



MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL
TO THE ABRIDGED MINUTES
OF THE MONETARY COUNCIL MEETING
OF 24 AUGUST 2021

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The background material ‘Macroeconomic and financial market developments’ is based on information available until 18 August 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>

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1. Macroeconomic developments

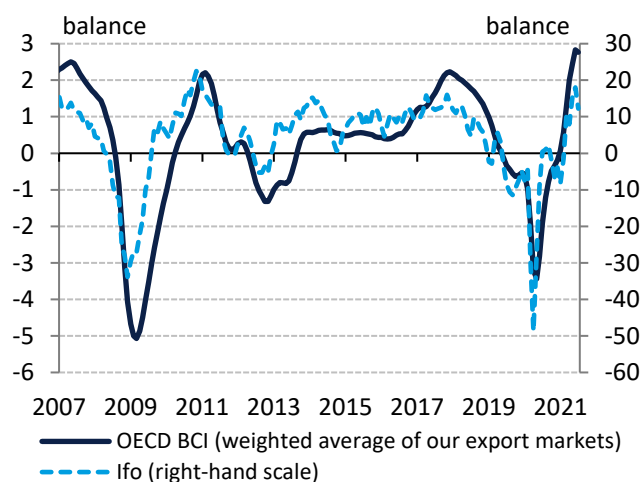
1.1. Global macroeconomic environment

In the second quarter of 2021, the economic performance of China, the United States and the euro area increased by 7.9 percent, 12.2 percent and 13.6 percent, respectively, year-on-year. In July, manufacturing and service sector confidence indicators continued to imply positive prospects; however, looking ahead, expectations related to yet another wave of coronavirus may become determinant. The soar observed in the number of cases in recent weeks may entail the onset of the fourth wave of the coronavirus pandemic, which may interrupt economic recovery. In countries with higher vaccination coverage the negative impact of the potential restrictions is likely to be more moderate. In the second quarter of 2021, external inflationary environment remained high. In July, after 1.9 percent measured in June, euro area inflation rose to 2.2 percent. In the United States, consumer price index was 5.4 percent in July. In Poland, the July consumer price index was 5.0 percent. In the Czech Republic, inflation in July was 3.4 percent, significantly exceeding the 2 percent inflation target of the Czech central bank.

Global industrial production exceeded its pre-pandemic level already in September 2020, and has continued to surpass it ever since then, while in parallel with the restart of the economies the service sector's prospects also improved significantly. Industrial production increased despite the global semiconductor shortage. Prospects of the service sector improved in parallel with the rise in vaccination coverage; nevertheless, recovery is still expected to be slow. The number of daily commercial flights moderately declined by February from the average 65-70 thousand flights registered in the second half of last year, followed by a rise from March and now, in parallel with the commencement of the travel season, it is around 90-95 thousand, which – however – is still well below the 2019 figures.

Economic recovery continued in the second quarter of 2021. In the second quarter of 2021, the economic performance of China increased by 7.9 percent year-on-year (while quarter-on-quarter it rose by 1.3 percent according to the seasonally and working-day adjusted data). **In the second quarter, the economic performance in the United States exceeded the low base of 2020 by 12.2 percent,** which did not match analysts' expectations. Economic recovery in the world's two largest economies (China and the United States) is stronger than in the euro area. Performance of the United Kingdom and the European Union in the second quarter 2021 was below that of the fourth quarter of 2019. The countries where tourism has a larger weight within the gross national product typically show slower recovery. Economic performance of most countries is still below the pre-crisis level. Based on the preliminary data, the greatest lag within the European Union can be identified in Spain, Malta and the Czech Republic. GDP reached its pre-crisis level in Ireland, Estonia, Luxembourg, Lithuania and Romania already after the first

Chart 1 Business climate indices in Hungary's export markets



Source: OECD, Ifo

quarter, and also in Poland, Denmark, Hungary, Finland and Latvia in the second quarter.

Due to last year's low base, monthly production indicators showed buoyant growth in June as well. Industrial production in the euro area, the United States, the United Kingdom and in China rose by 9.7 percent, 9.8 percent, 8.3 percent and 8.3 percent, respectively, compared to last June. In June, the volume of retail sales grew by 12.1 percent in China, 18.0 percent in the USA, 9.7 percent in the United Kingdom and by 5 percent in the euro area, on an annual basis. Compared to previous month the indices typically rose.

Forward-looking confidence indices related to the manufacturing and service sectors implied positive outlooks in July. However, looking ahead, expectations with regard to yet another wave of the coronavirus pandemic may become determinant. Business sentiment in China moderately declined in April, but the Purchasing Manager Indices were still in the (growth) range of over 50 points. The Purchasing Manager Index of the United States rose further, while that for the euro area fell in July. German business sentiment (Ifo Business Climate Index) moderately deteriorated in July, but it is still at a multi-year high (Chart 1).

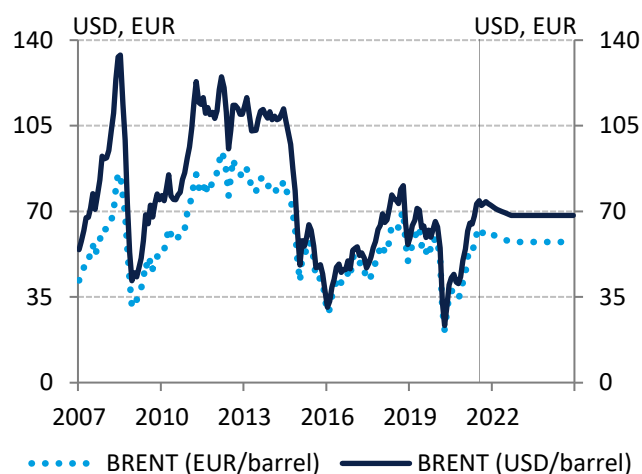
International labour market trends improved further. In the United States, the number of new unemployment benefit claims was 385,000 in the week ending on 31 July, which is a decrease compared to previous week, but it still substantially exceeded the 2019 average (200,000). The unemployment rate declined to 5.4 percent in July. In June, euro area unemployment rate declined by 0.3 percentage point, compared to the previous month and now is at 7.7 percent.

The surge in the number of cases in recent weeks may result in the onset of the fourth wave of coronavirus, which may interrupt the recovery of the economy. In countries with higher vaccination coverage the negative impact of the potential restrictions is likely to be more moderate.

In July, following 1.9 percent in June, euro area inflation rose to 2.2 percent, while core inflation dropped to 0.7 percent from 0.9 percent. According to incoming data, inflation outstrips analysts' expectation of 2.0 percent, while core inflation corresponds to the market consensus.

