MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 23 MARCH 2021

MARCH

2021

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

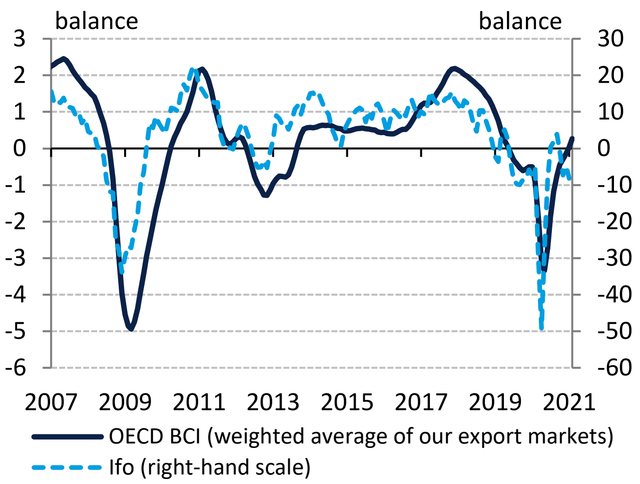
Based on currently available data, the impacts the second wave of coronavirus had on the countries in the world varied. The measures taken to contain the second wave, typically curbed industrial production to a lesser degree than services' performance, while global air traffic continues to stagnate. Currently, Covid-19 vaccines are not available in the required volume and as a result, the vaccination rate sufficient to ease the restrictive measures linked to the pandemic seems far. As the number of cases soars in the third wave, several countries had to tighten their restrictive measures.

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 world's economic production already exceed the level seen in January 2020. However, the future performance of air traffic, which has been basically stagnant since mid-August, is surrounded by increased 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, additional tightening measures have become necessary in several countries as the number of cases soar in the third wave of the pandemic.

In 2020, the Chinese economy grew despite the coronavirus pandemic. Last year GDP rose by 2.3 percent. In the fourth quarter, the Chinese GDP rose by 6.5 percent in annual terms, continuing the growth that had started in the second quarter. Business sentiment in China continued to deteriorate slightly in January after the composite index and the manufacturing PMI had reached a ten-year high in November, but it is still positive; the Purchasing Manager Indices were in the (growth) range of over 50 points. **In the period of January to February, industrial production rose by 35.1 percent year-on-year,** exceeding analysts' expectations (+30 percent). **The volume of retail sales rose by 33.8 percent in January–February** year-on-year. In China, the reason for publishing the January-February data together is that in 2020 the first wave of coronavirus affected mostly these two months in the Asian country.

In 2020, US GDP fell by 3.5 percent compared to the previous year, and in the fourth quarter it fell short of the year-on-year figure by 2.4 percent. Macroeconomic indicators still imply moderate recovery. Exports declined to the largest degree (-11 percent) in the fourth quarter as

Chart 1 Business climate indices in Hungary's export markets



Source: OECD, Ifo

well. In addition, households' consumption (-2.6 percent) and government expenditures (-0.6 percent) also decreased year-on-year. On the other hand, public sector gross fixed capital formation increased (+3.5 percent). **In January, US industrial output declined by 1.8 percent,** year-on-year, which has been the smallest fall measured since the start of the coronavirus crisis. Manufacturing performance decreased by 1.0 percent. **In January 2021, retail sales were up by 7.4 percent** year-on-year. **In the week ending on 6 March,** the number of **new unemployment benefit claims** declined from 754,000, registered in the last week of February, **to 712,000**. **In February, the unemployment rate** in the age group of over 16 years declined by 0.1 percentage point compared to the previous month and **it stood at 6.2 percent**.

In 2020 economic performance of the euro area fell by 6.8 percent and in the fourth quarter by 4.9 percent year-on-year (while quarter-on-quarter it fell by 0.6 percent according to the seasonally and working-day adjusted data). **In January, industrial production rose by 0.1 percent** in annual terms, and a moderate rise was registered also based on the monthly dynamics, since according to the seasonally and calendar adjusted data, industrial production grew by 0.8 percent compared to December 2020. As a result of the virus variants appearing at the beginning of the year and the tightened lockdown measures in certain countries the volume of **retail sales** in January **declined by 6.4 percent year-on-year.** On a monthly basis the decline was 5.9 percent. **In January, the unemployment rate** has improved compared to the previous month by 0.2 percentage point, **and it stood at 8.1 percent.**

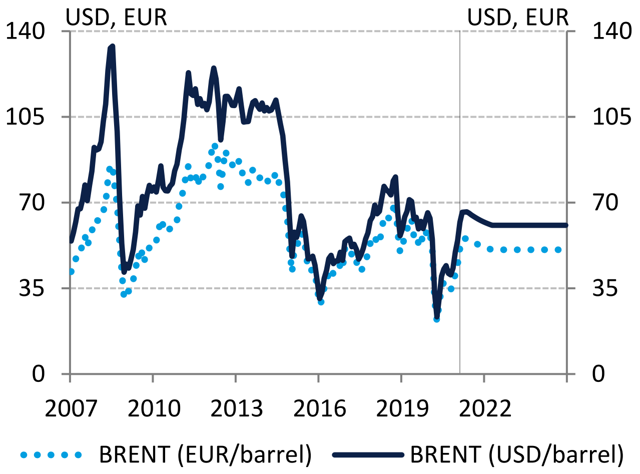
Hungary's main trading partner, **Germany's economy shrank by 5.3 percent in 2020**, while in the fourth quarter German GDP was down by 3.6 percent. **In January, German industrial production declined by 3.1 percent** in annual terms, which presumably was also attributable to the global semiconductor shortage. After December, **German retail sales volume** fell short of its year-on-year level in January as well, **registering a fall of 5.5 percent** (4.5 percent on a monthly basis). On the other hand, in February **German business sentiment** (Ifo Business Climate Index) adjusted for the decline registered in January and **it stood at the highest level since October** (Chart 1).

