MACROECONOMIC AND

FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 26 JULY 2022

JULY

2022

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

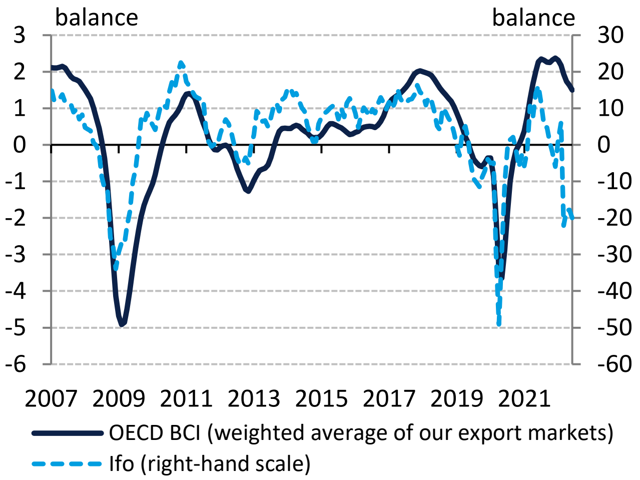
1.1. Global macroeconomic environment

In the first quarter of 2022, the EU, the euro area, China and the United States saw a year-on-year economic growth of 5.6, 5.4, 4.8 and 3.5 percent, respectively. However, in the second quarter, economic growth in China slowed down to a much larger degree than expected by analysts. China's GDP grew merely by 0.4 percent year-on-year, while it declined by 2.6 percent quarter-on-quarter. Confidence indices related to the international manufacturing and service sectors varied by countries in June, but still remained generally positive. In the first half of 2022, the external inflation remained high. In June, inflation in the United States and in the euro area rose by 0.5 percentage point compared to the previous month to 9.1 percent and 8.6 percent, respectively.

In the first quarter of 2022, economic growth accelerated in China, in the European Union as well as in the euro area, while it decelerated in the United States. In the first quarter of 2022, the EU, the euro area, China and the United States saw a year-on-year economic growth of 5.6, 5.4, 4.8 and 3.5 percent, respectively.

At present, data for the second quarter are available for China. **In the second quarter, economic growth in China slowed down to a much larger degree than expected by analysts. China's GDP grew merely by 0.4 percent year-on-year**, while it declined by 2.6 percent quarter-on-quarter.

Chart 1 Business climate indices in Hungary's export markets



Source: OECD, Ifo

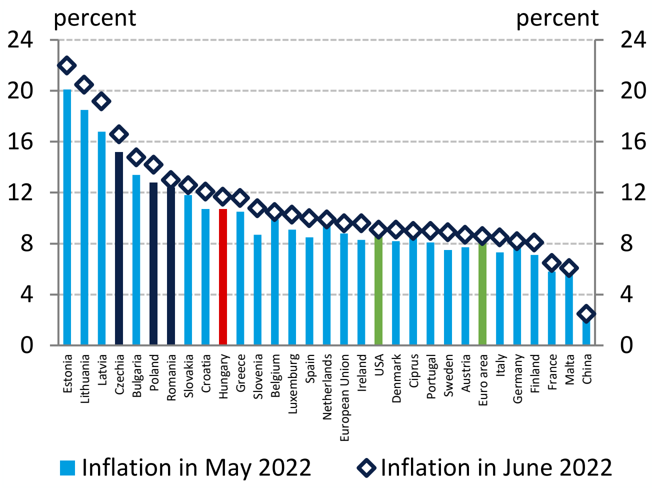
Monthly production indicators show a mixed picture. In June, industrial production in the United States grew by 5.8 percent, while China's rose by 3.9 percent. In May, the euro area registered a year-on-year growth of 1.6 percent. In June, the volume of retail sales in the USA and in China grew by 8.4 percent and 3.1 percent, respectively, while in the euro area growth was 0.2 percent in May, year-on-year.

In June, forward-looking manufacturing and service sector confidence indices were mixed. Business sentiment deteriorated in the euro area based on both the Economic Sentiment Indicator (ESI) and the Purchasing Managers' Index (PMI) in June (Chart 1). The Purchasing Managers' Index in the United States deteriorated, moving closer to the threshold (50 points), while it slightly improved in China.

International labour market trends have not changed since the previous period. In May, unemployment rate in the United States remained at 3.6 percent. In April, unemployment rate in the euro area remained at 6.8 percent, which corresponds to the figure registered in the previous two months.

In June, euro area inflation rose to 8.6 percent, while core inflation slightly decreased to 3.7 percent, year-on-year. The inflation figure slightly exceeded analysts' expectations of 8.5 percent, while core inflation was

Chart 2 Developments in the international inflationary environment



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

moderately below 3.9 percent, i.e. the figure expected by analysts. The rise in HICP inflation was connected to food and energy items in June.

In June, inflation rose in all of the 27 countries of the European Union except the Netherlands and Germany (and also in the euro area as a whole). Common reasons underlying the globally rising inflation include demand and supply imbalances and rising commodity prices. The largest increase, i.e. 2.4 percentage points, was observed in Latvia, and inflation rose by more than 2.0 percentage points in Slovenia and Lithuania as well. Among the EU Member States the greatest inflation was observed in Estonia in June as well, where prices rose by 22.0 percent year-on-year. Prices also increased significantly in Lithuania (20.5), in Latvia (19.2), in the Czech Republic (16.6), in Poland (14.2) and in Romania (13.0). Inflation in the United States rose to 9.1 percent in June (Chart 2).

