TRENDS IN LENDING

2021
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(March 2021)

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The objective of the publication 'Trends in Lending' is to present a comprehensive picture of the latest trends in lending and to facilitate the correct interpretation of these developments. To this end, it elaborates on 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 outstanding (net of exchange rate effects) are presented. From 2013 Q4 on, the analysis presents the trends in lending in the overall credit institutions sector (banking system and foreign branches, cooperative credit institutions).*
- *Changes in non-price credit conditions are presented in a qualitative manner based on the Lending Survey, in which the banks that are active in the given segment and jointly cover 80-90 per cent of the credit market indicate the direction of change compared to the reference period. The Lending Survey includes price conditions in a qualitative manner as well, in the form of the spread 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

Despite the negative economic impacts of the coronavirus pandemic, corporate loans outstanding continued to grow in the fourth quarter of 2020 as well, expanding by roughly HUF 227 billion. Thus, on the whole, loan disbursements in 2020 exceeded the volume of loan repayments by HUF 780 billion, as a result of which banks' corporate loans outstanding expanded by 9.4 per cent. The moratorium on payments introduced last March resulted in a fall in principal instalments due, while the central bank and state loan and guarantee schemes introduced to mitigate the economic impacts of the coronavirus exerted a favourable impact on new loans. In the fourth quarter, corporations concluded new loan contracts in the amount of roughly HUF 1,155 billion, which exceeded the volume of new loans disbursed in the fourth quarter of 2019 by 71 per cent. In 2020, based on preliminary data, the loan portfolio of micro, small and medium-sized enterprises rose by 13 per cent. Lending to SMEs was strongly supported by FGS Go!, with the new loan contracts concluded in the amount of HUF 660 billion accounting for 90 per cent of all SME loan contracts in the fourth quarter of 2020.

Based on the responses of the banks participating in the Lending Survey, apart from tightening related to commercial property financing due to sector-specific reasons, lending conditions did not change significantly in the fourth quarter, while there was a rise in demand both for short-term and long-term loans. The banks participating in the survey plan no further tightening in lending conditions in any enterprise size category in the first half of 2021, and in parallel with this they anticipate a further pick-up in demand.

In the fourth quarter of 2020, the household loans outstanding of the credit institution sector grew, primarily as a result of the dynamic disbursement of prenatal baby support loans and housing loans, as well as lower amortisation resulting from the moratorium on instalments. Loan disbursements exceeded the volume of instalments by HUF 257 billion. In December 2020, due to transactions, banks' household loans outstanding exceeded the value registered one year earlier by 14.5 per cent. This annual growth rate is the highest among the Member States of the European Union, but according to our estimates, after adjustment for the effect of the moratorium on payments, the annual growth rate decreases to roughly 8 per cent. The volume of new loan contracts concluded during the quarter fell short of the year-on-year disbursements by 9 per cent, with this decline impacting all loan products with the exception of housing loans. One third of the disbursements during the quarter were subsidised loans. In December 2020, the volume of prenatal baby support loans outstanding already accounted for 13 per cent of the entire retail loan portfolio.

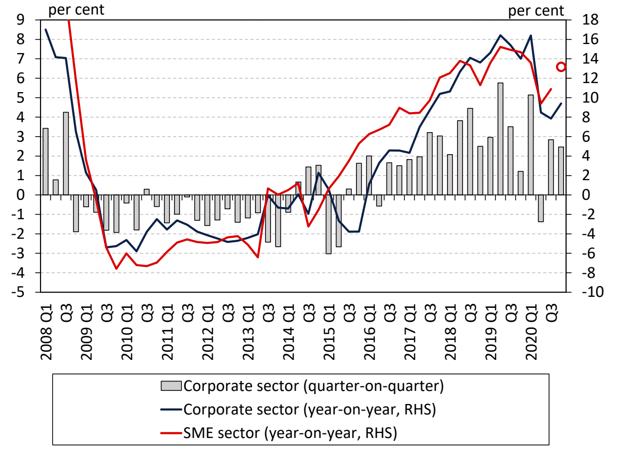
The banks participating in the Lending Survey did not change conditions on either housing loans or consumer loans during the quarter. However, in addition to rising demand, they anticipate easing in respect of the latter in the first half of 2021, in which the home improvement subsidy starting in January may also play a significant role.

2. TRENDS IN LENDING IN THE CORPORATE SEGMENT

Despite the negative economic impacts of the coronavirus pandemic, the loans outstanding of corporations rose by HUF 227 billion due to transactions in the fourth quarter of 2020, primarily as result of the state and central bank schemes launched to mitigate the negative consequences of the crisis. In 2020, banks' loans outstanding to non-financial corporations grew by 9.4 per cent, or HUF 780 billion in total, reflecting an acceleration in growth compared to 7.9 per cent registered in the third quarter. The loans outstanding of the SME sector rose significantly: according to preliminary data, annual growth of 13.2 per cent was registered. The volume of new contracts concluded in the fourth quarter exceeded the value registered in the fourth quarter of 2019 by 71 per cent. In a breakdown by sector, concentration increased in new disbursements, and the share of high-amount transactions is still significant. There was keen interest in FGS Go! in the fourth quarter of 2020 as well: FGS accounted for almost 58 per cent of total corporate loan disbursements and roughly for 90 per cent of new SME contracts, and thus the ratio of forint loans and fixed-rate loans continues to be high.

Based on the responses of banks participating in the Lending Survey, apart from tightening related to commercial property financing due to sector-specific reasons, lending conditions did not change significantly in the fourth quarter. Interest rates declined moderately during the quarter, primarily due to the fall in spreads. The majority of banks experienced a pick-up in demand in the fourth quarter of 2020 both for short-term and long-term loans, and they expect further recovery in the first half of 2021.

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



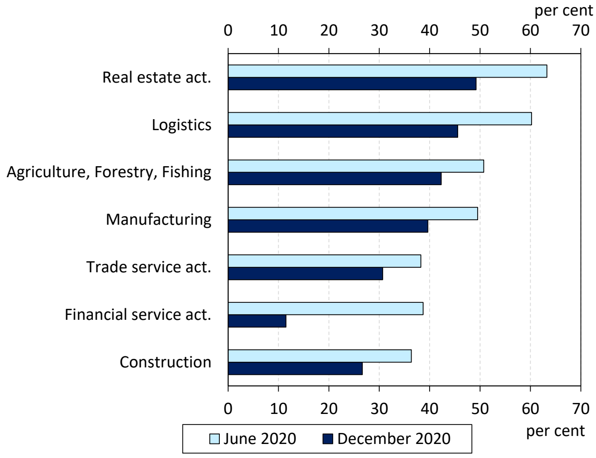
Note: Transaction-based data, prior to 2015 Q4 data for SMEs are estimated based on banking system data. Source: MNB

Corporate lending in Hungary

Corporate lending expanded in 2020 again, albeit to a lesser degree than in 2019. In 2020, the loans outstanding of non-financial corporations due to transactions grew by HUF 780 billion, representing annual growth of 9.4 per cent (Chart 1), which fell short of the growth of HUF 1,044 billion registered in 2019. The growth was primarily supported by the 20-per cent rise in forint loans, while foreign currency loans decreased moderately, at a rate of 4 per cent, in annual terms. Based on preliminary data, the SME segment's loans outstanding rose by 13.2 per cent during the year.

