MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 26 APRIL 2022

APRIL

2022

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The background material 'Macroeconomic and financial market developments' is based on information available until 21 April 2022.

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

The Chinese economy grew by 4.8 percent in the first quarter of 2022. In the fourth quarter of 2021, the euro area, the EU and the United States registered an economic growth of 4.6, 4.8 and 5.6 percent, respectively, year-on-year. Euro area GDP thus exceeded its pre-pandemic level. Confidence indices related to the international manufacturing and service sectors deteriorated in March, but remained generally positive. In the fourth quarter of 2021 and in early 2022, the external inflationary environment remained high. In March, inflation in the United States and in the euro area rose to 8.5 and 7.4 percent, respectively.

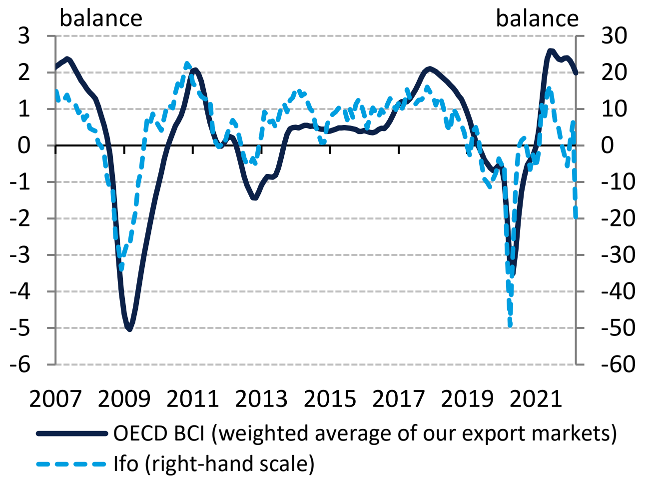
Global industrial production has been above its pre-pandemic level since September 2020. In the middle of last year, the global semiconductor shortage restrained industrial growth, however, since October both industrial production and world trade activity have been on the rise. Recovery in the service sector is still expected to be slow and gradual, and may be hampered by the protracting Russia-Ukraine war. Compared to the average of 70 thousand flights registered at the beginning of last year, the number of daily commercial flights has been higher in recent weeks as well, close to 90 thousand, which – however – still falls short of the 2019 (and early 2020) figures.

According to the latest data, in the first quarter of 2022, economic growth in China picked up again, while the USA and the euro area also saw favourable trends at the end of 2021. GDP in China rose by 4.8 percent in the first quarter of this year, while in the United States, in the euro area and in the EU it was up by 5.6 percent, 4.6 percent and 4.8 percent, respectively, year-on-year in the fourth quarter of 2021. Euro area GDP thus reached its pre-pandemic level.

Monthly production indicators showed a mixed picture in February and March. In March, industrial production in the United States and in China rose by 5.5 percent and by 5.0 percent, respectively, while it grew by 1.6 percent in the United Kingdom in February and fell by 1.3 percent in the euro area in January, year-on-year. In March, the volume of retail sales rose in the USA by 6.9 percent, while it fell by 3.5 percent in China, year-on-year. In February, it grew by 7.0 percent in the United Kingdom and by 5.0 percent in the euro area.

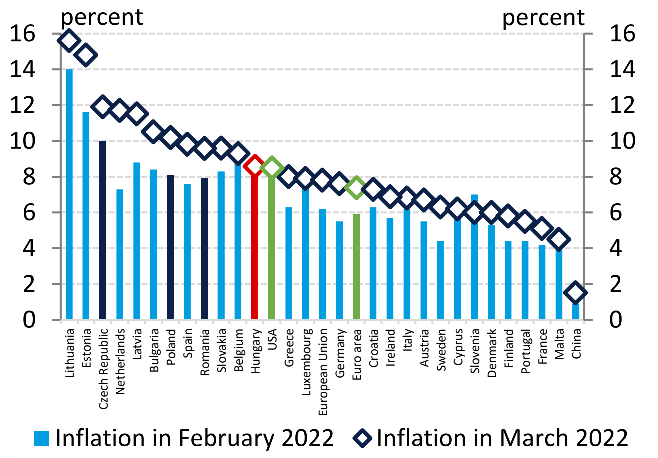
In March, forward-looking manufacturing and service sector confidence indices declined. Business sentiment in the euro area and in Germany (Ifo Business Climate Index) also fell in March (Chart 1). On the other hand, purchasing Manager Index in the United States, the euro area and

Chart 1 Business climate indices in Hungary's export markets



Source: OECD, Ifo

Chart 2 Developments in the international inflationary environment



Note: HICP inflation rates (with the exception of USA and China, where CPI inflation rates) are presented.
Source: Eurostat

Germany remained above the threshold value (50 points), while that in China declined to 49.5 points.

International labour market trends improved further. In the United States, the number of new unemployment benefit claims was 185,000 in the week ending on 9 April, which is an increase compared to the previous week, however, it is still below the 2019 average (200,000). The unemployment rate declined to 3.6 percent in March from 3.8 percent in February. Euro area unemployment rate declined further compared to the previous month and it was at a record low of 6.8 percent in February.

In annual terms, euro area inflation rose to 7.4 percent in March with core inflation rising from 2.7 percent to 2.9 percent in February. Inflation data significantly exceeded analysts' expectations of 6.7 percent. Core inflation was slightly below analysts' expectations of 3.1 percent.

Based on available data, inflation rose in March in all but two of the 27 countries of the European Union (and also in the entire euro area). Common reasons underlying the globally rising inflation include demand and supply imbalances and rising commodity prices. The largest, more than 4 percentage points, increase was observed in the Netherlands, and the Baltic states also registered a price rise of more than 1.5 percentage points. Among the EU countries, the highest inflation was observed in Lithuania, where prices rose by 15.6 percent year-on-year. CPI inflation in March stood at 8.5 percent in the United States. In the Czech Republic inflation in March was 12.7 percent (HICP inflation: 11.9 percent), significantly exceeding the 2 percent inflation target of the Czech central bank (Chart 2).

