Bálint Dancsik | Head of Department
Directorate Financial System Analysis

MAGYAR NEMZETI BANK

Press conference | 10 September 2021

TRENDS IN LENDING
SEPTEMBER 2021

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Corporate lending

Household lending

Interest rate risk on mortgage loans

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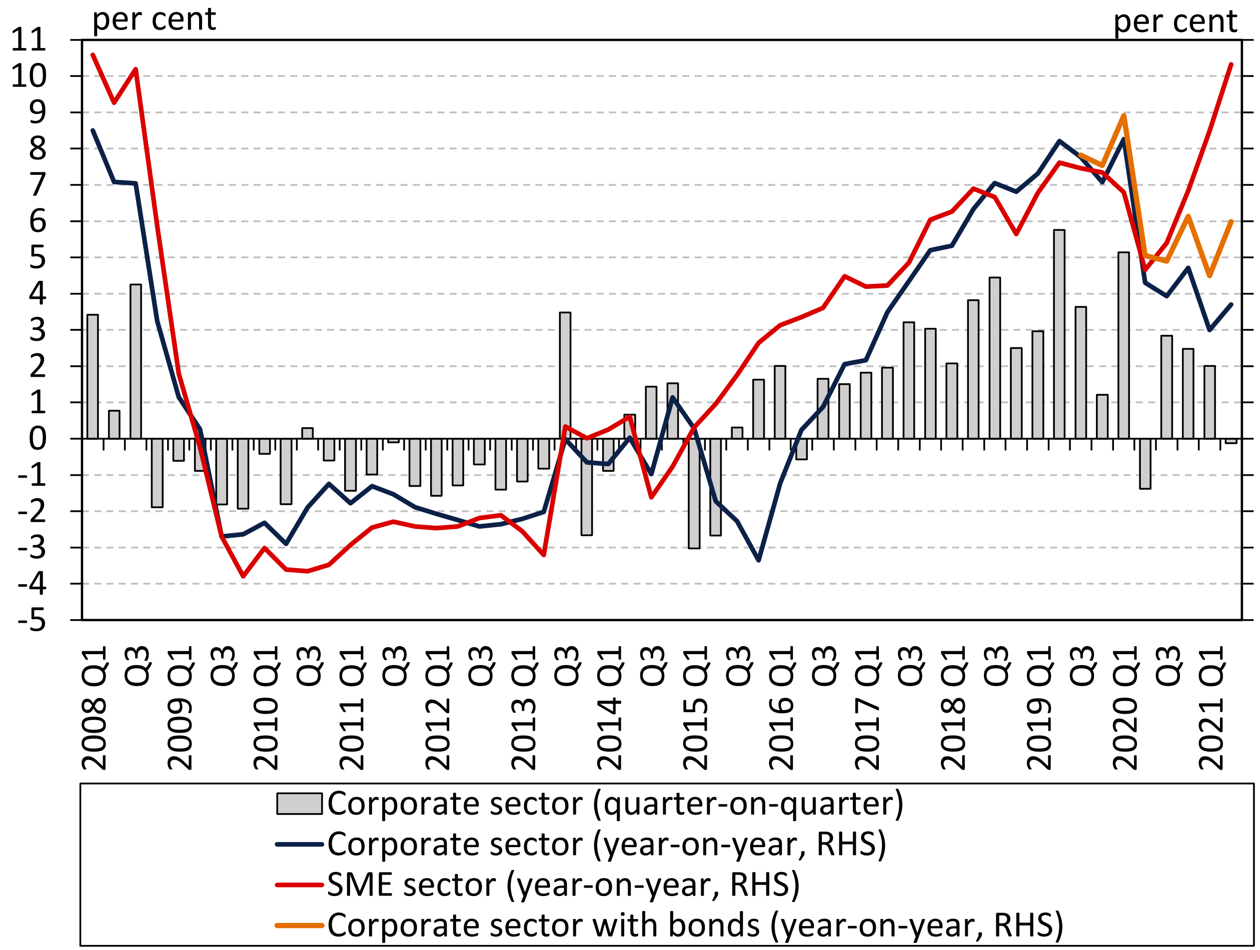
AS A RESULT OF STATE AND CENTRAL BANK SCHEMES, SME CREDIT DYNAMICS ROSE TO 21 PER CENT



GROWTH RATE OF LOANS OUTSTANDING OF THE OVERALL CORPORATE SECTOR AND THE SME SECTOR

Source: MNB

Annual growth rate: 7.4 %

Corporate loan and bond* ann. growth rate: 12 %

SME annual growth rate: 20.6 %

The loan portfolio decreased by HUF 11 billion in the quarter

The growth of the loan portfolio was mainly concentrated in the SME segment

** Based on exposure in banks' balance sheets.*

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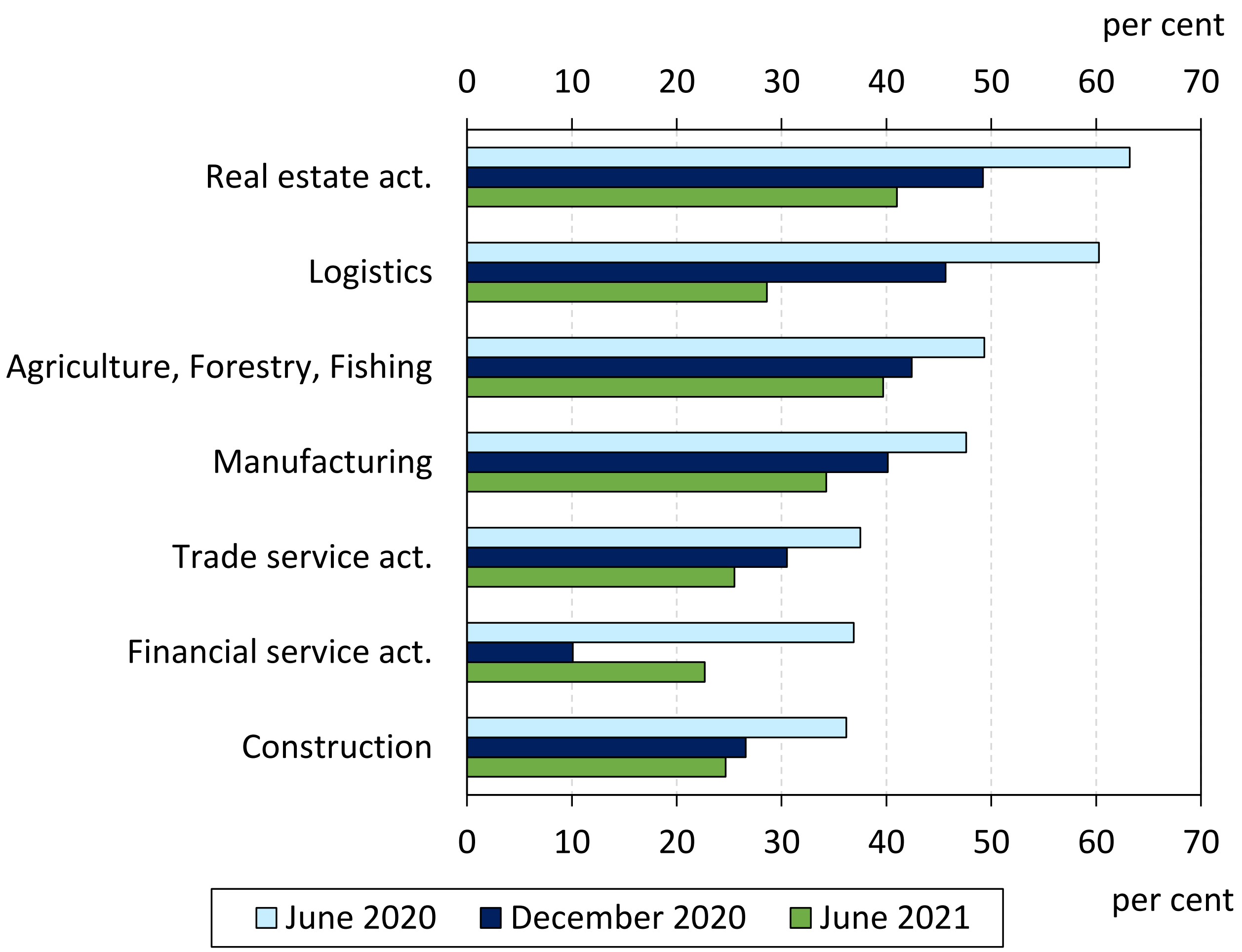
UTILIZATION OF THE MORATORIUM CONTINUED TO DECLINE IN THE CORPORATE SEGMENT



RECOURSE TO THE MORATORIUM IN THE SEVEN SECTORS WITH THE LARGEST LOAN PORTFOLIOS

Moratorium ratios (June 2021)

