MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 22 MARCH 2022

MARCH

2022

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The background material 'Macroeconomic and financial market developments' is based on information available until 17 March 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 fourth quarter of last year, the euro area, the EU and the United States registered an economic growth of 4.6, 4.8 and 5.6 percent, respectively, year-on-year. Euro area GDP exceeded its pre-pandemic level. The Chinese economy further decelerated, exhibiting a growth of 4.0 percent in the fourth quarter of 2021. Confidence indices related to the international manufacturing and service sectors showed an optimistic picture in February. In early 2022, the external inflationary environment remained high. In February, inflation in the United States and in the euro area rose to 7.9 and 5.9 percent, respectively.

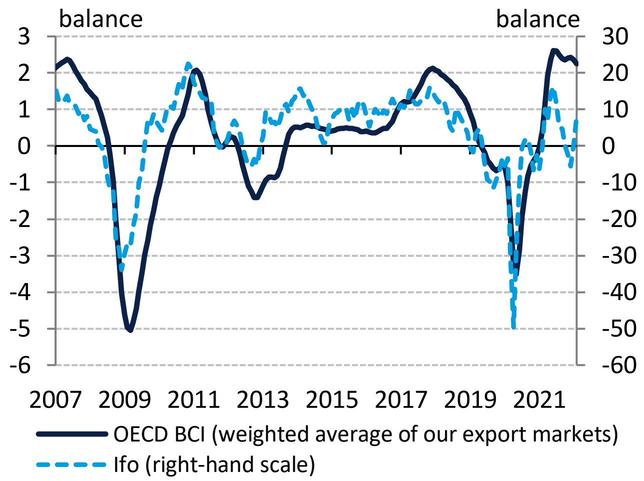
Global industrial production exceeded its pre-pandemic level already in September 2020, and has continued to outstrip it ever since then. In the middle of last year the global semiconductor shortage blocked industrial growth; however, since October both industrial production and world trade activity has been increasing again. Recovery in the service sector is still expected to be slow and gradual, also hindered by the protracting Russo-Ukrainian war conflict. Compared to the average 70 thousand flights registered at the beginning of last year, the number of daily commercial flights has been higher in recent weeks as well, exceeding 90 thousand, which – however – still falls short of the 2019 (and early 2020) figures.

In the fourth quarter of 2021, annual growth rate of the economy slowed down in China, while it accelerated in the USA and in the euro area. GDP rose by 4.0 percent in China and by 5.6 percent in the United States. In the fourth quarter of 2021, the euro area and the EU saw a year-on-year economic growth of 4.6 and 4.8 percent, respectively. Euro area GDP reached its pre-pandemic level. Economic growth in China decelerated further, presumably due to the difficulties of the real estate market and supplier chains. A growth of 8.1 percent has been registered for 2021. In 2021, both the euro area and the EU-27 economy registered a growth of 5.3 percent, while economic growth in Germany was 2.9 percent.

Monthly production indicators showed a mixed picture in December and January. In January, industrial production in the United States and in the United Kingdom rose by 4.1 percent and by 0.4 percent, respectively, while in December that of China grew by 4.3 percent and of the euro area fell by 1.5 percent, year-on-year. In January, the volume of retail sales rose in the USA, in the United Kingdom and in the euro area by 13.0 percent, 9.1 percent and 7.8 percent, respectively, while in China it increased in December by 1.7 percent, year-on-year.

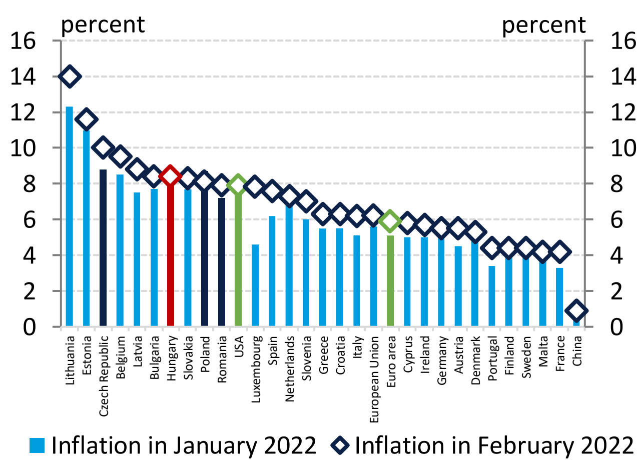
In February, forward-looking manufacturing and service sector confidence indices still reflected positive sentiment.

Chart 1 Business climate indices in Hungary's export markets



Source: OECD, Ifo

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

Business sentiment in the euro area and in Germany (Ifo Business Climate Index) moderately improved (Chart 1). Purchasing Manager Index of the United States, China, the euro area and Germany was also above the threshold value (50 points) in February.

International labour market trends improved further. In the United States, the number of new unemployment benefit claims was 227,000 in the week ending on 5 March, which is an increase compared to the previous week, and it still exceeds the 2019 average (200,000). However, the unemployment rate declined to 3.8 percent in February from 4.0 percent in January. Euro area unemployment rate also declined further compared to the previous month and it was at a record low of 6.8 percent in January.

In annual terms, euro area inflation rose to 5.9 percent in February, while core inflation rose to 2.7 percent from 2.3 percent in January. The data exceed analysts' expectations of 5.6 percent for inflation and 2.6 percent for core inflation.

Based on available data, inflation rose in February in all but two of the 27 countries of the European Union (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, more than 3 percentage points, increase was observed in Luxembourg, and the Baltic states also registered a price rise of around 1.5 percentage points on a monthly basis. Among the EU countries, the highest inflation was in Lithuania, where prices rose by 14 percent year-on-year. CPI inflation in February stood at 7.9 percent in the United States. In the Czech Republic inflation in February was 11.1 percent (HICP inflation: 10.0 percent), significantly exceeding the 2 percent inflation target of the Czech central bank (Chart 2).

