TRENDS IN LENDING

2021
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(September 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 loans (net of exchange rate effects) are presented. From 2013 Q4 onwards, the analysis presents the trends in lending in the overall credit institutions sector (banking system and 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 broken down 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 second quarter of 2021, the outstanding borrowing of non-financial corporations fell by HUF 11 billion due to transactions. In the 12-month period ending in June total loan disbursements exceeded the volume of loan repayments by HUF 656 billion, due to which banks' outstanding lending to corporations rose by 7.4 per cent. When also taking into consideration corporate bonds subscribed to and purchased by banks, the loans and bonds of credit institutions outstanding to non-financial corporations grew by 12 per cent in total during the same period. The moratorium on payments, introduced last March, resulted in a fall in principal instalments due, while the central bank and government loan and guarantee schemes, introduced to mitigate the economic impacts of the coronavirus, exerted a favourable impact on new loans. In the second quarter, corporations concluded new loan contracts of roughly HUF 941 billion, which exceeded the volume of new loans disbursed in the fourth quarter of 2020 by 40 per cent. Outstanding borrowing of micro, small and medium-sized enterprises rose by 21 per cent in annual terms, significantly supported by FGS Go! concluded during the quarter, accounting for almost two-thirds of SME loans. Although the total amount of FGS Go! will be utilised in the summer months, the gradual and continuous drawdown of the contracts concluded under the scheme will continue to support the SME credit market during 2021 even in the period after the closing of the scheme. As a result of banks' ample lending capacities and other state-subsidised credit schemes, the SME segment's sound credit dynamics are expected to continue in the future as well.

Based on the responses of banks participating in the Lending Survey, in the second quarter, corporate credit conditions did not change significantly, while there was a pick-up in demand for both short-term and long-term loans. Looking ahead, banks plan an easing in the lending conditions for all enterprise size categories, parallel to which they anticipate a further pick-up in demand in the second half of 2021.

In the second quarter of 2021 retail loans outstanding grew by HUF 424 billion due to transactions, accelerating the annual growth rate to 15.8 per cent. The extraordinary growth is primarily attributable to the dynamic increase in housing loans and prenatal baby support loans, with the latter already accounting for 15 per cent of household loans outstanding in June. The volume of housing loans disbursed during the quarter in the amount of HUF 364 billion is a new historic peak, with a major contribution by the new home subsidies available from 2021. Retail loan disbursement in the 12 months ending in June 2021 fell short of the level registered a year ago by 10 per cent, which is attributable to the high base resulting from the soar in prenatal baby support loans after the scheme was launched in July 2019. Housing loan applications are still dominated by the purchase of used homes; however, the share of loans used for renovation and improvement is gradually rising. For these purposes, two and a half times more loan contracts were concluded during the quarter than in the same period of the previous year. The volume of Home Purchase Subsidy Scheme for Families requested both for the purchase of used and new homes grew markedly during the quarter, and is still dominated by the rural HPS. The APR-based average spread on housing loans declined in all interest rate fixation categories as the gradual rise in long-term yields since the beginning of the year has not yet passed through fully to banks' interest rates. Personal loans also registered a decrease in spreads during the quarter, which was partly attributable to the penetration of Certified Consumer-friendly Personal Loans.

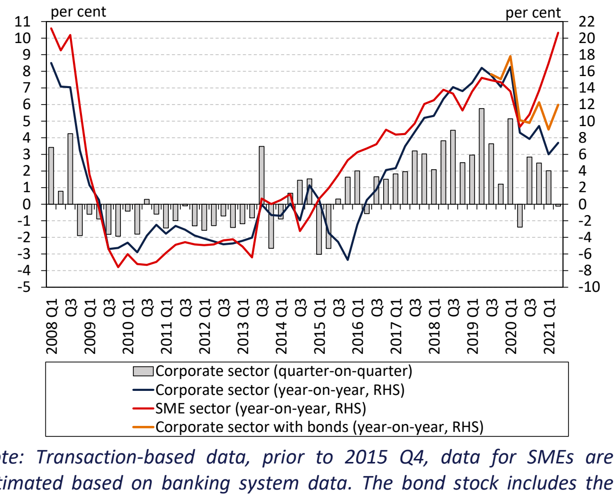
According to the responses to the Lending Survey, banks did not change the conditions of housing loans during the quarter; however, all institutions perceived a pick-up in credit demand, which may become even stronger during the rest of the year due to the central bank's Green Home Programme starting in the autumn. Looking ahead to the next half-year, banks are still not planning any change to their current housing loan conditions, while in the case of consumer loans only a few institutions anticipate easing. Based on the Bank Sentiment Survey, in line with the growing bank competition, half of the respondent banks plan to increase their exposure in the household segment in the second half of 2021, while almost one fifth of them also expect that their portfolio will deteriorate after the end of the general moratorium.

2. TRENDS IN LENDING IN THE CORPORATE SEGMENT

In the second quarter, outstanding borrowing of non-financial corporations declined by HUF 11 billion, reflecting growth of HUF 129 billion in forint loans and a decrease of HUF 140 billion in foreign currency loans. In the past one year, banks' loans outstanding to non-financial corporations grew by 7.4 per cent, or HUF 656 billion in total. When also taking corporate bonds subscribed to and purchased by banks into consideration, credit institutions' loans and bonds outstanding to non-financial corporations grew by 12 per cent in total during the same period. The loans outstanding of the SME sector rose significantly: annual growth of 20.6 per cent was registered. The volume of new contracts concluded in the second quarter exceeds the figure registered in the same quarter of last year – affected by the coronavirus pandemic and soaring subsidised credit schemes – by 40 per cent. There was keen interest in FGS Go! in the second quarter of 2021 as well: FGS accounted for almost 50 per cent of total corporate loan disbursements and for roughly two-thirds of new SME contracts. The sound credit dynamics of the SME segment may persist even after FGS Go! ends, owing to the banks' ample lending capacity and other state-subsidised credit schemes.

Based on the responses of banks participating in the Lending Survey, corporate credit conditions did not change significantly in the second quarter, while looking ahead some easing may be expected. Forint interest rates rose moderately in the quarter, primarily due to the increasing funding costs. Most banks experienced rising demand for large and medium-sized corporate loans and long-term loans in the second quarter of 2021, and they anticipate a further pick-up on both maturities in the second half of 2021.

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



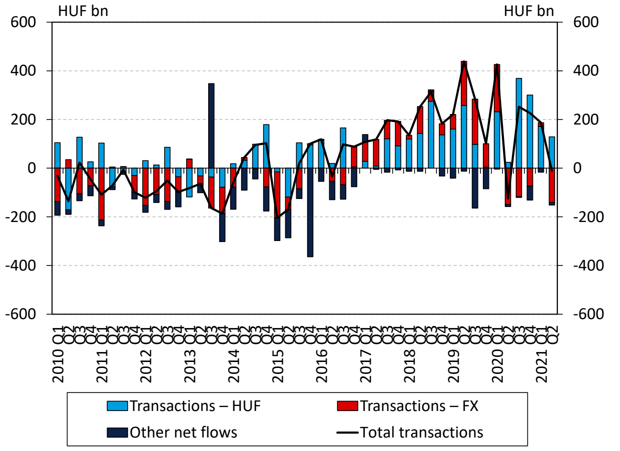
Note: Transaction-based data, prior to 2015 Q4, data for SMEs are estimated based on banking system data. The bond stock includes the bonds stated in banks' balance sheet. Source: MNB

Corporate lending in Hungary

Outstanding borrowings of corporations increased further in annual terms and the corporate bond portfolio held by credit institutions also grew significantly. In the year ending in June 2021 banks' outstanding lending to non-financial corporations grew by HUF 656 billion, thereby registering an annual growth rate of 7.4 per cent (Chart 1). The growth was primarily supported by the 20-per cent rise in forint loans, while foreign currency loans decreased, at a rate of 8 per cent, in annual terms. The growth in outstanding lending was concentrated primarily in the SME segment, the outstanding borrowing of which rose by 20.6 per cent during the last 12 months. When also taking the corporate bonds subscribed to by banks into consideration, credit institutions' loans and bonds outstanding to non-financial corporations grew by 12 per cent in total during the same period.

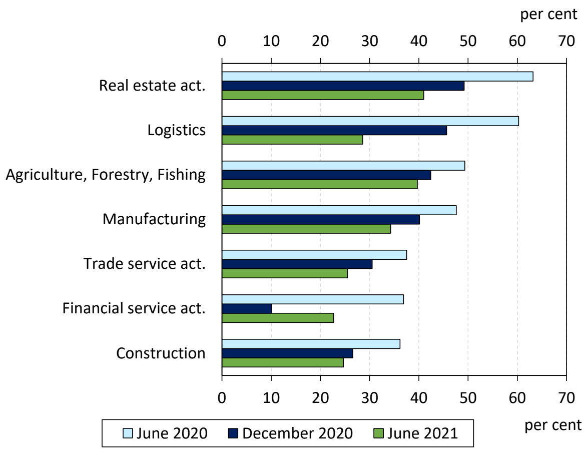
In the second quarter of 2021 loans outstanding declined moderately. As a combined result of the fall of HUF 140 billion in foreign currency loan transactions and the rise of HUF 129 billion in forint loans, outstanding borrowing of corporations declined by HUF 11 billion in the second quarter of 2021 (Chart 2).

