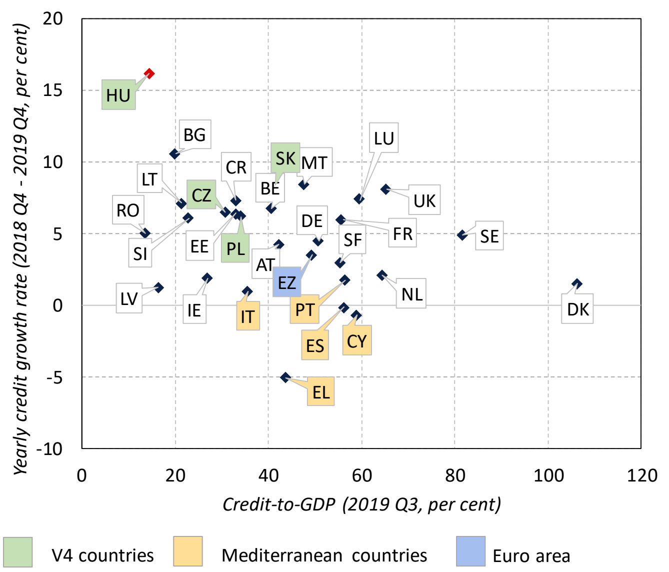
The Rural HPS is becoming more and more popular. In the case of the HPS, 2019 Q4 was the strongest period of last year, both in terms of the number of contracts and the contracted amounts. In this quarter, households signed almost 7,000 contracts totalling HUF 22 billion (Chart 19). 72 per cent of the contracted amount was spent on the construction and purchase of new homes, and for the former loan purpose, this was the highest quarterly volume since the start of the scheme. All this was supported by the HPS modification that came into force on 1 July 2019, as a result of which a HUF 10 million loan with subsidised interest rate is available in the case of 2 children, too. At the same time, the number of contracts concluded for the purchase of used homes still exceeds the number of contracts related to newly built homes. Almost one quarter of housing loan contracts signed in this quarter, as much as HUF 55 billion, were related to the Home Purchase Subsidy scheme for families. Under the Rural HPS launched on 1 July 2019, 4000 loan contracts were signed until the end of December, which means HUF 22 billion for purchasing or building homes in the preferred small settlements.

Chart 20: Household credit conditions and credit demand in the eurozone



Source: ECB

Chart 21: Annual growth rate of household loans and the credit-to-GDP ratio



Source: ECB

International developments in household lending

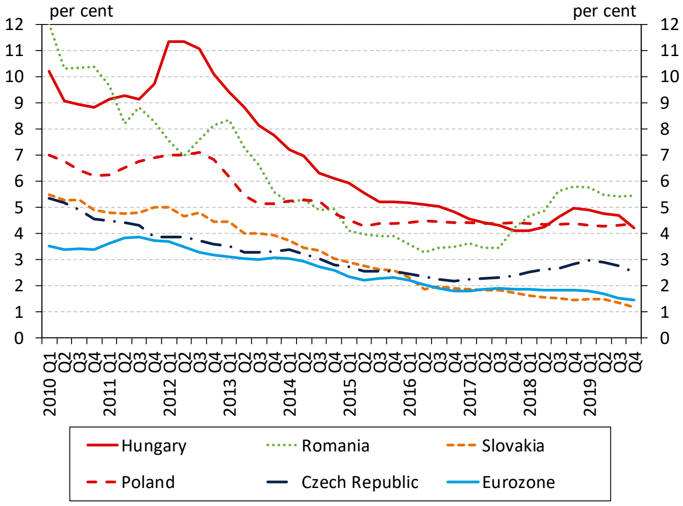
The increased demand for household loans was coupled with heterogeneous Member State loan dynamics in the euro area. According to the latest Bank Lending Survey of the ECB,[13] strong competition among banks facilitated the easing of household loan conditions, while lower bank risk tolerance resulted in tightening in banks in the euro area. Overall, household loan conditions remained unchanged, while banks slightly tightened the terms of consumer loans in 2019 Q4 (Chart 20). Parallel to this, the permanently low and accommodative interest rate environment, the labour market that still seems to be relatively resistant to the slow-down of the manufacturing industry, as well as the robust consumer trust resulted in growth in the demand for loans in the household sector in the past period. In line with that, in most Member States of the EU the portfolio of household loans also increased: last year, overall, the indebtedness of households in the euro area increased by 3.5 per cent (Chart 21). Significant heterogeneity can be observed among the Member States: most of the Mediterranean countries experienced stagnation or contraction, while in Slovakia the annual growth was over 8 per cent. The average credit-to-GDP ratio of the euro area was still around 50 per cent, although in the case of some northern countries, it was over 80 per cent – with a high share of variable interest rates in many cases –, which may weaken the shock-absorbing capacity of households in these countries.