1.2. Domestic real economy developments

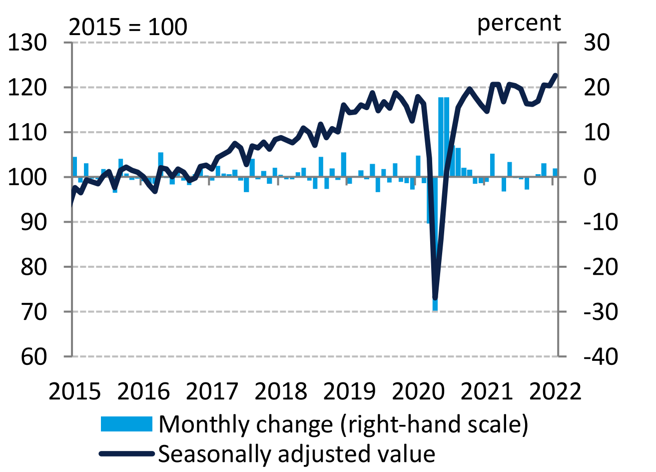
In the fourth quarter of 2021, Hungary's GDP rose by 7.1 percent year-on-year, while economic performance grew by 2.0 percent quarter-on-quarter. In an international comparison, the Hungarian economic recovery is in the top third of the EU ranking. According to real time data, the favourable economic trends observed at the end of last year also continued in early 2022. In January, industrial and construction output as well as the volume of retail sales exceeded their pre-crisis level. Last month the recovery of the labour market continued. In January 2022, the raw unemployment rate stood at 4.2 percent, while the number of people in employment rose by 107,400 year-on-year, surpassing pre-pandemic levels.

1.2.1. Economic growth

The Hungarian economy continued to grow in the fourth quarter of 2021. Based on raw data, Hungary's GDP rose by 7.1 percent year-on-year. Economic performance grew by 2.0 percent quarter-on-quarter. In an international comparison, the Hungarian economic recovery is in the top third of the EU ranking. The seasonally and calendar adjusted level of Hungary's GDP exceeded the figure registered in the fourth quarter of 2019 by 3.3 percent in the fourth quarter of 2021. The performance of all sectors of the economy, excluding agriculture, grew year-on-year. Services' value-added increased by 8.1 percent, on a year-on-year basis.

In January 2022, industrial production rose by 8.9 percent (by 7.0 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 1.9 percent on a monthly basis (Chart 3). In January, the volume of output remained above the pre-crisis level. HCSO registered a growth in most of the manufacturing subsectors. Following a six-month decline, automotive industry, representing the largest share, once again grew. Output of the food (+13.7 percent), wood and paper industry (+12.5 percent) and metal industry (+12.1 percent) grew at a larger rate.

Chart 3 Development in industrial production



Source: MNB calculation based on HCSO data

In January 2022, based on raw data, the volume of construction output rose by 3.3 percent year-on-year. The level of construction output lagged behind the growth trend seen in recent years. The volume of output decreased by 6.3 percent compared to previous month, based on seasonally and calendar adjusted data. Construction of buildings declined by 0.4 percent, while other construction increased by 12.9 percent, year-on-year. The volume of new contracts concluded rose by 11.7 percent on an annual basis, while the construction companies' contract portfolio at the end of January exceeded that of January 2021 by 6.3 percent.

According to available real time data, the favourable economic trends observed at the end of last year also continued in early 2022. Based on the online cash register data, turnover in January grew by 18 percent on average year-on-year. However, in February air passenger traffic fell short of its level registered two years ago by 34 percent, according to data received so far. Catering turnover almost doubled in February, in annual terms, due to the low base of last year. Cinema attendance in February was lower by almost 15 percent compared to the same period of 2019. Road passenger and goods traffic both grew in February on an annual basis. Passenger traffic rose by around 24 percent, while goods traffic was almost 6 percent higher, year-on-year. In February, the electricity load data were close to the same period last year.

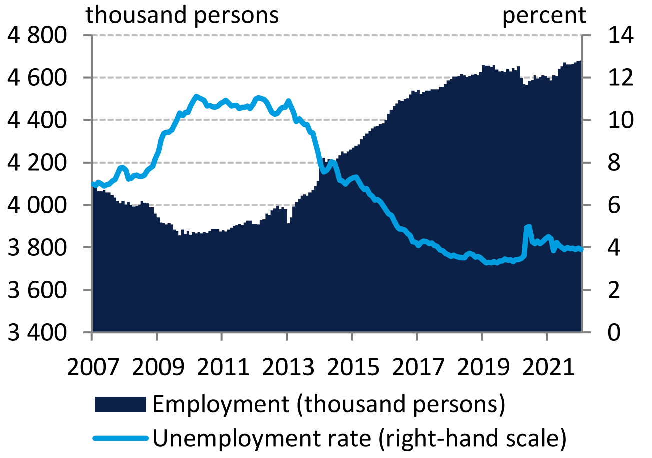
Based on the available data, the number of **housing market transactions** rose by 9 percent in February year-on-year. **The Hungarian labour market proved to be resilient** during the coronavirus crisis. **Google searches** related to unemployment also show a favourable picture. Online searches in Hungary for the term "unemployment benefit" and "jobseeker's allowance" are close to the levels before the outbreak of the pandemic.

According to the HCSO's preliminary data release, **in January goods exports and imports rose by 15.1 percent and 31.2 percent, respectively, in euro terms, year-on-year.** In January 2022, the merchandise trade balance showed a deficit of EUR 196 million.

In January 2022, the volume of retail sales was up by 4.5 percent based on raw data and by 4.1 percent on data adjusted for the calendar effect, year-on-year. In January 2022, the volume of retail sales exceeded the level seen before the outbreak of the coronavirus, but was still significantly below the growth trend of recent years. Compared to previous month, the volume of sales remained essentially unchanged (-0.1 percent). The volume of retails sales varied in January across shop types, year-on-year. Based on the data adjusted for the calendar effect, the volume of retail sales in food stores and groceries remained essentially unchanged (+0.1 percent), that in non-food stores rose by 6.4 percent, while the volume of fuel retail sales increased by 10.7 percent in annual terms. The largest year-on-year increase was registered in the sales of second-hand goods (+32.9 percent) and pharmaceuticals and medical supplies (+17.9 percent). Vehicle and components sales, not belonging to retail sales, fell by 6.7 percent on a year-on-year basis, while turnover of this product group fell short of its pre-crisis level by more than 20 percent.

