MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 28 APRIL 2020

APRIL

2020

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The background material 'Macroeconomic and financial market developments' is based on information available until 23 April 2020.

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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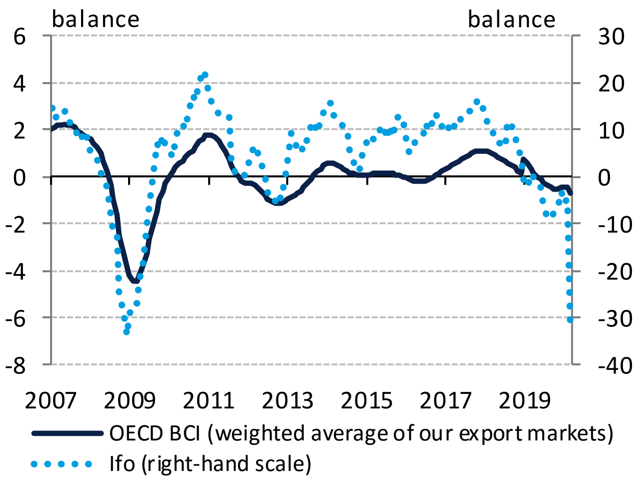
1. Macroeconomic developments

1.1. Global macroeconomic environment

Currently, the trends in the performance of the economy are primarily determined by the coronavirus and the measures taken to control it. The pandemic hit the global economy in a weakened state, and its negative economic impacts rapidly appeared in numerous countries. Global tourism practically stopped in mid-March. The effects on the economy first appeared in China, paralleled by the outbreak of the pandemic. In the first quarter of 2020, the GDP of China dropped by 6.8 percent, which was the strongest decline in the past 50 years. By March, the continuous deterioration of the economic situation, caused by the coronavirus, reached the United States and Europe, as well. In March, US industrial production and retail sales volume fell by 5.5 and 6.2 percent, respectively. External business conditions substantially worsened in March due to the spread of the coronavirus in Western Europe. The world market price of crude oil considerably declined in the past period.

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



Source: OECD, Ifo

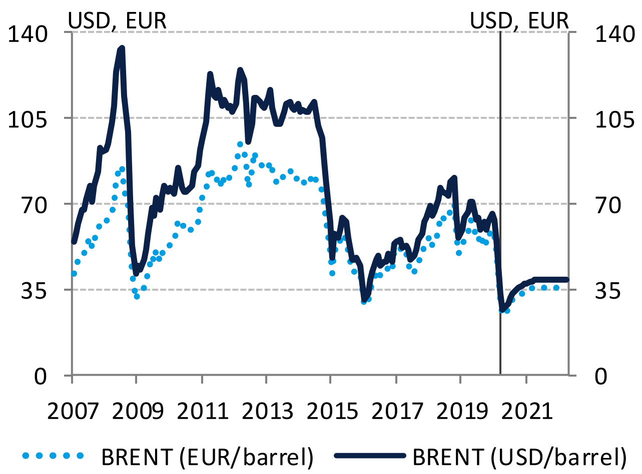
Currently, economic performance is primarily determined by the coronavirus and the measures taken to control it. The pandemic hit the global economy in a weakened state, and its negative economic impacts rapidly appeared in numerous countries. **Global tourism practically have been brought to standstill in mid-March.** After the extensive implementation of travel restrictions the number of flights plunged.

The economic impacts of the coronavirus first appeared in China, in parallel with the outbreak of the pandemic. As a result of the quarantines, shops closing down and factories suspending operation, China's economic performance substantially declined. **In the first quarter of 2020, the GDP of China dropped by 6.8 percent**, year on year, which was the largest decline, seen in the past 50 years. In the first quarter, **Chinese industrial production and retail sales volume fell by 8.4 and 18.2 percent, respectively,** in annual terms. Due to the restart of the economy, business sentiment in the Chinese manufacturing industry improved, which is also proven by a rise in the Purchasing Manager Index (PMI) in March. Despite the restart, the Chinese economy continues to operate with lower capacity utilisation than before.

By March the continuous deterioration of the economic situation, resulting from the **coronavirus, reached the United States and Europe as well**. In March, **US** industrial **production and retail sales volume fell by 5.5 and 6.2 percent,** respectively, year on year. In the week ending on 11 April, 5.245 million initial unemployment benefit claims were submitted in the USA, reaching a historic high. The substantial rise mainly affected the hotel and restaurant sector. **External business conditions substantially worsened in March, due to the spread of the coronavirus in Western Europe.** The manufacturing confidence indices fell to a historic low all over Europe, and expectations with regard to Ifo, capturing the German economic outlook, considerably declined (Chart 1). German industrial production and new orders in manufacturing both decreased further in February. **The business climate in Europe, which was already moderate before the global spread of the coronavirus, has been further deteriorated by the impacts of the pandemic**, the mitigation of which is also hampered by the high debt level, structural weaknesses, the rigid institutional system and the vulnerable banking sector. **In order to mitigate the negative effects, additional fiscal and monetary policy measures are likely to be taken all over the world.**

In line with analysts' expectations, **inflation in the euro area fell to 0.7 percent in March,** due to the fall in fuel prices. **Core inflation fell to 1.0 percent**, which may have been mostly attributable to the decline in the prices of industrial goods. **The Brent crude oil prices declined considerably in the past period** (Chart 2)**, by 29 percent in total, to around USD 20, while the price of WTI fell to an even larger degree, by 58.3 percent, close to USD 10**. **On 9 April, the OPEC+ countries agreed to reduce the volume of daily oil production by 9.7 million barrels**. The agreement managed to stop the fall in prices temporarily, but the significantly declining demand, resulting from the coronavirus, continues to represent downside risks on oil prices. The world market price of both industrial commodities and unprocessed food declined in March.

