MACROECONOMIC AND

FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES OF THE

MONETARY COUNCIL MEETING

OF 27 AUGUST 2019

August

2019

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The background material 'Macroeconomic and financial market developments' is based on information available until 21 August 2019.

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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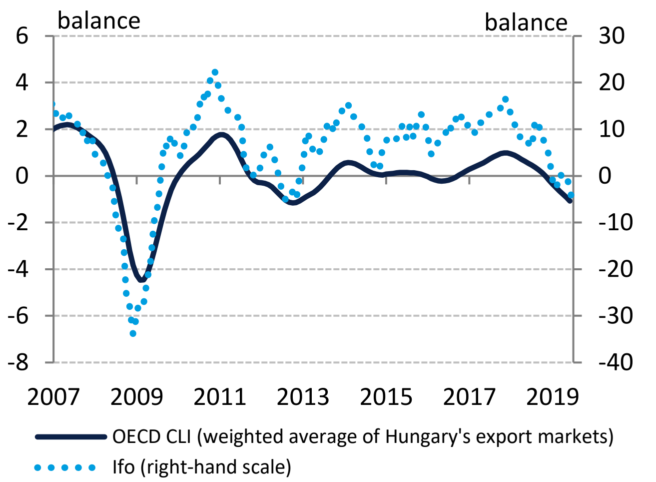
1. Macroeconomic developments

1.1. Global macroeconomic environment

In the second quarter of 2019, both GDP growth in the United States and economic growth in the euro area slowed down quarter on quarter. Growth prospects of the euro area are dominated by downside risks. Growth of the CEE region still substantially exceeds the growth rate of the euro area.

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



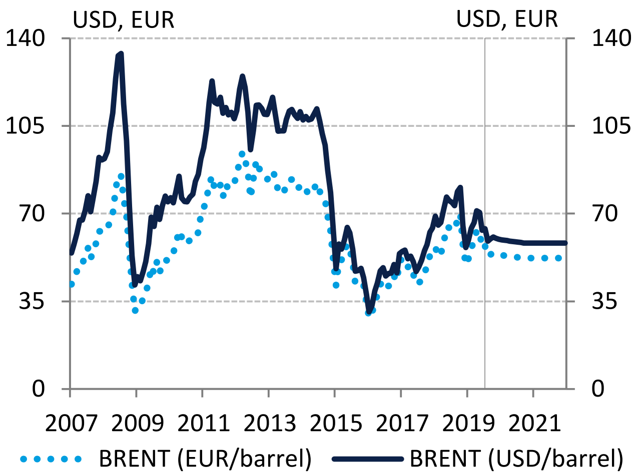
Source: OECD, Ifo

In the second quarter of 2019, the US economy rose – at a rate exceeding the expectations – **by 2.3 percent on an annual basis.** Quarterly growth was 0.5 percent. Growth was supported by the state government investments, in addition to household and federal government consumption. Net exports and inventories made negative contribution to economic performance, and building-type investments also curbed economic growth. Growth of the US economy may gradually decelerate in the coming period in parallel with the run-out of the growth supporting measures (tax cuts and infrastructural investment programme). **The concerns over the trade policy tensions play an increasingly prominent role in the fears related to the deceleration of the economy.** Due to the significant share of the United States within global imports, the escalation of customs measures may have a substantial effect on global economic growth.

In the period of April to June, economic growth in the **euro area** fell short of that recorded in the first quarter. **The growth calculated on year-on-year and quarter-on-quarter basis was 1.1 and 0.2 percent, respectively. The economic performance of Germany,** Hungary's key trading partner, **declined by 0.1 percent on a quarterly basis.** The decrease was caused – in line with the declining industrial performance – by the fall in exports, which was offset only partially by the domestic items. **Expectations with regard to the German economy's performance for this year continue to be unfavourable,** which has also been corroborated by the low second quarter GDP data published recently. The Ifo index, capturing the outlooks of the German economy, declined further, as well (Chart 1), likewise the number of new industrial orders in Germany, which also decreased in June year on year. **The short-term impact of the German industrial trends on Hungary's prospect is qualified by the fact that in the past months Hungarian vehicle manufacture has continued to outperform that of Germany.**

The **Italian economy** stagnated in the second quarter. The poor industrial and agricultural performance was offset by the rise in services. The performance of the **French** economy rose by 1.3 percent year on year. Growth was primarily supported by households' consumption, while decline in

Chart 2: World market prices of Brent crude oil



Source: Bloomberg

inventories curbed growth. The economic growth of **Austria** – based on a wide range of sectors – continued, and at 1.6 percent it outstripped the GDP growth of the euro area. In the second quarter, the economic performance of the **United Kingdom** rose by 1.2 percent year on year, falling short of the expectations. On a quarter-on-quarter basis,a decline of 0.1 percent was registered. Growth was supported by household and public consumption. Corporate investments declined further, which may have been also attributable to the uncertainty surrounding the exit from the EU.

As in the previous quarters, the Central and Eastern European region proved to be the growth centre of the European Union also in the second quarter of 2019. According to the seasonally adjusted data, Poland, Romania, Slovakia and the Czech Republic recorded a GDP growth of 4.1 percent, 4.6 percent, 2.5 percent and 2.7 percent, respectively. Examining the region as a whole, the growth was mainly driven by domestic demand, while under weakening external activity net exports may have decelerated growth in several countries in the second quarter of 2019.