In December 2022, the number of tourist overnight stays at commercial accommodations decreased by 37.9 percent compared to the pre-pandemic level. In January 2022, the number of tourist overnight stays rose by more than five and a half times, year-on-year. Domestic tourist overnight stays was close to 504,000, which fell short of the level registered in the same period of 2019 by 32.4 percent. Nearly 80 percent of the domestic tourist overnight stays were in hotels. The number of overnight stays by foreign tourists in Hungary was nearly 447,000, which fell short of the level registered in January 2019 by 43.1 percent. Almost 87 percent of foreign tourists stayed in hotels.

Chart 4 Number of persons employed and the unemployment rate



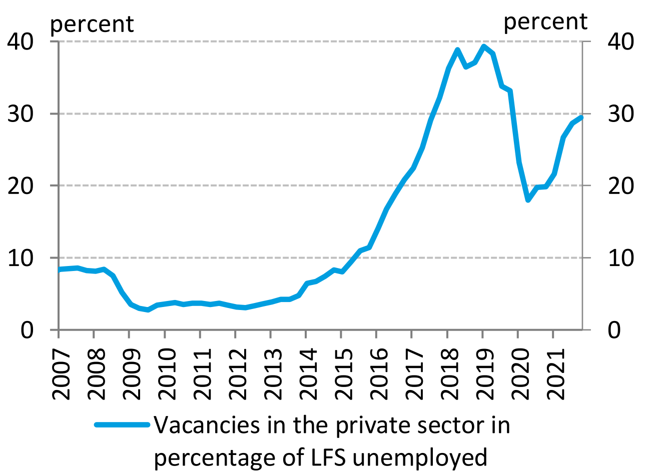
Note: The graph shows seasonally adjusted moving averages.
Source: HCSO

1.2.2. Employment

Based on the data of the Labour Force Survey (LFS), in January 2022 total number of the employed amounted to 4,664,000 reflecting an increase of 107,400 persons, year-on-year (Chart 4). Since January 2021, the number of employees in the private sector and of those working abroad rose by 107,400 and 35,400, respectively, while the number of public employees fell by 35,400.

In January, the number of the unemployed was 201,300, falling short of the year-on-year figure by 36,400 persons, and as a result, on the whole the unemployment rate stood at 4.2 percent. Based on seasonally adjusted data, in January the number of the unemployed rose by 2,100 persons compared to December. Based on the data published by the National Employment Service in January 2022 and February 2022 the number of registered jobseekers in Hungary was 249,000 (-50,000 on an annual basis) and 252,000 (-50,000 on an annual basis), respectively. Based on seasonally adjusted data, the number of the registered unemployed in February 2022 was below that in the months before the outbreak of the coronavirus pandemic.

Chart 5 Development of labour market tightness indicator



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

In the third quarter of 2021, private sector vacancies amounted to 58,500, exceeding the year-on-year value by 36.5 percent as well as the pre-pandemic level by 3.9 percent. **On an annual basis, labour demand rose substantially in market services and moderately in manufacturing.** Manufacturing job vacancies exceeded the figure a year ago only by 1,000. In the third quarter of 2021, job vacancies amounted to 34,900 in the market service sector, up by 13,000 compared to a year earlier, corresponding to the level of 2018-2019. Within the market services sector, real estate, professional and administrative activities job vacancies increased by 7,200, while in the trade sector it rose by 1,800. Based on the job vacancies, tourism labour demand reached its pre-crisis level. Within the public sector job vacancies increased in healthcare, education and public administration. **Overall, the labour market tightness indicator rose further quarter on quarter**, but it still falls short of the values registered in the two years preceding the crisis (Chart 5).

1.3. Inflation and wages

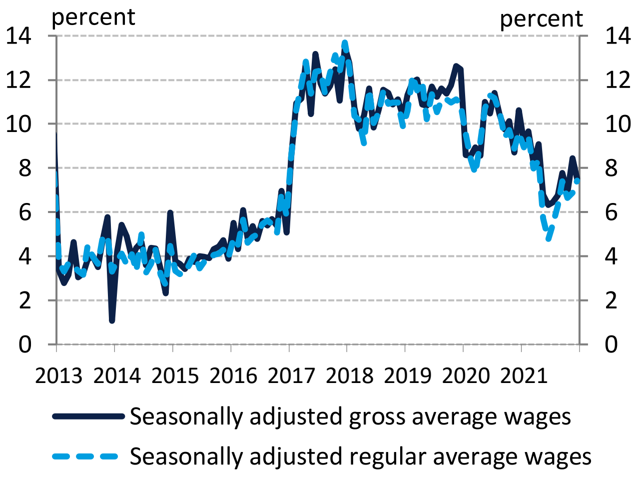
In February 2022, annual inflation was 8.3 percent, while core inflation and core inflation excluding indirect tax effects stood both at 8.1 percent. Underlying inflation indicators capturing persistent trends rose compared to the previous month. In December 2021, whole-economy average wages and private sector wages rose by 9.7 percent and 8.4 percent, respectively, year-on-year.

1.3.1. Wage setting

In December 2021, gross average wages in the private sector rose by 8.4 percent year-on-year. Based on seasonally adjusted data, the level of regular average wages rose by 1.0 percent compared to previous month. The degree of bonus payments exceeded that of previous years.

According to seasonally adjusted data, growth in gross average wages decelerated, while that in regular average wages accelerated in the private sector compared to the previous month (Chart 6). In the private sector wage dynamics of manufacturing outstripped that of market services. In December, based on raw data, manufacturing wages were higher by 9.0 percent year-on-year. Wages in the automotive industry – representing the largest share – increased by 7.9 percent in annual terms. In market services, HCSO registered a growth of 7.6 percent. There are significant differences between the sectors in terms of wage dynamics. Gross wages in the financial, real estate, catering and construction sectors rose by 10.6 percent, 16.5 percent, 17.6 percent and 8.9 percent, respectively, year-on-year.

