MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 25 AUGUST 2020

AUGUST

2020

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The background material 'Macroeconomic and financial market developments' is based on information available until 18 August 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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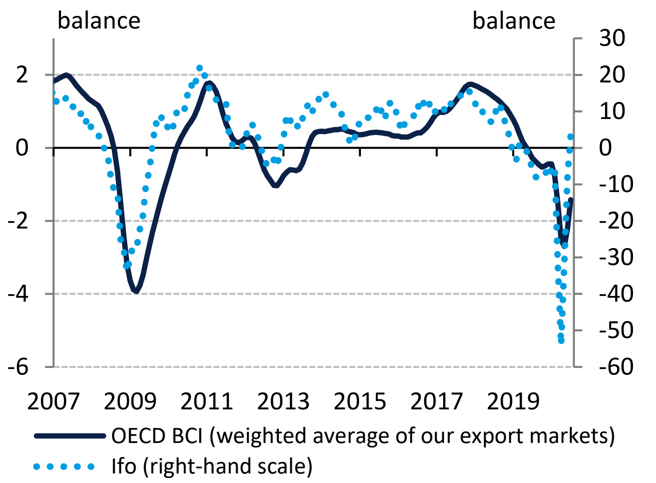
1. Macroeconomic developments

1.1. Global macroeconomic environment

As a result of the measures taken to contain the coronavirus, the performance of the large economies substantially declined in the second quarter of 2020. In line with the gradual easing of the restrictive measures, the data are already expected to improve; however, the epidemic curve started to rise once again in several countries, which may entail further tightening in the future.

Chart 1 Business climate indices in Hungary's export markets



Source: OECD, Ifo

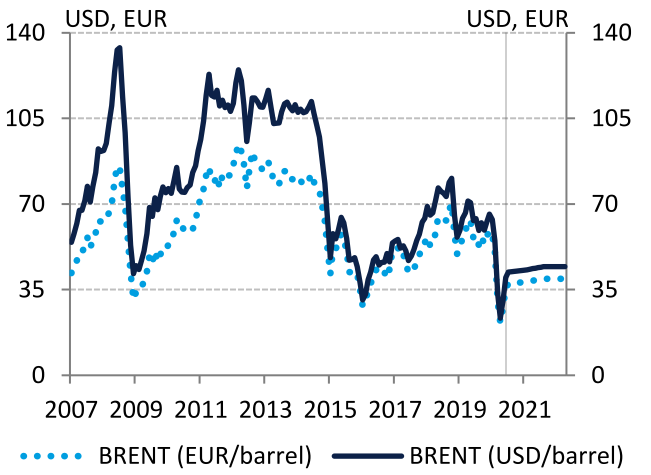
Recently, the trends in economic performance have primarily been determined by the COVID-19 virus and the measures taken to control it (Chart 1)**.** The pandemic hit the global economy in a weakened state, and the negative economic impacts rapidly appeared in several countries. **There has been a gradual adjustment in air traffic and maritime transport over the recent weeks,** which reflects **the ongoing restart of the economies**.

Based on preliminary data, in the second quarter of 2020, GDP of China rose by 3.2 percent in annual terms, which is a major rebound following the decline of 6.8 percent, registered in the first quarter. The growth rate exceeded analysts' expectations. The virus started to spread earlier in China, but it also ended earlier; therefore, China has become the first among the leading global economies that reported an economic growth since the start of the coronavirus pandemic. **In the second quarter, as a result of the restart of the Chinese economy, capacity utilisation rose**, and business sentiment also improved further in July. Industrial production grew year-on-year: **in June industrial production rose by 4.8 percent in annual terms**, which is the highest growth rate of the past half-year. The volume of retail sales and the number of motor vehicle registrations also improved in June after the historic low in January and February.

In the second quarter, US GDP fell by 9.5 percent year-on-year. The largest decline was seen in households' consumption, but investments and exports also decreased. In June, US industrial output **declined by 10.8 percent,** year-on-year**.** In June 2020 **retail sales** were up by 1.1 percent **year-on-year**, and thus they registered a growth for the first time since the start of the coronavirus pandemic in March. **By the end of July, the number of initial jobless claims fell below 1.2 million. The unemployment rate of those over 16 years peaked at 14.7 percent in April, and in July it stood at 10.2 percent.** In the United States, the lack of measures to contain the virus, and then **the measures taken late** resulted in the fast spread of the virus throughout the country, and thus **at the end of June the epidemic curve started to rise once again**.

By March, the continuous deterioration of the economic situation, caused by **the coronavirus, reached Europe, as well.** Based on preliminary data, the economic performance of the euro area fell by 15 percent year-on-year in March 2020. In June, industrial output declined by 11.9 percent year-on-year; however, monthly dynamics show the start of a slow recovery. Following the monthly growth of 12.4 percent registered in May, industrial output once again increased at a rate of 9.1 percent. **The economy of Germany** – Hungary's main trading partner – **shrank by 11.7 percent in the second quarter.** The industrial production of Germany fell by 11.7 percent on an annual basis; however, based on the industrial orders and monthly dynamics, the German industry is already over the hump. The changeover to alternative drive-train and tighter EU regulations have forced the German car industry to renew in past years. **The coronavirus further exacerbated the challenges of the automotive industry, which may slow down the recovery of the sector.** German retail sales volume grew by 5.9 percent in June year-on-year. By contrast, car registrations declined by almost 32.2 percent. **German business sentiment continued to improve** in June. The United Kingdom experienced one of the greatest declines of its history in the second quarter: **British GDP fell by 21.7 percent in year-on-year terms**. The countries hit hardest by the pandemic saw major decline: **Spain (-22.1 percent), France (-19 percent) and Italy (-17.3 percent)**. In addition, a historic fall was measured **also in Belgium (-14.5 percent) and in Austria (-12.8 percent).**