1.2. Domestic real economy developments

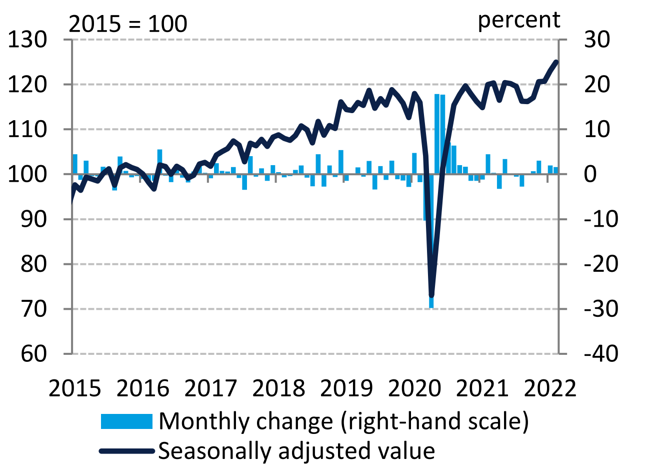
In the fourth quarter of 2021, Hungary's GDP rose by 7.1 percent year-on-year, while economic performance grew by 2.0 percent quarter-on-quarter. By international standards, Hungarian economic recovery is in the top third of the EU ranking. According to real time data, the favourable economic trends observed at the end of last year continued in early 2022 despite the war. In February, industrial output as well as the volume of construction and retail sales exceeded their pre-crisis levels. Recovery in the labour market has continued in recent months. In February 2022, the raw unemployment rate stood at 3.8 percent, while the number of people in employment rose by 117,600 year-on-year, surpassing pre-pandemic levels.

1.2.1. Economic growth

The Hungarian economy continued to grow in the fourth quarter of 2021. Based on raw data, Hungary's GDP rose by 7.1 percent year-on-year. Economic performance grew by 2.0 percent quarter-on-quarter. In international comparison, the recovery of the Hungarian economy is in the top third of the EU ranking. In the fourth quarter of 2021, the seasonally and calendar adjusted level of Hungary's GDP exceeded the value of the fourth quarter of 2019 by 3.5 percent. The performance of all sectors of the economy, excluding agriculture, grew year-on-year. Services' value-added increased by 8.2 percent, on a year-on-year basis.

In February 2022, industrial production rose by 4.5 percent (by 4.2 percent based on seasonally and calendar-adjusted data) year-on-year. Based on the seasonally and calendar-adjusted data, the volume of production increased by 1.6 percent on a monthly basis (Chart 3). In February, the volume of output continued to exceed pre-crisis levels. Most of the manufacturing subsectors contributed to the growth; however, automotive industry, representing the largest share, slightly declined year-on-year. Output of coke production (+14.4 percent), other machine production (+10.7 percent) and food industry (+10.0 percent) grew at a larger rate.

Chart 3 Development in industrial production



Source: MNB calculation based on HCSO data

In February 2022, based on raw data, the volume of construction output rose by 42.3 percent year-on-year. The level of construction output exceeded the growth trend seen in recent years. The volume of output increased by 13.3 percent compared to previous month, based on seasonally and calendar adjusted data. The construction of buildings and other structures increased by 56.2 percent and 20.0 percent, respectively, year-on-year. The volume of new contracts concluded rose by 92.7 percent on an annual basis, while construction companies' contract portfolio at the end of February exceeded the year-on-year value by 19.2 percent.

According to available real time data, the favourable economic trends observed at the end of last year also continued in early 2022 despite the war. At the beginning of the year, economic trends were generally favourable. Based on online cash register data, turnover in March grew by 35 percent on average year-on-year. However, in March air passenger traffic fell short of its level registered in the same period of 2019 by 39 percent, according to data received so far. Catering turnover registered a more than twofold increase in March, in annual terms, owing to the low base of last year. Cinema attendance in March was almost 29 percent lower compared to the same period of 2019. Road passenger and goods traffic both grew in March on an annual basis. Passenger traffic rose by around 24 percent, while goods traffic was almost 5 percent higher, year-on-year. In March, the electricity load data were close to that of the same period last year.

Based on available data, the number of **housing market transactions** rose by 2 percent in March year-on-year. **The Hungarian labour market proved to be resilient** during the coronavirus crisis. **Google searches** related to unemployment also show a favourable picture. Online searches in Hungary for the term “unemployment benefit” and “jobseeker’s allowance” are close to the levels seen before the outbreak of the pandemic.

According to the HCSO’s preliminary data release, **in February goods exports and imports rose by 17.7 percent and 29.2 percent, respectively, in euro terms, year-on-year.** In February 2022, the merchandise trade balance showed a deficit of EUR 91 million.

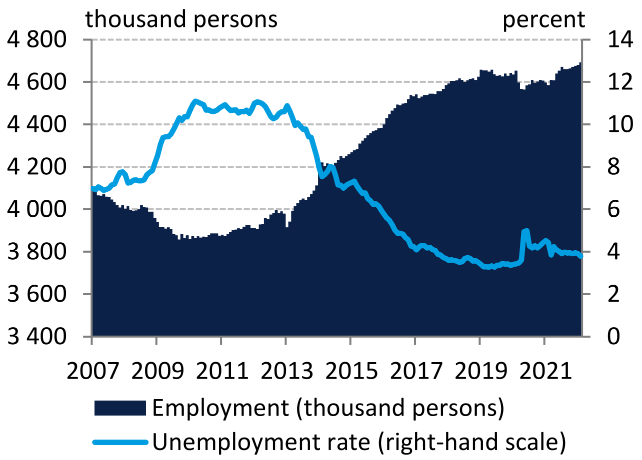
In February 2022, the sales volume of retail shops increased by 9.8 percent year-on-year according to both raw and calendar adjusted data. In February 2022, the volume of retail sales exceeded the level seen before the outbreak of the coronavirus, but was still significantly below the growth trend of recent years. Compared to the previous month, the volume of sales increased by 1.5 percent. Retail sales grew in all types of stores in February compared to the same period of last year. Based on calendar adjusted data, the volume of retail sales in food stores and groceries rose by 3.4 percent, in non-food stores by 14.6 percent, while the volume of fuel retail sales increased by 19.0 percent in annual terms. The largest year-on-year increase was registered in the sales of second-hand goods (+50.0 percent) and textile and clothing products (+39.8 percent). Vehicle and components sales, not belonging to retail sales, increased by 7.6 percent on a year-on-year basis,

In February 2022, the number of tourist overnight stays at commercial accommodations fell short of the level seen in the same period of 2019 by 32.5 percent. In February 2022, the number of tourist overnight stays rose by more than five times, year-on-year, owing to the low base of last year.