Chart 2: **World market prices of Brent crude oil**

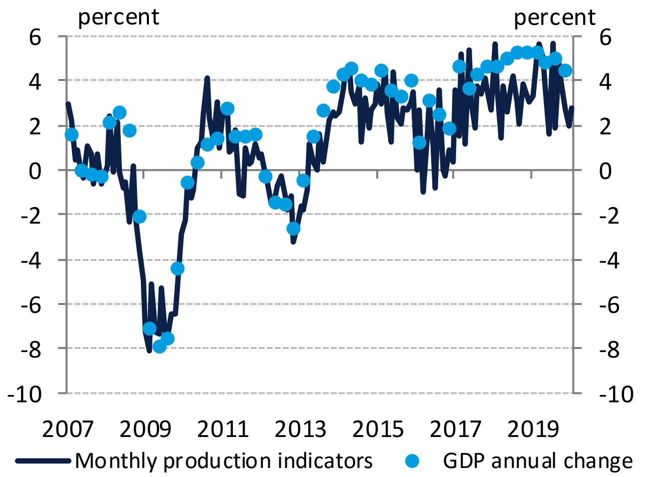


Source: Bloomberg

1.2. Domestic real economy developments

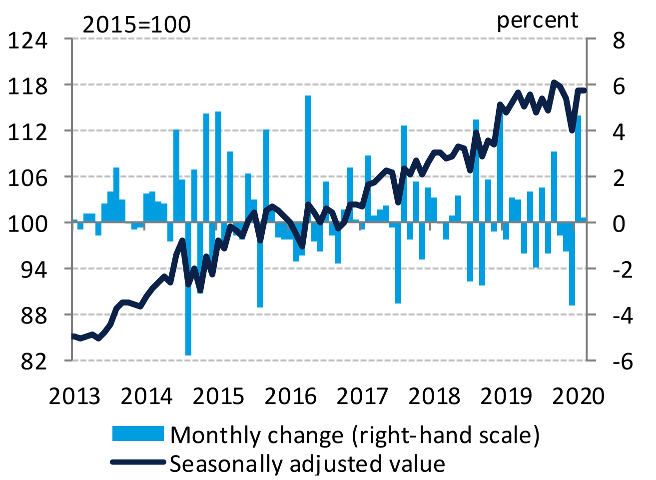
The impacts of the coronavirus have not yet appeared in the domestic industrial and construction output trends in February. Retail sales rose dynamically, by 8.7 percent; almost half of this growth was attributable to the panic-buying observed at the end of February. In the period between December 2019 and February 2020, total employment declined by 0.2 percent; within that the number of employees in the primary labour market rose by 0.2 percent in an annual comparison. Based on the data published by the National Employment Service, in March 2020, the number of registered jobseekers was up by 0.9 percent year on year.

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 fourth quarter of 2019 Hungary's gross domestic product grew by 4.5 percent year on year, which put Hungary in second place in the European Union member states' growth ranking. Hungary's GDP rose by **1.0 percent quarter on quarter**. A wide range of the sectors contributed to growth. On the output side, market services supported GDP growth the most, while industry and construction supported it to a lesser extent (Chart 3). On the expenditure side, domestic demand items – consumption and investment – continued to expand significantly, while net exports made negative contribution to GDP growth.

In February 2020, **industrial output was up by 4.1 percent** year on year, while output rose by 0.2 percent compared to the previous month (Chart 4). **The seasonally and working-day adjusted index increased by 1.7 percent in annual terms.** Representing a significant share, automotive industry output rose by 5.0 percent in an annual comparison. As regards the other sectors, electric machinery production showed significant growth (23.3 percent), and domestic manufacture of computer, electronics and optical products as well as food production also increased. In February, the performance of the metal industry (-7.7 percent) and the output of the textile industry (-5.3 percent) declined year on year. Due to the coronavirus **Hungarian manufacturing PMI declined to its historic low, to 29.1 points in March in line with the news on factory stoppages, exhaustion of inventories and supply chain breakdowns**.

Based on preliminary data, in February 2020 annual growth **in exports and imports was 3.9 percent and 0.1 percent** respectively, in euro terms. As a result, the trade surplus rose by EUR 343 million. In January 2020, the terms of trade continued to improve year on year, influenced positively also by the change in the price of mineral fuels, chemical products, machinery and transportation equipment.

In February 2020, construction output was up by 2.5 percent year on year. Output of both main construction groups increased: construction of buildings and other construction rose by 1.6 percent and 4.2 percent, respectively, in annual terms. **The volume of new contracts**

increased by 2.7 percent year on year. The volume of new contracts concluded for construction of buildings declined by 7.8 percent, while for other construction works the volume increased by 16.2 percent. The month-end volume of construction companies' contract portfolio fell short of the value registered a year ago by 15.2 percent.

