MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 22 SEPTEMBER 2020

SEPTEMBER

2020

Time of publication: 2 p.m. on 7 October 2020

The background material 'Macroeconomic and financial market developments' is based on information available until 17 September 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

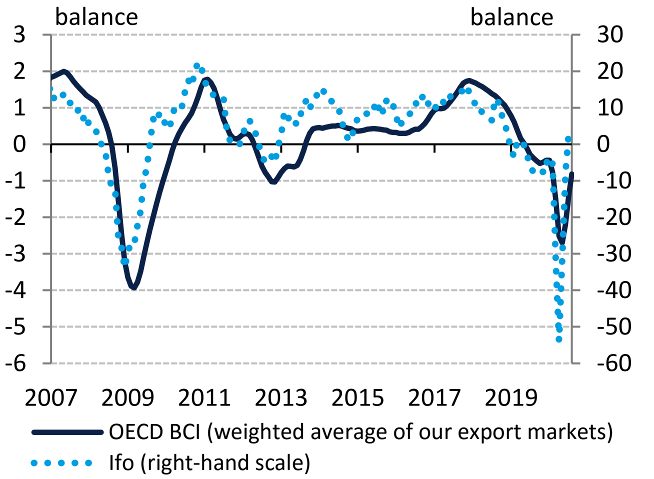
Table of contents

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, at the same time, the Chinese economy already showed major rebound. 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, trends in economic performance have primarily been determined by the COVID-19 virus and the measures taken to control it. The pandemic hit the global economy in a weakened state, and the negative economic impacts rapidly appeared in several countries. **Since the low point of April and May, there has been a gradual adjustment in air traffic and in transportation over the recent period,** which reflects **the ongoing restart of the economies**.

According to detailed 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 August. The Purchasing Manager Indices stand in the (growth) range of over 50 points. Industrial production grew year-on-year: **in July 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 July after the historic low in January and February. In August, new vehicle sales rose by 11.6 percent on an annual basis.

In the second quarter, US GDP fell by 9.1 percent year-on-year. The largest decline was seen in households' consumption, but investments and exports also decreased. **In July, US industrial output declined by 8.2 percent,** year-on-year. I**n July 2020 retail sales**

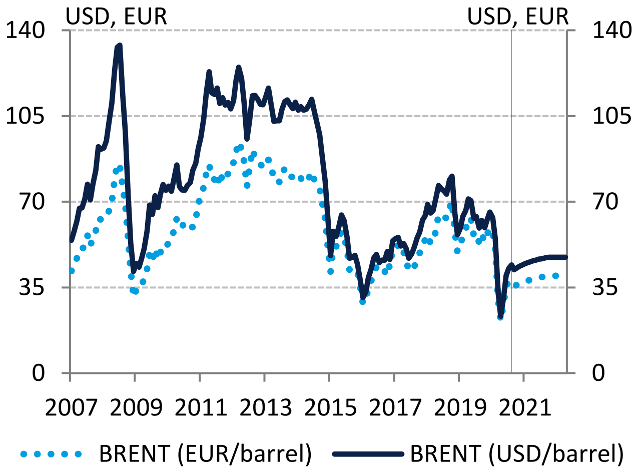
were up by 2.7 percent year-on-year; Accordingly, since the onset of the coronavirus pandemic in March, this was the second month when a growth was registered. **By the end of August, the number of initial jobless claims fell below 900.000. The unemployment rate of those** over 16 years **peaked at 14.7 percent in April, and in July it stood at 8.4 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 detailed data, **economic performance of the euro area fell by 14.7 percent** year-on-year in the second quarter. Households' consumption contributed to the decline to the largest degree, which fell short of the year-on-year level by 15.9 percent. Investments and exports fell by 21.1 and 12.5 percent, respectively, on an annual basis. In July, industrial output declined by 7.7 percent year-on-year; at the same time, the monthly dynamics indicate continued recovery. Following the monthly growth of 9.1 percent registered in July, industrial output once again increased at a rate of 4.1 percent.

The economy of Germany – Hungary's main trading partner – **shrank by 11.7 percent in the second quarter.** In July, 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 4.2 percent in July year-on-year. **German business sentiment continued to improve in August**.

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: **In Spain (-22.1 percent), in France**

Chart 2 World market prices of Brent crude oil



Source: Bloomberg

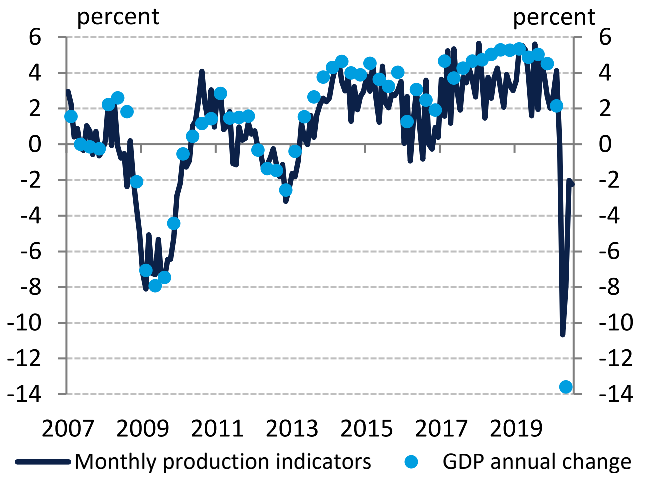
(-19 percent) and in Italy (-17.3 percent). In addition, a historic fall was measured also in Belgium (-14.5 percent) and in Austria (-12.8 percent).