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



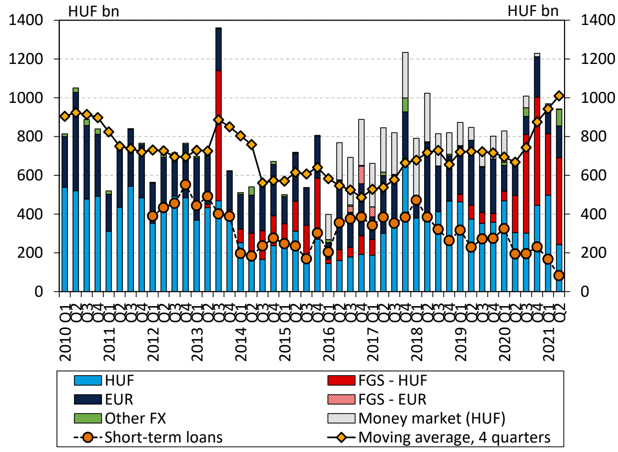
Note: As a percentage of the outstanding, eligible for moratorium (performing loans disbursed before 18 March 2020) loan portfolio. Source: MNB

Due to the repayment of a few larger loan transactions, the outstanding borrowing of large corporations fell by more than HUF 200 billion, while the SME segment registered a growth of similar magnitude owing to the credit schemes implemented by the state and central bank. In the period under review, the portfolio of longer-term forint and euro loans grew, while outstanding borrowing decreased on shorter maturities. 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. In the second quarter, outstanding borrowing rose the most in the real estate and agricultural sectors, while manufacturing registered a decline of over HUF 100 billion due to transactions.

Recourse to the moratorium moderately declined as a percentage of the portfolio eligible for the programme. While at the end of last year the moratorium applied to roughly 40 per cent of the corporate loans outstanding eligible for the moratorium (disbursed before 18 March 2020), by June this ratio had fallen to 35 per cent. The utilisation of the moratorium declined in six of the seven largest sectors with corporate loan portfolios (Chart 3). Looking at the largest sectors, in the real estate sector the utilisation of the moratorium was still above 40 per cent in June, while in the transportation and warehousing sector it fell below 30 per cent after a large decline. As a percentage of the total outstanding borrowing of corporations the ratio of loans benefiting from the moratorium was only 21 per cent in June.

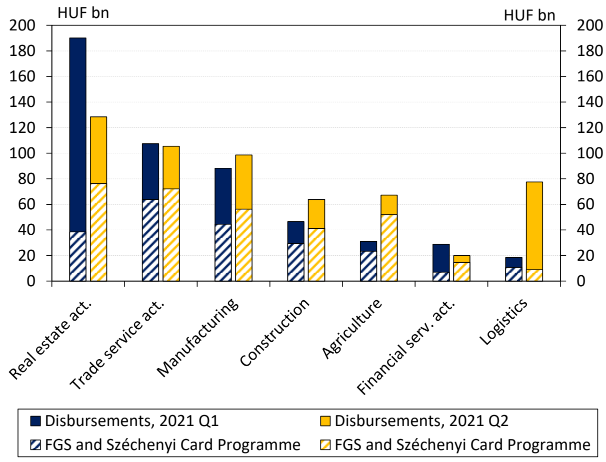
The share of FGS within new disbursements remained high in the quarter under review. In the past year, net of money market transactions, corporations concluded new loan contracts with credit institutions of roughly HUF 4,000 billion, which exceeds the disbursement in the period from July 2019 to June 2020 by 51 per cent. New disbursements in the second quarter of 2021 totalling HUF 941 billion fall slightly short of the quarter-on-quarter figure, but exceed the year-on-year figure by 40 per cent (Chart 4). The share of high-amount transactions (over HUF 5 billion) can still be deemed considerable (32 per cent). Within new disbursements, the share of loans concluded in the

Chart 4: New corporate loans in the credit institution sector



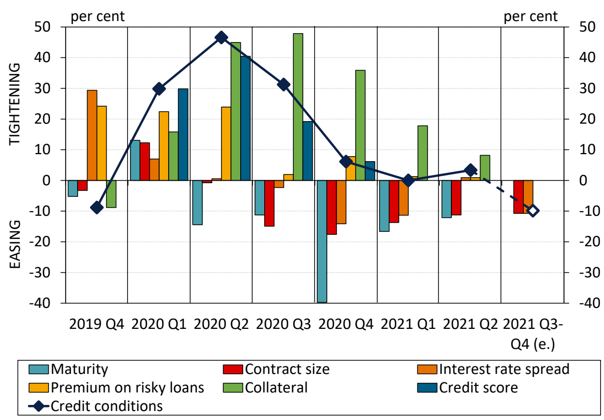
Source: MNB

Chart 5: New SME loan disbursements in the larger sectors



Source: MNB

Chart 6: Changes in credit conditions in the corporate segment

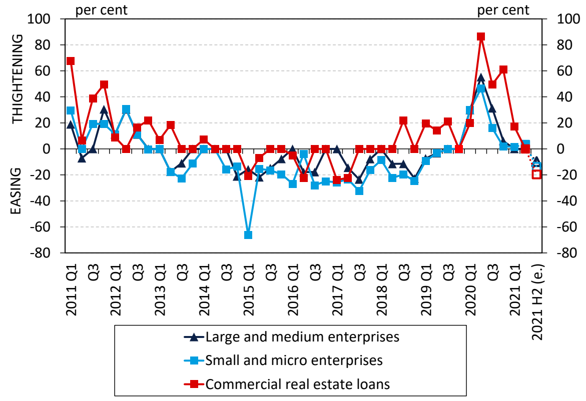


Note: Net percentage balance of respondents tightening/easing credit conditions weighted by market share. Source: MNB, based on banks' responses

second quarter under FGS Go! in the amount of roughly HUF 450 billion remains significant, accounting for roughly half of the total volume and for about two-thirds of the forint and SME loans. Within the new SME loans to the largest sectors the share of FGS and Széchenyi Card painted a heterogeneous picture. While in the agriculture, forestry and fishing sectors more than three-quarters of the disbursements materialised under these schemes in both the first and second quarters, their share in the real estate, finance and insurance, transportation and warehousing sectors was usually lower (Chart 5). After the end of FGS, buoyant credit demand may persist in the classic SME credit demand categories through the Széchenyi Card Go! and other state schemes. The credit categories covered by FGS, but not affected by the new Széchenyi Card Programme – such as loans with maturities over 10 years or with a loan amount over HUF 1 billion – accounted for 55 per cent of new SME loans in the second quarter; however, this barely represented 3 per cent of the contracts. For these transactions, the Bond Funding for Growth Scheme or the market-based loans can be an alternative for companies, the average interest rate on which by now only marginally exceeds the pricing of the subsidised products.

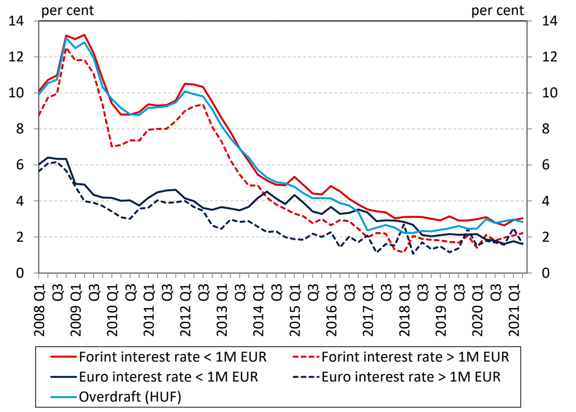
In the first six months, the lending conditions did not change substantively in the corporate segment, while looking ahead some easing may be expected. Respondent credit institutions in the Lending Survey reported unchanged credit conditions in all enterprise size categories in the last half year. In the first quarter, institutions continued – albeit in a much lower proportion than before – to cite sector-specific problems, changes in risk tolerance and economic prospects as factors pointing towards tightening. By contrast, in the second quarter, economic prospects, market share objectives and competition were already mentioned as factors pointing towards easing. In the first half-year banks still moderately tightened the minimum collateral requirement, monitoring and customer data reporting requirements, while they eased credit standards related to maximum maturity, loan size and spreads (Chart 6). During the first quarter, 17 per cent of the respondent credit institutions tightened the conditions of commercial property financing due to the uncertainty surrounding the

Chart 7: Changes in credit conditions in the corporate sub-segments



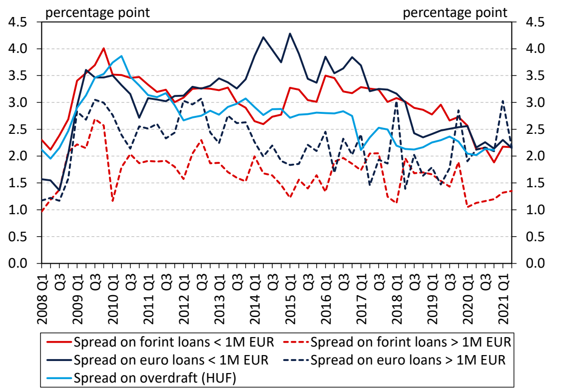
Note: Net percentage balance of respondents tightening/easing credit conditions weighted by market share. Source: MNB, based on banks' responses

Chart 8: Interest rates on new corporate loans



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

Chart 9: 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

prospects of several segments of the commercial property market, however, in the second quarter, the respondent credit institutions left them unchanged (Chart 7). Some 10 per cent, 14 per cent and almost 20 per cent of the banks – in net terms – anticipate an easing of lending conditions in the second half of 2021 for large enterprises, small and micro enterprises, and commercial real estate loans respectively.