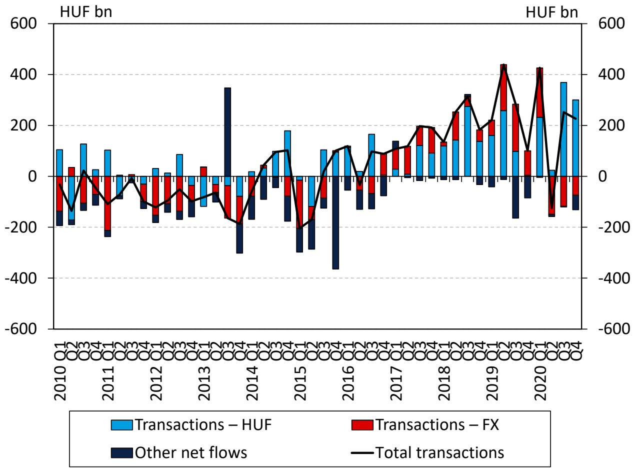
Recourse to the moratorium decreased significantly among corporate clients. In June 2020, the moratorium applied to 51 per cent of corporations' eligible outstanding borrowings, with this figure dropping to 39 per cent by December. Utilisation of the moratorium declined in all of the seven largest sectors with corporate loan portfolios (Chart 2). In December, looking at the largest sectors, utilisation of the moratorium continued to exceed 45 per cent in the real estate and logistics sectors, while it fell below

Chart 2: Recourse to the moratorium in the seven sectors with the largest loan portfolios



Note: As a percentage of the outstanding, eligible (performing loans disbursed before 18 March 2020) loan portfolio. Source: MNB

Chart 3: 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

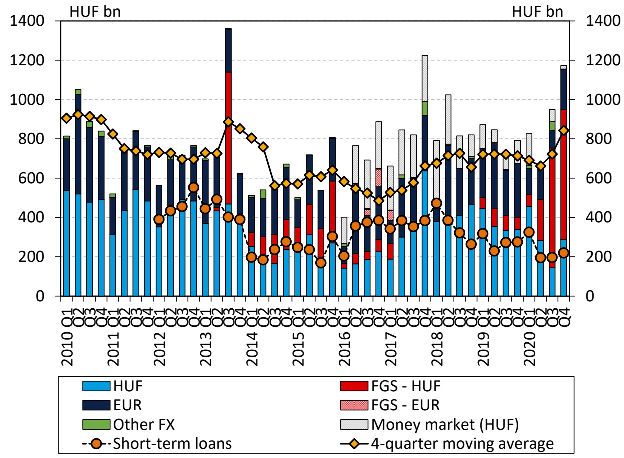
30 per cent in construction and finance and insurance sectors.

The quarterly growth in loans outstanding was mainly attributable to forint and SME loans. As a combined result of the fall of HUF 73 billion in foreign currency loan transactions and the rise of HUF 300 billion in forint loans, the outstanding borrowing of corporations grew by HUF 227 billion in the fourth quarter of 2020 (Chart 3). In line with the year-end seasonality, the outstanding borrowing of large corporations decreased moderately during the quarter, while the SME segment registered growth of HUF 244 billion, thanks to the subsidised state and central bank loan schemes. In the quarter under review, transactions in high-amount contracts supported the transactional growth in the loan portfolio. In the period under review, the portfolio of longer-term forint loans expanded, while outstanding borrowing decreased for shorter maturities; foreign currency loans registered a decline both in the longer and shorter maturity categories. The growth in loans outstanding registered in the quarter under review was strongly supported by the moratorium on loan instalments, the FGS Go! and the state loan and guarantee schemes introduced due to the negative economic impacts of the coronavirus (See Box 1).[1] Manufacturing and trade service activities sectors contributed to the annual growth to the largest degree: on a quarterly basis, the latter provided the strongest support for growth, while the former stagnated based on transactions. A moderate decline was observed in logistics both in annual and quarterly terms. The four sectors showing the largest growth in outstanding borrowing (manufacturing, trade service activities, real estate, information and communication) account for 64 per cent of the annual growth.

The volume of new contracts significantly exceeded the value of the same period of the previous year. In 2020, excluding money market deals, companies concluded new loan contracts with credit institutions in a total value of HUF 3,370 billion, exceeding the previous year's new disbursement by 18 per cent. The

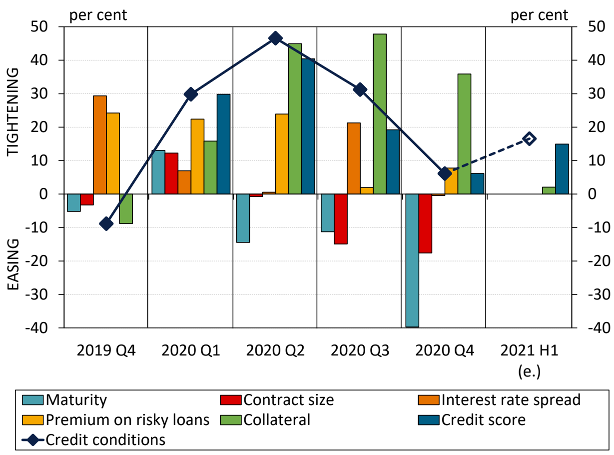
[1] For more detailed information on the state and central bank programmes launched to mitigate the economic impacts of the coronavirus, see Box 5 of the Financial Stability Report of May 2020.

Chart 4: New corporate loans in the credit institutions sector



Source: MNB

Chart 5: Changes in credit conditions in the corporate segment



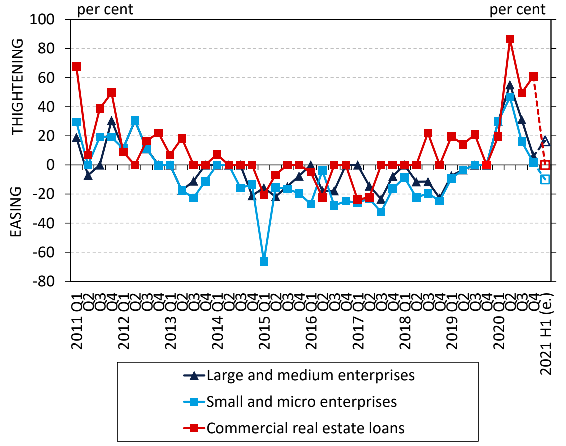
Note: Net percentage balance of respondents tightening/easing credit conditions weighted by market share. Source: MNB, based on banks' responses

new disbursements of HUF 1,155 billion in the fourth quarter of 2020 exceeded the year-on-year figure by 71 per cent, while the prevalence of forint loans increased further (Chart 4). In a breakdown by sectors, concentration rose further in new loans compared to the third quarter, and the share of high-amount transactions (over HUF 5 billion) can still be deemed considerable (28 per cent). In 2020, the share of fixed-rate loans rose considerably in new disbursements. In addition to the closing FGS fix scheme, the FGS Go!, launched in April, contributed strongly to this, as within the framework of these schemes credit institutions concluded loans with corporate enterprises in the amount of HUF 1,540 billion last year.[2] The contracts concluded under FGS in the amount of approximately HUF 660 billion accounted for almost 58 per cent of new disbursements and about 90 per cent of the SME contracts in the fourth quarter of 2020.

In this quarter, the terms of lending did not change materially in the corporate segment. In net terms, only 6 per cent of the respondent credit institutions in the Lending Survey reported the tightening of corporate lending conditions. In the past half-year, the majority of the institutions cited sector-specific problems and changes in risk tolerance as factors pointing to tightening. Banks primarily tightened the minimum collateral requirement, monitoring and customer data supply requirements, while on the other hand they eased credit standards in terms of maximum maturity and loan size (Chart 5). Of the participating institutions, 17 per cent anticipated further tightening in lending conditions in the first half of 2021. No major changes were observed in lending conditions for large and medium-sized or small and micro enterprises in the fourth quarter. However, in net terms, 61 per cent of the respondent credit institutions tightened conditions on commercial real estate loans due to the uncertainty about the prospects of several segments of the commercial property market (Chart 6). In the first half of 2021, in the case of large and medium-sized enterprises, 17 per cent of the banks – in net terms – anticipated further tightening in lending conditions, while in the case of

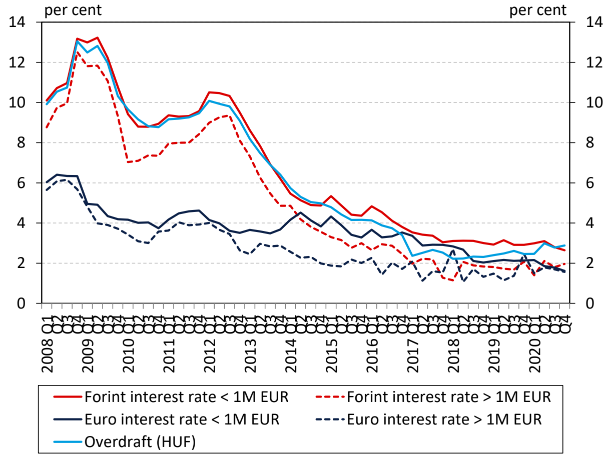
[2] The data do not contain the volume of the loans issued by financial enterprises and loans acquired by independent entrepreneurs. For more detailed information on the launch of FGS Go!, see the MNB's website : https://www.mnb.hu/en/monetary-policy/funding-for-growth-scheme-fgs

Chart 6: Changes in credit conditions in the corporate subsegments



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

Chart 7: 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

small and micro enterprises 10 per cent of them projected easing. Conditions on commercial real estate loans may remain unchanged.