In the United States, consumer price index stood at 5.4 percent in July. In Poland the July consumer price index remained above the central bank's target, at 5.0 percent. In the Czech Republic inflation in July was 3.4 percent,

Chart 2 World market prices of Brent crude oil



Source: Bloomberg

significantly exceeding the 2 percent inflation target of the Czech central bank.

In July 2021, the average world market price of Brent crude oil was USD 74.4 per barrel, while the spot price has stood close to USD 71 per barrel since early August (Chart 2). In the recent period, the price of Brent crude oil was volatile. In the middle of July the price of crude oil was still around USD 75/barrel on average; then, after OPEC+ reaching an agreement on the gradual raising of supply until 2022, it declined close to USD 68. Meanwhile, the spread of the delta variant of the coronavirus still poses negative risk for the recovery of the global economy. Expectations with regard to the recovery concerning oil demand underpinned the growth in oil prices, and thus it rose close to USD 76 by the end of July. As a result of the weaker than expected Chinese PMI data published in early August and the travel restrictions introduced repeatedly in some countries due to spread of the delta variant, the world market price of Brent declined again at the beginning of August, which was somewhat offset by the heightening tensions in the Middle East. When it came to light that according to a report the White House conducts negotiations with the OPEC+ members to increase oil production, oil prices declined again. **The price of industrial commodities increased slightly, while the world market price of unprocessed food declined slightly in July.**

1.2. Domestic real economy developments

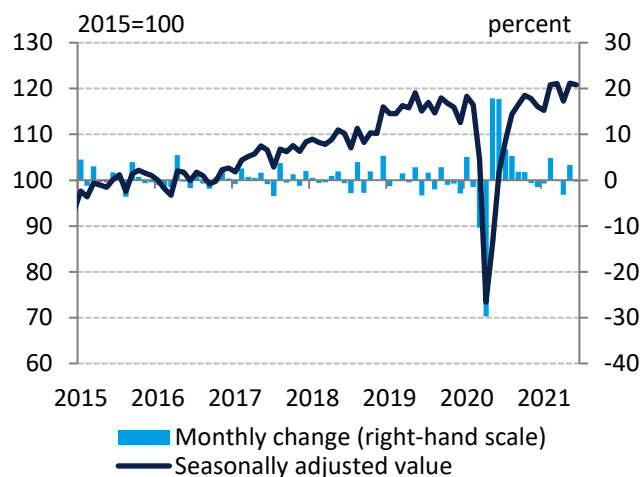
In the second quarter of 2021, Hungary's GDP rose by 17.9 percent year-on-year, while economic performance grew by 2.7 percent quarter-on-quarter. As a result, Hungary's GDP reached its pre-crisis level. Based on the GDP data registered in the second quarter of 2021, Hungary is at the forefront, among others, of the European ranking, both in year-on-year and in quarter-on-quarter terms. Real time data suggest a slowdown in GDP growth rate in the summer months, which is attributable to the higher base of last year resulting from the partial lifting of the restrictions. In June, industrial production exceeded its pre-crisis level, and was close to its pre-pandemic trend, although it fell short of it by 3.1 percent. Construction output came close to its level registered before the coronavirus pandemic, but significantly lagged behind the growth trend of recent years. The volume of retail sales remains below the level registered before the outbreak of coronavirus. The labour market proved to be resilient to the coronavirus pandemic. In May 2021, the unemployment rate remained broadly unchanged compared to 4.1 percent of May, while the number of people in employment rose by 98,000 year-on-year, which is also attributable to the base effect.

1.2.1. Economic growth

As a result of the fast reopening, the Hungarian economy grew further. In the second quarter of 2021, Hungary's GDP rose by 17.9 percent year-on-year, while economic performance grew by 2.7 percent quarter-on-quarter.

The increase in domestic economic output exceeded the average of the euro area (+13.6 percent) and the European Union (+13.2 percent) in annual terms. Based on the GDP data registered in the second quarter of 2021, Hungary is among the leaders in the European ranking, both in year-on-year and in quarter-on-quarter terms.

Chart 3 Development in industrial production



Source: MNB calculation based on HCSO data

In June 2021, industrial production exceeded the low year-on-year base by 22.0 percent. Based on the seasonally and calendar adjusted data, the volume of production decreased by 0.3 percent on a monthly basis (Chart 3). In June, industrial production exceeded its pre-crisis level by 2.1 percent, and was close to its pre-pandemic trend, albeit fell short of it by 3.1 percent. All manufacturing subsectors contributed to the year-on-year growth. Based on raw data, the output of automotive industry – representing the largest share in domestic output – grew below the average of the industry, by 13.6 percent, on an annual basis. The manufacture of electrical equipment rose by 70.0 percent in June, primarily due to the pickup in electric engine and battery production.

In June 2021, construction output rose by 27.8 percent year-on-year, and as a result, it moved close to its level before the outbreak of Covid-19, but still substantially fell short of the growth trend seen in recent years. Compared to May 2021, the volume of output rose by 3.5 percent based on seasonally and calendar adjusted data. Construction of buildings rose by 25.0 percent, while other construction increased by 32.1 percent, year-on-year. Based on seasonally adjusted data, the volume of new contracts concluded rose by 65.9 percent, while the construction companies' contract

portfolio at the end of June exceeded the level registered in June 2020 by 21.2 percent.

According to real time data, GDP growth declined in the summer months as the base effects wore off. Based on the online cash register data, turnover in June and July grew in nominal terms by 14 and 10 percent, respectively, year-on-year. Due to last year's low base **air passenger traffic** registered a triple-digit and double-digit growth in June and July, respectively, albeit at the end of July it still fell short of the level of two years ago by 66 percent. **Catering turnover in nominal terms** already exceeded its level of 2019 in the same period. **Cinema attendance** is recovering gradually after the reopening, with the decline in June still being around 40 percent compared to its level two years ago, which fell to 12 percent by the end of July. **Road passenger traffic** has been improving strongly since mid-March, and in July, it exceeded its level registered two years ago by 6 percent on average. In July, the **electricity load** and **road goods traffic** data exceeded the level of last year.

