MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 30 AUGUST 2022

AUGUST

2022

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The background material 'Macroeconomic and financial market developments' is based on information available until 25 August 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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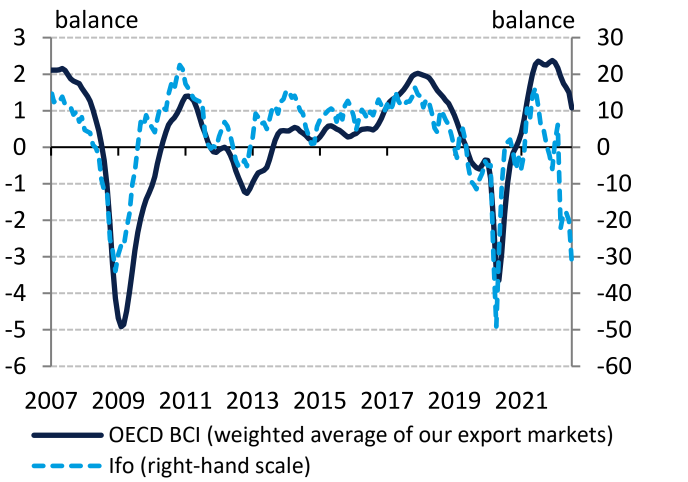
1. Macroeconomic developments

1.1. Global macroeconomic environment

In the second quarter of 2022, the growth rate of economies typically slowed down; the EU, the euro area and China registered an economic growth of 4.0, 3.9 and 0.4 percent, respectively, year-on-year. The economy of the United States grew by 1.7 percent in annual terms; however, quarter-on-quarter a decline was registered in both quarters of 2022, and thus the economy slipped into technical recession. International confidence indices deteriorated further in July. In July 2022, global average inflation was 17.0 percent based on the available data of 126 countries. A significant part of the countries with double-digit inflation are in Europe, where inflation is over 10 percent in 22 countries. High energy and commodity prices along with the European drought crisis are likely to raise external inflation further.

In the second quarter of 2022, the growth rate of economies typically slowed down; the EU, the euro area and China registered an economic growth of 4.0, 3.9 and 0.4 percent, respectively, year-on-year. **The economy of the United States** grew by 1.7 percent in annual terms; however, quarter-on-quarter **a decline was registered in two consecutive quarters of 2022, pushing the economy into technical recession.** Based on the currently available data of 22 countries, the highest growth was registered in Slovenia (+8.3 percent) of the EU-27 countries. The economy of Germany – Hungary's main trading partner – grew by 1.7 percent in the second quarter.

Chart 1 Business climate indices in Hungary's export markets



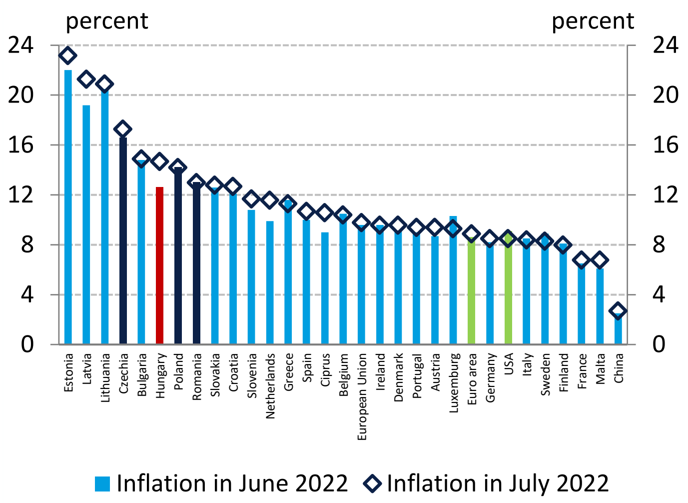
Source: OECD, Ifo

Monthly production indicators typically still show a positive picture. In July, industrial production in the United States grew by 3.9 percent, while China's rose by 3.8 percent. The euro area registered a year-on-year growth of 2.4 percent. In July, the volume of retail sales grew by 10.3 percent in the USA and by 2.7 percent in China, year-on-year. In June, the euro area registered a 3.7 percent fall year-on-year.

On the other hand, forward-looking confidence indices declined further. Business sentiment in the euro area also continued to deteriorate in the euro area based on both the Economic Sentiment Indicator (ESI) and the Purchasing Manager Index (PMI) in July (Chart 1). Consumer confidence index fell to a historical low. The Purchasing Manager Index of the United States significantly deteriorated and fell below the threshold (50 points) for the first time since June 2020.

International labour market trends have not changed since the previous period. In July, unemployment rate in the United States was 3.5 percent, a slight decrease from 3.6 percent in previous months. In June, unemployment rate in the euro area remained at 6.6 percent, which corresponds to the figure registered in the previous two months.

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

In July 2022, global average inflation was 17.0 percent based on the available data of 126 countries. In July, 59 of the 126 countries registered double-digit inflation. As regards the individual continents, average inflation was the highest (27.7 percent) in South America, while Australia and Oceania showed the lowest price dynamics (5.7 percent). The average rate of price increase in Africa, Asia, Europe and North America was 25.1, 13.0, 12.6 and 8.8 percent, respectively. **A significant part of the countries with double-digit inflation are in Europe,** where inflation is over 10 percent in 22 countries.

In annual terms, euro area inflation and core inflation rose to 8.9 percent and 4.0 percent, respectively in July. The inflation and core inflation data slightly exceed analysts' expectations of 8.7 percent for inflation and 3.9 percent for core inflation. The rise in HICP inflation was mostly related to food, in addition to energy items, in July.

In July, inflation declined in six countries of the European Union, while the annual rate of price increase remained unchanged in further three countries; on the other hand, inflation rose by 0.2 percentage point in the European Union as a whole. Reasons underlying the globally rising inflation include demand and supply imbalances and rising commodity prices. Based on the observable HICP data, the largest rise compared to June (2.1 percent) was registered in Latvia and in Hungary. Among the EU Member States the greatest inflation was observed in Estonia in July as well, where prices rose by 23.2 percent year-on-year. Prices also increased significantly in Latvia (21.3), Lithuania (20.9), in the Czech Republic (17.3) and in Bulgaria (14.9) (Chart 2). Inflation in the United States eased to 8.5 percent in July from 9.1 percent in June.

