



MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL
TO THE ABRIDGED MINUTES
OF THE MONETARY COUNCIL MEETING
OF 28 JUNE 2022

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The background material ‘Macroeconomic and financial market developments’ is based on information available until 23 June 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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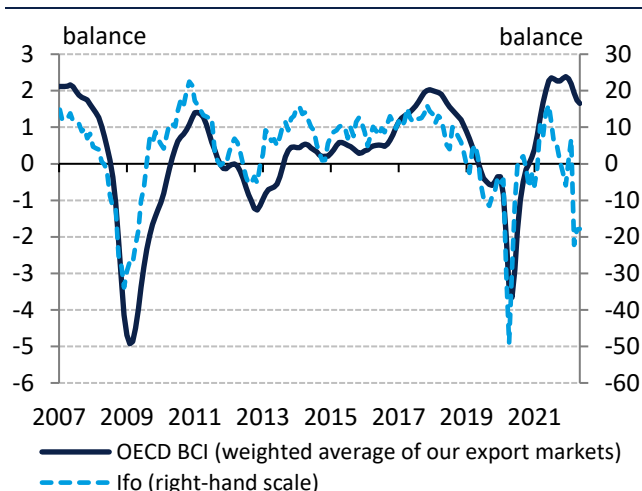
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1. Macroeconomic developments

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. Confidence indices related to the international manufacturing and service sectors varied by countries in May, but still remained generally positive. In early 2022, the external inflation remained high. In May, inflation in the United States and in the euro area rose by 0.3 and 0.7 percentage point compared to the previous month to 8.6 percent and 8.1 percent, respectively.

Chart 1 Business climate indices in Hungary's export markets



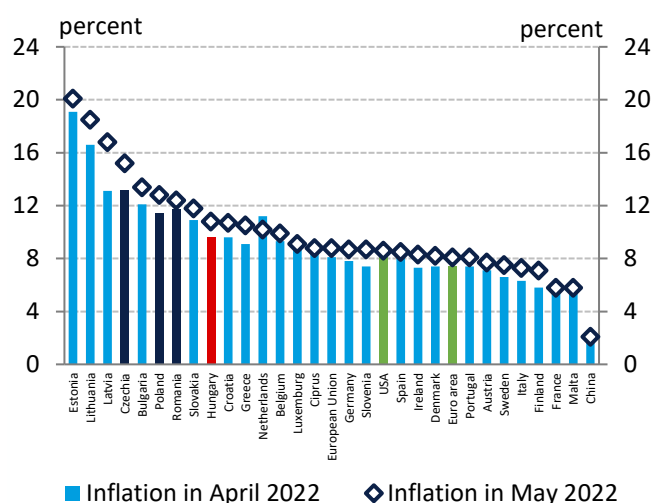
Source: OECD, Ifo

In the first quarter of 2022, economic growth accelerated in China, in the European Union and also 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.

Monthly production indicators show a mixed picture. In May, industrial production in the United States grew by 5.8 percent, while China's rose by just 0.7 percent. In April, it fell by 2.0 percent in the euro area, year-on-year. In May, the volume of retail sales grew by 8.1 percent in the USA and fell by 6.7 percent in China, year-on-year. In the euro area, growth was 0.8% in April.

In May, forward-looking manufacturing and service sector confidence indices were mixed. In May, Economic Sentiment Indicators (ESI) remained unchanged in the euro area, while business sentiment deteriorated based on the Purchasing Manager Index (PMI) (Chart 1). The Purchasing Manager Index in the United States deteriorated, moving closer to the threshold (50 points), while it slightly improved in China.

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

International labour market trends have not change 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 annual terms, euro area inflation and core inflation rose to 8.1 percent and 3.8 percent, respectively in May. The inflation and core inflation data both exceed analysts' expectations. Analysts expected an inflation of 7.8 percent and a core inflation of 3.6 percent. Based on preliminary data, the rise in HICP inflation was connected to food and energy items in May.

In May, inflation rose in all of the 27 countries of the European Union except the Netherlands (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. 3.7 percentage points, was observed in Latvia, and inflation rose by about 2.0 percentage points in the Czech Republic and Lithuania as well. Among the EU Member States the greatest inflation was observed in Estonia in May as well, where prices rose by 20.1 percent year-on-year. Prices also increased significantly in Lithuania (18.5), Latvia (16.8), in the Czech Republic (15.2) and in Bulgaria (13.4) (Chart 2). Inflation in May stood at 8.6 percent in the United States.

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. According to currently available data, 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 may remain strong also in the second 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. According to currently available data, 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.

