Trends in lending

November 2017

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The objective of the publication 'Trends in lending' is to present a detailed picture of the latest trends in lending and to facilitate the correct interpretation of these developments. To this end, it elaborates on the developments in credit aggregates, the demand for loans perceived by banks and credit conditions. Within credit conditions, a distinction is made between price and non-price conditions. Non-price conditions influence changes in the clientele considered creditworthy by banks and the conditions of access to credit. Price conditions, in turn, show the price of borrowing for creditworthy customers.

In addition, with the help of the Financial Conditions Index (FCI), the analysis summarises the impact of the financial intermediary system on the economy. In particular, the key statistics examined in the analysis are the following:

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

Detailed information on the methodology of the indicators describing the developments in lending and 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 2017 Q3, a further expansion was observed in the corporate segment, with corporate lending as a whole increasing by nearly 9 per cent year on year. Accordingly, for two consecutive quarters now the expansion in corporate lending was within the 5–10 per cent band deemed desirable by the MNB. Lending to the SME sector, including the self-employed, grew by a total of 13 per cent. In the period under review, the balance of transactions significantly exceeded that of the previous quarters, reaching a total of HUF 193 billion. As a result, total corporate loans outstanding increased by HUF 517 billion over the year to 2017 Q3 on a transaction basis. An expansion of nearly 10 per cent was recorded in the case of the narrow SME sector.

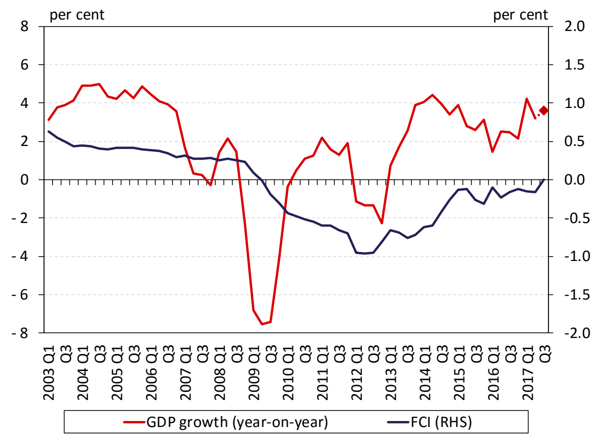
Based on banks' responses to the Lending Survey, credit conditions at both large companies and SMEs eased, which the banks participating in the survey explained with increasing competition between banks and an improvement in economic prospects. Looking ahead, they expect these developments to continue in the next half year, holding out the prospect of further easing. During the quarter, enterprises' credit demand increased to a degree that exceeded market expectations. The expansion in demand for commercial real estate loans also contributed significantly to the positive surprise. Some of the banks expect an increase in demand during the next half year and, in parallel with the improving prospects in the commercial real estate market, a further expansion in demand for related loans. The average interest rate spread on corporate loans did not change significantly in Hungary or the region.

Lending to households grew further in the quarter, rising by 3.6 per cent in annual terms over the year to September 2017. The annual value of loan transactions amounted to HUF 211 billion, with 2017 Q3 contributing HUF 83 billion. The annual average increase in the volume of new loans was 43 per cent. Within that, new housing loans and personal loans grew by 29 per cent and 46 per cent, respectively.

Based on the Lending Survey responses, banks, on the whole, did not change their lending conditions, although many respondents indicated a reduction in credit spreads in both the housing and consumer loan segments, similar to previous quarters. As perceived by banks, credit demand in both product groups kept growing, with a continued contribution by the Home Purchase Subsidy Scheme for Families: in 2017 Q3, 17 per cent of the volume of newly issued housing loans were related to the HPS. Partly as a result of slightly greater recourse to variable-rate products, which accounted for 44 per cent of disbursements in the quarter under review, the financing costs of new housing loans declined, although they remained significantly higher than the regional average.

Based on the Financial Conditions Index, which summarises the supply conditions of developments in lending, the cyclically restraining impact of the banking sector's lending activity ceased completely. Accordingly, in terms of the annual expansion in the real economy, neither a cycle strengthening, nor a growth restraining behaviour is experienced.

Financial Conditions Index (FCI) and annual real GDP growth



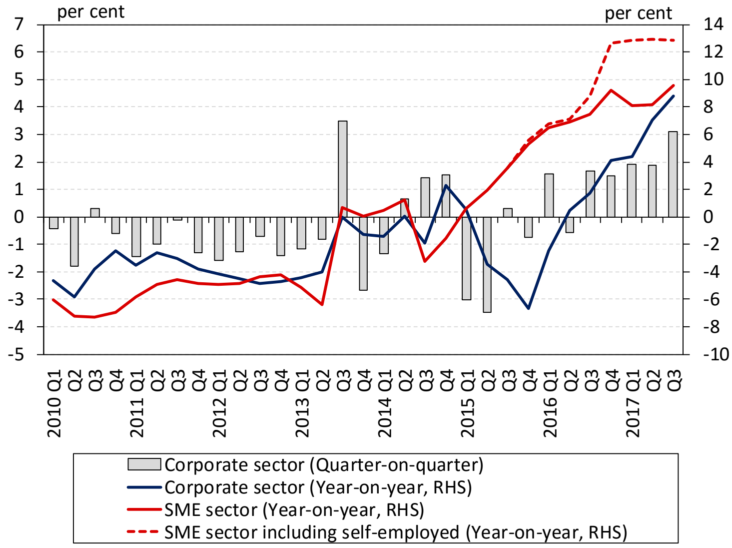
Note: The FCI quantifies the banking system's contribution through lending to the annual GDP growth rate. The 2017 Q3 data for the real GDP annual growth rate is a preliminary, seasonally and calendar adjusted estimate of the HCSO.