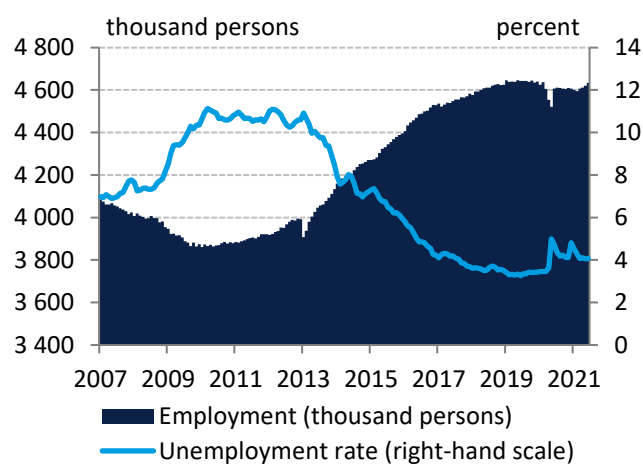
Household borrowing developed favourably. In July, it exceeded its level one year and two years ago by 43 percent and 8 percent, respectively. By the end of June, the number of **housing market transactions** fell short of the year-on-year figure by 50 percent. **So far, labour market adjustment has been modest in Hungary.** In June 2021, the unemployment rate stood at 4 percent, while the number of people in employment rose by 98,000 persons year-on-year. **Google searches** related to unemployment also show a favourable picture. Online searches in Hungary for the terms "unemployment benefit" and "jobseeker's allowance" are close to the levels before the outbreak of the pandemic.

According to the HCSO's preliminary data release, **goods exports and imports rose by 21.9 percent and 23.7 percent, respectively, in euro terms, year-on-year in June 2021.** Merchandise trade surplus amounted to EUR 680 million, representing a year-on-year increase of EUR 1.7 million.

In June, the volume of retail sales was up by 5.8 percent year-on-year, based on the data adjusted for the calendar effect. Compared to previous month, the volume of sales moderately rose (+0.6 percent), but it still lagged behind the level seen before the outbreak of the coronavirus and was below the growth trend of recent years. Based on the data adjusted for the calendar effect, the volume of retail sales in food stores and groceries rose by 7.2 percent, while that in non-food stores was up by 3.0 percent on an annual basis. The volume of fuel retail sales increased by 8.6 percent.

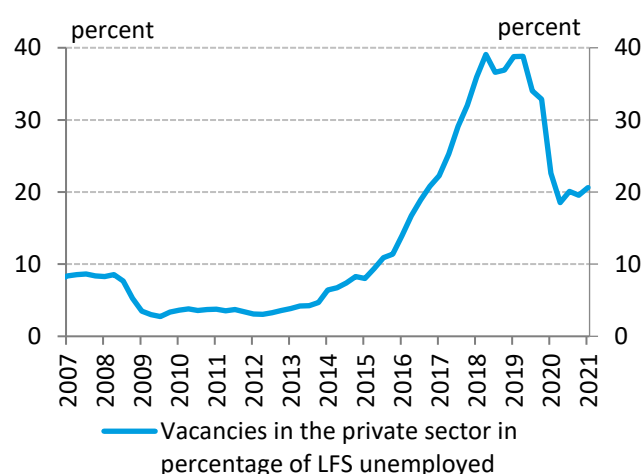
In June 2021, the number of tourist overnight stays at domestic commercial accommodations was less than half

Chart 4 Number of persons employed and the unemployment rate



Source: HCSO

Chart 5 Development of labour market tightness indicator



Note: Quarterly data.

Source: National Employment Service, HCSO

of the pre-pandemic level. As a result of the historically low base of last year, this year's annual growth rates are high. In June, the number of overnight stays rose by 57.4 per cent year-on-year. Domestic tourist overnight stays rose from 733,000 of last year to 1,107,000, while compared to June 2019 they fell by 32.8 per cent. According to the HCSO's data release, the number of overnight stays by foreign tourists in Hungary was 222,000 in June, while a year ago it was merely 111,000. However, this year's figure still fell short of the period two years ago by 84.9 per cent.

1.2.2. Employment

Based on the data of the Labour Force Survey (LFS), **in June 2021 total number of the employed amounted to 4,692,000 persons reflecting an increase of 98,000 persons year-on-year** (Chart 4). Since June 2021, the number of employees in the primary labour market and the number of public employees rose by 103,000 and 4,000 persons, respectively, while the number of those working abroad declined by 10,000 persons.

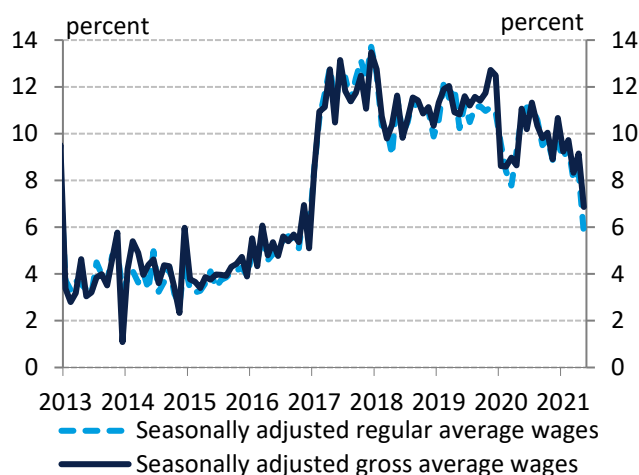
In June, the number of the unemployed was 194,000, falling short of the year-on-year figure by 47,000 persons, and as a result, on the whole the seasonally adjusted unemployment rate stood at 4.1 per cent. The number of the unemployed increased by 2,000 persons in May. Based on the data published by the National Employment Service (Nemzeti Foglalkoztatási Szolgálat - NFSZ) in June and July the number of registered jobseekers in Hungary was 266,000 (-111,000 on an annual basis) and 262,000 (-104,000 on an annual basis), respectively.

In the first quarter of 2021, private sector vacancies amounted to 41,800, exceeding the year-on-year value by 14 per cent. **Labour demand rose substantially in manufacturing, while it increased moderately in market services, on an annual basis.** Manufacturing job vacancies exceeded the figure a year ago by almost 5,000. In the market services sector, job vacancies slightly increased in the real estate, professional and administrative activities, and in the information and communication sectors, while they declined in the transportation and trade sectors. The number of vacancies increased in annual terms 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, **rose compared to the previous quarter**, but it still falls short of the values registered in the previous three years (Chart 5).

