MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 25 JANUARY 2022

JANUARY

2022

Time of publication: 2 p.m. on 19 February 2022

The background material 'Macroeconomic and financial market developments' is based on information available until 20 January 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

Table of contents

1. Macroeconomic developments

1.1. Global macroeconomic environment

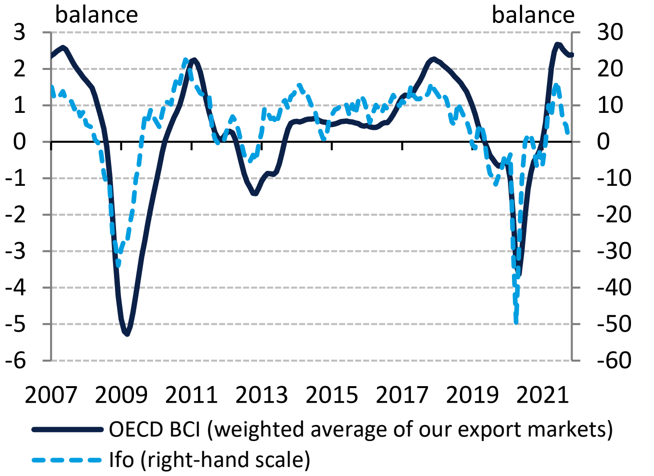
As preliminary data suggest, the Chinese economy further decelerated, achieving a growth of 4.0 percent in the fourth quarter of 2021. In the third quarter, economic growth tended to slow globally. In the third quarter of 2021, the euro area and the EU achieved a year-on-year economic growth of 3.9 and 4.1 percent, respectively. Euro area GDP still falls short of its pre-pandemic level. In October, confidence indices related to the international manufacturing and service sectors showed a mixed picture in each economy. The weakness in industrial activity was primarily caused by the global semiconductor shortage. Due to the fifth wave of the pandemic and the new variant of coronavirus, uncertainty increased again, which may hinder economic recovery. In the third quarter of 2021, external inflationary environment remained high. In the United States, consumer price index stood at 7.0 percent in December. Based on preliminary data, euro area inflation rose to 5.0 percent in December.

Global industrial production exceeded its pre-pandemic level already in September 2020, and has continued to outstrip it ever since then, on the other hand, from June 2021 the global semiconductor shortage blocked industrial growth and looking ahead, it generates further uncertainty. Prospects of the service sector improved in parallel with the rise in vaccination coverage; nevertheless, due to the emergence of new, faster spreading, variants of the virus, recovery is still expected to be slow. Compared to the average 70 thousand flights registered at the beginning of last year, the number of daily commercial flights rose by roughly 20 thousand flights to around 90 thousand, which – however – is still well below the 2019 (and early 2020) figures.

In the third quarter of 2021 economic growth slowed down. In the United States, similarly to China, GDP rose by 4.9 percent. In the third quarter of 2021, the euro area and the EU saw a year-on-year economic growth of 3.9 and 4.1 percent, respectively. Euro area GDP still falls short of its pre-pandemic value. According to the third-quarter data, economic performance of 17 economies, in total, exceeded the figure registered in the last quarter of 2019, while that of 10 countries, including Germany, fell short of it. According to the latest data, economic growth in China decelerated further in the fourth quarter, amidst the difficulties of the real estate market and supplier chains. A growth of 8.1 percent has been registered for the full year of 2021. Preliminary data are also available for Germany, according to which economic growth in 2021 was 2.7 percent, which is expected to be at the bottom of the European ranking.

Monthly production indicators mostly rose in November and December. In December, industrial production in China and in the United States grew by 4.3 percent and 3.7 percent, respectively. On the other hand, industrial

Chart 1 Business climate indices in Hungary's export markets



Source: OECD, Ifo

production in the United Kingdom rose by 0.1 percent, while the euro area registered a year-on-year decline of 1.5 percent. In December, the volume of retail sales rose in the USA by 18.2 percent, in China by 1.7 percent, while in November, in the United Kingdom and in the euro area by 4.7 percent and 7.8 percent, respectively, year-on-year.

In November, forward-looking confidence indices related to the international manufacturing and service sectors showed a mixed picture in the individual economies. Business sentiment in the euro area moderately improved, while it continued to decline in Germany (Ifo Business Climate Index) in December (Chart 1). Purchasing Manager Index of the United States, China and the euro area was also above the threshold value (50 points) in December, while in Germany it was marginally below that (49.9 points).

International labour market trends improved further. In the United States, the number of new unemployment benefit claims was 230,000 in the week ending on 8 January, which is an increase compared to the previous week, and it still exceeds the 2019 average (200,000). The unemployment rate declined to 3.9 percent in December. The euro area unemployment rate continued to decline, compared to the previous month and is at 7.2 percent in October.

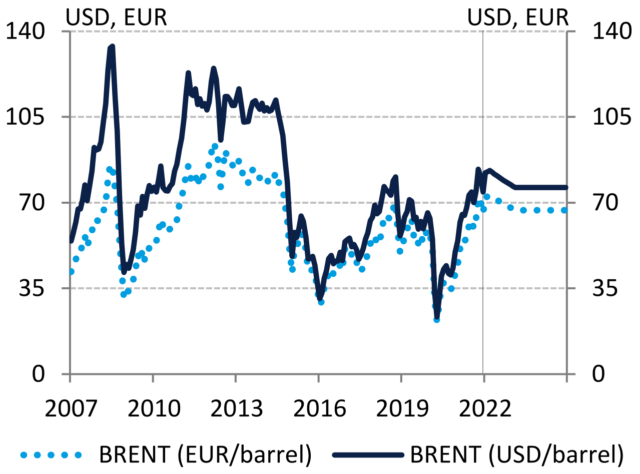
According to preliminary data, euro area inflation may have increased to 5.0 percent in December year-on-year, while core inflation may have stood steadily at 2.6 percent. Preliminary data exceed analysts' expectations of 4.8 percent for inflation and 2.5 percent for core inflation.

