TRENDS IN LENDING

2023
SEPTEMBER

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(September 2023)

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The objective of the publication "Trends in Lending" is to present a detailed picture of the latest trends in lending and to facilitate the appropriate interpretation of these developments. To this end, it elaborates on the developments in credit aggregates, the demand for loans perceived by banks and credit conditions. Within credit conditions, price and non-price conditions are distinguished: Non-price conditions affect how banks determine which customers are eligible for credit and the conditions under which they can obtain credit. Price conditions, in turn, show the price of borrowing for creditworthy customers.

The main statistics examined are:

- *The credit aggregates show the quantitative evolution of the stock of loans to economic agents based on balance sheet statistics for the credit institutions sector. Both the volume of new loans and net changes in credit institution loans outstanding (net of exchange rate effects) are presented. From the fourth quarter of 2013, the analysis covers the lending flows of the entire 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 on the cost of funds, 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. Lending rates can be broken down into a reference rate and a premium above the reference rate.*
- *Based on the Lending Survey, banks active in the given segment respond qualitatively to their perceived credit demand trends and expectations in the "Lending Survey". Similarly to credit conditions, banks indicate the direction of the change.*

Detailed information about the methodology of indicators describing the lending processes is provided in the "Annex" at the end of the analysis. Within the publication, the results of the "Lending Survey" are presented in a focused way, but the answers to the questions and the set of graphs based on the results are published in full on the "Lending Survey" page of the MNB website.

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EXECUTIVE SUMMARY

Credit institutions' outstanding loans to non-financial corporations increased by HUF 158 billion in the second quarter of 2023. Thus, in the year to June 2023, the stock of loans on a transaction basis expanded by 11 per cent, representing a substantial slowdown compared to the end of the previous year. While this corresponds to international trends, the growth is still the third highest value in an EU comparison. Annual credit growth slowed to 16 per cent in the large corporate segment and 10 per cent in the SME segment by the end of June. The volume of new lending in 2023 Q2 was broadly the same in year-on-year terms for the corporate segment as a whole, but was significantly lower for SME lending, where it dropped by 31 per cent, reflecting the high base effect of subsidised loans. The share of subsidised corporate loans rose from 37 per cent in the previous quarter to 46 per cent regarding newly signed non-overdraft contracts, partly due to the increase in new corporate loan incentive programmes available at favourable interest rates, such as the Széchenyi Card Programme MAX+ and the Baross Gábor Reindustrialisation Loan Programme. Overall, the average interest rate on market-based corporate loan contracts followed the decline in the interest rate environment during the quarter.

The banks participating in the Lending Survey have not made any substantial changes to corporate lending conditions, and no substantial changes are expected for the second half of 2023 either. Banks also perceived rising demand for forint, foreign currency and short-term loans in the second quarter, while demand for long-term loans continued to fall as investment plans became more uncertain. Banks expect corporate loan demand to pick up in 2023 H2. According to the Bank Trends Survey, around one half of the credit institutions plan to increase their total corporate and SME loan portfolio in the second half of the year.

The retail loan portfolio of the credit institutions sector expanded by HUF 98 billion in the second quarter, as a result of disbursements and repayments. This represents an annual increase of 3 per cent in the loan portfolio. Behind the gradual slowdown in credit dynamics is a decline in new lending, with retail lending down 47 per cent in the second quarter, including a fall of 67 per cent in housing loans, compared to the volume from one year earlier. The volume of prenatal baby support loans, which was previously characterised by high loan disbursements, has also fallen significantly and may drop further from 2024 onwards as a result of the new regulation. Personal loan issuance declined only marginally in year-on-year terms, while home equity lending expanded significantly from its previous low level, driven mainly by investment motivations, based on the composition of borrowers and the characteristics of the loans granted. In 2023 Q2, banks extended market-based housing loans at an average interest rate of 8.8 per cent, and taking into account state interest subsidies, the average interest rate paid by customers in the overall housing loan market was 7.7 per cent in the period under review. In 2023 Q2, the volume of subsidies contracted under the Home Purchase Subsidy Scheme for Families decreased for the fourth quarter in a row, and by June the share of state-subsidised loans within newly disbursed housing loans fell from 35 per cent to 19 per cent in the course of one year. Next year's announced tightening of the HPS will have a short-term stimulative effect on the volume of related housing loans with interest rate subsidy.

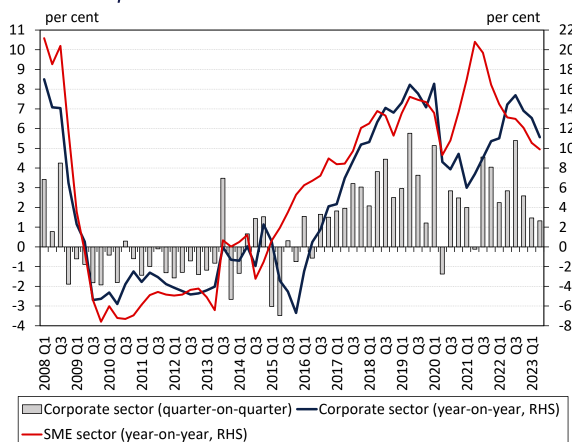
Based on responses to the Lending Survey, credit institutions left the terms of both home loans and consumer loans unchanged in 2023 Q2. Looking ahead to the second half of the year, however, a net 11 per cent of banks foresee tightening in the case of the latter, while an even higher proportion may tighten conditions for home equity loans. Over the quarter, responding institutions saw an overall decline in demand for housing loans, while almost all banks saw a pick-up in demand for consumer loans. Nevertheless, more than half of banks expect demand in the housing loans market to pick up by the second half of the year, while only a small number of banks have similar expectations for consumer loans. According to the Bank Sentiment Survey, around one quarter of credit institutions would like to continue to increase their loan portfolios in both unsecured consumer loans and mortgage loans, but a small proportion of institutions in both segments have set their sights on reducing their portfolios.

1. DEVELOPMENTS IN LENDING IN THE CORPORATE SEGMENT

In 2023 Q2, non-financial corporations' outstanding loans to the credit institution sector increased by HUF 158 billion, reflecting a HUF 70 billion decline in forint loans and a HUF 228 billion increase in foreign currency loans. As a result, the stock of corporate loans grew by 11 per cent in a year on a transaction basis, representing a substantial slowdown compared to the end of the previous year. This was in line with international trends, but the growth still represents the third highest annual growth rate in an EU comparison. Annual credit dynamics slowed to 16 per cent for large corporations and 10 per cent for SMEs by the end of June. New issuance was essentially unchanged for the corporate segment as a whole in 2023 Q2, while it was down significantly for SME lending, where it fell by 31 per cent year on year, with a high base effect of subsidised loans playing a role in this decline. The share of subsidised corporate loans in new but non-overdraft contracts increased to 46 per cent from 37 per cent in the previous quarter, partly due to the increase in new corporate loan incentive programmes (the Széchenyi Card Programme MAX+ and the Baross Gábor Reindustrialisation Loan Programme) available at very favourable interest rates. In parallel with the declining domestic interest rate environment, the interest rate differential between market forint and market foreign currency loans has narrowed.

Most of the banks participating in the Lending Survey left corporate lending conditions unchanged, with no significant changes planned for 2023 H2 either. In 2023 Q2, banks saw an increase in demand for forint, foreign currency and short-term loans, but experienced a decrease in demand for long-term loans. In 2023 H2, banks expect credit demand to pick up further as the interest rate environment gradually normalises. According to the Bank Sentiment Survey, 57 per cent of responding institutions plan to increase their corporate loan portfolio in 2023 H2.