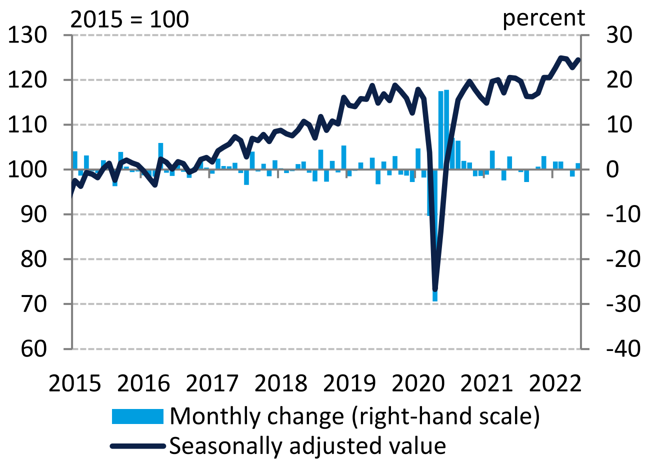
1.2. Domestic real economy developments

In the first quarter of 2022, Hungary's GDP rose by 8.2 percent year-on-year, while economic performance grew by 2.1 percent quarter on quarter. The annual growth rate of Hungary's GDP was the sixth highest in the EU. According to real time data, following the favourable economic trends observed early this year, growth remained strong also in the second quarter. However, based on our estimate, which relies on high frequency data, following the favourable economic trends observed in the first half of the year growth may have slowed down at the beginning of the third quarter. In May 2022, the average number of employees in the 15–74 age group was 4,686,000. In the period of March to May 2022, the average number of employees was 4,693,000, exceeding the year-on-year figure by 99,000.

1.2.1. Economic growth

The Hungarian economy continued to grow in the first quarter of 2022. Based on raw data, Hungary's GDP rose by 8.2 percent year-on-year. Economic performance grew by 2.1 percent quarter on quarter. The seasonally and calendar adjusted annual growth rate of Hungary's GDP was the sixth highest in the European Union and it was well over the EU average. The performance of all sectors of the economy, excluding agriculture, grew year-on-year. Based on our estimate, which relies on high frequency data, following the favourable economic trends observed in the first half of the year growth may have slowed down at the beginning of the third quarter.

Chart 3 Development in industrial production



Source: MNB calculation based on HCSO data

In May 2022, industrial production rose by 9.4 percent (by 3.3 percent based on seasonally and calendar-adjusted data) year-on-year. Based on the seasonally and calendar adjusted data, the volume of production increased by 1.4 percent on a monthly basis (Chart 3). Most of the manufacturing subsectors contributed to the annual growth, the automotive industry, representing the largest share, also expanding, year-on-year. Manufacture of electrical equipment (+37.0 percent), other machine production (+28.1 percent) and manufacture of computer and electronic products (+21.9 percent) grew at a larger rate. Output of the domestic automotive industry rose by 8.7 percent.

Based on preliminary data, the merchandise trade balance showed a surplus of EUR 135 million in May 2022. The balance improved year-on-year by EUR 65 million, while it registered a significant improvement compared to April. Goods balance, adjusted for VAT residents, was negative, with a deficit of EUR 582 million. **In May, exports and imports grew by 27.6 and 27.2 percent, respectively, year-on-year.** In April 2022, terms of trade deteriorated by 5.3 percent in an annual comparison, which is primarily attributable to the rise in mineral fuel prices.

In May 2022, the volume of construction output rose by 9.9 percent year-on-year. The construction of buildings and other structures increased by 12.0 percent and 7.7 percent, respectively, year on year. Domestic construction output compared to the previous month increased by 5.8 percent, based on seasonally and calendar adjusted data. In May, the volume of new contracts concluded rose by 7.2 percent on an annual basis, while construction companies' contract portfolio at the end of May exceeded the year-on-year value by 9.7 percent.

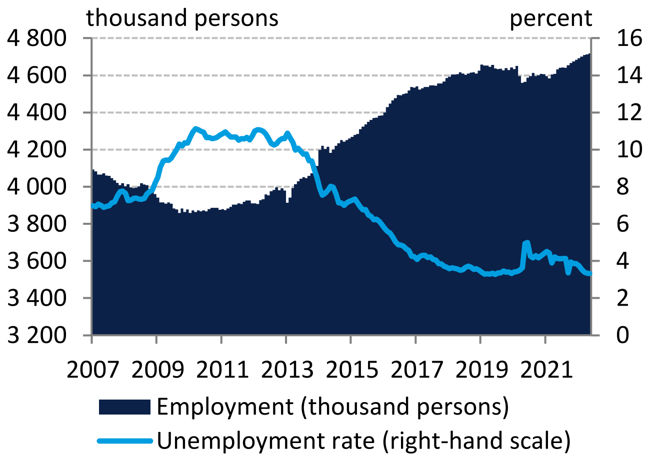
According to real time data, following the favourable economic trends observed early this year growth remained strong also in the second quarter. Based on online cash register data, nominal turnover in June grew by 21 percent on average year-on-year. In June, however, air passenger traffic fell short of its level registered in the same period of 2019 by 26 percent, according to data received so far. Catering turnover rose by almost 30 percent in annual terms in June, owing to the low base of last year. Cinema attendance in June was almost 41 percent lower compared to the same period of 2019. Road passenger traffic and goods traffic fell by 2 and 5 percent, respectively, year-on-year. In June, the electricity load data were 3 percent below the same period last year. Based on available data, the number of **housing market transactions** decreased by 13 percent in June year-on-year. **Google searches** related to unemployment typically show a favourable picture. Online searches in Hungary for the term "unemployment benefit" and "jobseeker's allowance" are close to the levels before the outbreak of the pandemic.

