MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 15 DECEMBER 2020

DECEMBER

2020

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The background material 'Macroeconomic and financial market developments' is based on information available until 11 December 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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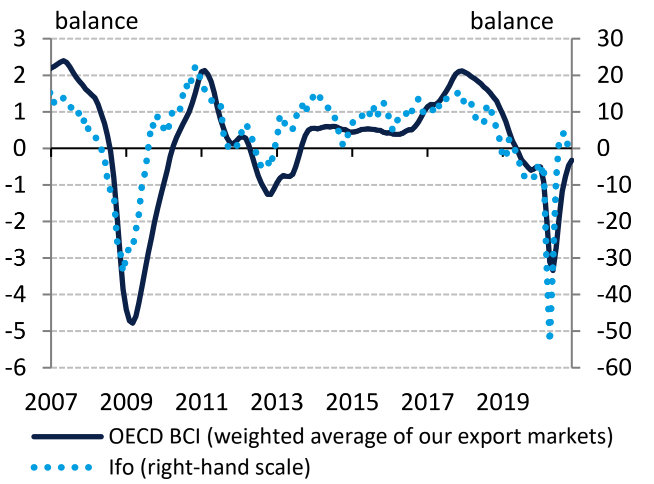
1. Macroeconomic developments

1.1. Global macroeconomic environment

In the third quarter of 2020, the performance of the world's major economies showed significant adjustment compared to the low in the second quarter. In the third quarter, the Chinese economy showed a growth again on an annual basis. The more favourable trends were attributable to the first wave of the coronavirus epidemic wearing off and to the lifting of most restrictions. However, since October the epidemic curves in several countries show a steep rise again. The second wave typically brings about higher infection and mortality rates than the first, while the additional restrictive measures implemented may cause economic recovery to drag on further. For the time being, macroeconomic data do not cover the period of the second wave, or cover it only to a limited degree. Accordingly, they do not yet reflect the impacts thereof.

Chart 1 Business climate indices in Hungary's export markets



Source: OECD, Ifo

Recently, trends in economic performance have primarily been determined by COVID-19 pandemic and the measures implemented to control it. Following its low in April and May, there has been a slow, but gradual adjustment in air traffic and transportation reflecting the effects arising from the ongoing restart of economies. However, the future performance of air traffic, which has been essentially stagnating since mid-August, is surrounded by a strong uncertainty. The measures introduced due to the resurgence of the pandemic may further deteriorate the sector's global outlook.

In the third quarter of 2020, Chinese economy rose by 4.9 percent in annual terms, continuing the growth that started in the second quarter. Business sentiment in China remained positive in November as well; Purchasing Manager Indices remained in the (growth) range of over 50 points. **In October, industrial production – similarly to September – rose by 6.9 percent on an annual basis**, showing the highest growth rate since December 2019. The volume of retail sales and the number of motor vehicle registrations rose after a historic low in January and February. In October, the volume of retail sales rose by +4.3 percent again year-on-year.

In the third quarter, US GDP fell by 2.9 percent year-on-year. Although a major adjustment took place in all areas compared to the previous quarter, the level of GDP still falls short of its pre-pandemic value. The largest decline was seen in exports, but households' consumption and investments also decreased. **In October, US industrial output declined by 5.3 percent, year-on-year**, which is the 14th consecutive monthly decline. Manufacturing declined by 3.9 percent. In October 2020 retail sales increased by 5.7 percent year-on-year. **On the week ending on 29 November, the number of new unemployment benefit** claims **fell to 712,000 after a temporary increase. After a continuous decline, the unemployment rate** of those over 16 years **stood at 6.7 percent in November.**

In the third quarter, economic performance of the euro area fell by 4.3 percent year-on-year, while quarter-on-quarter it registered a growth of 12.6 percent according to the seasonally and calendar adjusted data. In September, industrial output declined by 6.8 percent year-on-year; however, the monthly growth rates indicate moderate, but gradual recovery. In October, the volume of retail sales rose by 4.3 percent on an annual basis. Most members of the monetary union were compelled to introduce tighter restrictions again, the impacts of which will be perceivable in the statistical data only later.

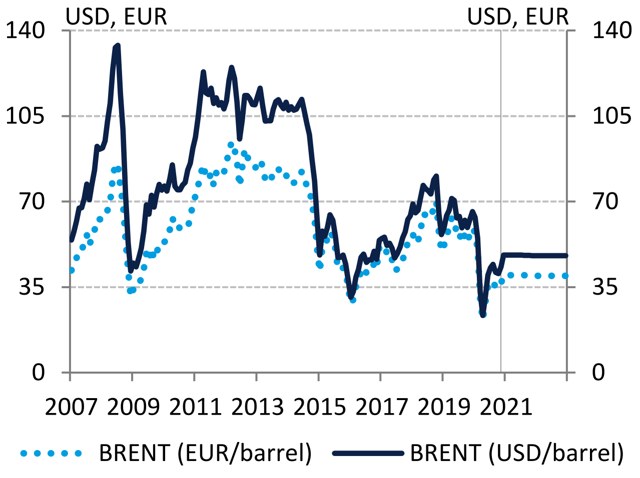
The economy of Germany - Hungary's main trading partner - **shrank by 4.0 percent in the third quarter.** In October, industrial production of Germany fell by 3.0 percent in annual terms. However, based on the industrial orders and monthly growth dynamics, Germany' industry continued to recover at a similar slow pace as before. German retail sales volume grew by 8.2 percent in October year-on-year. **German business sentiment** (Ifo Business Climate Index) **once again deteriorated in November, just like in October**, in line with the repeatedly introduced restrictive measures, which may curb primarily the service sector's performance. The index still falls short of the levels at the end of last year and at the beginning of 2020 (Chart 1).

