Trends in lending

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

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

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

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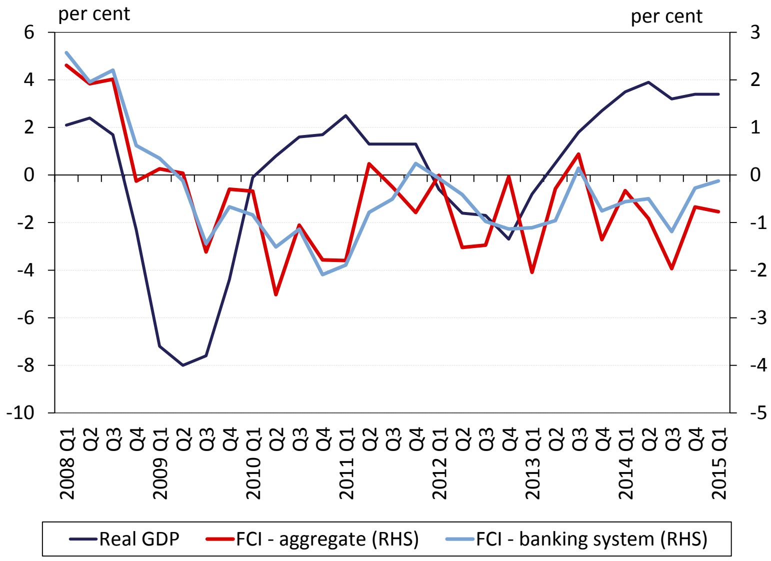
1. EXECUTIVE SUMMARY

Based on the 2015 Q1 data, corporate lending is still characterised by a fragile recovery. Total corporate loans outstanding increased by 0.6 per cent year-on-year, while in the SME sector the lending dynamics continued to intensify and loans outstanding rose by 3.3. per cent. Within the framework of the second phase of the Funding for Growth Scheme (FGS) contracts in the value of HUF 76 billion were signed during the quarter, which is higher in year-on-year terms. The FGS substantially contributed to the favorable developements in corporate lending, even though the first quarter characteristic seasonal decline in corporate credit was observable here as well. In parallel with this, the Monetary Council decided to launch the FGS+ targeting riskier SMEs. Based on the banks' answers to the lending survey, corporate credit conditions have eased, and demand for long-term loans increased in Q1. The funding costs of forint loans dropped nearby the level of euro loans, especially in the case of high-amount loans, while average cost of domestic corporate loans was favourable even in an international comparison.

The settlement and conversion of foreign currency loans considerably reduced household indebtedness and simultaneously also changed the structure thereof: the ratio of foreign currency loans within total household loans fell below 5 per cent. The volume of newly disbursed household loans increased in year-on-year terms. The debt cap regulation with its entry into force in January does not slow down healthy household lending according to the available data, while strengthens financial stability and prudent banking operations. Based on the answers of the respondent banks to the lending survey, terms and conditions for housing loans were constant in Q1, while those for consumer loans tightened. Looking ahead, however, the banks indicated easing conditions in both segments. Furthermore, based on the survey, the banks reported a slight increase in demand for housing loans and a decline in demand for consumer loans, however, in the next two quarters they anticipate growth in both segments. On the whole, the total annual percentage rate of charge on actual loans continued its declining trend in case of the main product types in parallel with the decrease of the base rate, and considering the extent of this easing, this also resulted in a decrease in spreads over the reference interest rate.

According to the Financial Conditions Index – which summarises lending developments in the corporate and household segments as well as monetary conditions – the banking sector had a cyclically close to neutral effect on economic growth.

Financial Conditions Index (FCI) and annual real GDP growth

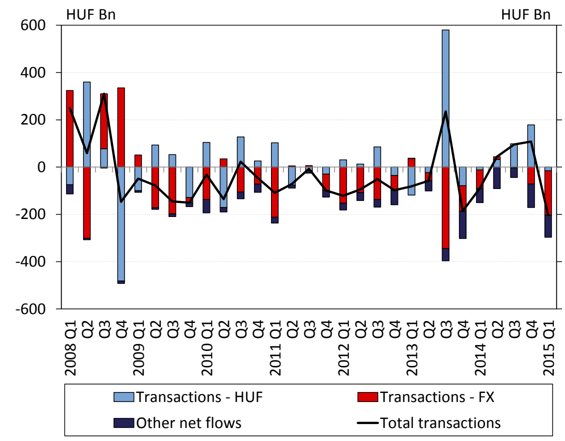


Note: Based on preliminary data. The annual growth rate of FCI shows the contribution of the financial intermediary system (banking sector) to the annual growth rate of real GDP. While the banking sector sub-index only contains the variables related to lending, the 'overall' index also contains the monetary conditions, i.e. the interbank rate and the exchange rate. A revision was made to the time series because of the transition of the model to a transactional basis.
Source: MNB.

2. DEVELOPMENTS IN LENDING IN THE CORPORATE SEGMENT

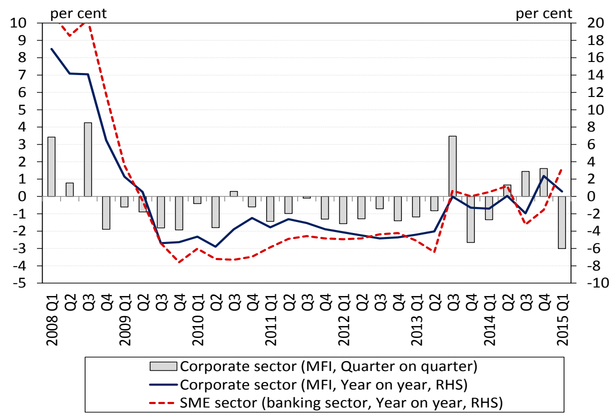
As a result of transactions, there was a decrease in outstanding loans to non-financial enterprises from the credit institution sector in 2015 Q1. The volume of loan repayments exceeded the volume of disbursements by approximately HUF 203 billion, which was mainly attributable to the decline in foreign currency loans and the repayment of a high-amount syndicated loan in the forint portfolio. Utilisation of the second phase of the Funding for Growth Scheme (FGS) increased further during the quarter, and in parallel with this the Monetary Council decided on the launch of FGS+ targeting riskier small- and medium-sized enterprises. The transaction-based annual growth rate of corporate loans fell to 0.6 per cent, while outstanding loans to the SME sector increased by 3.3 per cent in annual terms. Based on the banks' responses to the lending survey, terms and conditions for corporate loans eased during the quarter, but looking ahead the banks' indications with regard to the next half year show rather a heterogeneous picture. The respondent banks in the first quarter perceived an increase primarily in the demand for long-term loans. Both the financing costs and spreads on high-amount loans decreased during the period under review for forint loans, as well as for euro loans.

