MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 27 APRIL 2021

APRIL

2021

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The background material 'Macroeconomic and financial market developments' is based on information available until 22 April 2021.

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

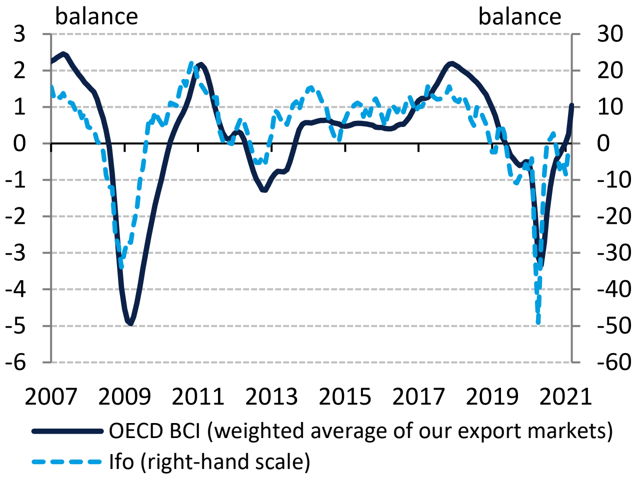
The third wave of the coronavirus pandemic forced several countries in the world to tighten the previous restrictive measures. Economic performance in Europe typically fell short of the level of last year, while the recovery of the USA seems to pick up and the Chinese economy is continuously expanding. The duality in the performance of industry and services, the lag of the latter, persists in the vast majority of the countries. Despite the soar of the vaccination programmes observed recently, apart from a few countries the vaccination rate is still low, and thus the easing of the restrictive measures linked to the pandemic has yet to come.

Trends in economic performance are continued to be determined by the COVID-19 pandemic and the restrictive measures implemented. New waves of the virus appear to have restrained industrial production to a lesser degree, while the service sector remains significantly exposed to the impacts of the measures related to the pandemic. World trade and world's economic production already exceed the level seen in January 2020, which is mainly due to the Chinese economy and the economic recovery of the United States. However, the future performance of air traffic – which shows a slow rise since the end of February and it came close to 80,000 flights per day (while in 2019 and last year, in the same period of the year, they were around 110,000 and below 30,000, respectively) – is surrounded by significant uncertainty. Until the Covid-19 vaccine becomes widely available and the necessary vaccination rate is achieved, the sector's global prospects – as the prospects of numerous other service sector providers – will remain rather uncertain. For the time being the vaccination programmes progress at a moderate pace and the vaccination rate may only rise in the coming weeks. As a result, substantial easing of the restrictive measures linked to the pandemic has yet to come.

In the first quarter of 2021, the Chinese economy grew by 18.3 percent year-on-year, which was also attributable to the low base effect of the coronavirus pandemic. Business sentiment in China improved in March (the composite index and the service sector PMI improved, while the manufacturing PMI moderately declined). The Purchasing Manager Indices were in the (growth) range of over 50 points. **In March, industrial production rose by 14.1 percent** year-on-year. **The volume of retail sales rose by 34.2 percent in March** year-on-year.

In 2020, US GDP fell by 3.5 percent compared to the previous year, and in the fourth quarter it fell short of the year-on-year figure by 2.4 percent. Macroeconomic indicators imply increasingly dynamic recovery. **In March, US industrial output rose by 1.0 percent** year-on-year, being

Chart 1 Business climate indices in Hungary's export markets



Source: OECD, Ifo

the first positive value since the coronavirus crisis. Manufacturing performance increased by 3.1 percent. **In March 2021, retail sales were up by 27.7 percent** year-on-year. **In the week ending on 10 April, the number of new unemployment benefit claims was 576,000**, falling below 600,000 for the first time since the start of the pandemic. **In March, the unemployment rate** in the age group of over 16 years declined by 0.2 percentage point and **it stood at 6.0 percent**.

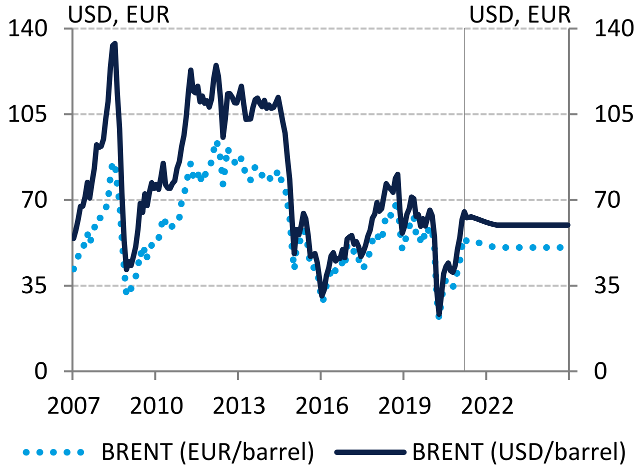
In 2020 economic performance of the euro area fell by 6.8 percent and in the fourth quarter by 4.9 percent year-on-year (while quarter-on-quarter it fell by 0.7 percent according to the seasonally and working-day adjusted data). **In February, industrial production fell by 1.6 percent** in annual terms, and a moderate decline was registered also based on the monthly dynamics, since according to the seasonally and calendar adjusted data, industrial production dropped by 1.0 percent compared to January 2021. As a result of the new virus variants appearing at the beginning of the year and the tightened lockdown measures in certain countries the volume of **retail sales** in February **declined by 2.9 percent year-on-year.** On the other hand, on a monthly basis a growth of 3.0 percent was measured. In February, **the unemployment rate stood at 8.3 percent**, similar to the previous month.

Hungary's main trading partner, **Germany's economy shrank by 5.3 percent in 2020**, while in the fourth quarter German GDP was down by 3.6 percent. **In February, German industrial production declined by 6.0 percent** in annual terms. After January, **German retail sales volume** fell short of its year-on-year level in February as well: **it declined by 5.3 percent** on an annual basis, while on a monthly basis it rose by 1.2 percent. **German business sentiment** (Ifo Business Climate Index) continued to improve and **it stood at the highest level since October** (Chart 1).

