Trends in lending

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This publication was approved by Márton Nagy

Published by the Magyar Nemzeti Bank

Publisher in charge: Eszter Hergár

H-1054 Budapest, Szabadság tér 9.

www.mnb.hu

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

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

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

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1. EXECUTIVE SUMMARY

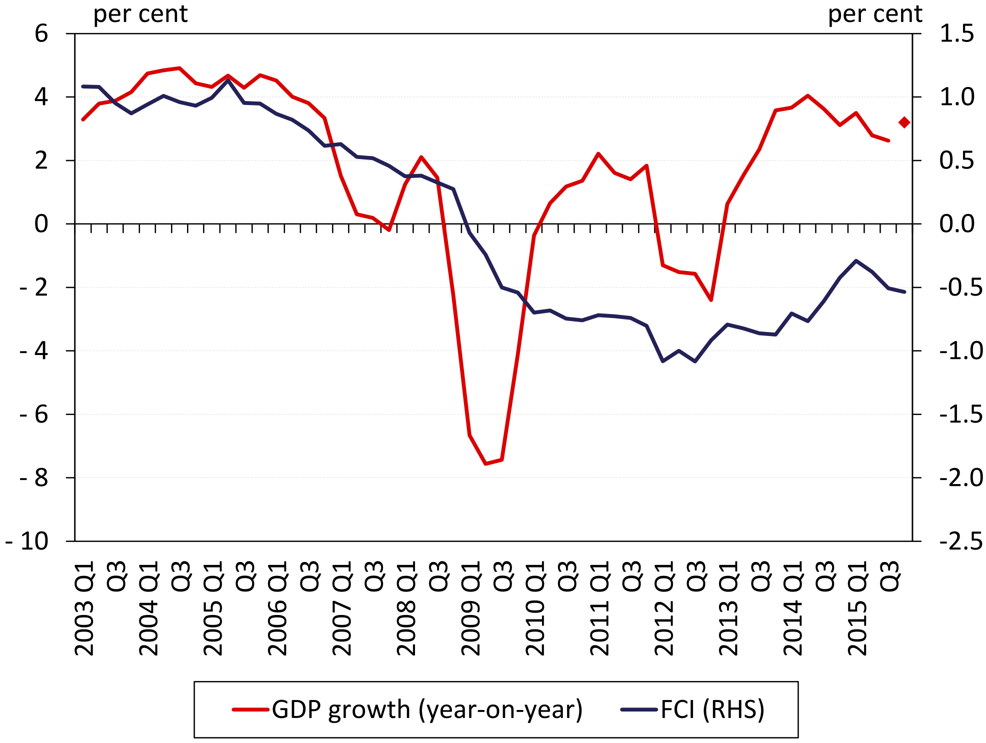
In the fourth quarter of 2015, outstanding lending to non-financial corporations by credit institutions decreased by HUF 50 billion. Thus, the rate of decrease in credit institutions' corporate loan portfolio was 6.7 per cent in annual terms at the end of the period under review. However, beyond the underlying processes, the "rough" value of corporate lending growth was also influenced by one-off items and the base effect. After adjusting for these, the corporate loan portfolio's rate of decline is lower, at 2 per cent. Moreover, the aforementioned one-off items impacted primarily the outstanding borrowing of large enterprises, and thus the dual trends depending on corporate size categories, presented earlier, continued to be a key element of corporate lending. During the period under review, the outstanding borrowing of the SME sector increased by 3.6 per cent in annual terms, with a substantial contribution from the Funding for Growth Scheme. Before closing the second phase of the scheme, enterprises concluded new contracts for an exceptionally high value, i.e. HUF 338 billion. Thus, together with the FGS+ contracts, in the second phase of the scheme contracts were concluded for a total amount of HUF 1,425 billion. Based on the Lending Survey, lending conditions were generally eased during the quarter, which was also accompanied by a decline in the average cost of finance for forint loans. The banks participating in the survey reported an increase in credit demand for long-term loans, which may be followed by a pick-up in demand both for short-term and long-term loans.

The main instrument of the Market-based Lending Scheme (MLS) is the interest rate swap conditional on lending activity (LIRS), the first two tenders of which resulted in an implicit commitment of banks to boost their SME lending by HUF 180 billion in 2016. This is equivalent to a 5 percent increase in the SME portfolio. In addition to the MLS, the third phase of the FGS will also support the expansion of the portfolio.

In the fourth quarter of 2015, the outstanding loans of credit institutions to households declined by about HUF 111 billion as a result of disbursements and repayments, with the conversion of personal and car purchase FX-loans contributing to this by HUF 22 billion. The portfolio contracted by 15.1 per cent in total in annual terms, which also contains the impact on the portfolio of the settlement and the FX conversion in 2015. Nevertheless the volume of new household loan contracts increased by 27 per cent in year-on-year terms. Based on the banks' responses to the Lending Survey, conditions on housing loans remained generally unchanged in the fourth quarter, while conditions on consumer loans were eased. About half of the respondent banks reported a pick-up in the demand for housing loans, while looking forward almost all banks anticipate an expansion in demand. The APR and the interest rate spread on new, fixed-rate housing loans decreased, while those on the variable-rate loans increased.

According to the Financial Conditions Index, which summarises lending developments in the corporate and household segments, the banking system's contribution to economic growth did not change quarter on quarter, while the direction of the contribution remained negative in the fourth quarter of 2015.

Financial Conditions Index (FCI) and annual real GDP growth

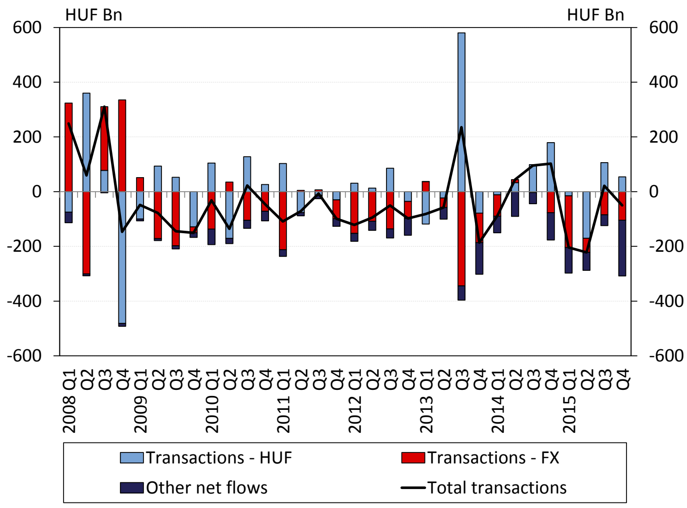


Note: The FCI shows the contribution of the banking sector, through lending, to the annual GDP growth rate. The 2015 Q4 data for the real GDP growth rate is the preliminary estimate of the HCSO.
Sources: MNB, HCSO.