Eligible outstanding loan portfolio: **35%**

Total loan portfolio: 21%

Commercial real estate loans

46 %

Hotel financing

80 %

Source: MNB

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

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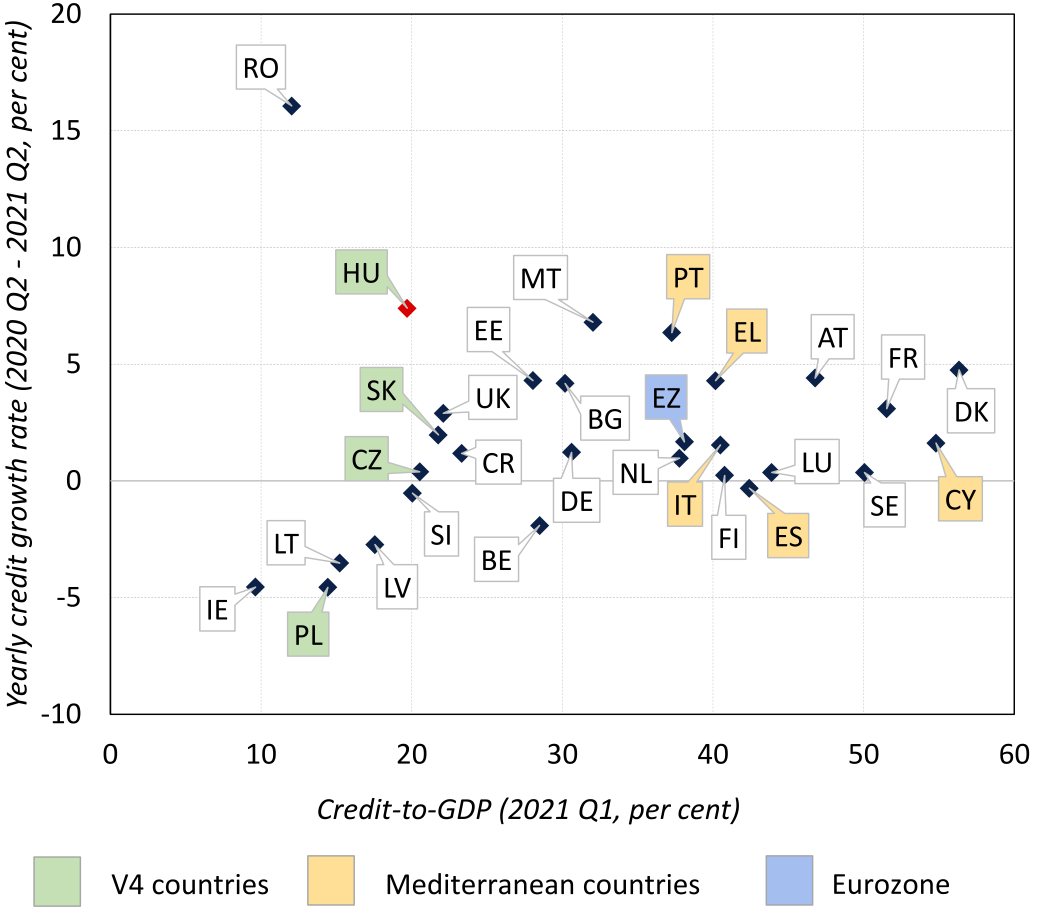
DOMESTIC CORPORATE CREDIT DYNAMICS IS THE SECOND HIGHEST IN THE EUROPEAN UNION



ANNUAL GROWTH RATE OF CORPORATE LOANS AND THE CREDIT-TO-GDP RATIO IN AN INTERNATIONAL COMPARISON

Subsidised loan and guarantee programmes significantly supported credit dynamics in both the EU and Hungary

Credit-to-GDP:

38 %

20 %

Source: ECB, MNB

WITHIN THE NEW DISBURSEMENTS, THE SHARE OF FGS WAS ALSO OUTSTANDING IN THE QUARTER

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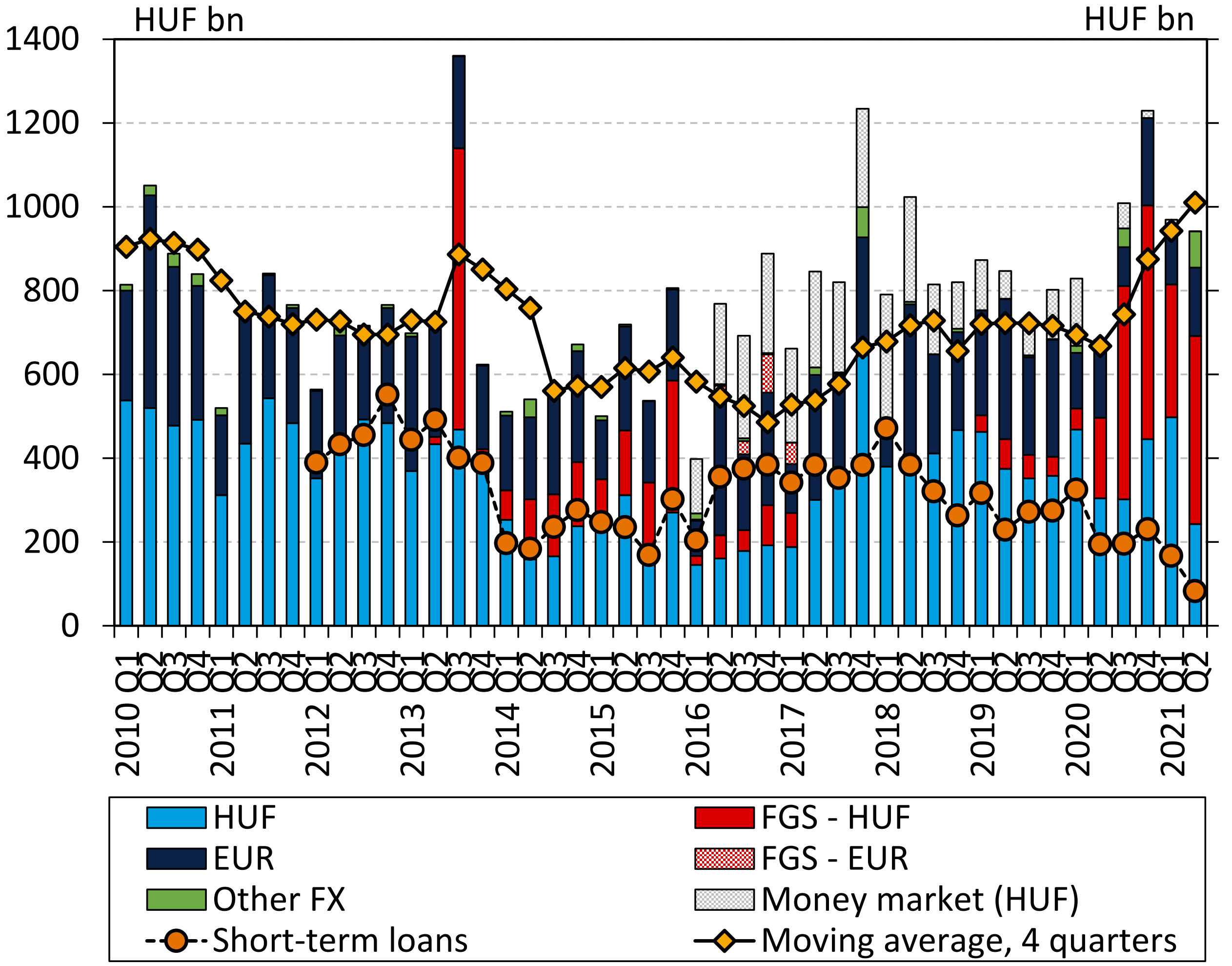

NEW CORPORATE LOANS IN THE CREDIT INSTITUTION SECTOR

Source: MNB

Disbursements in the second quarter were 40 % higher than in the same quarter of 2020

Nearly half of new disbursements and two thirds of SME lending are linked to the FGS

FOR COMPANIES, THE MAIN CRISIS MANAGEMENT TOOL WAS THE FGS GO!

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- Through the programme, the central bank helped to prevent a liquidity crunch and "credit crunch" similar to the previous crisis.
- With the start of the recovery and the dynamic growth of GDP, the phasing out of this crisis management tool has become timely.
- Even after interest rate hikes, companies have one of the most favorable financing environments in the last 30 years.
- The persistently too low interest rate of 1-2 per cent would also help the survival of non-viable businesses, which would also hamper economic growth.

THE END OF THE FGS GO! DID NOT CAUSE DRASTIC DECLINE IN THE CORPORATE LOAN MARKET

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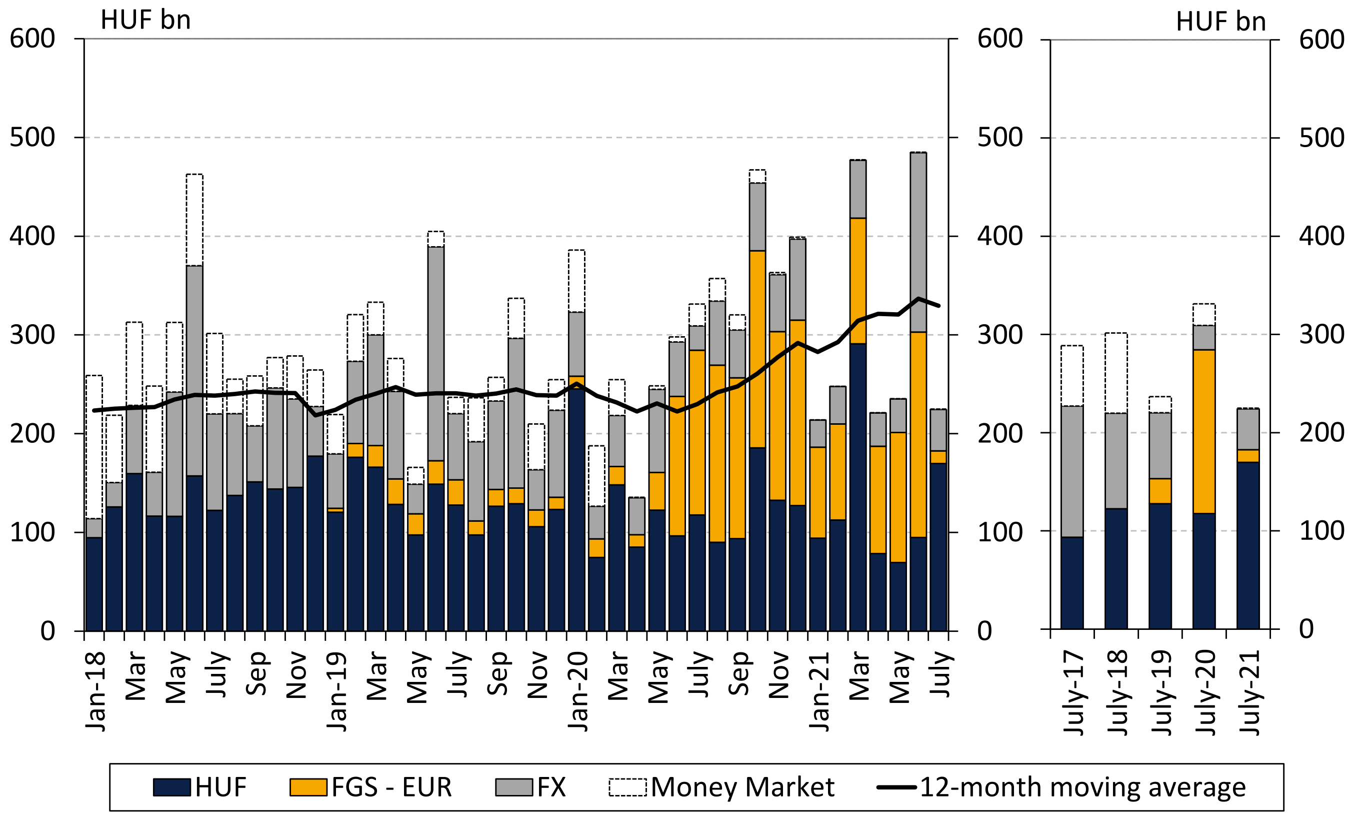