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

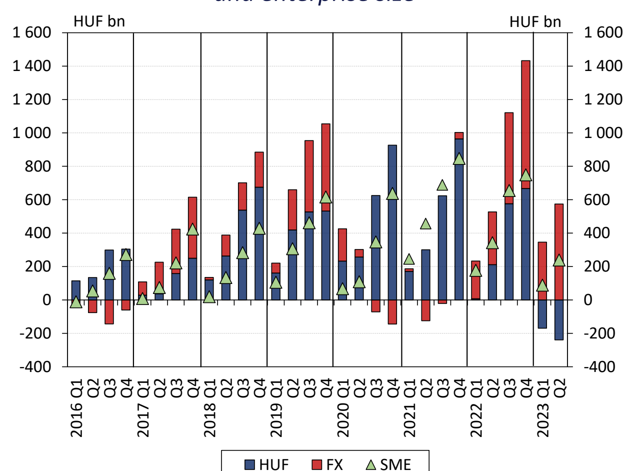


Note: Transaction-based growth rate, i.e. the growth rate calculated on the basis of the value of new disbursements adjusted for repayments, exchange rate effects and other stock changes. SME sector before 2015 Q4 estimated on the basis of banking system data. To obtain the growth rate, we also took into consideration the repayments received by Sberbank between March 2022 and August 2022. Source: MNB

1.1. Changes in loans outstanding and new contracts in the corporate credit market

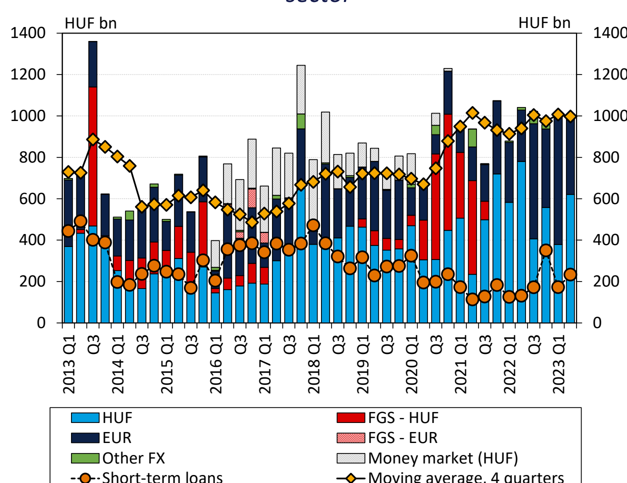
Corporate loans expanded by 11 per cent year on year. Between July 2022 and June 2023, the stock of loans to non-financial corporations increased by approximately HUF 1,230 billion on a transaction basis, corresponding to an annual growth rate of 11.1 per cent (Chart 1). The transaction growth rate of domestic corporate loans slowed by almost 7 percentage points compared to the peak in January (18 per cent), but this trend is in line with international trends. In June, the annual nominal domestic growth rate was the third highest in the EU, 8.7 percentage points above the euro area average. Mixed developments were seen in the loan stock of the sectors in the national economy in the first half of the year: compared to December 2022, the largest increase in the stock of loans was in the information and communications sector, with a rise of more than HUF 300 billion, while the most significant decrease in the stock of loans was recorded in the financial and insurance activities sector (more than HUF 400 billion). These changes were largely related to individual large

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

transactions. If we exclude the transaction growth in the stock of loans to these specific sectors in 2022 and January 2023, the annual growth rate of total corporate loans would be 6.4 per cent. Annual credit dynamics slowed to 16.3 per cent in the large corporate segment and to 9.9 per cent in the SME segment by the end of June.

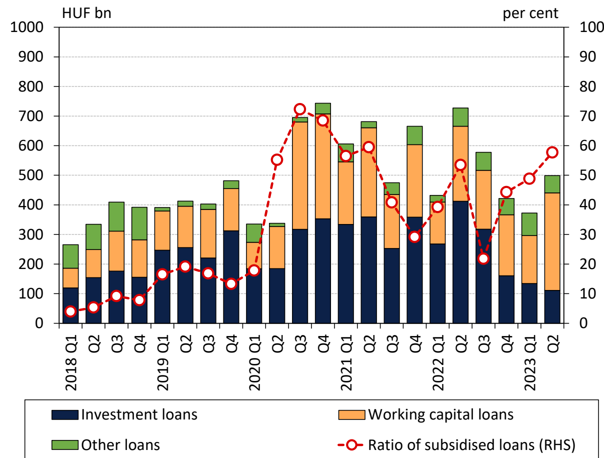
The largest contributors to quarterly loan growth were large corporate foreign currency loans. As a result of a HUF 70 billion decrease in forint loans and a HUF 228 billion increase in foreign currency loans, corporate loans increased by HUF 158 billion in 2023 Q2 (Chart 2). By company size, preliminary data indicate that HUF 150 billion of the Q2 transaction growth was related to the SME portfolio. The growth in the SME segment, which significantly exceeded the first quarter, can be explained mainly by the new corporate loan incentive programmes that are available at very favourable customer interest rates, namely the Széchenyi Card Programme MAX+ launched on 23 December 2022 and the Baross Gábor Reindustrialisation Loan Programme.

The volume of foreign currency loans and short-term contracts increased significantly compared to the previous year. In 2023 Q2, the volume of new foreign currency loan contracts was 46 per cent higher than a year earlier, while that of forint loans fell by 20 per cent. Overall, the quarterly volume of new loans – other than current account loans – of around HUF 1,000 billion was 3.8 per cent lower than in the same period of the previous year and 0.6 per cent lower than in the first quarter (Chart 3). Given the significant interest rate differential between forint and foreign currency loans, the increase in foreign currency loans should be closely monitored from a financial stability perspective, as there is an exchange rate risk if these loans are requested by companies without foreign currency revenues. At present, foreign currency loans are mainly taken out by companies with foreign currency revenues, and the share of foreign currency loans in new contracts still corresponds to the ratio before the appearance of the coronavirus.[1] The volume of new forint lending contracts was 64 per cent higher than in the first quarter, driven by a Q2 surge in government-backed lending programmes. Market-based[2]

[1] For further details see: Magyar Nemzeti Bank (2023): Financial Stability Report, May 2023, page 27.

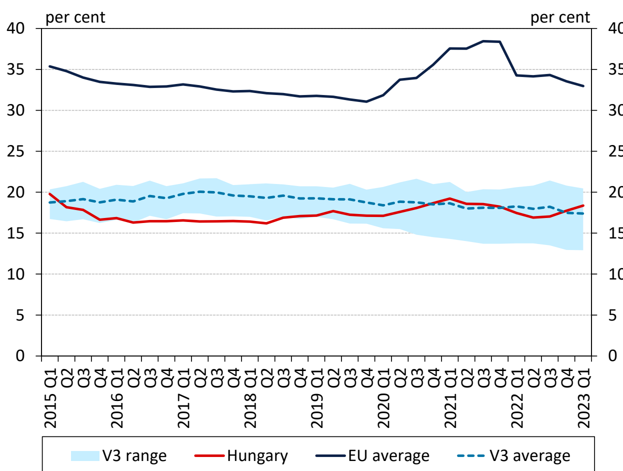
[2] In calculating the share of market loans, we examine the share of non-current account loans classified as "Normal market" in the bank data reporting within the total number of contracts with credit institutions excluding the Hungarian Development Bank (Magyar Fejlesztési Bank) and Eximbank.

Chart 4: New disbursements of SME loans by loan purpose and the ratio of subsidised loans



Note: Other loans include the following: Pre-financing of EU grants; Credit line with unknown loan purpose; Condominium and housing cooperative loans. For the calculation of the ratio of subsidised loans, we examined the ratio of loans classified other than as 'Normal market', not including non-overdraft type loans, within the new contracts of credit institutions, excluding the Hungarian Development Bank and Eximbank. Source: MNB

Chart 5: Development of the corporate sector's loan portfolio as a percentage of GDP



Source: ECB, HCSO, MNB

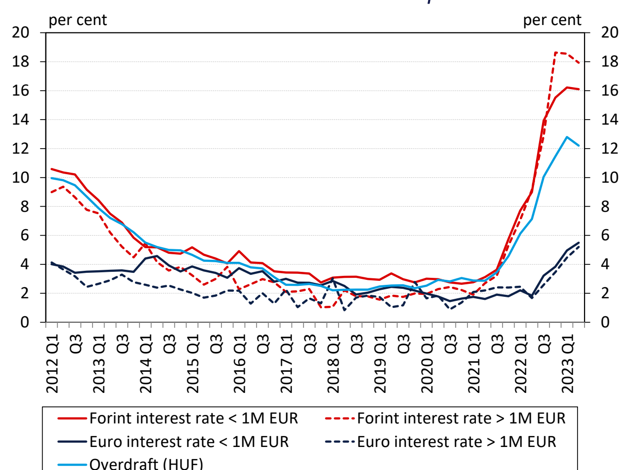
lending accounted for 54 per cent of loans issued in the second quarter, down significantly from 85 per cent in the quarter prior to the emergence of the coronavirus and below the figure of 63 per cent for the previous quarter. With companies' operating costs rising, the share of short loans in new contracts signed in the quarter rose versus the previous quarter, reaching 23 per cent in the second quarter.