1.3. Inflation and wages

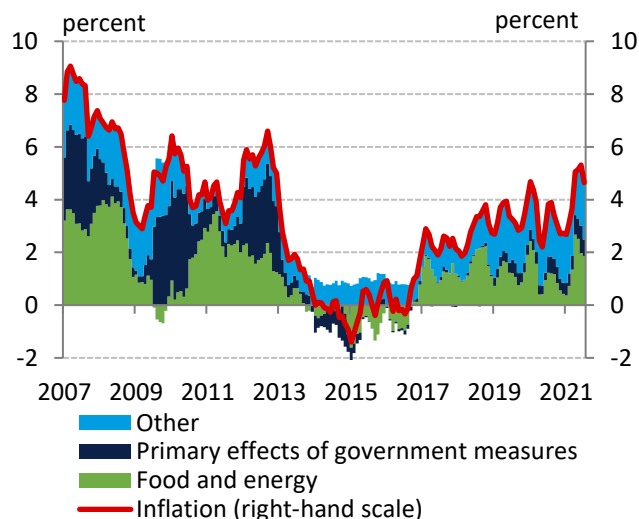
In July 2021, inflation calculated on a year-on-year basis was 4.6 percent, while both core inflation and core inflation excluding indirect taxes stood at 3.5 percent. Underlying inflation indicators capturing persistent trends (price index of demand sensitive and inflation of sticky price products and services) decreased compared to the previous month. In May 2021, gross average wages rose by 6.7 percent year-on-year, while wage growth in the private sector slowed down compared to the previous month.

Chart 6 Dynamics of average earnings in the private sector



Source: MNB calculation based on HCSO data

Chart 7 Decomposition of inflation



Source: MNB calculation based on HCSO data

1.3.1. Wage setting

In May 2021, gross average earnings in the private sector rose by 6.7 percent year-on-year (Chart 6). Based on the detailed analysis of the sectors, the degree of the distortion in the gross average wage of full-time employees increased and its direction flipped compared to the first quarter. Regular average wages significantly decreased compared to April, while the degree of bonus payments slightly exceeded the level of previous years.

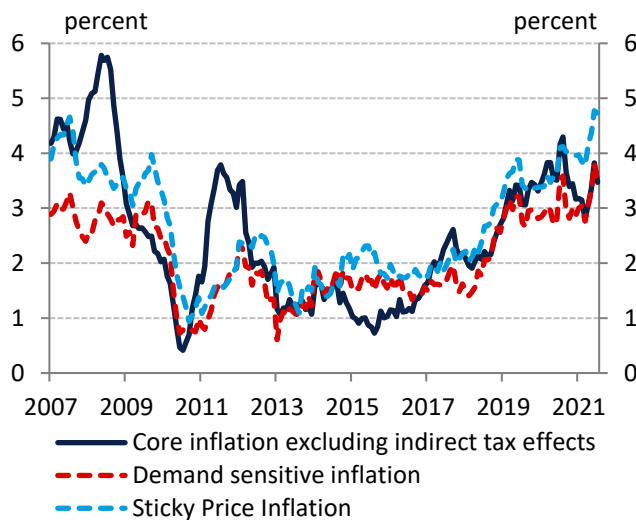
According to seasonally adjusted data, the growth in gross average wage and regular average wage slowed down in the private sector compared to the previous month. Unlike in previous years, regular average wage significantly decreased on a monthly basis. In the private sector wage dynamics of manufacturing outstripped that of market services. In May, manufacturing wages were higher by 9.3 percent year-on-year. Wages in the automotive industry – representing the largest share – increased by 10.7 percent in annual terms. In market services, HCSO registered a growth of 4.9 percent. Wages in construction, trade and catering rose by 8.9 percent, 6.3 percent and 6.6 percent, respectively, year-on-year.

1.3.2. Inflation developments

In July 2021, inflation calculated in annual terms was 4.6 percent, while core inflation and core inflation excluding indirect taxes stood at 3.5 percent (Chart 7). Compared to the previous month, inflation decreased by 0.7 percentage point and core inflation by 0.3 percentage point. The fall in inflation was mostly caused by the base effects connected to fuels and industrial goods.

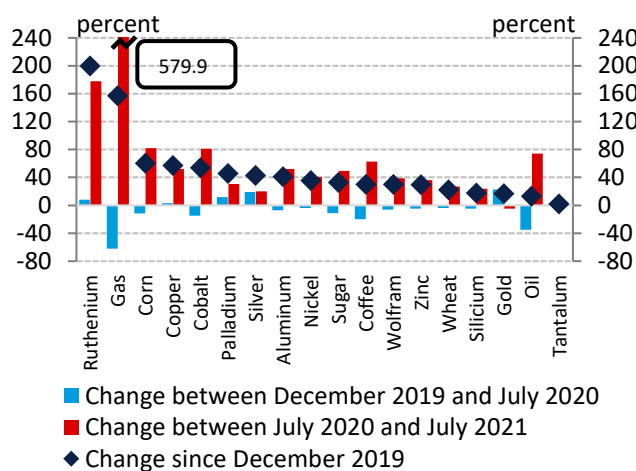
Underlying inflation indicators capturing persistent inflationary trends (price index of demand sensitive and inflation of sticky price products and services) **decreased compared to the previous month** (Chart 8). In June 2021, agricultural producer prices increased by 20.5 percent in annual terms, while domestic sales

Chart 8 Measures of underlying inflation indicators



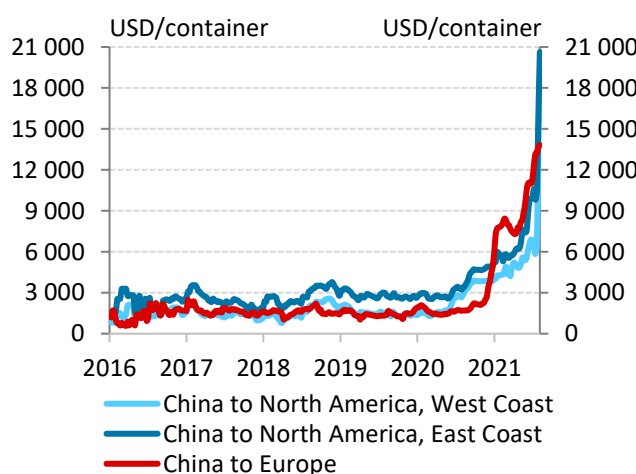
Source: MNB calculation based on HCSO data

Chart 9 Changes in major commodity prices since December 2019



Source: Bloomberg

Chart 10 Developments in the Freightos Baltic Index for shipments from China



Source: Bloomberg

prices in sectors of consumer goods increased by 4.8 percent.

