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, it elaborates on the developments in credit aggregates, the demand for loans perceived by banks and credit conditions. Within credit conditions, a distinction is made between price and non-price conditions. Non-price conditions influence changes in the clientele considered creditworthy by banks and the conditions of access to credit. Price conditions, in turn, show the price of borrowing for creditworthy 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 2013 Q4 on 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 developments in lending and the methodology of the Financial Conditions Index is given in the Annex at the end of the analysis. Within the publication, the findings of the Lending Survey are presented in a condensed form, but the responses to the questions and the set of charts based on the findings are published in full on the Lending Survey page of the MNB's website.

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1. EXECUTIVE SUMMARY

In 2016 Q1, outstanding lending to non-financial corporations by credit institutions increased by HUF 94 billion, with the utilisation of previously signed credit line agreements also contributing significantly. Lending to SMEs, which best reflects the underlying developments, increased by 3.4 per cent over the past four quarters, while the rate of decline in the total corporate loan portfolio fell to 2.4 per cent at end-March. Disbursements of loans signed in the second and third phases of the Funding for Growth Scheme contributed to the expansion of transactions by a total amount of roughly HUF 27 billion in 2016 Q1.

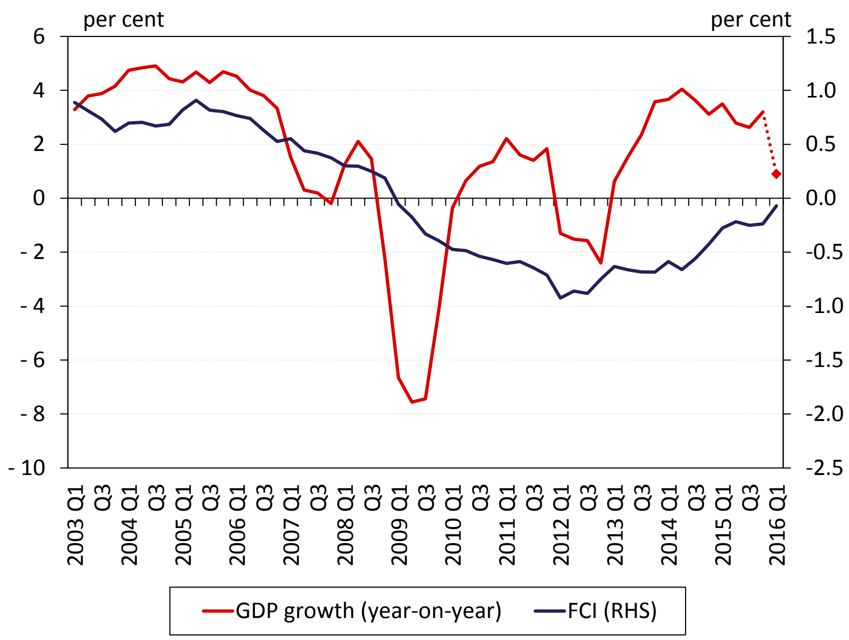
Based on banks' responses to the Lending Survey, corporate lending conditions were eased, with market share objectives and the change in risk tolerance mentioned as contributing factors, along with the improvement in economic prospects. The easing was reflected in price conditions. These developments support the earlier assumption that the reduction in the bank levy in 2016 and the introduction of the interest rate swap conditional on lending activity (LIRS) may substantially facilitate the easing of lending conditions. The banks participating in the survey tended to perceive an increase in demand for short-term loans in Q1, but looking further ahead most of them also expect an upturn in demand for long-term loans. The average funding cost of forint loans continued to decline in the period under review, albeit this was mainly due to a significant decrease in the spread on large loans. As a result, the average spread on loans extended in HUF reached an extremely low level in Hungary, both in a historical and international comparison.

The volume of new household loan contracts increased by 24 per cent in year-on-year terms, but the household loan portfolio contracted by approximately HUF 71 billion as a result of disbursements and repayments in 2016 Q1, leading to an overall 5.4 per cent year-on-year decline in the portfolio. Based on banks' responses to the Lending Survey, credit supply conditions remained unchanged both in the housing and consumer segments in Q1. While the survey indicated that demand for housing loans at the beginning of the year fell short of the earlier expectations, all of the institutions expect demand to pick up going forward. The annual percentage rate and the interest rate spread on new housing loans remained unchanged for both fixed-rate and variable-rate loans.

The home purchase subsidy scheme may play a significant role in households' borrowing, as half of those interested plan to borrow on preferential terms. Initially, the scheme will mainly be utilised by people who already have a large family.

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

Financial Conditions Index (FCI) and annual real GDP growth

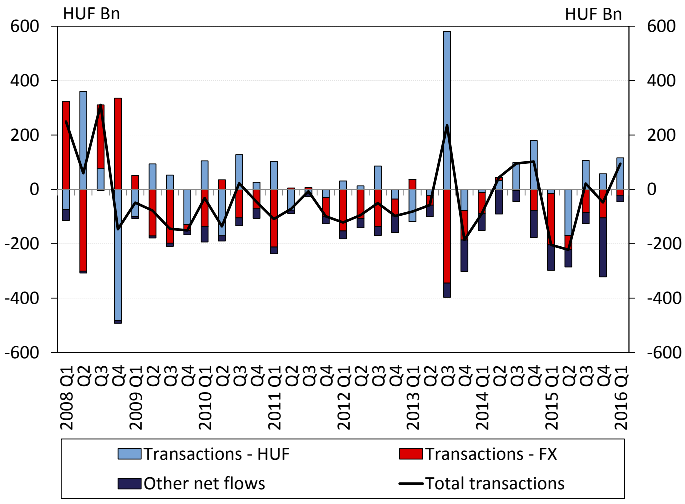


Note: The FCI shows the contribution of the banking sector, through lending, to the annual GDP growth rate. The index has been recalculated on the basis of a revised methodology. The 2016 Q1 data for the annual real GDP growth rate are the preliminary estimate of the HCSO. Sources: MNB, HCSO.

