MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 17 NOVEMBER 2020

NOVEMBER

2020

Time of publication: 2 p.m. on 2 December 2020

The background material 'Macroeconomic and financial market developments' is based on information available until 12 November 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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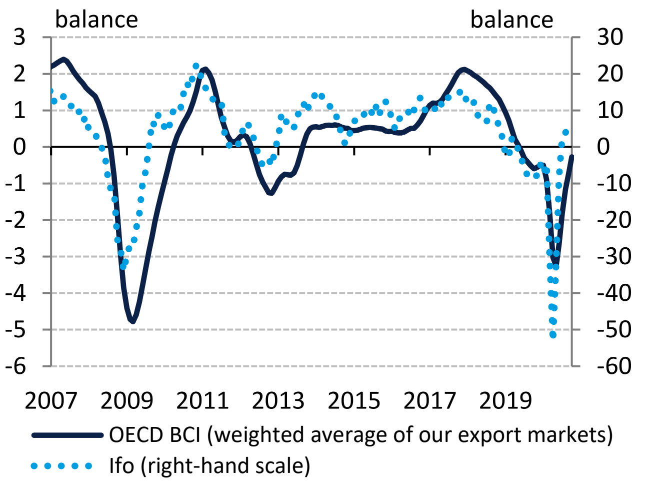
1. Macroeconomic developments

1.1. Global macroeconomic environment

Based on the available data, the performance of the world's major economies showed significant adjustment compared to the low in the second quarter. The Chinese economy continued to grow in the third quarter of 2020. The more favourable trends were attributable to the first wave of the virus wearing off and to the lifting of most restrictions. However, at the end of October and beginning of November the epidemic curves in several countries show a steep rise again. The second wave typically brings about higher case numbers and death rate than the first wave, while the additional tightening measures implemented may cause economic recovery to drag on further.

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 restart of economies in the summer. 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 GDP rose by 4.9 percent in annual terms, continuing the growth that started in the second quarter. Business sentiment in China remained positive in October as well; Purchasing Manager Indices remained in the (growth) range of over 50 points. Industrial production has grown since April, year-on-year: **in September, industrial production rose by 6.9 percent in annual terms**, 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. After August, the volume of retail sales rose by 3.3 percent again year-on-year.

In the third quarter, US GDP fell by 2.9 percent year-on-year. The largest decline was seen in exports, but households' consumption and investments also decreased. Compared to the previous quarter, a major adjustment took place in all areas; however, the level of GDP still falls short of its pre-pandemic value. **In September, US industrial output declined by 7.3 percent,** year-on-year, which is the 13th consecutive monthly decline. **In September 2020, retail sales were up by 5.4 percent** year-on-year; which is the largest growth since December 2019. On the week ending on 31 October, the number of new unemployment benefit claims fell to 751,000, which was more favourable than analysts expected. The unemployment rate of those over 16 years peaked at 14.7 percent in April, and after a continuous decline, it stood at 6.9 percent in October. In the United

States, the epidemic curve started to rise again at the end of June, and at present the second wave already outstrips the period of March to June.

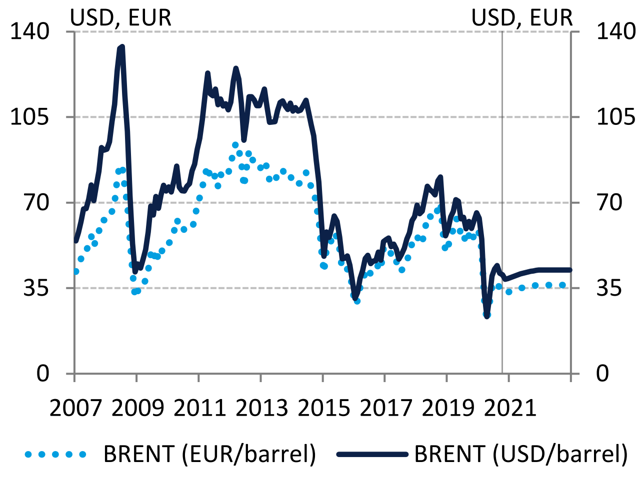
Based on preliminary data, **economic performance of the euro area fell by 4.3 percent year-on-year in the third quarter**, while quarter-on-quarter it registered a growth of 12.7 percent according to the seasonally and working-day adjusted data. In August, industrial output declined by 6.8 percent year-on-year; however, the monthly growth rates indicate moderate, but gradual recovery. In September, the volume of retail sales rose by 2.2 percent on an annual basis.

The economy of Germany – Hungary's main trading partner – **shrank by 4.2 percent in the third quarter.** In September, industrial production of Germany fell by 7.3 percent in annual terms. Based on the industrial orders and monthly growth dynamics, Germany' industry continued to recover, albeit at a slow pace. German retail sales volume grew by 6.5 percent in September year-on-year. **The improving trend of German business sentiment** (Ifo Business Climate Index) **came to a halt in October**, and it declined following a rise seen in five consecutive months. The index still falls short of the levels at the end of last year and at the beginning of 2020 (Chart 1). Due to the repeated increase in case numbers, the German government introduced stricter restrictive measures again for November, which is also likely to affect economic activity.

