MACROECONOMIC AND

FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 29 AUGUST 2023

AUGUST

2023

Time of publication: 2 p.m. on 13 September 2023

The background material 'Macroeconomic and financial market developments' is based on information available until 23 August 2023.

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:
https://www.mnb.hu/en/monetary-policy/the-monetary-council/minutes

Table of contents

1. Macroeconomic developments

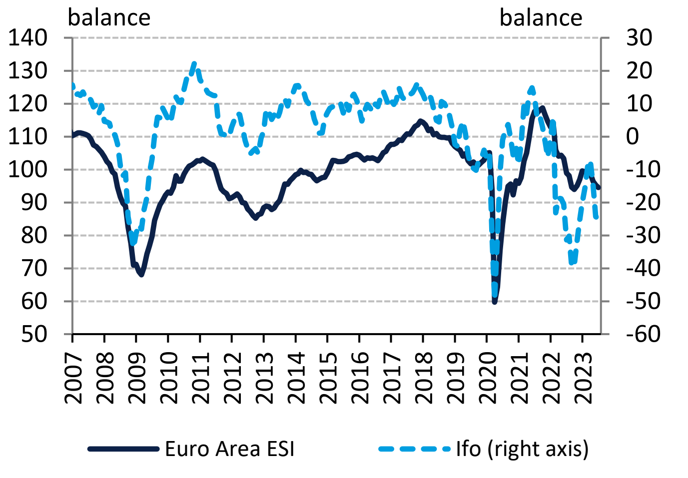
1.1. Global macroeconomic environment

In 2023 Q2, GDP growth remained subdued in major economies. Economic growth was 0.6 percent in the euro area, 0.5 percent in the European Union, 2.6 percent in the United States and 6.3 percent in China in annual terms. Out of the major economies, industrial output rose only in China, and retail sales increased in both the United States and China. Sentiment indices worsened in the euro area, China and the United States as well.

In 2023 Q2, GDP growth remained subdued in major economies. In international comparison, economic growth was 0.6 percent in the euro area, 0.5 percent across the European Union, 2.6 percent in the United States and 6.3 percent in China in annual terms. According to available data, among the EU countries, annual GDP growth was the highest in Ireland (+2.8 percent) and Romania (+2.7 percent) in 2023 Q2. Eight member states reported year-on-year falls, with output decreasing most sharply in Estonia (-3.0 percent) and Sweden (-2.4 percent). The economy of Hungary's main trading partner, Germany, shrank by 0.1 percent. Quarter-on-quarter, economic performance increased in 12 Member States, stagnated in Germany and Portugal, while it declined in Estonia, Italy, Hungary, the Netherlands, Cyprus, Austria, Latvia, Sweden and Poland.

Among the major economies, industrial output rose in China, and retail sales increased in both the United States and China. In June, industrial production rose by 4.4 percent in China and fell by 0.4 percent and 1.2 percent in the United States and in the euro area, respectively. In June, the volume of retail sales rose by 1.6 percent in the USA and 3.1 percent in China, and fell by 1.4 percent in the euro area, year-on-year.

Chart 1 Business climate indices in Hungary's export markets

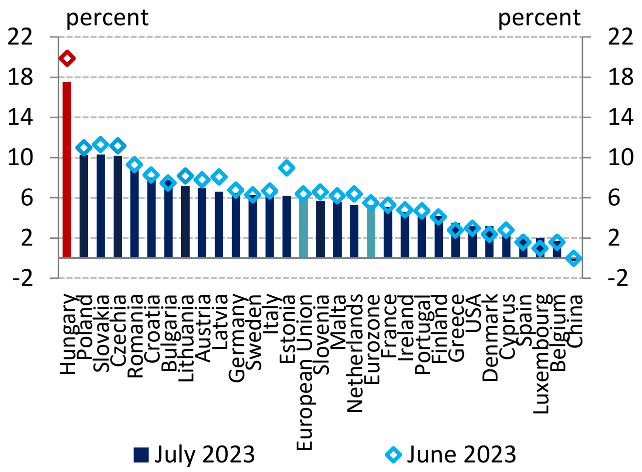


Source: Europen Commission, Ifo

In July, sentiment indices worsened in the euro area, China and the United States (Chart 1). In July, business sentiment in the euro area deteriorated on a monthly basis, measured by the Economic Sentiment Indicator (ESI) and the Purchasing Managers Index (PMI). The PMI deteriorated in the United States and in China, and approached the threshold (50 points).

There is still no sign of significant slowdown in international labour market developments. In July, the unemployment rate in the United States dropped to 3.5 percent. However, under persistently tight labour market conditions the number of non-agricultural employees rose by 185,000 and 187,000 in June and July, respectively, which is a less sharp increase than the rise of 281,000 seen in May. This has been the lowest rate of

Chart 2 Developments of inflation in the European Union



Note: HICP and CPI rates.

Source: Eurostat, Trading Economics

increase since December 2021. The unemployment rate in the euro area stood at 6.4 percent in June.

Annual inflation in the United States rose to 3.2 percent from 3.0 percent in June, while in China it dropped to 0.3 percent in July.

In annual terms, inflation in the euro area was 5.3 percent in July, down from 5.5 percent in the previous month. Core inflation stood at 5.5 percent in July, remaining unchanged from the previous month. The inflation figure matched analysts' expectations, while core inflation was slightly higher than predicted (5.4 percent).

Inflation declined in all but seven EU countries in July. Hungary had the highest inflation rate among the EU countries. In addition, the annual price index was high in the CEE region. In the region, prices rose by 10.3 percent in Poland and Slovakia, 10.2 percent in the Czech Republic and 8.9 percent in Romania, year-on-year (Chart 2).

