TRENDS IN LENDING

2019

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(March 2019)

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

In particular, the key statistics examined in the analysis are the following:

- *The credit aggregates present quantitative developments in economic agents' loans outstanding based on the balance sheet statistics of the banking sector. Both the volume of new loans and net changes in the banking sector's loans outstanding (net of exchange rate effects) are presented. From 2013 Q4 on, the analysis presents the trends in lending in the overall credit 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 80–90 per cent of the credit market indicate the direction of change compared to the reference period. The Lending Survey includes price conditions in a qualitative manner as well, in the form of the spread over the funding costs, 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 over the reference rate.*
- *Banks active in the given segment provide qualitative responses in the Lending Survey in respect of their expectations and the changes in credit demand they perceive. Similar to credit conditions, banks indicate the direction of the change.*

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

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1. EXECUTIVE SUMMARY

In the last quarter of 2018, transaction-based corporate credit growth fell short of the level observed in previous quarters, due to one-off and temporary factors. Three-quarters of the expansion amounting to approximately HUF 180 billion was linked to the SME sector. Corporate credit increased by HUF 892 billion year-on-year as a result of transactions, which represents a 13.6 per cent annual growth rate. This surge is exceptional in the region on the one hand, and the highest rate in the past 10 years in Hungary on the other. According to preliminary data, loans to the SME sector rose by nearly 12 per cent year-on-year, within which the micro segment expanded the most, with an increase of roughly 21 per cent in annual terms. The transaction-based growth was driven not only by SME borrowing but also by several one-off and large-scale transactions conducted by large enterprises. The volume of new contracts in 2018 amounted to HUF 3,400 billion, close to the figure from the previous year.

Based on the banks' responses to the Lending Survey, credit conditions were eased for all corporate size categories in the fourth quarter, which mainly affected non-price conditions. Respondents primarily cited the increasing competition among banks as the reason for the easing. The growing demand for longer-term loans seen last year halted in the last quarter. However, the temporary nature of this is confirmed by the fact that all banks expect renewed growth in credit demand in the first half of 2019. This is presumably influenced by some companies postponing their investments to 2019, to use the fixed-rate, long-term loans available under the FGS fix scheme from January.

Household credit grew by HUF 108 billion during the quarter, and by HUF 424 billion over the whole year on account of credit transactions. As a result, outstanding loans increased by 7.3 per cent in 2018. Housing loan disbursement expanded by 31 per cent year-on-year as compared to 2017, amounting to HUF 850 billion, reaching the 2008 level in nominal terms. Nevertheless, in contrast to the period before the 2008 global financial crisis, the debt cap rules in the present credit cycle prevent households becoming over-indebted. The annual disbursement of personal loans rose one and a half times relative to 2017, which was influenced by the falling interest rates and the rising of the maximum contract size, which made this product competitive even for housing purposes.

Credit conditions did not change much in either the housing or the consumer loan segment, and banks do not plan to ease lending standards in the first half of 2019. Demand varied in the two segments: banks observed an upswing in housing loans and a small dip in consumer segment. According to the institutions surveyed, this drop is temporary, and they expect a renewed uptick for the first half of 2019.

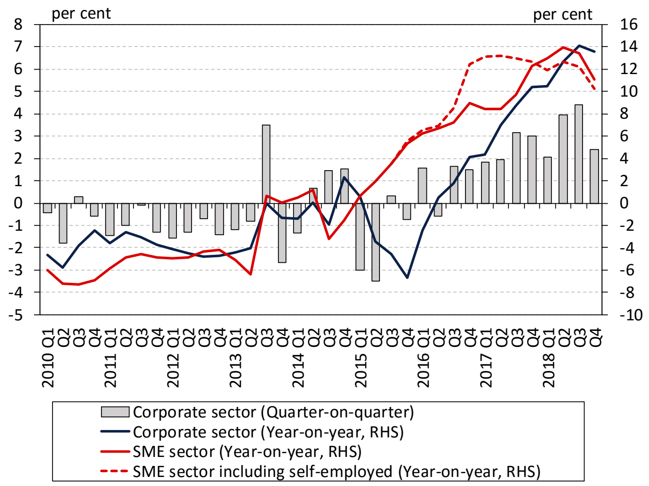
By the end of the year, banks disbursed new housing loans almost exclusively with the interest rate fixed for over one year, and the share of loans with a fixation of over 5 years rose to more than 60 per cent in Q4. Beside the central bank programmes to reduce bank funding costs, the rising market share of Certified Consumer-Friendly Housing Loans also contributed to the expansion of housing loans with an interest rate fixation for over 5 years. The maintenance of the sound structure of lending is supported by the payment-to-income ratio differentiated by interest rate fixation period, effective since 1 October 2018.

2. DEVELOPMENTS IN LENDING IN THE CORPORATE SEGMENT

The growth in corporate lending continued in the last quarter of 2018, amounting to nearly HUF 180 billion on a transaction basis. Accordingly, corporate loans outstanding increased by a total of HUF 892 billion in the past 12 months, which amounts to growth of 13.6 per cent. Based on preliminary data, lending to the SME sector in a narrow sense expanded by nearly 12 per cent year-on-year, and by 10 per cent if the self-employed are also taken into account. By corporate size, the strongest expansion was observed in the case of micro corporations, with an increase of roughly 21 per cent in annual terms. The value of new contracts was close to the previous year's, with the disbursement amounting to HUF 3,400 billion in 2018 when taking money market transactions into account. In an international comparison, Hungary exhibited the greatest corporate credit growth in the past year.

Based on the responses of the banks participating in the Lending Survey, credit conditions for corporations continued to ease, which affected all corporate size categories in the fourth quarter. According to banks' perceptions, the easing of the conditions principally meant relaxed collateralisation requirements. The respondents pointed to the increasing competition among banks as the main reason behind this change in credit conditions. The growing demand for longer-term loans seen last year halted in the last quarter. However, the temporary nature of this may be confirmed by the fact that all banks expect renewed growth in credit demand in the first half of 2019. The changing demand is presumably influenced by some companies postponing their investments from the last quarter of the year to 2019, to take up the fixed-rate, long-term loans available under the FGS fix scheme from January.

Chart 1: Growth rate of loans outstanding of the total corporate sector and the SME sector



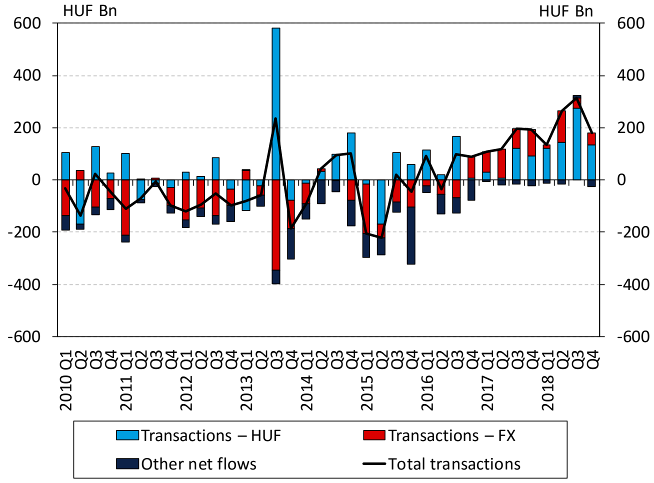
Note: Transaction-based data, data for SMEs are estimated based on banking sector data prior to 2015 Q4. Source: MNB.

