Trends in lending

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

- *The credit aggregates present quantitative developments in economic agents' loans outstanding on the basis of the balance sheet statistics of the banking sector. Both the volume of new loans and net changes in the banking sector's loans outstanding (net of exchange rate effects) are presented. From Q4 2013, the analysis presents the trends in lending in the overall credit institution 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 85-95 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 on the cost of funds, the premium on risky loans and the fees charged.*
- *The interest rate statistics contain the price conditions, i.e. aggregate interest rates on credit institutions' new loans realised, weighted by the contract amounts. The lending rate can be decomposed into the reference rate and the spread on the reference rate.*
- *Banks active in the given segment provide qualitative responses in the Lending Survey in respect of their expectations and the changes in demand for loans they perceive. Similarly to credit conditions, banks indicate the direction of the change.*

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

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1. EXECUTIVE SUMMARY

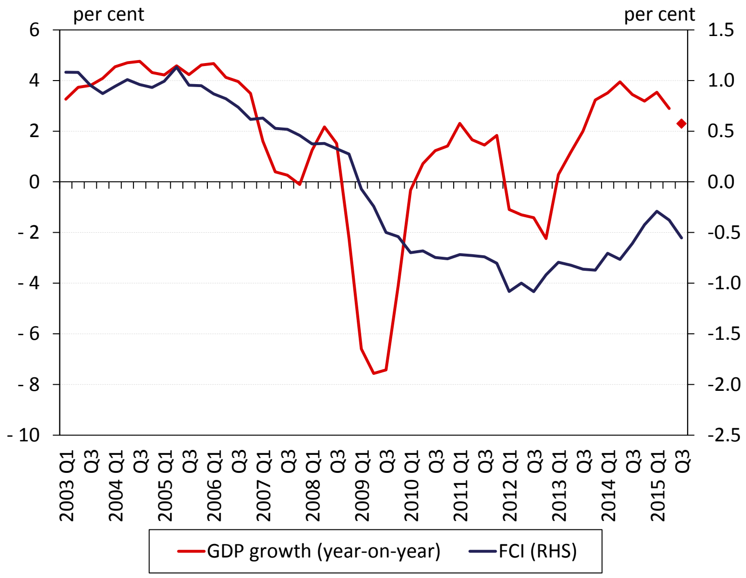
In the third quarter of 2015, outstanding lending to non-financial corporations by credit institutions increased by HUF 28 billion, i.e. by 0.5 per cent, in quarter-on-quarter terms. However, corporate lending processes were characterised by two distinct trends depending on corporate size categories. While outstanding loans to large corporations contracted by almost HUF 46 billion, the outstanding borrowing of the SME sector increased significantly, i.e. by HUF 74 billion, and thus the annual growth rate of lending to SMEs reached 3.5 per cent by the end of the quarter. However, due to the continued contraction of lending to large corporations, total outstanding lending still shows a downward trend in annual terms, and the portfolio's annual rate of decrease was 4.4 per cent in September 2015.

The Funding for Growth Scheme made a substantial contribution to the expansion of the SME sector's outstanding borrowing in the third quarter as well. In October, the programme gained new momentum as a result of utilisation of the FGS+ funds in pillar two. Based on the Lending Survey, banks generally eased their credit conditions during the quarter, which was accompanied by a fall in the financing costs of both small- and high-amount forint loans. The banks participating in the survey reported an increase in credit demand for long-term loans and expect further strengthening in this demand in the coming quarters.

In aggregate terms, outstanding lending to households fell by HUF 67 billion during the period under review. Thus in annual terms the rate of portfolio decline is close to 15 per cent, but disregarding the one-off effect of the settlement, the rate of decrease would be 4.5 per cent. However, the recovery in new loans continued; the volume of gross loans extended by credit institutions to households increased by 18 per cent year-on-year. Based on the Lending Survey, the banks did not change their lending conditions for housing loans during the quarter, and all banks reported a recovery of demand in this segment. Growth in demand for consumer credit is expected, particularly in the next half-year. The recovery in new household loans was also attributable to the low interest rate environment: during the quarter, credit costs and spreads decreased in both segments.

According to the Financial Conditions Index, which summarises lending developments in the corporate and household segments, the banking system made a negative contribution to output growth in the third quarter of 2015.

Financial Conditions Index (FCI) and annual real GDP growth

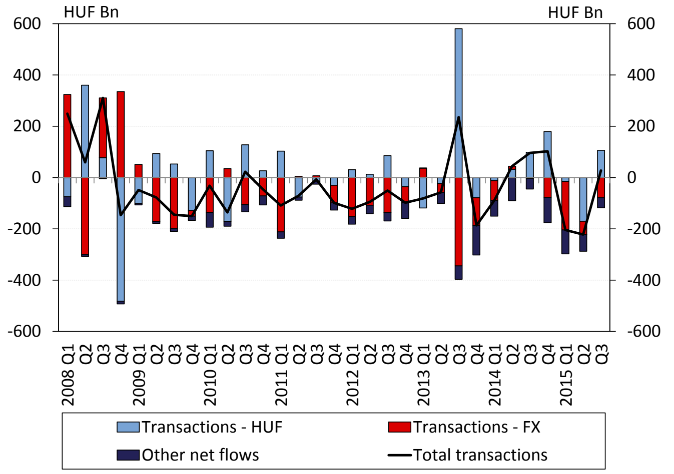


Note: The FCI shows the contribution of the banking sector, through lending, to the annual GDP growth rate. For more details on the new indicator, see Box 3 in the Financial Stability Report of November 2015. The 2015 Q3 data for the real GDP annual growth rate is the preliminary estimate of the HCSO.
Source: MNB, HCSO.

2. DEVELOPMENTS IN LENDING IN THE CORPORATE SEGMENT

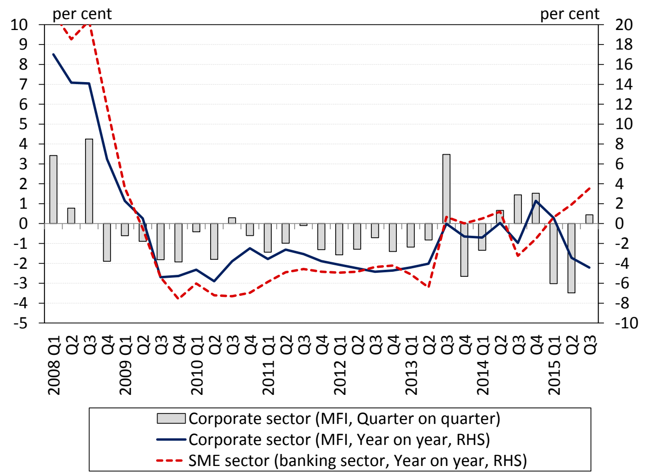
In the third quarter of 2015, credit institutions' outstanding loans to corporations increased by HUF 28 billion as a result of disbursements and repayments. However, in annual terms, outstanding loans fell by 4.4 per cent due to base effects. The outstanding borrowing of the SME sector continued to expand, with the annual rate of growth of the portfolio rising to 3.5 per cent. Thus, lending to the sector is still fundamentally characterised by a dual trend depending on corporate size. In the period under review, utilisation of the Funding for Growth Scheme continued to increase, leading to an exceptionally high level of new lending in October. Based on banks' answers to the Lending Survey, the terms of corporate loans eased further during the quarter, and this may be followed by additional easing in the next two quarters. Banks perceived no change in demand for short-term loans in the third quarter of 2015, while demand for long-term loans increased. The financing costs of newly contracted corporate loans fell both in the case of small-amount and high-amount forint loans.