Economic performance of the United Kingdom shrank by 7.8 percent in annual terms in the fourth quarter. According to the latest GDP estimate – published also with monthly frequency uniquely in Europe (along with Norway) by the Office for National Statistics – in January economic activity significantly declined and it fell short of the data registered a year earlier by 9.2 percent. **In January, industrial production fell short of the level registered in January 2020 by 4.9 percent, while the volume of retail sales declined by 5.9 percent on an annual basis.** Compared to the previous month, monthly growth significantly declined in retail trade (-8.2 percent), and the recovery of industry also faltered (-1.5 percent).

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

In February, in line with analysts' expectations, euro area inflation remained unchanged compared to January, and stood at 0.9 percent. Following its value of 1.4 percent, registered in January, **core inflation declined to 1.1 percent,** which is also in line with analysts' expectations. **In February 2021, the average world market price of Brent crude oil was USD 62 per barrel, followed by a rise close to USD 70 per barrel in the past period. This has been unprecedented since January 2020** (Chart 2). The gradual price rise was attributable to three factors: in mid-February the Central United States and the oil producer Texas were hit by extreme cold weather and energy crisis, as a result of which producers and refiners faced serious shutdowns, and **problems appeared in the supply chain.** On 4 March, OPEC+ members extended the production cut, being in force at present as well, by one month, which raised quotes to exceed USD 65 per barrel. Finally, on 7 March one of the world's best protected oil infrastructures in Saudi Arabia was hit by a missile attack, causing oil price to soar close to USD 70 per barrel as a result of the geopolitical tension. **The world market price of both industrial commodities and unprocessed food increased in February.**

Chart 2 World market prices of Brent crude oil

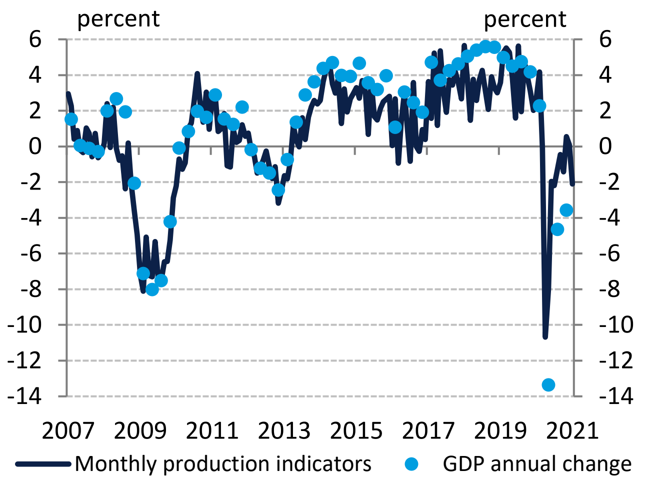


Source: Bloomberg

1.2. Domestic real economy developments

In the fourth quarter of 2020, Hungary's gross domestic product grew by 1.4 percent compared to the third quarter, while on an annual basis it declined by 5.0 percent considering 2020 as a whole. Hungary' economy proved to be significantly more resilient to the second wave of the pandemic than expected by market analyses. So far, labour market adjustment has been more moderate than expected in Hungary. In January, total employment fell by 1.2 percent year-on-year. The number of the unemployed was 238,000, which was above the previous year's figure by 54,000 persons. Consequently, unemployment rate stood at 5.0 percent in January.

Chart 3 Monthly production indicators and GDP growth



Note: Weighted average of monthly production indicators (industrial output, construction output and retail sales). The weights are derived from regression explaining GDP growth.
Source: MNB calculation based on HCSO data

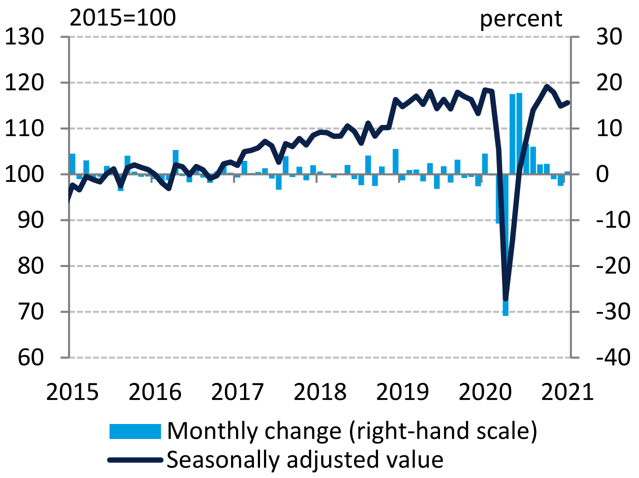
1.2.1. Economic growth

According to the HCSO release, in the fourth quarter of 2020 Hungary's gross domestic product declined by 3.6 percent year-on-year (Chart 3). Data shows that **the economy grew by 1.4 percent quarter-on-quarter, after adjusting for seasonal and calendar effects. Considering the entire year, the national economy's performance declined by 5.0 percent compared to 2019. Hungary's economy proved to be significantly more resistant to the second wave of the pandemic.** Quarter-on-quarter the performance of several sectors of the national economy increased. However, in an annual comparison declines have been seen with the exception of the industry. Construction's and agriculture's value-added fell by 3.9 and 5.6 percent, respectively, year-on-year. Services' value-added declined by 5.7 percent in the fourth quarter. The largest decline was seen in the hotels and restaurants and in the transportation and storage national economy sectors. On the other hand, value-added of the financial and insurance activity and of the infocommunication sectors increase. On the expenditure side, household consumption expenditure fell by 3.4 percent in the fourth quarter of 2020 year-on-year, with the largest decline registered in services consumption. As regards gross fixed capital formation, HCSO registered a growth of 1.2 percent year-on-year. The volume of construction as well as machinery and equipment investments grew. The volume of both exports and imports increased. The structure of exports reflects duality: in line with the favourable industrial performance goods exports rose, while services exports declined year-on-year.