Economic performance of the United Kingdom shrank by 7.8 percent in annual terms in the fourth quarter. According to the latest GDP estimate – published also with monthly frequency uniquely in Europe (along with Norway) by the Office for National Statistics – in February economic activity slightly increased, but it still fell short of the data registered a year earlier by 7.8 percent. **In February, industrial production fell short of the level registered in February 2020 by 3.5 percent, while the volume of retail sales declined by 3.7 percent** on an annual basis**.** Compared to the previous month, monthly growth rose both in retail trade (+2.1 percent) and in industrial output (+1.0 percent).

In most **economies of the European Union recovery slowed down in the fourth quarter of 2020** due to the second wave

Chart 2 World market prices of Brent crude oil



Source: Bloomberg

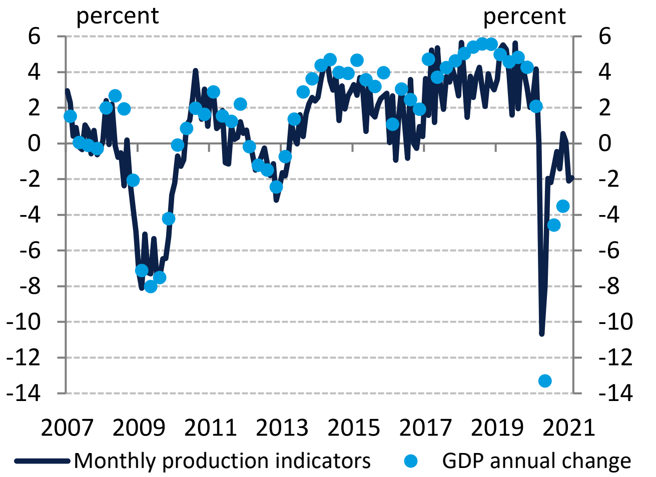
of the coronavirus. **Due to the prolonged restrictions, the third wave is likely to have negative impact on performance in the first quarter of 2021, and thus recovery will take even longer than expected before.**

In March, euro are inflation, after 0.9 percent measured in February, **rose to 1.3 percent**, while **core inflation dropped to 0.9 percent**. Analysts calculated with 1.4 percent inflation and 1.1 percent core inflation rate, and thus the figures fell short of analysts' expectations. **In March 2021, the average world market price of Brent crude oil was USD 65.2 per barrel, while in the past period it was to USD 67 per barrel.** (Chart 2). In mid-March the faster than expected growth in oil reserves and the slower pace of the COVID-19 vaccination caused oil prices to fall in Europe. The better-than-expected developments in the European Purchasing Manager Indices published at the end of the month, and the stoppage caused by the Ever Given container ship wedged in Egypt's Suez Canal sent oil prices up. On 1 April, OPEC+ members agreed to increase their output further – in May and June by 350,000 barrels per day and in July by 450,000 barrels per day – which caused oil prices to rise further. **The price of industrial commodities increased, while the world market price of unprocessed food declined in March.**

1.2. Domestic real economy developments

The Hungarian economy is characterised by fast recovery potential both from the supply and the demand sides, also supported by the outstanding vaccination rate even in an international comparison. In February, construction performance declined, while industrial output already outstripped its pre-crisis level and also came close to its pre-pandemic trend. On the other hand, the volume of retail sales declined in February. So far, labour market adjustment has been modest in Hungary. In February 2021, unemployment rate stood at 4.5 percent, while the number of people in employment fell by 1.5 percent year-on-year, based on seasonally adjusted data.

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

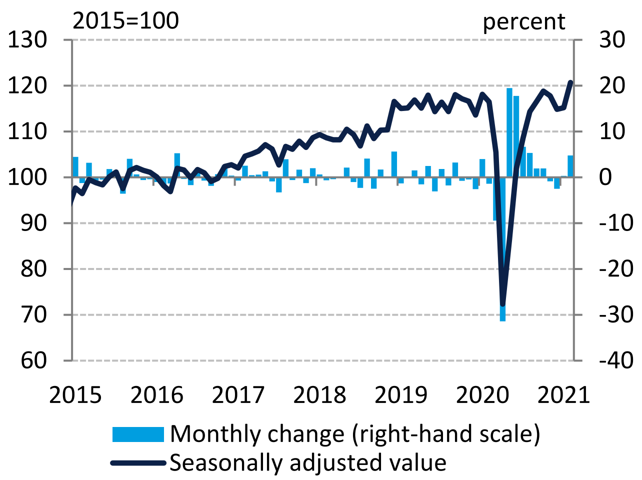
1.2.1. Economic growth

According to the HCSO release, in the fourth quarter of 2020 Hungarian gross domestic product declined by 3.5 percent year-on-year terms (Chart 3). Data shows that the economy grew by 1.4 percent compared to the previous quarter, after seasonal and calendar adjustment. **Considering the entire year, the national economic performance declined by 5.0 percent compared to 2019. Hungarian economy proved to be significantly more resistant to the second wave of the pandemic.** Quarter-on-quarter the performance of several sectors of the national economy increased. However, in an annual comparison declines have been seen with the exception of the industry. Construction's and agriculture's value-added fell by 3.9 and 5.6 percent, respectively, year-on-year. Services' value-added declined by 5.6 percent in the fourth quarter. The largest decline was seen in the hotels and restaurants and in the transportation and storage national economy sectors. On the other hand, value added of the financial and insurance activity and of the infocommunication sectors increase. On the expenditure side, household consumption expenditure fell by 3.7 percent in the fourth quarter of 2020 year-on-year, with the largest decline registered in services consumption. As regards gross fixed capital formation, HCSO registered a growth of 1.3 percent year-on-year. The volume of construction as well as machinery and equipment investments grew. The volume of both exports and imports increased. The structure of exports reflects duality: in line with the favourable industrial performance goods exports rose, while services exports declined year-on-year.