Corporate lending in Hungary

Corporate lending expanded by almost 14 per cent in 2018. In the past year, outstanding loans of non-financial corporations rose by HUF 892 billion on a transaction basis, corresponding to annual growth of 13.6 per cent (Chart 1). The outstanding loans of the narrowly defined micro, small and medium-sized enterprises sector increased at an annual rate of nearly 12 per cent, while the annual growth rate of the loans to the SME sector including the self-employed[1] was 10 per cent. The growth was driven not only by the SME sector's increasing borrowing but also by several large-scale transactions conducted by large enterprises. Large corporations' loans outstanding expanded by 17 per cent year-on-year. In the SME segment, loans to micro corporations expanded the most, by almost 21 per cent, while outstanding borrowing by medium-sized and small enterprises climbed by 8 and 4 per cent respectively, as a result of transactions. Three-quarters of the surge in total credit was attributable to HUF loans,

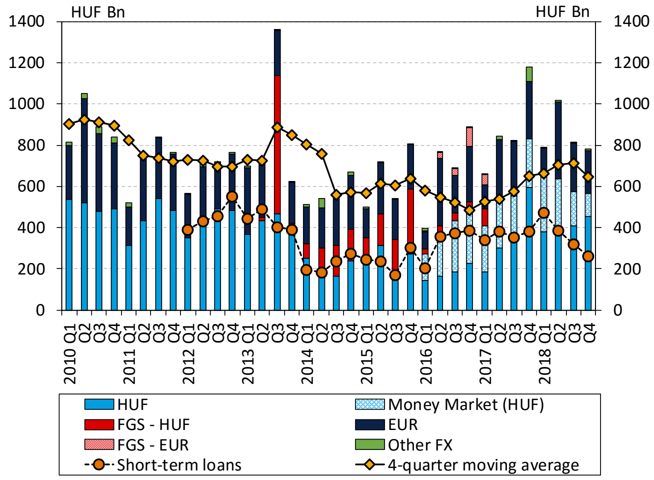
[1] Although the self-employed belong to the household sector in a statistical sense, they are also qualified as SMEs based on their activities and legal definition. Their borrowing dynamics temporarily diverged from the underlying trends, typically due to transactions related to land purchases in 2016–2017.

Chart 2: Net quarterly changes in the corporate loan portfolio by currency



Note: Seasonally unadjusted net change in outstanding amounts, with rolling exchange rate adjustment, excluding individual institutional effects. Adjusted for the impact of the change in some banks' accounting standards at the beginning of 2017. Source: MNB.

Chart 3: New corporate loans in the credit institution sector



Source: MNB.

while most of the rest comprised euro loans. Lending to SMEs was supported by the central bank's Market-based Lending Scheme (MLS) in 2018 as well, under which credit institutions undertook to boost lending by HUF 230 billion. At the sector level, similarly to the previous year, credit institutions fulfilled more than twice their commitment.

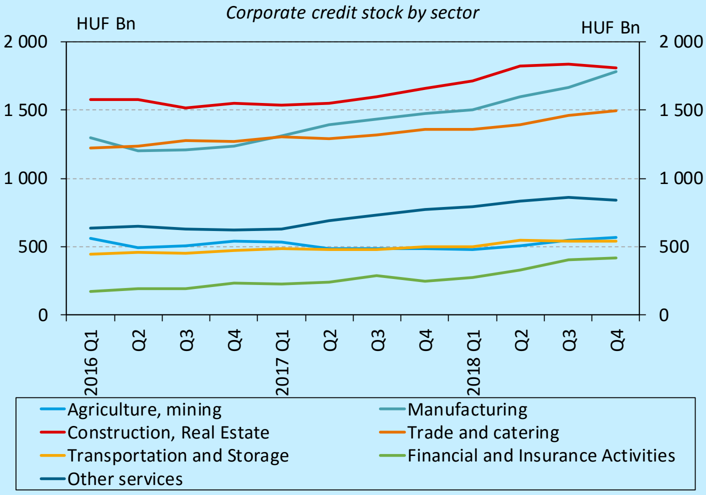
The robust growth rate declined slightly in the last quarter due to the drop in transactions in December. As a result of the disbursements and repayments, credit institutions' loans outstanding expanded by nearly HUF 180 billion in Q4 (Chart 2), of which some HUF 142 billion was related to the SME segment (within that, HUF 98 billion was related to micro enterprises, 20 billion to small enterprises and 24 billion to medium-sized enterprises). The contraction in transactions in December linked to the large corporate sector dampened the annual growth rate. The fourth-quarter expansion was small when taking seasonality into account, and a substantial share of it was linked to HUF loans, similar to earlier quarters.

The volume of new corporate loan contracts in 2018 was similar to 2017. Credit institutions concluded new contracts with non-financial corporations amounting to roughly HUF 3,400 billion, including money market transactions. Compared to previous quarters, the value of new disbursements diminished somewhat in the last quarter of 2018, as the total volume of loan contracts amounted to HUF 780 billion (Chart 3). The lower-than-usual disbursement may have been influenced by the wait-and-see strategy related to the central bank's Funding for Growth Scheme's new programme, the FGS *fix,* which is launched in 2019. Some corporations probably postponed their borrowings in the last quarter of the year to make use from the more favourable opportunities available under the FGS *fix* scheme instead.

BOX 1: Structural characteristics of corporate credit growth in 2018

In 2018, the Hungarian economy expanded at an exceptional rate, exceeding analysts' expectations. The dynamic rise of Hungarian GDP was substantially influenced by corporate investment growth. Therefore corporate investment-to-GDP ratio is now higher than before the crisis. In parallel with output and investments, the loans taken out by companies increased more than predicted during the year. The financing need of non-financial corporations was lifted by not only investments but also the falling operating results in the context of high wage outflows. To provide a better understanding of this credit expansion unparalleled since the crisis, the structure of the change in stocks is reviewed.

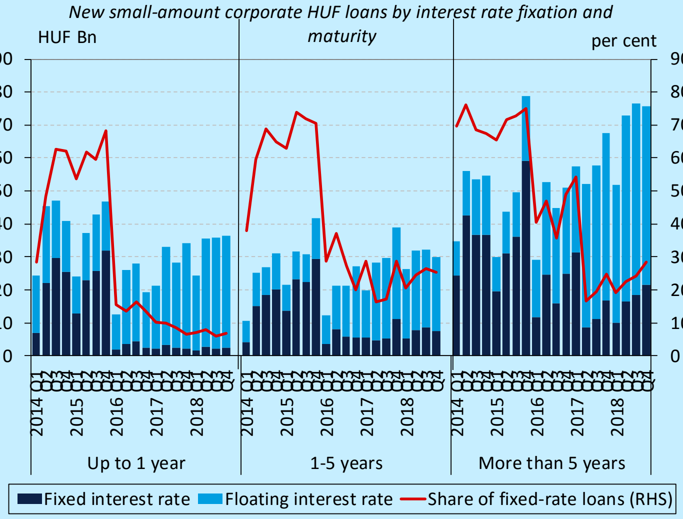
In 2018, outstanding loans of non-financial corporations vis-à-vis credit institutions rose by HUF 892 billion on a transaction basis, while taking into account write-offs, reclassifications and other net flows, the gross change in the stock amounted to HUF 964 billion. The expansion was mainly in loans with a maturity of over one year, their growth amounted to HUF 661 billion, while short-term loans grew by HUF 303 billion. In terms of denomination, similar proportions can be observed, as the stock of HUF loans grew by HUF 643 billion, whereas the stock of FX loans swelled by HUF 321 billion. Within HUF loans, short- and long-term loans grew by approximately the same extent, while the expansion within FX loans was almost exclusively due to the increase in long-term loans.



Source: MNB

The sectoral breakdown shows that similar to economic expansion, corporate credit growth was also broad-based. The loans to the manufacturing sector rose the most, by HUF 307 billion (21%), while the outstanding borrowing by the sector including companies performing financial and insurance activities increased by HUF 170 billion (68%). Loans were up by HUF 154 billion (9%) in the construction and real estate sector, by HUF 136 billion (10%) in trade and catering, and by HUF 197 billion (10%) in all the remaining sectors. The credit expansion in manufacturing was influenced by the borrowing of several multinational corporations in Hungary linked to their Hungarian investments. The credit growth in the financial activities sector was dominated by lending to state-owned holding companies. Some huge loans related to acquisitions also contributed much to the growth in stocks in several sectors. The expansion in stocks in the construction and real estate sector reflected more loans financing the construction of residential real estate and industrial properties, however, loans financing the construction of office buildings, commercial centres and hotels contracted in 2018. At the same time, loans taken out for purchasing property were up in all five segments last year.

