MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES OF THE

MONETARY COUNCIL MEETING

OF 20 NOVEMBER 2018

November

2018

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The background material 'Macroeconomic and financial market developments' is based on information available until 14 November 2018.

Article 3 (1) of the MNB Act (Act CXXXIX of 2013 on the Magyar Nemzeti Bank) defines achieving and maintaining price stability as the primary objective of the Magyar Nemzeti Bank. The MNB's supreme decision-making body is the Monetary Council. The Council convenes as required by circumstances, but at least twice a month, according to a pre-announced schedule. At the second scheduled meeting each month, members consider issues relevant to decisions on interest rates. Abridged minutes of the Council's rate-setting meetings are released regularly, before the next policy meeting takes place. As a summary of the analyses prepared by staff for the Monetary Council, the background material presents economic and financial market developments, as well as new information which has become available since the previous meeting.

The abridged minutes and the background materials to the minutes are available on the MNB's website at:
http://www.mnb.hu/en/monetary-policy/the-monetary-council/minutes

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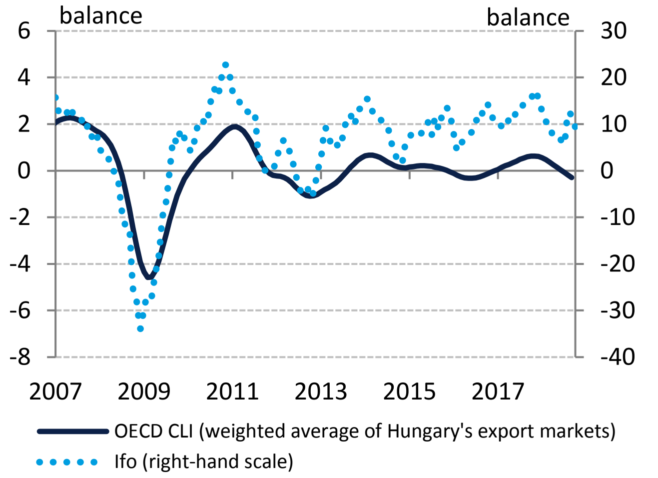
1. Macroeconomic developments

1.1. Global macroeconomic environment

In the third quarter of 2018, the GDP growth of the United States continued more briskly, while the economic growth rate in the euro area decelerated. According to the latest international forecasts, on the whole, the growth prospects of the euro area deteriorated in the past months.

Chart 1: Business climate indices in Hungary's export markets



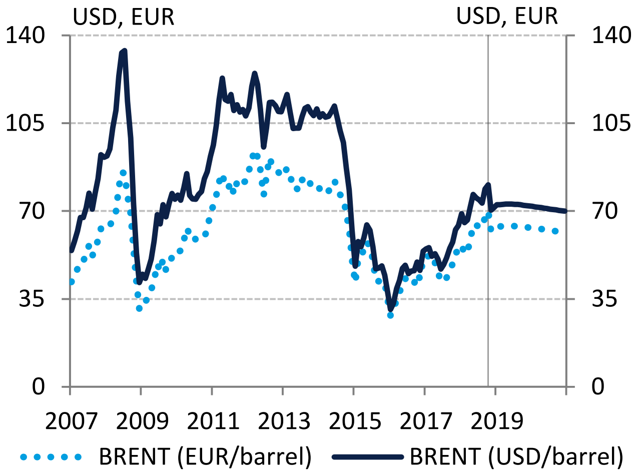
Source: OECD, Ifo

Growth in the global economy, and particularly in the euro area, continued in the third quarter of 2018. The US economy rose at the fastest rate observed since 2015, by 3.0 percent in annual terms, supported primarily by household consumption and the increase in corporate investments. In addition to the growth in domestic demand factors, the increase in imports outstripped that in exports, and thus the contribution of net exports to growth was negative. Growth prospects of the US economy are favourable on the whole, contributed by the tax cuts and the economic stimulus effects of the infrastructural investment programme. However, the deepening of the external trade tensions carries downside risk.

Economic growth in the euro area continued in the third quarter at a slower rate than observed in the previous quarters. **The growth calculated on year-on-year and quarter-on-quarter basis was 1.7 and 0.2 percent, respectively.** The GDP growth of Germany, Hungary's key trading partner, materially decelerated in the third quarter. The 1.2 percent year-on-year growth was supported primarily by investments, while – in line with the poor industrial production – German exports declined and household consumption was also more moderate. **Expectations with regard to the German economy's performance for this year and next year deteriorated** in the past period, which is attributable – in addition to the declining industrial production – to the more moderate than expected export performance. The Ifo index, capturing the outlooks of the German economy, declined again after the adjustment observed in August (Chart 1).

As in the previous quarters, the Central and Eastern European region proved to be the growth centre of the European Union in the third quarter of 2018 as well. According to the seasonally adjusted data, the Polish economy rose by 5.7 percent. In the third quarter, year-on-year GDP growth amounted to 4.5 percent in Slovakia and to 2.3 percent in the Czech Republic. The economic performance of Romania continued to decelerate from last year's high base, and thus the GDP rose by 4.1 percent in annual terms. Growth in the countries of the region was still supported by the dynamically increasing domestic demand.

Chart 2: World market prices of Brent crude oil



Source: Bloomberg

However, in the past months the growth in retail sales volume and industrial production continued at a more moderate rate in the region.