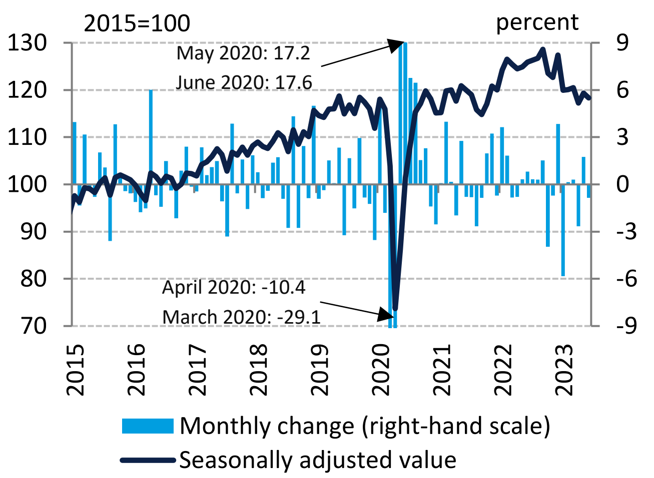
1.2. Real economic developments in Hungary

In 2023 Q2, GDP was down by 2.4 percent, year-on-year, and economic performance declined by 0.3 percent, quarter on quarter. In June 2023, industrial and construction output fell by 3.8 percent while retail sales fell by 8.3 percent, year-on-year. In June 2023, the average number of employees in the 15–74 age group was 4,766,000. On average, 31,000 more people worked in Hungary in 2023 Q2 than in the same period last year. The unemployment rate stood at 3.8 percent in June.

1.2.1. Economic growth

Preliminary data indicate that, in 2023 Q2, Hungary's gross domestic product fell by 2.4 percent, year-on-year. Economic performance fell by 0.3 percent, quarter on quarter. According to the HCSO, the largest contributors to the decline in economic output in the second quarter were industrial and market services sectors. This decrease was tempered by good performance in agriculture. The decline in the added value of services was mainly due to transport, storage and trade, which was partly offset by a significant increase in the health and social care sectors of the national economy, with both approaching pre-pandemic levels.

Chart 3 Developments in industrial production



Source: MNB calculation based on HCSO data

In June 2023, the decline in industrial production continued, with volumes falling by 3.8 percent, year-on-year. Compared to the previous month, the production level fell by 0.9 percent (Chart 3). Production fell in the majority of the manufacturing subsectors, but rose in the export-oriented automotive industry, battery and electric motor manufacturing, other machine manufacturing and pharmaceutical manufacturing, year-on-year. The automotive industry, representing the largest share, grew by 19.1 percent compared to June last year, while the production of electrical equipment rose by 16.9 percent. This included a 28.0 percent increase in battery and accumulator manufacturing, and a 6.5 percent rise in the manufacturing of electric motors, electricity generator, distributor and regulator devices. Other machine manufacturing grew by 7.2 percent, while pharmaceutical manufacturing rose by 1.2 percent, year-on-year. The rest of the subsectors representing a larger share saw a decline in production. Compared to June 2022, output fell in energy production (-32.7 percent), mining (-29.3 percent), chemical substances production (-26.5 percent), rubber, plastics and non-metal production (-20.1 percent), the metal industry (-13.9 percent), petroleum refining (-12.0 percent), the textile industry (-11.4 percent), the food industry (-11.1 percent), the wood and paper industry (-10.7 percent) and the manufacture of computers and electronic products (-5.1 percent).

The construction output declined by 3.8 percent in June 2023, indicating a fall since January on an annual basis, and this is the third month when this figure is lower than in

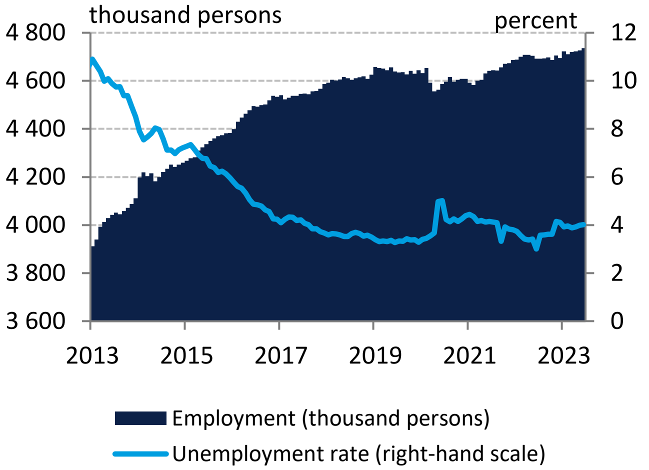
2019 Q4. Construction of buildings increased by 7.5 percent, while other construction decreased by 20.5 percent, year-on-year. Based on seasonally and calendar adjusted data, total construction output fell by 1.4 percent compared to May. The number of new contracts increased by 16.7 percent relative to June 2022. The number of new contracts related to the construction of buildings increased by 40.1 percent, while contracts for other construction work decreased by 14.4 percent. The end-of-June volume of construction companies' contract portfolio fell short of the value seen a year ago by 26.1 percent. Contracts for the construction of buildings and of other construction declined by 2.0 percent and by 40.9 percent, respectively, year-on-year.

