



MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL
TO THE ABRIDGED MINUTES
OF THE MONETARY COUNCIL MEETING
OF 22 JUNE 2021

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The background material ‘Macroeconomic and financial market developments’ is based on information available until 17 June 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

Incoming GDP data for the first quarter were generally more favourable than expected. The recovery of the EU economies showed a mixed picture in the first quarter of 2021, the economic performance of the US outstripped expectations, while growth of the Chinese economy continued. In the United States the consumer price index rose to 5 percent in May, which was the highest since September 2008. Exceeding market expectations, euro area inflation also rose to 2 percent. The reopening of economies commenced in an increasing number of countries, while its pace significantly depends on the evolution of the pandemic situation and the population's vaccination coverage.

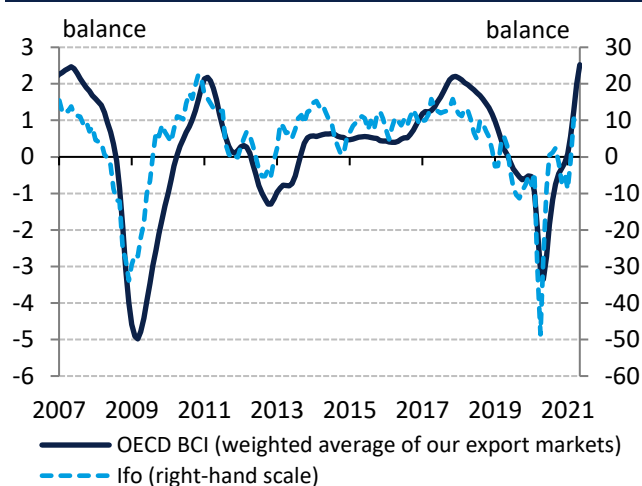
The reopening of economies is underway in an increasing number of countries, the pace of which significantly depends on the changes in the pandemic situation and the population's vaccination coverage. World trade and global industrial production already exceed the level registered in January 2020, while in parallel with the restart of the economies the service sector's prospects also improved significantly. On the other hand, the future of global tourism is surrounded by major uncertainty.

In the first quarter of 2021, GDP of the United States rose by 0.4 percent year-on-year. In April, US industrial output rose by 16.5 percent year-on-year, which is primarily attributable to the significant base effect resulting from the first wave of the coronavirus. Manufacturing performance increased by 23 percent. In March 2021, retail sales were up by 51.2 percent year-on-year, which is the highest value ever. In the week ending on 5 June, the number of new unemployment benefit claims was 376,000, which is a further decrease compared to previous week. In April, the unemployment rate declined by 0.3 percentage point compared to the previous month to 5.8 percent. In the United States consumer price index rose to 5 percent in May, which was the highest since September 2008.

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 deteriorated in May, but the Purchasing Manager Indices are still in the (growth) range of slightly over 50 points. In April, industrial production and the volume of retail sales rose by 9.8 and 17.7 percent, respectively, year-on-year.

The economic performance of the United Kingdom shrank by 6.1 percent in annual terms in the first quarter of 2021. In April, industrial production and the volume of retail sales exceeded the level registered in April 2020 by 27.5 and 42.4 percent, respectively.

Chart 1 Business climate indices in Hungary's export markets



Source: OECD, Ifo

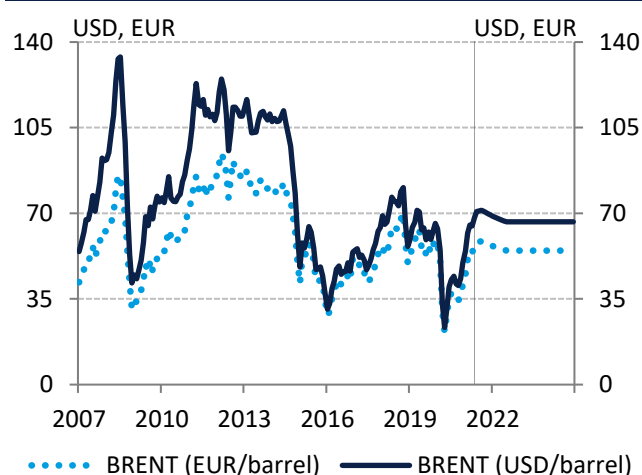
In the first quarter of 2021, the economic performance of the euro area fell by 1.3 percent year-on-year (while quarter-on-quarter it fell by 0.3 percent according to the seasonally and working-day adjusted data). In April, industrial output rose by 39.3 percent, while the volume of retail sales was up by 23.9 percent year-on-year. The unemployment rate declined further, and in April it stood at 8 percent.

The recovery of the European Union's economies shows a mixed picture. In the first quarter, the economy of Germany – Hungary's main trading partner – shrank by 3.1 percent year-on-year and by 1.8 percent quarter-on-quarter. In April, German industrial production exceeded last year's low base by 26.4 percent, while the volume of retail sales – following a significant growth registered in March – rose less dynamically, by 4.4 percent. German business sentiment (Ifo Business Climate Index) continued to improve in May and it stood at the highest level since April 2019 (Chart 1). In the first quarter, in the European Union the largest year-on-year growth in GDP was measured in Ireland (12.8 percent), Estonia (5.0 percent) and Luxembourg (4.9 percent). On the other hand, the greatest decline occurred in Portugal (-5.4 percent).

In May, euro area inflation – exceeding the consensus forecast of 1.9 percent – rose to 2.0 percent, after 1.6 percent measured in April. Core inflation, slightly exceeding analysts' expectations of 0.9 percent, rose to 1.0 percent. Energy prices, registering a double-digit growth, may have significantly contributed to the rise in euro area inflation.

