# TRENDS IN LENDING

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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 price 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 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 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 in respect of 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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# Boxes

# 1. EXECUTIVE SUMMARY

*Due to the negative economic consequences of the coronavirus pandemic, the loans outstanding of the corporate sector declined during the second quarter of 2020 compared to the previous quarter, while an increase of HUF 700 billion was registered in year-on-year terms, corresponding to an annual growth of 8.4 per cent. The moratorium on instalments, introduced in March, facilitated slower amortisation of the loan portfolio, while new contracts were supported by the loan programmes of the central bank and the government, which were launched to mitigate the economic impacts of the coronavirus. During the quarter, corporations concluded new loan contracts in the amount of roughly HUF 640 billion, which falls 18 per cent short of the new loans disbursed in the same quarter of last year. The loans outstanding of micro, small and medium-sized enterprises rose by 9.3 per cent last year. Lending to SMEs was strongly supported by both the outgoing FGS fix scheme and the FGS Go! scheme, which was launched in April. Under these schemes, the new loan contracts concluded in the amount of HUF 190 billion were responsible for 60 per cent of all SME loan contracts in the second quarter of 2020.*

*Based on banks' responses to the Lending Survey and the interviews conducted with lending managers, credit supply conditions were significantly tightened and demand for long-term loans decreased. The banks participating in the survey plan further tightening in all corporate size categories and also in the conditions of loans granted for commercial real estate in the second half of the year; however, in parallel with this, they already anticipate a pick-up in demand.*

*Retail loans outstanding grew by HUF 232 billion due to transactions in the second quarter of 2020, resulting in annual growth of 19.6 per cent. This growth was primarily supported by the dynamic disbursement of the prenatal baby support loans and lower amortisation resulting from the moratorium on instalments. In the second quarter, credit institutions concluded prenatal baby support loans in the amount of HUF 142 billion, as a result of which the product already accounted for 10 per cent of total retail loans outstanding at the end of June, and based on our survey, three-quarters of the debtors used it for housing purposes. During the quarter, the volume of new loan disbursements decreased: the largest decline was registered in personal loans, where disbursements were 63 per cent lower than the value in the same period of last year. The number and volume of contracts concluded under HPS both declined within the applications related to the construction of new homes, while rural HPS was still characterised by dynamic disbursement. The spread of loans with interest rate fixation for a longer term continued: three-quarters of the housing loans concluded during the quarter have an interest-rate fixation period of at least 10 years or until the end of maturity, and 73 per cent of the housing loans are Certified Consumer-friendly Housing Loans.*

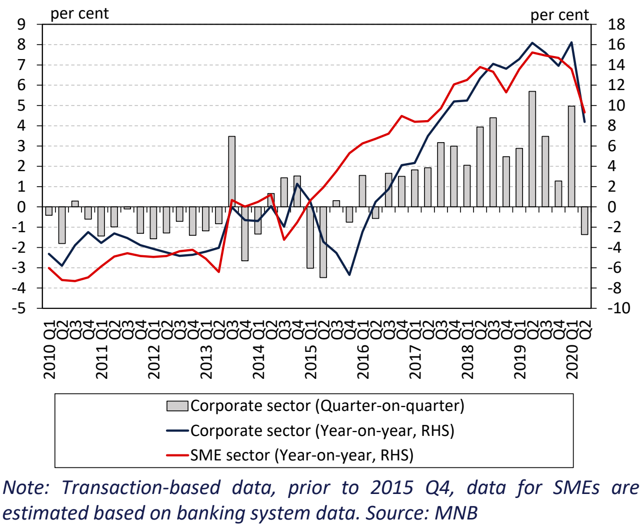
*The banks participating in the Lending Survey tightened credit conditions on both housing loans and consumer loans during the quarter, which was justified by the worsening economic prospects and deterioration in customers' creditworthiness. However, in net terms, 16 per cent of the banks held out the prospect of easing in the case of both products in the second half of the year. During the quarter, almost all respondent institutions perceived a decline in demand for housing loans and consumer loans; however, half of the banks expect demand for the former to normalise in the second half of 2020. Household credit conditions became stricter not only in Hungary, but also in the euro area and in the region as well, which is primarily attributable to the more uncertain economic environment resulting from the coronavirus.*

# 2. TRENDS IN LENDING IN THE CORPORATE SEGMENT

*As a result of the negative economic impact of the coronavirus pandemic, in the second quarter of 2020 – primarily owing to a more substantial drop in foreign currency loans – corporate loans outstanding fell by HUF 126 billion due to transactions. Between July 2019 and June 2020, the loans outstanding of non-financial corporations rose by 8.4 per cent or HUF 685 billion in total, representing a substantial decline versus the 16-per cent growth rate registered at the end of the first quarter. The annual growth rate of the SME sector's loans outstanding also fell significantly, showing annual growth of 9.3 per cent. The volume of new contracts concluded in the second quarter fell short of the value registered in the second quarter of 2019 by 18 per cent. In a breakdown by sector, concentration increased in new disbursements, and the share of high-amount transaction is still significant. In the second quarter of 2020 there was significant interest in FGS Go!, launched in April; FGS accounted for almost 30 per cent of total disbursements and for roughly 60 per cent of SME contracts, and thus the ratio of forint loans and fixed-rate loans also increased substantially.*

*Based on the responses of banks participating in the Lending Survey, credit conditions in the corporate segment were tightened significantly in the second quarter, and this may also continue for the rest of the year. Interest rates on forint loans and overdraft facilities rose to a larger degree, primarily due to the increase in the cost of funds. Most banks experienced declining demand for long-term loans in the second quarter of 2020; however, they anticipate a pick-up in the second half of the year.*

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



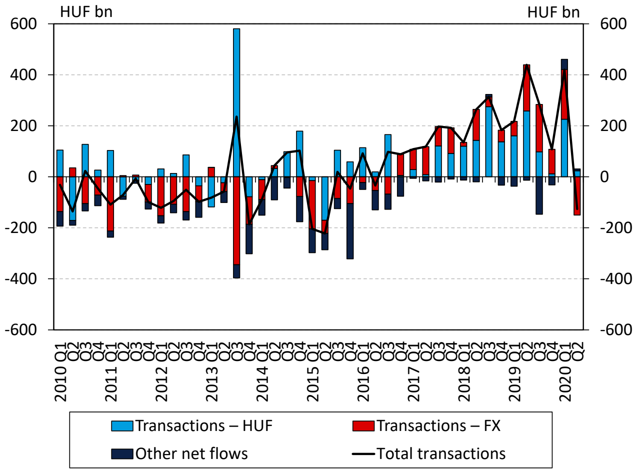

*Note: Transaction-based data, prior to 2015 Q4, data for SMEs are estimated based on banking system data. Source: MNB*

### Corporate lending in Hungary

**The annual growth rate decelerated to 8.4 per cent.** Between July 2019 and June 2020, the outstanding loans of non-financial corporations grew by HUF 685 billion due to transactions, corresponding to an annual growth rate of 8.4 per cent (Chart 1). The growth in outstanding lending was due to the rise in forint and foreign currency loans almost to the same degree; starting from a lower base, foreign currency loans expanded by 9.3 per cent, while forint loans increased by 7.7 per cent in year-on-year terms. Lending dynamics in the SME segment decelerated, similarly to the situation with large corporations. The SME sector's outstanding borrowing rose by 9.3 per cent in annual terms.

