MACROECONOMIC AND

FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 22 FEBRUARY 2022

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The background material 'Macroeconomic and financial market developments' is based on information available until 17 February 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

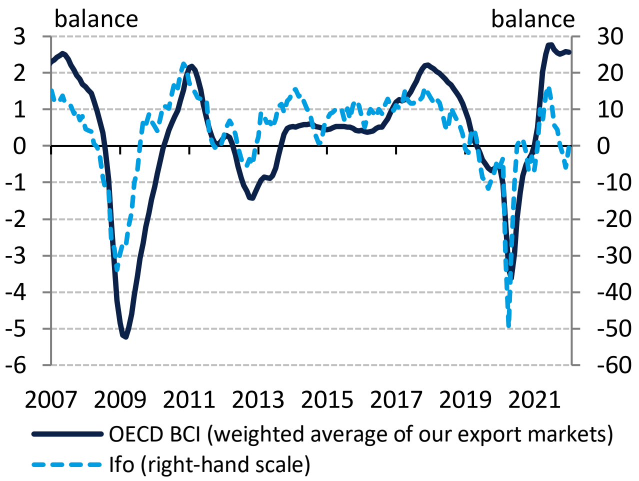
As preliminary data suggest, the Chinese economy further decelerated, exhibiting a growth of 4.0 percent in the fourth quarter of 2021. In the same period, the euro area, the EU and the United States saw an economic growth of 4.6, 4.8 and 5.5 percent, respectively, year on year. Euro area GDP reached its pre-pandemic level. Confidence indices related to the international manufacturing and service sectors showed a mixed picture. In the fourth quarter of 2021 and early 2022, the external inflationary environment remained high. In January, inflation in the United States and in the euro area rose to 7.5 and 5.1 percent, respectively.

Global industrial production exceeded its pre-pandemic level already in September 2020, and has continued to outstrip it ever since then. In the middle of last year the global semiconductor shortage blocked industrial growth; however, since October both global industrial production and world trade activity has been increasing. Prospects of the service sector improved in parallel with the rise in vaccination coverage; nevertheless, recovery in the sector is still expected to be slow and gradual. Compared to the average 70,000 flights registered at the beginning of last year, the number of daily commercial flights rose to around 80,000-90,000, which – however – is still well below the 2019 (and early 2020) figures.

In the fourth quarter of 2021, annual growth rate of the economy slowed down in China, while it accelerated in the USA and in the euro area. GDP rose in China and in the United States by 4.0 and 5.5 percent, respectively. In the fourth quarter of 2021, the euro area and the EU saw a year-on-year economic growth of 4.6 and 4.8 percent, respectively, according to preliminary data. Euro area GDP reached its pre-pandemic level. Economic growth in China decelerated further, presumably due to the difficulties of the real estate market and supplier chains. A growth of 8.1 percent has been registered for 2021. Based on preliminary data, in 2021, both the euro area and the EU-27 economy registered a growth of 5.2 percent, while economic growth in Germany was 2.8 percent.

Monthly production indicators showed a mixed picture in November and December. In December, industrial production in China, in the United States and in the United Kingdom grew by 4.3 percent, 3.7 percent and 0.4 percent, respectively, while the euro area registered a year-on-year decline of 1.5 percent in November. In December, the volume of retail sales rose in the USA by 18.2 percent, in China by 1.7 percent, while it fell in the United Kingdom and in the euro area by 0.9 percent and 3.0 percent, respectively, year-on-year.

Chart 1 Business climate indices in Hungary's export markets



Source: OECD, Ifo

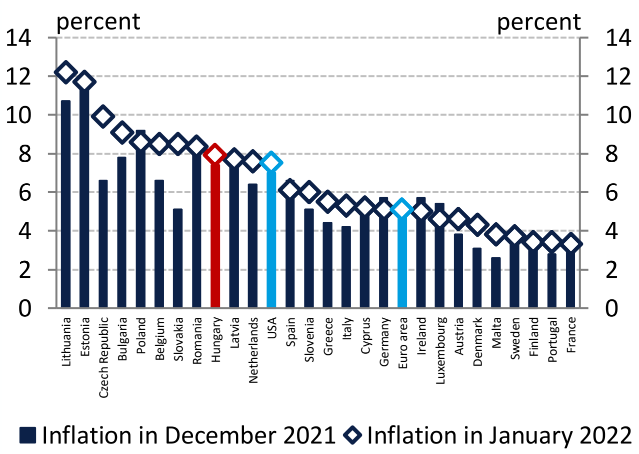
Forward-looking manufacturing and service sector confidence indices typically reflected positive sentiment. Business sentiment in the euro area and in Germany (Ifo Business Climate Index) moderately improved (Chart 1). Purchasing Manager Index of the United States, the euro area and Germany was also above the threshold value (50 points) in January, while in China it was marginally below that (49.1 points).

International labour market trends improved further. In the United States, the number of new unemployment benefit claims was 223,000 in the week ending on 5 February, which is a decrease compared to the previous week, however, it still exceeds the 2019 average (200,000). The unemployment rate rose to 4.0 percent in January from 3.9 percent in December. The euro area unemployment rate continued to decline, compared to the previous month and is at 7.0 percent in December.

According to preliminary data, euro area inflation may have increased to 5.1 percent in January year-on-year, while core inflation may have eased while core inflation may have eased to 2.3 percent from 2.6 percent in December. Preliminary data significantly exceed analysts' expectations of 4.4 percent for inflation and 1.9 percent for core inflation.

Based on the available international data, inflation rose in 17 out of 24 countries in January (including the entirety of the euro area). Common reasons underlying the globally rising inflation include demand and supply imbalances and rising commodity prices. As regard the Baltic states, prices in Lithuania and Estonia registered a double-digit rise (12.2 and 11.7, respectively), and consumer prices in Latvia also rose by 7.7 percent. Slovakia registered a price rise of 8.5 percent. CPI inflation in January stood at 7.5 percent in the United States. In Poland the January consumer price index remained well above the central bank's target, at 9.2 percent. In the Czech Republic inflation in January was 9.9 percent, significantly exceeding the 2 percent inflation target of the Czech central bank (Chart 2).