Chart1: Net quarterly change of the corporate loan portfolio, by currency



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

Chart2: Annual and quarterly growth rate of lending to corporates and the SME sector



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

Domestic corporate lending

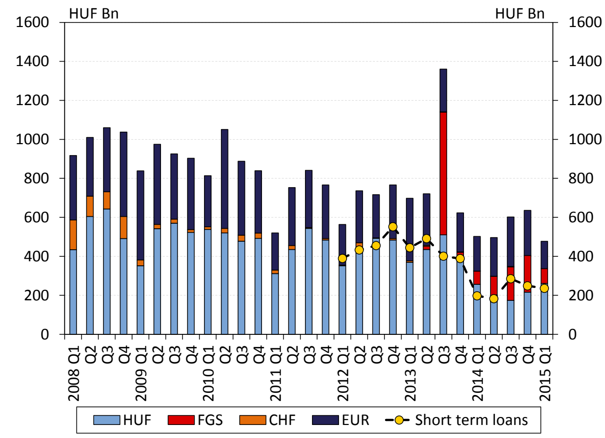
The corporate loan portfolio contracted in the first quarter of the year on a transaction basis. In 2015 Q1, outstanding loans to non-financial enterprises from the credit institution sector as a whole decreased by almost HUF 203 billion, as a result of transactions (Chart 1). In the case of forint loans, repayments exceeded disbursements by HUF 16 billion, while the portfolio of foreign currency loans decreased by about HUF 188 billion. The repayment of an individual syndicate loan in the amount of HUF 120 billion in March played a considerable role in this decrease. Apart from this, during the quarter, forint loans typically showed an increase (on average by HUF 35 billion per month), while the foreign currency portfolio continued its steady decline. Other changes in the portfolio during the quarter amounted to HUF –94 million in total.

The annual rate of increase worsened slightly. At the end of 2015 Q1, the annual growth rate of outstanding loans to non-financial enterprises from the credit institution sector as a whole fell to 0.6 per cent. The annual growth rate of loans to small and medium-sized enterprises from the banking sector reflects the impact of the Funding for Growth Scheme: the rate was 3.3 per cent[1] at the end of Q1 (Chart 2).[2] The quarterly transaction-based change in the flows of the total corporate lending amounted to –3 per cent. The poor quarterly dynamics were also influenced by a one-off factor: the repayment of the above mentioned individual syndicated loan in March resulted in the deterioration of the growth rate in Q1. If this effect is eliminated, the annual and quarterly portfolio growth rates are 2.4 per cent and –1.2 per cent respectively.

[1] The growth rate for SMEs may be distorted by the fact that as an indirect result of the larger amount of loans, some companies may be reclassified into the large company segment.

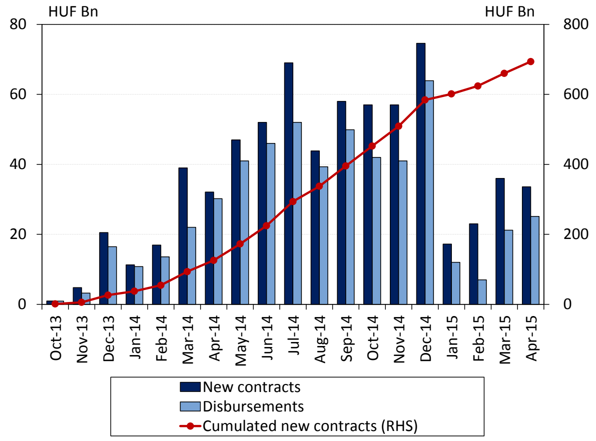
[2] We provide an estimate of SME segment's transactions by breaking down other changes (write-offs and reclassifications) to total loans.

Chart 3: New corporate lending volumes



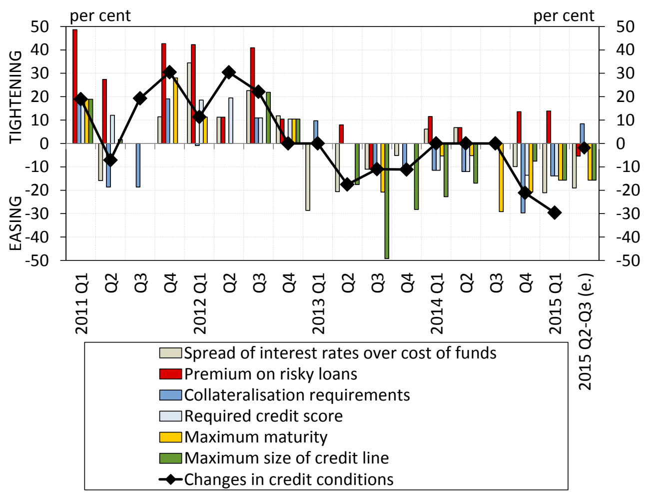
Source: MNB.

Chart 4: Contracted and disbursed loan volumes in the second stage of the FGS by month



Source: MNB.

Chart 5: Changes in credit conditions in the corporate segment



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

In Q1, the volume of new contracts remained below the average of the previous year. The gross amount of new corporate loans issued by the credit institution sector as a whole amounted to HUF 477 billion in Q1, half of which were long-term loans (Chart 3). The modest new lending, compared to the previous two quarters, is attributable to the decline in euro loans. Within new lending, forint and euro-denominated loans were disbursed in the amount of HUF 337 billion and EUR 140 billion, respectively. New forint lending outside the Funding for Growth Scheme increased, while the disbursement of new long-term loans was much more moderate compared to the end of 2014. FGS loans accounted for 23 per cent of new forint loans. The moderate gross issuance is partially attributable to the seasonal effect occurring in Q1.[3]

The Monetary Council decided on the launch of FGS+ targeting the higher-risk SMEs. In 2015 Q1, contracts in the value of HUF 76 billion were signed within the framework of the Funding for Growth Scheme, and thus the utilisation of FGS increased to HUF 660 billion by the end of March (Chart 4). The low level of new contracts – although higher in year-on-year terms – is attributable to two reasons: on the one hand, it is due to the seasonal downturn at the beginning of the year, which characterises corporate finance and develops in parallel with economic activity, and on the other hand it is due to the fact that participation in the extended FGS programme necessitates a new business planning cycle, the implementation of which cannot be expected earlier than the second half of the year. The volume of loans disbursed amounted to HUF 513 billion; with this almost 16,000 micro, small and medium-sized enterprises participated in the second phase of the Scheme, while the number of participants in the two phases together was 21,000. On 18 February, the Monetary Council decided on the launch of FGS+, which also includes a diversification of risk, which renders it possible – up to a limit of HUF 500 billion – for the higher-risk SMEs to also access the market of cheaper long-term loans.