Chart 2 World market prices of Brent crude oil



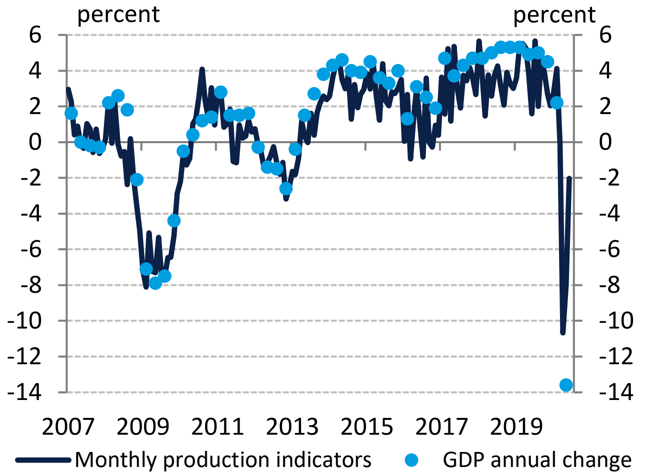
Source: Bloomberg

Based on preliminary data release, in July euro area inflation may have risen – exceeding analysts' expectations of 0.2 percent – **to 0.4 percent**. **Core inflation may have been 1.2 percent**, which also exceeded analysts' expectations of 0.8 percent. **The world market price of Brent crude oil has been around USD 43/barrel** (Chart 2). Recently the world market price of oil has not been affected by any significant event. From 1 August, in line with the previous agreement, the production cut by the OPEC+ countries decreased from 9.7 barrels per day to 7.7 million barrels per day. Looking ahead, the optimism about developments in demand may cause a rise in oil prices, which is confirmed by the favourable Chinese economic data and the fact that the country's demand for oil is almost at the level observed before the coronavirus pandemic. **The price of industrial commodities increased with the world market price of unprocessed food remaining broadly unchanged in June.**

1.2. Domestic real economy developments

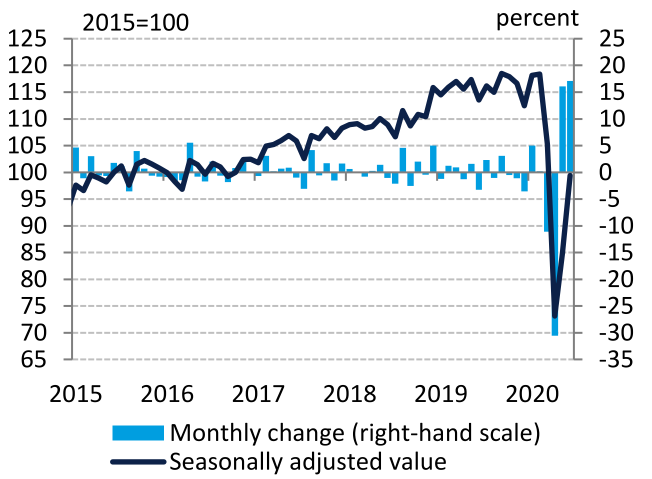
In the second quarter of 2020, Hungary's gross domestic product declined by 13.6 percent year-on-year. The negative impacts of the coronavirus are reflected in the production indicators of the second quarter. In the second quarter of 2020, total employment fell by 2.3 percent year-on-year. In the period under review, a large part of those who lost their jobs increased the number of the inactive rather than that of the unemployed, and thus the seasonally adjusted unemployment rate rose only to 4.7 percent in the second quarter.

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 the HCSO's preliminary data release, **in the second quarter of 2020 Hungary's gross domestic product declined by 13.6 percent year-on-year** (Chart 3). The economy contracted by 14.5 percent quarter-on-quarter. According to the HCSO's communication, due to the situation caused by the coronavirus pandemic, production in most national economy sectors declined. According to the seasonally adjusted data, in the first six months the national economy performance fell by 5.8 percent.

The second quarter's production indicators received to date already reflect the temporarily decreasing economic performance resulting from the epidemic. According to the HCSO's preliminary data release, **industrial output** was down by **7.8 percent** year-on-year in June 2020. Production (based on seasonally and working-day adjusted data) **rose by 17.1 percent on a monthly basis** (Chart 4). Production volume declined in most of the manufacturing subsectors. **The automotive industry, representing the largest share, experienced a major decline**, while production slightly increased in the manufacture of computers, electronic and optical products as well as in the food industry. **Hungarian manufacturing PMI rose from 47 points in June to 50.8 points in July.**

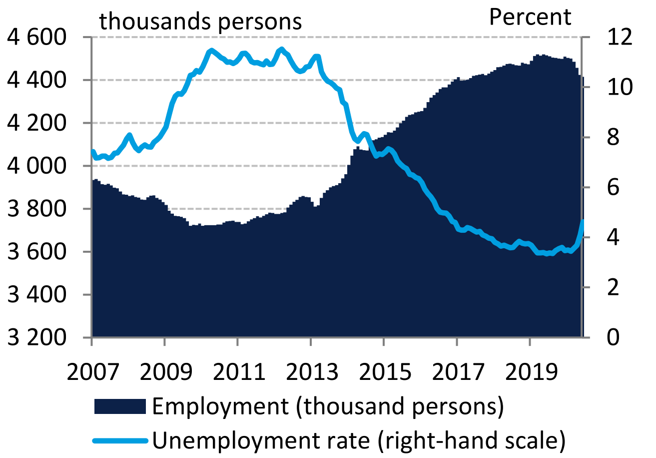
Based on preliminary data, **exports and imports fell by 3.1 percent and 5.7 percent, respectively, in euro terms, year-on-year in June 2020** according to the HCSO's data release.