Domestic economic output declined to a lesser degree than the euro area average (-4.9 percent) and the European Union average (-4.6 percent); accordingly, real economy convergence has continued. Based on the currently available data, the change in domestic GDP is in the mid-range of the European Union's ranking.

In February, industrial production rose by 1.9 percent year-on-year. Based on seasonally and calendar adjusted data, a growth of 3.6 percent was registered, while on a monthly basis the volume of output rose by 4.8 percent (Chart 4). In February, industrial production exceeded the level

Chart 4 Development in industrial production



Source: MNB calculation based on HCSO data

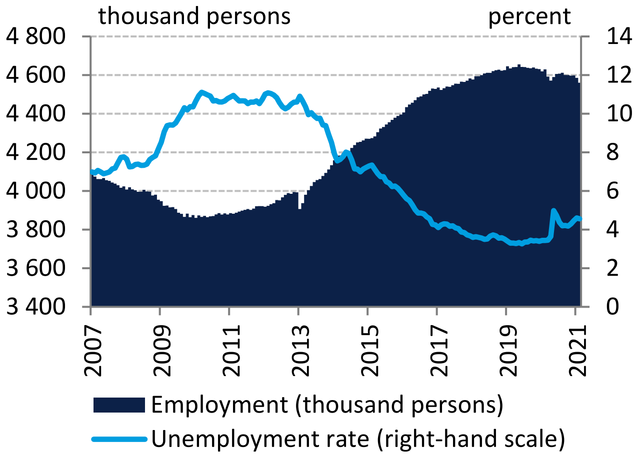
registered before the onset of the pandemic and it has almost returned to its pre-pandemic trend. According to the HCSO's February detailed release, the manufacturing subsectors had a mixed contribution to the growth in industrial output. Based on unadjusted data, the output of automotive industry – representing the largest share in domestic output – declined by 6.6 percent, on an annual basis. The volume of output fell in the pharmaceutical (-2.1 percent), food (-2.9 percent) and textile (-15.7 percent) industry. The HCSO registered growth in the energy sector (+7.7 percent), in the wood and paper industry (+8.5 percent) and in the computer, electronics and optical products sector (+ 9.8 percent). The largest growth was seen in the production of electrical equipment (+35.7 percent) mostly due to the production of batteries and electric motors. Growth in industrial production was substantially curbed by the decline in the traditional manufacture of transport equipment, which was, however, offset by the dynamic rise in the manufacture of battery and electric motors. **In March, manufacturing business sentiment remained essentially unchanged**, and it stood at 48.7 points. **Available high frequency data continue to imply a protracted recovery.**

According to the HCSO's preliminary data release, **goods exports and imports rose by 0.8 percent and 3.9 percent, respectively, in euro terms, year-on-year in February 2021**. Merchandise trade surplus amounted to EUR 856 million, representing a year-on-year decrease of EUR 255 million.

In February 2021, the volume of construction output was down by 16.1 percent year-on-year. The output of both main construction groups declined: construction of buildings and other construction fell short of that registered a year ago by16.7 percent and 15 percent, respectively. **Compared to the previous month, the volume of output was down by 11.7 percent based on seasonally and calendar adjusted data**. The volume of new contracts concluded in February fell by 29.4 percent, while the construction companies' end-of-month contract portfolio rose by 0.4 percent compared to last February.

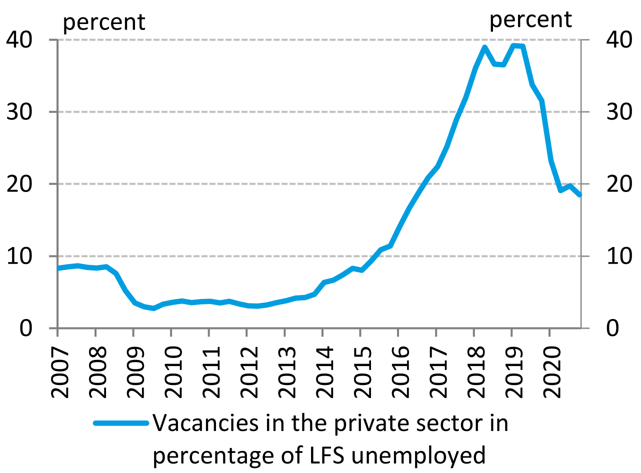
In February, the volume of retail sales (including fuel sales) **was down by 5.9 percent year-on-year, after accounting for calendar effects. According to the HCSO's communication, the decline is partly attributable to the high base resulting from the wave of panic buying at the end of last February.** The volume of retail sales fell in most shop types. In February, the volume of retail sales in food stores and groceries fell by 3.5 percent, while that non-food stores it was down by 3.3 percent. The volume of sales declined to the largest degree in the furniture and technical articles (-

Chart 5 Number of persons employed and the unemployment rate



Source: HCSO

Chart 6 Development of labour market tightness indicator



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

18.2 percent), vehicle and components (-18.2 percent), textile, clothing and footwear shops (-23.6 percent) and second-hand goods (-27.6 percent). Sales volume was up only in the mixed industrial goods (+0.8 percent) and mail order shops (+26 percent), according to the data adjusted for calendar effects. **The volume of fuel sales declined by 10.4 percent** year-on-year.

In February, the number of tourist overnight stays at domestic commercial accommodations fell short of that registered a year ago by 90 percent. As a result of the entry restrictions and the measures taken to contain the pandemic, applicable to commercial accommodations, the number of overnight stays by foreign and domestic tourists fell by 94 and 86 percent, respectively, year-on-year.