2. DEVELOPMENTS IN LENDING IN THE CORPORATE SEGMENT

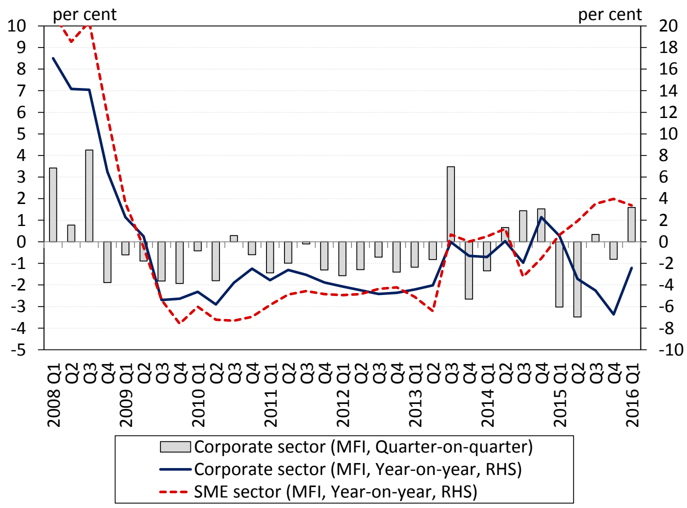
In 2016 Q1, credit institutions' outstanding corporate loans increased by HUF 94 billion as a result of transactions. By end-March, loans outstanding declined by 2.4 per cent in year-on-year terms, as a result of transactions. At the same time, the annual dynamics still reflect the impact of the portfolio cleaning at end-2015. As opposed to the decline in the portfolio as a whole, SME loans outstanding increased by 3.4 per cent year-on-year. Based on banks' responses to the Lending Survey, the conditions of corporate loans were eased again during the quarter, which may be followed by further easing in the next half year. In Q1, banks perceived an upturn in demand mainly for forint and short-term loans, which may be followed by a further increase in demand in 2016 Q2 and Q3, primarily for long-term forint loans. The average funding cost of new corporate forint loans continued to decrease during the quarter under review, mainly due to the decline in spreads on high-amount loans. Accordingly, average forint spreads reached an extremely low level both in historical and international comparison, but this result is primarily attributable to the technical composition effect.

Chart 1: *Net quarterly changes in 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*



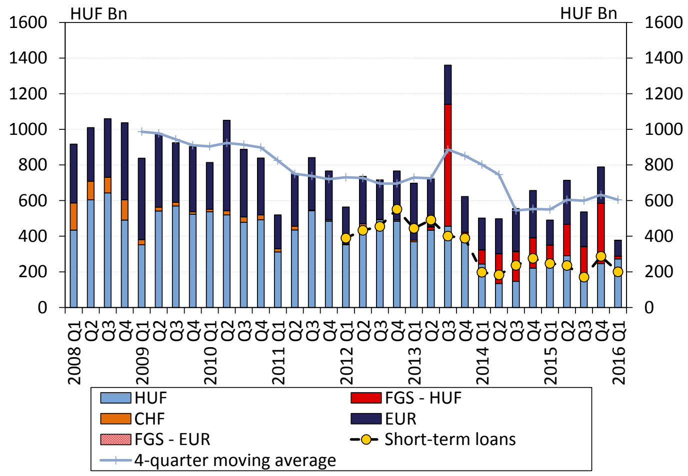
Note: Transaction based, prior to 2015 Q4 the data for the SME sector are estimated based on banking system data. Source: MNB.

Domestic corporate lending

Corporate loans outstanding increased significantly in Q1. Credit institutions' corporate loans outstanding increased by HUF 94 billion as a result of transactions in 2016 Q1 (Chart 1). In a breakdown by denomination, forint loans increased by HUF 116 billion, while foreign currency loans declined by HUF 22 billion in the period under review. As a result of disbursements and repayments, loans contracted in the second phase of the Funding for Growth Scheme contributed by HUF 11 billion to the increase in transactions, while the loans issued in the third phase contributed approximately HUF 15 billion. In addition to transactions, write-offs and reclassifications (other change in stocks) reduced outstanding borrowing of non-financial corporations by a total HUF 24 billion. The volume of undrawn credit lines, which had risen to a high level in 2015, declined by HUF 72 billion during the quarter, which was primarily reflected in the expansion in outstanding overdraft loans. The stock of such credit lines was HUF 123 billion higher than at end-December 2015. Accordingly, the increase in loans observed during the quarter was mainly attributable to disbursement of loans and credit lines contracted earlier.

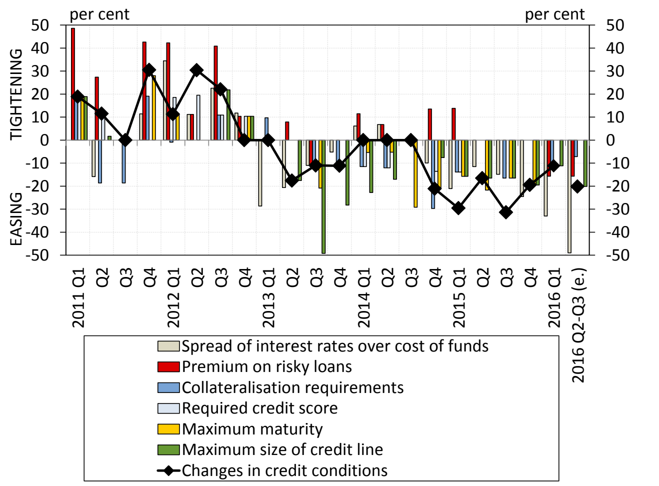
The annual growth rate of corporate lending improved significantly, partly as a result of a base effect. The rate of decline in credit institutions' corporate loans was 2.4 per cent at the end of 2016 Q1 (Chart 2). In March, a higher-volume one-off item became excluded from the base, which – together with the positive transactions of the quarter – resulted in a significant improvement in the annual rate of change of the portfolio. At the same time, the portfolio separation implemented within the framework of the resolution action plan of the MKB Bank and the debt consolidation of BKK (Centre for Budapest Transport) are still parts of the annual change of the portfolio (Chart 2). Excluding these from the indicator, the annual growth rate of corporate loans would have

Chart 3: New corporate loans in the credit institution sector



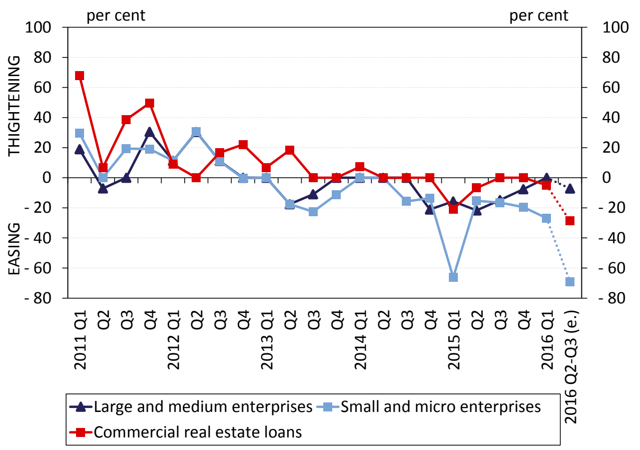
Source: MNB.

