MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 31 MAY 2022

MAY

2022

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The background material 'Macroeconomic and financial market developments' is based on information available until 26 May 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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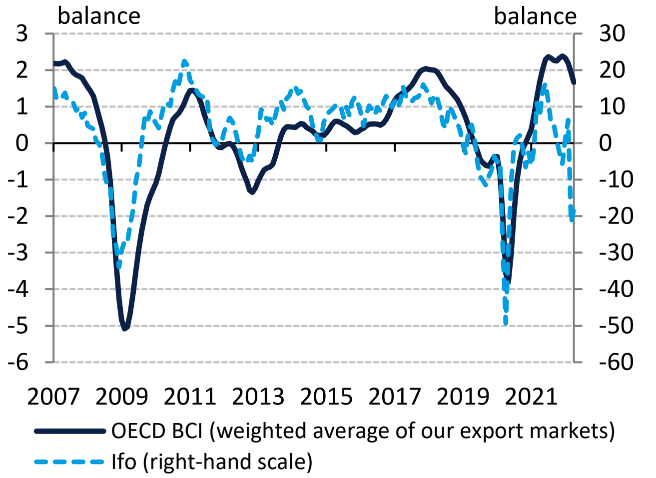
1. Macroeconomic developments

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 5.2, 5.1, 4.8 and 3.4 percent, respectively. Confidence indices related to the international manufacturing and service sectors continued to deteriorate in April and May, but remained generally positive. In early 2022, the external inflationary environment remained high. Compared to the previous month, inflation declined by 0.2 percentage point to 8.3 percent in the United States, while it remained unchanged at 7.4 percent in the euro area.

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 5.2, 5.1, 4.8 and 3.4 percent, respectively.

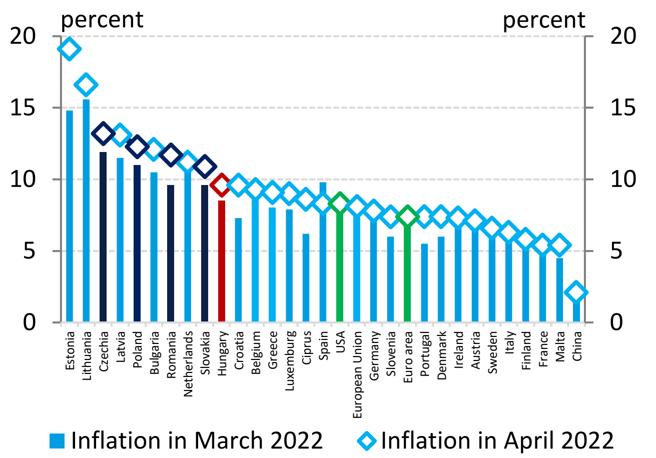
Monthly production indicators showed a mixed picture. In April, industrial production in the United States rose by 6.4 percent, while it declined by 2.9 percent in China. In March, industrial production in the United Kingdom grew by 0.7 percent and fell by 0.8 percent in the euro area, year on year. In April, the volume of retail sales rose in the USA by 8.2 percent, while it fell by 11.1 percent in China, year on year. In March, it grew by 0.9 percent in the United Kingdom and by 0.8 percent in the euro area.

In March and April, forward-looking manufacturing and service sector confidence indices continued to decline. Economic Sentiment Indicators (ESI) declined in the euro area in April, and business sentiment also deteriorated based on the Purchasing Manager Index (PMI) (Chart 1). On the other hand, purchasing Manager Index in the United States was above the threshold value (50 points), while that in China declined to 47.4 points in April.

International labour market trends improved further. In the United States, the number of new unemployment benefit claims was 218,000 in the week ending on 14 May, above the 2019 average (200,000). The unemployment rate declined to 3.6 percent in March from 3.8 percent in February. Euro area unemployment rate declined further compared to the previous month and it was at a record low of 6.8 percent in February.

In annual terms, euro area inflation and core inflation were 7.4 percent and 3.5 percent, respectively in April. Inflation data matched analysts' expectations, while the expectations for core inflation was 3.2 percent, which is lower than the figure published by Eurostat. Based on preliminary data, the rise in HICP inflation was mostly connected to energy items in April.

Chart 2 Developments in the international inflationary environment



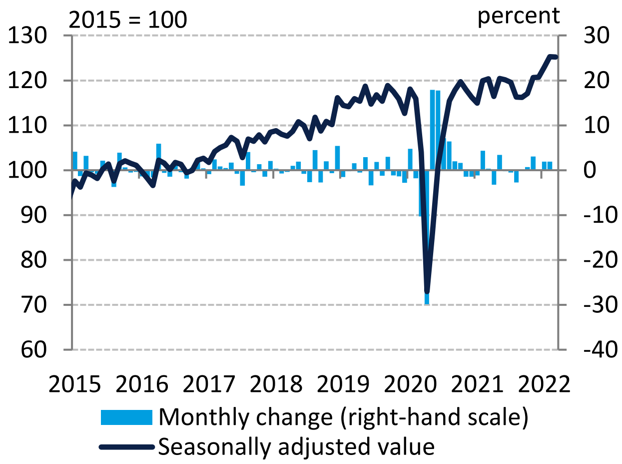
Note: HICP inflation rates (with the exception of USA and China, where CPI inflation rates) are presented.
Source: Eurostat