1.2.2. Employment

Based on the data of the Labour Force Survey (LFS), **in February 2021 total employment counted 4,550,000 persons, which is a decline of 104,000 persons year-on-year** (Chart 5). Since February 2020, the number of employees in the primary labour market declined by 42,000 persons, the number of public employees and the number of those working abroad dropped by 24,000 and 37,000 persons, respectively. In February, **the number of unemployed was 213,000, exceeding the year-on-year figure by 46,000 persons,** thus on the whole **the unemployment rate stood at 4.5 percent**. Compared to the previous month, the number of unemployed decreased by 25,000 persons. Based on the data published by the National Employment Service (Nemzeti Foglalkoztatási Szolgálat - NFSZ) in February and March the number of registered jobseekers in Hungary was 302,000 (+38,000 on an annual basis) and 304,000 (+22,000 on an annual basis), respectively.

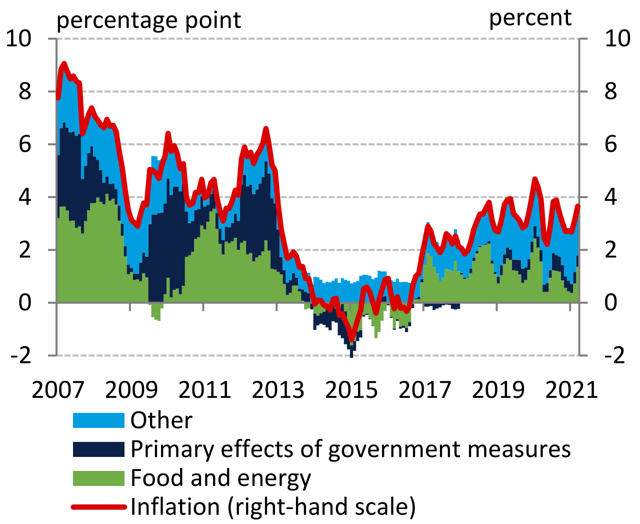
In the fourth quarter of 2020, private sector vacancies amounted for 40,800, falling short of the year-on-year value by 23.3 percent. **Compared to the previous quarter, the annual decline in labour demand decreased moderately; a slight improvement was registered in manufacturing.** However, in the market services sector job vacancies declined by almost 9 percent compared to a year ago; 80 percent of the fall is connected to trade, transportation and tourism. The number of vacancies increased in annual terms only in the education sector, but this was unable to offset the declining number of jobs in the rest of the sectors connected to the government (healthcare, public administration). **Overall, the labour market tightness indicator** calculated from the ratio of job vacancies and unemployed persons, **has not changed significantly**

compared to the previous quarter, and it still falls short of the values registered in the previous three years (Chart 6).

1.3. Inflation and wages

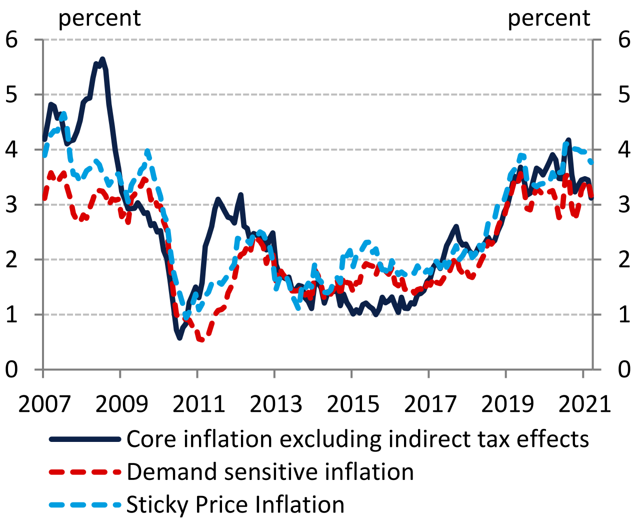
In March 2021, inflation calculated on a year-on-year basis was 3.7 percent, while core inflation and core inflation excluding indirect tax effects stood at 3.9 and 3.1 percent, respectively. Underlying inflation indicators capturing persistent trends (price index of demand sensitive and inflation of sticky price products and services) decreased compared to the previous month. Market services prices rose by 0.2 percent compared to the previous month. In January 2021, gross average wages in the private sector rose by 8.5 percent year-on-year.

Chart 7 Decomposition of inflation



Source: MNB calculation based on HCSO data

Chart 8 Measures of underlying inflation indicators



Source: MNB calculation based on HCSO data

1.3.1. Wage setting

In January 2021, gross average earnings in the private sector rose by 8.5 percent year-on-year. Based on the detailed analysis of the sectors, the degree of the distortion in the gross average wage of full-time employees increased compared to the previous quarter. Regular average wages slightly increased on a monthly basis, while in January bonus payments corresponded to the average of previous years.

Within the private sector, the wage dynamics of market services continues to exceed that in manufacturing. Manufacturing wage dynamics decreased significantly compared to December; **wages were higher by 7.3 percent year-on-year in January.** Wages in the automotive industry – representing the largest share – increased by 12.0 percent in annual terms. **In market services, HCSO registered a growth of 9.7 percent.** Wages in construction and trade rose by 7.7 percent, 6.5 percent, respectively, while in catering fell by 1.0 percent, year-on-year.