Construction output was down by 15.7 percent year-on-year and rose by 6.2 percent relative to the previous month in June 2020 (based on the seasonally and working-day adjusted data). **Output of both main construction groups decreased in annual terms**: construction of buildings by 14.2 percent and other construction by 17.5 percent. In the second quarter of 2020, construction output was down by 12.4 percent year-on-year. The number of new contracts decreased by 44.8 percent year-on-year. The number of new contracts concluded for construction of buildings declined by 34.4 percent and for other construction works the volume by 55.6 percent. The month-end number of construction companies' contract portfolio fell short of the value registered at end of June 2019 by 19.2 percent. The volume of new contracts for the construction of buildings rose by 5 percent, as it declined by 29.1 percent for other construction.

In June, **the volume of retail sales** (including sales of vehicles and components) **was down by 0.8 percent year-on-year, based on the seasonally and calendar adjusted data. In June 2020, the opening hours of retail shops were no longer restricted by the pandemic situation, which primarily affected the turnover of non-food shops.** Turnover substantially grew at the mail order shops and web retail sales, at the sales of cultural and other articles as well as at general stores selling industrial goods. Retail sales of furniture and appliances as well as second-hand goods rose moderately, while apart from the food stores and groceries, sales of all other product groups declined to a lesser degree than in May. Despite the lifting of the curfew measures, fuel consumption continued to decline considerably compared to the level last year. In addition, vehicles and components sales and the number of new vehicle registrations declined in June on an annual basis.

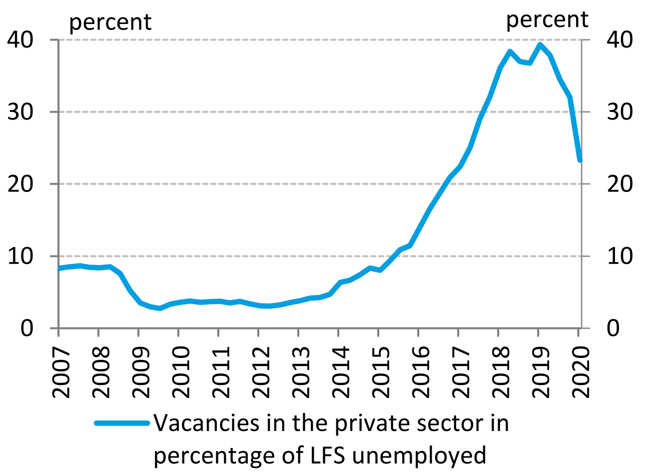
Despite the lifting of the curfew measures and the border shutdowns, tourism fell sharply in June. **Compared to last year, the number of nights spent at tourist accommodations in Hungary fell by 75 percent.**

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

1.2.2. Employment

Based on the data of the Labour Force Survey (LFS), **in the second quarter of 2020 total employment declined by 2.3 percent**; within that the number of employees in the private sector fell by 2.1 percent **relative to a year earlier**. Similarly to the first quarter, the decline in the number of manufacturing employees continued, and within the market services sectors the number of employees in the tourism, transportation and trade sectors also decreased. The decline in certain branches of the private sector was partly offset mostly by the construction headcount and by other sectors (information, communication, finance, etc.). **Seasonally adjusted unemployment rate rose to 4.7 percent in the second quarter** (Chart 5). In accordance with the Labour Force Survey methodology, **a major part of those who lost their jobs increased the number of the economically inactive** rather than that of the unemployed. Namely, the persons who lost their jobs – primarily due to the restrictive measures – did not seek employment actively and/or would have not been able to start working within 2 weeks. Based on the data published by the National Employment Service (Nemzeti Foglalkoztatási Szolgálat - NFSZ), **in the second quarter of 2020, the number of registered jobseekers in**

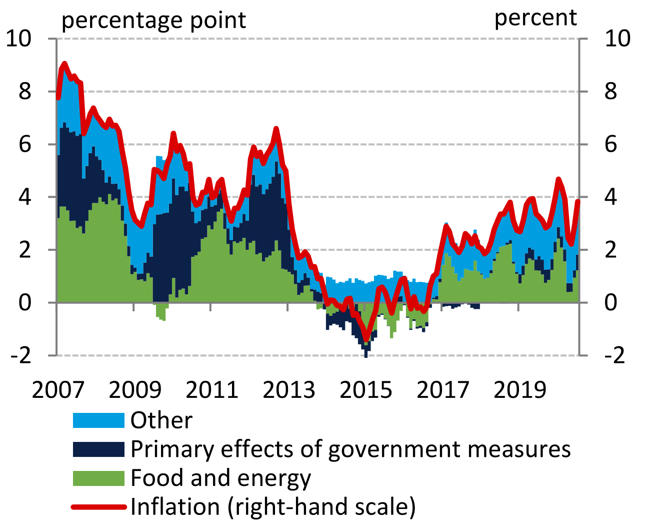
Hungary was 356,800, exceeding the year-on-year figure by 102,400 persons.

