TRENDS IN LENDING

2023
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(March 2023)

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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, the report 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 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 loan 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.

Contents

Boxes

EXECUTIVE SUMMARY

In 2022 Q4, the outstanding borrowing of non-financial corporations from banks grew by HUF 311 billion, resulting in a 14 per cent increase for the year as a whole. In 2022, large corporate loan transactions supported credit dynamics to an increasing degree. Based on preliminary data, loans to the micro, small and medium-sized enterprise segment expanded by 13 per cent year on year, with significant continued support from the Széchenyi Card Programme (SCP). In 2022, credit institutions' total outstanding loan and bond portfolio vis-à-vis non-financial corporations grew by HUF 1,672 billion due to transactions, resulting in annual growth of 15 per cent. In the fourth quarter, new disbursements in the corporate segment overall fell short slightly of the year-on-year figure, dropping by 14 per cent, while a significant decline of 38 per cent was recorded in the SME segment. The ratio of market-based loans within new loans fell from 84 per cent in the previous quarter to 73 per cent, partly due to stronger demand for SCP MAX. The average interest rate on market-based corporate loans was generally in line with the rise in the interest rate environment during the quarter.

Based on banks' responses to the Lending Survey, in 2022 Q4 conditions of access to credit generally tightened for corporations. A pick-up in demand for foreign currency loans as well as for short-term loans was seen in this period. Looking ahead, roughly one-third of the banks plan to tighten standards in 2023 H1, and in parallel with this they envisage a fall in demand for forint and long-term loans, and a further increase in demand for foreign currency and short-term loans. According to the Bank Sentiment Survey, 47 and 39 per cent of the responding institutions are planning to increase their total corporate loans and SME loans outstanding, respectively, in 2023 H1, which implies a more moderate level of risk appetite.

As a combined result of disbursements and repayments, the credit institution sector's outstanding lending to households rose by HUF 101 billion in 2022 Q4, reducing the annual growth rate to 6.3 per cent. The gradual decline in credit dynamics is attributable, in addition to the high base, to the prepayment and repayment activity exceeding the level observed in previous periods as well as to the sharp fall in new loans in the rising interest rate environment. The volume of new retail loans in 2022 Q4 dropped 34 per cent in year-on-year terms, with the largest fall seen in the volume of housing loans, which was mainly due to the high base resulting from the launch of the FGS Green Home Programme (GHP), the rising interest rate environment and lower credit demand connected to the decline in housing market transactions. New contracts for prenatal baby support loans exceeded year-on-year disbursements by 7 per cent as a result of demand brought forward due to the phase-out of the scheme – which was originally announced for December – in December banks concluded contracts for more than twice the volume that was typical in previous months, i.e. for HUF 70 billion. With the depletion of GHP, the ratio of loans for new homes fell to 20 per cent from the previous level of 40 to 50 per cent; nevertheless, the ratio of loans with interest rate fixed until maturity is still high within housing loans, at over 40 per cent. In line with banks' earlier warnings, the average APR and spread on new housing loan contracts rose substantially in the fourth quarter.

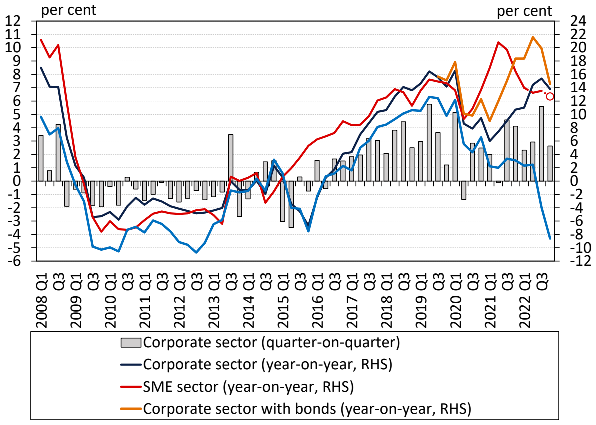
Based on responses to the Lending Survey, in 2022 Q4, 17 and 27 per cent of banks further tightened the conditions on housing loans and consumer loans, respectively, which may continue in 2023 Q1 and Q2. In the fourth quarter, almost all banks perceived a fall in credit demand in the household segments; however, looking ahead to 2023 H1, a smaller part of them, roughly 30 per cent, anticipate a further decline in demand. Based on the Bank Sentiment Survey, almost one-fifth of banks are keen on further increasing their loans outstanding both in consumer loans and mortgage loans, while some respondents already plan a reduction in the latter.

1. TRENDS IN LENDING IN THE CORPORATE SEGMENT

In 2022 Q4, the outstanding borrowing of non-financial corporations from the credit institution sector rose by HUF 311 billion, with expansion of HUF 91 billion and HUF 220 billion in forint loans and in foreign currency loans, respectively. The loans outstanding of non-financial corporations increased by 14 per cent, i.e. by a total HUF 1,432 billion in 2022, but in real terms, this rate represents a fall in corporate loans outstanding. The 14 per cent annual growth rate of Hungarian banks' corporate loans outstanding was the fourth highest in an EU comparison. In 2022, loan transactions with large corporations supported growth in corporate lending to an increasing degree, while based on preliminary data, credit dynamics in the SME segment declined to 13 per cent. New disbursements in the corporate segment overall fell slightly short of the year-on-year figure, dropping by 14 per cent, while a significant drop of 38 per cent was registered in the SME segments. The ratio of market-based loans within new contracts fell from 84 per cent in the previous quarter to 73 per cent, partly due to year-end demand for SCH MAX. In parallel with the increasing interest rate environment, the weighted average interest rate on market-based forint loans to corporates rose sharply versus the previous quarter. In the next half-year period, the financing of enterprises may also be supported by the Baross Gábor Reindustrialisation Programme, along with the extended Széchenyi Card Programme.

In net terms, 23 per cent of the respondent banks tightened corporate credit conditions in 2022 Q4, in parallel with the mounting uncertainty in economic prospects and the rise in industry-specific problems. A similar ratio of 29 per cent envisaged further tightening for 2023 H1 as well. In 2022 Q4, banks experienced waning demand for forint and long-term loans, while they perceived an increase in demand for foreign currency and short-term loans, and this dual trend may also persist in 2023 H1.

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

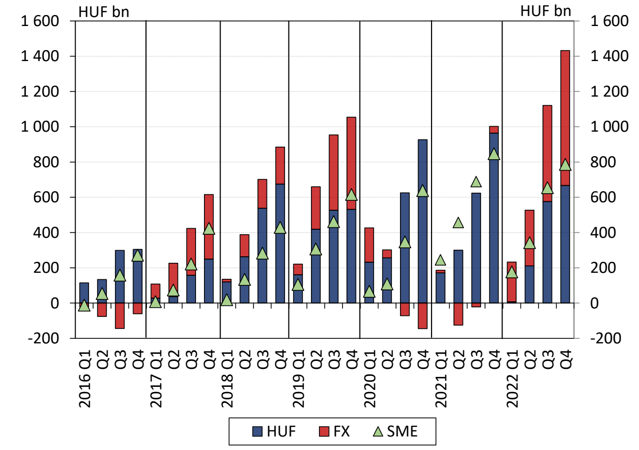


Note: Transaction-based, prior to 2015 Q4, data for SMEs are estimated based on banking system data. To obtain the growth rate, we also took into consideration the repayments received by Sberbank between March and August 2022. The 2022 Q4 SME data is preliminary. Bonds in the bank balance sheet were taken into account in the bond portfolio. In the case of real dynamics, deflated with the consumer price index (CPI). Source: MNB

1.1. Corporate lending in Hungary

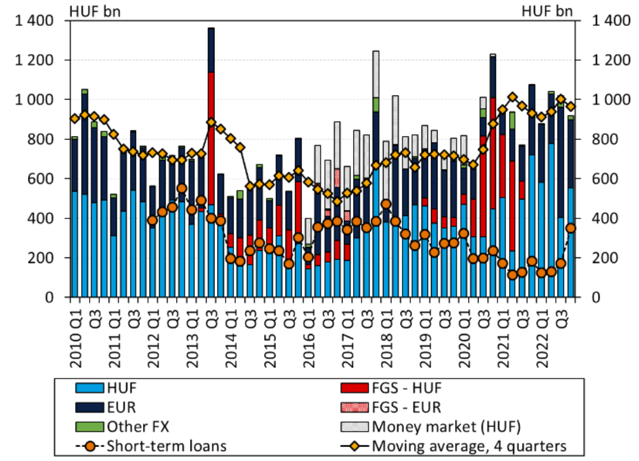
In 2022, corporate loans outstanding grew by 14 per cent, while a decline was observed in real terms. In 2022, banks' outstanding lending to non-financial corporations increased by HUF 1,432 billion, reaching an annual growth rate of 13.8 per cent (Chart 1). However, in the high inflation environment, corporate loans outstanding fell by 8.6 per cent in real terms by the end of December. Following the exhaustion of the global amount of the Bond Funding for Growth Scheme at the end of April 2022, the bond market activity of non-financial corporations tapered off significantly, and thus the transaction-based growth rate in credit institutions' loans and bonds outstanding to non-financial corporations exceeded credit dynamics net of bonds only moderately and amounted to 14.6 per cent at the end of 2022. With the exception of the infocommunication sector, corporate loans outstanding increased in all sectors of the national economy, with the largest growth registered in the

Chart 2: Cumulated intra-year transaction-based growth in corporate loans outstanding in a breakdown by currency and enterprise size



Source: MNB

Chart 3: New corporate loans in the credit institution sector



Source: MNB

financial and insurance[1] sector. Without the 2022 transaction-based growth in the outstanding borrowing of this special sector, the annual growth rate of the entire corporate loan portfolio would amount to 9.6 per cent. In 2022, the loan transactions of large corporations contributed to the growth in loans outstanding to an increasing degree. Based on preliminary data, annual corporate credit growth for large corporations accelerated to 19.3 per cent by the end of December, while the SME segment registered a growth rate of 12.7 per cent after a moderate decline in 2022.