2. DEVELOPMENTS IN LENDING IN THE CORPORATE SEGMENT

In the fourth quarter of 2015, credit institutions' outstanding loans to enterprises decreased by HUF 50 billion as a result of transactions. In an annual comparison, the portfolio's growth rate fell 6.7 per cent as a result of several one-off transactions which occurred during the year and the base effect. These include transactions by large enterprises which occurred in earlier periods as well as the volumes of portfolio cleaning performed by banks at the end of 2015. After making adjustments for the aforementioned transactions, which are not related to the underlying processes, the annual rate of portfolio contraction was 2 per cent. The dual trend based on corporate size is still characteristic; in contrast to the decrease in the total portfolio, the outstanding borrowing of the SME sector increased by 3.6 per cent in annual terms. Before the end of the second phase of the Funding for Growth Scheme, enterprises concluded new contracts for an exceptionally high value, i.e. HUF 338 billion. Thus, together with the FGS+ contracts, in this phase of the scheme contracts were concluded for a total amount of HUF 1,425 billion. Based on the banks' answers to the Lending Survey, the terms of corporate loans were eased further during the quarter, and this may be followed by additional easing in the next half year. While demand for short-term loans did not change, demand for long-term loans continued to increase and banks anticipate further growth in demand in both product groups in the next half-year. The financing costs of newly contracted corporate loans decreased further in the period under review.

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



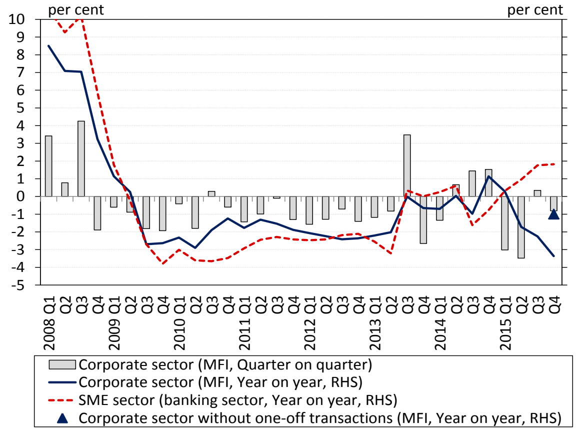
Note: Seasonally unadjusted net change in outstanding amounts, with rolling exchange rate adjustment, excluding individual institutional effects.
Source: MNB.

Domestic corporate lending

In the fourth quarter, outstanding corporate loans decreased primarily due to one-off factors and seasonal effects. Credit institutions' outstanding loans to enterprises decreased by HUF 50 million as a result of transactions (Chart 1). In terms of denomination, forint loans increased by HUF 54 billion, while foreign currency loans posted a total decrease of HUF 104 billion in the period under review. Apart from transactions, other flows – comprising of write-offs and reclassifications – reduced the outstanding borrowing of non-financial corporations by an additional HUF 204 billion. The write-offs performed by MKB Bank – which is in resolution – at the end of the year as part of its portfolio cleaning, account for a substantial part of this.[1] Usually, the negative year-end seasonal component is also attributable to a great degree to the accounting considerations of enterprises in relation to the balance sheet date, which is reflected in the decrease of outstanding short-term loans and overdrafts, and higher early repayments. The picture is further nuanced by the fact that unused credit lines, which had already previously reached a high level in 2015, continued to increase in the last quarter of 2015 as well, with the annual amount of growth reaching HUF 717 billion. This also includes the volume of loans contracted, but not yet disbursed under FGS.

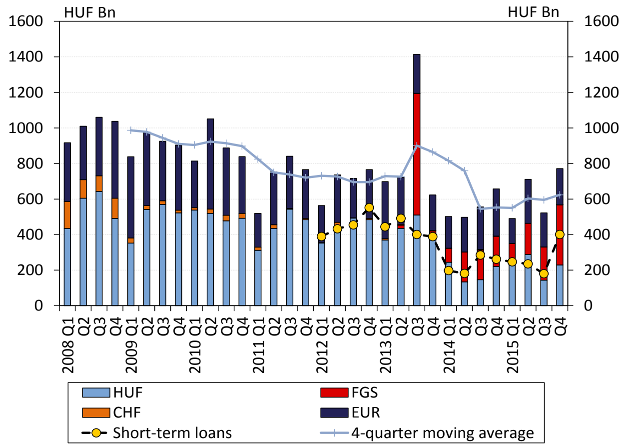
[1] Examining the credit institution sector, the sales of receivables also appear in the transaction figures up to the value of the sales price, but at the broader level of the financial intermediary system, the same item has a positive effect on transactions of the Resolution fund, and so the two cancel each other.

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



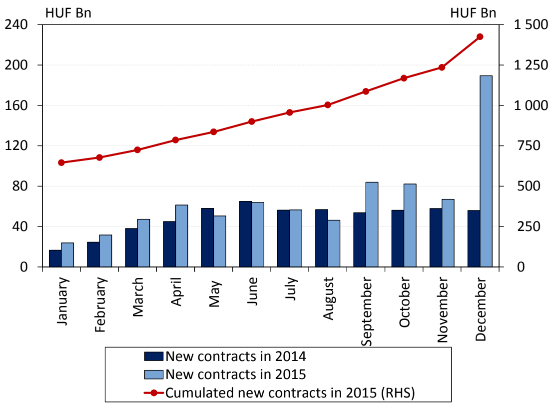
Note: Transaction-based; from 2015 Q4 the data for the SME sector are based on new data supply.
Source: MNB.

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



Source: MNB.

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



Note: Aggregated with the contracts concluded under FGS+, revised data.
Source: MNB.

Growth in SME lending continued to rise, while lending processes are still characterised by dual trends based on enterprise size. Credit institutions' corporate loan portfolio contracted by 6.7 per cent (Chart 2) in the fourth quarter of 2015, but the annual growth rate was impacted by several one-off items which were not part of the underlying processes. In the previous periods, these included the debt consolidation of BKK (Centre for Budapest Transport) and the base effect of a large-volume syndicated loan, as well as the portfolio cleaning performed by MKB at the end of 2015. After eliminating the effects of these factors, the annual rate of portfolio decrease is 2 per cent. By contrast, the loans extended by the banking system to the SME sector[2] increased by 3.6 per cent in an annual comparison. Accordingly, corporate lending processes continue to show a dual trend based on enterprise size.

As a result of the Funding for Growth Scheme, the volume of new lending considerably increased. The credit institution sector concluded new corporate loan contracts in the amount of HUF 771 billion in the fourth quarter (Chart 3). In year-on-year terms, this represents a growth of 17 per cent. Within new lending, HUF-denominated loans amounted to almost HUF 568 billion, while the value of new EUR-denominated loans was HUF 203 billion. The value of loans contracted under the Funding for Growth Scheme reached almost HUF 338 billion, thereby accounting for 73 per cent of the total volume of forint loans. The ratio of short-term loans fell to 9 per cent.[3] In 2015, the decreasing trend in the four-quarter moving average of new loans stopped, which was mostly attributable to the Funding for Growth Scheme. In the quarter under review the relatively high value of new contracts may lead to an increase in outstanding borrowing through the actual disbursements.