After having experienced one of the greatest declines in its history, the United Kingdom still materially falls short of its economic performance registered last year: **in the third quarter, British GDP fell by 9.6 percent year-on-year.** Based on the monthly GDP, published uniquely in Europe (along with Norway) by the Office for National Statistics, in October it fell short of the data a year earlier by 8.2 percent. Industrial production continues to recover slowly; in October, it fell short of the level registered in October 2019 by 5.5 percent, while the volume of retail sales was up by 5.8 percent on an annual basis.

Most economies in the European Union showed a major correction in the third quarter of 2020. Each of the countries that suffered the largest declines in the second quarter registered double-digit growth rates in the third quarter. The strongest growth was registered in France, where GDP rose by 18.7 percent compared to the second quarter of 2020. **In annual terms, the economies of France, Italy and Spain contracted by 3.9 percent, 5.0 percent and 8.7 percent, respectively.** Compared to the third quarter of 2019, of the countries in the region, the Czech Republic, Slovakia and Poland showed an economic decline of 5.0, 2.2 and 1.8 percent, respectively.

Based on preliminary data, in November, euro area inflation may have remained unchanged compared to

Chart 2 World market prices of Brent crude oil



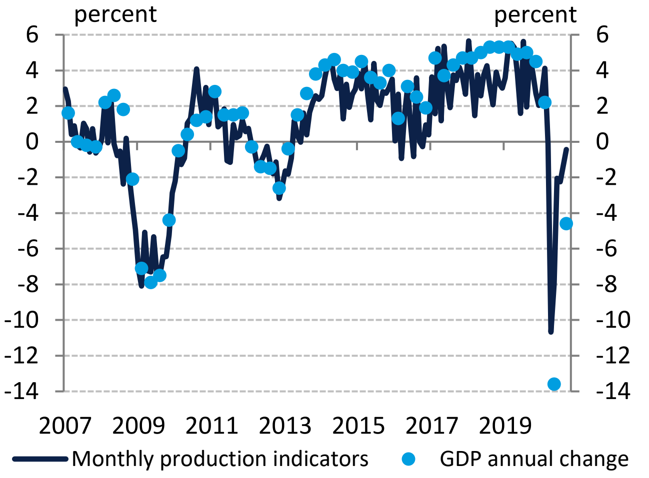
Source: Bloomberg

October, and it stood at -0.3 percent, i.e. below the 0.2 percent, expected by analysts. **Core inflation may have stagnated at 0.2 percent**, which corresponds to the value expected by analysts. **By December, the world market price of Brent crude oil rose from around USD 40/barrel, registered at the beginning of November, as high as USD 50** (Chart 2). Price developments were characterised by major volatility as a result of the news related to the OPEC+ meeting. After a 5-day debate, on 3 December the oil cartel reached an agreement with regard to the gradual easing of production cuts. Under the agreement, from January OPEC+ will increase the volume released to the market by 500,000 barrels per day and monthly meetings will be held to decide on the quota for the following month. The world market price of Brent crude oil rose as a result of the agreement. **The world market price of both industrial commodities and unprocessed food increased in November.**

1.2. Domestic real economy developments

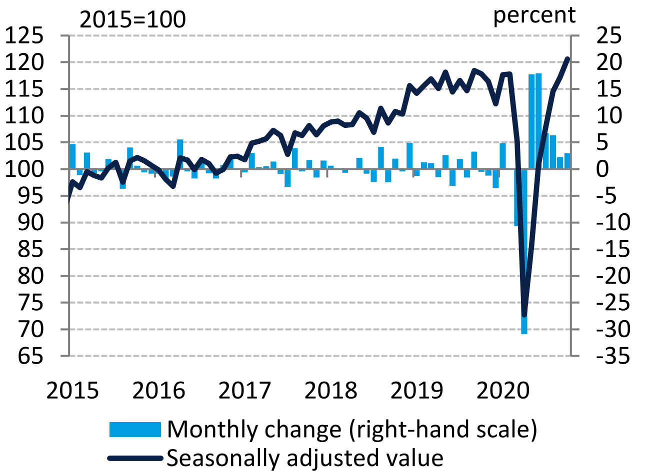
In the third quarter of 2020, Hungary's gross domestic product grew by 11.4 percent quarter-on-quarter, however, it is 4.6 percent lower than the same period of the previous year. On the production side construction, transportation, warehousing hotels and restaurants were the sectors that showed particularly poor performance. On the expenditure side, the performance of the economy was weaker than last year mainly as a result of a decline in investments. To date, labour market adjustment has been modest in Hungary. In October, total employment fell by 1.6 percent year-on-year. The number of the unemployed was 199,000, which exceeded the year-on-year figure by 31,000 persons. Thus the unemployment rate stood at 4.3 percent in October.