CPI inflation in December stood at 7.0 percent in the United States. In Poland the December consumer price index remained well above the central bank's target, at 8.6 percent. In the Czech Republic inflation in December was 6.6 percent, significantly exceeding the 2 percent inflation target of the Czech central bank.

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.

In December 2021, the average world market price of Brent crude oil was USD 74.3 per barrel, and then, by the second half of January the spot price rose to USD 88 per barrel (Chart 2). The rise is attributable to the decline in US crude oil stocks, pushing up international oil prices.

Chart 2 World market prices of Brent crude oil



Source: Bloomberg

According to the latest report of the US Energy Information Administration (EIA), US oils stocks fell by 2.1 million barrels on the week ending on 31 December. Although the data fell short of analysts' expectations – as they expected a decline of 3.6 million in stocks, according to Bloomberg's survey – the price of Brent rose to exceed USD 82 per barrel. It also points to a rise in oil prices that there are several OPEC member countries that – due to a variety of reasons – produce less than they could based on their quota. Since this is offset only partially by other countries, the total OPEC supply is below of the theoretically possible volume, and the lower supply has a price-increasing effect. According to the latest World Bank data, commodity prices in dollar terms fell by 1.8 percent in December compared to previous month. The fall in oil prices (-8.8 percent) was somewhat offset by the rises in food prices (1.2 percent) and metal prices (6.2 percent).

1.2. Domestic real economy developments

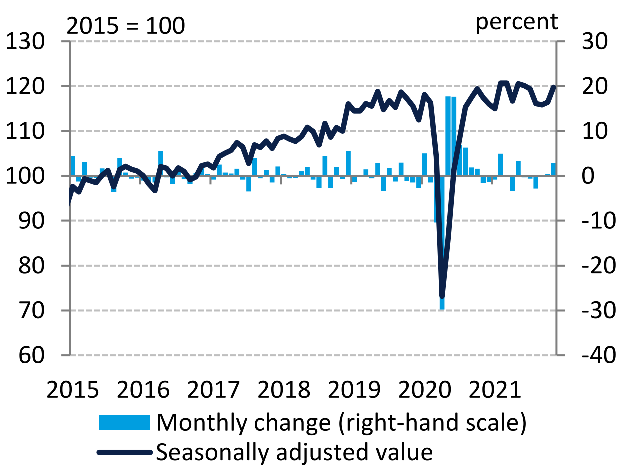
In the third quarter of 2021, Hungary's GDP rose by 6.1 percent year-on-year, while economic performance grew by 0.7 percent quarter on quarter. In an international comparison, the Hungarian economic recovery is in the mid-range of the EU ranking. Available real time data suggest that economic growth has recently continued. In November, industrial production remained above the level seen in early 2020, while construction output returned to its pre-crisis level. The volume of retail sales also exceeded its pre-pandemic level. Last month recovery in the labour market continued. In November 2021, the raw unemployment rate stood at 3.7 percent, while the number of people in employment rose by 45,000 year-on-year, surpassing pre-pandemic levels.

1.2.1. Economic growth

The Hungarian economy continued to grow in the third quarter. Based on raw data, Hungary's GDP rose by 6.1 percent year-on-year, while economic performance grew by 0.7 percent quarter-on-quarter in the third quarter of 2021. In an international comparison, the recovery of the Hungarian economy is in the mid-range of EU ranking. The seasonally and calendar adjusted level of Hungary's GDP exceeded the figure registered in the fourth quarter of 2019 by 0.6 percent.

The performance of most sectors grew year-on-year, also supported by the low base of previous year. The output of industry grew at a moderate pace, by 2.5 percent, construction value added increased by 20.1 percent and that of agriculture declined by 3.8 percent year-on-year. Services' value-added increased by 6.8 percent. All service sub-sectors saw a year-on-year increase, with the strongest growth registered by in accommodation and catering services (+21.6 percent), due to the low bases of last year. On the consumption side, the value added of domestic demand items developed favourably, while the contribution of net exports was negative in the third quarter. **Households' consumption expenditures increased by 5.2 percent in year-on-year terms.** The largest growth was registered in services consumption (+10.4 percent) Value added by gross fixed capital formation was up by 9.6 percent year-on-year. Growth in the volume of building investments exceeded that in machinery and equipment investments. The growth in the volume of exports (+1.4 percent) fell short of that of imports (+5.6 percent). Net exports reduced GDP growth in the third quarter by 3.2 percentage points.

Chart 3 Development in industrial production



Source: MNB calculation based on HCSO data

In November 2021, industrial production rose by 2.6 percent (by 2.1 percent based on calendar-adjusted data) year-on-year. Based on the seasonally and calendar adjusted data, the volume of production increased by 2.9 percent on a monthly basis (Chart 3). In November, the volume of output once again exceeded the level registered in early 2020. HCSO registered a growth in most of the manufacturing subsectors. However, the output of automotive industry, representing the largest share, declined significantly, primarily due to the reduced working hours caused by the global semiconductor shortage. Output also declined in the manufacture of computers, electrical equipment and optical products, which is also attributable to the chip shortage.

In November 2021, based on raw data, the volume of construction output rose by 12.3 percent year-on-year. The level of construction output reached the growth trend seen in recent years. The volume of output rose by 4.9 percent compared to previous month, based on seasonally and calendar adjusted data. Construction of buildings rose by 11.6 percent, while other construction increased by 14.8 percent, year-on-year. However, the volume of new contracts concluded fell by 50.0 percent compared to the high base of last year, while the construction companies' contract portfolio at the end of November declined by 6.7 percent compared to November 2020.

According to the available real-time data, growth in GDP has continued in the past period. At the end of the year economic trends were generally favourable. Based on the online cash register data, turnover in December grew by 20 more than percent year-on-year. On the other hand, in the last month of the year air passenger traffic fell short of its level registered two years ago by 50 percent. Catering turnover in nominal terms rose by almost 25 percent in December. Cinema attendance has gradually declined in parallel with the worsening of the pandemic situation. In December, it fell short of the level registered two years ago by 11 percent. Road passenger and goods traffic trends differed in December. Passenger traffic increased by almost 20 percent, while goods traffic dropped by 14 percent. In December, the electricity load data were around the level of last year.