The breakdown by interest rate fixation shows that the annual growth in stocks is mostly attributable to variable-rate loans, as over 80 per cent of the credit growth is explained by the surge in loans with an interest rate period of under

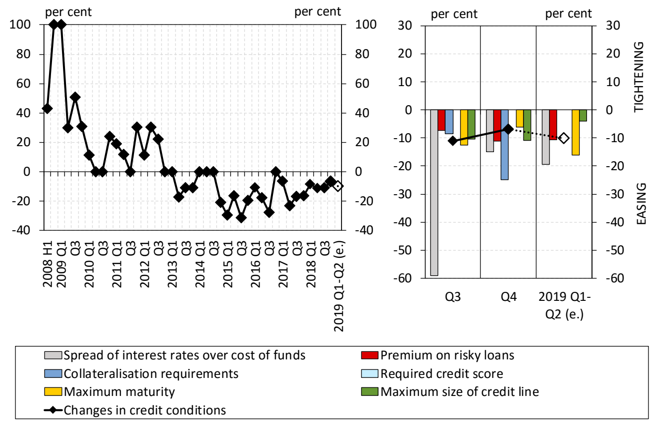


one year. While variable-rate loans expanded by over 15 per cent in both the large enterprise segment and among SMEs, the stock of fixed-rate SME loans stagnated. Among new contracts, the proportion of variable-rate loans is also high.

In the present low interest rate environment, this poses a risk mainly in the case of those customers who do not have reserves for paying higher interest rates in a potentially changing yield environment or who assess the associated burden inaccurately. In 2018, fewer SMEs accessed long-term fixed-rate financing. Moreover, in the Lending Survey banks reported that the higher interest rate level of fixed-rate loans drives customers towards variable-rate schemes, which are more attractive in the short run. With a view to boosting the share of long-term fixed-rate loans, the MNB launched the Funding for Growth Scheme Fix (FGS fix) facility in January 2019, with an allocated amount of HUF 1,000 billion. The scheme is expected to exert an effect primarily on the structure of new contracts, while additional credit outflows will remain limited.

Beside the fact that the underlying trends in lending were more favourable than expected based on end-2017 data, the credit expansion was also influenced by some one-off items related to large enterprises that are not part of the underlying trends. To put into perspective the potential effect of the individual large enterprise transactions on the changes in stocks, out of the 26,000 corporations that contracted from last year, merely 61 were concluded by large enterprises for loans of over HUF 5 billion. With only 0.24 per cent of the transactions, these loans represent around 40 per cent of the total volume of contracts. These items cannot be expected to be repeated in a similar magnitude in the years ahead. Although the unpredictability of large items makes accurate predictions difficult, corporate credit is expected to continue growing in the years to come, in the context of a slowdown in total credit growth rate.

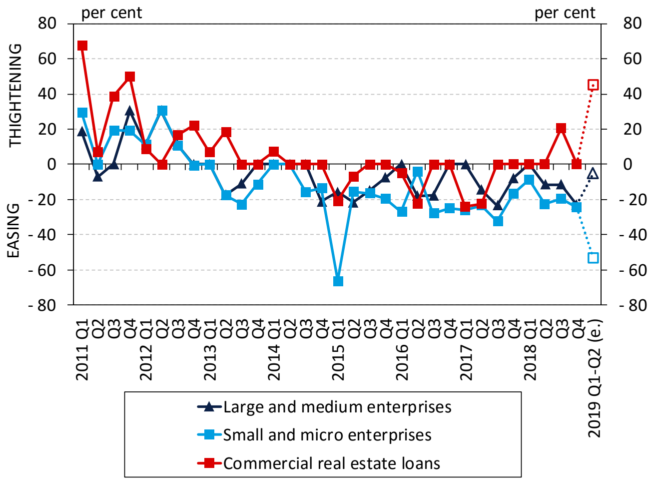
Chart 4: Changes in credit conditions in the corporate segment



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

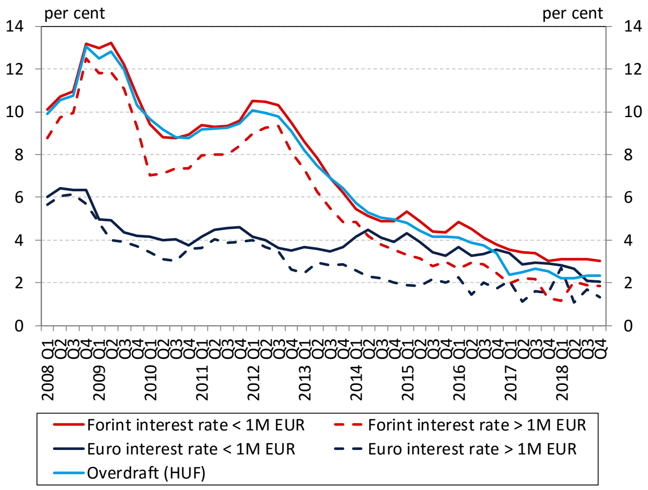
Credit conditions were eased in the corporate segment in 2018 Q4 as well. In net terms, 7 per cent of respondent credit institutions claimed that companies had easier access to credit (Chart 4). With respect to specific conditions, collateralisation requirements were reportedly eased in the last three months of the year. Most credit institutions attributed the easing of the conditions to the increasing competition among banks and the achievement of market share objectives. Respondents expect lending conditions to be eased further in the first half of 2019, mainly owing to market competition. This may be reflected throughout the entire corporate segment in the reduction of the interest rate spread and the lengthening of the maximum maturity.

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



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

Chart 6: Interest rates on new corporate loans



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

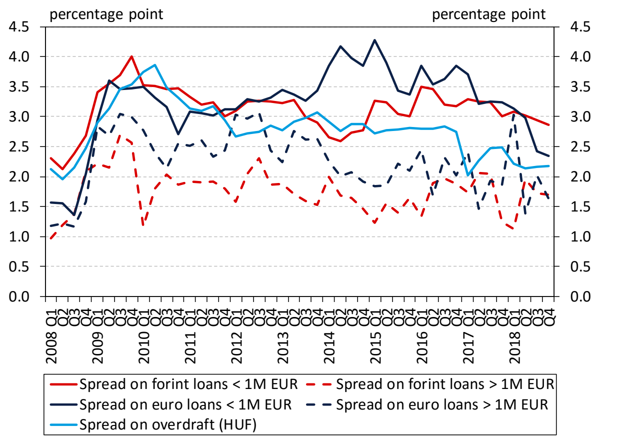
Credit conditions have been eased in all corporate size categories. A net one-quarter of banks reported looser conditions in the last quarter of 2018, in both corporate size categories (Chart 5). With respect to the first half of 2019, banks expect easier access to credit, especially for micro and small enterprises, which is probably due to the increased interest for the favourable loans available under the FGS *fix* scheme. Looking ahead to the first half of 2019, a net half of banks have predicted a tightening in the conditions of commercial real estate loans, which was attributed to the risk of property overvaluation and avoiding the overrepresentation of these loans within the portfolio to satisfy capital adequacy rules.

The interest rate on small-amount HUF loans has remained unchanged, while the interest rate on EUR loans has declined slightly. There was no major change in the average interest rate of forint loans below EUR 1 million and overdrafts, as they came in at 3.1 and 2.3 per cent, respectively. At the same time, the interest rate on small-amount euro loans dropped by 0.6 percentage points to 2 per cent in the past two quarters (Chart 6). The interest rate of high-amount HUF loans[2] net of money market transactions[3] had fallen to 1.8 per cent by the end of the year. The average interest rate on high-amount euro loans sank to 1.3 per cent. One-off and large-scale items played a major role in interest rate developements in case of both currencies. The changes in interest rates are mainly attributable to the changes in interest rate spreads in the case of both forint and euro loans. In the case of overdrafts, the interest rate spread increased by 0.1 percentage point, while the spreads of other products diminished somewhat in the last quarter, irrespective of the loan amount (Chart 7).

[2] In the case of new contracts, variable-rate loans and loans with interest rate fixing of up to one year are examined.