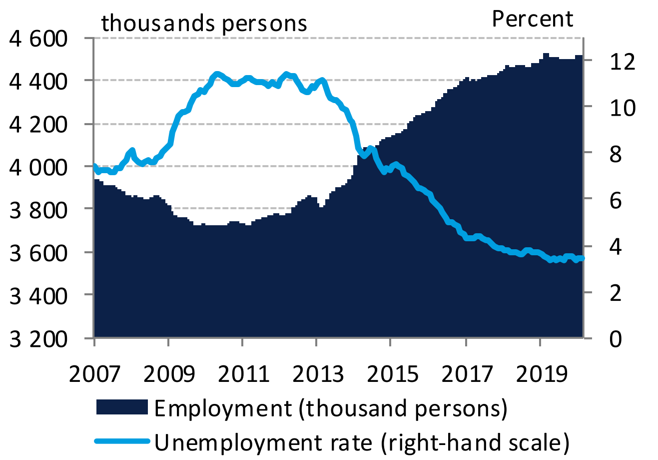
In February, **retail sales volume** (including sales of vehicles and components) **was up by 8.7 percent year on year after accounting for calendar effects.** As regards the structure of sales, turnover rose in a wide range of product groups; the sales of vehicles and components continued to expand at an outstanding rate (20.6 percent). According to the HCSO's flash report, the panic-buying – in connection with the spread of coronavirus – **observed at the end of February, accounted for almost half of the total rise in retail sales volume.** Within that the greatest impact was observed in the food and grocery retail trade, pharmaceutical and medical shops and perfumeries.

1.2.2. Employment

Based on the data of the Labour Force Survey in the period between December 2019 and February 2020, total employment declined by 0.2 percent; within that the number of employees in the primary labour market rose by 0.2 percent in an annual comparison. On the secondary labour market, the number of people in public employment declined by 20,300 and the number of people employed abroad rose by 5,400 year on year. **The seasonally adjusted unemployment rate remained at 3.4 percent.** (Chart 5). Based on the data published by the National Employment Service, in March 2020 the number of registered jobseekers in Hungary was 281,200, exceeding the year-on-year figure by 0.9 percent. The moderate rise is attributable to the fact that the closing day of the survey was 20 March rather than the end of the month.

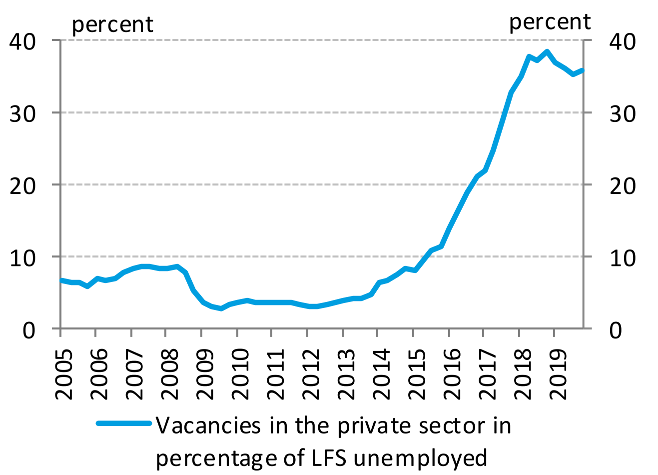
In the last quarter of 2019, based on the number of vacancies, **corporate labour demand continued to decline in a wide range of sectors.** The labour market **tightness indicator**, calculated from the ratio of job vacancies and unemployed persons, did not change significantly compared to the previous quarter and **remained at a high level** (Chart 6).

