MACROECONOMIC AND

FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 23 FEBRUARY 2021

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The background material 'Macroeconomic and financial market developments' is based on information available until 18 February 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

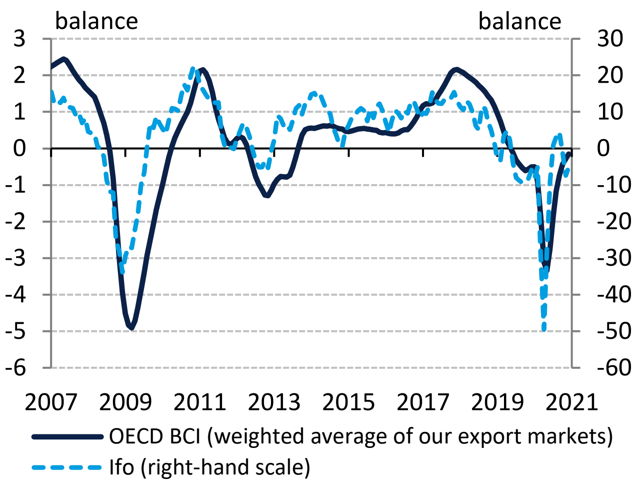
1.1. Global macroeconomic environment

Based on currently available data, the impacts the second wave of coronavirus had on the countries in the world varied. The measures taken to contain the second wave, typically curbed industrial production to a lesser degree than services' performance. while global air traffic continues to stagnate at a low level. Currently, the Covid-19 vaccine is not widely available; as a result, the easing of the restrictive measures linked to the pandemic has yet to come. Meanwhile, due to the deteriorating pandemic situation, the implementation of additional tightening measures has become necessary in several countries, and there is already talk of a third wave in a number of cases.

Recently, trends in economic performance have primarily been shaped by Covid-19 and the measures implemented to control it. The second wave appears 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 global industrial production already exceed the level registered in January 2020. However, the future performance of air traffic, which has been essentially stagnating since mid-August, is surrounded by a strong uncertainty. Until the Covid-19 vaccine becomes widely available and the necessary vaccination rate is achieved, the sector's global outlook will remain markedly uncertain. Currently, the Covid-19 vaccine is not widely available; as a result, the easing of the restrictive measures linked to the pandemic has yet to come. Meanwhile, due to the deteriorating pandemic situation the implementation of additional tightening measures has become necessary in several countries, and there is already talk of a third wave of the coronavirus in a number of cases.

In 2020, the Chinese economy grew by 2.3 percent in the first quarter despite a major decline resulting from coronavirus. In the fourth quarter, the Chinese economy rose by 6.5 percent in annual terms, continuing the growth that had started in the second quarter. Business sentiment in China somewhat deteriorated in December (the composite index and the manufacturing PMI were both at their high in a decade in November), but it is still positive; the Purchasing Manager Indices were in the (growth) range of over 50 points. **In December, industrial production rose by 7.3 percent on an annual basis,** showing the highest growth rate since June 2017. Considering the entire year, industrial production rose by 2.8 percent. The number of motor vehicle registrations has been rising for nine months, exceeding the previous year's figures by 6.4 percent in December. **The volume of retail sales rose by 4.6 percent in December** year-on-year, while in terms of 2020 as a whole it was down by 3.9 percent.

Chart 1 Business climate indices in Hungary's export markets



Source: OECD, Ifo

In 2020, US GDP fell by 3.5 percent compared to previous year, while in the fourth quarter it fell short of the year-on-year figure by 2.5 percent. Compared to the third quarter, GDP rose by 1.0 percent, while macroeconomic indicators still imply moderate recovery. Exports declined to the largest degree (-11 percent) in the fourth quarter as well. In addition, households' consumption (-2.6 percent) and government expenditures (-0.6 percent) also decreased year-on-year. On the other hand, gross fixed capital formation has increased (+3.2 percent). **In December, US industrial output declined by 3.6 percent,** year-on-year, which is the smallest fall measured since the start of the coronavirus crisis. Manufacturing performance decreased by 2.8 percent. **In December 2020, retail sales were up by 2.9 percent** year-on-year. **In the week ending on 6 February,** the number of **new unemployment benefit claims** declined from 927,000, registered in the first week of the month, **to 793,000**. **In January, the unemployment rate** in the age group of over 16 years declined by 0.4 percentage point compared to the previous month and **it stood at 6.3 percent**.

According to preliminary data, in 2020 economic performance of the euro area fell by 6.8 percent and in the fourth quarter by 5.0 percent year-on-year (while quarter-on-quarter it fell by 0.7 percent according to the seasonally and working-day adjusted data). **In December industrial production fell by 0.8 percent** in annual terms, and the monthly dynamics also implies a halt in recovery, since according to the seasonally and calendar adjusted data, industrial production fell by 1.6 percent compared to November 2020. Despite the measures taken to contain the second wave, **the volume of retail sales once again rose in December and it exceeded its year-on-year level by 0.6 percent.** On a monthly basis, the growth was 2.0 percent. **In December, the unemployment rate** has not changed compared to the previous month, **and it stood at 8.3 percent.**