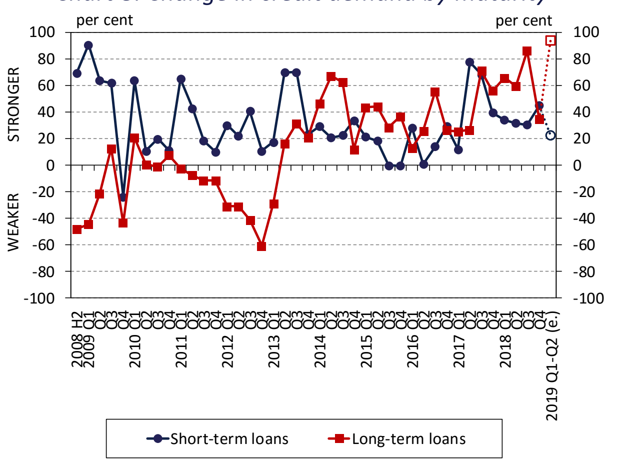
[3] Money market transactions are loans with a value of over EUR 1 million extended to non-financial corporations, they have a short maturity (typically less than 1 month) and fund some kind of financial operation. It has been possible to exclude money market transactions since 2015, although in the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

Chart 7: Interest rate spreads on new corporate loans



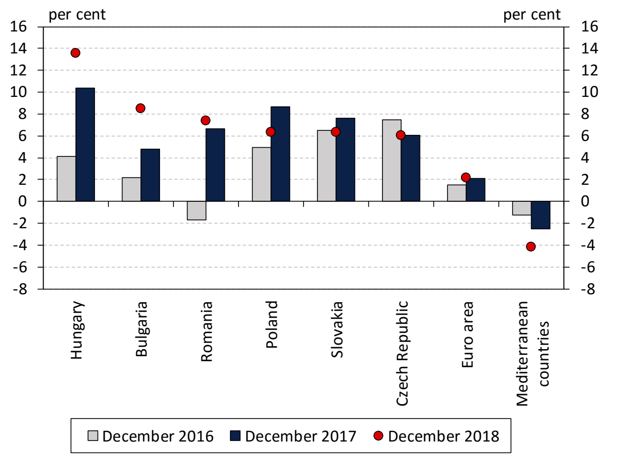
Note: Spread on the 3-month BUBOR and EURIBOR. Loans with variable interest rates or with up to 1-year initial rate fixation. From 2015, based on data net of money market loans exceeding EUR 1 million. Source: MNB.

Chart 8: Change in credit demand by maturity



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

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



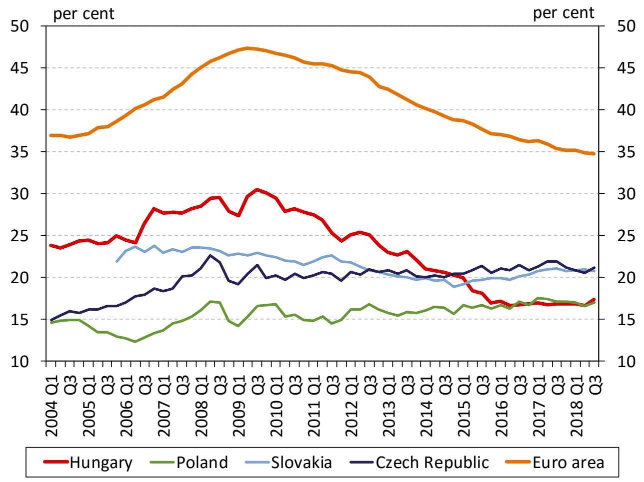
Note: Mediterranean countries are Greece, Italy, Portugal and Spain. Source: ECB, MNB.

Only a small share of banks observed a rise in credit demand in the fourth quarter. According to the results of the latest Lending Survey, roughly a net half of participating banks detected stronger demand for short-term loans, while only one-third reported greater demand for long-term loans (Chart 8). The reason why only a smaller group observed increased demand than in earlier quarters may be that corporations started postponing their investments to 2019 after the September 2018 announcement of the FGS *fix* scheme. In line with this, a smaller share, net 36 per cent of banks perceived increased demand among small and micro enterprises, whereas this ratio was 52 per cent in the large and medium-sized enterprise segment. In the case of forint loans, half of the respondents reported increased demand, while no significant change was perceived in the demand for FX loans. According to the banks, this credit demand is principally attributable to the need to invest in tangible assets and to finance claims and inventories. All banks expect growing demand for long-term loans in the first half of 2019 due to the steadily increasing financing requirements, which may also include heightened interest for long-term, fixed-rate loans available under the FGS *fix* scheme launched in January 2019. Almost a net one-quarter of respondent banks expect growing demand for commercial real estate loans in the next half year, which will be related mostly to offices and least to housing projects on account of the announcement of the housing VAT hike.

International developments in corporate lending

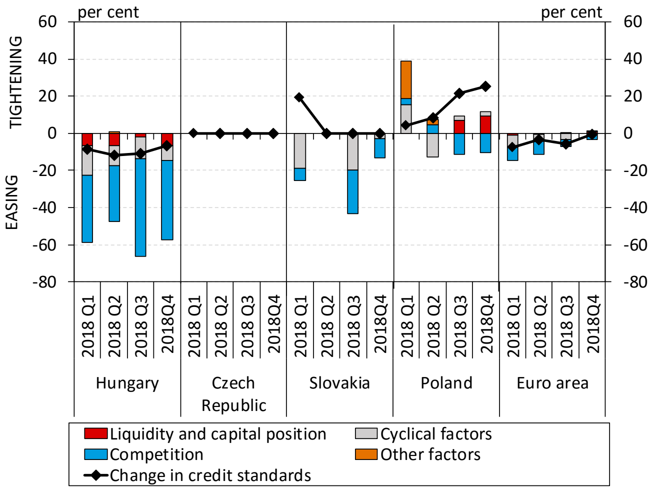
The Hungarian corporate lending growth rate stands out in the CEE-region. A dynamic upswing was seen in the corporate lending in 2018 in all countries of the region. While Bulgaria and Romania also experienced accelerated credit growth in the past year, similarly to Hungary, credit growth decelerated somewhat in the other Visegrád countries. In 2018, corporate lending expanded by more than 13 per cent in Hungary, by 8 per cent in Bulgaria, by over 7 per cent in Romania, and by 6 per cent in Poland, Slovakia and the Czech Republic (Chart 9). While the euro area's annual growth rate was 2 per cent, the Mediterranean countries continued to experience declining credit, which is primarily due to the intensive portfolio cleaning of Italian banks.

Chart 10: Corporate credit-to-GDP in an international comparison



Source: ECB, MNB.

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

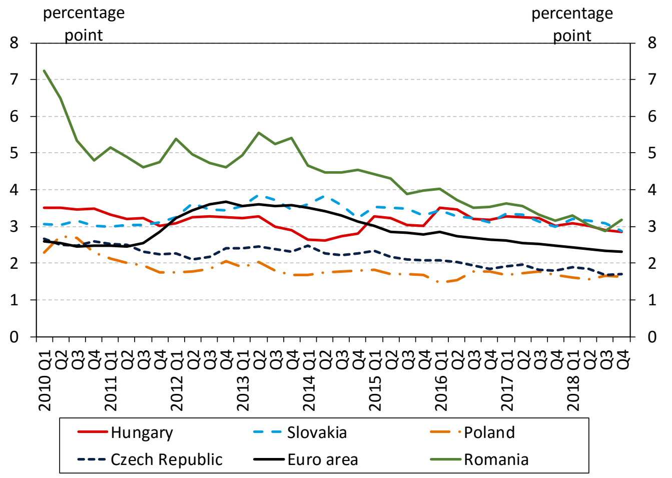


Note: Category values are derived from the arithmetic average of the factors thematically classified therein. Positive values indicate the tightening of conditions, while negative ones indicate easing. Source: MNB, ECB, national central banks.

The corporate credit-to-GDP also increased in the region. On account of the dynamic credit growth seen in the countries of the region, companies also experienced credit growth relative to GDP towards the end of the year. Companies' rising financing requirement reflected the more active investment in the sector. Growing investment further fuelled Hungarian and Czech firms' net borrowing needs. In Poland, the net financing capacity that emerged in the past quarters has slightly declined, which is also due to rising investments. However, convergence on more advanced countries requires further growth in outstanding borrowing (Chart 10).