In August, euro area inflation – falling short of analysts' expectations of 0.2 – fell to negative range and stood at -0.2 percent. Core inflation was 0.4 percent, which also falls short of analysts' expectations of 0.8 percent. **The world market price of Brent crude oil has been around USD 43/barrel** (Chart 2). Over the past one week, the fact that Saudi Arabia lowered the premium rate on the October forward sale reduced the world market price of crude to USD 40/barrel. In addition, in August oil imports by China decreased compared to July, which was interpreted by the market as the sign of poor demand. Looking ahead, the trends in oil prices are surrounded by downside risks, as the second wave of the coronavirus pandemic amplified market concerns related to global oil demand. **The world market price of both industrial commodities and unprocessed food increased in July.**

1.2. Domestic real economy developments

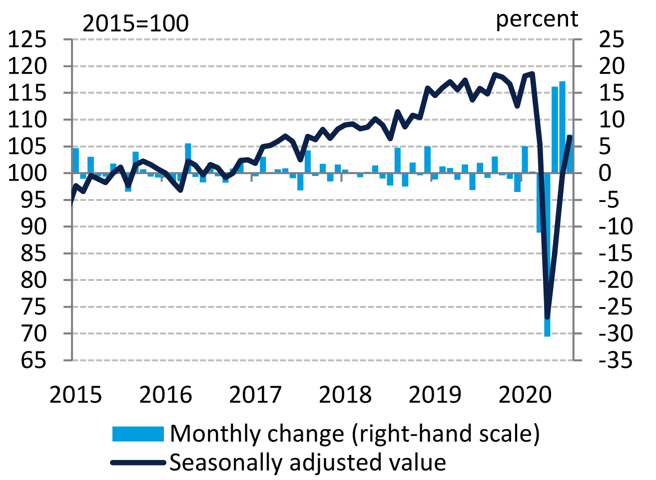
In the second quarter of 2020, Hungary's gross domestic product declined by 13.6 percent year-on-year. In the second quarter, the situation developed as a result of the coronavirus pandemic had unfavourable impact on most expenditure items. In Hungary, external trade and investments (-13.5 percent) declined to the largest degree year-on-year; exports and imports dropped by 24 and 15.8 percent, respectively. Households' consumption fell moderately – in a European comparison – by 8.4 percent year-on-year. In July 2020 total employment fell by 1.4 percent year-on-year. The number of the unemployed was 217,500, exceeding the number of unemployed persons by 52,300 persons year-on-year, and thus the seasonally adjusted unemployment rate rose to 4.7 percent.

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 detailed 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. From the expenditure side, external trade and investments (-13.5 percent) declined to the largest degree year-on-year; exports and imports dropped by 24 and 15.8 percent, respectively. Households' consumption fell moderately – in a European comparison – by 8.4 percent year-on-year; at the same time, services (24.8 percent) declined to a larger extent. On the whole, net exports made the greatest contribution to the economic decline. According to the seasonally adjusted data, in the first six months the national economy performance fell by 5.8 percent.

The third quarter's production indicators published to date continue to reflect temporarily decreasing economic performance resulting from the coronavirus pandemic. According to the HCSO's detailed data release, **industrial output was down by 8.1 percent** year-on-year in July 2020. Production (based on seasonally and working-day adjusted data) **rose by 7.2 percent on a monthly basis** (Chart 4). Production volume declined in most of the manufacturing subsectors. **The automotive industry, representing the largest share, experienced major decline (-13.2 percent)**, while production slightly increased in the manufacture of computers, electronic and optical products as well as in the manufacture of chemicals and chemical products. **Hungarian manufacturing PMI rose from 51.1 points in July to 52.8 points in August.**

Based on preliminary data, **exports and imports fell by 5.6 percent and 7.7 percent, respectively, in euro**

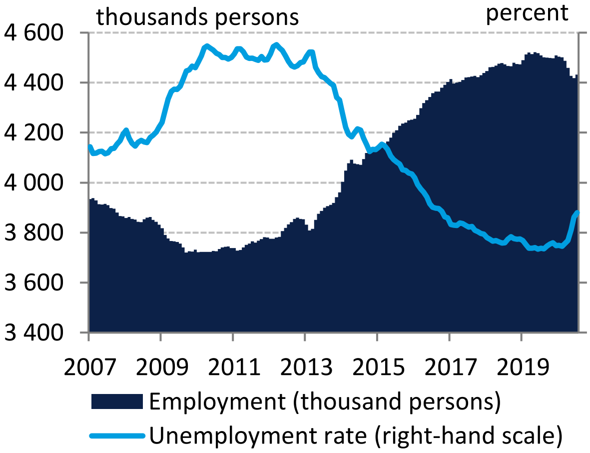
terms, year-on-year **in July 2020** according to the HCSO's data release.