On an annual basis, Hungary's economic performance declined in the fourth quarter to a lesser extent than the euro area and the EU average (-4.9 percent and -4.6 percent, respectively). Consequently, 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 January, domestic industrial output declined in annual terms. According to the HCSO's detailed data release, **industrial output fell by 2.8 percent year-on-year** based on data adjusted for working day effects. However, based on

Chart 4 Development in industrial production



Source: MNB calculation based on HCSO data

data adjusted for seasonal and working day effects, production **increased by 0.2 percent on a monthly basis** (Chart 4).

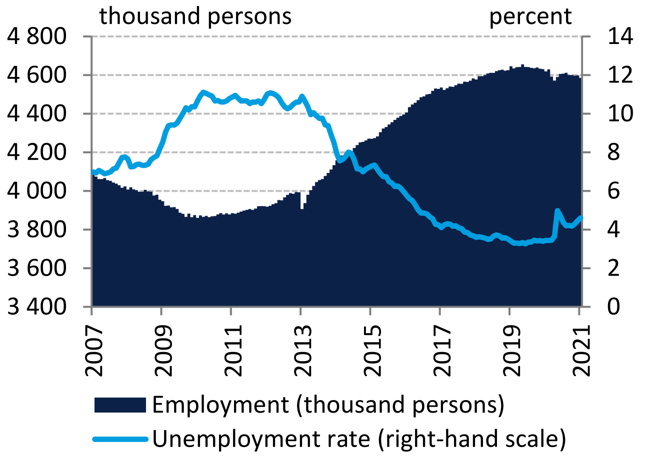
According to the HCSO's detailed data release, the manufacturing subsector had mixed contribution to the decline measured on an annual basis. Based on raw data, the output of automotive industry representing the largest share in domestic output, declined to the largest degree, by 27.5 percent on an annual basis, among the subsectors. The major decline was primarily attributable to temporary factory shutdowns resulting from the global semiconductor shortage. In addition, manufacture of machinery and equipment (-9.0 percent) and food industry (-5.0 percent) also showed a decline. The largest growth was seen in the production of electrical equipment (+40.5 percent) mostly due to the sharp pick-up in the electric motor, generator and battery manufacture. In addition, growth was registered in the manufacture of computer, electronics and optical products (+8.6 percent), chemicals and chemical products (+6.8 percent) and rubber, plastic and non-metal mineral products (+1.9 percent) in annual terms. **Hungary's manufacturing PMI decreased to 49.4 points in February. Available high frequency data continue to imply a protracted recovery.**

According to the HCSO's preliminary data release, **goods exports and imports fell by 5.5 percent and 10.4 percent, respectively, in euro terms, year-on-year in November 2021.** Goods balance improved by EUR 417 million compared to January 2020.

In January 2021, the volume of construction output was up by 11.0 percent year-on-year. The output of both main construction groups increased: construction of buildings and other construction rose by 10.0 percent and 12.8 percent, respectively. **The volume of construction output compared to the previous month was up by 7.4 percent** (based on seasonally and calendar adjusted data). The volume of new contracts concluded in January and the construction companies' month-end contract portfolio exceeded the previous year's value by 8.0 percent and 11.5 percent, respectively.

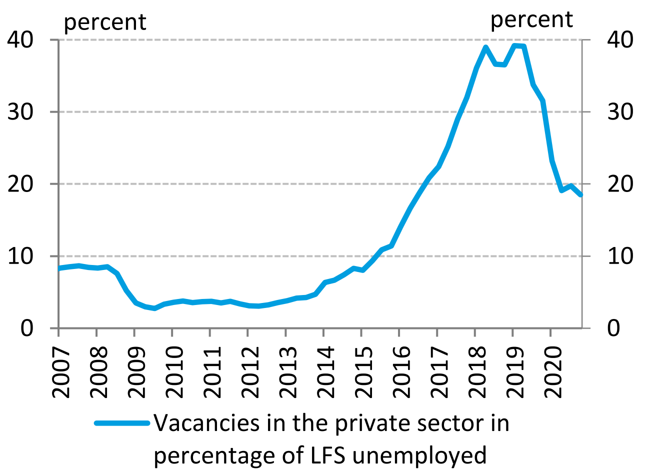
In January, the volume of retail sales (including fuel sales) **was down by 1.8 percent year-on-year after accounting for calendar effects. The pandemic situation and the restrictive measures continue to have outstanding impact on the volume of retail sales.** In January, the volume of retail sales in food stores and groceries rose (+1.5 percent), while in non-food stores it declined (-2.2 percent). The volume of sales declined to the largest degree in the book, newspaper and stationery shops (-31.5 percent), second-hand goods (-

Chart 5 Number of persons employed and the unemployment rate



Source: HCSO

Chart 6 Development of labour market tightness indicator



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

24.3 percent) and in the textile, clothing and footwear shops (-20.7 percent).

