



Hungary recorded massive revival in corporate lending

According to the latest lending trend survey of the National Bank of Hungary (MNB) conducted in August 2015, demand for loans among Hungarian small- and medium-sized enterprises has increased. Although the propensity to take out loans has improved, corporate lending growth has remained lower than the level which the MNB considers essential for sustainable economic growth.

MNB data show that the volume of new loan contracts at credit institutions was up by HUF 638bn in the second quarter of 2015. Within that, the volume of Euro-denominated loans was some HUF 235bn. **In Q2 2015, the gross volume of corporate loans issued by credit institutions was HUF 141bn higher than in the corresponding period of the previous year.**

Banks which provided data for the MNB's survey account for 85-95 percent of Hungary's credit market, depending on sectors. The responses of credit institutions also shed light on qualitative information which would have been left undisclosed by statistical reports. The feedback revealed loan demand and offer data as well as their determinants.

In light of the latest survey it can be concluded that some 17 percent of bank have eased lending conditions. This has been the consequence of increasing competition for gaining market share as well as of the improvement of the economic outlook. As far as future intentions are concerned, some 22 percent of banks stated that they are to ease lending and collateral conditions in the next six months.

Among SMEs, the volume of lending was up by 1.8 percent, thanks partly to the MNB's Funding for Growth Scheme (FGS), under which the already well-known, favourable financing facilities are still available. The latest data confirm the success of the programme: in Q2 2015, the volume of new contracts concluded within the framework of the FGS soared by 15.6 percent year-on-year.

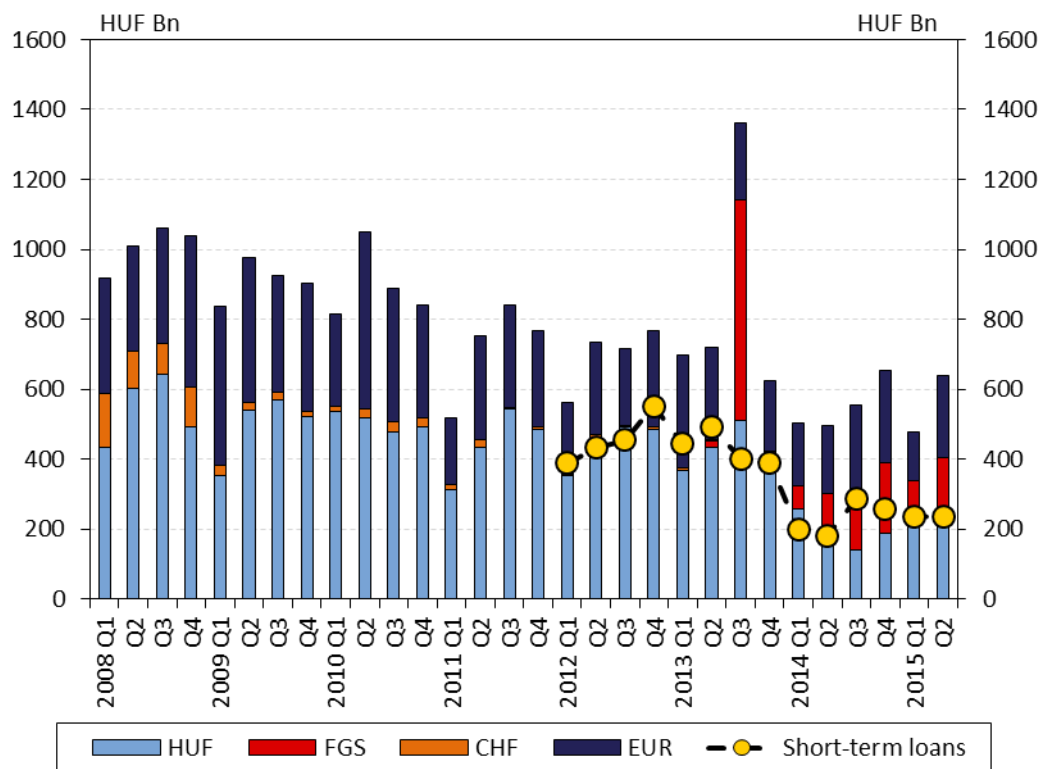
Figure 1 below shows that the share of the FGS within corporate lending has increased to about one-third of total since it was launched. In Q2 2015, the volume of forint-denominated lending was HUF 403bn, of which HUF 152bn – or 38 percent of total outstanding loans -- was borrowed under the FGS. This fact demonstrates that although the FGS has been instrumental in