Based on available data, inflation rose in April in all but four of the 27 countries of the European Union. Common reasons underlying the globally rising inflation include demand and supply imbalances and rising commodity prices. The largest increase, i.e. 4.2 percentage points, was observed in Estonia, and price increase also accelerated by more than 2 percentage points in Cyprus, Croatia and Romania. Among the EU member states the greatest inflation was observed in Estonia, where prices rose by 19 percent year on year. Prices also increased by more than 10 percent in Lithuania (16.6), Latvia (13.2), in the Czech Republic (13.2), Poland (12.3), Bulgaria (12.1), Romania (11.7), the Netherlands (11.2) and Slovakia (10.9) (Chart 2). Inflation in April stood at 8.3 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 seasonally and calendar-adjusted annual growth rate of Hungary's GDP was the fourth highest in the EU. According to real time data, the favourable economic trends observed early this year may have also persisted in the first half of the second quarter. In March, industrial output as well as the volume of construction and retail sales exceeded their pre-crisis levels. In March 2022, the raw unemployment rate stood at 3.6 percent, while the number of people in employment rose by 81,000 year on year, surpassing pre-pandemic levels.

Chart 3 Development in industrial production



Source: MNB calculation based on HCSO data

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 fourth highest in the European Union and it was well over the EU average. In the first quarter of 2022, the seasonally and calendar adjusted level of Hungary's GDP exceeded the figure registered in the fourth quarter of 2019 by 5.9 percent. According to the HCSO's publication, in the first quarter almost all sectors of the national economy contributed to the growth, with industry and market services being the largest contributors.

In March 2022, industrial production rose by 3.6 percent (by 4.0 percent based on seasonally and calendar-adjusted data) year on year (Chart 3)**.** Based on the seasonally and calendar adjusted data, the volume of production declined by 0.1 percent on a monthly basis. In March, the volume of output continued to exceed pre-crisis levels. Most of the manufacturing subsectors contributed to the growth; however, automotive industry, representing the largest share, significantly declined year on year. Output of coke production (+23.0 percent), manufacture of electrical equipment (+21.9 percent) and energy industry (+19.2 percent) grew at a larger rate.

According to the HCSO's preliminary data release, in March exports increased by 8.7 percent, while imports rose by 22.6 percent, in euro terms, compared to last March. In March 2022, the merchandise trade balance showed a deficit of EUR 503 million.

In March 2022, based on raw data, the volume of construction output rose by 10.5 percent year on year. The level of construction output exceeded the growth trend seen in recent years. The construction of buildings and other structures increased by 10.6 percent and 11.4 percent, respectively, year on year. The volume of output decreased by 5.8 percent compared to previous month, based on seasonally and calendar adjusted data. The volume of new contracts concluded fell by 30.2 percent on an annual basis, while construction companies' contract portfolio at the end of March exceeded the year-on-year value by 6.4 percent.

According to real time data, the favourable economic trends observed early this year may have persisted also in the first half of the second quarter. Based on online cash register data, turnover in April grew by 34 percent on average year on year. In April, 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 almost doubled in April, in annual terms, owing to the low base of last year. Cinema attendance in April was almost 44 percent higher compared to the same period of 2019. Road passenger traffic grew in April on an annual basis, while goods traffic stagnated: passenger traffic rose by around 23 percent, while goods traffic was almost 1 percent lower, year on year. In April, the electricity load data were 6 percent below the same period last year.

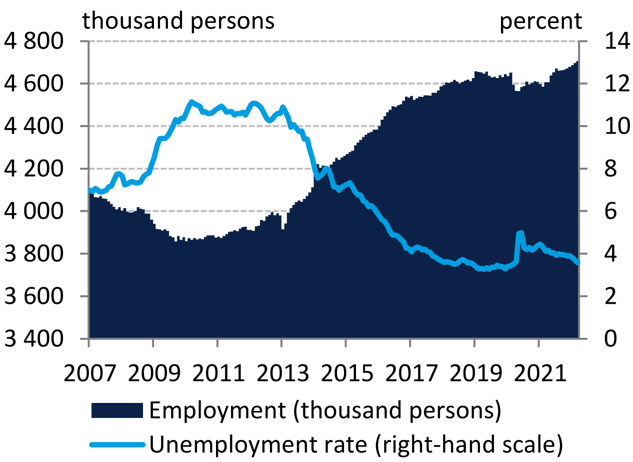
The number of **housing market transactions** remained broadly unchanged year on year, according to the available data. **The Hungarian labour market proved to be resilient** during the coronavirus crisis. **Google searches** related to unemployment also show a favourable picture. Online searches in Hungary for the term "unemployment benefit" and "jobseeker's allowance" are close to the levels before the outbreak of the pandemic.

In March 2022, the volume of retail sales was up by 16.2 percent, year on year. In March 2022, the volume of retail sales exceeded the level seen before the outbreak of the coronavirus, close to the growth trend of recent years. Compared to the previous month, the volume of sales increased by 7.3 percent. The volume of retail sales varied by shop types. Based on the calendar adjusted data, the volume of retail sales in food stores and groceries remained essentially unchanged (+0.2 percent), in non-food stores it rose by 29.7 percent, while the volume of fuel retail sales increased by 51.4 percent in annual terms. The largest year-on-year increase was registered in the sales of textile and clothing products (+320.4 percent) and second-hand goods (+238.7 percent).

