MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 20 DECEMBER 2022

DECEMBER

2022

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The background material 'Macroeconomic and financial market developments' is based on information available until 14 December 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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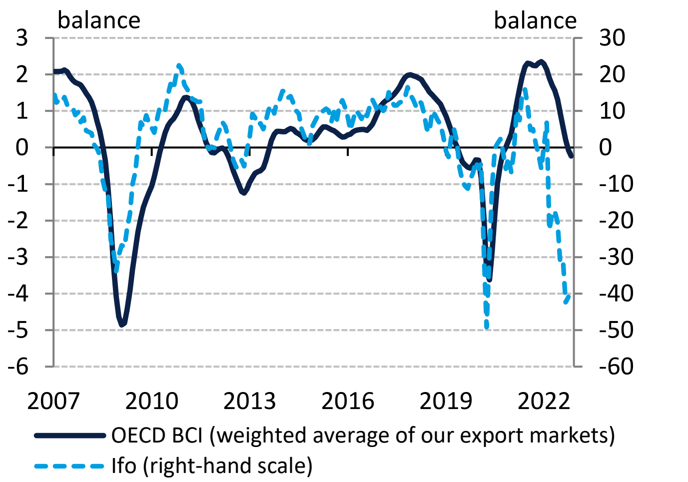
1. Macroeconomic developments

1.1. Global macroeconomic environment

In the past quarter global economic growth decelerated, and a decrease in GDP was already observed in several countries. The EU, the euro area, China and the United States saw a year-on-year economic growth of 2.5, 2.3, 3.9 and 1.9 percent, respectively. International confidence indices typically registered a moderate improvement in November, but they still stand at a low level. Following its historic low in recent months, consumer confidence has slightly corrected.

In 2022 Q3, economic growth showed a mixed picture in major economies; nevertheless, growth figures mostly exceeded analysts' preliminary expectations. The EU, the euro area and China registered an economic growth of 2.5, 2.3 and 3.9 percent, respectively, year-on-year. The US economy grew by 1.9 percent, while on a quarter-on-quarter basis it rose by 2.9 percent, following a decline registered in the previous two quarters. Of the EU Member States, the economy of Ireland (+10.6 percent), Croatia (+5.5 percent) and Cyprus (+5.4 percent) grew to the largest degree year-on-year, while economic performance decreased in Latvia (-0.4 percent) and Estonia (-2.3 percent) on an annual basis. On a quarter-on-quarter basis, the output of ten Member States decreased, with the economy of Estonia (-1.8 percent), Latvia (-1.7 percent) and Slovenia (-1.4 percent) registering the largest declines. The economy of Germany – Hungary's main trading partner – expanded by 1.3 percent in Q3, year-on-year.

Chart 1 Business climate indices in Hungary's export markets



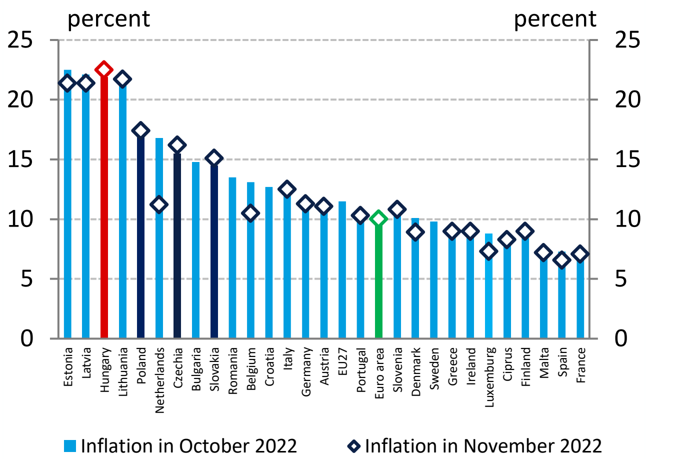
Source: OECD, Ifo

Monthly production indicators show a mixed picture. In October, industrial production in the US grew by 3.3 percent, the lowest value since January, while in China it rose by 5.0 percent. In September, the euro area registered a year-on-year growth of 4.9 percent. In October, the volume of retail sales grew by 8.3 percent in the US, while it decreased by 0.5 percent in China, year-on-year. The volume of retail sales in the euro area fell by 2.7 percent in October.

In November, forward-looking confidence indicators slightly rose in the EU, but they still stand at a low level (Chart 1). Business sentiment and consumer confidence showed a slight improvement in the euro area based on both the Economic Sentiment Indicator (ESI) and the Purchasing Manager's Index (PMI). Compared with the previous month, the US Purchasing Manager Index declined slightly in November, and it is still below the threshold (50 points).

International labour market trends were unchanged. In November, unemployment rate in the United States was

Chart 2 Developments in the international inflationary environment



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

3.7 percent, while in the euro area it was 6.5 percent in October.

Inflation declined to 7.1 percent in the United States and 1.6 percent in China in November.

According to preliminary data, euro area inflation may have decreased to 10.0 percent in November, year-on-year, while core inflation may have stood steadily at 5.0 percent. The preliminary inflation figure was lower than analysts' expectations of 10.4 percent, while core inflation was in line with analysts' consensus. The rise in HICP inflation was most strongly connected to food prices and energy items in November.

Based on the available data for 21 EU Member States, in November inflation declined or stagnated in 17 countries, while it rose in 4 countries. Hungary had the highest inflation rate among EU countries in November, while the Baltic countries also recorded annual inflation above 20 percent. In the region, prices rose by 16.2 percent in the Czech Republic and by 17.4 percent in Poland compared to November 2021 (Chart 2).