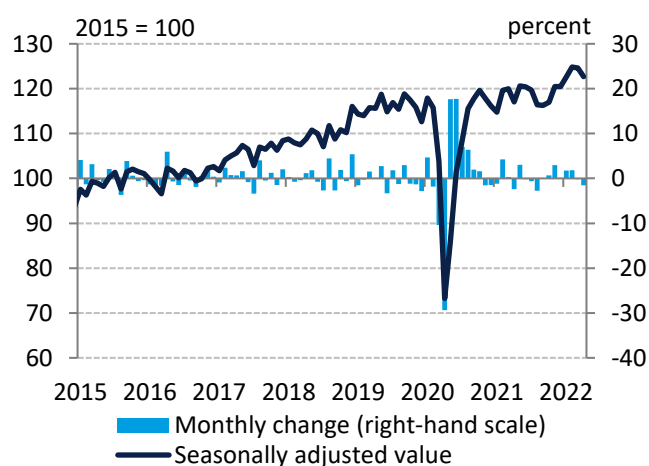
In April 2022, industrial production rose by 3.1 percent (by 4.8 percent based on seasonally and calendar-adjusted data) year-on-year. Based on the seasonally and calendar adjusted data, the volume of production decreased by 1.6 percent on a monthly basis (Chart 3). Most of the manufacturing subsectors contributed to the annual growth; however, the automotive industry, representing the largest share, declined year-on-year. Output of manufacture of electrical equipment (+23.0 percent), coke production (+18.6 percent) and food industry (+11.9 percent) grew at a larger rate.

Based on preliminary data, the merchandise trade balance showed a deficit of EUR 475 million in April 2022. **Goods exports and imports rose by 12.1 percent and 21.1 percent, respectively, in euro terms, year-on-year.**

In April 2022, the volume of construction output rose by 3.2 percent year-on-year. Construction of buildings declined by 1.2 percent, while other construction increased by 11.4 percent, year-on-year. The volume of output decreased by 5.9 percent compared to previous month, based on seasonally and calendar adjusted data. The volume of new contracts concluded rose by 33.9 percent on an annual basis, while construction companies' contract portfolio at the end of April exceeded the year-on-year value by 8.0 percent.

According to real time data, following the favourable economic trends observed early this year growth may remain strong also in the second quarter. Based on online cash register data, nominal turnover in May grew by 21 percent on average year-on-year. In May, however, air passenger traffic fell short of its level registered in the same

Chart 3 Development in industrial production



Source: MNB calculation based on HCSO data

period of 2019 by 22 percent, according to data received so far. Catering turnover rose by almost 50 percent in annual terms in May, owing to the low base of last year. Cinema attendance in May was almost 31 percent lower compared to the same period of 2019. Road passenger traffic and goods traffic rose by almost 7 and 10 percent, respectively, year-on-year. In May, the electricity load data were 5 percent below the same period last year. Based on available data, the number of **housing market transactions** decreased by 8 percent in May 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.

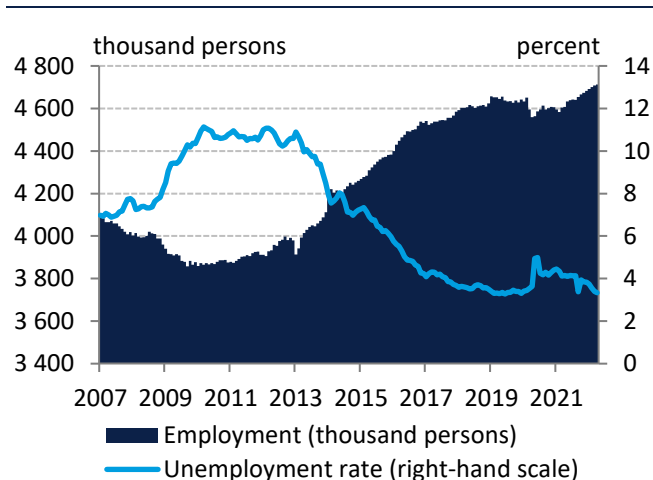
In April 2022, the volume of retail sales was up by 15.8 percent based on data adjusted for the calendar effect, year-on-year. In April 2022, the volume of retail sales fell short of that registered in the previous month by 2.6 percent. The outstanding sales level seen in March already adjusted in April. The volume of retail sales varied by shop types. Based on calendar adjusted data, the volume of retail sales in food stores and groceries rose by 7.1 percent, and by 15.4 percent in non-food stores. The increased demand generated by the fuel price cap also supported the growth in turnover, and thus a rise of 37.3 percent was registered in the volume of fuel retail sales. The largest year-on-year increase was registered in the sales of textile and clothing products (+66.8 percent) and second-hand goods (+50.8 percent).

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 private sector and of those working abroad rose by 87,000 and 18,000, respectively, while the number of public employees fell by 5,000.