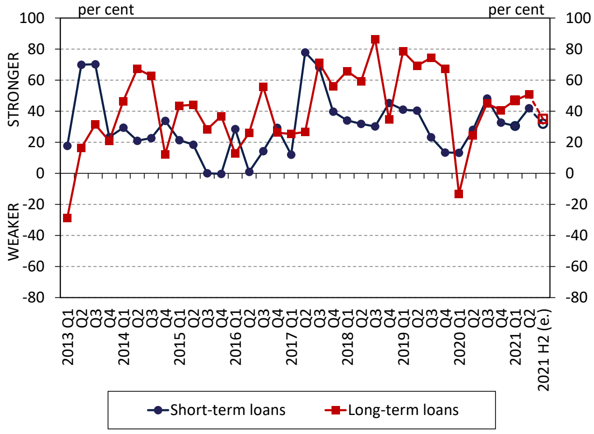
The funding costs of small-amount forint loans increased slightly during the last quarter. The interest rate on overdraft facilities decreased by 14 basis points to 2.8 per cent in the second quarter of 2021 (Chart 8). After a quarter-on-quarter increase of 10 basis points, the average interest rate – net of money market transactions[1] – on forint loans with a variable rate or with up to 1-year initial rate fixation below EUR 1 million rose to 3.04 per cent, while the interest rate on small-amount euro loans fell by 10 basis points to 1.6 per cent in June. The average interest rate on contracts concluded under FGS Go! was 1.71 per cent during the quarter. The decline in the overdraft and small-amount euro loan interest rates is attributable to the fall in interest rate spreads, while the rise in the interest on small-amount forint loans was caused by the increasing funding costs (Chart 9).

The financing costs of high-amount forint loan contracts rose slightly quarter-on-quarter. The average interest rate weighted by the contract amounts on high-amount forint loans increased by 13 basis points quarter-on-quarter, to 2.2 per cent. Following an increase of 92 basis points in the first quarter, the average interest rate on high-amount euro loans declined by 86 basis points in the second quarter to 1.6 per cent. The interest rate increase was caused by the rise in the 3-month BUBOR in the case of forint loans, while the decrease in the case of euro loans is attributable to the declining spreads.

In the second quarter banks reported growth in demand for long-term forint loans. In the first half-year of 2021 the respondent credit institutions perceived a pick-up in demand: while 32 per cent of banks observed increasing demand in the first quarter,

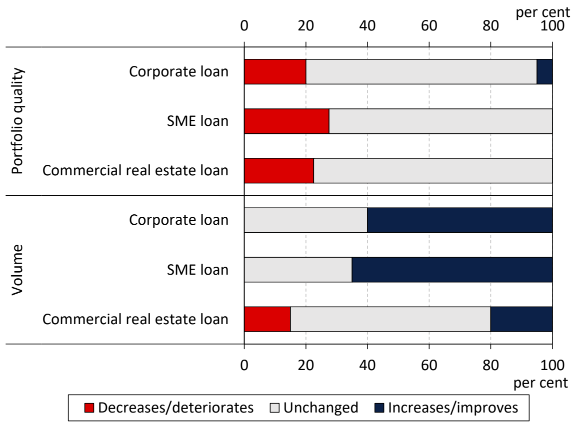
[1] Money market transactions are loans with a value of over EUR 1 million extended to non-financial corporations; their term is short (typically less than 1 month) and they serve to fund some kind of financial operation. It has been possible to exclude money market transactions since 2015, although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

Chart 10: Changes in corporate 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 11: 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

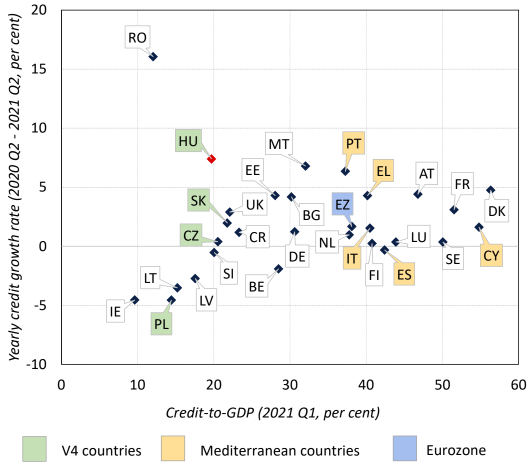
this ratio in the second quarter was already 56 per cent. In a breakdown by enterprise size and maturity, the strongest increase was observed in the demand for large and medium-sized enterprises and for long-term loans during the half-year (Chart 10). Looking ahead, 30 per cent of banks – in net terms – expect further growth in demand for both maturities. Growth in demand for forint loans – owing to the wide-ranging subsidised loan and guarantee schemes – was reported by half of the banks in the first half of the year, and 30 per cent of them expect a further pick-up in demand in the next half-year.

Almost two-thirds of the banks plan to increase both the entire corporate and the SME loan portfolios in the second half of 2021. In the Bank Sentiment Survey, domestic credit institutions also outline their strategic plans, in addition to assessing the business activity situation. In the second half of 2021, 60 per cent of banks plan to increase their total corporate loan portfolio and 65 per cent of them their SME loan portfolio (Chart 11). However, in the case of commercial property loans, only 20 per cent of the respondents plan any increase, which is offset by those 15 per cent of banks that plan to reduce the portfolio. Domestic market participants anticipate a deterioration in the portfolio quality in the three segments in almost identical proportions.

International developments in corporate lending

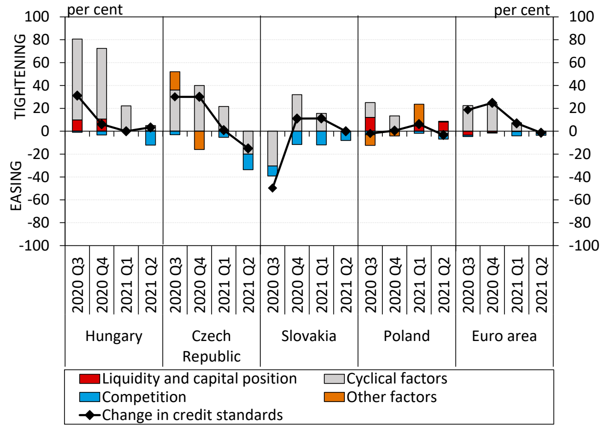
Corporate loan growth in Hungary is the second highest by EU comparison. As regards the Visegrád countries, Slovakia and the Czech Republic observed minor growth, while Poland registered a decline of 4.5 per cent in corporate loans outstanding in the past one year (Chart 12). Annual dynamics in the euro area decelerated to 1.7 per cent – covering a wide range of

Chart 12: Annual growth rate of corporate loans and the credit-to-GDP ratio in an international comparison



Source: ECB, MNB

Chart 13: 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 of conditions, while negative ones indicate easing. Source: MNB, ECB, national central banks

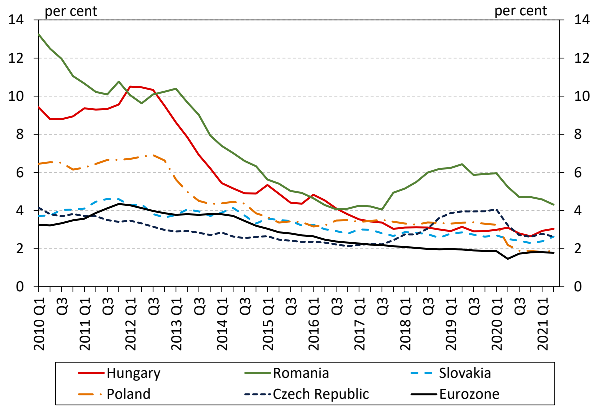
figures among Member States – which, according to the Lending Survey conducted by the ECB, was essentially caused by corporations' unwillingness to invest and by the moderate demand resulting from the latter. However, in addition to the subsidised loan and guarantee schemes, the Hungarian figure – which is favourable even by international standards – also reflects the effect of the moratorium, since apart from Hungary, a moratorium on corporate loan instalments or on part of these is only in force in Portugal and Italy among the EU countries. Similarly to the situation in the Visegrád countries, Hungary's corporate lending-to-GDP ratio remains low in an international comparison, therefore there is still room for a deepening of credit penetration.

Lending conditions remained unchanged in the rest of the countries of the region, and also in the euro area. During the first quarter, the countries of the region were still characterised by a moderate tightening of lending standards, which was not followed by further tightening in the second quarter; in the Czech Republic 15 per cent of credit institutions already reported an easing in the conditions (Chart 13). In the second quarter, the terms of lending did not change significantly in the corporate segment in the euro area. According to the ECB's survey[2] this was partly attributable to the recovery of the economy, the lifting of the restrictive measures as well as to the supportive fiscal and monetary policy, which is well reflected by the fact that demand for investment loans rose in the second quarter of 2021 for the first time since the third quarter of 2019. As regards the four largest Member States in the euro area, credit conditions were eased in Germany, while in France, Italy and Spain they did not change materially in the past quarter. According to the banks' expectations, in the third quarter of 2021 lending conditions are unlikely to change in the euro area with demand picking up.