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

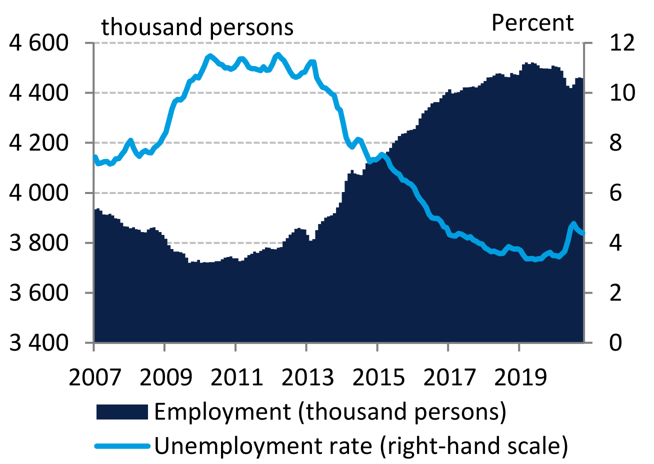
1.2.1. Economic growth

According to the HCSO's release, in the third quarter of 2020 Hungary's gross domestic product declined by 4.6 percent year-on-year (Chart 3). According to the seasonally and calendar adjusted data, **the economy grew by 11.4 percent quarter-on-quarter.** In the first three quarters the national economy's performance fell by 5.5 percent. **In the third quarter, recovery from the crisis caused by the pandemic has commenced. Quarter-on-quarter performance of most national economy sectors improved. On the output side construction, transportation, warehousing, hotels and restaurants were the sectors that showed particularly poor performance.** The change in the year-on-year economic performance was curbed to the largest degree by the transportation and warehousing sectors. **In the second quarter, of the sectors suffering the largest decline, industry and collective services substantially grew.** In the case of industry, this was attributable to the supply chains, faltering in the first, acute phase of the pandemic, returning to normal and to the recovery of the automotive industry, while collective services were supported by the restart of the public healthcare services. By contrast, **the performance of construction deteriorated further in parallel with the decline in construction investments,** and the transportation and warehousing sectors were also unable to improve materially compared to the second quarter. **Due to the wide-ranging teleworking arrangements, the infocommunication sector – contrary to the majority of sectors – registered a growth (+5.3 percent**). Although the performance of accommodation and catering services, connected to tourism, as well as of arts, entertainment and other services registered substantial adjustment compared to the previous quarter, it still materially falls short of that of last year.

On the expenditure side, the shortfall in the economy's performance compared to previous year was mostly attributable to the decline in investments, which rested on a broad base since all three sectors (corporations, households and government) contributed to the decline. By contrast, the positive change in inventories dampened the contraction of the economy. The fall in the external trade of services continued to play a major role in the decline in net exports, as the balance of goods exports made positive contribution to output. **Households' consumption expenditures declined only slightly in a European comparison.** The relatively favourable consumption performance was supported by the comparatively moderate response of the labour market to the first wave of the crisis, also contributed to by the government's job protection measures, the continued functioning of the credit market and the moratorium on loan instalments.

Available high frequency data imply slow and protracted recovery. Growth in domestic industry continued. According to the HCSO's preliminary data release, in October 2020 **industrial output was up by 2.7 percent year-on-year** based on working-day adjusted data. **Production** (based on seasonally and calendar adjusted data) **rose by 2.8 percent on a monthly basis** (Chart 4). According to detailed data in October, production of the automotive industry, representing the largest share among the manufacturing subsectors, grew by 7.6 percent year-on- year. Production of computers, electronic and optical products as well as of electrical equipment, and the output of chemical industry grew to a larger degree, by more than 10 percent, year-on-year. On the other hand, the food, rubber, plastic, metal and textile industries registered a decline on an annual basis. **Hungarian manufacturing PMI moderately rose in November and at present it stands at 51.9 points.**

Chart 5 Number of persons employed and the unemployment rate



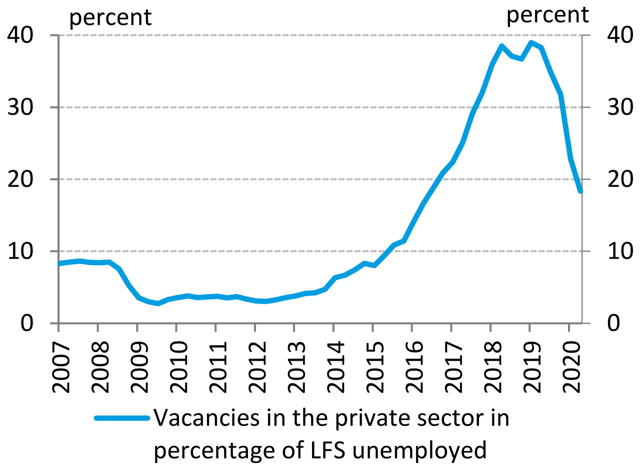
Source: HCSO

Based on preliminary data, goods **exports and imports fell by 1.5 percent and 6.8 percent, respectively, in euro terms, year-on-year in October 2020** according to the HCSO's preliminary data release. Goods trade balance improved by EUR 516 million compared to October 2019.

The volume of construction output was down by 14.7 percent year-on- year in September 2020. Output declined in both main construction groups: buildings by 9.1 percent, other construction by 20.6 percent. **Construction output compared to the previous month was up by 1.4 percent** (based on seasonally and calendar adjusted data). The volume of new contracts concluded in September and the construction companies' contract portfolio fell short of the value registered at the end of September 2019 by 7.4 percent and 16.3 percent, respectively.

In October, the volume of retail sales (including fuel sales) **was down by 1.9 percent year-on-year after accounting for calendar effects.** The volume of retail sales recovers slowly; the pandemic situation continued to impact the turnover. In October, the volume of retail sales in food stores and groceries rose (+1.2 percent), while in non-food stores it

Chart 6 Development of labour market tightness indicator



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

declined (-1.2 percent). The volume of retail sales declined the most in cultural and other articles (-27.6 percent), in the furniture and appliances shops (-19.4 percent) and in the textile, clothing and footwear shops (-11.2 percent). The retail sales volume of mail order shops or web shops (43.4 percent), and medicine and therapeutic product shops (4.1 percent) rose according to the data adjusted for calendar effects. The volume of fuel retail sales declined by 10.5 percent on an annual basis. Vehicle and components sales, not belonging to the retail figures, decreased by 18 percent in October.

In October, the number of tourist overnight stays declined by 64 percent in year-on-year terms. The number of overnight stays by foreign and domestic tourists fell by 93 and 30 percent, respectively. In October, domestic tourists accounted for 89 percent of all tourist overnight stays.