Domestic tourist overnight stays were 597,000 in February, thereby registering a growth of more than four and a half times in annual terms, while it fell short of the level registered in the same period of 2019 by 25.9 percent. 81 percent of domestic tourist overnight stays were in hotels. The number of overnight stays by foreign tourists in Hungary was 485,000, which is 39.2% less than in February 2019. 87 percent of foreign tourists stayed in hotels.

1.2.2. Employment

Chart 4 Number of persons employed and the unemployment rate

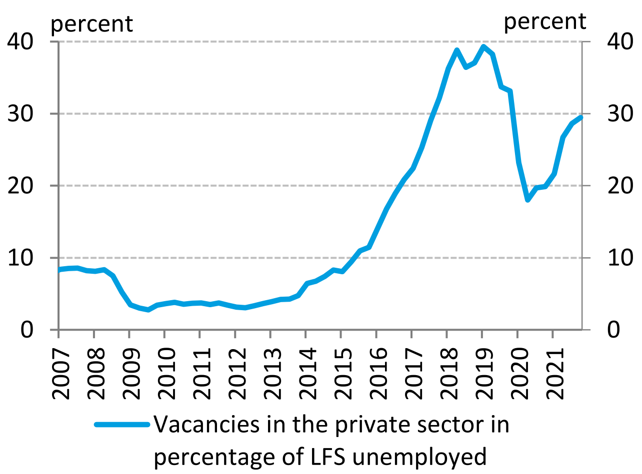


Note: The graph shows seasonally adjusted moving averages.
Source: HCSO

Based on data of the Labour Force Survey (LFS), in February 2022 the total number of the employed was 4,667,800 reflecting an increase of 117,600 persons year-on-year (Chart 4). Since February 2021, the number of employees in the private sector and of those working abroad rose by 155,400 and 4,000, respectively, while the number of public employees fell by 3,500.

In February, the number of the unemployed was 185,200, falling short of the year-on-year figure by 27,900 persons, and as a result, overall unemployment rate stood at 3.8 percent. Based on seasonally adjusted data, in February the number of the unemployed declined by 3,100 persons compared to January. Based on data published by the National Employment Service in February 2022 and March 2022 the number of registered jobseekers in Hungary was 252,000 (-50,000 on an annual basis) and 251,000 (-52,000 on an annual basis), respectively. Based on seasonally adjusted data, the number of the registered unemployed in March 2022 was below that in the months before the outbreak of the coronavirus pandemic.

Chart 5 Development of labour market tightness indicator



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

In the fourth quarter of 2021, private sector vacancies amounted to 56,500, exceeding the year-on-year value by 38.1 percent as well as the pre-pandemic level by 5.9 percent. **On an annual basis, labour demand rose in market services and manufacturing.** Manufacturing job vacancies exceeded last year's figure by 4,200. In the fourth quarter of 2021, job vacancies amounted to 30,200 in the market service sector, up by 9,500 compared to a year earlier, corresponding to the level of 2018-2019. Within the market services sector, real estate, professional and administrative activities job vacancies increased by 4,200, while in the trade sector it rose by 2,100. Based on job vacancies, tourism labour demand reached its pre-crisis level. Within the public sector job vacancies increased in healthcare, education and public administration. **Overall, the labour market tightness indicator rose further quarter-on-quarter**, but it still falls short of the values registered in the two years preceding the crisis (Chart 5).

1.3. Inflation and wages

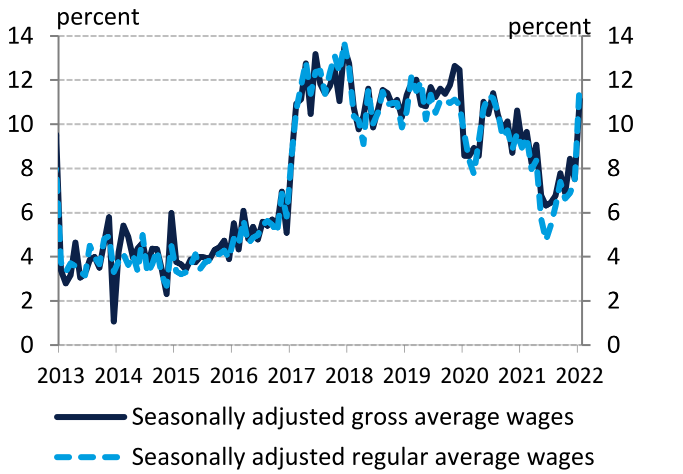
In March 2022, annual inflation was 8.5 percent, while both core inflation and core inflation excluding indirect tax effects stood at 9.1 percent. Underlying inflation indicators capturing persistent trends rose compared to the previous month. In January 2022, due to the significant increase in the minimum wage and the guaranteed wage minimum, whole-economy average wages and private sector wages rose by 13.7 percent and 12.5 percent, respectively, year-on-year.

1.3.1. Wage setting

In January 2022, gross average wages in the private sector rose by 12.5 percent year-on-year. Based on seasonally adjusted data, the level of regular average wages rose by 4.7 percent compared to the previous month. The degree of bonus payments remained broadly unchanged compared to the average of previous years.

According to seasonally adjusted data, the growth in gross average wages and regular average wages accelerated in the private sector compared to the previous month (Chart 6). In the private sector wage dynamics of market services outstripped that of manufacturing. In January, based on raw data, manufacturing wages were higher by 9.9 percent year-on-year. Wages in the automotive industry – representing the largest share – increased by 5.2 percent in annual terms. In market services, HCSO registered a growth of 13.9 percent. Wage dynamics exceeded 10 percent in most sectors. Gross wages in the financial, real estate, catering and construction sectors rose by 9.8, 11.1, 22.6 and 16.6 percent, respectively, year-on-year.

