



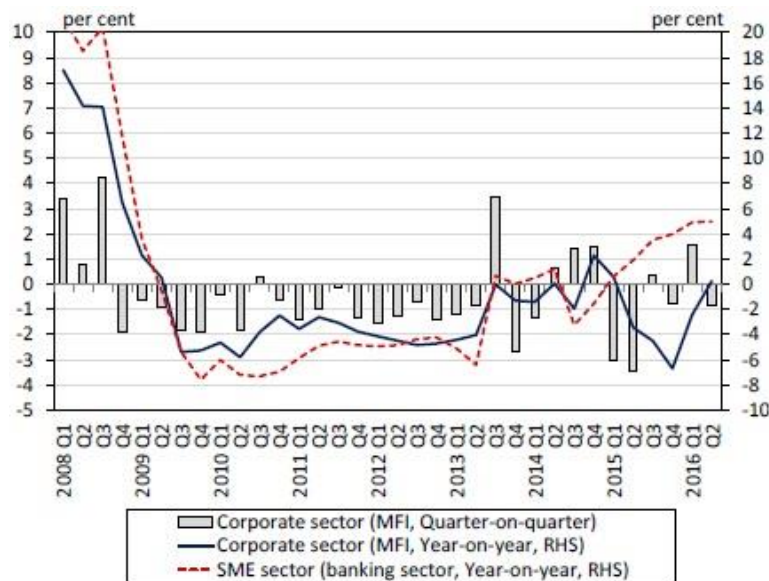
Growth trend reversal observed in lending

According to the August edition of *Trends in Lending* by the National Bank of Hungary (MNB), the volume of corporate lending grew by 5 percent over the past one year, and by the end of the second quarter of 2016 loan disbursements exceeded repayments in the retail segment. In light of the survey conducted by the MNB, which also acts as the supervisory body of the bank sector, in the past quarter lending conditions were typically eased and this has resulted in loan demand growth.

Within the corporate lending segment, the largest loan volume growth was observed among SMEs: the stock of loans rose by 5 percent year-on-year. The volume of retail loans was also higher, especially with regard to housing loans and personal loans. In the month of June, disbursements already exceeded repayments.

Corporate lending

Fig 1: Growth rate of loans outstanding of the whole corporate sector and the SME sector



Source: National Bank of Hungary (MNB)

The second and third phases of the MNB’s Lending for Growth Scheme (NHP) have substantially contributed to the 5 percent year-on-year increase of disbursements to SMEs in the second quarter of 2016. In the third phase of the programme, new contracts added HUF 54bn to transaction growth in the previous quarter, while the carry-over to 2016 of

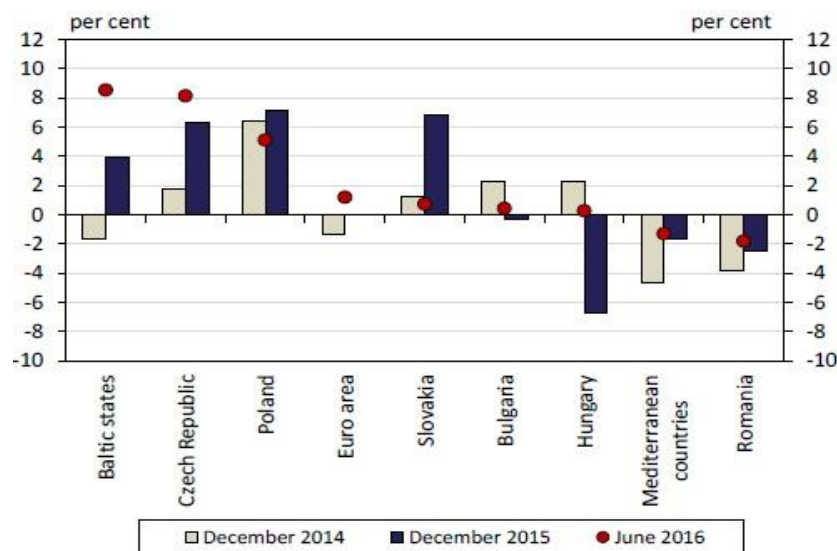


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disbursements contracted in the second phase also contributed to the rising growth rate of the loan portfolio. Formerly, the MNB identified as “sound” for SME loan growth a band of 5-10 percent. The current data show that the lower threshold of the range has been reached, which signals a favourable development between the SME and bank sector relations. **The trend of corporate lending growth has turned positive for the first time since Q4 2014 – in terms of annualized data – at the end of the second quarter of 2016, with an increase of 0.3 percent.** A low base has been the main factor behind this improvement. The annual change in the loan portfolio, however, also includes the effect of the portfolio separation implemented within the framework of the resolution of MKB Bank. Adjusting the statistical effect of the portfolio separation, the growth of corporate lending growth would be 1.9 percent year-on-year.