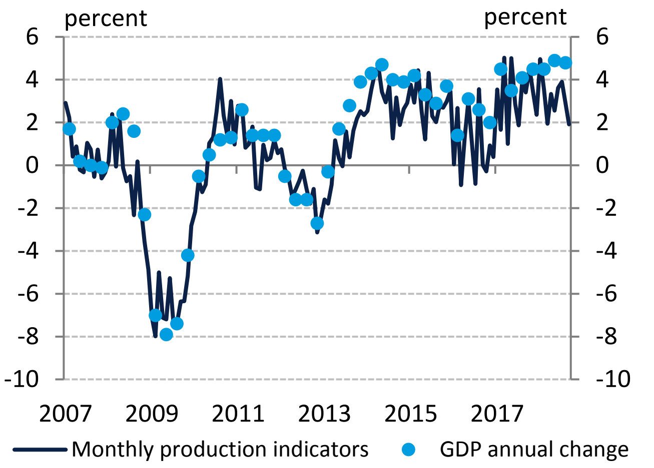
The medium-term growth prospects of the euro area are mostly surrounded by negative risks. The already introduced and the anticipated **import duties may curb global economic growth.** The primary channel appears through the direct and indirect external trade relations, but it also influences the direction of FDI flow and the rise in external trade duties may exert negative impact on the investment decisions as well. The issues related to the sustainability of Italy's government debt and the exit of the United Kingdom from the EU – and the uncertainty arising from the exit negotiations – also carry negative risks for the European Union's medium-term growth. Further identifiable downside risks are the slowdown of the Chinese economy and the increase in money market turbulences.

Euro area inflation slightly rose in October, primarily as a result of the growth in energy prices. However, core inflation – with its October value of 1.1 percent – still substantially lags behind the target. The world market price of crude oil rose close to USD 90 by mid-October, followed by a decline in November below USD 70 (Chart 2). The volatility of oil prices was caused primarily by the news about the sanctions against Iran and the uncertainty related to supply resulting from that, while the downward drift in prices was attributable to the easing of sanctions, the news related to the trade policy and the rise in US supply. World market prices of industrial commodities increased, while unprocessed food prices remained essentially unchanged in October.

1.2. Domestic real economy developments

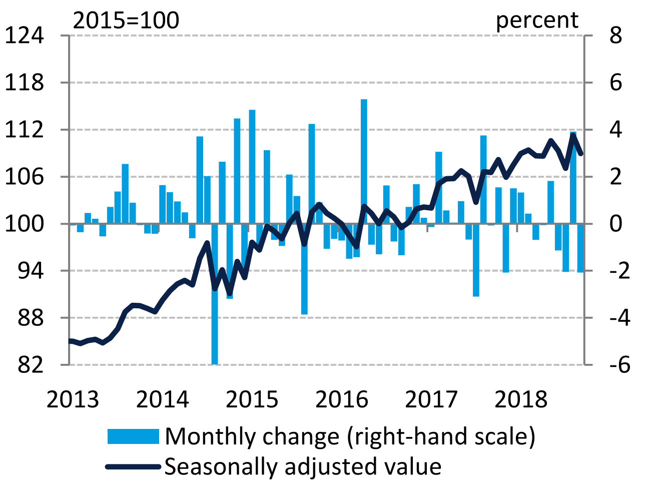
According to the HCSO's preliminary data, in the third quarter of 2018 Hungary's gross domestic product rose by 4.8 percent year on year. Most of the national economy branches contributed to the growth, with market services contributing to the largest degree. In the third quarter of 2018, the level of employment remained unchanged, while unemployment rate rose to 3.8 percent.

Chart 3: Monthly production indicators and GDP growth



Note: Weighted average of monthly production indicators (industrial output, construction output and retail sales). The weights are derived from regression explaining GDP growth.
Source: MNB calculation based on HCSO data

Chart 4: Development in industrial production



Source: MNB calculation based on HCSO data

1.2.1 Economic growth

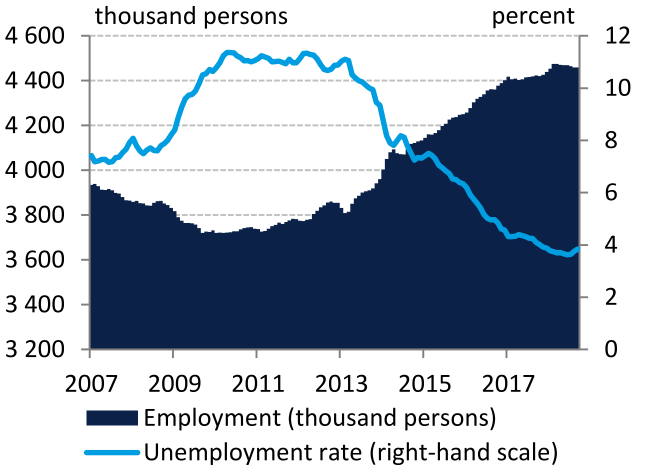
According to HCSO's preliminary data release, in the third quarter of 2018, Hungary's gross domestic product rose by 4.8 percent year on year. Based on the seasonally and working-day adjusted data, Hungary's GDP rose by 1.2 percent quarter on quarter. Most of the national economy branches contributed to the growth, with market services contributing to the largest degree (Chart 3). Construction output rose in the past months; in addition, retail sales volume also increased in September.

In September 2018, **industrial output was down by 0.6 percent** year on year, while production **decreased by 2 percent compared to the previous month** (Chart 4). At the same time, the working-day adjusted index exceeded the level of previous September by 2.2 percent. The output of the subsectors showed a mixed picture; **the output of vehicle manufacturing – representing a considerable weight – materially declined,** the manufacture of electronic products slightly decreased, while chemical industry output materially rose. German industrial production was moderate in the past months, and in September the new orders of the German industry – already for the fourth month – declined again year on year, and thus on the whole the short-term outlooks of the domestic industry deteriorated.

Expressed in euro terms, the value of exports – in parallel with the moderate performance of the industry – was down by 2.3 percent, while imports was up by 6.3 percent, year on year in September 2018, and thus trade surplus decreased by EUR 699 million. In August 2018, the terms of trade have deteriorated by 1.9 percent year on year, primarily caused by the rise in the relative price of mineral fuels and processed goods. In a historical comparison, export and import prices substantially rose in September, contributed by a wide range of products.