Chart 6 Dynamics of average earnings in the private sector



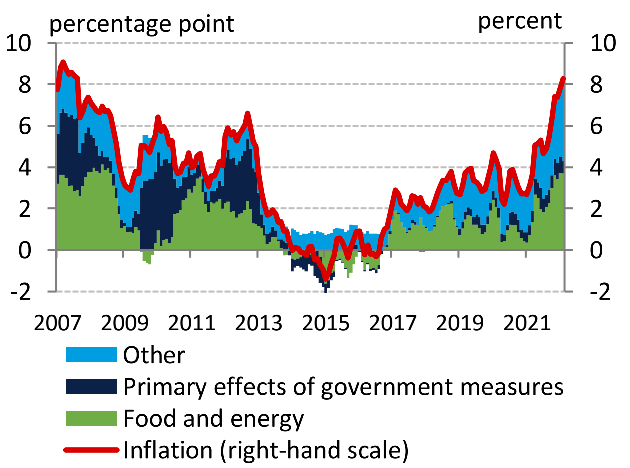
Source: MNB calculation based on HCSO data

1.3.2. Inflation developments

In February 2022, inflation calculated in annual terms was 8.3 percent, while core inflation and core inflation excluding indirect taxes stood at 8.1 percent (Chart 7)**.** Inflation was up by 0.4 percentage point compared to previous month, which is mostly attributable to the rise in the price index of food and market services. Compared to January, core inflation rose by 0.7 percentage point, contributed to by the accelerating price rise of all three product groups (processed food, industrial goods and services).

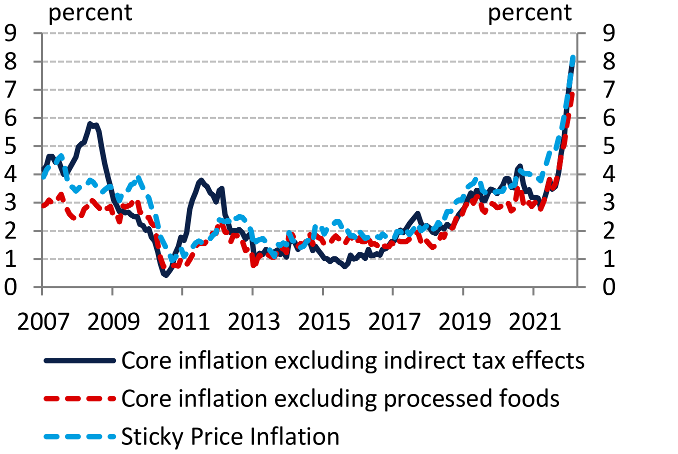
Underlying inflation indicators capturing persistent trends rose slightly compared to the previous month (Chart 8)**.** In February, core inflation excluding processed foods and sticky price inflation stood at 7.0 and 8.1 percent, respectively. In January 2022, agricultural producer prices increased by 29.7 percent in annual terms. In January, domestic sales prices in sectors of consumer goods increased by 13.2 percent.

Chart 7 Decomposition of inflation



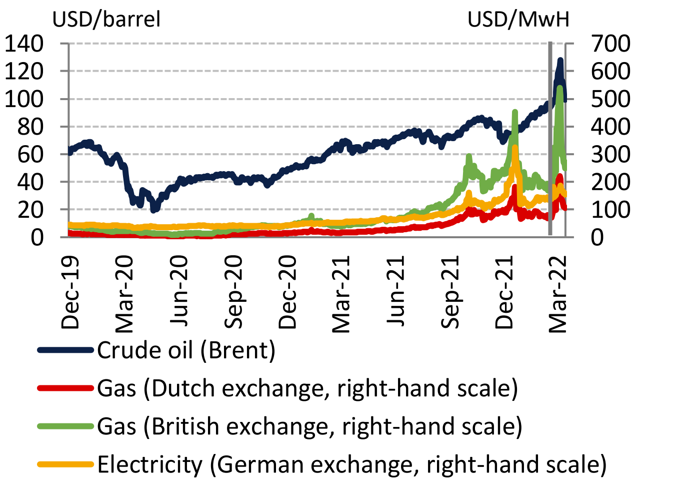
Source: MNB calculation based on HCSO data

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, gas and electricity prices since December 2019



Source: Bloomberg

1.3.3. Inflation risks

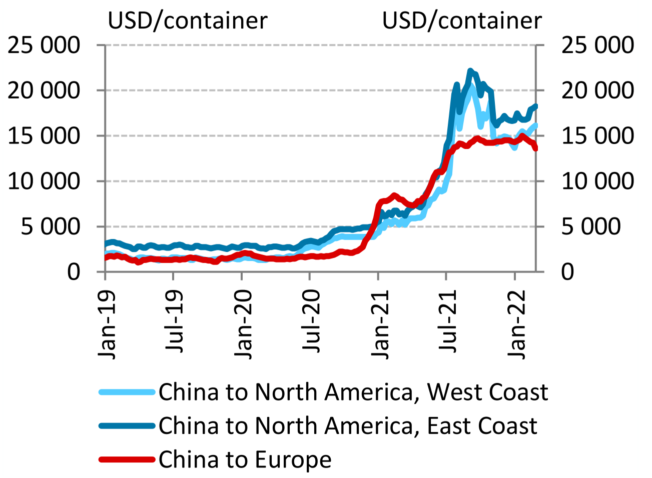
In February, the degree of repricing was significantly larger than usual, across a wide range of products and services. In February, the monthly price change of the basket excluding fuels and administered prices was 1.3 percent, more than twice as high as the value registered in previous years. The higher repricing rate is a general phenomenon, which is attributable to the fact that rise in global commodity and energy prices appears swiftly in the consumer prices of a wide range of products. Prices of industrial goods rose by 1.0 percent compared to previous month instead of a moderate decline observed in previous years. The global semiconductor shortage and increasing commodity prices also pointed to a rise in the consumer prices of the product group. Market services prices rose by 0.9 percent compared to the previous month.