In May 2022, the volume of retail sales was up by 11.1 percent based on data adjusted for the calendar effect, year-on-year. Compared to the previous month retail trade decreased slightly in May 2022 (-0.2 percent). Retail sales of motor vehicle fuel and clothing rose above the average. Based on calendar adjusted data, the volume of retail sales in food stores and groceries rose by 3.0 percent, and by 9.5 percent in non-food stores. The increased demand generated by the fuel price cap contributed to the rise of 37.5 percent in the volume of fuel retail sales. Sales of textile and clothing products grew by 35 percent year-on-year, also contributed to by the low base. Vehicle and components sales, not belonging to retail sales, increased by 5.4 percent on a year-on-year basis,

1.2.2. Employment

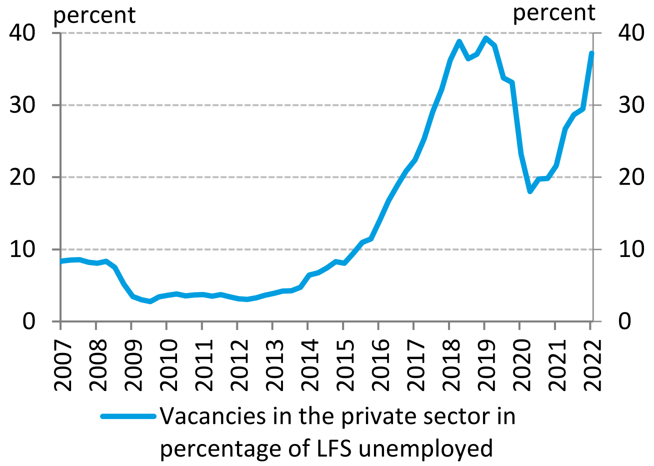
Based on the data of the Labour Force Survey (LFS) in May 2022, the average number of employees in the 15–74 age group was 4,686,000. In the period of March to May 2022, the average number of employees was 4,693,000, exceeding the year-on-year figure by 99,000 (Chart 4). Since May 2021, the number of employees in the primary labour market and of those working abroad rose by 87,000 and

Chart 4 Number of persons employed and the unemployment rate



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

Chart 5 Development of labour market tightness indicator



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

18,000, respectively, while the number of fostered employees fell by 5,000.

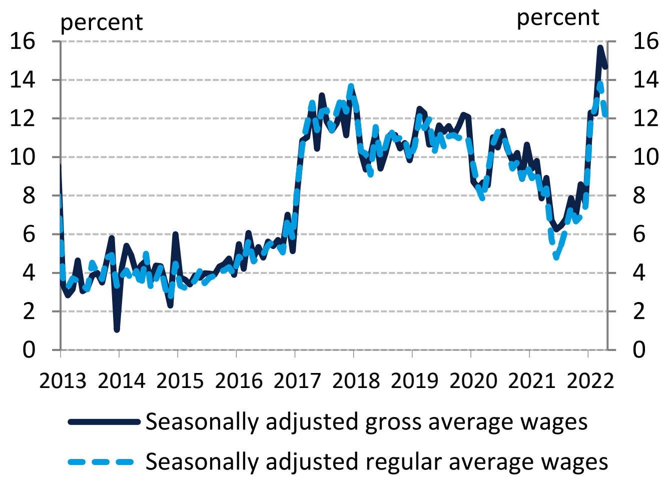
In May, the number of the unemployed was 169,000, falling short of the year-on-year figure by 21,000 persons, and as a result, overall unemployment rate stood at 3.5 percent. Based on seasonally adjusted data, in May the number of the unemployed was unchanged compared to April. Based on data published by the National Employment Service in April 2022 and May 2022 the number of registered jobseekers in Hungary was 242,000 (-46,000 on an annual basis) and 234,000 (-40,000 on an annual basis), respectively. Based on seasonally adjusted data, the number of the registered unemployed in May 2022 was below the number measured in the months before the outbreak of the coronavirus pandemic.

In the first quarter of 2022, private sector unsubsidised available vacancies amounted to 59,000, exceeding the year-on-year value by 50.8 percent as well as the pre-pandemic level by 16.3 percent. **On an annual basis, labour demand rose both in market services and manufacturing.** Manufacturing job vacancies exceeded the figure a year ago by 6,500. In the first quarter of 2022, job vacancies amounted to 34,300 in the market service sector, up by 12,700 compared to a year earlier and above the 2018–2019 level. Within the market services sector, real estate, professional and administrative activities job vacancies increased by 6,000, while in the trade sector it rose by 2,800. Based on job vacancies, tourism labour demand reached its pre-crisis level. Within the public sector job vacancies increased in healthcare, education and public administration. **Overall, the labour market tightness indicator rose further quarter on quarter**, but it still falls short of the values registered in the two years preceding the crisis (Chart 5).

1.3. Inflation and wages

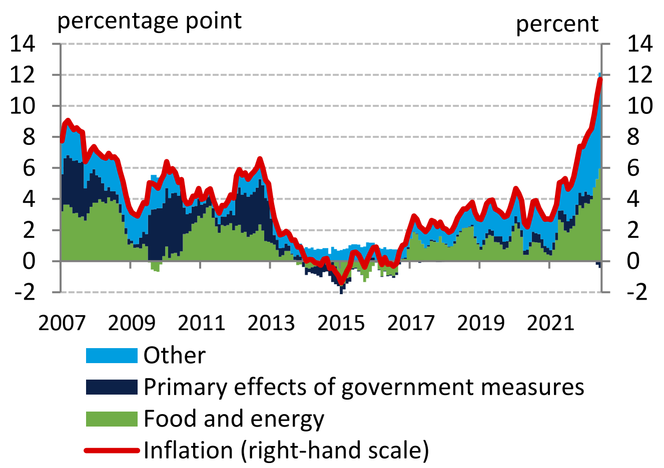
In May 2022, inflation calculated on a year-on-year basis was 11.7 percent, while both core inflation and core inflation excluding indirect taxes stood at 13.8 percent. Underlying inflation indicators capturing persistent trends rose compared to the previous month. In June, repricing was more than four times higher than last year. In April 2022, average earnings in the national economy (excluding bonuses) rose by 14.1 percent, while private sector wages increased by 11.9 percent in annual terms.