In June 2023, the volume of retail sales fell by 8.3 percent, representing seven months of declining sales on an annual basis. Lower fuel sales compared to the same period a year earlier continued to contribute significantly to this decline. Excluding fuel sales, turnover declined by 4.7 percent according to data after adjusted for calendar effect. The volume of retail sales, excluding fuel trade, has been falling since last July on an annual basis. Retail sales picked up by 0.7 percent on a monthly basis in June, but this was only the fourth time an increase was seen in the last 15 months. In June, retail sales remained close to the level seen at the beginning of 2021 as seasonally and calendar adjusted data suggest. Retail turnover declined in all product groups, except shops selling medicine and perfume. Sales declined by more than 10 percent in industrial goods (-10.8 percent), furniture and appliance shops (-11.6 percent) and fuel (-24.2 percent).

According to preliminary data, external trade balance was in surplus amounting to EUR 1.5 billion in June 2023, which is the highest figure ever since it was first started to be reported in 1995. The balance improved by EUR 352 million compared to the previous month and by EUR 1.9 billion year-on-year. The balance adjusted for VAT residents improved by EUR 2.1 billion on an annual basis, and it showed a surplus of EUR 955 million. In June, despite the further decline in industrial production, exports rose by 11.1 percent in euro terms. In line with the slowdown in domestic demand, the nominal value of imports fell by 4.7 percent in euro terms, year-on-year. In May 2023, the terms of trade improved by 5.6 percent year-on-year. The contribution of mineral fuels improved terms of trade; in May the effect of this was 3.9 percentage points.

In July 2023, most of the high frequency data reflected a fall in economic activity. Based on online cash register data, nominal turnover rose by 9.9 percent in July, while real turnover adjusted for inflation fell by 7.7 percent in annual terms. Freight traffic, passenger flights and road passenger traffic declined (-1.8 percent, -8.1 percent and -6.6 percent, respectively) according to data received to date. Electricity load fell by 8.5 percent. Cinema attendance rose by 47.1 percent. Catering turnover rose by almost 16.1 percent. In July, the number of housing market transactions declined by 13.4 percent, according to data available to date. Google searches for the term “unemployment benefit” rose slightly.

Chart 4 Number of persons employed and the unemployment rate



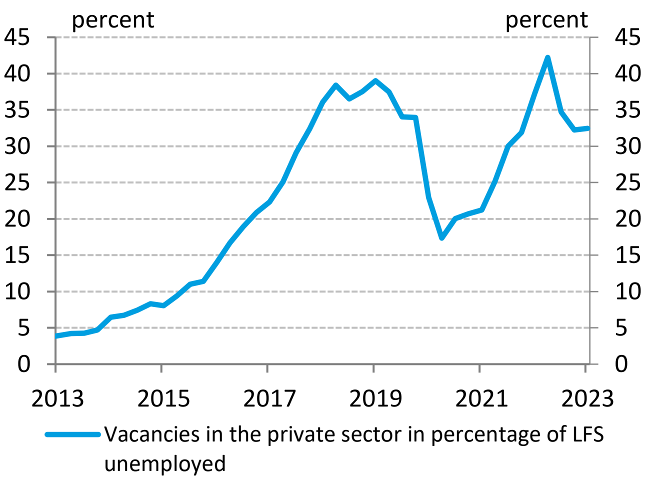
Note: Seasonally adjusted data.
Source: HCSO

1.2.2. Employment

Based on data supplied in the Labour Force Survey (LFS), in June 2023, the average number of employees in the 15–74 age group was 4,766,000. In 2023 Q2, the average number of employees was 4,724,000, exceeding the year-on-year figure by 31,000 (Chart 4). In April-June, the average number of employees in the primary labour market and of those employed at local units abroad rose by 31,000 and 7,000, respectively, while the number of public workers fell by 7,000, compared to the same period a year earlier.

In June, the number of unemployed was 187,000, which was 21,000 persons above the figure seen a year earlier, as a result, overall, the unemployment rate stood at 3.8 percent. Based on seasonally adjusted data, the number of unemployed was unchanged in June compared to May. Based on data published by the National Employment Service in June and July 2023, the number of registered jobseekers in Hungary was 224,000 (-6,000 on an annual basis) and 227,000 (-4,000 on an annual basis), respectively. Based on seasonally adjusted data, the number of registered jobseekers in July 2023 remained unchanged compared to June, and it is still below the number seen in the months before the outbreak of the coronavirus pandemic.

Chart 5 Developments in labour market tightness indicator



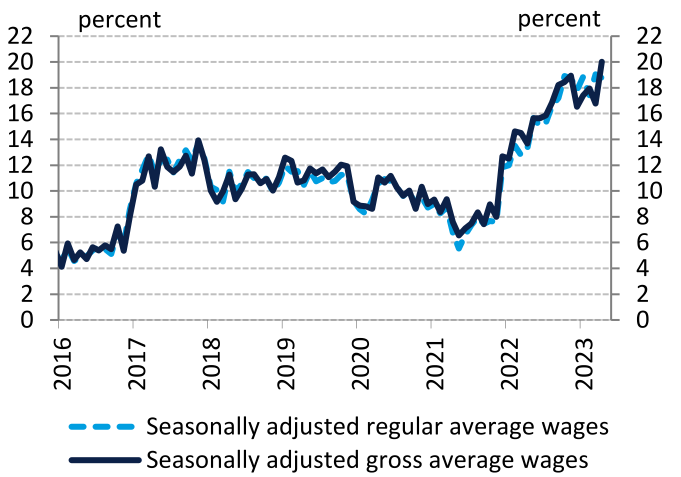
Note: Seasonally adjusted, quarterly data.
Source: HCSO

The labour market remains historically tight (Chart 5). In 2023 Q1, non-subsidised job vacancies amounted to 59,000 in the private sector, representing a decline of 5 percent in annual terms and remaining broadly unchanged compared to the previous quarter. Quarter on quarter, there were no significant changes in labour demand in either market services or manufacturing. In the market services sector, there were 33.4 thousand job vacancies in the first quarter of 2023, essentially the same number as in the previous quarter. Within the market services sector, the number of job vacancies fell by 500 in the retail sector and by 400 each in the information, communication and the transport and storage sectors, quarter on quarter. Within the public sector, job vacancies in public administration and healthcare fell, while they moderately rose in education compared to 2022 Q4.