The Russo-Ukrainian war and the market tensions generated by it, along with soaring commodity prices, pose a material risk on developments in inflation over the short term, changing the repricing pattern, which – contrary to previous experiences – may persist longer within a period of one year. In addition, the stoppages caused by the coronavirus pandemic, and the subsequent restart, the transformation of the labour market attributable to the pandemic as well as the global semiconductor shortage continue to decelerate supply side recovery. In addition, the extreme price rise in the energy market, the material increase in transportation costs and the shortening of value chains all point to rising inflation globally.

Oil prices have recently continued to rise (Chart 9). At the beginning of the period, prices rose by almost 30 percent, followed by a correction in the second half of the period; accordingly, since the previous interest rate decision the price of Brent crude oil rose by 2.5 percent to USD 99. At the beginning of the period gas prices rose by 200 percent, also followed by a decline in the second half, resulting in an increase of around 30 percent in both the Dutch and British markets compared to the previous interest rate decision. Electricity prices increased by 5 percent in the German market since mid-February. Of the other major commodities, the price of wheat, fuel oil, iron ore, nickel and silicon rose significantly recently.

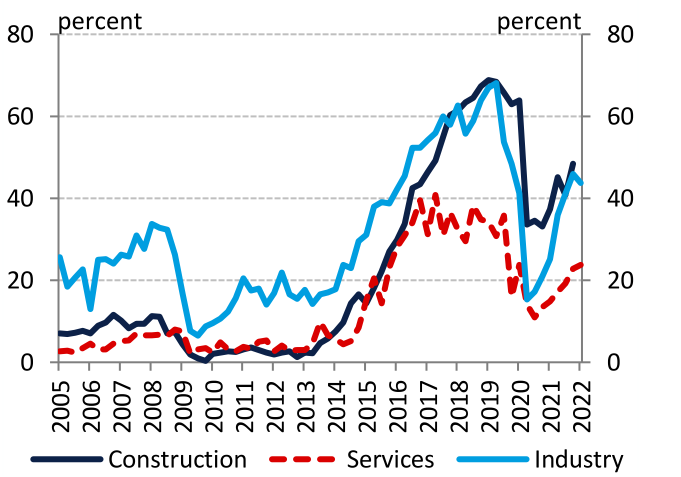
Global value chains may recover more slowly than demand, leading to increased cost pressures in global transportation and industrial production. By February, the costs of shipments from China to Europe nearly doubled in one year (Chart 10). Merchants will

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



Source: Bloomberg

Chart 11 Labour shortage as a factor limiting production in Hungary



Note: percentage of companies reporting that "Shortage of labour force" is a main factor currently limiting their production.
Source: European Commission

presumably charge part of the resulting extra costs to the consumers, as a result of which the price increasing effect of the significantly higher commodity prices and shipping costs will appear also in the domestic consumer prices more widely. In addition to a fast recovery in demand, the global chip shortage is causing disruptions in industrial production, particularly in the automotive sector, which may have a knock-on effect on prices.

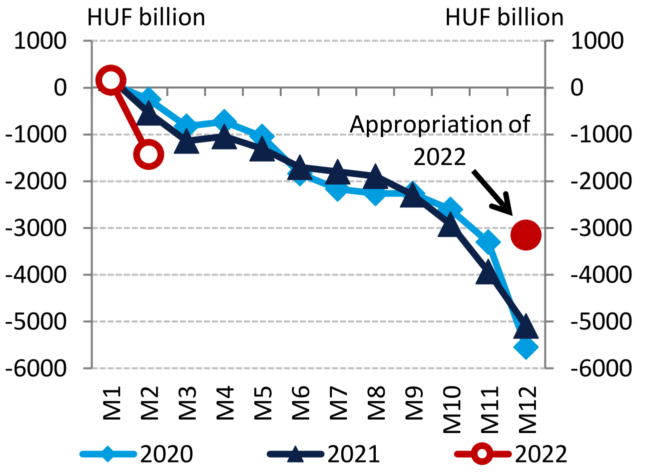
In the past months, the soar in food prices has become an increasingly important explanatory factor for the rising inflation rates. The growth in food prices is primarily attributable to global factors such as skyrocketing fodder and energy prices and high transportation costs.

In addition to international developments, several domestic factors in the Hungarian economy also point to a significantly higher inflation path than previously expected. In the fourth quarter of 2021, due to the reopening of the economy, Hungarian GDP grew by 7.1 percent. As regards employment, bottlenecks may be in place, especially in the services and construction sectors, in parallel with the recovery (Chart 11).

1.4. Fiscal developments

In February 2022, the deficit of the general government's central sub-sector was HUF 1,584 billion, exceeding that of last February by HUF 846 billion; accordingly, the year-to-date cumulative budget deficit stood at HUF 1,433 billion at the end of February. Tax and contribution revenues fell short of their level a year ago by roughly HUF 430 billion, while expenditures exceeded that by HUF 521 billion.

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



Source: Budget Act of 2022, Hungarian State Treasury

In February 2022, the deficit of the general government's central sub-sector was HUF 1,584 billion, exceeding that registered a year ago by HUF 846 billion; accordingly, the year-to-date cumulative budget deficit stood at HUF 1,433 billion at the end of February (Chart 12).

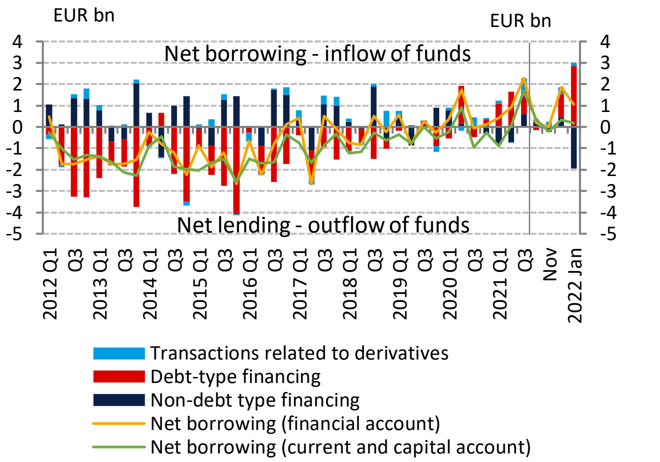
In February, tax and contribution revenues of the central sub-sector fell short of their level a year ago by roughly HUF 430 billion. The decline is connected entirely to personal income tax, caused by the personal income tax refund in February to those with children in the amount of roughly HUF 610 billion, and to a lesser degree by the personal income tax exemption of those below 25 years of age, while the rising wage bill resulted in growing revenues. Revenues from value added tax and social security contribution rose by HUF 42 billion and HUF 33 billion, respectively, compared to the base period.