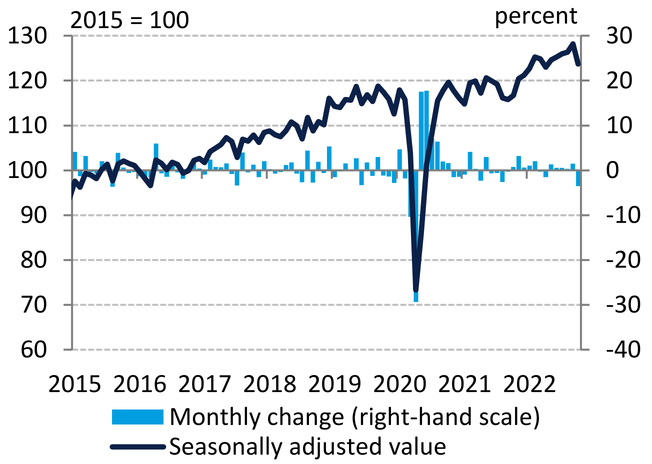
1.2. Domestic real economic developments

Following the favourable economic trends observed early this year the growth rate slowed in 2022 Q3. Real-time data project a further decline in the dynamics for Q4. In October 2022, the average number of employees in the 15–74 age group was 4,705,000. In the August–October period, 37,000 more people worked in Hungary than in the same period last year. The unemployment rate stood at 3.6 percent in October.

1.2.1. Economic growth

In 2022 Q3, Hungary's economic performance grew by 4.1 percent year-on-year, according to seasonally and calendar-adjusted data. GDP declined by 0.4 percent quarter-on-quarter.

Chart 3 Developments in industrial production



Source: MNB calculation based on HCSO data

In October 2022, the volume of industrial production rose by 5.9 percent year-on-year. Based on seasonally and calendar adjusted data, the volume of production decreased by 3.5 percent on a monthly basis (Chart 3). Output levels increased in most of the manufacturing subsectors. The output of the automotive industry, representing the largest share, grew by 32.1 percent year-on-year. Production of electrical equipments grew strongly (+57.0 percent), with major contribution by continued growth in battery and electric engine production. The manufacture of computers and electrical equipment increased by 20.1 percent, while the volume of other machinery production grew by 14.5 percent year-on-year. Of the manufacturing subsectors, the production volume of the food industry (-1.1 percent), rubber, plastic and non-metal production (-6.6 percent), metal industry production (-16.3 percent), chemical substances production (-31.0 percent), energy production (-3.7 percent) as well as of coke production (-27.6 percent) declined compared to last October.

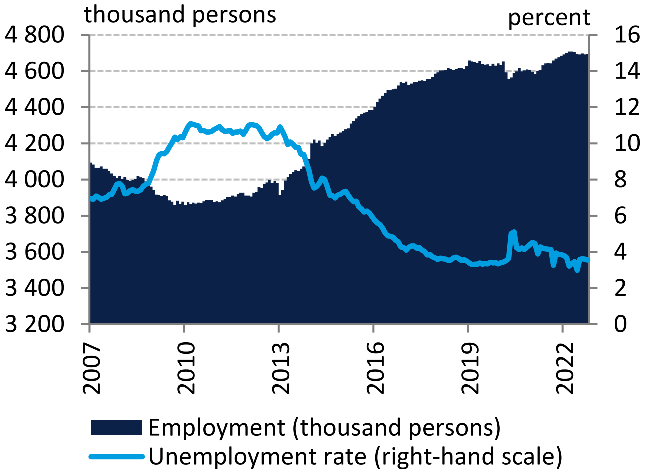
In October 2022, the volume of construction output was down by 2.5 percent year-on-year. The construction of buildings and other structures decreased by 3.0 percent and 0.9 percent, respectively, year-on-year. Based on seasonally and working-day adjusted data, the volume of output decreased by 1.8 percent compared to the previous month. The volume of new contracts was 21.5 percent higher than the October 2021 base. Within that, new contracts for the construction of buildings and of other structures rose by 5.2 percent and by 41.3 percent, respectively, year-on-year.

In October 2022, the volume of retail sales rose by 0.6 percent year-on-year; however, excluding fuel trade, turnover declined by 3.5 percent based on data adjusted for the calendar effect. Among the individual product groups, the volume of retail sales in food stores and groceries, representing the largest weight, fell by 5.6 percent. Based on calendar adjusted data, the volume of retail sales in non-food stores decreased by 0.9 percent, while fuel retailing rose by 19.7 percent. The volume of pharmaceutical product sales and the turnover of webshops fell by 2.0 percent and 1.7 percent, respectively, year-on-year. Vehicle and components sales, not included in retail sales data, fell by 2.2 percent on a yearly basis.

Based on preliminary data, the trade balance showed a deficit of EUR 1.0 billion October 2022. The balance deteriorated by EUR 588 million compared to the same period of the previous year. Balance, adjusted for VAT residents, remained negative, with a deficit of EUR 1,606 million in September. Goods exports and imports rose by 21.0 percent and 25.7 percent, respectively, in euro terms, year-on-year. In 2022 Q3, terms of trade deteriorated by 8.2 percent in an annual comparison, which is primarily attributable to mineral fuels.

Following the favourable economic trends observed in the first half of this year, the slowdown in economic growth may continue in 2022 Q4. Based on online cash register data, nominal turnover in November grew by 22.9 percent year-on-year. In November, air passenger traffic fell short of its level registered in the same period last year by 24.1 percent, according to data received so far. Catering turnover rose by almost 32.8 percent in annual terms in November, owing to the last year's low base. Cinema attendance fell by 23.1 percent in November, year-on-year. In November, road passenger traffic was up by 4.1 percent, while goods traffic declined by 5.0 percent year-on-year. In November, electricity load data were 8.3 percent below the same period last year. In September, the number of housing market transactions decreased by 30.1 percent, year-on-year, according to data received so far. Google searches for the term "unemployment benefit" rose in the second half of the year and exceeded the level seen before the coronavirus pandemic.