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boosting corporate lending, other market loan facilities still constitute two-thirds of resources. Within new contracts, the FGS accounted for 24 percent of total volume in the second quarter. Thus, in the second phase of the programme HUF 841bn has been utilized out of the total available amount of HUF 1000bn. 23 thousand micro, small- and medium-sized enterprises have hitherto participated in the scheme and they have obtained loans of HUF 1487bn over the past two years.

New corporate lending in the overall credit institution sector



Source: National Bank of Hungary (MNB)

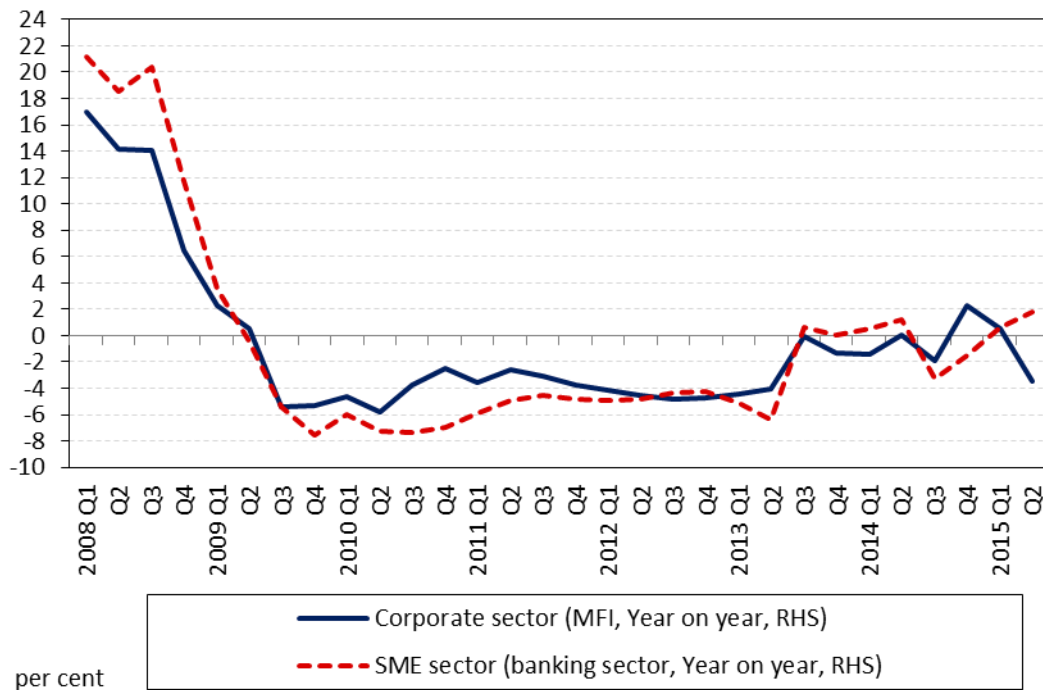
The transaction-based annual growth rate of outstanding borrowing by non-financial corporations declined to -3.4 per cent. It has been attributable to a few large-volume corporate transactions in the second quarter, including transactions aimed to replace bank financing with direct financing provided by the parent company. Corporations could more easily access foreign resources or opted for financing by their parent company. And that – although it reduced the stock of loans at Hungarian credit institutions – did not result in lower borrowing volumes in



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case of enterprises operating in Hungary. Figure 2 shows the change in the volume of corporate sector loans by large enterprises and SMEs.