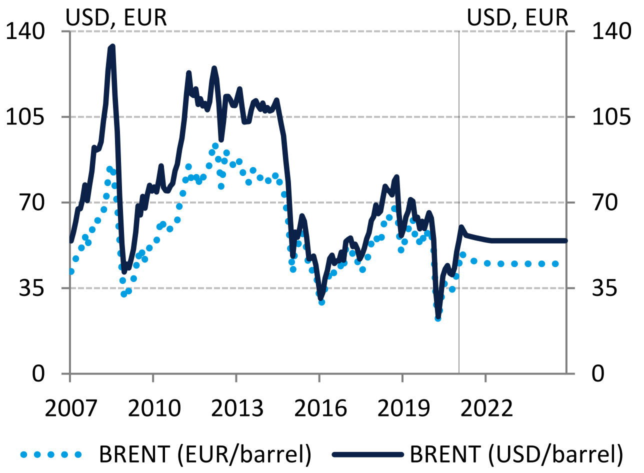
Hungary's main trading partner, **Germany's economy shrank by 5.3 percent in 2020.** Based on preliminary data, in the fourth quarter Germany's GDP shrank by 3.9 percent. **In December, German industrial production declined by 1.8 percent** in annual terms. In addition, in December the path of **German retail sales volume** – interrupting the previous improving trend – fell short of its year-on-year level by 1.1 percent and **declined by 9.6 percent on a monthly basis. After its moderate growth in December, German business sentiment** (Ifo Business Climate Index) **significantly declined in January 2021** (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 December economic activity fell short of the data a year earlier by 6.5 percent. **Industrial production fell short of the level in December 2019 by 3.3 percent, while the volume of retail sales was up by 2.9 percent on an annual basis.** Compared to the previous month, monthly growth moderately improved both in retail trade (0.3 percent) and industry (0.2 percent).

In most economies of the European Union recovery halted in the fourth quarter of 2020 due to the second wave of the coronavirus.

Based on preliminary data, in January, exceeding analysts' expectations, **euro area inflation may have stood at 0.9 percent.** Following its value of 0.2 percent, registered in December, **core inflation may have risen to 1.4 percent,** which also exceeded the value expected by analysts. **In January 2021, the average world market price of Brent crude oil was USD 54.6/barrel, followed by a rise to exceed USD 60/barrel last month, a level last seen in January 2020** (Chart 2). The price rise was mostly fuelled by the market introduction of the coronavirus vaccines and the contraction in global oil supply. The spread of the new virus variants in the United States and several other countries in the world represents short-term risk for the oil market. However, developments in global demand are still significantly influenced by China, where – according to the analyses – fuel sales have returned to the previous growth phase. By contrast, the International Energy Agency (IEA) downwardly revised its oil demand figures in its updated forecast for this year. According to the Agency, the global oil market is still vulnerable, since the pandemic restricts the global volume of travels and business activity. **The world market price of both industrial commodities and unprocessed food increased in January.**

Chart 2 World market prices of Brent crude oil

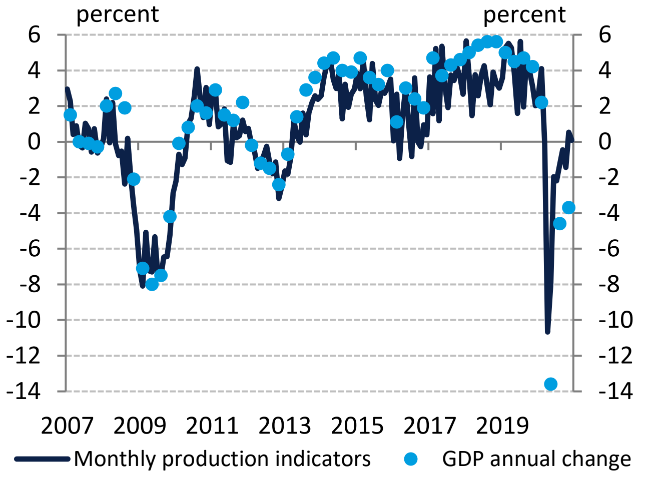


Source: Bloomberg

1.2. Domestic real economy developments

According to the HCSO's preliminary release, in the fourth quarter of 2020 Hungary's gross domestic product declined by 3.7 percent year-on-year. The Hungarian economy proved to be significantly more resistant to the second wave of the pandemic than expected by analysts. In the fourth quarter, the fall in GDP was absorbed primarily by the favourable performance of industry and the infocommunication sector. Considering the entire year, national economy performance declined by 5.1 percent. So far, labour market adjustment has been modest in Hungary. In December, total employment fell by 0.3 percent year-on-year. The number of the unemployed was 200,000, which exceeded the year-on-year figure by 59,000 persons. Consequently, unemployment rate stood at 4.3 percent in December.

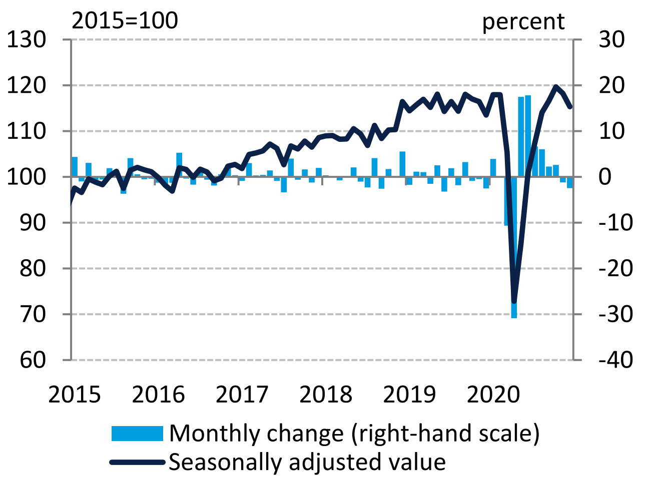
Chart 3 Monthly production indicators and GDP growth



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 preliminary release, in the fourth quarter of 2020 Hungary's gross domestic product declined by 3.7 percent year-on-year (Chart 3). Data shows that **the economy grew by 1.1 percent quarter-on-quarter**, after adjusting for seasonal and calendar effects. **Considering the entire year, national economy performance declined by 5.1 percent compared to 2019.** The **economy proved to be significantly more resistant to the second** wave of the pandemic. In the fourth quarter, the fall in GDP was absorbed primarily by the favourable performance of industry and the information and communication sector. Based on the available monthly indicators, the contribution of the service sector's branches to growth may have varied. The information and communication sector registered a growth. On the other hand, retail sales declined by 2.8 percent, while the number of overnight stays at commercial accommodations fell by 79.3 percent year-on-year in the fourth quarter. Domestic industrial production grew by 2.9 percent year-on-year, which may be attributable to the fact that the measures linked to the second wave of the pandemic had only moderate direct impact on the sector. Construction output fell by 4.3 percent.