In the first quarter of 2020, based on the number of vacancies, **corporate labour demand continued to decline in a wide range of sectors.** In addition to manufacturing, the decline is primarily linked to the trade, real estate transactions, professional sectors, and to the sectors supporting administrative and services activity. The labour market **tightness indicator** calculated from the ratio of job vacancies and unemployed persons, **slackened further** – similarly to the previous quarters – and thus fell to the level registered at the beginning of 2017 (Chart 6).

1.3. Inflation and wages

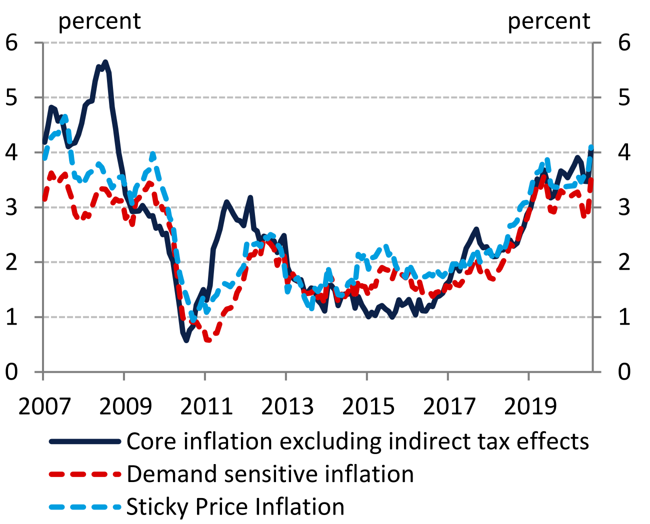
In July 2020, inflation calculated on a year-on-year basis was 3.8 percent, while core inflation and core inflation excluding indirect taxes stood at 4.5 and 4.1 percent, respectively. Underlying inflation indicators capturing persistent trends (price index of demand sensitive and inflation of sticky price products and services) increased compared to the previous month. In May 2020, gross average wages in the private sector rose by 10 percent year-on-year. The monthly increase in regular average wages was in line with the historical average, while bonus payments were higher than in previous years.

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 2020, gross average wages in the private sector rose by 10 percent year-on-year. The monthly increase in regular average wages was in line with the historical average, while bonus payments were higher than in previous years. **Within the private sector, the volatility of the wage dynamics decreased compared to previous month**. **In the manufacturing sector wage dynamics showed substantial correction compared to April**, while in the market services sector HCSO once again registered a growth above 10 percent. Within the manufacturing sectors, wages in the **automotive industry – representing the largest share – fell by 7.4 percent** in annual terms. **Within the market services sector the wage index remained moderate (+2.9 percent)** in the arts and entertainment sector, while **the more important sectors, such as trade, saw a double-digit wage growth**.

1.3.2. Inflation developments

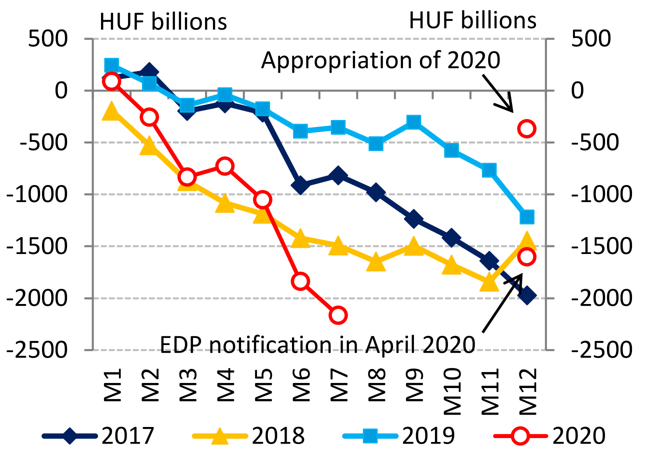
In July 2020, inflation calculated on a year-on-year basis was 3.8 percent. Core inflation and core inflation excluding indirect taxes stood at 4.5 and 4.1 percent, respectively (Chart 7)**.** Compared to the previous month, inflation increased by 0.9 percentage point and core inflation by 0.5 percentage point. The increase in inflation primarily reflected the **growth in the fuel price index**. The growth in core inflation was mostly caused by **the rise in the prices of industrial goods**.

Underlying inflation indicators capturing persistent trends (inflation of demand sensitive and sticky price products and services) **increased compared to the previous month** (Chart 8). In June 2020, agricultural producer prices increased by 4.7 percent in annual terms, while domestic sales prices in sectors of consumer goods increased by 4.8 percent.

1.4. Fiscal developments

The central sub-sector of the general government closed with a deficit of HUF 328 billion in July 2020, representing an accumulated deficit of HUF 2,165 billion in the first seven months. The major cash-based deficit of the budget this year is primarily the consequence of the economic impacts of the coronavirus pandemic, the declining tax and contribution revenues resulting from the measures taken to address those impacts and of the high expenditures related to the prevention of the pandemic and to the protection of the economy. Based on the preliminary financial accounts data, in the first half-year, the accrual-based based general government balance was a deficit of HUF 1,274 billion, while the government debt ratio rose to 71.9 percent of GDP by the end of the second quarter.

