MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 22 NOVEMBER 2022

NOVEMBER

2022

Time of publication: 2 p.m. on 7 December 2022

The background material 'Macroeconomic and financial market developments' is based on information available until 16 November 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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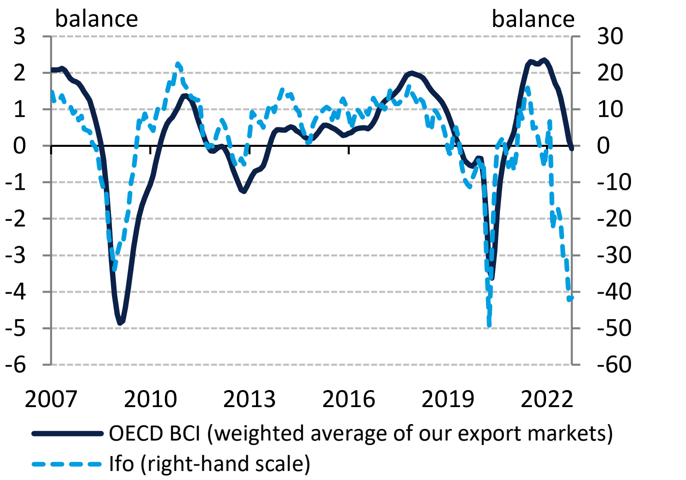
1. Macroeconomic developments

1.1. Global macroeconomic environment

According to preliminary data, global GDP growth generally slowed in 2022 Q3. The European Union, the euro area and China registered an economic growth of 2.4, 2.1 and 3.9 percent, respectively, year on year. The US economy grew by 1.8 percent in annual terms, leaving GDP growth unchanged from the previous quarter. International confidence indices generally deteriorated further in October, while consumer confidence indicators remain at a historically low level.

In 2022 Q3, GDP growth generally decelerated across the world, according to preliminary data. The **European Union**, the euro area and China registered an economic growth of 2.4, 2.1 and 3.9 percent, respectively, year on year. The US economy grew by 1.8 percent in annual terms, leaving GDP growth unchanged from the previous quarter. According to currently available data for 21 countries, the strongest year-on-year growth rate was registered by Cyprus (+5.4 percent) and Portugal (+4.9 percent). Economic performance decreased only in Latvia (-0.4 percent). The German economy – Hungary's main trading partner – expanded by 1.1 percent in the third quarter, based on preliminary data.

Chart 1 Business climate indices in Hungary's export markets



Source: OECD, Ifo

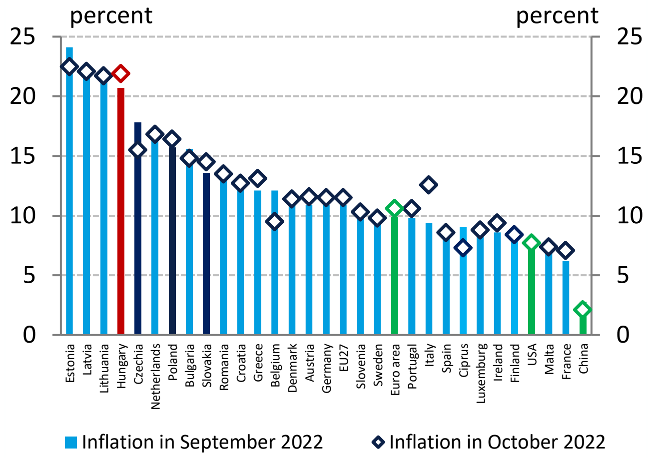
Monthly production indicators generally still show a positive picture. In September, industrial production in the US grew by 5.3 percent, while in China it rose by 6.3 percent. In September, the euro area registered a year-on-year growth of 4.9 percent. In September, the volume of retail sales grew by 8.2 percent in the US and by 2.5 percent in China, year on year. In September, the euro area registered a 0.6 percent fall year on year.

In October, forward-looking confidence indices declined further (Chart 1)**.** Business sentiment in the euro area continued to deteriorate in the euro area based on both the Economic Sentiment Indicator (ESI) and the Purchasing Manager's Index (PMI); consumer confidence index fell to a historical low in October. Compared with the previous month, the US Purchasing Manager Index declined slightly in October, and it is still below the threshold (50 points).

International labour market trends were unchanged. In October, the unemployment rate in the US was 3.7 percent, which is a slight increase from 3.5 percent in September. In September, the unemployment rate in the euro area decreased to 6.6 percent from 6.7 percent in August.