Chart 4 Number of persons employed and the unemployment rate



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

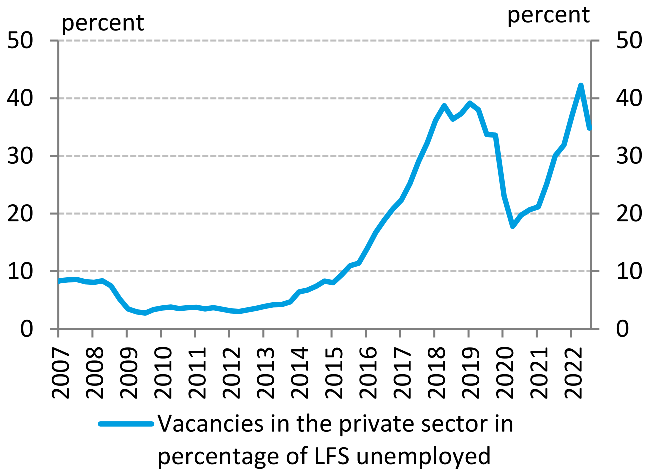
1.2.2. Employment

Based on Labour Force Survey (LFS) data, the average number of employees in the 15–74 age group was 4,705,000 in October 2022. In the period of August to October 2022, the average number of employees was 4,714,000, exceeding the year-on-year figure by 37,000 (Chart 4). In August–October, on average, the number of employees in the primary labour market and of those working abroad rose by 35,000 and 16,000, respectively, while the number of fostered employees fell by 14,000 compared to the same period of the previous year.

In October, the number of the unemployed was 176,000, falling short of the year-on-year figure by 12,000 persons, and as a result, the unemployment rate stood at 3.6

percent. Based on seasonally adjusted data, in October the number of the unemployed fell slightly compared to September. Based on the data published by the National Employment Service and the number of registered jobseekers in Hungary was 236,000 (-11,000 on an annual basis) in October 2022 and 234,000 (-9,000 on an annual basis) in November 2022. Based on seasonally adjusted data, the number of the registered jobseekers in November 2022 decreased slightly compared to October, and it is still below the number measured in the months before the outbreak of the coronavirus pandemic.

Chart 5 Developments in labour market tightness indicator



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

Labour market remains historically tight (Chart 5). In 2022 Q3, unsubsidised available vacancies amounted to 63,000 in the private sector, representing an increase of 8 percent year-on-year and a decrease of 10 percent on the previous quarter. Labour demand declined quarter-on-quarter both in market services and manufacturing. Compared to the second quarter, there were 1,400 fewer job vacancies in manufacturing. In 2022 Q3, job vacancies amounted to 37,400 in the services sector, down by 3,300 compared to the previous quarter. Within the services sector, job vacancies in information and communication and in professional and scientific activities declined by 1,400 and 1,000, respectively. Labour demand slightly declined quarter-on-quarter in tourism. Within the public sector, job vacancies remained practically unchanged in healthcare, education and public administration compared to the second quarter.

1.3. Inflation and wages

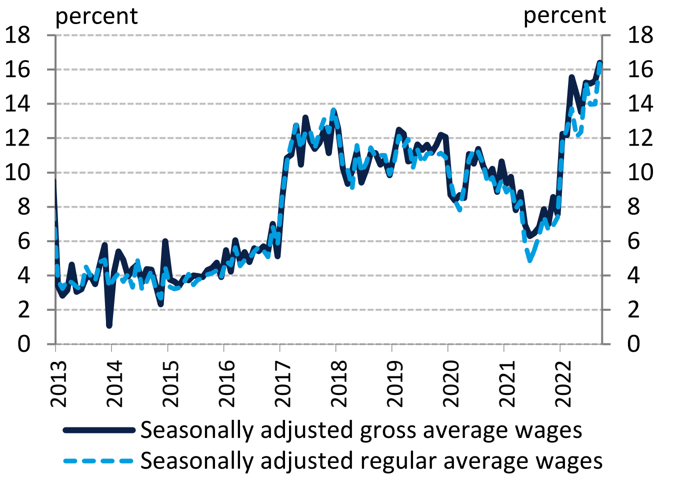
In November 2022, inflation was 22.5 percent, year-on-year. Core inflation stood at 23.9 percent, while core inflation excluding indirect taxes was 23.8 percent. In September 2022, average regular earnings (excluding bonuses) rose by 18.2 percent in annual terms in the overall economy, and by 16.7 percent in the private sector, respectively.

1.3.1. Wages

In September 2022, gross average wages in the private sector rose by 16.8 percent year-on-year. The degree of bonus payments exceeded the average of previous years. Average regular earnings (excluding bonuses) rose by 18.2 percent in annual terms in the overall economy, and by 16.7 percent in the private sector, respectively.

According to seasonally adjusted data, growth in both 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 in manufacturing outstripped that in market services. Annual wage dynamics were over 10.0 percent in most sectors. In September, based on raw data, wages in manufacturing were 17.2 percent higher year-on-year. In market services, the HCSO registered a growth of 16.4 percent. Gross wages in construction and trade rose by 18.8 percent and 16.3 percent, respectively, year-on-year.