Sale volume was up in the case of mail order shops or web shops (+35.5 percent) and mixed industrial goods (+9.2 percent), according to the data adjusted for calendar effects. **The volume of fuel retail sales declined by 8.5 percent** on an annual basis**. Vehicle and components sales,** not belonging to the retail figures, **decreased by 26 percent in December.**

In January, the number of tourist overnight stays declined by 89.8 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 93.5 and 85.5 percent, respectively. In January, domestic tourists accounted for 66 percent of all tourist overnight stays.

1.2.2. Employment

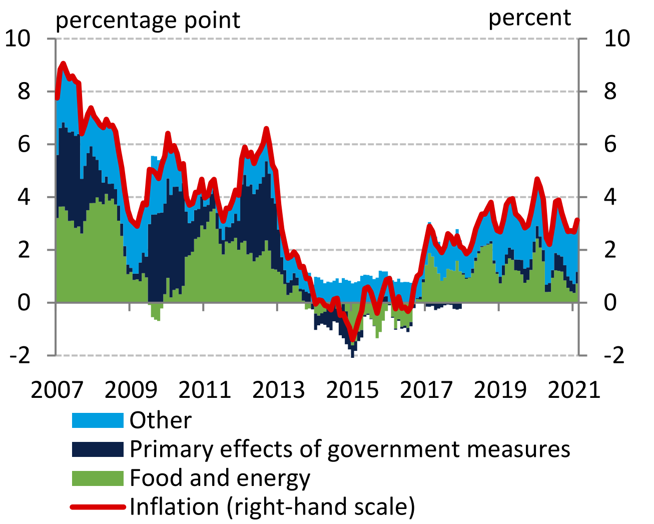
Based on the data of the Labour Force Survey (LFS), **in January 2021 total employment counted 4,537,000 persons, which is a decline of 55,000 persons year-on-year** (Chart 5). Since January 2020, the number of employees in the primary labour market rose by 19,000 persons, the number of public employees and the number of those working abroad declined by 1,000 and 72,000 persons, respectively. In January, **the number of the unemployed was 238,000, exceeding the year-on-year figure by 54,000 persons,** thus on the whole **the unemployment rate stood at 5.0 percent**. Compared to the previous month, the number of the unemployed rose by 38,000 persons. Based on the data published by the National Employment Service (Nemzeti Foglalkoztatási Szolgálat - NFSZ) in January and February the number of registered jobseekers in Hungary was 299,000 (+49,000 on an annual basis) and 302,000 (+38,000 on an annual basis), respectively.

In the fourth quarter of 2020, private sector vacancies amounted to 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; slight improvement was registered in manufacturing.** However, in the market services sector job vacancies declined by almost 9 percent compared to a year ago; 80 percent of the fall is connected to trade, transportation and tourism. The number of vacancies increased in annual terms only in the education sector, but this was unable to offset the declining number of jobs in the rest of the sectors connected to the government (healthcare, public administration). **Overall, the labour market tightness indicator** calculated from the ratio of job vacancies and unemployed persons, **has not changed significantly compared to the previous quarter,** and it still falls short of the values registered in the previous three years (Chart 6).

1.3. Inflation and wages

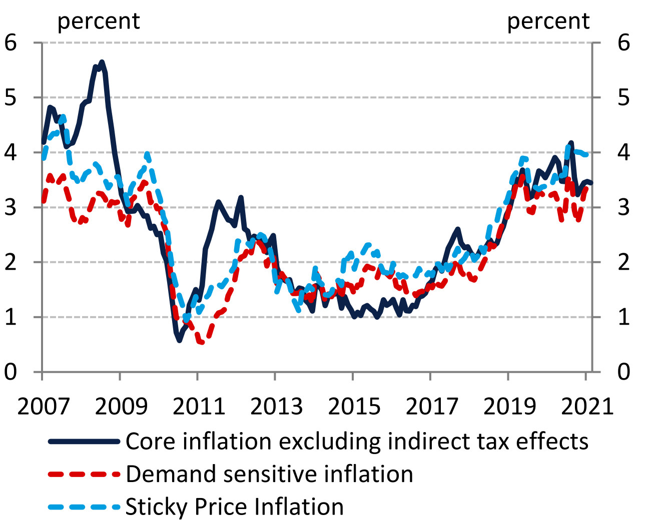
In February 2021, inflation calculated on a year-on-year basis was 3.1 percent, while core inflation and core inflation excluding indirect tax effects stood at 4.1 and 3.4 percent, respectively. Underlying inflation indicators capturing persistent inflationary trends (price index of demand sensitive and inflation of sticky price products and services) decreased compared to the previous month. In December 2020, gross average wages in the private sector rose by 11.9 percent year-on-year, due in part 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 December 2020, gross average wages in the private sector rose by 11.9 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 slightly increased on a monthly basis, while bonus payments were higher in December compared to previous years.

Within the private sector, the wage dynamics of market services continues to exceed that in manufacturing. Manufacturing wage dynamics increased significantly compared to November; **wages were higher by 11.4 percent year-on-year in December.** Wages in the automotive industry – representing the largest share – increased by 12.0 percent in annual terms. **In market services, HCSO registered a growth of 13.2 percent.** Wages in construction and trade rose by 10.7 percent, 10.3 percent, respectively, while in catering fell by 1.2 percent, year-on-year.