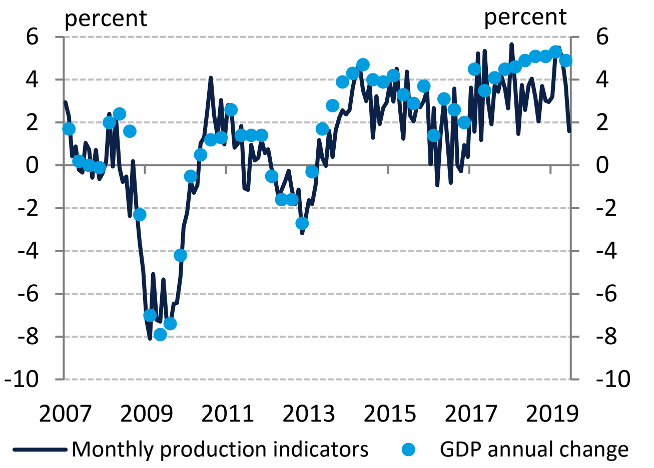
Growth prospects of the euro area continue to be dominated by downside risks. Economic growth may be curbed by the increase in trade tensions, the deteriorating industrial production observed in the past period, the challenges surrounding automotive industry, the vulnerability of Italy stemming from the high government debt, the indirect effects of the deceleration of the Chinese economy and the uncertainty resulting from the fragile financial environment on the emerging markets. In addition, the uncertainty surrounding the exit of the United Kingdom from the EU continues to represent risk and the "fallout" of the United Kingdom from the EU (hard Brexit) remains a realistic scenario.

Underlying inflation measured in the euro area – in line with the economists' expectations – **declined in July.** Inflation and core inflation stood at 1.1 percent and 0.9 percent, respectively. The world market price of crude oil, under substantial volatility, was around USD 62 on average, while at the end of the period it was close to USD 60 (Chart 2). The developments in prices were shaped by opposite effects: geopolitical tensions in the Middle East pointed to an increase, while the trade tensions between China and the USA made major contribution to the decrease in prices. The strengthening of the concerns over the slowdown of global demand also supported the decrease in prices. World market prices of industrial commodities rose, while that of unprocessed food declined in July.

1.2. Domestic real economy developments

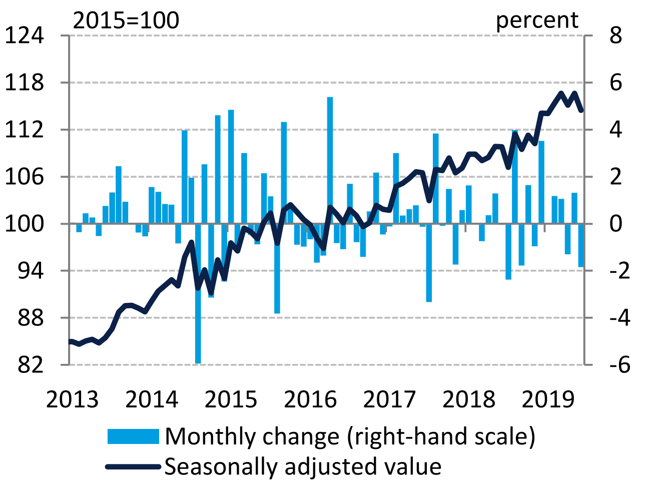
According to the HCSO's data, in the second quarter of 2019 Hungary's gross domestic product rose by 4.9 percent year on year. Growth may have been supported primarily by buoyant domestic demand. In the second quarter of 2019, seasonally adjusted unemployment rate remained 3.4 percent. In the first quarter of 2019, based on the number of vacancies, corporate labour demand decreased in a wide range of the sectors.

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

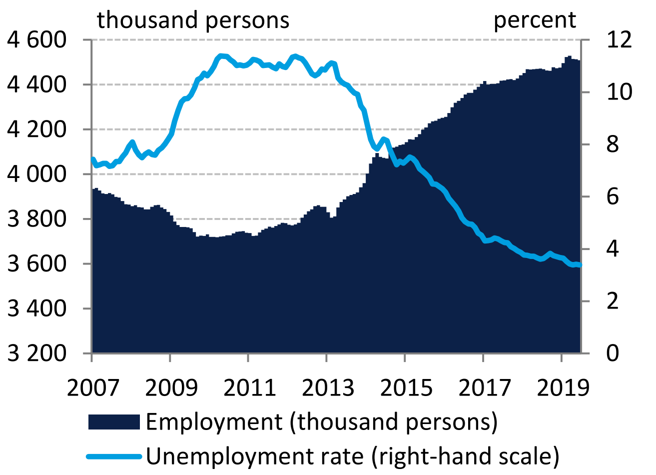
According to HCSO's data release, in the second quarter of 2019, Hungary's gross domestic product rose by 4.9 percent year on year. Based on the seasonally and working-day adjusted data, Hungary's GDP rose by **1.1 percent quarter on quarter**. Based on the currently published data, Hungary is ranked first in the EU member states' growth ranking in year-on-year terms. From the output side, most of the national economy branches contributed to the growth, and market services, together with industry and construction, supported GDP growth to the highest degree (Chart 3). In addition, despite the declining German industrial orders, industry also made a positive contribution. From the expenditure side, domestic demand factors – consumption and investment – may have continued to increase materially and they may have supported economic growth substantially.