The United Kingdom experienced one of the greatest declines in its history in the second 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 September it fell short of the data a year earlier by 8.4 percent. In September, industrial production fell by 6.3 percent, while the volume of retail sales was up by 4.7 percent relative to September 2019. The United Kingdom has one of the highest death rates in Europe, which is attempted to be reduced by shutting down the economy in the autumn as well. Similarly to Germany, the measures are initially in effect for one month.

Most economies in the European Union showed a major rebound 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 18.2 percent compared to the second quarter of 2020. **In annual terms, the economies of France, Italy and Spain contracted by 4.3 percent, 4.7 percent and 8.7 percent, respectively.** Based on preliminary data, of the countries in

Chart 2 World market prices of Brent crude oil



Source: Bloomberg

the region, the Czech Republic showed an economic decline of 5.8 percent compared to the third quarter of 2019.

Based on preliminary data, in October, in line with analysts' expectations **euro area inflation may have remained unchanged compared to September, and stood at -0.3 percent.** Core inflation may have stagnated at 0.2 percent, which also corresponds to the value expected by analysts. **The world market price of Brent crude oil has been around USD 40/barrel** (Chart 2). At the end of October the price of oil prices plunged to a five-month low, i.e. USD 37 per barrel, as Libya increased its production and, due to the exacerbation of the second wave of the coronavirus, more and more countries announced tougher restrictions on travels and new lockdown measures across Europe. Following this, the world market price of Brent crude oil adjusted to USD 40/barrel as a result of the news related to US presidential elections and as there are an increasing number of signs implying that OPEC+ will postpone the easing of the production cuts, formerly planned for January 2021. **The price of industrial commodities slightly declined, while the world market price of unprocessed food increased in October.**

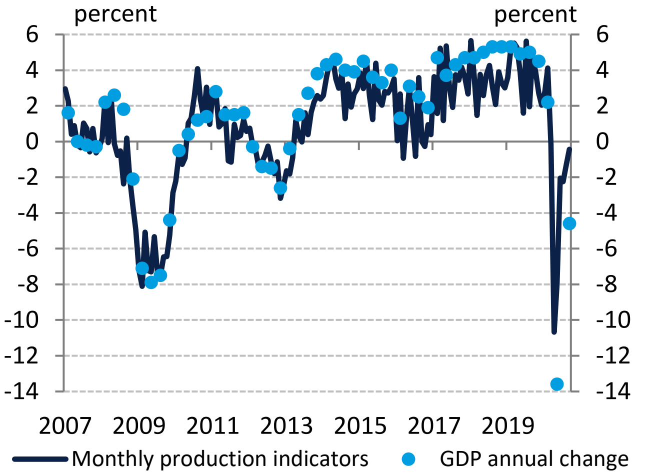
1.2. Domestic real economy developments

Based on preliminary data, in the third quarter of 2020, Hungary's gross domestic product grew by 11.3 percent quarter-on-quarter, however, it is 4.6 percent lower than the same period last year. To date, labour market adjustment has been moderate in Hungary. In September, total employment fell by 0.5 percent year-on-year. The number of the unemployed was 222,000, which exceeded the year-on-year figure by 57,000 persons. The unemployment rate stood at 4.7 percent.

1.2.1. Economic growth

According to the HCSO's preliminary 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 decline was 4.7 percent, **while quarter-on-quarter the economy grew by 11.3 percent.** In the first three quarters the national economy's performance fell by 5.6 percent. **According to the HCSO's communication, recovery from the crisis caused by the pandemic has commenced in the third quarter. Quarter-on-quarter performance of most national economy sectors grew.** The year-on-year decline in economic performance was mitigated to the largest degree by the growth in infocommunication and financial services.

Chart 3 Monthly production indicators and GDP growth

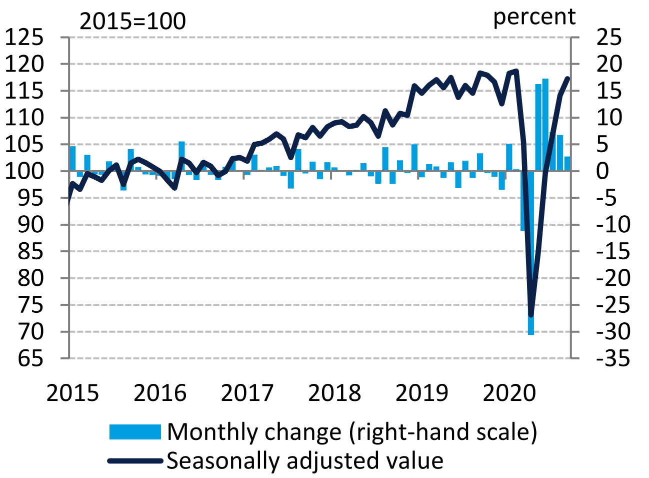


Note: Weighted average of monthly production indicators (industrial output, construction output and retail sales). The weights are derived from regression explaining GDP growth.