In December **household borrowing** exceeded its level registered a year earlier by almost 40 percent. In December, the number of **housing market transactions** rose by 21 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 November goods exports and imports rose by 7.7 percent and 14.0 percent, respectively, in euro terms, year-on-year.** In November 2021, the merchandise trade balance showed a surplus of EUR 81 million.

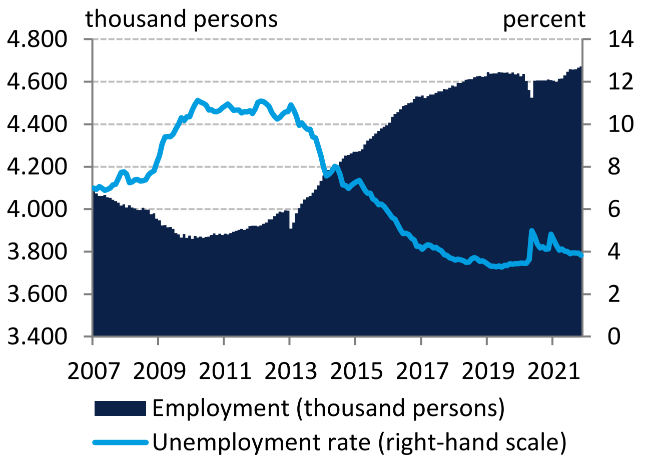
In November 2021, the volume of retail sales was up by 3.8 percent based on raw data and on data adjusted for the calendar effect, year-on-year. Thus, construction output slightly exceeded its level registered before the coronavirus pandemic, but materially fell short of the growth trend of past years. Compared to previous month the volume of sales slightly decreased (-0.2 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 2.1 percent, that in non-food stores by 4.9 percent, while the volume of fuel retail sales increased by 6.2 percent year-on-year.

In November 2021, the number of tourist overnight stays at commercial accommodations was 61 percent of the pre-pandemic level. Domestic tourist overnight stays exceeded 640 million, which fell short of the level registered in the same period of 2019 by 35.7 percent. 78 percent of the domestic tourist overnight stays were in hotels. The number of overnight stays by foreign tourists in Hungary was nearly 622,000, just over half of the November 2019 figure. 88 percent of foreign tourists stayed in hotels.

1.2.2. Employment

Based on the data of the Labour Force Survey (LFS), in November 2021 total number of the employed amounted to 4,678,000 reflecting an increase of 45,000 persons year-on-year (Chart 4). Since November 2020, the number of employees in the primary labour market rose by 94,000 persons, while the number of public employees and the number of those working abroad declined by 3,000 and 14,000 persons, respectively.

Chart 4 Number of persons employed and the unemployment rate

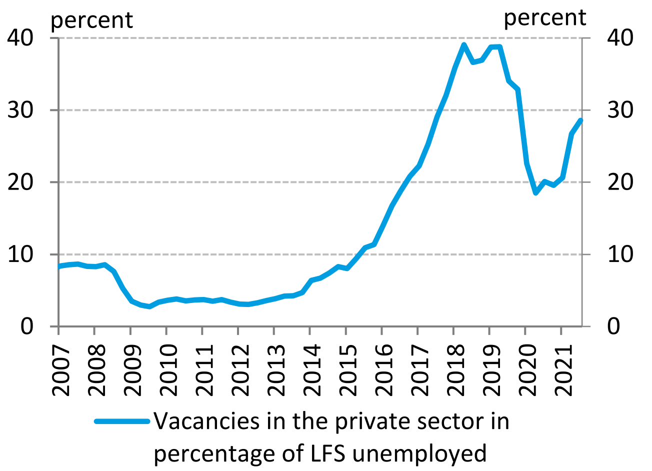


Source: HCSO

In November, the number of the unemployed was 179,000, falling short of the year-on-year figure by 9,000 persons, and as a result, the unemployment rate stood at 3.7 percent. Based on seasonally adjusted data, in November the number of the unemployed fell by 5,000 persons compared to October. Based on the data published by the National Employment Service (Nemzeti Foglalkoztatási Szolgálat - NFSZ) in November and December the number of registered jobseekers in Hungary was 242,000 (-54,000 on an annual basis) and 239,000 (-52,000 on an annual basis), respectively. Based on seasonally adjusted data, the number of the registered unemployed in December 2021 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**

Chart 5 Development of labour market tightness indicator



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

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).

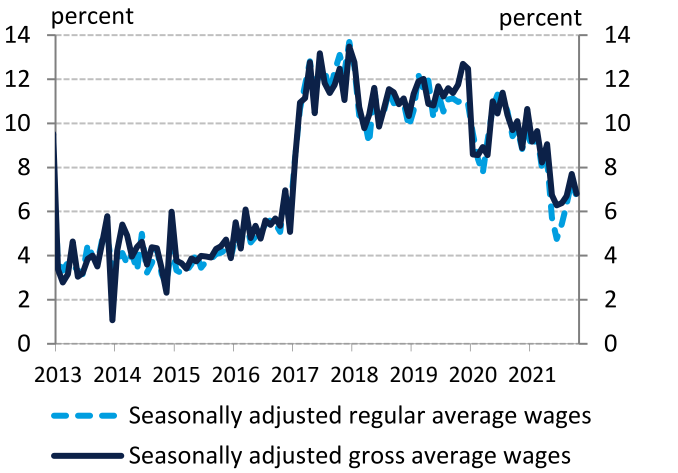
1.3. Inflation and wages

In December 2021, inflation calculated on a year-on-year basis was 7.4 percent, while both core inflation and core inflation excluding indirect tax effects stood at 6.4 percent. Underlying inflation indicators capturing persistent trends (price index of demand sensitive and inflation of sticky price products and services) increased compared to the previous month. In October 2021, whole-economy average wages and private sector wages rose by 8.5 percent and 6.9 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 October 2021, gross average wages in the private sector rose by 6.9 percent year-on-year. Based on the detailed analysis of the sectors, the degree of the distortion in the gross average wage of full-time employees significantly decreased compared to the previous months and, contrary to previous year, result in the underestimation of the wage index. According to our estimate, after adjustment for the statistical effects (part-timers, composition effect), the annual wage increase would be 7.6 percent in the primary labour market. Regular average wages slightly increased compared to previous month; however, the degree of the increase was smaller compared to October of previous years. The degree of bonus payments remained broadly unchanged compared to the level of previous years.