1.3. Inflation and wages

In Hungary, inflation was falling for the sixth month in July 2023 at an accelerating rate; year-on-year, consumer prices were up by 17.6 percent. Both core inflation and core inflation excluding indirect tax effects fell to 17.5 percent. Incoming inflation data matched analysts' expectations. In May 2023, average wages in the national economy (excluding bonuses) rose by 16.9 percent, while wages in the private sector increased by 18.5 percent in annual terms.

Chart 6 Dynamics of average earnings in the private sector



Source: MNB calculation based on HCSO data

1.3.1. Wages

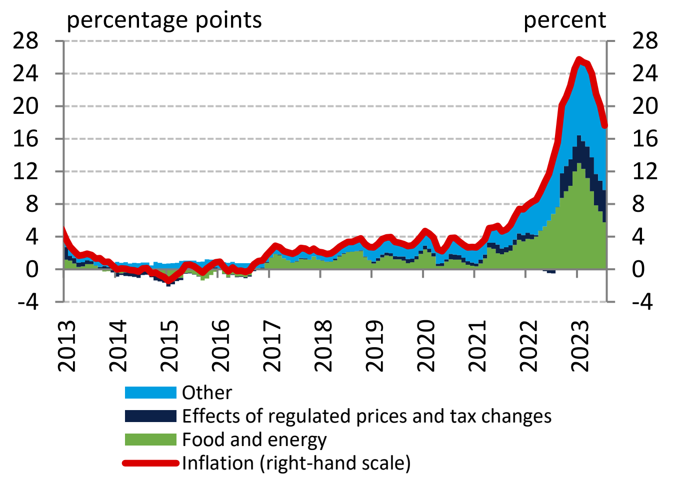
In May 2023, gross average wages in the private sector rose by 20.0 percent, year-on-year. Bonus payments were above the historic average in May. Average regular earnings (excluding bonuses) rose by 16.9 percent in annual terms in the whole economy and by 18.8 percent in the private sector.

According to seasonally adjusted data, gross average wage growth accelerated, while regular average wage dynamics slowed down in the private sector compared to the previous month (Chart 6). In the private sector, wage growth in manufacturing outstripped that in market services. Annual wage dynamics were over 15.0 percent in most sectors. In May, manufacturing wages were higher by 20.3 percent, year-on-year. In market services, HCSO registered a growth of 18.8 percent. Gross wages in construction and trade rose by 18.4 percent and 15.0 percent, respectively, in annual terms.

1.3.2. Inflation developments

Domestic inflation fell, at an accelerating rate, for the sixth month in July 2023; year-on-year, consumer prices were 17.6 percent higher (Chart 7). Compared to the previous month, inflation declined by 2.5 percentage points. This slowdown was driven mostly by processed foods (-1.3 percentage points) and industrial goods (-0.6 percentage point). Annualised core inflation fell significantly, by 3.3 percentage points, month-on-month. The annual price index of market services decreased to 17.6 percent, continuing the decreasing trend in price dynamics, which had started in the previous month. Prices of non-durable industrial goods rose month-on-month, which was partially offset by the fall in durable industrial goods prices. Core inflation includes processed foods, the annual price dynamics of which was 22.1 percent, representing a significant slowdown compared to 31.9 percent, registered in the previous month. The incoming data were in line with analysts' expectations. The median was 17.7 percent, while expectations varied between 17.2 and 18.5 percent.

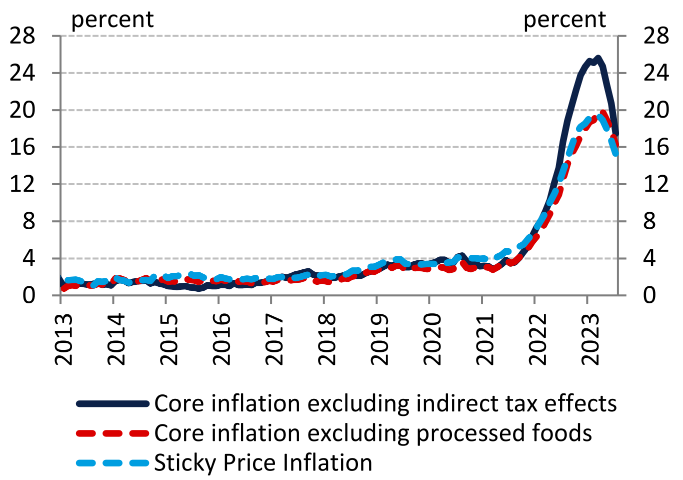
Chart 7 Decomposition of inflation



Source: MNB calculation based on HCSO data

Underlying inflation indicators, capturing persistent trends on an annual basis, also moderated. The annual

Chart 8 Measures of underlying inflation indicators



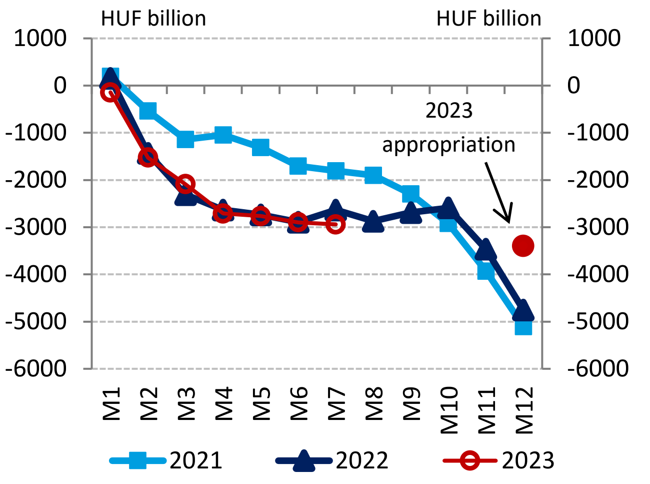
Note: Core inflation excluding processed food corresponds, with unchanged content, to the former demand sensitive inflation measure.
Source: MNB calculation based on HCSO data

increase in core inflation, excluding sticky-price goods and processed food, was 1.5 percentage points lower than in the previous month (Chart 8).