Chart 6 Dynamics of average earnings in the private sector

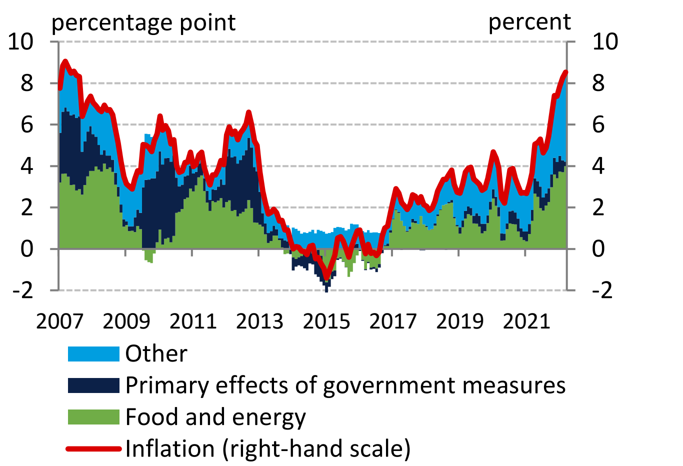


Source: MNB calculation based on HCSO data

1.3.2. Inflation developments

In March 2022, annual inflation was 8.5 percent, while core inflation and core inflation excluding indirect taxes stood at 9.1 percent (Chart 7)**.** Inflation grew by 0.2 percentage point compared to previous month due to the fact that the rise in core inflation items was only partly offset by the fall in the price index of fuels. Compared to February, core inflation rose by 1.0 percentage point, contributed to by the accelerating price rise of all three product groups (processed food, industrial goods and services).

Chart 7 Decomposition of inflation



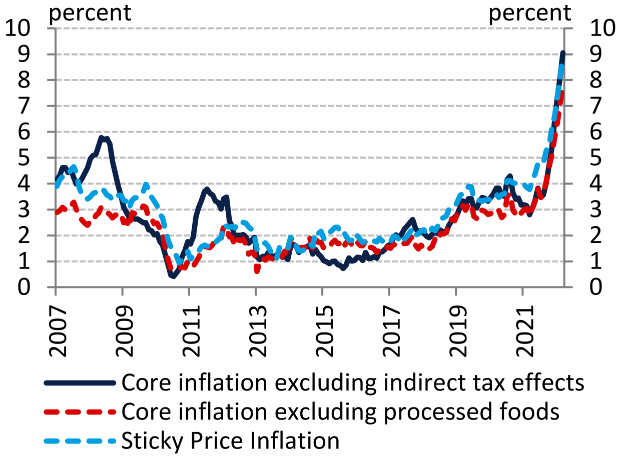
Source: MNB calculation based on HCSO data

Underlying inflation indicators capturing persistent trends slightly rose compared to the previous month (Chart 8)**.** In February 2022, agricultural producer prices increased by 24.9 percent in annual terms. In February, domestic sales prices in sectors of consumer goods increased by 15.6 percent.

1.3.3. Inflation risks

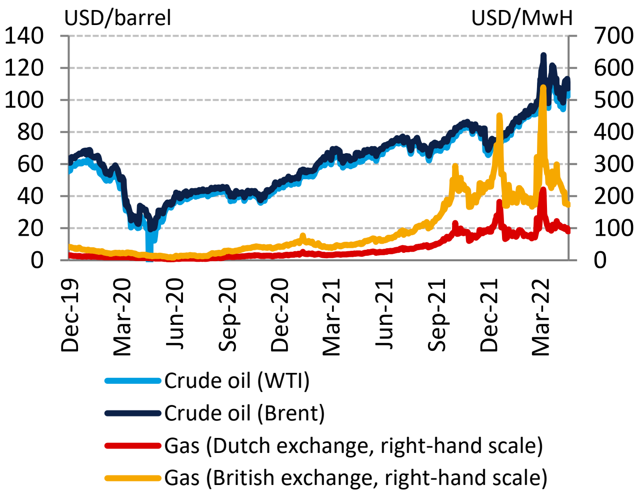
Inflation and core inflation continued to rise. In March, the monthly price change of the basket excluding fuels

Chart 8 Measures of underlying inflation indicators



Note: Core inflation excluding processed food corresponds, with unchanged content, to the former demand sensitive inflation measure. The new title is justified by the fact that in a period of significant cost shocks with a general impact, the former title may be misleading.
Source: MNB calculation based on HCSO data

Chart 9 Developments in oil and gas prices since December 2019



Source: Bloomberg

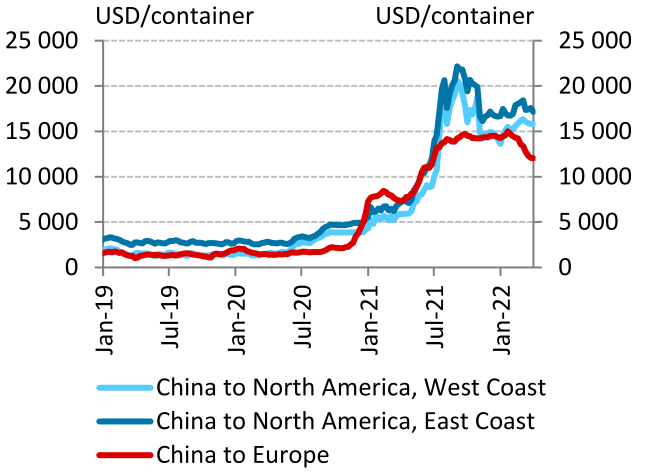
and administered prices was 1.2 percent, which was three times the average value in March of previous years. The higher repricing rate is a general phenomenon, which is attributable to the fact that rise in global commodity and energy prices swiftly passes through to consumer prices in a wide range of products. Industrial goods prices rose by 1.2 percent compared to the previous month, which also represents a more than threefold increase compared to previous years. The global semiconductor shortage and increasing commodity prices also pointed to a rise in consumer prices of the product group. Market services prices rose by 0.8 percent compared to the previous month. The price increase was significantly higher than usual repricings in March, which characterised a wide range of services.