Interest rates on corporate loans fell slightly in the region in year-on-year terms. In the second quarter of 2021, interest rates on new small-amount variable rate corporate loans increased moderately in all countries of the region compared to the previous quarter, to the

[2] The euro area bank lending survey https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/ecb.blssurvey2021q2~b868c78ada.en.html

Chart 14: 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 1-year; therefore, FGS loans with the maximum 2.5 percentage point spread are not included. Source: MNB, ECB, national central banks

largest degree in Slovakia, by 25 basis points (Chart 14). The growth observed during the quarter was also attributable to the tightening cycle commencing in Hungary, Slovakia and in the Czech Republic. In an annual comparison, the largest decline – over 90 basis points –, was observed in Romania, followed by the Czech Republic with a fall of around 60 basis points, while Hungary registered an interest rate decrease of 6 basis points. In an annual comparison, spreads paint a diverse picture: while they fell by 42 basis points in Czechia, they rose by almost 35 basis points in Slovakia.

BOX 1: ROLE OF FGS GO! IN CRISIS MANAGEMENT

As a result of the coronavirus pandemic, which rippled into Hungary as well at the beginning of 2020, many enterprises experienced difficulties and were faced with new challenges. With a view to mitigating the negative economic effects of the pandemic, the MNB decided to redesign the Funding for Growth Scheme (FGS), introduced in 2013, and in April 2020 it launched its new version, referred to as FGS Go!, with an overall amount of HUF 1,500 billion.

Under the new scheme, adjusted to the changed funding requirements of enterprises, the range of financing objectives widened substantially compared to the previous phases of the scheme. In addition to the investment loans and lease transactions, the facility was once again opened for the drawdown of working capital loans to finance operating expenses; in addition, the pre-financing of grants and the refinancing of market-based investment loans taken earlier is also permitted. The minimum loan amount was reduced to HUF 1 million, and thus the scheme continues to play an important role in the funding of micro enterprises. The raising of the maximum loan amount to HUF 20 billion helped major actors in the SME sector preserve their stability and facilitated the realisation of larger investments. FGS Go! has become one of the most important tools of restarting the economy, as it provides the SME sector with funding under more favourable conditions and a wider range of possible uses than ever before. Following its launch, enterprises showed keen interest in the scheme, and thus the MNB raised the overall amount several times, most recently in April 2021 to HUF 3,000 billion.

To date more than 40,000 SMEs have had access to favourable funding under FGS Go!. Until the end of July 2021, banks reported loan and lease contracts to the central bank amounting to HUF 2,921 billion. Accordingly, more than 97 per cent of the overall amount has already been utilised. Credit institutions may conclude contracts for the remaining part until the end of September; however, due to the pending transactions, most credit institutions are no longer in a position to accept new applications for substantial amounts.

Under the Go! scheme, working capital loans accounted for almost 60 per cent of the new contracts, while as a percentage of the volume, half of the drawdowns were linked to this loan purpose. Participating credit institutions granted investment loans and lease financing of almost HUF 1,100 billion; more than one third of the disbursements served such purposes.[3] Since the launch of the scheme, roughly HUF 280 billion, i.e. merely 10 per cent of the contracted volume, was used for the refinancing of investment loans and their share has gradually declined in the monthly disbursements. As regards the number of transactions, the majority of loans were drawn down by micro enterprises, and thus the median loan amount of the scheme is HUF 11 million. On the other hand, higher loan amounts, longer maturities and even lower interest margins also gained ground in the larger size categories, in line with credit institutions' rising risk appetite. However, small-amount loans remained dominant in the scheme, as more than 80 per cent of the

Characteristics of FGS Go! loans by loan purpose and size category

Size category	Enterprises (pcs)	Median contract size	Average contract size	Average maturity (vol. weighted)
Investment loans (HUF 1.085 Billion)				
Micro (HUF 299 Bn)	12 615	HUF 7,2 M	HUF 19,1 M	7,9 years
Small (HUF 278 Bn)	3 344	HUF 7,8 M	HUF 49 M	9,1 years
Medium (HUF 508 Bn)	873	HUF 8,7 M	HUF 194,6 M	11,8 years
Working capital loans (HUF 1.557 Billion)				
Micro (HUF 485 Bn)	19 823	HUF 12 M	HUF 21,6 M	2,4 years
Small (HUF 597 Bn)	6 090	HUF 40 M	HUF 63,6 M	2,5 years
Medium (HUF 475 Bn)	908	HUF 9,3 M	HUF 102,3 M	2,7 years
Loan redemption (former investment loans) (HUF 279 Billion)				
Micro (HUF 54 Bn)	448	HUF 69,3 M	HUF 100,4 M	8,6 years
Small (HUF 103 Bn)	375	HUF 86 M	HUF 209,2 M	8,9 years
Medium (HUF 122 Bn)	186	HUF 130,3 M	HUF 406,9 M	9,4 years
FGS GO!				
HUF 2921 Bn	40 416	HUF 11 M	HUF 47,3 M	6 years

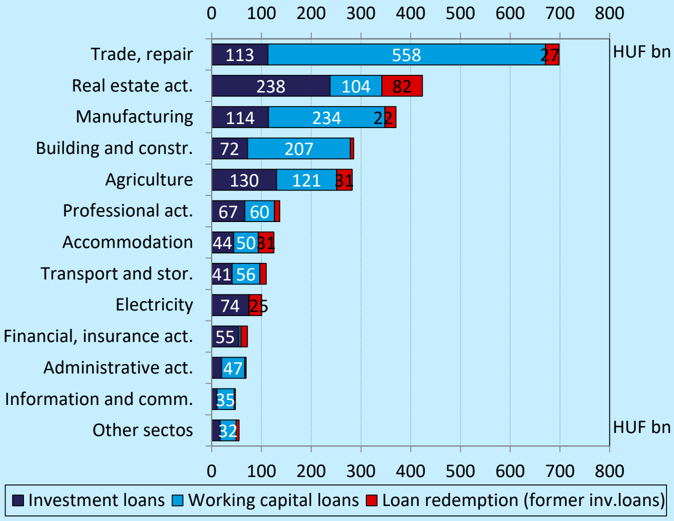
Note: Transactions concluded by 30 July 2021 and reported to the MNB. Source: MNB

[3] According to our estimates, the scheme – primarily through the investment loans – also had a favourable impact on employment (for more details see Box 4 of the June 2021 Financial Stability Report and the paper of Drabancz–El-Meouch–Lang in the September 2021 volume of the Közgazdasági Szemle (Economic Review)).

contracts are for less than HUF 50 million. Transactions between HUF 1 and HUF 20 billion, representing more than one fifth of the volume, related to a mere 248 contracts, while they accounted for more than one third of the total volume of investment loans.

Roughly three-quarters of the loans were drawn down by SMEs active in trade, real estate, manufacturing, construction and agriculture. Of the key sectors, most loans were requested by enterprises operating in trade, with a quarter of the funds channelled to this sector. This was mostly attributable to the outstanding share of working capital loans, providing quick liquidity and essentially functioning as a free-purpose loan (almost 40 per cent of the total stock of working capital loans were concluded in this sector). In addition, the share of working capital loans is also particularly high in construction and manufacturing, with a ratio of 72 and 63 per cent, respectively. Roughly a quarter of the investment loans were realised in the real estate sector, while the share of loan refinancing in this sector was 30 per cent. Almost half of the loans disbursed to the trade sector, which stands out at sector level, related to SMEs in Budapest and Pest county, while two-thirds of the loans in the second largest sector by volume, i.e. real estate, were taken out by enterprises registered in the capital. On the whole, with the exception of agriculture, the dominance of Budapest and its conurbation could be felt in all other sectors with higher volume.

Distribution of contracted volume by sector and loan target in the FGS Go!



Note: Transactions concluded by 30 July 2021 and reported to the MNB. Source: MNB

FGS Go! proved to be one of the most efficient tools among the economic stimulus measures implemented with a view to mitigating the economic effects of the coronavirus pandemic. In addition to the moratorium on payments, owing to FGS Go! and other state loan and guarantee schemes, the outstanding borrowing of micro, small and medium-sized enterprises rose by 21 per cent between July 2020 and June 2021. Under FGS, launched 8 years ago, almost 75,000 enterprises had access to funding totalling over HUF 6,300 billion. According to the MNB's estimates, the scheme has contributed roughly 4.5 percentage points to economic growth in the past years.[4]

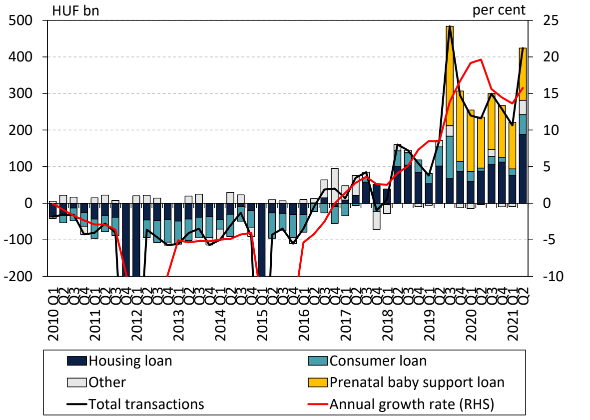
[4] https://www.mnb.hu/sajtoszoba/sajtokozlemenyek/2021-evi-sajtokozlemenyek/az-nhp-hajra-sikeres-valsagkezelo-eszkozkent-eddig-40-ezer-kkv-forrashoz-jutasat-segitette