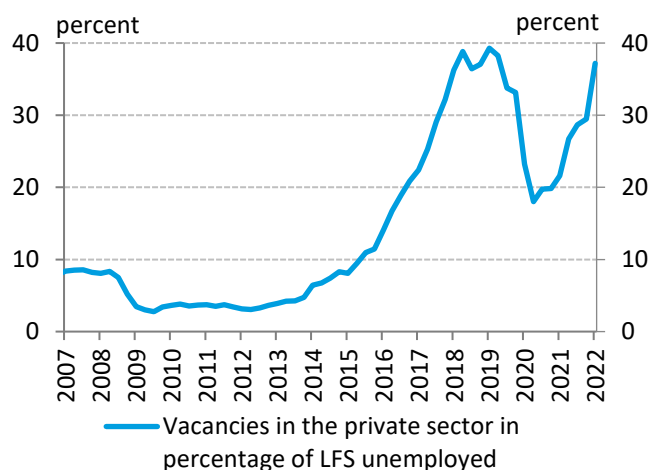
In May, the number of the unemployed was 169,000, falling short of the year-on-year figure by 21,000 persons, and as a result, overall unemployment rate stood at 3.5 percent. Based on seasonally adjusted data, in May the number of the unemployed was unchanged compared to April. Based on data published 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

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

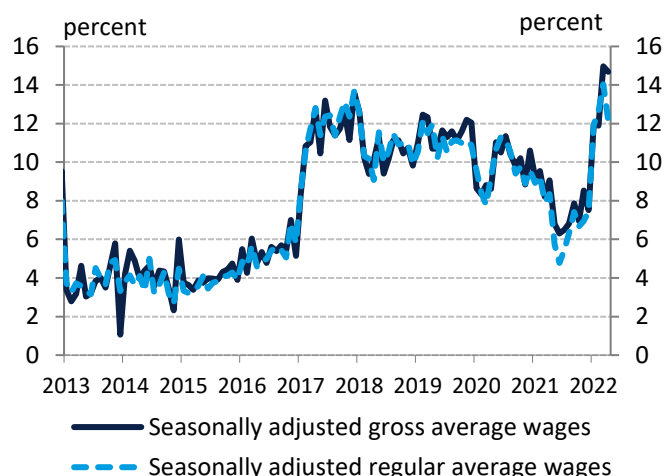
unemployed in May 2022 was below that in the months before the outbreak of the coronavirus pandemic.

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 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 10.7 percent, while both core inflation and core inflation excluding indirect taxes stood at 12.2 percent. Underlying inflation indicators capturing persistent trends rose compared to the previous month. In May, repricing was more than four times higher than in previous years. 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



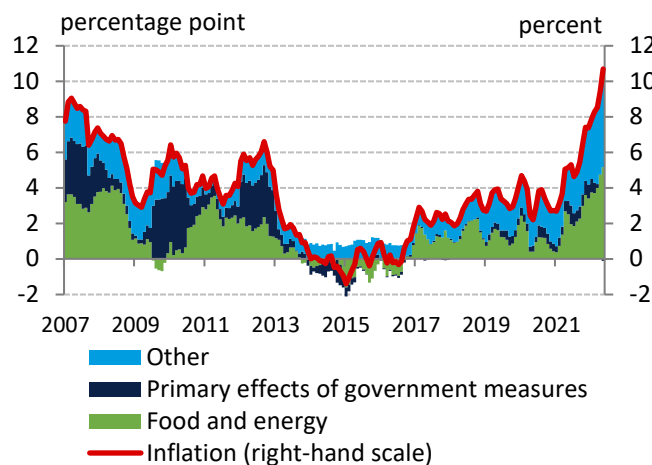
Source: MNB calculation based on HCSO data

1.3.1. Wage setting

In April 2022, gross average wages in the private sector rose by 15.2 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

Chart 7 Decomposition of inflation



Source: MNB calculation based on HCSO data

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 May 2022, inflation calculated on a year-on-year basis was 10.7 percent, while both core inflation and core inflation excluding indirect taxes stood at 12.2 percent (Chart 7). Inflation rose by 1.2 percentage points compared to previous month, which is primarily attributable to the rise in the price index of the core inflation items. Compared to April, core inflation rose by 1.9 percentage points, contributed to by all three product groups (processed food, industrial goods and services). Price dynamics of processed food accelerated to the largest degree.

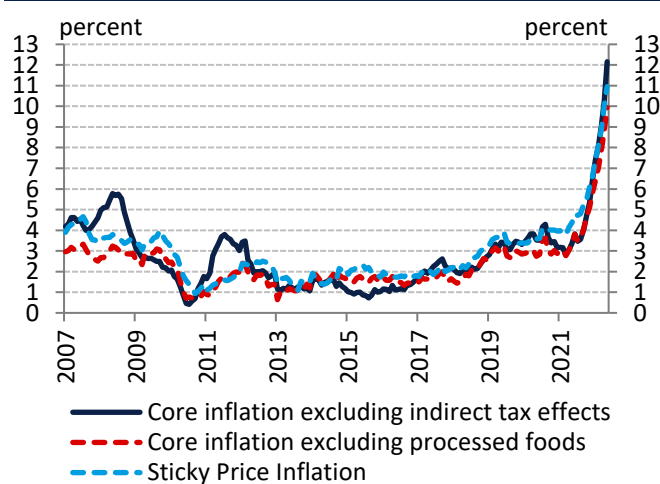
Underlying inflation indicators capturing persistent trends slightly rose compared to the previous month (Chart 8). The underlying indicators capturing Hungary's short-term inflation trends remained broadly unchanged.