In Q1, there was an easing in corporate credit conditions. Based on the answers in the lending survey, in net terms,[4] 30 per cent of the banks eased their credit conditions. In terms of the sub-components, apart from the premium on risky loans, both price and non-price conditions were eased (Chart 5). Looking ahead, 16 per cent of the banks reported

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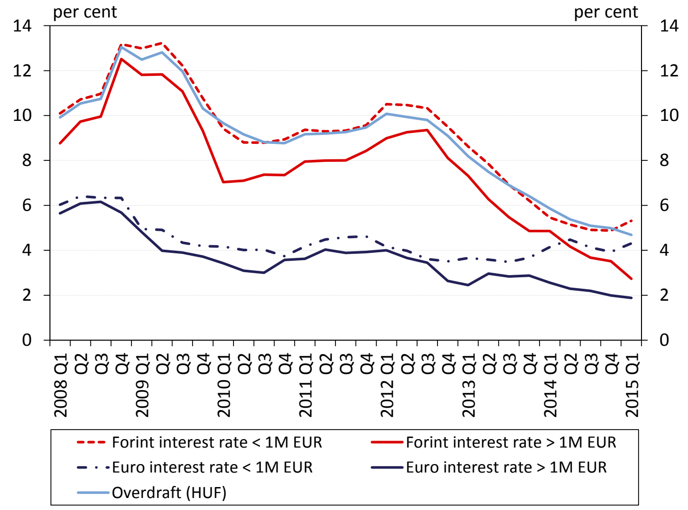
[3] The increase of the average maturity of the portfolio reduces the need to rollover the loans, which causes a decrease in gross issuance even under a constant credit portfolio.

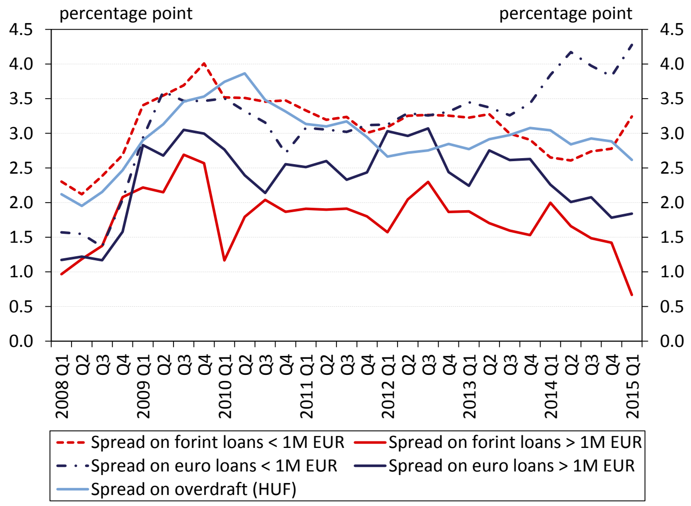
[4] Difference between banks performing tightening and easing, weighted by market share.

Chart *6: Interest rates on new corporate loans*



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

Chart 7: Interest rate spreads on new corporate loans



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

that they would ease credit conditions in the next 6 months, while 14 per cent said they would tighten them. From among the standards, the maximum size and maturity of credit, as well as the spread of interest rates over cost of funds may be subject to significant easing, while collateralisation requirements and monitoring may be tightened.

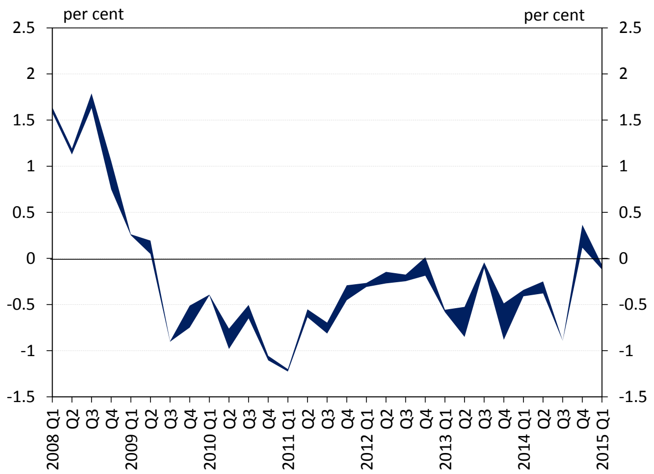
The interest rate on newly disbursed high-amount loans continued to decrease. Compared to the end of 2014, the interest rate on newly disbursed, market-based[5,6] corporate forint loans decreased further: there was a decline of 0.7 percentage points, and thus its value was 3.3. per cent at the end of March (Chart 6). Overdraft rates fell by 0.3 percentage points to 4.7 per cent by the end of the quarter. For the creditworthy SMEs, the second phase of the FGS with a preferential interest rate up to 2.5 percentage points grants a favorable form of funding.The average interest rate on euro loans remained constant at the level of 2.1 per cent during the quarter. Interest rates developed heterogeneously depending on the loan amount: the interest rate on small-amount loans increased by 0.4 percentage points both for forint and euro loans, while the interest rate on loans exceeding EUR 1 million fell by 0.8 and 0.1 per cent, respectively.

The spread on euro loans exceeding EUR 1 million decreased. With a steady reference rate, the average premium over the BUBOR on new corporate forint loans fell by 0.7 percentage points and thus at the end of the quarter it was around 1.2 percentage points (Chart 7). The average spread on forint loans of higher amounts was 0.7 percentage points, while that on loans of smaller amounts was 3.2 percentage points. Overdraft spreads decreased by 0.3 percentage points. The spread on small-amount euro loans rose 0.4 per cent, while that on high-amount loans fell 0.1 percentage point by the end of March. Based on the foregoing, there is a risk that the decrease in the average interest rates is attributable to the composition effect and self-selection: larger-amount loans are typically taken out by low-risk large companies, whose credit conditions have improved, while riskier SMEs have no access to loans or can only borrow at unfavourable conditions.

[5] In the case of new lending, we examined floating-rate loans or loans with interest rate fixation for no more than one year. The majority of the loans granted within the Funding for Growth Scheme are long-term loans, and therefore the interest rates reviewed by this publication are only shaped by smaller, short-term FGS loans.

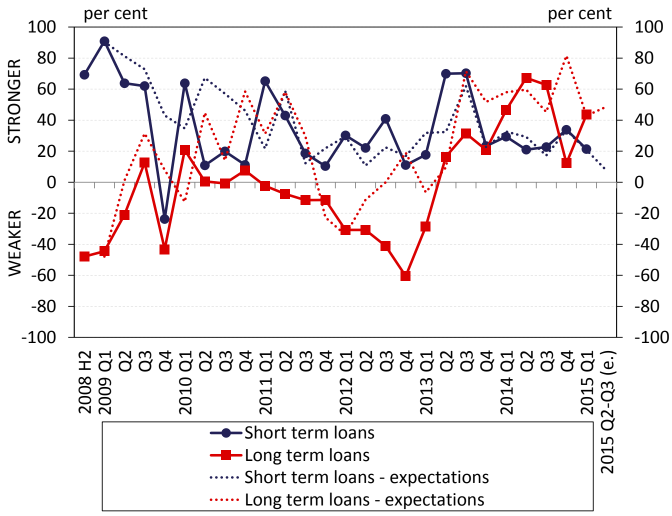
[6] In addition to market-based loans, the preferential interest rate – i.e. maximum 2.5 per cent – on loans disbursed to creditworthy SMEs within the framework of Phase 2 of the Funding for Growth Scheme provided a form of low-cost financing.