Chart 6 Dynamics of average earnings in the private sector



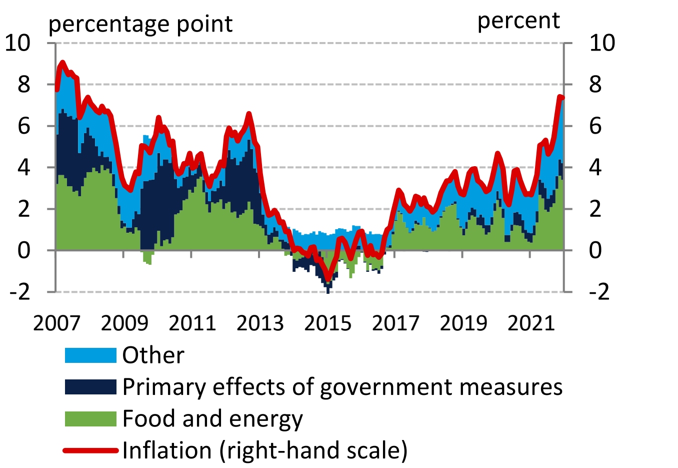
Source: MNB calculation based on HCSO data

According to seasonally adjusted data, the growth in gross average wage and regular average wage slowed down 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 October, based on raw data, manufacturing wages were higher by 5.4 percent year-on-year. Wages in the automotive industry – representing the largest share – increased by 4.5 percent in annual terms. In market services, HCSO registered a growth of 7.8 percent. Annual wage dynamics was around 5-10 percent in most industries. Gross wages in the financial and real estate sectors, catering and construction sectors rose by 11.7 percent, 9.6 percent and 7.3 percent, respectively, year-on-year.

1.3.2. Inflation developments

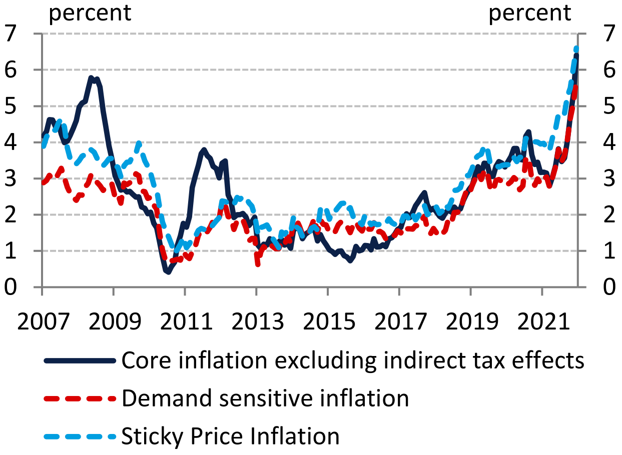
In December 2021, inflation calculated in annual terms was 7.4 percent, while core inflation and core inflation excluding indirect taxes stood at 6.4 percent (Chart 7)**.** Compared to the previous month, inflation remained unchanged and core inflation increased by 1.1 percentage point. All three product groups contributed to the rise in core inflation; however, at the level of the overall consumer prices index this was offset by the declining

Chart 7 Decomposition of inflation



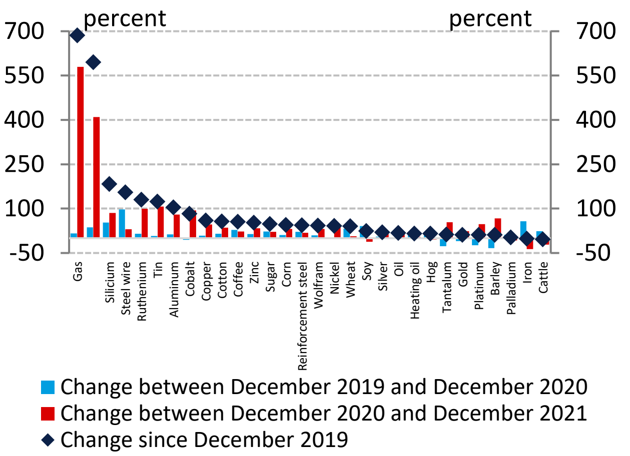
Source: MNB calculation based on HCSO data

Chart 8 Measures of underlying inflation indicators



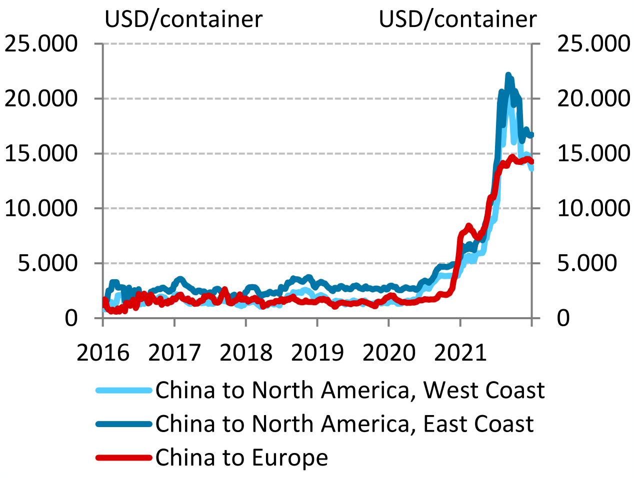
Source: MNB calculation based on HCSO data

Chart 9 Changes in major commodity prices since December 2019



Source: Bloomberg

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



Source: Bloomberg

inflation of fuels, alcohol and tobacco products. Incoming inflation data exceeded the 7.0 percent baseline projection in the December Inflation Report. According to the available data, inflation did not rise further in December only in seven out of 25 countries. Hungary is also among these few countries. Of the V4 countries inflation stopped rising in December only in Hungary.