In September 2018, the volume of construction output was up by 25.8 percent year on year, while output decreased by 0.2 percent compared to the previous month. Output increased both in the case of buildings and other structures. In the case of the construction of buildings, the growth in production was attributable to educational, industrial, commercial and residential buildings. Owing to the government investments, primarily to infrastructure developments (road, railway, public utility), construction of

Chart 5: Number of persons employed and the unemployment rate



Source: HCSO

other buildings continued to rise. The volume of new contracts decreased year on year; within that the volume of contracts for buildings slightly declined, while those for other structures considerably fell compared to the value registered in the previous year. The month-end volume of the construction companies' contract portfolio still substantially exceeds the level of last year, which primarily reflects the housing market contracts committed until 2019 and the already committed EU funds.

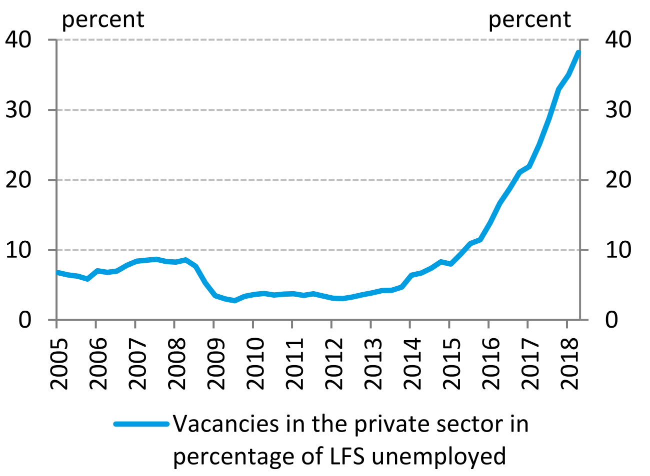
In September, according to the preliminary data, **retail sales volume was up by 4.4 percent year on year, based on the seasonally unadjusted data**. According to the data adjusted for the calendar effect, the volume of sales grew by 5.4 percent year on year. Retail sales volume declined by 0.1 percent compared to the previous month. As regards the structure of retail sales, turnover continued to rise in a wide range of products in September. The substantial rise in the turnover of non-food consumer durables continued to support growth significantly.

1.2.2. Employment

According to the (seasonally adjusted) data of the Labour Force Survey, in the third quarter of 2018 the labour force participation rate moderately rose, while the level of employment was constant. **Employment stagnated both in the public and private sectors.** Within the public sector, the decrease in the number of participants in public work programmes continued, while employment in other sectors than public work increased. In the private sector, no significant change was registered in the employment of the manufacturing sector, construction employment decreased, while employment in the market service sector rose. The number of people employed abroad moderately decreased, following the growth observed in the previous quarter, and amounted to 105,000 in the third quarter. **The unemployment rate rose to 3.8 percent** (Chart 5).

In the second quarter of 2018, based on the number of job vacancies, corporate labour demand continued to increase both in manufacturing and the market services sector. The **tightness indicators** calculated from the ratio of job vacancies and unemployed persons **indicate the continued tightening of the labour market environment** (Chart 6).

Chart 6: Development of labour market tightness indicator

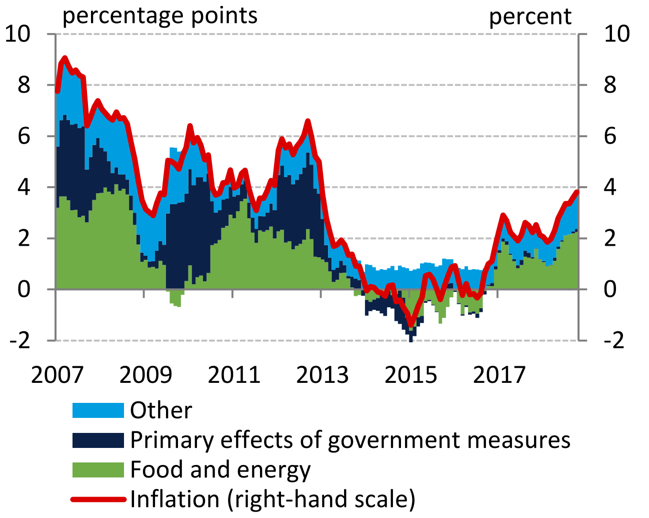


Note: Quarterly data.
Source: National Employment Service, HCSO

1.3. Inflation and wages

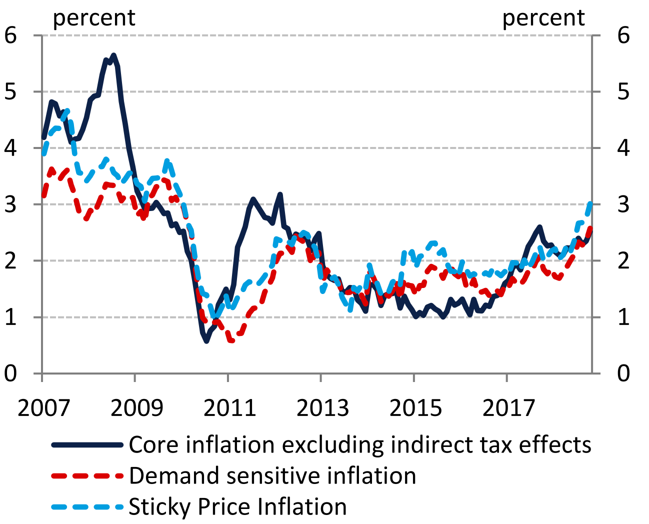
In October 2018, inflation stood at 3.8 percent, core inflation at 2.6 percent and core inflation excluding indirect taxes at 2.5 percent. Underlying inflation indicators rose compared to the previous month. In August 2018, gross average wage in the private sector rose by 11 percent year on year. The continued strong wage dynamics was supported, in addition to the historically tight labour market environment determining the underlying wage setting trend, by this year's raising of the minimum wage and guaranteed wage minimum by 8 and 12 percent, respectively, and the 2.5 percentage point decline in the social contribution tax also supported corporate wage developments.