1.2. Domestic real economy developments

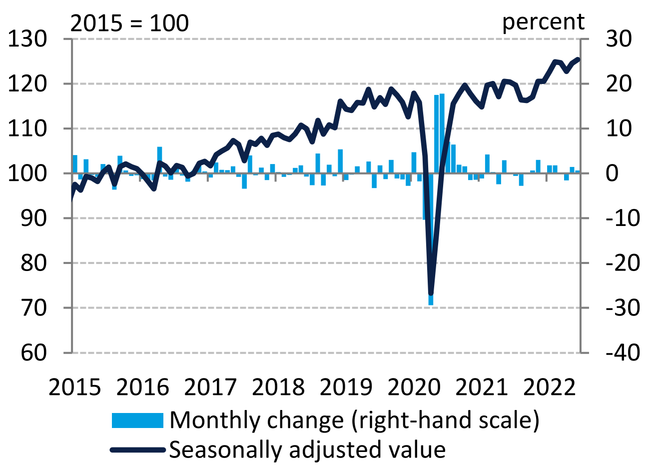
In the second quarter of 2022, Hungary's GDP rose by 6.5 percent year-on-year, while economic performance grew by 1.1 percent quarter-on-quarter. According to available data, the annual growth rate of Hungary's GDP was the fourth highest in the EU. According to real time data, following the favourable economic trends observed early this year growth may moderate in the third quarter. In July 2022, the average number of employees in the 15–74 age group was 4,714,000. In the period of May to July 2022, the average number of employees was 4,699,000, exceeding the year-on-year figure by 52,000.

1.2.1. Economic growth

The Hungarian economy continued to grow in the second quarter of 2022. Hungary's GDP rose by 6.5 percent year-on-year. According to the seasonally and calendar adjusted, and balanced data, economic performance rose by 1.1 percent quarter-on-quarter. The performance of all sectors of the economy, excluding agriculture, grew year-on-year, with industry and market services showing the strongest growth. Within industry, particularly food and beverage production, the manufacture of electrical equipment, while within market services mostly accommodation and catering as well as transportation and warehousing registered significant growth. The significant decline in agriculture, resulting from the drought, curbed growth. According to the available data, the seasonally and calendar adjusted annual growth rate of Hungary's GDP was the fourth highest in the European Union and it was well over the euro area (+3.9 percent) and the EU (+4.0 percent) average.

In June 2022, the volume of the industrial production rose by 1.5 percent (by 4.7 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 0.6 percent on a monthly basis (Chart 3). The production of manufacturing subsectors showed a mixed picture. Manufacture of electrical equipment registered a more significant growth (+ 17.3 percent), primarily due to the major rise in electric engine and battery production. Manufacture of food, beverages and tobacco (+9.3%) and manufacture of computer and electronic products (+4.9 percent) increased. Output of the domestic automotive industry, which is the largest component of domestic production, rose by 2.9 percent. Of the manufacturing subsectors, coke production and crude oil refining shrank to the largest degree (-12.6 percent) compared to last June.

Chart 3 Development in industrial production



Source: MNB calculation based on HCSO data

Based on preliminary data, the merchandise trade balance showed a deficit of EUR 471 million in June 2022. In an annual comparison and compared to May the balance deteriorated significantly, by EUR 1,036 million and EUR 375 million, respectively. Balance, adjusted for

VAT residents, remained negative, with a deficit of EUR 1,111 million in June. **In June, the value of exports and imports in euro grew by 13.0 and 24.1 percent, respectively, year-on-year.** In May 2022, terms of trade deteriorated by 5.7 percent in an annual comparison, which is primarily attributable to the rise in mineral fuel prices.

In June 2022, the volume of construction output was down by 8.1 percent year-on-year. The construction of buildings and other structures decreased by 4.8 percent and 11.7 percent, respectively, year-on-year. Based on seasonally and calendar adjusted data, domestic construction output compared to the previous month declined by 5.2 percent. The volume of new contracts concluded fell by 27.8 percent in June, while construction companies' contract portfolio at the end of June exceeded the year-on-year value by 1.2 percent.

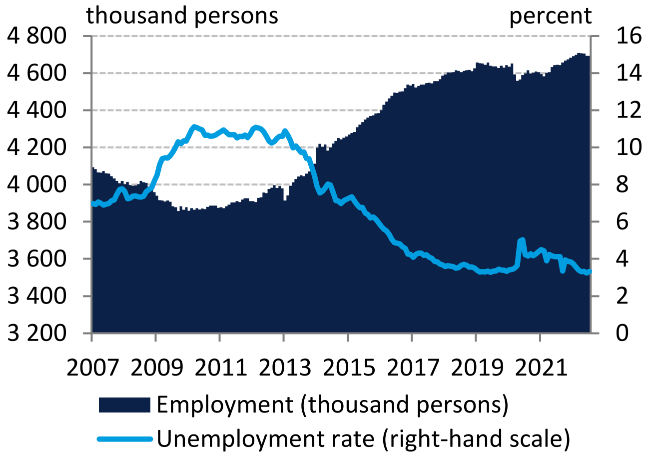
According to real time data, following the favourable economic trends observed in the first half of this year economic growth may decline in the third quarter. Based on online cash register data, nominal turnover in July grew by 21 percent on average year-on-year. In July, however, air passenger traffic fell short of its level registered in the same period of 2019 by 20 percent, according to data received so far. Catering turnover rose by almost 23 percent in annual terms in July, owing to the low base of last year. Cinema attendance in July was almost 12 percent lower compared to the same period of 2019. Road passenger traffic fell by nearly 3 percent and goods traffic by 4 percent, year-on-year. In July, the electricity load data were 6 percent below the same period last year. The number of housing market transactions decreased by 23 percent on average, year-on-year. Google searches related to unemployment typically show a favourable picture. Online searches in Hungary for the term "unemployment benefit" and "jobseeker's allowance" are close to the levels before the outbreak of the pandemic.