1.3.3. Inflation risks

Inflation and core inflation continued to rise. In May, the monthly price change of the basket excluding fuels and administered prices was 2.0 percent, which was more than four times higher than the typical price increase in 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 1.5 percent compared to previous month, contrary to the price change of around 0 percent typical in May, and thus annual inflation of industrial goods rose to 10.7 percent. The global semiconductor shortage and increasing commodity prices also pointed to a rise in consumer prices of the product group. Market services prices rose by 1.4 percent compared to the previous month. The price increase was significantly higher than usual repricing in May, which characterised 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

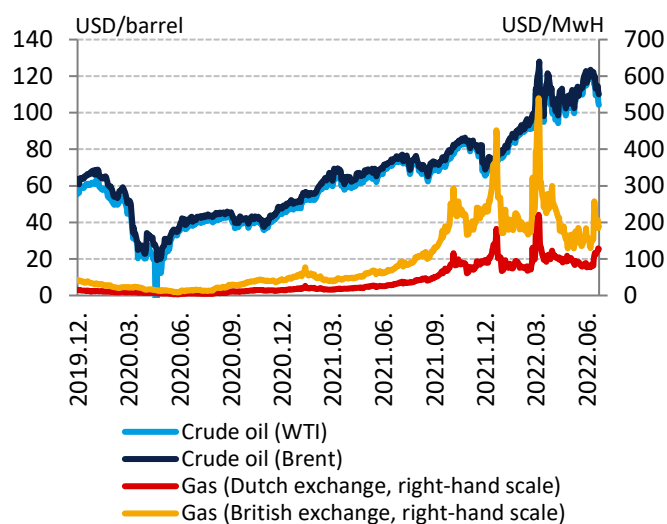
Chart 8 Measures of underlying inflation indicators



Note: Core inflation excluding processed food corresponds, with unchanged content, to the former demand sensitive inflation measure. The new title is justified by the fact that in a period of significant cost shocks with a general impact, the former title may be misleading.

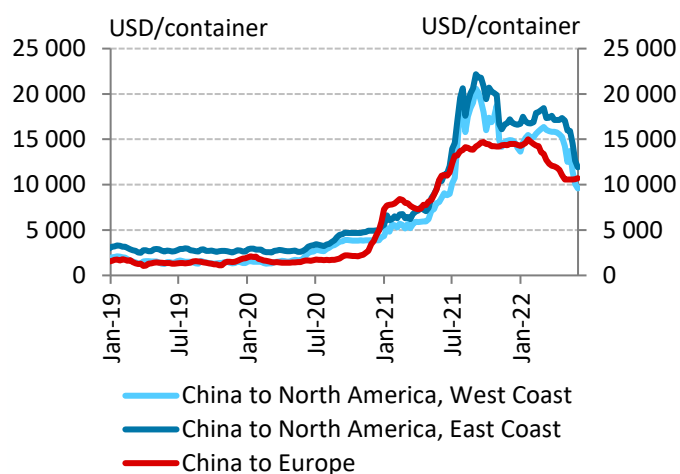
Source: MNB calculation based on HCSO data

Chart 9 Developments in oil and gas prices since December 2019



Source: Bloomberg

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



Source: Bloomberg

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.

Gas and oil prices have recently risen (Chart 9). During the period under review the price of Brent oil fell. Although several strong price increasing effects have appeared in the oil market, low risk appetite, the appreciation of the dollar and the higher-than-expected risk of recession revalued by the market, shifted oil prices downward. On the other hand, energy prices rose, while grain and industrial metal prices declined last month. European gas prices rose during the period under review, as gas supply to the continent from Russia, citing technical reasons, was lower than usual. Electricity prices increased by further 4 percent in the German market since end-May. Of the other major commodities, the price of iron ore and wheat decreased recently.

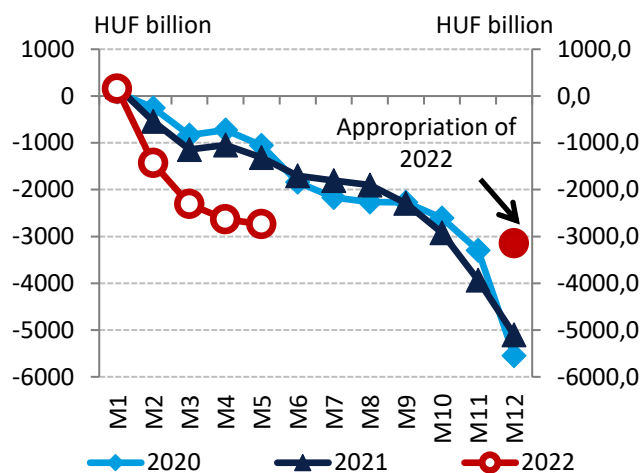
Global value chains may recover more slowly than demand, leading to increased cost pressures in global transportation and industrial production. In May, the costs of shipments from China to Europe rose by more than 25 percent in one year, however, a slight correction can be seen in early June (Chart 10). Merchants will presumably charge part of the extra costs resulting from the price increase 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 sharp rise in food prices has become an increasingly important explanatory factor for rising inflation rates. The growth in food prices is primarily attributable to global factors such as skyrocketing energy prices and high transportation costs.