Chart 1: Net quarterly change of the corporate loan portfolio, by currency



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

Chart 2: Growth rate of loans outstanding of the whole corporate sector and the SME sector



Note: In the case of the corporate sector, the time series is based on transactions, while the SME data are based on estimated transactions from Q4 2013.
Source: MNB.

Domestic corporate lending

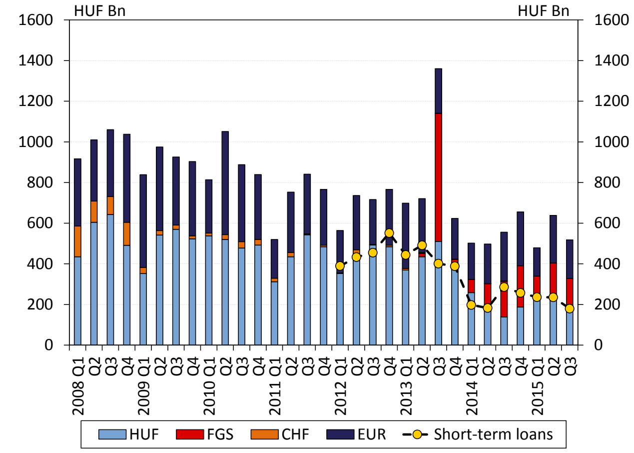
Outstanding corporate loans increased yet again in the third quarter. Lending by credit institutions to corporations increased by HUF 28 billion as a result of transactions in the third quarter (Chart 1). HUF loan transactions increased by HUF 106 billion, while foreign currency loan transactions decreased the total outstanding borrowing of corporations by HUF 78 billion. The ratio of foreign currency loans (consisting mainly of EUR loans) within the total outstanding portfolio decreased further to reach 47 per cent at the end of September. Apart from transactions, write-offs and reclassifications reduced outstanding loans by HUF 39 billion in total. Unused credit lines available for corporations, which had previously reached a high level, continued to increase in the reporting period, rising by HUF 179 billion in total. The volume of credit lines can be deemed high compared to the average of previous periods, suggesting that some companies may be postponing their borrowing decisions.

Outstanding loans to small and medium-sized enterprises increased further in the past quarter. In an annual comparison, credit institutions' outstanding corporate loan portfolio decreased by 4.4 per cent in the third quarter of 2015. Despite the positive transactions, the growth rate deteriorated due to the base effect, as the latest data on transactions was exceeded by the 2014 Q3 figures. On the other hand, the annual growth rate of SMEs' outstanding borrowing[1] from the banking system continued to accelerate, reaching 3.5 per cent by the end of the quarter[2] (Chart 2). Accordingly, corporate lending processes continue to show a dual trend based on corporate size.

[1] The growth rate of SME lending may be distorted by the fact that as an indirect result of the large loan amounts, some companies may be reallocated to the large enterprise segment.

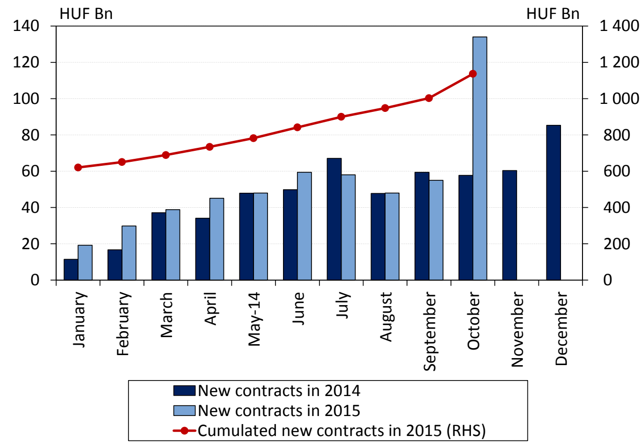
[2] We provide an estimate of SME segment's transactions by breaking down other changes (write-offs and reclassifications) to total loans.

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



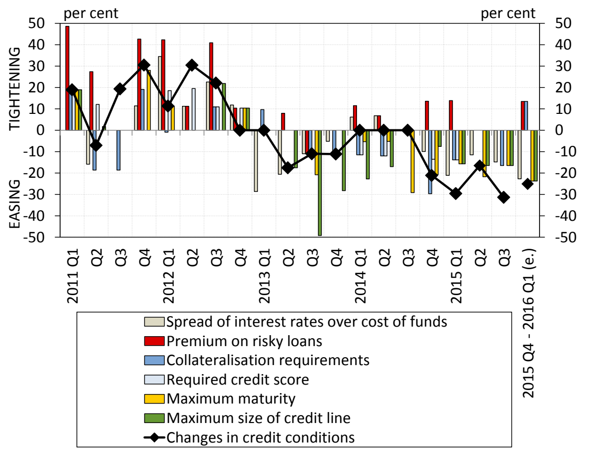
Source: MNB.

Chart 4: Contracts concluded in Phase 2 of the FGS in the individual months of 2014 and 2015



Source: MNB.

Chart 5: 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 the answers of respondent banks.

The volume of EUR-denominated new lending decreased in the third quarter. The gross volume of new corporate lending by the overall credit institution sector amounted to HUF 519 billion in the third quarter (Chart 3). This represents a decrease of 7 per cent compared to the third quarter of 2014. Within new lending, HUF-denominated loans amounted to almost HUF 328 billion, while EUR-denominated loans amounted to HUF 190 billion. The ratio of short-term loans within new lending continued to decrease, accounting for 35 per cent in the third quarter.[3] The ratio of loans contracted under the Funding for Growth Scheme amounted to 49 per cent within the total amount of forint lending.

Utilisation of the Funding for Growth Scheme continued to expand. In the third quarter of 2015, contracts were signed under the Funding for Growth Scheme in a value of HUF 161 billion. In addition, in October the value of the contracts concluded under the FGS reached an exceptionally high value, i.e. HUF 134 billion. Thus the utilisation of the Scheme reached HUF 1,137[4] billion by the end of October (Chart 4). The outstandingly high value achieved in October is attributable to two factors: on the one hand, with the approach of the deadline at the end of the year the rate of contracting – to the debit of the FGS+ funds – has accelerated, and on the other hand, due to technical reasons, part of the loans planned to be submitted to the MNB in the last two months of the year, also appeared in October. Until end of October, in total 28,000 micro, small and medium-sized enterprises participated in the two phases of the Scheme. The Funding for Growth Scheme contributed significantly to the growth of outstanding borrowing by the SME sector, the growth rate of which – according to our estimates – would be still negative without the Scheme. Approximately one-third of the total outstanding borrowing of the SME sector was extended under the Scheme.