1.3.2. Inflation developments

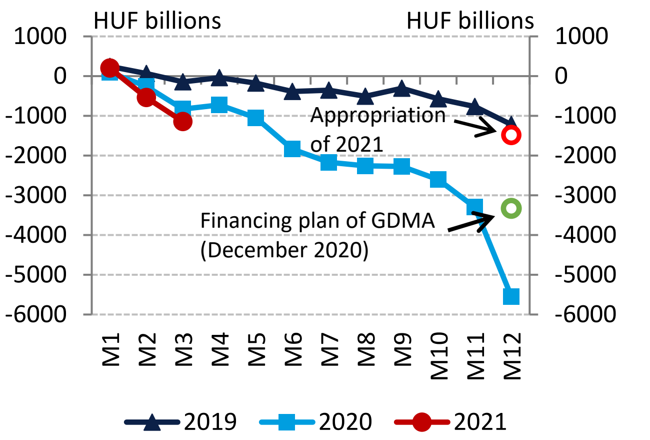
In March 2021, inflation calculated on a year-on-year basis was 3.7 percent, core inflation and core inflation excluding indirect tax effects stood at 3.9 and 3.1 percent, respectively (Chart 7). Compared to the previous month, inflation increased by 0.6 percentage point, while core inflation decreased by 0.2 percentage point. The rise in inflation was mainly due to increasing fuel prices. Prices of market services rose by 0.2 percent compared to the previous month.

Underlying inflation indicators capturing persistent inflationary trends (price index of demand sensitive and inflation of sticky price products and services) **decreased compared to the previous month** (Chart 8). In February 2021, agricultural producer prices increased by 16.7 percent in annual terms, while domestic sales prices in sectors of consumer goods increased by 2.2 percent.

1.4. Fiscal developments

The central sub-sector of the general government had a deficit of HUF 604 billion in March 2021, and thus the first-quarter deficit rose to a historic high of HUF 1,144 billion, which corresponds to one third of the total cash deficit of HUF 3,332 billion, stated in the financing plan of the Government Debt Management Agency. Based on next year's budget bill, the general government's borrowing requirement may remain high also in 2022, which may contribute to the strengthening of the upward risks to inflation.

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



Source: Budget Act of 2021, Hungarian State Treasury, Government Debt Management Agency

The central sub-sector of the general government had a deficit of HUF 604 billion in March 2021, and thus the first-quarter deficit rose to a historic high of HUF 1,144 billion, which corresponds to one third of the total cash deficit of HUF 3,332 billion, stated in the financing plan of the Government Debt Management Agency (Chart 9).

In March, **revenues of the central sub-sector** exceeded the year-on-year value by HUF 157 billion. The rise was attributable – in addition to the consumption taxes and the payments by households and economic organisations – to the EU grants.

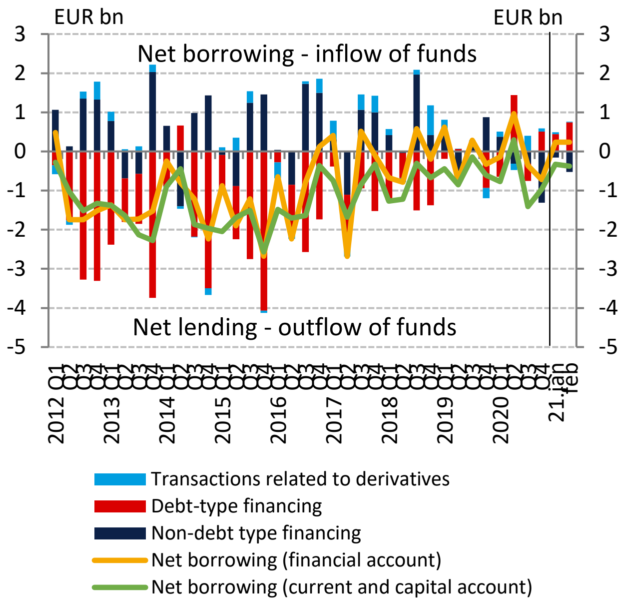
The HCSO published the latest EDP report on 1 April, based on which the accrual-based budget **deficit was 8.1 percent of GDP in 2020, while the debt ratio stood at 80.4 percent** as a percentage of GDP at the end of last year. Based on next year's budget bill, the general government's borrowing requirement may remain high also in 2022, which may contribute to the strengthening of the upward risks to inflation.

Expenditures of the central subsystem exceeded the amount registered in March 2020 by HUF 184 billion. This is mainly attributable to the fact that in view of the bank holidays in the first days of April, a significant part of the curative and preventive benefit expenditures and the family allowances, due only April, have been disbursed earlier, already at the end of March.

1.5. External balance developments

At EUR 34 million, the current account balance showed a moderate surplus in February, while net lending of the economy amounted to EUR 374 million. The moderate fall in the current account balance is attributable to the decline in current transfers, while growth in trade surplus also fell short of the rate observed in the same period of previous years. On the financing side, under net outflow of foreign direct investments, 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 February, the current account balance showed a moderate surplus, which, however, fell short of the level registered in January. Goods balance slightly rose compared to previous month, while services balance surplus remained at the low level registered in January. Accordingly, on the whole, the growth in trade surplus in February fell short of that registered in the same period of previous years. The decline in the balance of current transfers is attributable to the payment of the government's contribution to the EU budget, while the income balance deficit was broadly stable.

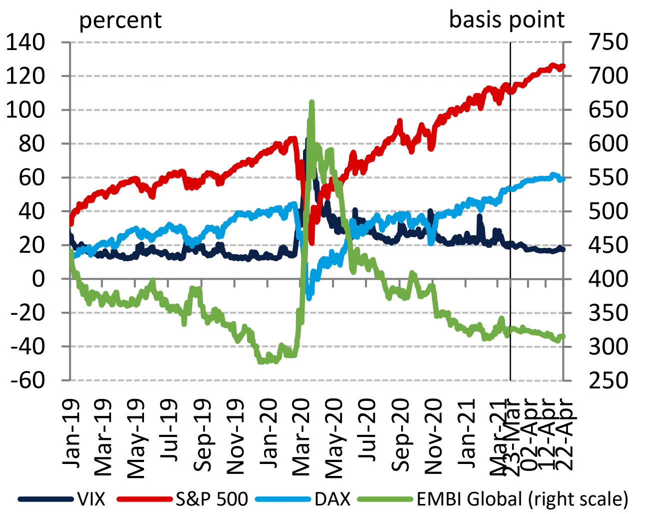
Based on the financial account data, net foreign direct investment outflow amounted to roughly EUR 330 billion, while net external debt of the economy rose (Chart 10)**.** In February, the fall in FDI was linked to intercompany loans. Net external debt rose by almost EUR 740 million due to transactions: primarily it was the private sector that increased its net external debt, while no tangible change occurred in the indicator of the consolidated general government.