Expenditures exceeded the figure registered in February 2021 by HUF 521 billion, which was primarily attributable to the disbursement of a full, 13th month pension, as a result of which pension expenditures exceeded those of last year by almost HUF 300 billion. In addition, armed forces' benefit was also paid in February, accompanied by a material increase in expenditures for preventive and medical care, support to local governments and expenditures related to housing subsidies.

1.5. External balance developments

In January 2022, current account deficit was EUR 763 million, while net borrowing amounted to EUR 169 million. The current account deficit increased further compared to previous month, while net borrowing slightly decreased. Net FDI declined in January, while external debt of the economy considerably increased.

Chart 13 Structure of net lending (unadjusted transactions)



Note: Positive values indicate net borrowing (inflow of funds), while negative values indicate net lending (outflow of funds). The fundamental development of the debt from an economic viewpoint is not influenced by the conversion between unallocated and bullion balances, thus this effect has been excluded.

Source: MNB

In January 2022, current account deficit was EUR 763 million, while net borrowing amounted to EUR 169 million. The current account deficit increased further compared to previous month, while net borrowing slightly decreased. The goods deficit substantially rose due to the import increasing effect of the deteriorating terms of trade resulting from rising energy prices. Due to the seasonality, services surplus has moderately declined compared to previous month, but significantly exceeded the level seen a year ago. Compared to December, the income balance deficit considerably decreased, while the transfer balance surplus significantly increased.

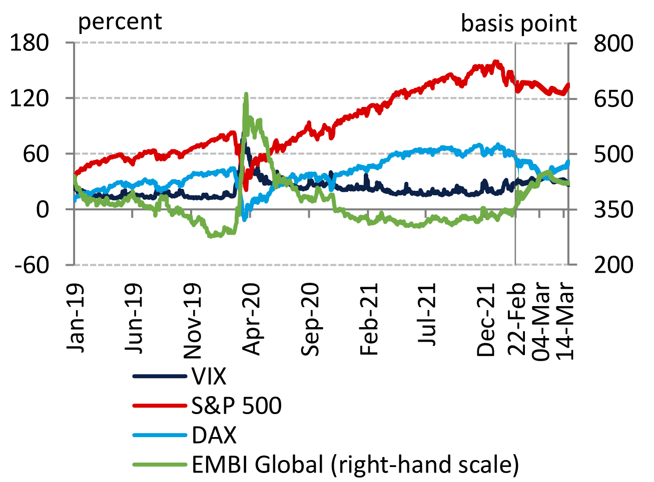
According to the financial account, in January net FDI declined due to transactions, while net external debt of the economy substantially rose (Chart 13)**.** Net foreign direct investments declined by EUR 696 million, which is partly attributable to the purchase of a foreign-owned company by a resident investor. In parallel with this, net external debt rose by EUR 2.85 billion, 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. Net external debt of the general government declined substantially, which was offset by the rising ratios of the banking sector and the corporate sector.

2. Financial markets

2.1. International financial markets

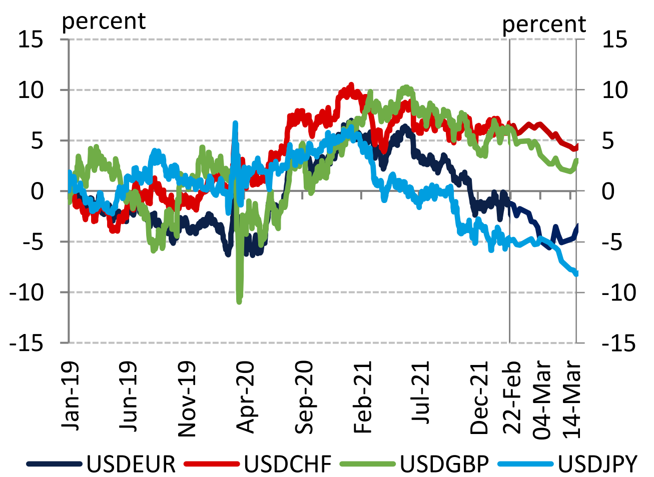
Investor sentiment significantly deteriorated since the last interest rate decision, particularly in the emerging markets, while there was a correction at the end of the period. The EMBI Global spread in the emerging bond market significantly rose, while the leading stock market indices – except the US ones – declined, particularly in the emerging markets. Long-term yields rose both in the developed markets and in the CEE region.

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



Source: Bloomberg

Chart 15 Developed market FX exchange rates



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

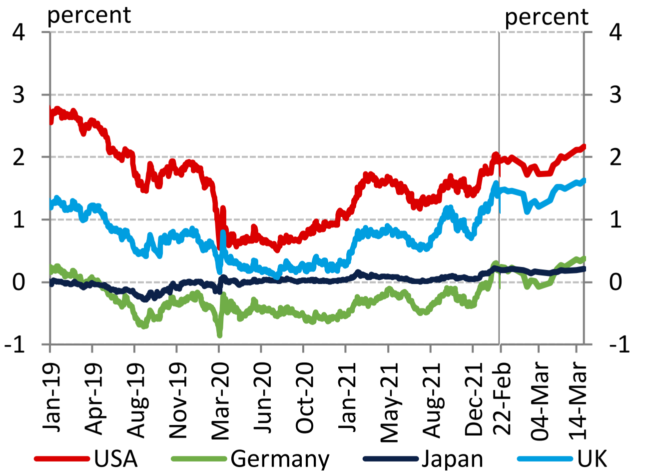
In the period since the last interest rate decision investor sentiment deteriorated, linked to the war between Russia and Ukraine. The war that commenced two days after the February interest rate decision considerably reduced risk appetite, and thus global investor sentiment was negative in a good part of the period, particularly on the market of emerging assets. However, on the last week of the period, markets – particularly the developed ones – have partially adjusted.