In May 2021, the average world market price of Brent crude oil was USD 68.0 per barrel, while the spot price stands over USD 70 per barrel since early June. (Chart 2). In May, changes in oil prices were primarily determined by the news related to developments in global supply and the decision of OPEC+. In the second half of the month, the price of oil temporarily declined to USD 65 as a result of the news related to increasing US stocks, growing Iranian supply and the nuclear negotiations with Iran. At their meeting held on 1 June, the OPEC+ countries decided to increase production as a result of the improving demand trends, and thus in July the cartel will appear on the market with 841,000 barrels of additional crude oil. The decision was in line with market expectations, and it raised the world market price of Brent crude oil over USD 70 per barrel. **The world market price of both industrial commodities and unprocessed food increased further in May.**

Chart 2 World market prices of Brent crude oil

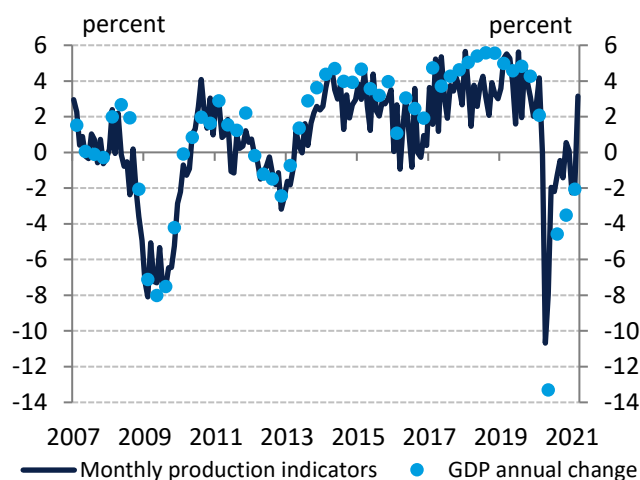


Source: Bloomberg

1.2. Domestic real economy developments

Hungary's economy was able to grow even during the third wave of the coronavirus pandemic. In the first quarter of 2021, Hungary's GDP grew by 2.0 percent quarter-on-quarter, while it fell short of the year-on-year level by 2.1 percent. The incoming data was well over the preliminary expectations. Due to the quick recovery and the earlier opening compared to the European average – and assuming that the pandemic situation remains favourable – Hungarian GDP may reach the level seen at the end of 2019 as early as in the third quarter of this year. Real time data project double-digit economic growth for the second quarter. As a result of the improved growth prospects, this year Hungary's economy may grow by 6.2 percent. In April, construction performance declined, and industrial output repeatedly fell below its pre-crisis level. The volume of retail sales rose compared to last year's low base. So far, labour market adjustment has been modest in Hungary. In April 2021, the unemployment rate stood at 4.4 percent, while the number of people in employment rose by 36,000 persons year-on-year.

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

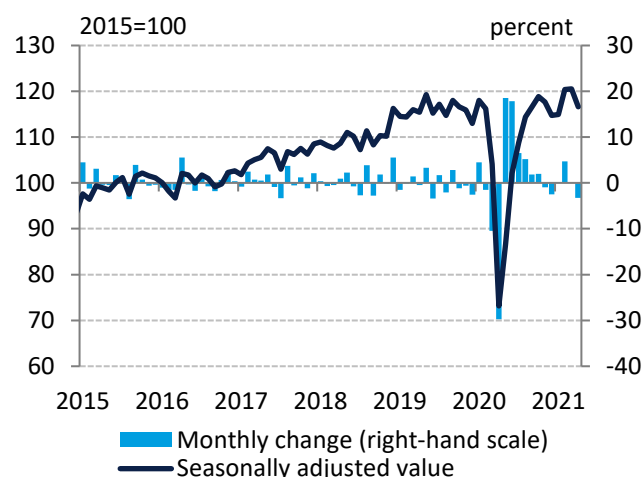
1.2.1. Economic growth

Hungary's economy continued to grow even during the third wave of the coronavirus pandemic. According to raw data, in the first quarter of 2021 Hungary's gross domestic product declined by 2.1 percent year-on-year (Chart 3), while based on the adjusted data it fell short of the level a year ago by 1.6 percent. However, Hungarian economy rose by 2.0 percent quarter-on-quarter. Industrial and agricultural performance rose by 3.4 and 2.5 percent, respectively, year-on-year. By contrast, construction and services value added fell by 2.4 and 3.5 percent, respectively, on an annual basis. The largest decline was seen in the accommodation and food service activities, as well as in the transportation and storage sectors. Value added of the financial and insurance activities and of the information communication sectors increased. On the expenditure side, household consumption expenditure fell by 4.8 percent in the first quarter of 2021 year-on-year, with the largest decline registered in services consumption. As regards gross fixed capital formation, HCSO registered a decline of 0.1 percent compared to previous year. The volume of construction investments declined moderately, while the volume of machinery and equipment investments rose. 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.

The decline in domestic economic output on an annual basis slightly exceeded the average of the euro area (-1.3 percent) and the European Union (-1.2 percent). In a quarterly comparison, Hungary is in first third of the European ranking, while in an annual comparison it is in the mid-range, based on the first quarter data.

The first quarter's GDP data substantially exceeded both the MNB's March forecast and the market expectations. Available high frequency data imply that the recovery has continued, but most sectors still perform below their pre-pandemic level. In the second quarter of 2021, as a result of economic reopening and the low base of last year, a double-digit growth is likely to be achieved. Owing to the fast

Chart 4 Development in industrial production



Source: MNB calculation based on HCSO data

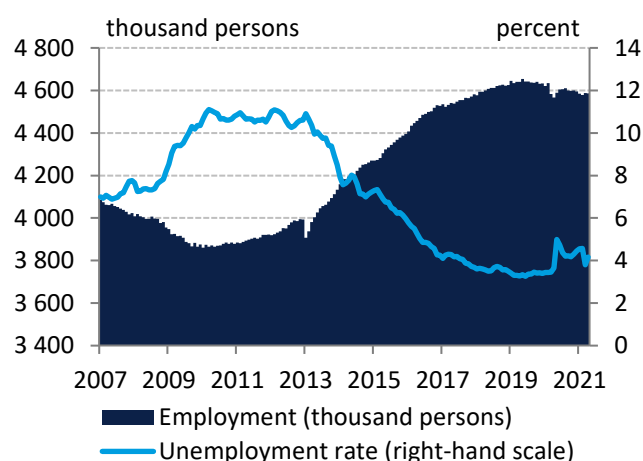
recovery, Hungarian economy may return to the GDP level registered at the end of 2019 already in the third quarter of 2021. The March Inflation Report projected a growth of 4.0-6.0 percent for this year. However, according to the June forecast, the growth rate may be around 6.2 percent. This will put the rate of the Hungarian economy's recovery in the vanguard of Europe, due to an outstanding domestic vaccination trend by European standards and Hungary's rapid and effective economic policy responses.