1.3.2. Inflation developments

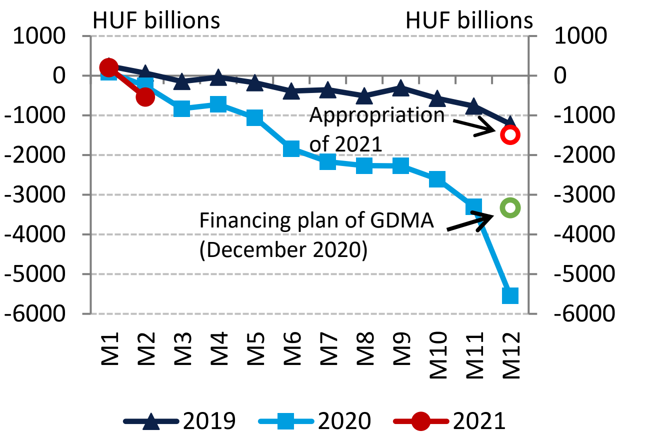
In February 2020, inflation calculated on a year-on-year basis was 3.1 percent, core inflation and core inflation excluding indirect tax effects stood at 4.1 and 3.4 percent, respectively (Chart 7). Compared to the previous month, inflation increased by 0.4 percentage point, while core inflation decreased by 0.1 percentage point. The rise in inflation was caused by the increase in fuel prices.

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 January 2021, agricultural producer prices increased by 11.0 percent in annual terms, while domestic sales prices in sectors of consumer goods increased by 2.3 percent.

1.4. Fiscal developments

The central sub-sector of the general government had a deficit of HUF 738 billion in February 2021, and thus the deficit accumulated since the start of the year amounted to HUF 540 billion, exceeding the value of previous year.

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



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

The **central sub-sector of the general government had a deficit of HUF 738 billion in February 2021**, and thus the deficit accumulated since the start of the year, exceeding the value of previous year, amounted to HUF 540 billion (Chart 9).

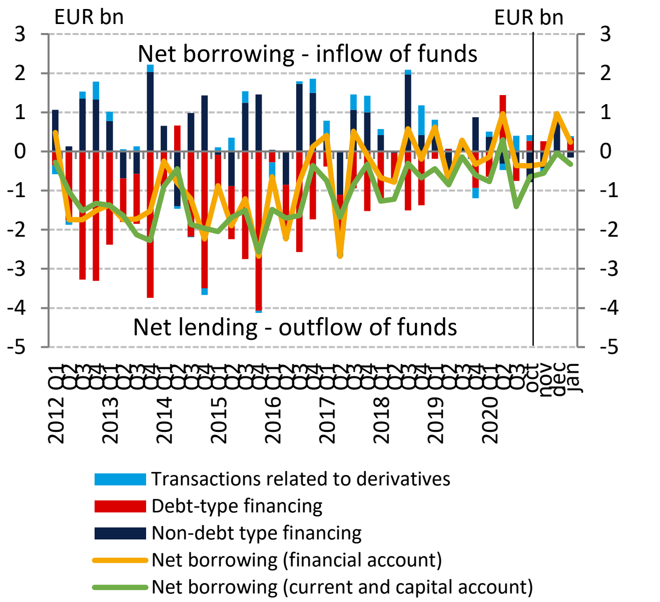
In February, revenues of the central sub-sector exceeded the year-on-year value by HUF 33 billion. The rise was mostly attributable to the **revenues linked to EU transfers**; in addition, **personal income tax and duty revenues also increased** year-on-year. The fall in revenues from value added tax is attributable to the acceleration of the VAT reimbursement, supporting SMEs, last May, which has no effect on the accrual-based balance.

Expenditures of the central sub-sector exceeded the amount registered in February 2020 by HUF 427 billion, mainly due to the **expenditures of the central budgetary organisations**, the **first tranche of the 13th month pension** and the **sectoral wage subsidy of the Economy Protection Employment Fund**, in the case of which after the decision of 2 February on the acceleration of payments, 98.6 percent of the already awarded subsidies have been disbursed by the end of February.

1.5. External balance developments

At EUR 81 million, the current account balance showed a moderate surplus in January, while net lending of the economy amounted to EUR 331 million. A rise in the external balance indicators reflected a strong growth in goods balance. Its effect, improving the balance, was subdued by the continued decline in services balance. On the financing side, with moderate net foreign direct investment inflow, the economy's net external debt increased.

Chart 10 Structure of net lending (unadjusted transactions)



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

At the beginning of the year, the current account balance increased, showing a moderate surplus of EUR 81 million. The growth in the current account was primarily attributable to the increase in the trade surplus (Chart 10). The significant growth in goods balance was linked to the growth rate of exports exceeding that of imports, while services balance continued to deteriorate in January. The income balance deficit was broadly stable, while the absorption of EU transfers, and thus the transfer balance, slightly fell short of the value registered previous month. As a combined result of the foregoing, the economy's external position grew.

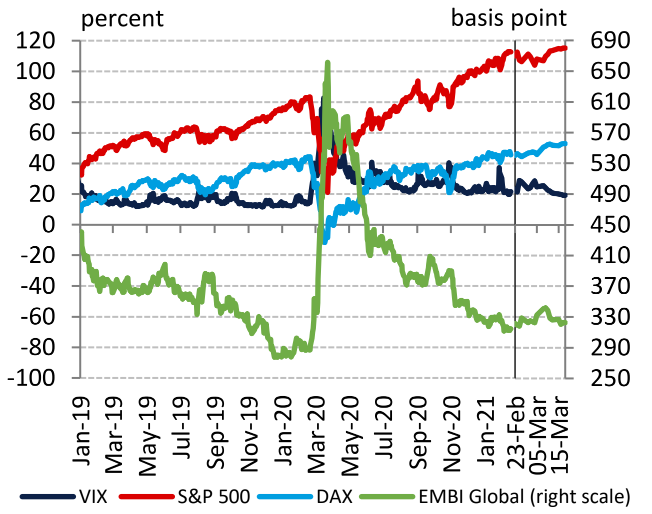
Based on the financial account data, net foreign direct investment inflow amounted to roughly EUR 80 billion, while net external debt of the economy rose. FDI growth was primarily attributable to reinvested earnings in January as well. Net external debt rose by almost EUR 350 million, due to transactions: the banking sector and the corporate sector increased their net external debt, which was partly offset by the decline in the indicator of the consolidated general government, attributable to the reflow of foreign currency liquidity provided to banks at the end of the year.