Chart 2 Developments in the international inflationary environment



Note: HICP for euro area member states and CPI inflation rates for outside the euro area.
Source: Eurostat

The sharp rise in the number of cases, seen in recent weeks is related to the fifth wave of coronavirus, which – looking ahead – may restrict the recovery of the economy. In countries with higher vaccination coverage the negative impact of the potential epidemic restrictions is likely to be more moderate. However, the emergence of the new variant represents yet another uncertainty factor.

1.2. Domestic real economy developments

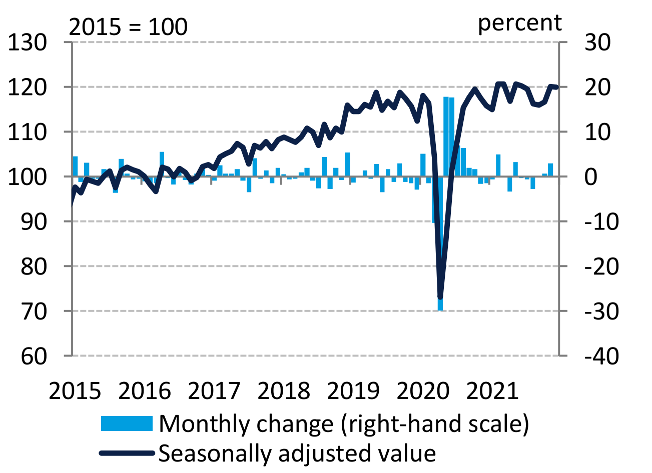
Hungary's real economy and employment developments: In the fourth quarter of 2021, Hungary's GDP rose by 7.2 percent year on year, while economic performance grew by 2.1 percent quarter on quarter. Based on currently available data, the Hungarian economic recovery is ranked among the top in the EU, in an international comparison. Real time data suggest that economic growth has recently continued. In December, industrial production remained above its level in early 2020, with construction output outstripping its pre-crisis trend. The volume of retail sales also exceeded pre-pandemic levels. Last month the recovery of the labour market continued. In December 2021, the raw unemployment rate stood at 3.7 percent, while the number of people in employment rose by 53,000 year on year, surpassing pre-pandemic levels.

1.2.1. Economic growth

The Hungarian economy continued to grow in the fourth quarter. Based on raw data, Hungary's GDP rose by 7.2 percent year-on-year, while economic performance grew by 2.1 percent quarter-on-quarter in the fourth quarter of 2021. Based on currently available data, in an international comparison, the recovery of the Hungarian economy is among the leaders of the EU ranking. The seasonally and calendar adjusted level of Hungary's GDP exceeded the figure registered in the fourth quarter of 2019 by 3.4 percent. According to the HCSO's data release, in the fourth quarter market services contributed to growth to the largest degree.

In December 2021, industrial production rose by 5.8 percent (by 3.6 percent based on calendar-adjusted data) year-on-year. Based on the seasonally and calendar adjusted data, the volume of production decreased by 0.1 percent on a monthly basis (Chart 3). In December, the volume of output remained above the level registered in early 2020. HCSO registered a growth in most of the manufacturing subsectors. Output declined only in the automotive industry, representing the largest share, primarily due to the reduced working hours caused by the global semiconductor shortage. The largest annual growth was registered in the production of electrical equipment, primarily due to the continued soar in electric engine and battery production.

Chart 3 Development in industrial production



Source: MNB calculation based on HCSO data

In December 2021, based on raw data, the volume of construction output rose by 29.0 percent year-on-year. The level of construction output exceeded the growth trend seen in recent years. The volume of output rose by 7.2 percent compared to previous month, based on seasonally and calendar adjusted data. Construction of buildings rose by 32.7 percent, while other construction increased by 24.8 percent, year-on-year. However, the volume of new contracts concluded fell by 7.7 percent compared to the high base of last year, while the construction companies' contract portfolio at the end of

December declined by 13.1 percent compared to December 2020.

According to the available real-time data, growth in GDP has continued in the past period. At the beginning of the year economic trends were generally favourable. Based on the online cash register data, turnover in January grew by 20 more than percent year-on-year. However, in the first month of the year air passenger traffic fell short of its level registered two years ago by 46 percent, according to data received so far. Catering turnover in nominal terms almost doubled in January due to the low base of last year. Cinema attendance has gradually declined in parallel with the worsening of the pandemic situation. At the end of January, it fell short of the level registered in January 2019 by 46 percent. Road passenger and goods traffic both grew in the first month of the year. Passenger traffic and goods traffic rose by 14 percent and 4 percent, respectively, year-on-year. In January, the electricity load data exceeded the level of last year by more than 20 percent.

In January, the number of **housing market transactions** decreased by 13 percent on average, 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 before the outbreak of the pandemic.

According to the HCSO’s preliminary data release, **in December goods exports and imports rose by 19.6 percent and 21.4 percent, respectively, in euro terms, year-on-year.** In December 2021, the merchandise trade balance showed a surplus of EUR 187 million.

In December 2021, the volume of retail sales was up by 6.7 percent based on raw data and by 6.2 percent on data adjusted for the calendar effect, year-on-year. Thus construction output slightly exceeded its level registered before the coronavirus pandemic, but materially fell short of the growth trend of past years. Compared to previous month the volume of sales increased (+1.0 percent). The volume of retail sales rose in most shop types in November. Based on the data adjusted for the calendar effect, the volume of retail sales in food stores and groceries rose by 2.7 percent, that in non-food stores by 8.7 percent, while the volume of fuel retail sales increased by 11.5 percent year-on-year. However, vehicle and components sales, not belonging to retail sales, fell by 12.9 percent on a year-on-year basis.