Chart 6 Dynamics of average earnings in the private sector

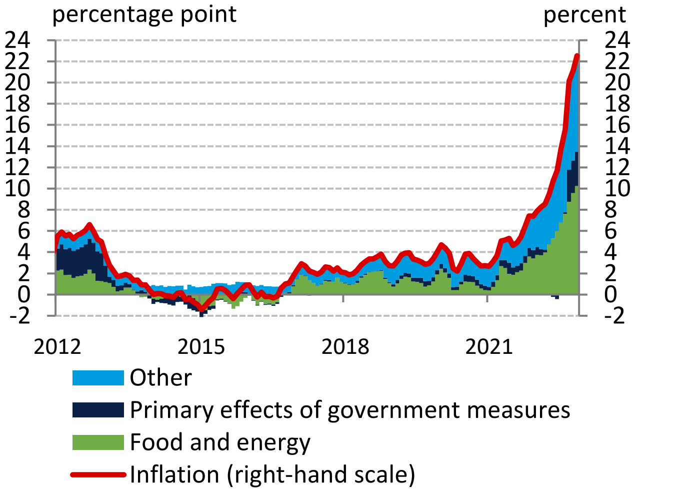


Source: MNB calculation based on HCSO data

1.3.2. Inflation developments

In November 2022, inflation was 22.5 percent, year-on-year. Core inflation stood at 23.9 percent, while core inflation excluding indirect taxes was 23.8 percent (Chart 7**).** Compared to the previous month, inflation increased by 1.4 percentage points on an annual basis, mainly driven by accelerating food inflation. Food products contributed to annual inflation by 0.8 percentage point, while the contribution of fuels was negative (-0.1 percentage point) due to the base effect. Within core inflation, inflation of processed foods rose to 51.7 percent, contributing 0.8 percentage point to the increase in inflation between October and November. Inflation of market services was 14.5 percent, while the annual price increase of industrial goods was 18.5 percent.

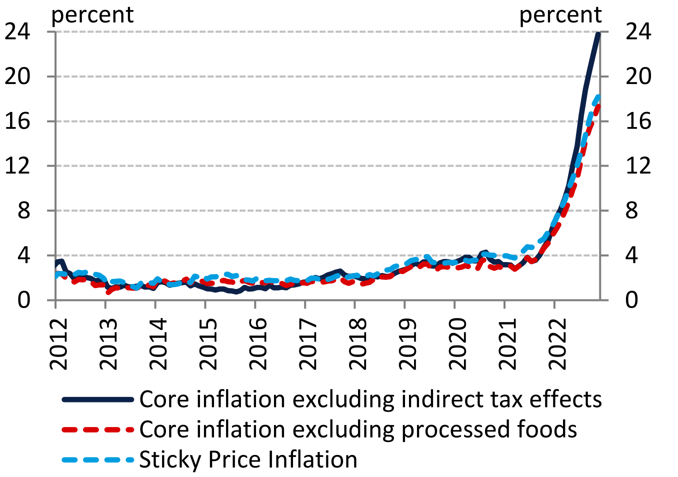
Chart 7 Decomposition of inflation



Source: MNB calculation based on HCSO data

The monthly increase in core inflation excluding processed food, better reflecting market developments, was 1.6 percent, the same as in October. Underlying inflation indicators capturing persistent trends – core inflation excluding processed food and inflation of sticky price products and services – increased compared to the previous month (Chart 8).

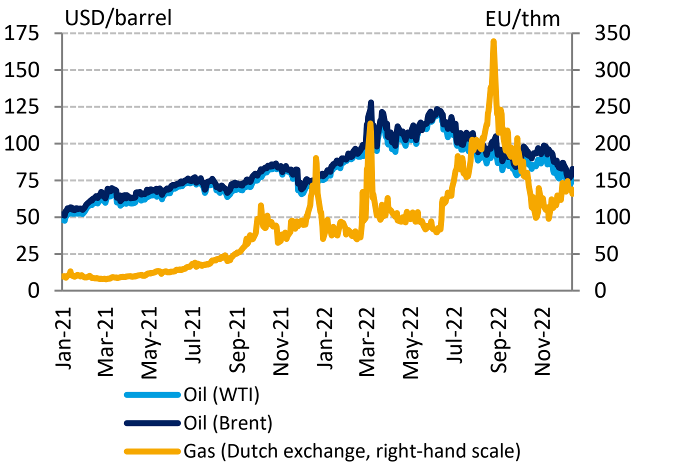
Chart 8 Measures of underlying inflation indicators



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

Source: MNB calculation based on HCSO data

Chart 9 Developments in oil and gas prices since December 2019



Source: Bloomberg

1.3.3. Inflation risks

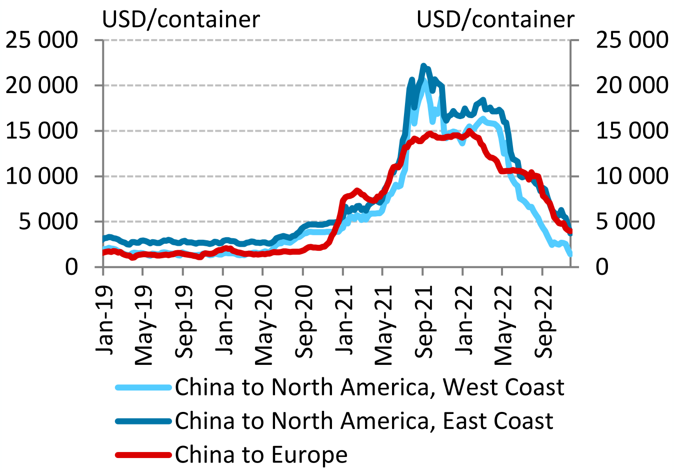
Global recession fears have intensified recently, which may bring forward the turn in inflation. The Russia-Ukraine war, a potential new wave of the coronavirus pandemic, high commodity prices of the recent period, supply chain frictions and the tightening of global monetary conditions have collectively increased the risk of recession. The impact of a slowdown of the global economy can be also felt in commodity markets. A fall in commodity prices and food industry base material prices, declining transportation costs and the settlement of problems in global supply chains project a turn in inflation, accelerating disinflation.