The volume of new SME loan contracts increased significantly on a quarterly basis, especially in the working capital loans market. In 2023 Q2, nearly HUF 500 billion worth of loan contracts were signed in the SME segment, down 31 per cent year on year, but up 34 per cent on the previous quarter regarding new issues. On a year-on-year basis, the decline in SME lending was also driven by a base effect related to the closure of the Széchenyi Card Programme GO! product one year ago. In the uncertain economic environment, the volume of new investment loan contracts fell significantly by 73 per cent year on year (Chart 4). However, demand for working capital loans has already picked up, with the quarterly volume rising by 30 per cent year on year. The Széchenyi Card Programme MAX+ and the Baross Gábor Reindustrialisation Loan Programme may also have been instrumental in supporting working capital lending, with both programmes driven primarily by demand for short-term loans. In line with the rise of lending programmes, the share of subsidised SME loans concluded at market interest rates was 49 per cent of new contracts in the first quarter and 58 per cent in the second quarter.

The domestic corporate loans outstanding as a share of GDP declined for the third quarter in a row. In 2022 Q2, domestic corporate loans as a share of GDP amounted to 18.5 per cent, compared with 17.5 per cent in 2023 Q1 (Chart 5). The average for the Visegrád countries was 17.4 per cent in the first quarter, broadly in line with the domestic figures. However, compared to the EU average (33 per cent), both Hungary and the Visegrád region have low corporate loan-to-GDP ratios, suggesting that there is considerable scope for prudent deepening of credit penetration.

1.2. Changes in price and non-price conditions in the corporate credit market

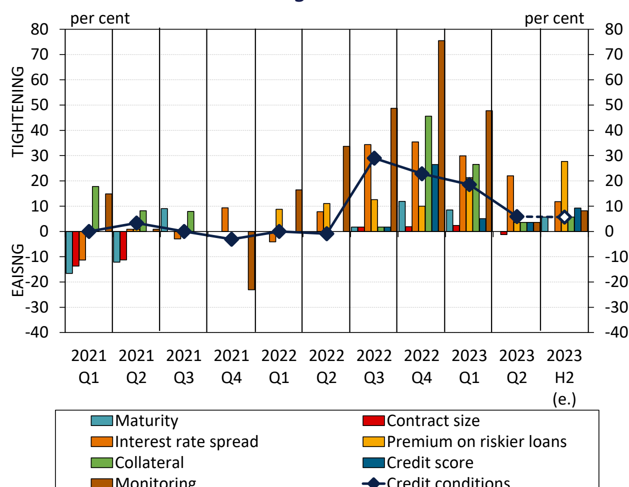
Chart 6: Interest rates on new corporate loans



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. End-quarter values. Source: MNB

As the cost of funding fell, market interest rates on forint loans declined. The average interest rate level of forint loans below one million euros with floating or fixed interest rates for up to one year at the end of June 2023 was 16.1 per cent, down 11 basis points on the previous quarter (Chart 6). This fall was mainly driven by a decline in the 3-month BUBOR, while the premium over this rate was around 0 percentage point and, as in previous quarters, is close to its historical low.[3] As a result of falling forint and rising foreign currency interest rate levels, the interest rate spread on small amount foreign currency loans with market interest rates narrowed from 11.7 percentage points at the end of last year to 10.6 percentage points in June 2023. The quarter-on-quarter weighted average interest rate on variable rate forint loans over one million euros, net of money market transactions,[4] decreased by 62 basis points to 17.9 per cent. However, the real cost of financing for domestic firms is substantially improved by government-subsidised loan schemes.

Chart 7: Changes in credit conditions in the corporate segment

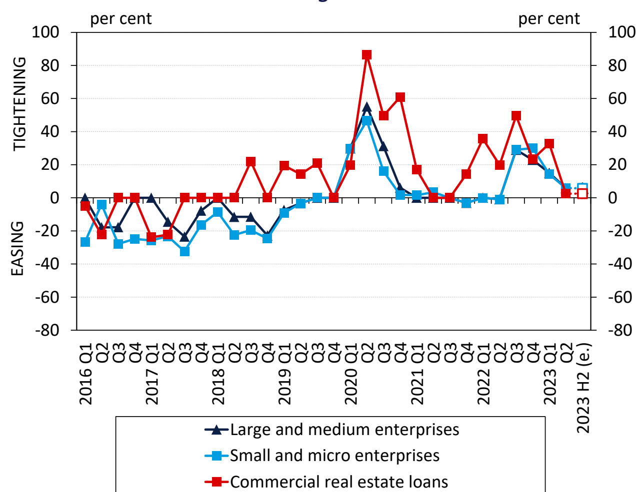


Note: Net percentage balance of respondents tightening/easing credit conditions weighted by market share. Source: MNB, based on banks' responses

Overall, banks did not make significant changes to corporate lending conditions in the second quarter. Only 6 per cent of the credit institutions responding to the domestic Lending Survey tightened their lending standards in net terms during that period (Chart 7), compared to 14 per cent of banks in the euro area. Citing the uncertain economic outlook and industry-specific problems, 22 per cent of responding banks increased their interest rate spreads in net terms, while there were no significant changes in other borrowing conditions. In the quarter under review, a small number of institutions also indicated that increased competition and market share targets were having an impact on easing lending standards. Bank liquidity and capital position have not affected lending conditions, and banks' lending capacity remains high.[5] No significant differences in the evolution of lending conditions by company size were observed (Chart 8). Banks do not plan to make significant changes to corporate loan standards in the second half of the year either, but the premium on riskier loans may rise as risk tolerance falls.

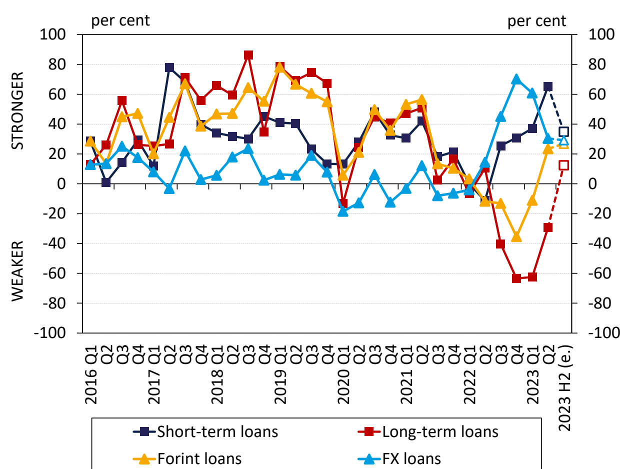
Demand for investment loans has fallen both in Hungary and in the euro area. In 2023 Q2, 14 per cent of the institutions responding to the domestic Lending Survey,

Chart 8: Changes in credit conditions within 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 9: Changes in corporate loan demand by maturity and denomination



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

in net terms, experienced an increase in demand for corporate loans. In the euro area, 42 per cent reported a fall in demand, representing the highest net decline since the Survey was launched in 2003. In the euro area, the fall in demand for corporate loans is mainly due to rising lending interest rates and falling investment. In parallel with the narrowing of the foreign currency and forint interest rate differential, the currency split in Hungary has narrowed in previous quarters, with 23 per cent of banks reporting increasing demand for forint loans and 30 per cent of banks reporting increasing demand for foreign currency loans (Chart 9). According to 42 per cent of banks, the tight monetary environment has had a dampening effect on demand, while the development of customers' own funds has boosted it. As a result of the declining investment activity and increasing liquidity needs of companies, 29 per cent of banks saw a decline in demand for long-term investment loans and 65 per cent saw a pick-up in demand for short-term working capital loans. In the second half of the year, a net 27 per cent of banks expect demand for corporate loans to pick up as the interest rate environment gradually normalises, with a net 12 per cent of banks expecting a pick-up in long-term loans.