The Russia-Ukraine war and the market tensions generated by it, along with soaring commodity prices, pose a material risk on developments in inflation over the short term, changing the previous repricing pattern, which – contrary to previous experiences – may persist longer within a one-year period. In addition, shutdowns due to the coronavirus pandemic, and the subsequent restart, the pandemic induced transformation of the labour market as well as the global semiconductor shortage continue to slow the recovery of the supply side. In addition, the extreme price rise in the energy market, the material increase in transportation costs and the shortening of value chains all point to globally rising inflation.

Oil prices have declined recently (Chart 9). The release of US oil reserves has put pressure on oil prices, which was partly offset by the halting of oil production in Libya, and thus the price of Brent and WTI crude oil declined by 6 and 7 percent since the last interest rate decision, currently standing at USD 109 and USD 104, respectively. Gas prices also declined, with the Dutch and British market registering a 9 and a roughly 25 percent decline, respectively, compared to the previous interest rate decision. On the other hand, nickel prices rose significantly, by almost 20 percent. Electricity prices increased by 21 percent in the German market since mid-March. Of the other major commodities, the price of barley and hog rose significantly in the recent period.

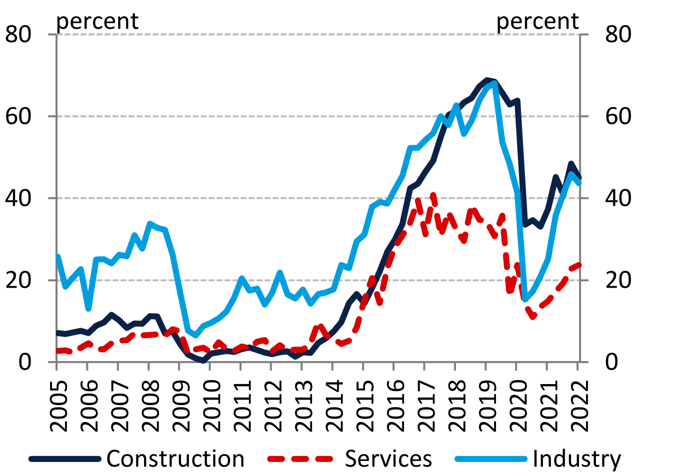
Global value chains may recover slower than demand, leading to increased cost pressures in global transportation and industrial production. In March, the costs of shipments from China to Europe rose by more than 60 percent in one year (Chart 10). Merchants will presumably pass on part of the resulting extra costs to the

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



Source: Bloomberg

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

consumers, as a result of which the price increasing effect of significantly higher commodity prices and shipping costs will also widely appear in the domestic consumer prices more. In addition to a fast recovery in demand, the global chip shortage is causing disruptions in industrial production, particularly in the automotive sector, which may have a knock-on effect on prices.

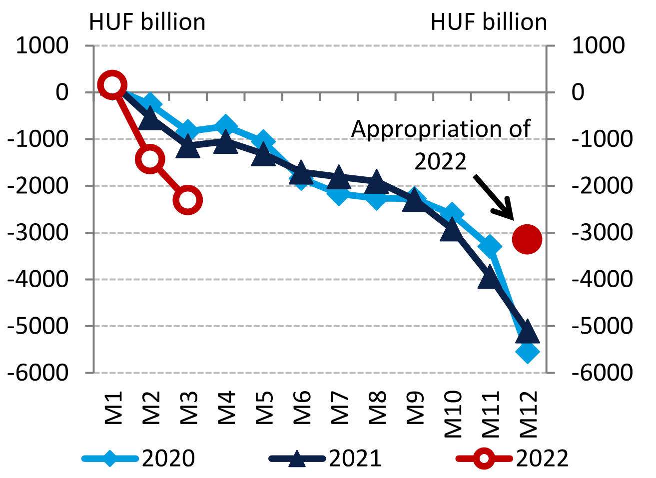
In the past months, the sharp rise in food prices has become an increasingly important explanatory factor for rising inflation rates. The growth in food prices is primarily attributable to global factors such as skyrocketing fodder and energy prices and high transportation costs.

In addition to international developments, several domestic factors also point to a significantly higher inflation path in Hungary than previously expected. In the fourth quarter of 2021, due to the reopening of the economy, Hungarian GDP grew by 7.1 percent. As regards employment, bottlenecks may be in place, especially in the industrial and construction sectors, in parallel with the recovery (Chart 11); however, labour market tightness is still below the figures registered in the two years before the crisis.

1.4. Fiscal developments

The central sub-sector of the general government closed with a deficit of HUF 876 billion in March 2022, and thus the first-quarter cash deficit rose to HUF 2,309 billion, i.e. to 73 percent of the budgetary appropriation. In March, tax and contribution revenues and expenditures exceeded the level seen a year ago by HUF 295 billion and HUF 583 billion, respectively.

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



Source: Budget Act of 2022, Hungarian State Treasury

In March 2022, the deficit of the general government's central sub-sector was HUF 876 billion, exceeding the deficit registered in the third month of 2021 by HUF 270 billion. As a result, the first-quarter cash deficit rose to HUF 2,309 billion – mostly due to one-off items – amounting to 73 percent of the budgetary appropriation (Chart 12). On the other hand, as a result of statistical corrections connected to EU advances and personal income tax refunds, the accrual-based balance of the first quarter may become significantly more favourable.