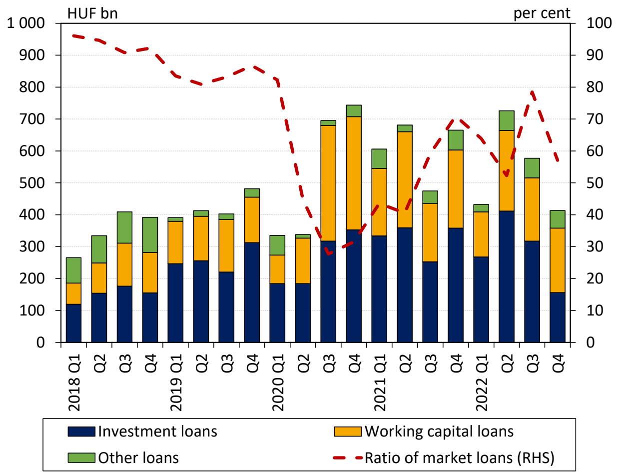
Foreign currency loans to large corporations made the largest contribution to the quarterly growth in loans outstanding. As a combined result of an increase of nearly HUF 91 billion in forint loans and a rise of HUF 220 billion in foreign currency transactions, the outstanding borrowing of corporations grew by HUF 311 billion in 2022 Q4 (Chart 2). The moratorium on payments no longer provided material support for the quarterly growth: while 53 per cent of total corporate loans outstanding participated in the first phase of the moratorium commencing in March 2020, only 1 per cent of the stock took advantage of the fourth phase of the moratorium, which was phased out in December 2022. 27 per cent of the eligible stock of corporate loans[2] entered the agricultural moratorium introduced in September 2022, which amounts to 1.6 per cent of the entire corporate loan portfolio. According to preliminary data, in a breakdown by enterprise size, of the Q4 transaction-based growth HUF 132 billion was connected to the SME portfolio. In the SME segment, the significantly lower growth compared to previous quarters may be attributable to several factors: on the one hand, falling demand resulting from the rising interest rates and uncertain economic environment, and on the other hand, the slower pick-up in the Széchenyi Card Programme MAX compared to previous phases, followed by the timely announcement of the credit programme in 2023, which may have smoothed the rate of concluding new contracts.

The volume of foreign currency loan contracts rose significantly compared to previous year, and the

[1] Within the non-financial corporations' sector, financial and insurance activity sector mostly include holding companies.

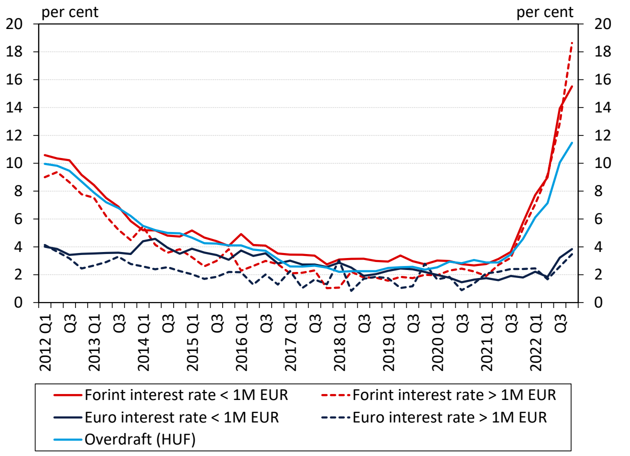
[2] Credit institution data net of sole proprietors.

Chart 4: New disbursement of SME loans by loan purpose and the ratio of market loans



Note: Other loans include: pre-financing of EU grant; Credit line with unknown loan purpose; Condominium and housing society loans. In calculating the ratio of market-based loans, we examined the ratio of non-overdraft type loans, classified as 'Normal market', within the new contracts of credit institutions, excluding the Hungarian Development Bank and Eximbank. Source: MNB

Chart 5: Interest rates on new corporate loans



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

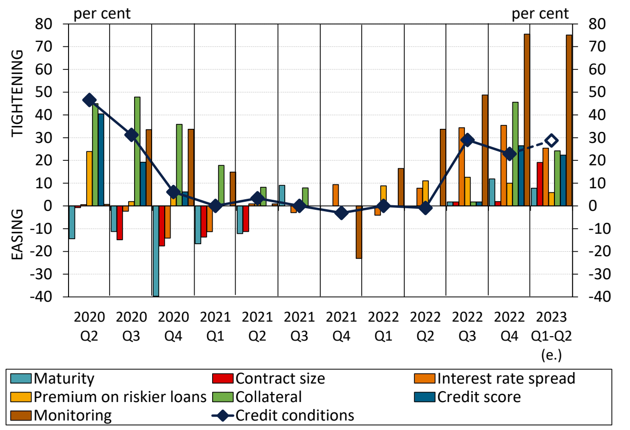
volume of short-term loan contracts also soared in 2022 Q4. In 2022 as a whole, the volume of new foreign currency loan contracts exceeded the year-on-year figure by 69 per cent, while that of forint loans fell by 18 per cent, as a combined result of which the annual volume of loans other than overdrafts amounting to roughly HUF 3,860 billion exceeded the figure registered a year ago by 4 per cent. Due to the significant interest rate differential between forint and foreign currency loans, in terms of financial stability it is more than justified to closely monitor the penetration of foreign currency loans. At present, foreign currency loans are taken out primarily by enterprises with foreign currency revenues, and for the time being the ratio of foreign currency loans within new loans is not materially higher than before the onset of the coronavirus.[3] On the whole, the penetration of these loans in parallel with the contraction of the numerous, large volume of subsidised forint-denominated lending schemes, is a natural phenomenon. In the second half of the year, a decline was observed in the corporate credit market. New loans in 2022 Q4 amounted to roughly HUF 920 billion, falling short of the quarter-on-quarter and year-on-year volumes by 10 per cent and 14 per cent, respectively (Chart 3). Market-based[4] lending represented a share of 73 per cent within the loans issued in the period under review, which is slightly lower than the share of 85 per cent recorded in the quarter prior to the appearance of the coronavirus or the 84-per cent ratio observed in 2022 Q3. In parallel with corporations' rising operating expenses, the proportion of short-term loans within quarterly new contracts rose substantially. While 13 per cent of the new volume was comprised of short-term loans in 2022 H1, this ratio was already 38 per cent in the last quarter of 2022.

The volume of new SME loan contracts fell tangibly, particularly in the market of investment loans. In 2022 Q4, the volume of new loan contracts in the SME segment was moderate, amounting to HUF 413 billion, corresponding quarter-on-quarter and year-on-year

[3] For more details, see Report on Financial Stability, November 2022, pp. 21–22.

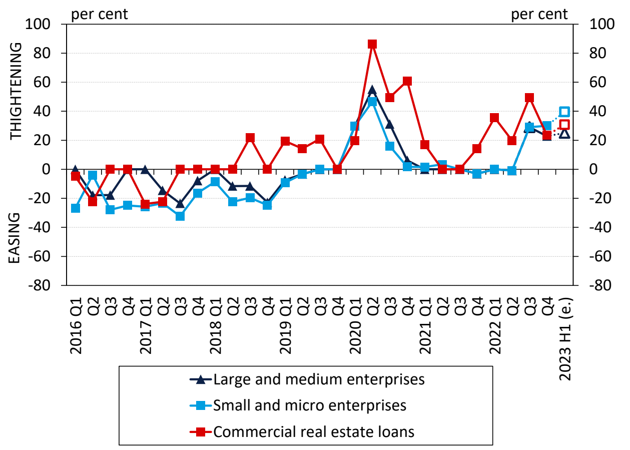
[4] When calculating the share of market loans, we examine the share of non-current account loans categorised as "Normal market" in the bank data services within the credit institution contracts concluded without Hungarian Development Bank and Eximbank.

Chart 6: Changes in credit conditions in the corporate segment



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

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



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

declines of 28 per cent and 38 per cent, respectively. In the uncertain economic environment, the volume of new investment loan contracts fell sharply, contracting by 56 per cent in year-on-year terms (Chart 4). The decline in demand for working capital loans was more moderate: the quarterly volume fell short of the prior-year figure by a mere 18 per cent. In 2022 Q3, the volume of new contracts under the Széchenyi Card Programme MAX was negligible, while in 2022 Q4 the programme provided significant support to the new volume, accounting for one-third of new disbursements in the SME sector. In parallel with this, the ratio of market-based loans within new contracts amounted to 78 per cent and 57 per cent in 2022 Q3 and Q4, respectively.