1.4. Fiscal developments

The balance of the central sub-sector of the general government showed a deficit of HUF 101 billion in May 2022, resulting a monthly balance which was more favourable by HUF 168 billion than the deficit of HUF 269 billion last May. Thus, this year's accumulated cash deficit rose to HUF 2,737 billion in May (to 87 percent of the annual appropriation), exceeding the level seen last year by almost HUF 1,400 billion. Tax and contribution revenues rose by HUF 340 billion compared to last May due to the continued strong wage and nominal consumption growth. Primary expenditures exceeded the amount registered in May 2021 by almost HUF 280 billion.

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



Source: Budget Act of 2022, Hungarian State Treasury

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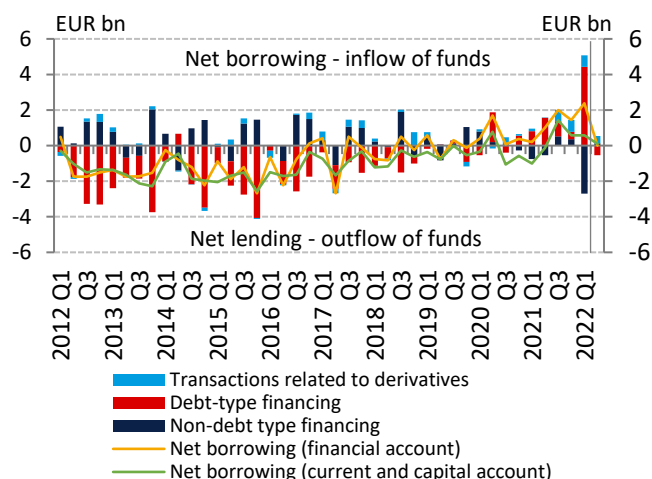
Revenues of the central sub-sector exceeded the year-on-year figure by almost HUF 500 billion. Tax and contribution revenues rose by HUF 340 billion compared to last May. The growth of over 24 percent is attributable to the strong wage dynamics and nominal consumption growth, similar to that observed in previous months. Gross VAT revenues rose by 34 percent compared to last May, while revenues from labour taxes and contributions (despite the exemption of employees under age 25 from personal income tax and the social contribution tax rate cut early this year) also registered a double-digit, 11.7 percent, growth in May.

Primary expenditures exceeded the figure registered in May 2021 by almost HUF 280 billion, which is mainly connected to the central budgetary organisations' net own expenditures. Expenditures of the budgetary organisations exceeded last year's base by HUF 150 billion in May. EU expenditures exceeded those of last year by HUF 12 billion, which is a significant decline relative to the high level of expenditures seen in the previous months. EU payments in May amounted to HUF 106 billion, which is fully connected to the programmes of the 2014–2020 budget.

1.5. External balance developments

In April 2022, current account deficit was EUR 780 million, and net borrowing amounted to EUR 108 million. The current account balance remained unchanged compared to previous month, while net borrowing slightly deteriorated. According to the financial account data, the volume of net FDI was offset by the fall in debt liabilities in April.

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 April 2022, current account deficit was EUR 780 million, and net borrowing amounted to EUR 108 million. The current account balance remained unchanged compared to previous month, while net borrowing slightly deteriorated. Following the decline in March, the goods balance remained unchanged in April, as exports and imports declined to almost the same degree. The degree of the goods deficit is still caused by the rising commodity and energy prices, the global semiconductor shortage and the supply chain frictions resulting from the Russia-Ukraine conflict. Due to the recovery of tourism, services balance in April considerably exceeded both the March figure and that registered a year ago, and thus it already came close to the pre-pandemic level seen in 2019.