Sources: MNB and HCSO

2. DEVELOPMENTS IN LENDING IN THE CORPORATE SEGMENT

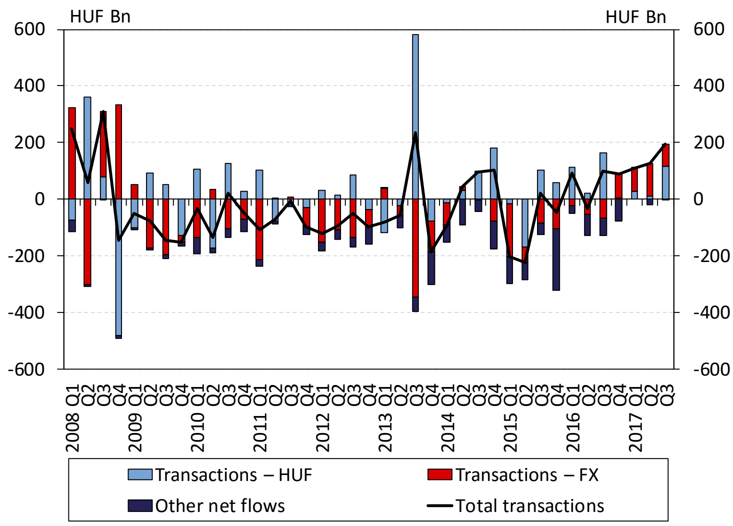
In 2017 Q3, the increase in corporate credit demand exceeded market expectations, with the balance of transactions amounting to HUF 193 billion, which was well higher than in the previous quarters. In the past one year, total corporate loans outstanding increased by HUF 517 billion on a transaction basis, corresponding to annual growth of 8.8 per cent. Expansion of 9.5 per cent was registered in the narrow SME sector, while an increase of 12.8 per cent was seen in the SME sector including the self-employed. According to banks' responses to the Lending Survey, credit conditions eased in both the large corporation and SME segments, primarily due to increased competition in the banking sector. Banks expect improvement in economic prospects and increasing price competition in the sector, which suggests further easing during the next half year as well. The average interest rate spread on loans did not change significantly in Hungary or in the region.

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



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

Chart 2: Net quarterly changes in 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

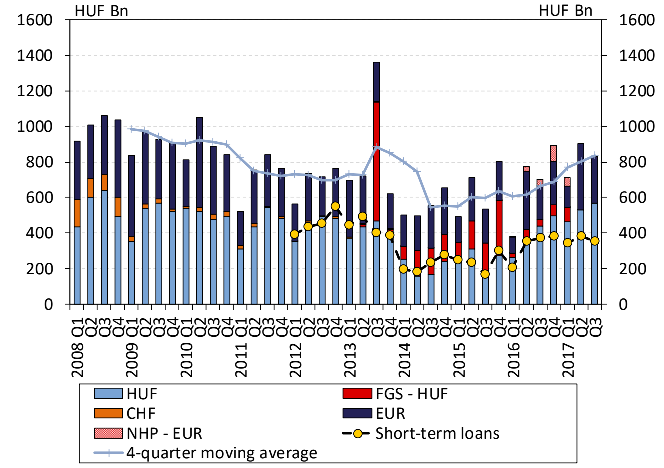
Domestic corporate lending

Annual growth in corporate lending amounted to 9 per cent. In the past one year, outstanding loans of non-financial corporations rose by HUF 517 billion on a transaction basis, representing growth of 8.8 per cent (Chart 1). The outstanding loans of the narrow sector of micro, small and medium-sized enterprises increased at an annual rate of 9.5 per cent, while the annual growth rate of SME sector loans including the self-employed,[1] who statistically belong to households and borrow for performing economic activity, was 12.8 per cent. Additional loans of HUF 230 billion, committed to this year by credit institutions within the framework of the central bank's Market-based Lending Scheme (MLS), suggest that the growth rate of SME lending will be maintained or increase further. In the case of the self-employed sector, following the temporary rise related to sales of state-owned land, the dynamics may return to near the underlying trend in the coming quarters.

Compared to the previous quarters, a significant increase was observed in corporate loan transactions in Q3. In 2017 Q3, transaction-based growth in credit institutions' corporate loans outstanding significantly exceeded the growth seen in previous quarters and amounted to around HUF 193 billion (Chart 2), a considerable portion of which – some HUF 153 billion – is related to the SME sector. Unlike in the previous three quarters, (some 60 per cent of) the growth was again attributable to forint loan transactions. In connection with the loan contracts concluded within the third phase of the Funding for Growth Scheme, net drawings in Q3 amounted to a total HUF 18 billion. Within that, forint loans and FX loans accounted for HUF 7 billion and HUF 11 billion, respectively.

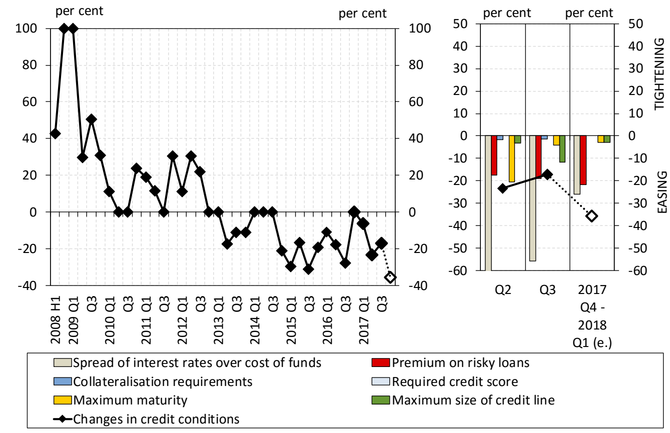
[1] Although the self-employed belong to the household sector in a statistical sense, they also qualify as SMEs based on their activities and legal definition.