Source: MNB calculation based on HCSO data

Available data imply slow and protracted recovery. Growth in domestic industry continued. According to the HCSO's data release, in September 2020 **industrial output was up by 2.2 percent** year-on-year. Production (based on seasonally and working-day adjusted data) **rose by 2.3 percent** on a monthly basis (Chart 4). Production of the automotive industry, representing the largest share among the manufacturing subsectors, grew by 7.8 percent year-on-year. Production of computers, electronic and optical products as well as food increased to a smaller, while that of electrical equipment to a larger degree, year-on-year. On the other hand, the chemical, rubber, plastic and metal industries registered a decline year-on-year. **Following the decline registered in September (48.8 points), Hungarian manufacturing PMI moderately rose in October, and at present it stands at 50.1 points.**

Chart 4 Development in industrial production



Source: MNB calculation based on HCSO data

Based on preliminary data, **exports and imports fell by 4.6 percent and 2.4 percent, respectively, in euro terms,** year-on-year **in September 2020** according to the HCSO's data release. On the whole, goods balance improved by EUR 665 million compared to last August.

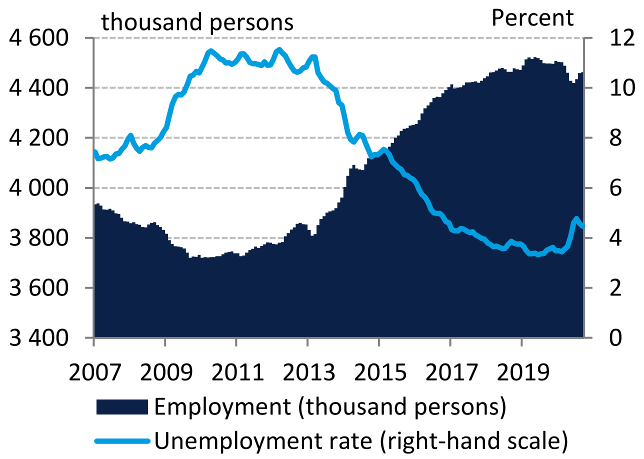
Construction output was down by 14.7 percent year-on-year in September 2020. Output declined in both main construction groups: buildings by 9.1 percent, other construction by 20.6 percent. **Construction output compared to the previous month was up by 1.4 percent** (based on seasonally and working-day 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 September, the volume of retail sales (including fuel sales) **was down by 2.0 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 September, the volume of retail sales in food stores and groceries rose, while in non-food stores it declined. The volume of retail sales declined the most in the furniture and appliances shops (-20.6 percent), textile, clothing and footwear shops (-20.7 percent) and cultural and other articles (-25.3 percent). The retail sales volume of mail order shops (32.7 percent), general stores selling industrial goods (0.7 percent) and medicine, therapeutic and perfume shops (5.2 percent) rose according to the data adjusted for calendar effects. The volume of fuel retail sales declined by 9.8 percent on an annual basis. Vehicle and components sales, not belonging to the retail figures, increased by 1.0 percent in September.

In September, the number of tourist overnight stays declined by 59 percent in year-on-year terms. The number of overnight stays by foreign and domestic tourists fell by 91 and 16 percent, respectively. In September, domestic tourists accounted for 88 percent of all tourist overnight stays**.**

1.2.2. Employment

Chart 5 Number of persons employed and the unemployment rate

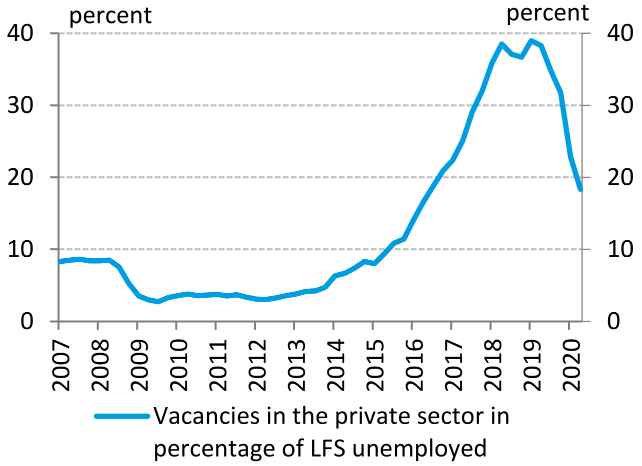


Source: HCSO

Based on the data of the Labour Force Survey (LFS), **in September 2020 total employment fell by 23,600 persons (by 0.5 percent) to 4,482,000 persons year-on-year** (Chart 5). Since September 2019, the number of employees in the private sector increased by 14,200 persons, while the number of public employees declined by 25,500 and the number of those working abroad by 12,300 persons. In August, the number of the unemployed was 221,900, exceeding the year-on-year figure by 57,000 persons, thus on the whole **the unemployment rate stood at 4.7 percent**. Compared to the previous month, the number of the unemployed rose further. Based on the data published by the National Employment Service (Nemzeti Foglalkoztatási Szolgálat – NFSZ) in September and October the number of registered jobseekers in Hungary was 323,400 (+ 80,000 on an annual basis) and 306,200 (+ 66,700 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