In June 2022, the volume of retail sales was up by 4.5 percent based on data adjusted for the calendar effect, year-on-year. Compared to previous month, turnover declined for the third time consecutively; in June it fell short of that registered in May by 2.1 percent. The volume of sales grew to the largest degree in second-hand shops (13.2 percent) and in pharmacies and perfumeries (8.6 percent). Based on calendar adjusted data, the volume of retail sales in food stores and groceries dropped by 0.3 percent, and rose by 2.5 percent in non-food stores. The increased demand generated by the fuel price cap contributed to the rise of 23.6 percent in the volume of fuel retail sales. Vehicle and components sales, not belonging to retail sales, increased by 4.9 percent on a year-on-year basis, based on calendar adjusted data,

1.2.2. Employment

Based on the data of the Labour Force Survey (LFS) in July 2022, the average number of employees in the 15–74 age group was 4,714,000. In the period of May to July 2022, the average number of employees was 4,699,000, exceeding the year-on-year figure by 52,000 (Chart 4). On average between May and July, the number of employees in the primary labour market and of those working abroad rose by 57,000 and 6,000, respectively, while the number of fostered employees fell by 11,000 year-on-year. **In July, the number of the unemployed was 173,000, falling short of the year-on-year figure by 16,000 persons, and as a result, overall unemployment rate stood at 3.5 percent.** In July, based on seasonally adjusted data, the number of the unemployed remained unchanged compared to June, still showing the lowest figure since early 2020. Based on the data published by the National Employment Service, in June 2022 and July 2022 the number of registered jobseekers in Hungary was 230,000 (-35,000 on an annual basis) and 231,000 (-31,000 on an annual basis) respectively. Based on seasonally adjusted data, the number of the registered unemployed in July 2022 was below the number measured in the months before the outbreak of the coronavirus pandemic.

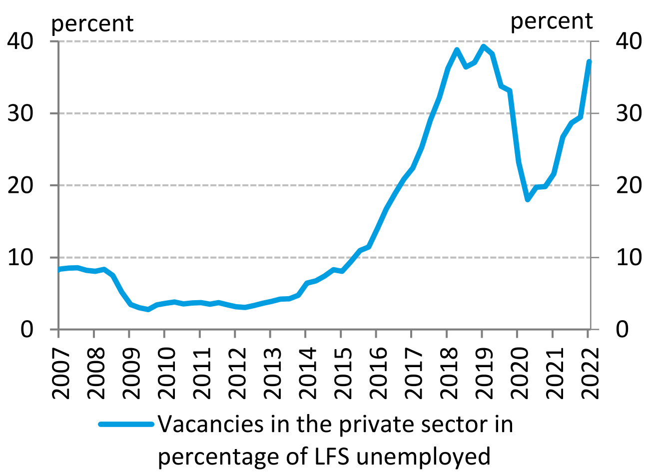
Chart 4 Number of persons employed and the unemployment rate



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

In the first quarter of 2022, private sector unsubsidised available vacancies amounted to 62,000, exceeding the year-on-year value by 48 percent as well as the pre-pandemic level by 16.1 percent. **On an annual basis, labour demand rose both in market services and manufacturing.** Manufacturing job vacancies exceeded the figure a year ago by 6,500. In the first quarter of 2022, job vacancies amounted to 34,300 in the market service sector, up by 12,700 compared to a year earlier and above the 2018–2019 level. Within the market services sector, real estate, professional and administrative activities job vacancies increased by 6,000, while in the trade sector it rose by 2,800. 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, and is close to the highs of the two years preceding the crisis (Chart 5)

Chart 5 Development of labour market tightness indicator

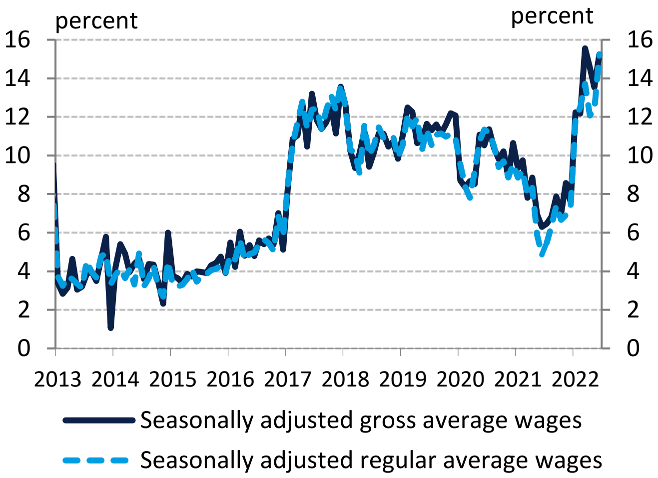


Note: Quarterly data.
Source: National Employment Service, HCSO

1.3. Inflation and wages

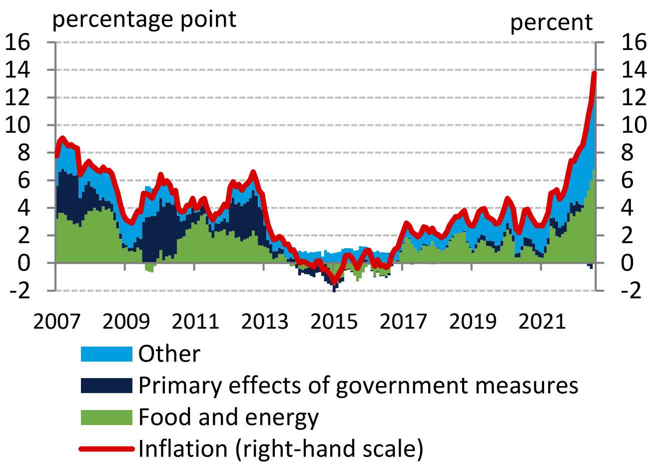
In July 2022, inflation calculated on a year-on-year basis was 13.7 percent, core inflation and core inflation excluding indirect taxes stood at 16.7 and 16.6 percent, respectively. The inflation data for July partly reflects the impact of tax increases (excise duty, windfall taxes). Underlying inflation indicators capturing persistent trends also rose compared to the previous month. In July, the repricing rate was 2.3 percent, which significantly exceeded the typical rate of previous years at 0.1 percent and also that of last July at 0.3 percent. In June 2022, average earnings in the national economy (excluding bonuses) rose by 16.0 percent, while private sector wages increased by 15.0 percent in annual terms.