Chart 3: New corporate loans in the credit institution sector



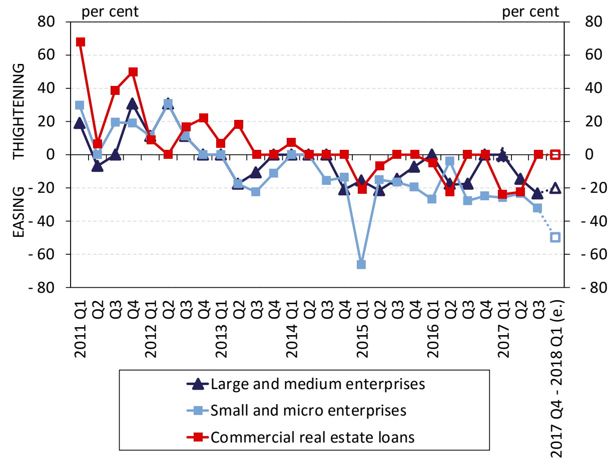
Source: MNB

Chart 4: Changes in credit conditions in the corporate segment



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

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



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

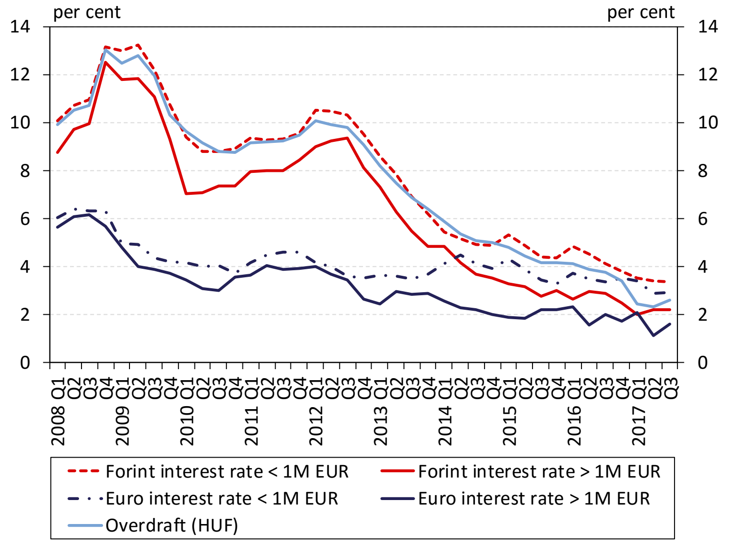
On an annual average, the volume of new corporate loan contracts increased by some 25 per cent. In Q3, credit institutions concluded new contracts amounting to some HUF 830 billion in total (including money market transactions) with non-financial corporations (Chart 3). Within that, by denomination, the ratio of forint loans increased from the previous quarter's 59 per cent to 69 per cent, while regarding maturity, the ratio of long-term loans was around 60 per cent, similarly to the previous quarter.[2]

Banks mainly eased the price conditions of lending. In 2017 Q3, in net terms, 17 per cent of the banks participating in the Lending Survey eased corporate loan standards (Chart 4). This easing was implemented mostly in the reduction of the spread on less risky loans (56 per cent), but banks also lowered the spread in the case of risky loans as well (19 per cent) and raised the maximum size of loans and credit lines granted (12 per cent). According to the findings of the survey, all factors contributed to easing, especially the increase in market competition, the achievement of market share goals and the improvement in economic prospects. Looking ahead, a net 36 per cent of the respondents anticipate further easing in the next half year, which according to banks' expectations will still typically be observed in the decrease in spreads.

The easing of credit conditions was seen in all corporate size categories. In the period under review, in the micro and small enterprise segment a net one third of banks, while in the case of medium-sized and large companies nearly one quarter of banks indicated the easing of credit conditions. At the same time, in line with preliminary expectations, none of the responding institutions changed the conditions of commercial real estate loans (Chart 5). No easing of conditions is expected in this loan segment in the next half year either. In net terms, 20 per cent of the banks expect further easing in the conditions for medium-sized and large companies, and half of the banks project further easing in the case of the micro and small enterprise segment until 2018 Q1.

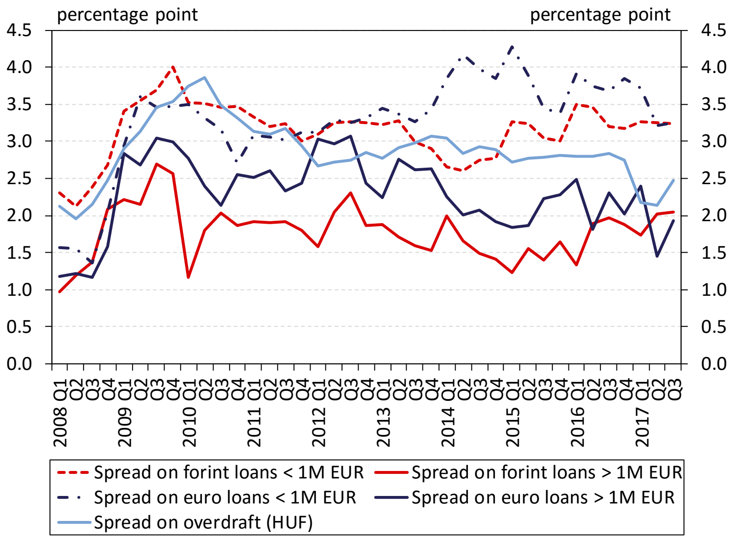
[2] Loans with a maturity of less than one month and the renewal of earlier credit line agreements increase neither the loans outstanding at the end of the month, nor the value of transactions.

Chart 6: Interest rates on new corporate loans



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

Chart 7: Interest rate spreads on new corporate loans



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

The financing costs of forint loans remained unchanged. The interest rate on market-based new corporate forint loan contracts[3] – excluding money market transactions[4] – remained unchanged in the case of both small and large-amount loans. At the same time, the average interest rate level on forint overdrafts increased by 0.3 percentage point (Chart 6). The average interest rate on large-amount euro loans grew by 0.5 percentage point, which is the adjustment of the significant decline – partly resulting from one-off transactions – observed in the previous quarter. There was no major change in the case of small-amount euro loans in the period under review. Developments in the average level of interest rate spreads were similar to those of interest rates: the spread on forint loans and small-amount euro loans remained unchanged on average, but increases of 0.5 and 0.3 percentage point were observed in the case of large-amount euro loans and overdrafts, respectively (Chart 7).

The cyclical effect on corporate investment of the banking sector's lending activity is nearly neutral. Corporate investment expanded by 6 per cent between mid-2016 and mid-2017. The GKI business confidence index rose, and thus the improvement in economic expectations typical of the first half of the year continued. According to the MNB's business activity survey, an improvement in prospects was mainly observed in the case of construction and commercial enterprises in the quarter under review. After the unchanged level in the previous quarter, the corporate sub-index of the FCI improved in the period under review, thus coming close to the neutral level (Chart 8). Accordingly, the banking sector's lending activity does not have any major cyclical impact on the changes in the level of corporate investment.