In April 2021, industrial production rose by 58.8 percent year-on-year. The significant growth is attributable to the low base of last April. On the other hand, based on the seasonally and calendar adjusted data, the volume of production declined by 3.2 percent on a monthly basis. (Chart 4). In April, breaking the favourable trend of previous months, industrial production was below its pre-crisis level. Almost all manufacturing subsectors contributed to the year-on-year growth. Based on raw data, the output of automotive industry – representing the largest weight in domestic output – registered an outstanding, i.e. 342.5 percent, growth on an annual basis, which is mostly connected to the low base value resulting from the temporary factory stoppages last April. The HCSO registered significant growth in the manufacture of electrical equipment (+76.8 percent), in the textile industry (+55.9 percent), and in the computer, electronics and optical products sector (+44.6 percent).

In April 2021, the volume of construction output was 7.2 percent lower year-on-year, as a result of which it came close to the level registered prior to the outbreak of the coronavirus pandemic. Compared to March 2021, the volume of output was down by 7.3 percent based on seasonally and calendar adjusted data. In April, construction of buildings and other construction fell by 0.8 and 14.5 percent, respectively, in an annual comparison. The volume of new contracts concluded in April fell by 15.3 percent, while the construction companies' end-of-month contract portfolio rose by 12.8 percent compared to last April.

Available real time data project double-digit growth for the second quarter, and in parallel with the cancellation of the restrictive measures, performance of the service sector also started to improve. Based on the online cash register data in April and May the volume of retail sales rose by 21 and 12 percent, respectively, in nominal terms, which was also attributable to last year's low base. Due to last year's low base **air passenger traffic** registered a triple-digit growth in May, albeit it still fell short of the level of two years ago by 94 percent. **Catering turnover** also registered a double-digit growth in May, and it even exceeded the level observed in the same period of 2019 due to the more moderate restrictive measures. Cinema attendance is slowly

Chart 5 Number of persons employed and the unemployment rate



Source: HCSO

recovering after the opening, with the decline in May still exceeding 90 percent. Year-on-year **road passenger traffic** has been improving strongly since mid-March, in May falling short of its level two years ago by 6 percent. In April, industrial production increased by 59.2 percent (based on seasonally and calendar adjusted data) year-on-year, while on a monthly basis the volume of output fell by 3.2 percent. In May, the electricity load and **road goods traffic** data exceeded the level of last year.

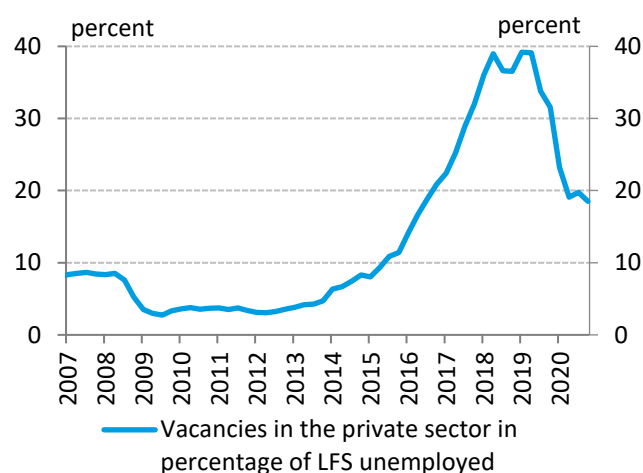
In May, the dynamics of **household borrowing** substantially improved on an annual basis. Since last July the number of **housing market transactions** has been rising year-on-year, albeit at a varying rate, and in April annual growth was particularly high due to last year's low base. **So far, labour market adjustment has been modest in Hungary.** In April 2021, the unemployment rate rose to 4.4 percent, while the number of people in employment rose by 36,000 persons year-on-year. **Google searches** related to unemployment show a more favourable picture. Online searches in Hungary for the terms "unemployment benefit" and "jobseeker's allowance" are already at the levels before the outbreak of the pandemic.

According to the HCSO's preliminary data release, **goods exports and imports rose by 73.3 percent and 52.3 percent, respectively, in euro terms, year-on-year in April 2021.** Merchandise trade surplus amounted to EUR 321 million, representing a year-on-year increase of EUR 888 million.

In April, the volume of retail sales was up by 10.6 percent year-on-year, based on the data adjusted for the calendar effect. The volume of retail sales in food stores and groceries rose by 3.3 percent, while that in non-food stores was up by 21.3 percent on an annual basis. The volume of sales declined only in the furniture and appliances (-4.2 percent) sector year-on-year. Due to last year's low base, the volume of sales rose to the largest degree in the second-hand goods (+215 percent) and the textile, clothing and footwear (+539 percent) shops, according to the data adjusted for the calendar effect. After last April's record high growth, the volume of sales of the mail order and web shops increased further, by 6.4 percent. The volume of fuel sales was up by 19.2 percent year-on-year.

In April 2021, the number of tourist overnight stays at domestic commercial accommodations was around one tenth of the pre-pandemic level. The impacts of the entry restrictions and the measures taken to contain the pandemic were also felt in the period under review. Due to the historic low base of last year, the number of tourist overnight stays rose by 170 percent year-on-year. The number of overnight stays by foreign and domestic tourists rose by 326 and 123 percent, respectively, compared to the year-on-year record low figures.

Chart 6 Development of labour market tightness indicator



Note: Quarterly data.

Source: National Employment Service, HCSO

1.2.2. Employment

Based on the data of the Labour Force Survey (LFS), in April 2021 total employment counted 4,559,000 persons, which is an increase of 36,000 persons year-on-year (Chart 5). Since April 2020, the number of employees in the primary labour market and the number of public employees rose by 53,000 and 15,000 persons, respectively, while the number of those working abroad declined by 32,000 persons.