3. TRENDS IN LENDING IN THE HOUSEHOLD SEGMENT

As a result of disbursements and repayments, the credit institution sector's outstanding lending to households rose by HUF 424 billion in the second quarter of 2021, thereby accelerating the annual growth rate to 15.8 per cent. The extraordinary growth is primarily attributable to the dynamic increase in housing loans and prenatal baby support loans, with the latter already accounting for 15 per cent of households' loans outstanding in June. The volume of housing loans disbursed during the quarter amounting to HUF 364 billion is a new historic peak, with major contribution by the new home subsidies available from 2021. Nevertheless, retail loan disbursement in the year ending in June 2021 fell short of the level registered a year ago by 10 per cent, which is attributable to the high base resulting from the surge in prenatal baby support loans after the scheme launched in July 2019. Roughly 70 per cent of the housing loan applications are still used to purchase used homes; however, the share of loans used for renovation and modernisation is gradually rising, reaching 10 per cent by June, as the volume of loan contracts concluded for this purpose during the quarter was two and a half times the year-on-year figure. In an annual comparison, the average contract size and average maturity of housing loans also rose further. The volume of the Home Purchase Subsidy Scheme for Families requested for the purchase of both used and new homes grew markedly during the quarter, while the rural HPS – with its quarterly volume of HUF 15 billion – is still the housing subsidy with the largest disbursement volume. The average APR-based interest rate spread on housing loans declined by roughly 0.8 percentage point in the first half of 2021, which is attributable to the fact that although the weighted average of the long-term yields influencing the pricing applied by banks (IRS) rose by roughly 1 percentage point during this period, the average APR on loans increased by merely 0.1 percentage point. Banks that possess the relevant certification offer the Certified Consumer-friendly Personal Loans – already accounting for 20 per cent of personal loans – at a spread that is more than 3 percentage points lower on average than the spread on uncertified personal loans.

Based on the responses to the Lending Survey, in the second quarter of 2021 the respondent institutions did not change the conditions of housing loans, while all banks perceived a pick-up in credit demand. Looking ahead to the second half of 2021, banks do not anticipate any change in the conditions of housing loans either, while a small part of the institutions anticipate an easing in the conditions of consumer loans. Based on the Bank Sentiment Survey, in line with the growing bank competition, half of the respondent banks plan to increase their exposure in the household segment in the second half of 2021, while almost one fifth of them also expect that their portfolio will deteriorate after the end of the general moratorium.

Chart 15: Quarterly transactions of the household loan portfolio by loan purpose

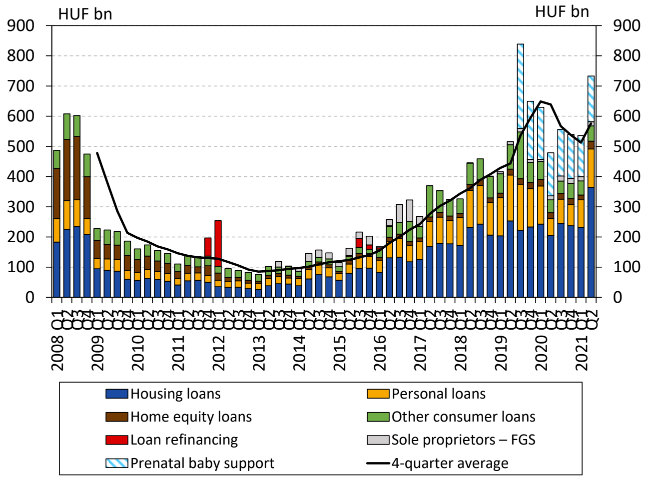


Domestic household lending

Household loans outstanding are growing at an accelerating rate again. In the second quarter of 2021, household loans outstanding of the credit institution sector grew by HUF 424 billion, due to transactions, thereby reaching a stock of HUF 8,738 billion by June. In the past year ending in June 2021, the growth amounted to HUF 1,194 billion, causing the annual growth rate to rise to 15.8 per cent (Chart 15). 44 per cent of the incredible quarterly growth due to transactions, i.e. HUF 188 billion, was attributable to housing loan transactions, while a further 34 per cent was related to the prenatal baby

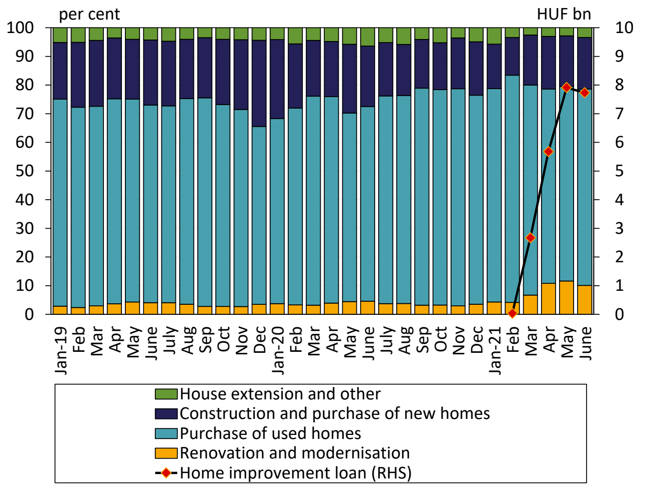
Note: Seasonally unadjusted net change in outstanding amounts, with rolling exchange rate adjustment. The transactions reflect the effect of the settlement. Source: MNB

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, hire purchase and other loans, excluding prenatal baby support loans. Source: MNB

Chart 17: Distribution of new housing loans by loan purpose



Source: MNB

support loans. Consumer loan disbursements exceeded the volume of instalments in the quarter by HUF 54 billion. By the end of the quarter, the stock of prenatal baby support loans reached HUF 1,334 billion, thereby the product accounts for 15 per cent of household loans outstanding. Based on the data from the latest Household Finance and Consumption Survey, loan penetration among households was 31 per cent in 2020, while it was 32 per cent in 2014. Accordingly, the growth observed in loans outstanding since 2016 occurred without any major change in loan penetration.

The disbursement of housing loans reached a historic peak during the quarter. In the second quarter, credit institutions concluded new loan contracts[5] with households worth HUF 719 billion, causing the annual volume of new loans to fall short of the level registered in the previous year by 10 per cent (Chart 16). Year-on-year, personal loans and prenatal baby support loans registered a decline of 20 per cent and 25 per cent, respectively. The decline in prenatal baby support loans, representing a large volume (HUF 151 billion), is attributable to the high base resulting from the surge after the launch of the product in July 2019. The volume of new housing loans amounted to HUF 364 billion in the quarter, reaching a new historic peak with an annual growth rate of 19 per cent. The new home subsidies available from 2021 contributed materially to the unprecedented growth; in addition, it was mentioned in the interviews with the banks' senior loan officers (see Box 2) that the rising house prices, inflation concerns and the demand brought forward due to the tightening cycle may also have triggered growth in new lending.

An increasing part of the housing loans are used for renovation purposes. Housing loan applications are still dominated by the purchase of used homes, accounting for almost 70 per cent of the disbursement of housing loans (Chart 17). During the quarter, 18 per cent of the loans were used for constructing or purchasing new homes. The proportion of loans used for renovation and

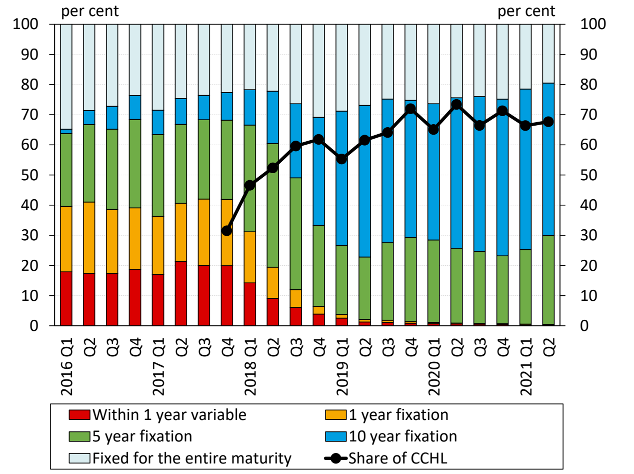
[5] Without loans extended to sole proprietors under the FGS.

*Table **Error! Bookmark not defined.**: Number of contracts and average contract size of new housing and personal loans*

		2019 Q2	2020 Q2	2021 Q2
Number of contracts (thousands)	Housing loans: purchases of used homes	18.0	12.6	18.7
	Housing loans: renovation and other	4.5	3.5	8.9
	Housing loans: construction and buying of new homes	4.4	3.0	4.1
	Personal loans	83.5	31.8	58.2
Average contract size (HUF million)	Housing loans: purchases of used homes	10.0	10.9	13.3
	Housing loans: renovation and other	4.6	5.7	5.7
	Housing loans: construction and buying of new homes	12.6	14.1	16.3
	Personal loans	1.8	1.7	2.2

Note: Credit institution loans. Source: MNB

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 2018 Q4) excluding disbursements by building societies. Source: MNB

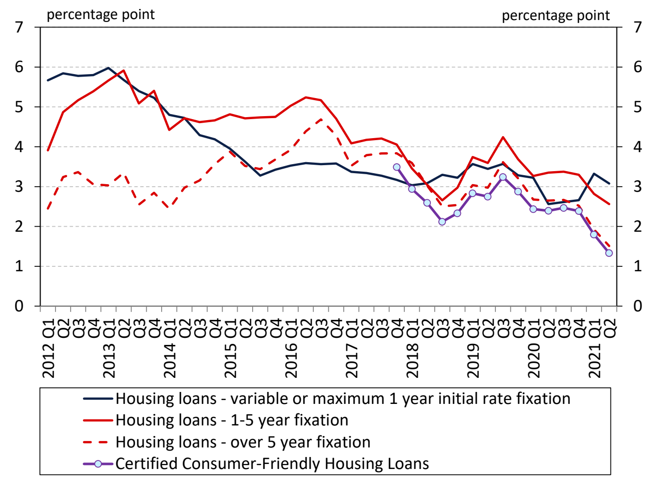
modernisation has been gradually rising since the beginning of the year; while 4 per cent of the housing loans were used for this purpose in January, in June this ratio was already 10 per cent. Until June, banks disbursed preferential mortgage loans for the pre-financing of the home renovation support – introduced from February – totalling HUF 24 billion.