Chart 6 Dynamics of average earnings in the private sector



Source: MNB calculation based on HCSO data

Chart 7 Decomposition of inflation



Source: MNB calculation based on HCSO data

1.3.1. Wage setting

In April 2022, gross average wages in the private sector rose by 14.5 percent year-on-year. Based on seasonally adjusted data, the level of regular average wages rose by 0.5 percent compared to the previous month. The degree of bonus payments slightly exceeded the average of previous years, and amounted to 12.7 percent of the monthly wages.

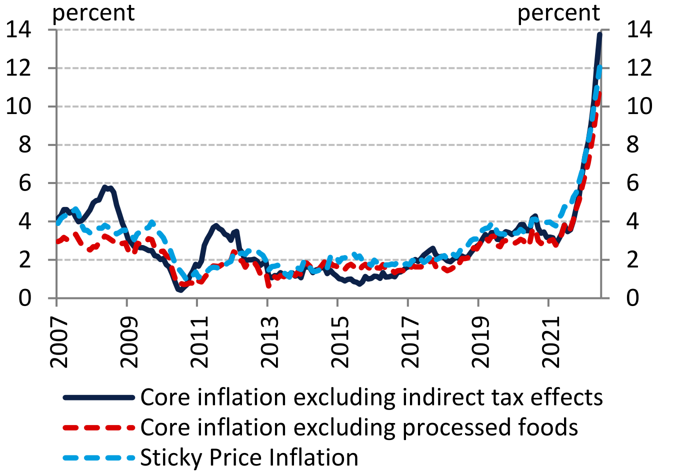
According to seasonally adjusted data, the dynamics of gross average wages and regular average wages slightly decelerated in the private sector compared to the previous month (Chart 6). In the private sector wage dynamics of market services outstripped that of manufacturing. In April, based on raw data, manufacturing wages were higher by 11.5 percent year-on-year. Wages in the automotive industry – representing the largest share – increased by 2.1 percent in annual terms. In market services, HCSO registered a growth of 16.3 percent. Annual wage dynamics was over 10.0 percent in most sectors. Wages increased to the largest degree in the accommodation and catering (25.2 percent) and in the healthcare (23.6 percent) sectors. Within the key sectors, gross wages in the trade and construction sectors rose by 15.8 percent and 16.6 percent, respectively, year-on-year.

1.3.2. Inflation developments

In June 2022, inflation calculated on a year-on-year basis was 11.7 percent, while both core inflation and core inflation excluding indirect taxes stood at 13.8 percent (Chart 7). Inflation was up by 1.0 percentage point compared to previous month, which is mostly attributable to the rise in the price index of food and industrial goods. Core inflation rose by 1.6 percentage points compared to May, contributed to by processed food and industrial goods. Within core inflation excluding indirect taxes, inflation of processed food rose to 25.2 percent. Inflation of market services was 9.0 percent, while the annual price dynamics of industrial goods was 12.3 percent.

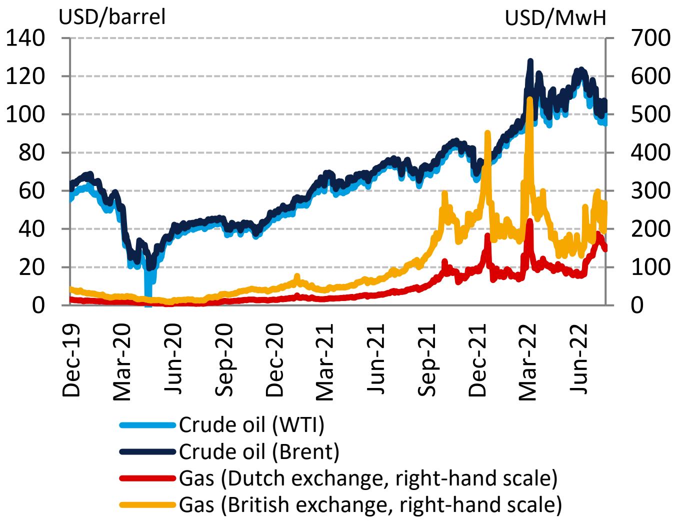
Underlying inflation indicators capturing persistent trends slightly rose compared to the previous month

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

(Chart 8). Underlying indicators capturing Hungary's short-term inflation trends also rose.

1.3.3. Inflation risks

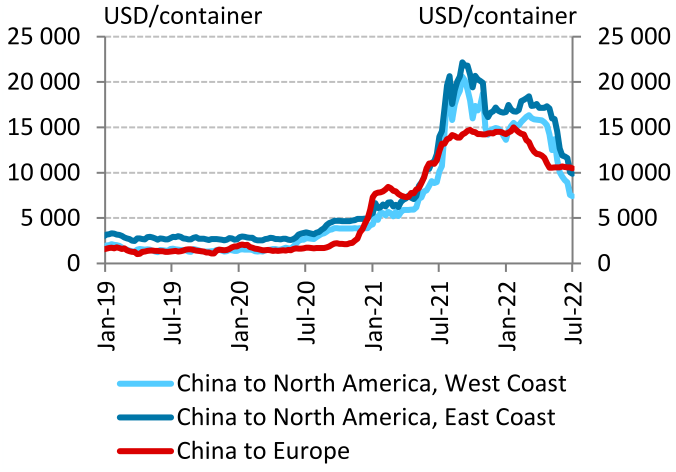
Repricings in June continued to be at several times the level in recent years. In June, the monthly price change of the basket excluding fuels and administered prices was 1.7 percent, which is four times as high as the price rise registered last year and significantly exceeds 0.1 percent, i.e. the typical June figure of previous years. The higher repricing rate is a general phenomenon, which is attributable to the fact that the rise in global food, commodity and energy prices – similarly to previous months – passes through to the consumer prices in a wide range of products. Prices of industrial products rose by 1.8 percent compared to previous month, contrary to the price change of around 0 percent typical in June, and thus annual inflation of industrial goods rose to 12.3 percent. The global semiconductor shortage and increasing commodity prices also pointed to a rise in consumer prices of the product group. Market services prices rose by 1.2 percent compared to the previous month. The price increase was significantly higher than usual repricing in June, characterising a wide range of services.