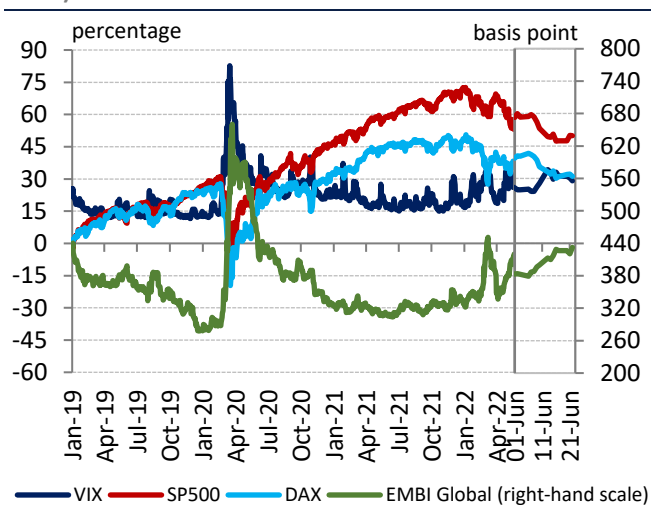
According to the financial account data, the volume of net FDI was offset by the fall in debt liabilities in April. Net FDI in April amounted to almost EUR 0.5 billion, which was mostly linked to a rise in intercompany loans. Net external debt fell by EUR 0.5 billion (Chart 12), the sectoral development of which was also influenced by the repayment of the foreign currency liquidity provided temporarily by the central bank at the end of the quarter. The indicator of the general government consolidated with the MNB substantially declined as a result of closing the repo agreement concluded with international organisations and the expiry of the discounted bond issued in March to ease swap market tensions, while the forint government securities holdings of non-residents slightly decreased. On the other hand, the rise in banks' net external debt – attributable to the repayment of the foreign currency liquidity received at the end of March – has mostly offset the decline registered by the general government.

2. Financial markets

2.1. International financial markets

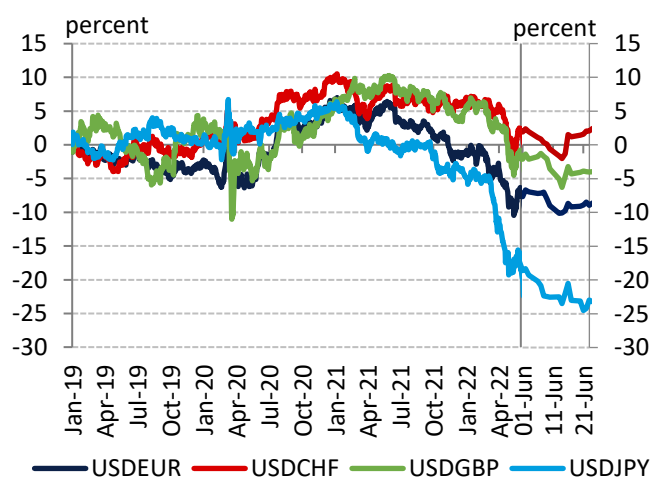
Since the last interest rate decision, the higher-than-expected US inflation figure and the Fed rate hike resulting from this, together with the ECB's communication related to the interest rate decision in July and its mid-June extraordinary meeting dominated developments in global investor sentiment. Fears of stagflation strengthened, and the Russia-Ukraine war continued to have a significant impact on market movements. Long-term yields rose both in the developed markets and in the CEE region. Amid falling international risk appetite, the EMBI Global emerging bond market spread rose further, while the leading stock market indices fell.

Chart 13 Developed market equity indices, the VIX index (left-hand scale) and the EMBI Global Index (right-hand scale)



Source: Bloomberg

Chart 14 Developed market FX exchange rates



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

Source: Reuters

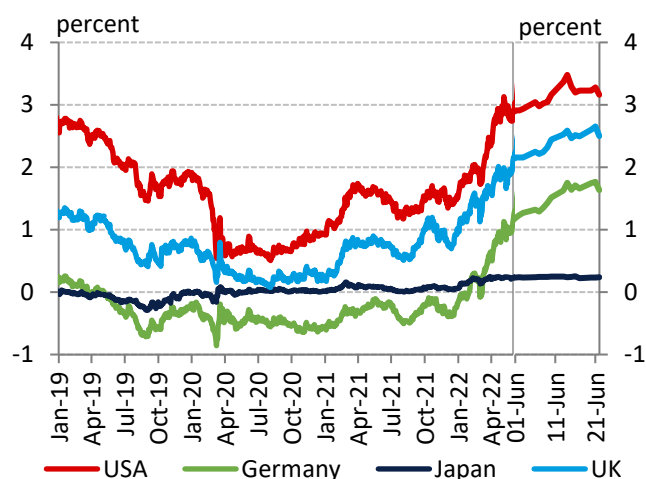
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Of the risk indicators, the VIX index, measuring equity market volatility, rose by 3 percentage points compared to its level at the previous interest rate decision to 29 percent, while the MOVE index, measuring developed bond market volatility, came close to 130 basis points after a rise of 23 basis points. In a risk averse international environment, the EMBI Global emerging market bond spread rose by 50 basis points (Chart 13).

The leading stock indices fell. The US S&P 500, the Nasdaq and the Dow Jones fell by 9.0, 8.5 and 7.6 percent, respectively. Of the European leading stock market indices, the German DAX and the French CAC declined by 8.6 and 8.5 percent, respectively. The Japanese stock market index fell by 4.1 percent compared to the level seen at the previous interest rate decision, while the Chinese stock exchange closed the period with a fall of 1.9 percent. Overall, the developed MSCI composite index fell by 9.1 percent and the emerging market index by 7.8 percent.