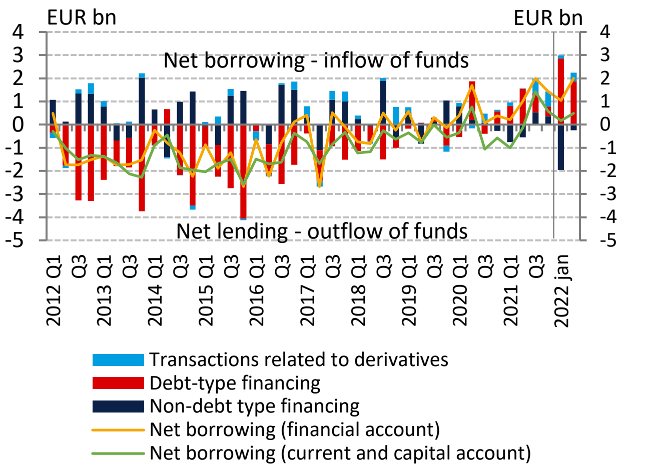
In March, tax and contribution revenues of the central sub-sector exceeded the level seen a year ago by HUF 295 billion due to the sharply rising tax revenues partly resulting from one-off items**.** Labour taxes, also considering the effect of the armed forces' benefit, rose by HUF 142 billion, while consumption taxes grew by HUF 103 billion, year-on-year.

Primary expenditures exceeded those in March 2021 by HUF 583 billion, primarily as a result of higher expenditures connected to EU transfers and central budgetary organisations. EU expenditures exceeded those of last year by HUF 370 billion, mainly due to the advance payments related to the Széchenyi Plan Plus. EU expenditures in March 2022 amounted to HUF 502 billion, HUF 300 billion of which may be related to the advances of the new budgetary framework.

1.5. External balance developments

In February 2022, current account deficit was EUR 794 million, and net borrowing amounted to EUR 487 million. Net FDI declined in February, and in parallel, net external debt of the economy increased significantly.

Chart 13 Structure of net lending (unadjusted transactions)



Note: Positive values indicate net borrowing (inflow of funds), while negative values indicate net lending (outflow of funds). The fundamental development of the debt from an economic viewpoint is not influenced by the conversion between unallocated and bullion balances, thus this effect has been excluded.
Source: MNB

In February 2022, current account deficit was EUR 794 million, and net borrowing amounted to EUR 487 million. Current account deficit increased moderately, while net borrowing rose significantly. The goods deficit slightly decreased, but – due to the high energy prices – it may still be deemed high. Services surplus remained broadly unchanged compared to the previous month, but substantially exceeded the level seen a year ago. Income balance deficit slightly increased compared to January, while the transfer balance surplus decreased considerably.

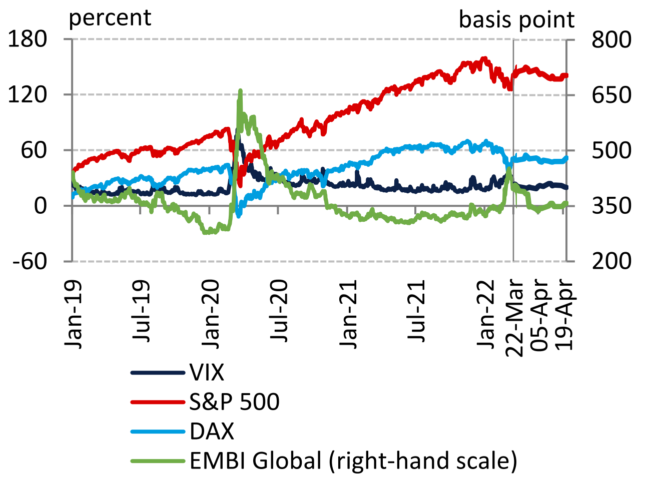
According to financial account data, net FDI declined due to transactions in February, while net external debt of the economy rose significantly (Chart 13). Net foreign direct investments fell by almost EUR 400 million. Net external debt rose by more than EUR 1.9 billion, to which all three sectors contributed positively. The EUR 1.1 billion rise in the general government's ratio is the combined result of forint government securities purchases by non-residents and foreign exchange reserve reducing items (e.g. foreign exchange expenditure of the general government and a decline in the forint liquidity providing swap portfolio). Foreign currency bond issuance in the month under review increased not only gross debt but also foreign exchange reserves, and thus it had no effect on the net ratio.

2. Financial markets

2.1. International financial markets

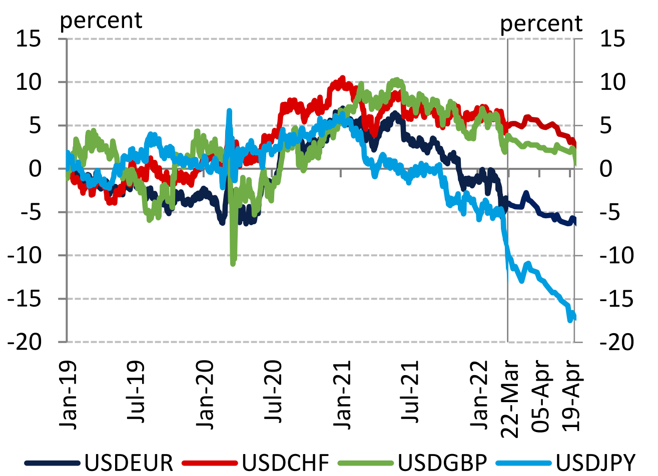
Heightened expectations of the Federal Reserve's rate hike increased the volatility in developed bond markets, while developments in the Russia-Ukraine war somewhat reduced emerging market risk indicators. Long-term yields rose both in developed markets and in the CEE region, while the EMBI Global emerging bond market premium declined. Leading stock market indices fell.

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



Source: Bloomberg

Chart 15 Developed market FX exchange rates



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

Since the last interest rate decision, expectations regarding the Russia-Ukraine war and the Federal Reserve's rate hike continued to dominate developments in global investor sentiment. Heightening expectations about Fed's interest rate increase path increased the volatility of developed bond markets, while developments in the Russia-Ukraine war somewhat reduced the value of emerging market risk indicators.