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



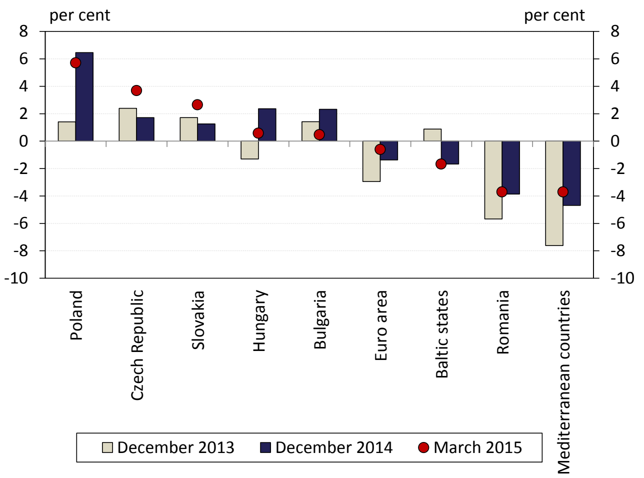
Note: The index quantifies the impact of financial conditions on annual GDP growth through corporate lending. The band illustrates the methodological uncertainty. The time series was revised.
Source: MNB.

Chart 9: Change in loan demand by maturity



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

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



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

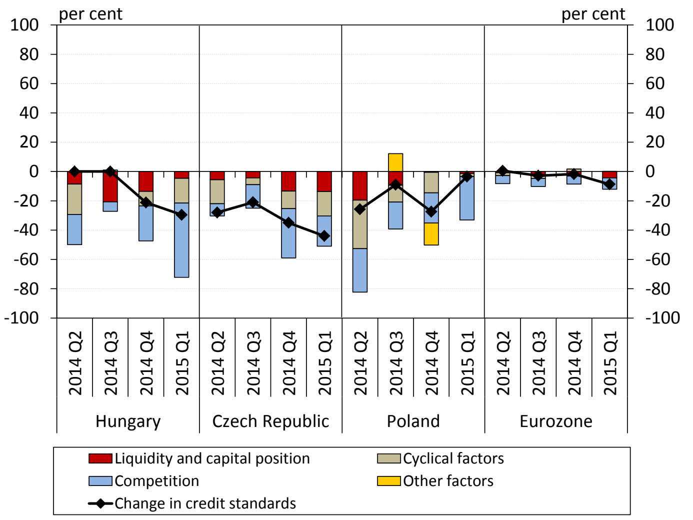
The banking sector did not slow down economic growth to a significant degree via corporate lending. In 2015 Q1, the corporate sub-index of the Financial Conditions Index calculated on the basis of preliminary data was at around -0.1 per cent, i.e. corporate lending contributed to the worsening of real GDP by 0.1 per cent in the period between 2014 Q1 and 2015 Q1 (Chart 8). A sustained upturn in the credit market through a marked easing of corporate credit conditions would be needed for corporate credit supply to effectively drive economic growth.

Demand increased for long-term loans in particular. Based on the answers in the lending survey, 44 per cent of the banks – in net terms – reported an increased demand for long-term loans, and 21 per cent of them indicated a pick-up in demand for short-term loans (Chart 9). The banks reporting a revival in demand believe that the availability of financing for investments in tangibles assets, as well as for inventory and receivables had a positive impact on demand. In net terms, half of the respondent banks expect further growth in demand for long-term loans in the next half-year, and this is still mostly dominated by investments in tangible assets.

International outlook in corporate lending

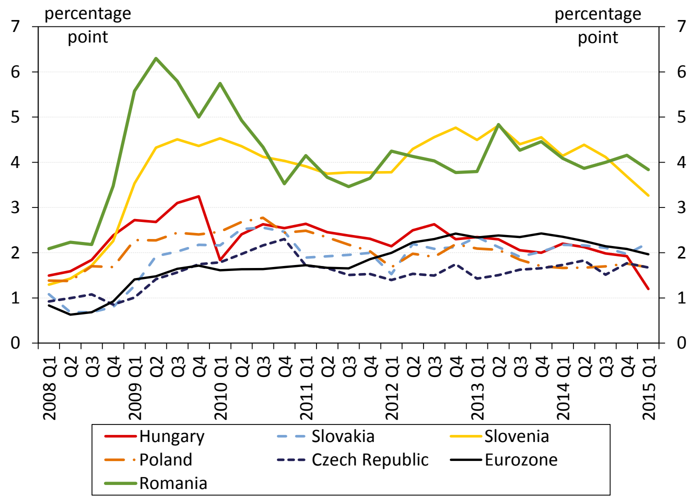
Outstanding loans to the corporate sector in the euro area continue to shrink, while the CEE countries are characterised by a rising trend. In 2015 Q1, compared to the same period of 2014, the loan portfolio decreased by 0.6 per cent on average on a transaction basis in the monetary union. However, the euro area is characterised by considerable heterogeneity: the growth rate in the member states varies between +11 per cent and –12 per cent; the annual growth rate is positive in eight countries and negative in eleven countries. The decline in the portfolio is still the most intensive in Ireland and Slovenia, but this is primarily attributable to the operation of state asset management companies founded in these countries. In the CEE region, transaction-based growth is positive in most cases, although dynamics in Romania, as the only exception, have deteriorated since 2014 Q4 (Chart 10).

Chart 11: Changes and factors contributing to changes in corporate credit conditions in international comparison



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

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



Source: MNB, ECB, national central banks.

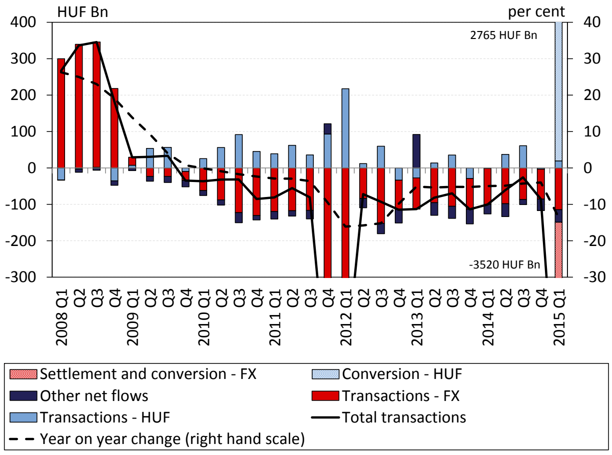
Credit conditions generally eased in Europe. The results of the lending surveys for Q1 revealed that lending conditions for the corporate sector generally eased across Europe. Of the Visegrád countries, more substantial easing was seen only in Hungary and the Czech Republic, while corporate credit supply conditions in Slovakia and Poland did not change after all, even though competition would have also justified easing. In the euro area, the slight easing of corporate lending conditions in net terms has been continuous since the beginning of 2014, which represents a more favourable process compared to earlier years (Chart 11).