In December 2021, the number of tourist overnight stays at commercial accommodations was 58.4 percent of the pre-

pandemic level. Domestic tourist overnight stays exceeded 615,000, which fell short of the level registered in the same period of 2019 by 34.6 percent. 79 percent of the domestic tourist overnight stays were in hotels. The number of overnight stays by foreign tourists in Hungary was nearly 548,000, just over half of the November 2019 figure. 87 percent of foreign tourists stayed in hotels.

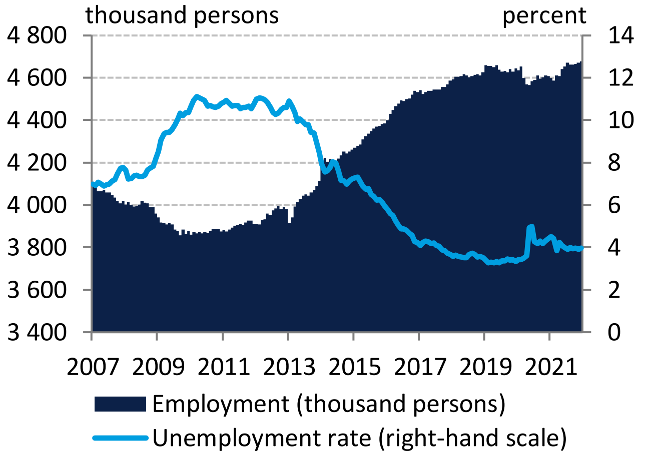
1.2.2. Employment

Based on the data of the Labour Force Survey (LFS), in December 2021 total number of the employed amounted to 4,687,000 reflecting an increase of 53,000 persons year-on-year (Chart 4). Since December 2020, the number of employees in the primary labour market rose by 55,000 persons, while the number of public employees and the number of those working abroad declined by 6,000 and 12,000 persons, respectively.

In November, the number of the unemployed was 179,000, falling short of the year-on-year figure by 21,000 persons, and as a result, on the whole the unemployment rate stood at 3.7 percent. Based on seasonally adjusted data, in December the number of the unemployed fell by 3,000 persons compared to November. Based on the data published by the National Employment Service in December 2021 and January 2022 the number of registered jobseekers in Hungary was 239,000 (-52,000 on an annual basis) and 249,000 (-50,000 on an annual basis), respectively. Based on seasonally adjusted data, the number of the registered unemployed in January 2022 was below that in the months before the outbreak of the coronavirus pandemic.

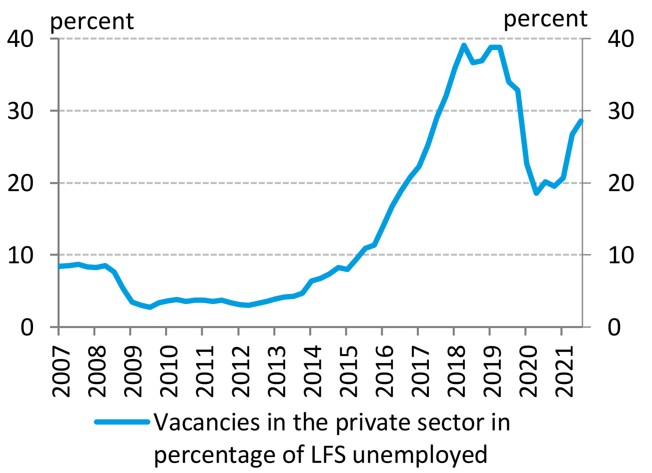
In the third quarter of 2021, private sector vacancies amounted to 58,500, exceeding the year-on-year value by 36.5 percent as well as the pre-pandemic level by 3.9 percent. **On an annual basis, labour demand rose substantially in market services and moderately in manufacturing.** Manufacturing job vacancies exceeded the figure a year ago only by 1,000. In the third quarter of 2021, job vacancies amounted to 34,900 in the market service sector, up by 13,000 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 7,200, while in the trade sector it rose by 1,800. Based on the 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).

Chart 4 Number of persons employed and the unemployment rate



Source: HCSO

Chart 5 Development of labour market tightness indicator



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

1.3. Inflation and wages

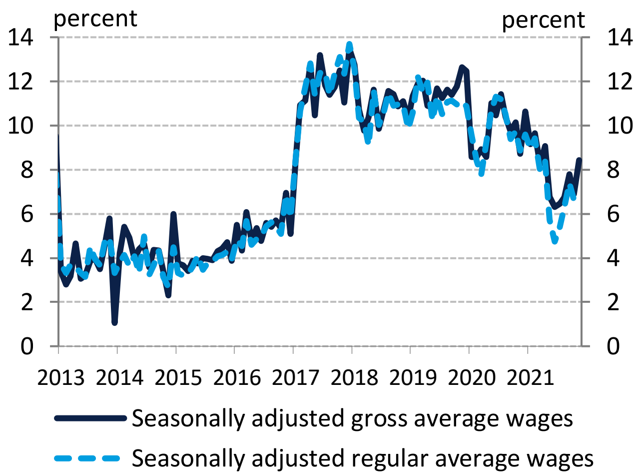
In January 2022, annual inflation was 7.9 percent, while core inflation and core inflation excluding indirect tax effects stood both at 7.4 percent. Underlying inflation indicators capturing persistent trends rose compared to the previous month. In November 2021, whole-economy average wages and private sector wages rose by 10.1 percent and 8.8 percent, respectively, year on year. The degree of statistical effects in the gross average wages in the private sector significantly declined compared to recent months.

1.3.1. Wage setting

In November 2021, gross average wages in the private sector rose by 8.8 percent year-on-year. Based on the detailed analysis of the sectors, the degree of the distortion in the gross average wage of full-time employees significantly decreased compared to the previous months. Contrary to previous year, distortions result in the underestimation of the wage index. Regular average wages remained broadly unchanged compared to previous month. The degree of bonus payments exceeded that of previous years.