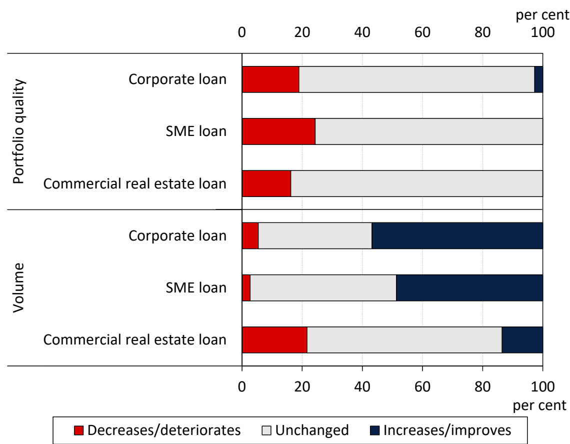
Half of the banks would increase their total corporate and SME lending and half of them would maintain it looking towards 2023 H2. In addition to assessing the economic situation, domestic credit institutions also report on their strategic plans in the context of the Bank Sentiment Survey. In 2023 H2, 57 per cent of banks plan to increase their total corporate loan portfolio and 49 per cent plan to increase their SME loan portfolio (Chart 10). The other half of the institutions aim to maintain the stock level, as was also stated in interviews with lending managers (see Box 1); and only 5 per cent of credit institutions intend to reduce it. One fifth of banks would reduce their commercial real estate loan portfolio, while 14 per cent would increase it further. Compared to the previous half-year, a smaller share of credit institutions, 19 and 24 per cent respectively, expect the quality of the corporate and SME portfolios to deteriorate. In the SME

[3] It is important to stress, however, that the bank's cost of funds is not equal to the 3-month BUBOR, as the former is influenced by, among other things, deposit interest rates, and thus the mark-up over the actual cost of funds may still be positive.

[4] Money market transactions are loans granted to non-financial corporations with a value of more than EUR 1 million, with a short maturity, typically within 1 month, and intended to finance a financial operation. From 2015 onwards, it is possible to filter out money market transactions, but in the period before that they did not significantly distort the observed average interest rates due to their low weight.

[5] For further details see: Magyar Nemzeti Bank (2023): Financial Stability Report, May 2023, page 26.

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



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

segment, the continued interest rate freeze also contributes to maintaining portfolio quality.

BOX 1: KEY TAKEAWAYS FROM INTERVIEWS WITH SENIOR LOAN OFFICERS

The quarterly Lending Survey is supplemented once a year by interviews with banks' lending managers, which were conducted this year in the summer of 2023 with the largest institutions in each sub-market. Banks reported on lending trends for the period covered by 2023 H1 and shared their market expectations.

Corporate lending

Bank managers responsible for corporate lending were unanimous in reporting that lending in the first half of the year was well above plan, almost entirely due to state-subsidised loans. Demand for the Baross Gábor Loan Programme and the Széchenyi Card schemes was very strong, with the former typically being used to replace existing financing and the latter for working capital financing by small businesses, in some cases with intentions to invest. According to banks, demand for market-based forint loans is extremely low, and foreign currency lending is concentrated in businesses with natural hedge. To secure the foreign currency exposure, customers started to price their domestic sales in euro, thus providing the necessary hedging. Firms are expected to complete investments started earlier, but with non-reimbursable subsidies and the uncertainty of the overall macro environment, new ones are unlikely to be launched. One bank noted that it was subsidised lending that has shaped the market over the past 10 years, but in a normalising interest rate environment for banking competition, it would be useful to have more market-based corporate lending, where the bank's liquidity and capital position is also a factor.

The banks surveyed do not plan to tighten corporate lending conditions across the board, but will strengthen their monitoring activities and examine customers more closely when assessing individual loans. Several banks have concluded that they are now focusing on portfolio quality, rather than increasing their market share. In some institutions, more and more SMEs are moving into intensive management, as a rising interest rate environment aimed at curbing inflation and rising costs and energy prices have made it difficult for companies to operate over the past year. Nevertheless, they do not yet see an increase in the use of deposits or overdraft facilities, nor are they seeing a change in guarantees.

According to interviewees, a rising number of businesses are interested in green financing. The banks' focus in this area is typically on financing renewable energy, energy-efficient real estate and electromobility. For the time being, only larger companies can afford green loans, where social responsibility is a priority; for smaller companies, only a more significant interest rate reduction would be a sufficient incentive.

Commercial real estate lending

According to lending experts, the office market is seeing a slow rise in vacancy rates, with more and more companies giving back rented office space as a result of working from home. However, banks do not expect a deterioration in portfolio quality, as they have only lent to premium customers and real properties, and they see that good offices are still in demand, but that location and overheads are becoming increasingly valuable in the office market. Only the financing of logistics centres continues to see stable demand for credit. Residential project financing is expected to see a significant decline, as demand for new housing has also fallen and the deadline for the application of the 5 per cent housing tax[6] is approaching. Respondents do not rule out the possibility that the low demand could lead to problems in the construction sector, which will also affect the subcontracting segment.

Household lending

The interviewed banks reported a significant drop in housing loan issuance in 2023 Q1, with a slight recovery in the second quarter. High house prices and lending interest rates, as well as rising inflation and costs of living, may be behind the downturn, so expectations of real wages also play an important role in customers' borrowing decisions. If customers expect falling house prices in the context of falling real incomes, experience shows that they postpone non-life-related housing purchases. There would still be demand for subsidised loans, but market housing loans would still

be needed to achieve homeownership goals even if the maximum amount is used. Banks expect the trend to improve in the second half of the year, if interest rates continue to decline as the macro environment improves.

The changes to the conditions of family support measures that will come into force from 1 January 2024[7] will also affect the demand for loans this year: banks expect deferred demand for the Rural HPS, while for the Urban HPS they expect demand brought forward. For prenatal baby support loans, women over 30 can bring forward their childbearing plans, while those under 30 should apply for the increased prenatal baby support loan next year. For the latter product, credit institutions expect a 30–50 per cent decline from next year, based on the distribution of loans disbursed so far. In addition, in many cases, the prenatal baby support loan is taken out alongside the mortgage loan, so the fall in mortgage lending is partly responsible for the fall in prenatal baby support loans. So far, there are no problems with the number of children taken on in any of the family support schemes, but banks see divorce as a major risk if one of the conditions for support is not met, as the interest subsidy received until then becomes due in one lump sum.

Banks confirmed that investment objectives were behind the surge in home equity loans.[8] However, these loans were offered by a narrow range of institutions, only to premium bank customers, and interest was short-lived. Several banks have deliberately tried to avoid servicing this demand for loans, as it is not good for the bank from an ALM point of view to prepay a 20-year loan in 3–4 years. In the personal loans market, some banks have tightened minimum income requirements, but all reported strong demand over the past six months. No decrease has been registered in the number of loan applications, but the average loan amounts have decreased, suggesting that customers with weaker creditworthiness are using these loans for their daily living expenses. Looking at customer account activity, they see more and more customers exhausting their income, and they also see an increase in credit card usage. A deterioration in payment behaviour was observed among debtors who exited the moratorium, especially for those customers who had more than one loan. They noted that the high interest rate environment actually leads to better portfolio quality by preventing customers from accumulating loans. Overall, banks have not seen any change in portfolio quality for any product type, but they have seen a deterioration in creditworthiness: incoming loan applications are increasingly not being disbursed because they are filtered out by the scoring system. As in the corporate segment, the priority in the retail segment is to maintain good portfolio quality, facilitated by tighter lending conditions and so-called forward flow agreements with debt management companies. Banks do not expect a significant deterioration in the portfolio quality of floating-rate loans under the interest rate freeze after the end of the freeze.