1.2.2. Employment

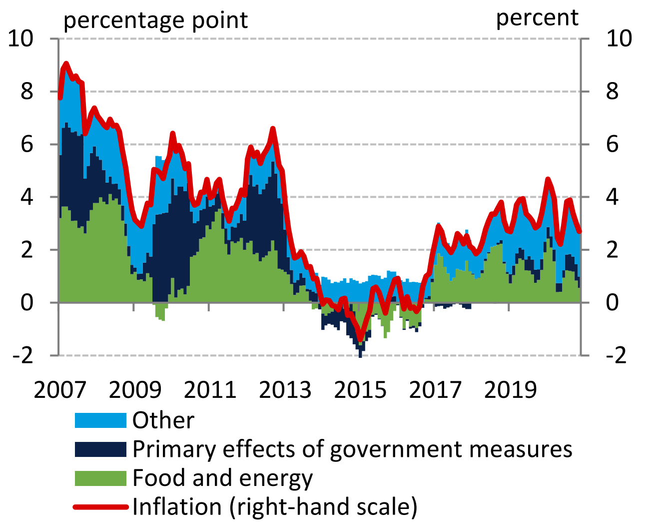
Based on the data of the Labour Force Survey (LFS), in October 2020 total employment fell by 72,300 persons (by 1.6 percent) to 4,451,000 persons year-on-year (Chart 5). Since October 2019, the number of employees in the private sector declined by 11,400 persons, the number of public employees by 19,800 and the number of those working abroad by 41,100 persons. **In October, the number of the unemployed was 199,200, exceeding the year-on-year figure by 30,600 persons,** thus on the whole **the unemployment rate stood at 4.3 percent**. Compared to the previous month, the number of the unemployed decreased. Based on the data published by the National Employment Service (Nemzeti Foglalkoztatási Szolgálat - NFSZ) in October and November the number of registered jobseekers in Hungary was 306,200 (+66,700 on an annual basis) and 296,500 (57,300 on an annual basis), respectively.

In the second quarter of 2020, based on the number of vacancies, **corporate labour demand continued to decline in a wide range of the 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. In addition, in the education sector the number of vacancies increased in annual terms, which offset the declining number of jobs in the rest of the sectors connected to the state (public administration, healthcare). **The labour market tightness indicator** calculated from the ratio of job vacancies and unemployed persons, **eased up further - similarly to the previous quarters -** and thus fell to the level registered at mid-2016 (Chart 6).

1.3. Inflation and wages

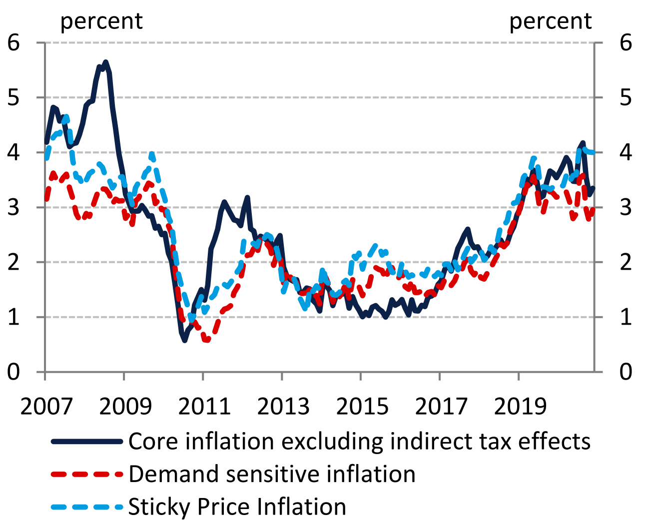
In November 2020, inflation calculated on a year-on-year basis was 2.7 percent, while core inflation and core inflation excluding indirect taxes stood at 3.9 and 3.3 percent, respectively. Overall, underlying inflation indicators capturing persistent trends (price index of demand sensitive and inflation of sticky price products and services) increased slightly compared to the previous month. In September 2020, gross average wages in the private sector rose by 9.8 percent year-on-year, partly due to statistical effects.

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 September 2020, gross average wages in the private sector rose by 9.8 percent year-on-year. The degree of distortion in the gross average wage for full-time employees decreased compared to previous months. The wage index published by HCSO does not include part-time workers, the ratio of which has increased in the past months. In addition, companies primarily dismissed low-wage workers, which also distorts the official wage index upwards. Regular average wages declined on a monthly basis, while bonus payments did not change materially compared to previous years.

Within the private sector, the wage dynamics of market services exceeds that in manufacturing. Manufacturing wage dynamics accelerated compared to August; wages were higher by 9.8 percent year-on-year. Wages in the automotive industry - representing the largest share - increased by 8.5 percent in annual terms. Among market services, HCSO registered a growth of 10.2 percent. **In addition to the market services sector, construction wage index also showed a double-digit growth** (+10.8 percent).

1.3.2. Inflation developments

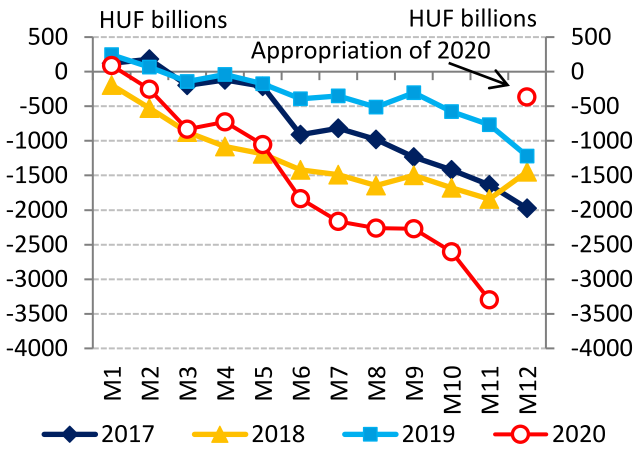
In November 2020, inflation calculated on a year-on-year basis was 2.7 percent, core inflation and core inflation excluding indirect taxes stood at 3.9 and 3.3 percent, respectively (Chart 7). Compared to the previous month, inflation decreased by 0.3 percentage point, which is mostly attributable to the fall in fuel and regulated prices.