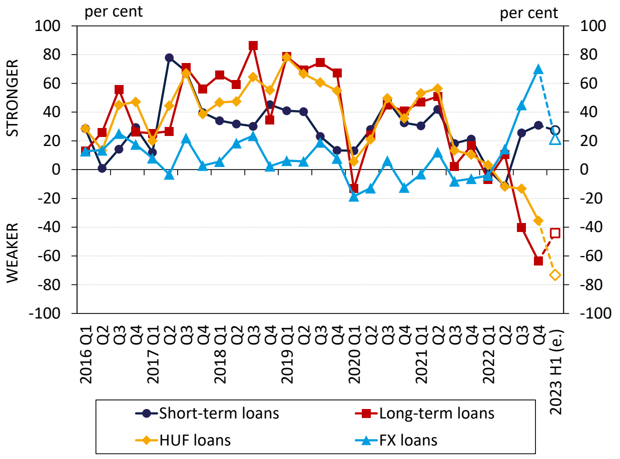
The average interest rate level of market-based corporate loans rose in Q4. The average interest rate level on forint loans below one million euros with variable rate or with up to 1-year initial rate fixation increased by 159 basis points to 15.5 per cent compared to the previous quarter (Chart 5). The increase was primarily attributable to the rise in the 3-month BUBOR, while the spread over this fell to its historical low, at close to 0 per centage point,[5] during the quarter. As a result of the interest rate level rising to over 15 per cent, which was last seen in early 2004, the interest rate difference calculated compared to small-amount foreign currency loans bearing market interest rates rose to almost 12 per centage points by the end of 2022. The contract amount weighted average interest rate on variable-rate forint loans exceeding one million euros, net of money market transactions,[6] rose significantly, advancing by 576 basis points to 18.6 per cent quarter on quarter. In addition to the 314-basis point rise in the 3-month BUBOR, this was partly attributable to the significant increase in the spread, pushing the latter well higher than the average values seen in recent years.

23 per cent of the banks tightened corporate lending conditions, and looking ahead a similar ratio anticipates further tightening. In net terms, 23 per

[5] However, it should be emphasised that banks' funding cost is not equivalent to the 3-month BUBOR, since the first is also influenced by deposit rates, and thus the spreads over the actual cost of funds may still be positive.

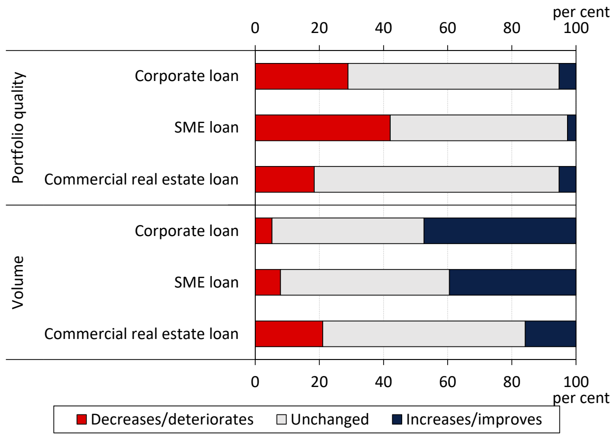
[6] Money market transactions are loans with a value of over EUR 1 million extended to non-financial corporations; their term is short (typically less than 1 month) and they serve to fund some kind of financial operation. It has been possible to exclude money market transactions since 2015, although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

Chart 8: Changes in corporate credit demand by maturity and denomination



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

Chart 9: Bank' 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

cent of the respondent credit institutions in the Lending Survey tightened lending standards in 2022 Q4. In terms of partial conditions, three-quarters of the banks tightened their client monitoring activity, 46 per cent of them tightened collateralisation requirements and slightly more than one-third of them raised the spreads (Chart 6). In line with the negative economic impacts of the Russia-Ukraine war and rising energy and commodity prices, three-quarters of the institutions identified the deterioration in the economic situation as a factor that induced tightening, while 71 per cent identified an increase in industry-specific problems as such a factor during the quarter under review. Banks' liquidity and capital position, as factors pointing to tightening, was still mentioned only by a small part of banks, as banks' lending capacity remains at a high level. Of the respondent banks, 29 per cent anticipate further tightening in lending conditions in 2023 H1, while 40 per cent plan this in relation to small and micro enterprises. In net terms, 23 per cent of the credit institutions tightened conditions on commercial real estate loans in 2022 Q4, due to the rise in banks' funding costs, and looking ahead almost one-third envisage further restrictions (Chart 7).

In terms of maturity and currency, corporate credit demand was characterised by dual trends, which may persist in the next half-year as well. In 2022 Q4, a net 10 per cent of respondent institutions experienced a decline in demand for corporate loans. The last time banks perceived declining demand in the corporate credit market was in early 2013. In a breakdown by enterprise size, 10 per cent of the banks perceived declining demand for loans by large and medium-sized enterprises, while 21 per cent experienced increasing demand for small and micro enterprise loans. The latter may have been supported by the SCP MAX Programme. In parallel with the rising interest rate environment, 35 per cent of the banks experienced declining demand for forint loans and 70 per cent of them perceived increasing demand for foreign currency loans (Chart 8). As a result of firms' declining investment activity and increasing liquidity demand, 64 per cent and 31 per cent of the banks perceived a fall in demand for long-term investment loans and a rise in demand for short-term working capital loans, respectively. Half of the institutions anticipate a further decline in demand in 2023 H1, with sustained duality in terms of currency and maturity.

Almost half of the banks intend to increase corporate loans outstanding in 2023 H1 as well, in line with the increasing number of subsidised credit schemes. In addition to the assessment of business conditions, Hungarian banks also report on their strategic plans in the Bank Sentiment Survey. In 2023 H1, 47 per cent of banks plan to increase their total corporate loan portfolio and 39 per cent plan to increase their SME loan portfolio (Chart 9), which is in line with the increasing number of government credit schemes (SCP MAX+, Factory Rescue Investment Loan Scheme) (Box 1). As regards the portfolio of commercial real estate loans, one-fifth of banks anticipate a decline, while 16 per cent of them envisage a rise. The strategic plans presented in the survey in the banking sector as a whole suggest that, compared to the end of 2021, the ratio of those planning to increase the corporate loan portfolio declined in net terms, indicating a decline in willingness to take risks. Compared to the previous half year, a lower ratio of banks, i.e. 29 per cent, anticipate a deterioration in portfolio quality, but as regards SME loans outstanding, a larger ratio, namely 42 per cent, foresee a deterioration, even despite the cap on SME interest rates introduced on 15 November 2022.

BOX 1: MAIN FEATURES OF THE NEW CORPORATE LENDING INCENTIVE SCHEMES

With a view to mitigating the negative impacts of the Russia-Ukraine war on the real economy and the energy price shock, and to provide enterprises with funding, the government announced large-scale credit schemes for 2023 as well. Within the framework of the new Széchenyi Card Programme MAX+, launched on 23 December 2022, financial institutions can continue lending to SMEs at a favourable, fixed interest rate. In addition, the Baross Gábor Reindustrialisation Programme, which facilitates lending to larger enterprises, was also launched on 1 February 2023. The programmes may provide major support this year for growth in corporate loans in the eligible segments.

Széchenyi Card Programme MAX+

The forint loans under the new Széchenyi Card Programme are available at extremely favourable interest rates to micro, small and medium-sized enterprises. Instead of the net customer interest rates of 2.5–5.5 per cent seen in 2022 H2, in the new MAX+ programme the net customer interest rate is uniformly 5 per cent (with the exception of the agricultural overdraft), which is roughly 10 per centage points lower than market-based interest rates on SME loans typical at the end of 2022. The maximum loan amount is HUF 200-500 million for the various loan purposes (HUF 50 million for micro loans), while the maximum maturity of working capital loans and investment loans may be 3 years and 10 years, respectively. According to our estimate, utilisation of the programme may be around HUF 600-700 billion this year, accounting for 28-33 per cent of new SME loans, net of overdrafts, registered in 2022.

Baross Gábor Reindustrialisation Programme

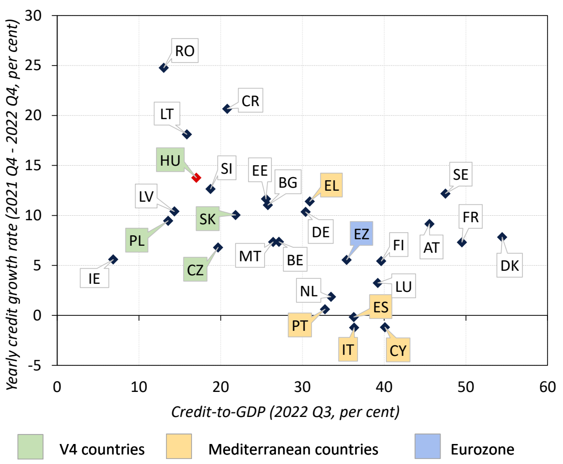
Under the Baross Gábor Reindustrialisation Programme (BGRP), launched by Eximbank on 1 February 2023, enterprises have access to funding at a customer interest rate as low as 3 to 6 per cent. The programme was announced with a global amount of HUF 700 billion – equivalent to 18 per cent of the total volume of new corporate loans in 2022 – while only HUF 400 billion of this is linked directly to the new schemes. The remaining HUF 300 billion is connected to Eximbank's previous "exporters of the future" and "export promotion" products, available in forint at less favourable interest rates. In the case of the new BGRP schemes, which are offered in euro, the annual interest rate is a maximum of 3–3.5 per cent, depending on the loan purpose, while it is 5 to 6 per cent on forint loans. The programme offers a real alternative to market-based loans, primarily for larger SMEs and large corporations. On the other hand, the new schemes under BGRP are not available to all large enterprises, as some activities belonging to certain NACE categories (e.g. accommodation services and catering; arts, entertainment, leisure) are excluded. Strong demand for the new loan products was already evident in the first month; due to the exhaustion of the HUF 150 billion allocated for the working capital loan scheme, Eximbank suspended the acceptance of working capital loan applications at the end of February 2023.