Of the risk indicators, the VIX index, the key measure of equity market volatility, first increased compared to the level registered at the previous interest rate decision by 7 percentage points to 35.1 percent, then declined to 27.5 percent by the end of the period. The VDAX, measuring the volatility of the German stock exchange, rose by 3.7 basis points. The EMBI Global spread in the emerging bond market rose by 61 basis points to 421 basis points over the period, while the MOVE index, measuring developed bond market volatility, stands close to 101 basis points after a rise of 5.5 basis points (Chart 14).

Following an initial decline, leading US stock indices typically bounced back to their level registered a month ago and then rose moderately, while stock indices in the developed European markets usually declined. Of the leading US indices, the S&P and the Dow Jones increased by 0.6 and 0.9 percent, respectively. Of the European leading stock market indices, the German DAX, the Japanese and Chinese stock exchange indices were down by 2.1, 2.6 and 8.2 percent, respectively. Overall, the developed and emerging MSCI composite indices declined by 2.8 and 14.9 percent, respectively.

The dollar strengthened against the developed market currencies (Chart 15)**.** The dollar appreciated against the euro, the pound, the Swiss franc and the Japanese yen by 2.5, 3.25, 2 and 3.1 percent, respectively. At the end of the period, the euro-dollar exchange rate close to 1.10. During the period, the exchange rate of the currencies of the region against the euro typically weakened: the forint, the koruna and the zloty depreciated by 4.2, 0.6 and 2.5 percent,

Chart 16 Yields on developed market long-term bonds



Source: Bloomberg

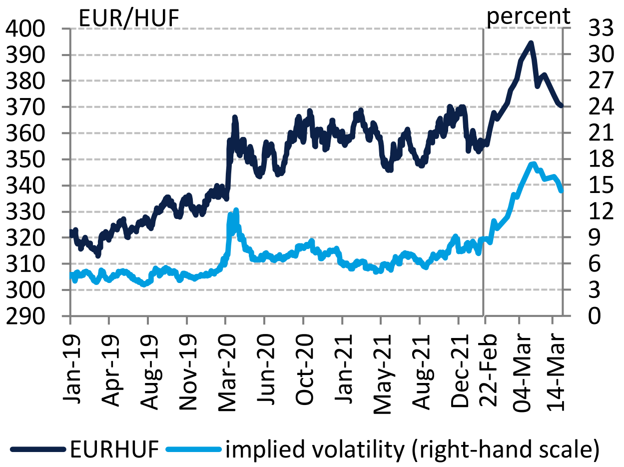
respectively, while the leu-euro exchange rate remained broadly unchanged.

Developed market bond yields have increased since the last interest rate decision (Chart 16)**.** The ten-year Japanese, German and US yield rose by 2, 14 and 23 basis points, respectively and thus the Japanese yield closed the period at 0.2, the German at 0.38, while the US yield at 2.17 percent. Yields in the Mediterranean countries also rose: while the Italian one fell by 2 basis points, the Greek, Spanish and Portuguese yields rose by 4, 7 and 5 basis points, respectively. Yields in most countries of the region typically continued to rise: the Hungarian, Romanian and Polish long-term yield rose by 91, 62 and 82 basis points, respectively, while the Czech yield rose by 65 basis points.

2.2. Developments in domestic money market indicators

The forint exchange depreciated against the euro since the February interest rate decision by 4.2 percent. The government securities yield curve shifted upwards again. The 3-month BUBOR rose by 157 basis points to 6.2 percent. In the past month, the auctions of the government bonds were characterised by mixed demand. The average auction yields increased.

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



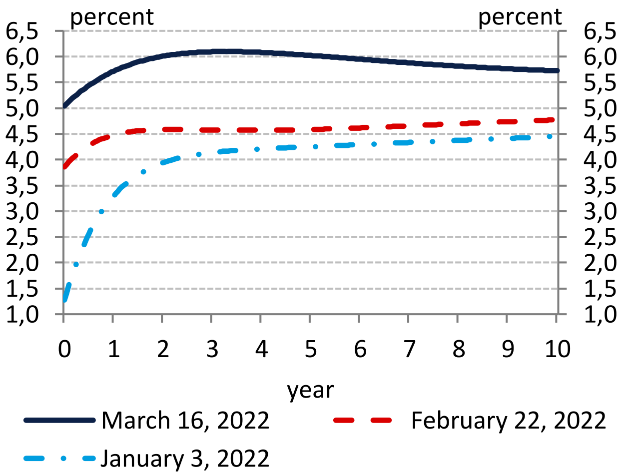
Source: Bloomberg

Since the interest rate decision in February, the forint exchange rate depreciated against the euro by 4.2 percent. Within the period under review, the exchange rate fluctuated in a wide range, showing high volatility, and volatility priced into options also increased. In the first half of the period the forint significantly weakened, then strengthened in the second half. Including the correction, the forint depreciated by 4.2 percent against the euro, while the Polish zloty (2.5 percent) and the Czech koruna (0.6 percent) depreciated to smaller degree than the forint, and the Romanian leu exchange rate remained unchanged. (Chart 17).

The 3-month BUBOR, relevant for monetary policy transmission, rose by 157 basis points to 6.2 percent since the last interest rate decision.

The government securities yield curve shifted upward (Chart 18**).** Around the 1-year section of the yield curve a rise of roughly 125 basis points, while at the middle section and the long section a rise of almost 150 basis points and 120 basis points on average, respectively, was registered.