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 4: *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.

amounted to 1.1 per cent in March. Loans to the SME sector increased by 3.4 per cent in an annual comparison.

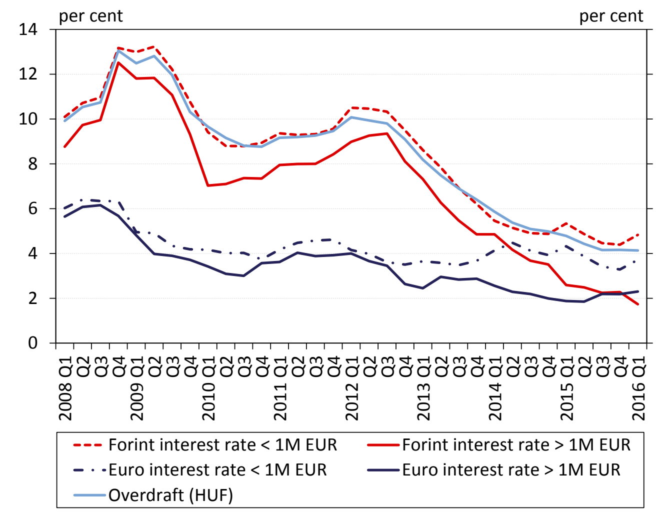
The volume of new loan contracts was moderate in Q1. The credit institutions sector concluded new corporate loan contracts for an amount of HUF 378 billion in Q1 (Chart 3). Compared to the same period in previous years, this represents a considerable decline, which is partly explained by the contracts advanced to the end of 2015. Loan agreements signed within the framework of the third phase (i.e. the phase-out period) of the Funding for Growth Scheme reached some HUF 17 billion. In addition to the adjustment to the changed conditions of the programme, it may be explained by seasonality as well, as the volume of new contracts (as well as disbursements) of investment loans is typically lower in Q1, and companies are allowed to use the third phase of the scheme only for this purpose. Within new lending, HUF-denominated loans amounted to roughly HUF 287 billion, while the value of new EUR-denominated loans was HUF 91 billion. The share of short-term loans within total new loans increased to 53 per cent.[1]

In line with the previous expectations, corporate credit conditions continued to ease. Based on responses to the Lending Survey, in net terms[2] 11 per cent of the banks eased their corporate lending conditions (Chart 4). Banks indicated easing mostly in the segment of small and micro enterprises (Chart 5). In terms of lending standards, the majority of banks eased the conditions of the spread between the lending interest rates and the costs of funds as well as the premiums on riskier loans. Among the factors contributing to the easing, the improvement in economic prospects was emphasised the most by the responding institutions. In addition, banks' responses also mentioned market share objectives as well as the change in risk tolerance. The latter was mentioned by a net 32 per cent of banks, which is a wide range, unprecedented since 2008. However, its positive impact is expected to be perceptible in the next quarters. All of this supports the earlier assumption that the reduction of the bank levy in January 2016 and the introduction of the interest rate swap conditional on lending activity (LIRS) may considerably facilitate the easing of lending conditions. Looking ahead, a net 20 per cent of respondents held out the prospect of a general easing in lending conditions, while according to a net 49 per cent, the spread between the lending interest rate and the costs of funds may continue to decline in 2016

[1] The lengthening of the average maturity of borrowing reduces the need to renew the loans, which results in a decline in gross lending, even if the loan stock remains unchanged.

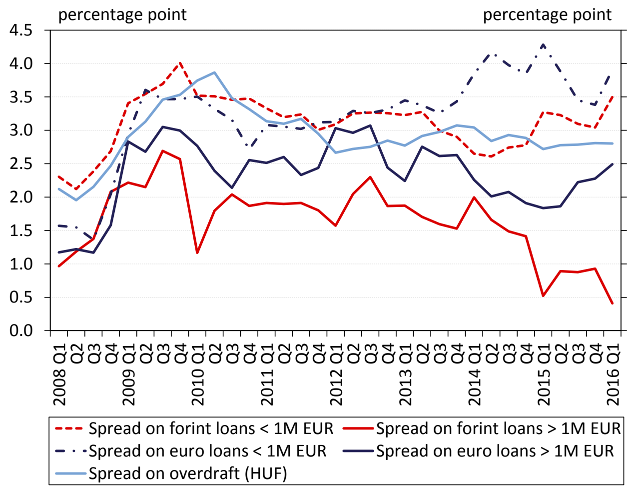
[2] The difference between banks performing tightening and easing, weighted by market share.

Chart 5: Interest rates on new corporate loans



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

Chart 6: *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.

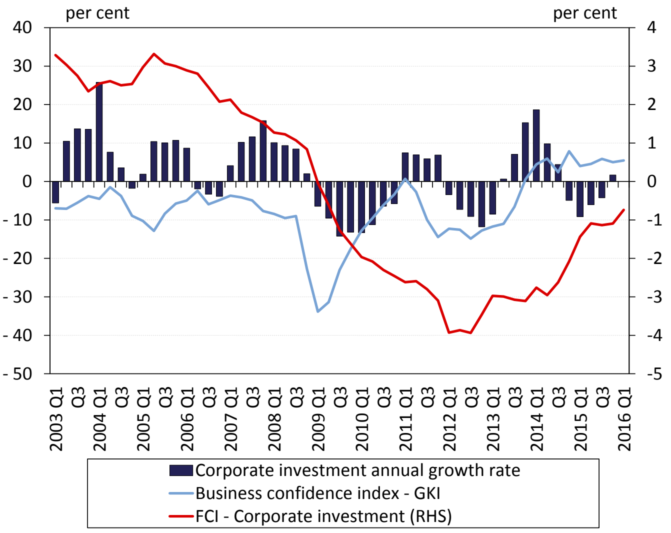
Q2 and Q3. A net 29 per cent of respondents plan easing in the segment of commercial real estate loans. In line with that, a net 51 per cent plan to increase the exposure to this segment in the next two quarters.

Only the funding cost of high-amount forint loans declined in the period under review. The interest rate on new market-based corporate loans[3] declined by 0.5 percentage point on average in the case of high-amount forint loans (Chart 6). Apart from this exception, funding costs increased to some extent in the other segments. The average interest rate level of euro loans exceeding EUR 1 million rose by 0.1 percentage point. Thus, the average interest rate level of large euro loans reached 2.3 per cent, exceeding the average interest rate level of 1.7 per cent for forint loans. The average interest rate level of small-amount loans increased by 0.4 percentage point both for EUR and HUF loans. Looking at total loans, the average interest rate on forint loans was 0.4 percentage point lower compared to the previous quarter, which is also attributable to the higher ratio of large loans within total loans extended.