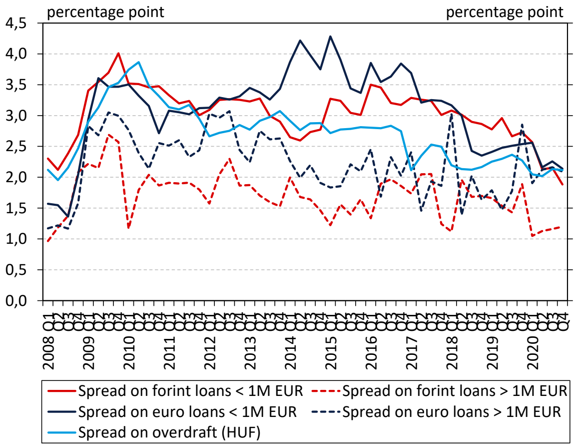
The financing costs of small-amount loans declined slightly during the quarter. The interest rate level of overdraft facilities rose by 10 basis points to 2.9 per cent in the fourth quarter of 2020 (Chart 7). The average interest rate level – net of money market[3] transactions – of euro and forint loans below EUR 1 million decreased quarter-on-quarter by 0.2 percentage point, and thus stood at 1.6 per cent and 2.6 per cent, respectively, at the end of 2020. The change is essentially attributable to the falling interest rate spreads both in the case of overdraft facilities and low-amount euro and forint loans (Chart 8).

The financing costs of high-amount forint loan contracts rose slightly quarter-on-quarter. The average interest rate on high-amount forint loans increased by 16 basis points quarter-on-quarter, to 2.0 per cent. The average interest rate on high-amount euro loans decreased to a small degree, by 0.1 percentage point to 1.6 per cent. The interest rate increase was caused by the rise in 3-month BUBOR in the case of forint loans, while the decrease in the case of euro loans is attributable to the declining spreads.

Banks reported a pick-up in demand in the fourth quarter. In the first half of 2020, as a result of the coronavirus, the pick-up in demand was more moderate (Chart 9); however, in the third and fourth quarters, more than 30 per cent of banks reported a recovery in demand for both maturities. Looking ahead, 46 and 39 per cent of the banks anticipate further growth in demand for short-term and long-term loans, respectively. As regards the entire year, forint loans proved to be more crisis-resistant than foreign currency loans: owing to the wide-ranging subsidised loan schemes, on the whole, banks reported rising demand for forint loans in each quarter. By contrast, apart from the third quarter, demand for foreign currency loans steadily declined

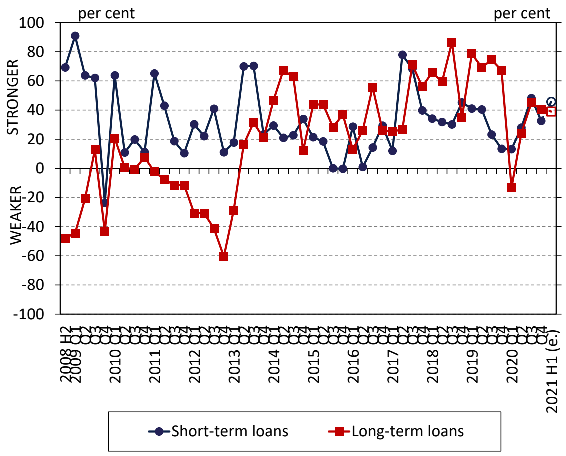
[3] Money market transactions are loans with a value of over EUR 1 million extended to non-financial corporations; their term is short (typically less than 1 month) and they serve to fund some kind of financial operation. It has been possible to exclude money market transactions since 2015, although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

Chart 8: Interest rate spreads on new corporate loans



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

Chart 9: Changes in credit demand by maturity



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

throughout the year; in the fourth quarter 12 per cent of the banks reported a decline.

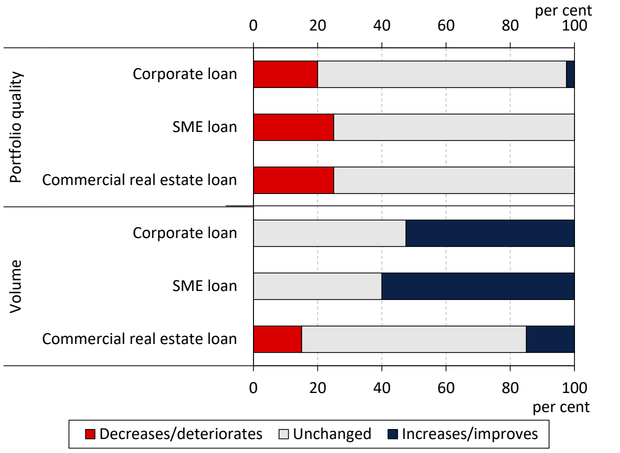
Demand for the FGS Go! scheme is increasing dynamically. Within the framework of FGS Go!, in 2020 as a whole, credit institutions concluded contracts with 21,000 domestic micro, small and medium-sized enterprises in the total amount of HUF 1,560 billion. At its meeting on 17 November, the Monetary Council decided to raise the FGS global amount by HUF 1,000 billion; accordingly, the scheme will be able to support the operation, modernisation and growth of many companies in 2021 as well. In 2020, the product was mostly (56 per cent) used for working capital financing, and 31 per cent of the total volume was requested for investment purposes, while 13 per cent was used by enterprises for refinancing their existing investment loans. Roughly three-quarters of the loans were drawn down by SMEs active in the trade, manufacturing, real estate, agriculture and construction sectors.

Half of the banks plan to increase both the entire corporate and the SME loan portfolios in the first half of 2021. Within the framework of the Bank Business Survey, domestic credit institutions also outline their strategic plans, in addition to assessing the situation of business activity. About half of the banks plan to increase their loans outstanding to the entire corporate sector and to SMEs in the first half of 2021 (Chart 10), while they anticipate mounting competition, in particular the large banks. However, in the case of commercial real estate loans, only a smaller ratio of the respondents plan any increase, which is offset by the 15 per cent of banks that plan to shrink the portfolio. Domestic market participants anticipate a deterioration in portfolio quality in the three segments in almost identical proportions.

International developments in corporate lending

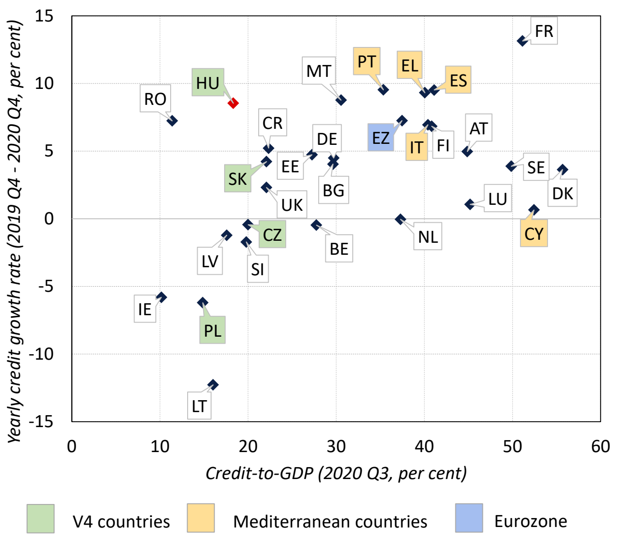
Growth in domestic corporate loans continues to be in the vanguard among EU countries. Comparison of international trends is complicated by the various moratoriums on loan instalments introduced in response to the coronavirus pandemic, and in Hungary, this factor may have helped significantly to maintain the outstanding growth in corporate loans

Chart 10: Banks' expectations related to changes in the volume of loans and portfolio quality in the corporate segment



Note: Unweighted distribution of credit institutions. Source: MNB, based on banks' responses

Chart 11: Annual growth rate of corporate loans and the credit-to-GDP ratio in an international comparison