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



Source: Budget Act of 2020, Hungarian State Treasury, National Reform Programme 2020

The central sub-sector of the general government closed with a deficit of HUF 328 billion in July 2020, which represents an accumulated deficit of HUF 2,165 billion in the first seven months (Chart 9).

In July **budget revenues** fell short of the year-on-year figure by HUF 72 billion. The lower revenues reflected the decline in EU transfers, while tax and contribution revenues slightly exceeded those of July 2019, with a negative contribution by the payments by enterprises and labour taxes and positive contribution by consumption taxes. Following a major decline in previous months, the tax and contribution revenues of the central sub-sector showed a gradual and moderate rise.

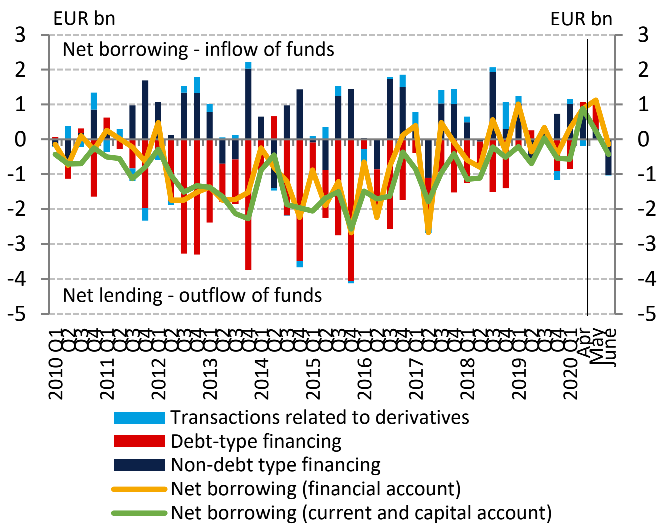
Budget expenditures exceeded those of last July by HUF 293 billion, which is mostly attributable to the high expenditures of the central budgetary organisations in July. The high net expenditures of the central budgetary organisations are the consequence of the individual government decisions adopted in the past two months, when the government made decisions on payments in excess of the funds reallocated to the Economy Protection Fund. In the first seven months, the expenditures related to EU transfers exceeded those incurred until last July by HUF 400 billion.

In the second quarter, the accrual-based budget deficit was HUF 1,094 billion, which corresponds to 10.6 percent of the quarterly GDP. Thus the deficit of the first half-year amounted to HUF 1,274 billion in total, which corresponds to 5.9 percent of the estimated half-year GDP, based on the preliminary financial accounts data. **By the end of the second quarter, the government debt ratio rose from 66.4 percent at the end of last year to 71.9 percent of GDP.** A growth of 5.5 percentage points in the debt ratio also reflected the decline in GDP in the second quarter, in addition to the additional debt issuance necessary due to the high deficit.

1.5. External balance developments

In June, the current account turned into a surplus, with a balance of EUR 246 million. In addition, net lending of the economy also rose substantially, increasing to EUR 427 million on a monthly basis. The improvement in the external balance indicators was primarily attributable to the growth in exports in excess of imports. As regards the financing side, the usual seasonal dividend payments reduced foreign direct investments, while net external debt of the economy increased. Households' net financial savings amounted to HUF 819 billion in the second quarter of 2020. The four-quarter rolling net savings rate rose to 5.8 percent of GDP.

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 the current account balance turned into a surplus of EUR 246 million, as net lending rose to EUR 427 million (Chart 10). The improvement in the current account balance was linked primarily to the major growth in the goods balance, resulting from the further correction of industrial production in June. The services surplus moderately increased compared to previous months, but it still stood at a historic low. Meanwhile, the absorption of EU transfers also made a positive contribution to the country's net lending. Based on preliminary data, the income deficit considerably decreased year-on-year.

According financial account data, foreign direct investments declined in June due to seasonality, as debt liabilities of the economy increased. According to the financial account data, the moderate net lending reflected the outflow of foreign direct investments amounting to almost EUR 900 million, due to the usual seasonal dividend payments of foreign-owned companies. All sectors contributed to the rise in the economy's net external debt, which was sector to the purchase of forint government securities by non-residents in the case of the general government.

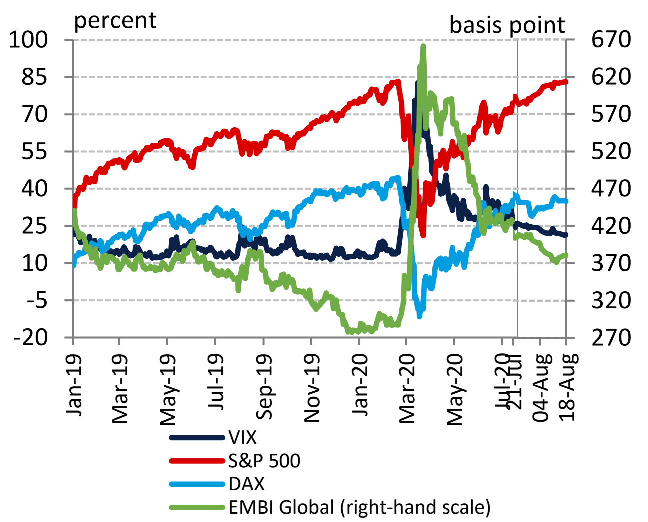
Households' net financial savings amounted to HUF 819 billion in the second quarter of 2020. The four-quarter rolling net savings ratio rose to 5.8 percent of GDP, while the seasonally adjusted ratio, reflecting short-term trends – including a decline in GDP – better, grew to 7 percent of GDP. The coronavirus pandemic also affected households' savings trends: the high savings ratio developed under major accumulation of assets.