Financing costs dropped in the region. Interest rates on corporate loans decreased in the euro area in Q1. In the countries of the region, with the exception of Slovakia, interest rates fell by 0.1-0.8 percentage points. Since the reference rates changed only slightly, the decrease in the interest rates is also reflected in the spreads (Chart 12). As a result of its sharp decline, the Hungarian spread is the most favourable one in the region.

3. DEVELOPMENTS IN LENDING IN THE HOUSEHOLD SEGMENT

As a result of the settlement and conversion of foreign currency loans, the volume of outstanding loans to households declined considerably in 2015 Q1. The value of the transactions in the credit institution sector as a whole amounted to a decrease of about HUF 755 billion. Mainly as a result of the conversion of foreign currency loans, the forint loan portfolio increased by HUF 2,765 billion, while the foreign currency loan portfolio decreased by almost HUF 3,520 billion. Due to the settlement, the annual rate of portfolio contraction rose to 13.5 per cent from 4 per cent measured in the previous quarter. New lending to households by the entire credit institution sector amounted to HUF 116 billion, which corresponds to year-on-year growth of 21 per cent. Based on the banks' responses to the lending survey, terms and conditions on housing loans remained unchanged, while those on consumer loans eased in Q1. According to the banks' responses, in most cases the tightening related to the decrease in the maximum payment-to-income ratio. This latter reflects the implementation of the debt cap regulation, in effect since January, by the banks. However, about 15 per cent of the banks anticipate easing of the credit terms and conditions for both housing loans and consumer loans in the next half year. Furthermore, based on the survey, the banks reported a slight increase in the demand for housing loans and a decline in the demand for consumer loans. In the next half-year, however, they expect growth in both segments. The total loan cost of new household loans continued to decrease as a whole in Q1, accompanied by the decline of the interest rate spread on new mortgage loans.

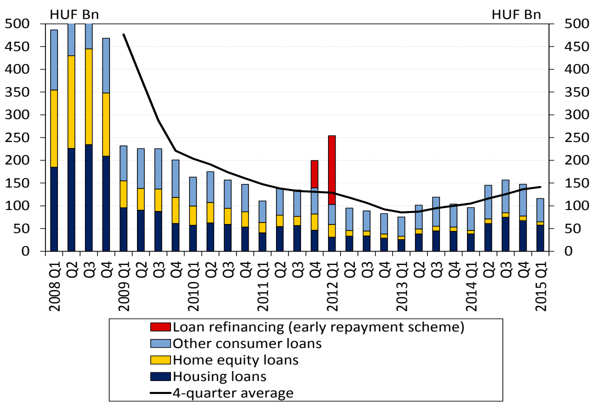
Chart 13: Net quarterly change in outstanding household loans by currency denomination



Note: Seasonally unadjusted net change in outstanding amounts, with rolling exchange rate adjustment.

Source: MNB.

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



Source: MNB.

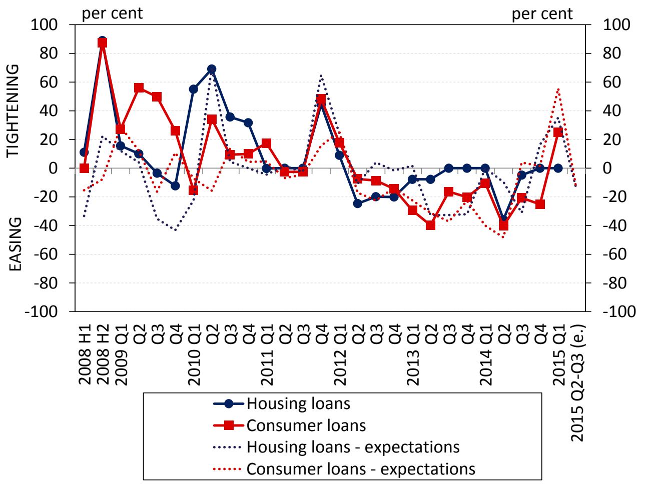
Domestic household lending

The denomination structure of households' outstanding loans has changed significantly. As a result of the settlement and conversion of foreign currency loans, the forint loan portfolio increased by HUF 2,765.3 billion, while the foreign currency loan portfolio declined by HUF 3,520.3 billion on a transaction basis in Q1. The difference of the two values and thus the decrease in the total portfolio on a transaction basis is attributable to the settlement, which takes place in parallel with the conversion into forints.[7] In 2015 Q1, the outstanding borrowing of households from the entire credit institution sector fell by HUF 755 billion on a transaction basis (Chart 13), of which – according to our estimation – HUF 659 billion is attributable to the settlement and conversion. Write-offs and reclassifications reduced outstanding loans by another HUF 34.4 billion. The transaction-based annual decrease in the portfolio rose to 13.5 per cent, from the 4.0 per cent rate recorded in the previous quarter. Households' outstanding foreign currency loans from the entire credit institution sector fell to HUF 303 billion by the end of March. The ratio of the foreign currency loans within the total outstanding loans to households (HUF 6,210 billion) thus fell below 5 per cent.

New loans increased in year-on-year terms. The gross volume of new household loans of the entire credit institution sector amounted to HUF 116 billion in Q1 (Chart 14). Although this value fell short of new loans extended in Q4, this is mainly attributable to seasonality. The value of households' new loans increased by about 21 per cent year-on-year. The annual growth rate of housing loans was 50 per cent. The quarterly

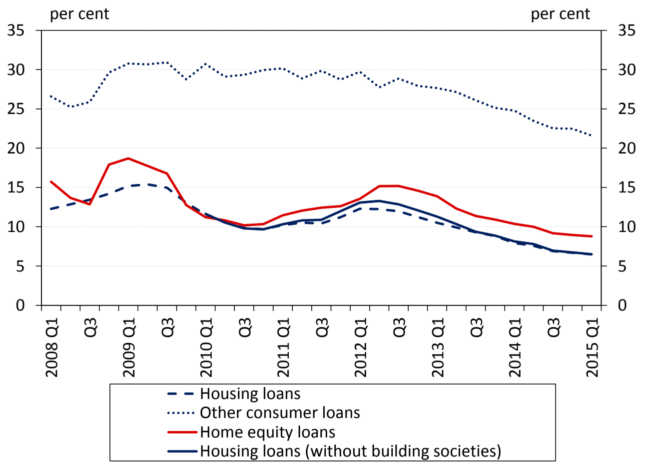
[7] A technical exchange rate effect contributed to the reduction of loans outstanding. The value of foreign currency loans expressed in HUF is calculated at current exchange rates, although the HUF transactions increasing leg of the conversion was calculated on an exchange rate fixed since January.