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

Oil prices have declined recently (Chart 9). This is due to the fact that concerns about falling demand attributable to fears of recession outstripped concerns about scarce global supply. **With the exception of gas prices, a wide range of energy prices, together with grain and industrial metal prices significantly declined**. However, gas prices in Europe and in the USA rose during the period under review, as gas exports by Russia were significantly reduced.

Global value chains may recover more slowly than demand, leading to increased cost pressures in global transportation and industrial production. However,

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



Source: Bloomberg

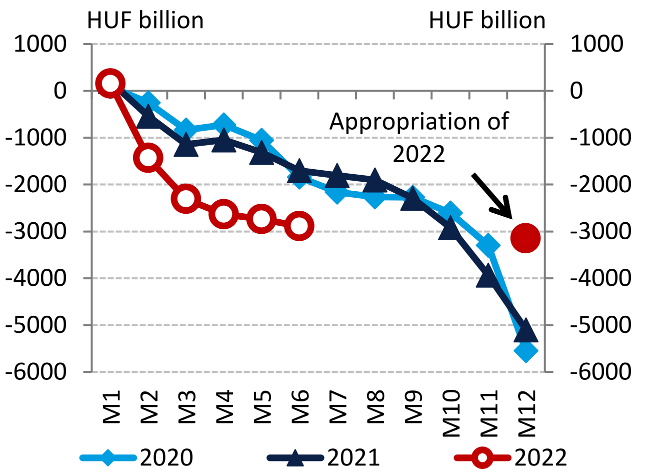
following the record high figures seen in the past twelve months, the cost of shipments from China to Europe shows a slight correction, with a decline of 16 percent on a yearly basis and 25 percent on a monthly basis in early July (Chart 10). However, merchants will presumably charge part of the extra costs resulting from the price increase relative to previous years to the consumers, as a result of which the price increasing effect of commodity prices and shipping costs will appear also in the domestic consumer prices more widely. In addition to a fast recovery in demand, the global chip shortage is causing disruptions in industrial production, particularly in the automotive sector, which may have a knock-on effect on prices.

In the past months, the sharp rise in food prices has become an increasingly important explanatory factor for rising inflation rates. Inflation of food rose by 23.7 percent. Within the product group, the price index of both processed and unprocessed food grew substantially. Compared to May, food prices rose by 2.8 percent, while in previous years, food prices tended to decline in June. The price rise affected a wide range of processed and unprocessed food. The growth in food prices is primarily attributable to global factors such as skyrocketing energy prices and high transportation costs.

1.4. Fiscal developments

At the end of June 2022, the balance of the central sub-sector of the general government was a deficit of HUF 155 billion, which was lower than the deficit last June by almost HUF 250 billion. Thus, this year's accumulated cash deficit rose to HUF 2,892 billion (92 percent of the annual appropriation) by the end of the first half-year, exceeding the level seen at the end of last June by almost HUF 1,200 billion. Revenues of the central sub-sector exceeded the figure registered in June 2021 by roughly HUF 350 billion; of this, growth in tax and contribution revenues amounted to HUF 330 billion. The tax dynamics of 24 percent is attributable to the strong wage dynamics and nominal consumption growth, similar to that observed in previous months. Primary expenditures exceeded the figure registered in June 2021 by some HUF 50 billion, which is mainly connected to the central budgetary organisations' net own expenditures and the costs of medical and preventive care.

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



Source: Budget Act of 2022, Hungarian State Treasury

At the end of June 2022, the balance of the **central sub-sector of the general government** was a deficit of HUF 155 billion, which was lower than the deficit last June by almost HUF 250 billion. Thus, this year's accumulated cash deficit rose to HUF 2,892 billion (92 percent of the annual appropriation) by the end of the first half-year exceeding the level seen at the end of last June by almost HUF 1,200 billion (Chart 11).

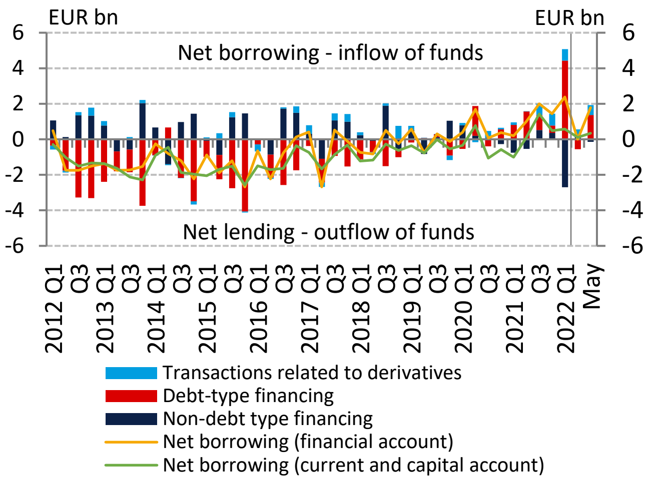
Revenues of the central sub-sector exceeded the figure registered in June 2021 by roughly HUF 350 billion; of this, growth in tax and contribution revenues amounted to HUF 330 billion. The 24 percent tax dynamic is attributable to the strong wage dynamics and nominal consumption growth, similar to that observed in previous months. Gross VAT revenues rose by 37 percent compared to the figure seen last June, while – despite the tax cuts – labour tax and contribution revenues grow by 16 percent in the sixth month.

Primary expenditures exceeded the figure registered in June 2021 by some HUF 50 billion, which is mainly connected to the central budgetary organisations' net own expenditures and the costs of medical and preventive care. Expenditures of the budgetary organisations exceeded last year's base by HUF 32 billion in June. EU expenditures amounted to HUF 146 billion in June 2022, which may still be deemed low in the light of the disbursements in the first four months. Net interest expenditure amounted to HUF 274 billion in June, resulting from the interest payments on large series of government bonds.