1.2.2. Employment

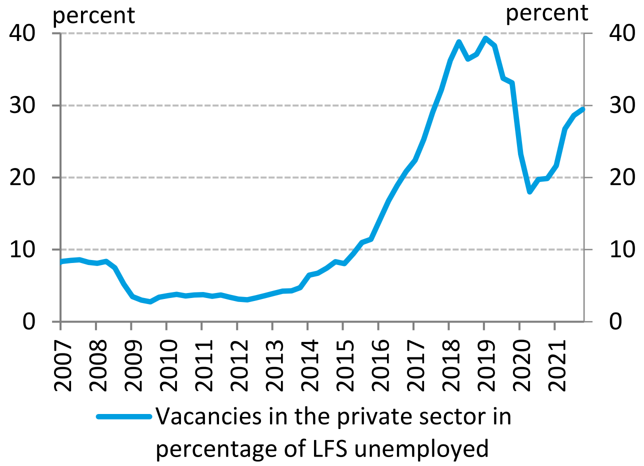
Based on the data of the Labour Force Survey (LFS), in March 2022 total number of the employed amounted to 4,697,000 reflecting an increase of 81,000 persons year on year (Chart 4). Since March 2021, the number of employees in the private sector increased by 40,700, the number of those working abroad by 3,200 and the number of public employees by 8,600.

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

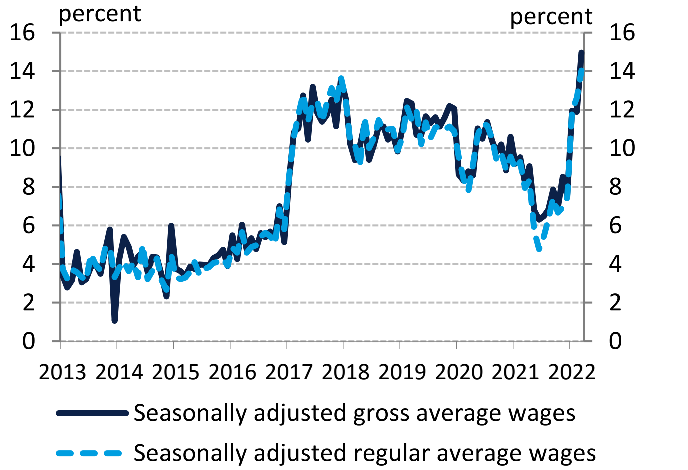
In March, the number of the unemployed was 176,000, falling short of the year-on-year figure by 17,700 persons, and as a result, overall, the unemployment rate stood at 3.6 percent. Based on seasonally adjusted data, in March the number of the unemployed fell by 3,000 persons compared to February. Based on data published by the National Employment Service in March 2022 and April 2022 the number of registered jobseekers in Hungary was 251,000 (-52,000 on an annual basis) and 242,000 (-46,000 on an annual basis), respectively. Based on seasonally adjusted data, the number of the registered unemployed in April 2022 was below that in the months before the outbreak of the coronavirus pandemic.

In the fourth quarter of 2021, private sector vacancies amounted to 56,500, exceeding the year-on-year value by 38.1 percent as well as the pre-pandemic level by 5.9 percent. **On an annual basis, labour demand rose in market services and manufacturing.** Manufacturing job vacancies exceeded the figure a year ago by 4,200. In the fourth quarter of 2021, job vacancies amounted to 30,200 in the market service sector, up by 9,500 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 4,200, while in the trade sector it rose by 2,100. 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 April 2022, annual inflation was 9.5 percent, while both core inflation and core inflation excluding indirect tax effects stood at 10.3 percent. In the first quarter of 2022, repricing was several times higher than in previous years, being more than three times larger in March and April. In April, a significant part of the repricing was attributable to food prices. In March 2022, due to a significant increase in the minimum wage and the guaranteed wage minimum, average earnings in the national economy (excluding bonuses) rose by 14.5 percent, while private sector wages increased by 12.8 percent compared to the same period of the previous year.

Chart 6 Dynamics of average earnings in the private sector



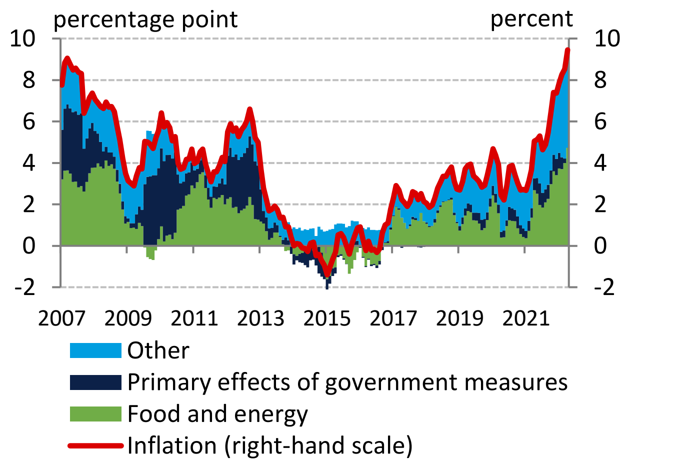
Source: MNB calculation based on HCSO data

1.3.1. Wage setting

In March 2022, gross average earnings in the private sector rose by 16.2 percent year on year. Based on seasonally adjusted data, the level of regular average wages rose by 4 percent compared to the previous month. The degree of bonus payments remained broadly unchanged compared to the average of previous years.