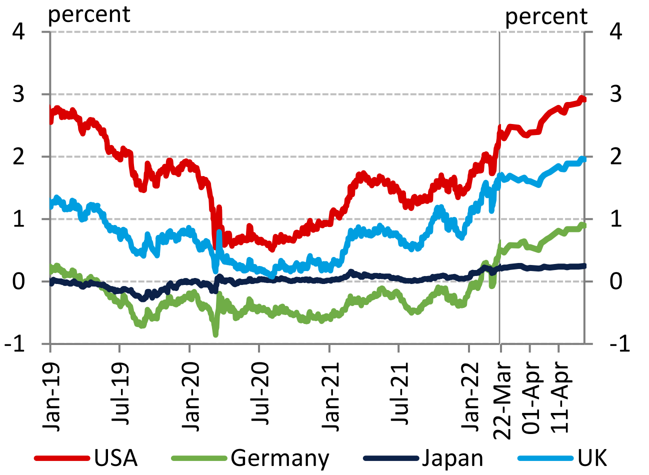
Of the risk indicators, the VIX index, measuring equity market volatility, rose by 1 percentage point compared to its level at the time of the previous interest rate decision to 21 percent, while the MOVE index, measuring developed bond market volatility, stands at 123 basis points after a rise of 17 basis points. The 46-basis-point fall in the EMBI Global emerging bond market premium reflected a minor calming in the emerging markets (Chart 14).

Key global stock market indices declined in general. The US S&P index fell by 1.1 percent, while of the European leading stock market indices, the German DAX and the French CAC declined by 1.8 percent and 1.2 percent, respectively. The Japanese stock market index maintained its level seen at the previous interest rate decision, while the Chinese stock exchange fell by 3.3 percent due to the restrictions related to the coronavirus. Overall, developed and emerging MSCI composite indices declined by 1.8 and 3.1 percent, respectively.

The dollar continued to appreciate against both emerging and developed market currencies (Chart 15). The dollar strengthened against the Swiss franc, the euro and the pound by 1.6, 1.7 and 1.8 percent, respectively, while it appreciated against the Japanese yen by 5.9 percent. At the end of the period, the euro-dollar exchange rate was close to 1.08.

Developed market bond yields have increased since the last interest rate decision (Chart 16)**.** The ten-year Japanese, German and US yield rose by 4, 39 and 53 basis points, respectively and thus the Japanese yield closed the period at 0.25, the German at 0.89, and the US yield at 2.91 percent.

Chart 16 Yields on developed market long-term bonds



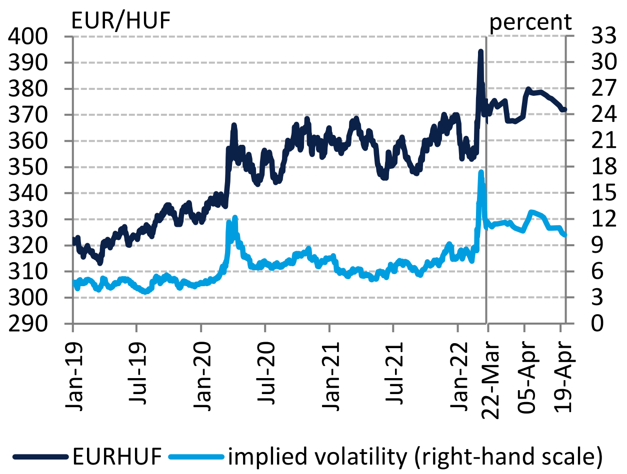
Source: Bloomberg

Yields in the Mediterranean countries also rose: the Portuguese, Italian, Spanish and Greek yields were up by 53, 45, 36 and 15 basis points, respectively. Yields in most countries in the region continued to rise significantly: the Hungarian, Romanian and Czech long-term yield rose by 41, 63 and 69 basis points, respectively, while the Polish yield rose by 115 basis points.

2.2. Developments in domestic money market indicators

The forint has depreciated by 0.9 percent against the euro since the March interest rate decision. The government securities yield curve shifted upward. The 3-month BUBOR rose by 35 basis points to 6.6 percent. In the past month, demand has been mixed at government bonds auctions. Average auction yields increased on all maturities.

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



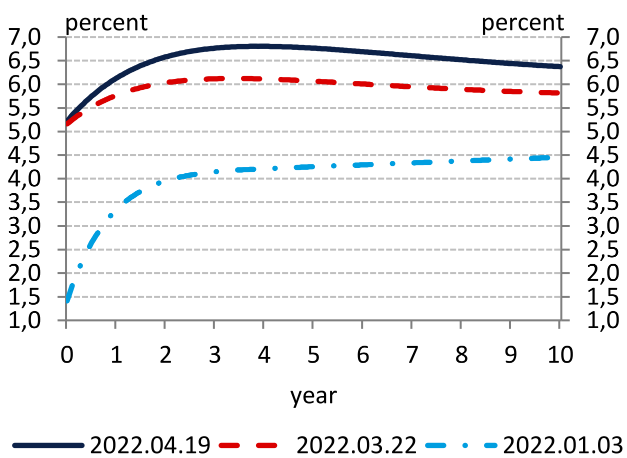
Source: Bloomberg

The forint has depreciated against the euro since the March interest rate decision by 0.9 percent. Within the period under review the exchange rate fluctuated in a wide band, while volatility priced into options decreased slightly. The forint strengthened in the first half of the period, and then weakened significantly in the middle of it. Including the correction in the second half of the period, the forint depreciated by 0.9 percent against the euro, while the Polish zloty (0.7 percent) and the Czech koruna (0.9 percent) appreciated slightly, while the Romanian leu exchange rate remained unchanged. During the period, the implied volatility of forint was lower than in the last month (Chart 17).

The 3-month BUBOR, relevant for monetary policy transmission, rose by 35 basis points to 6.6 percent since the last interest rate decision.

The government securities yield curve shifted upward (Chart 18**).** The yield curve increased by 35 basis points around the 1-year section, by almost 70 basis points at the middle section and by an average of 60 basis points in the long section, respectively.