1.5. External balance developments

In May 2022, current account deficit was EUR 370 million, while net borrowing amounted to EUR 335 million. The current account balance improved substantially compared to previous month, while net borrowing deteriorated. According to the financial account data, the high volume of net inflow of funds is attributable to a growth in debt liabilities, while growth in net FDI decelerated.

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 May 2022, current account deficit was EUR 370 million, while net borrowing amounted to EUR 335 million. The current account balance improved substantially compared to previous month, while net borrowing deteriorated. The decline in the current account deficit is attributable to a major improvement in the goods balance resulting from the growth of exports outstripping that of imports. The global semiconductor shortage, rising commodity and energy prices and the supply chain frictions resulting from the Russia-Ukraine conflict continue to have a significant effect on the degree of the goods deficit. Due to the recovery of tourism, services balance in May considerably exceeded the figure registered in May 2021 and it already came close to the pre-pandemic level seen in 2019.

According to the financial account data, the high volume of net inflow of funds is attributable to a growth in debt liabilities, while growth in net FDI decelerated. Net FDI in May amounted to almost EUR 0.2 billion, which was mostly linked to a rise in intercompany loans. Net external debt rose by EUR 1.4 billion (Chart 12), to which all three sectors contributed positively. The rise in the general government's indicator was attributable, among other things, to the purchase of forint government securities by non-residents and certain items reducing the foreign exchange reserves (e.g. the general government's foreign currency expenditures and the decline in forint liquidity providing swap portfolio), which pointed to a rise in net external debt. Net external debt of the banking sector rose in parallel with the decrease in external receivables. Net external debt of corporations rose in parallel with the decline in commercial loan receivables.

2. Financial markets

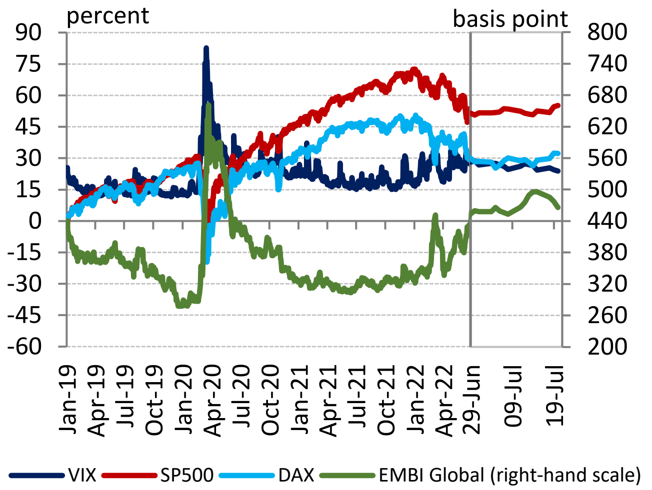
2.1. International financial markets

Since the June interest rate decision, investor sentiment was shaped primarily by the expectations related to interest rate hikes by Fed, ECB and other key central banks, concerns about the additional impacts of the Russia-Ukraine war, and – on account of those – the deepening fears of global recession. Long-term yields declined in the developed markets and varied in the CEE region. The EMBI Global spread continued to rise. The leading stock indices increased.

Since the June interest rate decision, investor sentiment was shaped primarily by the expectations related to interest rate hikes by Fed, ECB and other key central banks, concerns about the additional impacts of the Russia-Ukraine war, and – on account of those – deepening of fears of global recession. As regards Fed, the market continues to expect an aggressive rate hike, and expectations with regard to the peak of the ECB's tightening cycle increased. Long-term yields declined in the developed markets recently, but the Russia-Ukraine war continued to put pressure on emerging markets, and thus the EMBI emerging market risk indicator continued to rise.

Of the risk indicators, the VIX index, measuring equity market volatility, decreased by 4.5 percentage points compared to its level at the June interest rate decision to 23.9 percent, the MOVE index, measuring developed bond market volatility, came close to 123 basis points after a decline of 12 basis points, while the EMBI Global emerging market bond spread rose by 24 basis points (Chart 13).

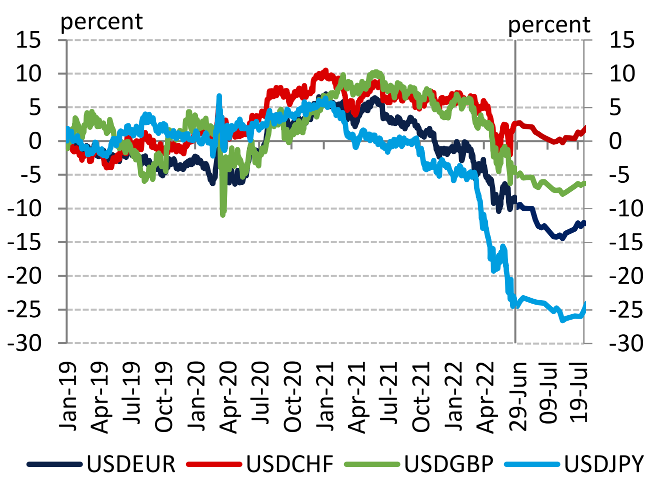
Chart 13 Developed market equity indices, the VIX index and the EMBI Global Index



Source: Bloomberg

The leading stock indices increased. The US Nasdaq, the S&P and the Dow Jones rose by 6.4, 3.6 and 3.0 percent, respectively. Of the European leading stock market indices, the German DAX and the French CAC increased by 0.4 and 1.3 percent, respectively. The Japanese stock market index was up by 2.8 percent compared to the level seen at the time of the June interest rate decision, while the Chinese stock exchange closed the period with a fall of 8.3 percent. Overall, the developed MSCI composite index rose by 2.3 percent, while the emerging market index fell by 4.2 percent.