According to seasonally adjusted data, the growth in gross average wages and regular average wages accelerated in the private sector compared to the previous month (Chart 6). In the private sector wage dynamics of market services outstripped that of manufacturing. In March, based on raw data, manufacturing wages were higher by 15.5 percent year on year. Wages in the automotive industry – representing the largest share – increased by 22.2 percent in annual terms. In market services, HCSO registered a growth of 15.5 percent. Annual wage dynamics was over 10 percent in all industries. The largest wage increase was observed in the health sector (25.4 percent) and in tourism (24.8 percent). Within the key sectors, gross wages in the trade and construction sectors rose by 15.7 percent and 16 percent, respectively, year on year.

Chart 7 Decomposition of inflation



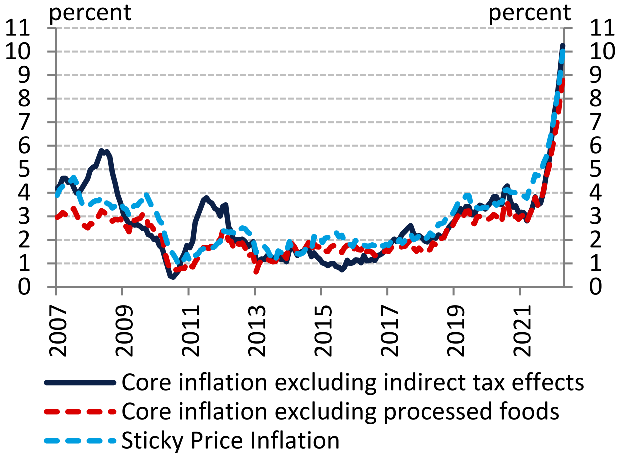
Source: MNB calculation based on HCSO data

1.3.2. Inflation developments

In April 2022, inflation calculated in annual terms was 9.5 percent, while core inflation and core inflation excluding indirect taxes stood at 10.3 percent (Chart 7**).** Inflation grew by 1.0 percentage point compared to previous month due to the fact that the rise in core inflation items was only partly offset by the fall in the price index of fuels. Compared to March, core inflation rose by 1.2 percentage point, contributed to by the accelerating price rise of all three product groups (processed food, industrial goods and services).

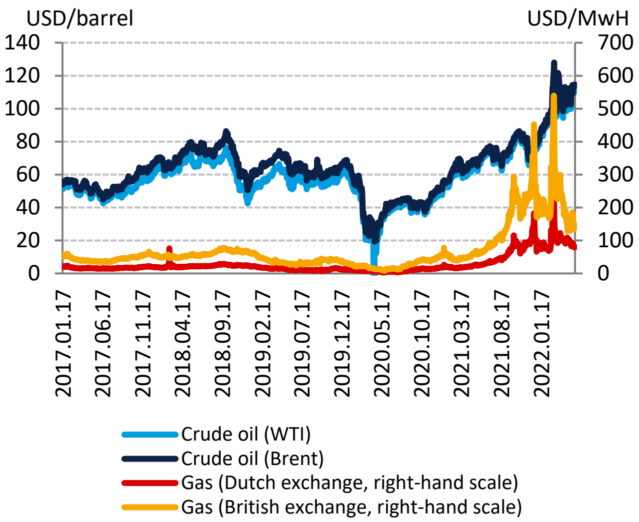
Underlying inflation indicators capturing persistent trends rose slightly compared to the previous month (Chart 8)**.** In March 2022, agricultural producer prices increased by 37.4 percent in annual terms. In March,

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

domestic sales prices in sectors of consumer goods increased by 18.1 percent.

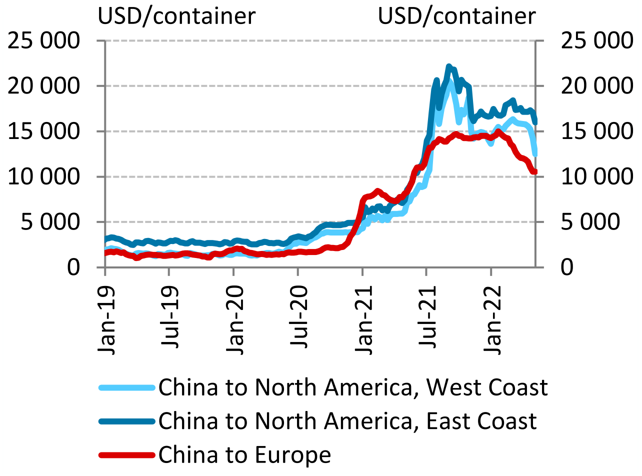
1.3.3. Inflation risks

Inflation and core inflation continued to rise. In April, the monthly price change of the basket excluding fuels and administered prices was 2.0 percent, which was four times the average value in April of previous years. In the first quarter of 2022, repricing was several times higher than in previous years, being more than three times larger in March and April. In April, a significant part of the repricing was attributable to food. The higher repricing rate is a general phenomenon, which is attributable to the fact that rise in global commodity and energy prices swiftly passes through to consumer prices in a wide range of products. Industrial goods prices rose by 1.9 percent compared to the previous month, which also represents a more than double increase compared to previous years. 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 April, 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 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. In addition, the extreme price rise in the energy market, the material increase in transportation costs and the shortening of value chains all point to globally rising inflation.