Chart 15: Changes in lending conditions in the household segment



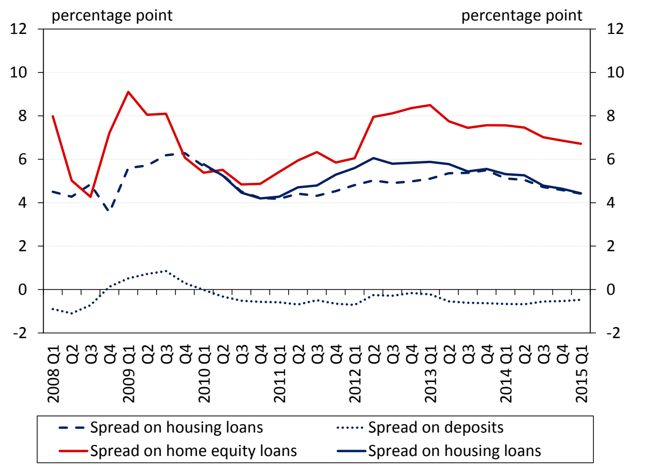
Note: The net ratio is the difference between tightening and easing banks weighted by market share.
Source: MNB, based on the answers of respondent banks.

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



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

Chart 17: Interest rate spreads on new household loans



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

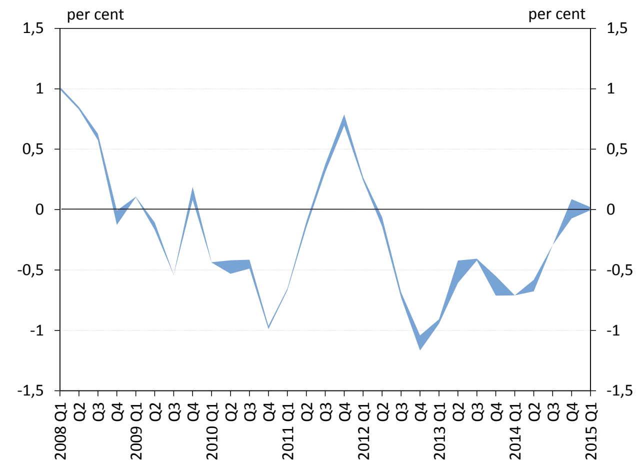
volume of new contracts for home equity loans and other consumer loans roughly corresponded to the value recorded in 2014 Q1.

Conditions on housing loans remained unchanged, while those on the consumer loans tightened slightly. In net terms, 25 per cent of the respondent banks reported that on the whole they had tightened conditions on consumer loans in Q1. The ratio of banks which actually tightened conditions is lower than that of banks which anticipated tightening both for housing loans and consumer loans in Q4 (Chart 15); moreover, conditions on housing loans remained unchanged despite the anticipated tightening. In net terms, 37 per cent and 31 per cent of respondents reported the tightening of conditions applicable to the maximum payment-to-income ratio and to the loan-to-value ratio, respectively, however, this did not result in a decline in new consumer credit disbursements in Q1. Implementation of the "debt cap" rules in relation to housing loan standards did not result in tightening. Looking ahead, 15 per cent of respondents reported that they would ease conditions for both segments.

Interest rates on housing loans continued to fall. The decrease in the total annual percentage rate on housing loans, which started in 2012, continued (by 0.2 percentage points). The annual percentage rate of charge on new contracts concluded in the reporting quarter was 6.5 per cent (Chart 16). The decrease in the level of interest rates was also accompanied by a fall in the average interest rate spread, which was 4.4 per cent in Q1 (Chart 17). The average decrease in interest rates on new loans with variable interest rates was higher than in that of their fixed interest peers. In addition to the decrease of the average level of interest rates, with the introduction of fair pricing, 25 per cent – in net terms – of the banks responding to the lending survey reported that they had decreased their disbursement fees.

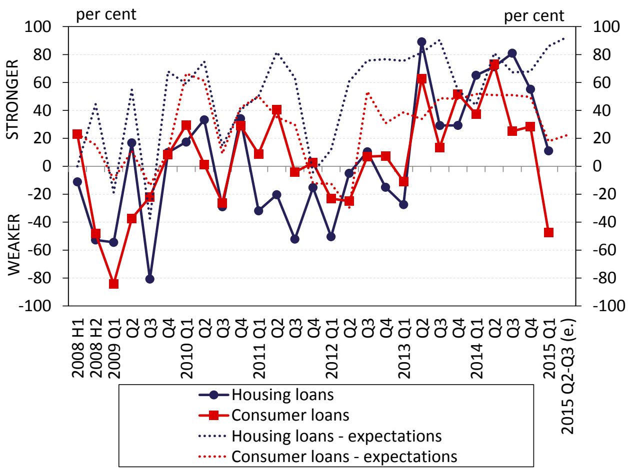
The total annual percentage rate on consumer loans also continued to decline. The interest rate level on consumer loans secured by mortgage fell by 0.2 percentage points, and their average level was 8.8 per cent in Q1 (Chart 16). The annual percentage rate on other consumer loans fell by 0.9 percentage points on average, with the average level at 21.6 per cent in March. The fall in the level of interest rates exceeded the rate of decrease in the reference rate (3-month BUBOR), and thus spreads declined in the consumer loan segment as well. Interest rates dropped the most in the case of personal loans and car purchase finance loans, while the average level of interest rates on hire purchase loans increased slightly. In net terms, 28 per cent of the banks also reported a decrease in disbursement fees for consumer loans.

Chart 18: Sub-index of the FCI for household lending



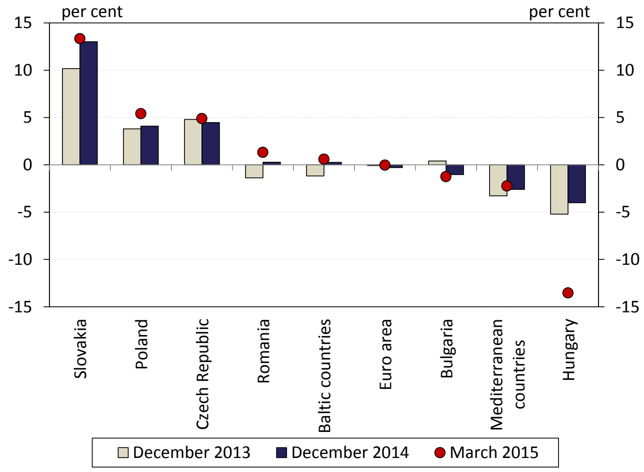
Note: The index quantifies the impact of financial conditions on annual GDP growth through household lending. The band illustrates the methodological uncertainty. Based on preliminary data.
Source: MNB.