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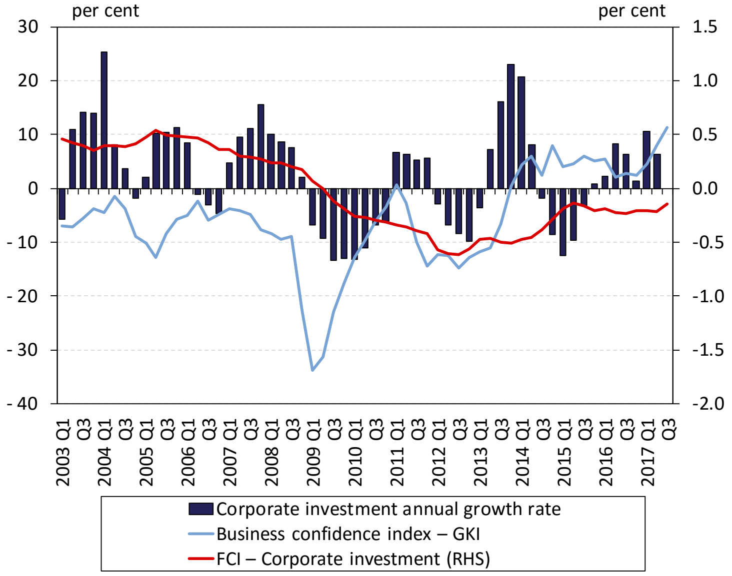
[3] In the case of new contracts, we examined variable-rate loans or loans with interest rate fixation up to one year. The majority of loans granted under the FGS are long-term loans, and therefore the interest rates we review are only affected by smaller, short-term FGS loans.

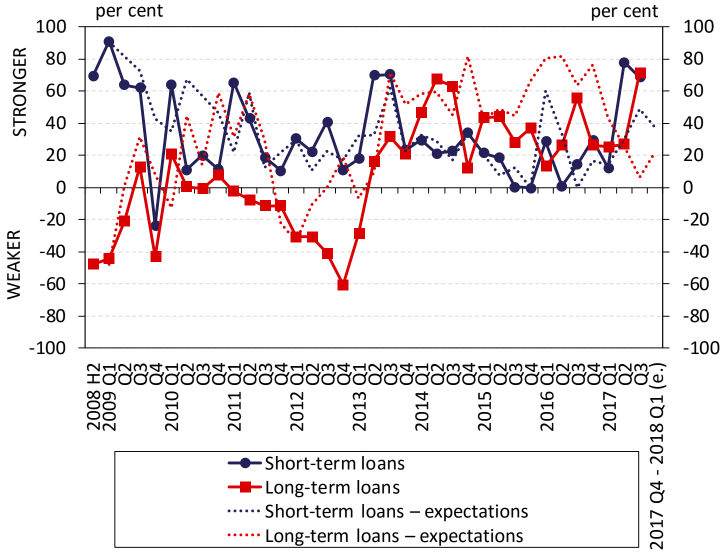
[4] Money market transactions are loans with a value of over EUR 1 million extended to non-financial corporations; their term is short (typically less than 1 month) and they serve to fund some kind of financial operation. It has been possible to exclude money market transactions since 2015, although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

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



Note: The sub-index of the FCI quantifies the banking sector's contribution, through lending, to annual growth in corporate fixed investment. Retrospective changes in the time series are explained by the methodology described in Point 3 of the Annex and the revision of the data used. Sources: MNB and GKI

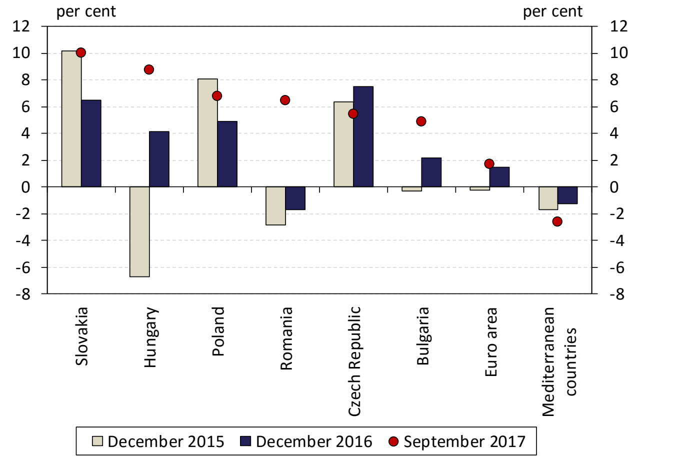
Chart 9: Changes in credit demand by maturity



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

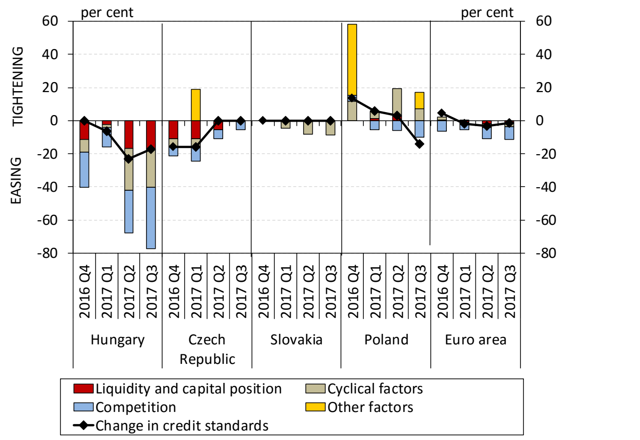
The increase in corporate credit demand exceeded market expectations. The Lending Survey revealed that, in net terms, 68 per cent of banks experienced a pick-up in enterprises' credit demand. According to banks' perception, this expansion in demand was broad-based, and stronger demand was indicated in breakdowns by maturity, denomination and company size categories as well. In net terms, 68 per cent and 71 per cent of respondents reported growth during the quarter under review in the case of short-term and long-term loans, respectively, in spite of the fact that only 7 per cent of them expected an expansion in the demand for long-term loans for 2017 H2 (Chart 9). The larger-than-expected increase in demand for commercial real estate loans may have contributed to the positive surprise. Some banks expect an increase in demand for the next half year and, in parallel with the improving prospects in the commercial real estate market, a further expansion in demand for the related loans.