Chart 6 Development of labour market tightness indicator



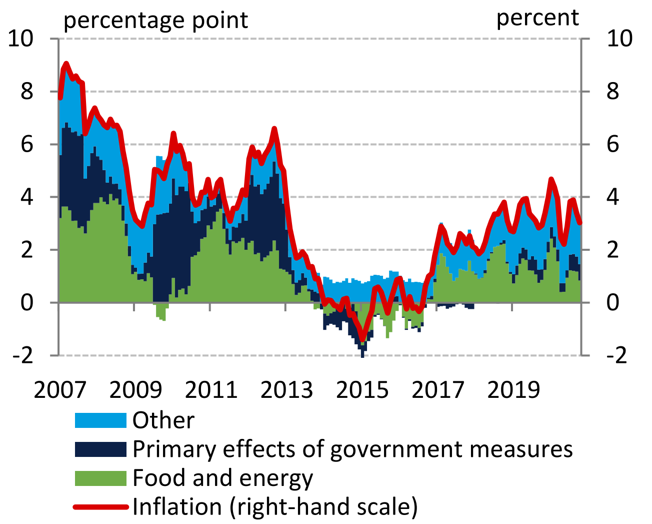
Note: Quarterly data.
Source: National Employment Service, HCSO

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

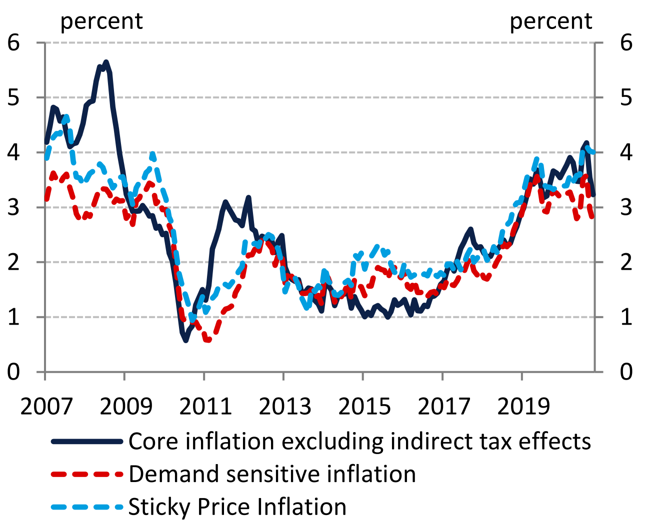
In October 2020, inflation calculated on a year-on-year basis was 3.0 percent, while core inflation and core inflation excluding indirect taxes stood at 3.8 and 3.2 percent, respectively. Underlying inflation indicators capturing persistent inflationary trends (the price index of demand sensitive products and the inflation of sticky price products and services) decreased further. In August 2020, gross average wages in the private sector rose by 9.9 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 August 2020, gross average wages in the private sector rose by 9.9 percent year-on-year. Based on the detailed analysis of the sectors, gross average wage related to full-time employees still shows an inaccurate picture of the wage setting trends. According to our estimate, **after the adjustment for statistical effects, the annual wage growth would be 7.8 percent in the private sector**. The wage index published by HCSO does not include part-time workers, the ratio of which has increased in the past months. In addition, in the changed economic situation, companies primarily dismissed low-wage workers, which also distorts the official wage index upwards. Regular average wages moderately rose 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 decelerated compared to July; wages were higher by 8.5 percent year-on-year. Wages in the automotive industry – representing the largest share – increased by 6.7 percent in annual terms. Among market services, HCSO registered a growth of 11.1 percent. **In addition to the market services sector, construction wage index also showed a double-digit growth (10.9 percent).**

1.3.2. Inflation developments

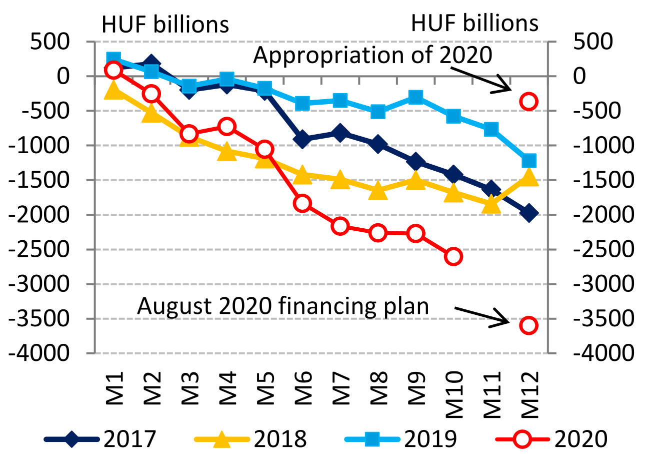
In October 2020, inflation calculated on a year-on-year basis was 3.0 percent, core inflation and core inflation excluding indirect taxes stood at 3.8 and 3.2 percent, respectively (Chart 7)**.** Compared to the previous month, inflation decreased by 0.4 percentage point and core inflation by 0.2 percentage point, primarily caused by the lower dynamics in food and fuel prices.

Underlying inflation indicators capturing persistent inflationary trends (the price index of demand sensitive products and the inflation of sticky price products and services) **declined further in October** (Chart 8). In September 2020, agricultural producer prices increased by 6.6 percent in annual terms, while domestic sales prices in sectors of consumer goods increased by 4.4 percent.

1.4. Fiscal developments

The central sub-sector of the general government had a deficit of HUF 334 billion in October 2020, representing an accumulated deficit of HUF 2,604 billion in the first ten quarters.