Chart 18 Shifts in the spot government yield curve



Source: MNB, Reuters

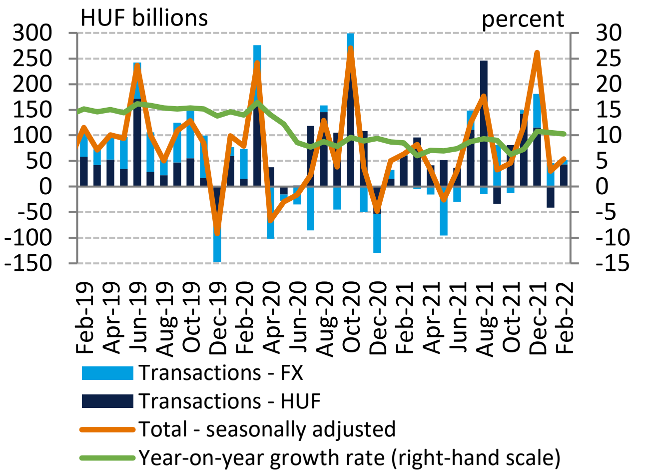
Since the last interest rate decision, demand has varied overall at bond auctions held by the Government Debt Management Agency: in the first half of the period demand was strong on all maturities, while it declined at the end of the period. Average auction yields rose both on discounted Treasury bills and on government bonds.

Non-residents' holdings in forint government securities increased. Non-residents' holdings in forint government securities increased by HUF 420 billion to HUF 5,044 billion. The market share of non-residents' holding in forint government securities also increased, and thus at present it stands at around 20 percent.

3. Trends in lending

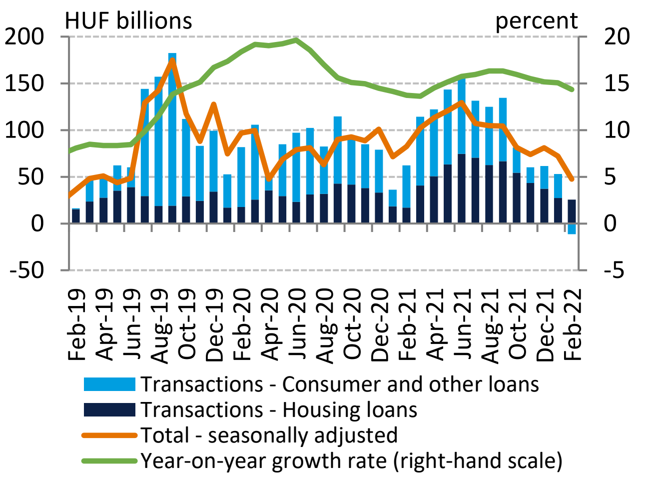
In February 2022, outstanding lending to non-financial corporations increased by HUF 52 billion, reflecting a rise of HUF 44 billion in forint loans and of HUF 8 billion in foreign currency loans. Outstanding borrowing by households increased by HUF 14 billion due to transactions, with annual growth rates reaching 14.3 percent in February. The smoothed interest rate spread of corporate loans in HUF was 1.54 percentage point in February 2022, representing an increase of 0.08 percentage points compared to the previous month.

Chart 19 Net borrowing by non-financial corporations



Source: MNB

Chart 20 Net borrowing by households



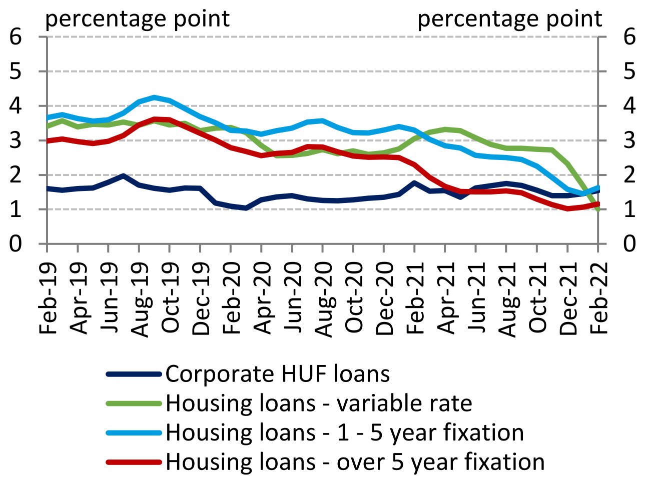
Source: MNB

In February 2022, outstanding lending to non-financial corporations increased by HUF 52 billion, reflecting a rise of HUF 44 billion in forint loans and of HUF 8 billion in foreign currency loans. Due to the more moderate monthly growth, the annual growth rate decelerated to 10.3 percent from 10.5 percent registered in the previous month (Chart 19). Together with the bond transactions in the balance sheet of credit institutions, the annual growth rate in the month came to 18.8 percent. In February, credit institutions disbursed new loans in the amount of HUF 166 billion, which falls short of the year-on-year figure by 34 percent, while it exceeds the value registered two years ago by 31 percent. Within the monthly disbursements, the disbursements of market-based loans accounted for 74 percent, which is substantially higher than the 54 percent recorded a year ago.

In February, loan disbursements in the household sector exceeded repayments by HUF 14 billion, causing the annual growth rate to reach 14.3 percent (Chart 20). Moderate growth in outstanding lending is attributable to the fact that the fall in overdrafts resulting from personal income tax reimbursements and the repayment of Lombard loans together reduced transactions by HUF 50 billion. Disbursements of new household loans in the amount of HUF 192 billion represent a moderate decline compared to the level seen two years ago, a period not yet affected by the pandemic. Disbursement of housing loans remains strong, while the volume of consumption loans falls short of pre-pandemic levels. In February, the ratio of state-subsidised loans rose to 37 percent within new disbursements, with major contribution by the buoyant demand for the FGS Green Home Programme.

The smoothed interest rate spread of corporate loans in HUF was 1.54 percentage points in February 2022, representing an increase of 0.08 percentage points compared to the previous month (Chart 21). The average smoothed interest rate spread on variable rate housing loans based on the annual percentage rate (APR) declined to 1.01 percentage points during the month. The spread on products with interest rate fixation periods longer than 1 year and up to 5 years and on products with interest rate

Chart 21 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

fixation periods of more than 5 years also increased slightly during the month. After a rise of 0.17 percentage points, the average spread on housing loans with interest rate fixation periods longer than one year and up to 5 years increased to 1.63 percentage points in February, while the spread on products with interest rate fixation periods of more than 5 years amounted to 1.15 percentage points at the end of the period under review after a rise of 0.08 percentage points.