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



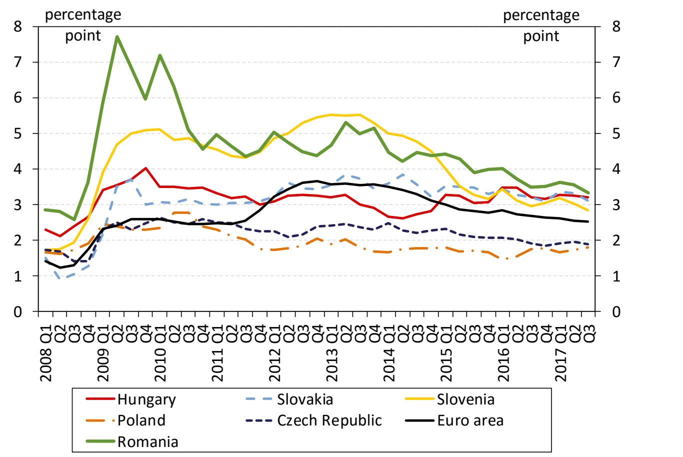
Note: Mediterranean countries are Greece, Italy, Portugal and Spain. Sources: ECB and MNB

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 conditions, while negative ones indicate the easing thereof. Sources: MNB, ECB, national central banks

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



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

International developments in corporate lending

The growth rate of corporate loans in Hungary is among the highest in the region. Within the euro area, corporate loans outstanding increased by an average of 1.7 per cent over the past one year (Chart 10). This growth is still attributable to the core countries (primarily to France and Germany), while the portfolio continued to decrease in the Mediterranean countries. This is mainly the result of the contraction in Italy, where the decline in corporate loans outstanding of the banking sector, which has a large non-performing loan portfolio, accelerated during the quarter under review. Dynamic growth continued to be observed in the Visegrád countries: corporate lending expanded by 10 per cent in Slovakia, 9 per cent in Hungary, 7 per cent in Poland and 5 per cent in the Czech Republic.

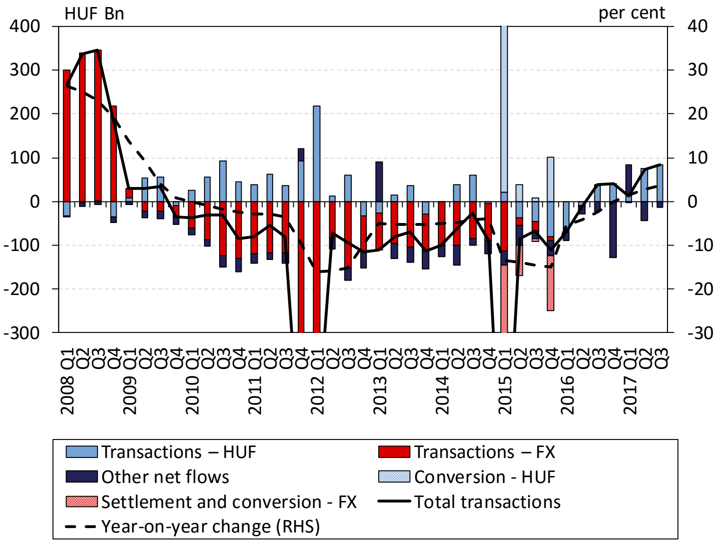
Within the region, circumstances resulting in easing of credit conditions were the most significant in Hungary. Based on banks' responses to lending surveys, on the whole, corporate credit conditions eased in the euro area, similarly to the previous quarter, with a net 1.2 per cent of banks easing their conditions (Chart 11). This was mainly a result of the fact that a net 10 per cent of banks in Germany eased their credit conditions. The easing concerned the credit conditions of both large companies and SMEs. German respondents mentioned strengthening competition between banks as the reason for the easing. Corporate credit conditions in the Visegrád countries remained unchanged or eased further: corporate credit conditions were eased in Hungary and Poland, and remained unchanged in the Czech Republic and Slovakia.

There was no significant change in the average interest rate spread on corporate loans in the region. In Q3, the average interest rate on corporate loans of less than EUR 1 million did not change significantly (Chart 12). There was no major change in the region either: interest rate spreads decreased by 20 basis points in Romania, Slovakia and Slovenia, and did not change significantly in Hungary, Poland and the Czech Republic. Short-term interbank reference rates also did not change significantly during the quarter under review.

3. DEVELOPMENTS IN LENDING IN THE HOUSEHOLD SEGMENT

In 2017 Q3, the value of household loan transactions amounted to HUF 83 billion, representing annual growth of 3.6 per cent on a transaction basis. The total volume of new contracts was HUF 353 billion in the period under review, and an annual average expansion of 43 per cent was observed. Within the total volume, new housing loans increased by 29 per cent and new personal loans by 46 per cent over the past one year. Similarly to the previous quarter, 17 per cent of new housing loans, i.e. some HUF 31 billion, was disbursed for the construction or purchase of new homes. According to the responses to the Lending Survey, on the whole banks did not change credit conditions, although a significant proportion of respondents indicated a reduction in credit spreads in both loan segments. However, for the next half year a larger proportion of banks expect easing in housing loan conditions, in line with an increase in competition and the expected spread of the Certified Consumer-Friendly Mortgage products. Based on banks' perception, there was further acceleration of credit demand in both product groups, and they expect this to continue in the next half year as well. This demand growth is still supported by the Home Purchase Subsidy Scheme for Families, with 17 per cent of the volume of newly issued housing loans related to this programme in Q3. Mainly as a result of the higher recourse to variable-rate products, which accounted for 44 per cent of the new issues in the quarter under review, the average financing costs of new housing loans declined, although they are still significantly higher than the regional average.

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



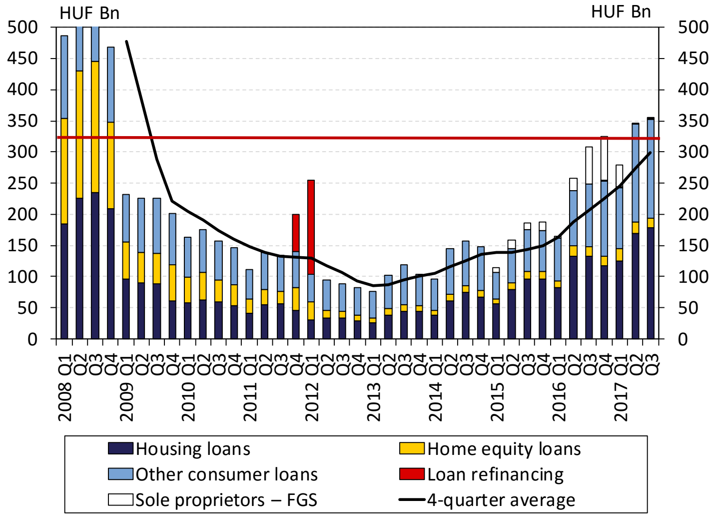
Note: Seasonally unadjusted net change in outstanding amounts, with rolling exchange rate adjustment. The annual change in the outstanding amount includes the effect of the settlement. Source: MNB

Domestic household lending

Household loans outstanding increased by 3.6 per cent as a result of transactions. In 2017 Q3, loans of credit institutions granted to households increased by HUF 83 billion as a result of transactions (Chart 13). In the period under review, write-offs and reclassifications in the portfolio resulted in a decline of HUF 11 billion. As a result of transactions, housing loans and consumer loans rose by HUF 69 billion and HUF 6 billion, respectively, in the quarter under review. The volume of other loans, which are mainly related to the self-employed, rose by HUF 8 billion.[5] Overall, the value of annual household loan transactions amounted to HUF 211 billion, resulting in an expansion of 3.6 per cent year-on-year. This indicator continues to be significantly affected by the loans borrowed by the self-employed in 2016 H2, but even excluding these loans, the increase in loans outstanding is already positive (1 per cent) on a transaction basis.