An increasing proportion of personal loans, up to 40 per cent in the case of some banks, are now realised online, a service that is still only available to existing customers at most institutions and not to new customers. Banks see the consumer credit market as currently uncompetitive in terms of interest rates, so it makes sense to serve customers in a way that is simpler, more convenient, faster and more transparent than competitors.

Sustainability objectives are present in most institutions, including at the banking group level. In this spirit, and seeing the popularity of the Green Home Programme, several banks have created their own green mortgage loans, offering an interest rate discount of 50 basis points for renovating an existing home or buying a new one. The institutions are also planning to introduce a green loan for the purchase of pre-owned housing, combined with renovation. The most popular loan targets for energy improvements include solar panels, insulation and heating system replacement.

[6] A 5 per cent VAT rate will apply to the sale of new homes, provided that the building permit becomes final by 31 December 2024.

[7] From 1 January 2024, women under the age of 30 will be eligible for prenatal baby support loans, while the maximum loan amount available will increase to HUF 11 million. For the HPS, only the Rural HPS will be available with increased subsidy amounts.

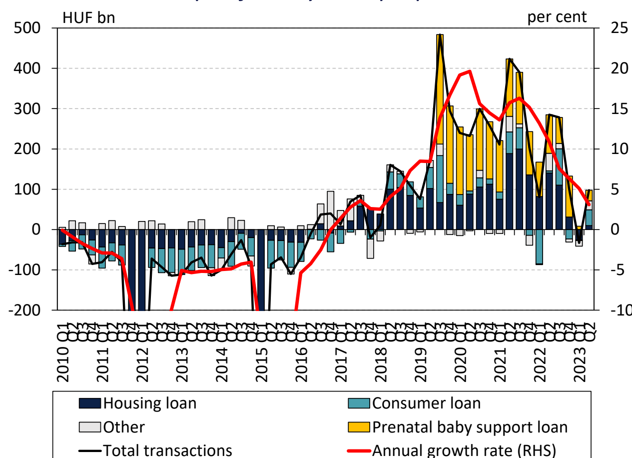
[8] This topic was discussed in more detail in Box 2.

2. DEVELOPMENTS IN LENDING IN THE HOUSEHOLD SEGMENT

The retail loan portfolio of the credit institutions sector expanded by HUF 98 billion in 2023 Q2 as a result of transactions. In line with the slowing trend internationally, the annual increase in the stock was 3 per cent, which is still in the middle of the EU average. The gradual decline in the growth rate is being driven by the uncertain economic outlook and a sharp fall in lending, reflecting high inflation and a high interest rate environment aimed at curbing it. During the quarter, consumer loans were the main contributor to the growth in the stock. Q2 household credit issuance fell by almost one half on an annual basis, with the largest decline of two thirds affecting housing loans. The volume of prenatal baby support loans, which had previously seen significant loan extensions, has also fallen substantially and the new regulation coming into force from 2024 could significantly reduce the prenatal baby support loan market. The average interest rate on market-based housing loans granted in the second quarter was 8.8 per cent, while the average interest rate on loans to customers with state interest subsidies was 7.7 per cent. The volume of subsidies contracted in the second quarter under the Home Purchase Subsidy Scheme for Families declined for the fourth quarter in a row, and the announced cutback next year will have a short-term stimulative effect on the volume of related subsidised housing loans.

Based on the responses to the Lending Survey, credit institutions did not change the terms of home and consumer loans overall in the second quarter, while they envisaged tightening the terms of home equity loans and car loans in the following half-year. During the quarter, responding institutions experienced a decline in demand for housing loans, while almost all banks experienced a pick-up in demand for consumer loans, but looking ahead to the second half of the year, more than half of banks expect demand for housing loans to pick up, while a small number of banks expect demand for consumer loans to pick up. According to the Bank Sentiment Survey, one quarter of the responding institutions would further increase their loan portfolio in both uncovered consumer and mortgage loans.

Chart 11: Quarterly transactions of the household loan portfolio by loan purpose

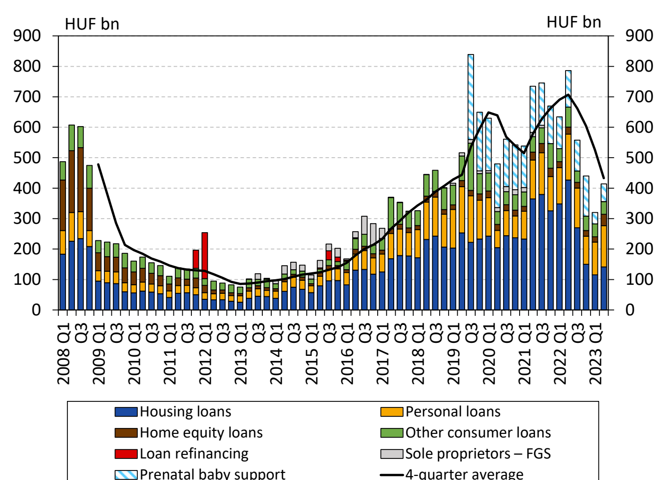


Note: Seasonally unadjusted net change in outstanding amounts, with rolling exchange rate adjustment. To obtain the growth rate, we also took into consideration the repayments received by Sberbank between March and August 2022. The transactions contain the effect of the foreign currency loan settlement in 2015. Source: MNB

2.1. Changes in loans outstanding and new contracts in the retail credit market

The retail loan portfolio grew at a subdued pace in 2023 Q2. During this period, the retail loan stock of the credit institutions sector increased by HUF 98 billion as the balance of disbursements and repayments, bringing the total household loan stock to nearly HUF 10,000 billion by June. The gradual deceleration in the annual growth rate since 2021 H2 continued in 2023, reaching 3.1 per cent in June, which already corresponded to a decline of 14 per cent in real terms (Chart 11). The gradual decline in the growth rate is being driven by the uncertain economic outlook and a high interest rate environment aimed at curbing inflation, coupled with a sharp fall in lending. Domestic credit dynamics are in the middle of the EU average and slightly below the growth observed in the regional countries. Prenatal baby support loans, which account for one fifth of the loan portfolio, supported the

Chart 12: New household loans in the credit institution sector



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

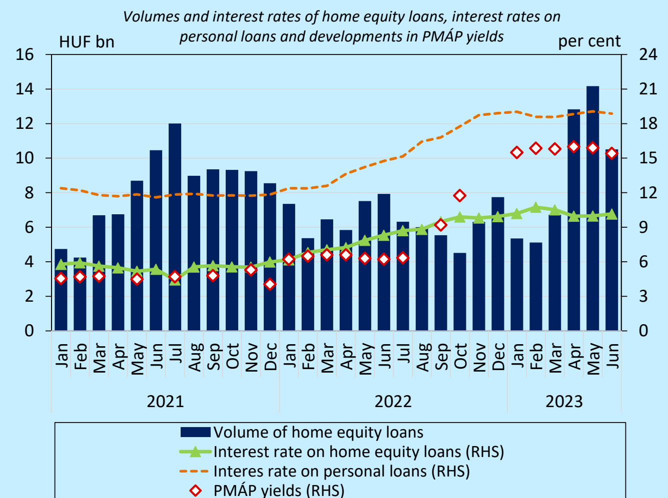
quarterly transaction growth with HUF 26 billion, while other consumer loans contributed HUF 39 billion.