Construction output was down by 21.0 percent year-on-year and rose by 3.5 percent relative to the previous month in July 2020 (based on the seasonally and working-day adjusted data). The volume of new contracts decreased by 41.5 percent year-on-year. The number of new contracts concluded for construction of buildings declined by 38.7 percent and for other construction works the volume by 43.6 percent. The month-end volume of construction companies' contract portfolio fell short of the value registered at end of July 2019 by 21.0 percent. The volume of new contracts for the construction of buildings rose by 5 percent, as it declined by 31.4 percent for other construction.

In July, **the volume of retail sales** (including sales of vehicles and components) **rose by 0.5 percent year-on-year, based on the seasonally and calendar adjusted data. The opening hours of retail shops were no longer restricted by the pandemic situation, and the volume of their turnover was close to the level registered last year.** Turnover of retail shop increased in most activity groups, while the dynamics thereof continues to be moderate. Sales rose in the mail order shops (19.6 percent), general stores selling industrial goods (5.6 percent), medicine and therapeutic product, perfume (4.7 percent), textile, clothing and footwear (2 percent) shops. At the same time the volume of turnover declined in the second-hand shops, furniture and appliances shops. Despite the lifting of the curfew measures, fuel consumption continued to decline considerably compared to the level of last year (-7.0 percent). By contrast, vehicles and components sales were roughly at the same level in June as last year.

As a result of the lifting of the curfew measures and border shutdowns, tourist traffic somewhat adjusted in July. **Compared to last year, the number of nights spent at tourist accommodations in Hungary fell by 42 percent.**

Chart 5 Number of persons employed and the unemployment rate

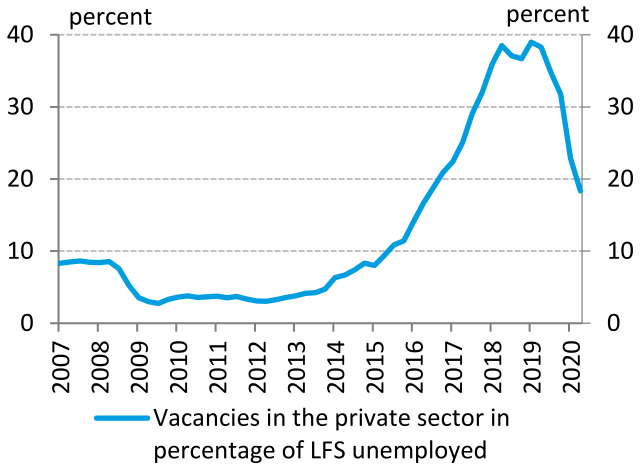


Source: HCSO

1.2.2. Employment

Based on the data of the Labour Force Survey (LFS), **in July 2020 total employment fell by 64,700 persons (by**

Chart 6 Development of labour market tightness indicator



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

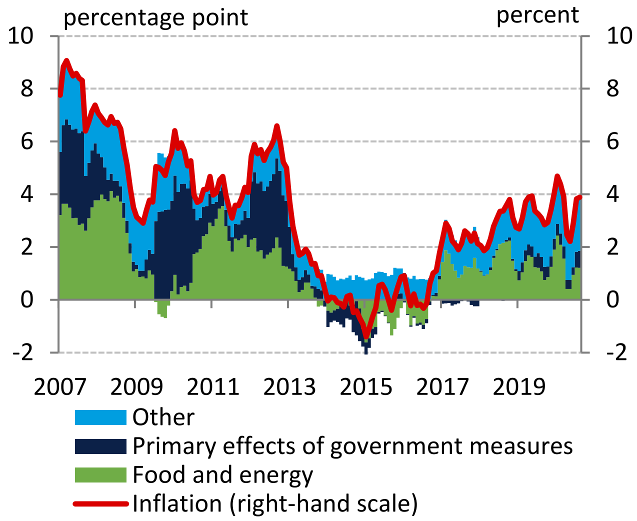
-1.4 percent) to 4,460,000 persons year-on-year. Since July 2019, the number of employees in the private sector declined by 16,700, the number of public employees by 18,400 and the number of those working abroad by 29,600. The number of the unemployed was 215,000, which in July exceeded the year-on-year figure by 52,300 persons, **and thus the seasonally adjusted unemployment rate rose to 4.7 percent** (Chart 5). However, compared to the previous month, the number of the unemployed declined. Based on the data published by the National Employment Service (Nemzeti Foglalkoztatási Szolgálat - NFSZ), in July 2020, the number of registered jobseekers in Hungary was 365,800, exceeding the year-on-year figure by 118,000 persons.