Underlying inflation indicators capturing persistent trends (inflation of demand sensitive and sticky price products and services) **increased compared to the previous month** (Chart 8). In November 2021, agricultural producer prices increased by 27.2 percent in annual terms. In November, domestic sales prices in sectors of consumer goods increased by 8.2 percent.

1.3.3. Inflation risks

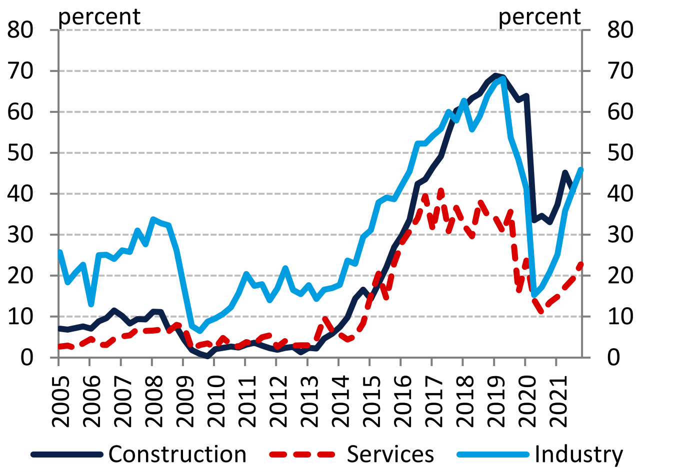
Following a temporary decline in summer, inflation started to rise repeatedly from autumn. The indicator stood at 7.4 percent in December. In December, the acceleration of inflation halted in Hungary.

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 addition to the rapid economic recovery, a globally loose fiscal and monetary policy stance, high public debt ratios and expanding lending, along with deglobalisation and shortening value chains, all point to rising inflation globally. The price of several important commodities and fuels still rose until mid-December 2021, followed by an adjustment from the second half of the month** (Chart 9).

Global value chains may recover more slowly than demand, leading to increased cost pressures in global transportation and industrial production. By December, the costs of shipments from China to Europe rose by 3.5 times 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 addition to international developments, several domestic factors in the Hungarian economy also point to a significantly higher inflation path than previously

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

expected. In the third quarter of 2021, due to the reopening of the economy, Hungarian GDP grew by 6.1 percent. As regards employment, bottlenecks may be in place, especially in the services and construction sectors, in parallel with the recovery (Chart 11).

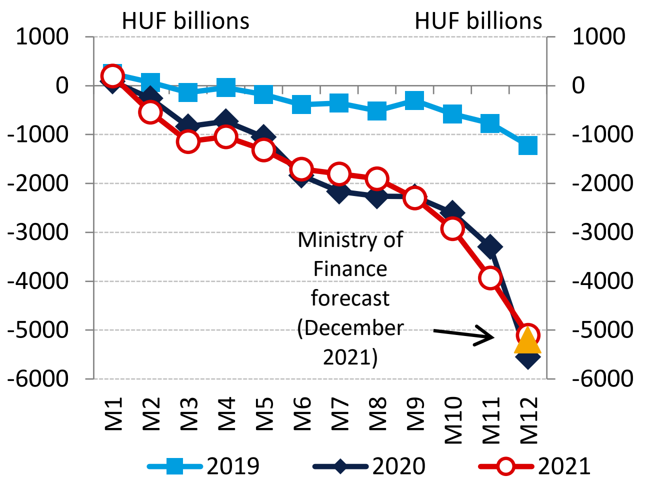
Higher than expected wage growth may persist in certain sectors as the labour market tightens, which may project a growth in consumption expenditures through the rise in savings over the past year, postponed consumption and the already unrestricted availability of services.

The potential economic impacts of the additional waves of the pandemic represent a further upside risk. The economic impact of the waves of the pandemic can be quantified with a high degree of uncertainty, as an unforeseen turn in the virulence of existing and new variants may occur at any time. In addition to the severity of the restrictions, the economic impact will also be influenced by the caution of the population.

1.4. Fiscal developments

In December, the deficit of the central sub-sector of the general government was HUF 1,170 billion. Revenues of the central sub-sector exceeded the year-on-year value by HUF 31 billion. Expenditures in the last month of 2021 fell short of the major expenditures in December 2020, which was partly attributable to the government measure adopted in December 2021 concerning the postponement of certain fiscal expenditures amounting to HUF 350 billion.

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



Source: Budget Act of 2021, Hungarian State Treasury

In December, **the deficit of the general government's sub-sector** amounted to HUF 1,170 billion, and thus the cash deficit of the sub-sector in 2021 became HUF 5,101 billion, exceeding the original appropriation by HUF 3,610 billion, but falling short of the expected budget deficit published by the Ministry of Finance in December by HUF 95 billion. (Chart 12).

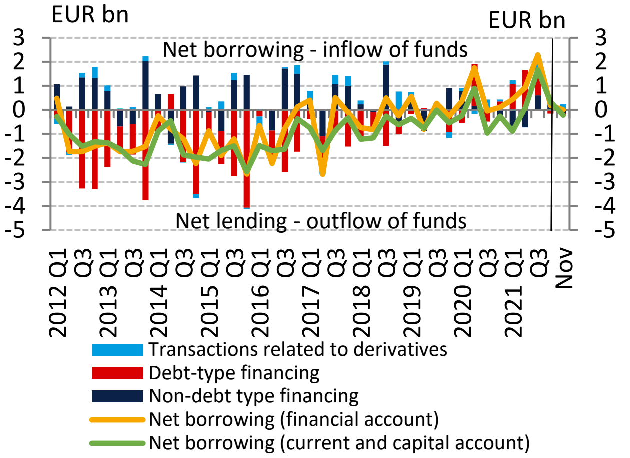
In December, **revenues of the central sub-sector** exceeded the year-on-year value by HUF 31 billion. Tax and contribution revenues increased dynamically throughout the year compared to the revenues in 2020, representing a lower base, which was only slightly offset by the lower realisation of revenues linked to EU programmes.