Chart 14 Developed market FX exchange rates

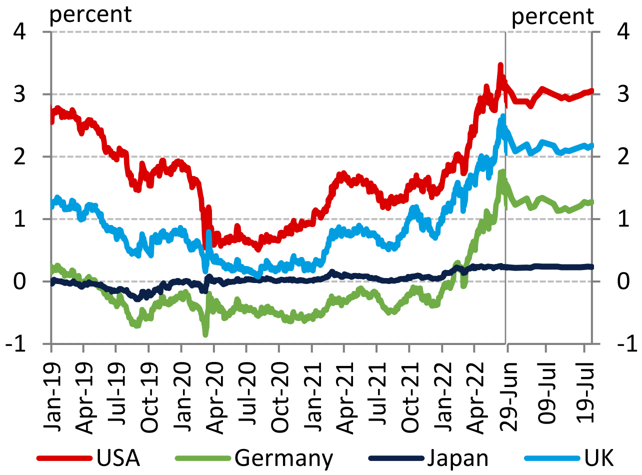


Note: Positive values indicate the strengthening of the variable (second) currency.

Source: Reuters

The dollar appreciated against both the euro and the other major currencies (Chart 14). The US currency appreciated against the euro by 3.4 percent, the British pound by 1.8 percent, the Swiss franc and the Japanese yen by 1.5 percent, respectively. At the end of the period, the euro-dollar exchange rate was close to 1.018, but during the period under review, the dollar even broke parity against the European currency.

Chart 15 Yields on developed market long-term bonds



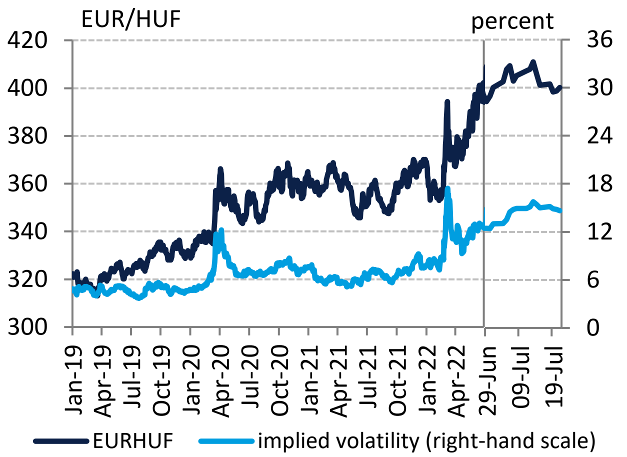
Source: Bloomberg

Developed market bond yields fell (Chart 15)**.** The ten-year US and German yield fell by 12 and 35 basis points, respectively, and thus the US yield closed the period at 3.05 percent, while the German one at 1.27 percent. Yields in the Mediterranean countries also declined: the Italian, Spanish, Portuguese and Greek yields fell by 3, 19, 24 and 36 basis points, respectively. Yields in the countries in the region showed a mixed picture: while the Czech and Polish yield rose fell by 76 and 71 basis points, respectively, the Hungarian long-term yield and the Romanian yield rose by 12 and 32 basis points.

2.2. Developments in domestic money market indicators

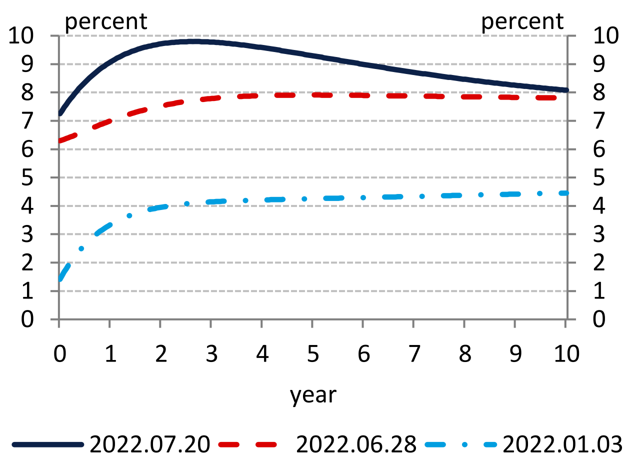
Since the interest rate decision in June, the forint first depreciated and fell to a historic low, then – owing to the general government and central bank announcements – appreciated against the euro, and thus it ended the period under review on essentially the same level as at the June interest rate decision. The government securities yield curve rose. The 3-month BUBOR rose by 380 basis points to 11.57 percent. In the past month, demand at the government bond auctions was adequate overall, with a general rise in the average auction yields.

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 interest rate decision in June, the forint first depreciated and fell to a historic low, then, as a result of the general government and central bank announcements, appreciated against the euro, and thus it ended the period under review on essentially the same level as at the June interest rate decision (Chart 16)**.** Of the currencies in the CEE region, the Polish zloty depreciated by 1.5 percent, while the Czech koruna appreciated by 0.5 percent and the Romanian leu remained broadly unchanged.

The 3-month BUBOR, relevant for monetary policy transmission, rose by 380 basis points to 11.57 percent since the June interest rate decision.

The government securities yield curve shifted substantially upward (Chart 17)**.** At the 1-year section of the yield curve a rise of 200 basis points, while on the longer maturities a rise of 20-200 basis points was registered.