GROSS CORPORATE LOAN DISBURSEMENTS OF THE CREDIT INSTITUTION SECTOR IN EACH MONTH

Transaction-based expansion in July:

SME: +HUF 59 Bn

Large corp: +HUF 89 Bn

The impact of the FGS will last for months!

New disbursements:

-27 %

(July 2021 vs. July 2020)

+2 %

(July 2021 vs. July 2019)

The share of market-based loans in July:

79 %

(same period of the previous year: 37%)

Source: MNB

Note: The 12-month moving average of contracts does not include Money Market transactions.

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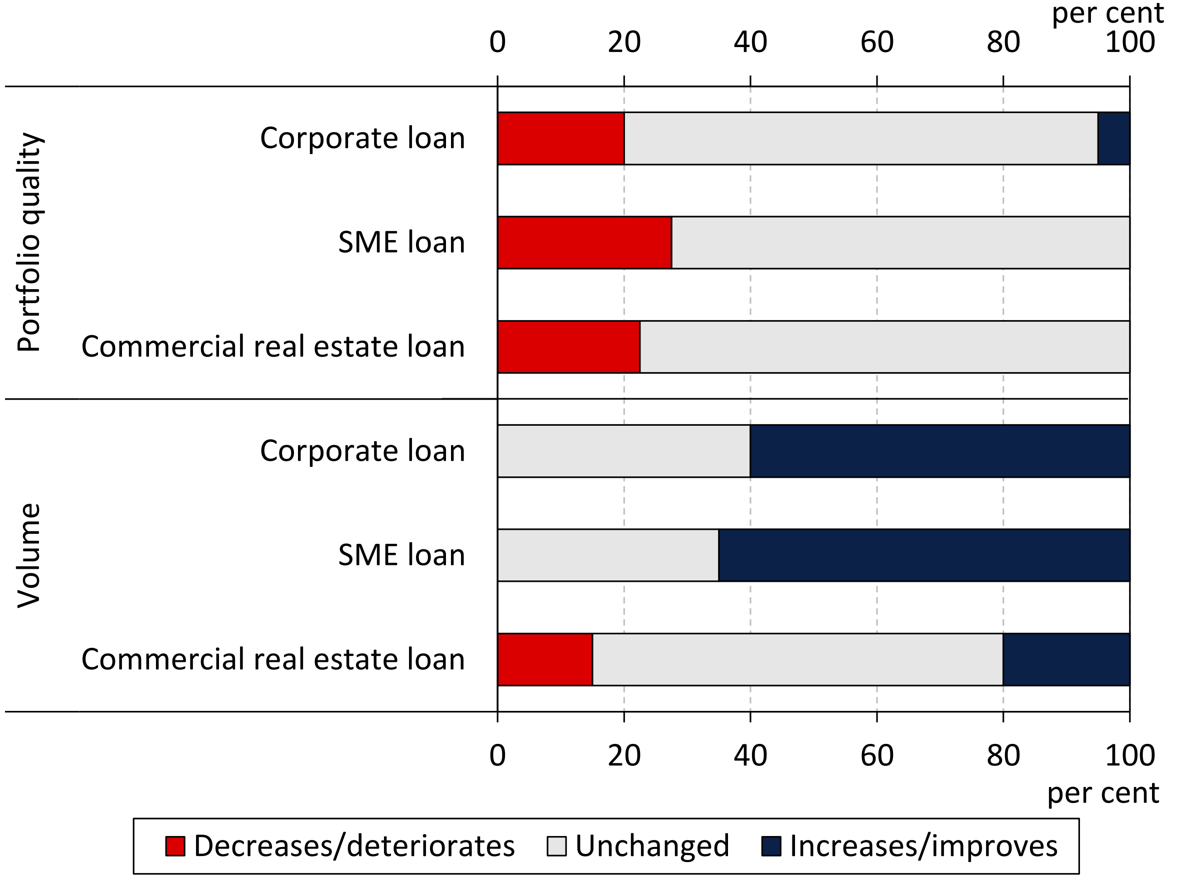
TWO-THIRDS OF THE BANKS PLAN TO INCREASE BOTH THE ENTIRE CORPORATE AND THE SME LOAN PORTFOLIOS IN THE SECOND HALF OF 2021



BANKS' EXPECTATIONS RELATED TO CHANGES IN THE VOLUME OF LOANS AND PORTFOLIO QUALITY IN THE CORPORATE SEGMENT

Banks reported buoyant demand and unchanged credit conditions during the quarter.

Almost one fifth of banks expect deterioration in the corporate loan portfolio in the second half of 2021, the end of the general moratorium.

Source: MNB, based on banks' responses

Note: Unweighted distribution of credit institutions.

THE LENDING CONDITIONS DID NOT CHANGE IN THE CORPORATE SEGMENT, LOOKING AHEAD EASING IS EXPECTED

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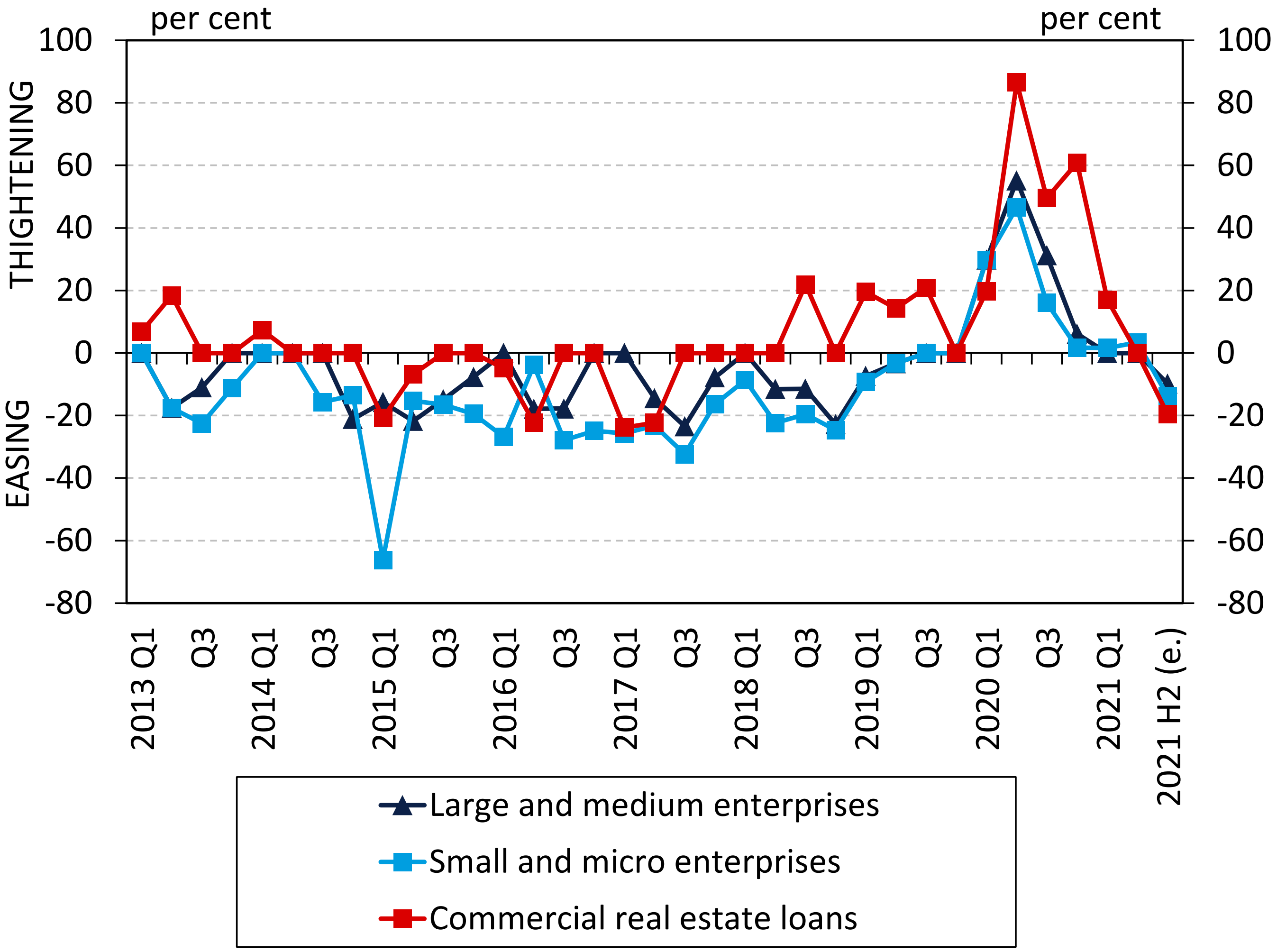

CHANGES IN CREDIT CONDITIONS IN THE CORPORATE SUBSEGMENTS

Source: MNB, based on banks' responses

Note: Net percentage balance of respondents tightening/easing credit conditions weighted by market share.