2. Financial markets

2.1. International financial markets

Since the last interest rate decision, financial market sentiment improved, primarily supported by the vaccination programmes and the favourable incoming data. The VIX index, measuring equity market volatility, slightly decreased further, and thus it stood below 20 percent during the month. The EMBI Global spread in the emerging bond market fell by 9 basis points, while the value of the MOVE index (measure of the developed bond market volatility) standing over 60 basis points, reflects higher than average volatility. Last month developed and emerging stock market indices rose, while developed market long-term yields varied. Growth in US long-term yields faltered, while European yields were on the rise. The dollar depreciated against both advanced and emerging currencies. Last month oil prices continued to rise.

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



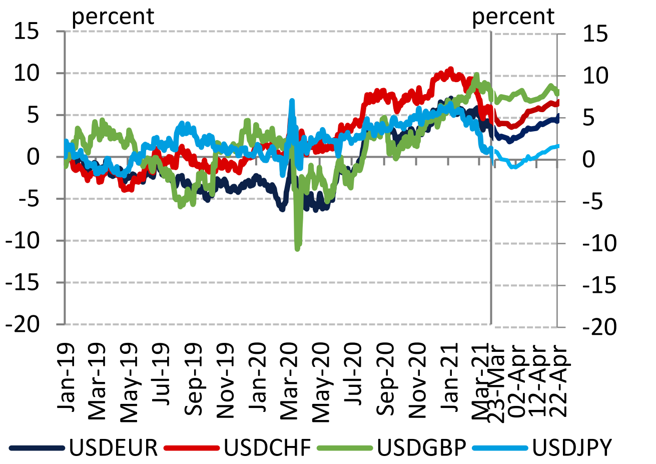
Source: Bloomberg

In the period since the last interest rate decision financial market sentiment improved. In the first months of the year, reflation risks typically increased, as a result of which in the past period the focus of market participants was on the expectations related to central banks' future monetary policy. **In addition, global investor sentiment is still determined by the progress of the vaccination programmes, the change in the pandemic situation** and the related restrictive measures. Economic forecasts published last month and the incoming actual data both project fast economic recovery**. However, the pandemic situation deteriorated in the large developing countries, which may hinder global economic recovery.** In addition, since the last interest rate decision several events (Archegos bankruptcy, Huarong-case, increasing geopolitical tensions, blocking of the Suez Canal) also increased financial market tensions. However, these events made their effects only in the sub-markets, while global effects remained moderate.

Of the risk indicators, the VIX index, the key measure of equity market volatility, decreased compared to the level registered at the previous interest rate decision by almost 3 percentage point to 17.5 percent (Chart 11). Almost throughout the period under review, the value of the index was below 20 percent, which has been unprecedented since last February, before the Covid crisis. The EMBI Global spread decreased by 9 basis points to 315 basis points. The MOVE index, measuring volatility in the developed bond market, moderately rose, and its value above 60 basis points still reflects higher than average volatility.

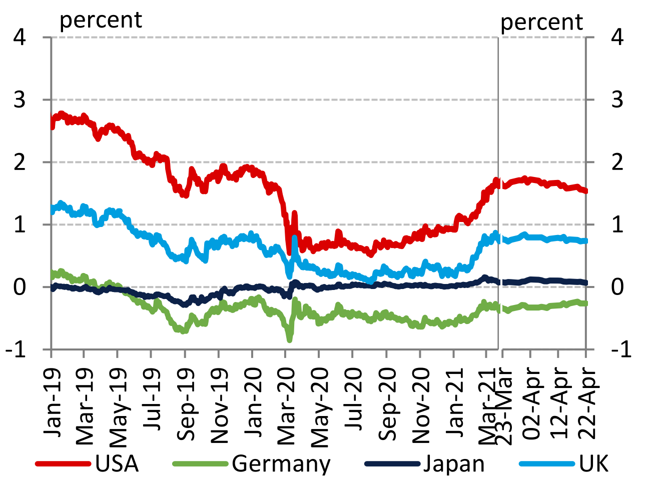
Last month, developed and emerging stock market indices both tended to rise. The MSCI developed market equity index and the emerging market composite index rose by 5.2 and 1.0 percent, respectively. **The key US stock exchange indices rose by 5.0-6.5 percent, while in Europe the British, German and French stock exchanges were up by 3, 3.5 and 4.5 percent, respectively.** In Bloomberg's April survey,

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

expectations of stock market experts with regard to the European STOXX 600 Index for the end of 2021 corresponded to the current level, which means that respondents anticipate stagnating equity priced in the rest of the year. The Japanese stock exchange index rose by 0.4 percent last month. The more moderate performance may be partly attributable to the deteriorating pandemic situation. Of the stock market indices of the countries in the region the Czech one rose by 1.3, the Romanian one by 2.3 and the Polish one by 3 percent. On the other hand, the Hungarian stock market index fell by 1.9 percent since the last interest rate decision. The decline involved the price of all blue chip equities.

The dollar depreciated against the developed market currencies (Chart 12). The US currency depreciated against the Japanese yen by 1.1 percent, the British pound by 1.4 percent, the euro by 2.3 percent and the Swiss franc by 2.5 percent. At the end of the period, the euro-dollar exchange rate stood at above 1.2. **Most of the emerging currencies also appreciated against the dollar. Exceptions included the Russian ruble and the Turkish lira, depreciating against the dollar by 2.9 percent and 4.2 percent, respectively.** The underperformance of the lira may have been partly attributable to the uncertainty that followed the dismissal of the central bank's governor at the end of March, while the ruble may have depreciated as a result of the geopolitical tensions. Since the last interest rate decision, the price of gold rose by 2.5 percent, to USD 1,770/oz.