According to seasonally adjusted data, the growth in gross average wage and regular average wage 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 November, based on raw data, manufacturing wages were higher by 8.3 percent year-on-year. Wages in the automotive industry – representing the largest share – increased by 14.5 percent in annual terms. In market services, HCSO registered a growth of 9.1 percent. Annual wage dynamics was around 7-12 percent in most industries. Gross wages in the financial, real estate, catering and construction sectors rose by 7.3 percent, 9.9 percent, 12 percent and 10.9 percent, respectively, year-on-year.

Chart 6 Dynamics of average earnings in the private sector

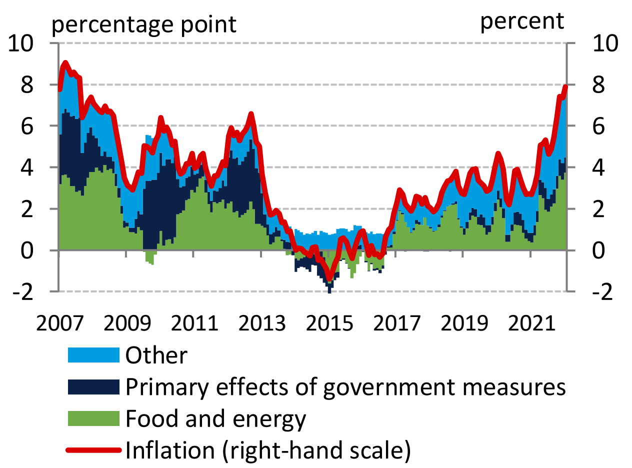


Source: MNB calculation based on HCSO data

1.3.2. Inflation developments

In January 2022, inflation calculated in annual terms was 7.9 percent, while core inflation and core inflation excluding indirect taxes stood at 7.4 percent (Chart 7)**.** Inflation was up by 0.5 percentage point compared to previous month, which is mostly attributable to the rise in the price index of food and to a lesser degree to that of industrial goods and market services. Compared to December, 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).

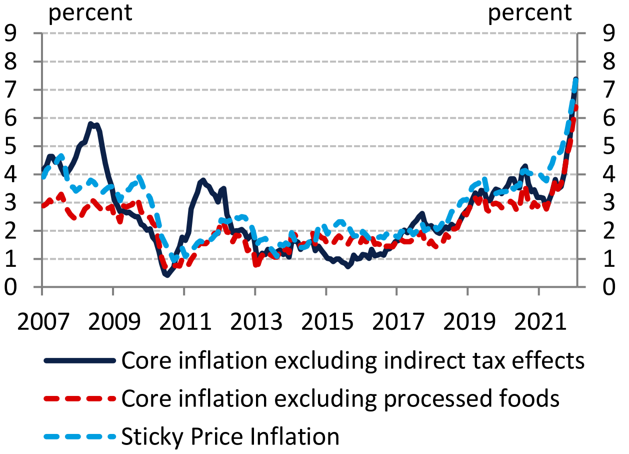
Chart 7 Decomposition of inflation



Source: MNB calculation based on HCSO data

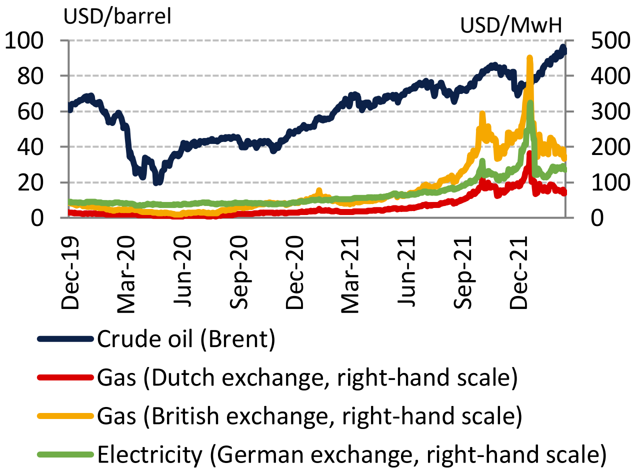
Underlying inflation indicators capturing persistent trends rose slightly compared to the previous month

Chart 8 Measures of underlying inflation indicators



Source: MNB calculation based on HCSO data

Chart 9 Developments in oil, gas and electricity prices since December 2019



Source: Bloomberg

(Chart 8). In December 2021, agricultural producer prices increased by 31 percent in annual terms. In December, domestic sales prices in sectors of consumer goods increased by 9.7 percent.

1.3.3. Inflation risks

Due to the **steady rise in global food, commodity and energy prices and international transportation costs**, inflation concerns significantly grew in the world's large economies. In addition, **labour market capacities that are likely to become scarce once again** may also cause inflation risks to rise in Hungary.

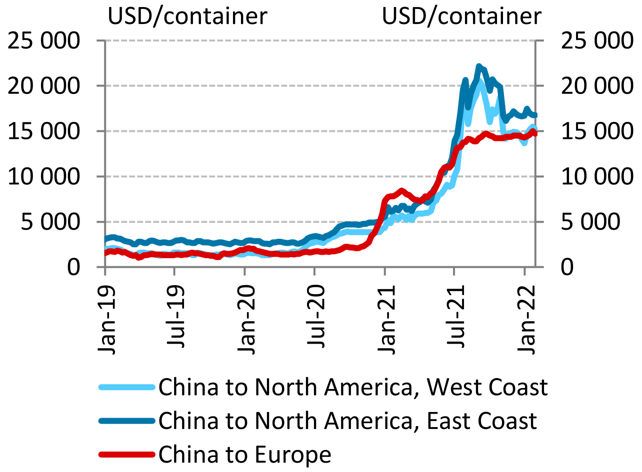
Inflation and core inflation rose further in January. The monthly price change of the basket excluding fuels was 1.4 percent, while the degree of the repricing at the beginning of the year was three times as high as the value registered in previous years. The higher repricing rate is a general phenomenon, which is attributable to the fact that rise in global commodity and energy prices appears swiftly in the consumer prices of a wide range of products.