2. Financial markets

2.1. International financial markets

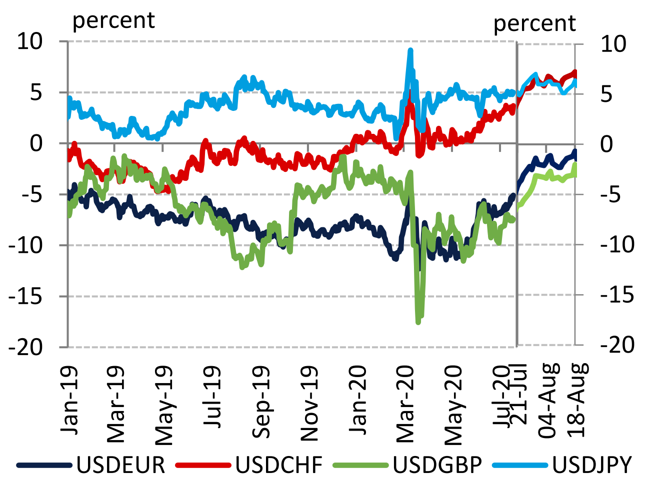
In the period since the last interest rate decision global investor sentiment has improved, which was also reflected by the decline in risk indicators. The VIX index, the key measure of equity market volatility, decreased by 3 percentage points to 22 percent, as the developed bond market MOVE index declined by 6 basis points to 46 basis points. In developed foreign exchange markets the dollar depreciated. At the beginning of the period, oil prices had risen, accompanied by a favourable sentiment, before a correction occurred at the end of the period, and therefore overall, they continued to fluctuate in the band of USD 40-45.

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



Source: Bloomberg

Chart 12 Developed market FX exchange rates



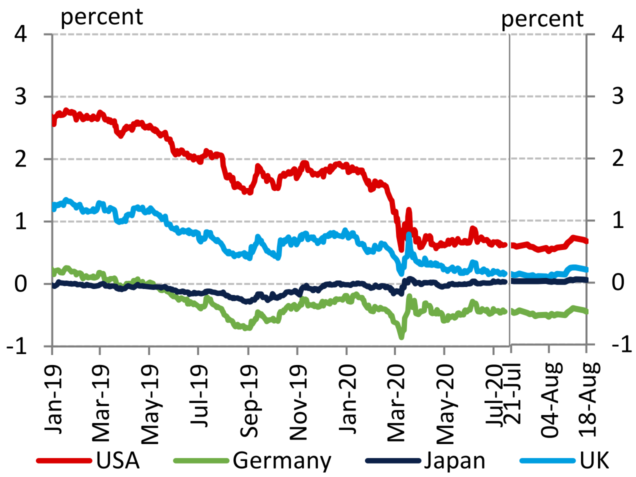
Note: Positive values indicate the strengthening of the variable (second) currency.

Source: Reuters

In the period since the last interest rate decision investor sentiment has improved, but global risk indicators remain high (Chart 11)**.** The improving investor sentiment was supported by weakening concerns related to the coronavirus pandemic, the announcements related to the restart of the economy and the positive news about the development of the vaccine. By contrast, **the macroeconomic indicators published last month reflected the slowdown of the global economy.** The leading macroeconomic indicators also well reflect the duality, as the Chinese, the US and the euro area PMIs all rose above the critical level of 50. By contrast, the OECD's leading indicator projects a slowdown, the euro area business climate is also unfavourable, and the global port traffic also declined moderately. Of the key stock exchange indices the US, the Japanese and the Chinese stock market indices all rose with a favourable sentiment prevailing, while the key European stock market indices moderately declined. Developed long-term government securities yields slightly decreased. With global demand strengthening and a favourable sentiment prevailing, oil prices rose at the beginning of the period, which was followed by a correction, and consequently, overall they continue to fluctuate in the band of USD 40-45.

The VIX index, the key measure of equity market volatility, decreased by 3 percentage points to below 22 percent, while the developed bond market MOVE index declined by 6 basis points to below 46 basis points. (Chart 11). **The rise observed in the previous months in developed stock market indices continued, of which the US and Chinese indices rose by 3-4 percent, while the MSCI composite index, which measures emerging market performance, increased only at a smaller rate (by 1.3 percent). At the same time, the key European stock exchange indices declined by 2-4 percent.** With decreasing volatility and favourable sentiment, depreciation of the dollar was seen in developed foreign exchange markets, which also reflected a rise in risk appetite (Chart 12). The dollar

Chart 13 Yields on developed market long-term bonds



Source: Bloomberg

depreciated by roughly 3.2 percent against the euro, and by 3.4 percent against the pound sterling. The price of gold substantially increased, even despite the correction at the end of the period, which still implies cautious investor behaviour: by the end of the period the price was over USD 2,000/oz.