2. Financial markets

2.1. International financial markets

Since the last interest rate decision, financial market sentiment has varied, primarily supported by the vaccination programmes and a fiscal stimulus package totalling USD 1,900 billion, signed by US President Joe Biden. The VIX index, measuring equity market volatility, decreased further, while the EMBI Global spread in the emerging bond market rose by 1 basis point. On the other hand, the MOVE index measuring volatility in the developed bond market, rose by 5 basis points to 67 basis points. Last month developed stock market indices rose. By contrast, most of the emerging market indices fell. Developed market long-term yields rose further. The dollar exchange rate against developed and emerging currencies strengthened, it appreciated against the euro by 1.4 percent, and eventually it fluctuated below 1.2. Last month, oil prices continued to rise, 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)



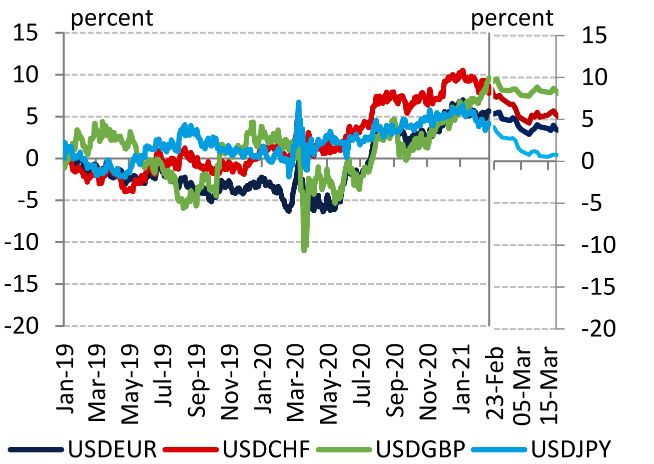
Source: Bloomberg

In the period since the last interest rate decision financial market sentiment varied. The focus of market participants was on the volume of vaccines available to the individual countries and on the potential additional restrictive measures linked to the new wave of the pandemic. 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, i.e. the fiscal stimulus package with a total amount of USD 1,900 billion, signed by US President Joe Biden. 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.

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 nearly 4 percentage point to 19.2 percent, while the emerging bond market EMBI Global spread rose by 1 basis points to 322 basis points. On the other hand, the MOVE index (measure of the developed bond market volatility) rose by 5 basis points to 67 basis points. (Chart 11).

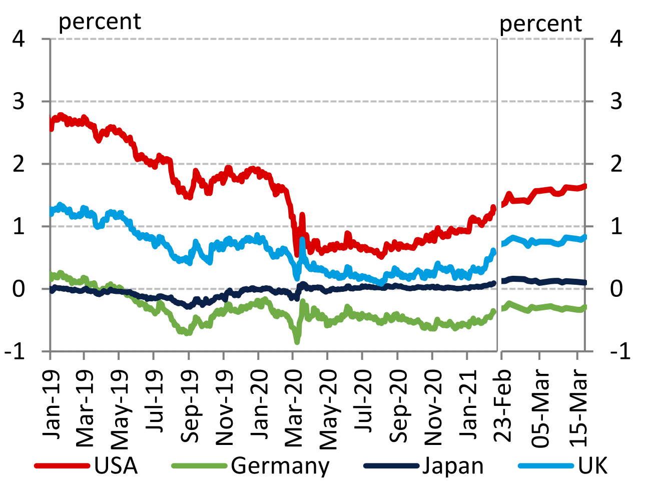
Last month developed stock market indices rose, while most of the emerging market ones decreased: while the developed market MSCI equity index rose by 1 percent, the emerging market composite index fell by 3.5 percent. **The key US stock exchange indices rose by 1.5-4.0 percent, while in Europe the German, British and French stock exchanges were up by 2-5 and 4.8 percent, respectively.** The Japanese stock exchange index fell by 0.8 percent, while the Chinese stock exchange decreased by 5.2 percent during the period under review, despite the stock exchange intervention to mitigate selling pressure. **However, stock market indices rose in the countries of the region as well**:

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

the Polish and the Hungarian one were up by 1.0-1.5, the Romanian one by 5.7, while the Czech one by 0.5 percent**.**

The dollar strengthened against the developed currencies (Chart 12). It appreciated against the euro by 1.4 percent, the Swiss franc by 1.9 percent, the Japanese yen by 3.4 percent, and the British pound by 0.8 percent. At the end of the period, the euro-dollar exchange rate stood at below 1.2. **The performance of emerging Asian currencies against the dollar also weakened. All currencies of the region depreciated against the dollar.** Since the last interest rate decision the price of gold declined by 3 percent, to USD 1,752/oz.

Developed bond yields have increased further since the last interest rate decision in parallel with the rise in inflation expectations and due to the US fiscal stimulus package adopted by the Congress (Chart 13)**.** The British, US and German 10-year yield rose by 7, 34 and 3 basis points, respectively, and thus the US yield closed the period at 1.68 percent and the German one close to -0.29 percent. **Yields in the Mediterranean countries also rose** by 1-5 basis points.