Hungary's economic performance declined to a lesser degree than the average of the euro area (-5.0 percent) and of the European Union (-4.8 percent); accordingly, real economy convergence has continued. Based on the currently available data, the change in Hungary's GDP is in the mid-range of the European Union's ranking.

In December, growth in domestic industry continued in annual terms. According to the HCSO's data release, **industrial output was up by 1.1 percent year-on-year** based on calendar adjusted data. **At the same time, production (based on seasonally and calendar adjusted data) decreased by 2.4 percent on a monthly basis** (Chart 4).

According to the HCSO's preliminary data release, **goods exports and imports rose by 12 percent and 9.2 percent, respectively, in euro terms, year-on-year in December**

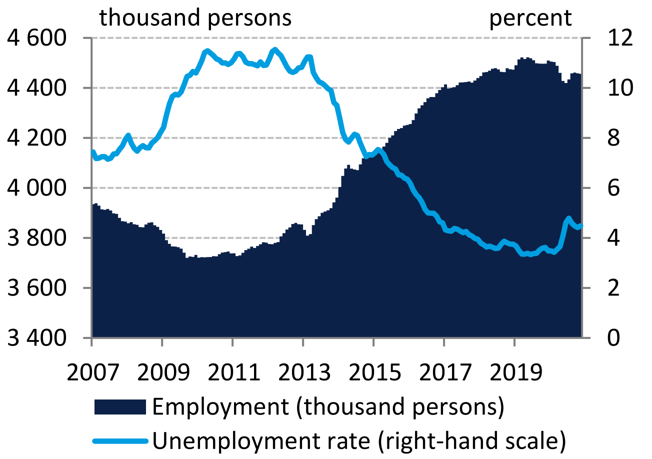
2020. Goods balance improved by EUR 211 million compared to December 2019.

In December 2020, the volume of construction output was down by 0.3 percent year-on-year. The output of the two main construction groups showed opposite trends: construction of buildings increased by 15.1 percent, while other construction decreased by 16.5 percent. **Construction output compared to the previous month declined by 3.1 percent** (based on seasonally and calendar adjusted data). The volume of new contracts concluded in December and the construction companies' month-end contract portfolio exceeded the previous year's value by 6.1 percent and 7.8 percent, respectively.

In December, the volume of retail sales (including fuel sales) **was down by 4.0 percent year-on-year after accounting for calendar effects. The pandemic situation and the restrictive measures continue to have outstanding impact on the volume of retail sales.** In December, the volume of retail sales in food stores and groceries rose (+1.9 percent), while in non-food stores it declined (-9.3 percent). The volume of sales declined to the largest degree in the textile, clothing and footwear shops (-31.6 percent), consumer goods (-30.5 percent) and in the book, newspaper and stationery shops (-21.6 percent). According to the data adjusted for calendar effects, sales volume rose only in mail order shops or web shops (+23.9 percent). **The volume of fuel retail sales declined by 11.9 percent** on an annual basis. **Vehicle and components sales,** not belonging to the retail figures, **decreased by 17 percent in December.**

In December, the number of tourist overnight stays declined by 92.7 percent in year-on-year terms. 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 96 and 89 percent, respectively. In December, domestic tourists accounted for 70 percent of all tourist overnight stays.

Chart 5 Number of persons employed and the unemployment rate

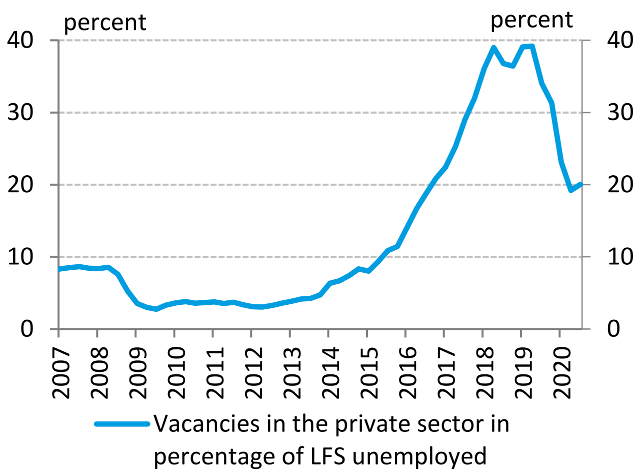


Source: HCSO

1.2.2. Employment

Based on the data of the Labour Force Survey (LFS), **in December 2020 total employment counted 4,500,000 persons, which is a decline of 14,000 persons year-on-year**(Chart 5). Since December 2019, the number of employees in the primary sector rose by 2,000 persons, the number of public employees and the number of those working abroad declined by 10,000 and 6,000 persons, respectively. In December, **the number of the unemployed was 200,000, exceeding the year-on-year figure by 59,000 persons,** thus on the whole **the unemployment rate stood**