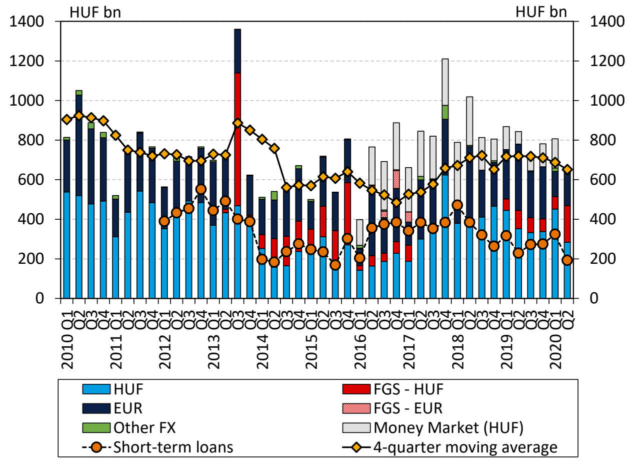
**During the second quarter, the outstanding borrowing of corporations decreased due to foreign currency loan transactions.** As the combined result of disbursements and repayments, the outstanding borrowing of corporations fell by HUF 126 billion in the second quarter of 2020 (Chart 2), while the SME segment registered an increase of HUF 45 billion. Foreign currency loans fell by HUF 150 billion, and forint loans rose by HUF 24 billion. Transactions related to high-value deals lowered outstanding borrowing in

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




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

*Chart 3: New corporate loans in the credit institution sector*



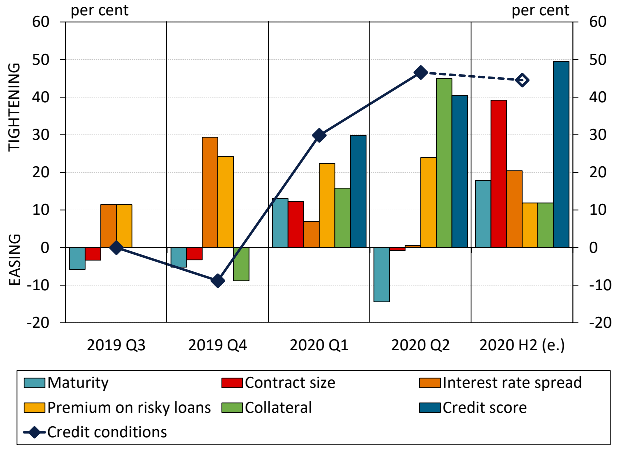

*Source: MNB*

the quarter under review. In the past quarter, the portfolio of longer-term forint and foreign currency loans expanded, while a decline was observed at shorter maturities. The decline in outstanding borrowing registered in the quarter under review was partly mitigated by the moratorium on loan instalments, the FGS Go! scheme and the state loan and guarantee programmes introduced due to the negative economic impacts of the coronavirus.[1] At the same time, part of the funds placed within the framework under the Bond Funding for Growth Scheme increased amortisation of the portfolio through loan refinancing in such a way that bonds issued do not appear in outstanding borrowing. Thus, the decline in outstanding borrowing for this reason represents a reallocation of funds rather than a fall in such. Annual growth was supported most strongly by real estate transactions and the manufacturing sector, but on a quarter-on-quarter basis the outstanding borrowing of these two sectors already stagnated. In the second quarter of 2020, the largest decline was registered in the financial and insurance sector and in the commerce and vehicle repair sectors. As regards annual loan transactions, manufacturing and the real estate sector played a dominant role: almost three-quarters of the growth of HUF 685 billion due to transactions in the past one year related to these two sectors.

**In the second quarter, disbursements of corporate loans fell short of the year-on-year level by 18 per cent.** During the past 12 months, excluding money market deals, companies concluded new loan contracts with credit institutions in the total value of HUF 2,608 billion. As a result of the pandemic, new disbursements in the second quarter of 2020 fell short of the year-on-year figure by 18 per cent, while the prevalence of forint loans in disbursements increased further (Chart 3). In a breakdown by sectors, concentration rose further in new loans, and the share of high-amount transactions (over HUF 5 billion) can still be deemed considerable (36 per cent). In 2020, the share of fixed-rate loans rose considerably in new disbursements. In addition to the FGS *fix* scheme,

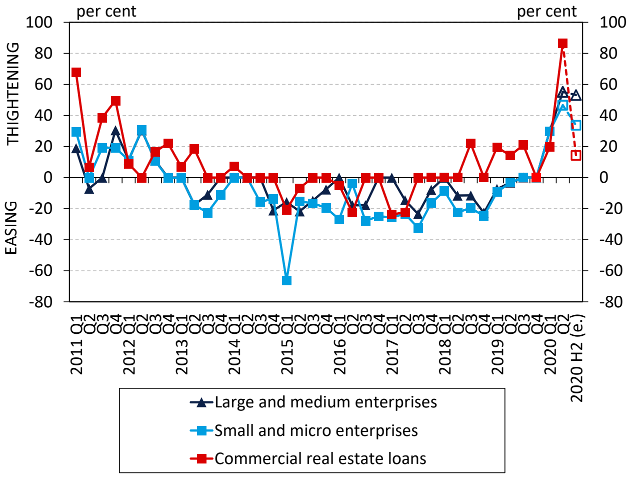
[1] For more detailed information on the state and central bank programmes launched to mitigate the economic impacts of the coronavirus, see Box 5 of the Financial Stability Report of May 2020.

*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 the corporate sub-segments*




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

nearing its end, the FGS Go!, launched in April, greatly contributed to this, as within the framework of these schemes credit institutions concluded loans with corporate enterprises in the amount of almost HUF 400 billion last year.[2] The contracts concluded under FGS in the amount of almost HUF 190 billion already accounted for almost 30 per cent of new disbursements and 60 per cent of the SME contracts in the second quarter of 2020.

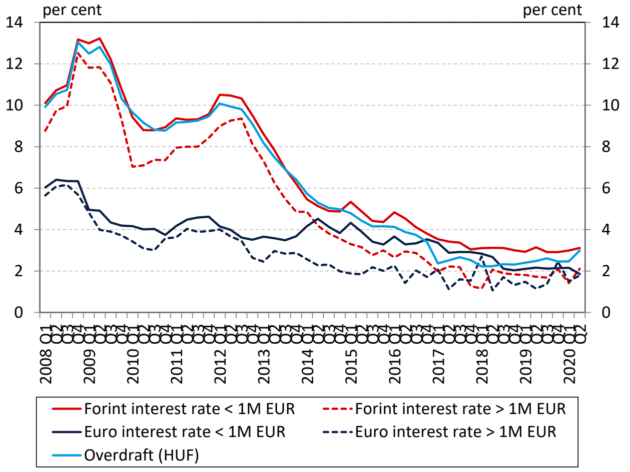
**A large share of the banks tightened their corporate lending conditions in the quarter under review.** In net terms, almost half of the respondent credit institutions reported tightening corporate lending conditions, while in the case of commercial property loans the vast majority (86 per cent) reported tightening standards. In connection with tightening, most institutions cited sector-specific problems, deteriorating economic prospects and changes in risk tolerance as the main reasons. Banks implemented more significant tightening primarily in relation to the minimum level of creditworthiness and the maximum loan amount (Chart 4). 45 per cent of the participating institutions anticipated further tightening in lending conditions in the second half of 2020. Significant tightening was implemented in all corporate size categories, and also in credit conditions on commercial property loans (Chart 5). In relation to large corporations, a net 53 per cent of the banks projected further tightening in lending conditions, while this figure was a net 34 per cent with regard to small and micro enterprises; 14 per cent of them plan additional tightening in conditions on commercial real estate loans.