Chart 6 Dynamics of average earnings in the private sector



Source: MNB calculation based on HCSO data

Chart 7 Decomposition of inflation



Source: MNB calculation based on HCSO data

1.3.1. Wage setting

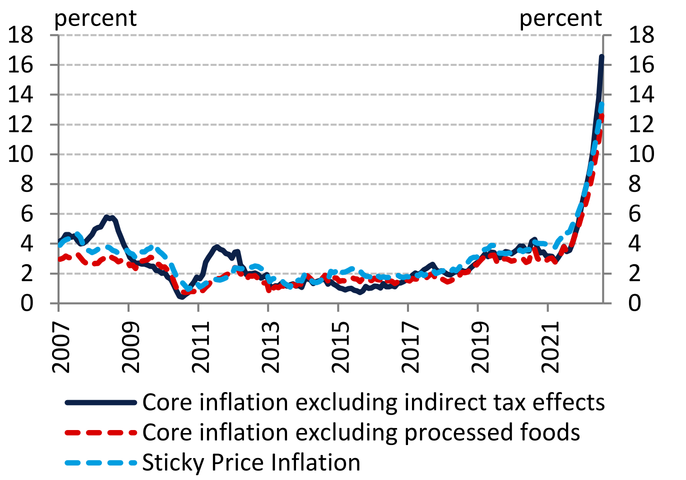
In June 2022, gross average wages in the private sector rose by 14.8 percent year-on-year. Based on seasonally adjusted data, the level of regular average wages rose by 2.3 percent compared to the previous month. The degree of bonus payments slightly exceeded the average of previous years, and amounted to 8.5 percent of the monthly wages. Average earnings in the national economy (excluding bonuses) rose by 16.0 percent, while private sector wages increased by 15.0 percent in annual terms.

According to seasonally adjusted data, the growth in gross average wages and regular average wages increased significantly 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 June, based on raw data, manufacturing wages were higher by 14.0 percent year-on-year. Wages in the automotive industry – representing the largest share – increased by 13.1 percent in annual terms. In market services, HCSO registered a growth of 15.0 percent. Annual wage dynamics was over 10.0 percent in all industries. Wages increased to the largest degree in the other services (24.7 percent), the healthcare (23.6 percent) and accommodation and catering (22.6 percent) sectors. Within the key sectors, gross wages in the trade and construction sectors rose by 14.5 percent and 17.9 percent, respectively, year-on-year.

1.3.2. Inflation developments

In July 2022, inflation calculated on a year-on-year basis was 13.7 percent, core inflation and core inflation excluding indirect taxes stood at 16.7 and 16.6 percent, respectively (Chart 7)**.** The July inflation data partly reflected the impact of tax increases (public health product tax, excise duty on alcohol and tobacco products, financial transaction levy, special retail tax, insurance tax, airline tax, special tax on telecommunication companies). Inflation was up by 2.0 percentage points compared to previous month, which is mostly attributable to the rise in the price index of food, industrial goods, alcohol and

Chart 8 Measures of underlying inflation indicators



Note: Core inflation excluding processed food corresponds, with unchanged content, to the former demand sensitive inflation measure.

Source: MNB calculation based on HCSO data

tobacco products. Core inflation rose by 2.9 percentage points compared to June, with the largest contribution of processed food and industrial goods. Within core inflation excluding indirect taxes, inflation of processed food rose to 33.0 percent. Inflation of market services was 10.0 percent, while the annual price dynamics of industrial goods was 14.5 percent.

Underlying inflation indicators capturing persistent trends also rose compared to the previous month (Chart 8**).** Underlying indicators capturing Hungary's short-term inflation trends also rose.

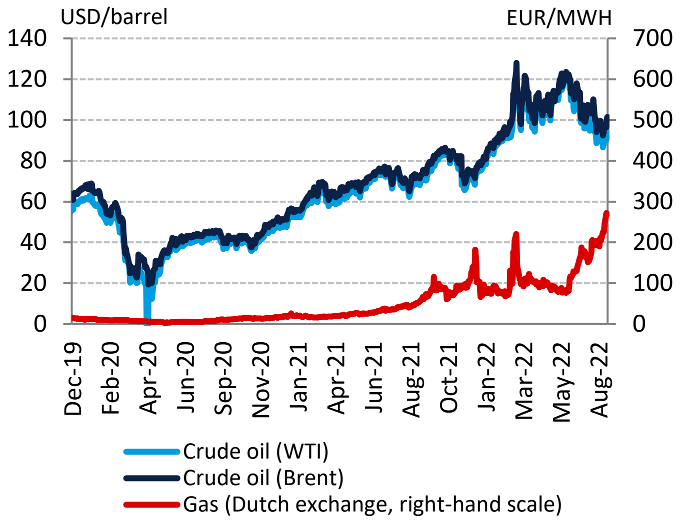
1.3.3. Inflation risks

Inflation and core inflation continued to rise. In July, the monthly price change of the basket excluding fuels and administered prices was 2.3 percent, significantly higher than the 0.1 percent change in recent years and the 0.3 percent change in July last year. The higher repricing rate is a general phenomenon, which is attributable to the fact that the rise in global food, commodity and energy prices – similarly to previous months – passes through to the consumer prices in a wide range of products. Prices of industrial products rose by 2.4 percent compared to previous month, contrary to the price change of around 0 percent typical in July, and thus annual inflation of industrial goods rose to 14.5 percent. 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 1.4 percent compared to the previous month. The price increase was higher than usual repricing in July, characterising a wide range of services.