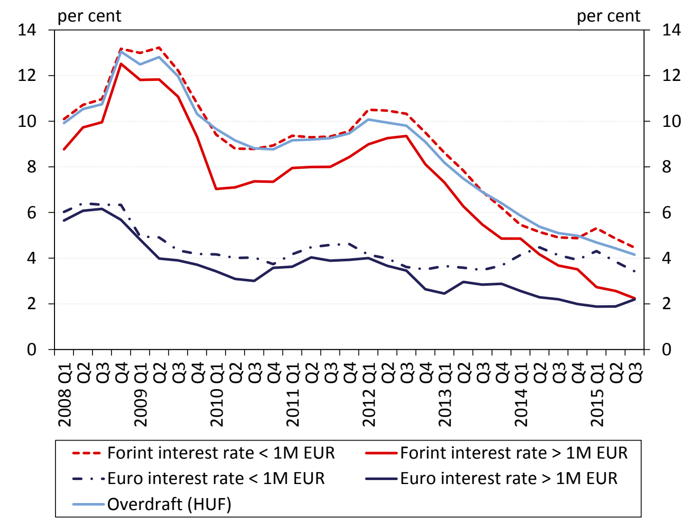
In the third quarter, credit conditions were once again eased. According to the answers in the Lending Survey, about 31 per cent of the banks, in net terms,[5] eased corporate lending conditions. Among the factors contributing to easing, respondent banks mentioned – similarly to previous periods – market share objectives and the intensification of competition in the highest ratio. In

[3] The lengthening of the average maturity of the borrowing reduces the need to renew the loans, which serves to restrict gross lending, even if the loan stock remains unchanged.

[4] The credit institutions drew down the part above HUF 1,000 billion against the limit of the FGS+.

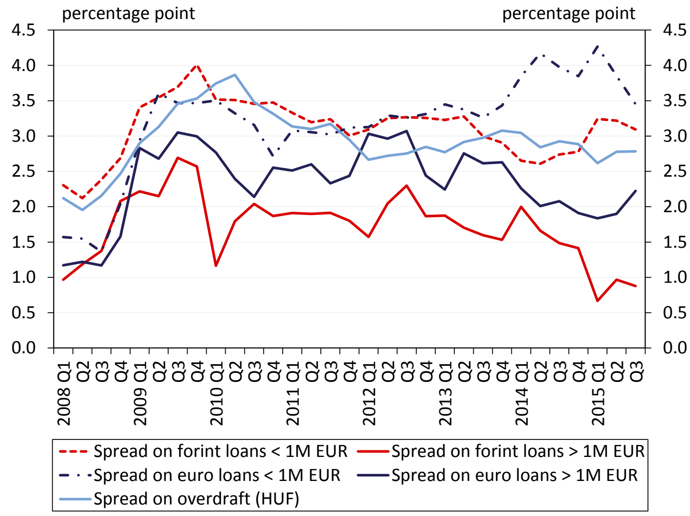
[5] Difference between banks that tightened and eased their conditions, weighted by market share.

Chart 6: *Interest rates on new corporate loans*



Note: Loans with floating interest or with up to 1-year initial rate fixation.
Source: MNB.

Chart 7: Interest rate spreads on new corporate loans



Note: Spread on the 3-month BUBOR and EURIBOR. Loans with floating interest or with up to 1-year initial rate fixation.
Source: MNB.

addition, the favourable liquidity and capital position of the banks, as well as the change in risk tolerance also contributed to easing. Improvement in economic prospects also figured in the responses of banks, as a factor contributing to easing. In terms of standards, banks primarily eased their collateralisation requirements, the maximum maturity and the maximum amount of the loans and credit lines (Chart 5). Looking ahead, 25 per cent of the banks reported that they would further ease credit conditions in the next half year.

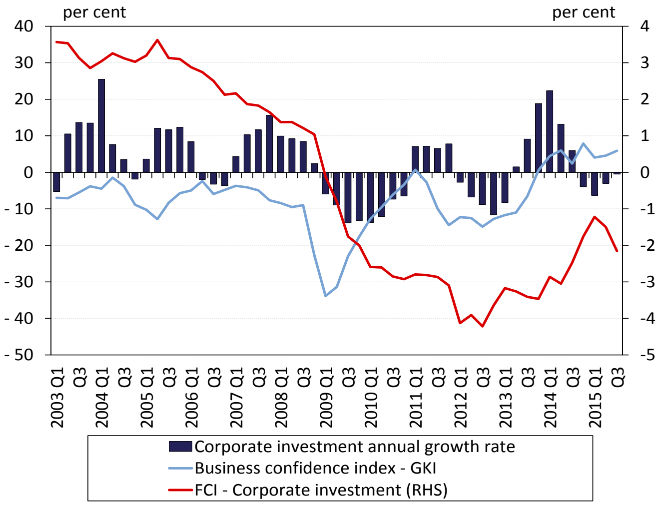
Financing costs of HUF-denominated loans approximated those of EUR-denominated loans. With the exception of high-amount EUR-denominated loans, the typical interest rate decreased on all four product types. The interest rate on new, market-based[6] corporate HUF loans exceeding EUR 1 million decreased by 0.3 percentage point during the quarter, reaching 2.2 per cent by the end of September (Chart 6). The interest rate on high-amount EUR-denominated loans increased by 0.3 percentage point, and thus similarly to HUF-denominated loans the average interest rate reached 2.2 per cent. The interest rate on loans up to EUR 1 million decreased by 0.4 percentage points, both for HUF and EUR loans. The decline in the reference rate arising from the reduction of the base rate in July also contributed to the drop in the average interest rate on HUF loans.

The difference in the spread on small-amount and high-amount EUR-denominated loans has decreased. In the third quarter, the average spread over the reference rate (3-month BUBOR) of new corporate HUF loans decreased both for the loans below and over EUR 1 million. On the other hand, the average spread on high-amount EUR-denominated loans increased by 0.4 percentage point, while that of the small-amount loans fell by 0.4 percentage point (Chart 7). The composition effect may contribute to this, i.e. in this quarter (as compared to the second quarter), clients with lower risk rating presumably had a higher weight in new HUF contracts, while in the case of the high-amount EUR loans companies regarded as high-risk clients received loans in a greater ratio. The spread on overdrafts practically did not change during the quarter.