The growth in inflation risks is equally attributable to international and domestic trends. Due to the different nature and management of the crisis, global economic activity and the labour market may recover faster than in the 2008/2009 crisis. In Hungary the economy recovered rapidly – in merely 1.5 years – after the first waves of the coronavirus pandemic, contrary to the 6.5 years after the 2008 crisis. In addition, the number of people in employment reached a historic high, thereby practically achieving full employment. These factors also contribute to the rise in prices.

The stoppages caused by the coronavirus pandemic, and the subsequent restart, the transformation of the labour market attributable to the pandemic as well as the global semiconductor shortage decelerate supply side recovery. 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 rising inflation globally.

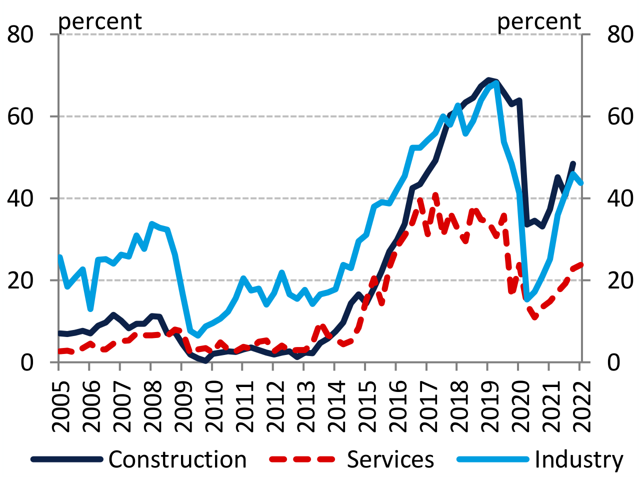
Oil prices continued to rise recently (Chart 9). Since the last interest rate decision the price of Brent crude oil rose by 5.8 percent to USD 93 per barrel. On the other hand, gas prices in the Dutch and British markets significantly declined, by almost 25 percent, since the last interest rate decision. The price of steel wire declined to a similar degree. Electricity prices increased by two percent in the German market since mid-January. Of the other major

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

commodities, the price of silicon, wood and hog rose significantly recently.

Global value chains may recover more slowly than demand, leading to increased cost pressures in global transportation and industrial production. By January, the costs of shipments from China to Europe nearly doubled in one year (Chart 10). Merchants will presumably charge part of the resulting extra costs to the consumers, as a result of which the price increasing effect of the significantly higher 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 soar in food prices has become an increasingly important explanatory factor for the 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.

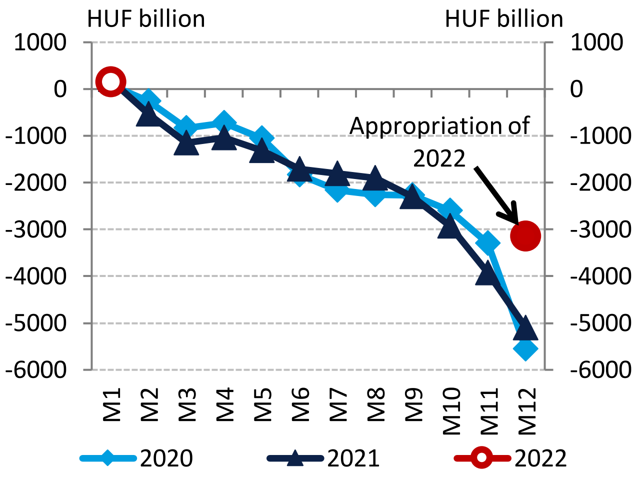
In addition to international developments, several domestic factors in the Hungarian economy also point to a significantly higher inflation path than previously expected. In the fourth quarter of 2021, due to the reopening of the economy, Hungarian GDP grew by 7.2 percent. As regards employment, bottlenecks may be in place, especially in the services and construction sectors, in parallel with the recovery (Chart 11).

Higher than expected wage growth may persist in certain sectors as the labour market tightens, which may project a growth in consumption expenditures through the rise in savings over the past year, postponed consumption and the already unrestricted availability of services.

1.4. Fiscal developments

In January 2022, the surplus of the general government's central sub-sector was HUF 151 billion, falling short of levels seen a year ago by HUF 48 billion. In January, revenues and expenditures exceeded their annual level by HUF 269 billion and HUF 316 billion, respectively.

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



Source: Budget Act of 2022, Hungarian State Treasury

In January 2022, the surplus of the **central sub-sector of the general government** was HUF 151 billion, falling short of that a year ago by HUF 48 billion (Chart 12).

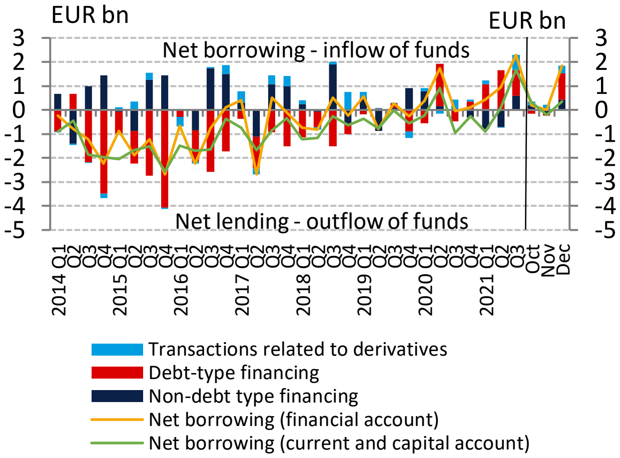
In January, **the revenues of the central sub-sector** exceeded the amount registered in January 2021 by HUF 269 billion, mostly due to the growth in tax and contribution revenues, which outstripped their level a year ago by HUF 240 billion. The rise was mostly attributable to the higher level of VAT revenues, labour tax and contribution revenues. Net VAT revenues exceeding those of last year by HUF 167 billion are attributable to nominal growth in consumption. The growth in contributions in the amount of HUF 56 billion complied with the expectations.