**The interest rate level on overdraft facilities increased slightly in the past quarter**, rising by 0.5 percentage point to 3 per cent in the second quarter of 2020 (Chart 6). The average interest rate level on forint loans below EUR 1 million – excluding money market transactions[3] – increased only moderately in quarter-on-quarter terms, and in recent years no major shift was observed

[2] The data does not contain the volume of the loans issued by financial enterprises and loans acquired by independent entrepreneurs. For more detailed information on the launch of FGS Go! see the website of the MNB: https://www.mnb.hu/en/monetary-policy/funding-for-growth-scheme-fgs

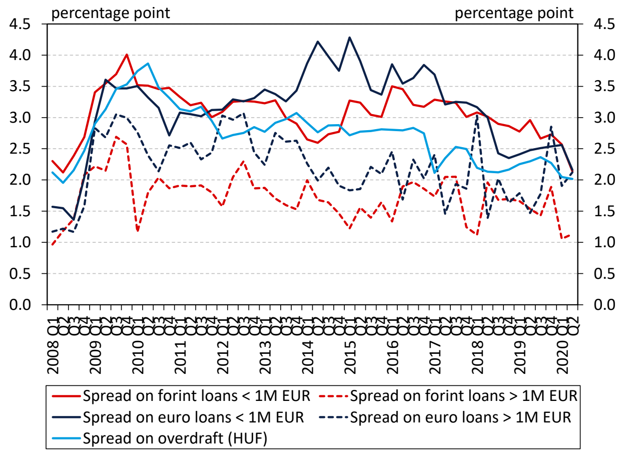
[3] Money market transactions are loans with a value of over EUR 1 million extended to non-financial corporations; their term is short (typically less than 1 month) and they serve to fund some kind of financial operation. It has been possible to exclude money market transactions since 2015, although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

*Chart 6: Interest rates on new corporate loans*



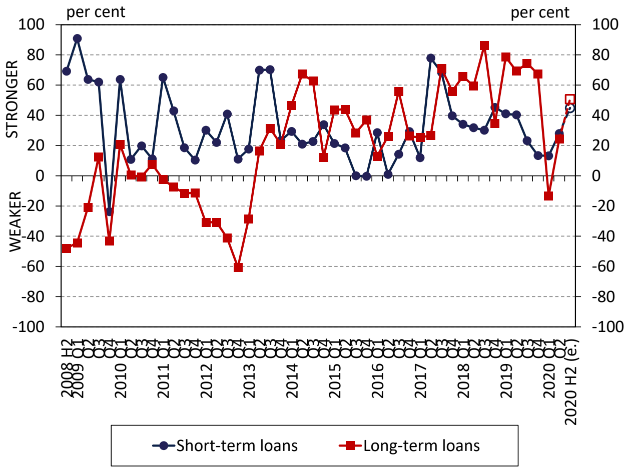

*Note: Loans with variable interest rate or with up to 1-year initial rate fixation. From 2015, based on data net of money market loans exceeding EUR 1 million. Source: MNB*

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

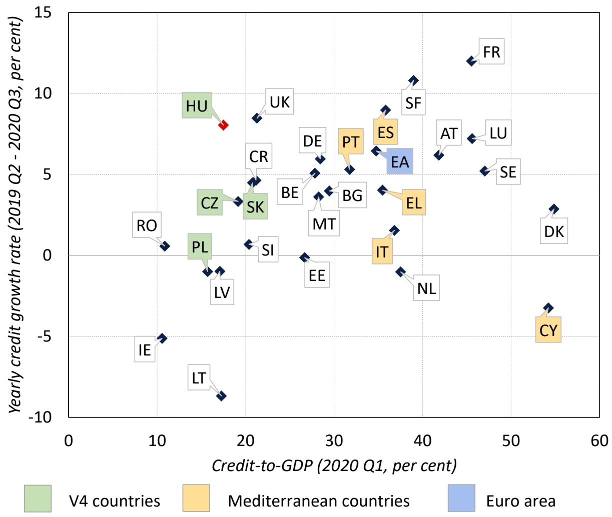
in the interest rate level, which currently stands at 3.1 per cent. The interest rate on small-amount euro loans decreased by 30 basis points to 1.9 per cent in the past quarter. The change in the case of overdrafts and small-amount forint loans is attributable to the rise in the cost of funds, while in the case of small-amount euro loans it is due to the decline in interest rate spreads (Chart 7).

**The financing costs of high-amount forint loan contracts rose quarter-on-quarter.** The average interest rate on high-amount forint loans increased by almost 70 basis points quarter-on-quarter, to 2.1 per cent. The average interest rate on high-amount euro loans rose to a smaller degree, by 0.3 percentage point to 1.8 per cent. This increase was caused by the rise in 3-month BUBOR in the case of forint loans, and by the growth in interest rate spreads in the case of euro loans.

**At the beginning of the year demand for long-term loans fell considerably, but banks are anticipating a pick-up in demand in the second half of the year.** Contrary to the results of previous Lending Surveys, as a result of the coronavirus, in the first quarter of the year a net 13 per cent of the respondent credit institutions observed a decline in demand for long-term loans (Chart 8). A rapid recovery is evidenced by the fact that in the second quarter almost one-quarter of the credit institutions once again experienced rising demand, and this trend may also continue in the second half of the year. Demand for short-term loans also did not decline in the past half-year, and looking ahead a net 45 per cent of the credit institutions anticipate rising demand in this product group. Forint loans proved to be more resistant to the crisis than foreign currency loans, as a pick-up in demand persisted throughout this period, albeit to a decreasing degree.

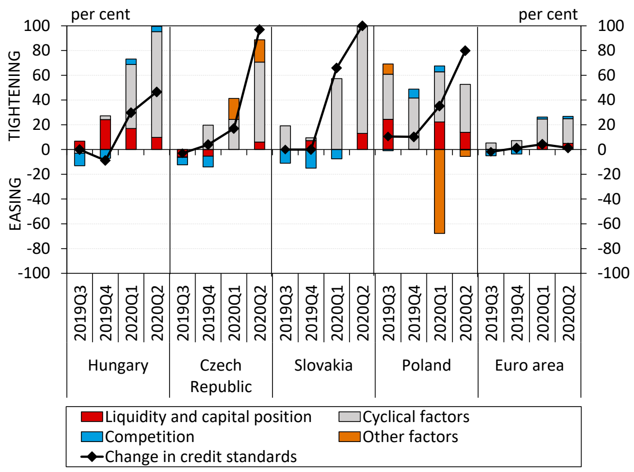
**Demand for the FGS Go! scheme increases dynamically.** Under the FGS Go! scheme, available since April, credit institutions concluded almost 2,400 contracts with corporate enterprises in the amount of roughly HUF 160 billion in the second quarter of 2020. In the first 3 months, the product was mostly (58 per cent) used for working capital financing, and 23 per cent of the total volume was requested for investment purposes, while 19 per cent was used by enterprises

*Chart 9: Annual growth rate of corporate loans and the credit-to-GDP ratio in an international comparison*




*Source: ECB, MNB*

*Chart 10: Changes and factors contributing to changes in corporate credit conditions in an international comparison*




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

for refinancing their existing investment loans. Following the loan application submission and approval phase in April, 550 contracts were already concluded in May, in the amount of HUF 26 billion, while 1,820 contracts were signed in June, amounting to HUF 134 billion. Commerce and vehicle repair as well as agriculture accounted for the largest proportions in FGS Go!, at 24 and 23 per cent, respectively. 20 per cent of the disbursements related to enterprises active in manufacturing. Under FGS *fix*, which was available until the end of May, contracts were concluded in the amount of HUF 29 billion in the period under review.

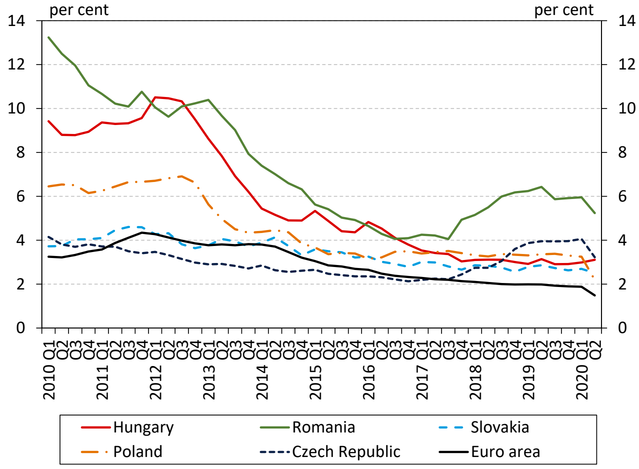
**International developments in corporate lending**

**At an annual level, corporate lending growth in Hungary remains considerable, but it no longer stands out compared to the EU countries.** Growth in the volume of transactions registered by the Visegrad countries, other than Hungary, fell short of the euro area average, which amounted to a good 6 per cent last year with significant heterogeneity (Chart 9). Apart from Germany, the other larger national economies of the European Union (France, Italy, Spain) registered a pick-up in corporate lending in the second quarter of 2020, which may be attributable to the drawdown of overdraft facilities due to liquidity or precautionary reasons; in addition, loan dynamics in Greece, Croatia and the United Kingdom also improved in the second quarter. Outstanding corporate borrowing in the Baltic states fell substantially at an annual level; in addition, the Polish loan portfolio – which had been continuously growing for almost 10 years – also started to contract. Similar to the situation in the Visegrad Group, Hungary's corporate lending-to-GDP ratio remains low in an international comparison.