Chart 7: Decomposition of inflation



Source: MNB calculation based on HCSO data

Chart 8: Measures of underlying inflation indicators



Source: MNB calculation based on HCSO data

1.3.1. Wage setting

In August 2018, gross average wage in the private sector rose by 11 percent year on year. The continued strong wage dynamics was supported, in addition to the **historically tight labour market environment** determining the underlying wage setting trend, by this year's **raising of the minimum wage and guaranteed wage minimum by 8 and 12 percent, respectively, and the 2.5 percentage point decline in the social contribution tax also supported corporate wage developments**. The monthly dynamics of the regular average wage was substantially stronger than the seasonality usually observed in August. Wage dynamics in sectors with below-average wage was still higher than in sectors with above-average wage.

1.3.2. Inflation developments

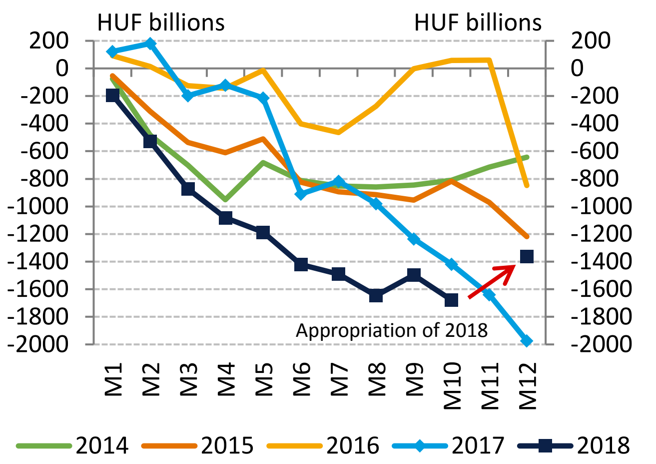
In October 2018, year-on-year inflation was 3.8 percent, while core inflation and core inflation excluding indirect taxes stood at 2.6 and 2.5 percent, respectively (Chart 7). Relative to the previous month both inflation and core inflation rose by 0.2 percentage points. The growth in inflation, observed in autumn, was caused primarily by the rise in the volatile prices of fuels and unprocessed food, as well as the pass-through of the excise tax of tobacco products.

Underlying inflation indicators rose compared to the previous month (Chart 8). In October 2018, agricultural producer prices rose by 6.2 percent in annual terms, while the domestic sales prices of the consumer goods industry increased by 1.4 percent.

1.4. Fiscal developments

In October 2018, the central sub-sector of the general government closed with a deficit of HUF 182 billion, and thus the current year's cumulated deficit amounted to HUF 1,678 billion at the end of October, representing a higher deficit than registered in the previous years and also exceeding the appropriation in the 2018 budget.

Chart 9: Intra-year cumulative cash balance of the central government budget



Source: Budget Act of 2018, Hungarian State Treasury

In October 2018, the **central sub-sector of the general government** closed with a deficit of HUF 182 billion, and thus the current year's cumulated deficit amounted to HUF 1,678 billion at the end of October. The cumulated deficit continues to exceed the annual deficit target in the 2018 Budget Act (Chart 9). The high value of the cumulated government deficit is attributable to the pre-financing of EU transfers and the lower amount of the related revenues, the higher expenditures of the budgetary organisations and the absence of last year's one-off items (tax credit for growth, land sales).

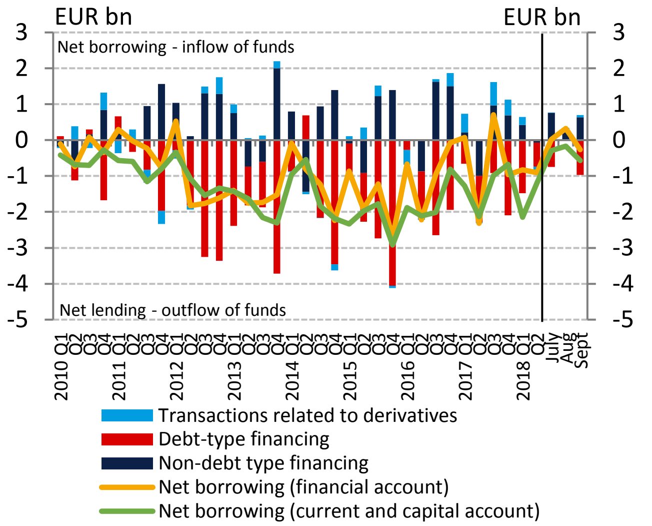
The **revenues of the central sub-sector** were up by HUF 247 billion year on year. The difference was primarily the result of the revenues related to EU transfers and the higher level of value added tax. At the same time, wage-related revenues (personal income tax and social contribution tax), as well as the payments by enterprises also rose dynamically year on year.

The **expenditures of the central sub-sector** were up by HUF 247 billion year on year. The higher expenditure was caused partly by the fact that due to the long weekend in November, the central budgetary organisations initiated the wage payments already on the last days of October and the family allowances were also paid earlier. This was offset by the substantial shortfall in the expenditures related to EU transfers compared to the October 2017, resulting from the restraining of EU advances.

1.5. External balance developments

In September, net lending of the economy and the current account moderately improved. According to the financial account data, in September there was a substantial decrease in the net external debt of the economy, while foreign direct investments rose.