Since the previous interest rate decision oil prices have fallen slightly: the price of Brent crude oil was around USD 80–85 per barrel, while the US benchmark WTI oil price stood at around USD 75–80 per barrel. **Gas prices have risen since the previous interest rate decision** (Chart 9). The filling level of European gas storage facilities is still high at 95 percent, while interruptions may occur in the future in US LNG exports, leading to price rises. The Freeport LNG export terminal in Texas was damaged back in June due to an accidental explosion, however the repair works may last longer than expected. From the period's peak and under high volatility, electricity prices fell close to the level registered at the time of the November interest rate decision. Among the industrial metals, the price of platinum, tin and iron increased, while the price of agricultural products slightly decreased. **The Bloomberg commodity price index, covering the entire commodity market, rose by 2.9 percent over the period.**

Repricing patterns have changed and, unlike previous experiences, they may persist for a longer time within the year. In November, the monthly price change of the basket excluding fuels and administered prices was 2.1 percent, still well above the increase seen in recent years.

Food prices rose further in Europe. In the past months, the sharp rise in food prices has become an increasingly important explanatory factor for rising inflation rates. In Hungary, food price inflation rose to 48.7 percent. Within this product group, the price index of both processed and unprocessed food grew substantially. Compared to October, food prices rose by 3.8 percent. The rise in unprocessed food prices was widespread. Within processed food, the largest growth was registered in the prices of milk and dairy products. The growth in food prices is primarily attributable to global factors such as skyrocketing energy prices and high transportation costs,

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



Source: Bloomberg

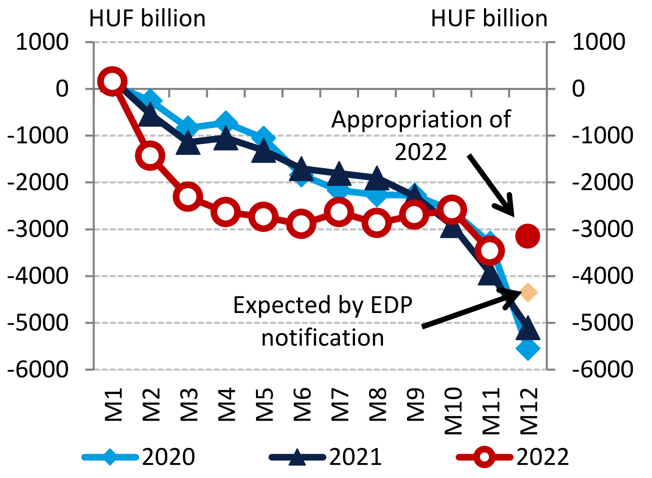
besides that, lower productivity in Hungary may have an upward effect on the price level.

The degree of global value chain frictions has declined in recent months from the historic highs seen at the end of 2021. Following the record high figures seen in the past twelve months, the cost of shipments from China to Europe showed a correction, having declined by 80 percent by the beginning of December compared to the start of the year (Chart 10). Following the onset of the coronavirus, global value chains have become fragmented. There were stoppages in international shipping. Following the outbreak of the Russia-Ukraine war these tensions temporarily strengthened again. However, in recent months, supply chain problems have been gradually resolved, which may have a positive impact on production and pricing trends.

1.4. Fiscal developments

The balance of the central sub-sector of the general government registered a deficit of HUF 876 billion in November 2022, bringing this year's cumulated cash deficit to HUF 3,466 billion. Revenues of the central sub-sector exceeded the figure registered in November 2021 by HUF 359 billion, mainly due to a HUF 323 billion increase in tax and contribution revenues. Expenditures exceeded the November 2021 figure by roughly HUF 226 billion, which is mostly attributable to special and normative subsidies and higher expenses related to state property. Excess expenditures are primarily connected to high energy prices.

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



Source: Budget Act of 2022, Hungarian State Treasury, EDP notification

At the end of November 2022, the balance of the central sub-sector of the general government registered a deficit of HUF 876 billion, which was HUF 133 billion lower than last November's figure. Thus, this year's cumulated cash deficit increased to HUF 3,466 billion (Chart 11).

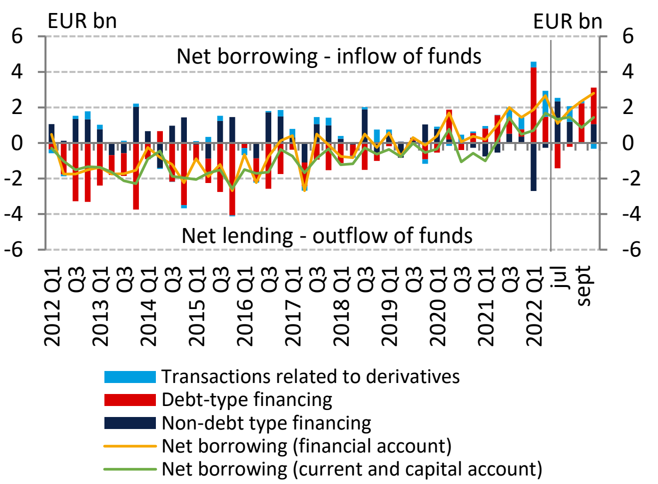
Revenues of the central sub-sector exceeded the figure registered in November 2021 by HUF 359 billion, mainly due to a HUF 323 billion increase in tax and contribution revenues. Tax and contribution dynamics remained high, standing at 24 percent. Payments by economic organizations almost doubled since last year, mostly because of windfall taxes.