In the second half of 2021, net **10 percent** of banks will ease for large enterprises, **14 percent** for small and micro enterprises, **20 percent** for commercial real estate loans.

The pick-up in demand during the quarter may continue in the second half of the year.

IN CORPORATE LENDING, BANKS' RISK APPETITE HAS RETURNED TO THE PRE-PANDEMIC LEVELS

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The phase out of the FGS Go! will not cause extensive market tension, however it will have impact on agriculture

Heterogeneous use of BGS has been reported by banks, while refinance dominates in some institution, it is not general at sector level

5 to 15 percent of the corporate loan outstanding under moratorium may be vulnerable

Commercial real estate is financed only by well-capitalised developers

Banks are actively looking for green funding

The big question in the coming months will be whether market-based SME lending will resume with vari-able or fixed interest rates

Note: Based on interviews with 10 institutions.

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RETAIL LOANS OUTSTANDING ARE GROWING AT AN ACCELERATING RATE AGAIN

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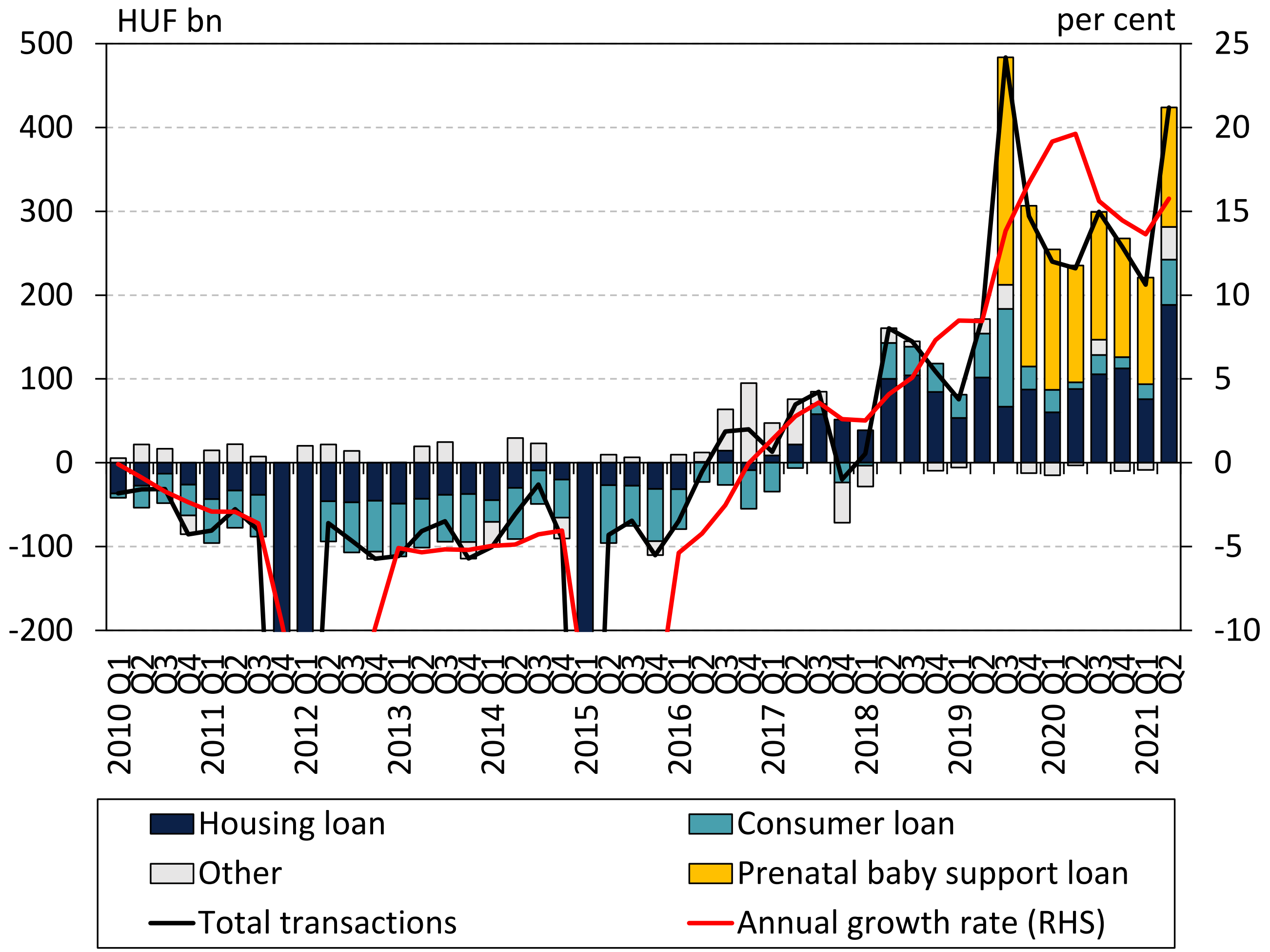

QUARTERLY TRANSACTIONS OF THE HOUSEHOLD LOAN PORTFOLIO BY LOAN PURPOSE

2021 Q2

Total household loans outstanding:
+ HUF 424 billion

Annual growth rate
(June 2021)
15,8%
Growth rate without moratorium
~7,3%

Note: The transactions reflect the effect of the settlement.

Source: MNB

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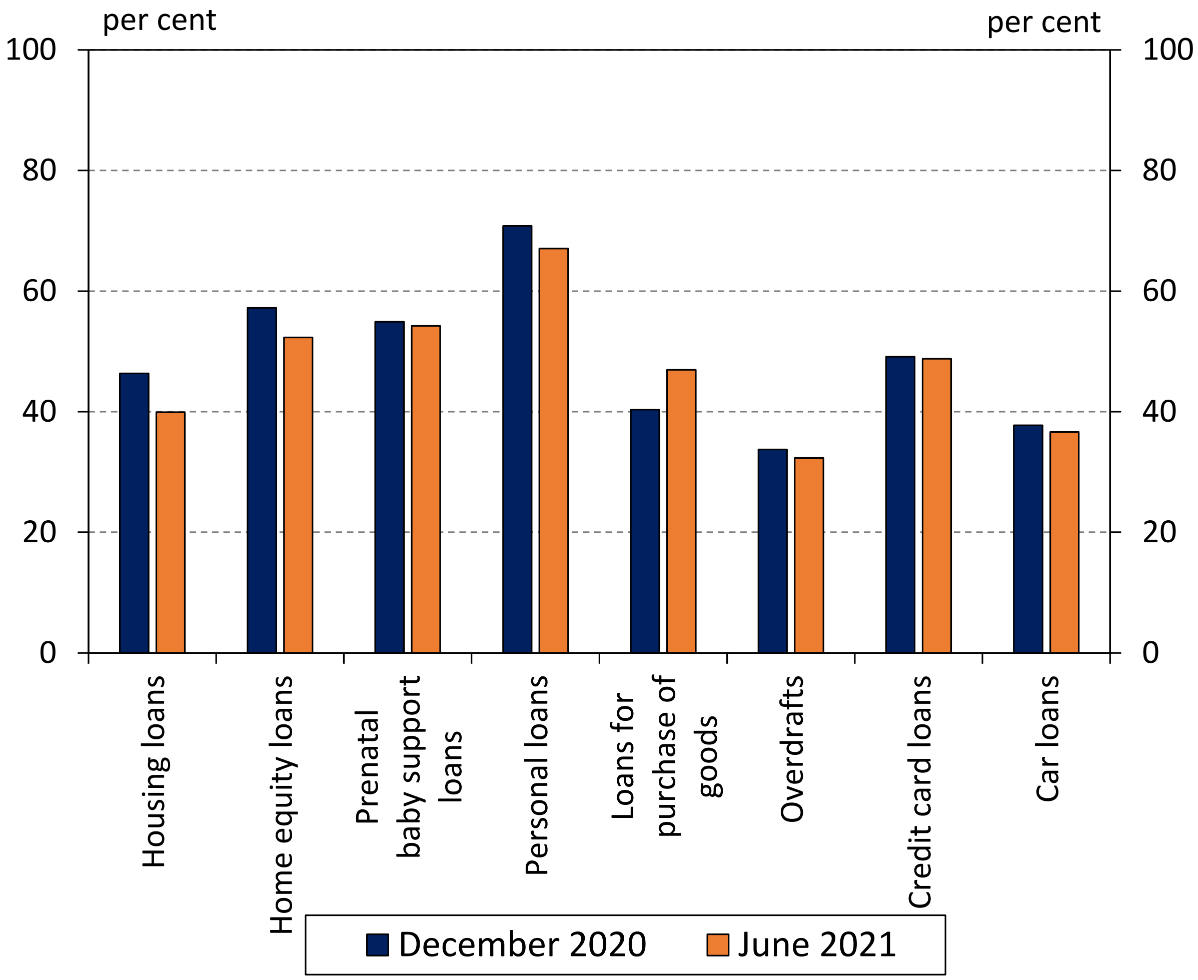
STAGNANT RATE IN THE MORATORIUM



SHARE OF CREDIT STOCK UNDER MORATORIUM BY LOAN TYPE

Source: MNB

In proportion to the **ELIGIBLE** loan portfolio:

48%

In proportion to the **TOTAL** loan portfolio:

33%

Note: Only the credit institution sector and natural person debtors (excluding sole proprietors and primary producers).