Chart 10: Structure of net lending (unadjusted transactions)



Note: Positive values indicate net borrowing (inflow of funds), while negative values indicate net lending (outflow of funds).
Source: MNB

In September, despite the restrained external trade balance, net lending of the economy and the current account moderately improved. Based on the September data, net lending amounted to EUR 560 million, while the current account balance, after the deficit recorded in August, showed a surplus of EUR 230 million during the month. The goods balance deficit was lower than in the previous month; at the same time the external trade surplus fell short of the seasonally expectable level even together with the services balance surplus. The modest external balance indices result from the moderate level of car industry output and the rising goods imports attributable to buoyant consumption and investment. In addition to the foregoing, the rise in energy imports from outside Europe, mostly denominated in dollar, also contributed to the negative goods balance. The transfer balance surplus continued to improve in the period under review, which was attributable to the rising absorption of EU transfers. The income balance deficit did not change significantly during the month.

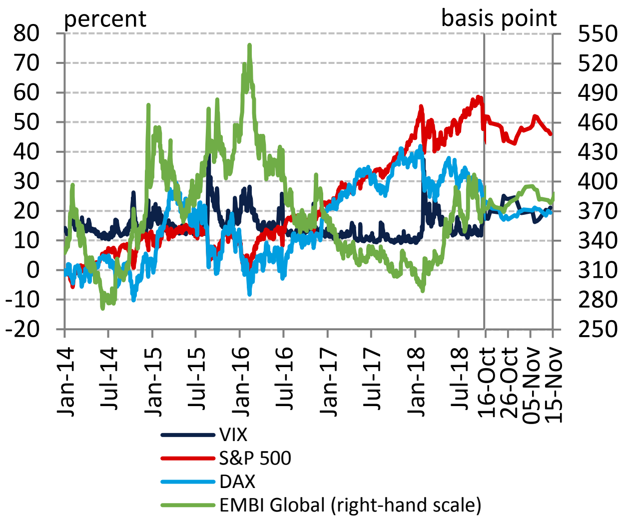
According to the financial account data, in September, the net FDI inflow was accompanied by substantial decline in net external debt. The rise in net foreign direct investments was linked, among other things, to the reinvested earnings of non-resident enterprises. Based on the monthly transactions, net external debt of the economy declined substantially, by roughly EUR 1 billion. The net external debt of the consolidated **general government** did not change materially, since the effect of the decrease in the margin and the discount Treasury bills was mostly offset by the fall in foreign exchange reserves. As a result of the decline in external liabilities, **banks'** net external debt fell by almost EUR 600 million, while the **corporate sector's** indicator was down by EUR 300 million (Chart 10).

2. Financial markets

2.1. International financial markets

Global investor sentiment varied since the last interest rate decision, where the raising of the budget deficit target of Italy, the mixed perception of the US corporate flash reports and the news related to international trade policy and to the slowdown of the global economy's growth all played a significant role. The VIX index, measuring stock exchange volatility, rose to 21 percent during the period under review, and both the developed and emerging market stock market indices declined. Foreign exchange markets were dominated by the appreciation of the dollar against most of the developed and emerging currencies, attributable to the strengthening of the expectations related to an interest rate hike by Fed. Oil prices substantially declined during last month.

Chart 11: Developed market equity indices, the VIX index (left-hand scale) and the EMBI Global Index (right-hand scale)

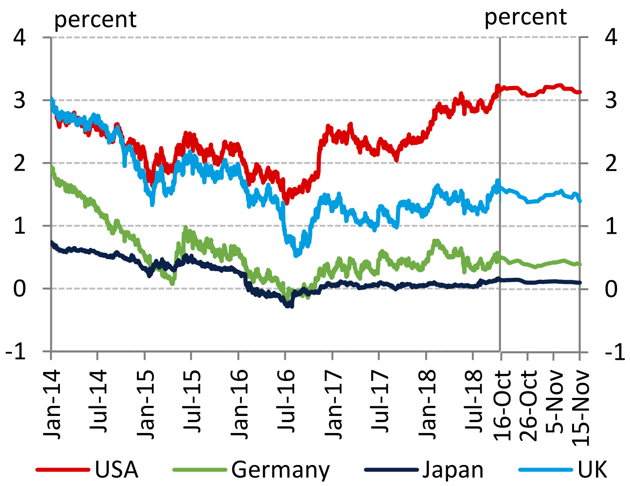


Source: Bloomberg

Global investor sentiment varied since the previous interest rate decision. The VIX index rose from 18 percent, recorded in mid-October, to 21 percent (Chart 11). Risk aversion was greatly attributable to the substantial raising of the budget deficit target of Italy, the mixed perception of the US corporate flash reports and the news related to international trade policy and to the slowdown of the global economy's growth. After the US midterm elections, market sentiment slightly improved, and the MOVE index, measuring the volatility of the US bond market, dropped from 60 basis points to 52 basis points.

Both the developed and the emerging market stock exchange indices declined during the period under review. The key US and European equity indices fell by 2-4 percent, and the emerging market MSCI index also decreased by 1.7 percent compared to the start of the period. At the same time, the Shanghai equity index rose by 4.7 percent in the last one month. The rise was mostly attributable to the fact that on 22 October the Chinese government announced a tax cut amounting to roughly 1 percent of GDP.