In the Central and Eastern European region, the loan portfolio of households displayed an above-average increase. The growth observed in 2019 in household lending of the countries of the region, especially in Hungary, is outstanding by European comparison too. However, this in itself does not represent a stability risk, as loan penetration can still be classified as low in these countries. On the other hand, last year in the CEE region, with the tightening of the debt cap rules, other macroprudential measures were also introduced to manage the

[13] The euro area bank lending survey

(https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/pdf/ecb.blssurvey2019q4~34a62b4261.en.pdf)

Chart 22: Interest rate on housing loans granted in domestic currency



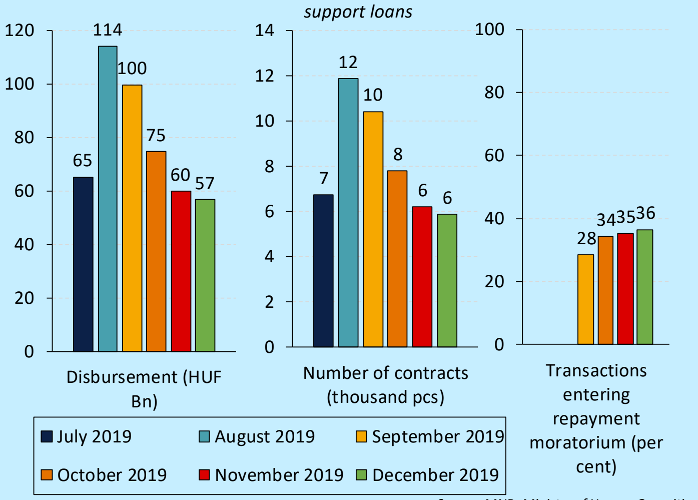
Source: MNB, ECB, EMF, Datastream, national central banks.

strengthening cyclical systemic risks. In addition, parallel to the expansion of lending, housing loan conditions were tightened slightly by the banks in Poland and tightened strictly in the Czech Republic, while loan standards were eased in Slovakia as a result of the more intensive competition. In Q4, housing loan price conditions (interest rates) basically stagnated compared to the previous quarter in the region. In the case of Hungary, however, the interest rate level of housing loans decreased slightly, reaching the Polish interest rate levels (Chart 22).

BOX 2: CHARACTERISTICS OF PRENATAL BABY SUPPORT LOANS IN 2019 H2

The value of loan transactions related to prenatal baby support loans available since 1 July 2019 was HUF 470 billion altogether by the end of December, which was one third of the loans extended to households in the second half of the year. Interest in the product after its launch was outstanding: from August to September, the value of prenatal baby support loan contracts signed by young couples amounted to over HUF 200 billion. By Q4, utilisation of the programme dropped to HUF 60 billion per month. According to the MNB forecast, increased interest may be expected again when this support ends in 2022.

Issuance and characteristics of prenatal baby support loans

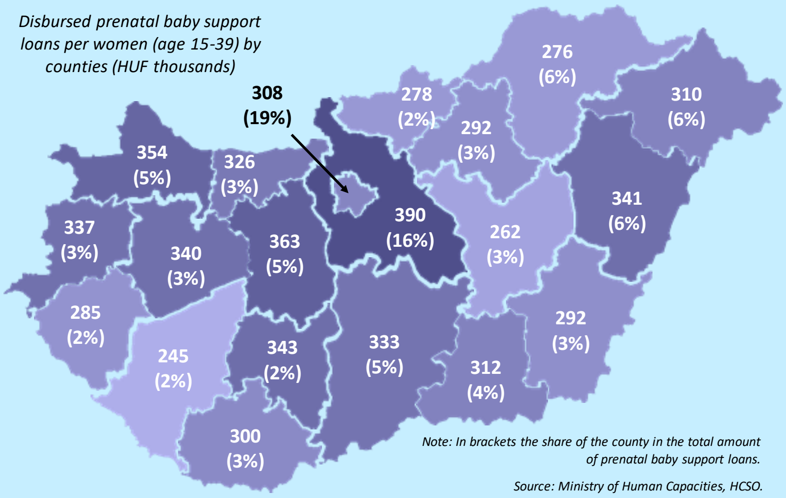


Source: MNB, Ministry of Human Capacities.

In the first six months of the programme, 48.8 thousand contracts were concluded, and 36 per cent of these are under a payment moratorium at present. These are the transactions where a child has already been born, or at least week 12 of the pregnancy has been reached, therefore the debt service has been suspended for 3 years, and the loan product has become permanently interest-free for the customers (*provided the borrowing couples do not divorce until maturity*). It is interesting that 10 transactions have already been closed, i.e. this number of customers have already repaid their debts in full, or the loan was waived because the customers had three children.