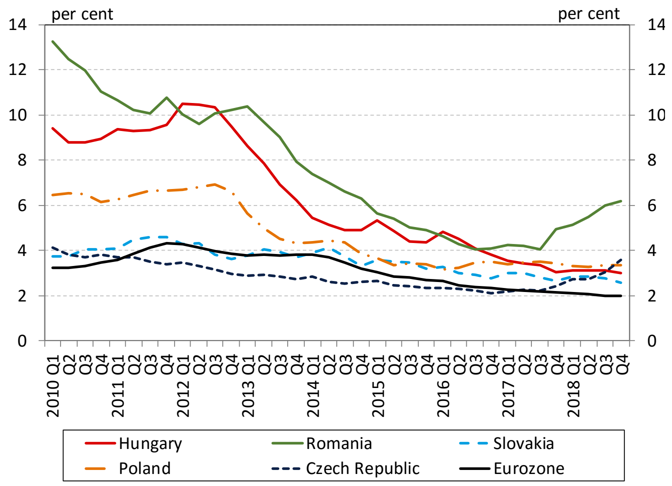
In 2018, corporate credit conditions were not eased in either the Visegrád countries or in the euro area. While credit conditions have been almost unchanged for three quarters in the Czech Republic and Slovakia, borrowing conditions were tightened in Poland on account of the change in banks' liquidity and capital positions as well as industry-specific issues. In the past quarter, lending conditions have remained practically unchanged in the euro area, however, the slight easing observed over the course of last year is mainly attributable to the increasing bank competition (Chart 11).

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



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

Chart 13: International comparison of interest rates on small-amount corporate loans extended in domestic currency



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

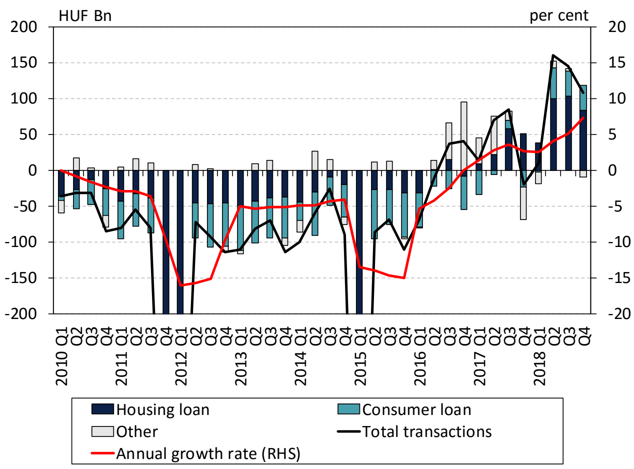
The average interest rate spread of corporate loans did not change much overall, but loans are already more expensive in some countries in the region. In the last quarter, the average interest rate spread of the corporate loans below EUR 1 million rose by 0.3 percentage points in Romania and dropped by 0.2 percentage points in Slovakia, while only a marginal fall was observed in the other countries of the region and the euro area (Chart 12). While the reduction in spreads on account of the intensified competition moderated the interest rate of corporate loans in Slovakia, the average interest rate of corporate loans increased to 6.2 per cent in Romania, due to the higher spreads and the fact that the 3-month ROBOR surged almost fivefold, from 0.6 to 2.9 per cent, in the past two years as the risks to the economy intensified. In the Czech Republic, corporate loans also became more expensive, as the average interest rate climbed to 3.6 per cent in the fourth quarter. In the context of growing inflationary pressure and interest rate hike expectations, the gradual increase in the Czech reference rate is offset only partly by the lower spreads. The interest rates did not change significantly in the other countries of the region and the euro area (Chart 13).

3. DEVELOPMENTS IN LENDING IN THE HOUSEHOLD SEGMENT

In 2018 Q4, households' outstanding borrowing rose by HUF 108 billion, which is mainly attributable to housing loan transactions. With this, annual credit transactions amounted to HUF 424 billion, which led to a 7.3-per-cent increase in outstanding credit. In 2018, housing loan disbursements exceeded the previous year's volume by 31 per cent, reaching the 2008 level in nominal terms, however, in the present credit cycle the debt cap rules limit households' over-indebtedness. The upswing in housing loans is mirrored in the consumer loan segment too, as the annual disbursement of personal loans rose one and a half times relative to 2017. The expansion in the volume of personal loans is influenced by the declining interest rates and the growing available contract sizes, which made this product competitive even for housing purposes.

As credit conditions remained constant, banks observed an upturn in demand in the case of housing loans and a slight dip in the consumer loan segment. According to the institutions surveyed, the latter is temporary, and they expect a renewed uptick for the first half of 2019. 94 per cent of the new housing loans were disbursed with an interest rate fixation of over one year in this quarter, while the share of loans fixed for over 5 years rose to 62 per cent. Beside the central bank programmes to reduce bank funding costs, the rising market share of Certified Consumer-Friendly Housing Loans also contributed to the expansion of housing loans with an interest rate fixation for over 5 years. The maintenance of the sound structure of lending is supported by the payment-to-income ratio differentiated by interest rate fixation period, effective since 1 October 2018. In the second half of the year, the average interest rate spread of fixed-rate housing loans was steadily below that of variable-rate loans.

Chart 14: Quarterly transactions of outstanding household loan portfolio by loan purpose



Note: The transactions reflect the effect of the settlement. Source: MNB.

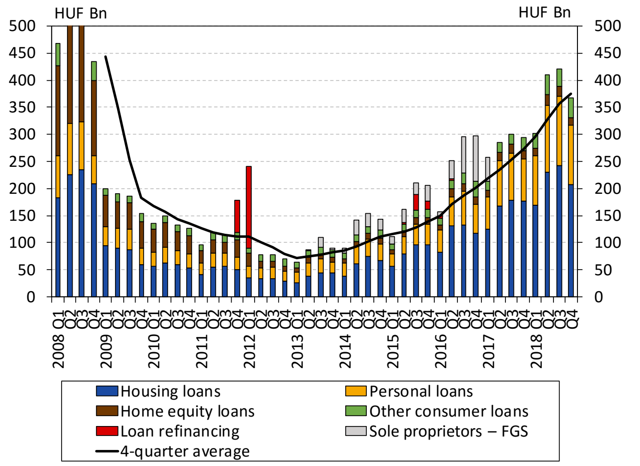
Household lending in Hungary

In 2018, outstanding household loans increased by 7.3 per cent as a result of credit transactions. In the fourth quarter, credit institutions' household loans expanded by HUF 108 billion as a result of disbursements and repayments (Chart 14). Most of that arose from the growing volume of housing loans (HUF 84 billion), but consumer credit also expanded in the last quarter (HUF 34 billion).[4] Taken together, loans outstanding surged by HUF 424 billion last year, amounting to a 7.3-per-cent rise.

The volume of new housing loans grew by 31 per cent relative to 2017. In the last quarter of 2018, the value of household loan contracts amounted to HUF 367 billion, and thus the volume of loans was up by 37 per cent relative to 2017 (Chart 15). Aggregate disbursement at the end of the year was somewhat lower than in earlier quarters, which is probably due to seasonal effects. In the fourth quarter, 57 per cent of the new volume comprised housing loans, and

[4] The remaining HUF 10 billion transaction is due to the expansion of other household loans and overdrafts.

Chart 15: New household loans in credit institution sector



Note: Loan refinancing indicates only the refinancing related to the early repayment scheme and the FX conversion. Other consumer loans include vehicle, hire purchase and other loans. Source: MNB.

1Table : Number of contracts and average loan volume of new housing and consumption loans

		Dec-17	Dec-18	% change
Number of contracts (cumulated within year) (thousands)	Housing loans: purchases of used homes	62,6	73,3	17,1
	Housing loans: reconstruction and other	20,2	18,5	-8,3
	Housing loans: construction and buying of new homes	12,6	13,6	8,0
	Home equity loans	9,2	8,9	-3,5
	Personal loans	248,1	289,1	16,5
Average loan amount (HUF million)	Housing loans: purchases of used homes	8,0	8,4	5,2
	Housing loans: reconstruction and other	4,1	3,8	-6,0
	Housing loans: construction and buying of new homes	9,5	11,8	23,8
	Home equity loans	7,0	7,8	11,7
	Personal loans	1,4	1,6	15,2

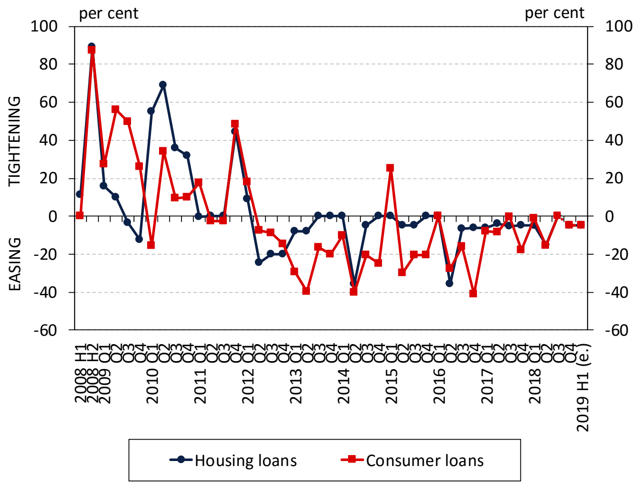
Source: MNB.