Rising house prices caused an increase in the average contract size and maturity. The number of loan contracts concluded in the second quarter of 2021 increased substantially year-on-year for all loan purposes, while personal loans still fall materially short of the levels registered in 2019, before the pandemic. Housing loans for renovation and other purposes rose to the largest degree, by roughly 152 per cent, and personal loan contracts – mostly requested for similar purposes – also increased by 83 per cent (Table 1). The average contract size of housing loans continued to rise by annual comparison: for the purchase of used homes the average contract size was HUF 13 million with a maturity of 19 years, while for the construction or purchase of new homes, the average contract size exceeded HUF 16 million with a maturity of 20 years, during the quarter. Material growth was also observed in the contract sizes of personal loans, registering growth of 28 per cent in one year.

Every fifth housing loan was concluded with interest rate fixation until maturity in the quarter. Half of the housing loan contracts concluded in the second quarter of 2021 were taken with an interest rate fixation period of a minimum 10 years, while the interest rate on a further 20 per cent of them has been fixed until maturity (Chart 18). Since the beginning of 2021, the proportion of loans with interest fixed for 5 years rose moderately, which is attributable to the growing utilisation of the state-subsidised loans available under a 5-year interest rate fixation period. Certified Consumer-friendly Housing Loans, only available with a longer, i.e. at least 5-years, are making a marked contribution to the decline in interest rate risk, a product accounting for two-thirds of the quarterly housing loan disbursements.

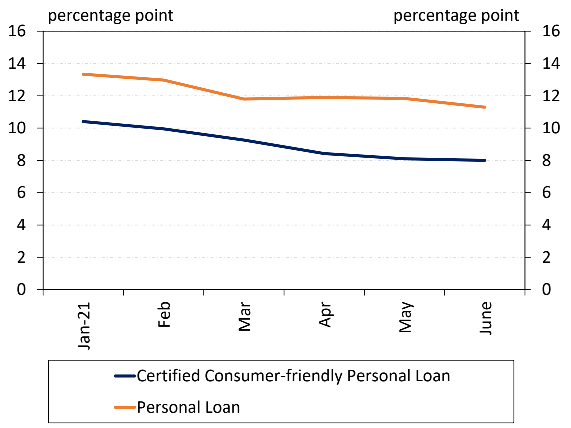
During the quarter, banks did not enforce the rise in funding costs in their pricing. The average interest

Chart 19: Interest rate spreads on new housing loans



Note: In the case of variable-rate housing loans or ones with up to 1-year interest 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. Source: MNB

Chart 20: APR-based spread on personal loans at institutions offering CCPLs



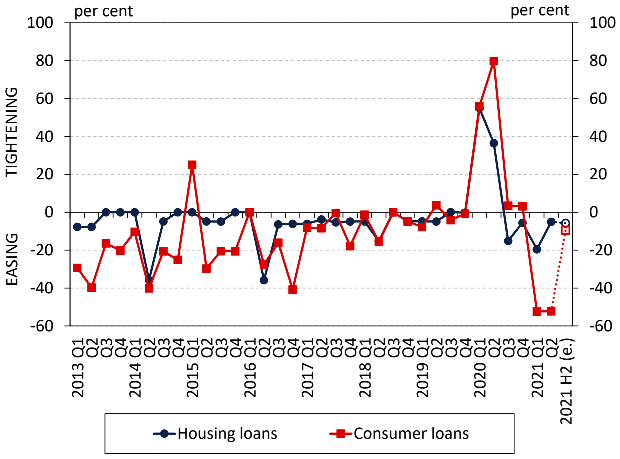
Note: Excluding employer loans. The APR spread was calculated as the difference between the APR and the BIRS yields corresponding to the maturity of loans. Average volume-weighed APR-based spread. Source: MNB

rate spread on housing loan contracts concluded in the second quarter of 2021 declined in all interest rate fixation categories. During the quarter, the average interest rate spread fell by 0.3 percentage points to 2.6 percentage points on housing loans with an interest rate fixation of 1 to 5 years, and by 0.4 percentage points to 1.5 percentage points on housing loans with an interest rate fixation longer than 5 years (Chart 19). The spread on Certified Consumer-friendly Housing loans stood at 1.3 percentage points at the end of the quarter. This product accounted for 68 per cent of the housing loan disbursements in the quarter. In the first half-year of 2021, the weighted average of the long-term yields influencing the pricing of housing loans (IRS) rose by 1 percentage point, while the average APR increased by merely 0.1 percentage point to 4.3 per cent, and thus the average spread on housing loans declined from 2.7 percentage point to 1.9 percentage points in half a year.

Demand for Certified Consumer-friendly Personal Loans was also material in the second quarter of 2021. Certified Consumer-friendly Personal Loans (CCPLs) of almost HUF 30 billion were disbursed in the second quarter, up by 70 per cent compared to the first quarter. The disbursements accounted for 20 per cent of the volume of personal loans concluded in the period under review. Since the launch of the product, CCPLs totalling HUF 47 billion have been disbursed. Compared to the non-certified loans, the CCPL products were disbursed in higher contract size for a longer maturity at lower interest rates. The average contract size of CCPL products was HUF 3.6 million in June, exceeding the amount of traditional personal loans by HUF 1.6 million. The maturity of CCPL products exceeds that of non-certified products by six months on average, while their average APR is 2.2 percentage points lower. The volume-weighted APR-based average interest rate spread on CCPL products at 8 percentage points is 3.3 percentage points lower compared to the non-certified personal loans at the institutions distributing CCPL (Chart 20).

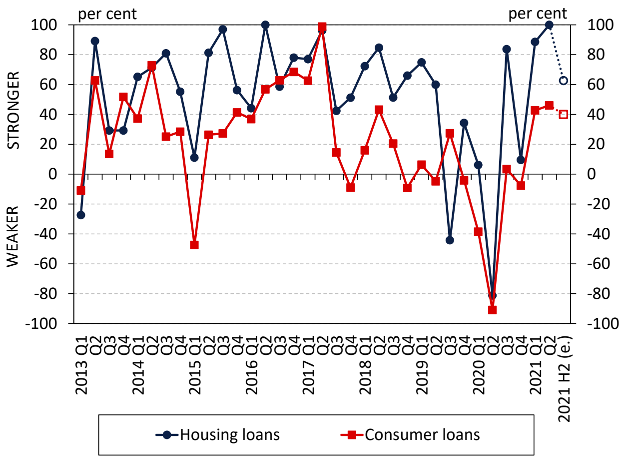
Banks did not change credit conditions applicable to housing loans, while they eased them for consumer loans during the quarter. Based on the responses to the Lending Survey, the respondent institutions in the

Chart 21: 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

Chart 22: Credit demand in household lending segment



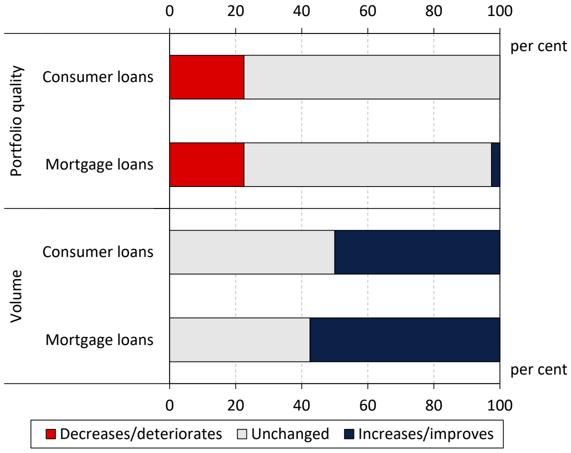
Note: The net ratio of banks indicating stronger and weaker demand, weighted by the market share. Source: MNB, based on banks' responses

second quarter of 2021 have not changed the conditions of housing loans materially, while in terms of individual conditions, half of the banks anticipated a reduction of spreads, citing growing bank competition and market share objectives. Looking ahead to the next half-year, they plan no changes in the conditions of housing loans; however, 35 per cent of them – in net terms – anticipated the raising of disbursement fees or the cancellation of previous allowances (Chart 21). 52 per cent of the respondent banks eased the conditions of consumer loans, which mostly affected personal loans and was implemented in the form of reducing spreads and easing the prescribed payment-to-income ratio. Most banks that reported easing have already introduced the Certified Consumer-friendly Personal Loan, and they most often cited the improved economic prospects and customers' creditworthiness as factors underlying the easing. In the third and fourth quarters of 2021, 10 per cent of the banks anticipate further easing in consumer loans in the light of the improving economic and housing market trends.