In June 2019, **industrial output was down by 1.4 percent** year on year, while production **decreased by 1.8 percent compared to the previous month** (Chart 4). **The index adjusted for working days exceeded that of last year by 4.1 percent**; the significant difference is attributable to the working days being fewer by two than last year. Based on the seasonally adjusted data, the output of automotive industry, representing a large weight, rose by 8.5 percent year on year. In addition, the rise in the manufacture of food, beverage and tobacco products outstripped the average industrial production, while the performance of metal industry fell short of that registered last June.

Based on preliminary data, **expressed in euro terms, the value of exports and imports was down by 6.1 percent and 1.7 percent,** respectively, year on year in June 2019, and thus trade surplus decreased by EUR 437 million. In May 2019 the terms of trade remained constant in an annual comparison. The relative price change of chemical products was offset by the change in the price of machinery and means of transport, as well as food.

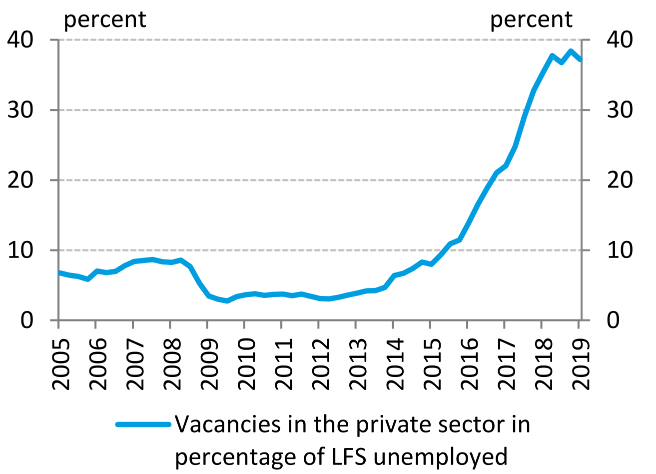
In June 2019, the volume of construction output was up by 20.3 percent year on year. Output increased both in the number of buildings and other structures. The growth in the construction of buildings was attributable to the construction of industrial and warehouse buildings. Due to the government investments, primarily to infrastructure

Chart 5: Number of persons employed and the unemployment rate



Source: HCSO

Chart 6: Development of labour market tightness indicator



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

developments (road, railway and public utility), construction of other structures increased further. **The volume of new contracts increased by 0.9 percent year on year**; the number of contracts for buildings rose by 27.4 percent, while it fell by 12.6 percent for other structures. The month-end volume of the construction companies' contract portfolio fell short of the value registered a year ago by 11.2 percent. The volume of contracts for the construction of buildings was up by 31.7 percent, while the contract portfolio for other structures fell short of the value registered at the end of June 2018 by 21.2 percent.

In June, **retail sales volume, based on the data adjusted for the calendar effect**, **was up by 5.2 percent year on year**. According to the seasonally adjusted data, retail sales volume accelerated compared to the previous month. As regards the structure of retail sales, turnover continued to rise in a wide range of product groups. The rise in the turnover of consumer durables slowed down due to the decrease in car registration, as well as to the more moderate rise in the sales of motor vehicles and vehicle parts; however, the significant increase in the turnover of textile and clothing products, industrial goods and mail order shops supported growth. The growth in total retail sales volume was primarily attributable to the major rise in the turnover of non-durable goods, and growth in fuels sales also accelerated compared to the previous month. In June, the turnover of food stores and groceries, representing a considerable weight, moderately accelerated compared to the previous months, year on year.

1.2.2. Employment

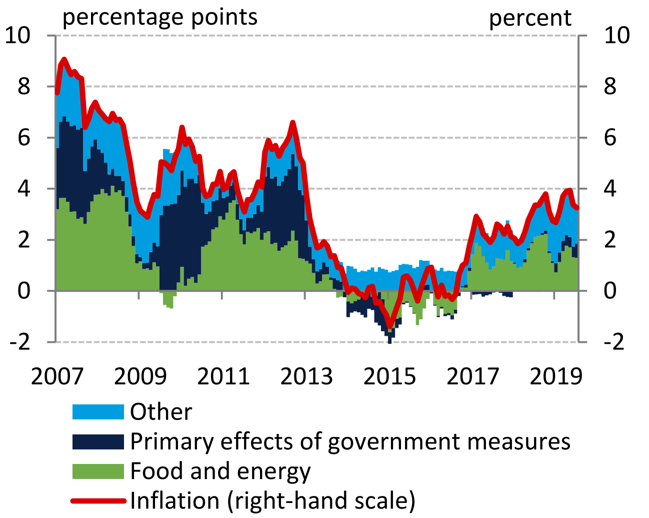
According to the (seasonally adjusted) data of the Labour Force Survey, in the second quarter of 2019, both the labour force participation rate and the number of people in employment remained essentially unchanged compared to the previous month. In an annual comparison, the rise in total employment was generated by the private sector, while public sector employment moderately decreased. The number of people in public employment fell to 109,000, while the number of people employed abroad rose to 117,000. **Seasonally adjusted unemployment rate remained 3.4 percent** (Chart 5).

In the first quarter of 2019, based on the number of vacancies, corporate labour demand decreased in a wide range of the sectors. The labour market **tightness indicator** calculated from the ratio of job vacancies and unemployed persons **remained at a high level** (Chart 6).