Expenditures in the last month of last year fell short of the major expenditures registered in December 2020, which was also attributable to the government measure adopted in December 2021 concerning the postponement of certain fiscal expenditures in the amount of HUF 350 billion. Last year the increase in expenditures was primarily caused by the growth in expenditures connected to medical and preventive care and EU transfers, which was partially offset by the lower expenditures of budgetary organisations and institutions.

1.5. External balance developments

In November, the current account deficit dropped to EUR 486 million. The external balance indicators significantly improved compared to the previous month, which was mostly attributable to trade balance. According to the financial account, in November net external debt of the economy slightly decreased as a result of a moderate 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 November, the current account deficit dropped to EUR 486 million. The external balance indicators significantly improved compared to previous month, which was mostly attributable to the trade balance. The goods balance improved in November compared to previous month, but – under moderate vehicle exports and high energy imports – it still significantly falls short of the level seen a year ago. In parallel with this, services balance surplus materially rose compared to last November. The income balance deficit remained broadly unchanged, while the transfer balance surplus slightly increased.

According to the financial account, in November net external debt of the economy slightly decreased under a moderate net FDI inflow (Chart 13). Net foreign direct investments rose by roughly EUR 100 million, while net external debt declined to a similar degree, linked to the banking sector, while the general government's indicator remained broadly unchanged.

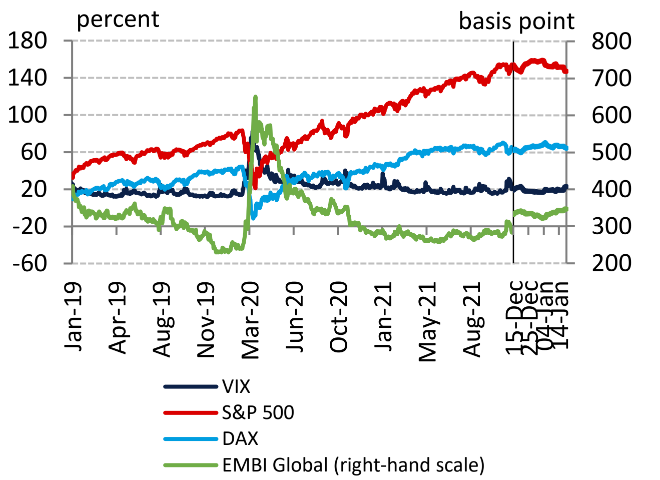
2. Financial markets

2.1. International financial markets

Overall, investor sentiment has been mixed since the last interest rate decision. The VIX index and the EMBI Global spread in the emerging bond market rose, developed stock market indices fell, while bond yields rose. On the other hand, emerging market stock exchange indices broadly increased. The dollar depreciated against both the advanced and emerging currencies. It depreciated against the euro by 0.8 percent. In the commodity market oil prices rose, gas and energy prices significantly declined last month, while other commodity prices were more stable.

Overall, investor sentiment has been mixed since the last interest rate decision. The focus of the market was mainly on the rate-setting meetings 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 deteriorated and then, when it became increasingly clear that the omicron variant is likely to cause less severe disease, it started to improve. However, over the last couple of days, sentiment started to deteriorate again due to the tensions in the Middle East and the rise in developed long-term yields.

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



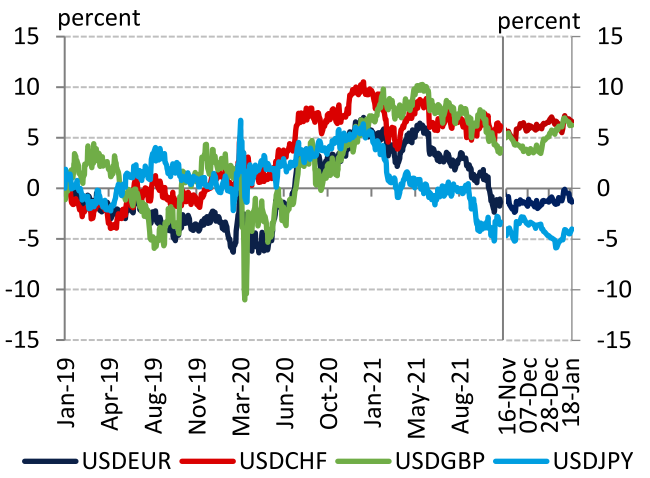
Source: Bloomberg

Of the risk indicators, the VIX index, the key measure of equity market volatility, increased compared to the level registered at the previous interest rate decision by 2.5 percentage points to 23.1 percent, while the German VDAX index rose to a lesser degree, by 1 percentage point. The EMBI Global spread in the emerging bond market rose by 13 basis points to 346 basis points, while the MOVE index, measuring developed bond market volatility, stands close to 85 basis points after a rise of 6 basis points (Chart 14).

Last month, the leading US and European stock indices typically lowered. Of the leading US indices, the S&P and the Dow Jones dropped by 1.3 and 0.6 percent, respectively. Of the European leading stock market indices, the German DAX rose by 2.3 percent, while the Japanese and Chinese stock exchange indices were down by 3.4 and 2.8 percent, respectively. Overall, the developed MSCI composite index fell by 0.4 percent, while the emerging market index rose by 1.6 percent.

The dollar typically depreciated against the developed currencies (Chart 15). The dollar depreciated against the euro, the pound and the Swiss franc by 0.8, 3.0 and 0.8 percent, respectively, while it appreciated against the Japanese yen by 0.5 percent. At the end of the period, the euro-dollar exchange rate was close to 1.13. The exchange rate of the currencies of the region against the euro typically strengthened: the forint, the koruna, the zloty and the leu appreciated by 3.3, 4.0, 2.2 and 0.1 percent, respectively.