The main features of the Széchenyi Card Program MAX+ and the Gábor Baross Reindustrialisation Loan Program								
	KAVOSZ – Széchenyi Card Program MAX+			Eximbank – Gábor Baross Reindustrialisation Loan Program				
Typical target group	Micro and small businesses (due to the higher margin and the state guarantee)			Larger SMEs and large companies				
Credit purpose	Maximum loan amount	Interest payable (HUF)	Maximum term	Budget *	Maximum loan amount	Interest payable (HUF)	Interest payable (euro)	Maximum term
Overdraft	HUF 300 million	5 per cent	3 year	–	–	–	–	–
Working capital loans	HUF 250 million	5 per cent	3 year	HUF 150 billion	HUF 4 billion	6 per cent	3.5 per cent	3 year
Investment loan	HUF 500 million	5 per cent	10 year	HUF 100 billion	HUF 6 billion	6 per cent	3.5 per cent	8 year
"Green" investment loan **	HUF 500 million	5 per cent	10 year	HUF 100 billion		5 per cent	3 per cent	10 year
Leasing	HUF 200 million	5 per cent	7 year	HUF 50 billion	HUF 6 billion	6 per cent	3.5 per cent	5 year

* In addition to the HUF 400 billion limit of the new Gábor Baross constructions, another HUF 300 billion is linked to Eximbank's previous credit products – "exporters of the future" and "export promotion" –, but their conditions are less favorable.

** In the "green" constructions of the Széchenyi Card Program and Eximbank, the "green" goals that improve energy efficiency and support technology change can be financed.

Chart 10: Annual growth rate of corporate loans and the credit-to-GDP ratio in an international comparison



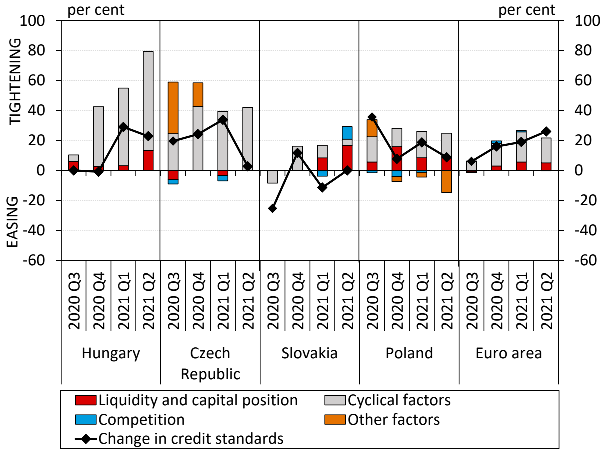
Source: ECB, MNB

1.2. International developments in corporate lending

The annual growth rate of Hungarian corporate loans outstanding is the fourth highest in an EU comparison. In the last quarter, the annual growth rate of corporate loans outstanding decelerated significantly in each of the Visegrad countries, reaching 10 per cent in Slovakia, 9.5 per cent in Poland and 6.8 per cent in the Czech Republic, in December 2022 (Chart 10). A similar trend was observed in the euro area as well, where annual loan growth decelerated by around 2 per centage points on a quarterly basis to 5.6 per cent. Of the largest Member States, a growth of 10.4 per cent and 7.3 per cent was achieved in Germany and France, respectively, while the size of the loan portfolio declined slightly in Spain and Italy. The annual growth rate of Hungarian banks' corporate loans outstanding was the fourth highest in an EU comparison. Similarly to the situation in the Visegrad Group, Hungary's corporate lending-to-GDP ratio remains low in an international comparison, indicating that there is ample space for a prudent deepening of loan penetration.

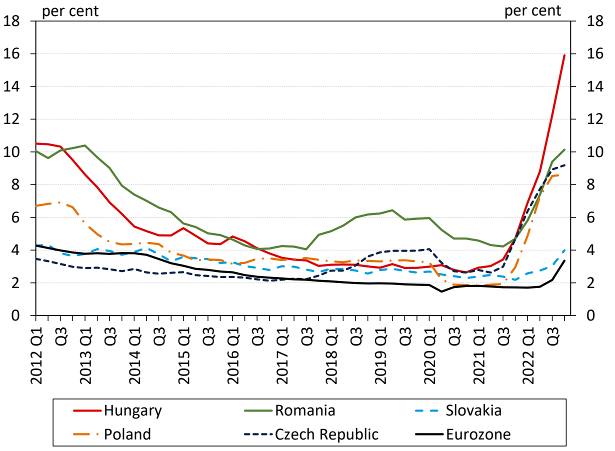
Limited tightening of lending conditions was typical in the other countries of the region. In parallel with the energy price shock and the increasing interest rate environment, limited tightening of lending standards characterised the countries of the region in the fourth quarter. This was

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



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

Chart 12: 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-per centage point spread are not included. Source: MNB, ECB, national central banks

reported most by Hungarian and Czech banks, with 34 per cent of respondents in the third quarter and 3% in the fourth quarter tightening credit conditions in the latter country (Chart 11). In the fourth quarter, tightening of lending conditions was typical in the euro area as well, in parallel with a slowdown in demand. Based on the ECB's survey,[7] the fall in credit demand was attributable to the rising interest rate environment and to a significant decline in the credit intensity of fixed capital formation, while the demand-supporting effect of the working capital needs resulting from increased production input prices due to high energy prices declined compared to previous quarters. As regards the four largest Member States in the euro area, a net 42 per cent, 33 per cent, 27 per cent and 19 per cent of the banks in France, Spain, Italy and Germany, respectively, tightened their standards. Banks expect further tightening of credit conditions and a decline in credit demand in the euro area in 2023 Q1.

Interest rate on corporate loans rose significantly in Hungary's region. In 2022 H2, the average interest rate on new small-amount corporate loans with up to 1-year initial rate fixation rose in all of the countries of the region compared to June 2022. The semi-annual growth exceeded 700 basis points in Hungary, amounted to 275 basis points in Romania, while it reached 120-150 basis points in Poland, the Czech Republic and Slovakia (Chart 12). The tightening of monetary conditions was a major contributor to the rise in lending rates. The largest year-on-year rise was seen in Hungary at 1,133 basis points, followed by Poland (565 basis points), Romania (543 basis points) and Czechia (451 basis points). A restrained, 181-basis point year-on-year increase took place in the euro area member Slovakia, where the main underlying reason was that in the euro area the first base rate hike was only carried out in July 2022. In an annual comparison, the spreads over the 3-month interbank rate typically show a declining trend in the countries surveyed.

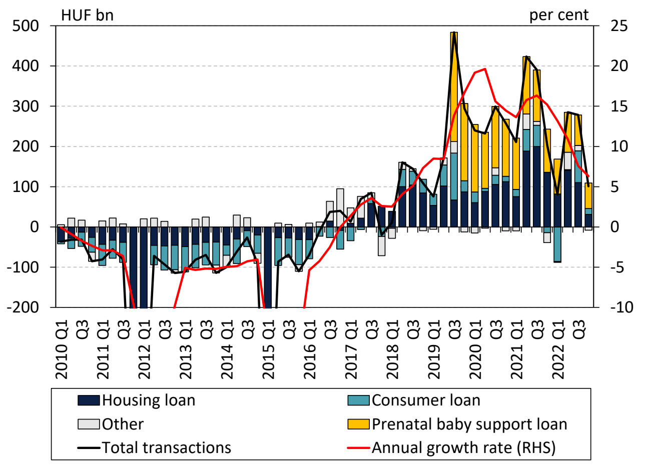
[7] ECB (2022): The euro area bank lending survey, 2022 Q4. European Central Bank. https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/ecb.blssurvey2022q4~e27b836c04.en.html

2. TRENDS IN LENDING IN THE HOUSEHOLD SEGMENT

The credit institution sector's outstanding lending to households rose by HUF 101 billion due to transactions in 2022 Q4. As a result of this, the annual growth rate of the portfolio decelerated to 6.3 per cent by December, putting Hungary's credit dynamics in the mid-range of the European Union. The gradual decline in the credit growth rate is attributable to the prepayment and repayment activity exceeding the level observed in previous periods, as well as to the sharp fall in new loans in the rising interest rate environment. In the quarter under review, growth in loans outstanding was supported to the largest degree by the prenatal baby support loans, due to demand brought forward resulting from the statutory phase-out of the product at the end of the year, as originally planned. Disbursements of retail loans in the fourth quarter fell by 34 per cent in year-on-year terms. The largest decline (54 per cent) was registered in housing loans as new contracts for this product amounted to HUF 150 million in the quarter under review. The high base resulting from the launch of FGS Green Home Programme (GHP), the rising interest environment and the lower credit demand linked to declining housing market transactions also contributed substantially to the fall. After the phase-out of GHP, the proportion of loans for new homes fell from the previous level of around 40–50 per cent to 20 per cent, while the ratio of loans for home improvement and modernisation rose in one year by 6 per centage points to 11 per cent. In parallel with the rise in the interest rate environment, the average annual per centage rate of charge on new housing loan contracts increased substantially, particularly in the case of state-subsidised loans. As a result of the rising interest rates on loans, borrowers of housing loans apply for lower loan amounts on average, but the need for predictable instalments is shown by the high proportion of loans with interest rate fixed until maturity, even after the GHP framework was depleted.