1.3. Inflation and wages

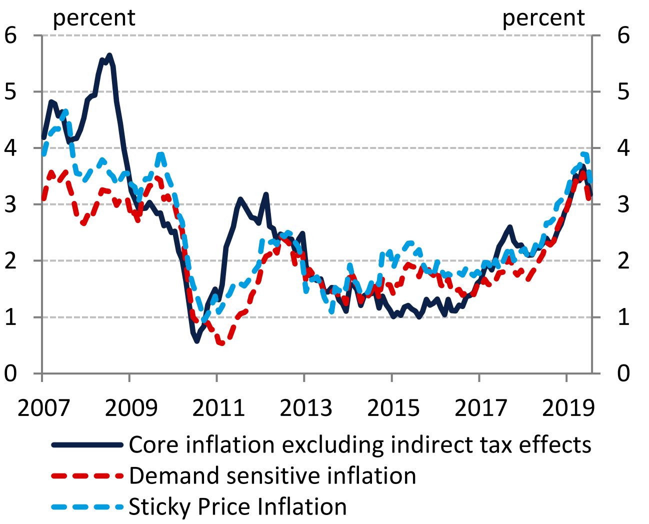
In July 2019, year-on-year inflation was 3.3 percent. Core inflation stood at 3.7 percent, while core inflation excluding indirect taxes was 3.2 percent. Underlying inflation indicators declined compared to the previous month. In May 2019, gross average wage in the private sector rose by 11.2 percent year on year. The annual dynamics of regular average wages decelerated in the private sector compared to the value registered in April. The wage dynamics, still exceeding the 8 percent rise in the minimum wage and the guaranteed wage minimum, may primarily be attributable to the tight labour market conditions determining the underlying wage setting trend.

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 May 2019, gross average wage in the private sector rose by 11.2 percent year on year. The monthly increase in the regular average wage was essentially in line with the usual seasonality of May. Bonus payments in May were substantially higher than last year. Within the private sector, wage dynamics in manufacturing considerably exceeded the wage growth of the market services sector. The wage dynamics, exceeding the 8 percent rise in the minimum wage and the guaranteed wage minimum, may still primarily be attributable to the tight labour market conditions determining the underlying wage setting trend.

1.3.2. Inflation developments

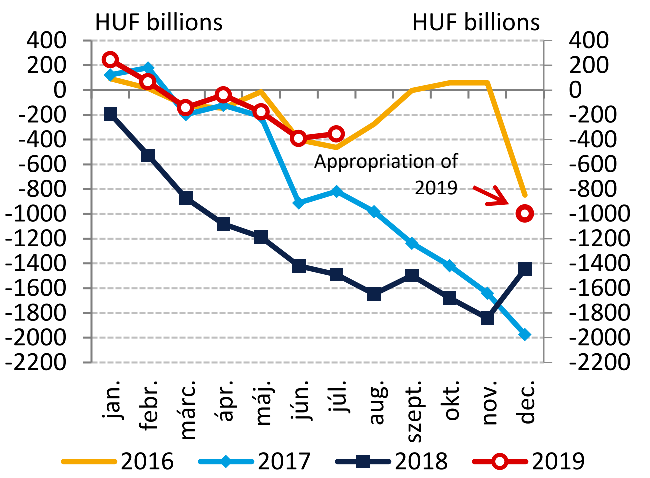
In July 2019, year-on-year inflation was 3.3 percent. Core inflation stood at 3.7 percent, while core inflation excluding indirect taxes was 3.2 percent (Chart 7)**. Inflation and core inflation both fell by 0.1 percentage point**, while **inflation excluding indirect taxes decreased by 0.3 percentage point** compared to the previous month. The fall in inflation was primarily caused by fuel prices, while in core inflation by the decrease in the price index of industrial goods.

The rest of the underlying inflation indicators capturing the more permanent trends (annual inflation of demand sensitive and sticky price products and services) **declined compared to the previous month** (Chart 8). In June 2019, agricultural producer prices rose by 10.5 percent in annual terms, while the domestic sales prices in sectors of the consumer goods producers increased by 5.3 percent.

1.4. Fiscal developments

In July 2019, the central sub-sector of the general government closed with a surplus of HUF 37 billion, and thus the deficit accumulated in the first seven months fell to HUF 353 billion, which is substantially lower than the cash deficit registered in the first seven months of the previous two years.

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



Source: Budget Act of 2019, Hungarian State Treasury

In July 2019, **the central sub-sector of the general government** closed with a surplus of HUF 37 billion, and thus the deficit accumulated in the first seven months decreased to HUF 353 billion, which is substantially lower than the cash deficit registered in the first seven months of the previous two years (Chart 9).

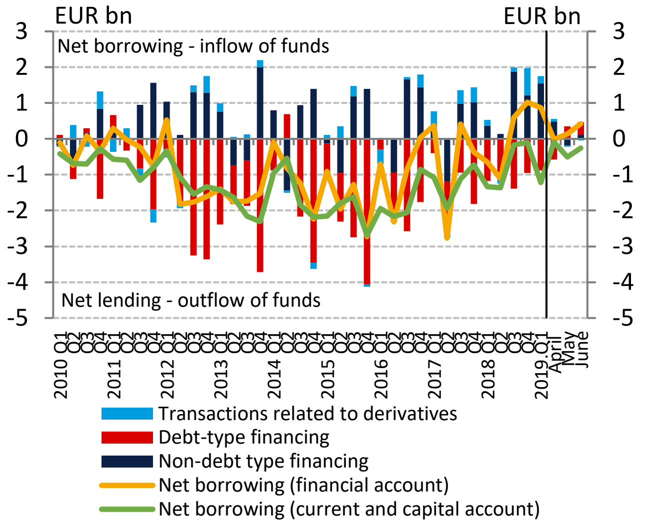
In July 2019, the **revenues of the central sub-sector** were up by HUF 199 billion year on year, which was attributable partly to the rise in revenues related to EU grants, and partly to the increase in consumption tax and labour tax revenues. Wage-related revenues were up by 9.2 percent year on year.