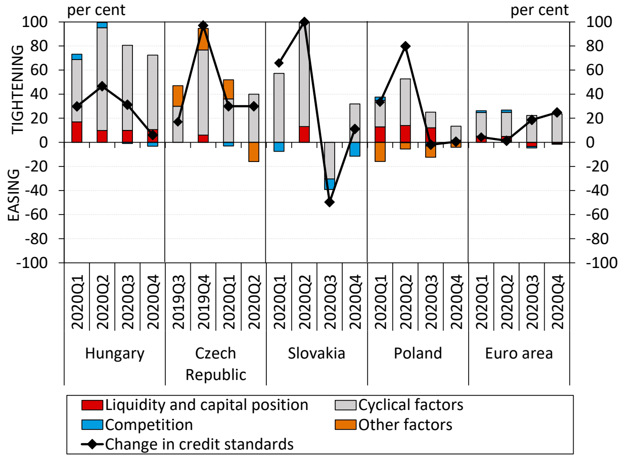
Source: ECB, MNB

(see Box 1). The Visegrád countries excluding Hungary (i.e. the V3 countries) fell short of the euro area average, which amounted to well over 7 per cent last year with significant heterogeneity of the member states (Chart 11). Apart from Germany, in the larger national economies of the European Union (France, Italy, Spain), the fourth quarter of 2020 was characterised by pick-up in corporate lending. In addition, credit dynamics in Estonia, Greece, Portugal and Romania rose substantially at the end of the year. The outstanding borrowing of Lithuanian corporations fell by more than 10 per cent in annual terms, while outstanding borrowing in Poland fell in year-on-year terms for the first time in 9 years. Similarly to the situation in the Visegrád Group, Hungary's corporate lending-to-GDP ratio remains low in an international comparison, but the growth rate may be deemed outstanding compared to these countries.

Lending conditions tightened in the euro area and several regional countries. The changes in standards were mostly determined by cyclical factors throughout the year. In the fourth quarter, among the Visegrád countries, a larger ratio of credit institutions (30 per cent) reported tightening in the Czech Republic, while standards did not change significantly in Slovakia, Hungary and Poland (Chart 12). In the euro area, 25 per cent of the banks tightened the conditions of access to credit in the fourth quarter. According to the ECB's survey,[4] tightening was mostly attributable to the change in risk factors and mounting economic uncertainties, all of which may be connected to the restrictive measures adopted in autumn due to the second wave of the coronavirus and to the dynamics of economic recovery. As regards the four largest Member States in the euro area, credit conditions were tightened significantly in France and Spain, while they did not change materially in Italy and Germany in the past quarter. According to expectations, in the first quarter of 2021 lending conditions are likely to be further tightened in the euro area, which may be connected with the anticipated phase-out of the public schemes mitigating the negative economic impacts of the pandemic.

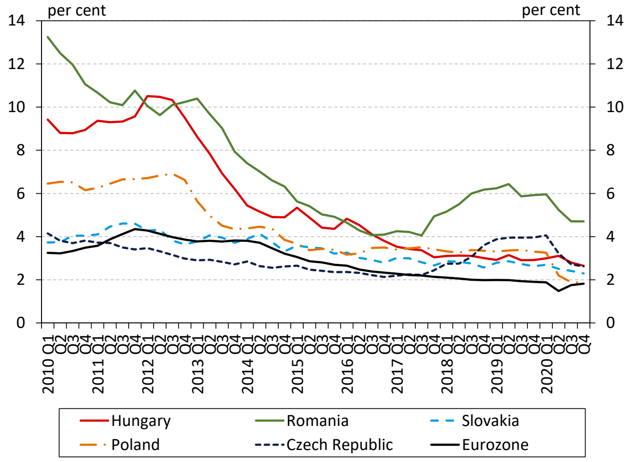
Interest rate on corporate loans fell substantially in the region in year-on-year terms. In the fourth quarter of 2020, interest rates on small-amount

Chart 12: 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 tightening conditions, while negative ones indicate easing. 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

corporate loans decreased moderately in all the regional countries, with the largest fall of 15 basis points recorded in Hungary (Chart 13). In an annual comparison, the largest declines in the region – at over 100 basis points – were observed in Poland, the Czech Republic and Romania. The reason for the larger decrease in interest rates on loans in the region is the spillover effect of central bank interest rate cuts resulting from the coronavirus. In an annual comparison, spreads show a heterogeneous picture: while they fell by 85 basis points in Hungary, spreads rose by almost 50 basis points in the Czech Republic.

[4] The euro area bank lending survey
https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/ecb.blssurvey2020q4~e89c77d212.en.html

BOX 1: IMPACT OF THE CENTRAL BANK AND STATE CREDIT SCHEMES ON THE STRUCTURE OF THE CREDIT MARKET

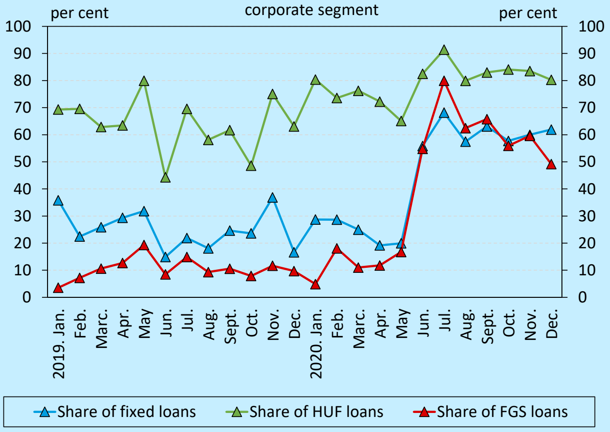
Following the 2008 financial crisis, both the retail and corporate loan portfolio continued to decline for years, which – in addition to over-indebtedness – was also attributable to the fact that the state and the central bank, in the absence of sufficient room for manoeuvre, were unable to provide tangible support to the credit market. The new lending cycle was only able to commence after the introduction of government incentives: while in the corporate segment, small and medium-sized enterprise were targeted, in the household segment – putting the emphasis on demographic objectives – the focus was on stimulating the housing market and consumption. Immediately following the onset of the coronavirus crisis, a general moratorium on payments was introduced, at the central bank's recommendation, accompanied by a number of state loan and guarantee schemes. The purpose of these schemes is to ensure that the credit market avoids a drastic downturn and that this time bank lending should also be able to support the economic recovery.

Almost 60 per cent of new corporate contracts were realised within the framework of subsidised credit schemes

With a view to offsetting the negative real economy consequences of the coronavirus, large-scale state and central bank credit schemes were introduced in 2020. The new schemes supported the operation and modernisation of enterprises during the pandemic through predictable and favourable interest rates and wide-ranging utilisation conditions. The FGS Go!, introduced in April, may already contribute with a global amount of HUF 2,500 billion to boosting the SME sector, while the state credit schemes and the newly announced guarantee schemes may support corporate growth by additional global amounts as high as HUF 1,500 and HUF 1,200 billion, respectively. In addition to the moratorium on loan instalments, these schemes – introduced in a countercyclical manner – contributed largely to preventing a credit crunch as a result of the coronavirus and to ensuring that annual corporate credit dynamics still reflect almost double-digit growth.

As a result of the schemes, lending shifted to a large degree toward these new central bank and state credit schemes, as the subsidised products accounted for roughly 60 per cent of the disbursements in 2020. Of these, FGS plays an outstanding role, as almost three quarters of the contracted portfolio under subsidised credit schemes introduced after the onset of the coronavirus is connected to FGS, while the scheme accounts for almost 90 per cent of new loans to SMEs. Last year, on the whole 45 per cent of new loans were disbursed under FGS, while in 2019 this figure was 10 per cent. As a result of the new schemes, loan contracts shifted significantly towards fixed-rate forint loans. In 2019, 24 per cent and 62 per cent of the contracted portfolio were fixed-rate and forint loans, respectively, whereas in 2020 fixed-rate and forint-denominated loans accounted for 49 and 80 per cent of new disbursements, respectively.

Share of fixed-, HUF- and FGS loans in new disbursements in the corporate segment



Source: MNB.

This year, apart from the subsidised credit schemes, the moratorium also strongly supported corporate lending. In the case of corporations, it is difficult to estimate the growth rate without the moratorium, since in the absence of the moratorium, corporations would tend to refinance maturing short loans and instalments due from new loans in part. Considering the impact of additional funding, the growth rate without the moratorium, would likely be between 0 and 3 per cent.