Chart 6 Development of labour market tightness indicator



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

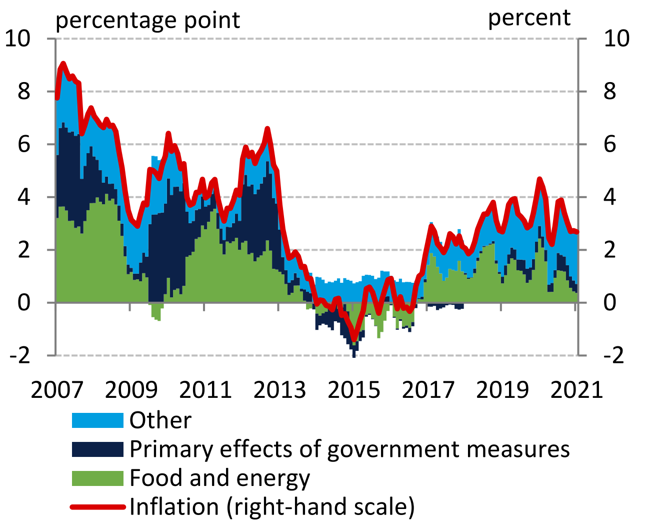
at 4.3 percent. Compared to the previous month, the number of the unemployed did not change significantly. Based on the data published by the National Employment Service (Nemzeti Foglalkoztatási Szolgálat - NFSZ) in December and January the number of registered jobseekers in Hungary was 291,000 (+56,000 on an annual basis) and 299,000 (+49,000 on an annual basis), respectively.

In the third quarter of 2020, private sector vacancies amounted to 42,800, falling short of the year-on-year value by 24.5 percent. **Compared to the previous quarter the annual decline in labour demand decreased; substantial improvement was registered primarily in manufacturing.** Among market services, the fall in the third quarter is primarily linked to trade and transport, while the HCSO registered material adjustment in sectors supporting administrative and services activity. 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). **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

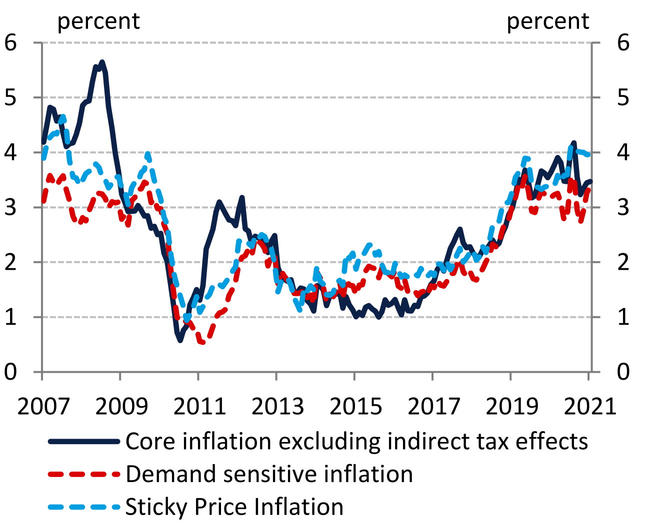
In January 2021, inflation calculated on a year-on-year basis was 2.7 percent, while core inflation and core inflation excluding indirect tax effects stood at 4.2 and 3.5 percent, respectively. Underlying inflation indicators capturing persistent trends (price index of demand sensitive and inflation of sticky price products and services) did not change significantly relative to the previous month. In November 2020, gross average wages in the private sector rose by 8.9 percent year-on-year, partly due to statistical effects.

Chart 7 Decomposition of inflation



Source: MNB calculation based on HCSO data

Chart 8 Measures of underlying inflation indicators



Source: MNB calculation based on HCSO data

1.3.1. Wage setting

In November 2020, gross average wages in the private sector rose by 8.9 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 decreased compared to the previous quarter. Regular average wages declined slightly on a monthly basis, while bonus payments rose compared to previous years.

Within the private sector, the wage dynamics of market services continues to exceed that in manufacturing. According to seasonally adjusted data, **manufacturing** wage dynamics decreased significantly compared to October; **wages were higher by 7.4 percent year-on-year.** Wages in the automotive industry – representing the largest share – increased by 2.3 percent in annual terms. **In market services, HCSO registered a growth of 9.6 percent.** Wages in construction, trade and catering rose by 13.9 percent, 10.5 percent and 1.6 percent, respectively, year-on-year.

1.3.2. Inflation developments

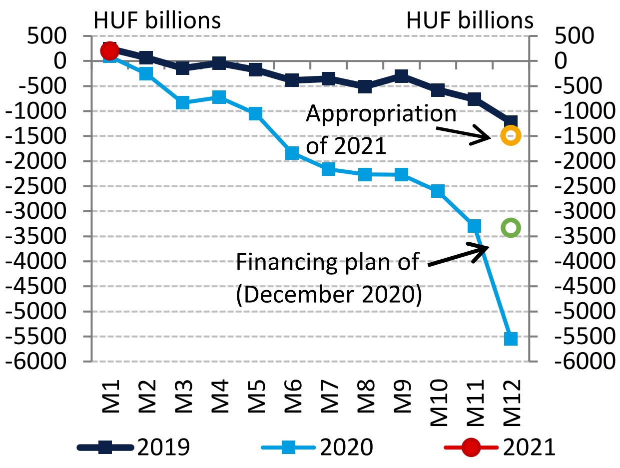
In January 2021, inflation calculated on a year-on-year basis was 2.7 percent, core inflation and core inflation excluding indirect tax effects stood at 4.2 and 3.5 percent, respectively (Chart 7). Compared to the previous month, inflation remained unchanged and core inflation by 0.1 percentage point. This is mostly attributable to the higher price dynamics of alcohol and tobacco products, caused by the excise duty increase in January.