Annual growth rate of the outstanding borrowings of the corporate and SME sector



Source: National Bank of Hungary (MNB)

The chart clearly indicates that following the crisis the volume of SME sector loans first increased in the third quarter of 2013. In this quarter, the value of lending totalled HUF 629.5bn, which exceeds the entire volume of FGS loans disbursed during the course of last year. **In the post-2008 period, the largest SME lending growth figure was recorded in the second quarter of this year (up by 1.8 percent year-on-year), while the entire corporate sector saw the highest increase (2.28 percent) in the last quarter of 2014.**

In light of MNB data, current lending growth rates are still behind the 6-7 percent or even 10 percent level required for the sustainable growth of the corporate sector in general and the SME sector in particular. The MNB has already signalled that the FGS is scheduled to be phased out as of the beginning of next year, whereas this step had formerly been prognosticated to be taken at the end of the year. However, depending on the lending propensity of banks, the favourable interest rate environment enables enterprises to access market financing even without the FGS.

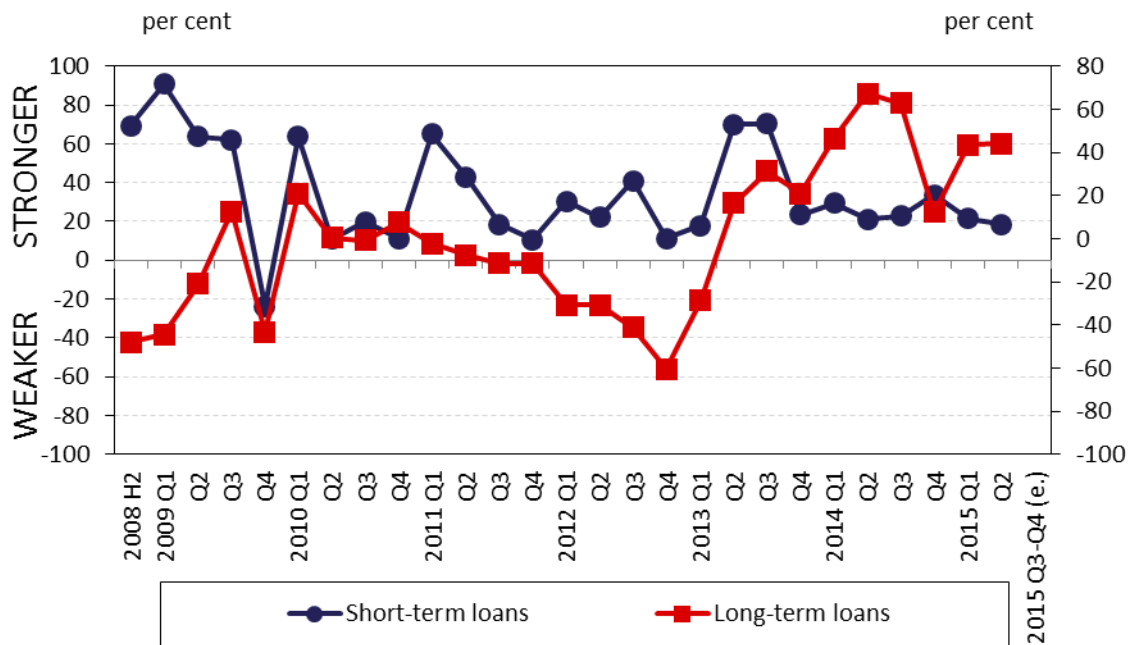


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Looking ahead, data are promising as in the survey 44 percent and 18 percent of banks reported higher demand for long-term and short-term loans, respectively. In case of short-term loans, demand perceived by banks falls short of the level of the past couple of quarters which is attributable to the imminent phasing out of the FGS. However, the 44 percent increase in the demand for long-term loans exceeds the 38.3 percent average rate of the past two years.

Concerning the outlook until the end of the year, 45 percent of banks expect further demand growth for long-term loans, while only 13 percent of respondents predict higher demand for short-term loans in the next two quarters.

Change in loan demand by maturity



Source: National Bank of Hungary (MNB)