Chart 19: Credit demand in the household lending segment



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

Chart 20: 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.
Source: ECB, MNB.

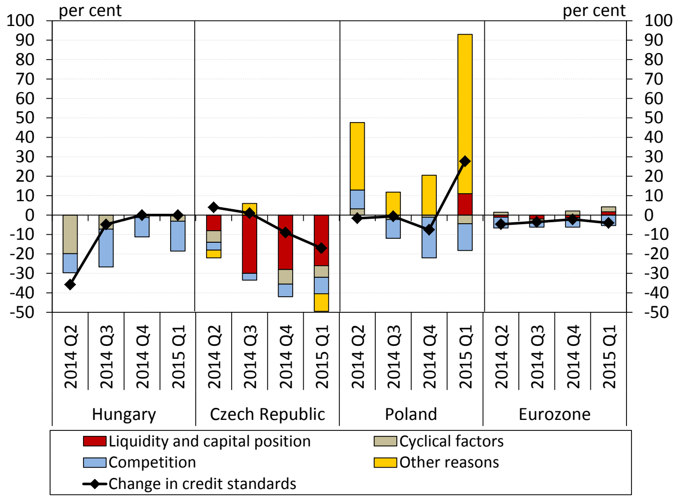
Lending developments in the household segment did not have a cyclical effect on GDP growth. The household sub-index of the Financial Conditions Index did not change significantly in quarter-on-quarter terms: according to the index, through its credit supply the banking sector did not have a substantial on effect annual GDP growth between 2014 and 2015 Q1 (Chart 18). The contraction of the household loan portfolio, which is primarily attributable to the settlement and conversion into forints, was filtered out from the value of the indicator.

Banks perceived a decline in demand for consumer loans. In Q1, in net terms, 11 per cent of banks reported higher demand for housing loans, while 47 per cent indicated a decline in demand for consumer loans (Chart 19). The decline in demand for consumer loans is partly attributable to seasonality and also took place in parallel with a slight decrease in retail sales volumes. The drop in sales volumes may also be explained by the impact of the settlement through potentially postponed consumption, which mainly concerned consumer durables. Looking ahead, in net terms, 92 and 22 per cent of the banks expect a pick-up in demand for housing loans and consumer loans, respectively, in 2015 Q2 and Q3.

International outlook in household lending

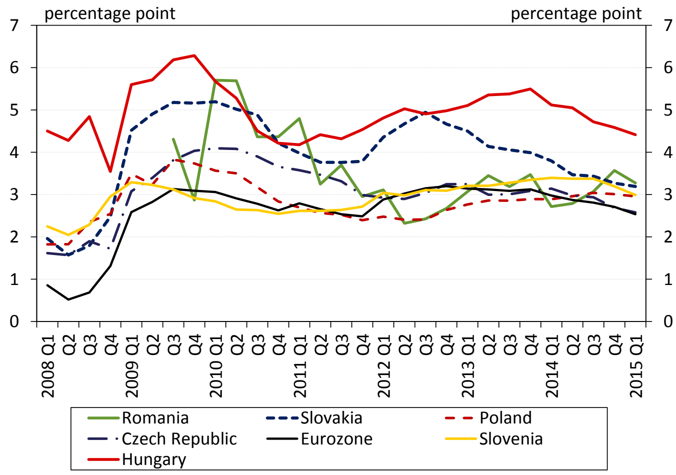
The debts of households increased in the Visegrád countries. In annual terms, the volume of outstanding loans to households increased in Slovakia, Poland, the Czech Republic and Romania, while it decreased in Croatia, Slovenia and Hungary (primarily as a result of the settlement) (Chart 20). The euro area is still characterised by a north-south division in respect of household lending processes. The close-to-zero per cent growth rate in outstanding loans is the result of the decrease in the portfolios in the Mediterranean countries – where lending before the crisis was overheated and the ratio of non-performing loans is high – and growth in outstanding loans in Germany, Austria, Finland, the Netherlands, Belgium and the Baltic states.

Chart 21: Changes and factors contributing to changes in housing loan credit conditions in international comparison



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

Chart 22: International comparison of spreads on housing loans extended in domestic currency



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

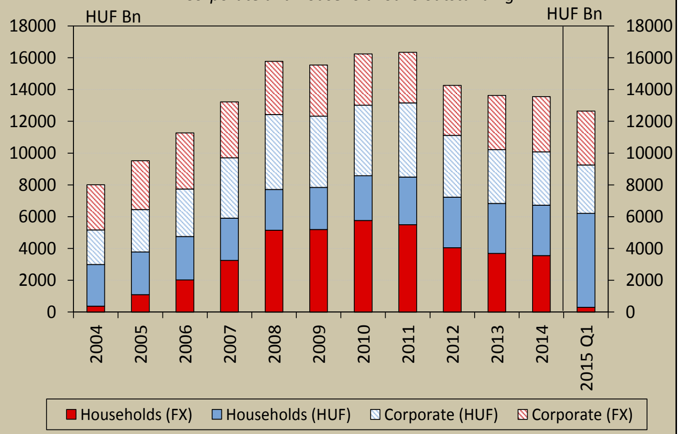
Terms and conditions on housing loans tightened in the region. In the Czech Republic and the euro area, terms and conditions on housing loans eased somewhat, while conditions tightened in Slovakia and Poland. Conditions did not change materially in Hungary, despite the fact that competition also pointed towards a similar easing as in the euro area and in the Czech Republic (Chart 21). In Poland, one of the most important factors contributing to tightening was the entry into force of the regulation on LTV (loan-to-value ratio), classified as other reasons. The regulation prohibits loan contracts with an LTV ratio of over 100 per cent and maximises the ratio of contracts with an LTV of 90 – 100 per cent within new loans at 25 per cent. Later, this 25 per cent ratio will be gradually lowered.

The total annual percentage rate and spread decreased in international comparison. The total lending cost of housing loans continued to decrease both in the region and in the euro area in 2015 Q1, falling by 0.2 percentage points on average. The decrease in the level of spreads was the largest in the case of Romania. In Hungary, the level of the interest rate spread is still significantly higher than that in the countries of the region, but due to the drop of 0.2 percentage points in 2015 Q1 the difference compared to the average of the region has decreased.