Oil prices have recently risen (Chart 9). During the period under review the price of Brent oil rose. On the supply side the Russia-Ukraine war, while on the demand side fears of recession and concerns related to Chinese demand were the most determinant factors. Energy and grain prices rose last month, while the price of industrial metals declined. On the other hand, European gas prices declined in the period under review, once gas supplies have reached the continent. Electricity prices increased by 16 percent in the German market since end-April. Of the other major commodities, the price of iron ore and wheat rose significantly recently.

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



Source: Bloomberg

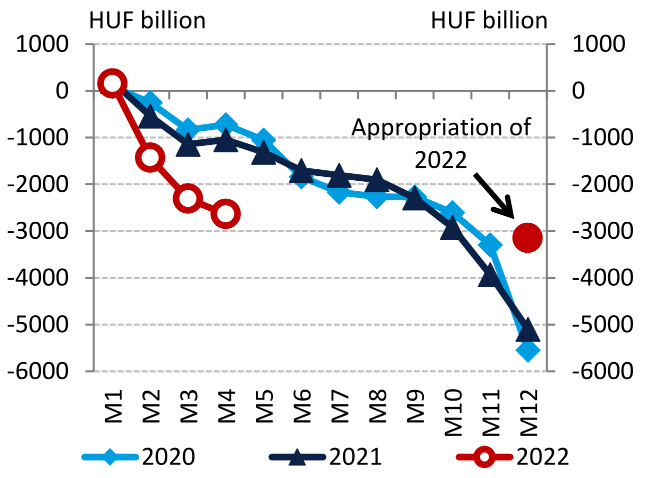
Global value chains may recover more slowly than demand, leading to increased cost pressures in global transportation and industrial production. In April, the costs of shipments from China to Europe rose by more than 60 percent in one year. The annual rate of increase was over 30 percent also in early May (Chart 10). Merchants will presumably charge part of the resulting extra costs to the consumers, as a result of which the price increasing effect of the significantly higher commodity prices and shipping costs will appear also in the domestic consumer prices more widely. In addition to a fast recovery in demand, the global chip shortage is causing disruptions in industrial production, particularly in the automotive sector, which may have a knock-on effect on prices.

In the past months, the 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 fodder and 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 327 billion in April 2022, resulting in a monthly balance which was lower by HUF 427 billion than last year's surplus of HUF 100 billion. Thus, this year's accumulated cash deficit rose to HUF 2,636 billion in April, exceeding the level seen last year by almost HUF 1,600 billion. Tax and contribution revenues rose by HUF 311 billion compared to last April due to a strong wage and nominal consumption growth, while primary expenditures surpassed the levels in April 2021 by HUF 832 billion.

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



Source: Budget Act of 2022, Hungarian State Treasury

The balance of the **central sub-sector of the general government** was a deficit of HUF 327 billion in April 2022, resulting in a HUF 427 billion lower monthly balance compared to last year's surplus of HUF 100 billion. Thus, this year's accumulated cash deficit rose to HUF 2,636 billion in April, exceeding the level seen last year by almost HUF 1,600 billion (Chart 11). However, the accrual-based balance may be much more favourable than this due to the statistical corrections connected to the budgetary pre-financing of EU funds and to the personal income tax reimbursements.

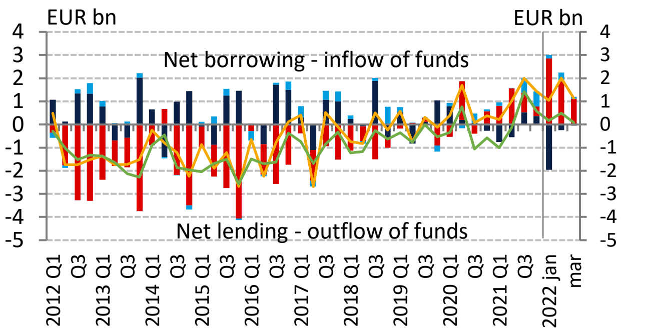
Revenues of the central sub-sector exceeded the year-on-year figure by HUF 470 billion, which was primarily attributable to the continuing sharp rise in tax and contribution revenues. Tax and contribution revenues rose by HUF 311 billion compared to last April. This growth, exceeding 19 percent, is the result of the strong wage dynamics and the nominal consumption growth.

Primary expenditures exceeded the figure registered in April 2021 by HUF 832 billion, which is mainly connected to the central budgetary organisations' net own expenditures and EU transfer payments. In April, expenditures of the budgetary organisations exceeded the base by HUF 410 billion, which is attributable to the higher monthly transfers paid to companies belonging to the government sector and to other institutions. EU expenditures exceeded those of last year by HUF 271 billion, mainly due to the advance payments related to Széchenyi Plan Plus. EU transfer payments in April exceeded HUF 400 billion, HUF 140 billion of which may be related to the advances of the new programming cycle.

1.5. External balance developments

In March 2022, the current account deficit and net borrowing amounted to EUR 780 million and EUR 84 million, respectively. The current account balance remained broadly unchanged compared to previous month, while net borrowing significantly improved. According to financial account data, net FDI declined slightly due to transactions in March, while net external debt of the economy rose significantly.

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 March 2022, the current account deficit and net borrowing amounted to EUR 780 million and EUR 84 million, respectively. The current account balance remained broadly unchanged compared to previous month, while net borrowing significantly improved. Deterioration in the goods balance is mainly caused by the rising commodity and energy prices, the global semiconductor shortage and the supply chain frictions resulting from the Russia-Ukraine conflict. Services balance in March exceeded both the February and the March 2021 figures due to the recovery of tourism. Income balance deficit slightly decreased compared to February, while the transfer balance surplus substantially rose compared to previous month.