Every third retail loan is a state-subsidised scheme

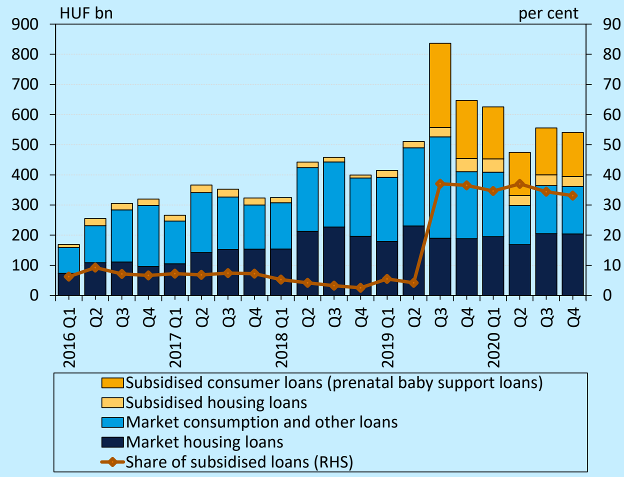
The Home Purchase Subsidy Scheme for Families, available since July 2015 as part of the Family Protection Action Plan, provides large families with high-amount funding under favourable conditions for the purchase or construction of new housing. In 2020, more than 6,000 contracts were concluded in the total amount of almost HUF 40 billion for the purchase or construction of new housing. In addition to HPS, banks are also extending large volumes of HPS-related loans, which amounted to HUF 200 billion in 2020 and accounted for 21 per cent of the annual disbursement of housing loans.

From July 2019, banks' product range was expanded with two new state-subsidised components. In order to implement the Hungarian Village Scheme, the rural HPS was launched, with a maximum loan amount of HUF 10 million which provides tangible support for purchasing real estate in small settlements with fewer than 5,000 inhabitants. Within the rural HPS, the number of applications has not declined even after the onset of the coronavirus pandemic. During the year 11,500 new contracts were concluded, while in terms of volume it exceeded the amount disbursed for the purchase and construction of new housing under HPS.

The prenatal baby support loan – with similar maximum loan amount, but as a free-purpose loan – became available, subject to having at least one child, which quickly became extremely popular primarily due to the favourable conditions. Prenatal baby support loans are typically applied for by young couples with higher education and income, affected by the pandemic to a lesser degree in terms of the labour market.[5] In 2020, banks disbursed prenatal baby support loans in the amount of HUF 615 billion, which accounted for 30 per cent of the annual loan disbursement.

Owing to the popular schemes available from July 2019, the ratio of state subsidised loans rose from around 4-5 per cent to over 30 per cent. In the fourth quarter of 2020, every third retail loan contract was accompanied by a state interest subsidy, which raises the question what kind of trends would characterise the credit market without government incentives. By eliminating the additional impact of the prenatal baby support loans[6] – representing the largest volume and already accounting for 13 per cent of outstanding household debt – the growth rate in the household segment would have been roughly 9 per cent, instead of the current 14.5 per cent.

Disbursement of market and subsidised loans in retail segment



Source: MNB

Elimination of the prenatal baby support loans affects the disbursement side of the growth in loans outstanding due to transactions, while at present the moratorium on payments exerts tangible impact on the repayment side. Assuming that all retail clients who participated in the moratorium had opted out from the moratorium and continued to pay the instalment, household loans outstanding could have increased at an annual rate of roughly 8 per cent at the end of 2020.

[5] For the characteristics and loan purposes of the prenatal baby support loan debtors, see the publication entitled Trends in Lending for September 2020.

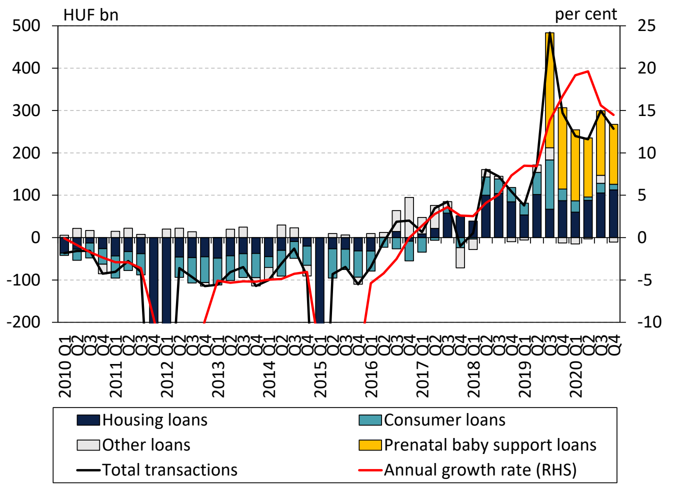
[6] For more details on the additional and substitution effects of the prenatal baby support loans, see: Zita Fellner – Anna Marosi – Beáta Szabó (2021): A babaváró kölcsön hitelpiaci és reálgazdasági hatásai (The effects of prenatal baby support loans on the credit market and the real economy). Közgazdasági Szemle (Economic Review) Vol. 68 No 2, pp. 150-177

3. TRENDS IN LENDING IN THE HOUSEHOLD SEGMENT

In the fourth quarter of 2020, growth in household loans outstanding in the credit institution sector was primarily supported by the disbursement of prenatal baby support loans and housing loans, and by the instalment-reducing effect of the moratorium. In the past one year, retail loans outstanding grew by HUF 1,028 billion due to transactions, causing the annual growth rate to fall to 14.5 per cent, which – according to our estimates – would be roughly 8 per cent without the moratorium on payments. The volume of new loan contracts concluded during the quarter fell short of the year-on-year disbursements by 9 per cent, with this decline impacting all loan products with the exception of housing loans. Although the number of loan contracts declined, the average loan amounts rose both for housing loans and personal loans, which is usually also accompanied by longer average maturity. At the end of 2020, the prenatal baby support loan portfolio exceeded HUF 1,000 billion, already accounting for 13 per cent of total household loans outstanding. In parallel with the decline in the number of new homes for sale, the volume of housing loans and HPS drawn down for this purpose also fell significantly. On the other hand, disbursements of rural HPS did not decrease.

The banks participating in the Lending Survey did not change the conditions of either the housing loans or the consumer loans during the quarter. However, they anticipate easing in respect of the latter in the first half of 2021, primarily explained by the housing market trends. The home improvement subsidy, which was launched from January 2021, may also contribute substantially to this. Respondent banks anticipate rising demand for consumer loans. Similarly to the trends in Hungary, the pick-up in demand for housing loans continued in the euro area as well. On the other hand, while credit conditions were tightened moderately in the euro area, the Visegrád countries were generally characterised by easing during the period under review.

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

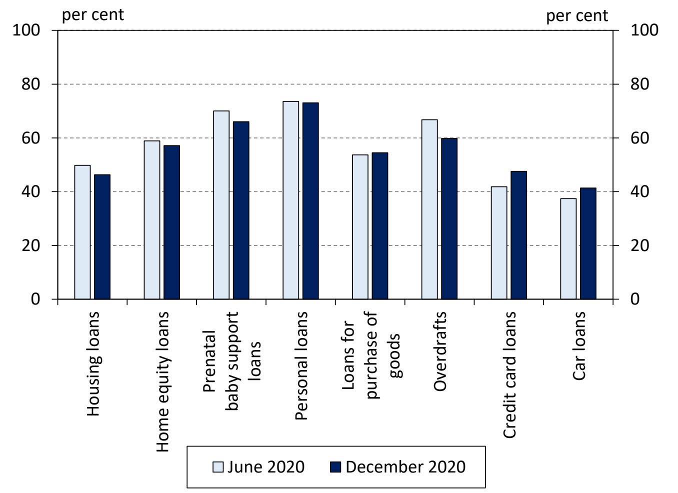


Note: Seasonally unadjusted net change in outstanding amounts, with rolling exchange rate adjustment. The transactions reflect the effect of the settlement. Source: MNB