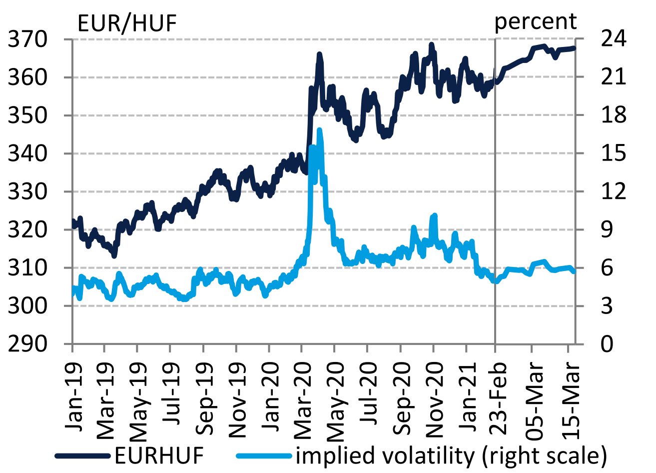
The countries of the CEE region were also characterised by increasing yields on long-term government securities: the Czech and Polish yields rose by 37 and 16 basis points, respectively, while the Hungarian 10-year yield was up by 20 basis points. On the other hand, the Romanian yield fell by 6 basis points.

Oil prices continued to rise in the previous period, supported by the improving growth prospects, the loss in production due to the extraordinary weather conditions in the United States during the period under review as well as by the missile attack that had hit a Saudi oil unit. The **attack on the Kingdom's oil industry had no victims and did not impact production either**, as the Saudi forces managed to deactivate the missiles and drones. According to the Saudi Ministry of Energy, the drone attack had hit a storage unit in the Port of Ras Tanura, which is the largest export port of the world, with an export capacity of 6.5 million barrels per day. **During the period under review, the price of Brent crude oil rose by 3.5 percent to USD 67.5/barrel, while the US benchmark WIT oil price grew by 4.5 percent to USD 64.5, thereby both of them reaching a more than 1-year high**.

2.2. Developments in domestic money market indicators

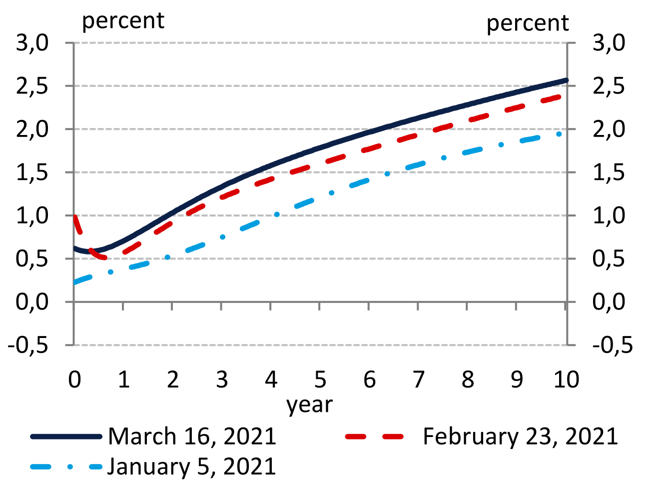
In the period, the forint depreciated against the euro to a slightly larger extent than against the region's currencies. The government yield curve became steeper. In the past month, there was a strong demand at government bond auctions. However, the average auction yields rose relative to mid-February.

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 February, the forint exchange rate depreciated against the euro by 2.2 percent slightly larger degree than the currencies of the region (Chart 14). Of the currencies of the region, the Polish zloty depreciated against the euro to a similar degree, by 2 percent, while the Czech koruna and the Romanian leu depreciated by 0.8 and 0.2 percent, respectively.

The government yield curve became steeper (Chart 15). The shortest section of the yield curve rose by 1-10 basis points, while the 1-year section of the curve increased by 12-14 basis points. An increase of 18 basis point was observed around the 5-year section of the yield curve, 17 basis points at the 10-year maturity and around 16 basis points at the longest section.

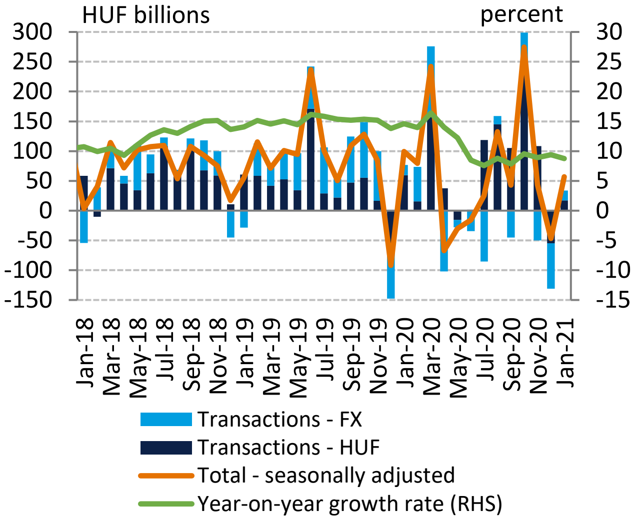
In the past month, the demand was strong at government bond auctions. The Government Debt Management Agency issued the announced volume at the auctions of the 3-month Treasury bills and at the 12-month auctions. Since the last interest rate decision, the average yield at the 3-month auctions rose from 0.46 percent to 0.59 percent, while the average auction yield at the 12-month Treasury bill auctions increased from 0.52 percent to 0.67 percent. The government bond auctions were characterised by strong demand; accordingly, at the 5-, 6-, 10-, 15- and 20-year bond auctions the Government Debt Management Agency typically accepted bids in excess of the announced volume. At the latest auction, the average yield of the 10-year securities was 2.62 percent, representing an increase of 26 basis points compared to average auction yield before the last interest rate decision. The average auction yield on the 5-year government securities increased by 25 basis points to 1.81 percent and on the 15-year securities by 45 basis points to 3.22 percent. The average auction yield on the 20-year securities rose by 21 basis points to 3.37 percent. The Hungarian 5-year CDS spread remained unchanged during the period under review, and currently stands at 60 basis points.