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



Source: Budget Act of 2020, Hungarian State Treasury, 26 August financing plan of ÁKK

The central sub-sector of general government closed with a deficit of HUF 334 billion in October 2020, representing an accumulated deficit of HUF 2,604 billion in the first ten quarters (Chart 9).

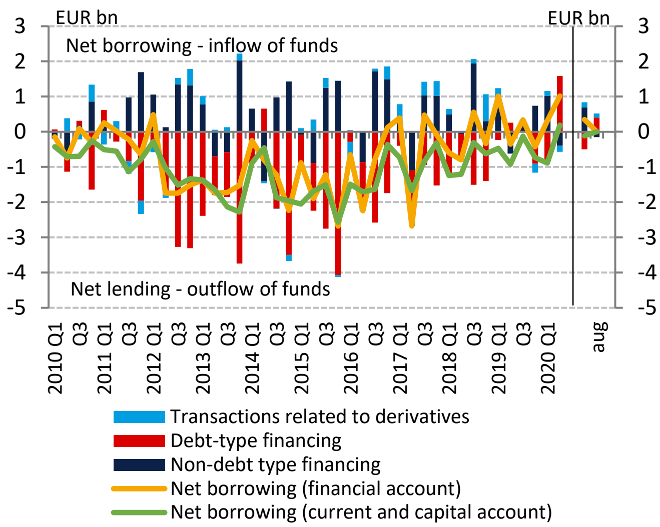
In October, revenues of the central sub-sector exceeded the year-on-year value by HUF 150 billion, contributed to by the 6 percent rise in tax and contribution revenues and the higher amount of EU transfers received. Revenues from value added tax exceeded the amount registered a year ago by almost HUF 60 billion mainly due to a change in the VAT refund deadline, while payments by enterprises were also higher.

Expenditures of the central sub-sector were significantly – by HUF 200 billion – higher than last year, presumably due to the expenditures related to the control of the epidemic and the economy protection measures. In the month under review, expenditures related to EU programmes amounted to HUF 140 billion. In the first 10 months the accumulated EU expenditures rose to HUF 1,640 billion.

1.5. External balance developments

In August, the current account deficit fell to EUR 214 billion, while the economy’s net lending showed a deficit of EUR 44 million. The fall in net lending was primarily due to a decline in EU transfers inflow. On the financing side, foreign direct investments remained broadly unchanged, and the economy's net external debt increased.

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 August, the current account deficit amounted to EUR 214 billion, and in parallel with this net lending of the economy declined further, turning into a net borrowing of EUR 44 million (Chart 10). The declining current account deficit is primarily attributable to the decreasing income balance deficit resulting from the falling profit of non-resident companies. The improving industrial production has not yet appeared in exports, and thus exports continued to decline in August as well. In parallel with this, imports also declined, and thus the goods balance deficit has not changed materially, while the services surplus also developed similarly as in July. The absorption of EU transfers considerable decreased compared to previous month, which resulted in a declining capital account surplus. As a combined result of the foregoing, the economy’s external position turned into a moderate net borrowing.

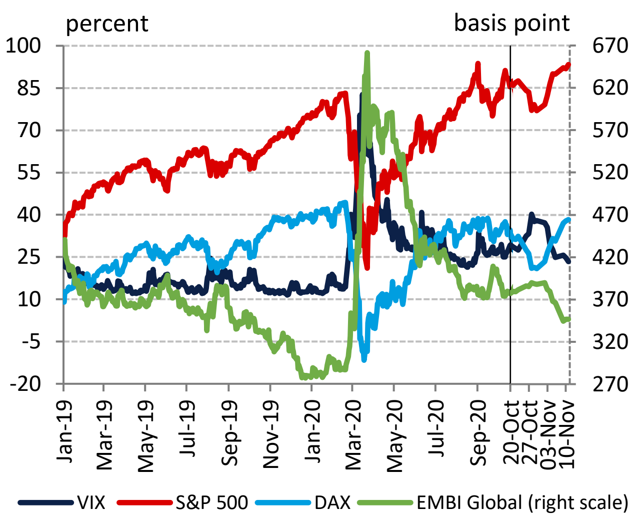
Based on the financial account data, net foreign direct investments were around zero in August, while debt liabilities increased. The major growth in reinvestments was mostly offset by the decline in inter-company loans, and thus foreign direct investments have not changed substantially. The growth in the economy’s net external debt was contributed to by the banking and corporate sectors, while the general government’s indicator – primarily due to the absorption of EU transfers – declined.

2. Financial markets

2.1. International financial markets

In the period since the last interest rate decision, global investor sentiment has improved, reflecting the ending of the US presidential elections and the positive news related to the COVID-19 vaccine. The VIX index, the key measure of equity market volatility, declined by 6.5 percentage points to 22.8 percent, the developed bond market MOVE index by 14 basis points to 46 basis points. Under this favourable sentiment, emerging stock market indices rose, bond spreads declined and developed long-term yields increased. The dollar appreciated against the euro and the Swiss franc, while it depreciated against the Japanese yen and the British pound. The ECB and the Fed did not change their monetary policy conditions at their policy meetings. In the past month oil prices first declined, which was followed by a rise from the beginning of November.