Chart 5: Number of persons employed and the unemployment rate



Source: HCSO

Chart 6: Development of labour market tightness indicator

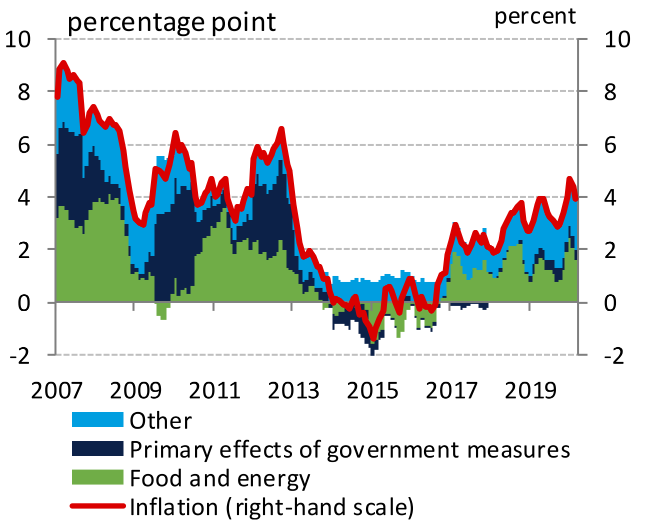


Note: Quarterly data.
Source: National Employment Service, HCSO

1.3. Inflation and wages

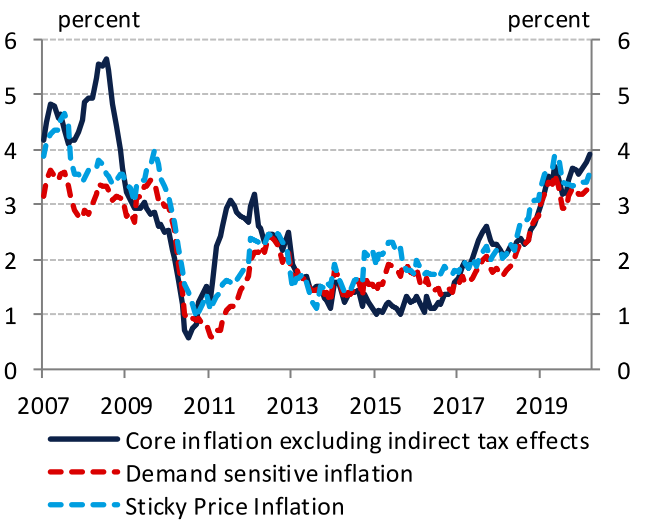
In March 2020, inflation calculated on a year-on-year basis was 3.9 percent. Core inflation stood 4.3 percent. Core inflation excluding indirect taxes was 3.9 percent. Underlying inflation indicators capturing persistent trends rose slightly compared to the previous month. In January 2020, gross average wages in the private sector rose by 8.6 percent year on year. Regular average wage rose at the same rate as that registered in the previous years, while the bonus payments fell short of last year's value, which was materially higher than before.

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 January 2020, gross average wages in the private sector rose by 8.6 percent year on year. Regular average wage rose at the same rate as that registered in the previous years, while the bonus payments fell short of last year's value, which was materially higher than before. Within the private sector, the growth rate of gross wages was below 10 percent both in the manufacturing and market services sectors. Based on the detailed analysis of the sectors, the sectors paying wages below and over the average wage equally registered single-digit wage dynamics.

1.3.2. Inflation developments

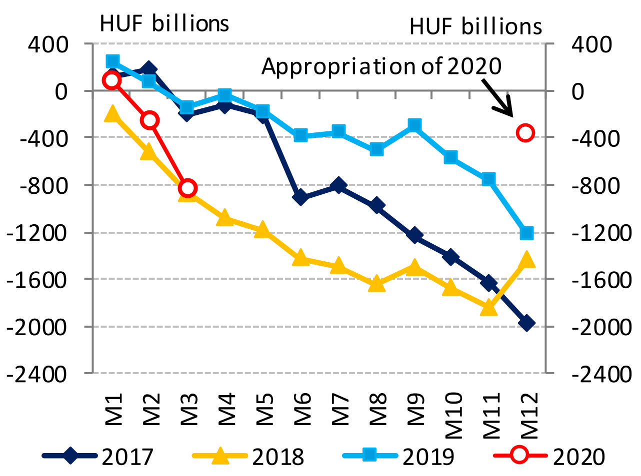
In March 2020, inflation calculated on a year-on-year basis was 3.9 percent. Core inflation stood 4.3 percent. Core inflation excluding indirect taxes was also 3.9 percent. (Chart 7). Compared to the previous month, inflation fell by 0.5 percentage point, while core inflation increased by 0.2 percentage point. The decrease in inflation was attributable to the decline in fuel prices, while the rise in core inflation was caused by the increase in the prices of processed food and market services. Within core inflation excluding indirect taxes, inflation of market services rose to 5.5 percent. The monthly increase in the prices of market services, exceeding that recorded in previous years, is attributable to the rise in the prices of mobile phone and internet as well as of financial services.

Underlying inflation indicators capturing persistent trends (inflation of demand sensitive and sticky price products and services) **slightly increased compared to the previous month** (Chart 8). In February 2020, agricultural producer prices increased by 6.1 percent in annual terms, while domestic sales prices in sectors of consumer goods increased by 7.2 percent.

1.4. Fiscal developments

The central sub-sector of the general government closed with a deficit of HUF 577 billion in March 2020, and thus the deficit accumulated since the start of the year rose to HUF 832 billion, which also included part of the costs related to the protection against the coronavirus epidemic. In order to control the pandemic, mitigate the economic effects and to restart the economy later on, the government adopted a number of measures. A large part of these support economic agents through the targeted reduction or deferment of taxes, and also by aids. According to the Government's plans, the vast majority of the measures are covered by the funds created for the financing of those, mostly through reallocation, and thus the measures to control the pandemic increase the deficit only a limited degree. However, the deficit is still likely to exceed the rate planned in the budget (1 percent of GDP) substantially, as the deceleration of economic growth will give rise to a major decline in tax revenues.

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



Source: Budget Act of 2020, Hungarian State Treasury

The **central sub-sector of the general government** closed with a deficit of HUF 577 billion in March 2020, and thus the deficit accumulated since the start of the year rose to HUF 832 billion (Chart 9). The rise in cash-based deficit compared to last year was primarily caused by the higher EU expenditures and lower revenues from the EU; at the same time, part of the costs related to the protection against coronavirus epidemic also appeared as expenditure in the budget already in March. Due to the deteriorating economic environment resulting from the pandemic caused by coronavirus, and to the measures and higher expenditures necessary for mitigating the economic effects of the pandemic, the budget deficit may exceed the estimate.

In March 2020, the **revenues of the central sub-sector** exceeded the revenue amount recorded in March last year by HUF 65 billion. The rise in revenues compared to previous year was contributed to by consumption tax revenues to a larger degree, and by wage-related revenues to a lesser degree. The tax and contribution revenues of the budget increased by 5 percent compared to March 2019, which represents a decline compared to the dynamics observed in the first two months of the year. The effect of the tax cutting measures adopted in connection with the coronavirus cannot yet be traced in the tax revenues of March, since those will impact the public dues payable in April in respect of the obligations incurred in March.