Box: Development of the outstanding household loans

The conversion of foreign currency loans has significantly transformed the structure of households' outstanding debt. By the end of March, households' total outstanding loans in foreign currency from the credit institution sector as a whole fell to HUF 303 billion, thereby pushing the ratio of foreign currency loans within the total household loan portfolio (HUF 6,210 billion) below 5 per cent. Within the remaining foreign currency loans, CHF-denominated loans amounted to HUF 251 billion, while the balance of the foreign currency-denominated car purchase finance loans was HUF 136 billion at the end of March. According to the present expectations, additional foreign currency mortgage loans will be converted into forints in the amount of HUF 105 billion during the year.

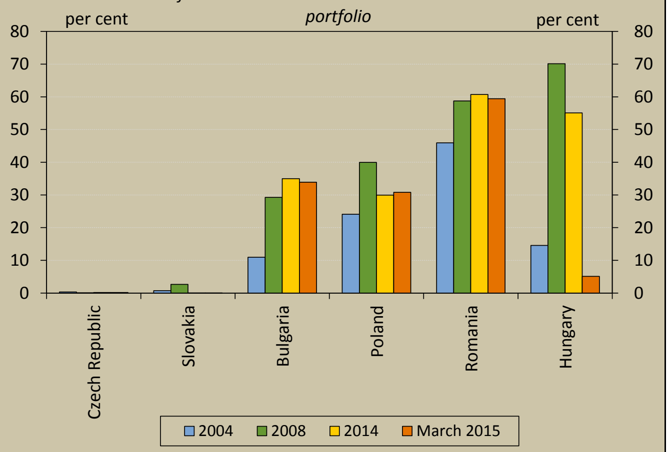
Corporate and household loans outstanding



Source: MNB

Prior to the crisis, the ratio of foreign currency loans to households' outstanding loans was extremely high in Hungary by international standards as well. The exchange rate risk for households was further increased by the fact that the majority of foreign currency mortgage loans was tied to CHF rather than to EUR. Since 2008, the EUR has strengthened against forint to a lesser extent than CHF, which may also partly be explained by the fact that before the crisis CHF functioned as a popular carry trade currency, and thus significant short positions were built up, which were closed upon the onset of the crisis. CHF was further strengthened by the safe haven role of it during the crisis. The termination of the minimum exchange rate by the Swiss National Bank reminds of the dangers inherent in exchange rate risk. Of the countries of the region, apart from Hungary, Poland is also characterised by a high foreign currency loan portfolio denominated in CHF, where in the absence of converting the loans to the domestic currency the strengthening of CHF on 15 January imposed a substantial extra burden on loan debtors.

Ratio of FX household loans in the whole household loan portfolio



Source: MNB, national central banks.

With the conversion into forints of the mortgage loans – denominated in foreign currency, but repaid in forints – to households lacking a natural hedge, a substantial exposure to exchange rate risk has been removed from the balance sheet of households, and the efficiency of the transmission mechanism has also improved considerably. The efficiency of the transmission mechanism is further strengthened by the fact that the loans converted into forints became variable rate loans, and thus due to the fast repricing they respond to the changes of the base rate sooner. The 3-month BUBOR (Budapest Interbank Offered Rate for forint) was set as reference rate. Accordingly, the loans in question are subject to repricing every 3 months, with the starting date for the first period being the posting date of the settlement and conversion (which took place between 1 February and 31 March in the first round). Thus, the recent decrease in the base rate generates a further decrease in the interest burden for the borrowers after the repricing rollover dates. The further decrease in the level of interest rates perceived by the households is supported by the increasing competition driven by the refinancing of the loans.

That part of the remaining FX loan portfolio which pursuant to the provisions of Act LXXVII of 2014 is still subject to conversion into forints (household mortgage loans repaid in foreign currency) will be converted into forints by 30 September at the latest (at the same exchange rate that was used for the conversion in March). The repricing period starts with the posting date of the settlement and conversion into forints in their case as well.

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 respect of the household segment, a total of 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 2015 Q1, the surveyed institutions accounted for 86 per cent of the banking sector in the case of housing loans outstanding and 87 per cent in the case of consumer loans outstanding. The corporate questionnaire was filled in by 8 banks on aggregate, which represent 81 per cent of the corporate loan market, while the market share of the 7 banks responding to the questionnaire related to commercial real estate loans is 93 per cent.

The survey consists of a standard questionnaire in each segment, and since the survey conducted in January 2010 the MNB has also asked ad-hoc questions on current issues related to the credit markets. The retrospective questions refer to 2015 Q1 (compared to 2014 Q4), whereas the forward-looking questions concern the next half-year period, i.e. the one covering 2015 Q2 and Q3 (relative to 2015 Q1). The current questionnaire was completed by senior loan officers between 1 and 17 April 2015.

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

The detailed findings of the Lending Survey and the set of charts are available at:

http://www.mnb.hu/Kiadvanyok/hitelezesi-felmeres

3. *The Financial Conditions Index (FCI)*

In addition to short-term interest rates and the nominal exchange rate, which represent the behaviour of the financial markets, the FCI condenses the information contained in other price, quantitative and qualitative variables characterising the financial intermediary system into one indicator. The FCI gauges the impact of the financial sector on the real economy. The annual change in the FCI discussed in the survey shows the contribution of the financial system and the banking sector to the annual real GDP growth rate.

The weights of the variables that determine the FCI are derived from a VAR (vector autoregressive) model based on the Bayesian structural VAR model developed by Tamási and Világi (2011).[8] In the VAR model, the use of the so-called sign restriction method allows the identification of monetary policy shocks as well as supply shocks affecting the financial markets and the banking sector. The identified shocks allow calculation of how unexpected changes in individual financial variables

[8] TAMÁSI, B.–B. VILÁGI (2011): Identification of Credit Supply Shocks in a Bayesian SVAR model of the Hungarian Economy. *MNB Working Papers,* 2011/7.

affect the growth in GDP. The advantage of the method is that it is possible to exclude the endogenous reaction of financial variables on the developments in economic activity, i.e. a real cause and effect relationship can be identified.

The FCI is based on the following variables:

- 3-month interbank rate (BUBOR),
- nominal effective exchange rate,
- corporate loans outstanding,
- household (consumer and home equity) loans outstanding,
- interest margin on corporate loans,
- interest margin on household (consumer and home equity) loans.

In addition to the total FCI, sub-indices can also be calculated. Accordingly, for example, the 'banking sector' FCI net of financial market effects is prepared with the weighting of credit aggregates and interest margins. At the same time, the VAR model serving as the basis for the FCI does not provide information on the size of the effect of the interbank rate through household and corporate loans. Only rough estimates can be given for this, based on the shares of household and corporate forint lending. This uncertainty is expressed by the fact that the effect of household and corporate loans on GDP is illustrated in banded charts. One of the limits of the band only measures the effect of credit quantity and interest margin calculated on the basis of the VAR model. For the calculation of the other limit of the band, the effect of money market interest rates is also taken into account, but this calculation is already based on the aforementioned estimate, and not on the VAR model.

TRENDS IN LENDING

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