The Russia-Ukraine war, high commodity prices and the drought in Europe, 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. On a year-on-year basis, 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. In addition, the drought hitting Europe as a whole may contribute to a further rise in food price inflation already in the short run.

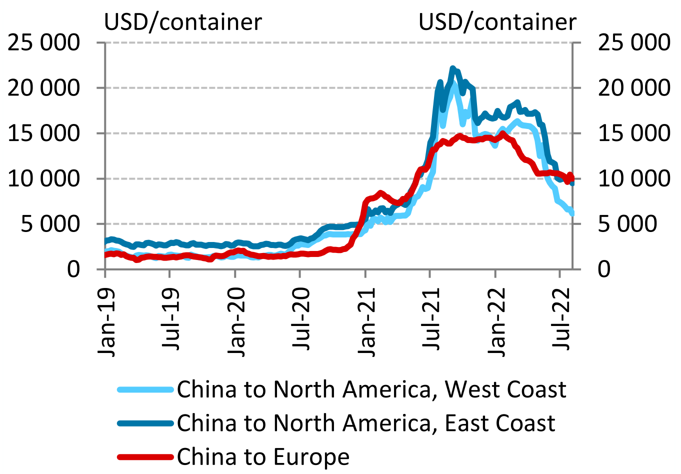
Oil prices have declined, while gas and energy prices have risen recently. Oil prices fell over the period as

Chart 9 Developments in oil and gas prices since December 2019



Source: Bloomberg

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



Source: Bloomberg

concerns about falling demand attributable to fears of recession outstripped concerns about scarce global supply. Prices of most commodities remained broadly unchanged during the period under review, while the price of several ore types and agricultural products significantly fell. By contrast, electricity prices increased by nearly 66 percent since the previous interest rate decision. Gas prices also rose in Europe and in the USA, as Russian gas exports were significantly reduced, pushing prices to historically high level on the Dutch stock market after a 33 percent rise (Chart 9).

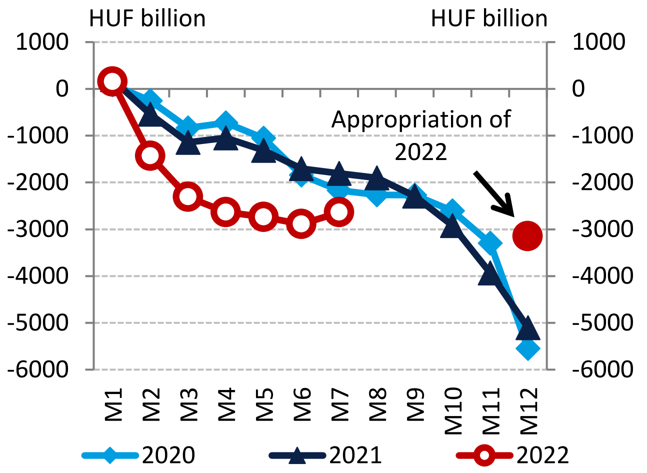
Global value chains may recover more slowly than demand, leading to increased cost pressures in global transportation and industrial production. However, following the record high figures seen in the past twelve months, the cost of shipments from China to Europe shows correction, having declined by more than 30 percent by mid-August compared to the beginning of the year (Chart 10). However, merchants will presumably charge part of the extra costs resulting from the price increase relative to previous years to the consumers, as a result of which the price increasing effect of commodity prices and shipping costs will appear also in the domestic consumer prices more widely. 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. Inflation of food rose by 29.3 percent, and within that product group particularly the price index of processed food rose, while the price index of unprocessed food also registered an increase. Compared to June, food prices rose by 4.4 percent, while in previous years food prices tended to decline in July. The fact that the price increasing effect of the public health product tax – which had an effect on processed food price developments – already appeared partially in the July figures, also contributed to the price rise. The price rise affected a wide range of processed and unprocessed food. The growth in food prices is primarily attributable to global factors such as skyrocketing energy prices and high transportation costs. Looking ahead, the lower volume of crop resulting from the drought may have upwards effect on the price level.

1.4. Fiscal developments

At the end of July 2022, the balance of the central sub-sector of the general government was a surplus of HUF 256 billion, which was more favourable than the deficit of last July by almost HUF 355 billion, and it is also the highest surplus registered in July in previous years. Thus, this year's accumulated cash deficit declined to HUF 2,637 billion. Revenues of the central sub-sector exceeded the figure registered in July 2021 by HUF 324 billion; of this, growth in tax and contribution revenues amounted to HUF 285 billion. Primary expenditures fell short of the figure registered a year ago by some HUF 87 billion, which is mainly connected to the decline of HUF 350 billion in the central budgetary organisations' net own expenditures.

Chart 11 Intra-year cumulative cash balance of the central government budget



Source: Budget Act of 2022, Hungarian State Treasury

At the end of July 2022, **the balance of the central sub-sector of the general government** was a **surplus** of **HUF 256 billion**, which was more favourable than the deficit of last July by almost HUF 355 billion, and it is also the highest surplus registered in July in previous years. Thus, this year's accumulated cash deficit fell to HUF 2,637 billion (to 84 percent of the annual appropriation from 92 percent registered at the end of June), exceeding the level seen at the end of last July by HUF 800 billion (Chart 11).

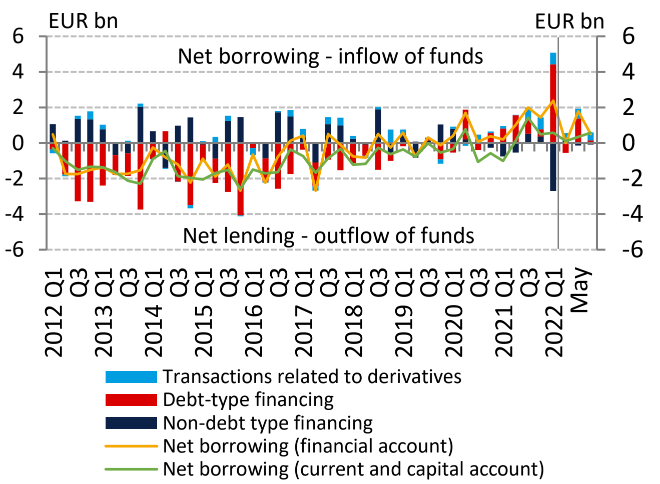
Revenues of the central sub-sector exceeded the figure registered in July 2021 by HUF 324 billion; of this, growth in tax and contribution revenues amounted to HUF 285 billion. The tax dynamics of 17 percent is attributable to the strong wage dynamics and nominal consumption growth, similar to that observed in previous months. Net VAT revenues rose by 26 percent compared to the figure seen last July, while labour tax and contribution revenues grow by 6.9 percent in the month under review.