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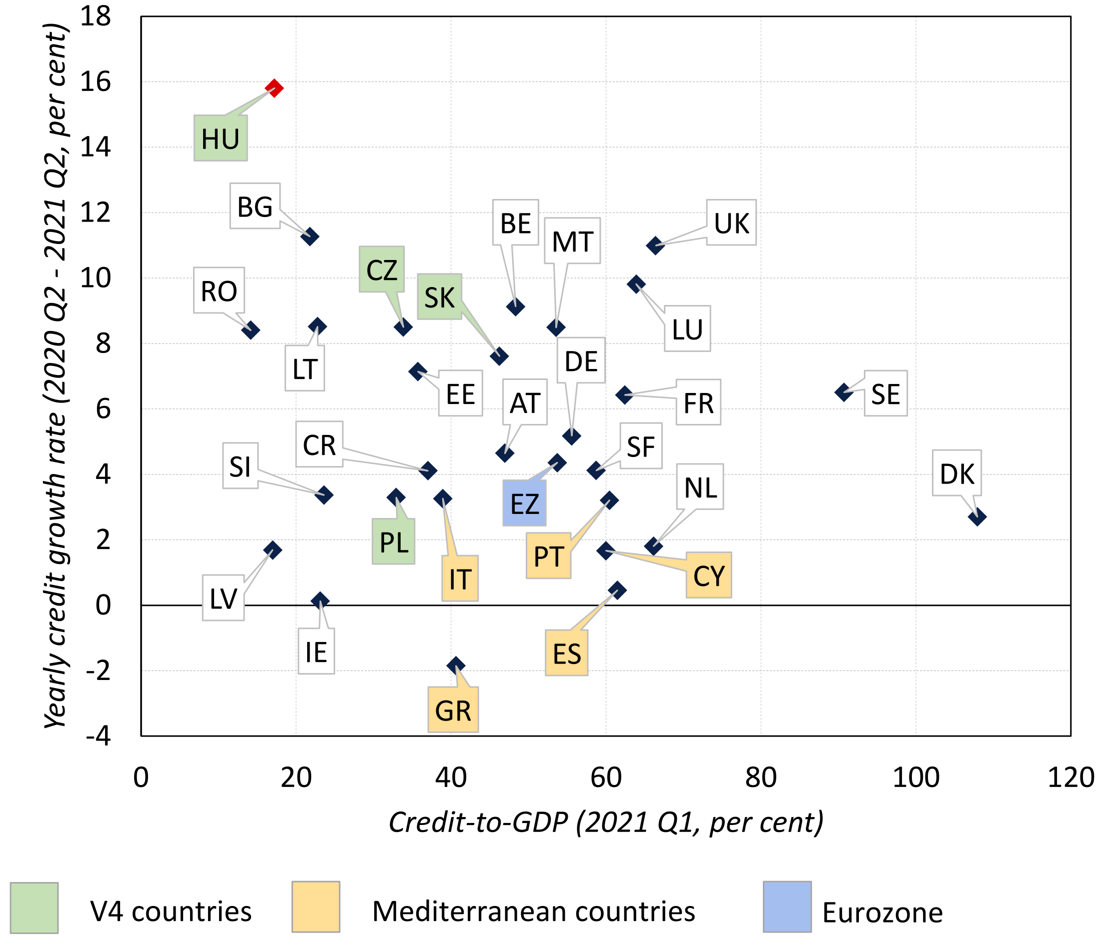
EVEN AT THE CURRENT PACE OF INCREASE IN LENDING, THERE IS STILL ROOM FOR INCREASING DOMESTIC LOAN PENETRATION



Credit-to-GDP:

54%

46%

33%

34%

17%

ANNUAL GROWTH RATE OF HOUSEHOLD LOANS AND THE CREDIT-TO-GDP RATIO IN AN INTERNATIONAL COMPARISON

Source: ECB, MNB

THE DISBURSEMENT OF HOUSING LOANS REACHED A HISTORIC PEAK DURING THE QUARTER

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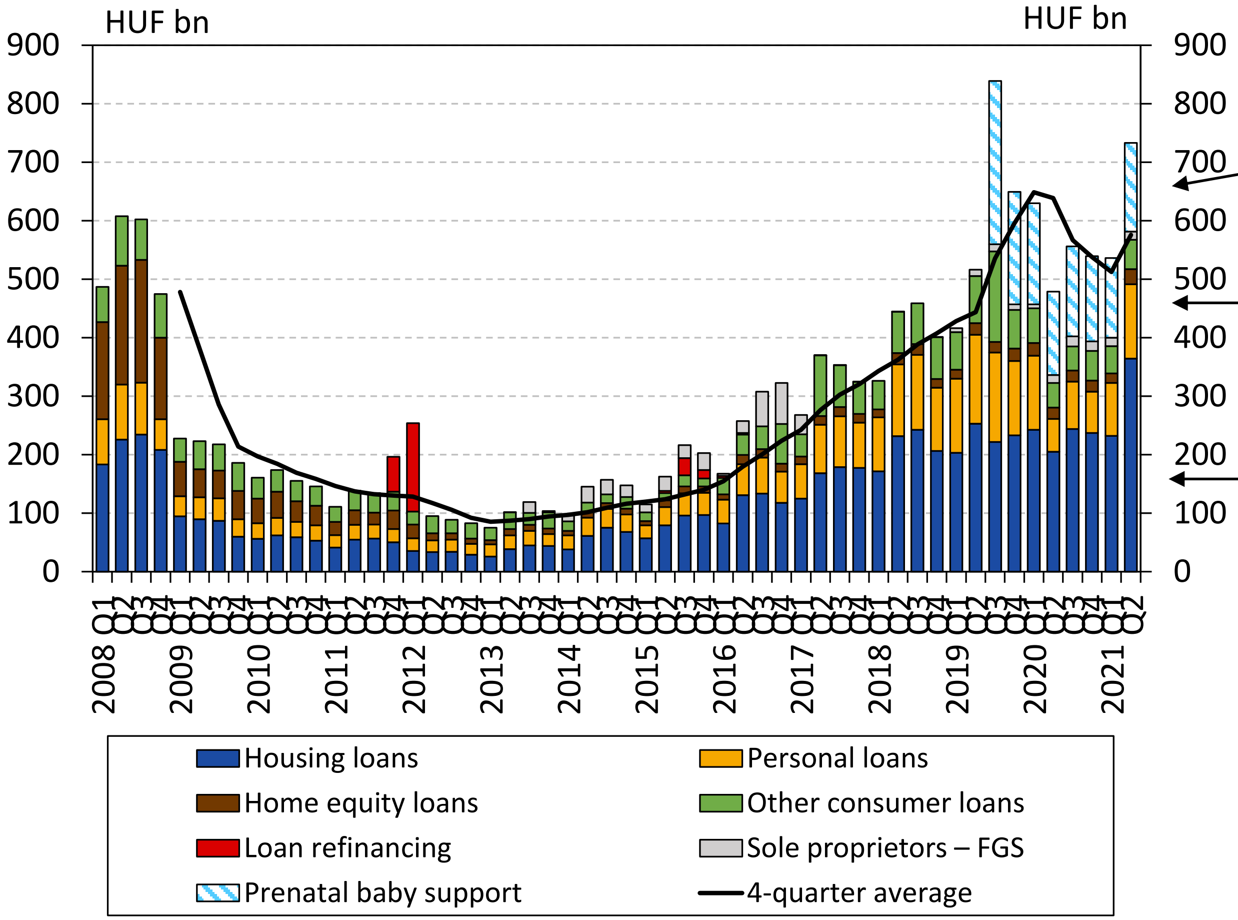

Prenatal baby support loans: HUF 1374 billion (until 2021 Q2)

Personal loans: -16 %
(2021 Q2 vs. 2019 Q2)
(Share of CCPLs: 20%)

Housing loans: +44 %
(2021 Q2 vs. 2019 Q2)

Housing loan disbursements remained high in July, but personal loans still do not reach pre-pandemic levels

NEW HOUSEHOLD LOANS IN THE CREDIT INSTITUTION SECTOR

Source: MNB

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.

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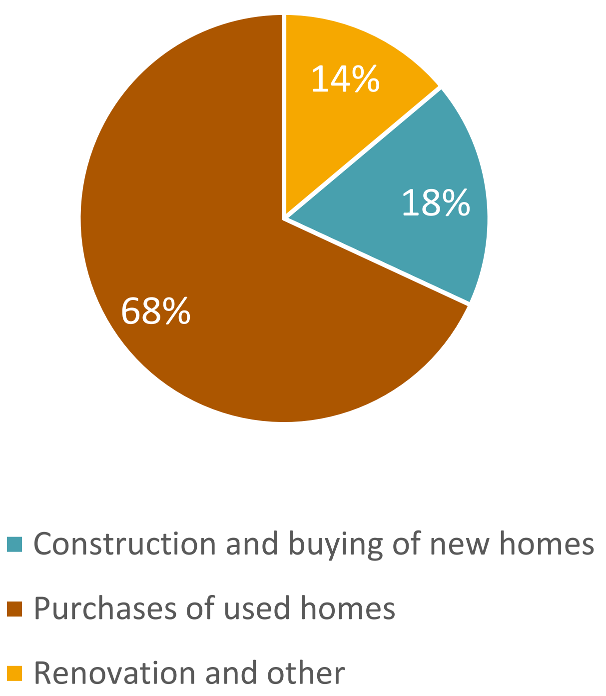
TWO AND A HALF TIMES MORE LOAN CONTRACTS WERE CONSLUDED DURING THE QUARTER FOR RENOVATION AND MODERNISATION THAN A YEAR EARLIER

The preferential mortgage loans outstanding reached HUF 24 billion by June.