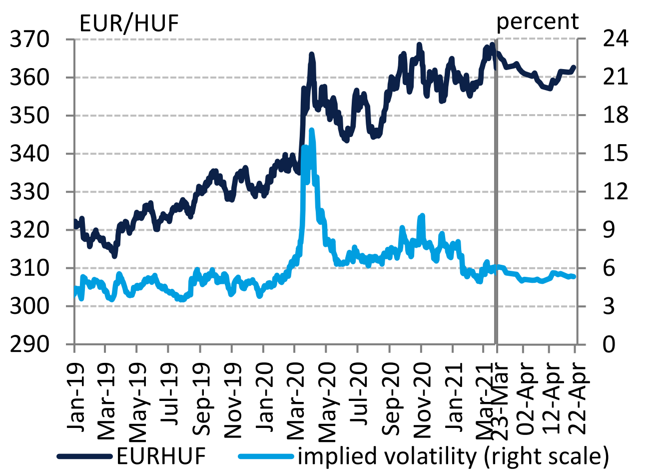
Of the developed bond yields, the Japanese and British long-term yields remained unchanged, while the German yield rose by 6 basis points and the US one fell by 8 basis points. (Chart 13). Accordingly, the rise in yields observed in the first three months of the year faltered in the US markets in the past weeks, with the 10-year yield falling below 1.6 percent. By contrast, European yields rose, and thus the spread between the US and German 10-year yields decreased. The changes of opposite direction, and thus the fall in the spreads, may be attributable to the fact that investors started to reckon with faster recovery in Europe, while in the US market fast growth has already been mostly priced in. **Yields in the Mediterranean countries rose to a larger degree, by 10-20 basis points.**

Oil prices continued to rise in the previous period, mostly caused by the improving growth prospects. Price developments were influenced by the ship blocking the Suez Canal for a week only temporarily and to a small degree. Price dynamics and the demand-supply balance were determined to a much larger degree by the effect of the pandemic and the restrictions, and the OPEC+ meeting. In their latest projection, **OPEC+ members** increased their expectations related to oil demand. **In May and June, they reduce the production cut by 350,000 barrels per day and in July by 441,000 barrels per day. During the period under review, the price of Brent crude oil rose by 6.7 percent to USD 64.9/barrel, while the US benchmark WIT oil price grew by 6.2 percent to USD 60.9.**

2.2. Developments in domestic money market indicators

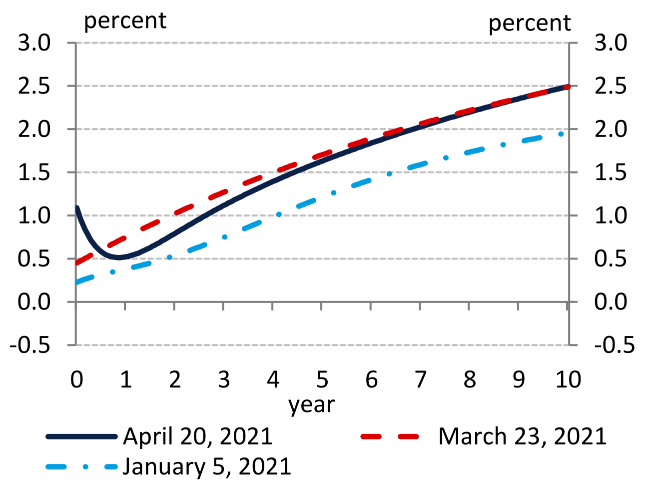
During the period under review, the forint – similar to the zloty and the Czech koruna – appreciated against the euro. The government yield curve became steeper. In the past month, there was a strong demand at government bond auctions. The average auction yields declined relative to mid-March.

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



Source: Bloomberg

Chart 15 Shifts in the spot government yield curve



Source: MNB, Reuters

Since the interest rate decision in March, the forint – similarly to the zloty and the koruna, but more moderately than those – appreciated by 1 percent against the euro (Chart 14). Of the currencies of the CEE region, the Polish zloty and the Czech koruna appreciated against the euro by 1.4 percent and 1.3 percent, respectively, while the Romanian leu depreciated by 0.7 percent.

The 3-month BUBOR, relevant for the monetary policy transmission, rose by 2 basis points to 0.79 per cent since the last interest rate decision.

The government yield curve became steeper (Chart 15). Around the 1-year section of the yield curve a decrease of 20-25 basis points was registered. In the middle section of the yield curve there was a decline of 5-15 basis points, there was no change around the 10-year section, while at the longest section a rise of around 2-3 basis points could be observed.