All banks reported a pick-up in demand in the housing loan market. In the second quarter of 2021, all institutions participating in the Lending Survey reported growing demand for housing loans, and 63 per cent of them, in net terms, expect this to continue in the second half of the year too, in line with the government subsidies launched in 2021 affecting the housing market (home renovation support and preferential loan, 5-per cent VAT on new homes, VAT allowance connected to HPS, etc.) (Chart 22). During the quarter, a net 46 per cent of banks perceived rising demand for consumer loans, and looking ahead to the second half of the year, 40 per cent of them, in net terms, anticipate a further pick-up. The ratio is even higher in the case of personal loans; half of the banks expect demand to increase further, due – among other things – to the increased demand for the pre-financing of the popular home renovation support.

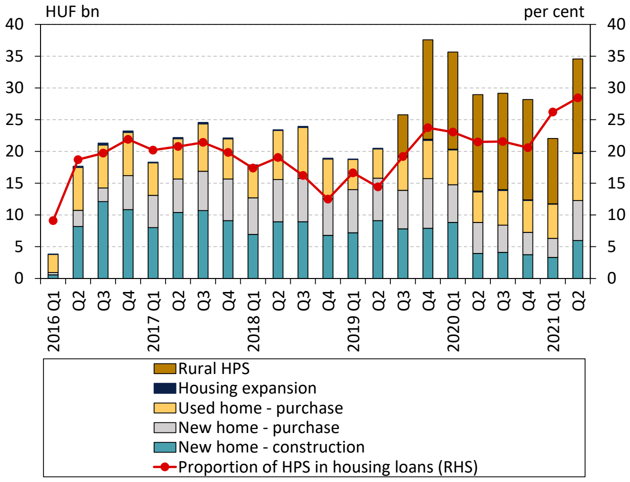
In the household segment, half of the banks plan to increase their exposure in the second half of 2021. Based on the Bank Sentiment Survey, the banking sector perceived increased competition in the household segment. In connection with this, in the

Chart 23: 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 24: Volume of the HPS-contracts by purpose



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

second half of 2021, half of the respondent banks plan to increase their consumer loan portfolio, and 58 per cent of them their mortgage loans (Chart 23). Growth is also supported by the stable portfolio quality ensured by the extended payment moratorium; however, 23 per cent of the banks anticipate a deterioration in this respect in the second half of the year.

The utilisation of the rural HPS remains strong. A major part of the new home subsidies introduced from January 2021[6] was connected to the Home Purchase Subsidy Scheme for Families. As a result of this, the amount of subsidies applied for under the HPS rose materially for all loan purposes: subsidy contracts of HUF 6 billion were concluded both for the construction and purchase of new homes, and totalling HUF 7 billion for the purchase of used homes (Chart 24). 28 per cent of the housing loans disbursed in this quarter, roughly HUF 104 billion, were related to the Home Purchase Subsidy Scheme for Families, half of which were state-subsidised HPS loans; the other half included market-based HPS-loans. Demand for the rural HPS, launched two years ago, was persistently high. 45 per cent of the subsidies contracted under the HPS during this period were used for properties located in the small settlements favoured. During the quarter, almost 3,000 contracts were concluded under the rural HPS scheme amounting to roughly HUF 15 billion, three-quarters of which were used for the purchase and modernisation of property.

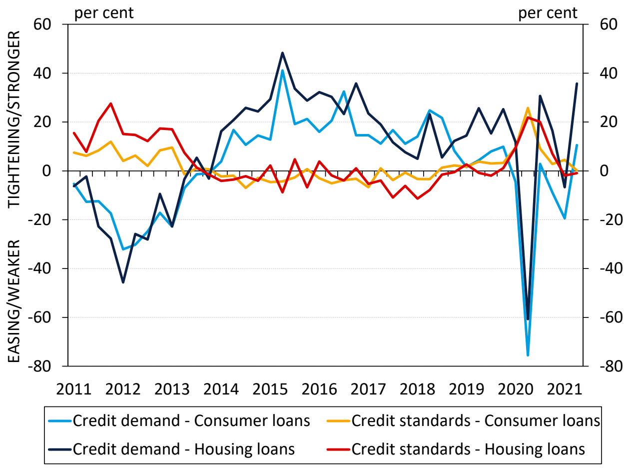
International developments in household lending

In the second quarter, steady credit conditions were accompanied by growing credit demand in the euro area. According to the ECB's survey[7], credit institutions in the euro area left credit conditions broadly unchanged in the second quarter of this year after the tightening implemented last year (Chart 25). The breakdown by countries paints a varied picture: improved prospects in Germany and France resulted

[6] Reducing VAT on new home to 5 per cent, VAT exemption of new properties purchased under HPS, duty exemption of homes purchased under HPS, multigenerational HPS Scheme, home renovation support, home renovation preferential loan.

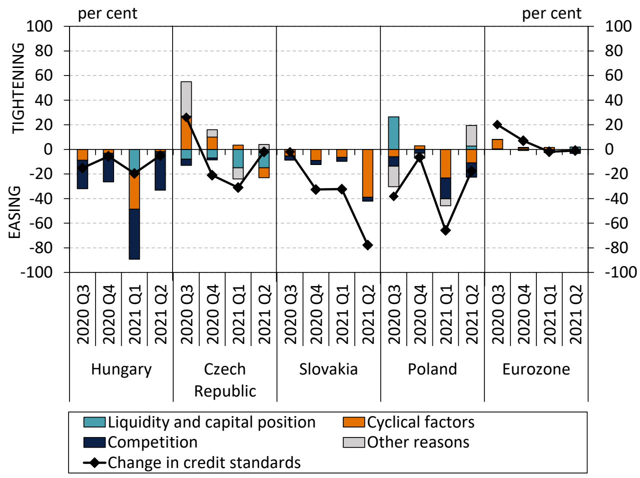
[7] The euro area bank lending survey https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/index.en.html

Chart 25: 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 26: Changes and factors contributing to changes in housing loan conditions in the V4 countries



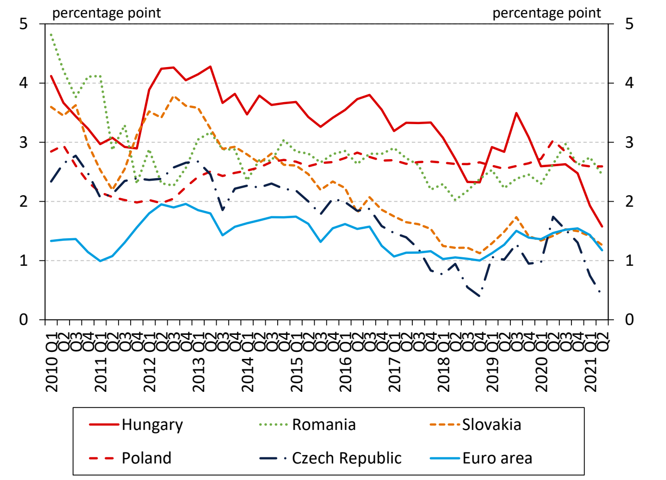
Note: Category values are derived from the arithmetic average of the factors thematically classified therein. Positive values indicate a tightening of conditions, while negative ones indicate easing. Source: MNB, ECB, national central banks

in the easing of housing loan conditions, while the falling risk appetite of banks in Italy triggered a tightening there. In the second quarter, the improving consumer prospects, supportive interest rate environment and recovering housing market led to an increase in demand for housing loans in the core countries, which was slightly curbed by funding from the savings accumulated during the pandemic. In France the buoyant demand was also accompanied by a rise in the ratio of rejected loan applications. Despite the improving prospects, demand for consumer loans rose only moderately in the core countries, which may have been partly attributable to financing from savings, as mentioned before.

Under easing credit conditions, credit demand also grew in the Visegrád region. While credit conditions applicable to housing and consumer loans remained broadly unchanged in the euro area and in Hungary, V3 countries' banks primarily in Slovakia (and to a lesser degree in Poland) reported an easing of housing loan conditions in parallel with the improving economic and housing market prospects (Chart 26). Improving consumer confidence and customer creditworthiness, along with banks' increasing risk tolerance and growing competition also triggered an easing in consumer loan conditions in the region. Consumer confidence and the supportive interest rate environment influenced credit demand too: the majority of Czech banks reported increasing demand for housing loans, while most of the Polish banks perceived a pick-up in demand for consumer loans.

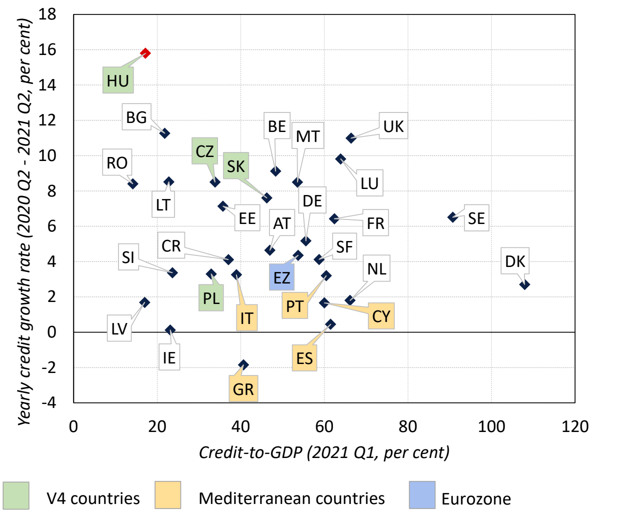
Hungary's historically low spreads on housing loans are in the mid-range of the region. Spreads on housing loans in Hungary have followed a declining trend since the second half of 2019. This is mostly attributable to the decline in interest rate on loans, with some contribution by the rise in banks' long-term funding costs since the beginning of the year. The historically low spread of 1.6 percentage points, observed in the second quarter of this year, fell short of the Romanian and Polish spread by 1 percentage point (Chart 27). On the other hand, it still exceeded the Czech spreads, which decreased significantly due to the rise in funding costs, and it was also slightly higher than the Slovak figures.