Expenditures exceeded the November 2021 figure by roughly HUF 226 billion, which is mostly attributable to special and normative subsidies and higher expenses related to state property, excess expenditures are primarily connected to high energy prices. Expenditures related to EU grants fell short of those registered last November by almost HUF 160 billion, while net interest expenditures exceeded the year-on-year figure by almost HUF 80 billion.

1.5. External balance developments

In October 2022, current account deficit was EUR 1,556 million, while net borrowing amounted to EUR 1,444 million. In October, according to financial account data, the significant increase in net foreign direct investments was accompanied by a material rise in net external debt.

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 October 2022, current account deficit was EUR 1,556 million, while net borrowing amounted to EUR 1,444 million (Chart 12). Both the current account balance and net borrowing substantially deteriorated compared to the previous month. The rise in deficit is attributable to the correction of a major, but temporary improvement in the goods balance in September, which was still driven by rising commodity and fuel prices. Similarly to September, the services balance surplus declined again, while it still falls short of the pre-pandemic level of 2019, and stands close to its October 2021 level.

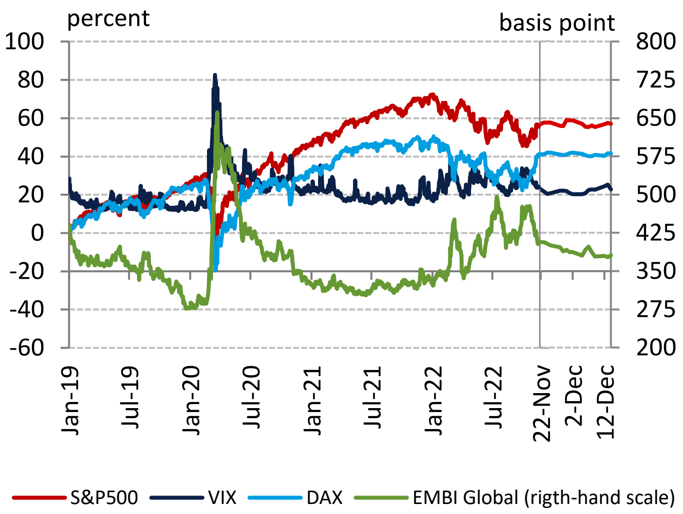
In October, according to financial account data, a significant increase in net foreign direct investments was accompanied by a material rise in net external debt. Following the inflow registered in summer, net FDI inflow was also significant in October, amounting to almost EUR 0.9 billion. Net external debt increased by EUR 2.1 billion, the sectoral development of which was also influenced by the repayment of foreign currency liquidity provided temporarily by the central bank at the end of the quarter. The balance of the general government declined by EUR 2.9 billion as a result of closing the repo agreement concluded with international organisations and the expiry of the HUF discounted bond issued in September to ease swap market tensions. In parallel with this, banks' net external debt – due to the repayment of foreign currency liquidity received at the end of September – rose by EUR 4.6 billion. Net external debt of corporations increased by EUR 0.4 billion.

2. Financial markets

2.1. International financial markets

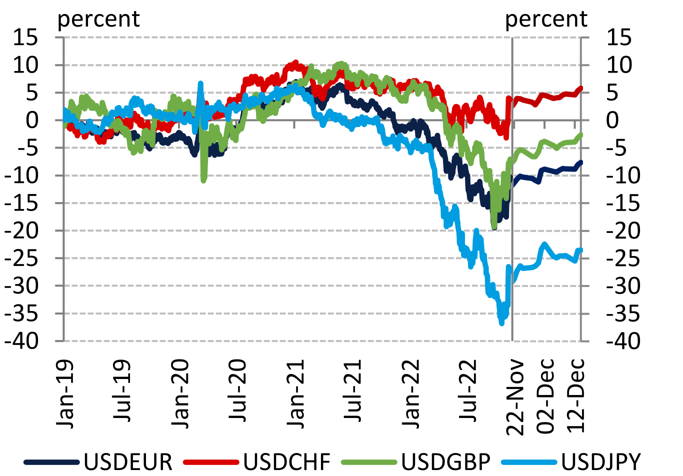
Since the previous interest rate decision, global investor sentiment has primarily been shaped by expectations related to interest rate hikes by the Federal Reserve and other major central banks, recession fears, the energy crisis in Europe and concerns about the Russia-Ukraine war. Long-term yields generally declined in developed markets and in the CEE region. Leading stock indices rose slightly.

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 has primarily been shaped by expectations related to interest rate hikes by the Federal Reserve and other major central banks, recession fears, the energy crisis in Europe and concerns about the Russia-Ukraine war.

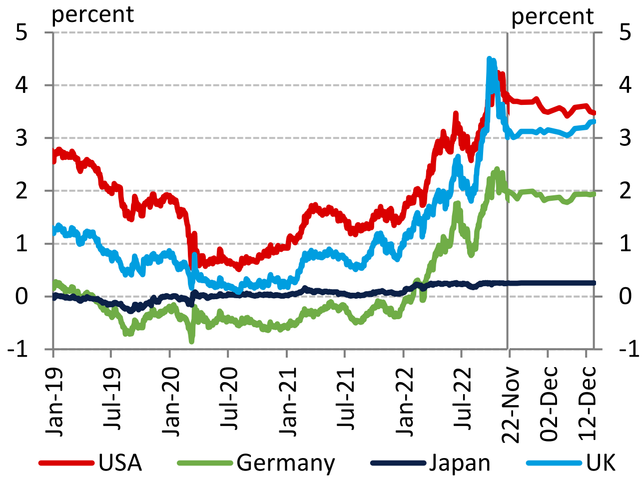
Overall, financial market sentiment has been volatile since the previous interest rate decision. Among risk indicators, the VIX index, measuring equity market volatility, increased by 1.3 percentage points compared to its level at the previous interest rate decision to 22.5 percent. The MOVE index, measuring developed bond market volatility, came above to 135 basis points after a rise of 2 basis points, while in emerging markets, the EMBI Global bond market spread declined by 29 basis points (Chart 13).