Based on available data for 103 countries, in October 2022 inflation slowed down or remained unchanged compared to the previous month in 48 countries. Global

Chart 2 Developments in the international inflationary environment



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

average inflation was 14.9 percent, and double-digit inflation was registered in 52 out of 103 countries in October. Nearly half of the countries with double-digit inflation in October are in Europe, where inflation is over 10 percent in 25 countries. As regards the individual continents, average inflation was the highest (30.8 percent) in South America, while Australia and Oceania showed the lowest price dynamics (6.4 percent). The average rate of price increase in Africa, North America, Asia and Europe was 15.7, 8.3, 13.5 and 13.7 percent, respectively.

According to preliminary data, in annual terms, euro area inflation and core inflation rose to 10.7 percent and 5.0 percent, respectively, in October. The preliminary inflation data exceeded analysts' expectation of 10.3 percent, while core inflation was in line with the analysts' consensus. The rise in HICP inflation was most strongly connected to food prices and energy items in October.

Based on the available data for 27 EU Member States, in October inflation declined or stagnated in 14 countries, while it rose in 13 countries. Inflation in the US declined to 7.7 percent in October from 8.2 percent in September. Among EU countries, the highest inflation was also recorded in the Baltic countries and in Hungary in October, with year-on-year price rises of 22.5 percent in Estonia, 22.1 percent in Lithuania, 21.9 percent in Hungary and 21.7 percent in Latvia. In the region, prices rose by 15.5 percent in the Czech Republic and by 16.4 percent in Poland compared with October 2021 (Chart 2).

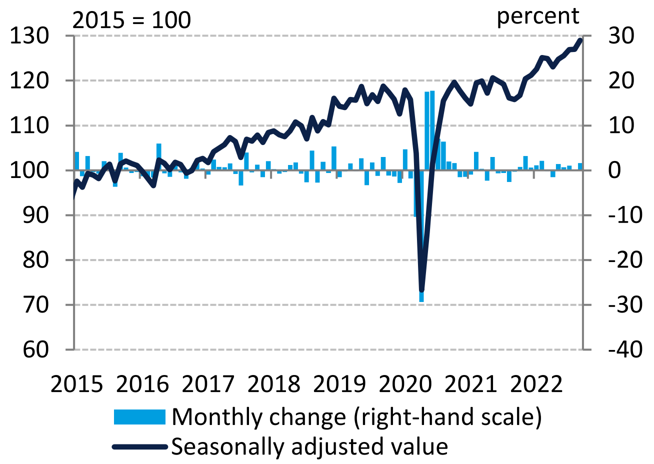
1.2. Domestic real economic developments

In 2022 Q3, Hungary's economic performance grew by 4.1 percent year on year, while GDP declined by 0.4 percent quarter-on-quarter. In September 2022, the average number of employees in the 15–74 age group was 4,708,000. In the July–September period, 49,000 more people worked in Hungary than in the same period last year. The unemployment rate stood at 3.8 percent in September.

1.2.1. Economic growth

In 2022 Q3, Hungary's economic performance grew by 4.1 percent year on year, according to seasonally and calendar-adjusted data. GDP declined by 0.4 percent quarter-on-quarter.

Chart 3 Developments in industrial production



Source: MNB calculation based on HCSO data

In October 2022, the volume of industrial production rose by 11.3 percent year on year. Based on the seasonally and calendar adjusted data, the volume of production increased by 1.6 percent on a monthly basis (Chart 3). Output levels increased in most of the manufacturing subsectors. The output of automotive industry, representing the largest share, grew by 31.6 percent year on year. Production of electrical equipment grew strongly (+47.4 percent), with major contribution by continued growth in battery and electric engine production. The manufacture of computers and electrical equipment increased by 21.5 percent, while the volume of other machinery production by 13.0 percent, year on year. Of the manufacturing subsectors, only the production of metal industry (-10.4 percent) and coke production (-20.9 percent) decreased compared to September 2021.

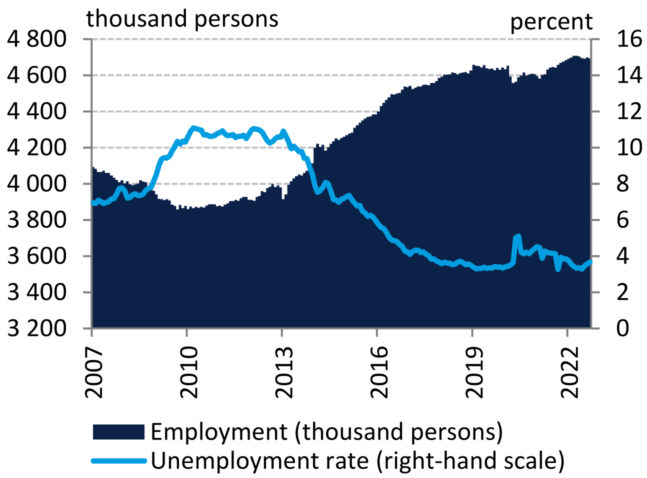
In September 2022, the volume of construction output was up by 1.6 percent year on year. The construction of buildings increased by 3.3 percent, while construction of other structures decreased by 0.5 percent, year on year. Based on seasonally and working-day adjusted data, Hungary's GDP rose by 2.2 percent, compared to the previous month. The volume of new contracts fell short of the September 2021 base by 20.9 percent. Within that, new contracts for the construction of buildings and of other structures declined by 5.8 percent and by 34.4 percent, respectively, year on year.