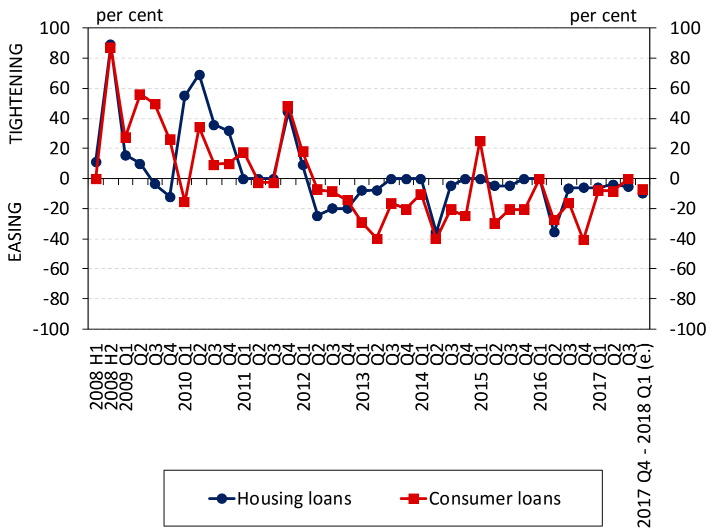
[5] The statistical category of households includes both retail customers and the self-employed (sole proprietors and small-scale producers).

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



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

Chart 15: Changes in credit conditions in the household segment

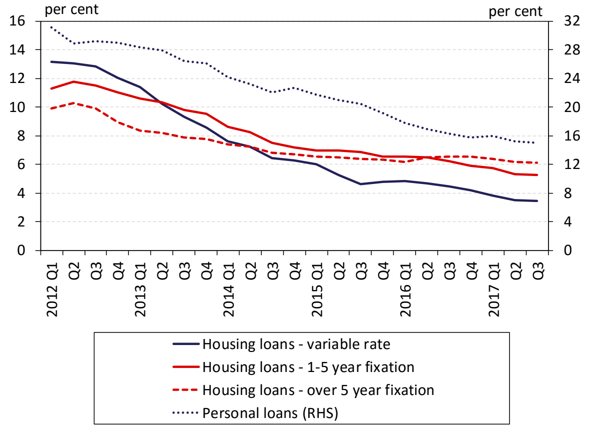


Note: Net percentage balance of respondents tightening/easing credit conditions weighted by market share. Source: MNB, based on banks' responses

The value of new contracts rose by 43 per cent on an annual average. The volume of credit institutions' new household loan contracts amounted to HUF 353 billion in 2017 Q3 (Chart 14). The volume of new loans increased compared to the previous year at an annual average rate of 43 per cent (excluding loan refinancing related to the FX conversion). The annual growth rate in the case of housing loans and home equity loans amounted to 29 per cent and 28 per cent, respectively, while the disbursement of other consumer loans increased by 45 per cent. Within that, in annual terms, newly issued personal loans and vehicle loans were up by 46 per cent and 53 per cent, respectively. As in the previous quarter, 17 per cent of new housing loans, i.e. some HUF 31 billion, was disbursed for building or purchasing new homes, while 71 per cent was borrowed for buying used homes.

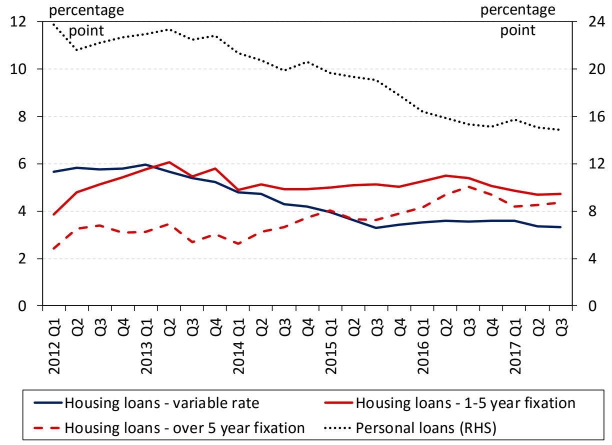
Credit conditions have not been significantly eased by the banks. In net terms, 5 per cent of the respondent banks participating in the Lending Survey reported that they eased their housing loan conditions (Chart 15). Looking at the specific conditions, major changes only took place in the case of credit spreads: in net terms, 76 per cent of the responding banks reduced the spread between the lending rate and the costs of funds in the case of less risky loans. Two thirds of the respondent banks mentioned housing market developments and nearly 40 per cent of them indicated the improvement in economic prospects and market share goals as factors justifying the easing of conditions. On the whole, banks did not change the conditions of consumer loans, but in terms of specific conditions, a net 37 per cent of them reduced the spreads, while 15 per cent of them tightened the payment-to-income ratio. In the next half year, 10 per cent of banks plan to ease housing loan conditions; most of them through a further reduction of spreads and by raising the maximum loan-to-value ratio. In the case of consumer loans, fewer respondents, i.e. 7 per cent of the banks in net terms, indicated their intention to ease in the next half year.