The spread on small-amount forint loans increased considerably. The monthly average of the 3-month unsecured interbank interest rate (BUBOR), which serves as a reference rate, declined only in March by 0.05 percentage point; accordingly, the developments in interest rate levels were primarily determined by the changes in spreads. The average spread on new corporate forint loans exceeding EUR 1 million in Q1 declined by 0.5 percentage point to 0.4 percentage point, reaching a historical low. The average spread on new loans in this segment reached a similar value last time in 2003. By contrast, the average spread on small-amount forint loans increased by 0.4 percentage point during the quarter (Chart 7). The average spread on euro loans rose in both segments: by 0.2 percentage point for large loans and by 0.5 percentage point for small-amount loans. The spread on overdrafts remained practically unchanged during the quarter.

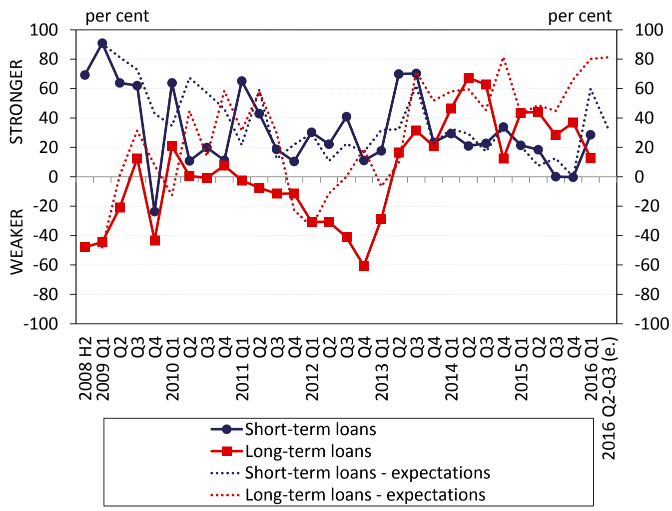
[3] In the case of new contracts, we examine the floating-rate loans or loans with interest rate fixation up to one year. The majority of loans granted within the Funding for Growth Scheme are long-term loans, therefore the interest rates reviewed by this publication are only shaped by lower-value, short-term FGS loans.

Chart 7: *Sub-index of the FCI for corporate lending*



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

Chart 8: *Change in loan demand by maturity*

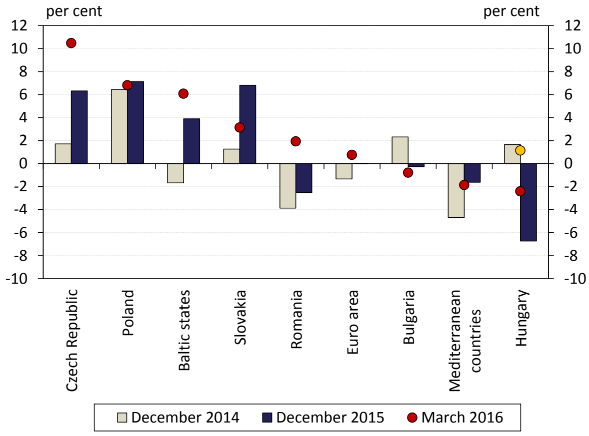


Note: Net ratio is the difference between banks reporting stronger and weaker demand, weighted by market share. Source: MNB, based on banks' responses.

The banking sector's lending activity still has a moderate contractionary effect. In 2016 Q1, the corporate sub-index of the Financial Conditions Index calculated on the basis of a revised methodology amounted to –0.7 per cent (Chart 8), which means that the contractionary behaviour of the banking sector observed in lending reduced the annual rate of change in corporate investment by 0.7 percentage point. Based on the recalculated indicator, the banking sector's negative impact on growth already moderated in 2015, significantly approaching the neutral level for the real economy. The value of the business confidence index, which captures the changes in expectations and is published by GKI, remained in positive territory in the past 4 quarters as well.

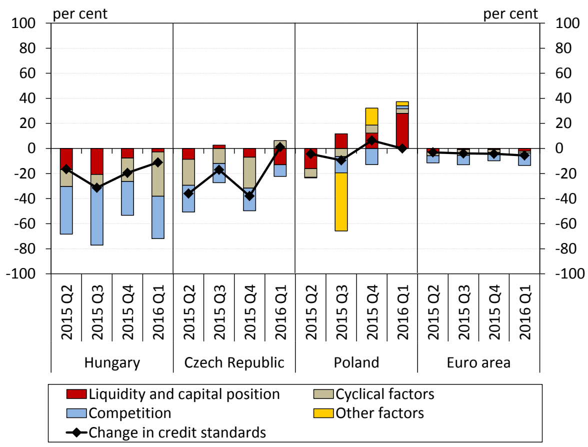
Demand for corporate loans continued to expand. A net 29 per cent of banks reported an increase in demand for corporate loans (Chart 9) within the framework of the Lending Survey. The expanding demand continued to be centred on forint loans, but a larger portion of banks – 29 per cent in net terms – indicated a pick-up in demand beyond seasonal effects for short-term loans. The expansion in demand was primarily the result of companies' increased need for working capital financing. Demand for long-term loans was indicated by a mere 13 per cent of banks, which was below expectations. Nevertheless, the upward trend in demand for commercial real estate loans continued. Within that, a net 78 per cent of the respondents reported a strengthening in demand for loans financing housing projects. Looking ahead, 82 per cent of the banks expect an increase in demand in the segment of long-term loans, while this ratio is 33 per cent for short-term loans. According to banks' expectations, the rising loan demand may be induced by an increase in investment in tangible assets.

Chart *9*: *Annual transaction-based growth rate of corporate loans in an international comparison*



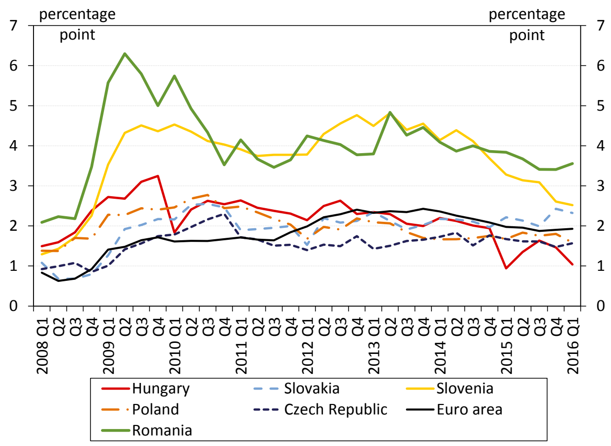
Note: Yellow indicates annual growth rate as at March 2016, excluding the effect of the one-off transactions. Mediterranean countries: Greece, Italy, Portugal and Spain. Baltic states: Estonia, Lithuania and Latvia. Sources: ECB, MNB.