In September 2022, the volume of retail sales rose by 3.0 percent year on year; however, excluding fuel trade, turnover declined by 0.2 percent based on data adjusted for the calendar effect. As regards the individual product groups, the volume of retail sales in food stores and groceries, representing the largest weight, fell by 2.8 percent. Based on calendar adjusted data, the volume of retail sales in non-food stores and fuel retailing rose by 2.7 percent and 18.6 percent, respectively. The volume of pharmaceutical product sales and the turnover of webshops fell by 1.0 percent and 2.4 percent, respectively, year on year. Vehicle and components sales, not belonging to retail sales, fell by 4.4 percent on a year-on-year basis.

Based on preliminary data, the trade balance showed a deficit of EUR 652 million in September 2022. The balance deteriorated by EUR 570 million, compared to the same period of the previous year. Balance, adjusted for VAT residents, remained negative, with a deficit of EUR 1,412 million in September. Goods exports and imports rose by 27.5 percent and 32.8 percent, respectively, in euro terms, year on year. In August 2022, terms of trade deteriorated by 7.9 percent in an annual comparison. This is primarily attributable to mineral fuels, the impact of which deteriorated the terms of trade by 11.3 percentage points.

Following the favourable economic trends observed in the first half of this year economic growth may decline in 2022 H2. Based on online cash register data, nominal turnover in September grew by 22.5 percent year on year. In September, air passenger traffic fell short of its level registered in the same period last year by 21.3 percent, according to data received so far. Catering turnover rose by almost 25.5 percent in annual terms in October, owing to the last year's low base. Cinema attendance in October rose by 4.3 percent, year on year. In October, road passenger traffic and goods traffic declined by 0.7 and 2.2 percent, respectively, year on year. In October, the electricity load data were 10.0 percent below the same period last year. In September, the number of housing market transactions decreased by 29.4 percent on average, year on year, according to data received so far. Google searches related to unemployment continue to show a more 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.

Chart 4 Number of persons employed and the unemployment rate



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

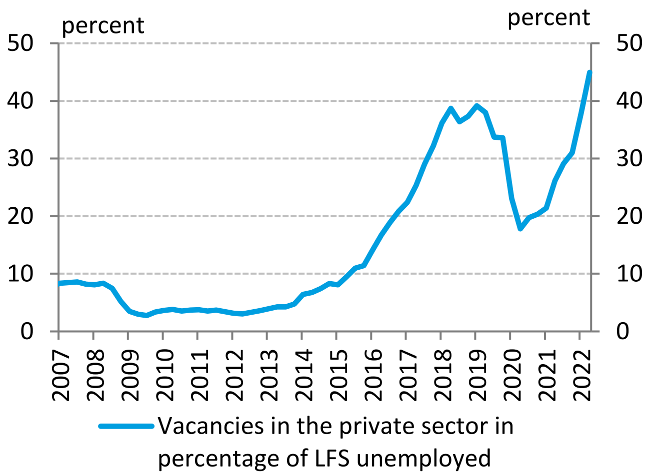
1.2.2. Employment

Based on the data of the Labour Force Survey (LFS) in September 2022, the average number of employees in the 15–74 age group was 4,708,000. In the period of July to September 2022, the average number of employees was 4,712,000, exceeding the year-on-year figure by 49,000 (Chart 4). In July–September, on average, the number of employees in the primary labour market and of those working abroad rose by 55,000 and 10,000, respectively, while the number of fostered employees fell by 16,000, compared to the same period of the previous year.

In September, the number of the unemployed was 185,000, falling short of the year-on-year figure by 10,000 persons, and as a result, on the whole the unemployment rate stood at 3.8 percent. Based on seasonally adjusted data, in

September the number of unemployed increased slightly compared to August. Based on the data published by the National Employment Service (Nemzeti Foglalkoztatási Szolgálat - NFSZ) in September and October 2022 the number of registered jobseekers in Hungary was 238,000 (-12,000 on an annual basis) and 236,000 (-11,000 on an annual basis), respectively. Based on seasonally adjusted data, the number of the registered jobseekers in October 2022 moderately declined compared to September, and it is still below the number measured in the months before the outbreak of the coronavirus pandemic.