In year-on-year terms, the volume of loan disbursements has halved. Credit institutions signed HUF 414 billion worth of loan contracts with households in 2023 Q2, down 47 per cent compared to the same quarter of 2022, but up 29 per cent from the very low volume in the first quarter (Chart 12). The largest annual decline (-67 per cent) was in the quarterly lending of housing loans, which fell by HUF 141 billion, to just one third of the volume of a year earlier. Demand for personal loans was strong during the quarter, with HUF 135 billion in new contracts signed as a result, but this was also down by 10 per cent in year-on-year terms. The quarterly volume of prenatal baby support loans, at HUF 58 billion, although significantly higher than the record low level of the first quarter, was down by around one half compared to the same period last year. The outstanding volume of home equity loans of HUF 38 billion exceeded 2022 Q2 by 63 per cent. Based on the composition of borrowers and the characteristics of the loans extended, the increase in secured consumer lending may have been driven mainly by investment motives (Box 2).

BOX 2: UPSWING IN HOME EQUITY LENDING IN 2023

Newly signed volumes of home equity loans reached a local peak in 2023 Q2, with a total of HUF 38 billion of the product disbursed between April and June 2023, compared to an average quarterly issuance of HUF 20 billion in previous years. Nevertheless, the weight of this product at the sector level remains negligible, with home equity loans accounting for only 9 per cent of the volume of retail loans issued in 2023 Q2.

Volumes and interest rates of home equity loans, interest rates on personal loans and developments in PMÁP yields

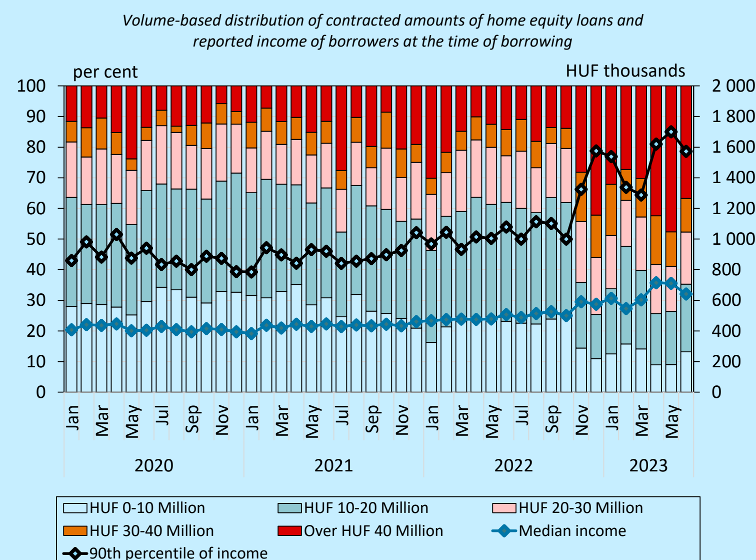


Note: For the PMÁP, the average yield of the series starting with the validity period in the given month. Source: MNB, Hungarian State Treasury

The rising issuance of this product may be partly due to the interest rate advantage observed over personal loans, which may be pushing households towards secured consumer loans rather than unsecured ones: while personal loans were offered by banks at an average interest rate of 19 per cent in June 2023, the average interest rate for home equity loans was around 10 per cent. On the other hand, in a high inflation environment, the relatively low interest rate of the product may also encourage retail arbitrage in government bonds: as mentioned in several press articles and confirmed by the bank interviews (see Box 1), the loan amount is partly invested by customers, i.e. used to finance, for example, the purchase of Premium Hungarian Government Bonds (PMÁP). Due to the discretionary nature of the product, we do not have administrative information on the purpose of the loan, so we can only examine other attributes of the loans and borrowers.

The median contract amount of newly originated home equity loans increased from HUF 9 million in previous years to HUF 13 million by 2023 Q2, while the median loan amount for the top ten per cent of contracts increased more significantly, from HUF 23 million to HUF 44 million. By comparison, the loan amount for the top ten per cent of newly concluded contracts for personal loans, as well as for discretionary personal loans, increased from HUF 4.4 million to HUF 4.9 million over the same period. However, in the absence of collateral, banks will only offer this product for a smaller maximum amount (typically HUF 12 million). In the case of housing loans, the largest loan deciles were also much lower, at HUF 23 million.

Volume-based distribution of contracted amounts of home equity loans and reported income of borrowers at the time of borrowing



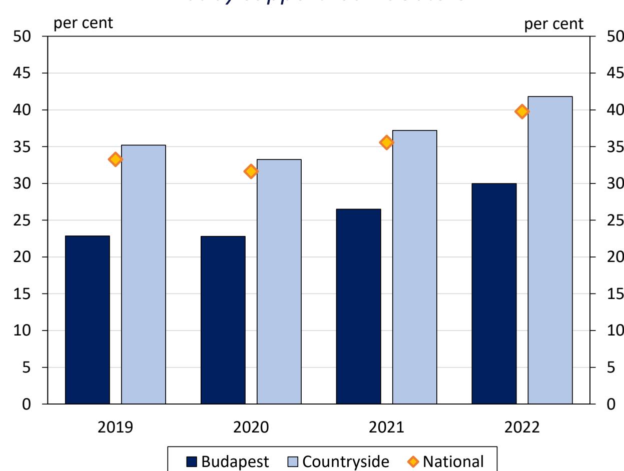
Note: For income, the total monthly certified net income of debtors and co-debtors is included. Source: MNB

The weight of large free-use loan amounts of HUF 40 million or more increased to more than 40 per cent of the volume of home equity loan contracts in the second quarter compared to 17 per cent in the previous years. The incomes of those taking out a home equity loan rose in line with the loan amounts, particularly for the most affluent: the top one-tenth of those taking out a home equity loan in June 2023 saw their incomes rise by 45 per cent compared with a year earlier. Compared to other products, it can be seen that while in the case of new home loan borrowers

the wealthiest top ten per cent of the new debtors had an income of around HUF 1.1 million[9] in the first six months of 2023, this figure was only around HUF 610,000 for personal loans. By contrast, the income of the most affluent was around HUF 1.5 million for home equity loans.

Overall, therefore, the surge in the issuance of home equity loans was driven by a significant increase in the amount of loans, typically requested by borrowers with particularly high incomes. This suggests that the product's boom may indeed have been driven by investment. The high income of debtors also significantly reduces the risk of these loans.

Chart 13: Proportion of women under 30 among prenatal baby support loan debtors



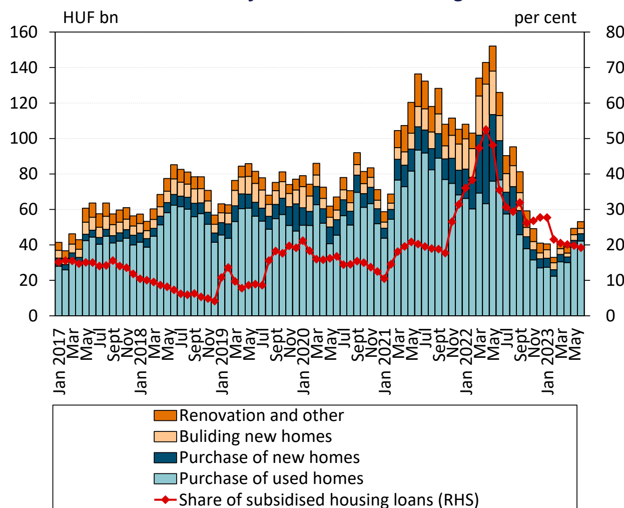
Note: The rate is expressed in terms of the number of prenatal baby support contracts concluded in the given year for the given type of municipality (Budapest/countryside/national). Source: MNB

The market for prenatal baby support loans may contract by 60 per cent as a result of the new regulation. Under the new regulation, which will enter into force from 1 January 2024, the maximum loan amount for prenatal baby support loans will increase from HUF 10 million to HUF 11 million, while the range of eligible borrowers will be significantly narrowed. Currently, the credit is available to couples where the female member of the couple is aged 18 or over but under 41. By contrast, from 2024, only married couples where the female member of the couple is under 30 will be able to take out the product. As a transitional rule, in 2024, women aged between 30 and 41 will still be able to apply for a prenatal baby support loan if they can prove they are pregnant. Narrowing the product to women under 30 may substantially reduce the number of borrowers. Based on individual loan contract data, nearly 60 per cent of the prenatal baby support loans taken out so far have women aged 30 or over at the time of taking out the loan, which can provide an order of magnitude estimate of how the market for this product may change in the future. The proportion of women under 30 years old with a prenatal baby support loan is significantly lower in the capital than in rural areas (Chart 13), so a larger decrease is likely in Budapest.