In July 2019, the **expenditures of the central sub-sector** were up by HUF 91 billion year on year due to the higher expenditures of the central budgetary organisations and to the higher subsidies disbursed to local governments. The rise was partly offset by the decrease in the expenditures related to EU transfers and in net interest expenses.

1.5. External balance developments

In June, net lending of the economy registered a surplus of EUR 254 million, while the current account deficit amounted to EUR 124 million. According to the financial account data, the inflow of funds continued under the growth in net FDI and a rise in net external debt.

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 June, net lending of the economy registered a surplus of EUR 254 million, while the current account deficit amounted to EUR 124 million. Compared to May, both the external surplus and the current account decreased, which was primarily attributable to the change in trade balance, and to a lesser degree to the usual seasonal dividend payments. The effect of these on net lending was mitigated by the higher absorption of EU transfers (Chart 10).

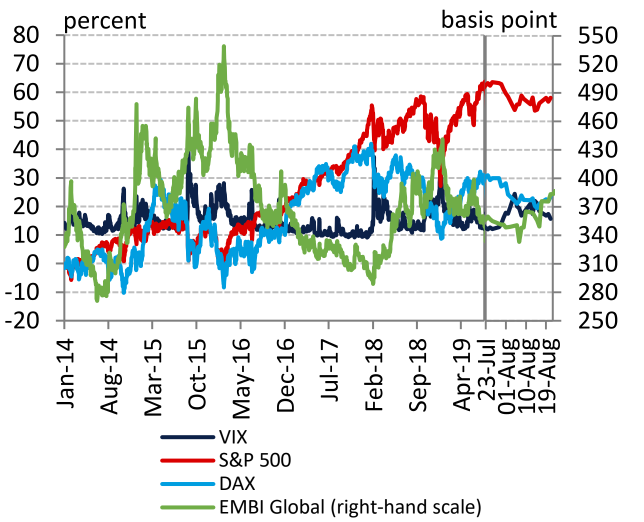
According to the financial account data, the inflow of funds continued under the growth in net FDI and a rise in net external debt. The inflow of net FDI, exceeding EUR 140 million, is still primarily attributable to the reinvested earnings of non-resident corporations, which, however, was materially decelerated by the dividend payments of corporations, linked to the annual general meetings. The rise of almost EUR 360 million in net external debt primarily related to the declining external assets of banks.

2. Financial markets

2.1. International financial markets

Since the last interest rate decision risk aversion strengthened, which was primarily caused by the trade tensions between China and the USA, the fears of recession, and the uncertainties related to domestic politics in Italy, Great Britain and Argentina. According to market expectations, ECB will commence and Fed will continue to cut interest rates in September. Both developed market and emerging market stock price indices declined in the gloomy market sentiment. As a result of the risk aversion, long-term government securities' yields materially declined; the German ten-year yield fell to a historic trough, while the US and British yield curve became inverse. Oil prices decreased on the whole, despite the correction at the end of the period, and thus the Brent price per barrel closed the past month at around USD 60.

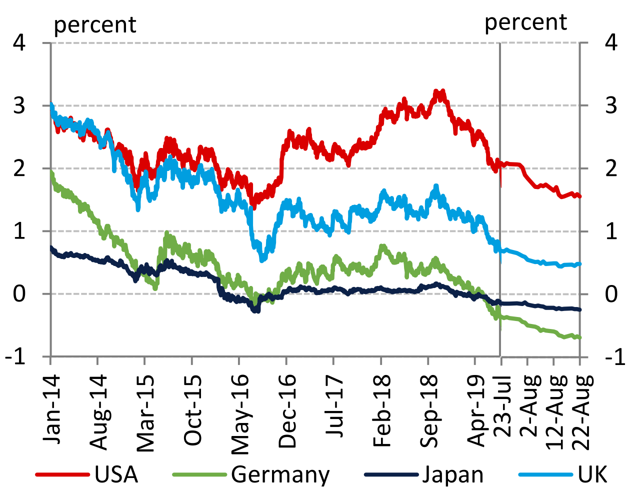
Chart 11: Developed market equity indices, the VIX index (left-hand scale) and the EMBI Global Index (right-hand scale)



Source: Bloomberg

Financial market sentiment substantially deteriorated in the past period. In addition to the resumption of the trade war tensions, the news on the unrest in Hong Kong, the depreciation of the yuan, the increasing risks related to a potential no-deal Brexit, as well as the domestic politics events in Italy and Argentina also contributed to the strengthening risk aversion. The announcement by the US Government, according to which as of 1 September it imposes customs duties on goods imported from China worth USD 300 billion, exerted unfavourable effect on stock exchanges. This and the depreciation of the Chinese yuan to a level unseen since 2008, once again strengthened fears related to trade war. In addition, equity market trading was also influenced negatively by the fears of recession, further exacerbated by the inverse US and British yield curves. The poor Chinese and German macro data published in mid-August worsened sentiment further. At the end of the period, the announcement by Donald Trump, according to which the embargo imposed on the products of Chinese technological firm Huawei would be postponed by additional 90 days, somewhat eased stock exchange tensions.