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 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, **slackened further** – similarly to the previous quarters – and thus fell to the level registered at mid-2016 (Chart 6).

1.3. Inflation and wages

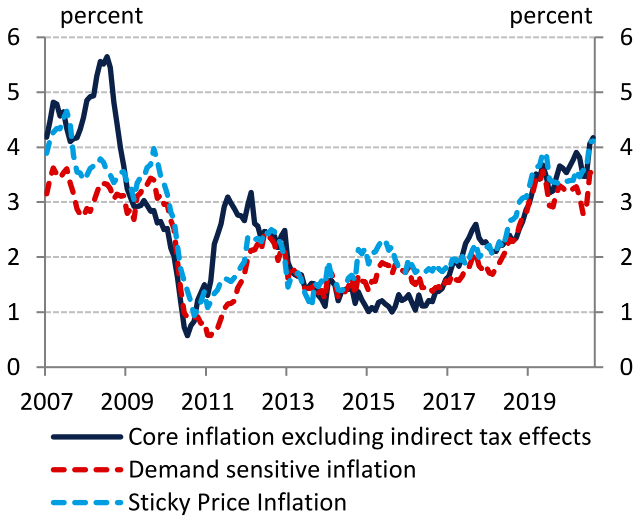
In August 2020, inflation calculated on a year-on-year basis was 3.9 percent, while core inflation and core inflation excluding indirect taxes stood at 4.7 and 4.2 percent, respectively. Underlying inflation indicators capturing persistent trends (price index of demand sensitive and inflation of sticky price products and services) essentially remained unchanged compared to the previous month. In June 2020, gross average wages in the private sector rose by 10.8 percent year-on-year, which is partly attributable to statistical effects. The monthly increase in regular average wages substantially exceeded the historical average, while bonus payments were lower 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 June 2020, gross average wages in the private sector rose by 10.8 percent year-on-year. However, the wage index published by HCSO does not include part-time workers, the ratio of which has substantially 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 (effect of the change in headcount). The monthly increase in regular average wages substantially exceeded the historical average, while bonus payments were lower than in previous years. **Within the private sector, the wage dynamics of market services, similarly to previous months, materially exceed that in manufacturing.** Wage dynamics moderately accelerated in manufacturing compared to May; wages in the automotive industry – representing the largest share – rose by 4.5 percent in annual terms, following the decline registered in previous month. **In addition to the market service sector, construction wage index also showed a double-digit growth (+12 percent).**

1.3.2. Inflation developments

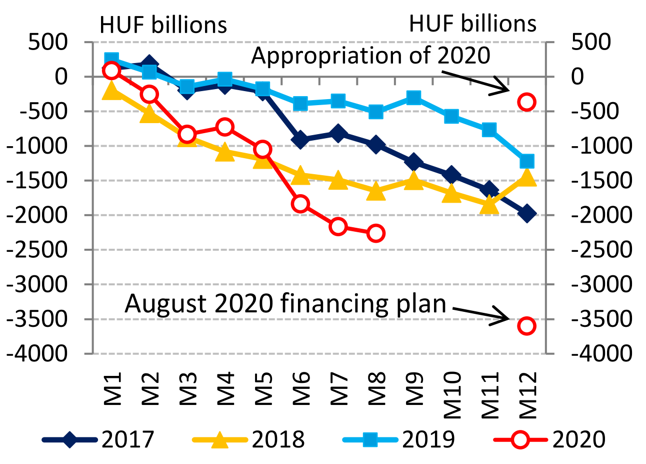
In August 2020, inflation calculated on a year-on-year basis was 3.9 percent, core inflation and core inflation excluding indirect taxes stood at 4.7 and 4.2 percent, respectively (Chart 7**)**. Compared to the previous month, inflation and core inflation moderately increased, primarily caused by the increase in the price of alcohol, tobacco products and processed food.

Underlying inflation indicators capturing persistent trends (inflation of demand sensitive and sticky price products and services) **essentially remained unchanged compared to the previous month** (Chart 8). In July 2020, agricultural producer prices increased by 4.9 percent in annual terms, while domestic sales prices in sectors of consumer goods increased by 5.1 percent.

1.4. Fiscal developments

The central sub-sector of the general government closed with a deficit of HUF 96 billion in August 2020, representing an accumulated deficit of HUF 2,261 billion in the first eight months of the year. The major cash 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.

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 96 billion in August 2020,** and thus the accumulated deficit rose to HUF 2,261 billion (Chart 9).

In August, budget revenues exceeded the year-on-year revenues by roughly HUF 280 billion. The difference is mostly attributable to the revenues related to EU transfers, as the budget received EU transfers in the amount of HUF 284 billion (exceeding the amount received last year this time by HUF 254 billion). In August, the tax and contribution revenues of the central sub-sector exceeded those received in August last year by HUF 25 billion. Consumption taxes and personal income taxes already registered a growth year-on-year, which is a major improvement compared to the low of May; however, growth dynamics still lags behind that observed in the first quarter.