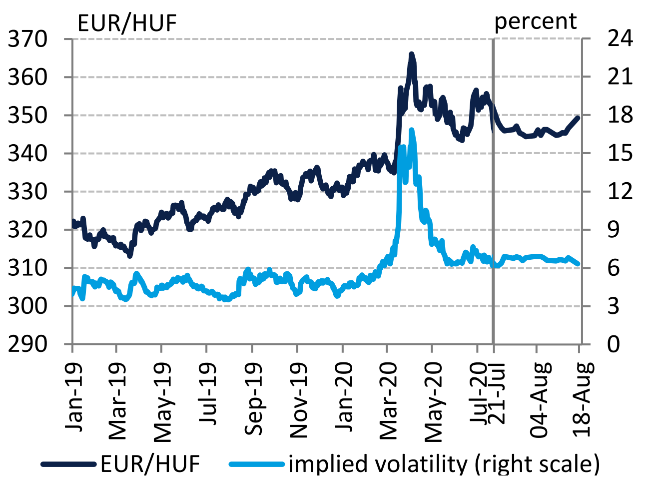
Developed bond yields, with the exception of the German ones, moderately rose since the last interest rate decision (Chart 13). The US and the British 10-year yields fell by 6 basis points to 0.66 and 0.20 percent, respectively, while the Japanese one rose by 1 basis point to 0.4 percent. The German 10-year benchmark yield fell by 1 basis point to -0.47 percent

Emerging countries' bond yields showed a mixed picture. In the region, the Hungarian 10-year yield declined by 1 basis point to 2.21 percent, while the Polish, Czech and Romanian one rose by 1, 2 and 7 basis points to 1.34, 1.01 and 4.06 percent, respectively. Greater shift was observed in the Russian (+49 basis points) and the Brazilian (-79 basis points) yields.

2.2. Developments in domestic money market indicators

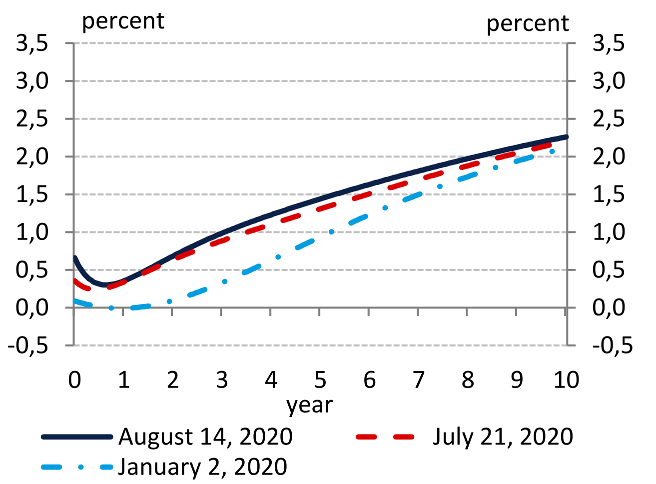
At the beginning of the period under review, the forint appreciated, while at the end of it, depreciated against the euro. Of the currencies of the region, the Polish zloty and the Czech koruna appreciated to a larger degree, while the Romanian leu fluctuated in a narrow band. Government securities market yields rose on maturities below 10 years, while they declined over that. Demand at the discount Treasury bill auctions was mostly adequate, while it was distinctly strong at the government bond auctions. The Government Debt Management Agency accepted bids for bonds in higher volume than announced on several occasions.

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 June interest rate decision, forint exchange rate against the euro depreciated on the whole (Chart 14). Of the currencies of the CEE region, the Czech koruna and the Polish zloty appreciated against the euro by 1.8 percent and 1.3 percent, respectively, while the Romanian leu appreciated by 0.2 percent.

The government yield curve flattened out (Chart 15). The 1-2 year and 2-10 year sections of the yield curve rose by 1-5 basis and 5-13 basis points, respectively, while the section over 10 years moderately decreased. The steepness of the government securities yield curve increased in the middle section, while it declined in the longest section.

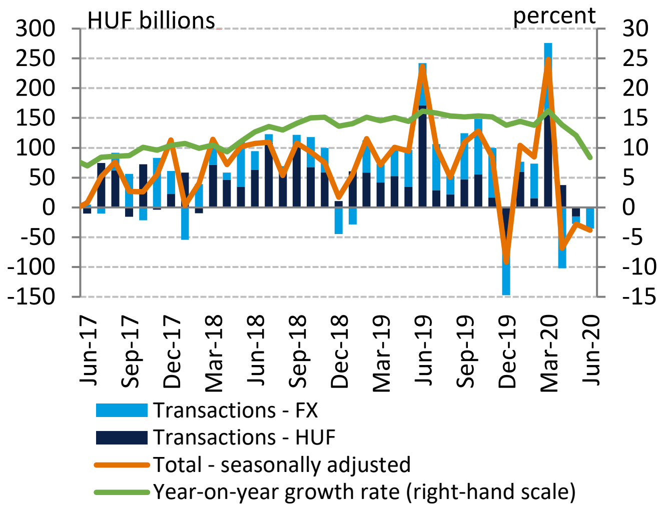
In the past month demand at most of the discount Treasury bill auctions was adequate, while it was distinctly strong at the government bond auctions. In the first week of August, the Government Debt Management Agency raised less funds than announced both at the 3-month and 12-month Treasury bills. Since the last interest rate decision, the average yield at the 3-month auctions rose from 0.25 percent to 0.32 percent, while the average auction yield at the 12-month Treasury bill auctions dropped from 0.36 percent to 0.33 percent. Government bond auctions were characterised, almost without exception, by strong demand, therefore the Government Debt Management Agency accepted bids in higher volume than announced on several occasions. At the latest auction, the average yield of the 10-year securities was 2.08 percent, representing a fall of 34 basis points compared to the last average auction yield of the previous period. The latest average auction yield on 5-year government securities decreased by 21 basis points to 1.21 percent, while at 3-year securities it declined by 9 basis points to 0.93 percent. The Hungarian 5-year CDS spread fell by 4 basis points during the period under review, and currently stands at 68 basis points.