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

Chart *11*: *International comparison of interest spreads on corporate loans extended in domestic currency*



Note: Variable-rate loans with maturities of up to one year; therefore, FGS loans with the fixed 2.5 percentage point spread are not included. Sources: MNB, ECB, national central banks.

International outlook in corporate lending

Corporate loans outstanding continued to expand in the region. Corporate loans outstanding increased by a total 0.8 per cent in the euro area between March 2015 and March 2016. The asymmetry between the core and the Mediterranean countries' credit dynamics increased again in Q1. Loans outstanding increased in the former by an average of 2.2 per cent, and decreased in the latter by 1.9 per cent on average. Loans outstanding borrowed by non-financial corporations increased in the Visegrád countries, the Baltic states and Romania, and declined in Croatia, Slovenia and Bulgaria (Chart 10).

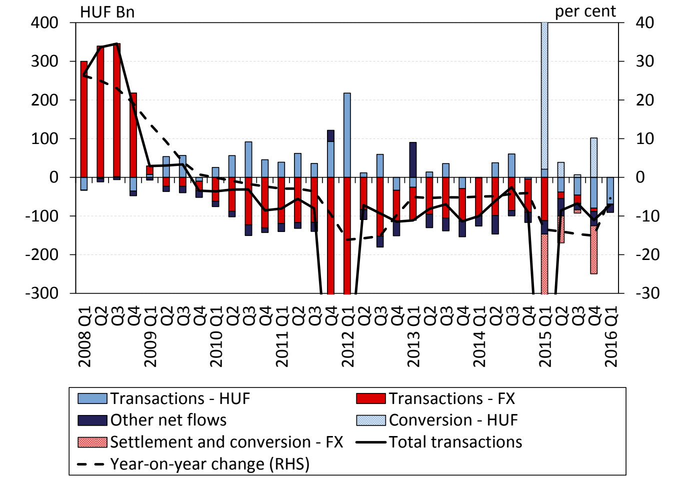
Corporate credit conditions eased somewhat in the euro area. Overall, credit conditions on average eased in the euro area, although there were differences in the changes. According to quarterly lending surveys, banks in Germany, Italy, Latvia, Lithuania, Slovakia and Slovenia eased conditions, while those in Greece, France, Austria and Malta tightened credit conditions, whereas there were no major changes in the standards in the rest of the countries (Chart 11). With the exception of Slovakia, credit conditions remained practically unchanged in the Visegrád countries. In the lending surveys, across Europe the intensification of competition remained the most often mentioned factor pointing towards easing.

Corporate lending interest rates continued to decline in the region. There was no major change in interest rates on corporate loans in the euro area in Q1. Apart from Hungary and the Czech Republic, average corporate interest rates declined by 0.2 percentage point on average in the countries of the region. Both the average spread and the average interest rate increased by 0.1 percentage point in the Czech Republic (Chart 12). The forint loan spread, which reached a historical low, is considered extremely low already in international comparison as well. This level may mainly be attributable to the composition effect of the submitted loan applications (also including borrowers' average risk cost), in addition to the increasing competition among banks and the heightened risk aversion in Hungary.

3. DEVELOPMENTS IN LENDING IN THE HOUSEHOLD SEGMENT

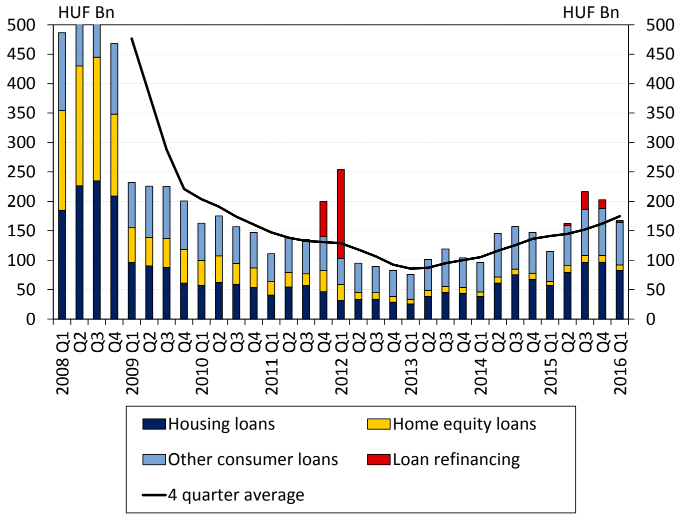
In 2016 Q1, outstanding household loans decreased by a total HUF 71 billion as a result of disbursements and repayments. Accordingly, by the end of Q1 total loans outstanding declined by 5.4 per cent year-on-year, but excluding the base effect of the settlements and FX conversion in 2015, the annual rate of decrease in the portfolio would amount to only 4.5 per cent. The volume of new loan contracts of the credit institutions sector amounted to HUF 164 billion in total in the period under review, representing an annual average increase of 24 per cent compared to the same period of the previous year. The largest rise in the volume of new loans was recorded in the case of housing loans in the last one year. Based on banks' responses to the Lending Survey, the conditions of housing loans and consumer credit also remained broadly unchanged in Q1, and no major easing is expected in any of the segments for the next half year either. The APR and the interest rate spread on new housing loans also remained unchanged in the period under review. According to the banks participating in the survey, the expansion in demand for housing loans fell short of expectations at the beginning of the year. Looking ahead, however, they all expect an upturn. This year, the home purchase subsidy scheme is utilised mostly by those who already have a large family; half of those interested plan to borrow on preferential terms.