1.3.3. Inflation risks

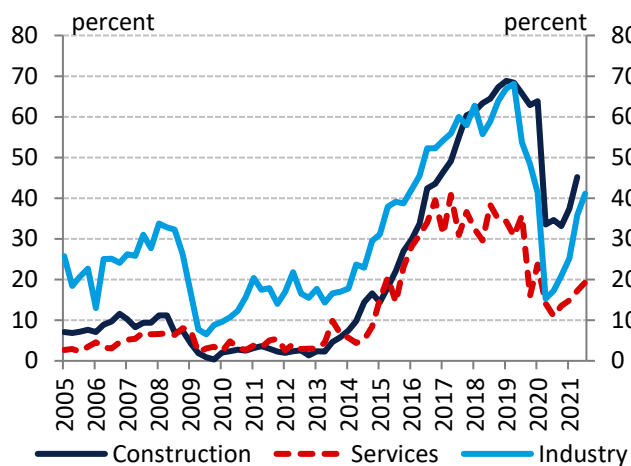
In line with the forecast in the June Inflation Report, inflation declines more slowly than previously expected. The indicator peaked at 5.3 percent in June, and fell to 4.6 percent in July.

The growth in inflation risks is equally attributable to international and domestic trends. Due to the different nature and management of the crisis, global economic activity and the labour market may recover faster than in the 2008/2009 crisis. In addition to the rapid economic recovery, a loose fiscal and monetary policy stance, high public debt ratios and expanding lending, along with deglobalisation and shortening value chains, all point to rising inflation globally. The prices of key commodities significantly rose in the first months of the year, and by now they consistently exceed even the levels observed at the end of 2019 (Chart 9).

Global value chains may recover more slowly than demand, leading to increased cost pressures in global transportation and industrial production. The costs of shipments from China to Europe rose almost 8.5 times by early August 2021 from the level seen in June 2020 (Chart 10). Merchants are likely to charge part of the resulting extra costs to the consumers, as a result of which the price increasing effect of the significantly higher shipping costs may appear also in the domestic consumer prices over time. In addition to a fast recovery in demand, the global chip shortage has caused disruptions in industrial production, particularly in the automotive sector, which may have a knock-on effects on prices.

In addition to international developments, several factors in the Hungarian economy also point to a higher inflation path than previously expected. In the second quarter of 2021, due to the reopening of the economy and the low base of last year, Hungarian GDP grew by 17.9 percent in annual terms. Full employment may be achieved by the end of the year, but based on pre-crisis patterns, bottlenecks may be in place, especially in the services and construction sectors, in parallel with the recovery (Chart 11).

Chart 11 Labour shortage as a factor limiting production in Hungary



Wage growth was stronger than expected, which may persist as the labour market tightens in certain sectors, with a rise in savings over the past year, postponed consumption and the availability of an increasing range of services projecting a growth in consumption expenditures. Moreover, a higher-than-expected budget deficit next year also points to a higher inflation path.

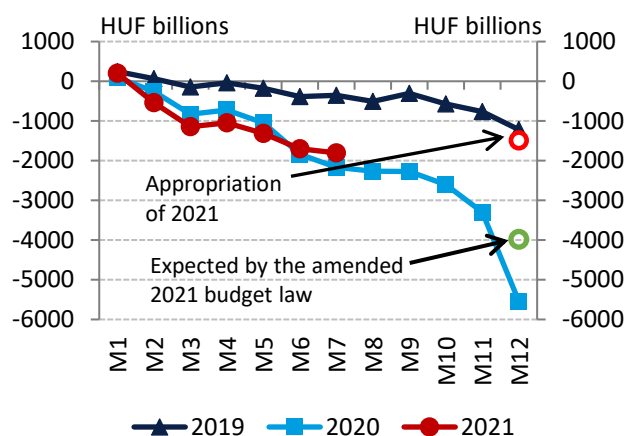
Note: Percentage of companies reporting that “Shortage of labour force” is a main factor currently limiting their production.

Source: European Commission

1.4. Fiscal developments

In July 2021, the deficit of the central sub-sector of the general government amounted to HUF 99 billion. As a result, the current year's cumulated cash deficit rose to HUF 1,804 billion, which falls short of the cumulated deficit of July 2020 by roughly HUF 360 billion.

Chart 12 Intra-year cumulative cash balance of the central government budget



Source: Budget Act of 2021, Hungarian State Treasury

In July 2021, the **deficit of the central sub-sector of the general government amounted to HUF 99 billion**, and thus the year-to-date accumulated cash deficit rose to HUF 1,804 billion, which falls short of the cumulated deficit of July 2020 by roughly HUF 360 billion (Chart 12).

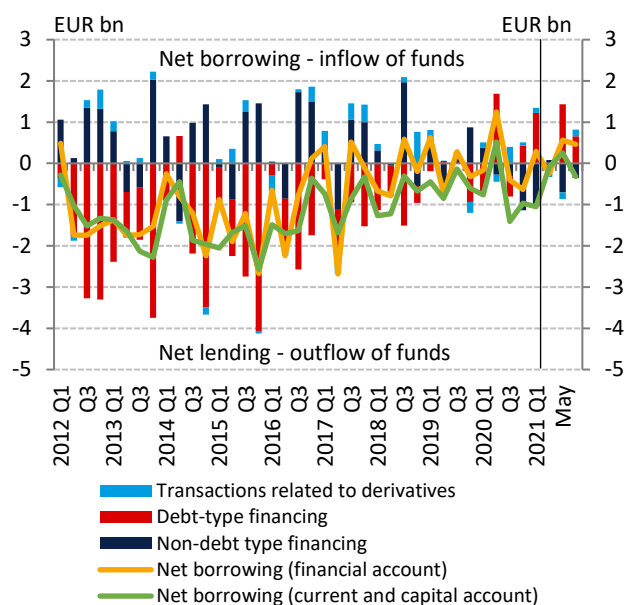
In July, **revenues of the central sub-sector** exceeded the year-on-year revenues by more than 20 percent, i.e. by roughly HUF 370 billion. This is primarily the consequence of the low base period value of EU transfers and the rise in tax and contribution revenues. Within tax revenues, net VAT revenues, payments by economic organisations and payments by households rose by HUF 92 billion, HUF 65 billion and HUF 42 billion, respectively, compared to July 2020.

On the other hand, the volume of **central sub-sector's expenditures in July 2021** exceeded that of July last year by merely 7 percent. The difference was mostly attributable to the rise in curative and preventive healthcare expenditures and in the expenditures of central organisations. Support for local governments and the level of pensions and pension-type benefits also substantially increased year-on-year.