The volume of new contracts was exceptionally high before closing Phase 2 of FGS. In the fourth quarter of 2015, contracts under the Funding for Growth Scheme were concluded in the amount of HUF 338 billion. The year-end deadline for the scheme may have had an impact on the demand side by bringing the corporate loan applications forward and on the supply side through the acceleration of the credit assessment process (Chart 4). The deadline for the disbursement of concluded contracts

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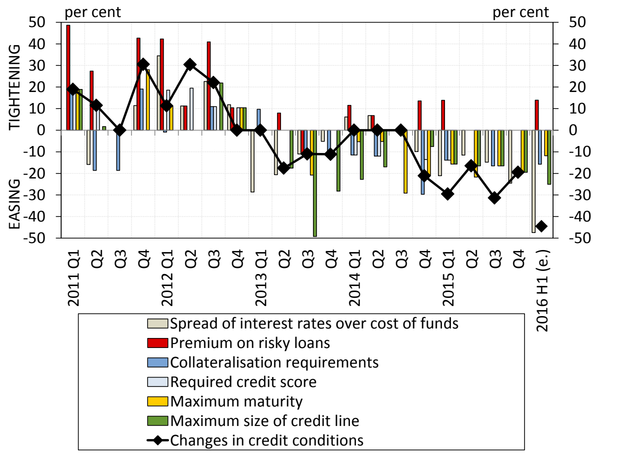
[2] The growth rate of SME lending may be distorted by the fact that as an indirect result of the large loan amounts, some companies may be reclassified to the large enterprise segment. Reclassification is not included in the transactions, but transactions and the base may not cover the same set of companies.

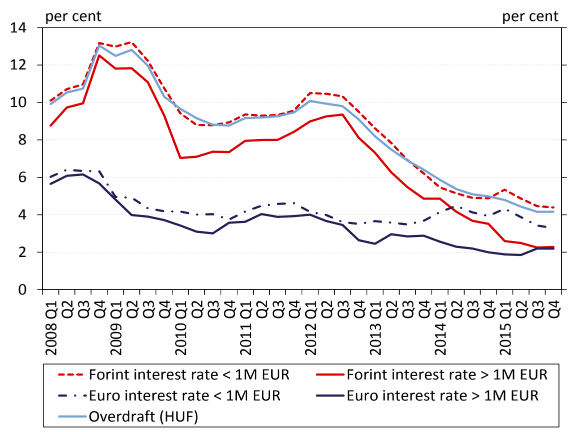
[3] The lengthening of the average maturity of the borrowing reduces the need to renew the loans, which restricts gross lending, even if the loan stock remains unchanged.

Chart 5: Changes in credit conditions in the corporate segment



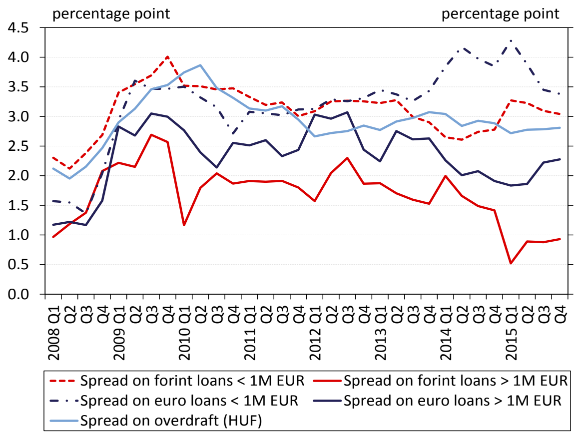
Note: Net ratio is the difference between tightening and easing banks weighted by market share.
Source: MNB, based on the answers of respondent banks.

Chart 6: *Interest rates on new corporate loans*



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

Chart 7: Interest rate spreads on new corporate loans



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

is end-2016. Up to 31 December 2015, the enterprises participating in Phase 2 of the scheme accessed financing in the total amount of HUF 1,402 billion, which together with the contracts concluded under FGS+ amounts to HUF 1,425 billion. Nearly 31,000 micro, small and medium enterprises participated in the two phases of the scheme together with loans of almost HUF 2,126 billion. Approximately one-third of total loans outstanding to the SME sector was extended under the Scheme.

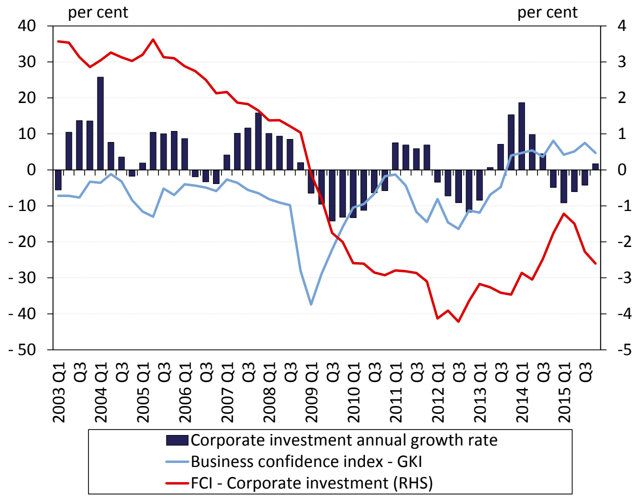
In the fourth quarter, corporate credit conditions were once again eased. According to the answers in the Lending Survey, in net terms,[4] 19 per cent of the banks eased corporate lending conditions. In terms of standards, banks once again eased the maximum maturity, the maximum size of loans and credit lines, as well as the spread of interest rates over cost of funds (Chart 5). Among the factors contributing to easing, the majority of the respondent institutions emphasised the improvement in economic prospects, in addition to market share objectives, which characterised previous periods as well. Moreover, the easing of industry-specific factors appeared in banks' responses in this quarter as well, as a factor contributing to easing. Respondents expect these factors to contribute to easing in the first half of 2016 as well, and thus anticipate further easing in lending conditions. This may be related to the reduction of the bank levy in January 2016 and to the introduction of the interest rate swap conditional on lending activity (LIRS). Thus, according to 45 per cent of the respondents, in net terms, the spread of interest rates over the cost of funds will decrease. In addition, the improvement in the corporate portfolio will further promote risk tolerance.

Financing costs of low-amount loans slightly decreased. The interest rate on new, market-based high-amount corporate loans[5] did not change materially, either for HUF or EUR loans. By contrast, the average interest rate level on small-amount loans decreased by 0.1 percentage point both for EUR and HUF loans. In terms of total new lending, the average interest rate on forint loans decreased by 0.2 percentage point quarter on quarter, which is primarily attributable to the fact that the ratio of high-amount new loans increased within total new loans. The average interest rate on EUR loans remained practically unchanged.