1.4. Fiscal developments

The cash deficit of the central sub-sector of the government budget, calculated from the beginning of the year, rose to HUF 2,940 billion in July 2023, which is equivalent to 86 percent of the HUF 3,400 billion target. The central sub-sector had a deficit of HUF 44 billion at the end of July, which was approximately HUF 300 billion below the considerable surplus in the month of July 2022. In July, revenues of the central sub-sector were HUF 181 billion higher than a year before, while expenditures rose by HUF 481 billion.

Chart 9 The cumulative cash balance of the central government budget from the beginning of the year



Source: Budget Act of 2023, Hungarian State Treasury

The cumulated cash deficit of the **central sub-sector of the government budget** from the beginning of the year, rose to HUF 2,940 billion in July 2023, equal to 86 percent of the HUF 3,400 billion target. The central sub-sector ended the month of July with a deficit of HUF 44 billion, approximately HUF 300 billion below the considerable surplus in the month of July 2022 (Chart 9).

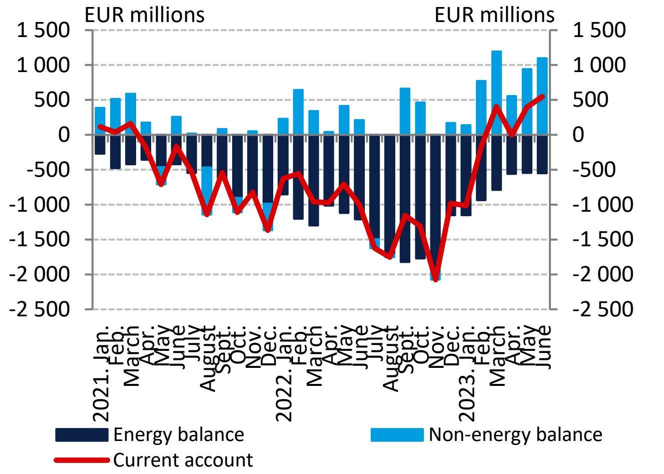
In July, **revenues of the central sub-sector** were HUF 181 billion higher than a year before. This was driven mostly by the HUF 260 billion year-on-year rise in tax and contribution revenues, which was partially offset by the fall in revenues from European Union funds and in other revenues. Payments by enterprises rose by HUF 128 billion, while income tax and contribution revenues increased by HUF 166 billion. The increase in gross VAT revenues further decelerated, year-on-year, and the revenue net of refunds fell.

Expenditures were HUF 481 billion higher than in July 2022. As in the preceding months, the increase was primarily attributable to the rise, by HUF 357 billion, in the expenditures of central budgetary organisations and the increase, by HUF 148 billion, in normative and special subsidies. Net interest expenditures fell by HUF 5 billion compared to July last year, mostly due to high interest revenues.

1.5. External balance developments

In June 2023, the current account surplus approached EUR 550 million, primarily as a result of the record high trade surplus of EUR 1.7 billion. Net lending amounted to over EUR 700 million. The improvement in the current account balance was mostly driven by the increase in the goods trade surplus, which was attributable to a pick-up in exports and the continued decline in imports amid falling domestic demand. According to financial accounts data, net direct investment decreased by EUR 1.3 billion in June, primarily due to a combined effect of FDI outflows linked to dividends approved and a fall in net shareholder loans, while reinvested earnings had the opposite effect.

Chart 10 Developments of current account and energy balance



Note: The June value of the energy balance is estimated.
Source: MNB, HCSO

In June 2023, the current account surplus moved close to EUR 550 million, primarily as a result of the record high trade surplus of EUR 1.7 billion (Chart 10). **Net lending amounted to over EUR 700 million.** The improvement in the current account balance was mostly driven by the increase in the goods trade surplus, which was attributable to a pick-up in exports and the continued decline in imports amid falling domestic demand. In June, the services balance surplus remained close to the high level seen in the previous month. The income balance deficit increased, while the transfer balance surplus moderately declined.

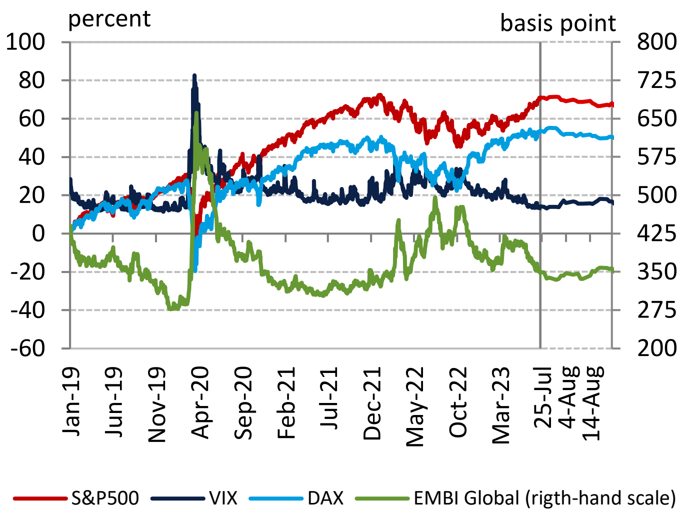
According to financial accounts data, net direct investment positions decreased by EUR 1.3 billion in June, attributable primarily to a combined effect of FDI outflows for dividends approved and a fall in net shareholder loans, while reinvested earnings had the opposite effect. The growth of EUR 1.4 billion in net external debt due to transactions was attributable to a rise in the external debt of consolidated general government, while that of banks was reduced by the measures taken by the central bank at the end of the quarter to reduce swap market tensions. Net external debt within the corporate sector also declined.