overall a 31 per cent increase was observed on this product's market year-on-year. Among housing loans, used home purchases continue to dominate: 73 per cent of the housing loan contracts disbursed in the last quarter were concluded for this purpose, while the cumulative number of contracts grew by over 10,000 (17 per cent) on an annual basis (Table 1). 18 per cent of the credit disbursed in the quarter was linked to new home construction and purchase, and the average contract size increased by 24 per cent in one year in these segments, which reflects income and housing market developments. In the past year, credit institutions concluded housing loan contracts with a total value of HUF 850 billion, thus they achieved the 2008 level in nominal terms. However, in the present credit cycle, households are indebted in a prudent manner, owing to the debt cap rules and the share of loans fixed for a longer term.[5]

Personal loans are increasingly competitive on the consumer and housing loan market too. Personal loans amounted to almost one-third of the new credit volume disbursed in Q4 (Chart 15), with year-on-year expansion of a 48 per cent. The cumulative number of personal loan contracts increased by over 40,000 (16.5 per cent) last year, however, in the case of small-amount housing loans (for renovations), a slight drop in the number of contracts was observed (Table 1). The growing share of unsecured consumer loans, at the expense of small-amount housing loans and home equity loans, is partly due to the increasingly favourable credit conditions of this product (better pricing terms, higher maximum contract size, faster credit assessment by banks).

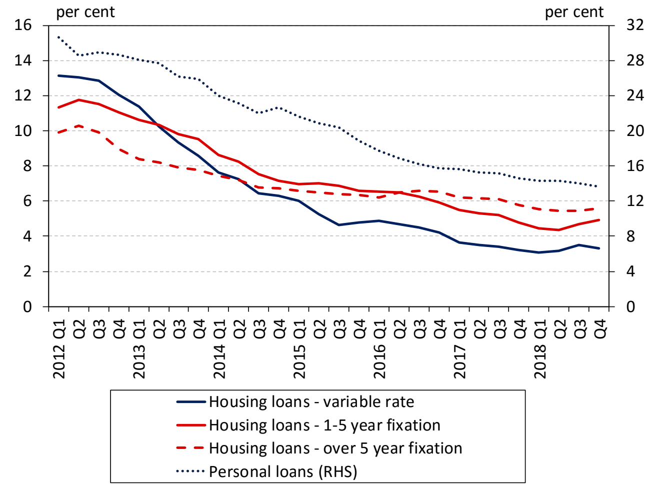
[5] Since 1 October 2018, when taking up new forint mortgage loans with an interest rate fixation period below 5 years, the sum of debtors' monthly repayment instalments may not exceed 25 per cent of their regular net monthly income, or 30 per cent in the case of higher income. In the case of new forint mortgage loans with an interest rate fixation period of over 5 years but below 10 years, this share may be 35 or 40 per cent of the regular net monthly income.

Chart 16: Changes in credit conditions in household segment



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

Chart 17: Annual percentage rate of charge on new household loans

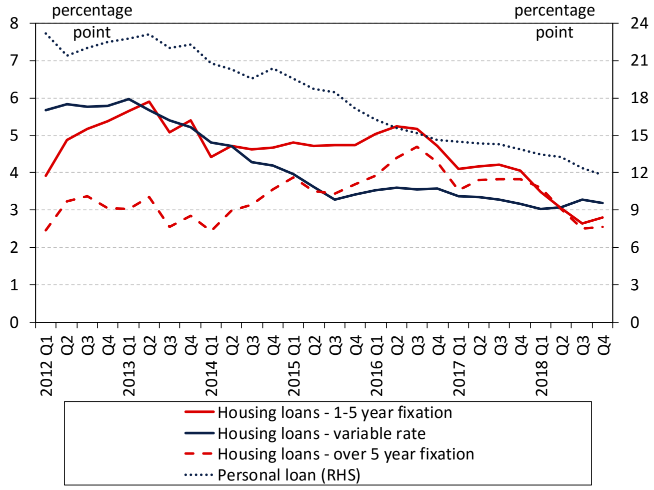


Note: Quarterly average of lending rates on newly disbursed loans. Source: MNB.

Credit conditions did not change considerably. In 2018 Q4, only a net 5 per cent of the banks participating in the Lending Survey eased the conditions of housing loans (Chart 16), which was mainly reflected in the decline in interest rate spreads when we look at partial conditions. Banks argued that housing market developments and their favourable liquidity position pointed towards easing, and they expect these to develop similarly in the next half year. Yet even looking ahead, overall housing loan conditions are not predicted to be eased any further. The conditions of consumer loans were also eased by a net 5 per cent of banks during the fourth quarter, which mostly affected personal loans. The easing could be detected in the lower spreads, which banks justified by their market share targets. For the next half year, a net 10 per cent of banks indicated easing with respect to personal loans, still primarily motivated by maintaining their market position.

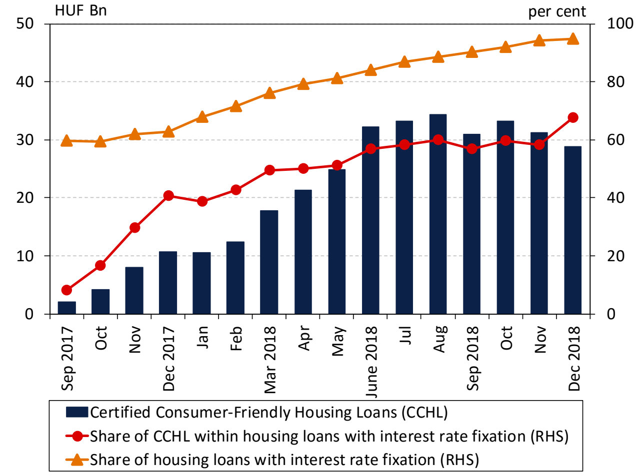
The proportion of fixed-rate loans within new housing loans continued to increase. In parallel with the moderate decline in short-term funding costs (BUBOR) in the last quarter of 2018, the annual percentage rate (APR) of new forint housing loans diminished by 0.2 percentage points quarter-on-quarter in the case of the quickly repriced variable-rate housing loans (Chart 17). However, the quarterly average of longer-term funding costs (relevant IRS) did not fall, so a slight uptick was observed quarter-on-quarter in the interest rate of the more slowly repriced housing loans fixed for over one year, due to the summer change in funding costs (a 0.3-percentage-point increase occurred in the case of the loans with an interest rate fixation period of 1–5 years, and a 0.1-percentage-point increase happened in the case of the loans fixed for over 5 years). At the same time, the proportion of new housing loans fixed for over one year continued to increase: 94 per cent of the contracts concluded in the quarter were fixed for over 1 year (this figure was 61 per cent in the last quarter of 2017), and 62 per cent of the new loans had an interest rate period of over 5 years (compared to the 27-per-cent share in the same period in 2017). As the proportion of loans with a longer-term interest rate fixation period

Chart 18: Interest rate spreads on new household loans



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

Chart 19: Issue of certified consumer-friendly housing loans and loans with interest rate fixation



Source: MNB.

increases, new disbursements are increasingly characterised by lower interest rate risk.

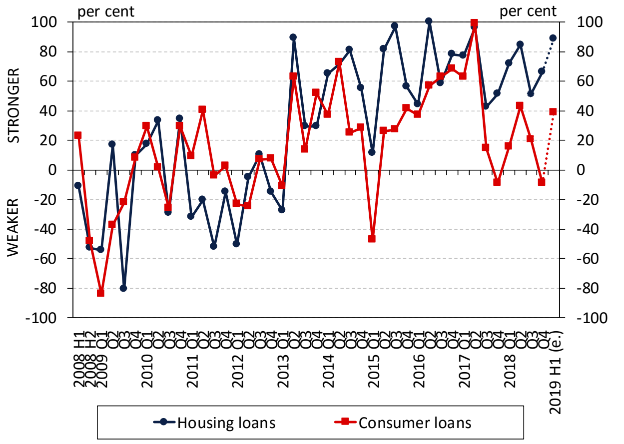
The spread of new housing loans with interest rate fixation is below that of variable-rate loans. The relative cost disadvantage of the loans fixed for over one year has disappeared for the second quarter of this year, as their spreads tumbled below the spreads of variable-rate loans (Chart 18). However, in the last quarter, since the interest rate decline was greater than the drop in funding costs, there was a 0.1-percentage-point decline in the spreads of variable-rate loans quarter-on-quarter. In the case of the loans fixed for 1–5 years, which are repriced more slowly, spreads grew slightly, by 0.2 percentage points, while they practically stagnated in the case of the loans fixed for over 5 years. The increasingly favourable credit conditions of personal loans can also be seen in the steady fall in spreads, which amounted to 0.6 percentage points in the fourth quarter, that may add to the increasing popularity of this product.