Domestic household lending

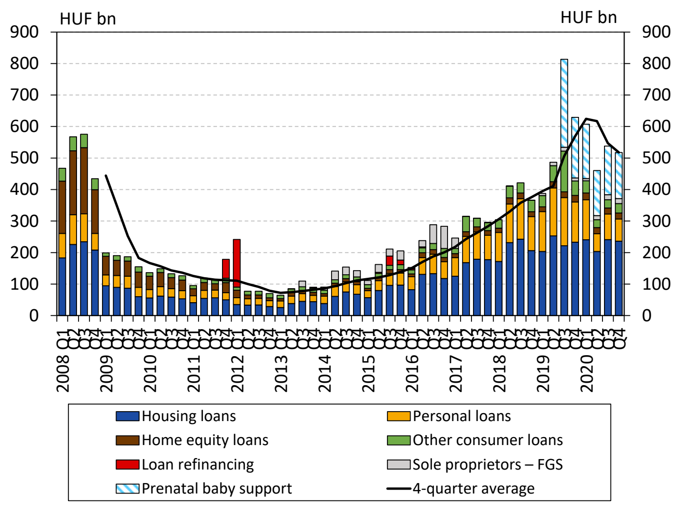
Without the moratorium on payments, the annual growth rate of retail lending would only be in the single-digit range. In the fourth quarter of 2020, household loans outstanding, as stated in the balance sheet of the credit institution sector, grew by HUF 257 billion due to transactions, thereby reaching HUF 8,110 billion. In the past one year, the growth amounted to HUF 1,028 billion, causing the annual growth rate to decline to 14.5 per cent (Chart 14). If instalments omitted due to the moratorium on payments are also taken into consideration, the credit dynamics would be roughly 8 per cent. Disbursements of prenatal baby support loans and housing loan transactions accounted for more than one half and 44 per cent, respectively, of the quarterly growth in transactions. In the case of the latter, loans outstanding rose by HUF 113 billion, while consumer loan disbursements exceeded the volume of instalments in the quarter by just HUF 13 billion. In December, prenatal baby support loans outstanding reached the amount of HUF 1,065

Chart 15: Share of credit stock under moratorium by loan type



Note: Only the credit institution sector and natural person debtors (excluding sole proprietors and primary producers). The moratorium ratio of prenatal baby support loans also includes the data related to the suspension of instalment connected to having children. Source: MNB

Chart 16: New household loans in the credit institution sector



Note: Loan refinancing indicates only refinancing related to the early repayment scheme and the FX-conversion. Other consumer loans include vehicle loans and hire purchase and other loans, without prenatal baby support loans. Source: MNB

billion, and thus this product accounts for 13 per cent of household loans outstanding.

Household clients resorted to the moratorium to the largest degree in the case of personal loans, which usually bear higher interest rate and have shorter maturity. In contrast to housing loans, consumer loans are typically applied for by clients with lower income, who agree to a higher instalment as a percentage of their income. Consequently, clients mostly resorted to the moratorium in the case of personal loans, with roughly 60-70 per cent of the opting in. Over the course of six months, a moderate decline was observed in the opt-in ratios for most types of loans (Chart 15). At the same time, the proportion of the loans outstanding in the moratorium increased slightly for credit card loans and car loans. The ratio of participation in the moratorium within household loans outstanding eligible for the suspension of instalments fell by 3 percentage points from 57 per cent registered in June to 54 per cent by December.[7]

The negative impact of the coronavirus on the retail credit market can be still felt in new disbursements. During the quarter, credit institutions concluded contracts with retail clients in the amount of HUF 501 billion,[8] which caused annual disbursements to fall 9 per cent short of the level registered in 2019 (Chart 16). The volume of housing loans disbursed during the quarter amounted to HUF 236 billion; consequently, this was the only retail loan product for which disbursements did not decrease in year-on-year terms. The largest decline was registered for personal loans, where new disbursements fell 40 per cent short of the volume disbursed in the same quarter of 2019. The decline in prenatal baby support loans, representing a large volume (HUF 146 billion) is attributable to the high base resulting from the surge after the product was launched in July 2019 and to the restrictive measures introduced in connection with the pandemic.

Despite the pandemic situation, the average loan amount of housing loans increased further. The

[7] In September 2020, 49 per cent of the total household loans outstanding participated in the moratorium.

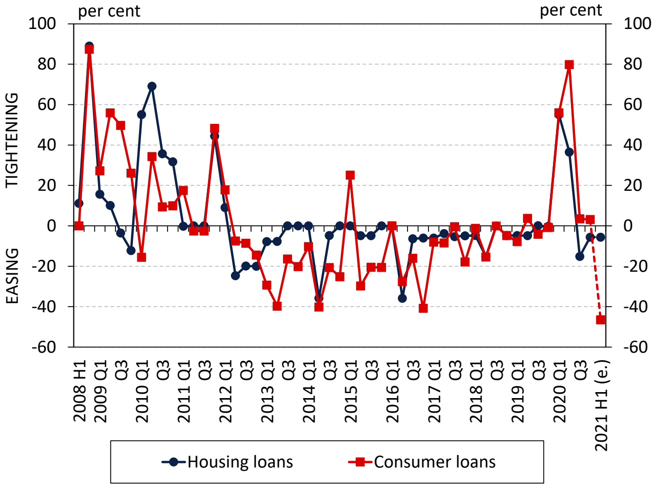
[8] Without loans extended to independent entrepreneurs under the FGS.

*Table **Error! Bookmark not defined.**: Number of contracts and average loan volume of new housing and consumer loans*

		2019 Q4	2020 Q4	% change
Number of contracts (thousands)	Housing loans: purchases of used homes	64.5	58.4	-9.5
	Housing loans: reconstruction and other	15.4	13.6	-11.9
	Housing loans: construction and buying of new homes	16.3	12.8	-21.8
	Personal loans	309.7	186.2	-39.9
Average contract size (HUF million)	Housing loans: purchases of used homes	10.2	11.9	16.2
	Housing loans: reconstruction and other	5.2	6.4	22.9
	Housing loans: construction and buying of new homes	13.3	16.3	22.5
	Personal loans	1.9	1.8	-4.3

Note: Credit institution loans. Source: MNB

Chart 17: Changes in credit conditions in the household segment



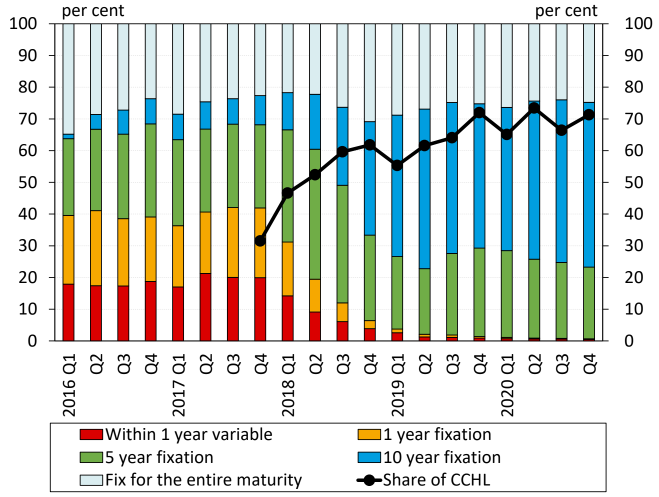
Note: Net ratio is the difference between tightening and easing banks weighted by market share. Source: MNB, based on banks' responses

number of new contracts is substantially lower year-on-year. The number of personal loan contracts fell by 40 per cent, and the number of contracts concluded for the construction or purchase of new housing also declined significantly, dropping by 22 per cent, which – in addition to the seasonal decline in housing market transactions – also reflects the result of the wait-and-see attitude related to the home subsidies, which were announced in October, but only started from January 2021 (Table 1). On the other hand, the average loan amount of housing loans rose in an annual comparison: for the purchase of used homes the average loan amount was HUF 12 million for 19 years, while for the construction or purchase of new housing the average loan amount applied for exceeded HUF 16 million with 20-year maturity, during the quarter, which corresponds to a rise of 16 and 23 per cent in loan amounts, respectively. Loan amounts for home improvement also rose significantly, registering growth of 23 per cent.

Banks did not change conditions on housing loans or consumer loans during the quarter. Based on the responses in the Lending Survey, in the fourth quarter of 2020, banks overall have not changed the standards of housing loans, while 36 per cent of them – in net terms – reported a decrease in the spread between the interest rate on loans and the cost of funds. Looking ahead to the first half-year of 2021, respondent banks still do not plan to change the standards of housing loans (Chart 17). Conditions of access to credit also did not change for consumer loans during the quarter, while 47 per cent of the banks – in net terms – anticipated easing in consumer loan conditions in the first half of 2021, to be implemented in the form of reduced spreads and eased minimum requirements for creditworthiness. They primarily cited housing market trends as a factor underlying the easing, in connection with the home improvement subsidy launched from January 2021. As a result, banks anticipated rising demand for consumer loans in the next half-year.