Chart 12: Yields on developed market long-term bonds

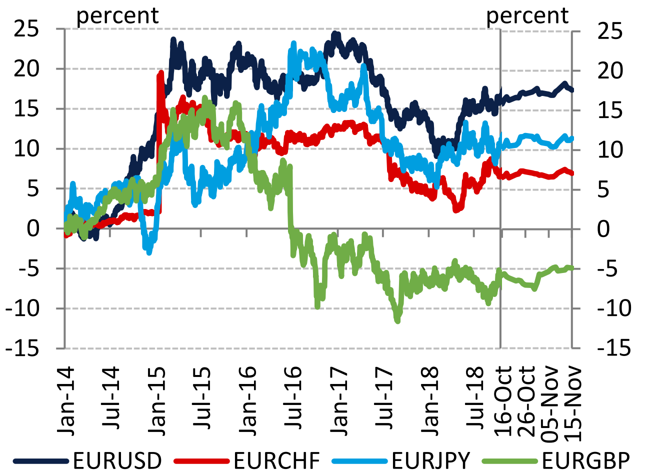


Source: Bloomberg

Developed market long-term government securities yields declined, while emerging markets registered a moderate rise in yields. On the developed markets, the US long-term yield fell by 3 basis points to 3.13 percent, while the German yield decreased by 9 basis points to 0.4 percent (Chart 12). At the same time, emerging market yields were up, as a result of which the EMBI Global rose by 30 basis points during the period under review.

Fed, in accordance with the expectations, did not change its benchmark rate at its November meeting. The probability of the interest rate increase in December strengthened after the October rate-setting meeting; 95 percent of the respondent economists anticipate a 25 basis point hike at the December meeting. In the case of ECB, some of the economists believe that the interest rate increase may be postponed to the beginning of 2020 due to the decelerating economic activity of the euro area;

Chart 13: Developed market FX exchange rates



Note: Positive values indicate the strengthening of the variable (second) currency.

Source: Reuters

however, most of the market analysts still anticipate the first interest rate hike to take place in the third quarter of 2019.

In the past month, the dollar appreciated against most of the developed currencies, i.e. 2 percent against the euro and roughly 1.5 percent against the Swiss franc, the British pound and the Japanese yen. The emerging currencies also depreciated against the dollar, which in the case of the currencies of the CEE region was around 2-3 percent. The appreciation of the dollar was mostly caused by the strengthening of the expectations linked to Fed's interest rate increase (Chart 13).

Oil prices significantly declined during last month. The Brent price fell by 18.5 percent to USD 66, while the WTI price decreased to USD 56 after a fall of 21.7 percent. The formerly typical supply concerns were replaced by demand concerns in the period under review.

In accordance with the preliminary surveys, at the midterm US elections the Republican Party preserved its majority in the Senate, while the Democratic Party won control of the House of Representatives. On 6 November, 35 of the 100 seats in the Senate and all 435 seats in the House of Representatives were contested at the US midterm election. The results confirmed the surveys: the Democratic Party won 225 seats in the House of Representatives compared to the Republican Party's 197 seats, while the Republican Party preserved its majority in the Senate (51 Republican, 47 Democratic and 2 independent senators).

In the short run the removal of an uncertainty factor from the focus was favourable for the market sentiment. According to the economists, no significant change may be expected in the fiscal policy after the elections; expenditures may continue to increase at the present rate, while the planned large infrastructural investments may be postponed. No change is anticipated in the trade policy either, since the White House has much larger influence on the decisions than the Congress. In the longer run, the House of Representatives, controlled by the Democratic Party, may accelerate the investigations related to the Russian threads of the President's 2016 election campaign.

On 23 October, the European Commission rejected Italy's budget. In the Commission's opinion, on the one hand, the deficit target of 2.4 percent, stated in the approved budget of Italy, is high in the case of a country where the government debt already exceeds 130 percent of GDP, and on the other hand, it will not be possible to meet it: the deficit target assumes a 1.5 percent growth in Italy's economy for 2019, which is deemed optimistic both by the Commission and the market analysts. If the economic growth is lower than that, the budget's tax revenues may fall short of the estimate and the decrease in the government debt to GDP ratio may also be more moderate than expected.

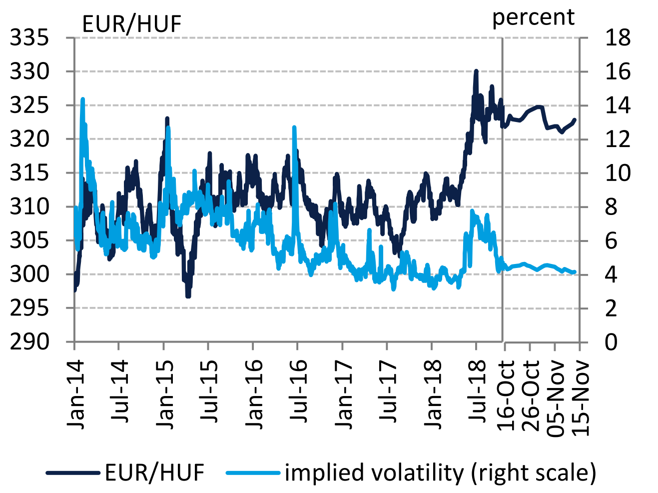
The Italian government had three weeks to adjust the budget, considering the recommendations of the European Commission; **however, prior to the expiry of the deadline, the Italian Prime Minister announced that the budget would not be amended.** Due to the lack of adjustment, the European Commission may initiate the excessive deficit procedure against Italy as early as on 21 November. This will be decided by the finance ministers of the Member States in December. If the excessive deficit procedure is approved, financial sanctions may also be accepted at the end of the procedure. The maximum amount of the penalty may be 0.2 percent of the gross domestic product, which would be EUR 3.4 billion. Since the development of the uncertainty related to budget, the Italian 10-year government securities market yield rose by 0.6 percent to 3.5 percent, and thus the spread over the German bond yield increased to 310 basis points, being the highest level since 2013, while the Italian stock exchange fell by roughly 12 percent.