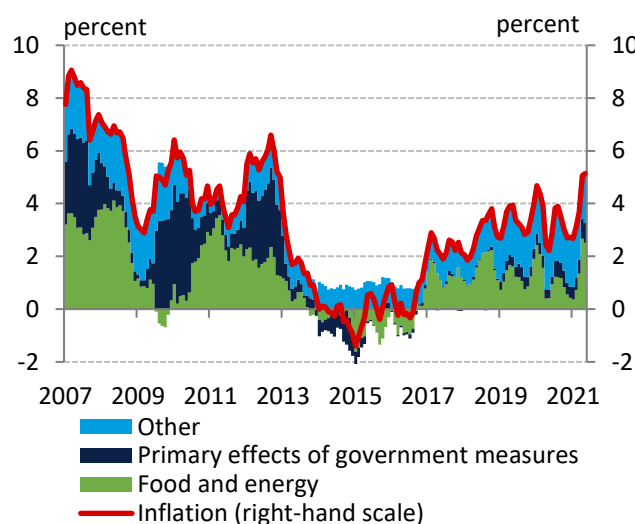
In April, the number of the unemployed was 211,000, exceeding the year-on-year figure by 24,000 persons, thus on the whole the unemployment rate stood at 4.4 percent. Compared to the previous month, the number of the unemployed rose by 3,500 persons. Based on the data published by the National Employment Service (Nemzeti Foglalkoztatási Szolgálat - NFSZ) in April and May the number of registered jobseekers in Hungary was 288,000 (-43,000 on an annual basis) and 274,000 (-89,000 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 more than 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 May 2021, inflation calculated on a year-on-year basis was 5.1 percent, while both core inflation and core inflation excluding indirect taxes stood at 3.4 percent. Underlying inflation indicators capturing persistent trends (price index of demand sensitive and inflation of sticky price products and services) increased compared to the previous month. In March 2021, gross average earnings in the private sector rose by 8 percent year-on-year.

Chart 7 Decomposition of inflation



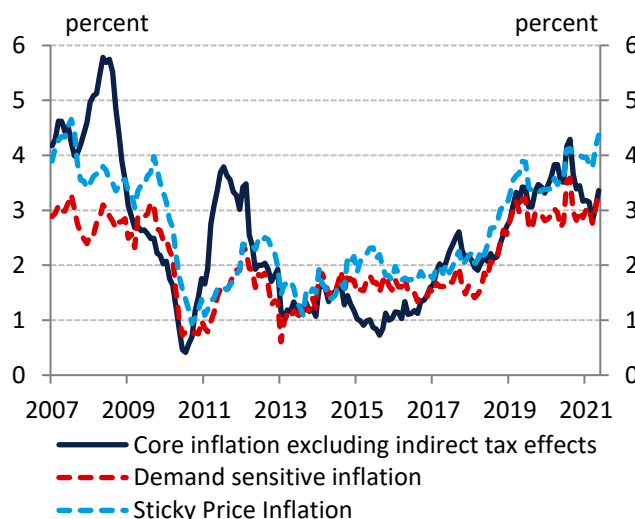
Source: MNB calculation based on HCSO data

1.3.1. Wage setting

In March 2021, gross average earnings in the private sector rose by 8 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 January and February. **According to our estimate, after adjustment for the statistical effects (part-timers, composition effect), the annual wage increase would be 7.5 percent in the primary labour market.** Regular average wage slightly increased compared to February, while bonus payments moderately exceeded the level observed in previous years.

In the private sector the wage dynamics of market services and manufacturing developed similarly. In March, manufacturing wages were higher by 8.2 percent year-on-year. Wages in the automotive industry – representing the largest share – increased by 4.9 percent in annual terms. In market services, HCSO registered a growth of 7.9 percent. Wages in construction, trade and catering rose by 10.4 percent, 6.3 percent and 5.6 percent, respectively, year-on-year.

Chart 8 Measures of underlying inflation indicators



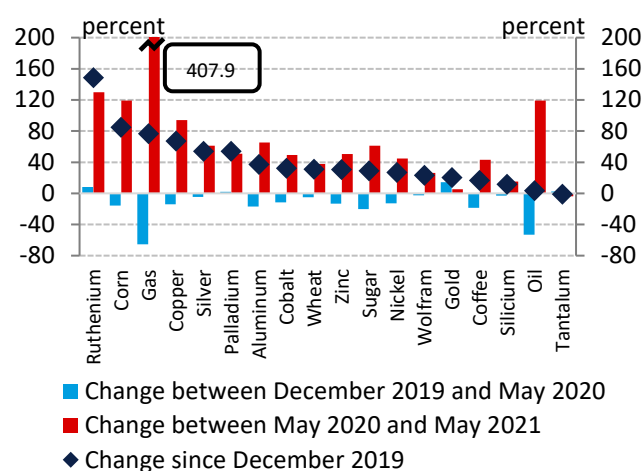
Source: MNB calculation based on HCSO data

1.3.2. Inflation developments

In May 2021, inflation calculated on a year-on-year basis was 5.1 percent, while both core inflation and core inflation excluding indirect taxes stood at 3.4 percent (Chart 7). Compared to the previous month, inflation remained unchanged and core inflation increased by 0.3 percentage point. The growth in core inflation was mostly caused by the rise in the prices of industrial goods. Market services prices rose by 0.6 percent compared to the previous month. Price dynamics exceeded the average of previous years, which was largely due to the changes in restaurant services prices. **Inflation was in line with the MNB's expectations; however, its structure confirms the emergence of inflation risks associated with the reopening of the economy. Since April, the increase in the price of market services accelerated, while underlying inflation indicators also rose.**

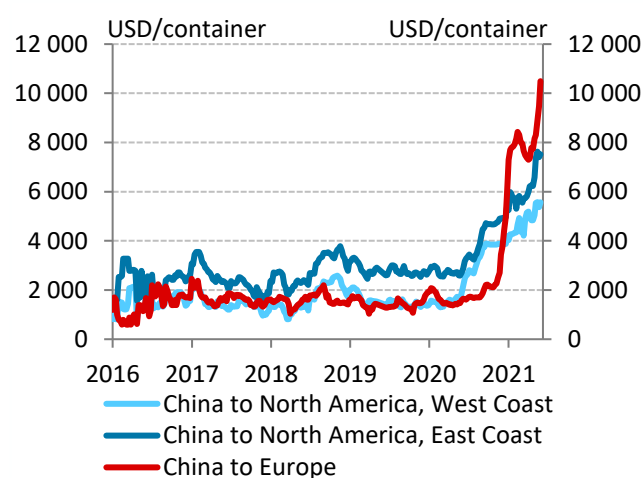
Underlying inflation indicators capturing persistent trends (inflation of demand sensitive and sticky price products and services) **increased compared to the previous month** (Chart 8). In April 2021, agricultural producer prices increased by 15.5 percent in annual terms, while domestic sales prices in sectors of consumer goods increased by 2.7 percent.