Expenditures of the central sub-sector in March 2020 were HUF 433 billion higher than in March 2019. A vast part of the rise in primary expenditure items appeared in the net expenditures of budgetary organisations and chapters, and it partly related to the state of emergency caused by the coronavirus. In addition, expenditures on curative and preventive care also increased compared to last March, which is primarily attributable to the repayment of the healthcare institutions' overdue supplier payables in the amount of HUF 40 billion.

In order to **protect against the coronavirus pandemic** and mitigate the economic effects thereof as well as to restart the economy after the easing of the pandemic, the Government took a number of measures. With a view to preserving jobs, the budget assumes – subject to certain conditions – 70 percent of the wage of workers employed in reduced working time for the 3 months. In addition, companies receive a wage subsidy of 40 percent (maximum HUF 319,000) in respect of employees working in R&D jobs, if they undertake to continue to employ the workers. Companies operating in sectors hardest hit by the economic effects of the pandemic benefit from tax allowances and development grants. In the targeted sectors, companies are exempted from the employers' social contributions and they also benefit from allowances related to the rehabilitation contribution and small enterprise tax obligations. Employees are exempted from the payment of pension contribution and benefit from allowances related to health insurance contribution. The lump sum tax of small entrepreneurs (KATA) is suspended for more than 80,000 entrepreneurs until July. New preferential credit programmes are established for the purpose of corporate finance, supported by new state guarantee programmes in the amount of HUF 500 billion; in addition, existing capital programmes are adapted to the current situation and news ones are launched. In order to support families and pensioners, there is a moratorium on evictions, seizures, tax executions and outstanding KATA tax obligations. Eligibility for child-care benefits and family allowances are prolonged until the end of the state of emergency. The moratorium on loan instalments, in force until the end of the year, helps not only households but corporations as well. In order to support pensioners, 13th month pension will be reintroduced in 4 steps commencing in 2021.

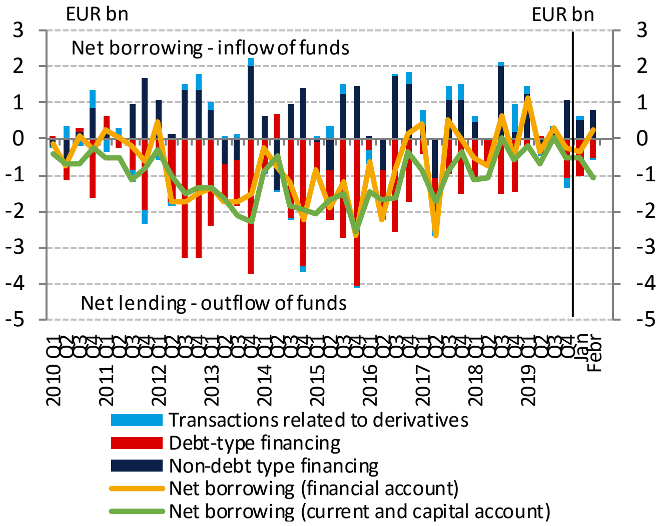
New budgetary funds were established for the financing of the measures, namely the Anti-Pandemic Protection Fund, the Economy Protection Fund and the Anti-Pandemic Aid Fund for Grants received from the EU. The sources of the Anti-Pandemic Protection Fund include the Country Protection Fund, the special taxes on credit institutions and retail chains, the vehicle tax of local governments, half of the party subsidies and additional budgetary reallocations, in the total amount of HUF 634 billion. The Fund will cover the wage increase and the one-off bonus of healthcare workers in 2020. The procurement of accessories, machinery and equipment necessary for controlling the pandemic is also financed from the Fund in a value of several hundred billion forints. The revenues of the Economy Protection Fund comprise the budgetary rearrangements and the revenues of the National Employment Fund in a total amount of HUF 1,346 billion. The economy protection programmes funded from this can be allocated to 5 categories: 1) job protection; 2) protection of key sectors; 3) job creation; 4) financing of enterprises, and 5) protection of families and pensioners. When establishing the Anti-Pandemic Aid Fund for Grants received from the EU, neither revenues, nor expenditures have been anticipated.

On the whole, according to the government's plans the vast majority of the fiscal measures are covered by the created funds and thus the measures to control the pandemic increase the deficit only to a limited degree. However, the deficit is still likely to exceed the rate planned in the budget (1 percent of GDP) substantially, as the deceleration of economic growth will give rise to a major decline in tax revenues.

1.5. External balance developments

In February, net lending of the economy rose to EUR 1.07 billion, while the materially increasing current account surplus amounted to EUR 646 million. The improvement in the external balance indicators was attributable to growth in the trade balance, while the rise in EU transfers stabilised at a high level. As regards the financing trends, in February the inflow of foreign direct investments continued, while the net external debt of the economy declined by more than EUR 500 million.

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 February, net lending of the economy rose to EUR 1.07 billion (Chart 10)**, while the materially increasing current account surplus amounted to EUR 646 million.** The improvement in external balance indicators is attributable to growth in the trade balance, which was partly explained by the decrease in imports, while the value of exports grew further. The absorption of EU transfers, even after a minor decrease compared to January, made positive contribution to the country's net lending. Based on preliminary data, the income deficit did not change materially.

According to the financial account data, foreign direct investments rose further in February, while debt liabilities of the economy also continued to decline. Net borrowing according to the financial account data is attributable to growth in foreign direct investments; net FDI inflow exceeded EUR 800 million. Net external debt – primarily due to the private sector trends – declined by more than EUR 500 million.