The document determining the conditions of the United Kingdom's exit from the European Union has been completed; however, it is questionable whether the British Parliament will approve the deal. According to the agreement, the customs regulations applicable to Northern Ireland would be different than those applicable to Great Britain, to help avoid any need for a hard border between Northern Ireland and Ireland. However, the Democratic Unionist Party (DUP) of Northern Ireland is unlikely to approve this in the Parliament. According to their leading politicians, this would disrupt the unity of the United Kingdom. It is questionable whether the British Parliament would approve the document without the DUP politicians. If the draft is rejected, the chance of the United Kingdom's exit on 29 March from the EU without an agreement increases. In this case, the trade relations between the European Union and the United Kingdom would be governed by the rules determined by WTO, which would be a material setback compared to the present free trade status. The leaders of the European Union will discuss the Brexit agreement in an extraordinary meeting on 25 November.

2.2. Developments in domestic money market indicators

In the first half of the period under review, the forint depreciated by almost 1 percent against the euro, but by the end of the period it once again appreciated. The 3-month BUBOR dropped by 2 basis points. The medium and long end of the government securities yield curve shifted downward, thereby making the curve flatter, which may have been partly attributable to the considerable rise in the non-residents' forint government securities holding, increasing their share to 23 percent.

Chart 14: EUR/HUF exchange rate and the implied volatility of exchange rate expectations

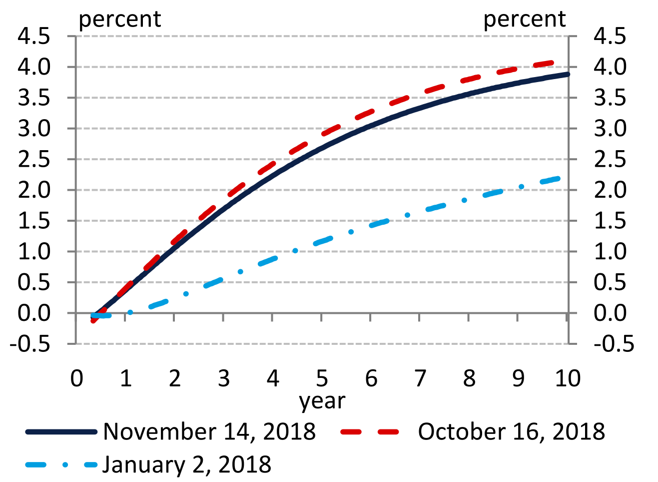


Source: Bloomberg

At the beginning of the period, the forint exchange rate against the euro was around 322, then – in parallel with the deterioration in international sentiment – it depreciated by roughly 1 percent. However, from the beginning of November it adjusted, appreciating to almost the same degree. On the whole, since the last interest rate decision the forint exchange rate returned close to the initial level. Of the currencies of the region, the Polish zloty, similarly to the forint, depreciated until the end of October, followed by an adjustment. The Czech koruna depreciated by more than half percent in the second half of the period, while the Romanian leu showed minimal movement. The forint exchange rate showed low volatility in most of the period under review, which did not change even upon the disclosure of the domestic macroeconomic figures (Chart 14).

The 3-month BUBOR fell by 2 basis points to 15 basis points. **The shorter section of the government yield curve shifted downward by 10-15 basis points, while the over 5-year section thereof declined by 20-25 basis points**, thereby making the yield curve flatter (Chart 15).

Chart 15: Shifts in the spot government yield curve



Source: MNB, Reuters

Most of the forint government securities auctions were characterised by strong demand, and thus the Government Debt Management Agency accepted higher than the announced volume in several cases. The average yield of the 3-month auctions was around –0.07 basis point in the period under review. At the 3-month discount Treasury bill auctions, in the first half of the period the Government Debt Management Agency announced 25-35 billion, then 40-50 billion, and it also increased the accepted volume on three occasions. The 12-month discount Treasury bill auctions were characterised by weak demand; the submitted volume did not reach the announced volume in any of the cases, and thus the Government Debt Management Agency reduced the issued volumes. Demand for the 3-year securities was stronger at the beginning of the period, and more moderate in the second half thereof, while the 5-year fixed- and variable-rate bonds were characterised by stable high demand, and thus the announced volume was augmented on three occasions. The average yield in the case of the 3-year securities fell by 20 basis points to 1.64 percent, while at the 5-year securities by 23 basis points to 3.05 percent. Demand for the 10-year securities was also strong, and thus the Government Debt Management Agency increased the issued volume by 7.5 billion compared to the initially announced 15 billion in both cases. The average yield declined by 24 basis points to 3.63 percent.

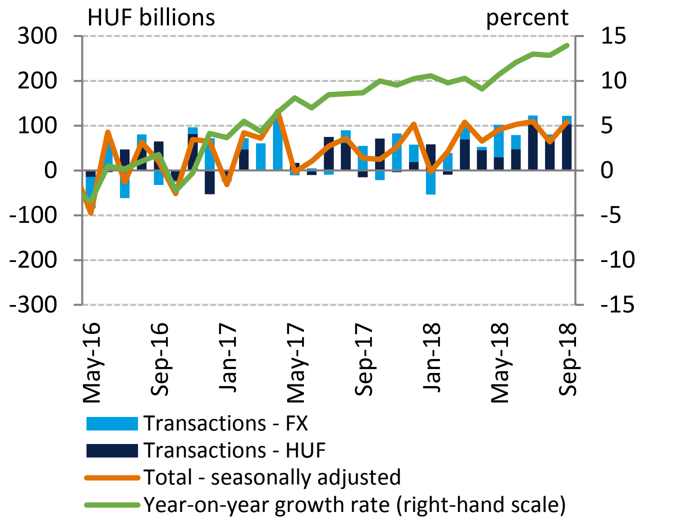
The 5-year Hungarian CDS spread rose by 2 basis points and finally closed the period at 88 basis points. The minimal shift was in line with essentially steady spreads in the region.