Chart 27: 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, APR-based smoothed spread over the 3-month interbank rate, while in the case of housing loans fixed for 1-5 years, for 5-10 years or over 10 years the APR-based smoothed spread over the 3-year, 7-year and 15-year IRS, respectively. Source: MNB, ECB, EMF, Datastream, national central banks

Chart 28: Annual growth rate of household loans and the credit-to-GDP ratio in an international comparison



Note: In the case of the UK, credit-to-GDP ratio is for 2020 Q3. Source: ECB, MNB

There is still room for financial deepening in Hungary. At the end of the second quarter of 2021, the annual growth in household loans outstanding in Hungary was particularly high in an international comparison (Chart 28), exceeding the dynamics of both the countries in the region and the euro area. This was partly attributable to the technical effect of the payment moratorium introduced in March 2020, unprecedented in a European comparison both in terms of its duration and its range of eligible borrowers[8]; however, the credit dynamics remains robust even after adjusting for this effect. The Hungarian household loan to GDP ratio – capturing financial depth – rose by 2 percentage points in one year and at the end of the first quarter of 2021 it amounted to 17.2 per cent. This was mostly attributable to the growth in retail lending, facilitated by the slowdown in GDP growth caused by the pandemic. As a result, Hungary – outpacing Romania – caught up with Latvia. However, on the whole, there is still major room for increasing loan penetration in Hungary in a sound structure. The average outstanding household loan-to-GDP ratio of the V3 countries and the euro area amounted to 35 per cent and 54 per cent, respectively, in the same period.

[8] Apart from Hungary, moratorium on payments applicable to retail loans (or to part of them) was applied only by Italy and Portugal at the end of the second quarter of 2021.

BOX 2: RESULTS OF THE INTERVIEWS WITH SENIOR LOAN OFFICERS

The quarterly Lending Survey is supplemented once a year with interviews with banks' senior loan officers. This was conducted in summer 2021 and involved 10 institutions. Banks reported on the lending trends in the first half of 2021, affected by the third wave of the coronavirus pandemic as well as by the lifting of restrictions and the restart of the economy.

Corporate lending

In the corporate segment, FGS Go! represented one of the main tools of crisis management, accounting for a major part of new corporate loans in the past year. After exhausting the FGS Go! framework, institutions are trying to serve customers with the favourable loan products of EXIM and KAVOSZ, which are in high demand in the SME segment. However, banks can usually only extend a long-term loan – similar to the FGS product – with a fixed interest rate, a higher loan amount and generally for investment purposes on a market basis at a higher interest rate. In agriculture, FGS Go! was the most popular loan product, while with the Széchenyi Card Programme the subsidy rules may represent a bottleneck; accordingly, several banks anticipate a fall in credit demand in this sector.

In the opinion of the banks' senior loan officers, credit institutions' risk appetite has returned to the pre-pandemic levels; banks have gradually eased the strict risk rules adopted earlier, which was also greatly supported by the use of the institutional guarantee. Most banks provide financing in the sectors affected by the pandemic and also to those who benefit from the moratorium; however, they do consider these factors for the purposes of loan assessment. At the major players in the banking sector, the ratio of corporate loans under the moratorium is between 10 and 30 per cent and within this portfolio the ratio of vulnerable debtors is around 5-15 per cent. Banks stated that their portfolios were of good quality when they were hit by the crisis, and based on the more active monitoring they anticipate no major problems after the phase-out of the moratorium.

Banks active in the Bond Funding for Growth Scheme stated that several corporations had refinanced their existing loans with bond issuances, while due to the growing inflation risk and the rising interest environment they may bring forward their planned bond issue.

All Hungarian institutions and their parent banks support and actively look for green funding opportunities. Several banks conduct questionnaire-based surveys of corporate clients' past activity, and if their operating activities or previous investments point towards sustainability, they try to reward it with a more favourable pricing offer. Several banks anticipate the issuance of green bonds next year.

Commercial real estate lending

The respondent institutions experienced no interruptions in the implementation of commercial real estate projects during the pandemic. At present they are more cautious due to the rise in the price of construction materials and labour charges, and to reduce risks they only conclude contracts with larger, well-capitalised developers.

On the office market they observed a shift in lease schemes. As a result of the increase in working from home, contractual conditions have become more flexible, e.g. the option of returning leased areas has become a more frequent element. On the other hand, no decline can be observed in rents. Price is a secondary consideration for lessees, as they tend to seek offices where employees are keen to return to, with a good location, convenience and functionality being the primary considerations.

According to the senior loan officers, the hotel market is very heterogeneous in regional terms; accommodations facilities in the capital are trying to survive with low booking rates, while occupancy rates are high in rural areas. The hotel segment is participating in the moratorium to the largest degree, treating saved instalments as a safety reserve in preparation for a potential fourth wave. In parallel with the lockdowns, industrial-logistics surged as a result of online purchases gaining ground. Banks will continue to disburse loans actively in this segment in the future as well.

Household lending

Banks reported in the interviews that the volume of retail loans placed in the first half of 2021 had already exceeded the level registered a year ago. However, personal loans still fall significantly short of the volumes of 2019, a period not yet hit by the pandemic. Most institutions have gradually eased the strict risk conditions introduced last year, but some of them have not yet abolished them in full. There is essentially no restriction any longer in the sectors previously excluded from lending[9]; nevertheless, several institutions apply “manual loan assessment” in the vulnerable sectors.

The high volume of mortgage loan disbursements in the first half-year was beyond banks’ expectations. At the beginning of the year they observed a wait-and-see approach concerning the new home subsidy schemes, which was followed by a surge in volumes as these new schemes started to operate from March. In addition, senior loan officers believe that the record high volume of new housing loans was also driven by the rising house prices, inflation concerns and demand brought forward due to the tightening interest rate cycle. The role of intermediaries is increasing in lending for housing purposes, due to the high number of combinable subsidised and market-based loan products and the related administration. Some banks believe that the Green Home loan product, to be launched in the autumn, may give rise to consumers waiting on the credit market and it will divert demand towards new homes. The 2.5 per cent interest rate on the product makes borrowing affordable for a wide range of customers. In the first half-year institutions did not enforce the rise in funding costs in their pricing in full, but several institutions noted that they planned to increase interest rates. The home improvement subsidised loan, available from 2021, is more sought after in rural areas, whereas banks that have stronger presence in the capital and in larger provincial towns reported weaker demand. Some senior loan officers believe that customers have become price-sensitive, and thus there is lower demand for home improvement personal loans offered at higher interest rates. There is no consensus among banks as to whether, under the population’s high home improvement intentions, the subsidised home improvement mortgage loan has an additional or crowding-out effect in the credit market.

Banks see no change in the disbursements of prenatal baby support loans and in the composition of borrowers. The average loan amount of personal loans rose further in the past half-year, which was also attributable to the rise in prices for loan purposes, since personal loans are typically requested for home improvements and car purchases. Since banks duly informed their customers, the rising APR level from January on unsecured loans did not take customers by surprise. Most banks already offer full online applications for personal loans to their existing customers, and they plan additional developments to serve new customers as well. The Certified Consumer-friendly Personal Loans provided major support for this process through the expectations related to online lending. Certified banks reported buoyant demand for these products. Institutions where this product is not yet available use their IT capacities for pending other developments, but they also plan to apply for certification in the near future.

At present, the ratio of household customers benefiting from the moratorium is around 30-50 per cent in the banking sector. However, all institutions are convinced that many of them do not need this programme. They deem such a long moratorium unhealthy and they are concerned about the customers who are not aware of the volume of additional debt they are accumulating during this period. Most banks acted proactively and contacted their customers participating in the moratorium over the phone to assess the potential risks. 80-90 per cent of the respondents declared that they would be able to pay their instalments after the moratorium and only 5-10 per cent of them may need restructuring.

Customer turnover in branches returned to 70-80 per cent of the pre-pandemic level after the lifting of the restrictive measures. Banks are striving to convince customers to use cash as little as possible, and to this end they have reduced the number of cash desks in the branches, instead installing ATMs suitable for cash withdrawals and cash deposits.

Administration is paperless in most banks and signatures are given on tablets. They see a greater popularity of banking via mobile applications, but some generations still prefer doing banking in the branches. Consequently the banks are not planning to reduce the number of their branches drastically in the near future.

[9] The results of the interviews conducted in 2020 are summarised in Box 1 of the publication entitled Trends in Lending | September 2020.

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: The website's address: http://www.mnb.hu/statisztika

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 2021 Q2, the surveyed institutions accounted for 85 per cent of the banking sector in the case of outstanding housing loans and 92 percent 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 96 per cent.

The survey consists of a standard questionnaire in each segment. The retrospective questions refer to 2021 Q2 (compared to 2021 Q1), whereas the forward-looking questions concern the next half-year period, i.e. covering 2021 H2 (relative to 2021 Q2). The current questionnaire was completed by the senior loan officers between 1 July and 16 July 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: http://www.mnb.hu/penzugyi-stabilitas/publikaciok-tanulmanyok/hitelezesi-felmeres.

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