61 per cent of the new housing loans in the fourth quarter were certified products. Banks concluded housing loan contracts certified by the MNB with households in the amount of HUF 93 billion during the quarter, which represents 61 per cent of the housing loans with an interest rate fixation period of over 5 years (Chart 19). The growing disbursement of the loans fixed for the longer term is significantly influenced by the popularity of Certtified Consumer-Friendly Housing Loans, while the modification of the CCHL product certification points towards a lengthening of the interest rate period.[6]

The demand for housing loans continued to grow. Two-thirds of the banks participating in the Lending Survey reported increased demand for housing loans in the fourth quarter, while a net 9 per cent perceived a decline in the case of consumer loans (Chart 20). This is consistent with the seasonal patterns seen in new loan disbursements. However, banks expect further growth in terms of both housing and consumer loan demand in the half year ahead.

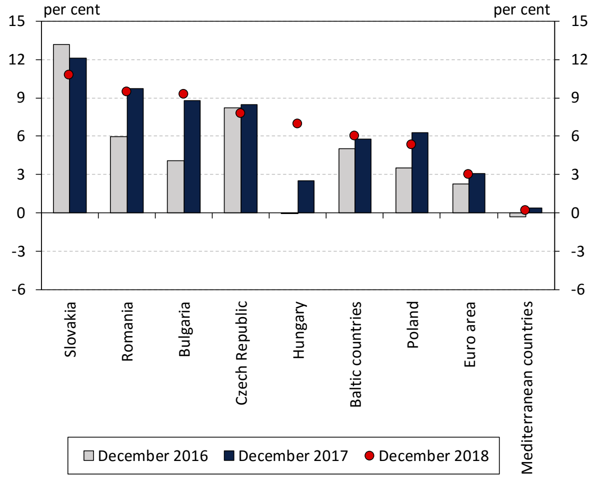
[6] Effective since 1 October 2018, loans with an interest rate fixation period of 3 years were removed from the group of certified products, however, credit institutions could start offering CCHL products fixed for 15 years.

Chart 20: Credit demand in household lending segment



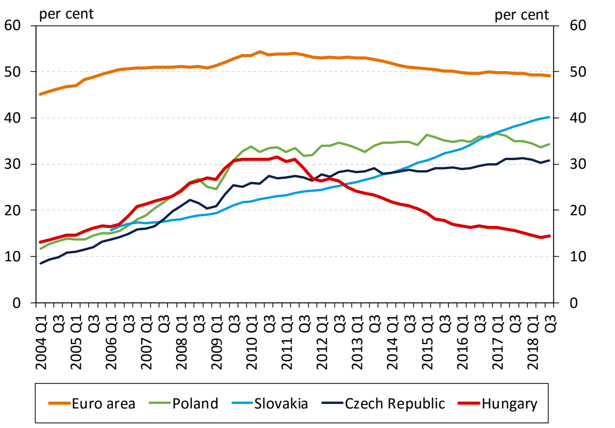
Note: The net ratio is the difference between tightening and easing banks, weighted by the market share Source: MNB, based on banks' responses.

Chart 21: Annual transaction-based growth rate of household loans in international comparison



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

Chart 22: Household credit-to-GDP in an international comparison



Source: ECB, MNB.

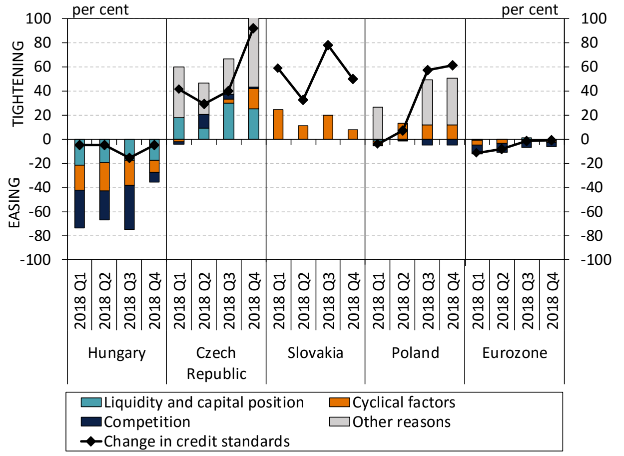
The role of the Home Purchase Subsidy Scheme for Families (HPS) may increase in lending. In 2018 Q4, households took out loans in the amount of HUF 24 billion related to the HPS, which comprised 12 per cent of the housing loans disbursed in the quarter. This share is lower than in the previous period, however, the amendments that took effect in December 2018 may increase the role played by the HPS in housing loans in 2019 (Box 2).

International developments in household lending

Lending in the CEE region continues to exceed euro area households' debt growth considerably. In 2018, euro area households' credit stock increased by 3 per cent, which is identical to the growth seen in 2017. This conceals substantial heterogeneity: while households' debt declined in Greece, the Netherlands and Cyprus as a result of credit transactions, a 4–6 per cent increase could be observed in major economies such as Germany or France. The largest annual growth in the European Union was related to the Central and Eastern European region: growth of over 5 per cent was achieved in the Visegrád countries, Romania, Bulgaria, Estonia and Lithuania (Chart 21). The greatest surge (11 per cent) was recorded in Slovakia, however, annual growth there fell short of the figures observed in the previous two years. In the Czech Republic, similar to earlier years, household credit increased by 8 per cent in a year, while Poland saw a 5-per cent expansion, which fell short of Hungary's credit dynamics.

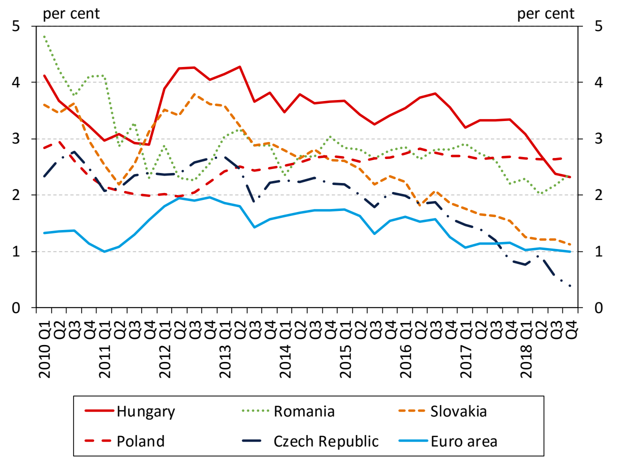
There is still room for financial deepening in the countries of the region. The robust growth does not pose a significant risk with respect to household indebtedness, because the credit-to-GDP ratio of the region is lower than the euro area average of 49 per cent (Chart 22). In Hungary and Romania, the outstanding loans of the household segment vis-à-vis the credit institutions amounts to 14 per cent of GDP (which makes these countries the worst performers in the EU), whereas this figure is between 30 and 40 per cent in Slovakia, the Czech Republic and Poland. There are similar differences regarding housing loans: while housing loans amount to 41 per cent of GDP in the EU, they represent 20–30 per cent

Chart 23: Changes and factors contributing to changes in housing loan conditions in an international comparison



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

Chart 24: Interest rate spreads in international comparison for housing loans provided in domestic currency



Note: In the case of variable-rate housing loans or ones with up to 1-year rate fixation, interest rate based smoothed spread over the 3-month interbank rate, or over the 3-year IRS for housing loans fixed for a period between 1-5 years, over the 7-year IRS for a 5-10-year fixation, and over the 15-year IRS for a longer than 10-year fixation. Source: MNB, ECB, EMF, Datastream, national central banks.

in the Visegrád countries, and their share is the lowest in the EU in Romania and Hungary (at 8 per cent).