Expenditures exceeded the value registered in January 2021 by HUF 316 billion, which was attributable – in addition to the higher level of expenditures related to EU transfers in the first month – to the growth in almost all expenditure items, resulting from increasing the support for families and local governments, the pension increase and the wage increase for doctors.

1.5. External balance developments

In December, the current account deficit rose to EUR 622 million. External balance indicators somewhat deteriorated compared to previous month, which was partly attributable to seasonal fluctuation. In December, net external debt of the economy rose under a relatively large net FDI inflow.

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 December, the current account deficit rose to EUR 622 million. External balance indicators somewhat deteriorated compared to previous month, which was partly attributable to the seasonal fluctuation. The goods balance improved slightly in December compared to previous month, mainly due to a continued recovery in battery production, while the manufacture of electrical products as well as textiles and food also grew significantly, while the automotive industry continued to perform moderately. The services balance surplus remained broadly unchanged compared to previous month. Compared to November, the income balance deficit moderately improved, while the transfer balance surplus significantly declined.

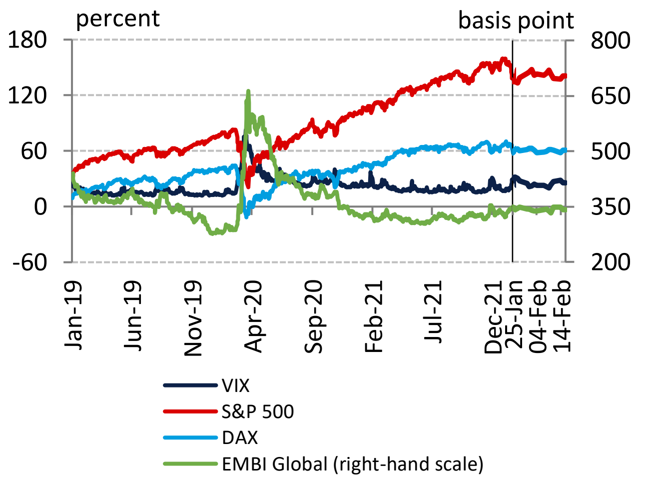
According to the financial account, in December net external debt of the economy rose under a relatively large net FDI inflow. (Chart 13)**.** Net foreign direct investments rose by EUR 675 million. In parallel with this, net external debt increased by more than EUR 1 billion, which was connected to the general government consolidated with the MNB, while net external debt of banks and corporations declined.

2. Financial markets

2.1. International financial markets

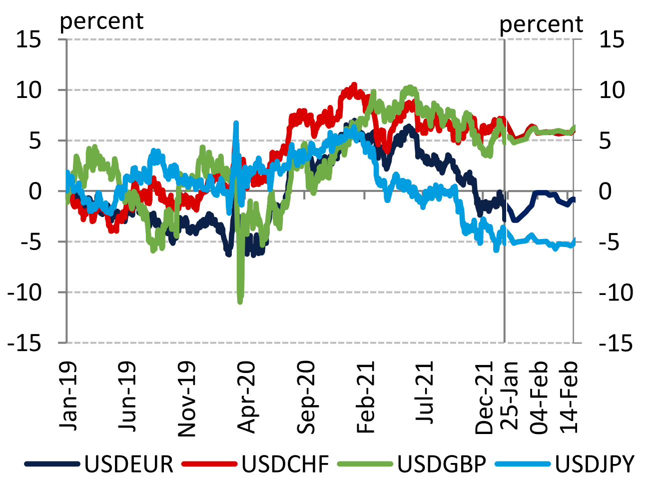
Investor sentiment varied since the last interest rate decision. The VIX index and the EMBI Global spread in the emerging bond market declined, while the leading stock market indices and developed market bond yields rose. The dollar depreciated against the euro and the pound, while the currencies of the region appreciated against the euro.

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

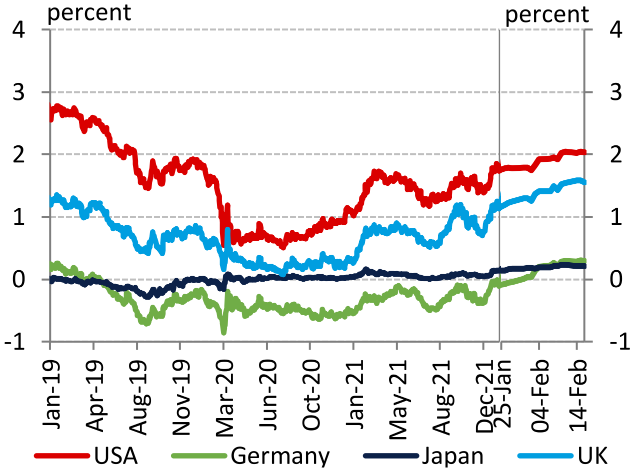
Investor sentiment varied since the last interest rate decision. The focus of the market was mainly on the expectations related to the monetary policy of the major central banks, the high inflation data, the commodity and energy prices and the developments related to the pandemic. After the interest rate decision, global investor sentiment first improved, particularly due to the better than expected GDP and US labour market data releases. Later on, the conflict between Russia and Ukraine, and the inflation data releases tended to deteriorate investor sentiment.