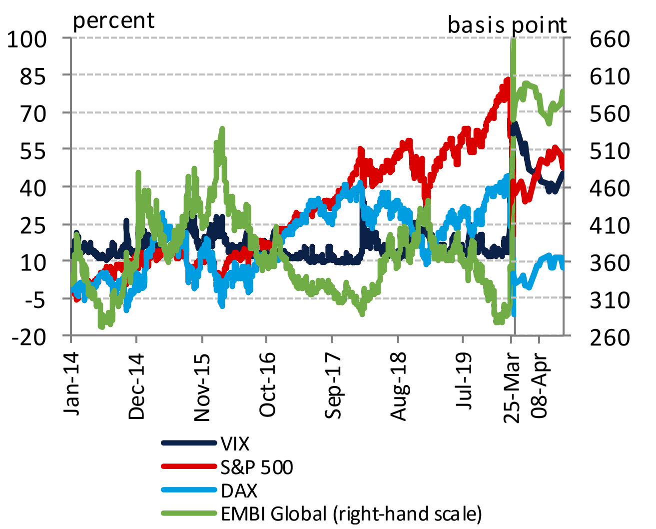
2. Financial markets

2.1. International financial markets

During the period elapsed since the last interest rate decision, under continued high volatility, international market sentiment somewhat calmed down, which may have been attributable to the decelerating rise in the number of patients who contracted the coronavirus and the expectations related to the easing of the measures taken in the individual countries due to the pandemic. Risk appetite improved during the period under review in the international financial and capital markets; at the same time the VIX index and the emerging bond market EMBI Global spread still signal extremely high global risk in historical terms. The dollar strengthened against most of the emerging and developed market currencies. The Purchasing Manager Indices of the euro area fell to a record low in April; the composite index fell from last month's level of 29.7 to 13.5, exceeding the analysts' expectations.

During the period since the last interest rate decision, under continued high volatility, international market sentiment somewhat calmed down. Improving sentiment may have been attributable to the decelerating rise in the number of patients who contracted the coronavirus and the expectations related to the easing of the measures taken in the individual countries due to the pandemic. During the period under review risk appetite improved in the international financial and capital markets, which caused stock exchange indices to rise and foreign exchange market volatility to decline, while developed market government securities' yields also decreased. The global effect of the coronavirus on tourism, aviation and maritime transport reduced global commodity demand further during last month, and partly as a result of this world market prices of oil continued to decline. The future price of WTI for May dropped to a historic low of USD -40.3 in mid-April, followed by an adjustment by the end of the period.

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



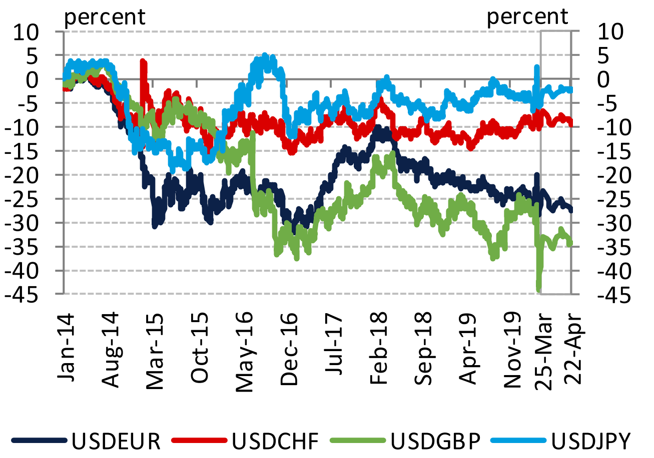
Source: Bloomberg

The **VIX index, the key measure of equity market volatility**, decreased by nearly 16.3 percentage points to 45.4 percent, while **the emerging bond market EMBI Global spread fell** by 42 basis points to 588 basis points; **at the same time both indicators continue to imply extremely high global risks even in historical terms** (Chart 11). **In the past month, following the previous major decline, developed stock exchange indices rose by 5-10 percent, and the MSCI composite index, which measures emerging market performance, also increased at a similar rate, by 9.6 percent. The dollar strengthened against most of the emerging and developed market currencies** (Chart 12). During the period, the euro slightly depreciated against the dollar, and the British pound, the Swiss franc and the Japanese yen also weakened. Of the emerging market currencies the exchange rate of the Chinese renminbi against the dollar also depreciated, while the Turkish lira and the South African rand appreciated significantly, by more than 8 percent. The price of gold rose by 5 percent during the period, and at present it stands at 1,715.

Developed market bond yields moderated since the last interest rate decision (Chart 13). The US 10-year yield fell by 28 basis points to 0.57 percent, while the German yield declined by 16 basis points, to -0.48 percent. **Emerging countries were also characterised by decreases in yields in the past month.**