1.5. External balance developments

In June, the current account showed a surplus of EUR 155 million, while net lending of the economy amounted to EUR 326 million. The fact that the indicator was in a surplus was primarily attributable to the goods and services balance. In terms of trends on the financing side, under declining foreign direct investments the economy's debt liabilities rose.

Chart 13 Structure of net lending (unadjusted transactions)



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

Source: MNB

In June, the current account balance showed a surplus of EUR 155 million. The rise in the indicator is primarily linked to the increasing goods and services balance, and to the growth in exports outstripping imports. The continued rise in the services balance is primarily attributable to the recovery of tourism. The transfer balance surplus somewhat declined compared to previous month, while the income balance deficit moderately rose.

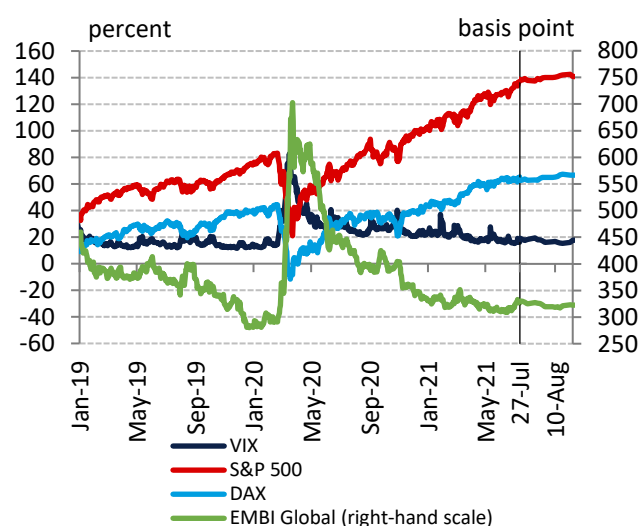
Based on data on the financial accounts, the outflow of foreign direct investments was primarily driven by a pick-up in outward investments, while debt liabilities of the economy increased (Chart 13). Changes in net external debt at the end of the quarter were substantially influenced by the foreign currency liquidity provided by the central bank to banks, which increased the net external debt of the consolidated government and reduced that of banks.

2. Financial markets

2.1. International financial markets

In the period since the last interest rate decision, financial market sentiment slightly improved. The VIX index, measuring equity market volatility, declined to 17.9 percent, and the EMBI global spread in the emerging bond market and the MOVE index, measuring developed bond market volatility also increased. Last month, stock exchange indices rose both in the developed and emerging markets. The dollar appreciated against the advanced currencies. It appreciated against the euro by 0.9 percent. Oil prices declined last month, which was mostly caused by the demand concerns related to a slowdown in the Chinese economy and the spread of the delta variant.

Chart 14 Developed market equity indices, the VIX index (left-hand scale) and the EMBI Global Index (right-hand scale)



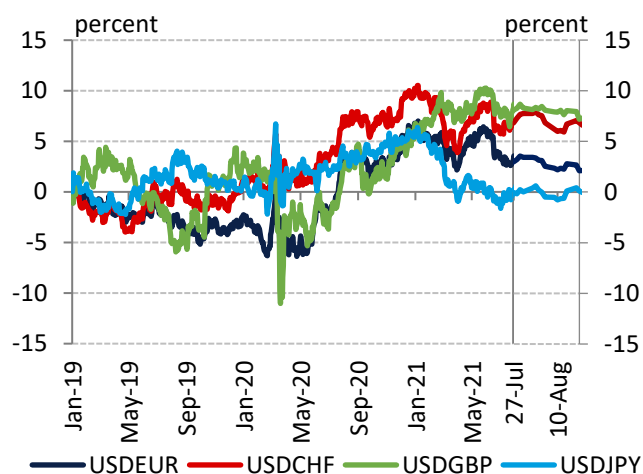
Source: Bloomberg

In the period since the last interest rate decision global financial market sentiment has slightly improved. Market participants continue to pay special attention to the spread of the coronavirus' delta variant and the related tightening measures. On the other hand, incoming macroeconomic data mostly showed a positive picture of the post-crisis recovery, which had favourable impact on investor sentiment.

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 1.5 percentage point to 17.9 percent. However, analysts warn that the indicator measuring the expected volatility of the VIX index is at a high level, which may imply rising risks in the coming period. This may be caused by events such as the Jackson Hole Symposium commencing on 26 August or the faster than expected spread of the delta variant. The EMBI Global spread in the emerging bond market fell by 7 basis points to 323 basis points, while the MOVE index, measuring developed bond market volatility, stands at 60 basis points after a fall of 10 basis points (Chart 14).

The spread of the delta variant affected the Asian countries the most and as a result, several countries implemented new restrictive measures. In the past period, the number of new cases were record high in Malaysia and Thailand, and Vietnam, China and Australia also registered a larger growth in the number of new cases. Connected to the deteriorating pandemic situation, of the larger countries New Zealand, Australia and China implemented restrictive measures in the past weeks. In the context of the latter, several analytical agencies reduced their forecast related to China's growth this year, which may impact the global economic recovery as a whole. In addition, pandemic experts warn that although vaccine administration progresses well in several countries, due to the faster spread of the delta variant, a vaccination coverage over 60-70 percent, as high as 80 or even 90 percent, may be necessary to achieve herd immunity.

Chart 15 Developed market FX exchange rates



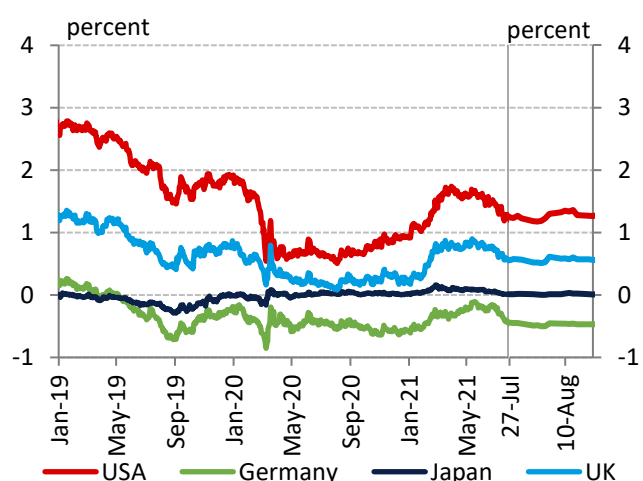
Note: Positive values indicate the strengthening of the variable (second) currency.