Overall, underlying inflation indicators capturing persistent trends (inflation of demand sensitive and sticky price products and services) **increased slightly compared to the previous month** (Chart 8). In October 2020, agricultural producer prices increased by 5.9 percent in annual terms, while domestic sales prices in sectors of consumer goods increased by 3.4 percent.

1.4. Fiscal developments

The central sub-sector of the general government had a deficit of HUF 694 billion in November 2020, representing an accumulated deficit of HUF 3,298 billion in the first eleven months.

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 had a deficit of HUF 694 billion in November 2020, representing an accumulated deficit of HUF 3,298 billion in the first eleven months (Chart 9).

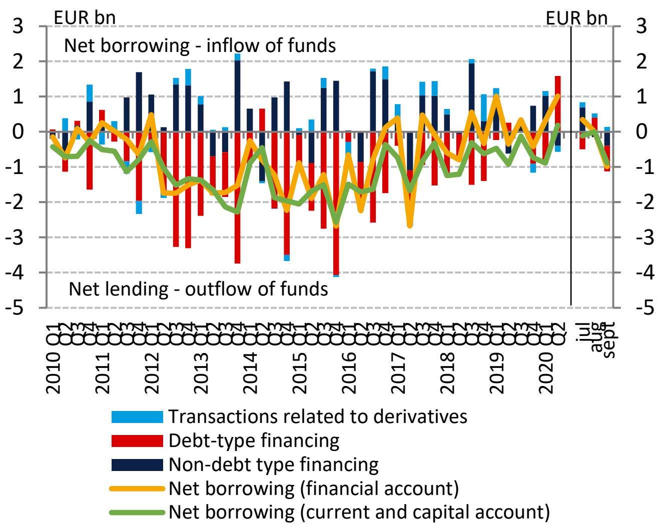
In November, revenues of the central sub-sector fell short of the year-on-year value by roughly HUF 170 billion, which is primarily attributable to the fact that compared to the previous year substantially less EU revenues have been recognised.

Expenditures of the central sub-sector exceeded those of last year by about HUF 330 billion. This surplus is linked primarily to the expenditures related to state property and to curative and preventive care. In the month under review, expenditures related to EU programmes amounted to HUF 163 billion, which exceeds the value registered in November 2019 by roughly HUF 60 billion.

1.5. External balance developments

In September, the current account turned into a surplus of EUR 636 million, while net lending of the economy amounted to EUR 882 million. The rise in net lending is primarily attributable to the improved goods balance. On the financing side, the larger part of the outflow of funds reduced net external debt, but net foreign direct investments also declined.

Chart 10 Structure of net lending (unadjusted transactions)



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

In September, following the deficit registered in previous months, the current account turned into a surplus of EUR 636 million, while net lending of the economy rose to EUR 882 million. The growth in the current account was primarily attributable to the improvement in the balance of trade, but the decline in the income balance deficit also contributed. The significant improvement in the balance of payments position was linked to goods trade: in parallel with the annual growth in exports – attributable to the sectors of larger weight, and particularly to the soar in the production of the automotive sector – imports declined. Services surplus decreased further, which was mostly attributable to the low tourism balance. The absorption of EU transfers somewhat rose compared to the previous month, which was reflected by the moderate growth in the transfers balance. As a combined result of the foregoing, the economy's external position significantly improved.

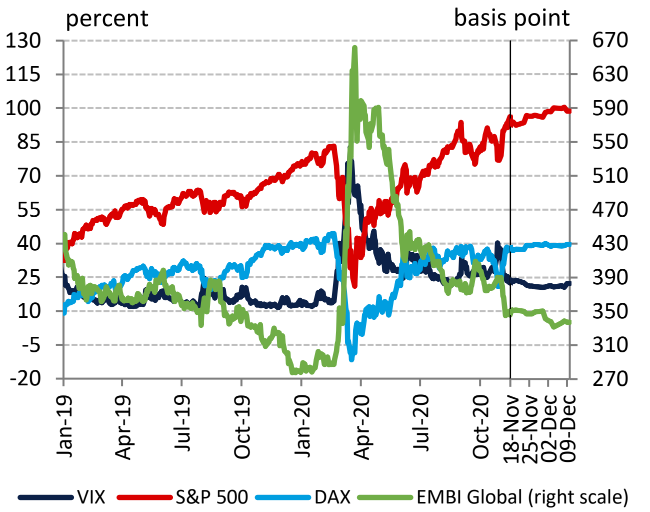
Based on the financial account data, in September, in line with the high net lending, the outflow of external liabilities was significant – which involved a decrease in net external debt to a larger degree, while net foreign direct investments also declined (Chart 10). In parallel with the FDI growth resulting from reinvestments, in September intercompany loans significantly decreased, which reduced the net FDI balance. The banking sector and the corporate sector contributed to the decline in the economy's net external debt, while the rise in consolidated general government's indicator – partly attributable to the foreign currency liquidity provided to banks at the end of the months – curbed the decline.