Both developed and emerging stock market indices rose typically. The US S&P 500 advanced by 0.4 percent, while Dow Jones was relatively unchanged. Among leading European stock market indices, the German DAX and the French CAC rose by 0.2 and 1.0 percent, respectively. The Japanese and Chinese stock market indices rose by 0.1 percent and 2.8 percent, respectively, compared to the level seen at the previous interest rate decision. Overall, the developed and emerging market MSCI composite indices increased by 1.5 and 4.1 percent, respectively.

The dollar depreciated against major currencies (Chart 14). The dollar depreciated against the Japanese yen by 4.1 percent, against the Swiss franc by 2.5 percent, against the euro by 3.2 percent, against the British pound by 4.0 percent and against the Chinese yuan by 2.8 percent. The euro-dollar exchange rate gradually moved away from parity during the period under review, and by the end of the period it was close to 1.06.

Developed market government bond yields moderated (Chart 15). Ten-year US and German yields fell by 29 and 6 basis points, respectively, and thus the US yield closed the period at 3.47 percent, while the German one at 1.92

Chart 15 Yields on developed market long-term bonds



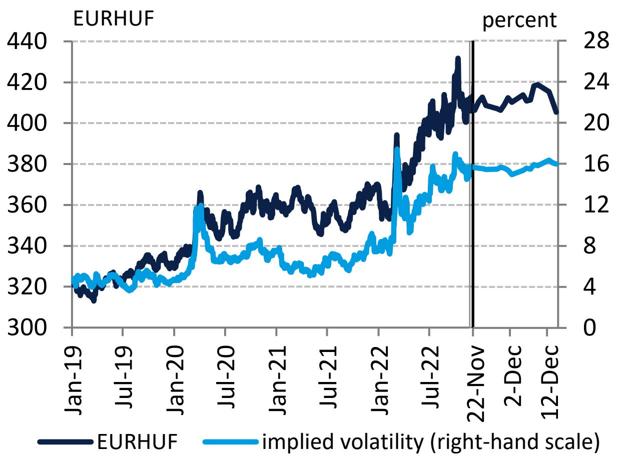
Source: Bloomberg

percent. Yields in the Mediterranean countries also dropped: Portuguese and Spanish yields were down by 6 and 3 basis points, and Italian and Greek yields by 25 and 11 basis points, respectively. Yields on 10-year government bonds in the countries of the CEE region generally fell: Polish, Romanian and Czech yields were down by 39, 4 and 21 basis points, respectively, while the Hungarian yield rose by 61 basis points.

2.2. Developments in domestic money market indicators

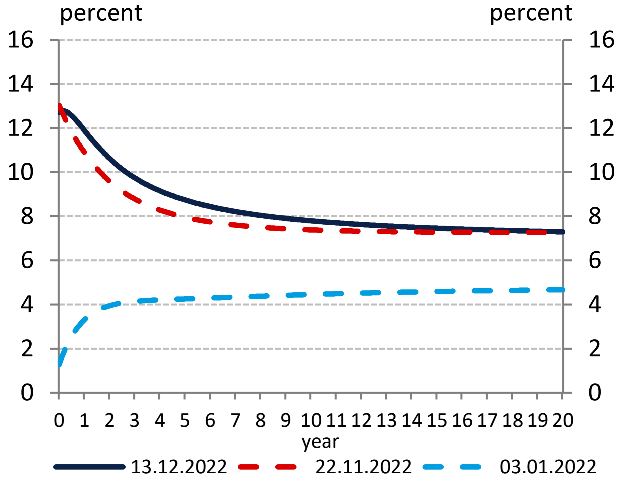
Since the November interest rate decision, the forint first depreciated against the euro, then it bounced back close to the opening level. The government securities yield curve shifted upward. The 3-month BUBOR rose by 84 basis points to 16.29 percent. In the past month, there was a strong demand at government bond auctions. Average auction yields rose on Treasury bills and typically declined on government bonds.

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



Source: Bloomberg

Chart 17 Shifts in the spot government yield curve



Source: MNB, Reuters

Since the November interest rate decision, the forint first depreciated against the euro, then it bounced back close to the opening level (Chart 16). Among the currencies of the CEE region, the Polish zloty, the Czech koruna and the Romanian leu appreciated against the euro by 0.5 percent, 0.3 percent and 0.2 percent, respectively.

The 3-month BUBOR, relevant for monetary policy transmission, rose by 84 basis points to 16.29 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 100 basis points was registered, while on the medium and longer maturities yields rose by 100 and 60 basis points, respectively.

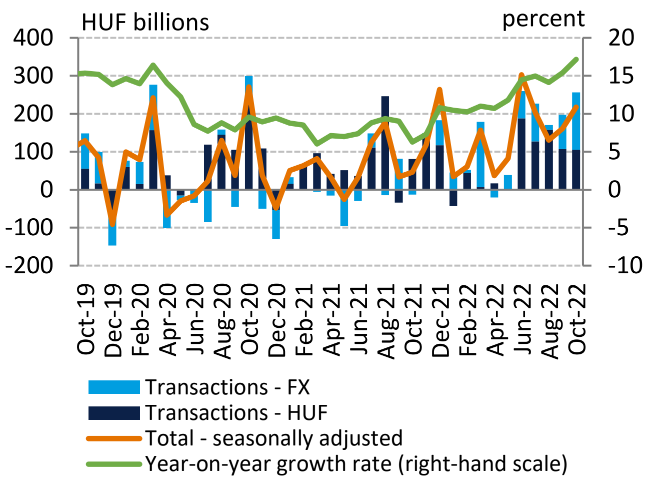
Government bond auctions held by the Government Debt Management Agency since the last interest rate decision were characterised by a strong demand. In the period under review, discount Treasury bill auctions were successful overall: in all but one auction, the Government Debt Management Agency raised the originally announced volume. Demand at bond auctions was also strong on the whole, the Government Debt Management Agency raised a higher volume of funds than announced. Average yields on Treasury bill auctions rose, while those of government bonds mostly fell.