Of the risk indicators, the VIX index, the key measure of equity market volatility, decreased compared to the level registered at the previous interest rate decision by 6.5 percentage point to 24.7 percent, while the VDAX, measuring the volatility of the German stock exchange, fell by 4 basis points. The EMBI Global spread in the emerging bond market fell by 7 basis points to 342 basis points, while the MOVE index, measuring developed bond market volatility, stands close to 94 basis points after a rise of 9 basis points (Chart 14).

Last month, the leading US and European stock indices typically rose. Of the leading US indices, the S&P and the Dow Jones increased by 2.6 and 2 percent, respectively. Of the European leading stock market indices, the German DAX rose by 2.5 percent, while the Japanese and Chinese stock exchange indices were up by 1.2 and 0.9 percent, respectively. On the whole, the developed and emerging MSCI composite indices rose by 2.6 and 1.5 percent, respectively.

The dollar exchange rate has varied against the developed market currencies (Chart 15)**.** The dollar depreciated against the euro and pound by roughly 0.6 percent, while it appreciated against the Swiss franc and the Japanese yen by 0.4 and 1.4 percent, respectively. At the end of the period, the euro-dollar exchange rate close to 1.14. The exchange rate of the currencies of the region against the euro typically strengthened: the koruna, the zloty and the leu appreciated by 0.6, 1.8 and 0.1 percent, respectively.

Chart 16 Yields on developed market long-term bonds



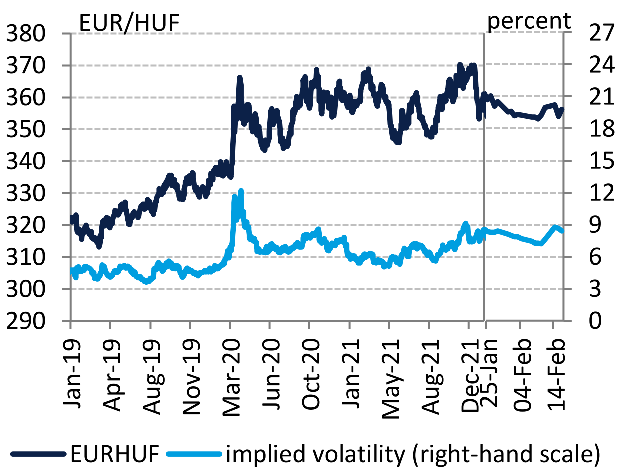
Source: Bloomberg

Developed market bond yields have increased since the last interest rate decision (Chart 16)**.** The ten-year Japanese, German and US yield rose by 7, 40 and 27 basis points, respectively and thus the Japanese yield closed the period at 0.21, the German at 0.31, while the US yield at 2.04 percent. Yields in the Mediterranean countries also rose: the Italian, Greek, Spanish and Portuguese yields was up by 68, 105, 67 and 62 basis points, respectively. Yields in the countries of the region generally continued to rise: the Romanian and Polish yield rose by 27 and 4 basis points, respectively, while the Czech one fell by 13 basis points.

2.2. Developments in domestic money market indicators

Since the January interest rate decision the forint exchange rate has appreciated by 1 percent against the euro. The government securities yield curve shifted upwards again. The 3-month BUBOR rose by 39 basis points to 4.58 percent. Over the past month, the demand has been strong at government bond auctions, on the other hand, average auction yields rose overall.

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



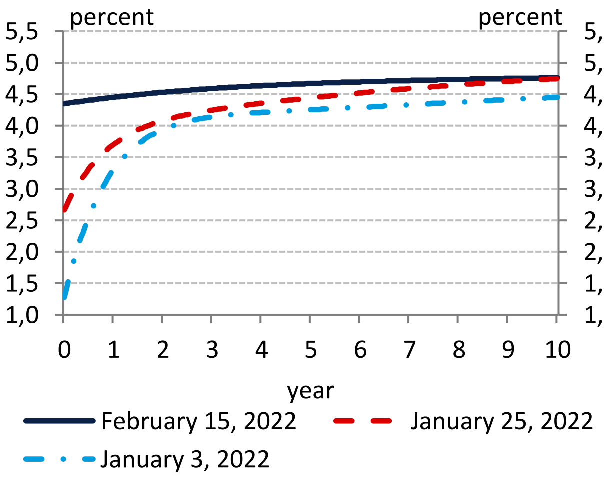
Source: Bloomberg

Since the January interest rate decision the forint exchange rate appreciated by 1 percent against the euro. Within the period under review, the exchange rate fluctuated in a relatively narrow band, showing lower volatility, while volatility priced into options slightly increased (Chart 17). In the first half of the period the forint typically strengthened, followed by a weakening at the end of the period. Including the correction at the end of the period, the forint strengthened by almost 1 percent against the euro, while the Polish zloty appreciated to a larger degree (1.8 percent) and the Czech koruna and the Romanian leu to a smaller degree (0.1 percent and 0.6 percent, respectively) than the forint. During the period, the implied volatility of forint was lower than last month.

The 3-month BUBOR, relevant for monetary policy transmission, rose by 39 basis points to 4.58 percent since the last interest rate decision.

The government securities yield curve shifted upward (Chart 18)**.** Around the 1-year section of the yield curve a rise of roughly 80 basis points, while at the middle section and the long section a rise of 30 and 5 basis points, respectively, was registered.

Chart 18 Shifts in the spot government yield curve



Source: MNB, Reuters

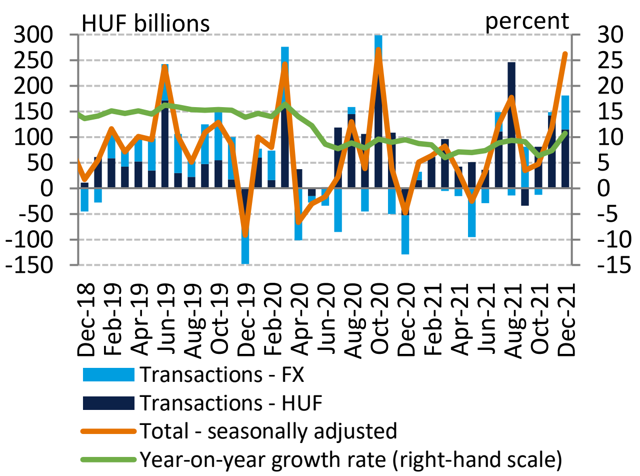
In the first six weeks of the year the bond auctions of the Government Debt Management Agency were successful overall, with acceptance well exceeding the announced volume and gross issuance being over the funding plan. Floating rate notes were issued in a particularly high volume, which offset the fact that issuance of several fixed rate bonds was below the funding plan. Average auction yields on discounted Treasury bills rose, while they declined at the bond auctions.