In the case of the product up to HUF 10 million, the average contract size in 2019 was HUF 9.7 million. The vast majority of customers, 87 per cent, signed the contract for the maximum amount, only 2 per cent of the contracts were below HUF 5 million. In a regional breakdown, we can see that the share of Budapest and Pest county from the disbursed funds – relative to the population number – is 19 and 16 per cent respectively, but divided by the number of women of 15-39 years in these counties, **beside Pest county, the use of this subsidised loan is the highest in Fejér and Győr-Moson-Sopron counties**.

Disbursed prenatal baby support loans per women (age 15-39) by counties (HUF thousands)



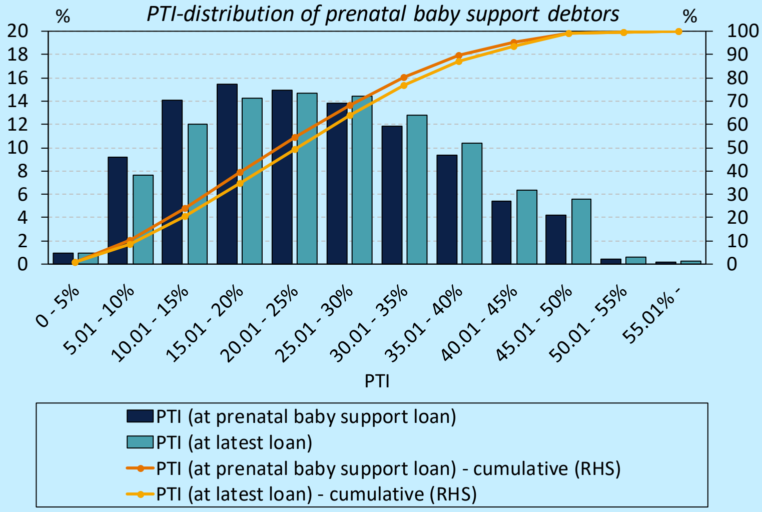
Note: In brackets the share of the county in the total amount of prenatal baby support loans.

Source: Ministry of Human Capacities, HCSO.

In the Financial Stability Report of December 2019, we showed that according to the information received from banks, it was the better-off customers with better credit ratings that used the prenatal baby support loan in the initial period. In light of the data from 2019 H2, we can see that the **top income quintile still accounts for 54 per cent of customers taking out the prenatal baby support loan**, so there is no shift in the direction of the less well-off customers.

The median and average of the payment-to-income ratio of customers with prenatal baby support loans was 24-25 per cent at the time these loans were drawn, and **10 per cent of the loans had a PTI index over 40 per cent**. The use of other loans is typical in a limited scope: 11 per cent of the present debtors took out housing loans in 2019 H2, 4 per cent took out personal loans, and 1 per cent took out vehicle loans in addition to the prenatal baby support loan. Considering the additional loans taken by prenatal baby support loan customers, 13 per cent of the debtors exceed the 40 per cent PTI. Based on the similarity of the two distributions we can conclude that **prenatal baby support loan holders do not usually take out other loans after these loans**, thereby avoiding accumulating debt.

PTI-distribution of prenatal baby support debtors



Note: The PTI at latest loan is applicable only to one of the couple members if the other one was not involved in the latest loantaking. Source: MNB.

In the future, with the expected appearance of less affluent borrowers, apart from additionality of the prenatal baby support loans (use to increase own funds), the crowding-out effect may be stronger against other loan products (housing loans, personal loans). **Overall, from the aspect of financial stability, the high volume of lending requires a continuous monitoring of debtors.**

4. APPENDIX: 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: http://www.mnb.hu/statisztika

2. *Lending Survey*

The Lending Survey facilitates the analysis of how major Hungarian banks perceive and evaluate market developments and how they develop their respective strategies, in particular their lending policies. Nine banks responded to questions related to housing loans, while twelve banks answered questions on consumer loans. Based on data from the end of 2019 Q4, the surveyed institutions accounted for 83 per cent of the banking sector in the case of outstanding housing loans and 92 per cent in the case of outstanding consumer loans. The corporate questionnaire was completed by fifteen banks in total, which represent 95 per cent of the corporate loan market, while the market share of the fourteen banks responding to the questionnaire related to commercial real estate loans is 93 per cent.

The survey consists of a standard questionnaire in each segment. The retrospective questions refer to 2019 Q4 (compared to 2019 Q3), whereas the forward-looking questions concern the next half year, covering 2020 H1 (relative to 2019 Q4). The current questionnaire was completed by senior loan officers between 2 and 17 January 2020.

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.

TRENDS IN LENDING

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