Overall, underlying inflation indicators capturing persistent trends (inflation of demand sensitive and sticky price products and services) **did not change substantially compared to the previous month** (Chart 8). In December 2020, agricultural producer prices increased by 6.7 percent in annual terms, while domestic sales prices in sectors of consumer goods increased by 2.7 percent.

1.4. Fiscal developments

The central sub-sector of general government had a surplus of HUF 199 billion in January 2021, which exceeds the balance registered January 2020.

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



Source: Budget Act of 2020, Hungarian State Treasury

The central sub-sector of the general government had a surplus of HUF 199 billion in January 2021, which exceeds the balance registered in January 2020 (Chart 9).

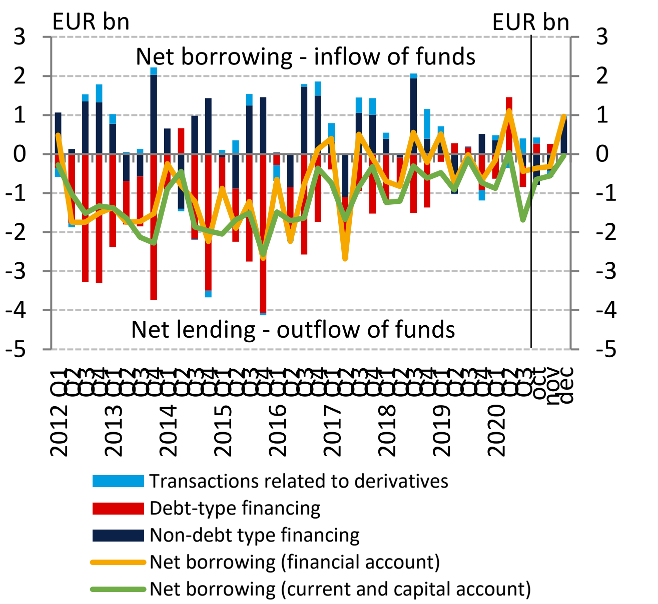
In January, **revenues of the central sub-sector** exceeded the year-on-year value by almost HUF 100 billion. The rise was primarily attributable to **the higher realisation of revenues from value added tax and corporate income tax**. The higher net VAT revenues, compared to last year, are attributable to the change in the reimbursement deadlines, while in the case of corporate income taxes the increase is caused almost in full by the decrease in the disbursement of sports and film subsidies, payable from the corporate income tax, compared to previous year.

Expenditures of the central sub-sector fell short of the value registered in January 2020 by HUF 10 billion, which was mostly attributable – in addition to **the lower level of the expenditures related to EU transfers in the first month** – to the fall in net interest expenses, and in the normative and individual subsidies.

1.5. External balance developments

The current account showed a moderate – EUR 41 million – deficit in December, while net lending of the economy amounted to EUR 42 million. The decline in the external balance indicators was attributable to the fall in goods balance, while the decline in services balance halted. On the financing side, net foreign direct investments rose, which primarily affected reinvestments without any major impact on the economy's net external debt. Based on the preliminary monthly data, in 2020 the annual current account balance and the annual net lending was around 0.7 and 2.8 percent of GDP, respectively.

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 line with the usual year-end seasonality, the current account balance declined, showing a moderate deficit of EUR 41 million. The fall in the current account was primarily attributable to the decline in the trade surplus (Chart 10). The decline in the balance of goods related to the decrease in imports falling short of that in exports, which was partly attributable to healthcare procurements. Services, and particular tourism, slightly improved in December. Income deficit moderately rose, primarily due to the decline in the income of those working abroad. The absorption of EU transfers was similar as in previous month, which was also reflected by the stagnation of the transfer balance. As a combined result of the foregoing, in December the economy's external position substantially declined, but it still shows net lending. Based on preliminary monthly data **in 2020 current account balance showed a surplus of EUR 1 billion, which corresponds to 0.7 percent of GDP, while net lending was around 2.8 percent.**

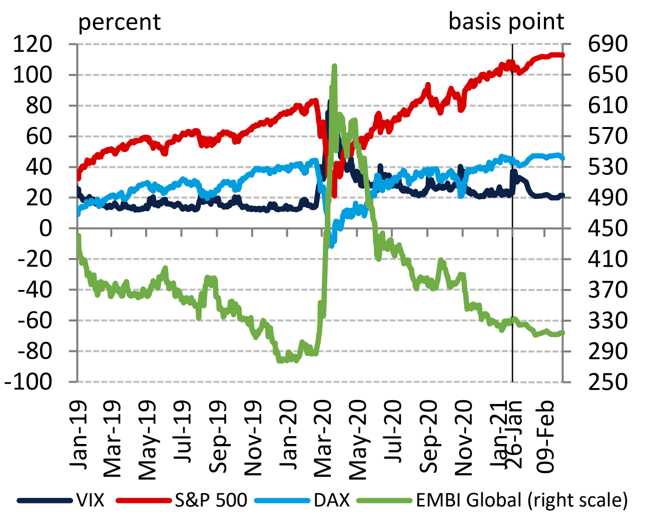
Based on the financial account data, net foreign direct investments rose by almost EUR 1 billion, while net external debt of the economy has not changed materially. In December, in addition to the growth in FDI resulting from reinvestments, intercompany loans also grew significantly. Net external debt due to transactions has not changed significantly. The banking sector and the corporate sector reduced their net external debt, which was offset by the rise in the indicator of the consolidated general government, partly due to the foreign currency liquidity provided to banks at the end of the month.