2. Financial markets

2.1. International financial markets

In the period since the last interest rate decision, global investor sentiment has improved, mostly contributed to by the positive news related to the COVID-19 vaccine. The VIX index, the key measure of equity market volatility, and the emerging bond market EMBI Global spread both declined, and thus both indices were close to their value registered at the end of February (i.e. the period before the financial market turbulence caused by the coronavirus pandemic). On the other hand, the MOVE index (measure of the developed bond market volatility) rose by 5 basis points to 48 basis points. Under the favourable sentiment, developed and emerging stock market indices rose, bond spreads declined, while developed long-term yields showed a mixed picture. The dollar depreciated against the developed and emerging currencies, and its exchange rate to the euro reached the level of 1.2, which has been unprecedented since April 2018. In the past month oil prices significantly rose.

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

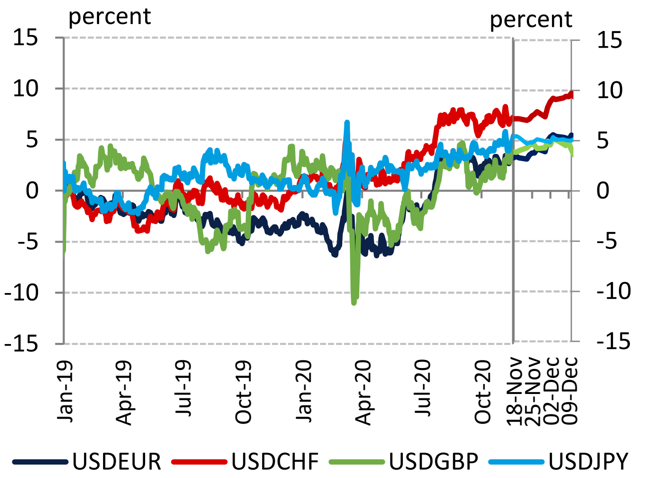


Source: Bloomberg

In the period since the last interest rate decision financial market sentiment improved. The focus of market participants was on the news related to the coronavirus vaccine and the tightening measures adopted to contain the spread of the virus. The fact that in addition to the coronavirus vaccine developed by Pfizer-BioNTech, the vaccines of Moderna and AstraZeneca-Oxford also proved to be successful during the tests, with 95 and 70 percent efficiency, respectively, also contributed to the favourable market sentiment. In Great Britain the vaccination of the population has already commenced. The new tightening measures introduced in several countries and the prolongation of the rules presently in place somewhat overshadowed the positive sentiment.

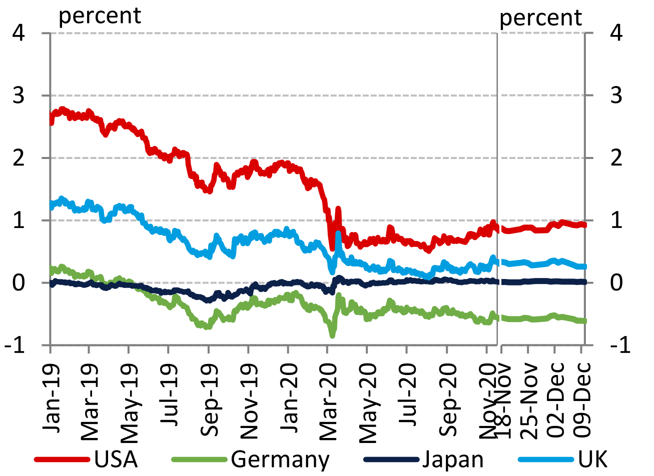
Of the risk indicators, the VIX index, the key measure of equity market volatility, decreased by 0.5 percentage point to 22.2 percent, while the emerging bond market EMBI Global spread fell by 14 basis points to 337 basis points. By the end of the period, the value of both indicators was close to that registered at the end of February (i.e. before the financial market turbulence caused by the coronavirus). On the other hand, the MOVE index (measure of the developed bond market volatility) rose by 5 basis points to 48 basis points (Chart 11). **Last month developed and emerging stock market indices both rose**, which was mostly attributable to the positive news related to the coronavirus vaccine**: the developed and emerging market MSCI composite index rose by 2.7 and 4.5 percent, respectively.** In the developed markets, the British stock exchange over-performed despite the uncertainty surrounding the Brexit. This partly may have been attributable to the fact that the United Kingdom was the first to start mass vaccination, and partly, that the UK stock exchange index is still well below its pre-crisis level contrary to the other developed indices. **Within the emerging markets the CEE region was an over-**

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

performer, with the Polish, Hungarian and Romanian stock exchanges rising by 9.5 percent, 8.5 percent and 7.7 percent, respectively. **Developed foreign exchange markets were characterised by the depreciation of the dollar in parallel with the rise in risk appetite** (Chart 12)**.** It may have also contributed to the weakening of the US currency that the global fund managers reweighted their portfolios amid the skyrocketing of US equity prices. The dollar depreciated against the euro, the Swiss franc and the British pound by 1.9 percent, 2.4 percent and 0.9 percent, respectively, while its exchange rate against the Japanese yen has not changed. Accordingly, by the end of the period the euro-dollar exchange rate reached the level of 1.21, which has been unprecedented since April 2018. In parallel with the rising risk appetite, emerging market currencies mostly substantially appreciated against the dollar, while the currencies of the region appreciated by 2-3.5 percent. Since the last interest rate decision the price of gold declined by 2.3 percent, to USD 1,837/oz.