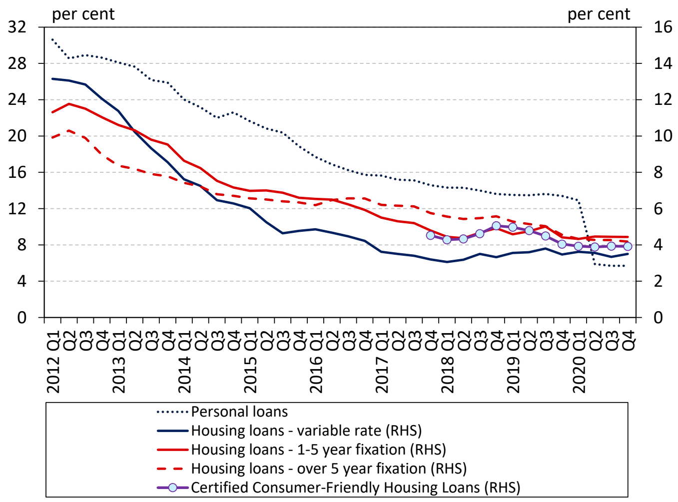
Every fourth housing loan contract is concluded with interest rate fixed until maturity. In terms of volume, more than half of the housing loan

Chart 18: Distribution of the new housing loan volume by interest rate fixation, and the share of Certified Consumer-friendly Housing Loan products



Note: Share of CCHL products compared to new issues with at least 3 years of interest rate fixation (at least 5 years since Q4 2018) excluding disbursements by building societies. Source: MNB

Chart 19: Annual percentage rate of charge on new household loans



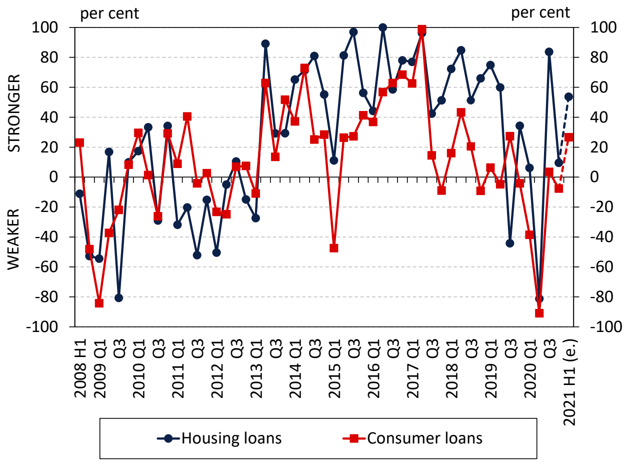
Note: Quarterly average of lending rates on newly disbursed loans. Source: MNB

contracts concluded in the fourth quarter of 2020 are characterised by an interest rate fixation period of at least 10 years, while the interest rate on another 25 per cent of the contracts is fixed until maturity. The distribution of housing loans by interest period shows a steady shift toward loans with longer interest rate fixation period (Chart 18). The trend was supported by the fact that by the fourth quarter of 2020 the volume of Certified Consumer-friendly Housing Loans, which are available only with longer, minimum 5-year interest periods, accounted for 71 per cent of quarterly housing loan disbursements.

The average credit cost of housing loans with longer interest rate fixation decreased slightly during the quarter. The average APR level of housing loan contracts concluded in the fourth quarter of 2020 stood at 4.4 per cent, i.e. at the level of the previous quarter, in the case of loans with interest rate fixation for 1-5 years, while the average credit cost fell by 0.1 percentage point to 4.2 per cent in the case of housing loans with interest rate fixation longer than 5 years (Chart 19). Due to the APR cap on unsecured consumer loans, the average APR on personal loans remained at 5.7 per cent; however, from 2021 credit institutions may once again extend consumer loans at market credit costs. The average spread on housing loans and personal loans declined by 0.1 percentage point during the quarter. Following a decline of similar degree, the spread on Certified Consumer-friendly Housing Loans stood at 2.4 percentage points at the end of the quarter.

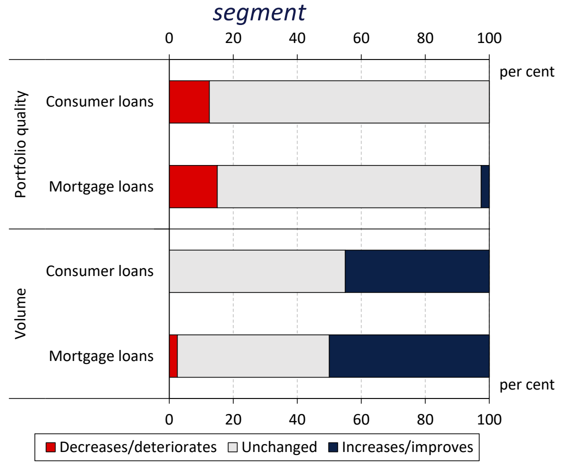
The majority of banks anticipate a pick-up in demand for consumer loans after the launch of the home improvement subsidy. According to the responses to the Lending Survey, stronger demand for housing loans was perceived by only 10 per cent of the banks – in net terms – in the fourth quarter of 2020. On the other hand, in line with the government subsidies launched in 2021 affecting the housing market (home improvement subsidy and loan, 5-per cent VAT on new homes, VAT allowance connected to HPS, etc.), 54 per cent of the banks, in net terms, expect strengthening credit demand in the first half of 2021 (Chart 20). Although

Chart 20: Credit demand in household lending segment



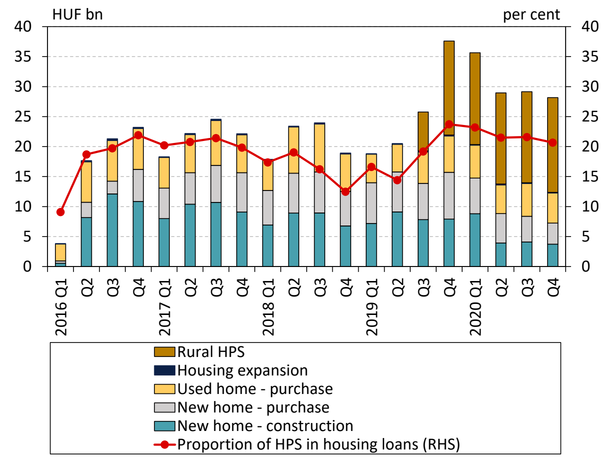
Note: The net ratio is the difference between tightening and easing banks, weighted by the market share. Source: MNB, based on banks' responses

Chart 21: Banks' expectations related to changes in the volume of loans and portfolio quality in the household segment



Note: Unweighted distribution of credit institutions. Source: MNB, based on banks' responses

Chart 22: Volume of HPS contracts by purpose



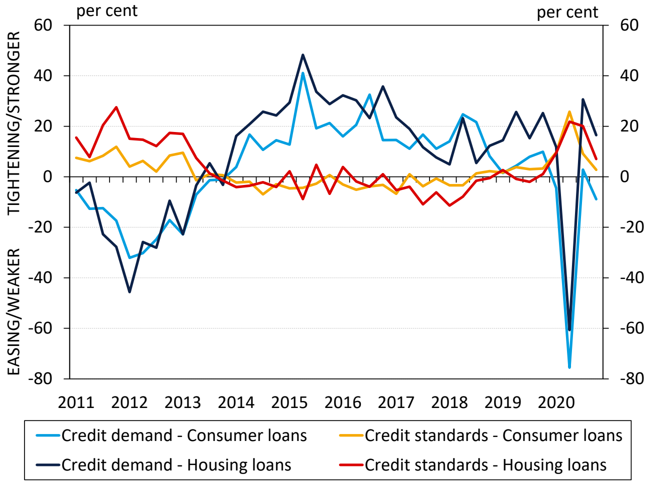
Note: The Rural HPS can be used for the purchase of used homes, as well as modernisation and extension of homes. Source: MNB, Ministry of Finance

in net terms 8 per cent of the banks reported declining demand in the consumer loan market in the fourth quarter, looking ahead to the next half-year 27 per cent of them, in net terms, anticipate a pick-up in demand. As regards the sub-markets, in net terms 67 per cent of them anticipate recovering demand for personal loans, which is directly connected to the home improvement subsidy available from January 2021; in addition, the Certified Consumer-friendly Personal Loan will also become available, which will boost market competition.