2. Financial markets

2.1. International financial markets

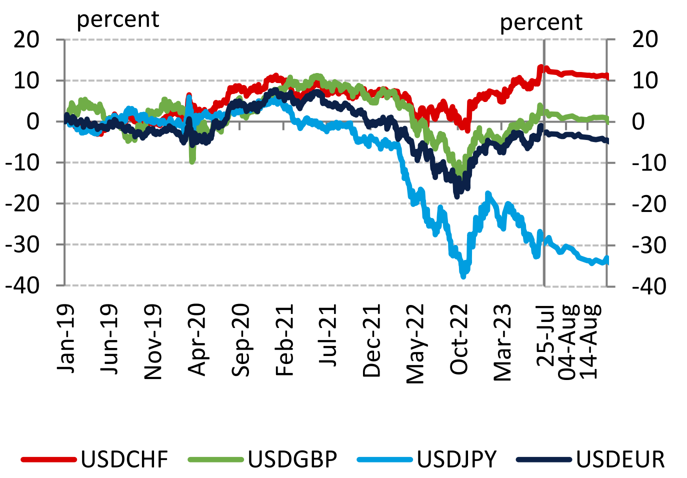
Investor sentiment has deteriorated since the last interest rate decision. The expectation of a prolonged period of high interest rates and lower-than-expected easing by the Chinese central bank also led to a more bearish sentiment among market participants. Risk indicators rose and developed-market bond yields increased significantly. The dollar appreciated against developed and emerging currencies, while leading stock market indices declined.

Chart 11 Developed market equity indices, the VIX index and the EMBI Global Index



Source: Bloomberg

Chart 12 Evolution of developed market FX exchange rates from January 1, 2019



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

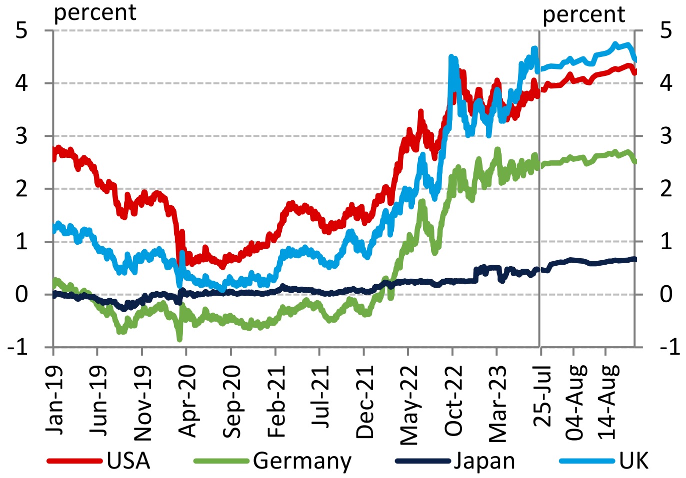
Investor sentiment has deteriorated since the last interest rate decision. Market participants' attention was focused on the expectations for the world's leading central banks' interest rate policy and macroeconomic data releases. Over the period, the market has increasingly taken note of the hawkish messages communicated by the Fed and the ECB in recent months, with expectations of elevated interest rates persisting for longer periods causing an additional tightening in market conditions. Smaller-than-expected easing by the Chinese central bank also contributed to the weaker global sentiment. Among the risk indicators, the VIX index, the key measure of equity market volatility, increased overall by 3 percentage points to 17 percent compared to the level registered at the previous interest rate decision, while in emerging markets the EMBI Global bond market premium increased by 7 basis points (Chart 11). The MOVE index (a measure of the developed bond market volatility) rose by 14 basis points to 127 basis points.

Leading stock indices fell during the period. The US S&P 500 and the Dow Jones have decreased by 4 and 3 percent, respectively, since the previous interest rate decision. Among leading European stock market indices, the German DAX fell by 3 percent and the French CAC40 by 2.5 percent. Among the Asian indices, the Japanese Nikkei and the Shanghai stock market index have decreased by 2.0 percent and 4.5 percent, respectively, since the previous interest rate decision. Overall, the developed and emerging market MSCI composite indices decreased by 4.5 and 6.5 percent, respectively.

The dollar appreciated against the major currencies (Chart 12). The US dollar appreciated by 1.1 percent against the British pound and the Australian dollar and by 1.8 percent against the euro (to below 1.09). The US currency appreciated against the Japanese yen and the Swiss franc by 3.4 and 1.8 percent, respectively, while it also appreciated against the emerging market currencies.