Primary expenditures fell short of the figure registered in July 2021 by some HUF 87 billion, which is mainly connected to the decline of HUF 350 billion in the central budgetary organisations' net own expenditures. Pension expenditures rose by HUF 130 billion, mostly due to the lump sum disbursement of seven months' retrospective pension increase of 3.9 percent in July. EU expenditures amounted to HUF 200 billion in July 2022, showing a moderate increase following the low figures seen in previous months, while they still fall short of the average of the first four months of the year.

1.5. External balance developments

In June 2022, the current account deficit and net borrowing amounted to EUR 806 million and EUR 584 million, respectively. Both the current account balance and net borrowing substantially deteriorated compared to previous month. According to the financial account data, net FDI inflow was negligible, while debt liabilities moderately increased.

Chart 12 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 June 2022, the current account deficit and net borrowing amounted to EUR 806 million and EUR 584 million, respectively (Chart 12)**.** Both the current account balance and net borrowing substantially deteriorated compared to previous month. The rise in the current account deficit is attributable to a major deterioration in the goods balance resulting from the growth of imports outstripping that of exports, partly due to the deterioration in the terms of trade. The rising commodity and energy prices along with the global semiconductor shortage and the supply chain frictions resulting from the Russia-Ukraine war continue to have a significant effect on the degree of the goods deficit. Due to the recovery of tourism, services balance in June substantially improved compared to previous month and also compared to June 2021 and it already exceeded the pre-pandemic level seen in 2019.

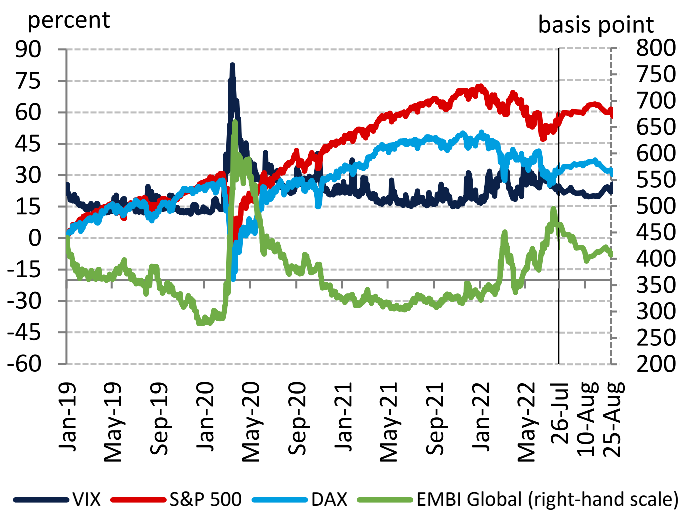
According to the financial account data, net FDI inflow was negligible, while debt liabilities moderately increased. Net foreign direct investment remained broadly unchanged in June, which is partly attributable to the seasonal dividend payments. Net external debt rose by EUR 0.1 billion, which was fully connected to the general government. The substantial rise in the general government's indicator (EUR 6.5 billion) was partly connected to the repurchase agreement concluded with international organisations, which, however also materially increased the level of foreign exchange reserves. The foreign currency liquidity provided to banks at the end of the months increased the general government net debt ratio, while it reduced that of banks. In addition, the issuance of forint discount bonds in the amount of HUF 1.7 billion at the end of the quarter to mitigate swap market tensions, also increased the net external debt of the general government, while it reduced that of the banking sector. As a result of the foregoing, banks' net external debt declined by EUR 5.4 billion. Net external debt of corporations fell by EUR 1 billion.

2. Financial markets

2.1. International financial markets

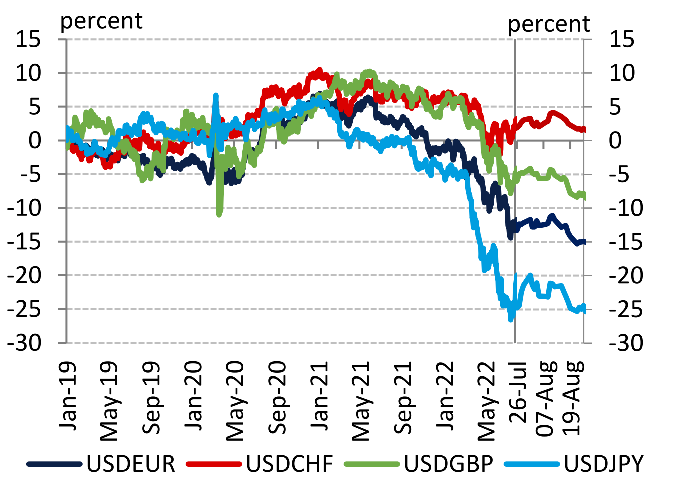
Since the previous interest rate decision, global investor sentiment was shaped primarily by the expectations related to interest rate hikes by Federal Reserve (Fed) and other key central banks, the published macro figures and the concerns about the Russia-Ukraine war. Long-term yields rose mostly both in developed markets and in the CEE region. The EMBI Global spread in the emerging bond market continued to rise. The leading stock indices increased.

Chart 13 Developed market equity indices, the VIX index and the EMBI Global Index



Source: Bloomberg

Chart 14 Developed market FX exchange rates



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

Since the previous interest rate decision, global investor sentiment was shaped primarily by the expectations related to interest rate hikes by Fed and other key central banks, the published macro figures and the concerns about the Russia-Ukraine war.