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

1.3.3. Inflation risks

In line with the forecast in the March Inflation Report, outliers have emerged in the incoming inflation data, and the indicator peaked at 5.1 percent in the spring months. Although incoming data were in line with the MNB's expectations, based on our June forecast, inflation will decrease more slowly than previously anticipated. We still expect that from July inflation will decrease to around 4 percent, i.e. to the upper part of the central bank tolerance band. **However, recently received data and past experience suggest that the upside risks surrounding the medium-term inflation outlooks have generally strengthened and that the monitoring and prevention of second-round effects are of key importance.**

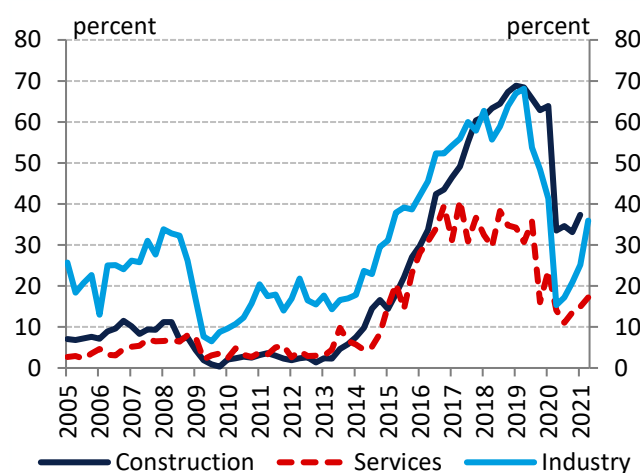
The growth in risks is equally attributable to international and domestic trends. Due to the different nature and management of the crisis, global economic activity and the labour market may recover faster than in the 2008/2009 crisis. **In addition to the rapid economic recovery, a loose fiscal and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

Global value chains may recover more slowly than demand, leading to increased cost pressures in global transportation and industrial production. For example, the costs of shipments from China to Europe rose almost 6.5 times by early June 2021 from the level seen in June 2020. (Chart 10). 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, as a result of economy reopening and the low base of last year, a double-digit growth can be expected. Full employment may be achieved as early as next 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).

High wage dynamics may persist as the labour market tightens (Chart 12), with the rise in savings over the past year, postponed consumption and the availability of an

Chart 11 Labour shortage as a factor limiting production in Hungary

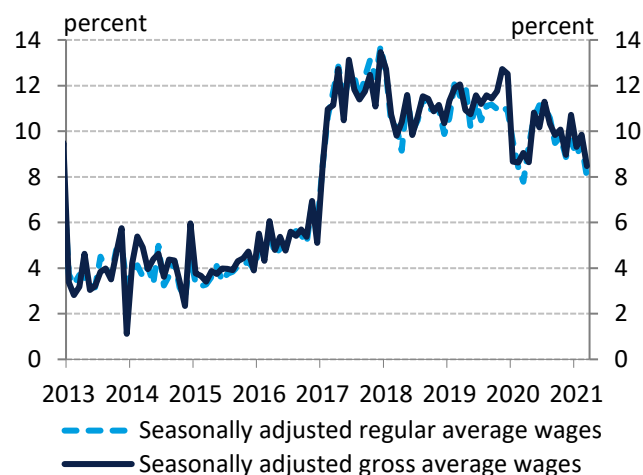


Note: Percentage of companies reporting that "Shortage of labour force" is a main factor currently limiting their production.

Source: European Commission

increasing range of services projecting a growth in consumption expenditures. The temporary supply-demand conflicts accompanying the fast restart of the Hungarian economy as well as the anticipated scarce labour market capacities in certain sectors coupled with buoyant wage dynamics cause inflation risks to rise. The opening of the economy could generate supply-demand conflicts, also observed last year, which could lead to a rise in inflation in the short run. Moreover, a higher-than-expected budget deficit next year also points to a higher inflation path.

Chart 12 Dynamics of average earnings in the private sector

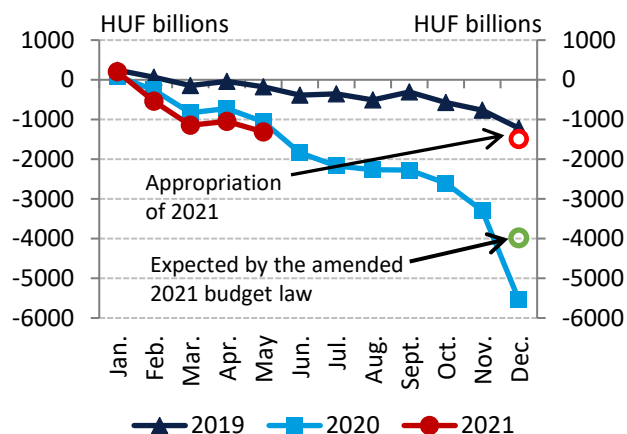


Source: MNB calculation based on HCSO data

1.4. Fiscal developments

In May 2021, the deficit of the central sub-sector of the general government was lower than the year-on-year figure, standing at HUF 269 billion. Thus the current year's cumulated cash deficit rose to HUF 1,313 billion.

Chart 13 Intra-year cumulative cash balance of the central government budget



Source: Budget Act of 2021, Hungarian State Treasury

In May 2021, the deficit of the central sub-sector of the general government was lower than the year-on-year figure, standing at HUF 269 billion, and thus the current year's cumulated cash deficit rose to HUF 1,313 billion (Chart 13).

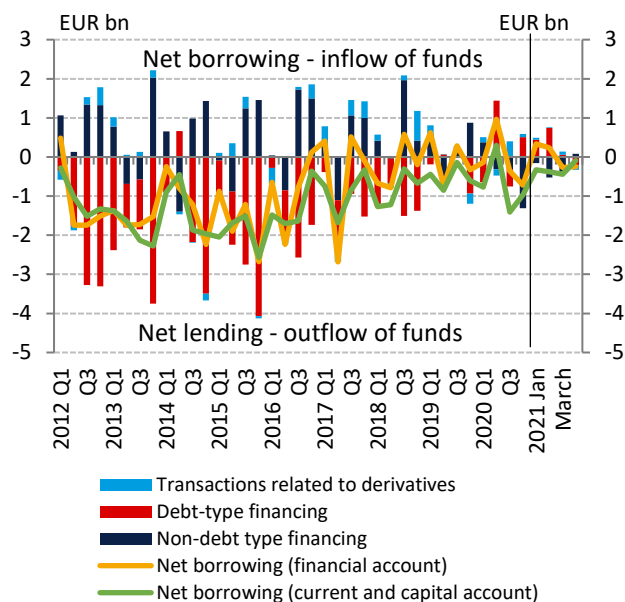
In May, revenues of the central sub-sector exceeded significantly the year-on-year value. This is partly the consequence of the low base resulting from the restrictions in 2020 and the lost revenues due to the economy protections measures introduced for a temporary period. The generally strong dynamics of tax and contribution revenues was mostly attributable to payments by enterprises and to the net VAT revenues, while labour taxes and contributions also rose significantly. This effect was partly offset by the fact that in May revenues from EU programmes fell short of last year's base as a result of the low amount of the invoices submitted by Hungary previously.