The moderate lending activity of the banking system is still curbing corporate investments. In the third quarter of 2015, the corporate sub-index of the Financial Conditions Index was slightly below -2 per cent (Chart 8), which means

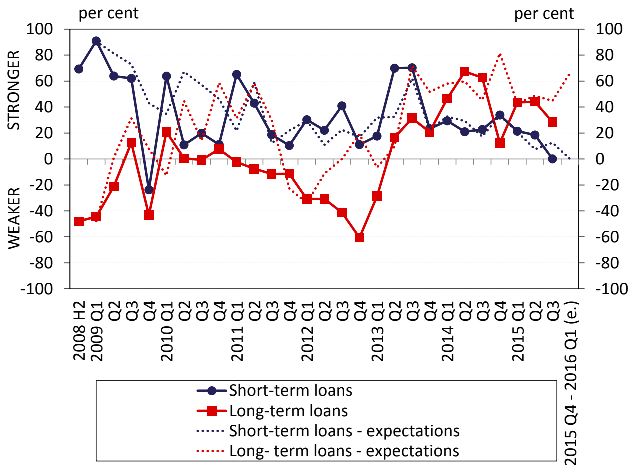
[6] In the case of new lending, we examined the floating-rate loans or loans with interest rate fixation for less than one year. The majority of loans granted in the Funding for Growth Scheme are long-term loans, and therefore the interest rates reviewed by this publication are only shaped by smaller, short-term FGS loans.

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



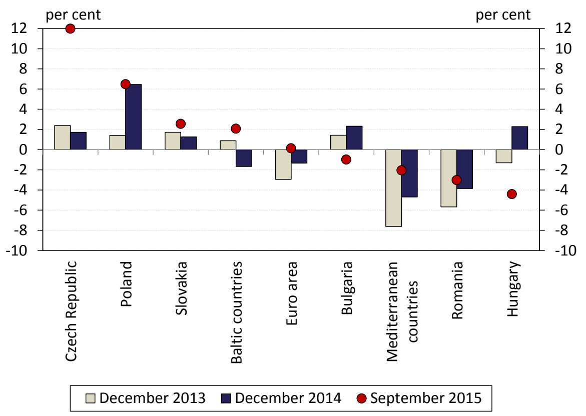
Note: The sub-index of the FCI quantifies the impact of the financial conditions on the corporate fixed investments, through corporate lending. The 2015 third-quarter investment data is forecast.
Source: MNB.

Chart 9: Change in loan demand by maturity



Source: MNB, based on the answers of respondent banks.

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



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

that 2 per cent of the decline in the growth rate of the corporate fixed investments is attributable to the banking system's lending activity. Based on the indicator, the contractionary effect of the banking system decreased significantly in 2014, but this process halted in the first half of 2015, and the impeding effect of corporate lending on real economic growth started to strengthen once again. On the other hand, the business confidence index published by GKI improved during the quarter.

Demand for long-term loans continued to expand. Based on the results of the Lending Survey, 28 per cent of the banks – in net terms – perceived an increase in demand for long-term loans and reported no change in demand for short-term loans (Chart 9). Rising demand continues to apply to HUF loans, while the demand for foreign currency loans decreased further according to the participant banks. 27 per cent of the respondents reported a rise in the demand from micro and small enterprises, while 15 per cent perceived strengthening in demand from large and medium-sized enterprises. Looking forward, 45 per cent of the respondents anticipate an expansion in demand, which may mainly apply to the long-term HUF loans.

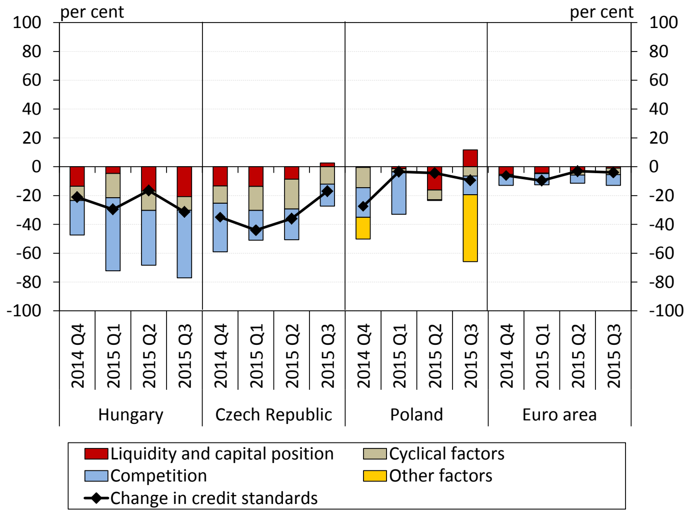
International outlook in corporate lending

In the Visegrád countries, outstanding corporate loans continued to expand, while stagnation was recorded in the euro area. The corporate loan portfolio expanded by 0.1 per cent in the euro area during the last one year, but there is still an asymmetry between the core and the southern peripheral countries. While in the first group the loan portfolio increased on average by 1.4 per cent during last year, in the Mediterranean countries the outstanding borrowing of enterprises decreased by 2.1 per cent on average. Regarding the Central and Eastern European region, loans borrowed by non-financial corporations increased in Poland, the Czech Republic and Slovakia, while they decreased in Romania, Slovenia and Hungary (Chart 10).

Credit conditions showed signs of easing in the region in the third quarter. According to the quarterly Lending Survey, in net terms 38 per cent of the banks eased their credit conditions in Italy, while in Germany, Spain, France and the Netherlands conditions did not change on the whole (Chart 11). The economic sentiment indicator[7] of the European Union improved moderately during the quarter. On the whole, credit conditions were eased to a larger-than-expected degree in the euro area, particularly in

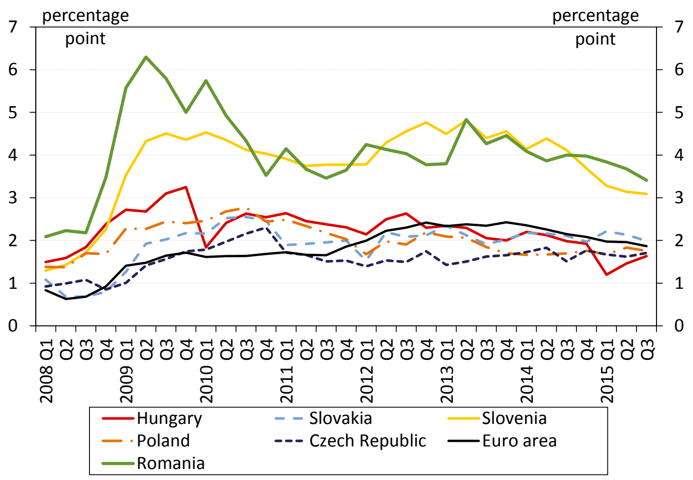
[7] For more details, see: http://ec.europa.eu/economy_finance/db_indicators/surveys/documents/2015/esi_2015_10_en.pdf

Chart 11: 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 the tightening of standards, while negative ones indicate the easing of such.
Source: MNB, ECB, national central banks.