Source: Reuters

Out of the leading US stock indices, S&P 500 rose by 1.1 percent, while the Dow Jones was up by 0.8 percent last month. This growth doubled the value of S&P 500 compared to the low at the end of last March, while it exceeds its pre-crisis level by 30 percent. The key European stock exchange indices rose even more strongly: the German and British stock exchanges were up by 2.6, while the French one rose by 4.4 percent. However, the Japanese stock exchange index fell by 1.2 percent, while the Chinese index rose by 2.6 percent. On the whole, the developed and emerging MSCI composite indices rose by 1.0 and 0.3 percent, respectively. Stock market indices in the countries of the region also registered a larger growth. Compared to the last interest rate decision, the Hungarian index was up by 9.8 percent, which was also attributable to the fact that after the release of second quarter GDP data, the price of OTP reached a record high and the BUX increased by 2.9 percent in one day.

The dollar appreciated against the developed market currencies, also supported by the Fed policymakers' messages implying tightening. The US currency appreciated against the euro by 0.99 percent, the British pound by 1.0 percent and the Swiss franc by 0.1 percent (Chart 15). At the end of the period, the euro-dollar exchange rate came close to 1.17. The exchange rate of the currencies of the region against the dollar varied. Since the last interest rate decision the price of gold declined by 0.4 percent, to USD 1,792/oz.

Chart 16 Yields on developed market long-term bonds



Source: Bloomberg

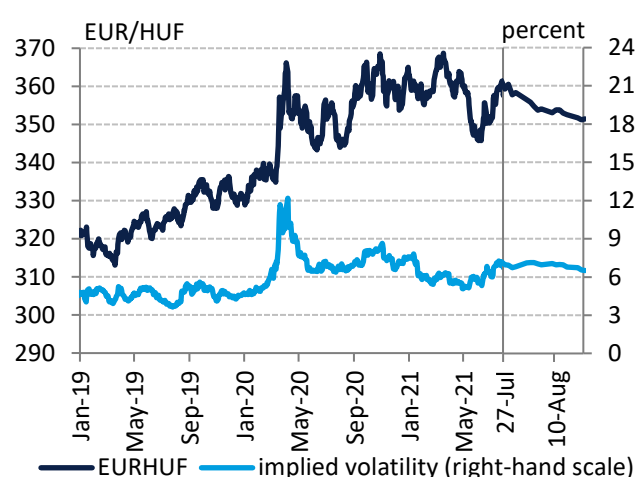
Developed bond yields have varied since the last interest rate decision (Chart 16). The 10-year US yield rose by 3 basis points, the German fell by 3 basis points, while the Japanese and British long-term yields remained unchanged, and thus the German, US, British and Japanese yield closed the period at -0.47, 1.27, 0.56 and 0.01 percent, respectively. Yields in the Mediterranean countries also declined slightly by 4-8 basis points. On the other hand, yields in the countries of the region tended to rise, except for the Hungarian long-term yield, which fell by 7 basis points. The Polish 10-year yield rose by 20, the Czech one by 15 and the Romanian one by 9 basis points.

Oil prices have recently declined. The fall in oil prices in early August was attributable to the concerns related to the oil demand of China and the risks connected to the spread of the delta variant. On the supply side the drone attack on the Israel oil tanker in early August, which may increase geopolitical tensions in the Middle East, increased investors' uncertainty. Since the interest rate decision in July, the price of Brent crude oil decreased by 6.6 percent to USD 69.6, while the US benchmark WTI oil price fell by 6.3 percent to USD 67.1.

2.2. Developments in domestic money market indicators

During the period, the forint appreciated against the euro to a larger degree than the currencies in the region. The middle and long section of the government securities yield curve shifted upwards, while the interbank yield curve also rose. In the past month, government bond auctions were characterised by strong demand and average auction yields moderately rose at longer maturities.

Chart 17 EUR/HUF exchange rate and the implied volatility of exchange rate expectations



Source: Bloomberg

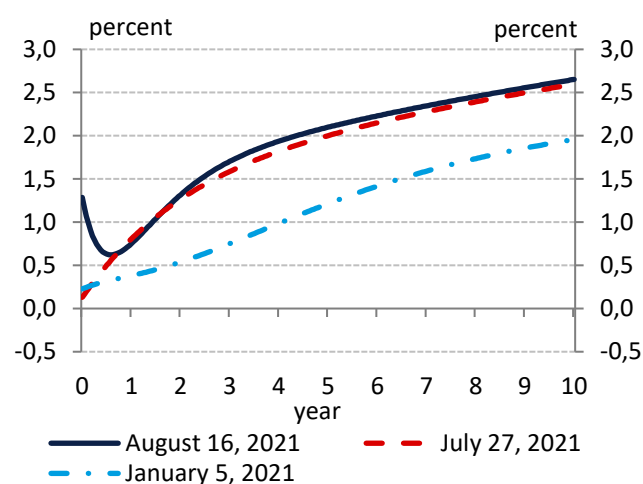
Since the interest rate decision in July, the forint has appreciated against the euro. The domestic currency appreciated against the euro by 2.2 percent in total, while exchange rate volatility moderately decreased. Of the currencies of the CEE region, the Czech koruna and the Polish zloty appreciated against the euro by 0.8 percent and 0.7 percent, respectively, while the exchange rate of the Romanian leu marginally depreciated (Chart 17).

The 3-month BUBOR, relevant for monetary policy transmission, rose by 33 basis points to 1.4 percent since the last interest rate decision.

The middle and long section of the government securities yield curve shifted slightly upwards (Chart 18). Around the 1-year section of the yield curve a fall of roughly 5-6 basis points, while at the middle section and around the 10-year section a rise of 10 and 6 basis points, respectively, was registered.

In the past month, there was changing demand at government bond auctions. At the 3-month discount Treasury bill auctions the Government Debt Management Agency accepted bids below the announced volume on two occasions and over it on one occasion, while in the case of the 12-month Treasury bill auctions it accepted bids below the announced volume. Since the last interest rate decision, the average yield at the 3-month auctions rose from 0.52 percent to 0.65 percent, while the average auction yield at the 12-month Treasury bill auctions remained 0.97 percent. Bond auctions were also characterised by varying demand; the Government Debt Management Agency accepted bids in excess of the announced volume in several cases, while on one occasion it sold 5- and 20-year bonds below the announced volume. At the latest auction, the average yield of the 10-year securities was 2.84 percent, representing an increase of 2 basis points compared to the average auction yield before the July interest rate decision. The average auction yield on 5-year government securities rose by 4 basis points to 2.09 percent, while at the 20-year government securities it increased by 1 basis points to 3.3 percent. The Hungarian 5-year CDS spread declined by 5 basis point to 50 basis points during the period under review.