In May 2021, expenditures of the central sectors exceeded their year-on-year value. This is primarily attributable to the rise in the expenditures of the central budgetary organisations, the curative and preventive care and net interest expenditures. This effect was partly offset by the shortfall in expenditures related to EU grants compared to last May.

1.5. External balance developments

In April, the current account turned into a deficit of EUR 201 billion, while net lending of the economy declined to EUR 88 million. The decrease is attributable to the fall in the surplus of the goods and services balance. Regarding trends in financing, the economy's net foreign direct investment funds increased, while net external debt decreased moderately.

Chart 14 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 April, the current account turned into a deficit of EUR 201 million. The fall is linked to the goods balance, resulting from imports outstripping exports. Services balance surplus improved further in April. The transfer balance significantly rose compared to previous months, while the income balance deficit moderately decreased. (Chart 14).

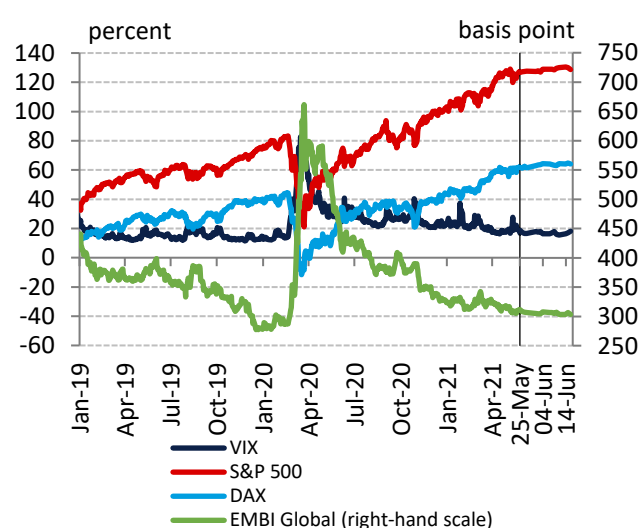
Based on the financial account data, net foreign direct investment inflow was attributable to rising reinvested earnings. Net external debt slightly declined, the sectoral breakdown of which was significantly influenced by the realignment after the temporary central bank foreign currency liquidity provided at the end of last month. In accordance with this, the general government's indicator significantly declined and in parallel with this banks' net external debt rose.

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, fell to 18.1 percent, the EMBI global spread in the emerging bond market also decreased slightly, while the MOVE index, measuring developed bond market volatility, remained broadly unchanged. Last month developed and emerging stock market composite indices rose, while developed market long-term yields slightly decreased. The dollar exchange rate strengthened against both the advanced and emerging currencies. It appreciated against the euro by 1.6 percent. Last month oil prices continued to rise thereby reaching a high of more than two years.

Chart 15 Developed market equity indices, the VIX index (left-hand scale) and the EMBI Global Index (right-hand scale)



Source: Bloomberg

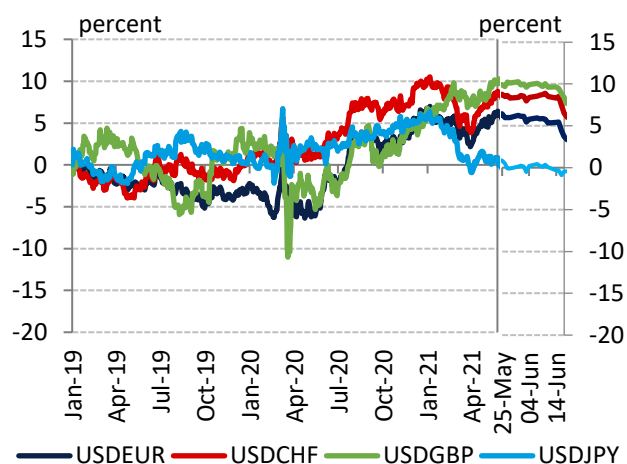
In the period since the last interest rate decision global financial market sentiment slightly improved. The focus of market participants was on the increasingly widespread easing of restrictive measures, expectations regarding the favourable economic outlooks and inflation developments, and the monetary policies of the major central banks and their communication.

Of the risk indicators, the VIX index, measuring equity market volatility, fell by 0.7 percentage point compared to its level at the previous interest rate decision to 18.1 percent, the EMBI global spread in the emerging bond market also decreased by 5 basis points to 303 basis points, while the MOVE index, measuring developed bond market volatility, remained broadly unchanged (Chart 15).

Last month developed and emerging stock market composite indices rose: the MSCI developed and emerging market stock index also rose by 1.3 percent. **The S&P 500, the leading US stock index, rose by 0.7 percent, the Nasdaq was up by 2.2 percent, while the Dow Jones fell 0.8 percent.** **The leading European stock indices also rose:** the German stock exchange was up by 1.8 percent, the British by 2.3 percent and the Italian and French 4 by percent. The Japanese stock exchange index rose by 2.3 percent, while the Chinese index fell by 2.5 percent over the period under review. **Stock market indices rose in the countries of the region as well:** the Czech one rose by 1.1, the Polish one by 2.8 and the Hungarian one by 4.6 percent.

The dollar appreciated against the developed market currencies: it appreciated against the euro, the Japanese yen, the Swiss franc and the British pound by 1.6 percent, 1.4 percent, 1.2 percent and 0.9 percent, respectively. At the end of the period, the euro-dollar exchange fell below 1.2 (Chart 16). **All currencies of the region depreciated against the dollar.** Since the last interest rate decision the price of gold declined by 3.2 percent, to USD 1,836/oz.