2. Financial markets

2.1. International financial markets

In the period since the last interest rate decision, global investor sentiment has improved, primarily contributed to by the extension of the vaccination programmes and the fourth quarter's GDP data exceeding expectations. The VIX index, the key measure of equity market volatility, and the emerging bond market EMBI Global spread both slightly declined further, and thus both indices came close to their value registered a year ago, before the outbreak of the crisis. On the other hand, the MOVE index, measuring the developed bond market volatility, decreased by 14 basis points to 57 basis points. In the period under review, both the developed and emerging market stock exchange indices and the developed long-term yields rose. The dollar exchange rate against the developed and emerging currencies varied, while it slightly appreciated against the euro, and ultimately it came close to the level of 1.2. During the past one month oil prices considerably rose, reaching a high of more than one year.

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



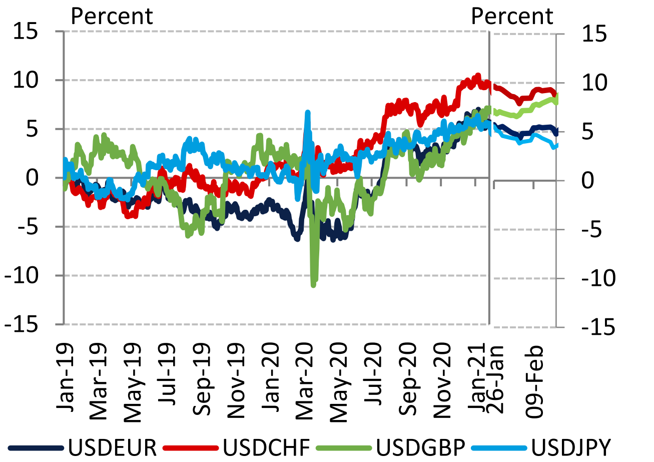
Source: Bloomberg

In the period since the last interest rate decision financial market sentiment improved further. The focus of market participants was on **the volume of vaccines available to the individual countries, and – in connection with this – the anticipated date of the potential easing of the restrictive measures.** In addition, **the rise in inflation expectations had an increasingly important role**, evaluated by investors as a consequence of the major monetary and fiscal stimulus. On the other hand, global supply side problems – such as the global shortage of chips and containers – may also pose difficulties to satisfying the soaring demand of reopening economies, which may entail a rise in consumer prices. In connection with this – taking into consideration the labour market situation and the drastic increase in debt levels last year – certain market participants tend to question now and then the commitment of major central banks to price stability.

Of the risk indicators, after a temporary rise, the VIX index, the key measure of equity market volatility, decreased compared to the level registered at the previous interest rate decision by almost 1.5 percentage point to 21.5 percent. The emerging bond market EMBI Global spread fell by 16 basis points to 314 basis points. At the end of the period both indices came close to their value registered a year ago, before the outbreak of the crisis. On the other hand, the MOVE index (measure of the developed bond market volatility) rose by 14 basis points to 57 basis points (Chart 11).

Last month developed and emerging stock market indices both rose: the developed and emerging market MSCI composite index rose by 3 percent and 4 percent, respectively. **The key US stock exchange indices rose by 2-2.5 percent, while in Europe the German, British and French stock exchanges were up by 0.3, 1 and 4.4 percent,**

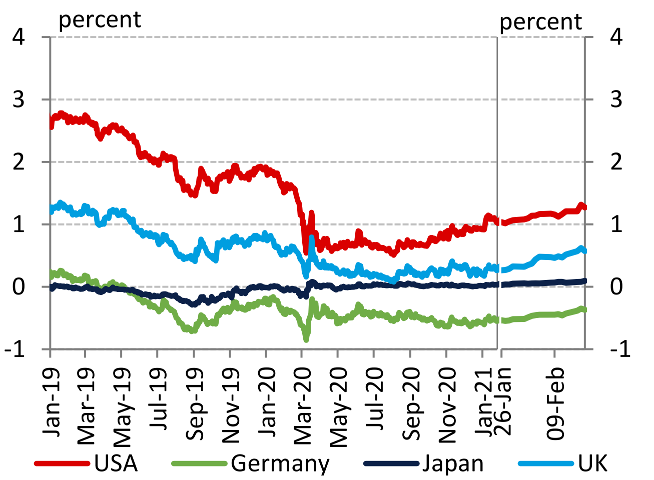
Chart 12 Developed market FX exchange rates



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

Source: Reuters

Chart 13 Yields on developed market long-term bonds



Source: Bloomberg

respectively. The Japanese stock exchange index rose by 6 percent to a 30-year high, as the country's four quarter's output grew in excess of expectations. The Chinese stock exchange rose by 2.4 percent during the period under review. **Stock market indices rose in the countries of the region as well**: the Polish and the Hungarian one were up by 2, the Romanian one by 1, while the Czech one by 0.5 percent**.**

The dollar exchange rate has varied against the developed currencies. It appreciated against the euro by 1 percent, against the Swiss franc by 1.4 percent and against the Japanese yen by 2.2 percent, while it depreciated against the British pound by 0.9 percent (Chart 12). At the end of the period, the euro-dollar exchange rate stood at 1.2. **The performance of emerging Asian currencies against the dollar varied,** while Latin America was characterised by depreciation. **Of the currencies of the region, the forint, the Czech koruna and Romanian leu depreciated, while the Polish zloty appreciated against the dollar.** Since the last interest rate decision the price of gold declined by 4 percent, to USD 1,776/oz.