**Corporate credit conditions tightened to a moderate degree in the euro area, accompanied by significant heterogeneity, while tightening considerably in the region.** According to the latest Bank Lending Survey of the ECB,[4] in each of the Visegrad countries, a large part of the banks reported tightening in the conditions of access to credit (Chart 10), the main reason for which is the deterioration in cyclical factors in the countries

[4] The euro area bank lending survey (https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/ecb.blssurvey2020q2~d8de5b89f0.en.html)

*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*

of the region. In the euro area, in the first half of the year, with significant heterogeneity, only a small percentage of the banks expressed the opinion that conditions on access to credit had tightened. Here again, the underlying reason for tightening was mostly the deterioration in cyclical factors, while credit institutions generally increased collateral requirements and premiums on risky loans in the second quarter of the year. As regards the four largest euro area countries, lending conditions were substantially tightened in Germany, while they were considerably eased in France, Italy and Spain in the past quarter. According to the expectations, in the third quarter of 2020, lending conditions may substantially tighten in the euro area after the end of the state guarantee programmes.

**Interest rate on corporate loans fell substantially in the region.** In the second quarter of 2020, interest rates on small-amount corporate loans fell by roughly 100 basis points in Poland, 80 basis points in Czechia, 72 basis points in Romania and 20 basis points in Slovakia (Chart 11). Accordingly, in year-on-year terms – in contrast to the trends observed in Hungary – all of the countries in the region registered a tangible decline in interest rates. Spreads increased substantially in Czechia, while they declined moderately in Romania and in Slovakia, in an annual comparison. The reason for the larger decrease in interest rate on loans in the region is the spillover effect of central bank interest rate cuts resulting from the coronavirus. Within the region, the highest level of interest rates on corporate loans can be still observed in Romania, with an average interest rate of 5 per cent.

**BOX 1: IMPACTS OF THE CORONAVIRUS ON LENDING IN THE LIGHT OF THE BANK INTERVIEWS**

The quarterly lending survey is supplemented once annually by interviews with lending managers at commercial banks. With a view to surveying the economic effects of the coronavirus pandemic as soon as possible, in 2020 these interviews were already conducted in April with the involvement of 9 institutions. These institutions were interviewed again in June and July on the latest developments.

***Corporate lending***

**All of the banks involved in the interviews reported that the shock caused by the pandemic had had major effect on lending trends as well.** In March, credit institutions had not yet experienced any major decline in the level of disbursements compared to previous months, which was primarily attributable to the disbursements made pursuant to already concluded contracts. Although banks anticipated major loan disbursements for this year, they reduced their target figures due to the Covid pandemic.

**In parallel with the rise in credit risks, banks significantly tightened their credit conditions, and most of them temporarily suspended lending to companies belonging to the sectors that became economically vulnerable due to the coronavirus, such as tourism, catering, hotel and shopping centres.** At the same time, according to the banks, the state loan and guarantee programmes efficiently support the access of enterprises experiencing difficulties to funding: FGS Go! and the products of Eximbank are popular with medium-sized enterprises, while in the case of small enterprises the main source of finance – in addition to FGS Go! – is represented by the Széchenyi Card programme, using appropriate guarantee products.

**As regards project financing, banks reported a low number of new development applications; for the time being companies are taking a wait-and-see attitude.** However, the projects already in progress did not stop, and the drawdown of the credit lines continues. On the other hand, in the case of the construction of new homes, pre-sales decelerated even in the projects that still benefit from the 5-per cent VAT.

**In the interviews, it was reported that participation in the moratorium on instalments declines in parallel with the growth in enterprise size.** On the whole, around 50 per cent of the clients continue to repay their loans, and this ratio outstripped the expectations of banks. However, banks do not expect any further shift in these ratios. Participation in the moratorium alone does not hinder borrowing, but due to precautionary considerations the respective corporations may be subjected to more stringent assessment.

**As perceived by banks, after the easing of the restrictions, the volume of new contracts already reached 80 per cent of the pre-Covid period, and – assuming a V-shaped recovery – in the fourth quarter they already anticipate growth.** Banks already started to ease their previously tightened credit conditions in July; however, in the second half of the year they are starting to prepare for potential default by companies facing difficulties, and initially they are trying to address the repayment problems by rescheduling the loans.

***Household lending***

**After the ordering of the moratorium on payments, banks' non-branch customer service capacities became overloaded and resources had to be reallocated from other areas, e.g. to manage the incoming calls related to the moratorium on instalments.** By contrast, customer turnover in the branches was halved during the pandemic. Banks reported that roughly one-half of the customers chose not to resort to the moratorium, but the ratios vary by product types: repayments were continued to the largest degree in the case of mortgage loans, while the lower amount loans, such as personal loans, were characterised by smaller opt-out ratio.

**In connection with the government decree prescribing the maximum APR level of consumer credits, banks started to develop new products and due to this they temporarily suspended the sales of these loan products.** However, credit cards and overdrafts may be missing from banks' product offering in the longer run. Since from 1 January 2021 consumer credits may return to market interest rate, banks do not believe that the government decree would have any crowding-out effect on lower-income customers. On the other hand, the tightening risk tolerance may generate supply constraints, while on the demand side a decline may be generated by customers losing their jobs. In their more stringent loan assessments procedures, the respondent institutions increased the minimum income requirements and also examine whether customers work in a vulnerable sector and whether their income has declined in recent months.

According to the institutions involved in vehicle financing, the virus caused major constraint in car sales since the stoppage of car factories and the imports of used cars generated substantial supply problems. In parallel with the temporary decline in housing market transactions, the number of housing loan applications also decreased. On the other hand, the number of applications for prenatal baby support loans has hardly decreased, since those are typically applied for by customers of high income and good debtor rating, less affected by the pandemic in terms of the labour market (the characteristics and main loan purposes of the prenatal baby support loan debtors are detailed in Box 2).

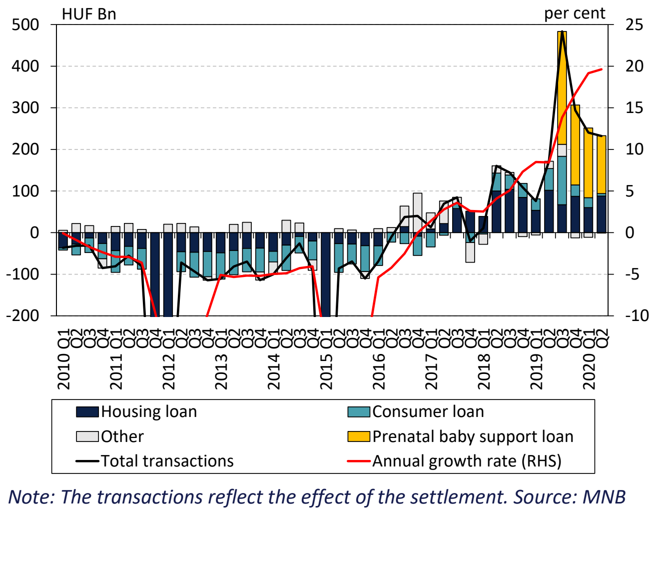
**Lending in the area of mortgage loans and prenatal baby support loans returned to normal since June, while the disbursement of personal loans falls short of the pre-pandemic levels.** Similarly to the corporate segment, some of the banks already started to ease credit conditions on household loans as well, but due to the moratorium it will only be clear at the beginning of next year whether households will be able to continue their debt servicing. Preparing for the potential defaults, certain institutions will contact debtors near the end of the year for the purpose of data reconciliation, thereby facilitating subsequent contact. In cases where rescheduling the loan after termination of the moratorium is not practicable, the forward flow agreements concluded with workout companies may facilitate the removal of non-performing receivables from the balance sheet of banks as soon as possible. Banks anticipate a major fall in profits this year, both due to the decline in revenues and the provisions to be recognised for expected losses. Lending managers mentioned it as a plus of coronavirus pandemic that the implemented restrictions contributed considerably to the penetration of online banking. The end-to-end application of personal loans is available at most banks to their own customers.