Chart 16 Developed market FX exchange rates



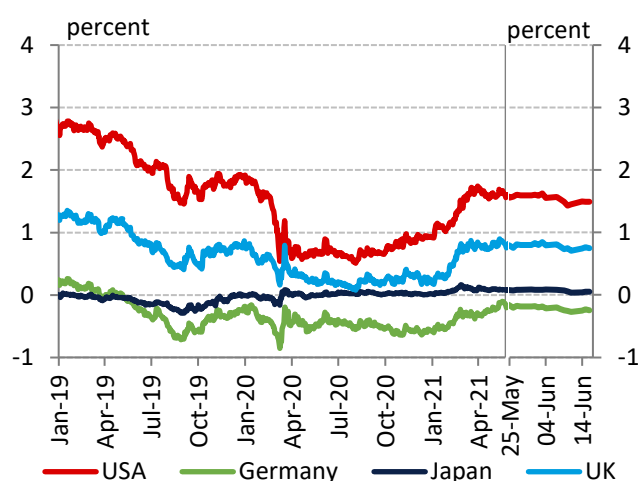
Note: Positive values indicate the strengthening of the variable (second) currency.

Source: Reuters

Developed bond yields have declined slightly since the last interest rate decision (Chart 17). The US, German, British and Japanese 10-year yield was down by 8, 4 and 1-2 basis points, respectively, and thus the US, German, British and Japanese yields closed the period at around 1.49, -0.24, 0.75 and 0.05 percent, respectively. **Yields in the Mediterranean countries also declined** by 7-10 basis points. In the countries of the region yields changed only to a small degree: the Hungarian and Romanian 10-year yield fell by 1 basis point, the Polish one by 2 basis points, while the Czech yield rose by 2 basis points.

Oil prices continued to rise in the previous period thereby reaching a high of more than two years. Essentially the rise in oil prices was supported by the expectations related to favourable economic outlooks, fuelled primarily by the recovery of the US and the European economies. Last month both the US Energy Information Administration (EIA) and the American Petroleum Institute (API) reported a fall in US oil reserves every week. Favourable economic outlooks are also underpinned by the fact that according to the expectations of the US Energy Information Administration (EIA) by the end of this year global oil demand will return to its pre-pandemic level and by the second half of 2022 it will once again exceed 100 million barrels per day. **Since the interest rate decision in May, the price of Brent crude oil rose by 7.1 percent to USD 73.8, while the US benchmark WTI oil price grew by 8.2 percent to USD 71.7.**

Chart 17 Yields on developed market long-term bonds

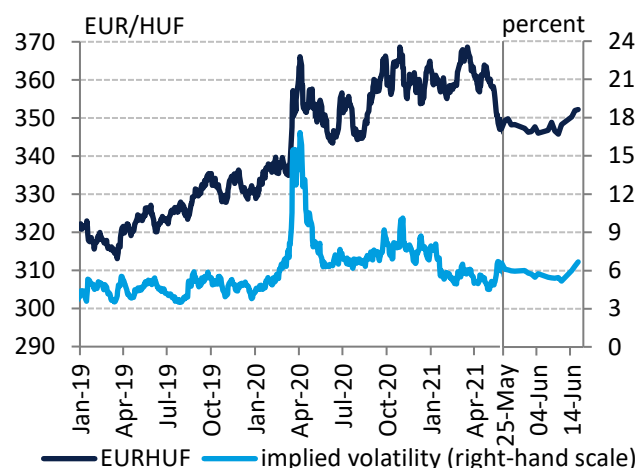


Source: Bloomberg

2.2. Developments in domestic money market indicators

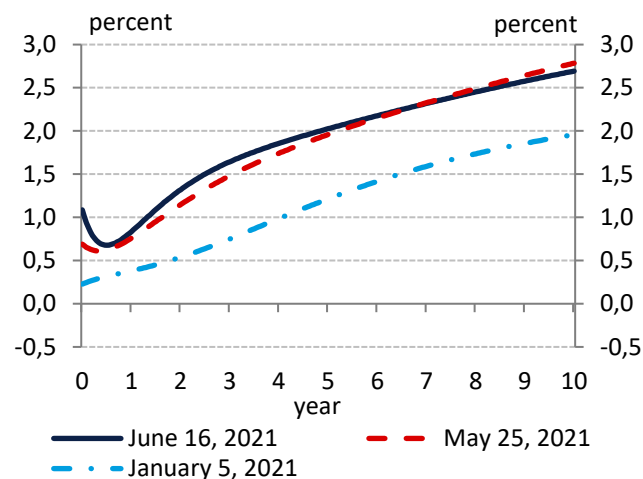
During the period, the forint depreciated against the euro to a similar degree as the Polish zloty. In the past month, the demand was strong at government bond auctions. Average auction yields declined. Non-residents' holdings in forint-denominated government securities slightly increased.

Chart 18 EUR/HUF exchange rate and the implied volatility of exchange rate expectations



Source: Bloomberg

Chart 19 Shifts in the spot government yield curve



Source: MNB, Reuters

Since the interest rate decision in May, the forint depreciated against the euro. The beginning of the period was characterised by a major appreciation of the forint; however, at the end of the period, the domestic currency depreciated. In parallel with the depreciation, exchange rate volatility moderately increased. Of the currencies of the CEE region, the Polish zloty and Czech koruna depreciated against the euro by 1 percent and 0.3 percent, respectively, while the Romanian leu essentially remained unchanged (Chart 18).

The 3-month BUBOR, relevant for monetary policy transmission, rose by 2 basis points to 0.93 percent since the last interest rate decision.

The government yield curve flattened out (Chart 19). Around the 1-year and middle section of the yield curve a rise of roughly 10 basis points and 10-20 basis points, respectively, was observed, while around the 10-year section a fall of 10 basis points was registered.