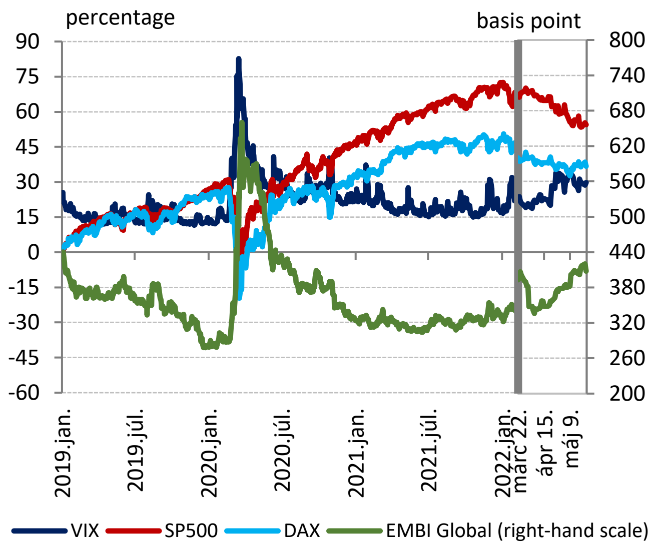
According to financial account data, net FDI declined slightly due to transactions in March, while net external debt of the economy rose significantly (Chart 12). Net foreign direct investments fell by almost EUR 0.1 billion. Net external debt grew by roughly EUR 1.1 billion, which was mainly attributable to the rise in the ratio of the general government consolidated with the MNB. Foreign currency liquidity granted to banks at the end of the month, together with the forint discounted bond issued at the end of the quarter increased the general government's ratio and reduced that of the banking sector. The repurchase agreements concluded with international organisations also substantially raised the level of foreign exchange reserves, and thus they had no effect on net external debt.

2. Financial markets

2.1. International financial markets

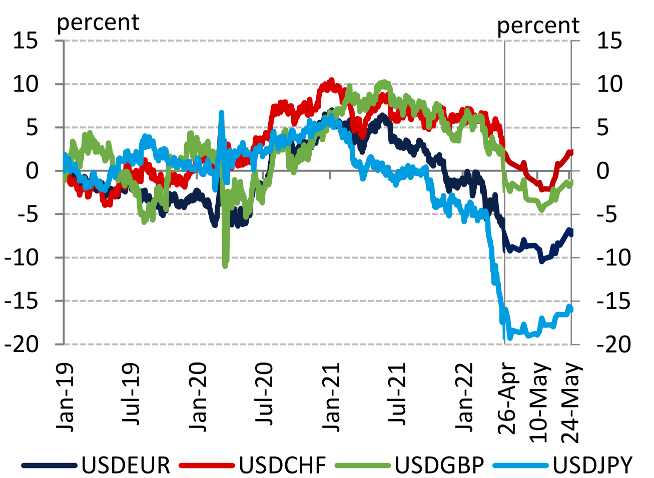
Global investor sentiment was determined by the Russia-Ukraine conflict as well as by the expectations with regard to the interest rate increase path of Fed and ECB. In addition, market movements were influenced by the spillover effects of the epidemiological restrictions in China and fears of stagflation. Long-term yields rose both in developed markets and in the CEE region, and the EMBI Global emerging bond market premium also moved higher. Key stock market indices declined in general.

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

Since the last interest rate decision, expectations regarding the Russia-Ukraine conflict and the FED and ECB rate hike continued to dominate developments in global investor sentiment. In addition, market movements were influenced by the spillover effects of the epidemiological restrictions in China and fears of stagflation. Expectations with regard to the pace and timing of the tightening measures of the key central banks remain uncertain. However, the volatility of yields has declined recently in the developed markets, while the developments in the Russia-Ukraine war increased the emerging market risk indicators.

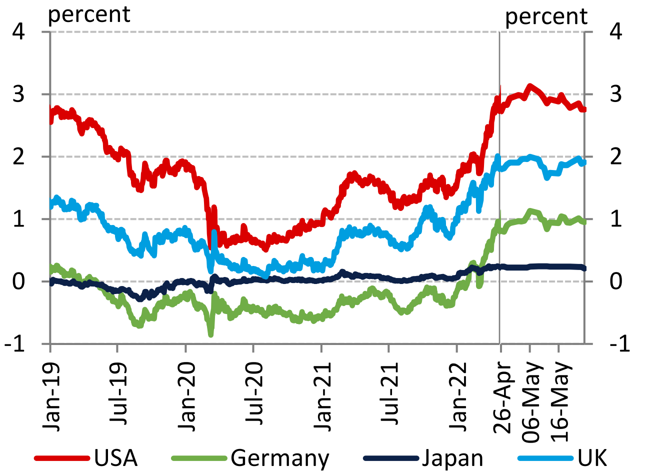
Of the risk indicators, the VIX index, measuring equity market volatility, rose by 4 percentage point compared to its level at the time of the previous interest rate decision to 29 percent, while the MOVE index, measuring developed bond market volatility, stands at 111 basis points after a decline of 18 basis points. The 38 basis point rise in the EMBI Global emerging bond market spread also reflected heightening risks in the emerging markets (Chart 13).