# 3. TRENDS IN LENDING IN THE HOUSEHOLD SEGMENT

*Household loans outstanding vis-á-vis the credit institution sector grew even amidst the restrictions caused by the pandemic, primarily supported by the dynamic disbursements of prenatal baby support loans and decreased amortisation resulting from the moratorium on repayments. In the second quarter, loans outstanding rose by HUF 232 billion and thus exceeded the year-on-year level by almost 20 per cent at the end of June. During the quarter, the volume of new contracts decreased: the largest decline was registered in personal loans, where disbursements fell short of the year-on-year value by 63 per cent. In the second quarter, credit institutions concluded prenatal baby support loans in the amount of HUF 142 billion, as a result of which the outstanding amount of the product reached HUF 785 billion by the end of June. The characteristics and main loan purposes of the prenatal baby support loan debtors were examined in a questionnaire-based survey. The number and volume of contracts concluded under HPS both declined in the applications related to the construction of new homes, while rural HPS was still characterised by dynamic disbursement during the quarter.*

*The banks participating in the Lending Survey tightened credit conditions on both housing loans and consumer loans during the quarter, primarily by altering the scoring system, which was justified by the worsening economic prospects and deterioration in customers' creditworthiness. In new disbursements banks enforced the requirement applicable to the maximum APR level in the average credit cost of consumer loans, while the APR of housing loans remained unchanged. 16 per cent of the banks, in net terms, held out the prospect of easing in both product types in the second half of the year. During the quarter almost all respondent institutions perceived a decline in demand for housing loans and consumer loans; however, half the banks expect demand for the former to normalise in the second half of the year.*

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

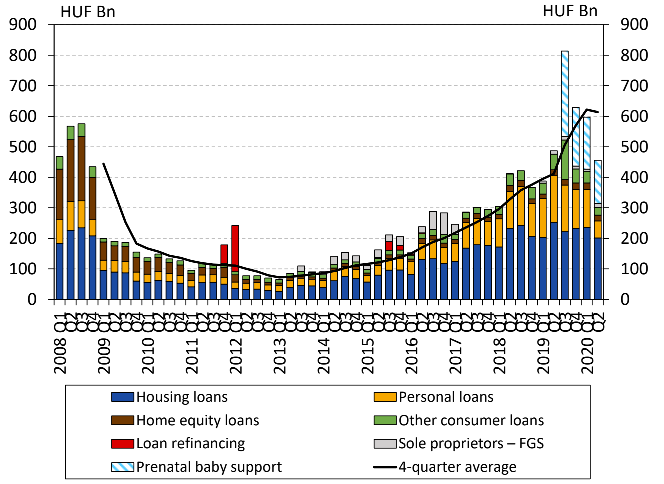



*Note: The transactions reflect the effect of the settlement. Source: MNB*

**Domestic household lending**

**The slower amortisation resulting from the moratorium and the large volume of prenatal baby support loans contributed equally to the growth of almost 20 per cent in household loans outstanding.** The restrictions connected to the coronavirus resulted in more moderate disbursements during the quarter, while the moratorium led to the temporary suspension of part of the instalments, and thus to slower amortisation of the loan portfolio. In the second quarter of 2020, household loans outstanding vis-á-vis the credit institution sector grew by HUF 232 billion due to transactions. By June, household loans outstanding reached HUF 7,567 billion, which exceeds the level registered a year ago by 19.6 per cent (Chart 12). The disbursements of prenatal baby support loans in the amount of roughly HUF 140 billion accounted for 60 per cent of the quarterly transaction-based growth. Housing loans and consumer loans grew by HUF 88 billion and HUF 6 billion, respectively, during the quarter.

*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, hire purchase and other loans. Source: MNB*

*Table 1: Number of contracts and average loan volume of new housing and consumer loans*

| | | 2019 Q2 | 2020 Q2 | % change |
|---|---|---|---|---|
| Number of contracts (thousands) | Housing loans: purchases of used homes | 18.0 | 12.6 | -30.0 |
| | Housing loans: reconstruction and other | 4.5 | 3.5 | -21.7 |
| | Housing loans: construction and buying of new homes | 4.4 | 3.0 | -32.0 |
| | Personal loans | 83.5 | 31.6 | -62.2 |
| Average contract size (HUF million) | Housing loans: purchases of used homes | 9.9 | 10.9 | 10.9 |
| | Housing loans: reconstruction and other | 4.5 | 5.6 | 26.0 |
| | Housing loans: construction and buying of new homes | 12.3 | 14.1 | 15.1 |
| | Personal loans | 1.8 | 1.8 | 0.0 |

*Note: Credit institution loans. Source: MNB*

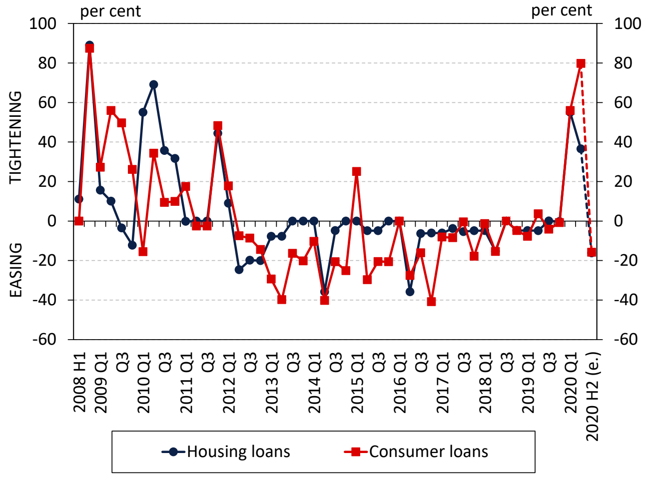
**Prenatal baby support loans provide support for the household lending market.** The restrictive measures introduced to contain the coronavirus also impacted household loan disbursements. In the second quarter of 2020, the credit institutions sector concluded new loan contracts with households in the amount of HUF 443 billion[5] (Chart 13), which represents a decline of 7 per cent year-on-year. The largest decline was registered for personal loans, where new disbursements fell 63 per cent short of the volume disbursed in the same quarter of 2019. In line with the housing market trends, disbursements of housing loans also declined, falling by roughly 20 per cent in year-on-year terms. In addition, prenatal baby support loans also accounted for large volume, and as a result of the disbursements in the quarter under review (HUF 142 billion), the outstanding portfolio of the product – launched a year ago – reached HUF 785 billion by the end of June. For detailed information on the characteristics of the prenatal baby support loan debtors and the main loan purposes, see Box 2.

**As a result of the restrictions introduced due to the coronavirus, the number of new contracts declined.** Both the volume and number of new contracts fell during the quarter. The number of personal loan contracts concluded during the quarter fell short of the year-on-year level by 62 per cent. As regards housing purposes, the number of contracts for used homes declined by 30 per cent, and a similar trend was observed also in the case of contracts for the construction or purchase of new homes (Table 1). In parallel with the annual house price trends, the amount of loans requested for this purpose also rose: for new homes and for the purchase of used homes, households applied for HUF 14 million and HUF 11 million for maturities over 18 and 19 years, respectively, on average, in the second quarter of 2020.