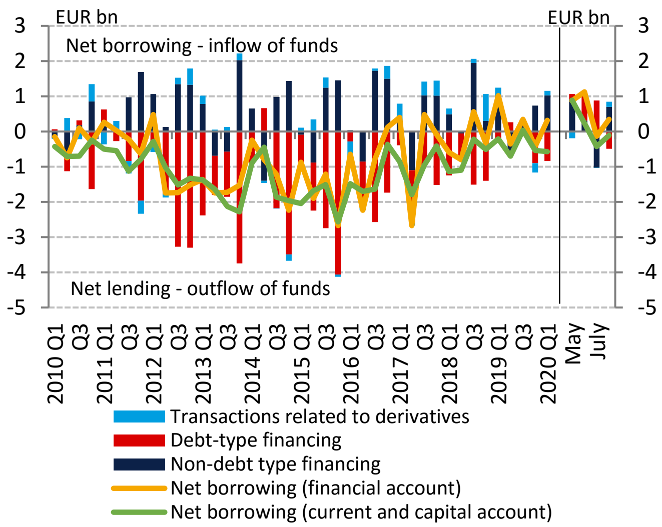
The **expenditures of the central sub-sector of the budget** exceeded those of last August by almost HUF 220 billion; however, the growth falls short of the average of the past 5 months by already more than HUF 100 billion. In August, more than half of the increment is attributable to the high monthly expenditure level of the central budgetary organisations. In the first eight months of this year, the net own expenditures of the central budgetary organisations and chapters, on a cumulative basis, were higher by more than HUF 900 billion, while the expenditures related to the EU transfers by more than 400 billion than until last August.

In August 2020, **the EU expenditures of the budget** amounted to HUF 99 billion, while the amount posted to the accounts related to EU transfers was HUF 284 billion as a result of the invoices sent in July and August (100 percent EU co-financing instead of 85 percent).

1.5. External balance developments

In July, the current account turned into a deficit of EUR 297 billion, while net lending of the economy declined to EUR 112 million. The decrease in the external balance indicators was primarily attributable to rising imports, while exports also declined moderately. As regards the financing side, foreign direct investments once again increased, while net external debt of the economy decreased.

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 July, the current account deficit amounted to EUR 297 billion, while net lending of the economy declined to EUR 112 million. The turning of the current account into deficit was linked to the decrease in trade surplus (Chart 10). In addition to declining exports, attributable to the moderate industrial production – and particularly to the automotive industry, which still shows a decline on an annual basis – rising imports also impacted the goods balance negatively. The services surplus moderately increased, but it still materially falls short of the year-on-year value. Based on preliminary data, the income deficit considerably decreased year-on-year.

Based on the financial account data, once again major foreign direct investment inflow was observed in July, while debt liabilities declined. The net inflow of funds on the financing side was mostly linked to foreign direct investments, and particularly to the increase in reinvestments by foreign-owned companies. The decline in the economy's net external debt was contributed to by the general government and the corporate sector, while the indicator of the banking sector did not change substantially.

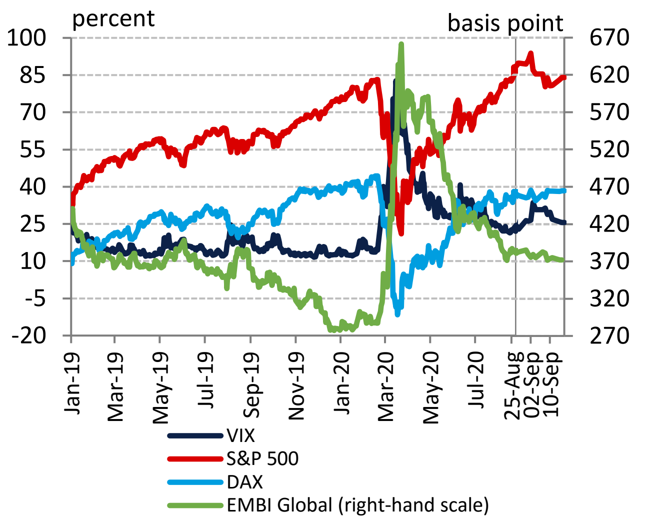
2. Financial markets

2.1. International financial markets

In the period since the last interest rate decision global investor sentiment was characterised by duality, which was also reflected by the different developments in risk indicators. The VIX index, the key measure of equity market volatility, increased by 3.5 percentage points to 25.5 percent, while the developed bond market MOVE index declined by 5 basis points to 43 basis points. Of the developed stock exchange indices, the leading European indices slightly increased, while US stock market indices declined. The dollar slightly depreciated against the euro and the Japanese yen, and – due to the increasing uncertainties surrounding the Brexit – it appreciated against the British pound. Oil prices fell as a result of the uncertainties related to the recovery of demand.