Within housing lending, the largest decline was in loans for the purchase and construction of new dwellings. In 2023 Q2, the volume of loan contracts for the purchase of pre-owned homes fell to one half the level of the same period of the previous year. On a year-on-year basis, loans for the purchase and construction of new dwellings fell significantly, dropping by 89 per cent and 87 per cent respectively (Chart 14). This is partly due to the high base from last year's FGS Green Home Programme boom, but the average price per square metre of new homes in Q2 of

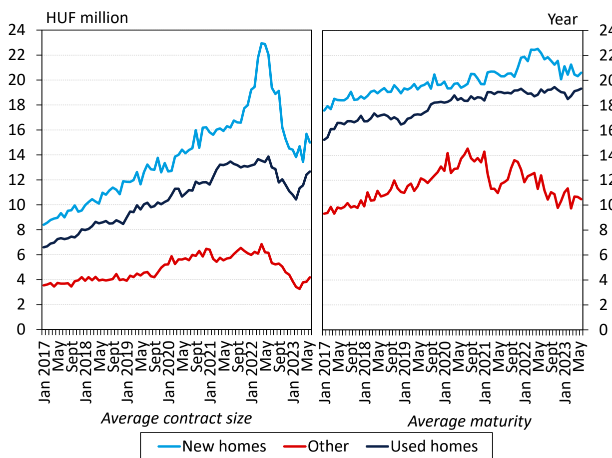
[9] Total monthly certified net income of debtors and co-debtors.

Chart 14: Disbursement of housing loans by loan purpose and share of subsidised housing loans



Source: MNB

Chart 15: Average contract amount and maturity of new housing loans



Note: Maturities are averages weighted by the contracted amount. Source: MNB

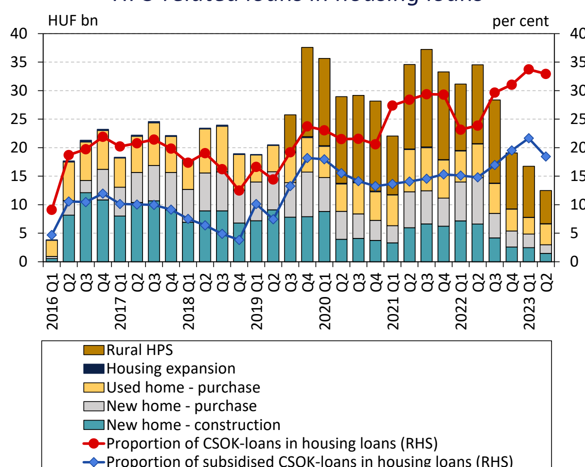
HUF 1.44 million, high construction costs and higher lending rates have all had the effect of deferring demand. The quarterly volume of loans requested for renovation and modernisation purposes decreased by 73 per cent compared to the same period of last year. This is explained by the phase-out of the home renovation subsidy and the related subsidised home renovation mortgage loan at the end of last year, which could not be offset by the market-based housing loans. As a result of the varying degrees of contraction between the different housing loan purposes, loans for the purchase of pre-owned homes account for 80 per cent of housing loan issuance, one of the highest shares in recent years. While the share of loans with preferential interest rates was 35 per cent last year, also thanks to the significant issuance of FGS GHP loans, by June 2023, with the end of the home renovation subsidy and the substantial decline in HPS subsidies, the share will fall to 19 per cent.

The average contract amount of housing loans increased in the second quarter. The 13,000 housing loan contracts signed in 2023 Q2 represent a 55-per cent year-on-year decline, but is 10 per cent above the very low level of the first quarter, partly due to seasonality. The increased interest rate environment affected not only demand, but also average loan amounts and, at the same time, average maturities:[10] at the end of the second quarter, the average amount requested for the construction and purchase of a new home was HUF 15 million, HUF 7 million less than a year earlier, in the period following the GHP boom (Chart 15), while the average maturity remained high at 21 years. The average loan amount for the purchase of a pre-owned home increased by HUF 260,000 in one quarter, reaching HUF 12.7 million in June, with an average term of 19 years.

The volume of HPS subsidies contracted for the fourth quarter in a row. In 2023 Q2, banks signed contracts for HUF 12 billion in subsidies under the Home Purchase Subsidy Scheme for Families, down 64 per cent on the same period of last year and marking a new low since the launch of the scheme. The largest annual drop of 80 per cent was registered in subsidies for the construction or purchase of new housing, while 38 per

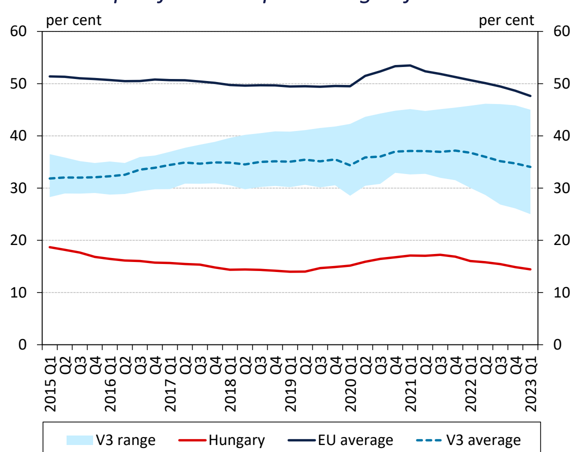
[10] For both loan amount and maturity, averages are per contract and not per debtor.

Chart 16: Volume of HPS subsidies by purpose and share of HPS-related loans in housing loans



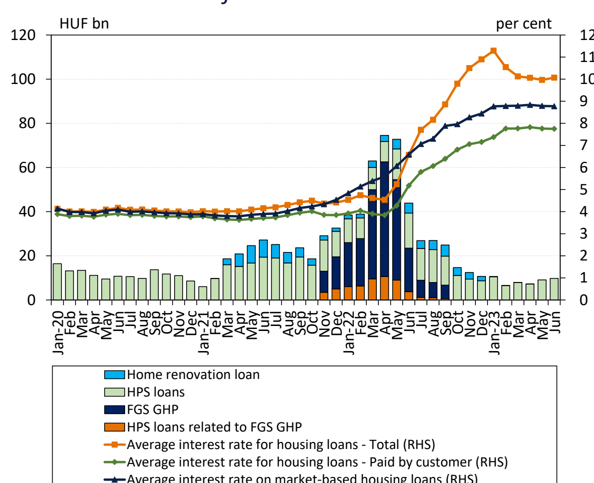
Note: Rural HPS can be used for the purchase, modernisation and expansion of homes. Source: MNB, Ministry of Finance

Chart 17: Development of the household sector's loan portfolio as a percentage of GDP



Source: ECB, HCSO, MNB

Chart 18: Transaction and customer interest rates on newly disbursed housing loans and the volume of housing loans with referential interest rate



Note: Average interest rate weighed by contractual amount. Transaction and customer interest rates include all types of housing loans. Source: MNB

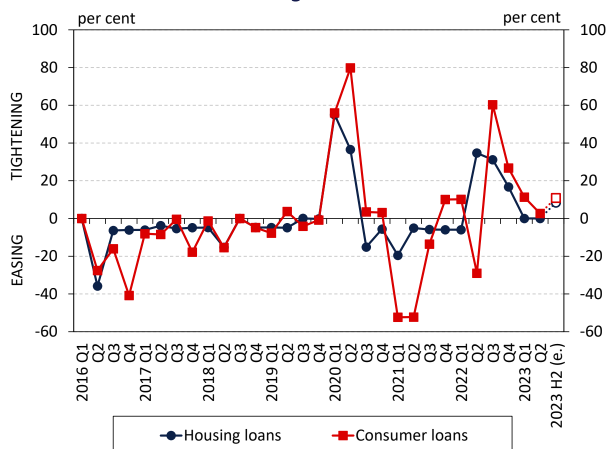
cent fewer subsidies were signed for the purchase of pre-owned homes than one year earlier (Chart 16). The Q2 volume of rural HPS, in the amount of HUF 6 billion, represents a 58-per cent year-on-year decline. One third of the housing loans disbursed during the quarter were taken out alongside HPS subsidies, 44 per cent of which were market loans. Interest-subsidised HPS loans applied for in cities accounted for one fifth of housing loans, which will no longer be available under the new rules that will come into force from 1 January 2024.