In the household segments, almost half of the banks plan to increase their exposure in the first half of 2021. Based on the Bank Business Survey, the banking sector perceived increased competition in the household segment. In connection with this, in the first half of 2021, roughly half of the respondent banks plan to expand their loan portfolio, including both mortgage loans and unsecured consumer loans (Chart 21). The growth is supported by the fact that at present the prolonged moratorium on payments ensures the maintenance of the portfolio quality under lower amortisation of outstanding loans; however, 13-15 per cent of the banks anticipate a deterioration in this respect as early as the first half of the year.

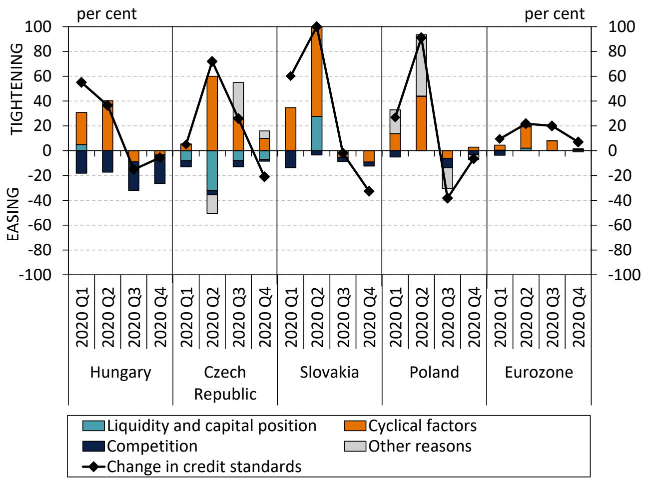
Despite the pandemic, the drawdown of rural HPS has not decreased. After the coronavirus pandemic started, the volume of contracts concluded under the Home Purchase Subsidy Scheme for Families fell significantly. In parallel with a decline in the sales of new homes, the volume of HPS concluded for this purpose or for construction dropped by more than 50 per cent year-on-year, while the volume of HPS requested for the purchase of used homes fell short of the level registered in the fourth quarter of 2019 by 18 per cent (Chart 22). Of the housing loans disbursed in this quarter, 21 per cent, or roughly HUF 49 billion, were related to the Home Purchase Subsidy Scheme for Families. Only the volume of contracts concluded under the rural HPS was able to grow in the past quarters. Almost 3,000 new contracts were concluded in the period under review, in the total amount of roughly HUF 16

Chart 23: Household credit standards and credit demand in the Eurozone



Note: Weighted net percentage (tightened minus eased or reverse) based on the share of each country in the total loan outstanding amounts of the area aggregate and of each bank in the total loan outstanding amount of the BLS banks sample. Source: ECB

Chart 24: Changes and factors contributing to changes in housing loan conditions in V4 countries



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

billion, more than three quarters of which were aimed at property purchase as well.

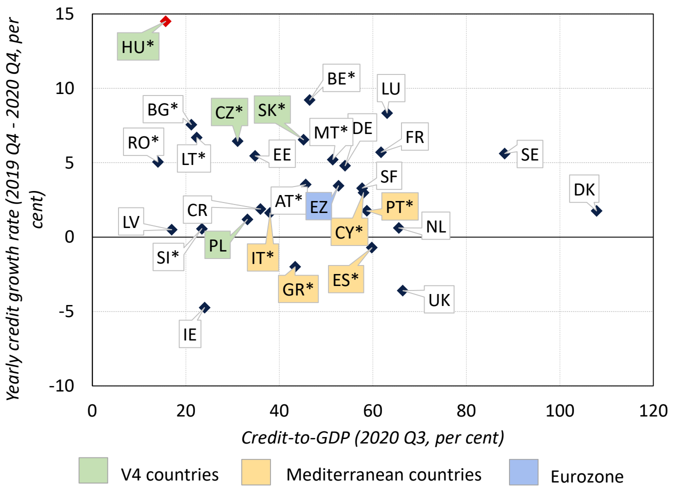
International developments in household lending

Credit conditions have been moderately tightened, and the rebound of credit demand for housing loans continued in the euro area at the end of 2020. According to ECB's survey,[9] euro area credit institutions tightened retail credit conditions even at the end of the year, primarily due to the uncertainty related to economic prospects and the deterioration in borrowers' creditworthiness. On the other hand, the ratio of those who tightened conditions fell short of that observed after the first wave of the coronavirus (Chart 23): a net of 7 per cent and 3 per cent of banks reported tightening conditions on housing loans and consumer loans, respectively. Looking ahead, only a negligible portion of banks plan to implement further tightening. Demand for housing loans continued to rebound after the decline registered in the second quarter, mostly due to the favourable interest rate environment: a net of 16 per cent of banks perceived growth in demand, but looking ahead they anticipate no further pick-up in demand. The decline in consumption resulting from the persistently gloomy consumer expectations and the lockdowns reduced demand for consumer loans in the fourth quarter: in net terms, 9 per cent of banks experienced this and only a small part of them anticipate growth in demand (4 per cent).

Conditions on housing loans were eased in the Visegrád countries. While conditions on housing loans were tightened moderately in the euro area, the V4 countries were rather characterised by easing at the end of 2020 (Chart 24). In the region, a larger ratio of the banks reported the easing of the conditions primarily in Slovakia and in the Czech Republic. On the other hand, the easing was followed by a decrease in the spread on housing loans only in Hungary: while in the fourth quarter the spread declined by 0.6 percentage point in

[9] The euro area bank lending survey https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/ecb.blssurvey2020q4~e89c77d212.en.html

Chart 25: Annual growth rate of household loans and their ratio to GDP in an international comparison



Note: Countries marked with an asterisk where partial or full moratorium existed for retail loans for at least one month during the fourth quarter of 2020. Source: ECB, MNB

annual comparison in Hungary, spreads stagnated in Slovakia and Poland, and rose moderately in the Czech Republic. Similarly to Hungary, the Czech Republic tightened conditions on consumer loans and Poland eased conditions, while Slovakia left them unchanged.

Last year, the moratorium underpinned retail credit growth in several Member States. With the temporary suspension of part of the instalments, the payment moratoria result in more dynamic growth of outstanding loan volumes. In addition to Hungary, last year the temporary suspension of the instalment of retail loans[10] was also possible in Belgium, Bulgaria and Slovakia, which also showed robust growth rates (Chart 25). On the other hand, in certain Member States, the fall in demand and supply resulting from the coronavirus curbed growth in outstanding borrowing of households even despite the moratorium: in the Mediterranean region, which are still struggling with the legacy of non-performing loans from the 2008 economic crisis, only a moderate increase or a decrease in outstanding retail loans was observed. Moreover, in the Anglo-Saxon countries, which are laggards in terms of growth in retail loans, the moratorium was rapidly phased out: in the United Kingdom it existed until July, while in Ireland it lasted until the end of the third quarter. Similarly, Poland – recording the lowest growth among the V4 countries – also terminated the moratorium at the end of third quarter of last year.

[10] The moratorium has been extended in several Member States, including Hungary, for a specific period of this year as well.

4. APPENDIX: 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 statistics compiled, 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. Nine banks responded to questions related to housing loans, while eleven banks answered questions on consumer loans. Based on data from the end of 2020 Q4, the surveyed institutions accounted for 84 per cent of the banking sector in the case of outstanding housing loans and 92 per cent in the case of outstanding consumer loans. The corporate questionnaire was completed by fifteen banks in total, which represent 95 per cent of the corporate loan market, while the market share of the fourteen banks responding to the questionnaire related to commercial real estate loans is 94 per cent.

The survey consists of a standard questionnaire in each segment. The retrospective questions refer to 2020 Q4 (compared to 2020 Q3), whereas the forward-looking questions concern the next half year, covering 2021 H1 (relative to 2020 Q4). The current questionnaire was completed by senior loan officers between 1 and 19 January 2021.

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

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

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