Chart 16: Annual percentage rate of charge on new household loans



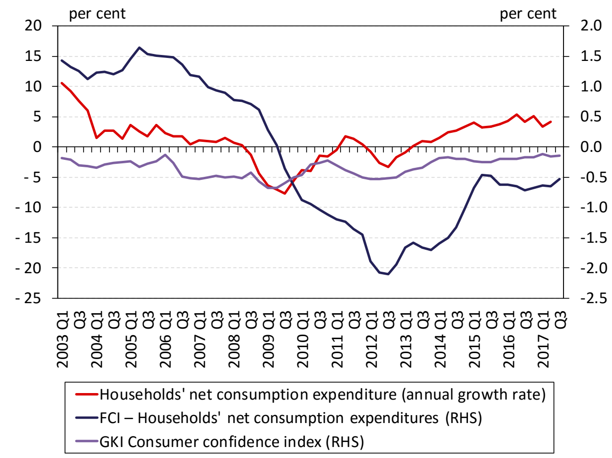
Note: Quarterly average of lending rates on newly disbursed loans. Source: MNB

Chart 17: Interest rate spreads on new household loans



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

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



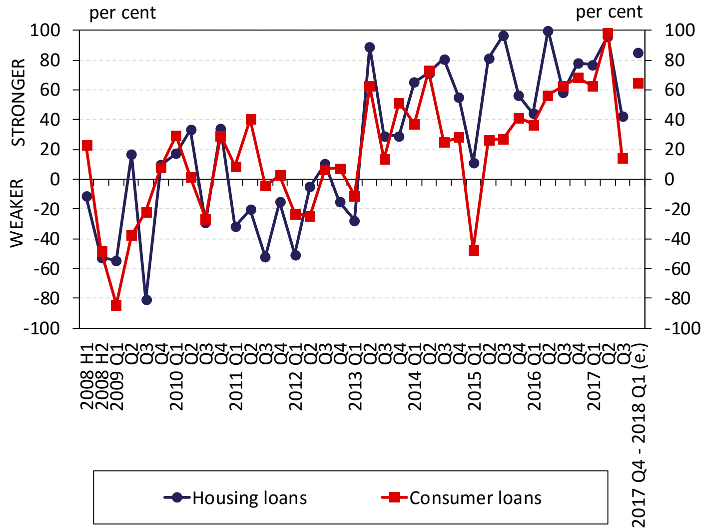
Note: The FCI quantifies the contribution of the banking sector's lending activity to the annual growth rate of household consumption expenditures. Retrospective changes in the time series are explained by the methodology described in Point 3 of the Annex and the revision of the data used. For technical reasons, the chart indicates one one-hundredth of the GKI index. Sources: MNB and GKI

The proportion of variable-rate loans within new housing loans increased. The average APR on new forint housing loans declined by 0.3 percentage point to 4.8 per cent in 2017 Q3 (Chart 16). There was no major change in the case of variable-rate housing loans, but the developments in the average smoothed APR on loans with interest rate fixation were heterogeneous: a decline was observed in the case of housing loans with interest rate fixation between 1–5 years and 5–10 years, and an increase was observed in the case of loans with over 10 years of rate fixation. During the quarter, composition effects resulted in a decline in the average APR: within new issues, the proportion of loans with initial rate fixation over one year (whose credit cost is higher on average) declined by 2 percentage points to 56 per cent compared to the previous quarter. In the case of variable-rate loans, the average of spreads did not change, although interest rate spreads fixed for over 5 years increased (Chart 17).

The financing costs of consumer loans declined. The average smoothed interest rate level of home equity loans dropped by 0.6 percentage point, while interest rates on other consumer loans declined by 1 percentage point during the quarter under review. Consequently, at end-September 2017, the average interest rate level of home equity loans was 6.2 per cent and that of unsecured loans was 14 per cent (Chart 16). Changes in spreads were in line with the interest rates. Accordingly, in the case of home equity loans they declined to 6 percentage points, while on unsecured consumer loans they reached 13.8 percentage points by the end of the quarter (Chart 17).

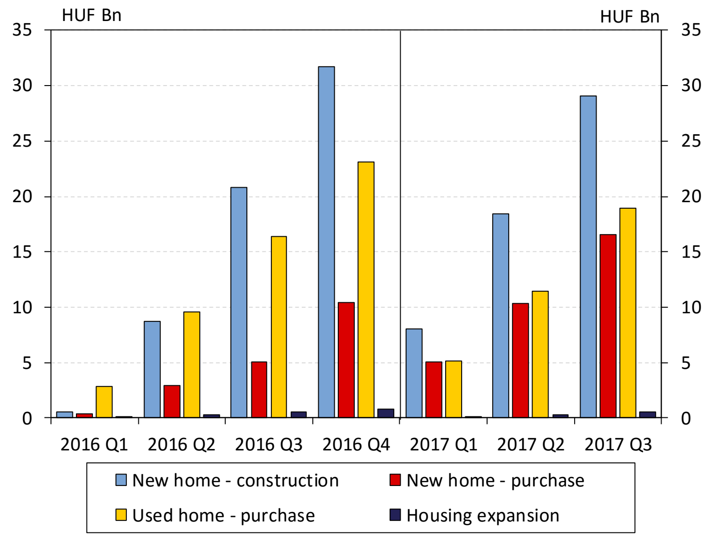
The impact of the financial intermediary system on households' consumption improved. By the end of 2017 Q2, households' consumption expenditures had increased by 4.2 per cent year-on-year, followed by a slight improvement in the consumer confidence index in Q3. According to the MNB's business activity survey, the increase in consumer confidence may be explained by an improved perception of economic activity, which is also reflected in the planning of higher-amount expenditures. The consumption expenditure sub-index of the Financial Conditions Index rose slightly, but the cyclical effect of banks' credit supply on the consumption expenditure of households was still neutral on the whole (Chart 18).

Chart 19: Credit demand in the household lending segment



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

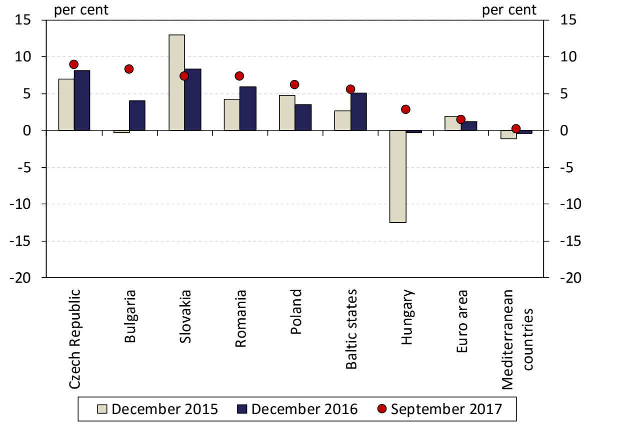
Chart 20: Cumulative volume of contracts in the Home Purchase Subsidy Scheme for Families by purpose