The US stock market indices continued to fall. The US S&P index fell by 5.6 percent, while of the European leading stock market indices, the German DAX rose by 1.2 percent and the French CAC declined 2.5 percent. The Japanese stock market index maintained its level seen at the previous interest rate decision, while the Chinese stock exchange was up by 6.4 percent as restrictions related to the coronavirus began to ease. Overall, the developed MSCI composite index fell by 3.1 percent and the emerging market index by 4.6 percent.

The dollar depreciated against both the euro and the major currencies (Chart 14)**.** It depreciated by 0.9 percent against the euro, by 0.3 percent against the Japanese yen and by 0.2 percent against the Swiss franc. At the end of the period, the euro-dollar exchange rate close to 1.07.

Developed market bond yields have increased since the last interest rate decision (Chart 15)**.** US and German 10-year yield rose by 3 and 15 basis points, respectively, and thus the German yield closed the period at 0.97 percent, while the US

Chart 15 Yields on developed market long-term bonds



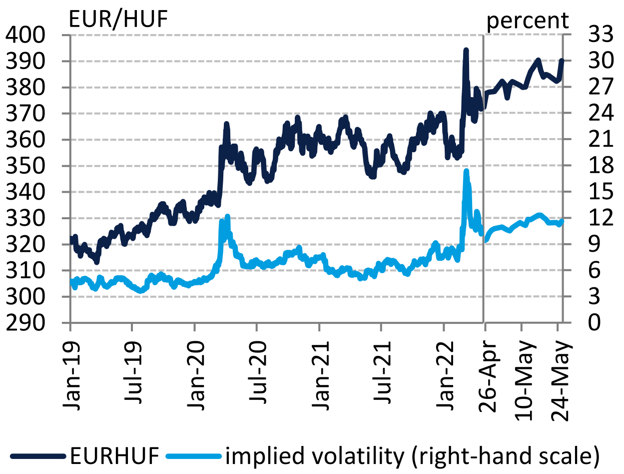
Source: Bloomberg

one at 2.75 percent. Yields in the Mediterranean countries rose: the Portuguese, Italian, Spanish and Greek yields were up by 27, 43, 29 and 64 basis points, respectively. Yields in most countries in the region continued to rise: the Hungarian, Czech, Polish long-term yield rose by 10, 35 and 40 basis points, respectively, while the Romanian yield rose by 123 basis points.

2.2. Developments in domestic money market indicators

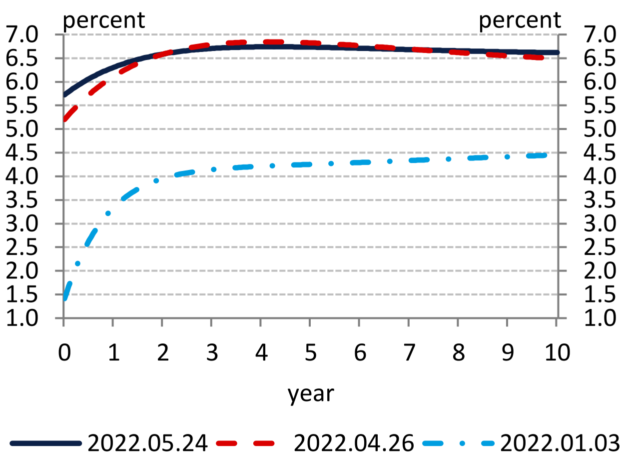
Since the interest rate decision in March, the forint exchange rate depreciated against the euro by 4.1 percent. The government securities yield curve showed a mixed picture. The 3-month BUBOR rose by 19 basis points to 6.81 percent. In the past month, the auctions of the government bonds were characterised by mixed demand. The average auction yields increased in all cases.

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 February, the forint exchange rate depreciated against the euro by 4.1 percent. Within the period under review, the exchange rate fluctuated in a wide range, showing high volatility. The forint exchange rate remained broadly unchanged in the first half of the period under review, while it started to depreciate in the second half of the period, reaching 393. The forint and the Czech koruna depreciated against the euro by a total of 4.1 percent and 0.3 percent, respectively, while the Polish zloty appreciated by 2.2 percent and the exchange rate of the Romanian leu remained unchanged. The implied volatility of forint rose during the period under review (Chart 16).

The 3-month BUBOR, relevant for monetary policy transmission, rose by 19 basis points to 6.81 percent since the last interest rate decision.

The government securities yield curve showed a mixed picture (Chart 17). At the 1-year section of the yield curve a rise of roughly 20 basis points, at the middle section a fall of about 9 basis point and at the long section an average rise of 12 basis points was registered.

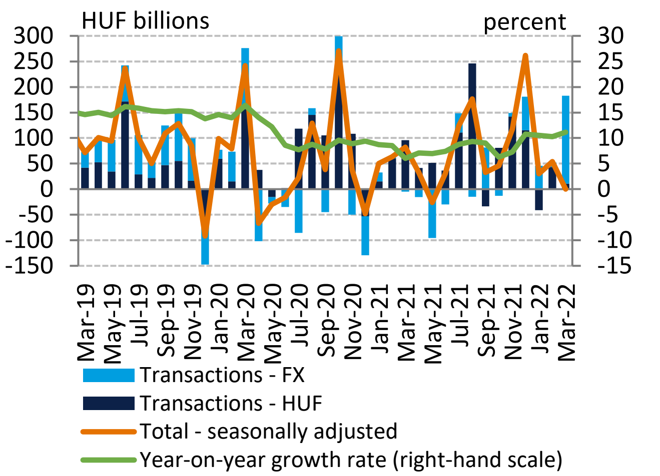
Since the last interest rate decision, bond auctions held by the Government Debt Management Agency showed a mixed picture: during the period under review, demand was high at the 5- and 10-year maturities, while the Debt Management Agency reduced the accepted volume on the 12-month and 20-year maturities. Average auction yields rose both on discounted Treasury bills and on government bonds.