Chart 12: International comparison of interest spreads on corporate loans extended in domestic currency



Source: MNB, ECB, national central banks.

respect of the small and medium-sized enterprises. Conditions in the Visegrád countries were mostly eased: In the Czech Republic, Poland and Hungary 17 per cent, 9 per cent and 31 per cent of the banks, respectively – in net terms – reported easing in credit conditions in the corporate segment, while in Slovakia conditions did not change substantially. In the Lending Survey, the intensification of competition was mentioned throughout Europe in terms of the factors that pointed towards easing.

Corporate interest rates further dropped in the region. In the euro area, interest rates on corporate loans decreased by 0.1 percentage point in the third quarter, resulting in the average level dropping to 1.8 per cent. In the countries of the region, with the exception of the Czech Republic, both interest rates and corporate interest rate spreads decreased further. In the case of Hungary, after the extremely low value in the first quarter, the interest rate spread on new loans once again approximated the regional average in the third quarter, but in a regional comparison the average interest rate spread on corporate loans was still the lowest in Hungary (Chart 12).[8] This may also be attributable to the composition effect, which is suggested by the fact that in the Visegrád countries, with the exception of Hungary, corporate lending shows an expansive trend, which – *ceteris paribus* – results in a higher risk premium. Therefore, the low spread may also reflect the low level of the banks' risk-taking.

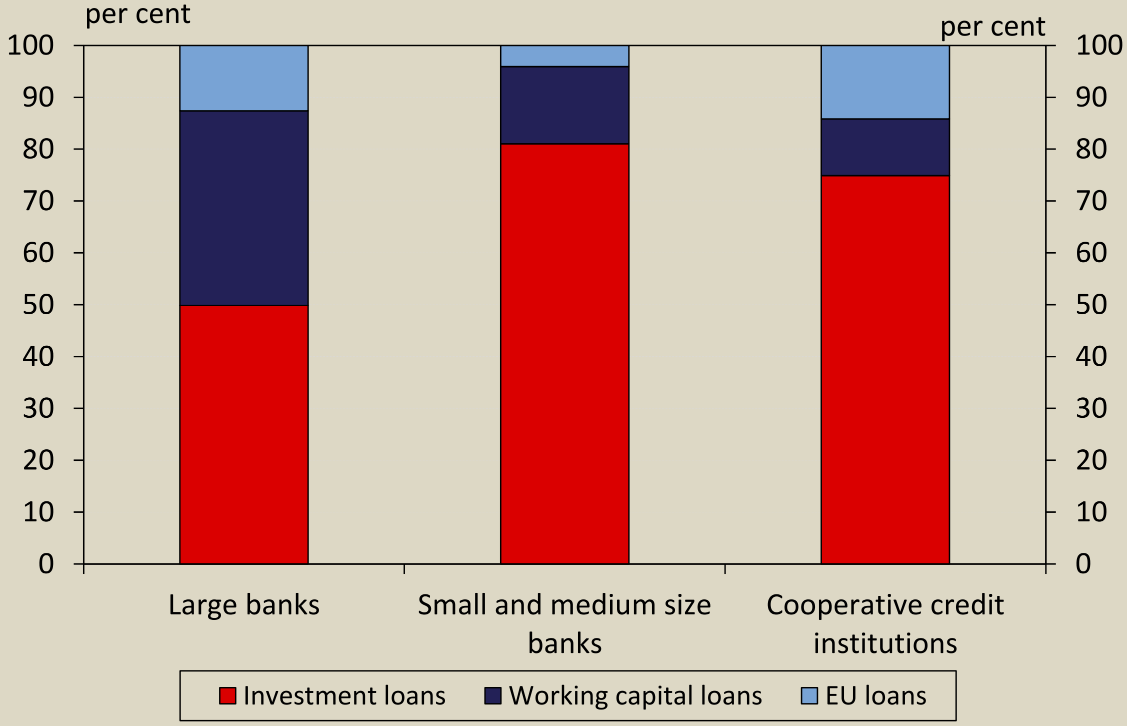
[8] The chart shows the data of the short-term floating rate loans, thus the average value does not include the FGS loans with a fixed spread of 2.5 percentage points.

Box: Report on developments in the Funding for Growth Scheme

In the two phases of the programme, more than 28,000 enterprises received financing amounting to around HUF 1,810 billion. According to data supplies submitted to the MNB, by the end of October 2015 credit institutions participating in the second phase of the Scheme concluded contracts for a total amount of HUF 1,137 billion.

Of the amount contracted so far in the second phase, contracts were concluded for nearly HUF 575 billion in 2014 and HUF 535 billion in 2015. On average, loan contracts under the FGS account for one third of new loans extended to the total corporate sector since 2014.

Distribution of loans by bank size and loan purpose in FGS Pillar I



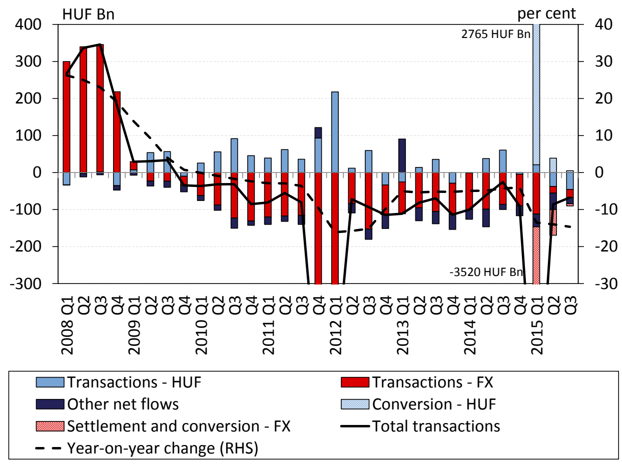
Note: Loans granted by financial corporations are counted in the category of the bank that refinances the corporation. Source: MNB.

New loans account for nearly 96 per cent of the contracts concluded in the second phase, which represents a significant change compared to the first phase, when the share of new loans was around 40 per cent. Within new loans, the share of new investment loans is 58 per cent, while the share of new working capital loans and loans granted to pre-finance EU funds is 30 per cent and 12 per cent, respectively. Regarding sectoral distribution, the sectors of agriculture, trade and repair and manufacturing are overrepresented (with shares of 20–25 per cent each), as they account for more than two thirds of the loans, whereas trade and real estate transactions dominated the first phase of the Scheme. Around three fourth of the contracted amount was received by micro and small enterprises. Moreover, in terms of company size, more than 70 per cent of loans to micro enterprises are new investment loans, while the share of new investment loans is below 50 per cent in the small and medium-sized segment.