Despite the year-on-year increase, in the second quarter credit institutions' outstanding loans to enterprises decreased by about HUF 51bn as a result of transactions. Forint loans increased by HUF 19bn, while foreign currency loans declined by a total of HUF 70bn in the period under review.

Fig 2: Annual transactions-based growth rate of corporate loans in an international comparison



Source: European Central Bank (ECB), National Bank of Hungary (MNB)

In the Euro-zone, outstanding corporate loans increased by 1.2 per cent on average over the last four quarters, still driven by the increase in core countries, while the periphery has been characterised by declines in corporate lending. Outstanding loans to nonfinancial corporations



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increased in the Visegrád countries and in the Baltic States in an annual comparison, while it decreased in Slovenia, Romania and Croatia. Compared to the previous quarter, lending dynamics slowed down the most in Slovakia and Romania, but a decrease was also registered in the Czech Republic and Poland. Compared to previous quarter, lending dynamics slackened most significantly in Slovakia and Romania, but it was also weaker in Poland.

According to the MNB survey, respondent financial institutions reported that in net terms¹ 18 percent of them have eased lending conditions, due to fiercer competition, a better economic outlook and the MNB's Market-based Lending Scheme. Loan conditions eased mainly in terms of pricing, but conditions on commercial real estate loans were also improved. In this case, respondents mentioned the mitigation in industry-specific problems and – in parallel with portfolio cleanings – the improvement in banks' risk tolerance among contributing factors. 26 percent of banks perceived a general pick-up in demand for long-term loans, and they are also expecting the prevalence of demand for these products in the future (64 percent of respondents). Banks do not anticipate growth in the market of short-term loans. 79 percent of respondent banks predict a significant increase of demand for the financing of housing and office building projects in the second half of the year.

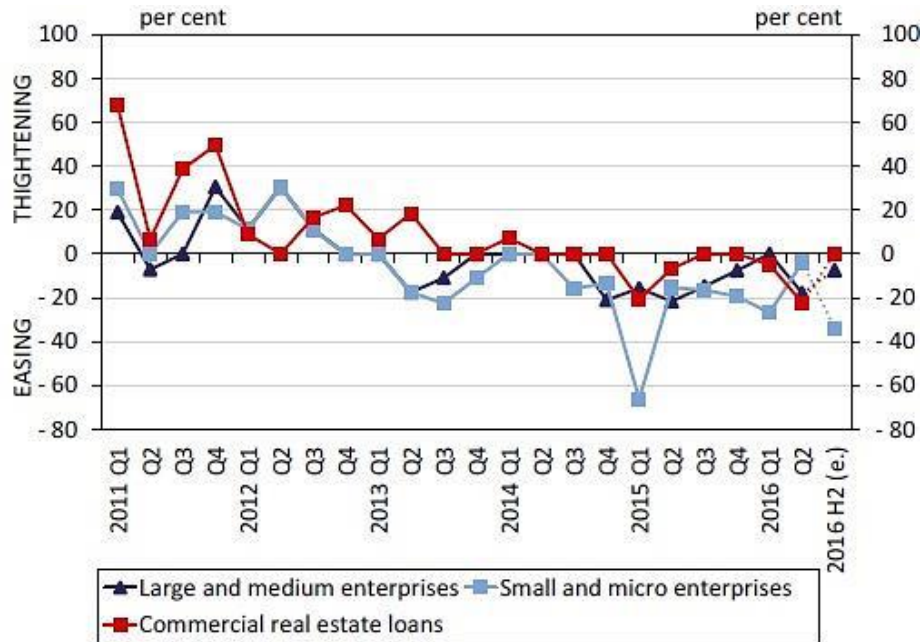
In the Euro-zone, as a whole, corporate lending conditions have eased², which trend was the consequence – with the exception of the general tightening trend in Greece – of the overall easing or unchanged status of Business Terms and Conditions. Among the Visegrad Four, the same trend was observed, except for Slovakia.

¹ Difference of tightening and easing banks weighted for their market share

² Respondent banks – about half of which returned the survey prior to Britain's memorandum on Brexit -- have not predicted or perceived a Brexit-related lending shock in lending conditions.