Non-residents' holdings of forint government securities slightly increased. Non-residents' holdings in forint government securities increased by HUF 154 billion to HUF 4,827 billion. The market share of non-residents' holding in forint government securities moderately rose, but it still stands at around 20 percent.

3. Trends in lending

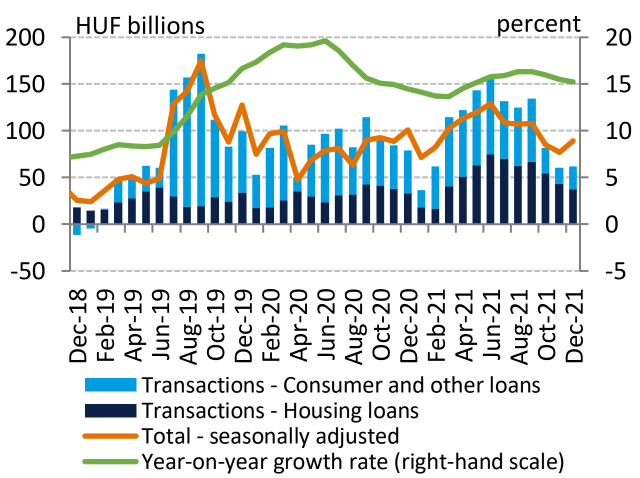
In December 2021, outstanding corporate lending increased by HUF 181 billion, reflecting a rise of HUF 115 billion in forint loans and HUF 66 billion in foreign currency loans. In December, loan disbursements in the household segment exceeded repayments by HUF 62 billion, causing the annual growth rate to reach 15 percent in 2021.

Chart 19 Net borrowing by non-financial corporations



Source: MNB

Chart 20 Net borrowing by households



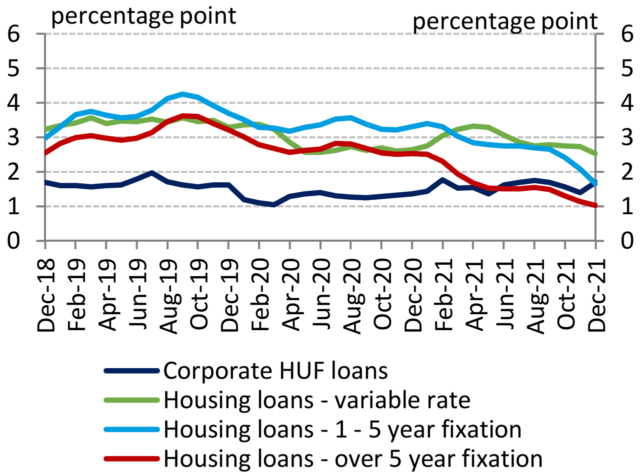
Source: MNB

In December 2021, outstanding corporate lending increased by HUF 181 billion, reflecting a rise of HUF 115 billion in forint loans and HUF 66 billion in foreign currency loans. Due to the significant monthly increase and the base effect, the annual growth rate accelerated to 10.7 percent from 7.3 percent registered last month (Chart 19). Together with the bond transactions in the balance sheet of credit institutions – after the phase-out of BGS –, the annual growth rate in the month accelerated and came to 18.4 percent. In December, credit institutions disbursed new loans in the amount of HUF 427 billion, which exceeded the year-on-year figure – the period already affected by the coronavirus and the subsidised loan schemes – by 8 percent and the figure registered two years ago by 91 percent. Within the monthly disbursements, the disbursements of market-based loans accounted for 72 percent, of new loans, which is slightly lower than the 85-90 percent recorded in the pre-pandemic period.

In December, loan disbursements in the household segment exceeded repayments by HUF 62 billion, causing the annual growth rate to reach 15 percent in 2021. (Chart 20). Due to its narrower scope of utilisation – 5 percent of the total portfolio – from November the moratorium provides only moderate support for the monthly growth in loans outstanding. Disbursements of new household loans in the amount of HUF 229 billion exceeded both the disbursements last year and two years ago, a period not yet affected by the pandemic. Disbursements of unsecured consumer loans fall short of the pre-pandemic levels, while due to the new measures aimed at first-time homebuyers, available from 2021, and as a result of the Green Home Programme, the disbursements of mortgage loans grew strongly, by 47 percent on an annual basis. All housing purposes are characterised by higher volume of loan disbursements. However, in parallel with this, average loan amounts and maturities also increase.

Corporate credit spreads rose in December, while the smoothed interest rate spreads on housing loans declined (Chart 21). The smoothed interest rate spread of corporate loans in HUF was 1.69 percentage point in December 2021, representing an increase of 0.3 percentage point compared to the previous month. The average smoothed interest rate spread on variable rate housing loans calculated based on

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

the annual percentage rate (APR) declined to 2.53 percentage points during the month. The spread on products with interest rate fixation periods longer than 1 year, up to 5 years and more than 5 years declined during the month. After a decline of 0.42 percentage point, the average spread on housing loans with interest rate fixation periods longer than one year and up to 5 years fell to 1.65 percentage points in December, while the spread on products with interest rate fixation periods of more than 5 years amounted to 1.01 percentage point at the end of the period under review after a fall of 0.12 percentage point.