[4] The difference between banks that tightened and eased their conditions, weighted by market share.

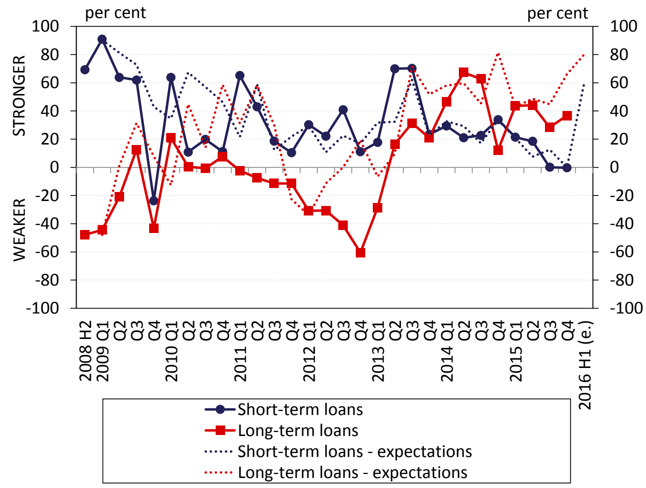
[5] In the case of new contracts, we examined the floating-rate loans or loans with interest rate fixation for less than one year. The majority of loans granted in the Funding for Growth Scheme are long-term loans, and therefore the interest rates reviewed by this publication are only shaped by smaller,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

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



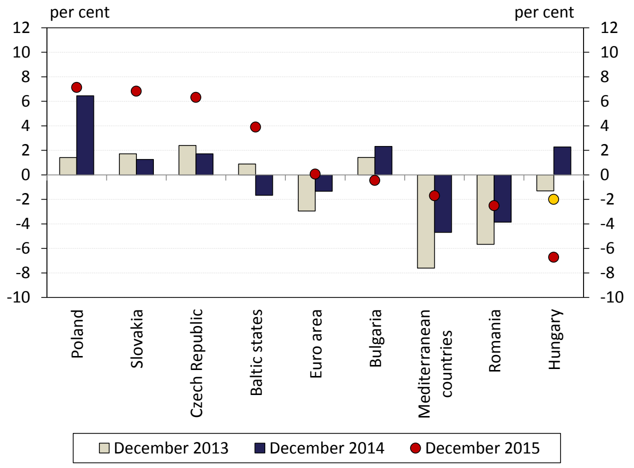
Note: The sub-index of the FCI quantifies the banking system's contribution, through corporate lending, to the annual growth in corporate fixed investments. The 2015 Q4 investment data is a forecast.
Source: MNB.

Chart 9: Change in loan demand by maturity



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

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



Note: Yellow indicates the annual growth rate as at December 2015, excluding the effect of the one-off transactions. Mediterranean countries: Greece, Italy, Portugal and Spain. Baltic states: Estonia, Lithuania and Latvia.
Sources: ECB, MNB.

Thus, the average interest rate on new forint loans was 2.8 per cent, while that on euro loans was 2.3 per cent (Chart 6). Reference rates declined somewhat during the fourth quarter compared to the Q3 values.

There was no significant change in spreads during the quarter. In the fourth quarter, the average spread over the reference rate (3-month BUBOR) of new corporate HUF and EUR loans decreased by 0.1 percentage point for loans below EUR 1 million. On the other hand, the average spread on high-amount loans, in both currencies, increased by 0.1 percentage point (Chart 7). Thus, the average spread on low-amount HUF and EUR loans was 3 and 3.4 percentage points, respectively. In the case of high-amount loans the corresponding values are 0.9 and 2.3 percentage points. The spread on overdrafts practically did not change during the quarter.

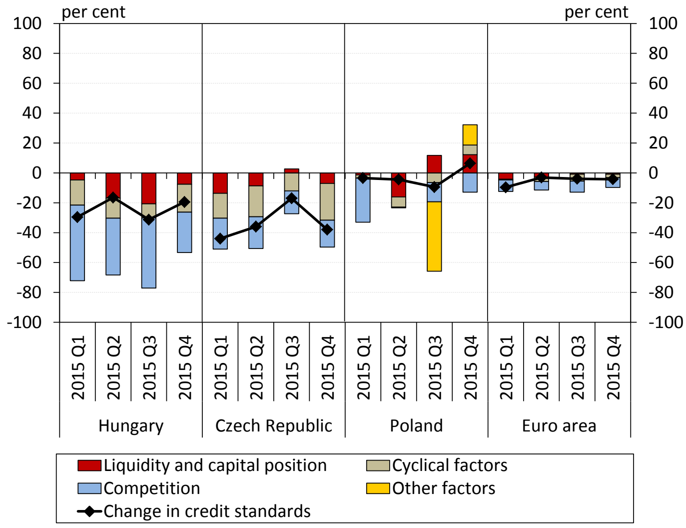
The moderate lending activity of the banking system still has a negative impact on corporate investments. In the fourth quarter of 2015, the corporate sub-index of the Financial Conditions Index was –2.6 per cent (Chart 8), meaning that the contraction in the banking system's lending activity reduced the annual growth rate of corporate investments by 2.6 percentage points. Based on the indicator, following the improvement seen in 2014, the negative impact of the banking system on growth once again started to worsen in 2015 and continued in the fourth quarter as well. In the period under review, the business confidence index published by GKI also decreased slightly.

Demand for long-term loans continued to rise. In the Lending Survey, 36 per cent of the banks – in net terms – reported an increase in demand for long-term loans and no change in demand for short-term loans (Chart 9). Rising demand continues to apply to HUF loans. According to the respondents, demand for commercial property loans following this year's tendencies also increased, and rising demand was perceived by almost half of the respondents for loans financing housing projects. On the other hand, it may hinder the realisation of projects that a significant ratio of construction enterprises still regarded banks' credit terms as being too strict, according to MNB surveys and bank replies. Looking forward, the respondents anticipate an expansion in demand, which may apply both long-term and short-term HUF loans.