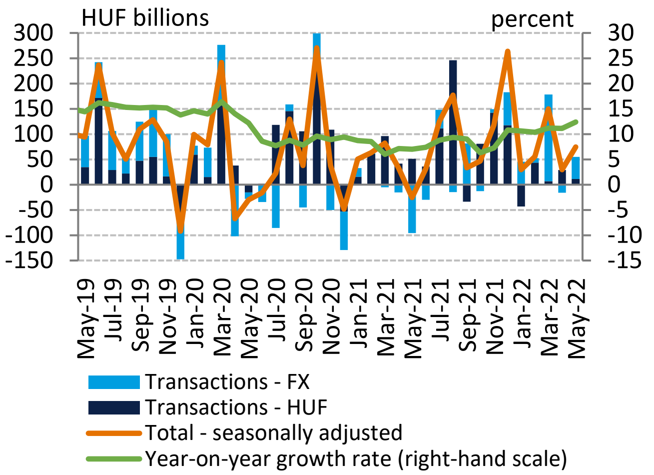
Since the June interest rate decision bond auctions held by the Government Debt Management Agency were successful overall. In the period under review, demand at the short-term government securities auctions was moderate. At its 1-year government bond auction, the Government Debt Management Agency sold a lower volume than originally announced. By contrast, demand was high at the auction of government bonds and the Government Debt Management Agency accepted bids for a higher volume than announced in several cases. Average yields rose both at the Treasury bill and government bond auctions.

Non-residents' holdings in forint government securities increased. Non-residents' holdings in forint government securities increased by HUF 445 billion to HUF 5,171 billion. In line with this, the market share of non-residents' holding in forint government securities increased, and thus at present it stands at around 19.8 percent.

3. Trends in lending

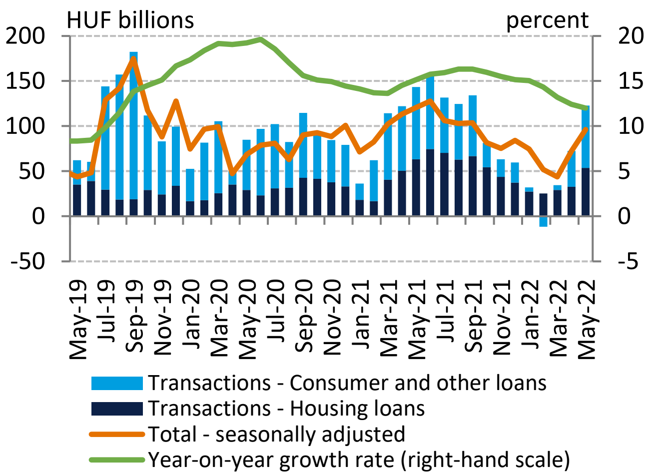
In May 2022, outstanding lending to non-financial corporations increased by HUF 55 billion, reflecting a rise of HUF 12 billion in forint loans and HUF 43 billion in foreign currency loans. Outstanding borrowing of households increased by HUF 123 billion due to transactions, and thus the annual growth rate reached 12 percent. In May, the smoothed interest rate spread on forint corporate loans remained unchanged at 1.22 percent compared to previous month.

Chart 18 Net borrowing by non-financial corporations



Source: MNB

Chart 19 Net borrowing by households



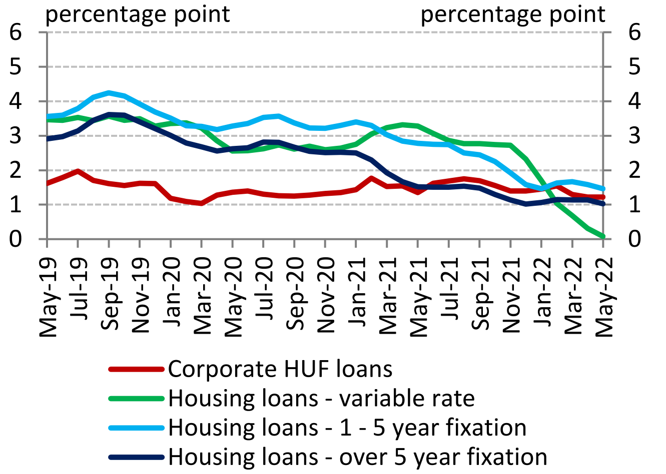
Source: MNB

In May 2022, outstanding lending to non-financial corporations increased by HUF 55 billion, reflecting a rise of HUF 12 billion in forint loans and HUF 43 billion in foreign currency loans (Chart 18). The annual growth rate rose to 12.4 percent from 11.0 percent registered in previous month. Together with the bond transactions in the balance sheet of credit institutions, the annual growth rate in the month came to 20.3 percent. In May, credit institutions disbursed new loans in the amount of HUF 228 billion, which exceeds the year-on-year figure by 2 percent. In parallel with the increase in the interest spread between the market-based and subsidised loans, and – according to the then available information – the approaching phase-out/amendment of the subsidised credit schemes under the Széchenyi Card Programme, the ratio of subsidised loans once again rose in the SME segment.

In May, outstanding borrowing of households increased by HUF 123 billion due to transactions, and thus the annual growth rate reached 12 percent (Chart 19). As a result of the buoyant housing market, the subsidised lending schemes and the demand brought forward due to the phase-out of those, a large volume of retail loans have been disbursed in the month under review. Disbursement of housing loans reached yet another historic high, substantially supported by the increased demand for new homes as a result of the FGS Green Home Programme. The tenor and loan amount of housing loans is continuously increasing, primarily as a result of the growing weight of loans disbursed for new home purposes.

In May 2022, the smoothed interest rate spread on forint corporate loans remained unchanged at 1.22 percentage points compared to previous month. (Chart 20). The average smoothed interest rate spread on variable rate housing loans based on the annual percentage rate (APR) declined to 0.08 percentage points during the month. After a decline of 0.12 percentage point, the average spread on housing loans with interest rate fixation periods longer than 1 year and up to 5 years fell to 1.46 percentage points in May, while the spread on products with interest rate fixation periods of more than 5 years fell by 0.11 percentage point and stood at 1.03 percentage points at the end of the period under review.

Chart 20 Development of corporate and household credit spreads



Note: In the case of corporate forint loans, the spread over the 3-month BUBOR. In the case of housing loans with variable interest or interest fixed for 1 year at the most, the 3-month BUBOR, while in the case of housing loans fixed for over one year, the APR-based margin above the relevant IRS.
Source: MNB