Based on the responses to the Lending Survey, a narrow range of credit institutions continued to tighten credit standards for housing loans and consumer loans in 2022 Q4, and this trend is expected to continue in 2023 H1. In the fourth quarter, almost all banks perceived a fall in credit demand in both product lines; however, looking ahead to the first half of 2023, a smaller ratio of the banks, roughly 30 per cent, envisage a further decline in demand. Based on the Bank Sentiment Survey, almost one-fifth of the respondent institutions are keen on further increasing their loans outstanding both in unsecured consumer loans and in mortgage loans. However, the partial phase-out of the utility price reductions and the rising inflation environment point to portfolio quality deterioration, in view of the decline in households' disposable income, which is anticipated by 30–40 per cent of banks.

Chart 13: Quarterly transactions of the household loan portfolio by loan purpose

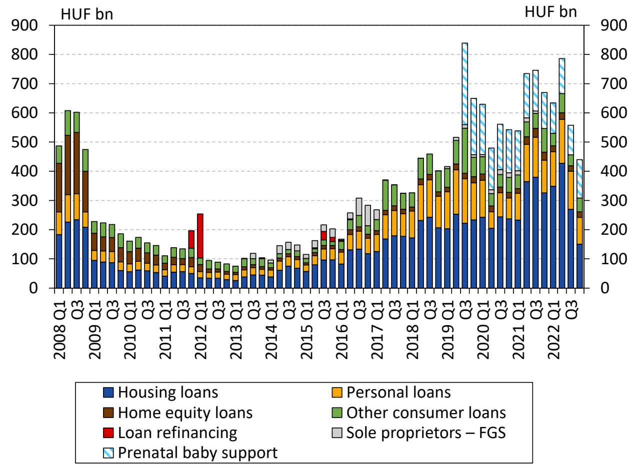


Note: Seasonally unadjusted net change in outstanding amounts, with rolling exchange rate adjustment. To obtain the growth rate, we also took into

2.1. Domestic household lending

In 2022 Q4, household loans outstanding increased further, albeit at a decelerating pace. In 2022 Q4, the credit institution sector's household loans outstanding grew by HUF 101 billion as a combined result of disbursements and repayments, and thus the loans outstanding of households from credit institutions rose to HUF 9,913 billion by December. The growth of HUF 745 billion in loans outstanding, registered in 2022, resulted in an annual growth rate of 6.3 per cent, representing a substantial slowdown compared to the rate of 15.2 per cent registered at the end of 2021 (Chart 13). The gradual decline in the growth rate is attributable to the prepayment and repayment activity exceeding the level observed in previous periods as *consideration the repayments received by Sberbank between March and August 2022. The transactions contain the effect of the foreign currency loan settlement in 2015. Source: MNB*

Chart 14: New household loans in the credit institutions 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

well as to the sharp fall in new loans in the rising interest rate environment. Quarterly growth due to transactions was supported to the largest degree by the prenatal baby support loans, in the amount of roughly HUF 64 billion, while the contribution of housing loans to the growth in loans outstanding amounted to HUF 31 billion. The stock of prenatal baby support loans amounting to HUF 1,931 billion accounted for 19.5 per cent of household loans outstanding at the end of 2022.

There was a significant decline in the disbursement of new household loans. In 2022 Q4, credit institutions concluded loan contracts worth HUF 440 billion with households, representing an annual decline of 34 per cent (Chart 14). The largest annual decline (-54 per cent) was linked to the quarterly disbursement of housing loans in the amount of HUF 150 billion, falling short even of the volume registered in the third quarter by 44 per cent. The high base resulting from the launch of FGS Green Home Programme, the rising interest rate environment and the lower credit demand linked to the decline in housing market transactions also contributed substantially to the fall. The disbursement of HUF 19 billion of home equity loans declined by 32 per cent year on year. Of unsecured consumer loans, the quarterly disbursement of HUF 92 billion of personal loans decreased by an annual 18 per cent, while other consumer loans declined by 41 per cent. Only the new prenatal baby support contracts (HUF 132 billion) exceeded the year-on-year disbursements, by roughly 7 per cent. This was partly attributable to the fact that as result of the demand brought forward due to the anticipated phase-out of the scheme, originally announced for December, banks concluded contracts for HUF 70 billion in December, which is more than twice as high as the previous average monthly volume of disbursements. Almost 40 per cent of the household loans disbursed in the fourth quarter were state-subsidised loans. Pursuant to the government's decision adopted at the end of December 2022, young couples may apply for the prenatal baby support loans until the end of 2024, and thus subsidised loans are expected to play a significant role in the credit market in 2023 and 2024 as well. For a detailed description of the key subsidised lending schemes in recent years, see Box 2.

BOX 2: ROLE OF FAMILY SUPPORT PROGRAMMES IN RETAIL LENDING

In December, the government decided to prolong certain family support programmes, expiring at the end of 2022. Accordingly, the prenatal baby support loan, in unchanged form, and the rural HPS, with a revised range of eligible settlements, will remain in place until the end of 2024. Since subsidised loans account for a substantial part – 38 per cent in 2022 – of new household loans, it is justified to review their impact on the credit market in more detail. This box deals only with the most important products, i.e. the subsidised HPS loans and the prenatal baby support loans.

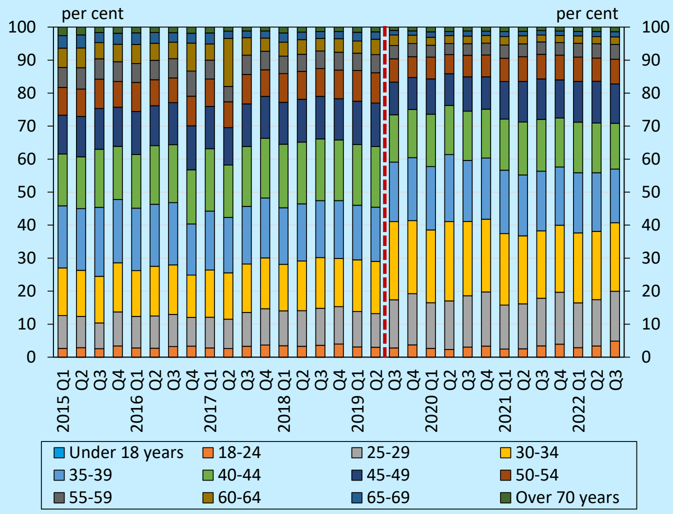
Subsidised products account for a significant weight in new household loans. In 2022, the average monthly amount of prenatal baby support loans disbursed was HUF 38 billion, and at the end of December 2022 they accounted for 19.5 per cent of the household sector's total loans outstanding. In December, there were 203,000 active prenatal baby support loans, 87 per cent of which for the maximum loan amount of HUF 10 million. According to our survey, roughly three-quarters of the borrowers use the prenatal baby support loan for housing purposes (as well), and half of the borrowers would have not been able to finance their loan purpose either from other loans or from own funds; accordingly, the programme generates and has generated significant additional impact in the credit market.[8] In 2022, the monthly disbursement of interest-subsidised housing loans granted with HPS was HUF 16 billion on average, while at the end of 2022 Q3 the total outstanding capital of loans related to the product was roughly HUF 700 billion, accounting for 7 per cent of the total outstanding borrowing of households. About 16 per cent of the housing loans disbursed in 2022 were provided by interest rate-subsidised HPS-loans.

The interest payable by the customer is supplemented by the state interest subsidy, the rate of which has increased significantly in the higher interest environment. Pursuant to the regulation applicable to the subsidised HPS loans, the *customer* pays interest at 3 per cent over the entire term of the loan,[9] while the average *transaction* interest rate – i.e. also including the supplementation with the state interest subsidy – materially exceeds the interest rate on the market-based housing loans.[10] In parallel with the tightening of the interest environment, the gap between the pricing of market-based and HPS loans is gradually widening: e.g. in 2022 Q4 the APR on HPS loans already exceeded that on market-based housing loans by 8 per centage points on average.

The loans of roughly two-thirds of prenatal baby support loan borrowers is already interest-free. Based on the questionnaire-based survey conducted in June 2022 among borrowers of prenatal baby support loans, 59 per cent of the borrowers had no child at the time of the borrowing, while 26 per cent had one child and 11 per cent of them had 2 children at the time of the application. With 64 per cent of them at least one child has been born since the drawdown of the prenatal baby support loan, and thus the loan for them is definitely interest free, which reduces the default risk in the rising interest environment. 15 per cent of the borrowers plan to have at least three children after the disbursement of the prenatal baby support loan, which – if the plans are realised – converts the loan in full into a non-refundable subsidy.

As a result of the prenatal baby support loan, the weight of the younger generation in new loans has increased. The introduction of the prenatal baby support loans of a relatively high amount, a maximum of HUF 10 million, shifted lending substantially towards younger people, since at the time of submitting the loan application the wife's age must not exceed 41 years. In terms of volume, the ratio of those below the age of 40 within new loans rose to around 60 per cent from 45 per cent registered before the launch of the prenatal baby support loan in July 2019.