The dollar appreciated against both the euro and the other major currencies (Chart 14). The US currency appreciated against the euro by 1.6 percent, the Swiss franc by 0.2 percent, the British pound by 2.7 percent and the Japanese

Chart 15 Yields on developed market long-term bonds



Source: Bloomberg

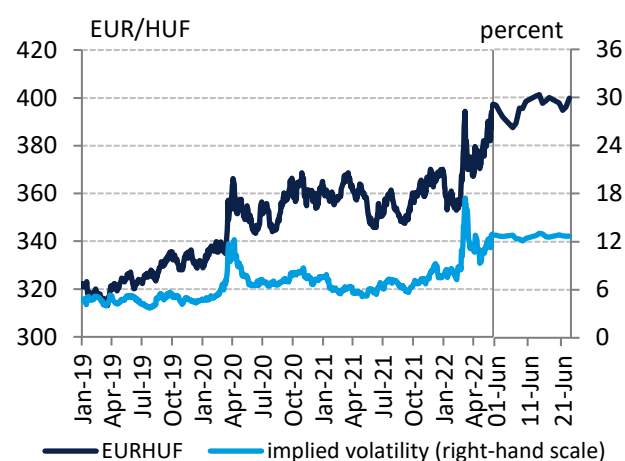
yen by 5.9 percent. At the end of the period, the euro-dollar exchange rate close to 1.057.

Developed market bond yields increased (Chart 15). The ten-year US and German yield rose by 31 and 51 basis points, respectively, and thus the US yield closed the period at 3.16 percent, while the German one at 1.63 percent. Yields in the Mediterranean countries rose: the Italian, Spanish, Portuguese and Greek yields were up by 52, 47, 40 and 29 basis points, respectively. Yields in most countries in the region continued to rise: the Hungarian, Czech, Polish long-term yield rose by 116, 69 and 58 basis points, respectively, while the Romanian yield rose by 150 basis points.

2.2. Developments in domestic money market indicators

Since the interest rate decision in May, the forint exchange rate depreciated against the euro by 1.1 percent. The government securities yield curve rose. The 3-month BUBOR rose by 81 basis points to 7.67 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

Since the interest rate decision in May, the forint exchange rate depreciated against the euro by 1.1 percent and is close to 400. Of the currencies of the CEE region, the Czech koruna and the Polish zloty depreciated by 0.15 percent and 2.9 percent, respectively, while the exchange rate of the Romanian leu remained unchanged. The implied volatility of forint did not change significantly during the period under review (Chart 16).

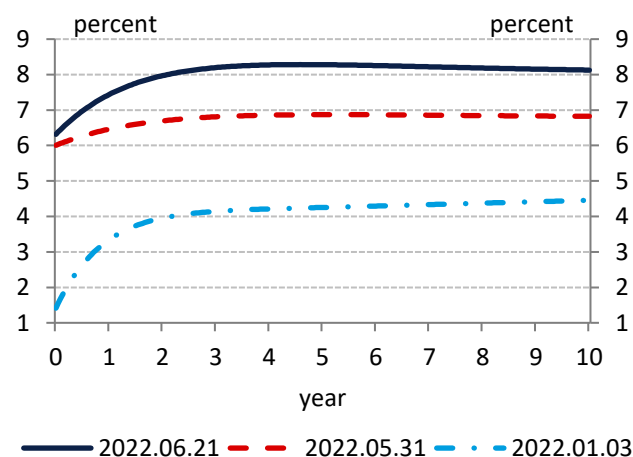
The 3-month BUBOR, relevant for monetary policy transmission, rose by 81 basis points to 7.67 percent since the last interest rate decision.

The government securities yield curve shifted substantially upward (Chart 17). At the 1-year section of the yield curve a rise of 50-90 basis points, while on the longer maturities a rise of 120-140 basis points was registered.

Since the last interest rate decision, bond auctions held by the Government Debt Management Agency were adequate overall: while at the beginning of the period under review, demand was more moderate at the 3- and 12-month discounted Treasury bill auctions, in the period since then the Debt Management Agency was able to increase the accepted volume compared to that announced previously in several cases. Average auction yields rose both on discounted Treasury bills and on government bonds.

Non-residents' holdings of forint government securities decreased slightly. Non-residents' holdings in forint government securities decreased by HUF 511 billion to HUF 4,884 billion. In line with this, the market share of non-residents' holding in forint government securities declined, and thus at present it stands at around 18.5 percent.