In the period since the last interest rate decision financial market sentiment varied. The focus of market participants was primarily on the revision of Fed's strategy, the changeover to a monetary policy targeting average inflation and the rate-setting meeting of the US central bank as well as on the communication of the ECB's decision-makers related to exchange rates, the interest rate decision of the European Central Bank, and the effects of the coronavirus pandemic.

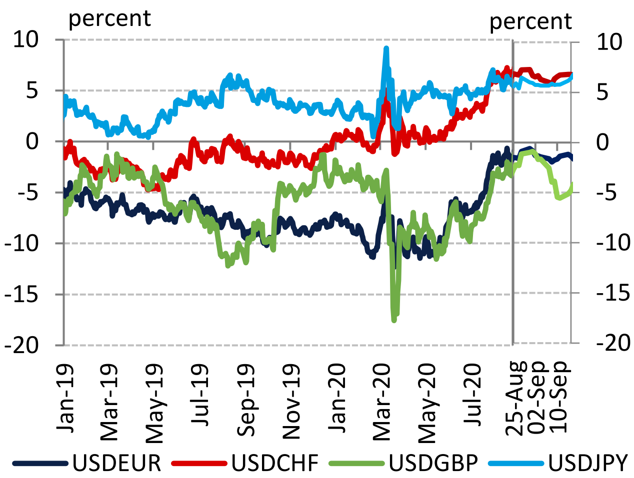
Chart 11 Developed market equity indices, the VIX index (left-hand scale) and the EMBI Global Index (right-hand scale)



Source: Bloomberg

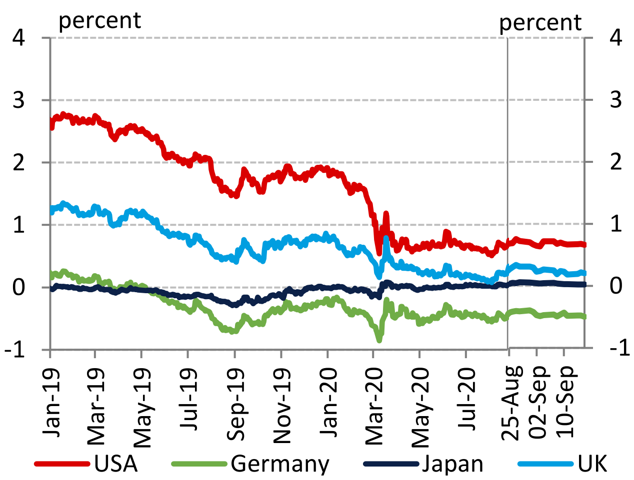
The VIX index, the key measure of equity market volatility, increased by 3.5 percentage points to 25.5 percent, the developed bond market MOVE index fell by 5 basis points to 43 percentage points, while the emerging bond market EMBI Global spread decreased by 11 basis points to 372 basis points (Chart 11). **In the past months, developed stock market indices developed differently: the European key stock exchange indices rose by 0.5-1 percent, while US stock market indices fell by 1-2 percent.** Of the leading Asian stock market indices, the Japanese one was up by 0.8 percent, while the Chinese one fell by 3 percent. **The developed and emerging MSCI composited indices declined by 0.6 and 0.2 percent, respectively.** In the developed foreign exchange markets the dollar depreciated against the euro and the Japanese yen by 0.1 and 0.9 percent, respectively, while due to the increasing uncertainty surrounding the Brexit, it appreciated by 2 percent against the British pound (Chart 12). The price of gold still implied cautious investor behaviour: it rose further, by 2

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

percent, during the period under review, and thus it closed the period at USD 1,968/oz.

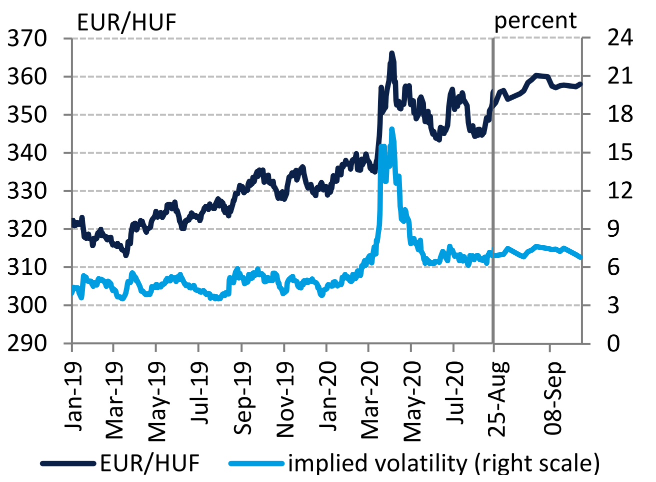
Developed bond yields have declined slightly since the last interest rate decision (Chart 13). The US and German 10-year yields fell by 2 and 7 basis points, to 0.66 and -0.5 percent, respectively. **Emerging countries' bond yields showed a mixed picture.** The Hungarian 10-year yield rose by 7 basis points, while in the region the Romanian one fell by 37 basis points, and the Czech and Polish one remained constant. Greater fall was observed in the Turkish (-102 basis points) and in the Argentine (-376 basis points) long-term yields.