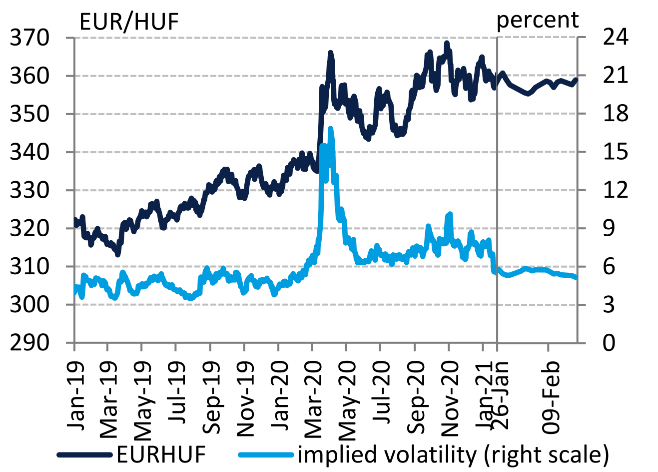
Developed bond yields have increased further since the last interest rate decision in parallel with the rise in inflation expectations. The British, US and German 10-year yield rose by 31, 24 and 17 basis points, respectively, and thus the US yield closed the period at 1.27 percent and the German one close to -0.37 percent (Chart 13). **Yields in the Mediterranean countries also rose** by 14-22 basis points. **However, Italian yields were exception to this, as due to the positive expectations concerning the new technocratic government they fell by further 6 basis points.** The countries of the CEE region were also characterised by increasing yields: the Romanian, Czech and Polish yields rose by 31, 22 and 18 basis points, respectively, while the Hungarian 10-year yield was up by 15 basis points.

Oil prices once again significantly rose in the past period, supported by Saudi Arabia's production cut in excess of the quota, taking effect from February, the repeated decline in US crude oil stocks, the optimism related to faster economic recovery of the USA due to the additional fiscal stimulus, the strong Asian demand, the risk appetite, and the loss in production due to the extraordinary weather in the United States at the end of the period. **During the period under review, the price of Brent crude oil rose by 15 percent to USD 64/barrel, while the US benchmark WTI oil price grew by 16 percent to USD 61, thereby both of them reaching a more than 1-year high**.

2.2. Developments in domestic money market indicators

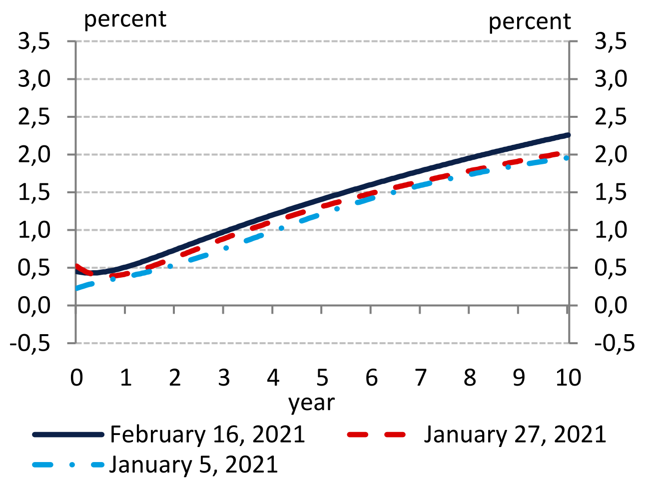
During the period under review, the forint slightly depreciated, while the currencies of the region appreciated against the dollar. The government yield curve became steeper. The yield curve rose in all sections. In the past month, the government bond auctions were characterised by strong demand. On the other hand, the average auction yields showed a mixed picture compared to mid-January.

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 January, the forint exchange rate against the euro slightly weakened – by 0.1 percentage point –, and at present it is close to 358.7 (Chart 14). In the past month, the currencies of the region appreciated; accordingly the Polish zloty and the Czech koruna appreciated against the euro by 1.1 and 1.2 percent, respectively, while the Romanian leu fluctuated in a relatively narrow band during the period under review.

The government yield curve became steeper (Chart 15). The shortest section of the yield curve declined by 1-7 basis points, while the 1-year section of the curve rose by 6-10 basis points. An increase of 10 basis point was observed around the 5-year section of the yield curve, 23 basis points at the 10-year maturity and 35-44 basis points at the longest section.

In the past month, the demand was strong at government bond auctions. With the exception of the auctions held in early February, the Government Debt Management Agency sold the announced volume at the auctions of the 3-month Treasury bills and at the 12-month auctions. Since the last interest rate decision, the average yield at the 3-month auctions rose from 0.36 percent to 0.43 percent, while the average auction yield at the 12-month Treasury bill auctions increased from 0.48 percent to 0.52 percent. The government bond auctions were characterised, without exception, by strong demand; accordingly, at the 5-, 6-, 10-, 15- and 20-year auctions the Government Debt Management Agency accepted bids in excess of the announced volume usually by HUF 2.5-15 billion. At the latest auction, the average yield of the 10-year securities was 2.26 percent, representing an increase of 2 basis points compared to average auction yield before the last interest rate decision. The average auction yield on the 5-year government securities declined by 9 basis points to 1.36 percent, while on the 15-year securities it increased by 33 basis points to 2.75 percent. The average auction yield on the 20-year securities rose by 18 basis points to 2.98 percent compared to the auction held at mid-January. The Hungarian 5-year CDS spread remained unchanged during the period under review, and currently stands at 60 basis points.