3. DEVELOPMENTS IN LENDING TO HOUSEHOLDS

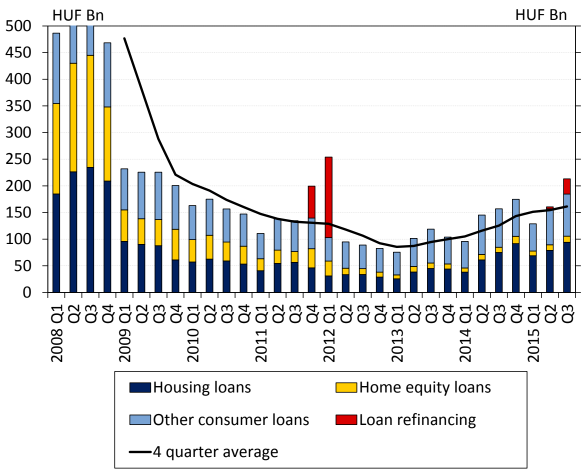
In the third quarter of 2015, the outstanding loans of credit institutions to households declined by HUF 67 billion as a result of disbursements and repayments. Outstanding forint loans decreased by HUF 45 billion, while total foreign currency loans fell by HUF 22 billion. The annual rate of portfolio contraction was 14.6 per cent. The volume of gross new loans extended to households by the entire sector of credit institutions totalled HUF 213 billion, representing an increase of 18 per cent in year-on-year terms. Based on banks' responses to the Lending Survey, conditions on housing loans remained broadly unchanged in Q3, while conditions on consumer loans were eased. Banks participating in the survey reported primarily easing conditions related to maximum maturity. However, the banks indicated that in the next half year no major easing of credit terms and conditions is expected, either for housing or consumer loans. All respondents reported a pick-up in demand for housing loans, while most banks anticipate an expansion in demand for consumer loans in the next two quarters. The APR and the interest rate spread on new household loans declined overall both for housing loans and consumer loans in the period under review.

Chart 13: Net quarterly change in the household loan portfolio by currency



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

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



Source: MNB.

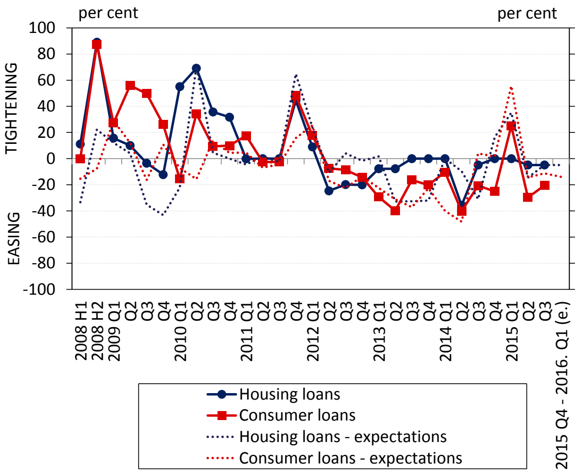
Domestic household lending

Households continue to be net loan repayers. In the third quarter of 2015, outstanding loans to households by credit institutions decreased by HUF 67 billion as a result of transactions (Chart 13). Write-offs and reclassifications generated a further decline of HUF 17 billion. In the case of HUF loans, repayments exceeded disbursements by HUF 45 billion, and by HUF 22 billion in the case of foreign currency loans. The decline in transactions was partly driven by the settlement of HUF loans, although to a lesser extent than observed in the case of the settlement of foreign currency loans. The portfolio of both housing and other loans decreased: the net flow amounted to HUF –30 billion in the case of the former, and to HUF –55 billion in the case of the latter.[9] Thus, the transaction-based annual decline in the portfolio rose to 14.6 per cent from 14 per cent recorded in the previous quarter. The one-off effects of the settlement and FX conversion affect the level of the indicator significantly: with the exclusion of this effect, the annual growth rate would amount to –4.5 per cent.

New housing loans increased in all segments both in year-on-year and quarter-on-quarter terms. The gross volume of new lending to households by the entire credit institution sector amounted to HUF 213 billion in Q3 (Chart 14). Accordingly, the value of new contracts in the household sector – excluding the volume of loan refinancing – rose by 17 per cent compared to 2015 Q2 and by around 18 per cent in annual terms. In the case of housing loans, growth amounted to 26 per cent on an annual basis, while the extension of home equity loans increased by 14 per cent compared to the third quarter of 2014. Regarding other consumer loans, the quarterly volume of new contract conclusion exceeded the corresponding value in 2014 Q3 by 10 per cent. Loan refinancing related to the FX conversion

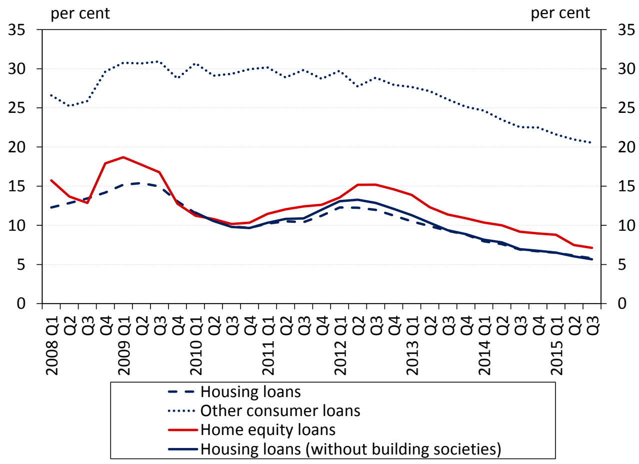
[9] The net portfolio change is the balance of transactions and other flows (write-offs, reclassifications).

Chart 15: Changes in credit conditions in the household segment



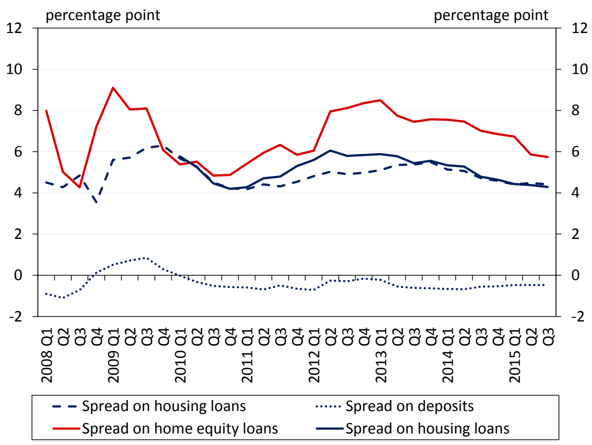
Note: Net ratio is the difference between tightening and easing banks weighted by market share.
Source: MNB, based on the answers of respondent banks.

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



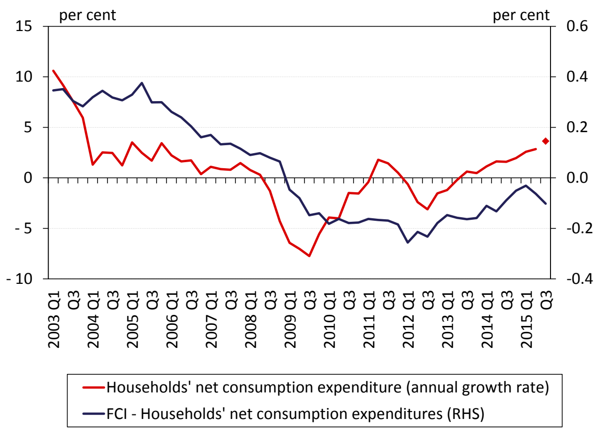
Note: Quarterly average of the interest rate spreads on 3-month BUBOR. Spreads based on the APR.
Source: MNB.

amounted to only HUF 29 billion during the whole quarter. The volume of no-charge loan refinancing following the conversion and the settlement was below expectations. This can be attributed to several factors: the affected customer base was small to begin with, given that the offers of banks did not target non-performing customers; some customers are satisfied with their post-settlement payment burdens or their loans are about to mature; another part of customers was not aware of the option and failed to take advantage of it. In addition, aversion to the refinancing procedure and to contract modification was another important factor behind the absence of a refinancing wave.