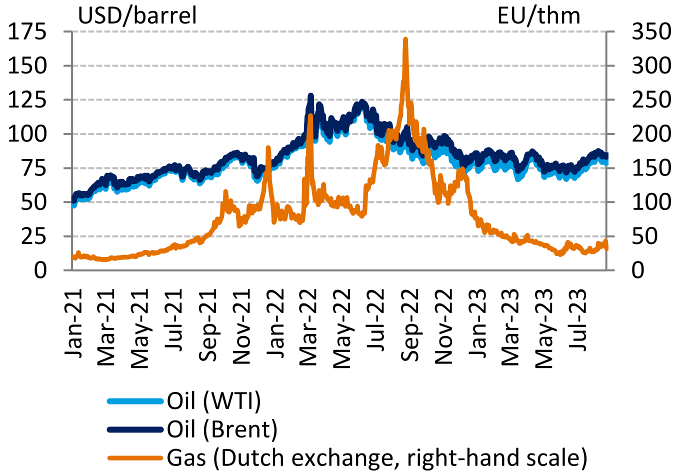
Long-term yields rose considerably in developed markets (Chart 13). Ten-year US and German yields rose by 41 and 21 basis points, respectively, and thus the US

Chart 13 Yields on developed market long-term bonds



Source: Bloomberg

Chart 14 Developments in oil and gas prices since January 2021



Source: Bloomberg

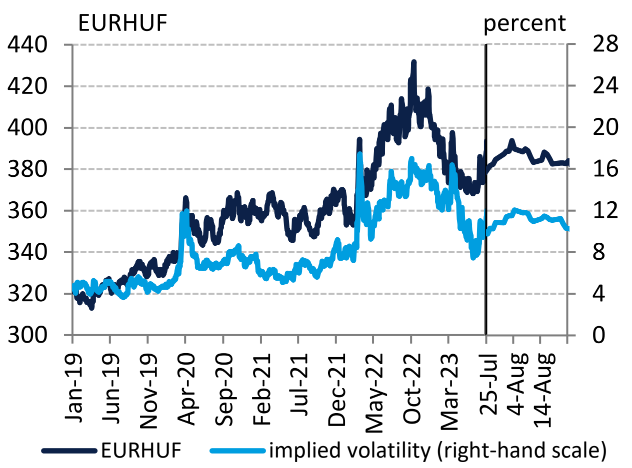
yield closed the period at 4.32 percent, while the German one at 2.65 percent. Yields in the Mediterranean countries also increased, rising by 21 basis points in both Spain and Portugal, and by 22 and 18 basis points in Italy and Greece, respectively. In our region, 10-year government bond yields increased by 35, 46 and 57 basis points in Poland, the Czech Republic and Romania, respectively. Hungarian yields have increased by 43 basis points since the July rate decision.

Oil prices have not changed significantly since the previous interest rate decision (Chart 14): the price of the North Sea Brent crude oil rose by 0.2 percent, to USD 84 per barrel, while the US benchmark WTI oil price decreased by 0.2 percent to USD 79.5 per barrel. During the period, oil prices were mainly driven by the production curbs announced, the declining US inventories, and the expectations surrounding Chinese demand. European gas prices have risen by 31.4 percent since the previous rate decision, from EUR 32.8/MWh to EUR 42.9/MWh, mainly due to market uncertainty about stable gas supplies over the winter period caused by a strike by workers at an Australian LNG plant. The price of industrial metals fell by 4.5 percent, and that of copper and nickel declined by 3.2 and 8.8 percent, respectively. The Bloomberg commodity price index, covering the entire commodity market, declined by 3.9 percent over the period, mainly due to a decline in the cereals sub-index.

2.2. Developments in domestic money market indicators

Since the July interest rate decision, overall, the forint has depreciated against the euro, showing significant volatility. The government securities market yield curve has flattened. The 3-month BUBOR fell by 83 basis points to 13.93 percent.

Chart 15 EUR/HUF exchange rate and the implied volatility of exchange rate expectations



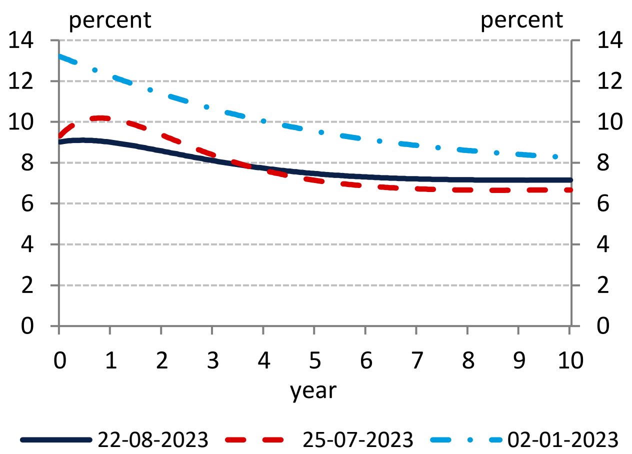
Source: Bloomberg

Overall, the forint has depreciated by approx. 0.8 percent against the euro since the July interest rate decision (Chart 15). In the days following the previous interest rate decision, the forint underperformed the region, depreciating by nearly 4 percent, before appreciating to near 381.8 against the euro in the first weeks of August. In the second half of August, the forint stabilised near the 383 level. Regional currencies depreciated slightly less than the forint. The Czech koruna was stable, while the Polish zloty and the Romanian leu depreciated by 0.7 percent and 0.5 percent, respectively, against the euro.

The 3-month BUBOR, relevant for monetary policy transmission, has decreased by 83 basis points to 13.93 percent since the last interest rate decision.

The government securities market yield curve has flattened (Chart 16). The yield curve fell by an average of 100 basis points on the below-one-year section of the curve, while on the longer maturities yields increased on average by 40 basis points.