In the past month, the price of the two benchmark oil types declined. At the beginning of the period, as a result of the positive news related to the Chinese economy, the weakening dollar, the consultations on the stimulation of the economy and the plans aimed at the reduction of oil supply, oil prices slightly increased, while the negative news related to the recovery of demand increased uncertainty in the oil market, as a result of which oil prices plunged to a three-month low. At the end of the period under review – partly due to the loss of production caused by the hurricane in the Gulf of Mexico and partly due to the decline in US stocks – oil prices started to rise once again, but still closed the period at the level registered at the end of June.

2.2. Developments in domestic money market indicators

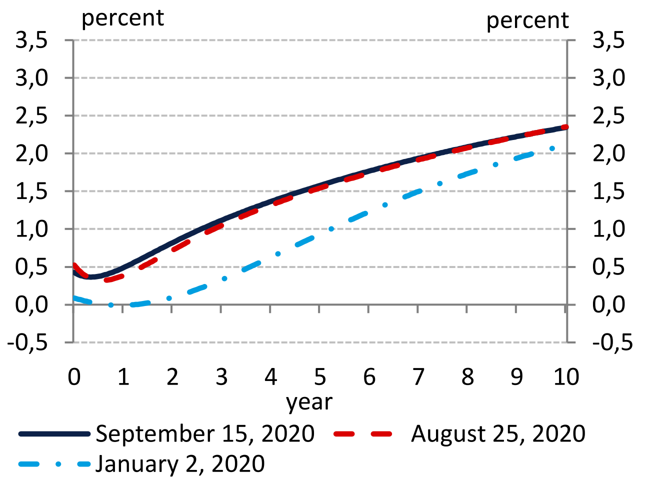
During the period under review, the forint weakened against the euro by 1.8 percent. Of the currencies of the region, the Czech koruna depreciated to a larger degree, while the Polish zloty and the Romanian leu to a lesser degree than the forint. During the past month the discount Treasury bill auctions were characterised by adequate, while the government bond auctions by strong demand, while the average auction yields mostly increased.

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 August interest rate decision, forint exchange rate against the euro depreciated by 1.8 percent, from 352.9 to 359.1. The currencies of the region also depreciated: the Czech koruna, the Polish zloty and the Romanian Leu depreciated by 2.1 percent, 1.1 percent and 0.4 percent, respectively (Chart 14).

In the past period, the middle section of the government securities market's yield curve shifted slightly upwards (Chart 15). The shortest section of the yield curve declined by 1-10 basis points, while the around 1-year section of the curve rose by 5-11 basis points. The 3-5 year and the 6-9 year sections of the curve registered an increase of 3-8 basis points and 1-3 basis points, respectively, while in the over 10-year section a decrease of 1-10 was observed.

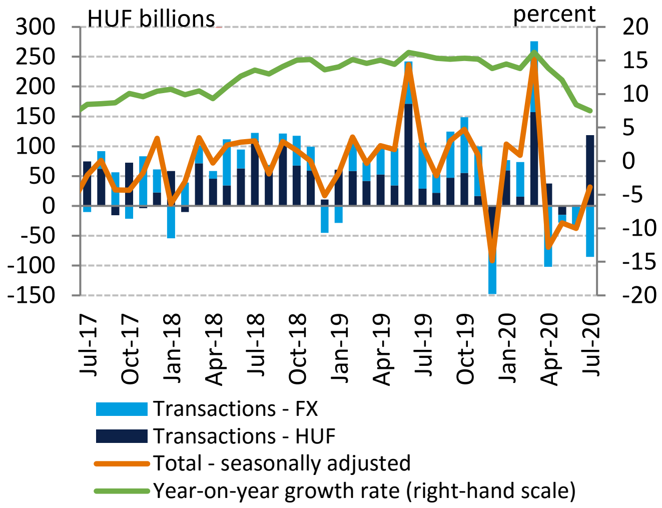
During the past month the discount Treasury bill auctions were characterised by adequate, while the government bond auctions by markedly strong demand. The Government Debt Management Agency accepted the announced volumes at the 3- and 12-month Treasury bills, with the exception of one 3-month auction at the beginning of September, where the debt management agency sold fewer securities than announced. Since the last interest rate decision, the average yield at the 3-month auctions dropped from 0.32 percent to 0.31 percent, while the average auction yield at the 12-month Treasury bill auctions rose from 0.42 percent to 0.54 percent. Government bond auctions were characterised mostly by strong demand, therefore the Government Debt Management Agency accepted bids in higher volume than announced on all occasions, with the exception of one 3-year auction in mid-September. At the latest auction, the average yield of the 10-year securities was 2.44 percent, representing a rise of 26 basis points compared to the last average auction yield of the previous period. The average auction yield on the 15-year government securities fell by 13 basis points to 2.75 percent, while on the 5-year and 3-year securities it rose by 20 basis points to 1.75 percent and 10 basis points to 1.2 percent. The Hungarian 5-year CDS spread fell by 7 basis point during the period under review, thus at present it stands at 61 basis points.