Distribution of newly disbursed retail loan volume by age

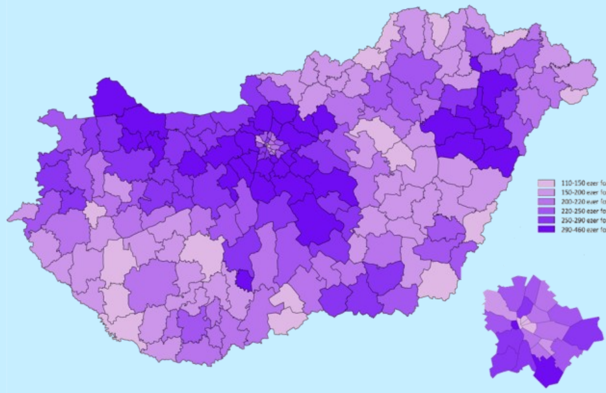


Note: The average age of the debtors and co-debtors belonging to the given loan contract. Source: MNB

78 per cent of large families applied for the interest-subsidised HPS loan for new home. From the launch of the scheme up until December 2022 64,000 new contracts had been concluded for interest-subsidised housing loans available with HPS, 53 per cent and 47 per cent of which were taken by families having or planning to have 2 children or 3 or more children, respectively. However, based on volume, the proportions are the other way round. Since in the case of building or buying a newly-built home, the amount of HPS subsidy is significantly higher for those with 3 children than for families with 2 children, the volume of loans also reflects a higher proportion of large families in the case of this loan purpose. While 76 per cent of families with 2 children applied for interest-subsidised housing loan for the purpose of buying used home, 78 per cent of families with 3 or more children used the HPS loan for the construction or purchase of new home.

In a regional breakdown, the disbursement of subsidised loans shows a heterogeneous picture. Between 2017 Q1 and 2022 Q3, interest-subsidised HPS loans and prenatal baby support loans were disbursed in the total amount of HUF 2,675 billion. In a breakdown by region, the largest volume of loans in proportion to the population was disbursed in the districts in Pest, Hajdú-Bihar and Győr-Moson-Sopron counties, while the lowest volume went to the districts of Somogy, Borsod and Szabolcs counties. In absolute terms, the largest volume of these subsidised loans were disbursed in the Győr, Debrecen, Gödöllő, Szigetszentmiklós, Miskolc, Nyíregyháza and Kecskemét districts (in each of them roughly 2 per cent of the disbursement) and in Budapest (23 per cent of the disbursements). On the other hand, as result of the introduction of the prenatal baby support loans, the ratio of loan transactions in small settlements – characterised by relatively low price per square metre – steadily increased, which may be attributable to the fact that the maximum loan amount may as well have been sufficient to buy a property in these settlements.[11] The schemes also provided significant support to first-time home-buyers. According to our estimates, their number may have increased substantially both in Budapest and in the countryside as a result of the family support measures.[12]

The amount of HPS and prenatal baby support loans disbursed between 2017 Q1 and 2022 Q3 in proportion to the population of the district



Note: In case of HPS and prenatal baby support loans, the district accordint to the collateral and the debtor, respectively. To calculate the population of the district, we used the annual average of 2017-2021 as a basis. Source: MNB, HCSO.

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[8] For more details, see: Zita Fellner - Anna Marosi - Beáta Szabó: A babaváró kölcsön hitelpiaci és reálgazdasági hatásai (The effects of prenatal baby-support loans on the credit market and the real economy). Vol. 68, February 2021 (pp. 150—177) http://real.mtak.hu/120773/1/03FellnerMarosiSzaboA.pdf

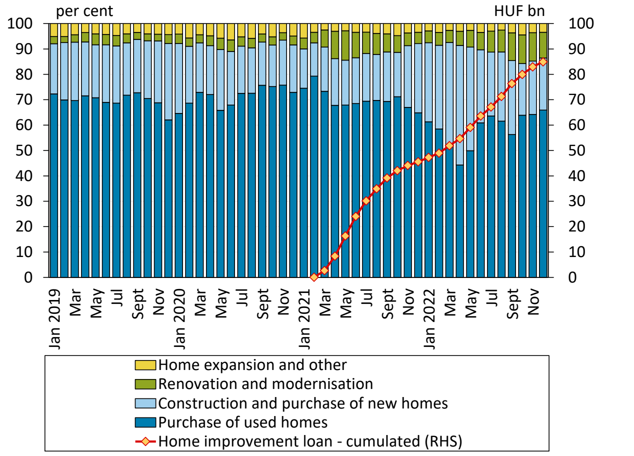
[9] According to the relevant regulations, the transaction rate on subsidised loans shall not exceed 130 per cent of the arithmetic average of the average yields achieved at the auctions of government bonds with nominal maturity of five years held in the three calendar months preceding the publication, weighted by the quantities accepted at the respective auctions, published by the Government Debt Management Agency monthly, plus 3 per centage points. On the other hand, the rate of the interest subsidy may be the transaction rate determined in line with the aforementioned cap reduced by 3 per centage points. Based on this criterion, the interest payable by the customer is exactly 3 per cent.

[10] For more details, see: Bálint Dancsik - Anna Marosi - Beáta Szabó: Túl drága az olcsó hitel – a családi otthonteremtési kedvezmény támogatott hitelkamatainak vizsgálata (Cheap loans are too expensive: an examination of interest rates on subsidised housing loans). Közgazdasági Szemle (Economic Review), Vol. 69, December 2022 (pp. 1493–1506) http://real.mtak.hu/154516/1/01DancsikMarosiSzaboA.pdf

[11] For more details, see Report on Financial Stability, November 2022, Box 3.

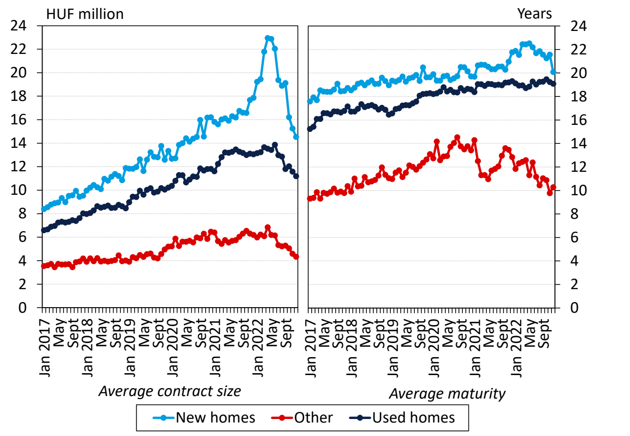
[12] For more details, see Financial Stability Report, December 2021, Box 6.

Chart 15: Distribution of new housing loans by loan purpose



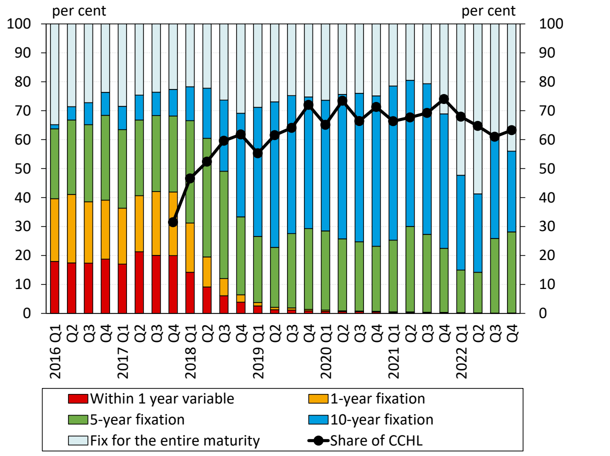
Source: MNB

Chart 16: Average contract size and maturity of new housing loans



Note: Maturities are averages weighted by contract amount. Source: MNB

Chart 17: Distribution of new housing loan volume by interest rate fixation, and the share of Certified Consumer-friendly Housing Loan products



Note: Share of CCHL products, excluding FGS GHP, 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

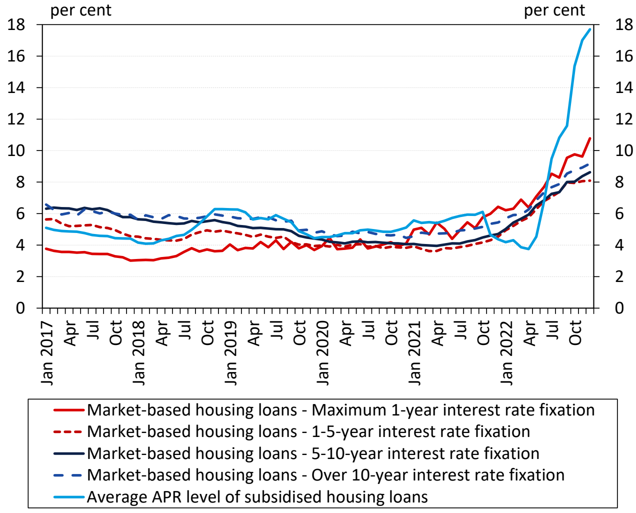
The ratio of housing loans for home improvement and modernisation rose by the end of 2022. Almost three-quarters of the housing loans concluded in 2022 Q4 were for the purchase of used homes. After the phase-out of the FGS Green Home Programme, the ratio of loans taken for the construction or purchase of new housing fell to nearly 20 per cent by the end of 2022 from the level of 40–50 per cent observed in spring (Chart 15). The ratio of loans for home improvement and modernisation rose in one year by 6 per cent to 11 per cent, which may have been partly attributable to the energy efficiency improving investments of households to mitigate the rise in utility costs. Until December 2022, banks concluded interest-subsidised home improvement mortgage loans connected to the home improvement subsidy, phased out in December 2022, in the total amount of HUF 85 billion.