International outlook in corporate lending

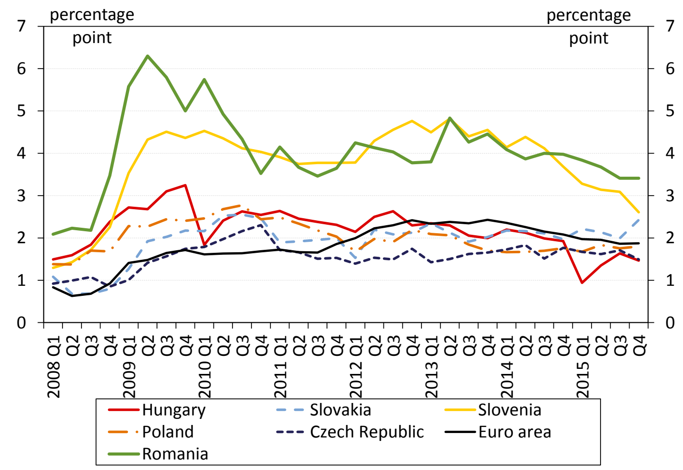
In the Visegrád countries and the Baltic states, corporate loans are on a growth path. In the euro area, the outstanding borrowing of enterprises generally stagnated

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



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

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



Note: Data of short-term floating rate loans, thus the average value does not include the FGS loans with fixed spread of 2.5 percentage points.
Sources: MNB, ECB, national central banks.

throughout 2015. On the other hand, the asymmetry between credit dynamics in the core and the Mediterranean countries has considerably decreased. In the first group the loan portfolio increased by 1.1 per cent on average, while in the latter group the outstanding borrowing of enterprises decreased by 1.7 per cent on average in 2015. One year ago, these values were 0.7 and –4.7 per cent respectively. Within the broader region, in the Visegrád countries – with the exception of Hungary – and in the Baltic states, loans borrowed by non-financial corporations increased, while they decreased in Romania, Croatia and Slovenia (Chart 10).

The region shows a mixed picture as regards the change in the corporate credit conditions. The change in banks' credit conditions was homogeneous in the euro area. According to the quarterly Lending Survey, banks in Italy, Latvia and Slovenia eased, while those in Greece and France tightened credit conditions, whereas the rest of the countries practically did not change the standards (Chart 11). The change in credit conditions in the Visegrád countries shows a heterogeneous picture: in the Czech Republic 38 per cent of the banks – in net terms – eased conditions, in Slovakia the average conditions have not changed, while in Poland 6 per cent of the banks tightened standards. In the Lending Survey, the intensification of competition was still mentioned throughout Europe among the factors that pointed towards easing. However, with the improvement in the economic environment, cyclical factors also appeared in the case of several countries, while the European Union's business confidence indicator[6] showed a moderate improvement during the quarter.

Corporate interest rates did not change significantly in the region and in the euro area. In the euro area, interest rates on corporate loans did not change in the fourth quarter, with the average level of interest rates thus remaining below 1.8 per cent. In the countries of the region, the average interest rate on corporate loans increased in Slovakia and Poland by 0.4 and 0.1 percentage point, respectively. In Slovakia this was primarily attributable to the increase in interest rate spreads (Chart 12), while in Poland it was caused by the moderate increase in the average reference rate of the quarter. Interest rates on corporate loans decreased in Romania, Slovenia and the Czech Republic, which – in the latter two cases – was attributable to a decline in interest rate spreads.

[6] For further information see: http://ec.europa.eu/economy_finance/db_indicators/surveys/documents/2015/bci_2015_12_en.pdf

Box: First results of the interest rate swap (LIRS) tenders announced under the Market-based Lending Scheme

In order to boost economic growth through lending to SMEs and to help banks with transition to market-based SME financing, **in January 2016 the MNB launched the Market-based Lending Scheme (MLS).** Within the framework of the scheme the MNB **helps banks with the transition to market-based lending by an instrument that supports risk and liquidity management.** The MNB developed the detailed rules of the scheme considering the experience gained from consultations with the Hungarian Banking Association.

The key instrument of the MLS is the interest rate swap conditional on lending activity (LIRS), which facilitates managing the participating credit institutions' interest rate risks. By contracting the three-year LIRS transactions, **the banks make a quantified commitment to increase their outstanding lending to SMEs** in each calendar year during the duration of the transaction **by one-quarter of the contracted LIRS transactions**. During the first two tenders announced for LIRS, of the global amount of HUF 1,000 billion approved by the Monetary Council for the entire scheme, **HUF 728 billion was allocated in total,** under outstanding demand. It follows from the conditions of the instrument that with this the participating credit institutions **committed to credit growth of more than HUF 180 billion**. In **2016 this will generate an increase of 5 per cent in the total SME loan portfolio,** which is consistent with the forecast published in the Financial Stability Report of November 2015. Within the Growth Supporting Programme, **the third, phase-out stage of the FGS also supports the growth in outstanding lending.**

The growth effect exerted on SME lending may further increase in the future, as the MNB – as stipulated in the notice on the terms and conditions of the instrument – will announce three more tenders, subject to observing the global amount limit, until the end of March. The MNB will verify compliance with the commitments in respect of the lending performance in 2016 for the first time in the beginning of 2017, after the close of the balance sheets.

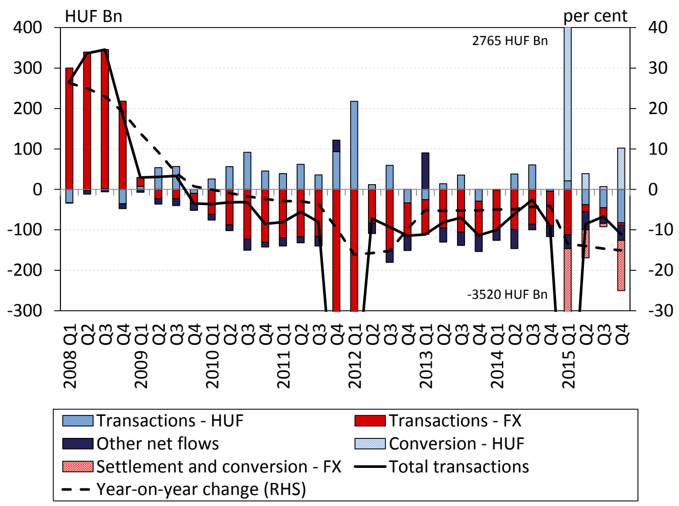
In addition, the MLS may contribute to the growth in SME financing in 2017 and 2018 as well. If the credit institutions do not close their outstanding LIRS position in the beginning of 2017 or 2018, they undertake continued and repeated commitments to increase SME financing for the next calendar year. **Accordingly, the MLS conditions ensure balanced, market-based growth in corporate lending,** which over the medium term may generate the credit expansion necessary for sustainable growth.

As a supplementary element, the MLS also provides active banks which are committed to boosting market-based lending **with a preferential deposit facility designed to help them manage their liquidity.** The credit institutions participating in the LIRS transactions are offered the opportunity to make preferential deposits, earning interest at the central bank base rate, in the amount corresponding to maximum 50 per cent of the monthly average of their LIRS holding. The duration of the deposits lasts from the start of the month following the tender until the maturity or closing of the LIRS transactions.