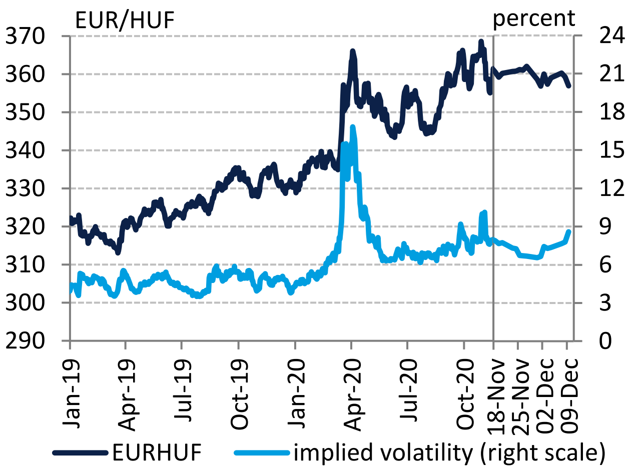
Developed bond yields have varied since the last interest rate decision (Chart 13)**.** The Japanese 10-year yield fell by 1, the German one by 4, and the British one by 6 basis points, while US yields rose by 6 basis points, and thus at present the US and German yields stand at 0.92 and -0.61 percent, respectively. In the first half of the period, German long-term yields rose due to the positive news about the vaccine, followed by a decline as a result of the repeated tightening measures. Expectations related to the expansion of the ECB's asset purchase programme may have also contributed to the decline at the end of the period. **Emerging countries' bond yields also showed a mixed picture.** The countries of the CEE region tended to be characterised by increasing yields; the Hungarian 10-year yield rose by 3 basis points, the Romanian one by 10 basis points, the Czech one by 14 basis points and the Polish one by 17 basis points.

Since the last interest rate decision oil prices significantly increased. On the demand side, the price rise was mostly fuelled by the fast economic recovery expected to take place due to the vaccine. In addition, at the beginning of December the OPEC member states agreed to increase their daily production from January by merely 500,000 barrels, thereby maintaining the significant production cuts. Last month the price of Brent crude oil rose by 12 percent to USD 48.9/barrel, while the price of WTI increased by 10 percent to USD 45.6.

2.2. Developments in domestic money market indicators

Overall, during the period under review, the forint appreciated slightly against the euro. In the first half of the period, the currencies of the region appreciated both against the forint and the euro, while in the second half of it they moved closely together with the forint. The government securities market's yield curve has become slightly steeper. In the past month the discount Treasury bill and government bond auctions were characterised by strong demand; however, the average auction yield of longer-term bonds slightly increased compared to mid-November.

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

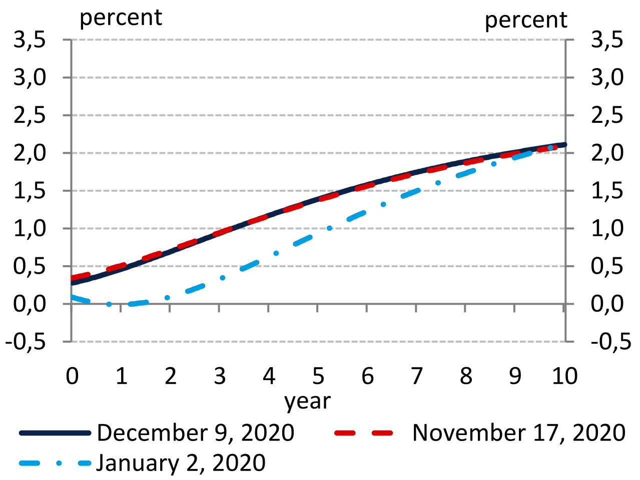


Source: Bloomberg

Since the interest rate decision in November, the forint exchange rate against the euro strengthened moderately, by slightly more than 1 percent, from 361 to 357 (Chart 14)**.** In the first half of the period the forint fluctuated around 360, then it managed to strengthen. However, in the period of the debates concerning Hungary's and Poland's veto related to the EU's budget and recovery fund it weakened, and upon reaching a compromise it once again strengthened. The currencies of the region strengthened in the first half of the period, then followed a similar trend as the forint exchange rate; in the end, the Polish zloty appreciated against the euro to larger a degree, while the Czech koruna strengthened against the euro to similar degree as the forint. During the period the Romanian leu fluctuated in a relatively narrow band.

The government yield curve became slightly steeper (Chart 15). The shortest section of the yield curve declined by 6-7 basis points, while the 1-year section of the curve decreased by 4-5 basis points. An increase of 1 basis point was observed around the 5-year section of the yield curve, 2 basis points at the 10-year maturity and 5-8 basis points at the longest section.

Chart 15 Shifts in the spot government yield curve



Source: MNB, Reuters

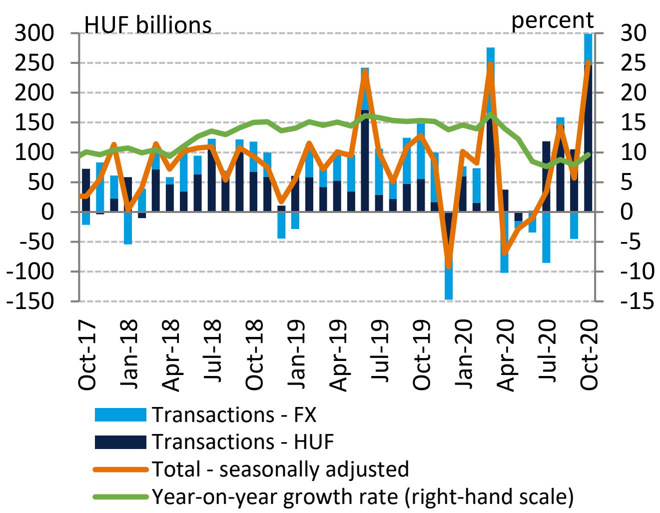
In the past month the discount Treasury bill and government bond auctions were mostly characterised by a strong demand. The Government Debt Management Agency sold the announced volume at the auctions of the 3-month Treasury bills and at the 12-month auctions on each occasion. Since the last interest rate decision, the average yield at the 3-month auctions declined from 0.43 percent to 0.39 percent, while the average auction yield at the 12-month Treasury bill auctions dropped from 0.58 percent to 0.47 percent. The government bond auctions were also characterised, without exception, by strong demand; accordingly, at the 5-,7- and 10-year auctions the Government Debt Management Agency accepted bids in excess of the announced volume usually by HUF 5-15 billion, while at the 3- and 20-year auctions it sold the announced volume. At the latest auction, the average yield of the 10-year securities was 2.24 percent, representing an increase of 10 basis points compared to the mid-November average auction yield. The average auction yield on the 5-year government securities rose by 3 basis points to 1.55 percent, while on the 3-year securities it fell by 15 basis points to 1 percent. The average auction yield on the 20-year securities declined by 18 basis points to 2.5 percent compared to the last auction held at the end of October. The Hungarian 5-year CDS spread fell by 2 basis point during the period under review, thus at present it stands at 63 basis points.