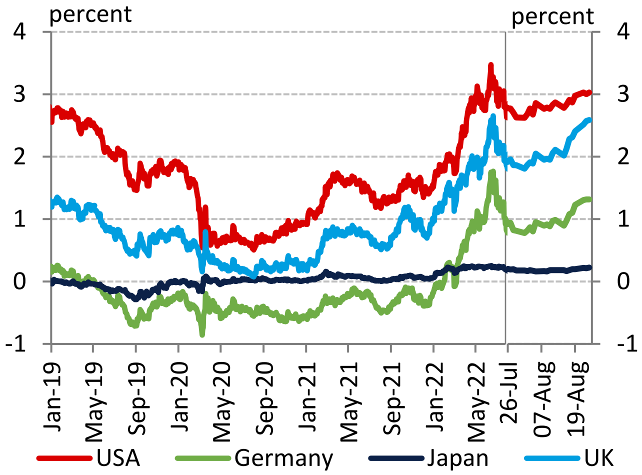
Overall, financial market sentiment varied, as risk appetite substantially improved at the beginning of the period under review, followed by a minor correction in the last one week. Of the risk indicators, the VIX index, measuring equity market volatility, decreased by 1.2 percentage points compared to its level at the previous interest rate decision to 23.52 percent, the MOVE index, measuring developed bond market volatility, came close to 135 basis points after a decline of 7 basis points, while the EMBI Global emerging market bond spread fell by 42 basis points (Chart 13).

The leading stock indices increased. The US Nasdaq, the S&P and the Dow Jones rose by 6.6, 5.3 and 4.1 percent, respectively. Of the European leading stock market indices, the German DAX and the French CAC were up by 1 and 2.5 percent, respectively. The Japanese stock market index rose by 2.8 percent compared to the level seen at the previous interest rate decision, while the Chinese stock exchange closed the period with a fall of 6.7 percent. Overall, the developed MSCI composite index rose by 4 percent, while the emerging market index was essentially unchanged.

The dollar appreciated against both the euro and the major currencies. The US currency appreciated against the euro by 2.2 percent, the British pound by 1.3 percent, the Swiss franc by 0.3 percent and the Japanese yen by 0.5 percent. The euro-dollar exchange rate broke parity during the period under review, and at the end of the period it was close to 0.9926 (Chart 14).

Developed market government bond yields increased (Chart 15)**.** The ten-year US and German yield rose by 22 and 40 basis points, respectively, and thus the US yield closed the period at 3.03 percent, while the German one

Chart 15 Yields on developed market long-term bonds



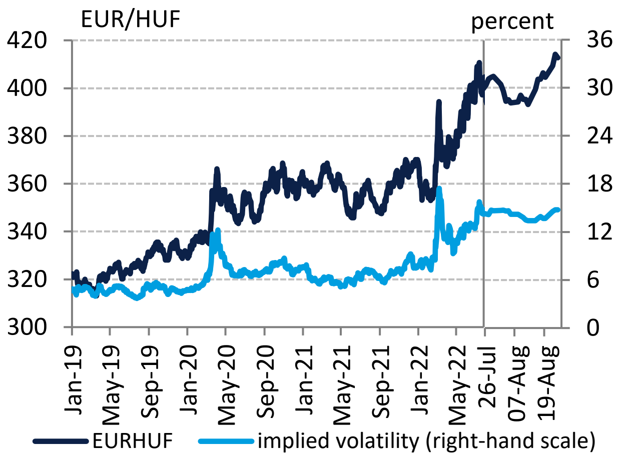
Source: Bloomberg

at 1.32 percent. Yields in the Mediterranean countries also rose: the Italian, Spanish, Portuguese and Greek yields were up by 42, 41, 37 and 88 basis points, respectively. Yields on the 10-year government bonds in the countries in the region also mostly rose: while the Hungarian and Polish yield rose by 62 and 56 basis points, respectively, the Czech long-term yield was up by 2 basis points and the Romanian yield fell by 50 basis points.

2.2. Developments in domestic money market indicators

Since the interest rate decision in July, the forint exchange rate depreciated against the euro by 2.4 percent, amid high volatility. The government securities yield curve rose. The 3-month BUBOR rose by 71 basis points to 12.28 percent. Government bond auctions held last month were successful overall; average auction yields on Treasury bills rose, while they mostly fell at the government bond auctions.

Chart 16 EUR/HUF exchange rate and the implied volatility of exchange rate expectations



Source: Bloomberg

Since the interest rate decision in July, the forint exchange rate depreciated against the euro by 2.4 percent, amid high volatility, and is close to 413 level (Chart 16). Of the currencies in the CEE region, the Polish zloty depreciated by 0.4 percent, while the Czech koruna and the Romanian leu appreciated by 0.2 and 1 percent, respectively.

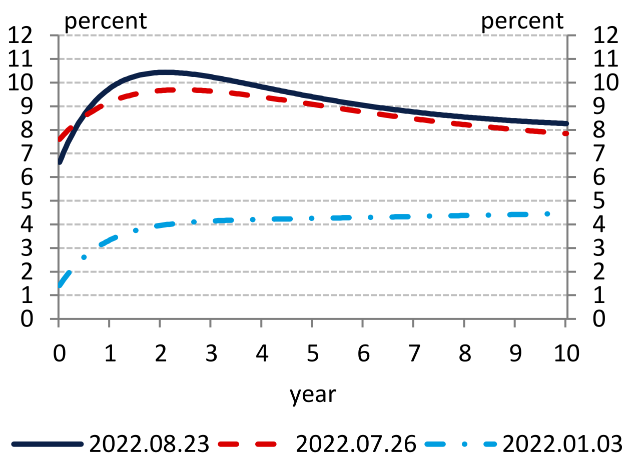
The 3-month BUBOR, relevant for monetary policy transmission, rose by 71 basis points to 12.28 percent since the last interest rate decision.

The government securities yield curve shifted upward (Chart 17)**.** At the 1-year section of the yield curve a rise of 60 basis points, while on the longer maturities a rise of 30-80 basis points was registered.