**Banks tightened their credit conditions for housing and consumer loans.** Based on the responses in the Lending Survey, in net terms, 37 per cent of banks tightened credit conditions on housing loans during the quarter, which was primarily implemented by

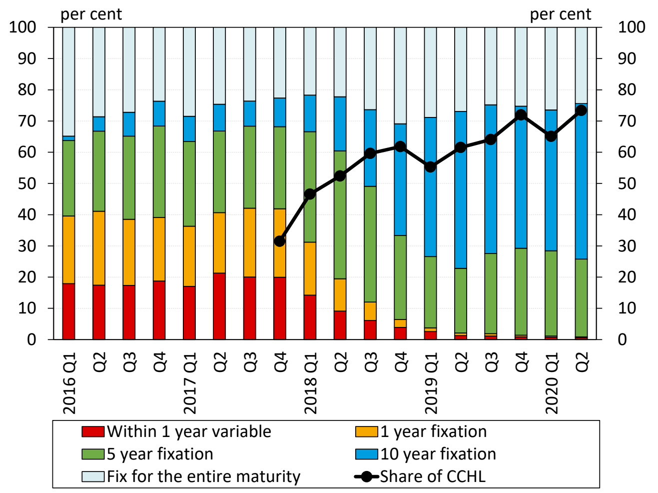
[5] Without loans extended to independent entrepreneurs under the FGS.

*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 according to interest rate period, 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 period (at least 5 years since 2018 Q4), excluding disbursements by building societies. Source: MNB*

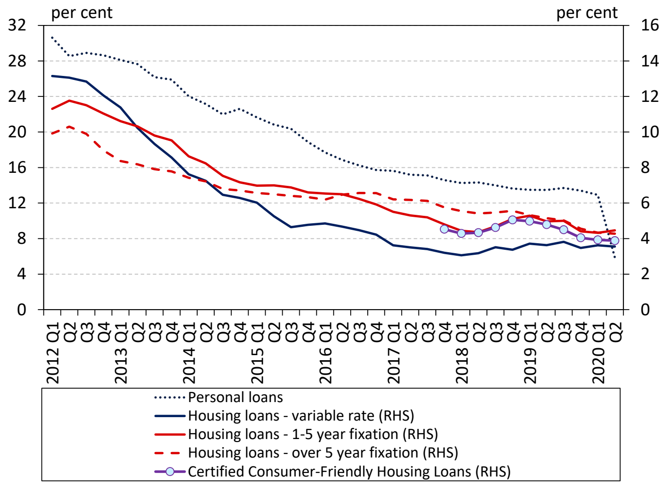
amending the scoring system. Tightening was justified by the economic prospects and the change in customers' creditworthiness. At the same time, in net terms, 16 per cent of banks held out the prospect of easing in the second half of the year, in order to achieve their market share objectives (Chart 14). In the case of consumer loans, a net 80 per cent of the respondent institutions tightened the conditions of access to credit, primarily for hire-purchase and personal loans, affected by the APR cap. The tightening was mostly realised by increasing the expected creditworthiness level, which was also confirmed by the credit institutions during the interviews.[6] Similarly to housing loans, a net 16 per cent of banks also plan to ease credit conditions on consumer loans, by extending the maximum maturity.

**The ratio of loans fixed for longer terms increased further.** The vast majority of the housing loan contracts concluded in the second quarter of 2020 are characterised by interest rate fixation for longer term, while the ratio of loans with variable interest rate or with interest rate fixation for one year at the most was less than 1 per cent. Loans with interest rate fixation for 5 years accounted for 25 per cent of the disbursements during the quarter, while three-quarters of the contracts are with interest rate fixation for at least 10 years or until the end of maturity, which ensures the long-term predictability of instalments (Chart 15). The introduction and increasing popularity of Certified Consumer-friendly Housing Loans (CCHL) materially contributed to the decrease in interest rate risks. 73 per cent of the housing loan contracts concluded during the quarter had CCHL certification.

**The credit costs of housing loans did not change substantially during the quarter.** The APR on housing loans concluded during the quarter did not change compared to the previous quarter. In the case of personal loans, following a decline of 7 percentage points, the average annual percentage rate of charge stood at 5.88 per cent at the end of the quarter, after enforcing the requirement applicable to the

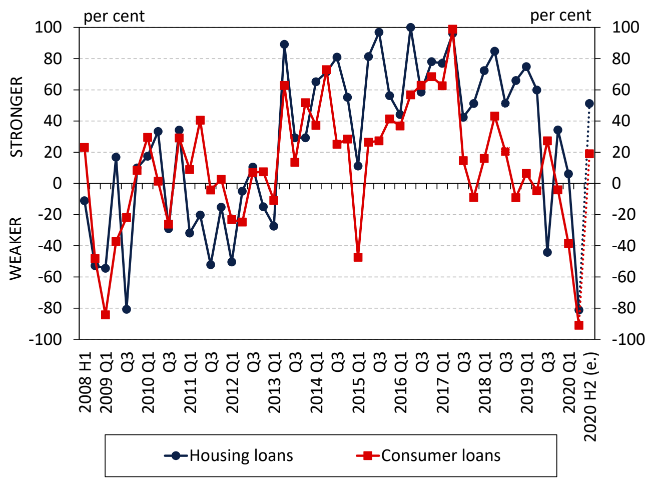
[6] We also obtained information on the experiences and expectations of the banks' lending managers through a series of interviews, the results of which are detailed in Box 1.

*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: Credit demand in the household lending segment*



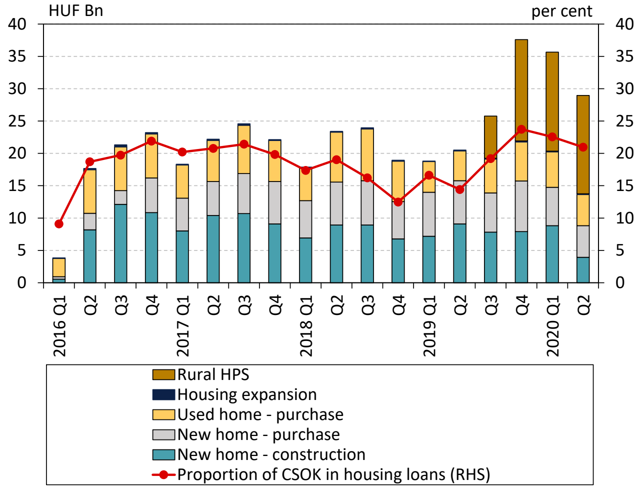

*Note: The net ratio is the difference between tightening and easing banks, weighted by the market share. Source: MNB, based on banks' responses*

maximum APR (Chart 16). The spread on variable-rate housing loans decreased by 0.6 percentage points during the quarter; however, in the case of loans with interest rate fixation for over 5 years – accounting for the vast majority of new housing loans – under constant longer-term funding costs (relevant IRS), the spread remained at the same level as in the previous quarter. The spread on Certified Consumer-friendly Housing Loans still stands at 2.4 percentage points.

**Banks reported a decline in credit demand.** A net 81 per cent of the respondent banks in the Lending Survey reported declining demand in the housing loan market; however, prospects for the second half of the year are positive and one-half of the banks once again anticipate a pick-up in demand (Chart 17). A decline in demand for consumer loans was perceived by 91 per cent of banks, and in the case of these products merely 19 per cent of the institutions deem an increase in demand likely in the second half-year. At the same time, 75 per cent of them anticipate a pick-up in credit demand for vehicle financing in the second half of the year due to the realisation of purchases postponed due to the restrictions.