Conditions on consumer loans eased somewhat, while lending standards remained unchanged in the case of housing loans. Slightly exceeding expectations, in net terms, 21 per cent of the banks responding in the Lending Survey reported that they had eased conditions on consumer loans in the third quarter (Chart 15). As regards housing loans, in line with previous expectations conditions remained practically unchanged. In the case of consumer loans, it was only in relation to maximum maturity that conditions were eased substantially; in this loan segment banks unanimously justified the easing of conditions by market share goals. According to respondent banks, the possible easing of conditions on housing loans is equally justified by housing market trends, changes in risk tolerance, the strengthening of market competition and market share goals. Looking forward, 14 per cent of the respondents predicted further easing on consumer loans, and 5 per cent on housing loans in the coming period.

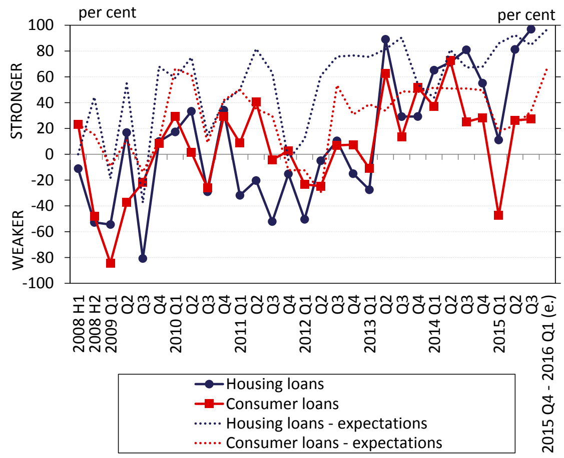
Besides declining interest rates on housing loans, the interest rate spreads also declined. In 2015 Q3, the APR on secured housing HUF loans continued its 4-year decline, and after a decline of 0.3 percentage points, by the end of September the annual percentage rate of charge applied in new contracts reached 5.8 per cent (Chart 16). The 0.4 percentage point decline in the interest rates on housing loans with a floating interest rate exceeded the average decline observed in the interest rates on new loans: by the end of September, the interest rate on secured forint loans stood at 4.6 per cent. However, the decline in the interest rates on loans with a fixed interest rate was less pronounced (after a 0.1 percentage point decline, the interest rate stood at 6.6 per cent on average at the end of the quarter). The average interest rate spread decreased by 0.1 percentage point and dropped to a level of 4.4 percentage points in Q3 (Chart 17).

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



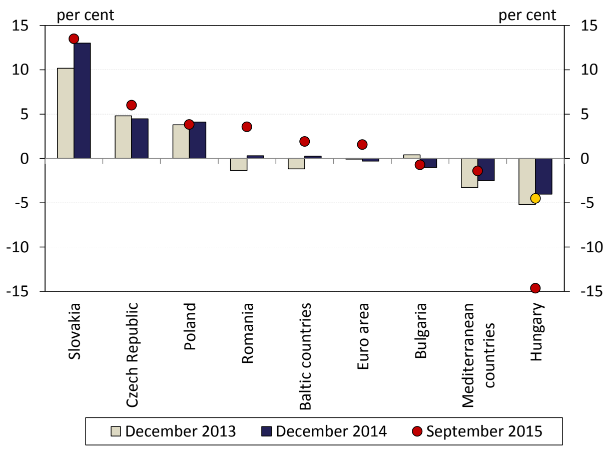
Note: The index quantifies the contribution of the banking sector's lending activity to the annual growth rate of household consumption expenditures. Net household consumption data is a forecast for 2015 Q3.
Source: MNB.

Chart 19: Credit demand in the household segment



Source: MNB, based on the answers of respondent banks.

Chart 20: Annual transaction-based growth rate of household loans in international comparison



Note: Yellow indicates annual growth rate as at September 2015, excluding the effect of the settlement. Mediterranean countries: Greece, Italy, Portugal and Spain. Baltic states: Estonia, Lithuania and Latvia.
Source: ECB, MNB.

The APR and interest rate spread on consumer loans continued to decline. The interest rate dropped by 0.4 percentage points both in the case of mortgage-backed consumer loans and in the case of other consumer loans. Consequently, by the end of September the average interest rate on mortgage-backed consumer loans and on other loans was 7.1 per cent and 20.5 per cent, respectively (Chart 16). The fall in the interest rate level slightly exceeded the rate of decline in the reference rate; therefore, interest rate spreads also dropped in the consumer loan segment and in the case of home equity loans, similar to housing loans, the spreads dropped by 0.1 percentage points to 5.7 percentage points (Chart 17).

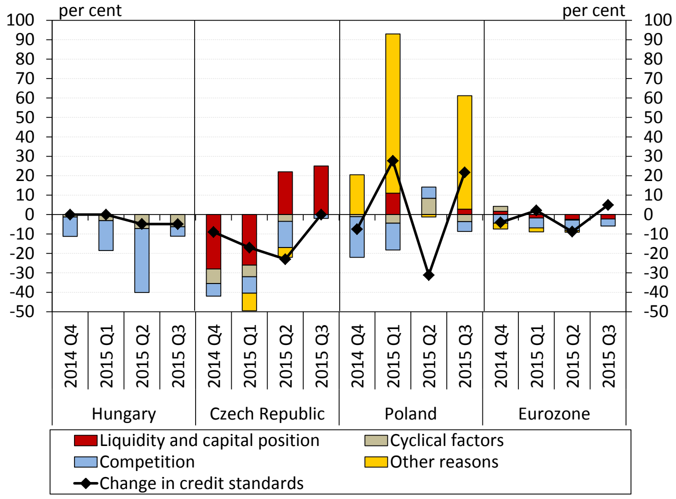
The financial intermediary system exerts a negative impact on the consumption expenditures of households. In 2015 Q3, household consumption rose by 3.6 per cent year-on-year; nevertheless, there was a moderate decline in the GKI's consumer confidence index. Based on the consumption expenditure sub-index of the Financial Conditions Index, the financial intermediary system reduced household consumption by 0.1 percentage points, representing a modest decline after the near-neutral impact recorded in the previous three quarters (Chart 18). While the financial intermediary system has negatively affected consumption since 2009 Q1, it has shown a rising trend since its trough in 2012.