Chart 18 Shifts in the spot government yield curve



Source: MNB, Reuters

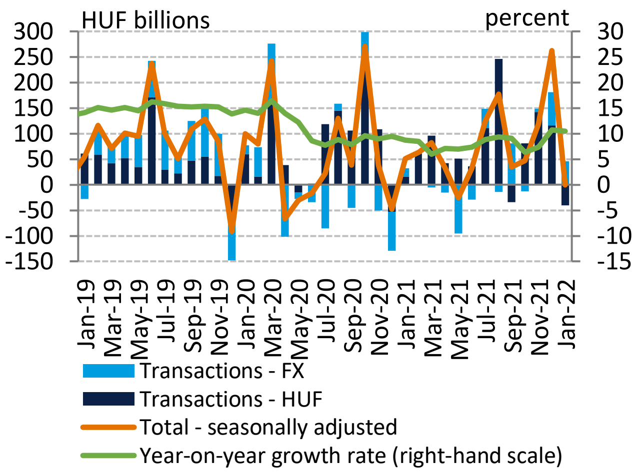
Since the last interest rate decision demand was variable overall at the bond auctions of the Government Debt Management Agency: in the first half of the period – with the exception of the 10-year government bond – demand was first low and then strong on all maturities. Accordingly, at the latest auctions bids received were well above the announced volume, offsetting the decline registered at the beginning of the period. Average auction yields rose both on discounted Treasury bills and on government bonds.

Non-residents' holdings of forint government securities slightly decreased. Non-residents' holdings in forint government securities decreased by HUF 20 billion to HUF 4,768 billion. The market share of non-residents' holding in forint government securities also declined, and thus it stood at around 19.3 percent.

3. Trends in lending

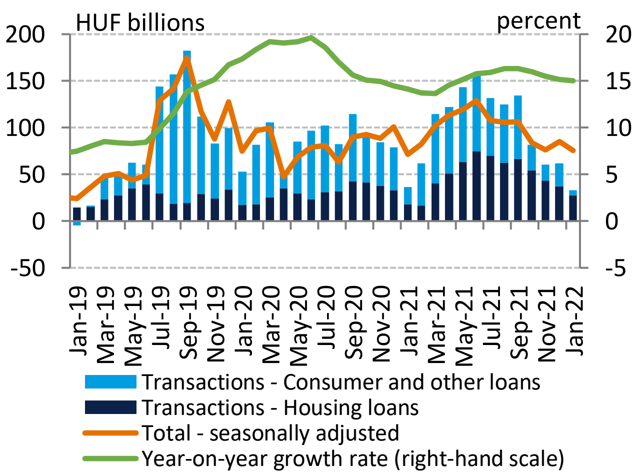
In January 2022, outstanding lending to non-financial corporations increased by HUF 5 billion, reflecting a fall of HUF 41 billion in forint loans and a rise of HUF 46 billion in foreign currency loans. In January, loan disbursements in the household segment exceeded repayments by HUF 33 billion, causing the annual growth rate to reach 15 percent. The smoothed interest rate spread of corporate loans in HUF was 1.46 percentage point in January 2022, representing an increase of 0.06 percentage point compared to the previous month.

Chart 19 Net borrowing by non-financial corporations



Source: MNB

Chart 20 Net borrowing by households



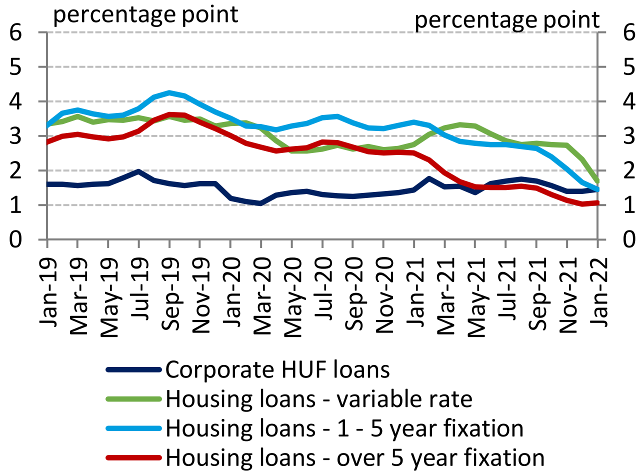
Source: MNB

In January 2022, outstanding lending to non-financial corporations increased by HUF 5 billion, reflecting a fall of HUF 41 billion in forint loans and a rise of HUF 46 billion in foreign currency loans. Due to the moderate monthly growth, the annual growth rate decelerated to 10.5 percent from 10.7 percent registered in previous month (Chart 19). Together with the bond transactions in the balance sheet of credit institutions – after the phase-out of BGS –, the annual growth rate in the month accelerated and came to 19 percent. In January, credit institutions disbursed new loans in the amount of HUF 175 billion, which fell short of the year-on-year figure by 19 percent and by 46 percent of the figure registered two years ago. Within the monthly disbursements, the disbursements of market-based loans accounted for 76 percent, of new loans, which is slightly lower than the 85-90 percent recorded in the pre-pandemic period.

In January, loan disbursements in the household segment exceeded repayments by HUF 33 billion, causing the annual growth rate to reach 15 percent (Chart 20). Due to its narrower scope of utilisation – 6 percent of the total portfolio – from November the moratorium provides only moderate support for the monthly growth in loans outstanding. Disbursements of new household loans in the amount of HUF 188 billion represent a moderate decline compared to the level two years ago, a period not yet affected by the pandemic. Disbursements of unsecured consumer loans fall short of the pre-pandemic levels, while due to the measures aimed at first-time homebuyers and as a result of the Green Home Programme, the disbursements of mortgage loans grew strongly in January as well, by 33 percent, compared to the level registered two years ago. All segments of lending for housing purposes are characterised by increasing activity, accompanied by higher average loan amounts and longer maturities.

The smoothed interest rate spread of corporate loans in HUF was 1.46 percentage point in January 2022, representing an increase of 0.06 percentage point compared to the previous month (Chart 21). The average smoothed interest rate spread on variable rate housing loans calculated based on the annual percentage rate (APR)

Chart 21 Development of corporate and household credit spreads



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

declined to 1.7 percentage points during the month. The spread on products with interest rate fixation periods longer than 1 year and up to 5 years declined, while that on products with interest rate fixation periods of more than 5 years slightly increased during the month. After a decline of 0.19 percentage point, the average spread on housing loans with interest rate fixation periods longer than one year and up to 5 years fell to 1.46 percentage points in January, while the spread on products with interest rate fixation periods of more than 5 years amounted to 1.06 percentage point at the end of the period under review after a rise of 0.05 percentage point.