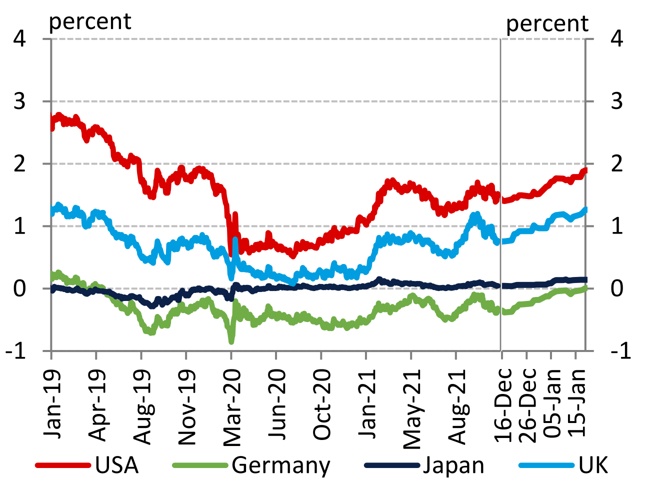
Chart 15 Developed market FX exchange rates



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

Source: Reuters

Chart 16 Yields on developed market long-term bonds



Source: Bloomberg

Gold and silver prices rose by 3.8 and 9.4 percent, respectively, since the previous interest rate decision, with gold rising to around USD 1,840 per ounce.

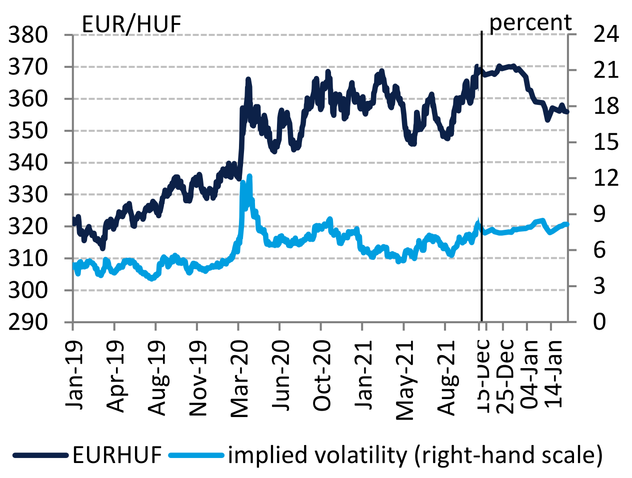
Developed market bond yields have increased since the last interest rate decision. The ten-year Japanese, German and US yield rose by 9, 37 and 41 basis points, respectively and thus the Japanese yield closed the period at 0.14, the German at 0.01 (returning to the positive range for the first time since 2019), while the US yield reached 1.85 percent. Yields in the Mediterranean countries also rose: the Italian and Greek yields rose by 41-41 basis points, while the Spanish and Portuguese ones by 36-36 basis points. Yields in most countries of the region continued to rise: the Hungarian, Romanian and Polish long-term yield rose by 31, 22 and 79 basis points, respectively, while the Czech yield rose by 67 basis points.

Oil prices have recently significantly declined. At the beginning of the period the fall in oil prices was caused by the decline in global demand resulting from the spread of the omicron variant; however, increasing US oil consumption, the oil reserves declining from week to week and the tensions in the Middle East caused prices to rise. **Overall, since the December interest decision the price of Brent crude oil rose by 19.3 percent to USD 88 per barrel, while the US benchmark WTI oil price grew by 22.5 percent to USD 86.7.**

2.2. Developments in domestic money market indicators

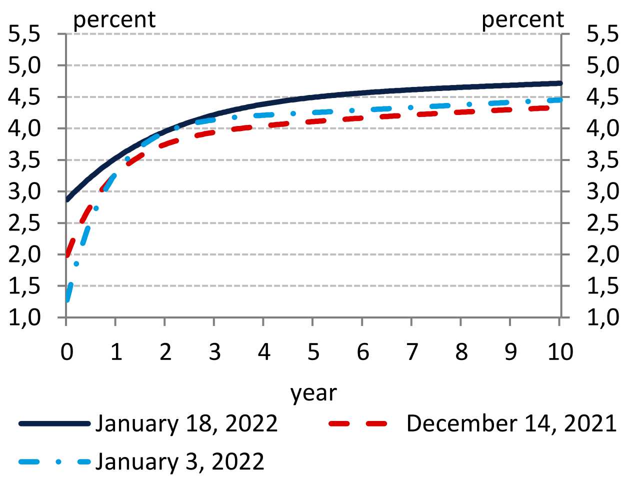
Showing decreasing volatility, the forint exchange rate has appreciated by over 3 percent against the euro since the December interest rate decision. The government securities yield curve shifted upwards. The 3-month BUBOR rose by 50 basis points to 4.19 percent. In the past month, there was a strong demand at government bond auctions; however, average auction yields rose overall.

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



Source: Bloomberg

Chart 18 Shifts in the spot government yield curve



Source: MNB, Reuters

Since the December interest rate decision, the forint exchange rate appreciated by more than 3 percent against the euro. In the first half of the period under review, the forint depreciated against the currencies of the region, then – from the beginning of January – it appreciated against the euro to a larger extent than those. At the end of the period the exchange rate already showed an correction. Including the correction at the end of the period, the forint strengthened by almost 3.3 percent against the euro, while the Polish zloty appreciated to a lesser degree (2.2 percent) and the Czech koruna to a larger degree (4.2 percent) than the forint. During the period, the implied volatility of forint was lower than last month (Chart 17).

The 3-month BUBOR, relevant for monetary policy transmission, rose by 50 basis points to 4.19 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 25 basis points, while at the middle section and around the 10-year section a rise of 40 basis points was registered.