As a result of the rising interest rates, borrowers request a smaller loan amount on average. In 2022 Q4, the number of loan contracts fell significantly both for used and new homes in an annual comparison, by 51 and 53 per cent, respectively. The phase-out of FGS GHP and the higher interest rate environment impacted not only demand but also the average loan amount and the average maturity:[13] the average loan amount applied for the construction or purchase of new housing was HUF 15 million at the end of Q4, which is shortfall of HUF 8 million compared to the period after the soar of GHP, and the loan amount is lower by HUF 3 million even in annual comparison. In parallel with this, the average maturity weighted by the contracted amount returned to the levels observed before the launch of GHP, i.e. to 20 years (Chart 16). In the case of loans for used home, the average loan amount declined to HUF 11 million by December, while the average maturity remained 19 years.

The ratio of loans with interest rate fixed until maturity remained high even after the depletion of FGS GHP framework. Within housing loans disbursed in 2022 Q4, after an annual decline of 19 per centage points, the ratio of loans with interest rate fixation for 10 years fell to 28 per cent, while that of those with interest fixed until maturity rose by 13 per centage points to 44 per cent (Chart 17). The ratio of loans with interest rate fixation for 5 years rose by 6 per centage

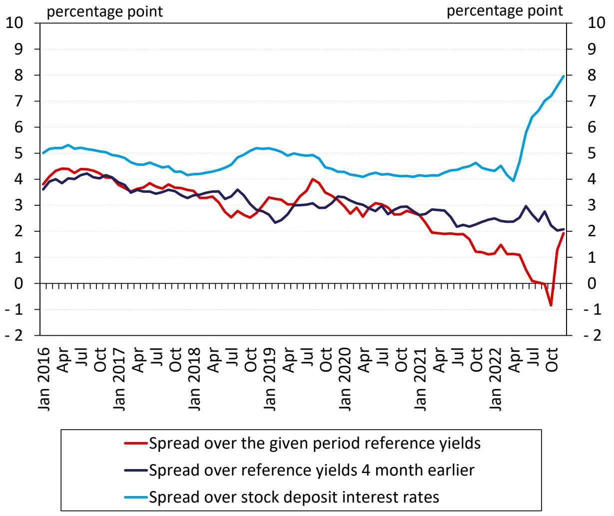
[13] Averages by contract and not by debtor for both loan size and maturity.

Chart 18: Annual per centage rate of charge on new housing loans



Note: In the case of subsidised housing loans, the total transaction interest rate, i.e. the interest payable by the customer and the state subsidy, is shown together. Source: MNB

Chart 19: APR-based spreads on new housing loans

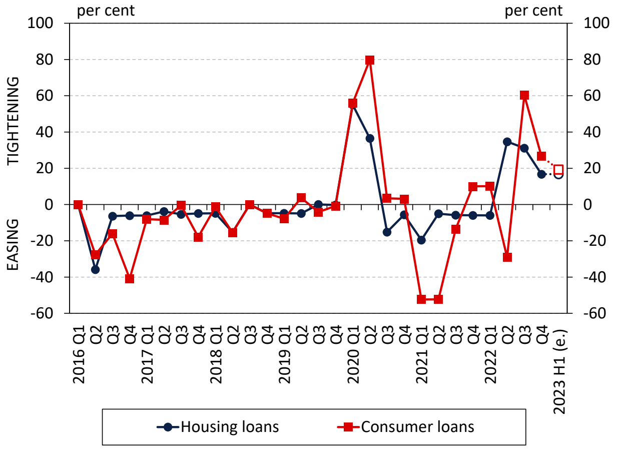


Note: Averages weighted by contracted volume. Spreads over the reference yields were calculated based on interbank yields (BIRS) by interest period. Interest rates on deposits include deposit rates on demand and term retail deposits and also on corporate deposits. Source: MNB

points to 28 per cent in one year, which may have been partly attributable to the rising weight of subsidised loans. 27 per cent of the housing loans disbursed during the quarter were loans with state interest subsidy, usually available with a 5-year interest rate period. Certified Consumer-friendly Housing Loans continue to play a key role in lending for housing purposes: the quarterly disbursement of consumer-friendly products in the amount of HUF 84 billion accounted for 63 per cent of the volume of housing loans with similar interest period.

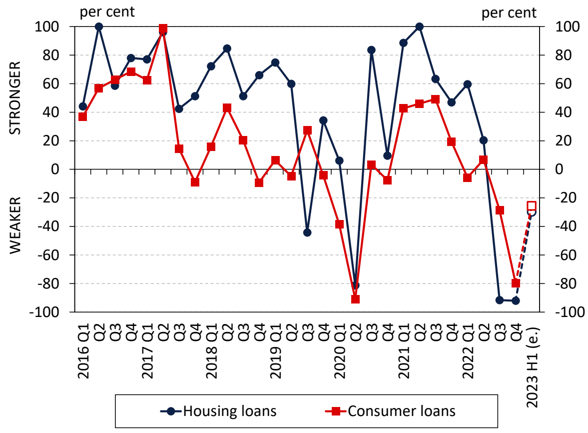
The average APR and spread on housing loans increased significantly in Q4. Within market-based housing loans concluded in 2022 Q4, net of state-subsidised products, the average APR on loans with interest rate fixation periods of 1-5 years and 5-10 years rose to 8.1 per cent and 8.6 per cent after an increase of 3.6 per centage points and 3.9 per centage points, respectively, by December. However, the vast majority of housing loans are concluded with interest fixed at least for 10 years or until maturity; the average APR on these loans rose to 9.2 per cent by the end of the quarter (Chart 18). In the case of state-subsidised housing loans, the APR rose by 13.3 per centage points to 17.7 per cent in one year; however, the largest part of this is borne by the state, since customers continue to pay the statutory interest – 3 per cent on HPS loans and 0 per cent on prenatal baby support loans – on their loan. The APR-based spread on housing loans weighted by volume, calculated with the reference yield applicable to the respective period, amounted to 1.9 per cent at the end of December, returning to the positive range, which was attributable to the fall in long-term yields at the end of the year. Considering that in the case of products with longer interest periods the reference rates pass through to loan interest rate with a delay, by the end of 2022 the spread is similar, 2.1 per centage points, even under the reference rate from 4 months earlier (Chart 19). However, banks' funding costs are influenced not only by the long-term yields, but also by the pricing of banks' liabilities, and thus also by the deposit rates, which fall substantially short of the rise in interbank yields. This is well evidenced by the fact that while the spread on housing loans over the interbank yields was

Chart 20: Changes in credit conditions in the household segment



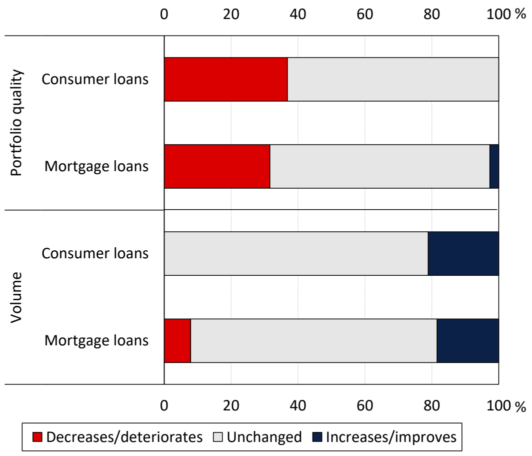
Note: Net ratio is the difference between tightening and easing banks weighted by market share. Source: MNB, based on banks' responses

Chart 21: Credit demand in the household lending segment



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

Chart 22: 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

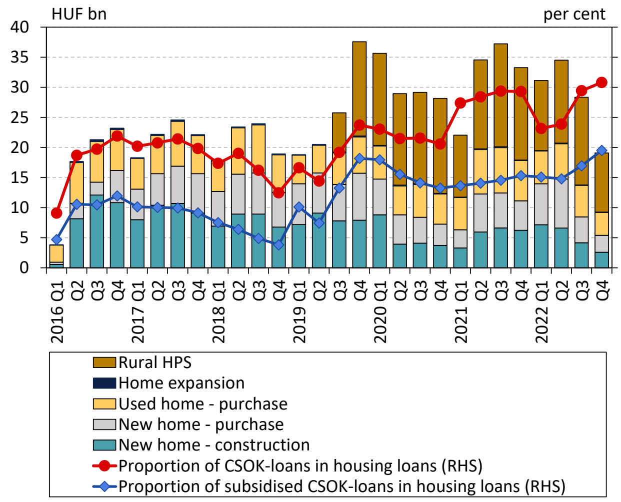
around 2 per centage points, the average spread over deposit rates was 8 per cent in 2022 Q4.

In the fourth quarter, a narrow range of credit institutions further tightened retail lending standards. Based on the responses to the Lending Survey, in 2022 Q4 in net terms 17 per cent of the respondent institutions tightened standards on housing loans through their internal debt cap rules. Deterioration in the customers' creditworthiness was the most often cited factor underlying the tightening. Looking ahead to the next half-year, a similar ratio of banks envisaged further tightening in housing loan standards due to the uncertain economic prospects (Chart 20). During the quarter, 27 per cent of the banks tightened conditions on consumer loans, which primarily involved raising spreads. According to the responding institutions, rises in funding costs and the negative economic outlook were the main factors contributing to tightening. Looking ahead, a net 19 per cent of the banks plan further tightening due a deterioration in customers' creditworthiness, and an even higher proportion (32 per cent) would tighten lending criteria on home equity loans.