Construction and buying of new homes	**+ 34 %** (2021 Q2 vs. 2020 Q2)	
Purchases of used homes	**+ 48 %** (2021 Q2 vs. 2020 Q2)	
Renovation and other	**+ 152 %** (2021 Q2 vs. 2020 Q2)	



Note: on the left: change in the number of contracts concluded during the quarter. On the right, the distribution of loan volume disbursed during the quarter by loan purpose.

Source: MNB

ALL BANKS REPORTED A PICK-UP IN DEMAND IN THE HOUSING LOAN MARKET

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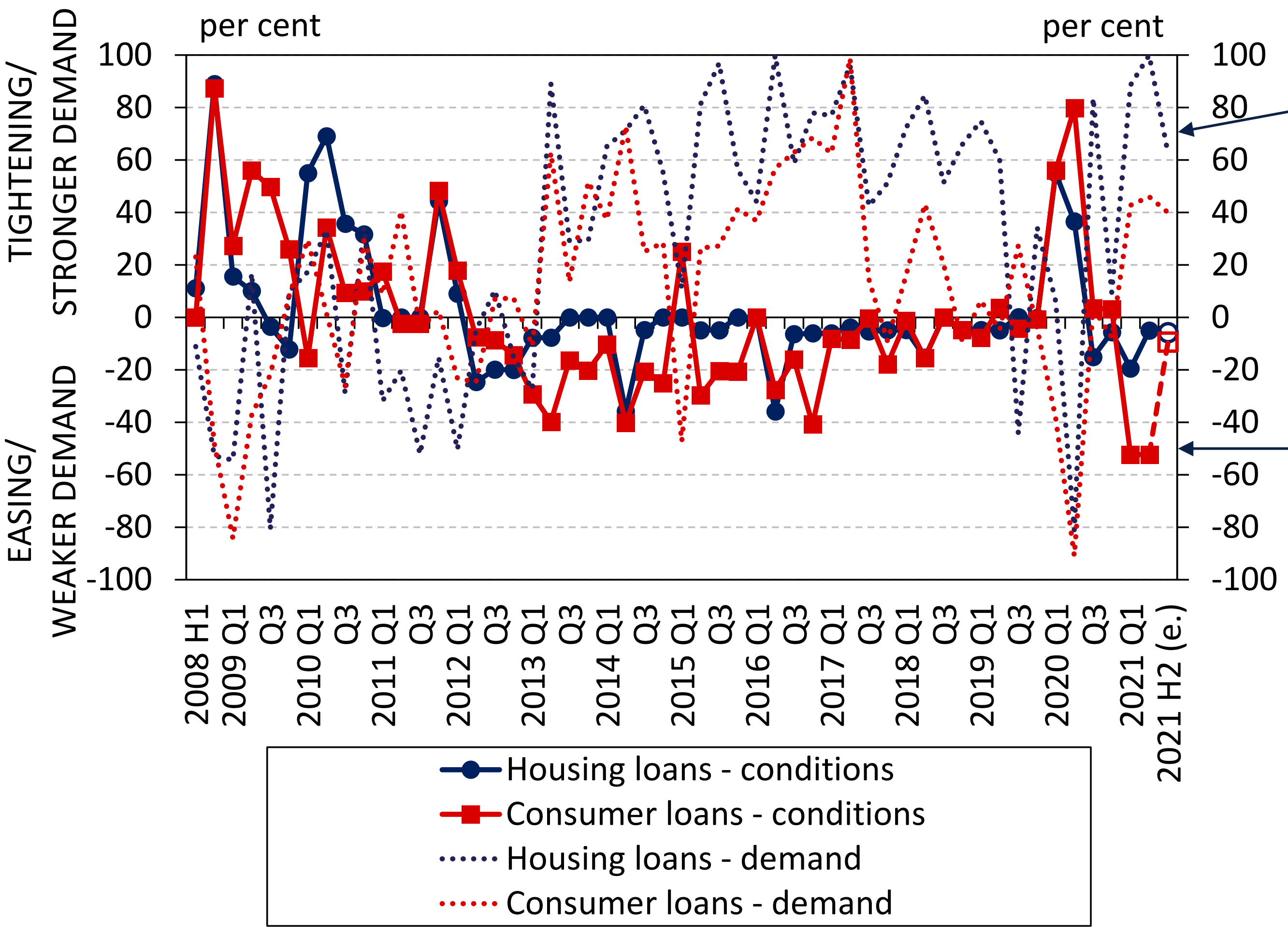

63 percent of banks expect a further pick-up in demand

Banks eased the credit condition on consumer loans alone

CHANGES IN CREDIT CONDITIONS AND CREDIT DEMAND IN THE HOUSEHOLD SEGMENT

Note: Net ratio of the difference between tightening and easing and banks indicating stronger and weaker demand weighted by market share.

Source: MNB, based on banks' responses.

A MAJOR PART OF THE NEW HOME SUBSIDIES WAS CONNECTED TO THE HPS

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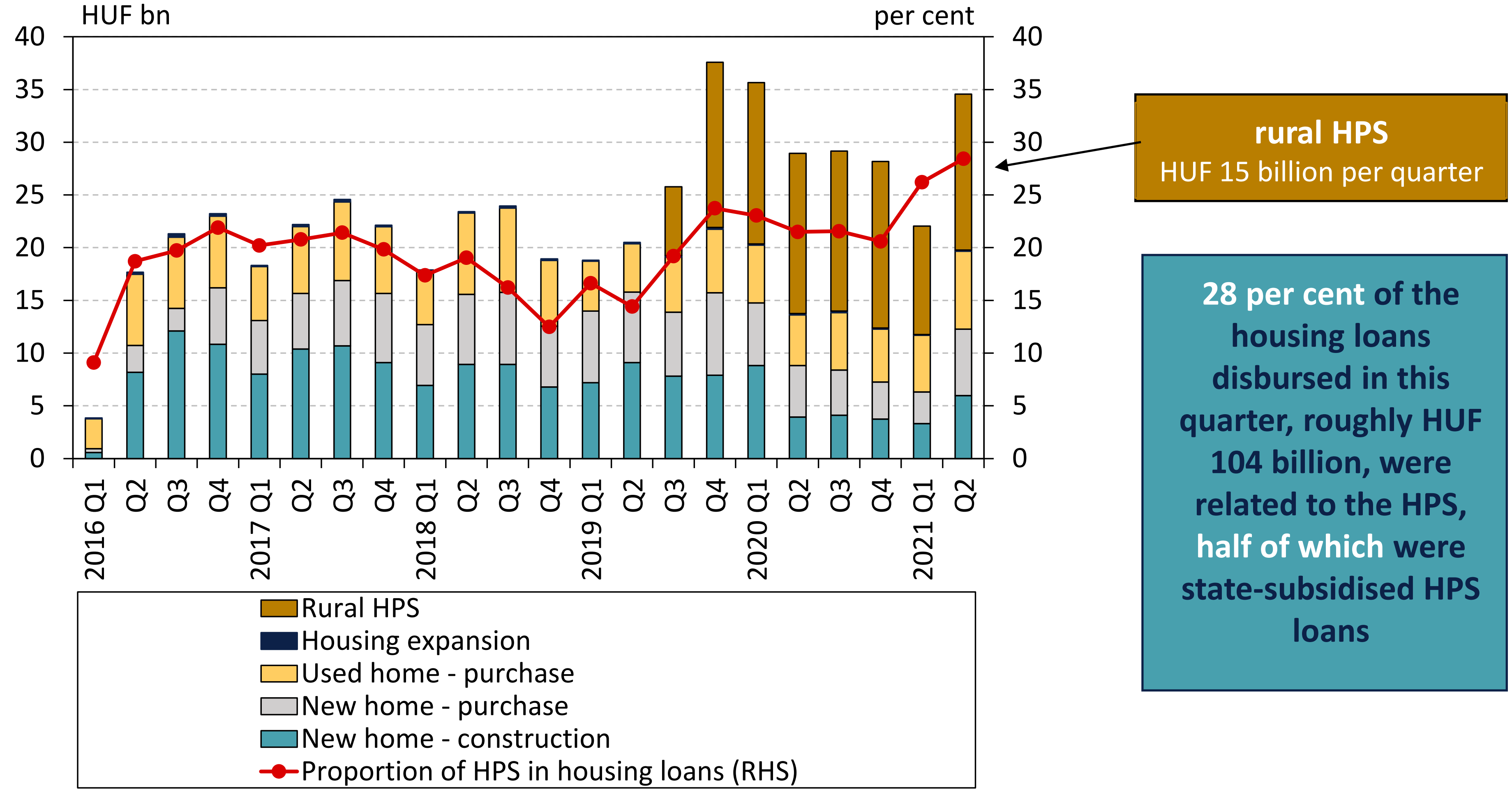

28 per cent of the housing loans disbursed in this quarter, roughly HUF 104 billion, were related to the HPS, half of which were state-subsidised HPS loans

VOLUME OF THE HPS-CONTRACTS BY PURPOSE

Note: Half of the loans were related to HPS are market-based housing loans, for which HPS was also requested.