3. DEVELOPMENTS IN LENDING TO HOUSEHOLDS

In the fourth quarter of 2015, the outstanding loans of credit institutions to households declined by about HUF 111 billion as a result of disbursements and repayments, and the conversion of personal and car purchase FX-loans. Outstanding forint loans decreased by HUF 82 billion, while total foreign currency loans fell by HUF 7 billion; in addition, the settlement of the exchange rate allowance related to the FX-conversion, in the total amount of HUF 22 billion, also contributed to transaction-based decline. In annual terms, outstanding loans decreased by 15.1 per cent by the end of 2015. Excluding the impact of the settlements and FX-conversion carried out during 2015, the annual rate of portfolio contraction would be 4.5 per cent. In the period under review, the volume of new loan contracts of the credit institution sector amounted to HUF 187 billion in total, representing an increase of 27 per cent in year-on-year terms. Based on banks' responses to the Lending Survey, conditions on housing loans remained generally unchanged in Q4, while the conditions on consumer loans were eased. However, the banks indicated that in the next half year no major easing of credit terms and conditions is expected in any of the segments. About half of the respondents reported a pick-up in demand for housing loans, while looking ahead almost all banks anticipate an expansion in demand. The APR and the interest rate spread on new, fixed-rate housing loans decreased, while those of the variable-rate loans increased.

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



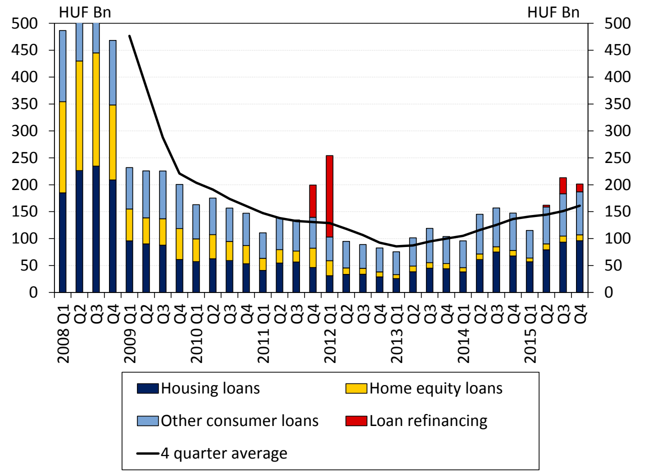
Note: Seasonally unadjusted net change in outstanding amounts, with rolling exchange rate adjustment. The annual change in the outstanding amount reflects the effect of the settlement.
Source: MNB.

Domestic household lending

Households' outstanding borrowing continued to contract during the quarter. In the fourth quarter of 2015, outstanding loans to households by credit institutions decreased by HUF 111 billion as a result of transactions and the one-off effect of the FX-conversion of car purchase loans and the personal loans (Chart 13). In the period under review, write-offs and reclassifications generated a further decline of HUF 37 billion. In the case of HUF loans, repayments exceeded disbursements by HUF 82 billion, and by HUF 7 billion in the case of foreign currency loans. The FX-conversion also had an impact on the decline in the outstanding borrowing: during the quarter, foreign currency loans were converted into HUF in the amount of HUF 124 billion, while the volume of transactions decreased roughly by HUF 22 billion due to the preferential exchange rate. The net decrease in outstanding housing loans and other loans amounted to HUF 41 billion and HUF 107 billion, respectively.[7] The transaction-based annual decline in the portfolio rose to 15.1 per cent from 14.6 per cent recorded in the previous quarter. The effect of the settlement and conversion of mortgage loans, car purchase loans and personal loans into HUF also has a major impact on the level of the indicator: excluding these, the portfolio's annual rate of decline would amount to 4.5 per cent, similarly to the third quarter.

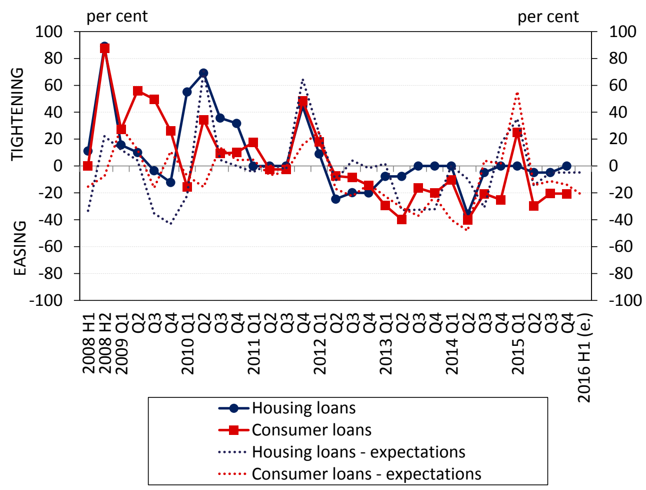
[7] The net portfolio change is the balance of the transactions and other flows (write-offs, reclassifications).

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



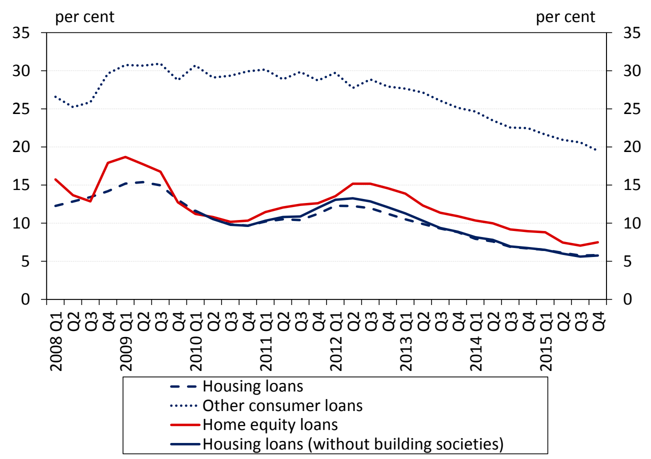
Note: Loan refinancing denotes only refinancing related to the early repayment scheme and the FX-conversion.
Source: MNB.

Chart 15: Changes in credit conditions in the household segment



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

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



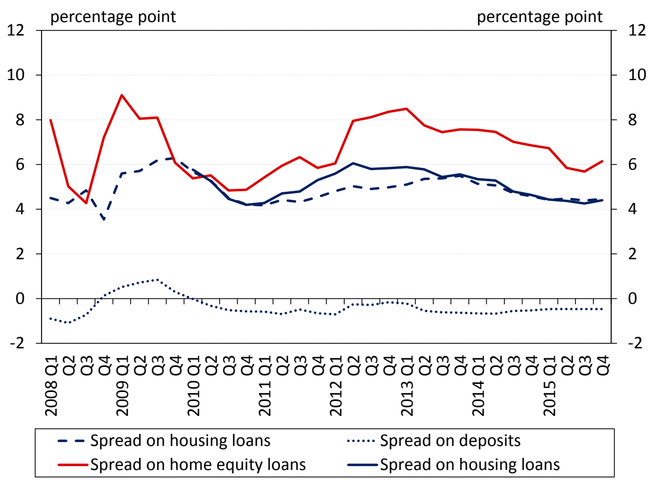
Note: Quarterly average of lending rates on newly disbursed loans.
Source: MNB.