Chart 18 Shifts in the spot government yield curve



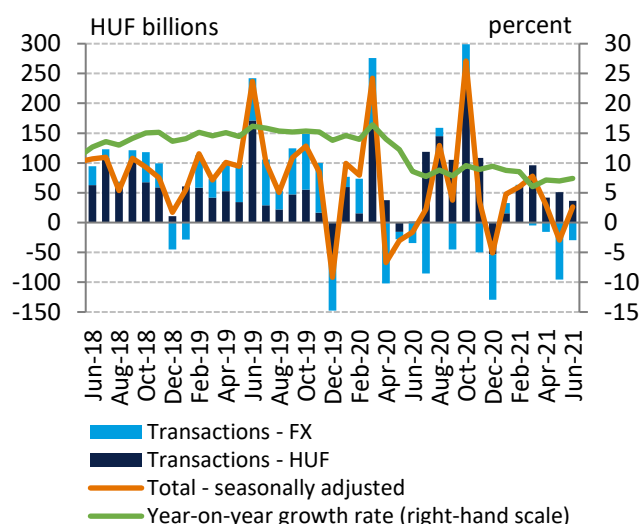
Source: MNB, Reuters

Non-residents' holdings of forint government securities decreased marginally. Non-residents' holdings in forint government securities decreased by HUF 7 billion to HUF 4,644 billion. Thus, the market share of forint government securities held by non-residents declined from 20.5 percent to 20.4 percent.

3. Trends in lending

In July 2021, outstanding loans to non-financial corporations increased by HUF 7 billion, reflecting an increase in outstanding forint loans by HUF 36 billion and a decline in foreign currency loans by HUF 29 billion. In June, households' outstanding borrowing increased by HUF 158 billion, and as a result the annual growth rate rose to almost 16 percent.

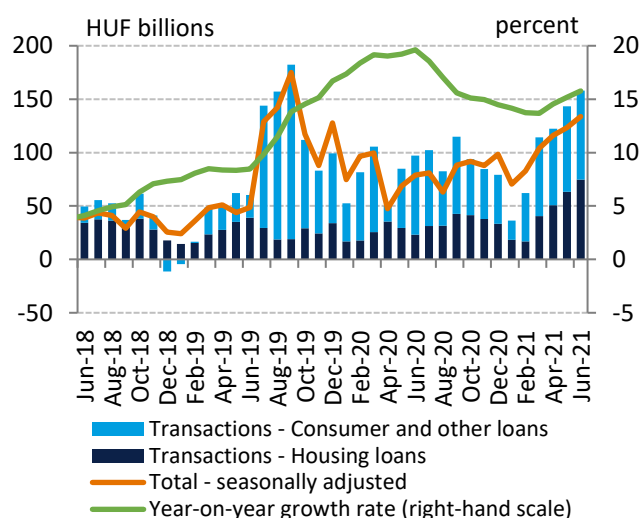
Chart 19 Net borrowing by non-financial corporations



Source: MNB

In July 2021, outstanding loans to non-financial corporations increased by HUF 7 billion, reflecting an increase in outstanding forint loans by HUF 36 billion and a decline in foreign currency loans by HUF 29 billion (Chart 19). Despite the more moderate growth, the annual growth rate rose to 7.4 percent from 7 percent registered in previous month. In June, credit institutions disbursed new loans in the amount of HUF 463 billion, which exceeds the year-on-year figure – the period already affected by the coronavirus – by 58 percent, and the value registered two years ago by 19 percent. During the month under review, banks concluded non-overdraft forint contracts with enterprises under FGS Go! in the amount of HUF 206 billion, which accounted for 45 percent of the total forint corporate loan disbursements in June.

Chart 20 Net borrowing by households

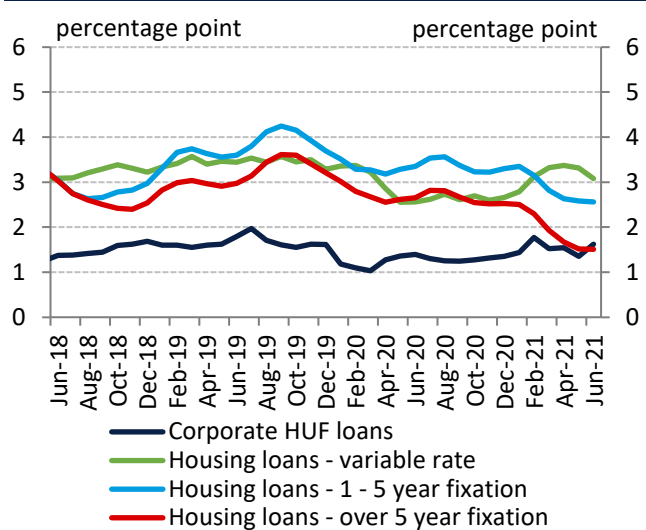


Source: MNB

In June, households' outstanding borrowing increased strongly, by HUF 158 billion, and as a result the annual growth rate rose to almost 16 percent (Chart 20). According to our estimate, the annual dynamics would be also robust, over 7 percent, when also considering the missed instalments due to the moratorium. The intensive outflow of loans is reflected by the fact that the volume of new contracts concluded in the month in the amount of HUF 270 billion exceeded also the period two years ago – not affected by the pandemic, but before the launch of the Prenatal baby support loans – by almost 60 percent. Disbursement of housing loans is at a historic high for the fourth month. The new measures aimed at first-time homebuyers may also contribute to this: the volume of housing loans requested for renovation and improvement is almost four times as high as the volume registered in June 2019. In addition, more than 29 percent of the housing loans disbursed during the month, i.e. almost HUF 40 billion, were connected to the Home Purchase Subsidy for families, being the highest volume since the launch of the scheme. On the other hand, the high volume also reflects the impact of the price rise observed in the housing market, which may be also traced in the rising loan amounts and longer maturities. In addition, it may also reflect demand brought forward due to consumers' expectations related to the continuing interest rate and price increases.

The smoothed interest rate spread of forint-denominated corporate loans was 1.63 percentage point in June 2021,

Chart 21 Development of corporate and household credit spreads



representing an increase of 0.28 percentage point compared to the previous month (Chart 21). The average smoothed interest rate spread on variable rate housing loans calculated on the basis of the annual percentage rate (APR) decreased during the month and amounted to 3.08 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 May. The average spread on housing loans with interest rate fixation periods longer than one year and up to 5 years reached 2.56 percentage points in June, while the spread on products with interest rate fixation periods of more than 5 years was 1.51 percentage points.

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