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

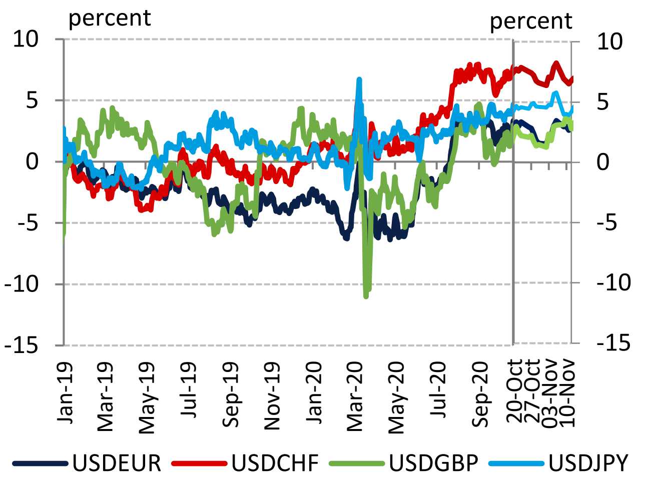


Source: Bloomberg

In the period since the last interest rate decision financial market sentiment improved, In the past month, the focus of market participants was on the US presidential elections and the news related to the coronavirus. Due to the spread of the virus, observed last month, tougher measures were introduced all over the world. At the same time, the fact that the coronavirus vaccines developed by Pfizer and BionTech showed 90 percent efficiency during the tests, contributed to the positive sentiment.

The VIX index, the key measure of equity market volatility, increased by 6.5 percentage points to 22.8 percent, while the developed bond market MOVE index fell by 14 basis points to 46 percentage points and the emerging bond market EMBI Global spread decreased by 31 basis points to 347 basis points (Chart 11). **Last month developed market stock exchange indices rose**, which was mostly attributable to the financial market rally linked to the US presidential elections: **the leading European stock market indices were up by 4-10.5 percent, while the US stock market indices rose by almost 4 percent**. Of the leading Asian stock market indices, the Japanese and the Chinese indices rose by 7.6 percent and 0.4 percent, respectively. **The developed and emerging MSCI composited indices rose by 4.4 and 4.0 percent, respectively.** In the developed foreign exchange markets the dollar appreciated against the euro and the Swiss franc by 0.4 and 1.1 percent, respectively, while it depreciated against the Japanese yen by 0.1 percent and against the British pound by 2.1 percent (Chart 12). In parallel with the rising risk appetite, emerging market currencies mostly substantially appreciated against the dollar, while the narrow region registered a medium degree appreciation. Since the last interest rate decision, the price of gold declined by 2 percent on the whole, to USD 1,870/oz. At the same time, due to the uncertainty surrounding the presidential elections, until the final result of the elections it

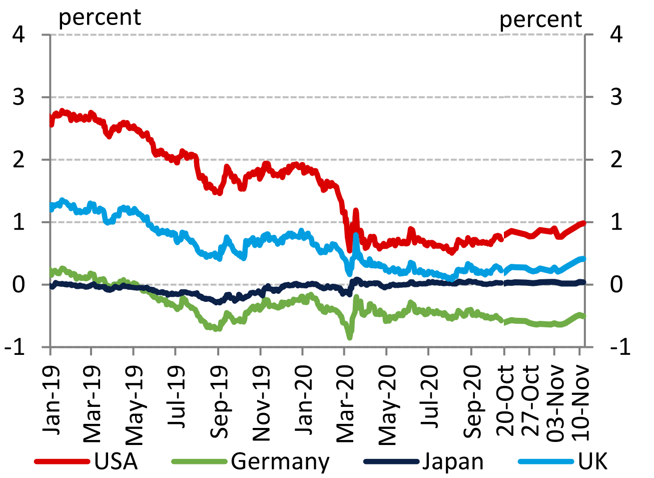
Chart 12 Developed market FX exchange rates



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

Source: Reuters

Chart 13 Yields on developed market long-term bonds



Source: Bloomberg

followed a rising trend and on 6 November it was as high as USD 1,950/oz, after which it started to decline.

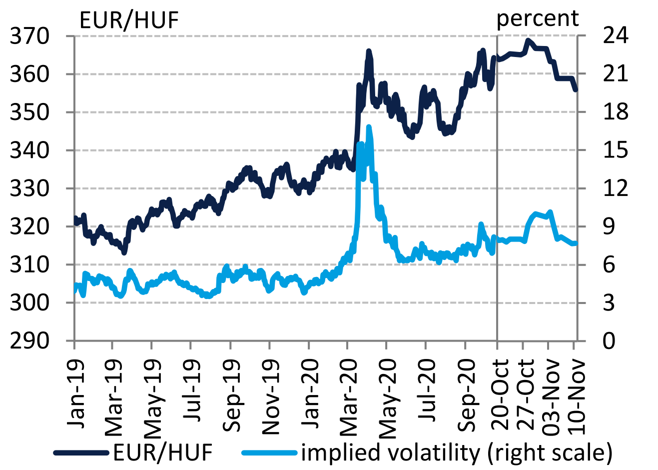
Most of the developed bond yields considerably increased since the last interest rate decision (Chart 13). The Japanese 10-year yield rose by 2, the German one by 10, the US one by 19 and the British one by 23 basis points, and thus at present the US and German yields stand at 0.98 and -0.51 percent, respectively. **Emerging countries' bond yields showed a mixed picture.** In the CEE region, the Hungarian 10-year yield fell by 8 basis points, while the Romanian one by 32 basis points. Polish yields remained unchanged, while the Czech one rose by 14 basis points.