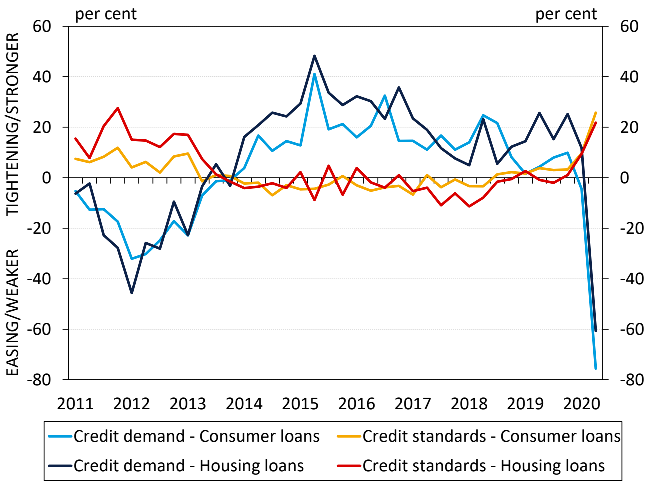
**The volume of HPS applied for construction fell substantially.** The restrictions related to the pandemic also had an impact on subsidised housing loans: the volume of contracts concluded under the Home Purchase Subsidy Scheme for Families fell by one third year-on-year. In this quarter, households signed almost 5,000 contracts in the value of HUF 14 billion (Chart 18). The largest decline was observed in the HPS requested for the construction of new homes, where the number and volume of contracts concluded fell by more than 50 per cent compared to the second quarter of 2019. By contrast, no decline was observed in subsidised loans drawn down for the purchase of used homes in an annual comparison. One-fifth of the housing loans disbursed in this quarter, roughly HUF 42 billion, were related to the Home Purchase Subsidy Scheme for Families. Disbursements under the Rural HPS scheme, launched a year ago, are still substantial: during the quarter under review almost 3,000 contracts were concluded under the scheme, half of which was requested for the purchase and renovation of used homes, while in the contracted volume of HUF 15

*Chart 18: Volume of HPS contracts by purpose*




*Note: The Rural HPS can be used for the purchase of used homes, as well as modernisation and extension of homes. Source: Ministry of Finance*

*Chart 19: Changes in household credit conditions and credit demand in the euro area*




*Note: Weighted net percentage based on the share of each country in the total loan outstanding amounts of the area aggregate and of each bank in the total loan outstanding amount of the BLS banks sample. Source: ECB*

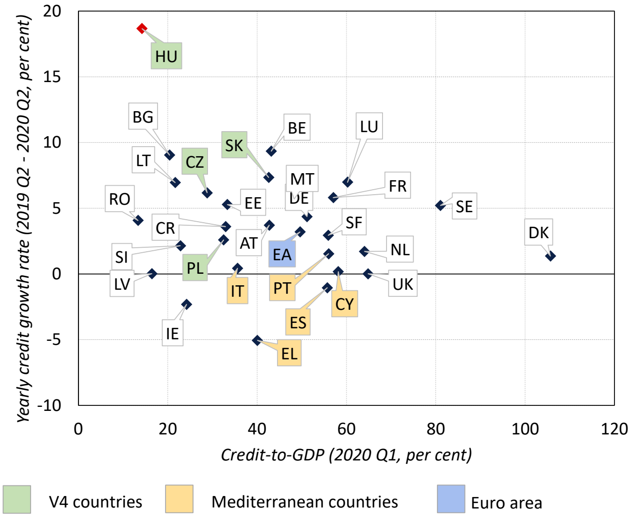
billion, the ratio of the amount used for the renovation of existing homes rose from 20 per cent, observed in previous quarters, to 27 per cent.

**International developments in household lending**

**The coronavirus had major impacts on household lending trends in the EU.** According to the ECB's latest Bank Lending Survey, in the second quarter of this year, household lending conditions were tightened in the euro area as well. This is primarily attributable to the economic environment becoming more uncertain due to the coronavirus pandemic, banks' declining risk appetite and clients' weakening creditworthiness. The ratio of those reporting tightening – roughly one-quarter of the banks in net terms – substantially exceeds the long-term average of around 5 per cent. The isolation measures, the gloomier expectations of households, the worsening of their labour market position and their increasing savings at the same time, led to a significant fall in credit demand. 61 and 76 per cent of banks, in net terms, reported a decline in demand for housing loans and consumer loans, respectively (Chart 19). Although the moratorium on repayments, introduced in several Member States, may result in a higher growth rate in loans outstanding due to the temporary suspension of part of the instalments, the decline in demand and the contraction in supply curbed the growth in household loans outstanding in several EU Member States. In the second quarter, the indebtedness of the euro area households rose by 3.2 per cent in total on an annual basis (Chart 20). In Ireland, and in the Mediterranean region – struggling with the legacy of non-performing loans from the 2008 financial and economic crisis – the portfolio contracted as a result of the coronavirus, while the United Kingdom registered stagnation, and the core countries and the CEE countries observed more robust growth.

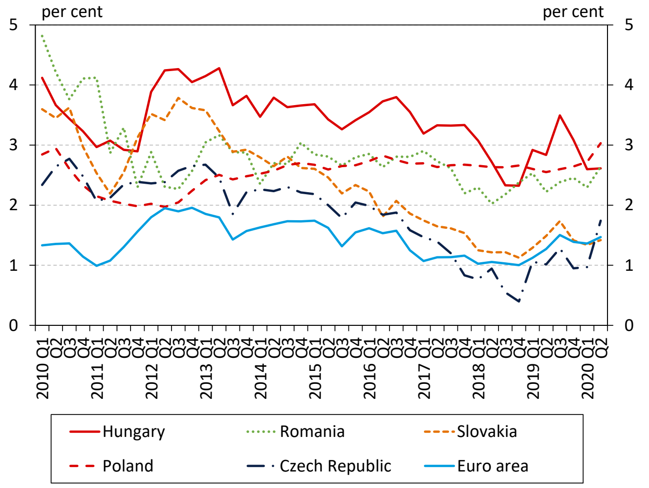
**Loans outstanding in Central and Eastern Europe grew, even amidst the tighter credit conditions.** The less predictable and deteriorating economic environment led to tightening of banks' household credit conditions also in the countries of the region; in addition, banks reported a general decline in household credit demand in these Member States as well. The worsening of the clients' creditworthiness

*Chart 20: Annual household credit growth rate and credit-to-GDP ratio in an international comparison*




*Source: ECB*

*Chart 21: Interest rate spreads in international comparison for housing loans provided in domestic currency*




*Note: In the case of variable-rate housing loans or ones with up to 1-year rate fixation, APR-based smoothed spread over the 3-month interbank rate, while in the case of housing loans fixed for 1-5 years, for 5-10 years or over 10 years the APR-based smoothed spread over the 3-year, 7-year and 15-year IRS, respectively. Source: MNB, ECB, EMF, Datastream, national central banks*

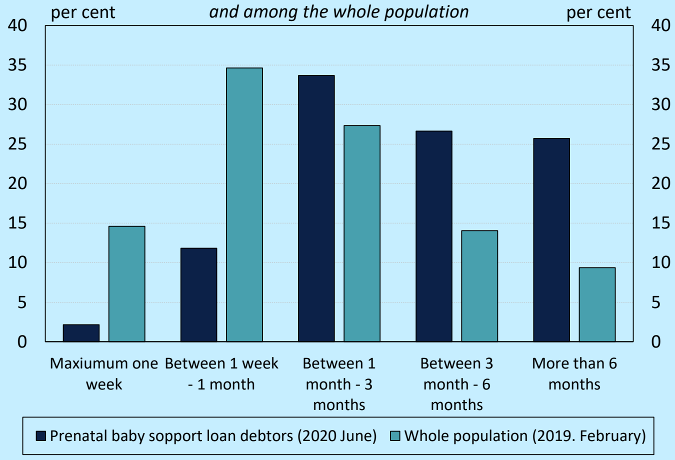
and the decrease in the banks' risk tolerance was evidenced, among other things, by the declining loan amounts, more stringent collateral requirements and changes in spreads: interest rate spreads rose in Czechia, and – to a smaller degree – in Poland and Romania as well (Chart 21). The growth in loans outstanding in the countries of the region (with the exception of Poland) still exceeds the EU average, despite the coronavirus (Chart 20). This may be partially due to the moratorium on loan instalments, also introduced in these countries (the moratorium was prescribed in Slovakia and in Czechia as well for nine and three months, respectively, while in Poland the suspension of the instalments of households loans is based on banks' voluntary participation and is also for three months). The dynamics were outstanding primarily in Hungary; however, the related stability risks are mitigated by the fact that the household credit-to-GDP in Hungary is still among the lowest in the EU, and lending takes place in a sound structure.