Most banks perceived a fall in demand for housing loans and consumer loans. In 2022 Q4, in net terms 92 per cent of the banks participating in the Lending Survey perceived a decline in demand for housing loans, which was also impacted by the rising inflation and interest rate environment (Chart 21). Looking ahead to 2023 H1, a smaller ratio – a net 30 per cent – anticipate a further fall in demand in this segment. In net terms, 80 per cent of the banks perceived a decline in demand for consumer loans in the fourth quarter, while in 2023 H1 a similar ratio envisage declining demand for car financing loans, while demand for consumer loans will decrease further in the opinion of 26 per cent of banks in total.

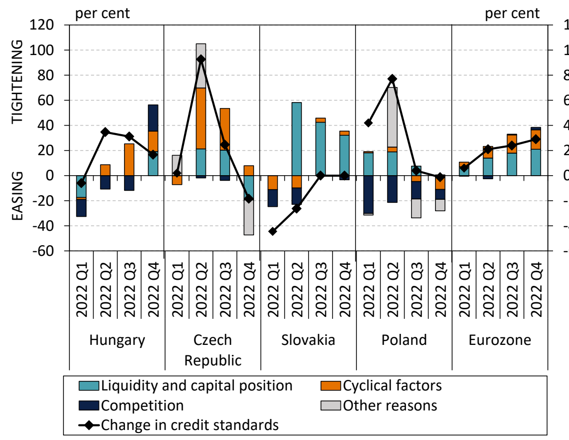
Amidst rising competition and falling demand, 18 per cent of the banks would increase their mortgage loan portfolio. Based on the Bank Sentiment Survey – similar to the survey conducted six months ago – 21 per cent of the respondent institutions plan to increase the stock of their unsecured consumer loans and none of the institutions reported any intention to reduce their portfolio size. However, only 18 per cent plan to increase their mortgage loan portfolio, compared to 45 per cent in the previous survey (Chart 22). 32 per cent

Chart 23: Volume of HPS contracts by purpose



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

Chart 24: 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 tightening of conditions, while negative ones indicate easing. Source: MNB, ECB, national central banks

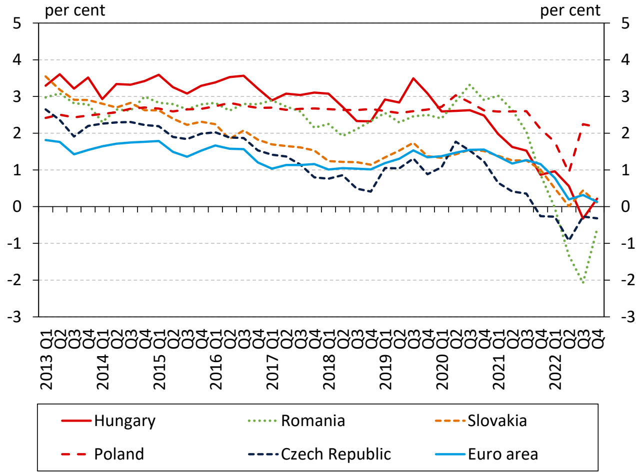
and 37 per cent of the banks expect the portfolio quality of secured loans and consumer loans, respectively, to deteriorate. The prolongation of the interest rate cap until the end of June 2023 contributes to the maintenance of household customers' solvency; however, the partial phase-out of the utility price reductions and the rising inflation environment suggest portfolio quality deterioration, in view of the decline in households' disposable income.

In parallel with the contraction of the housing market, disbursements of HPS subsidies also declined. In 2022 Q4, the volume of subsidies disbursed in the amount of HUF 19 million under the Home Purchase Subsidy Scheme for Families fell short of the year-on-year figure by 43 per cent, and it also declined by one-third in quarter-on-quarter terms. Only at the start of the scheme was the volume of subsidies net of Rural HPS lower than at present. The largest, 52-per cent decline was registered in subsidies for the construction or purchase of new housing, in line with the trends observed in lending for housing purposes, while the volume of subsidies contracted for the purchase of used home fell short of that a year ago by 43 per cent (Chart 23). In the fourth quarter, loans connected to HPS were disbursed roughly in the amount of HUF 46 billion (31 per cent of housing loan disbursements), 37 per cent of which were market-based loans. Rural HPS, available for preferred small settlements, still represent the largest volume of HPS, accounting for half of the quarterly volume of subsidies.

2.2. International developments in household lending

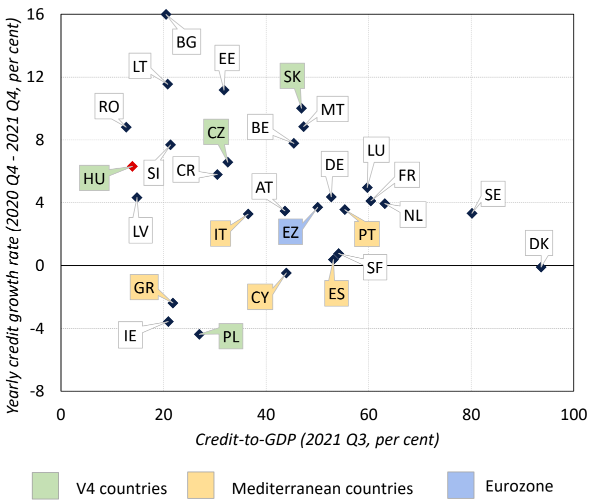
In most countries in the region and in the euro area, banks have tightened housing loan conditions in recent quarters. In 2022 Q4, in the countries of the region, banks tightened housing loan conditions only in Hungary, while in the second and third quarters, tighter standards were also typical in the Czech Republic and Poland as well. In the euro area, a net 29 per cent of banks tightened standards in the fourth quarter. In the Czech Republic, in 2022 Q4, 18 per cent of the banks eased standards in respect of reducing the spreads and the debt cap rules applicable to young home-buyers, while in Slovakia and Poland the conditions of access to housing loans remained broadly

Chart 25: International comparison of interest rate spreads over the interbank yield 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 the 3-month interbank rate, while in the case of housing loans fixed for a period longer than one year, the 3-month smoothed spread over the corresponding IRS. For Hungary, also taking into account the funding cost of 0 per cent of the FGS GHP. Source: MNB, ECB, EMF, Datastream, national central banks

Chart 26: Annual growth rate of household loans and the credit-to-GDP ratio in an international comparison



Source: ECB, MNB

unchanged (Chart 24). In most countries, banks cited deterioration in the economic outlook and in banks' liquidity and capital position as factors in favour of tightening.

The pace of enforcing changes in the yield environment in interest rates on housing loans varies from country to country. The rising interest rate environment resulting from the inflation developments which were also observed internationally tends to pass through to lending rates in an increasing number of countries. Following the historic low in spreads on housing loans over interbank yields observed in 2022 Q2, in the third quarter an increase was observed in the CEE region – with the exception of Hungary and Romania – and also in the euro area. However, in the fourth quarter spreads once again fell moderately in these countries, while rising in Hungary and Romania (Chart 25).

As a proportion of GDP, the level of household loans outstanding in Hungary is the second lowest in the EU. Hungary's household loan growth amounted to 6.3 per cent at the end of 2022 Q4; it thus continued to exceed the 3.7-per cent rate registered in the euro area and was in 10th in an EU comparison (Chart 26). In the countries of the region, household loans outstanding grew by 10 per cent in Slovakia and by 6.6 per cent in the Czech Republic at an annual level, while Poland registered a decline of 4.4 per cent in the period under review. As result of the slowdown in lending and the sharp rise in nominal GDP (12 per cent on an annual basis) in the high inflation environment, the Hungarian household loan-to-GDP ratio fell by 3.1 per cent in one year, and thus amounted to 13.9 per cent at the end of 2022 Q3. Thus, after Romania, Hungary has the second lowest indicator in the EU countries, and accordingly, on the whole, there still seems to be ample room for an increase in domestic loan penetration in a sound structure. In the third quarter, the average household loan-to-GDP ratio of the V3 countries amounted to 31 per cent, while the average for the euro area was 50 per cent.

3. 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: http://www.mnb.hu/statisztika

2. *Lending Survey*

The Lending Survey facilitates the analysis of how major Hungarian banks perceive and assess market developments and how they develop their respective strategies, in particular their lending policies. Eight banks responded to questions related to housing loans, while ten banks answered questions on consumer loans. Based on data from the end of 2022 Q4, the surveyed institutions accounted for 87 per cent of the banking sector in the case of outstanding housing loans and 96 per cent in the case of outstanding consumer loans. The corporate questionnaire was completed by twelve banks in total, which represent 94 per cent of the corporate loan market, while the market share of the thirteen banks responding to the questionnaire related to commercial real estate loans is 97 per cent.

The survey consists of a standard questionnaire in each segment. The retrospective questions refer to 2022 Q4 (compared to 2022 Q3), whereas the forward-looking questions concern the next half year, covering 2023 H1 (relative to 2022 Q4). The current questionnaire was completed by senior loan officers between 1 and 17 January 2023.

To indicate changes, the survey uses the so-called net change indicator, expressed as a per centage 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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