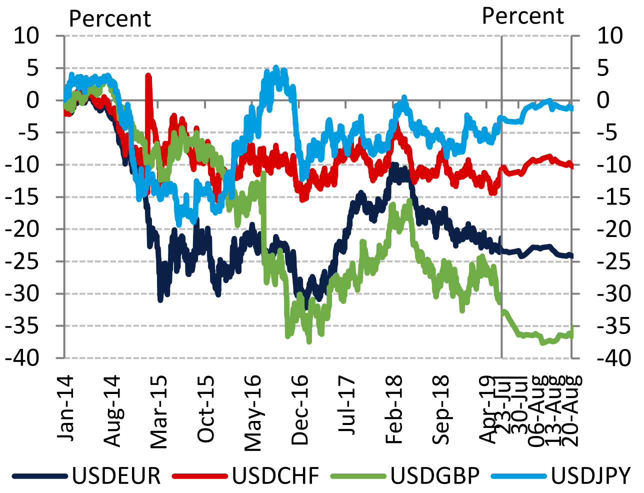
Chart 12: Yields on developed market long-term bonds



Source: Bloomberg

By mid-August, the VIX index, the key measure of equity market risks, rose by 10 percentage points to 22 percent, and in parallel with the easing of the recession fears it adjusted to 16 percent by the end of the period (Chart 11). The emerging bond market EMBI Global spread was up by 30 basis points to 380 basis points, and the MOVE index, measuring the volatility of the US bond market, also substantially rose. **On the whole, the US stock exchange indices fell by 3.5-5 percent, the European and Japanese indices by 4-6 percent, while the composite MSCI index measuring the performance of the emerging market declined by 7 percent.** Gold price rose by 6 percent close to USD 1,500 under the sentiment looking for safe havens, while the year-to-date increase was almost 17 percent.

Chart 13: Developed market FX exchange rates



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

The developed and emerging market bond yields materially declined since the last interest rate decision, as due to the downturn of the equity markets and the fears of recession, investors turned to the bond markets. The US long-term yield declined by 50 basis points below 1.6 percent, while the German 10-year yield fell by more than 30 basis points to -0.67 percent (although in mid-August it was at a historic trough of -0.71 percent) (Chart 12). In parallel with this , the entire German yield curve moved to a negative band. The US 10-year yield fell below the two-year yield, i.e. the steepness of the yield curve became negative.

The tone of the communication of the world's major central banks became more accommodating, while, in addition to Fed, several emerging market central banks also commenced an interest rate cut cycle. At their July meeting, the Fed decision-makers cut the interest rate for the first time since December 2008, which caused the target band to decline between 2 and 2.5 percent. Based on the market expectations, the Fed will continue the interest rate cuts in the coming months by further two or three steps of 25 basis points, and thus by the end of the year the key interest rate band may fall below 1.5 percent.

At the July ECB meeting, the European Central Bank did not change the interest rate conditions, but the tone of its communication was more accomodating. At present, based on the market pricing, the probability of ECB's reducing the deposit rate at its September meeting is almost 100 percent, while there is a high probability of another 10-basis point interest rate cut by the end of the year.

Of the developed currencies primarily the safe haven currencies have appreciated: the Japanese yen and the Swiss franc appreciated against the dollar by 0.5-1.5 percent. As a result of the lesser than expected accommodating tone of the Fed decision at the end of July, the dollar slightly appreciated against the euro, followed by a depreciation due to the fears of trade war. At the end of the period, in parallel with the mitigation of the fears of recession, it once again strengthened, and on the whole it appreciated by 0.5 percent. **The British pound depreciated against the dollar by 3 percent, due to the strengthening of the risks that** the new Prime Minister would not be against **Great Britain's leaving the EU** on 31 October **even without a deal.** The Labour Party's motion urging a no-confidence vote against the current Head of Government and the setting up of a temporary government further deepened uncertainty (Chart 13).

In the first half of August, the Italian domestic politics tensions intensified, when Matteo Salvini, Deputy Prime Minister and Federal Secretary of the Northern League,

initiated the submission of motion of no confidence against the government coalition and pushed for early elections. Recently, the Five Star Movement, i.e. the party of Prime Minister Guiseppe Conte, lost substantial support , while the League became more popular. Markets received the news unfavourably, since a potential early election and the dominance of the League in the new government coalition would represent even larger uncertainty for Italy's next year budget bill, which the Italian government needs to submit to the European Commission in October. As a result of these events, one week later the Italian prime minister submitted his resignation to the Head of State. The Italian 10-year yield rose by almost 30 basis points after the announcement of the no-confidence motion, but later on, following the international yield decline, it decreased to 1.35 percent.