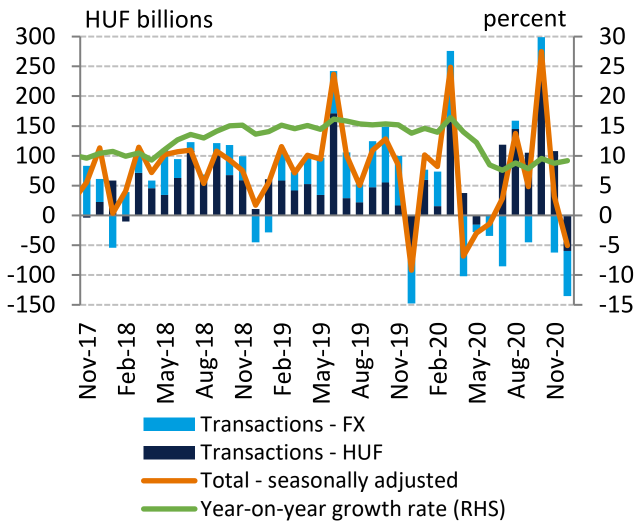
Non-residents' holdings in forint government securities increased (Chart 15)**.** Non-residents' holdings rose by HUF

275 billion to HUF 4,955 billion; while the market share of forint government securities held by non-residents increased from 22.2 percent close to 23 percent.

3. Trends in lending

In December 2020, outstanding loans to non-financial corporations decreased by HUF 136 billion, reflecting a fall of HUF 60 billion in forint loans and HUF 76 billion in foreign currency loans. Outstanding borrowing of households increased by HUF 79 billion due to transactions in the last month of previous year, and thus the annual growth rate reached 14.5 percent.

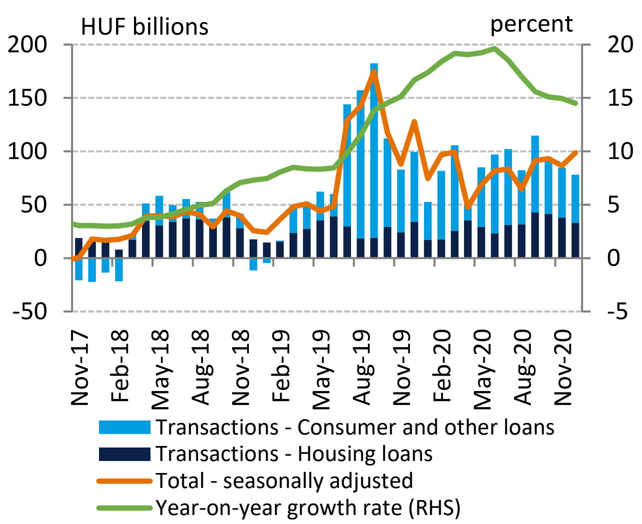
Chart 16 Net borrowing by non-financial corporations



Source: MNB

In December 2020, outstanding loans to non-financial corporations decreased by HUF 136 billion, reflecting a fall of HUF 60 billion in forint loans and HUF 76 billion in foreign currency loans (Chart 16). Due to the usual decline characterising the year-end, which however fell short of that registered in December 2019, **annual growth rate rose to 9.2 percent.** In December, credit institutions disbursed new loans in the amount of HUF 369 billion, which exceeds the value registered last December by 70 percent. In December, credit institutions concluded forint contracts with enterprises under FGS in the amount of HUF 181 billion, which accounts for roughly half of the total disbursements to the corporate sector. **In 2020, credit institutions concluded new loan contracts in the total amount of HUF 3,330 billion – exceeding the volume registered in 2019 by 17 percent – of which the share of loans under FGS was 45 percent**.

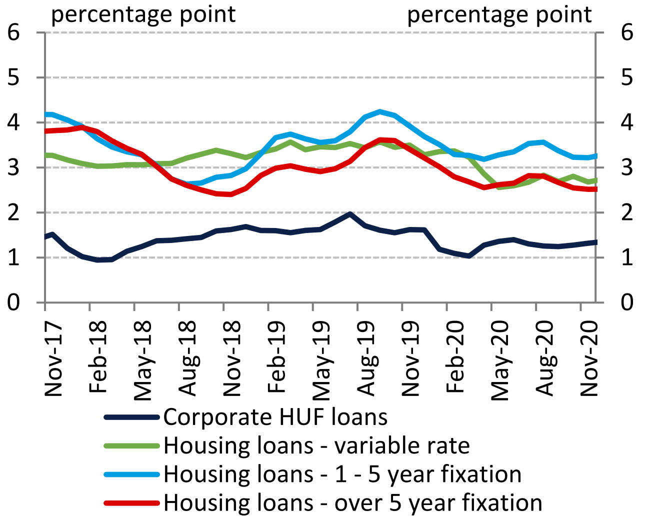
Chart 17 Net borrowing by households



Source: MNB

Outstanding borrowing of households increased by HUF 79 billion due to transactions in the last month of previous year, and thus the annual growth rate reached 14.5 percent (Chart 17). The outstanding growth, also by international standards, **is still largely supported by the instalment reducing effect of the moratorium on payments.** Last year as a whole, the disbursement of new loans declined by 9 percent, primarily due to the demand and supply effects of the coronavirus. The decline impacted personal loans the most; the annual volume of these fell by 40 percent, while the disbursement of housing loans stagnated last year. **Subsidised loans (HPS, prenatal baby support loans) underpinned the disbursement of retail loans in 2020; the ratio of these loans in the new volume was 35 percent throughout last year.**

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 1.35 percentage point in December 2020, representing an increase of 0.03 percentage point compared to the previous month (Chart 18). **The average smoothed interest rate spread on variable rate housing loans calculated on the basis of the annual percentage rate (APR) also increased during the month** and amounted to 2.74 percentage points. **The spread on products with interest rate fixation periods longer than 1 year and up to 5 years rose moderately, while that on products with interest rate fixation periods of more than 5 years has not changed compared to November. The average spread on housing loans with interest rate fixation periods longer than one year and up to 5 years reached 3.28 percentage points in December, while the spread on products with interest rate fixation periods of more than 5 years was 2.52 percentage points.**