The volume of new housing loans increased significantly in annual terms. The volume of credit institutions' new contracts in the household sector (excluding the volume of loan refinancing related to the converted portfolio) amounted to HUF 187 billion in the fourth quarter (Chart 14). The volume of new contracts was similar to that in the previous quarter, while the value of new contracts in the household sector increased by 27 per cent in year-on-year terms. In the case of housing loans, the annual growth rate was 42 per cent, while the extension of home equity loans and other consumer loans increased by 9 and 15 per cent, respectively. Loan refinancing related to the converted loans amounted to HUF 14 billion during the whole quarter, and to HUF 48 billion during the year. Loan refinancing was typically related to housing loans – this was the case in three-quarter of the contracts. Nevertheless, the observed volume of no-charge loan refinancing fell short of expectations.

Conditions on housing loans remained unchanged, while the credit standards on consumer loans were eased somewhat. Similarly to the previous quarter, 21 per cent – in net terms – of the respondent banks in the Lending Survey reported that they had eased conditions on consumer loans at the end of 2015 (Chart 15). On the other hand, in the case of housing loans – in line with the expectations – credit conditions remained unchanged in the period under review. In the case of consumer loans, it was only in relation to maximum maturity that conditions were eased substantially; in this loan segment, the change in the conditions is justified by market share objectives, the changes in the competition and in the creditworthiness of clients, according to the banks that eased the conditions. Looking forward, the possible easing of conditions on housing loans would be justified by the housing market trends according to the respondent banks. Nevertheless, according the responses of the banks, a similar trend is expected in the next half year: 22 per cent – in net terms – of the respondents indicated an easing of consumer credit conditions, while in the housing loan segment merely 5 per cent of them plan to ease the conditions in the first half of 2016.

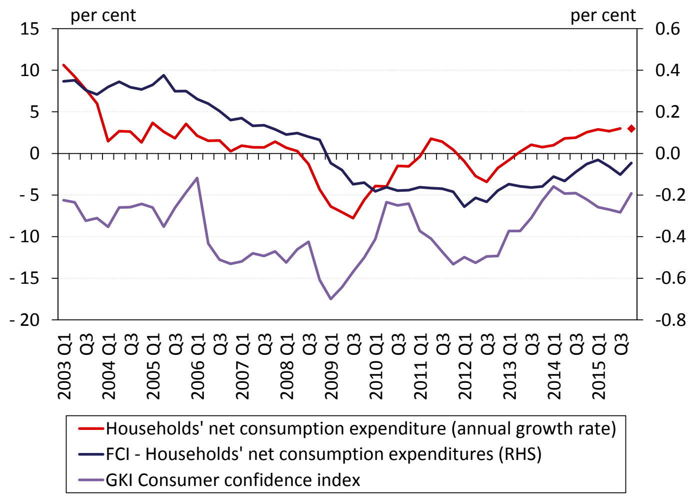
The APR and interest rate spread on fixed-rate housing loans decreased, while rates on floating-rate loans increased during the quarter. In 2015 Q4, the average APR and interest rate spread on secured HUF housing loans did not change: the annual percentage rate of charge on new contracts amounted to 5.8 per cent (Chart 16), while the spread on the 3-month BUBOR was 4.5 percentage points at the end of December (Chart 17). However, there is an inherent heterogeneity in the seemingly steady conditions: the annual percentage rate of charge on the floating-rate housing loan products increased – by 0.3 percentage point in the case of secured HUF loans –

Chart 17: Interest rate spreads on new household loans



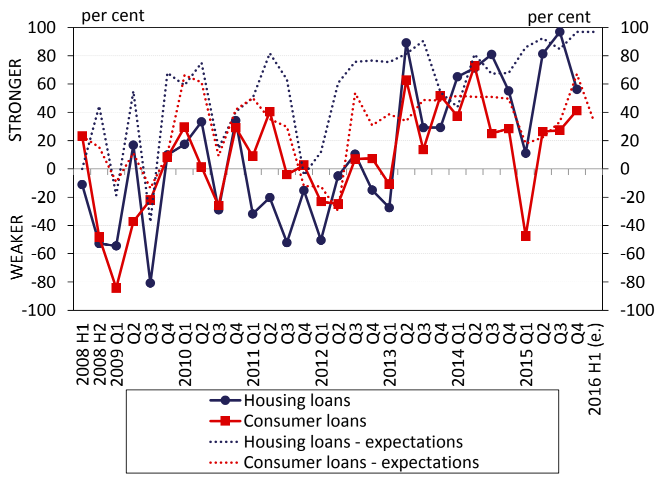
Note: Quarterly average of the interest rate spreads on 3-month BUBOR. Spreads based on the APR.
Source: MNB.

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. Due to technical reason the chart indicates a hundredth of the GKI index. The 2015 Q4 consumption data is forecast.
Source: MNB.

Chart 19: Credit demand in the household lending segment



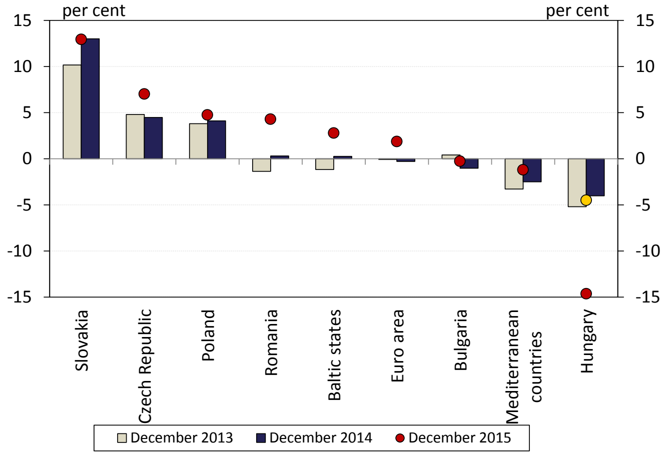
Source: MNB, based on the answers of respondent banks.

thereby reaching 4.9 per cent by the end of the quarter. On the other hand, the APR on fixed-rate loans declined by 0.2 percentage point (and on average stood at 6.5 per cent at the end of the quarter).

On the whole, the financial intermediary system has neutral effect on the consumption of households. In 2015 Q4, household consumption rose by 3 per cent in annual terms, and consumer confidence – according to GKI – improved compared to the previous quarter. The latter was in line with the processes observed in Europe: a substantial average increase was observed in consumer confidence both in the EU Member States and the euro area countries, especially in November. In Hungary, there are significant differences in the perception of economic upturn based on various socio-demographic attributions based on the MNB's survey: the level of confidence is higher in the employed population below the age of 40, with a higher education degree and within students. According to the consumption expenditure sub-index of the Financial Conditions Index, the impact of the financial intermediary system is almost neutral on the consumption of households (Chart 18).