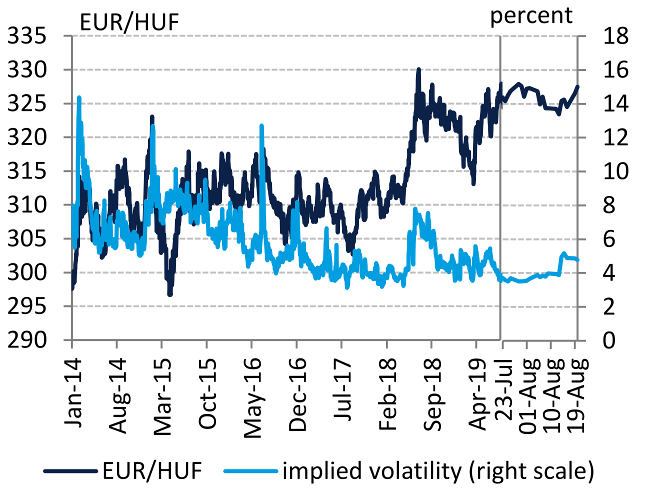
The exchange rate of the Argentine peso against the dollar declined substantially, by 30 percent, while the Argentine stock exchange index fell by almost 40 percent due to the result of the primary elections held on 11 August. The opposition candidate, Alberto Fernández, won hands down against the present market-friendly Head of Government, Mauricio Macri. If the result will be similar also at the end-of-October presidential election, the anti-austerity candidate of the opposition may earn the majority of the winning votes already in the first round. Ratings agency S&P downgraded Argentina's sovereign debt rating to 'B-' from 'B ', while Fitch lowered its rating from 'B' to 'CCC,' flagging higher chances of a default and restructuring of the government debt.

During the last one month, oil prices declined. The price of Brent and WTI fell by 6 percent to USD 60 and by 2 percent to USD 56, respectively, although in the middle of the period, the prices of the reference oil types declined to a larger degree than that. The decline was primarily attributable to the resuming trade war tensions and the expected deceleration of China resulting from that; in addition, the poor retail trade and industrial production data of China also pointed to this direction. The fall in prices was not curbed even by the OPEC countries' oil output plunging to a multi-year low of less than 30 million barrels. At the same time, at the end of the period, under slightly improving sentiment, oil prices slightly adjusted, which may have been also supported by the data indicating a decline in US oil reserves.

2.2. Developments in domestic money market indicators

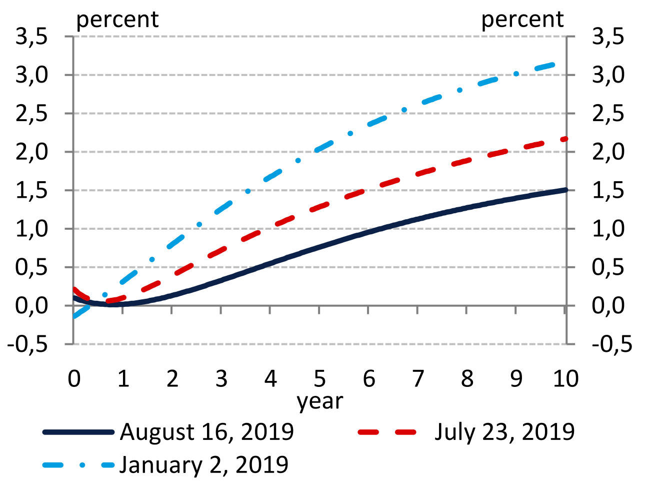
During the period under review, the forint moderately depreciated against the euro, while it relatively appreciated against the currencies of the region. The 3-month BUBOR rose minimally – by 1 basis point – to 0.27 percent. There was a smaller decline on the short section of the government securities yield curve and a larger one on the long section thereof, and thus the steepness of the yield curve decreased. Due to strong demand at the auction of long-term government securities, the Government Debt Management Agency increased the announced volume several times.

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



Source: Bloomberg

Chart 15: Shifts in the spot government yield curve



Source: MNB, Reuters

Since the interest rate decision in July, the forint exchange rate against the euro has depreciated from 326 to 327.5 (Chart 14). The forint slightly appreciated in the region, since the Czech koruna and the Polish zloty depreciated by almost 1 percent and 2.6 percent, respectively, in the wake of the EU decision related to Polish mortgage loans.

The 3-month BUBOR, relevant for the monetary policy transmission, rose minimally, by 1 basis point, and thus it stood at 27 basis points at the end of the period. **The short section of the government yield curve slightly shifted downward, while its middle and longer sections declined to a larger degree.** The short section of the yield curve was characterised by a slight fall of around 5 basis points, the middle section declined by 10-60 basis points, while the long section registered a decline of 60-80 basis points, and thus the government yield curve became flatter during the period under review (Chart 15).

Short-term forint government bond auctions were characterised by moderate demand, and at the same time average yields remained record low. Demand for long-term securities was strong and average yields declined. At the auctions of the 3- and 12-month Treasury bills, the Government Debt Management Agency issued the announced volume at each time, despite the moderate demand. As in the previous period, the average yield of the 3-month auctions continued to fluctuate close to 0 percent. At the 12-month Treasury bill auctions, the average auction yield decreased further by 14 basis points to 0.04 percent. The auctions of the longer term government securities attracted strong demand throughout the period, and thus in several cases the Government Debt Management Agency accepted higher volumes than previously announced, particularly on the 10-year maturity. The average yield of the 5- and 10-year securities was 0.75 and 1.58 percent, respectively, falling short of the previous period's last average auction yields by 70 and 80 basis points. The Hungarian 5-year CDS spread fell by 1 basis point during the period under review, and at present it stands at 77 basis points.