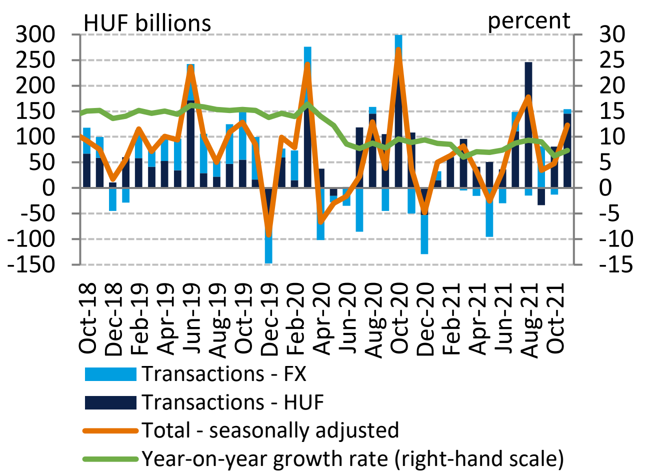
In the past month, the demand was strong at government bond auctions. At the 3- and 12-month discount Treasury bill auctions the Government Debt Management Agency accepted bids for a slightly lower volume than announced on two occasions and over the announced volume on three occasions. Government bond auctions saw strong demand, and the Government Debt Management Agency accepted bids over the announced value overall. Since the last interest rate decision, the average yield at the 3-month auctions rose to 3.45 percent, while the average auction yield at the 12-month Treasury bill auctions increased to 4.11 percent. At the latest auction, the average yield on the 5-year securities was 4.4 percent, while the average yield on the 10-year and 15-year securities was 4.52 and 4.71 percent, respectively. The Hungarian 5-year CDS spread rose by 1 basis point overall during the period under review and currently stands at 50 basis points.

Non-residents' holdings of forint government securities slightly increased. Non-residents' holdings in forint government securities increased by HUF 36 billion to HUF 4,570 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

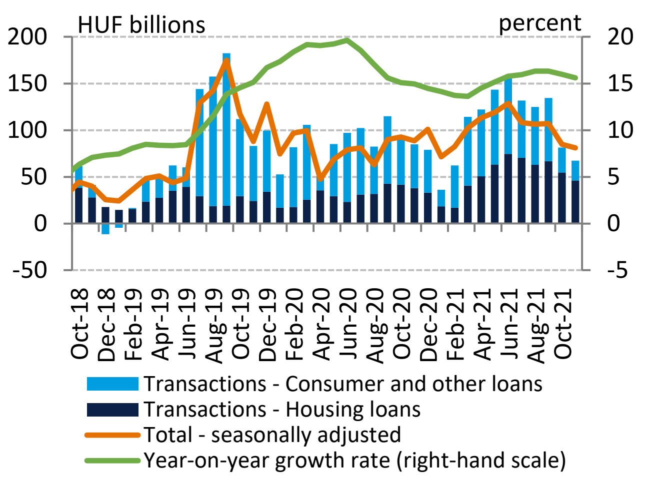
In November 2021, outstanding corporate lending increased by HUF 154 billion, reflecting a rise of HUF 145 billion in forint loans and HUF 9 billion in foreign currency loans. In November, the stock of outstanding loans to households increased by HUF 67 billion with the annual growth rate reaching 15.6 percent.

Chart 19 Net borrowing by non-financial corporations



Source: MNB

Chart 20 Net borrowing by households



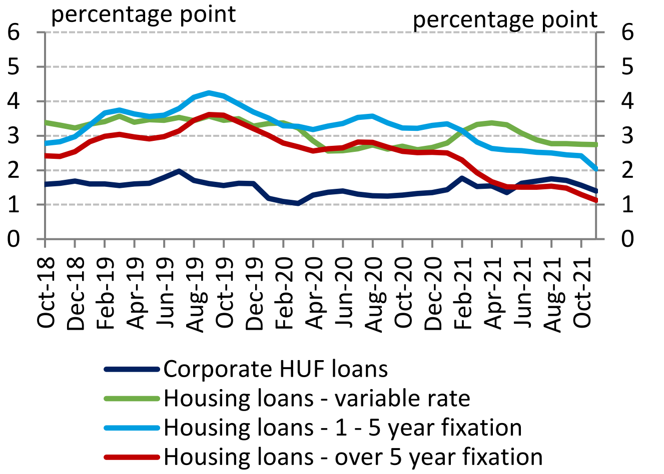
Source: MNB

In November 2021, outstanding borrowing of non-financial corporations increased by HUF 154 billion, reflecting a rise of HUF 145 billion in forint loans and HUF 9 billion in foreign currency loans. Due to the significant monthly increase the annual growth rate accelerated to 7.3 percent from 6.3 percent registered last month (Chart 19). Together with the bond transactions in the balance sheet of credit institutions, the annual growth rate in the month comes to 12.7 percent. In November, credit institutions disbursed new loans in the amount of HUF 266 billion, which falls short of the year-on-year figure – the period already affected by the coronavirus and the subsidised loan schemes – by 27 percent, while it exceeds the value registered two years ago by 62 percent. Within the monthly disbursements, the disbursements of market-based loans accounted for a significant part, 78 percent, of new loans, which is only slightly lower than the 85-90 percent recorded in the pre-pandemic period.

In October, outstanding borrowing of households increased by HUF 67 billion, and thus the annual growth rate reached 15.6 percent (Chart 20). The credit dynamics supporting effect of the moratorium will gradually decline due to the narrower scope of utilisation from November. Disbursement of new household loans amounted to HUF 220 billion during the month, which exceeds both the disbursements last year and two years ago, a period not yet affected by the pandemic. Disbursement of consumer loans falls short of the pre-pandemic level, while the disbursement of mortgage loans continues to be strong. In addition to the new measures aimed at first-time homebuyers, available from 2021, the increasing loan amounts resulting from the rising house prices were also key to the disbursement of housing loans in the amount of HUF 111 billion in November.

The smoothed interest rate spread of forint corporate loans was 1.39 percentage points in November 2021, representing a decrease of 0.17 percentage point compared to the previous month (Chart 21). **The average smoothed interest rate spread on variable rate housing loans calculated based on the annual percentage rate (APR) declined to 2.74 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 moderately during the month. After a decline of**

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

0.38 percentage point, the average spread on housing loans with interest rate fixation periods longer than one year and up to 5 years fell to 2.04 percentage points in November, while the spread on products with interest rate fixation periods of more than 5 years amounted to 1.13 percentage point at the end of the period under review after a fall of 0.16 percentage point.