Chart 16 Shifts in the spot government yield curve



Source: Bloomberg

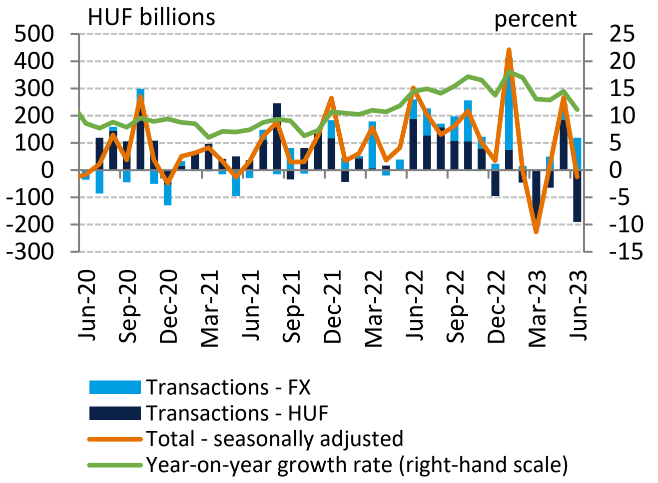
Government bond auctions held by the Government Debt Management Agency since the last interest rate decision were characterised by strong demand. Demand was strong in both discount treasury bill and government bond auctions during the period. Average yields on discount treasury bills fell.

Non-residents' holdings of forint government securities increased. Non-residents' holdings in forint government securities increased by HUF 137 billion to HUF 7,072 billion. The market share of forint government securities held by non-residents increased to near 21.3 percent.

3. Trends in lending

Reflecting a decrease of HUF 190 billion in forint loans and a rise in foreign currency loans by HUF 119 billion, outstanding corporate lending was down by HUF 71 billion in June 2023. Outstanding borrowing by households increased by HUF 45 billion due to transactions, reducing the annual growth rate to 3.1 percent from 3.6 percent last month. In June 2023, the smoothed interest rate spread on forint corporate loans stood at 1.57 percentage points, up 0.11 percentage point compared to the previous month.

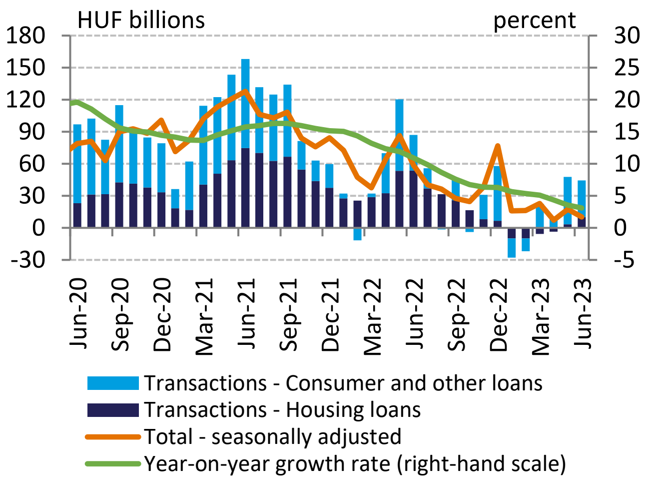
Chart 17 Net borrowing by non-financial corporations



Source: MNB

Reflecting a decrease of HUF 190 billion in forint loans and a rise in foreign currency loans by HUF 119 billion, outstanding loans to corporations were down by HUF 71 billion in June 2023 (Chart 17). As a result, the annual growth rate decelerated to 11.1 percent from 14.5 percent in the previous month, which was substantively driven by a high repayment made by a large corporation in the finance and insurance sector. Credit institutions extended new non-overdraft corporate loans in the amount of HUF 334 billion, 42 percent less than a year earlier. The significant year-on-year decline in new corporate loan volumes in June was largely driven by the base effect of the SZKP GO! product, which was closed in June 2022 and characterised by strong demand in its last month.

Chart 18 Net borrowing by households

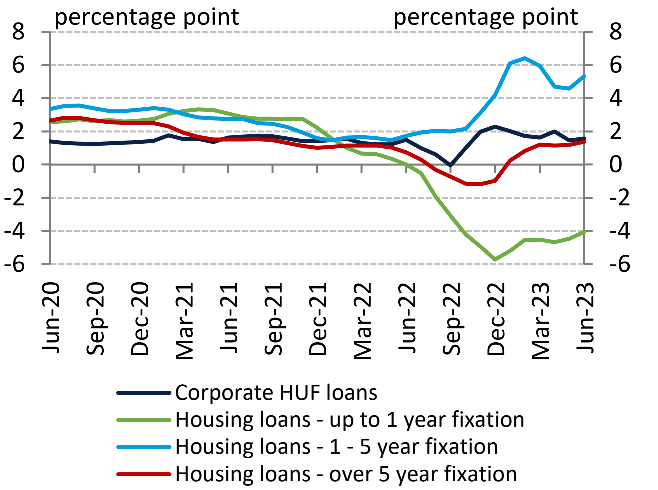


Source: MNB

In June, outstanding borrowing by households increased by HUF 45 billion due to transactions, reducing the annual growth rate to 3.1 percent from the 3.6 percent measured in the previous month (Chart 18). The volume of new household loan contracts, amounting to HUF 152 billion, was 41 percent lower than in the same period last year, but 7 percent higher than in May. The decline affected all of the main credit products, the largest decline was in housing loans impacted by the downturn; month-on-month, however, both consumer and housing new loan issuance were higher.

In June 2023, the smoothed interest rate spread on forint corporate loans stood at 1.57 percentage points, up 0.11 percentage point compared to the previous month (Chart 19). In housing loans, the spread on housing loans with interest rate fixation periods longer than 5 years increased by 0.19 percentage point, and stood at 1.38 percentage points at the end of the period under review.

Chart 19 Developments in corporate and household credit spreads



Note: Above APR, 3-month smoothed spreads. 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