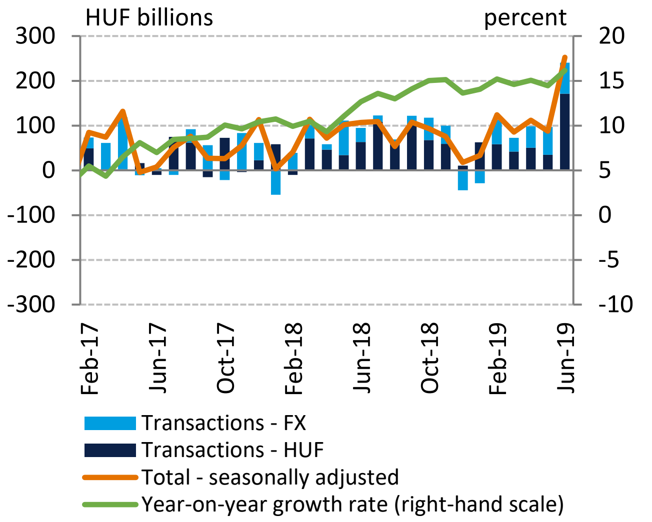
Non-residents' forint government securities holdings decreased. The portfolio held by non-residents declined by

HUF 137 billion to HUF 4,356 billion. Their share within the total portfolio declined by 1 percentage point, and thus at the end of the period it was close to 24.5 percent of the market holding.

3. Trends in lending

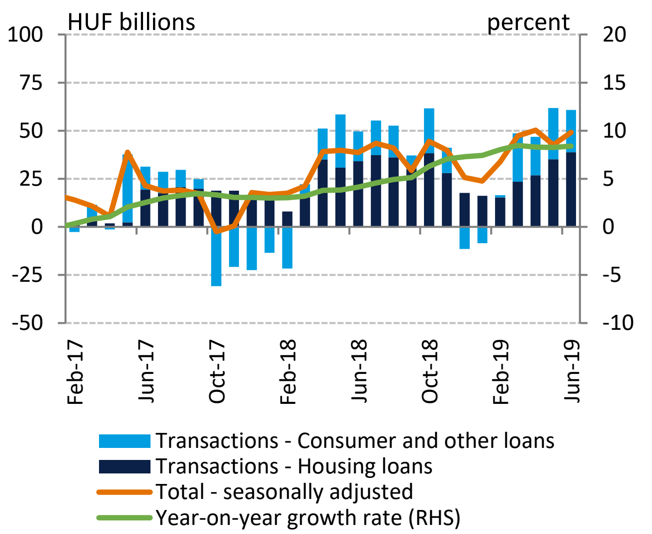
In June, the outstanding corporate loans of credit institutions rose by HUF 240 billion due to transactions. The outstanding loans of the credit institutions to households rose by HUF 61 billion due to transactions, and thus the annual growth in outstanding lending amounted to 8.4 percent.

Chart 16: Net borrowing by non-financial corporations



Source: MNB

Chart 17: Net borrowing by households

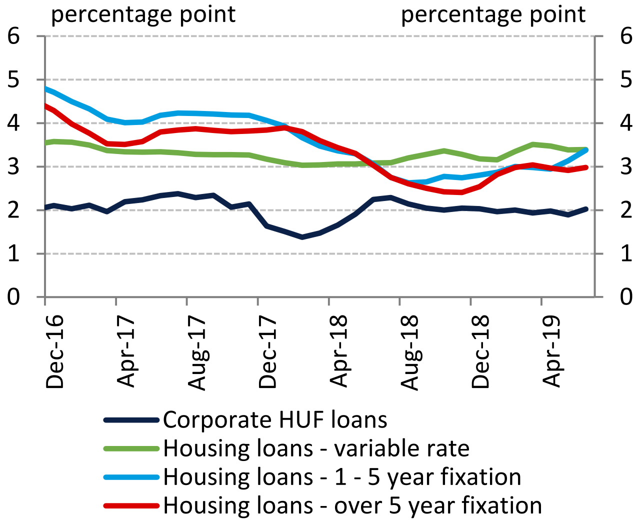


Source: MNB

In June, the outstanding corporate loans of credit institutions rose by HUF 240 billion due to transactions (Chart 16). In a breakdown by currency, forint loans and foreign currency loans increased by HUF 171 billion and HUF 69 billion, respectively. Thus the annual growth rate of the outstanding corporate loans stood at 16.2 percent, being the highest value of the cycle to date. Excluding money market transactions, the volume of new loans rose to roughly HUF 380 billion in June. The dynamic growth was attributable, among other things, to individual high-value transactions, mostly denominated in euro.

The outstanding loans of the credit institutions to households rose by HUF 61 billion due to transactions, and thus the annual growth in outstanding lending amounted to 8.4 percent, similarly to last month (Chart 17). The value of new contracts concluded during the month amounted to HUF 167 billion. New loans were still dominated by housing loans (HUF 81 billion) and personal loans (HUF 47 billion). The interest rate risk of households is mitigated by the fact that the placement of variable-rate loans practically ceased and almost two-thirds of the housing loans with an interest period of at least 5 years concluded in June were Certified Consumer-friendly Housing 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

The smoothed interest rate spread of forint corporate loans was 2.03 percent in June 2019, representing an increase of 14 percentage points compared to the previous month (Chart 18). The average smoothed interest rate spread on variable rate housing loans calculated on the basis of the annual percentage rate (APR) remained unchanged and amounted to 3.39 percentage points in June. For loans the interest rate of which is fixed for 5 years at the most, this value was 3.37 percentage points, while for loans fixed for more than 5 years, it stood at 2.98 basis points in June. The average spread on fixed-rate loans is still lower than that on variable-rate loans.