Government bond auctions held by the Government Debt Management Agency since the last interest rate decision were successful overall. In the period under review, demand at the Treasury bill auctions was moderate. The Government Debt Management Agency accepted bids for a lower volume than originally announced on two occasions. By contrast, demand was usually high at the bond auctions and higher volume of papers than announced were sold in several cases. Average yields on Treasury bills rose, while they mostly showed a declining trend at the government bond auctions.

Non-residents' holdings in forint government securities increased. Non-residents' holdings in forint government securities increased by HUF 114 billion to HUF 5,269 billion. The market share of forint government securities held by non-residents remains unchanged at 19.9 percent.

Chart 17 Shifts in the spot government yield curve

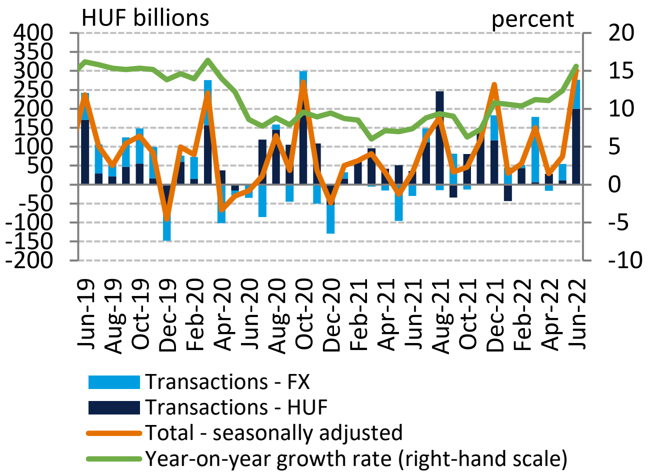


Source: MNB, Reuters

3. Trends in lending

In June 2022, outstanding corporate lending increased by HUF 276 billion, thanks to a HUF 200 billion rise in forint loans and a HUF 76 billion rise in foreign currency loans. In June, outstanding borrowing of households increased by HUF 90 billion due to transactions, moderating the annual growth rate to 11 percent. In June 2022, the smoothed interest rate spread on forint corporate loans stood at 1.45 percent following a rise of 0.23 percentage point compared to previous month.

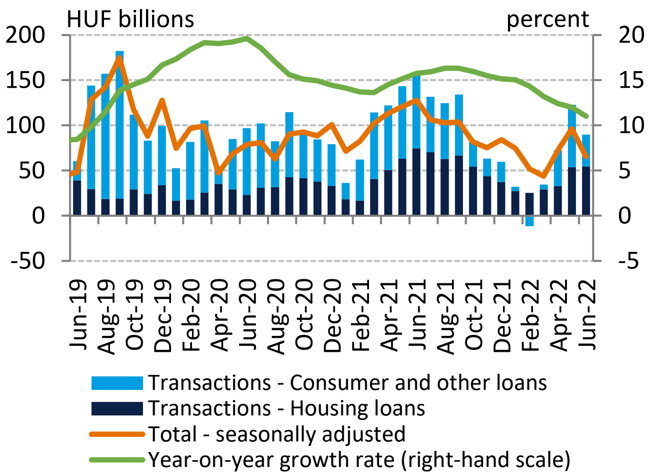
Chart 18 Net borrowing by non-financial corporations



Source: MNB

In June 2022, outstanding corporate lending increased by HUF 276 billion, thanks to a HUF 200 billion rise in forint loans and a HUF 76 billion rise in foreign currency loans (Chart 18). This brings the annual growth rate to 15.6%, up from 12.4% in the previous month. Together with the bond transactions in the balance sheet of credit institutions, the annual growth rate in the month came to 22.9 percent. In June, credit institutions disbursed new loans in the amount of HUF 536 billion, which exceeds the year-on-year figure by 10 percent. In parallel with the increase in the interest spread between the market-based and subsidised loans, and the phase-out of the subsidised credit schemes under the Széchenyi Card Programme, the ratio of subsidised loans once again was high (52 percent) in the SME segment.

Chart 19 Net borrowing by households

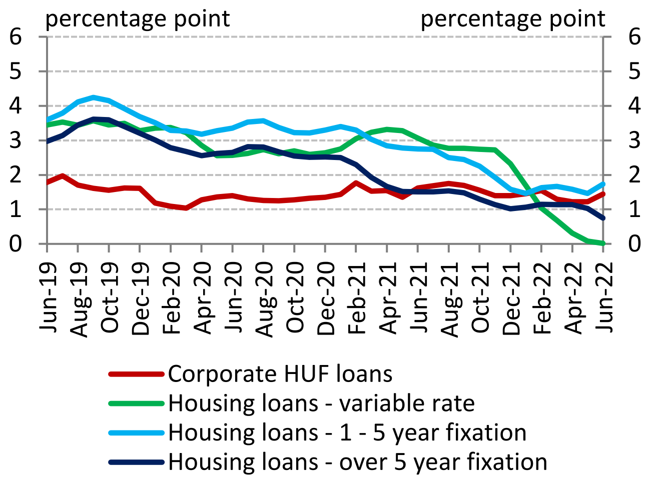


Source: MNB

In June, outstanding borrowing of households increased by HUF 90 billion due to transactions, moderating the annual growth rate to 11 percent (Chart 19). The continued high volume of disbursement of housing loans may have been partly attributable to the demand brought forward due to the inflation and rising interest environment, while – with the exception of personal loans – consumer loans registered a substantial decline year-on-year. As a result of the FGS Green Home Programme and rising property prices, the average loan amount of loans for new home rose to HUF 22 million.

In June 2022, the smoothed interest rate spread on forint corporate loans stood at 1.45 percent, following a rise of 0.23 percentage point compared to previous month. (Chart 20). The average smoothed interest rate spread on variable rate housing loans calculated based on the annual percentage rate (APR) declined to 0.02 percentage point during the month. The average spread on housing loans with interest rate fixation periods longer than 1 year and up to 5 years rose by 0.27 percentage point to 1.73 percentage points in June, while the spread on products with interest rate fixation periods of more than 5 years fell by 0.28 percentage point and stood at 0.75 percentage point at the end of the period under review.

Chart 20 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