Source: MNB, Ministry of Finance.

THE CHANGE IN THE COST OF FUNDS (BIRS) HAS SO FAR APPEARED ONLY SLIGHTLY IN THE AVERAGE COST OF CREDIT (APR) FOR NEW CONTRACTS

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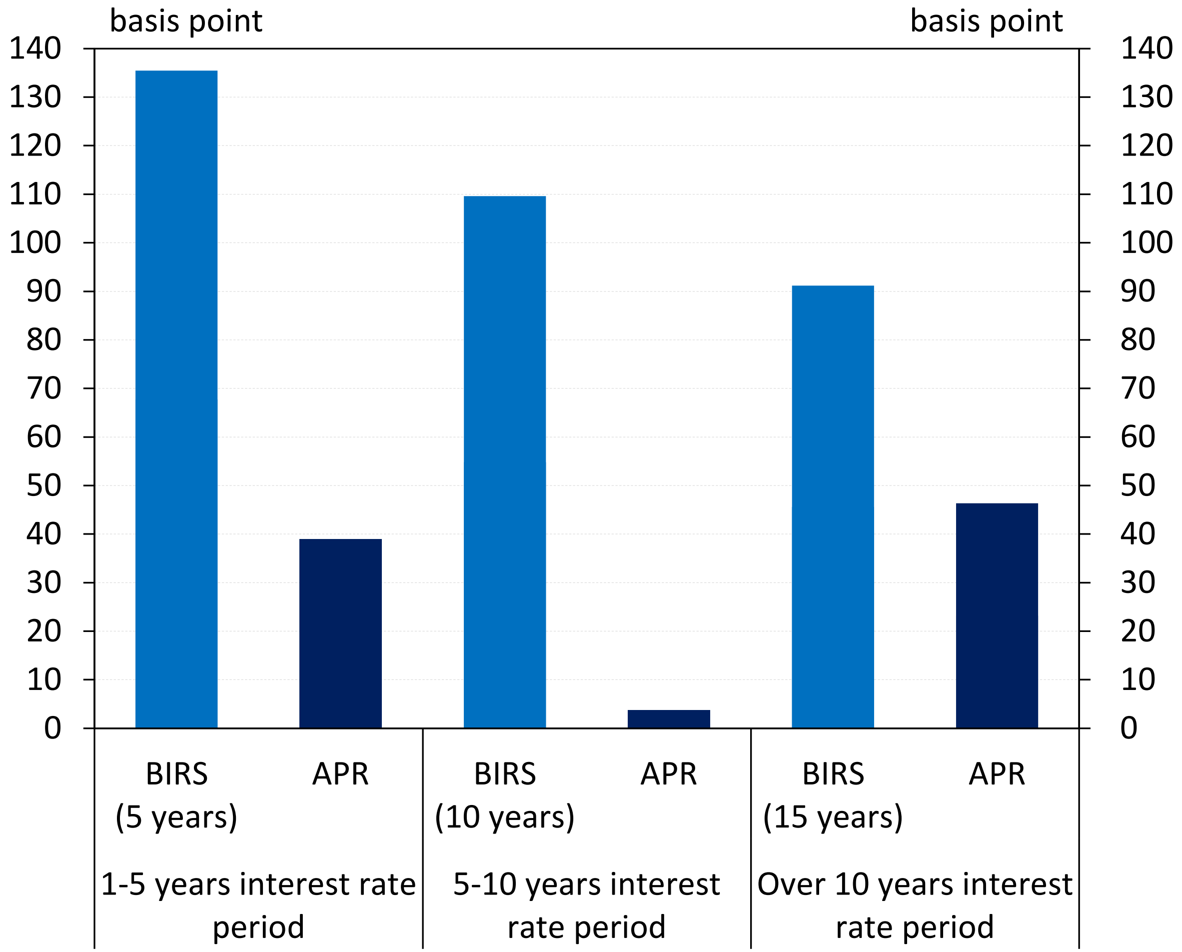

CHANGE IN THE AVERAGE ANNUAL PERCENTAGE RATE OF CHARGE (APR) ON BIRS INTEREST RATES AND MORTGAGE LOANS WITH DIFFERENT INTEREST RATES BETWEEN 31 DECEMBER 2020 AND 31 JULY 2021

Note: The average annual percentage rate of charge (APR) weighted by the contract amount.

Source: MNB

THE AVERAGE INTEREST RATE SPREAD ON HOUSING LOANS DECREASED IN ALL INTEREST RATE FIXATION CATEGORIES

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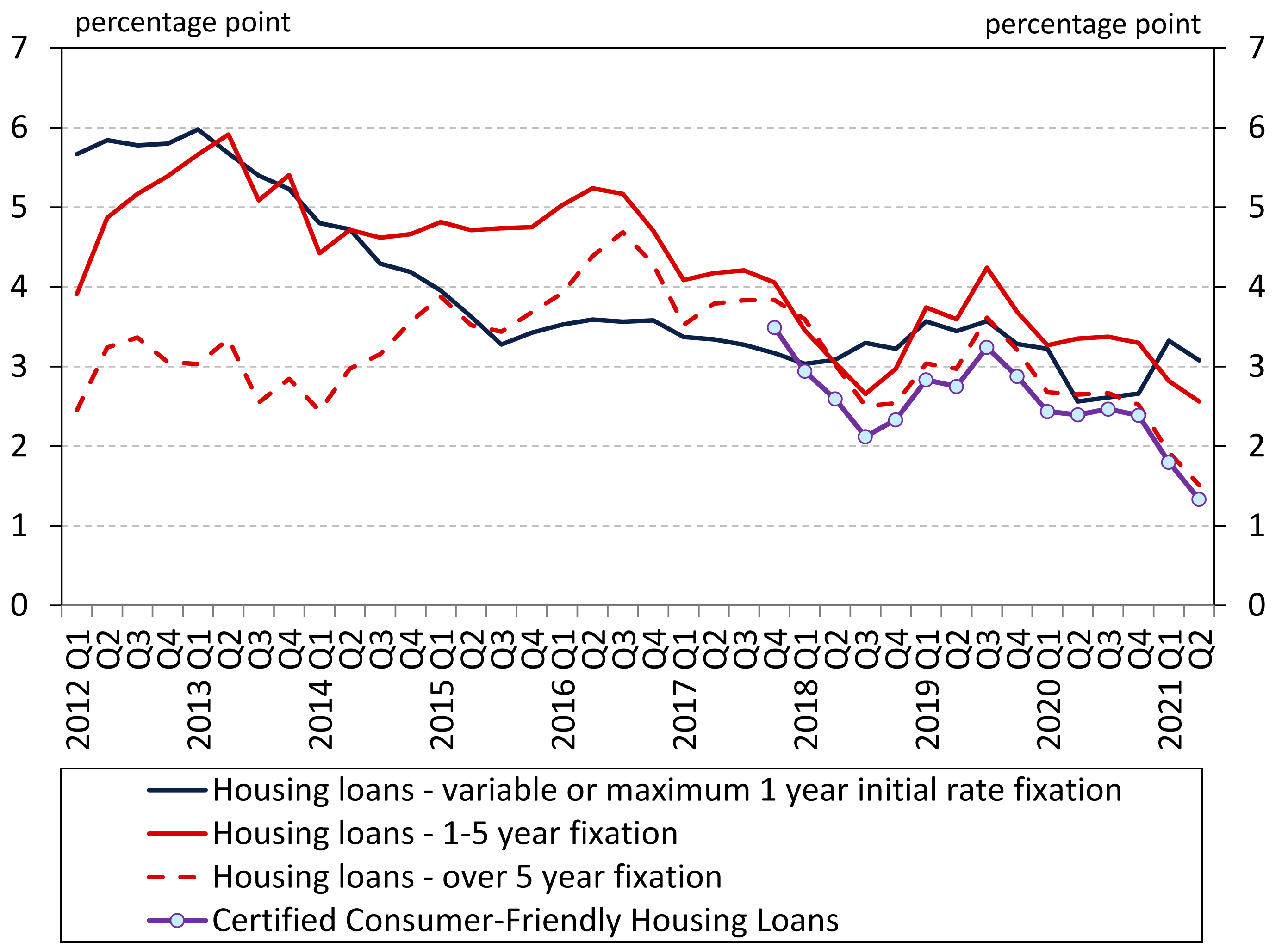

INTEREST RATE SPREADS ON NEW HOUSING LOANS

Source: MNB

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.

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THE MOST RETAIL CUSTOMERS DO NOT NEED A MORATORIUM

Personal loan disbursement still has not reached pre-pandemic levels

...most customers in the moratorium would be able to continue their repayments without any problems (based on "close monitoring" requests made by banks on the recommendation of the supervisor)

The record high volume of new housing loans was also driven by the rising house prices, inflation expectations and demand brought forward due to the tightening interest rate cycle

The home improvement subsidised loan is more sought after in rural areas

Continuous developments towards digitalization

Rising long-term yields are forcing more and more banks to increase interest rates

Note: Based on interviews with 10 institutions.

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INTEREST RATE RISK: FACTS AND FIGURES

- In the case of variable rate loans, the loan interest rate **follows** the change in the reference rates. The cycle of interest rate increases causes increase in the installments.
- The size of the **percentage** increase in the installments depends primarily on **how many years are left** until the maturity of the loan.
- If the interest rate of loan rises by 1 percentage point, there will be…
  - for a remaining maturity of 1 year, approx. 0.5 per cent...
  - for a remaining maturity of 5 years, approx. 2.4 per cent...
  - for a remaining maturity of 10 years, approx. 4.7 per cent...
  - for a remaining maturity of 20 years, approx. 8.6 per cent...

  ... increase in installments.