Non-residents' holdings in forint government securities remained practically unchanged. Non-residents' holding of forint government securities increased by HUF 1 billion to HUF 4,233 billion; nevertheless, in parallel with this, the share of forint government securities held by non-residents has not changed during the period, and it still stands at 22.4 percent.

3. Trends in lending

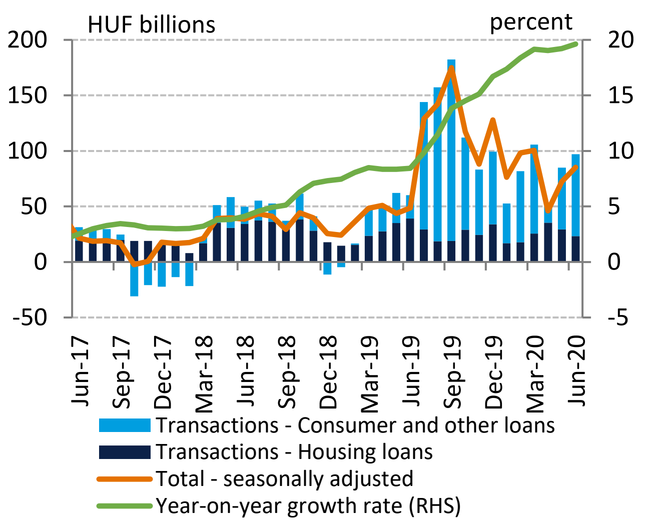
In June 2020, outstanding borrowing of non-financial corporations declined by HUF 34 billion, mostly due to the fall in foreign currency loans. In June, outstanding borrowing of households still grew vigorously in annual terms, by more than 19 percent, partly due to the technical effect of the missing instalment payments resulting from the moratorium on loan repayments, and partly due to the pickup in new lending due to the lifting of the restrictive measures aiming at isolation.

Chart 16 Net borrowing by non-financial corporations



Source: MNB

Chart 17 Net borrowing by households

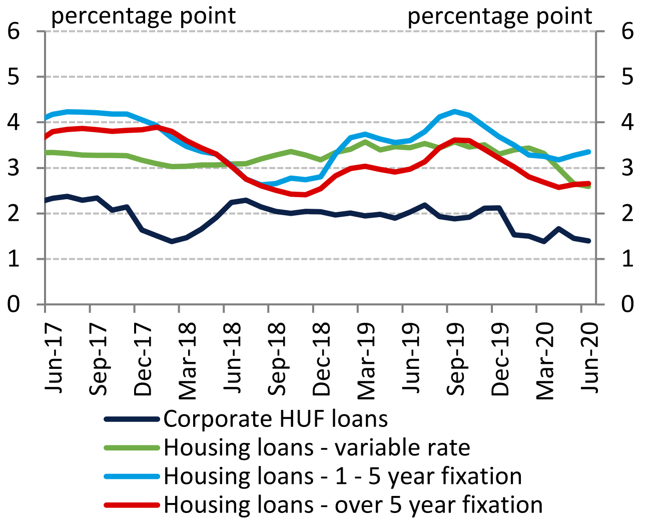


Source: MNB

In June 2020, outstanding borrowing of non-financial corporations declined by HUF 34 billion, mostly due to the fall in foreign currency loans. As a result, the annual growth rate declined to 8.4 percent (Chart 16). In June, credit institutions disbursed new loans in the amount of HUF 266 billion, which represents a growth compared to the low registered in April, but in terms of its ratio it falls short of previous years' June figures by roughly 30 percent. In June, credit institutions concluded new loans under FGS Go! in the amount of HUF 130 billion, which accounts for more than 60 percent of the forint loans of the entire corporate sector, and 90 percent of the monthly volume of the SME sector's forint loans.

In June , outstanding borrowing of households still grew vigorously in annual terms, by more than 19 percent, partly due to the technical effect of the missing instalment payments resulting from the moratorium on loan repayments, and partly due to the pickup in new lending due to the lifting of the restrictive measures aiming at isolation (Chart 17). In parallel with the ending of the state of emergency, in June the disbursement of housing loans and personal loans rose compared to the previous month. Demand for state-subsidised loan schemes was steadily strong, and the low amortisation of the increasingly significant prenatal baby support loan portfolio contributes to the high – outstanding even by international standards – growth rate, which – due to the low indebtedness and sound structure – is not overly risky.

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 1.4 percentage points in June 2020, representing a decrease of 0.05 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) declined further during the month** and amounted to 2.6 percentage points. **The spread on products with interest rate fixation periods longer than one year, up to 5 years and more than 5 years also rose slightly compared to May. The average spread on housing loans with interest rate fixation periods longer than one year and up to 5 years reached 3.35 percentage points in June, while the spread on products with interest rate fixation periods of more than 5 years was 2.65 percentage points.**