## BOX 2: CHARACTERISTICS AND PURPOSES OF THE PRENATAL BABY SUPPORT LOAN DEBTORS

**In order to examine the loan purposes of the prenatal baby support loans and to obtain more information on the loan debtors, the MNB performed an online questionnaire-based survey** among the debtors with the cooperation of the commercial banks. Responses to the questionnaires were received between 25 May and 15 June 2020, and 10 per cent – 7,655 persons – of the prenatal baby support loan debtors participated in the survey.

Based on the results of the survey, **the prenatal baby support loan debtors have higher school qualification, higher income and larger savings compared to the total population**. The questionnaire asked how long the married couple would be able to maintain their present living standards if both of them lost their jobs. 52 per cent of the prenatal baby support loan debtors have savings sufficient for a period longer than three months, while based on a survey performed in 2019, this ratio within the total population is 23 per cent. While based on the EU-SILC survey performed in 2016, 81 per cent of the total population said that they can cover their usual monthly expenses only with difficulties, based on the responses to the questionnaire, this ratio is 33 per cent among the prenatal baby support loan debtors. In terms of the borrowing behaviour, based on the banks' reporting, it can be stated that the debtors' payment to income ratio is low: in the case of 55 per cent of the loans the applicant couples take the prenatal baby support loans with a payment-to-income ratio below 25 per cent. Future debt service capacity is also influenced positively by the fact that the labour market position of the prenatal baby support loan debtors did not worsen materially in the first four months of the coronavirus pandemic in Hungary: 2 per cent of the male and 1 per cent of the female members of the couples lost their job since February.

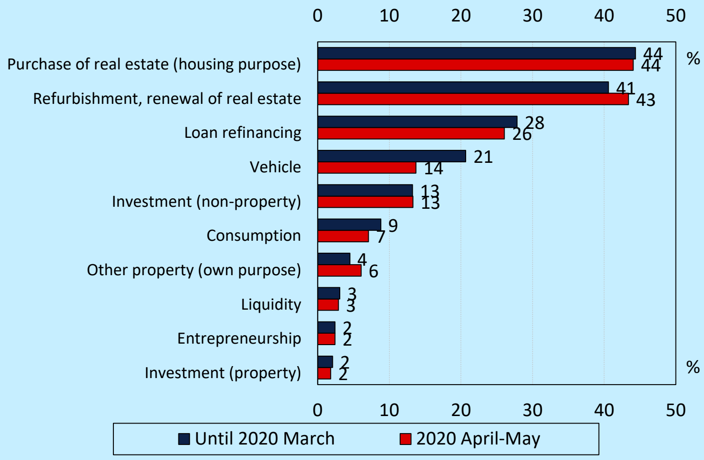
*Saving distribution among the prenatal baby support loan debtors and among the whole population*




Note: The survey asked the following question: If both you and your spouse lost your jobs, how long would your household be able to maintain its current standard of living?
Source: MNB Prenatal Baby Support Loan online survey, MNB Credit risk survey

Due to the free purpose nature of the product, until now we had only limited qualitative knowledge about the purposes of the disbursed loans. The results of the survey suggest that **the drawdown of the prenatal baby support loans is dominated by housing purposes**: on the whole, three-quarters of the loan debtors indicated home purchase, home improvement or furnishing. Loan refinancing was the third most frequent purpose. Further typical purposes include vehicle purchase, (non-real estate) investment or consumption, where the latter includes covering costs related to having children. The drawdown of prenatal baby support loans to bridge liquidity problems, related to enterprises, or for the purchase of investment property is less typical.

*Purposes of the prenatal baby support loans*




*Note: It was possible to indicate more than one answer, therefore the sum of the frequencies of the individual purposes does not equal 100 per cent. Source: MNB Prenatal Baby Support Loan online survey.*

**The impact of the coronavirus was reflected in the ratios of the individual loan purposes**: among the applicants for prenatal baby support loans in April and May this year, the ratio of those indicating vehicle purchase and consumption fell from the previous 21 to 14 per cent and from 9 to 7 per cent, respectively. At the same time, the ratio of those financing home improvement and the purchase of non-residential property (e.g. arable land, plot) increased.

The high amount of the prenatal baby support loan facilitates the financing of several loan purposes: almost half of the debtors use the amount for several different purposes (the presence of housing purpose is also significant in the case of several loan purposes). Nevertheless, another part of the debtors, **more than one third of them, supplement the prenatal baby support loan by other bank loan or HPS** to realise their goals. The supplementary borrowing most often includes housing loan, or loans and subsidies under the Home Purchase Subsidy Scheme for Families.

The review of the responses in the questionnaire also permitted a more detailed analysis of certain prenatal baby support loan debtor groups:

- At the time of disbursement, 30 per cent of the prenatal baby support loan debtor couples had no children yet, while 9 per cent of them had 3 or more children. Among those **without children** home purchase was clearly a dominant purpose, well exceeding those with several children. In the case of **large families**, home improvement and furnishing is the most frequent loan purpose, presumably because a larger part of them may already have their own home. In terms of income, the prenatal baby support loan debtors without children are in a somewhat worse position on average than those with several children, but this may be also related to their lower average age.

- In the case of households with the **lowest income**, below net HUF 300,000 (23 per cent of the debtors), home improvement, furnishing, loan refinancing and liquidity are more frequent objectives, while one-third of the **debtors with the highest**, over net HUF 750,000 **income** (10 per cent of the debtors) indicated one of the investment purposes.

- It is known from the aggregated data reporting that almost 40 per cent of the prenatal baby support loan debtors are already under the three-year moratorium due to having children. At the same time, the survey also revealed that further 40 per cent of them resorted to the suspension of instalments, introduced until the end of 2020 due to the coronavirus pandemic. From a socio-demographic perspective it is clear that those resorting to the **Covid-moratorium** have relatively lower income, and almost 40 per cent of them can cover their usual monthly expenses only with smaller or larger difficulties. As regards their labour market position, non-full time employment characterises a larger part of them. As regards the place of residence, resorting to the Covid-moratorium is more typical in the smaller settlements, and the probability of participating in that is also increased by the lower school qualification.

On the whole, the results of the survey confirmed the picture – also obtained from the banks' data reporting – **on the low financial stability risks of the prenatal baby support loan debtors**: based on their favourable income, wealth and labour market position, these are clients of good credit rating. A large part of the prenatal baby support loans provided assistance to young couples for the realisation of their housing objectives; however, a substantial part of these debtors need additional support/borrowing to realise this objective.

# 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 2020 Q2, 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 15 banks in total, which represent 95 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 93 per cent.

The survey consists of a standard questionnaire in each segment. The retrospective questions refer to 2020 Q2 (compared to 2020 Q1), whereas the forward-looking questions concern the next half-year period, i.e. covering 2020 H2 (relative to 2020 Q2). The current questionnaire was completed by the senior loan officers between 1 July and 16 July 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: http://www.mnb.hu/penzugyi-stabilitas/publikaciok-tanulmanyok/hitelezesi-felmeres.

**TRENDS IN LENDING**

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