In the past month oil prices first declined, followed by a rise from the beginning of November. From the beginning of November, developments in oil prices were mostly influenced by the financial market rally and the depreciation of the US dollar connected to the US presidential elections as well as by the better-than-expected US oil reserves, together with the news that Russia may prolong the present production cut by 3 months. Thus on the whole, last month the price of Brent crude oil rose by 1.5 percent to USD 43.8/barrel, while the price of WTI practically remained unchanged, and thus it still stands at USD 41.5.

2.2. Developments in domestic money market indicators

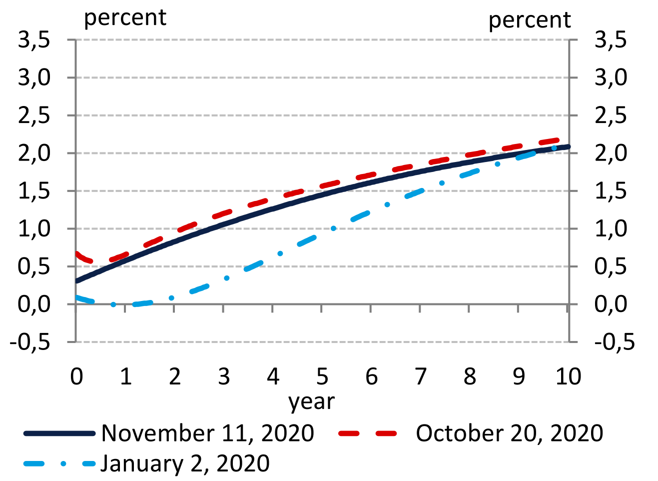
In the period under review, the forint appreciated against the euro by 2.2 percent on the whole. The exchange rate of the currencies in the region followed the same trend as the forint did: in the first half of the period they depreciated due to the uncertain international sentiment, then appreciated under the favourable sentiment prevailing in the second half of the period. The government securities market's yield curve shifted downwards. In the past month, there has been strong demand at the discount Treasury bill and government bond auctions. Average auction yields decreased.

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 October, the forint exchange rate strengthened against the euro by 2.2 percent from 363 close to 355 (Chart 14). In the first half of the period the forint depreciated to the level of HUF/EUR 368, which took place in parallel with the currencies of the region, and it was attributable to the unfavourable developments in COVID-19 and the uncertainties surrounding the US presidential elections. As a result of the ending of the US presidential elections and the favourable news about the vaccine, by mid-November the forint appreciated to HUF/EUR 355 under the improving global sentiment. The exchange rate of the currencies of the region followed a similar trend; the Czech koruna appreciated against the euro to a slightly larger, while the Polish zloty to a smaller degree. During the period the Romanian leu fluctuated in a relatively narrow band.

The government securities market's yield curve shifted downwards (Chart 15). The shortest section of the yield curve declined by 20-30 basis points, while the 1-year section of the curve decreased by 7-8 basis points. The 4-5 year and the 5-10 year sections of the curve registered a decrease of 2-5 basis points and 10-13 basis points, respectively, while in the 10-20-year section a decrease of 10-23 was observed.

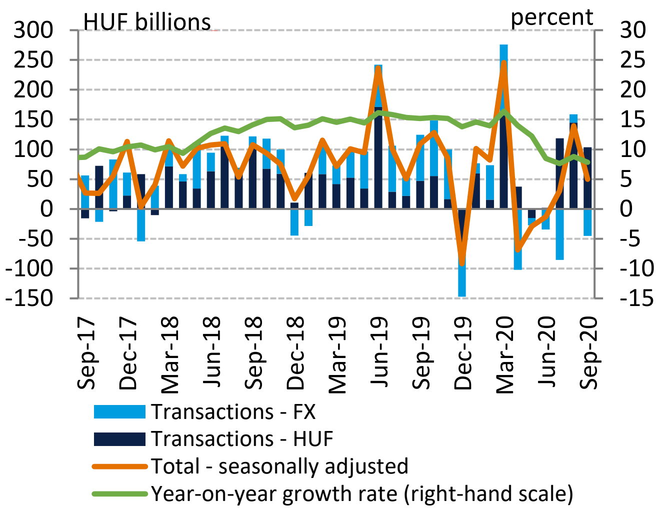
In the past month the discount Treasury bill and government bond auctions were mostly characterised by a strong demand. At the auctions of the 3-month Treasury bills, with the exception of the auction held on the day of the rate-setting meeting, the Government Debt Management Agency accepted bids in the announced amount of HUF 15 billion. In the case of the 12-month auctions the Debt Management Agency sold the announced volume on both occasions. Since the last interest rate decision, the average yield at the 3-month auctions declined from 0.50 percent to 0.48 percent, while the average auction yield at the 12-month Treasury bill auctions dropped from 0.79 percent to 0.58 percent. Government bond auctions were characterised, almost without exception, by a strong demand, therefore the Government Debt Management Agency accepted bids in the announced volume at the 3-year auctions and usually in higher volume than announced at the auctions for longer maturity. At the latest auction, the average yield of the 10-year securities was 2.08 percent, representing a decline of 21 basis points compared to the last average auction yield of the previous period. The average auction yield on the 5-year and 3-year government securities fell by 21 basis points and 11 basis points to 1.54 percent and 1.15 percent, respectively, while on the 15-year securities it declined by 17 basis points to 2.68 percent. The Hungarian 5-year CDS spread fell by 1 basis point during the period under review, thus at present it stands at 64 basis points.