Chart 12: Net quarterly change in the outstanding 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 *13*: *New household loans in the credit institution sector*



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

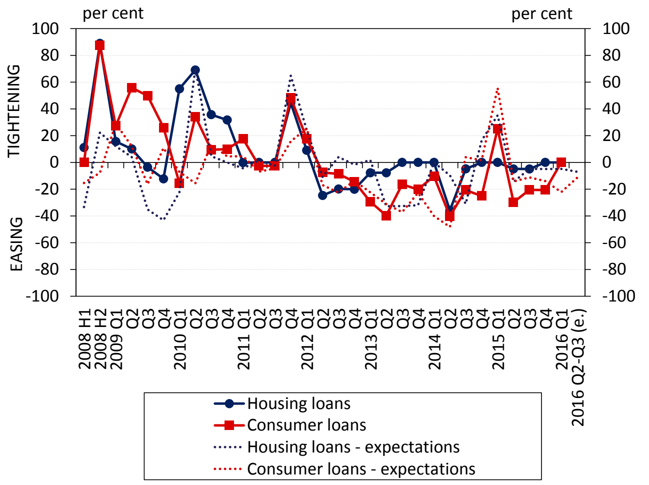
Domestic household lending

Loans outstanding continued to decline in the household sector during the quarter. In 2016 Q1, credit institutions' household loans outstanding decreased by HUF 71 billion as a result of transactions (Chart 13). In the period under review, write-offs and reclassifications resulted in a further decline of HUF 20 billion. In the case of HUF loans and FX loans, repayments exceeded disbursements by HUF 69 billion and HUF 2 billion, respectively. The decrease in outstanding housing loans and other loans amounted to HUF 39 billion and HUF 52 billion, respectively.[4] The transaction-based annual rate of decline in the portfolio changed to 5.4 per cent from 15.1 per cent recorded in the previous quarter. This considerable improvement in the indicator was caused by a base effect, as the indicator does not contain the effect of the 2015 Q1 mortgage loan settlement any longer. The value of the decline in loans outstanding would amount to 4.5 per cent with the adjustment of the settlement and FX conversion of vehicle loans and personal loans.

The expansion in the volume of new loans continued in year-on-year terms. The volume of credit institutions' new household loan contracts (excluding the volume of loan refinancing related to the FX conversion) amounted to HUF 164 billion in Q1 (Chart 14). In line with the seasonal fall at the beginning of the year, the value of new loans was approximately 12 per cent below that of the previous quarter, but the four-quarter rolling volume increased by 24 per cent year-on-year. The annual growth rate was 36 per cent in the case of housing loans, while home equity loans and other consumer loans increased by 14 and 13 per cent, respectively.

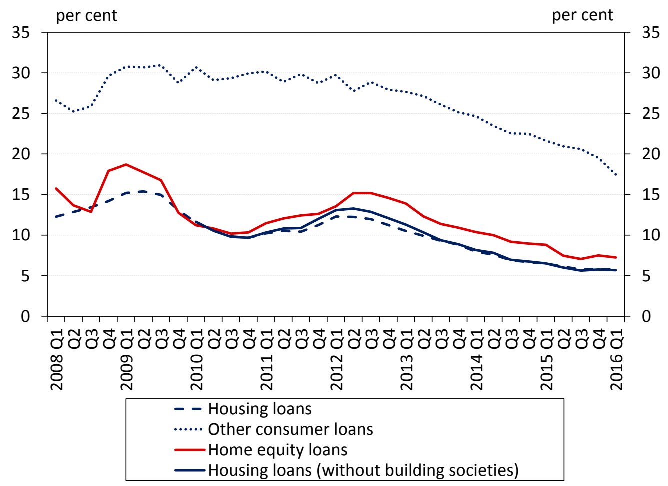
[4] The net portfolio change is the balance of the transactions and other flows (write-offs, reclassifications).

Chart *14*: *Changes in credit conditions in the household segment*



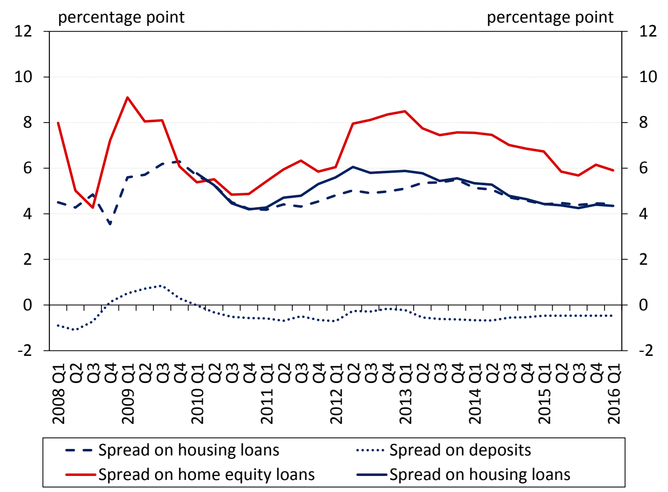
Note: Net ratio is the difference between tightening and easing banks weighted by market share. Source: MNB, based on banks' responses.

Chart *15*: *Annual percentage rate of charge on new household loans*



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

Chart *16*: *Interest rate spreads on new household loans*

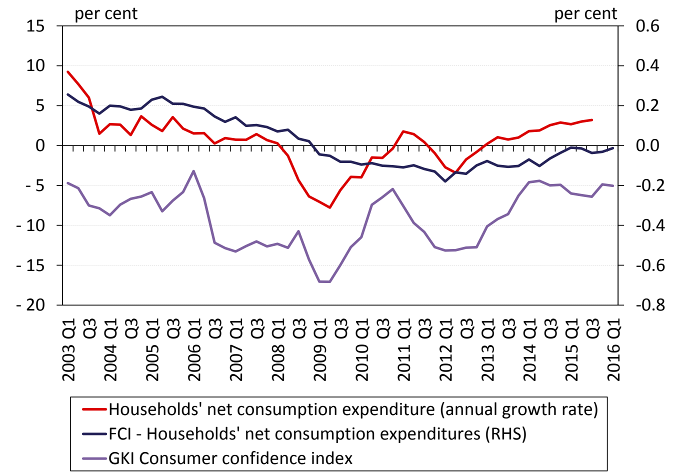


Note: Quarterly average of the interest rate spreads on 3-month BUBOR. Spreads based on the APR. Source: MNB.

There was no easing in lending conditions in the housing loan or consumer credit segments. According to the responses of the banks participating in the Lending Survey, there was no easing in credit terms on the whole in any of the loan segments in 2016 Q1 (Chart 15). In terms of standards, in the case of housing loans an increase in the fees for loan disbursements was observed in the period under review (a net 36 per cent of the responding banks changed their conditions), while in the case of consumer loans there was some easing only in the spreads. According to the one third of the banks, economic prospects and housing market developments already point to an easing in housing loan standards. In parallel with that, an easing in consumer loan conditions would be justified by the developments in share objectives and market competition. Looking ahead, market share objectives and an increase in risk tolerance may facilitate the possible easing, according to responding banks. Nevertheless, based on banks' responses, no major change may be expected in the next half year: in net terms, 11 per cent of the respondents indicated an easing of consumer credit conditions, but in the housing loan segment merely 7 per cent of them plan to ease conditions until 2016 Q3.