WITHIN NEWLY CONTRACTED MORTGAGE LOANS, THE SHARE OF VARIABLE-RATE LOANS WITHIN A YEAR HAS BEEN MINIMAL SINCE 2018

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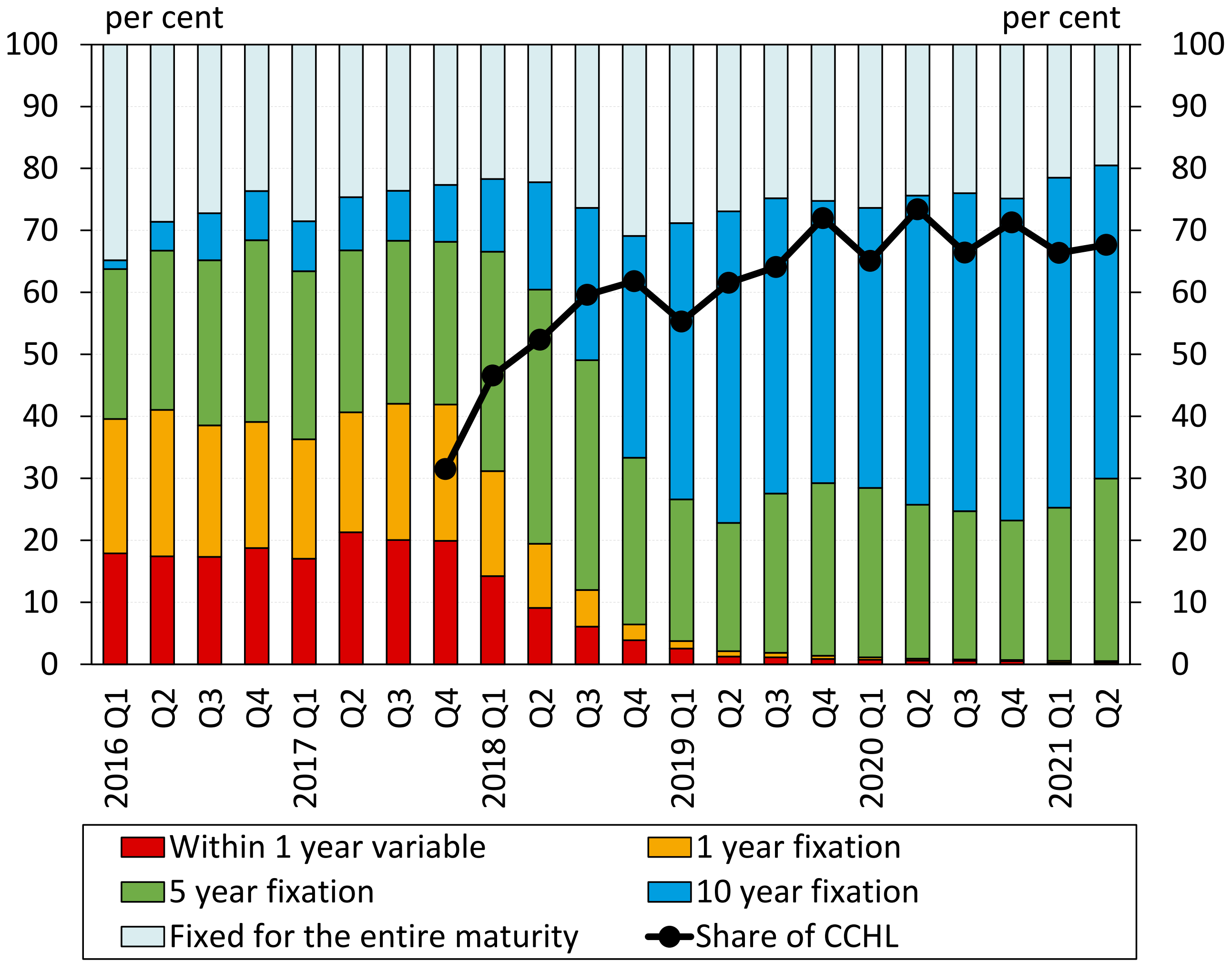

DISTRIBUTION OF THE NEW HOUSING LOAN VOLUME BY INTEREST RATE FIXATION, AND THE SHARE OF CERTIFIED CONSUMER-FRIENDLY HOUSING LOAN PRODUCTS

Source: MNB

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THE SIZE OF THE RISK HAS DECREASED SIGNIFICANTLY IN RECENT YEARS, BOTH AT THE LEVEL OF THE SECTOR AS A WHOLE AND AT THE LEVEL OF INDIVIDUAL DEBTORS

- **Three consequences:**
  - The share of mortgage loans with over one year fixed rate is now 65 per cent of the portfolio.
  - In the absence of a variable-rate new disbursement, there is no replacement for loans with a really high interest rate risk (large remaining maturity).
  - The existing variable rate portfolio had time to decrease and its remaining maturity has decreased as well.
- **64 per cent of mortgage loans** repriced within 1 year **have a remaining maturity of less than 10 years**. Barely 7 per cent of contracts have a remaining maturity of more than 20 years.
- The outstanding debt of 91 per cent of the contracts is less than HUF 10 million, **in the case of 71 per cent the debt does not exceed HUF 5 million.**

VARIABLE INTEREST RATES: A SMALLER RISK THAN BEFORE

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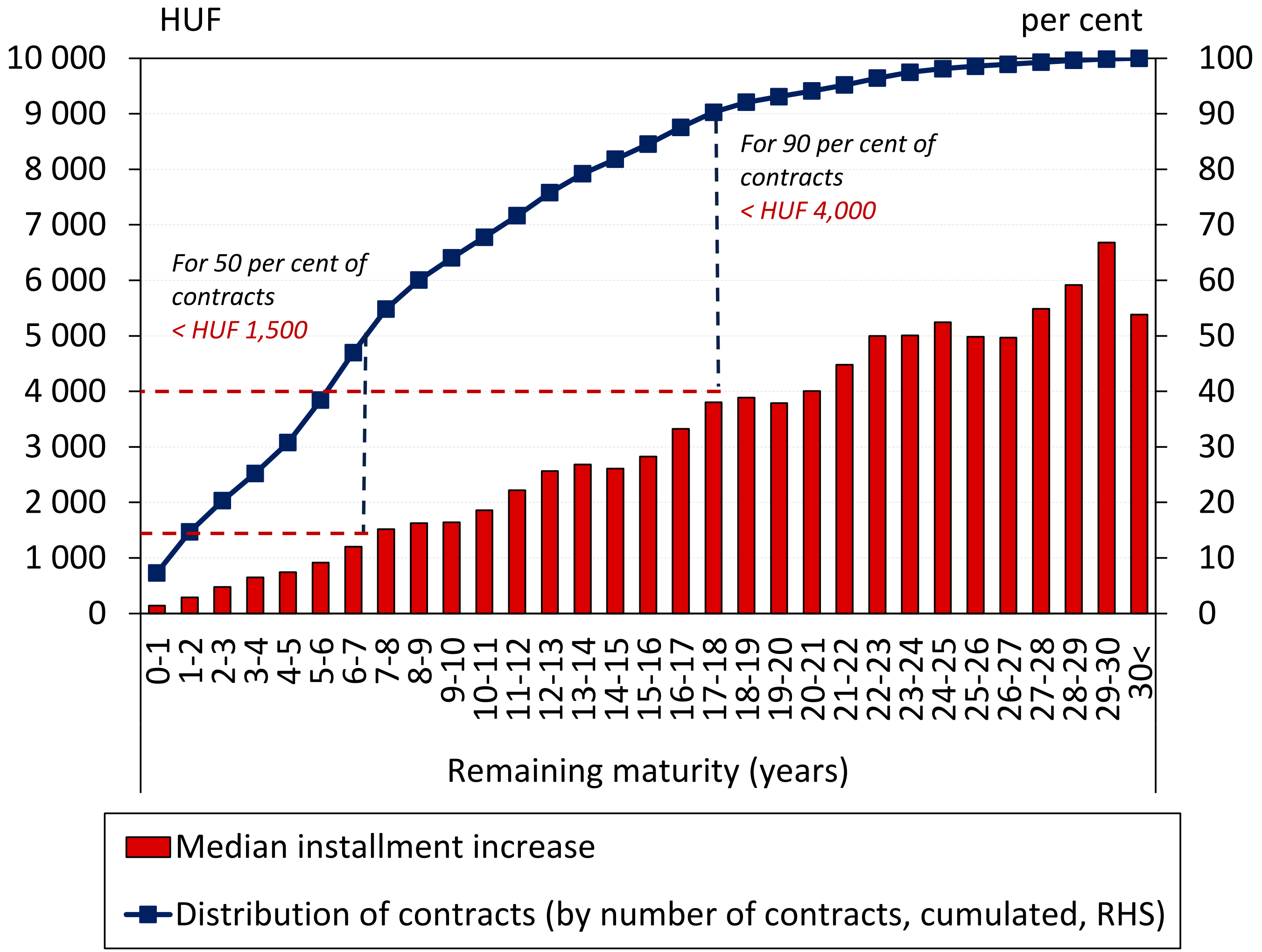

DISTRIBUTION OF MORTGAGE LOANS AFFECTED BY REPRICING WITHIN ONE YEAR BY REMAINING MATURITY AND MEDIAN INSTALLMENT INCREASE IN CASE OF A 1 PERCENTAGE POINT INCREASE IN THE LOAN INTEREST RATE

In case of half of mortgage loan contracts affected by repricing within one year,

the increase in the installment

does not exceed HUF 1,500

in case of a 1 percentage point increase in the loan interest rate.

THANK YOU FOR YOUR ATTENTION!