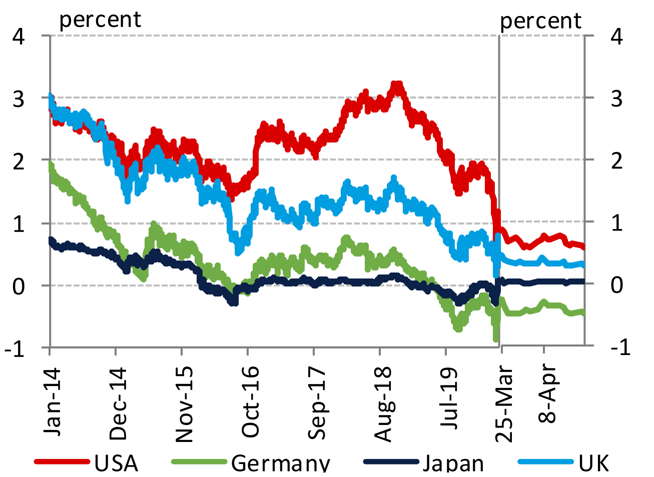
The Purchasing Manager Indices of the euro area fell to a record low in April; the composite index fell from last month's level of 29.7 to 13.5, exceeding the analysts' expectations. The PMI data of both Germany and France substantially decreased: the composite index fell from 35 to 17.1 for the first and from 28.9 to 11.2 for the latter. Based on the data and the various surveys, due to the coronavirus pandemic and the measures taken in response to that Europe is moving toward recession. According to the IMF's forecast, the largest economic downturn of the century is likely to come, which may be as high as 7.5 percent.

Chart 12: Developed market FX exchange rates



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

Chart 13: Yields on developed market long-term bonds

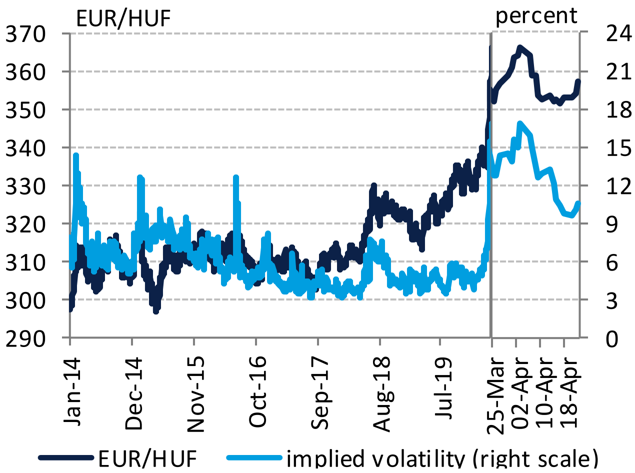


Source: Bloomberg

2.2. Developments in domestic money market indicators

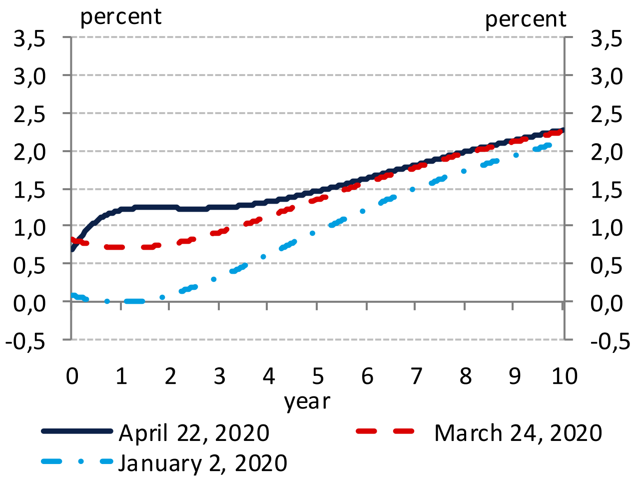
Since the last interest rate decision, the forint exchange rate against the euro slightly depreciated, to the level of 357, however, during last month it was also at significantly weaker levels, close to 370 as well. The government securities yield curve flattened out. Demand at the short-term government securities auctions was poor, while it was strong on the long maturities. Average auction yields rose on short maturities and remained unchanged on the longer maturities. The 3-month BUBOR rose by 55 basis points to 1.1 percent during the period under review.

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 March, the forint exchange rate against the euro depreciated by 1 percent from 355 to around 357, but during the month it was also at significantly weaker levels, close to 370 (Chart 14)**.** As a result of the domestic monetary policy measures, by the end of the period the forint corrected its depreciation, which broke away from the region at the beginning of April.

The 3-month BUBOR, relevant for monetary policy transmission, rose significantly since the last interest rate decision. The government yield curve flattened out. (Chart 15). An increase of 30-55 basis points was observed at the 1-3 year section of the yield curve, 13 basis points at five-year maturity and 5 basis points at the long end. The steepness of the government securities yield curve declined during the period under review.

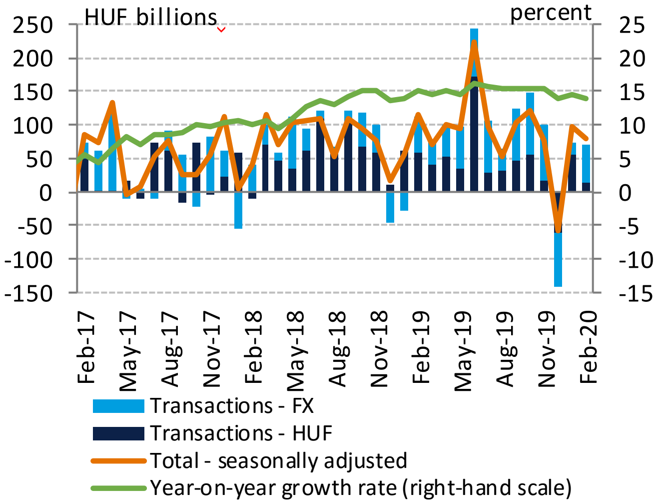
In the past month, the auctions of the discount Treasury bills and government bonds were characterised by mixed demand. Demand at the 3- and 12-month Treasury bill auctions was weak, particularly at the beginning of the period; accordingly, the Government Debt Management Agency raised funds by HUF 20 billion less in total than the announced volume, but by the end of the period demand was back to normal. The average yield on 3-month auctions rose from 0.67 percent to 1.13 percent, and the average auction yield on 12-month Treasury bill auctions increased from 1.16 percent to 1.22 percent. Demand at the long-term government securities auctions was strong throughout the period, and on the whole the Government Debt Management Agency was able to raise funds at the auctions in an amount that exceeded the announced volume by HUF 72 billion. The average auction yield on 3-year government securities rose from 1.14 percent to 1.41 percent in total, while on the 5-year securities it was up from 1.46 percent to 1.5 percent. On the other hand, the average yield on 10-year maturities declined from 2.67 percent to 2.46 percent. The Hungarian 5-year CDS spread fell by 4 basis point during the period under review, and currently stands at 82 basis points.