Fig 3: Change in credit conditions in the corporate sub-segments



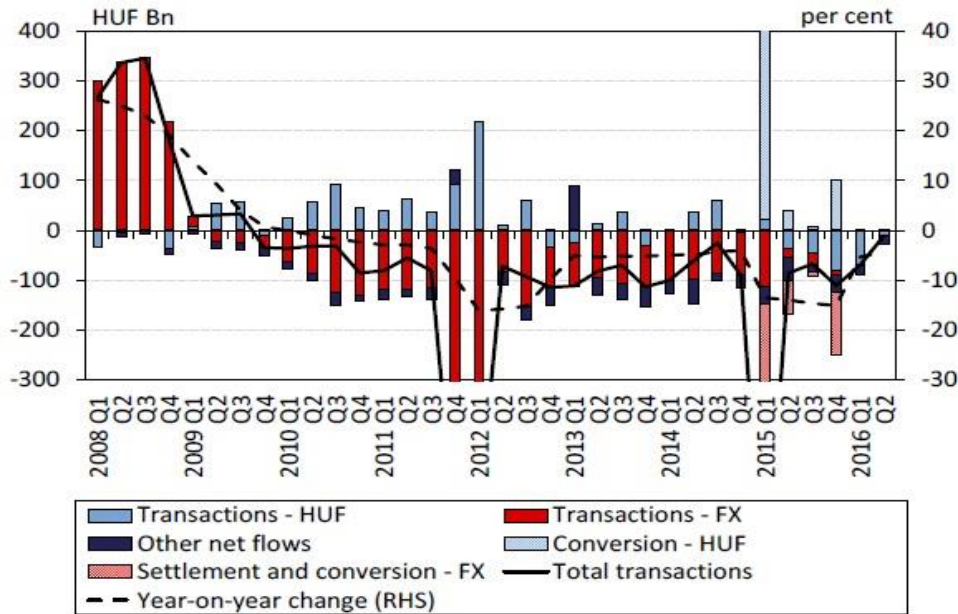
Source: National Bank of Hungary (MNB)

Retail lending

In Q2 2016, the portfolio of household loans of the credit institution sector decreased by a total of HUF 11bn as a result of disbursements and repayments. Thus, by the end of June, the overall loan portfolio decreased by 4.2 percent year-on-year. However, **in this period, disbursements already exceeded repayments.**



Fig 4: Net quarterly change in the outstanding household loan portfolio by currency



Source: National Bank of Hungary (MNB)

In the case of HUF loans and FX loans, repayments exceeded disbursements by HUF 9bn and HUF 2bn, respectively. The volume of new contracts totalled HUF 258bn in the observed period. The value of new loan disbursements exceeded the same period of the previous year by 62 percent, and the fourth-quarter rolling volume increased by 38 percent year-on-year. **The largest increases were registered in the case of housing loans and personal loans annual growth rate was 46 percent and 47 percent year-on-year, respectively.** Home equity loans increased by 31 percent.

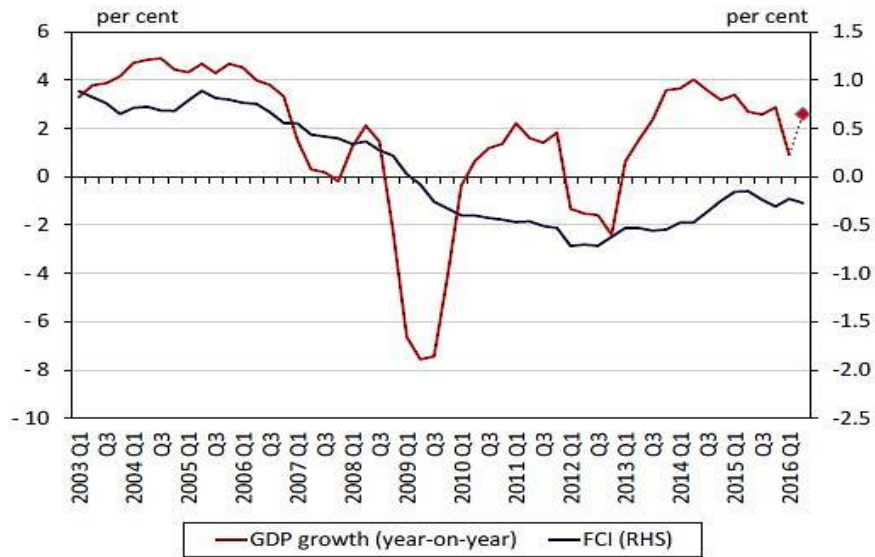
Financial Conditions Index

According to the Financial Conditions Index, which summarizes corporate and retail lending trends, the lending activity of banks has had a slightly negative impact on Hungary's annual real economic growth, but **provided the positive U-turn in lending persists, this tendency may soon turn positive.**



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Fig 5: Financial Conditions Index (FCI) and annual real GDP growth rate



Source: National Bank of Hungary (MNB)