Non-residents' holdings in forint government securities increased. Non-residents' forint government securities holdings increased by HUF 263 billion to HUF 5,294 billion. The market share of non-residents' holding in forint government securities also increased, and thus at present it stands at around 20.6 percent.

3. Trends in lending

In March 2022, outstanding corporate lending increased by HUF 183 billion, reflecting a rise of HUF 11 billion in forint loans and HUF 172 billion in foreign currency loans. In March, outstanding borrowing of households increased by HUF 35 billion due to transactions, and thus the annual growth rate reached 13 percent. The smoothed interest rate spread of forint corporate loans was 1.30 percent in March 2022, representing a decrease of 0.24 percentage point compared to the previous month.

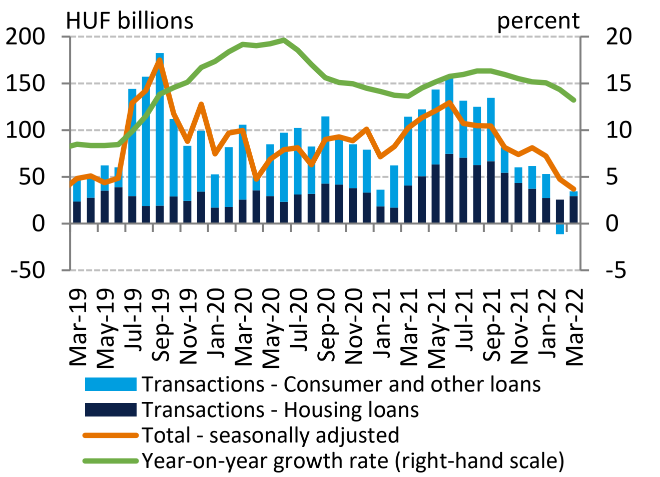
Chart 18 Net borrowing by non-financial corporations



Source: MNB

In December 2022, outstanding corporate lending increased by HUF 183 billion, reflecting a rise of HUF 11 billion in forint loans and HUF 172 billion in foreign currency loans (Chart 18). Due to the more significant monthly increase the annual growth rate accelerated to 11.1 percent from 10.3 percent registered last month. Together with the bond transactions in the balance sheet of credit institutions, the annual growth rate in the month came to 18.5 percent. In March, credit institutions disbursed new loans in the amount of HUF 360 billion, which falls short of the year-on-year figure by 25 percent. In parallel with the increase in the interest spread between the market-based and subsidised loans, the ratio of subsidised loans once again rose in the SME segment.

Chart 19 Net borrowing by households

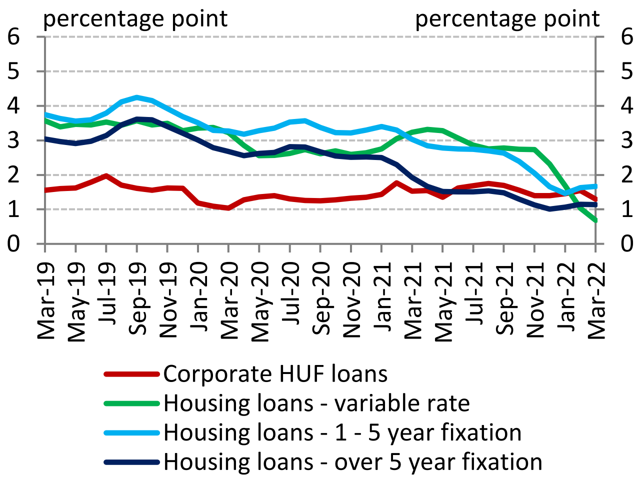


Source: MNB

In March, outstanding borrowing of households increased by HUF 35 billion due to transactions, and thus the annual growth rate reached 13 percent (Chart 19). As a result of the buoyant housing market, the subsidised lending schemes and the demand brought forward due to the uncertainty concerning the phase-out or exhaustion of the latter, a large volume of retail loans have been disbursed in the month under review. In March, the ratio of state-subsidised loans rose to 43 percent within new disbursements, with major contribution by the buoyant 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 March.

The smoothed interest rate spread of forint corporate loans was 1.30 percent in March 2022, representing a decrease of 0.24 percentage point compared to the previous month (Chart 20). The average smoothed interest rate spread on variable rate housing loans calculated based on the annual percentage rate (APR) declined by 0.35 percentage points during the month. The spread on

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

products with interest rate fixation periods longer than 1 year and up to 5 years and on products with interest rate fixation periods of more than 5 years also increased slightly during the month. After a rise of 0.03 percentage points, the average spread on housing loans with interest rate fixation periods longer than one year and up to 5 years increased to 1.66 percentage points in March, while the spread on products with interest rate fixation periods of more than 5 years amounted to 1.14 percentage points at the end of the period under review after a decline of 0.01 percentage point.