Non-residents' holdings of forint government securities decreased. Non-residents' holdings fell by HUF 124 billion to HUF 4,809 billion, while the market share of forint government securities held by non-residents decreased from 22.9 percent to below 22.1 percent.

3. Trends in lending

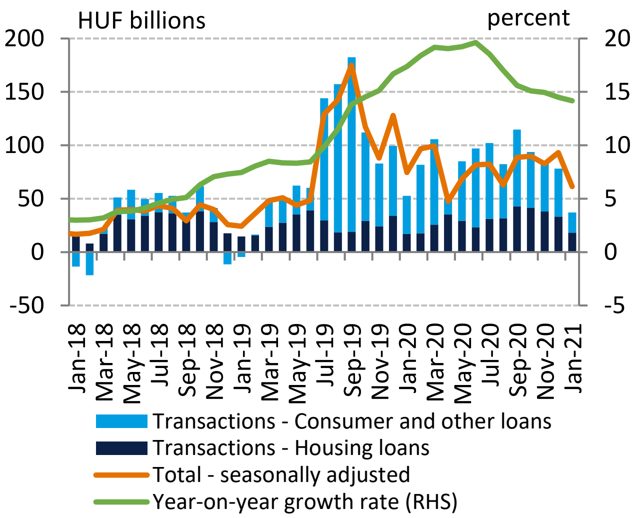
In January 2021, outstanding loans to non-financial corporations rose by HUF 34 billion, reflecting a rise of HUF 17-17 billon in forint and foreign currency loans. Outstanding borrowing by households rose by HUF 37 billion as a result of disbursements and repayments in the month, consequently causing the annual growth rate to decline slightly to 14.2 percent.

Chart 16 Net borrowing by non-financial corporations



Source: MNB

Chart 17 Net borrowing by households

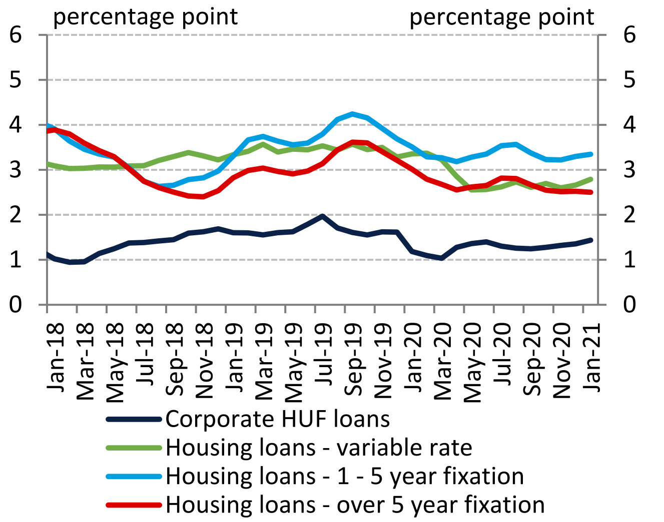


Source: MNB

In January 2021, outstanding loans to non-financial corporations rose by HUF 34 billion, reflecting a rise of HUF 17-17 billon in forint and foreign currency loans (Chart 16). The growth was mostly attributable to SME loans, the outstanding volume of which rose by roughly HUF 100 billion in January. Due to the more moderate monthly growth, the annual growth rate decelerated to 8.7 percent from 9.4 percent registered in the end of the year. In January, credit institutions disbursed new loans in the amount of almost HUF 200 billion, which albeit falls short of the relatively high value registered in 2020, exceeds the January values of previous years. In January, credit institutions concluded forint contracts with enterprises under FGS in the amount of HUF 118 billion, which accounts for more than half of the total placements to the corporate sector.

During the month under review, outstanding borrowing of households rose by HUF 37 billion as a combined result of disbursements and repayments, and thus the annual growth rate moderately decreased, to 14.2 percent (Chart 17). The outstanding growth, by international standards, is still largely supported by the instalment reducing effect of the moratorium on payments. The volume of new loan contracts concluded in January is the lowest since the onset of the coronavirus pandemic, and falls short of the level a year ago, not yet impacted by the pandemic, by 32 percent. The decline impacted all loan types, which may have been also attributable to the wait and see attitude due to the measures supporting first-time homebuyers, effective from 2021. Subsidised loans (HPS, prenatal baby support loans) have significant role in retail lending, accounting for 31 percent of disbursements in the period under review.

Chart 18 Development of corporate and household credit spreads



Note: In the case of corporate forint loans, the spread over the 3-month BUBOR. In the case of housing loans with variable interest or interest fixed for 1 year at the most, the 3-month BUBOR, while in the case of housing loans fixed for over one year, the APR-based margin above the relevant IRS.
Source: MNB

The smoothed interest rate spread of corporate loans in HUF was 1.44 percentage point in January 2021, representing an increase of 0.09 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 2.79 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 dropped compared to December. The average spread on housing loans with interest rate fixation periods longer than one year and up to 5 years reached 3.35 percentage points in January, while the spread on products with interest rate fixation periods of more than 5 years was 2.50 percentage points.