Non-residents' holdings of forint government securities increased. Non-residents' holdings in forint government securities increased by HUF 114 billion to HUF 5,700 billion. The market share of forint government securities held by non-residents declined to around 19.7 percent.

3. Trends in lending

In October 2022, outstanding borrowing of non-financial corporations grew by HUF 256 billion, as a combined result of the increase in outstanding forint borrowing by HUF 105 billion and in foreign currency loans by HUF 151 billion. As a combined result of disbursements and repayments, outstanding borrowing of households rose by only HUF 13 billion in October, thereby reducing the annual growth rate to 6.8 percent. In October 2022, the smoothed interest rate spread on forint corporate loans stood at 0.99 percent following a rise of 1.04 percentage points compared to previous month. The average smoothed interest rate spread on variable rate housing loans calculated based on the annual percentage rate (APR) declined to -4.19 percentage points during the month.

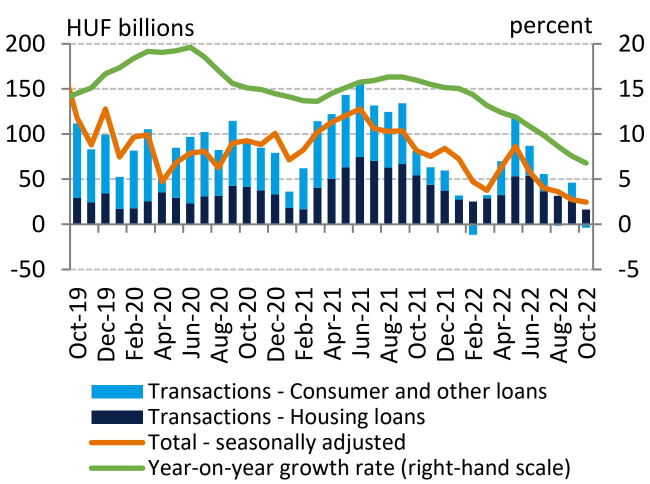
Chart 18 Net borrowing by non-financial corporations



Source: MNB

In October 2022, outstanding borrowing of non-financial corporations grew by HUF 256 billion, as a combined result of the increase in outstanding forint borrowing by HUF 105 billion and in foreign currency loans by HUF 151 billion (Chart 18). Thus – mostly due to the large transactions – the annual growth rate rose to 17.2 percent from 15.4 percent registered last month. Including bond transactions in the balance sheet of credit institutions, the annual growth rate in the month came to 21.6 percent. Credit institutions disbursed new loans in the amount of HUF 243 billion, down from the year-on-year figure by 23 percent. The volume of the SME sector's new contracts fell short of the disbursements registered last October by 55 percent; however, this may be also attributable to the slow pick-up in the 2022 H2 phase of the Széchenyi Card Programme.

Chart 19 Net borrowing by households

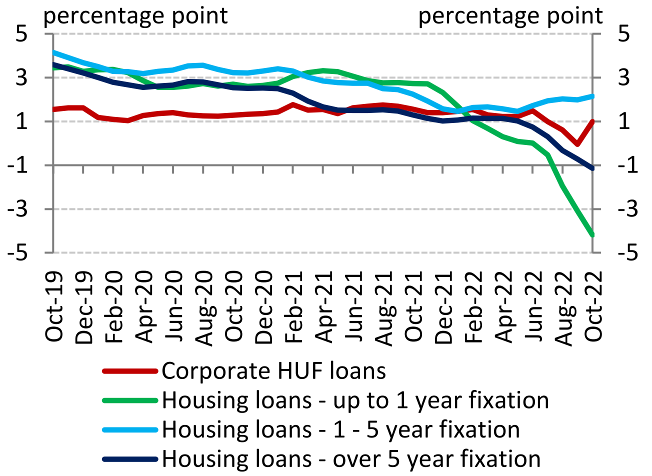


Source: MNB

As a combined result of disbursements and repayments, outstanding borrowing of households rose by only HUF 13 billion in October, thereby reducing the annual growth rate to 6.8 percent (Chart 19). Disbursements of new household loans amounted to HUF 136 billion during the month, which was 38 percent lower than in the same period of the previous year. In parallel with the termination of the FGS Green Home Programme, a rise in interest rates and shrinking housing market demand, the disbursement of housing loans continued to decline, reflected both in the number of loan contracts and in the average loan amounts.

In October 2022, the smoothed interest rate spread on forint corporate loans stood at 0.99 percent following a rise of 1.04 percentage points compared to previous month. The average smoothed interest rate spread on variable rate housing loans calculated based on the annual percentage rate (APR) declined to -4.19 percentage points during the month. After a rise of 0.16 percentage points, the average spread on housing loans with interest rate fixation periods longer than 1 year and up to 5 years increased to 2.15 percentage points in October, while the spread on products with interest rate fixation periods of more than 5 years fell by 0.42 percentage points and stood

Chart 20 Developments in 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

at -1.14 percentage points at the end of the period under review (Chart 20).