The domestic household stock of loans as a share of GDP is the third lowest in the EU. Hungarian household credit growth has been subdued over the past year, reflecting the changed economic environment, while the economy has grown at a higher rate in nominal terms. The domestic household credit-to-GDP ratio fell by 1.6 percentage points over a year, to 14.4 per cent at the end of 2023 Q1 (Chart 17). This makes Hungary the third-lowest performer among EU countries after Romania and Latvia, and thus overall there is still room for healthy growth in domestic credit penetration. The average retail credit-to-GDP ratio in the V3 countries was 34 per cent in the first quarter, while the EU average was 48 per cent.

2.2. Changes in price and non-price conditions in the retail credit market

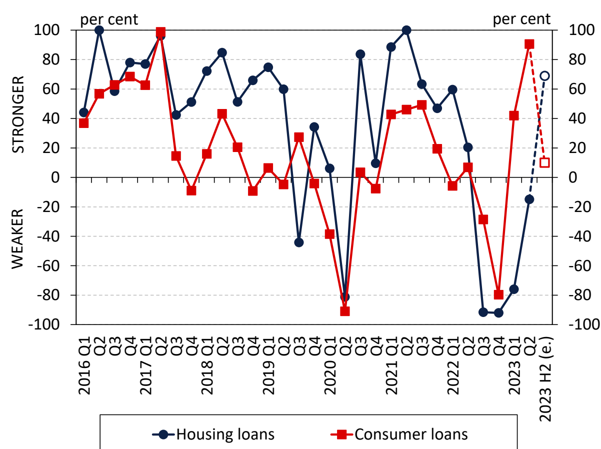
Housing loan interest rates have stagnated since the beginning of the year. The average transaction interest rate on housing loans fell to 10.1 per cent by the end of the second quarter, from a January peak of 11.3 per cent in early 2023, but this was entirely due to subsidised schemes. In the case of subsidised housing loans, the interest rate subsidy is linked to the ÁKK yields, which decreased at the beginning of the year, but customers continue to pay the statutory interest rate of 3 per cent on subsidised loans. The average interest rate on new market-based housing loans has stood at 8.8 per cent since January, 2.2 percentage points higher than in June of last year (Chart 18). With the phase-out of the FGS GHP and the home renovation subsidy, the interest subsidised loan linked to the HPS remains the only major subsidised loan. Thus, with the role of subsidised loans declining, the average interest rate actually paid by customers

Chart 19: 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 20: Credit demand in the household lending segment



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

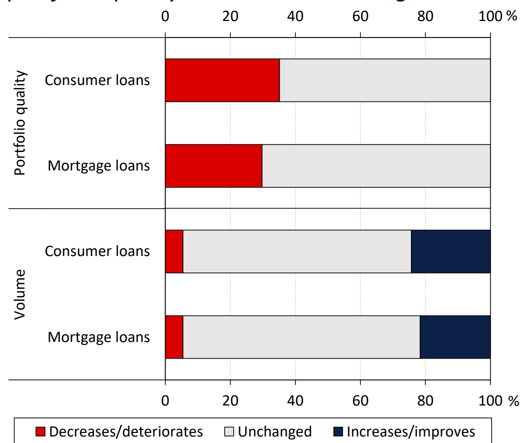
amounted to 7.7 per cent in June, after an annual increase of 2.6 percentage points.

Banks did not change their retail lending conditions in the second quarter. Based on the responses to the Lending Survey, 2023 Q2the institutions surveyed left the terms and conditions of home loans unchanged overall in 2023 Q2, but 41 per cent of banks indicated a tightening of minimum creditworthiness levels and interest rate spreads in net terms, with regard to sub-conditions. Overall, banks do not intend to change their mortgage loan defaults over the next six months (Chart 19). For consumer loans, access to credit remained unchanged compared to the first quarter, but in the case of home equity loans, a net 13 per cent of banks tightened the minimum creditworthiness levels required. Looking ahead to 2023 H2, a net 11 per cent of banks envisaged tightening consumer credit due to banks' changing risk tolerance, including 14 per cent for car finance and 20 per cent, in net terms, for secured consumer credit, mainly in terms of income-based repayments. In the euro area, 15 per cent of banks in the euro area tightened their terms on home loans during the quarter, with an even higher proportion in the region reporting tighter terms.

During the quarter, responding institutions saw a decline in demand for housing loans and a pick-up in demand for consumer loans. In 2023 Q2, a net 15 per cent of institutions participating in the Lending Survey perceived a slowdown in demand for housing loans, which was also affected by the uncertain economic outlook, as well as by higher inflation and a high interest rate environment aimed at curbing it down (Chart 20). However, looking ahead to 2023 H2, a net 69 per cent of respondents expect recovery in demand for housing loans. Almost all of the institutions surveyed reported stronger demand for consumer credit, while only a net 10 per cent expect demand for this market to pick up further in the next six months.

One quarter of banks plan to increase their retail lending in 2023 H2. Based on the Bank Sentiment Survey, as in the survey conducted six months earlier, one quarter of the responding institutions plan to increase their portfolio of unsecured consumer loans, while a slightly smaller proportion of 22 per cent set the goal of expanding their portfolio of mortgage loans. In both segments, only 5 per cent of credit institutions

Chart 21: Banks' expectations for loan volume and portfolio quality in the household segment



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

indicated that they would reduce their portfolio (Chart 21). A deterioration in portfolio quality is expected by 30 per cent of banks for secured loans and by 35 per cent for consumer loans, which is also in line with expectations six months ago. At the same time, the extension of the interest rate freeze until the end of 2023 and a stable labour market will help to maintain the creditworthiness of retail customers.

3. ANNEX: METHODOLOGICAL NOTES TO THE PRESS RELEASE ON INTEREST RATE STATISTICS

The basis of the analysis is provided by statistical figures and the results of the Lending Survey.

1. *Credit aggregates and credit interest data*

It is the statutory duty of the Magyar Nemzeti Bank to publish statistical data on the operation of the credit institution system and the financial standing of the country. The methodological notes on the compilation of statistics, the press releases and statistics presenting the key figures are available on MNB's website. Link to the website: https://statisztika.mnb.hu/en

2. *Lending survey*

The Lending Survey facilitates an analysis of how major banks perceive and evaluate market developments and how they develop their respective strategies, in particular their lending policies. Questions on housing loans were answered by 7 banks and by 9 banks on consumer lending. Based on data pertaining to 2023 Q2, with respect to housing loans, the surveyed institutions accounted for 87 per cent of the banking sector, while their percentage share in consumer loans was 96 per cent. A total of 11 banks completed the corporate questionnaire, representing 94 per cent of the corporate lending market, while the market share of the 12 banks that responded to the commercial real estate lending questionnaire was 97 per cent.

The survey consists of a standard questionnaire for each segment. The backward-looking questions refer to the second quarter of 2023 (compared to the first quarter of 2023), the forward-looking questions refer to the next half-year period, i.e. the period covering the second half of 2023 (compared to the second quarter of 2023). This questionnaire was completed by senior loan officers between 1 and 18 July 2023.

To indicate changes, the survey used 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 market share-weighted ratio of respondents projecting a change in the opposite direction (easing / decreasing / weakening).

The detailed result of the Lending Survey and the chart set is available at the following link: https://www.mnb.hu/en/financial-stability/publications/lending-survey.

TRENDS IN LENDING

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