Source: Ministry for National Economy

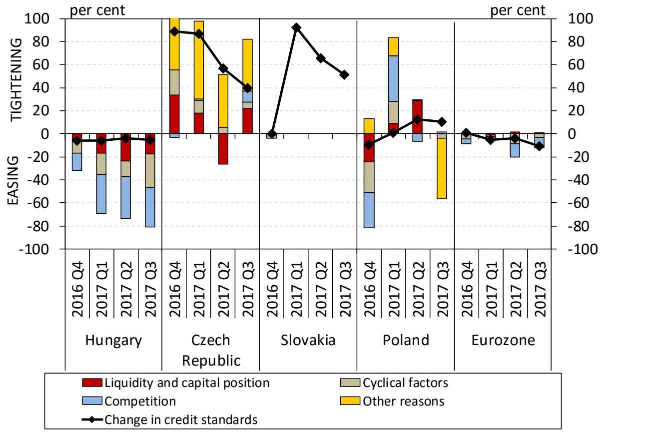
Banks continue to perceive strong demand for housing loans. In 2017 Q3, in the consumer loan segment, a narrower range of banks, i.e. a net 15 per cent, perceived an increase in demand, but nearly two thirds of banks expect a further pick-up in demand for the next half year. In net terms, 42 per cent of the banks participating in the Lending Survey perceived higher demand for housing loans, and more of them expect a further increase in the next half year as well (Chart 19). The Home Purchase Subsidy Scheme for Families is boosting demand for housing loans this year as well: between July and September, loan contracts related to the HPS were concluded in the value of HUF 31 billion, accounting for 17 per cent of the new housing loans extended during the quarter. Since the beginning of 2016, subsidy contracts with a total value of HUF 131 billion have been concluded within the scheme. Households intended to spend two thirds of this amount on building or purchasing new homes, and one third on buying used homes (Chart 20). The number of contracts was 42,400, and in 2017 Q3 the value of contracts exceeded the value contracted in the same period of the previous year by 15 per cent.

Chart 21: Annual transaction-based change in household loans in an international comparison



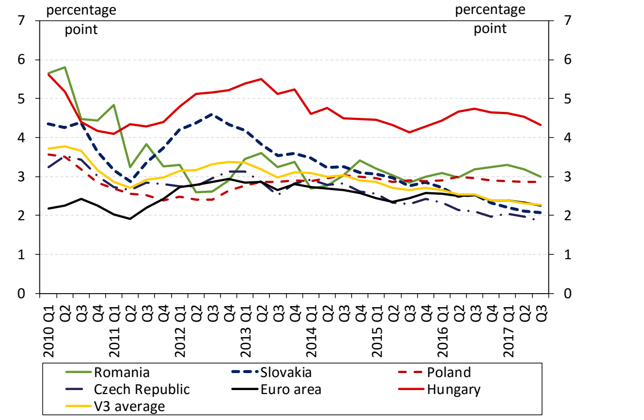
Note: Mediterranean countries are Greece, Italy, Portugal and Spain; Baltic states are Estonia, Lithuania and Latvia. Sources: ECB and MNB

Chart 22: Changes and factors contributing to changes in housing loan conditions in an international comparison



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

Chart 23: International comparison of spreads on housing loans extended in domestic currency



Note: In the case of variable-rate housing loans or ones with up to 1 year fixation, the 3-year APR-based smoothed spread over the 3-month interbank rate, while in the case of housing loans fixed for a period longer than one year, the APR-based smoothed spread over the 3-year IRS. Sources: MNB, ECB, EMF, Datastream, national central banks

International developments in household lending

Lending to households expanded significantly in the region. The average annual growth rate in the euro area amounted to 3.1 per cent in 2017 Q3 (Chart 21). In an annual comparison, households' debt increased in each Member State, except for Spain and Greece. Households' outstanding debt expanded in the Central and Eastern European region as well, but to a larger degree than in the euro area: Slovakia, the Czech Republic and Poland recorded annual growth rates of 13 per cent, 9 per cent and 5 per cent, respectively.

Tightening of housing credit conditions was typical in the region in the period under review. The lending survey of the European Central Bank revealed that euro area banks continued to ease the conditions on housing loans for the third quarter in a row. According to the respondent banks, except for the financing costs, all factors justified easing. Nevertheless, credit conditions tightened in the Visegrád countries in each quarter this year: in net terms, 11 per cent of the banks in Poland, 40 per cent in the Czech Republic and more than half of banks in Slovakia tightened their conditions during Q3 (Chart 22), partly as a result of regulatory tightening.

Spreads on new housing loans declined slightly in an international comparison. In 2017 Q3, the average APR on newly granted housing loans in the euro area was unchanged at 2.2 per cent. In the countries of the region, the average APR on housing loans issued in domestic currency declined only in Romania (by 0.1 percentage point). There was no major change in the average APR in the other countries. Spreads in Slovakia and Poland remained unchanged, while increases of 0.1 percentage point and 0.2 percentage point were observed in the Czech Republic and Romania, respectively. Accordingly, the level of spreads in Hungary may still be deemed high by international standards: on average, it exceeds the average of both the euro area and the other countries in the CEE region by 2.1 percentage points (Chart 23).

4. ANNEX: NOTES ON THE METHODOLOGY

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

1. Credit aggregate and lending rate data

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

2. Lending Survey

The Lending Survey facilitates the analysis of how major 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. Nine banks responded to questions related to housing loans, while 10 banks and 11 financial enterprises answered questions on consumer loans. Based on data from the end of 2017 Q3, the surveyed institutions accounted for 83 per cent of the banking sector in the case of outstanding housing loans and 89 per cent in the case of outstanding consumer loans. The corporate questionnaire was completed by 15 banks in total, which represent 94 per cent of the corporate loan market, while the market share of the 14 banks responding to the questionnaire related to commercial real estate loans is 91 per cent.

The survey consists of a standard questionnaire in each segment. The retrospective questions refer to 2017 Q3 (compared to 2017 Q2), whereas the forward-looking questions concern the next half-year period, i.e. the period covering 2017 Q4 and 2018 Q1 (relative to 2017 Q3). The current questionnaire was completed by the senior loan officers between 2 and 17 October 2017.

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

The detailed findings of the Lending Survey and the set of charts are available at: http://www.mnb.hu/penzugyi-stabilitas/publikaciok-tanulmanyok/hitelezesi-felmeres

3. The Financial Conditions Index (FCI)[6]

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, consisting of certain aggregate indicators of the nine largest banks and the rest of the banking sector. From the panel database of ten 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

[6] 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).[7] 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.

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

TRENDS IN LENDING

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