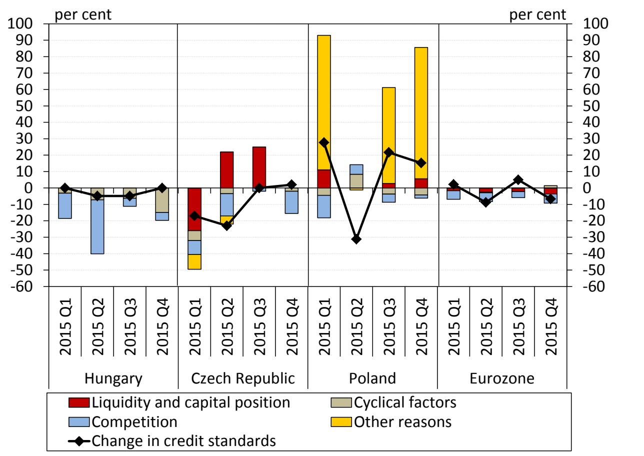
In the fourth quarter, expansion in the demand for housing loans somewhat fell short of the expectations, while looking forward all banks expect a pick-up in demand for housing loans. In Q4, 56 per cent – in net terms – of the banks participating in the Lending Survey reported higher demand for housing loans, while 41 per cent indicated an increase in demand for consumer credits (Chart 19). Taking into account that the recovering demand for housing loans – with unchanged credit conditions – is also supported by the higher volume of new loans, the recovery observed in the housing loan market may be regarded as demand-driven. Looking forward, 97 per cent – in net terms – of respondent banks expects a pick-up in demand for housing loans, and 34 per cent of them envisage higher demand for consumer loans in the next half year. The expectations related to housing loans are supported by the Family Housing Allowance programme (CSOK).

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



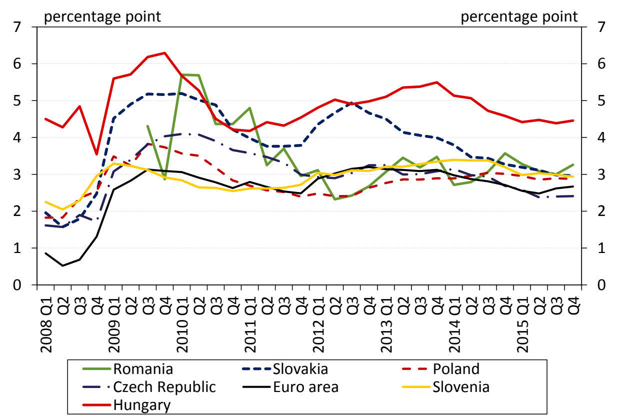
Note: Yellow indicates annual growth rate as at December 2015, excluding the effect of the settlement. Mediterranean countries: Greece, Italy, Portugal and Spain. Baltic states: Estonia, Lithuania and Latvia. Sources: ECB, MNB.

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

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



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

International outlook in household lending

Household debt in the CEE region continues to increase dynamically, accompanied by a stable growth in the euro area as well. The average annual growth rate recorded for the euro area improved by 0.3 percentage point during the quarter, reaching 1.9 per cent by the end of December (Chart 20). This indicates a sustained pick-up in lending, although there is some heterogeneity within the currency area: the decline in outstanding loans continued only in Latvia and in the Mediterranean countries, while the annual growth rate is positive in the rest of the countries. However, the transaction-based growth rate of household loans increased dynamically in the CEE region: along with the 13 per cent annual growth rate observed in Slovakia, expansion rates of 7, 5 and 4 per cent were reported for household lending in the Czech Republic, Poland and Romania, respectively, primarily as a result of the low interest rate environment, increasing disposable income, stable property prices and rising consumer confidence.

Terms and conditions on housing loans were heterogeneous in the region. Terms and conditions on housing loans remained unchanged in the Czech Republic, while they were tightened in Poland, due to regulatory reasons (Chart 21). In the euro area countries, however, standards were eased on the whole, but there is still a great deal of heterogeneity. According to the survey by the European Central Bank, the process is still driven by the development of competition, in an environment of steadily intense demand: as a result of the low interest rate environment, the strengthening of consumer confidence and the positive housing market trends, almost one third of the banks – in net terms – perceived some or major increase in demand, similarly to the previous quarter.

Interest rate spreads on housing loans generally remained constant in the region. Of the CEE countries the APR on housing loans increased by 0.1 percentage point in Romania, and decreased to the same degree in Slovakia and Slovenia, while it remained unchanged in Poland and the Czech Republic. The picture is more homogenous in terms of the interest rate spreads: in 2015 Q4, interest rate spreads remained unchanged in the countries of the region, with the exception of Romania (where they rose by roughly 0.3 percentage point) (Chart 22). In the euro area, the average interest rate level did not change, while interest rate spreads increased by 0.1 percentage point; thus, on the whole the difference of 1.8 percentage points between the average spread level of Hungary and the euro area did not decrease during the last quarter.

4. ANNEX: METHODOLOGICAL NOTES

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

1. *Credit aggregate and lending rate data*

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

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

2. *Lending Survey*

The Lending Survey facilitates the analysis of how major banks perceive and evaluate market developments and how they develop their respective strategies, in particular their lending policies. In respect of the household segment, a total 11 banks were involved in the interviews. Nine banks responded to questions related to housing loans, while 11 banks and 7 financial enterprises answered questions on consumer loans. Based on data from the end of 2015 Q4, the surveyed institutions accounted for 85 per cent of the banking sector in the case of outstanding housing loans and 87 per cent in the case of outstanding consumer loans. The corporate questionnaire was filled in by 8 banks in total, which represent 80 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 91 per cent.

The survey consists of standard questionnaire in each segment. The retrospective questions refer to 2015 Q4 (compared to 2015 Q3), whereas the forward-looking questions concern the next half-year period, i.e. covering 2016 Q1 and Q2 (relative to 2015 Q4). The current questionnaire was completed by the senior loan officers between 1 and 16 October 2015.

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

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

http://www.mnb.hu/en/financial-stability/publications/lending-survey

3. *The Financial Conditions Index (FCI)*

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

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

- Liquidity:
  - liquid assets as a percentage of 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
- 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 explained around 50 per cent of the variance of bank data.

The factors and the VAR model were estimated in accordance with the methodology presented in Koop and Korobilis (2014)[8]. 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 has 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.

[8] Koop, G. and Korobilis, D. (2014): A new index of financial conditions, *European Economic Review*, vol. 71, no. C, pp. 101–116.

TRENDS IN LENDING

February 2016

Print: Prospektus–SPL consortium

H-8200 Veszprém, Tartu u. 6.