Non-residents' holdings in forint government securities decreased. Non-residents' forint government securities holdings declined by HUF 93 billion to HUF 4,022 billion, and at the end of the period the market share of forint government securities portfolio held by non-residents also fell below 22 percent.

3. Trends in lending

In February 2020, the growth rate of outstanding borrowing of corporations declined to 13.8 percent. In the household segment growth in outstanding borrowing exceeded 18 percent in February.

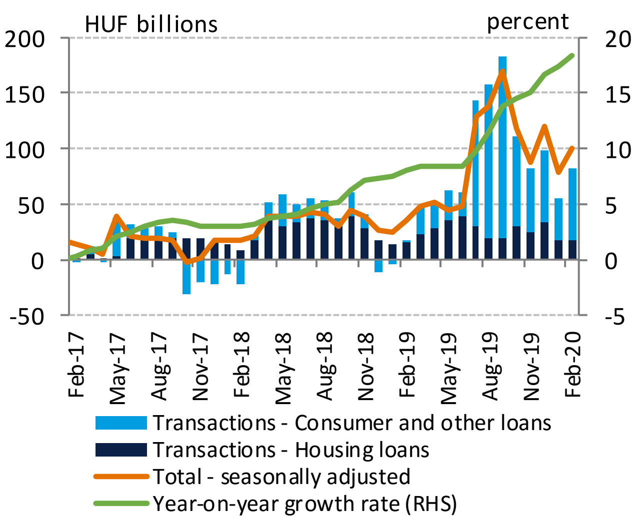
Chart 16: Net borrowing by non-financial corporations



Source: MNB

In February 2020, the outstanding borrowing of non-financial enterprises from the credit institution sector increased by HUF 72 billion due to transactions (Chart 16). This slightly fell short of the year-on-year value, and thus the growth rate of corporate lending fell to 13.8 percent. As a result of the global coronavirus pandemic, lending activity may substantially decline already in the short run, and – according to our preliminary estimate – the outstanding growth rate of corporate lending observed in past years may fell below 5 percent in the second half of the year. The declining risk appetite of credit institutions may have manifested itself in new lending already in February, as banks concluded new loan contracts with corporations merely in the amount of HUF 122 billion, which is the lowest value recorded in the past two years.

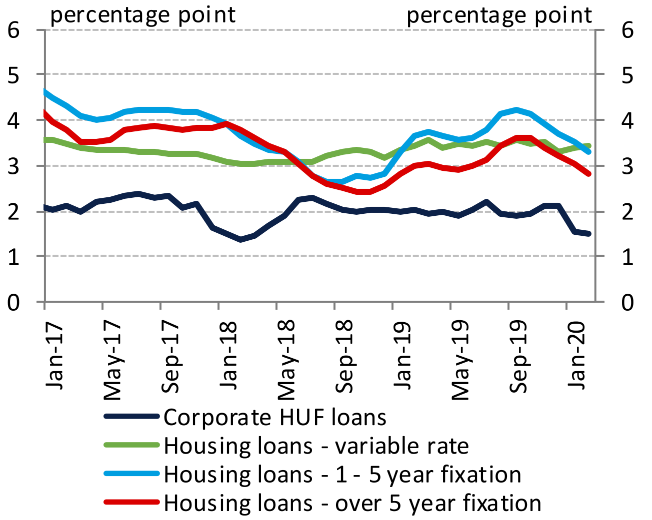
Chart 17: Net borrowing by households



Source: MNB

Outstanding borrowing of households grew further in February, and thus the annual growth rate exceeded 18 percent (Chart 17)**.** The value of new contracts increased by more than 50 percent year on year. Demand for prenatal baby support loans continues to be strong, accompanied by dynamic disbursement of housing loans and personal loans, similarly to the previous months. At the same time, the rise in housing and personal loans due to transactions and the rate of the disbursement of new loans may both decline, primarily as a result of the fall in housing market and consumption demand.

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 1.5 percent in February 2020, representing a slight decrease of 0.03 percentage point 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), rose slightly during the month** and amounted to 3.44 percentage points. **The spread on products with interest rate fixation periods longer than one year, up to 5 years and more than 5 years dropped by 0.22 percentage point compared to February. The average spread on housing loans with interest rate fixation periods longer than one year and up to 5 years reached 3.28 percentage points in February, while the spread on products with interest rate fixation periods of more than 5 years was 2.8 percentage points.**