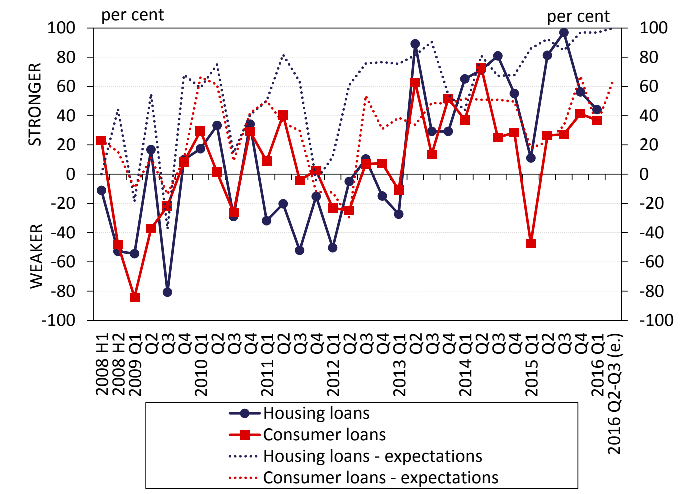
Financing costs and spreads on housing loans remained unchanged in the period under review. In 2016 Q1, the average APR and interest rate spread on HUF housing loans did not change: the annual percentage rate of charge on new contracts was 5.8 per cent (Chart 16), while the spread on the 3-month BUBOR was 4.4 percentage points at end-March (Chart 17). No heterogeneity of costs was observed in terms of the interest payment; similarly to their end-December values, at the end of the quarter the APR of variable-rate housing loan products stood at 4.9 per cent, while the average APR level of fixed-rate loans was at 6.5 per cent.

Chart 17: *Sub-index of the FCI for household consumption expenditures*



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

Chart 18: *Credit demand in the household lending segment*



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

On the whole, the financial intermediary system continues to have a neutral effect on household consumption. Household consumption increased year-on-year in 2016 Q1, but consumer confidence did not continue the improvement observed in the previous quarter, and thus still fluctuates around the level observed two years ago. According to the consumption expenditure sub-index of the Financial Conditions Index, the impact of the financial intermediary system on the consumption of households is neutral (Chart 18).

The expansion in demand for housing loans fell short of expectations at the beginning of the year, but looking ahead, all banks expect a pick-up. In Q1, 44 per cent – in net terms – of the banks participating in the Lending Survey reported higher demand for housing loans, while 37 per cent indicated increase in demand for consumer loans (Chart 19). Looking ahead, all responding banks expect an upturn in demand for housing loans in the next half year, and in net terms two thirds of banks expect an expansion in the case of consumer loans as well. The expectations related to housing loans are also supported by the availability of the home purchase subsidy scheme for families (see the box).

Box: Experiences related to utilisation of the home purchase subsidy scheme (HPS) based on a household questionnaire

With its amended conditions, the **home purchase subsidy scheme (HPS)** has been available since 11 February 2016. At present, potentially eligible for subsidy are persons who are married or live together as common-law spouses and have a child (children), or if not, at least one of the members of the couple is between 18–40 years old and would like to have a child (children) in line with the conditions of the programme. This group currently represents some 40 per cent, i.e. 1.6 million households, of the 4 million Hungarian households.

Home purchase subsidy scheme for families from 2016

Number of children	New dwelling: construction or buy		Used dwelling: buy or expand
	Subsidy (HUF)	Requestable loan (HUF)	Requestable subsidy (HUF)
1	600 000	-	600,000
2	2 600 000	-	1 430 000
3	10 000 000	10 000 000	2 200 000
3+	10 000 000	10 000 000	2 750 000

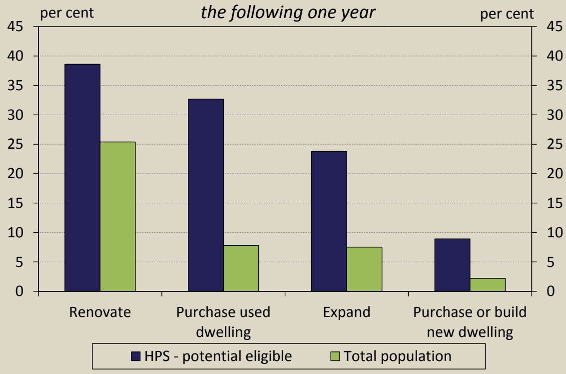
Source: MNB.

In parallel with an increased perception of an upturn, the strengthening of the willingness to buy and renovate homes, which was postponed as a result of the protracted crisis, has a significant impact on the utilisation of the HPS. Home purchasing has become timely for 10 per cent of the total population. Moreover, interest is much higher among those potentially eligible for the subsidy: one third of them plan to buy used homes, while 9 per cent of them plan to buy or build a new home within the next one year.

Awareness of the programme is extremely high: 94 per cent of the whole population had heard about it by March 2016. Although people have wide-ranging information, it is often incomplete, especially in terms of the conditions; therefore, many may be of the wrong opinion that they would not be able to meet the criteria.

Of those currently eligible, 17 per cent plan to use the non-refundable HPS, although there is significant heterogeneity among them: for example, willingness to use this opportunity is especially high among housewives and recipients of childcare allowance (some 40 per cent of those belonging to this segment were interested). Willingness to use the subsidy increases with the number of children: one third of those with three children and half of those with four children said that they would like to receive this grant. In addition to the grant, nearly half of those interested plan to borrow on preferential terms, which may already be reflected in the new loans during the year.