Non-residents continued to show high interest in the Hungarian government securities, and thus their forint government securities holding rose by HUF 235 billion last month. Accordingly, the portfolio held by non-residents rose to around HUF 4,050 billion, while their share increased by 1 percentage point to 23 percent.

3. Trends in lending

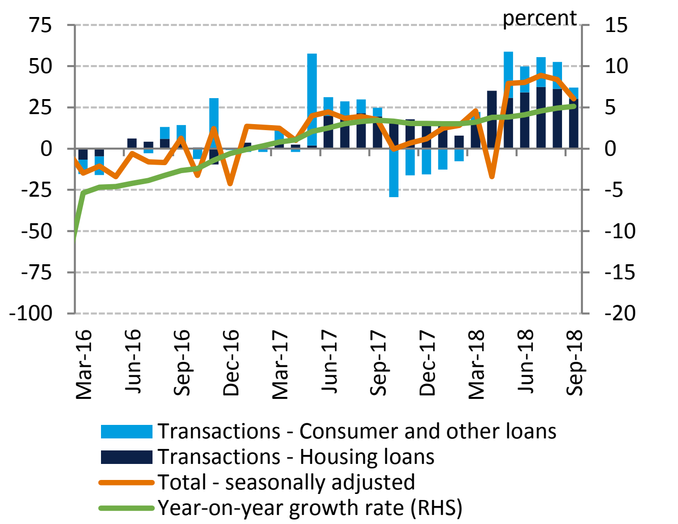
In September, the outstanding corporate loans of credit institutions rose by HUF 122 billion due to transactions, which is equivalent to an increase of HUF 108 billion on a seasonally adjusted basis. The outstanding loans of credit institutions to households rose by HUF 37 billion as a result of transactions, which represents a growth of HUF 30 billion on a seasonally adjusted basis. Thus, the annual growth in outstanding lending amounted to 5.1 percent in September 2018.

Chart 16: Net borrowing by non-financial corporations



Source: MNB

Chart 17: Net borrowing by households

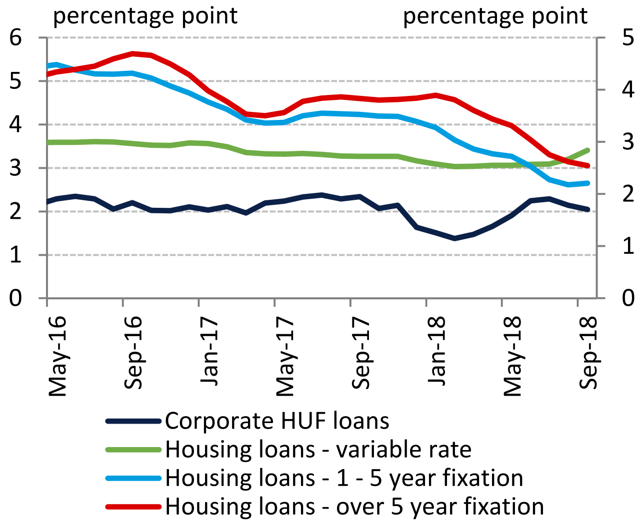


Source: MNB

In September, the outstanding corporate loans of credit institutions rose by HUF 122 billion due to transactions, which is equivalent to an increase of HUF 108 billion on a seasonally adjusted basis (Chart 16). In a breakdown by currency, forint loans and foreign currency loans increased by HUF 104 billion and HUF 18 billion, respectively. In September 2018, corporate lending rose by 13.9 percent in annual terms. Excluding money market transactions, the volume of new loans amounted to HUF 183 billion during the month. The gross amount of new loans in September was up 19 percent in annual terms.

The outstanding loans of credit institutions to households rose by HUF 37 billion as a result of transactions, which represents a growth of HUF 30 billion on a seasonally adjusted basis. Thus, the annual growth in outstanding lending amounted to 5.1 percent in September 2018 (Chart 17). The value of new contracts concluded during the month was HUF 142 billion, and thus in annual terms it registered a growth of 27 percent. As regards the individual sub-segments, the volume of new housing loans and personal loans rose by 39 and 49 percent, respectively. Since September 2017, the Certified Consumer-friendly Housing Loan products already contributed by HUF 243 billion to the growth in lending for housing purposes in a sounder structure, and 57 percent of the fixed-rate loans concluded during the month were already certified loans.

Chart 18: Development of corporate and household credit spreads



Note: In the case of corporate forint loans, the spread over the 3-month BUBOR. In the case of housing loans with variable interest or interest fixed for 1 year at the most, the 3-month BUBOR, while in the case of housing loans fixed for over one year, the APR-based margin above the relevant IRS.
Source: MNB

In the first half of 2018 the ratio of loans with interest fixed for 1 year at the most declined, and amounted to 15 percent in September. Within the fixed-interest loans, from the second quarter, loans with interest period longer than 5 years increasingly gained ground, accounting for 48 percent of the total new housing loans in September. From 1 October 2018, the MNB introduced a new payment-to-income regime, differentiated by interest period, which is expected to divert demand toward loans with longer interest rate fixation, thereby reducing the interest risk of households.

The smoothed interest rate spread of forint corporate loans dropped by 10 basis points to 2.05 percentage points in September (Chart 18). However, the spread on small-amount market loans – typically taken by SMEs – exceeds the average of the other Visegrád countries by 75 basis points. The average smoothed interest rate spread on variable rate housing loans calculated on the basis of the annual percentage rate (APR) rose by 15 basis points compared to September 2017, to 3.4 percentage points. In the case of loans the interest rate of which is fixed for 5 years at the most, this value dropped by 160 basis points to 2.65 percentage points, while in the case of loans fixed for more than 5 years, it fell by 130 basis points to 2.55 percentage points, and thus the average spread on fixed-rate loans is already below that on the variable-rate loans.