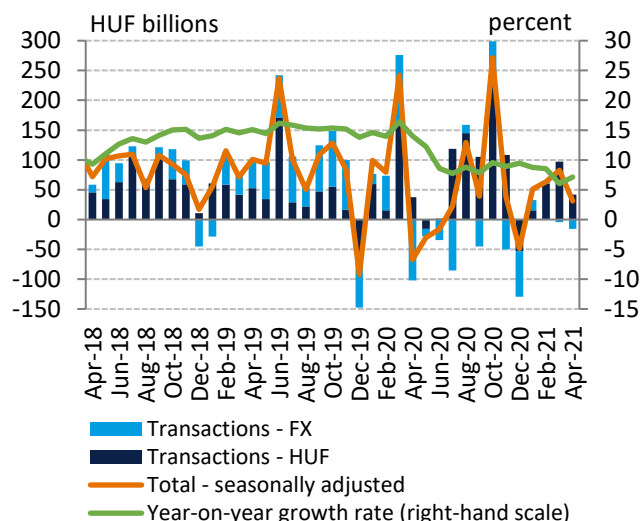
In the past month, the demand was mostly strong at government bond auctions. The Government Debt Management Agency sold the announced volume at the 3- and 12-month Treasury bill auctions, and on one occasion it accepted bids below the announced volume. Since the last interest rate decision, the average yield at the 3-month auctions declines from 0.6 percent to 0.59 percent, while the average auction yield at the 12-month Treasury bill auctions rose from 0.69 percent to 0.87 percent. Government bond auctions were characterised by strong demand. Accordingly the Government Debt Management Agency accepted bids in excess of the announced volume in all cases. At the latest auction, the average yield of the 10-year securities was 2.9 percent, representing a fall of 19 basis points compared to average auction yield before the May interest rate decision. The latest average auction yield on 5-year government securities decreased by 8 basis points to 2 percent. The Hungarian 5-year CDS spread fell by 2 basis point to 60 basis points during the period under review.

Non-residents' holdings of forint government securities increased slightly. Non-residents' holdings rose by HUF 52 billion to HUF 4,513 billion; however, the market share of forint government securities held by non-residents fell from 20.3 percent to 20 percent.

3. Trends in lending

In April 2021, outstanding lending to non-financial corporations rose by HUF 26 billion, reflecting a rise of HUF 42 billion in forint loans and a decrease of HUF 16 billion in foreign currency loans. During the month, households' outstanding borrowing grew by HUF 122 billion, and as a result the annual growth rate rose to 14.6 percent.

Chart 20 Net borrowing by non-financial corporations

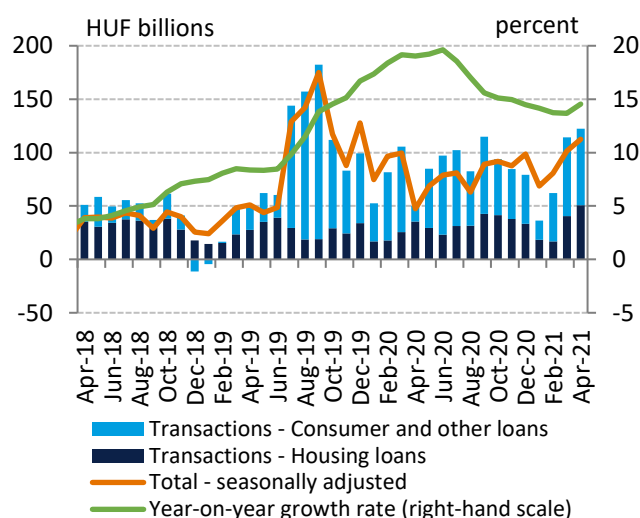


Source: MNB

In April 2021, outstanding loans to non-financial corporations rose by HUF 26 billion, reflecting a rise of HUF 42 billion in forint loans and a decline of HUF 16 billion in foreign currency loans (Chart 20). Despite the moderate monthly growth, the annual growth rate increased from 6 percent of last month to 7.1 percent, which is essentially attributable to the removal of last April's transaction data from the 12-month rolling balance. In April, credit institutions disbursed new loans in the amount of HUF 178 billion, which exceeds the value registered last April by 31 percent. During the month under review, banks concluded non-overdraft forint contracts with enterprises under FGS in the amount of HUF 83 billion, which accounted for almost half of the total corporate loan disbursements in April.

In April, households' outstanding borrowing grew by HUF 122 billion, and as a result the annual growth rate rose to 14.6 percent (Chart 21). The instalment reducing effect of the moratorium on payments still supports the outstanding growth, also by international standards, in domestic lending, since at the end of the first quarter instalments were put on hold at half of the eligible stock. The volume of new loans amounting to HUF 222 billion represents a major growth compared to the disbursements last April, hit by the pandemic significantly, and it also exceeded the volume of new contracts concluded in April two years ago, not yet affected by the pandemic, by more than 30 percent. After March, the disbursements of new housing loans once again hit a historic high, reaching HUF 108 billion, with major contribution by the family support measures effective from this year. State-subsidised loans (prenatal baby support loan, loans connected to HPS, home improvement loan) still have an important role in retail lending, accounting for 32 percent of the new disbursements in April.

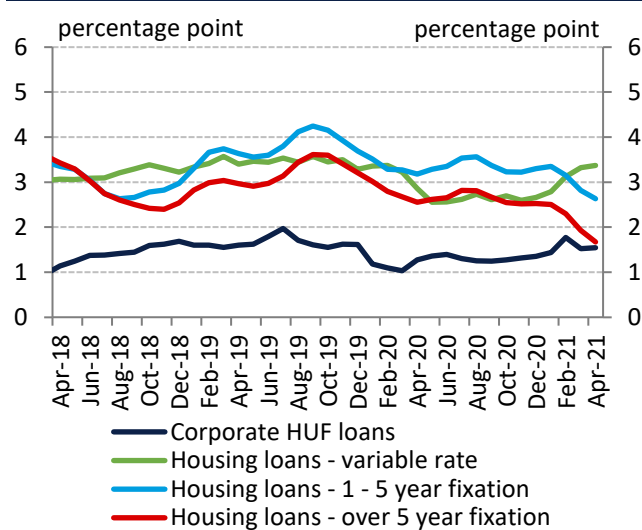
Chart 21 Net borrowing by households



Source: MNB

The smoothed interest rate spread of corporate loans in HUF was 1.55 percentage point in April 2021, representing an increase of 0.03 percentage point compared to the previous month (Chart 22). The average smoothed interest rate spread on variable rate housing loans calculated on the basis of the annual percentage rate (APR) also increased slightly during the month and amounted to 3.37 percentage points. By contrast, the spread on products with interest rate fixation periods longer than one year,

Chart 22 Development of corporate and household credit spreads



up to 5 years and more than 5 years decreased compared to March. The average spread on housing loans with interest rate fixation periods longer than one year and up to 5 years reached 2.63 percentage points in April, while the spread on products with interest rate fixation periods of more than 5 years was 1.67 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