Nearly all respondent banks perceived a recovery in demand for housing loans and looking forward, a high percentage of respondents expect a pick-up in demand for consumption loans as well. Nearly all major banks – in net terms, 97 per cent – reported higher demand for housing loans in Q3, while 27 per cent indicated an expansion in demand for consumer credit (Chart 19). Looking forward, the same group of banks – 97 per cent in net terms – expects a pick-up in demand for housing loans in the next half year, and 67 per cent of the respondents envisage a higher of demand in the consumer loan segment.

International outlook in household lending

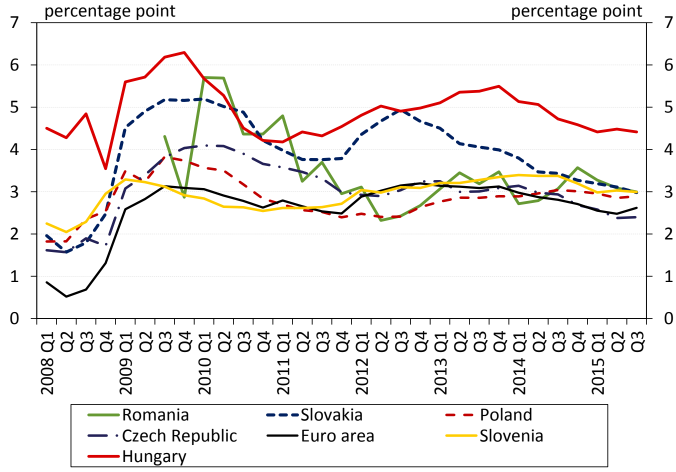
Household debt continues to grow more dynamically in the CEE region than in the euro area. The average annual growth rate recorded for the euro area improved by 0.4 percentage points during the quarter, accelerating to 1.6 per cent by the end of September (Chart 20). This indicates a positive trend, albeit with an asymmetry observed between countries in the centre and on the periphery. Thus, outstanding loans in the periphery countries – in particular, the Mediterranean states – continue to decline. However, the transaction-based growth rate of household loans increased dynamically in the CEE region: the Czech Republic and Poland each reported a 5

Chart 21: Changes in housing loan credit conditions and in the factors contributing to the change in an international comparison



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

Chart 22: Interest rate spreads in international comparison for housing loans provided in domestic currency



Note: Spreads are based on the APR on the 3-month interbank interest rate.
Source: MNB, ECB, national central banks.

per cent expansion in household lending, in addition to the 13.5 per cent growth rate observed in Slovakia.

Terms and conditions on housing loans tightened across Europe during the quarter, typically due to regulatory reasons. With the sole exception of Poland, banks in the CEE region did not perceivably change their conditions on housing loans (Chart 21). In euro area countries, however, credit terms were tightened, overall, with a continuing, high degree of heterogeneity. According to the Bank Lending Survey of the European Central Bank, however, the intensive pick-up in demand for housing loans continues: in net terms, one third of respondent banks perceived growth. Banks did not relax their lending standards even though market competition would warrant the easing of conditions; indeed, certain other factors related to national-level regulations justify tightening.

Both the APR and the interest rate spread on housing loans edged up in the euro area. In countries of the Central and Eastern European region, the APR and the interest rate spreads on housing loans showed a degree of heterogeneity: they rose in Poland, remained the same in the Czech Republic, and rose slightly in Slovakia and Slovenia in 2015 Q3. However, none of these changes was comparable in magnitude to the change perceived in Hungary (Chart 22). In the euro area, both interest rates and spreads rose by 1 percentage point. Consequently, even though both the Hungarian APR and interest rate spread edged closer to the euro area average (by 0.5 percentage points and 1.2 percentage points, respectively), their level is still considered high.

4. ANNEX: METHODOLOGICAL NOTES

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, press releases presenting the main data, as well as the methodological descriptions of preparing the statistics are available on the MNB's website at:

http://www.mnb.hu/en/statistics

2. *Lending Survey*

The Lending Survey facilitates the analysis of how major banks perceive and evaluate market developments and how they develop their respective strategies, in particular their lending policies. In respect of the household segment, a total of 11 banks were involved in the interviews. Nine banks responded to questions related to housing loans, while 11 banks and 7 financial enterprises answered questions on consumer loans. Based on data from the end of 2015 Q3, the surveyed institutions accounted for 85 per cent of the banking sector in the case of outstanding housing loans and 87 per cent in the case of outstanding consumer loans. The corporate questionnaire was filled in by 8 banks in total, which represent 81 per cent of the corporate loan market, while the market share of the 7 banks responding to the questionnaire related to commercial real estate loans is 92 per cent.

The survey consists of a standard questionnaire in each segment, and since the survey conducted in January 2010 the MNB has also included ad-hoc questions on current issues related to the credit markets. The retrospective questions refer to 2015 Q3 (compared to 2015 Q2), whereas the forward-looking questions concern the next half-year period, i.e. the one covering 2015 Q4 and 2016 Q1 (relative to 2015 Q3). The current questionnaire was completed by senior loan officers between 1 and 16 October 2015.

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 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/en/financial-stability/publications/lending-survey

3. *The Financial Conditions Index (FCI)*

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

The database used for the factor analysis is composed of individual bank data; namely, certain individual data of the largest 9 banks and some aggregate indicators of the rest of the banking sector. From the panel database consisting of 10 banks, the following indicators were included for the purposes of the factor analysis:

- Liquidity:
    - liquid assets as a percentage of balance sheet total
    - stable funding as a percentage of balance sheet total

- FX swaps outstanding as a percentage of balance sheet total
- Capital:
  - own leverage
  - parent bank leverage
  - capital buffer as a percentage of balance sheet total
- Risk:
  - changes in the proportion of non-performing portfolios
  - cost of provisioning as a percentage of the total portfolio
  - risk-weighted assets as a percentage of balance sheet total
  - interest and commission revenue as a percentage of balance sheet total

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

The factors and the VAR model were estimated in accordance with the methodology presented in Koop and Korobilis (2014).[10] Based on the relationship between the factors and the original variables, the two factors were respectively interpreted as an indicator gauging banks' lending capacity, and as an indicator capturing banks' willingness to lend. At the same time, only the factors' change over time has significance; their level does not; in other words, a single data point does not carry information in itself. With that in mind, the final FCI was quantified based on the effect of these two factors on macroeconomic variables. According to the FAVAR estimate, as opposed to the factor measuring lending capacity, after the crisis the factor expressing willingness to lend significantly influenced changes in outstanding borrowing. Thus the FCI was identified as the impact of banks' willingness to lend on GDP. The indicator is interpreted very similarly to the previous FCI: it shows the contribution of the banking sector to the annual real GDP growth rate through the sector's lending activity. In other words, if the FCI takes a value of 1, one percentage point of the annual growth rate of GDP can be attributed to the lending activity of the banking sector.

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

[10] Koop, G. – Korobilis, D. (2014): A new index of financial conditions, European Economic Review, Vol. 71, No. C, pp. 101–116

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