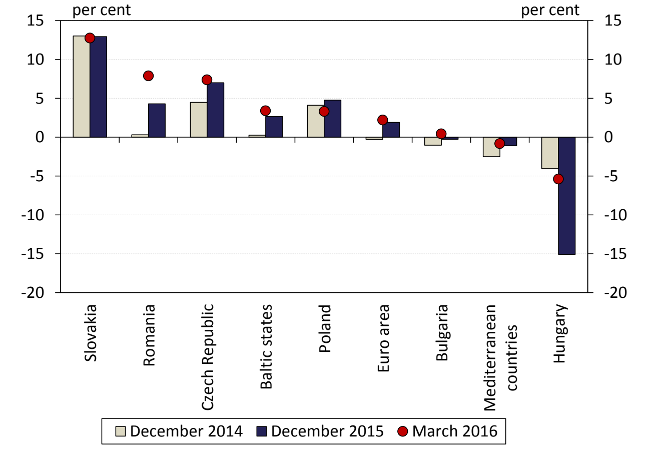
Willingness to purchase, renovate or expand dwellings in the following one year



Source: MNB questionnaire

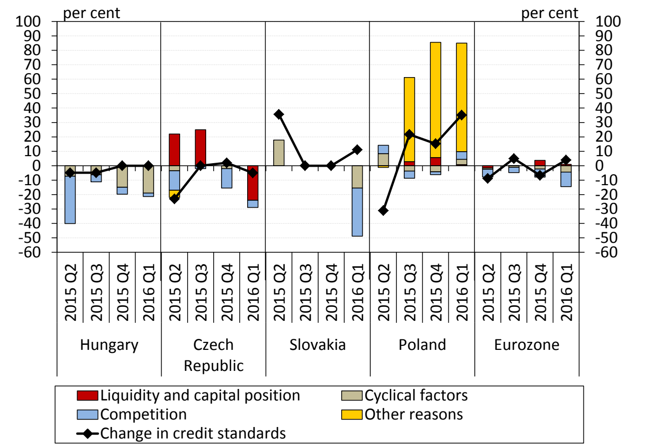
The average number of children in the households of those currently eligible for and interested in the family home creation allowance is 2.2, i.e. those who consider the programme as an opportunity already have large families. Overall, concerning the willingness to have children, upon collecting the grant, 24 per cent of them would be ready to have more children than they have at present; most of them would have one more child. With regard to undertaking to have children in connection with the HPS granted in advance, the uncertainty of employment and of the relationship of the couple as well as the costs related to the would-be children pose significant risks. Based on this, the risk that the child(ren) undertaken will not be born will not be significant for the households that are going to make use of the subsidy in the near future. Accordingly, the demographic effect of the programme is not expected to be induced by the advanced applications for the HPS, but people may decide to have more children in the short run as well, prior to families' applications.

Chart 19: *Annual transaction-based growth rate of household loans in international comparison*



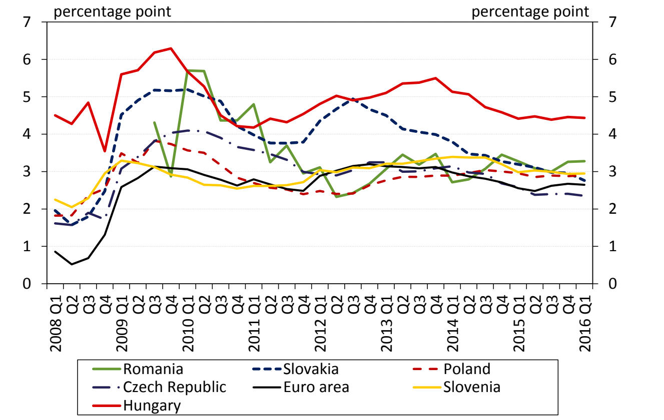
Note: Mediterranean countries: Greece, Italy, Portugal and Spain. Baltic states: Estonia, Lithuania and Latvia. Sources: ECB, MNB.

Chart 20: *Changes and factors contributing to changes in housing loan conditions in an international comparison*



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

Chart 21: *International comparison of spreads on housing loans extended in domestic currency*



Note: APR-based spreads above the 3-month interbank interest rate. Sources: MNB, ECB, national central banks.

International outlook in household lending

Household loans outstanding in both the CEE region and the euro area increased. The average annual growth rate recorded for the euro area improved by 0.3 percentage point during 2016 Q1, standing at 2.2 per cent at end-March (Chart 20). Based on this, a steady pick-up in lending can be observed, although there is heterogeneity within the currency area: while households' debt increased in the majority of the member states in year-on-year terms, loans outstanding continue to decline in Latvia and in the Mediterranean countries. As a result of transactions, outstanding household loans expanded dynamically in the region: the annual increase in lending to households was 13 per cent in Slovakia, 8 per cent in Romania, 7 per cent in the Czech Republic and 3 per cent in Poland. Developments in the region are mainly determined by the low interest rate environment and households' increasing disposable income.

Housing loan conditions tightened slightly in the region. Housing loan conditions remained unchanged in the Czech Republic, but tightened for regulatory reasons in Poland and as a result of housing market developments in Slovakia (Chart 21). Overall, standards also became stricter in euro area countries: although developments in competition pointed to easing, the implementation of the mortgage loan directive of the European Union which entered into force in March had a tightening effect, especially in Germany. According to the survey of the European Central Bank, demand continues to rise steadily: as a result of the low interest rate environment, the increasing consumer confidence and favourable housing market developments, one third of banks in net terms experienced slight or significant increase for the third quarter in a row.

The average spread on housing loans generally remained unchanged in the region. With the exception of Poland, the costs of housing loans declined in the CEE countries: the average interest rates on housing loans denominated in domestic currency declined by 0.3 percentage point in Romania and Slovakia and by 0.1 percentage point in the Czech Republic and Slovenia in 2016 Q1. Interest rate spreads, however, usually did not follow this size of decline: they declined by 0.1 percentage point in the Czech Republic and by 0.2 percentage point in Slovakia, while the spreads remained unchanged in Romania, Slovenia and Poland (Chart 22). The average level of interest rates was down 0.1 percentage point in the euro area, but the spreads remained practically unchanged. Overall, the level of domestic interest rate spreads continues to be high, exceeding the averages of the euro area and the region by 1.8 and 1.6 percentage points, respectively.

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/statisztika

2. *Lending Survey*

The Lending Survey facilitates the analysis of how major banks perceive and evaluate market developments and how they develop their respective strategies, in particular their lending policies. In the case of the household segment, a total 11 banks were involved in the interviews. 9 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 2016 Q1, the surveyed institutions accounted for 83 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 completed by 8 banks in total, which represent 79 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 90 per cent.

The survey consists of standard questionnaire in each segment. The retrospective questions refer to 2016 Q1 (compared to 2015 Q4), whereas the forward-looking questions concern the next half-year period, i.e. the one covering 2016 Q2 and Q3 (relative to 2016 Q1). The current questionnaire was completed by the senior loan officers between 4 and 18 April 2016.

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/penzugyi-stabilitas/publikaciok-tanulmanyok/hitelezesi-felmeres

3. *The Financial Conditions Index (FCI)*[5]

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 the balance sheet total
  - stable funding as a percentage of the balance sheet total
  - FX swaps outstanding as a percentage of the balance sheet total

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

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

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

The factors and the VAR model were estimated in accordance with the methodology presented in Koop and Korobilis (2014).[6] 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.

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

TRENDS IN LENDING

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