Non-residents' holdings in forint government securities increased. Non-residents’ holdings rose by HUF 21 billion to HUF 4,511 billion; however, the market share of forint government securities held by non-residents decreased from 22.5 percent to 22.1 percent.

3. Trends in lending

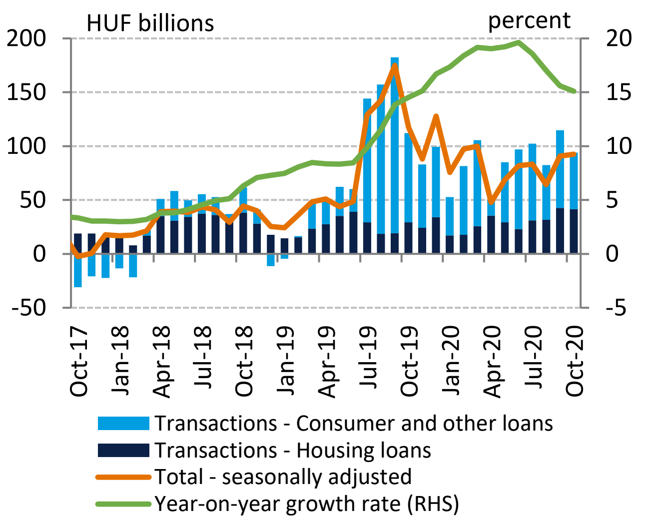
In October 2020, outstanding borrowing by non-financial corporations increased by almost HUF 300 billion, driven by an increase of HUF 246 billion in outstanding forint borrowing and HUF 53 billion in foreign currency loans. In October, outstanding borrowing of households increased by HUF 94 billion, and thus the annual growth rate reached 15 percent.

Chart 16 Net borrowing by non-financial corporations



Source: MNB

Chart 17 Net borrowing by households

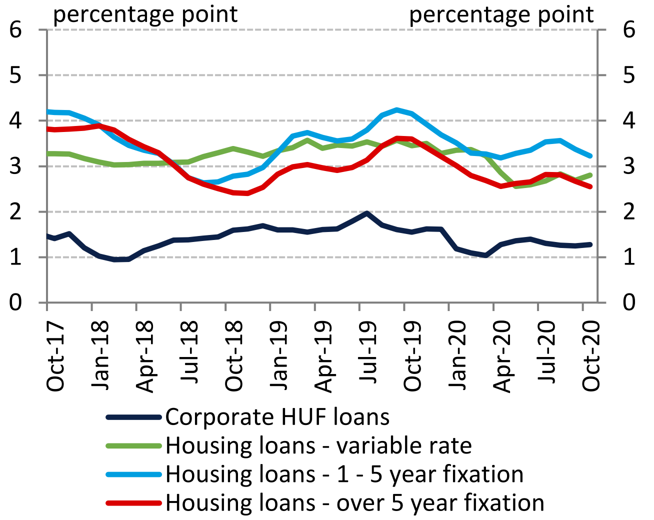


Source: MNB

In October 2020, outstanding borrowing of non-financial corporations grew by almost HUF 300 billion, as a combined result of the increase in outstanding forint borrowing by HUF 246 billion and in foreign currency loans by HUF 53 billion (Chart 16). Due to the aggregate, more substantial growth in high-amount individual loans and SME loans, the annual growth rate accelerated to 9.6 percent from 7.9 percent registered in the previous month. In October, credit institutions disbursed new loans in the amount of HUF 394 billion, which exceeds the value registered last October by 33 percent. In October, credit institutions concluded forint contracts with enterprises under FGS in the amount of HUF 197 billion, which accounts for 50 percent of the volume of the entire corporate sector.

In October, outstanding borrowing of households increased by HUF 94 billion, and thus the annual growth rate reached 15 percent (Chart 17). A large part of this, almost 5 percentage points, results from the technical effect of the moratorium, i.e. the missed instalments. The volume of new loans fell short of the value registered in October last year by 23 percent, which – in addition to the impact of the coronavirus – is also attributable to the base effect resulting from the high disbursements of prenatal baby support loans registered last year in the first month after the launch of the scheme. The volume of housing loan contracts corresponded to the value registered in October 2019, while the personal loan market still substantially falls short of its pre-pandemic size. Prenatal baby support loans and the loans linked to first-time homebuyers' programmes continue to provide support for lending to households, accounting for more than one third of the disbursements in October.

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 corporate loans in HUF was 1.28 percentage point in October 2020, representing an increase of 0.04 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) also increased during the month** and amounted to 2.81 percentage points. **By contrast, the spread on products with interest rate fixation periods longer than one year, up to 5 years and more than 5 years decreased compared to September.** The average spread on housing loans with interest rate fixation periods longer than one year and up to 5 years reached 3.23 percentage points in October, while the spread on products with interest rate fixation periods of more than 5 years was 2.55 percentage points.