Chart 17 Shifts in the spot government yield curve

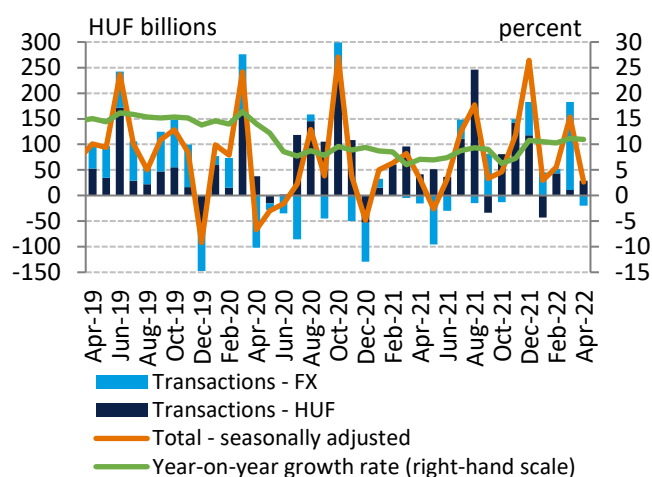


Source: MNB, Reuters

3. Trends in lending

In April 2022, outstanding lending to non-financial corporations rose by HUF 9 billion, reflecting a rise of HUF 29 billion in forint loans and a decrease of HUF 20 billion in foreign currency loans. In April, outstanding borrowing of households increased by HUF 72 billion due to transactions, and thus the annual growth rate reached 12.4 percent. The smoothed interest rate spread of forint corporate loans was 1.22 percent in April 2022, representing a decrease of 0.08 percentage point compared to the previous month.

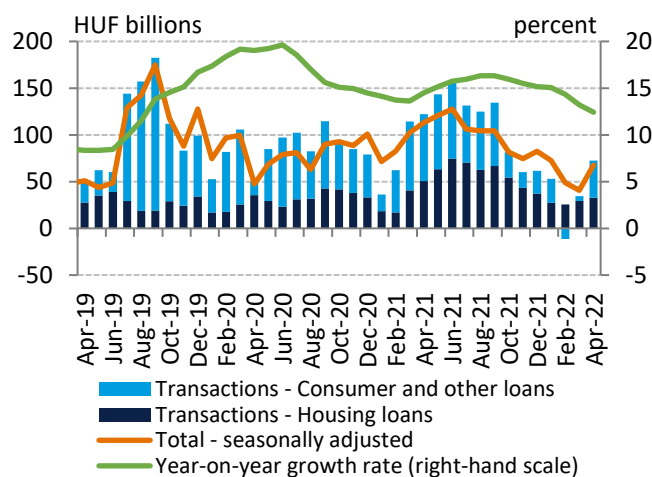
Chart 18 Net borrowing by non-financial corporations



Source: MNB

In April 2022, outstanding lending to non-financial corporations increased by HUF 9 billion, reflecting a rise of HUF 29 billion in forint loans and a decline of HUF 20 billion in foreign currency loans (Chart 18). Due to the more moderate monthly growth, the annual growth rate slightly decreased and stood at 11.0 percent at the end of the month. Together with the bond transactions in the balance sheet of credit institutions, the annual growth rate in the month came to 19.2 percent. In April, credit institutions disbursed new loans in the amount of HUF 157 billion, which falls short of the year-on-year figure by 30 percent. In parallel with the increase in the interest spread between the market-based and subsidised loans, and 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.

Chart 19 Net borrowing by households



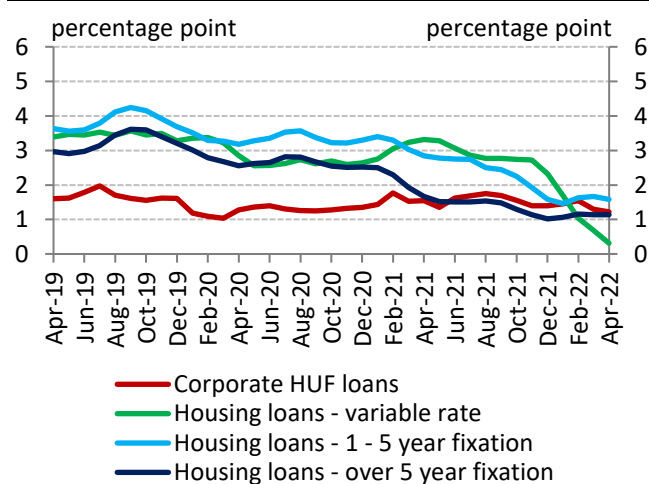
Source: MNB

In April, outstanding borrowing of households increased by HUF 72 billion due to transactions, and thus the annual growth rate reached 12.4 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. In April, the ratio of state-subsidised loans rose to 46 percent within new disbursements, with major contribution by the strong demand for the FGS Green Home Programme. The scheme also raises the average loan amount and maturity of loans disbursed for the purchase of new homes and contributed to the disbursement of housing loans reaching once again a historic high in April.

The smoothed interest rate spread of forint corporate loans was 1.22 percent in April 2022, representing a decrease of 0.08 percentage point compared to the previous month (Chart 20). The average smoothed interest rate spread on variable rate housing loans based on the annual percentage rate (APR) declined to 0.32 percentage points during the month. After a decline of 0.08 percentage point, the average spread on housing loans with interest rate fixation periods longer than 1 year and up to 5 years fell to 1.58 percentage points in April, while the spread on products with interest rate fixation periods of more than 5

Chart 20 Development of corporate and household credit spreads

years remained unchanged at 1.14 percentage points at the end of the period under review.



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