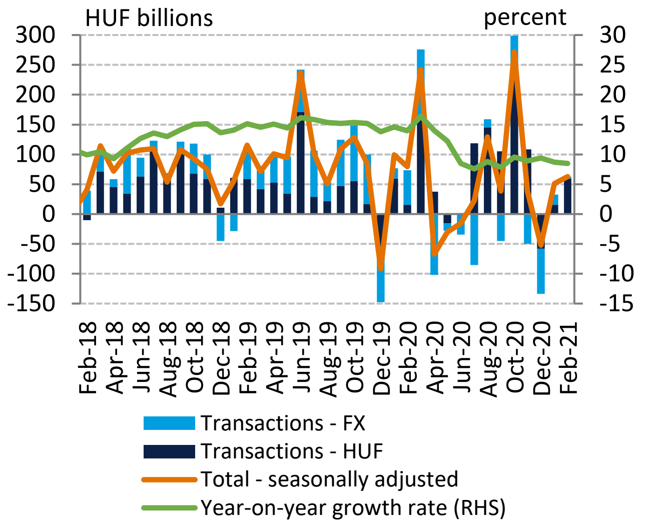
In the past month, the demand was strong at government bond auctions. Despite the mostly strong demand, the Government Debt Management Agency sold the announced volume at the 3- and 12-month Treasury bill auctions, and on one occasion it accepted bids below the announced volume. Since the last interest rate decision, the average yield at the 3-month auctions decreased from 0.6 percent to 0.57 percent, while the average auction yield at the 12-month Treasury bill auctions dropped from 0.72 percent to 0.68 percent. Government bond auctions were characterised by strong demand. Accordingly, the Government Debt Management Agency accepted bids in excess of the announced volume on several occasions. At the latest auction, the average yield of the 10-year securities was 2.73 percent, representing a decrease of 2 basis points compared to average auction yield before the last interest rate decision. The average auction yield on the 5-year, 15-year and 20-year government securities fell by 1 basis points, 22 basis points and 25 basis points to 1.86 percent, 3 percent and 3.17 percent, respectively. The Hungarian 5-year CDS spread fell by 6 basis point to 59 basis point during the period under review.

Non-residents' holdings of forint government securities decreased. Non-residents' holdings fell by HUF 85 billion to HUF 4,711 billion, while the market share of forint government securities held by non-residents decreased from 22 percent to below 21.2 percent.

3. Trends in lending

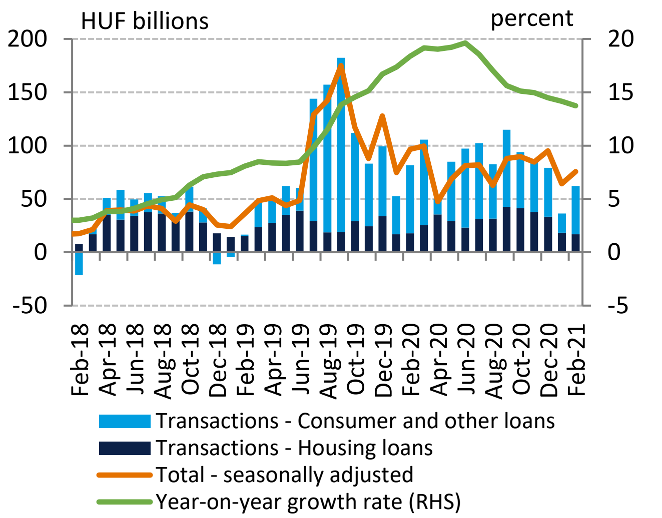
In February 2021, outstanding loans to non-financial corporations rose by HUF 63 billion, reflecting a rise of HUF 60 billion and HUF 3 billion in forint and foreign currency loans, respectively. During the month under review, outstanding borrowing of households rose by HUF 62 billion as a combined result of disbursements and repayments, and thus the annual growth rate moderately decreased to 13.7 percent.

Chart 16 Net borrowing by non-financial corporations



Source: MNB

Chart 17 Net borrowing by households

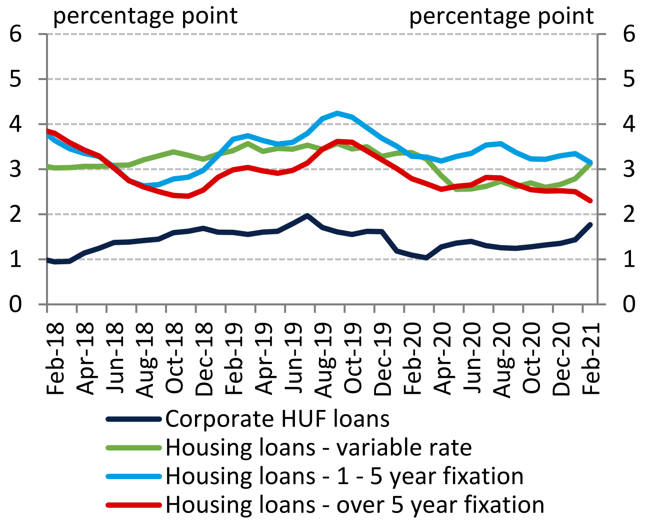


Source: MNB

In February 2021, outstanding loans to non-financial corporations rose by HUF 63 billion, reflecting a rise of HUF 60 billion and HUF 3 billion in forint and foreign currency loans, respectively. (Chart 16). Thus the annual growth rate declined to 8.5 percent, which is a moderate decrease compared to last month's 8.7 percent. In February, credit institutions disbursed new loans in the amount of HUF 230 billion, which exceeds the value registered last December by 83 percent; however, if falls short of the year-on-year value by 16 percent. During the month under review, credit institutions concluded non-overdraft forint contracts with enterprises under FGS in the amount of HUF 89 billion (HUF 124 billion together with overdrafts), which accounts for more than 45 percent of the monthly forint corporate loan disbursements.

During the month under review, outstanding borrowing of households rose by HUF 62 billion as a combined result of disbursements and repayments, and thus the annual growth rate moderately decreased, to 13.7 percent (Chart 17). The outstanding growth, by international standards, is still largely supported by the instalment reducing effect of the moratorium on payments. The volume of new loan contracts concluded shifted from the low registered early this year, but it still falls short of the level a year ago, not yet impacted by the pandemic, by 18 percent. The decline impacted personal loans the most, while the fall in housing loans may have been also attributable to the impacts of the measures supporting first-time homebuyers, effective from 2021. Subsidised loans still have significant role in retail lending: every third loan disbursed was a state-subsidised loan in the period under review.

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 1.77 percentage point in February 2021, representing an increase of 0.33 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** and amounted to 3.12 percentage points in February. **At the same time, 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 January. The average spread on housing loans with interest rate fixation periods longer than one year and up to 5 years reached 3.15 percentage points, while the spread on products with interest rate fixation periods of more than 5 years was 2.30 percentage points in February.**