Non-residents' holdings in forint government securities increased. Non-residents' holding of forint government securities increased by HUF 73 billion to HUF 4,415 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 21.8 percent.

3. Trends in lending

In September 2020, outstanding borrowing by non-financial corporations increased by HUF 58 billion, driven by an increase of HUF 103 billion in outstanding forint borrowing and a decline of HUF 45 billion in foreign currency loans. Outstanding borrowing by households also continued to increase due to transactions, with annual growth rates reaching 16 percent.

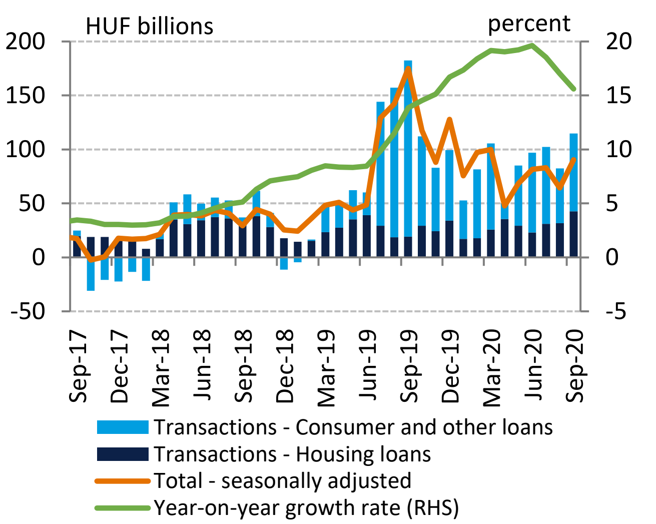
Chart 16 Net borrowing by non-financial corporations



Source: MNB

In July 2020, outstanding borrowing of non-financial corporations grew by HUF 58 billion, as a combined result of the increase in outstanding forint borrowing by HUF 103 billion growth and a decline in foreign currency loans by HUF 45 billion (Chart 16). Due to the more moderate monthly growth, the annual growth rate decelerated to 7.8 percent from 8.8 percent registered in previous month. In September, credit institutions disbursed new loans in the amount of HUF 248 billion, which exceeds the value registered last September by 7 percent. In September, credit institutions concluded forint contracts with enterprises under FGS in the amount of HUF 148 billion, which accounts for 60 percent of the volume of the entire corporate sector.

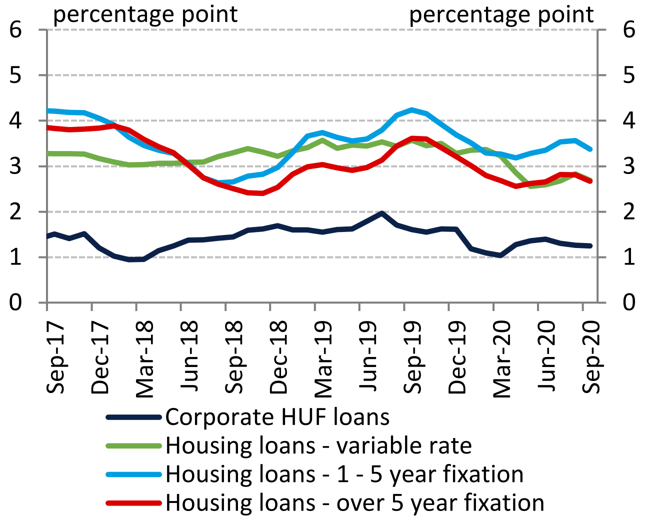
Chart 17 Net borrowing by households



Source: MNB

In September, outstanding borrowing of households continued to increase due to transactions, with the annual growth rate reaching 16 percent (Chart 17). At the same time, the volume of new loans fell short of the value registered in September 2019 by 33 percent, which – in addition to the impact of the coronavirus – is mostly 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. Following the lifting of the isolation measures, the housing loan market stabilised; the volume of monthly disbursements exceeds that of last year by one fifth, but it still substantially falls short of the pre-pandemic volume. Prenatal baby support loans, accounting for 12 percent of outstanding household debt, and the loans linked to first-time homebuyers' programmes provide support for lending to households.

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 1.24 percentage points in September 2020, representing a decrease of 0.02 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 declined during the month** and amounted to 2.69 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 decreased compared to April. The average spread on housing loans with interest rate fixation periods longer than one year and up to 5 years reached 3.37 percentage points in September, while the spread on products with interest rate fixation periods of more than 5 years was 2.67 percentage points.**