Non-residents’ holdings in forint government securities declined compared to the end of August. Non-residents’ holding of forint government securities fell by HUF 83 billion to HUF 4,114 billion, and in parallel with this, the market share of forint government securities held by non-residents decreased to 21.4 percent.

3. Trends in lending

In July 2020, outstanding borrowing of non-financial corporations increased by HUF 33 billion, as a result of the increase in outstanding forint borrowing by HUF 118 billion and the fall in foreign currency loans by HUF 85 billion.

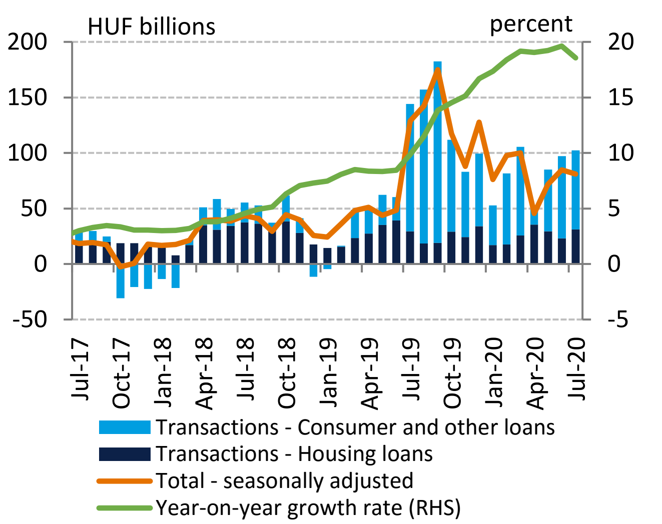
Chart 16 Net borrowing by non-financial corporations



Source: MNB

In July 2020, outstanding borrowing of non-financial corporations grew by HUF 33 billion, as a combined result of the increase in outstanding forint borrowing by HUF 118 billion growth and a decline in foreign currency loans by HUF 85 billion (Chart 16). As a result of the moderate increase, the annual growth rate, falling by almost one percentage point, declined to 7.5 percent. In July, credit institutions disbursed new loans in the amount of HUF 259 billion, which exceeds the values registered in July of previous years by 18 percent. In July, credit institutions concluded forint contracts with corporate enterprises under FGS Go in the amount of HUF 185 billion, which accounts for almost 80 percent of the forint loans of the entire corporate sector, and 90 percent of the monthly volume of the SME sector's forint loans.

Chart 17 Net borrowing by households

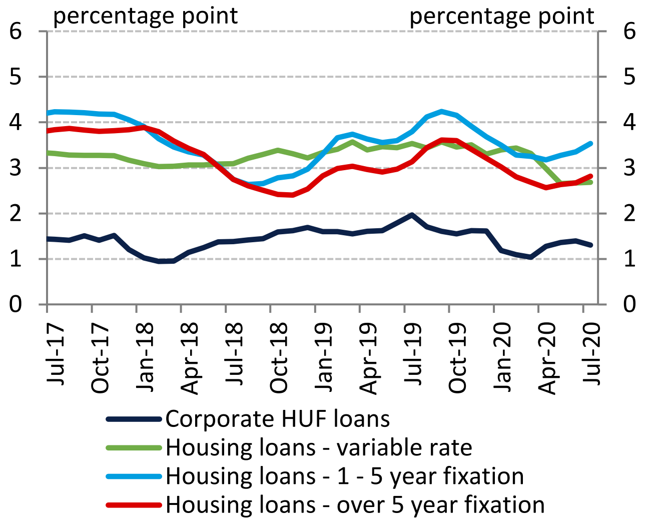


Source: MNB

In July, outstanding lending of the credit institution sector to households due to transactions grew further, and thus the annual growth rate – following a decline of one percentage point compared to previous month – reached 18.6 percent (Chart 17). In line with the lifting of the restrictive measures aiming at isolation and the restart of the housing market, the disbursement of new loans increased in all credit products compared to the previous month. However, the number of contracts concluded falls short of the year-on-year value by 28 percent. One-fifth of the housing loans disbursed in July were linked to the Home Purchase Subsidy for families, while prenatal baby support loans accounted for 30 percent of new loans, whereas the total outstanding volume of those account for 10 percent of the total outstanding borrowing of households.

The smoothed interest rate spread of forint corporate loans was 1.3 percentage points in July 2020, representing a decrease of 0.1 percentage point compared to the previous month (Chart 18). The average smoothed interest rate spread on

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

variable rate housing loans calculated on the basis of the annual percentage rate (APR) increased slightly 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 rose compared to June. The average spread on housing loans with interest rate fixation periods longer than one year and up to 5 years reached 3.53 percentage points in July, while the spread on products with interest rate fixation periods of more than 5 years was 2.82 percentage points.