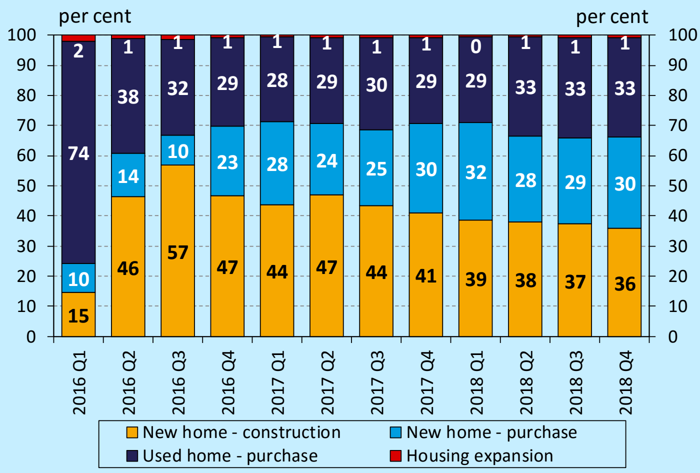
Housing loan conditions did not change in the euro area. The European Central Bank's Bank Lending Survey revealed that, similar to Hungarian institutions, euro area banks did not substantially change the conditions on housing loans in 2018 Q4. Conditions were not eased, even though all factors pointed towards this, especially the market competition, the upswing on the housing market and debtors' creditworthiness. At the same time, credit conditions tightened in the Visegrád countries, except for Hungary: in net terms, 61 per cent of the banks in Poland, 92 per cent of the banks in the Czech Republic and 50 per cent of the banks in Slovakia reportedly tightened their conditions during Q4. This was warranted in Poland by the economic outlook and other factors, such as the more strict calculation of customers' eligible income. In the Czech Republic, the tightening was caused by the entry into force of the central bank's macroprudential rules (on the payment-to-income ratio and the debt-to-income ratio). Slovakia also introduced stricter debt cap rules in the middle of the year, which affected the loan-to-value ratio and the maximum permitted debt-to-income ratio (Chart 23).

Interest rate spreads dropped in the Visegrád countries. In 2018 Q4, the average APR of the housing loans disbursed in domestic currency did not change in the euro area as a whole, and the same was observed in Poland among the Visegrád countries. However, the APR dropped by 0.1 percentage point in Slovakia and increased by 0.2 percentage points in the Czech Republic and Romania. Interest rate spreads developed in line with interest rates, since funding costs remained constant, with the sole exception of the Czech spread fall (Chart 24). On account of the decline seen in the past year, Hungarian spreads declined below the Polish figure, reaching Romania's level in the fourth quarter, which eliminated the relative cost disadvantage of Hungarian housing loans that had persisted since 2012. Yet spreads continue to fall short of the Czech and Slovak values or the euro area's 1 percentage point average.

BOX 2: The role of Home Purchase Subsidy Scheme for Families in lending

After its expansion in February 2016, the Home Purchase Subsidy Scheme for Families (HPS) provided major support to Hungarian families in achieving their housing goals. However, high property prices excluded households with lower income and wealth, despite the dynamic rise in real wages, therefore the government eased the conditions of the HPS in several steps to maintain the supportive role of the subsidy. **The amendment that took effect on 1 December 2018 meant a substantial change in the amount of subsidy**, since it allowed even families with two children to access the HUF 10 million preferential loan with an interest subsidy (3 per cent) when purchasing or constructing new homes, while families with three or more children may take out HUF 15 million at below-market rates. In February 2019, the government announced a further planned expansion, whereby families with two or more children are expected to be allowed to take out the preferential HPS loan for purchasing used homes, and the programme may even include an element differentiated on a regional basis.

Distribution of contract amounts based on the loan objective



Source: Ministry of Finance.

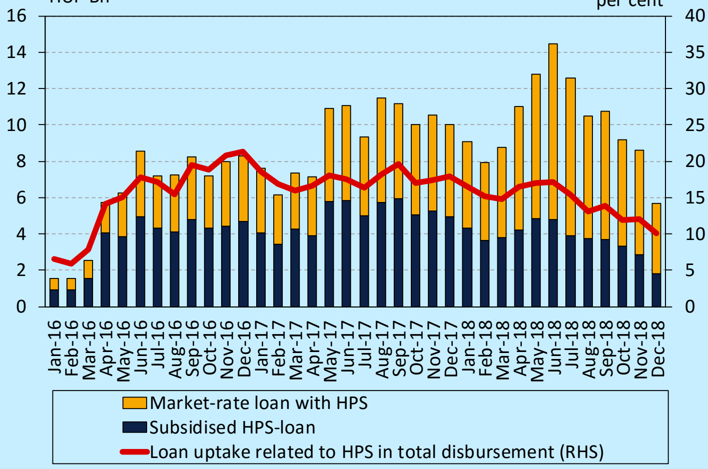
Over the course of 3 years, since the launch of the expanded HPS in 2016 some 265,000 people have sought information at banks about claiming the subsidy. **From the 85,000 accepted claims, 76,000 contracts have already been concluded, with a total value of HUF 237 billion**. In terms of purpose, two-thirds of the contracts were concluded for purchasing used homes, while 14 per cent were linked to buying new homes and 17 per cent were related to constructing new homes. Although used homes dominate the number of contracts, thanks to the higher allowance this does not hold true for the distribution of the contract amount, since two-thirds of the contracted volume were used for constructing or purchasing new homes, and the share of the amount spent on used homes is merely one-third.

16 per cent of the HPS was claimed by families with one child, 46 per cent was claimed by families with two children, and 38 per cent was claimed by families with three or more children. However, as regards volume, this categorisation also exhibits huge differences, since the largest subsidy is available to families with three or more children. Accordingly, merely 3 per cent of the value of the contracts concluded since February 2016 was used for 1 child, 24 per cent was used for 2 children and 73 per cent was used for at least 3 children. The allowance may be claimed not only for the children already born but also those planned, and HPS claimants have pledged 45,000 children according to Ministry of Finance data from October 2018. This represents 5 per cent of the children born during the last 10 years.

Borrowing related to the Home Purchase Subsidy Scheme for Families amounted to 16 per cent of new housing loans since February 2016, in two basic forms: the preferential loan with a maximum interest rate of 3 per cent provided in parallel with the non-refundable subsidy extended by the government on the one hand, and market-rate loans taken out by the households that are not eligible for the preferential rates on the other hand.

Half of the HPS loans were disbursed for purchasing or constructing new homes, which amounted to 57 per cent of the credit institution loans taken out for new homes in the same period. Since February 2016 some 38,000 loan contracts have been linked to the HPS, with a total amount of HUF 306 billion. Since the new conditions entered into force, almost half of the contracts have used market rates, while the other half have been disbursed at preferential rates related to the HPS. The HPS' huge popularity is expected to persist, but the subsidy will primarily be used in rural areas as house prices continue to rise.

Changes in the uptake of loans related to HPS



Note: Based on volumes. Source: MNB

4. ANNEX: NOTES ON THE METHODOLOGY

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

1. Credit aggregate and lending rate data

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

2. Lending Survey

The Lending Survey facilitates the analysis of how major Hungarian banks perceive and evaluate market developments and how they develop their respective strategies, in particular their lending policies. 9 banks responded to questions related to housing loans, while 10 banks answered questions on consumer loans. Based on data from the end of 2018 Q4, the surveyed institutions accounted for 80 per cent of the banking sector in the case of outstanding housing loans and 89 per cent in the case of outstanding consumer loans. The corporate questionnaire was completed by 15 banks in total, which represent 91 per cent of the corporate loan market, while the market share of the 14 banks responding to the questionnaire related to commercial real estate loans is 84 per cent.

The survey consists of a standard questionnaire in each segment. The retrospective questions refer to 2018 Q4 (compared to 2018 Q3), whereas the forward-looking questions concern the next half year, covering 2019 H1 (relative to 2018 Q4). The current questionnaire was completed by senior loan officers between 2 and 17 January 2019.

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

The detailed findings of the Lending Survey and the set of charts are available at: https://www.mnb.hu/en/financial-stability/publications/lending-survey

TRENDS IN LENDING

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