Chart 5 Developments in labour market tightness indicator



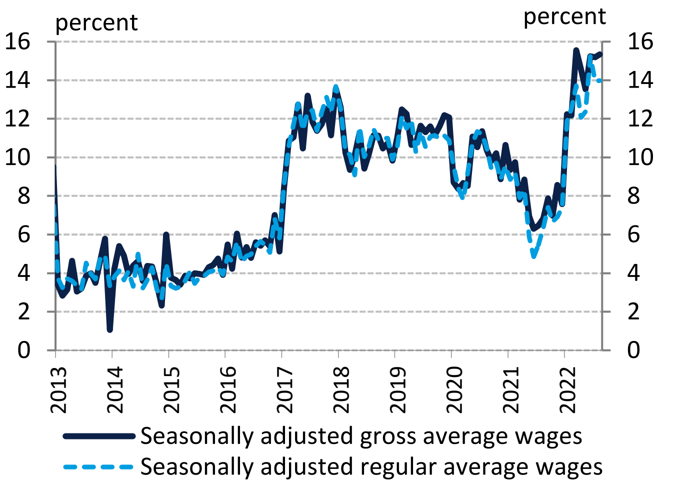
Note: Quarterly data.
Source: National Employment Service, HCSO

Labour market tightness increased further and exceeded the level seen before the coronavirus (Chart 5). In 2022 Q2, private sector unsubsidised available vacancies amounted to 71,000, exceeding the year-on-year value by 38 percent as well as the pre-pandemic level by 31.4 percent. On an annual basis, labour demand rose both in market services and manufacturing. Manufacturing job vacancies exceeded the figure a year ago by 7,800. In the second quarter of 2022, job vacancies amounted to 41,500 in the market service sector, up by 11,500 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 4,800, while in the trade sector it rose by 2,400. No substantial increase was registered in tourism labour demand year on year, while it significantly decreased compared to the first quarter. Within the public sector job vacancies increased in healthcare, education and public administration.

1.3. Inflation and wages

In October 2022, inflation calculated on a year-on-year basis was 21.1 percent. The data received was in line with the forecast range in the September Inflation Report, but at the upper end of the range. Core inflation stood at 22.3 percent and core inflation excluding indirect taxes was 22.2 percent. Compared to the previous month, inflation increased by 1.0 percentage point. Food products contributed to this by 1.2 percentage points, while the contribution of fuels was negative (-0.5 percentage point) due to the base effect. The monthly increase in core inflation excluding processed food, better reflecting market developments, accelerated to 1.6 percent following the repricing of 1.1 percent in September. In August 2022, average earnings in the national economy (excluding bonuses) rose by 15.6 percent, while private sector wages increased by 14.7 percent in annual terms.

Chart 6 Dynamics of average earnings in the private sector



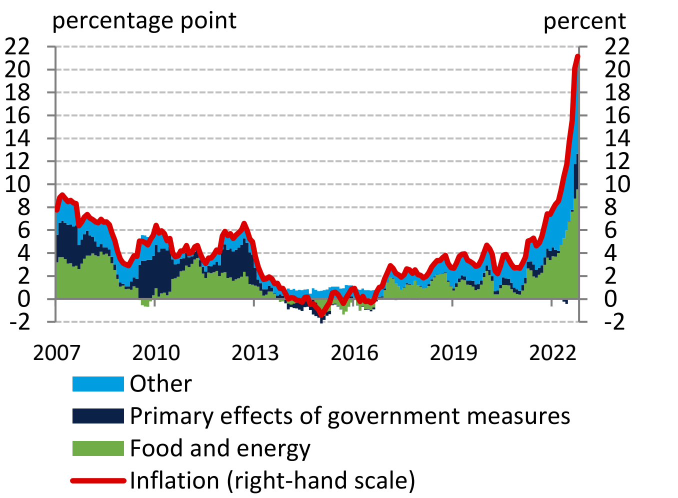
Source: MNB calculation based on HCSO data

1.3.1. Wage setting

In August 2022, gross average wages in the private sector rose by 16.2 percent year on year. The degree of bonus payments exceeded the average of previous years. Average earnings in the national economy (excluding bonuses) rose by 15.6 percent, while private sector wages increased by 14.7 percent in annual terms.

According to seasonally adjusted data, growth in gross average wage accelerated slightly, while regular average wage were essentially unchanged in the private sector compared to the previous month (Chart 6)**.** In the private sector wage dynamics of manufacturing outstripped that of market services. Annual wage dynamics was over 10.0 percent in most sectors. In August, based on raw data, manufacturing wages were higher by 17.8 percent year on year. In market services, HCSO registered a growth of 15.6 percent. Wages increased to the largest degree in the healthcare (26.1 percent), other services (23.4 percent) and mining (22.2 percent) sectors. Gross wages in the construction and trade sectors rose by 17.2 percent and 14.9 percent, respectively, year on year.

Chart 7 Decomposition of inflation

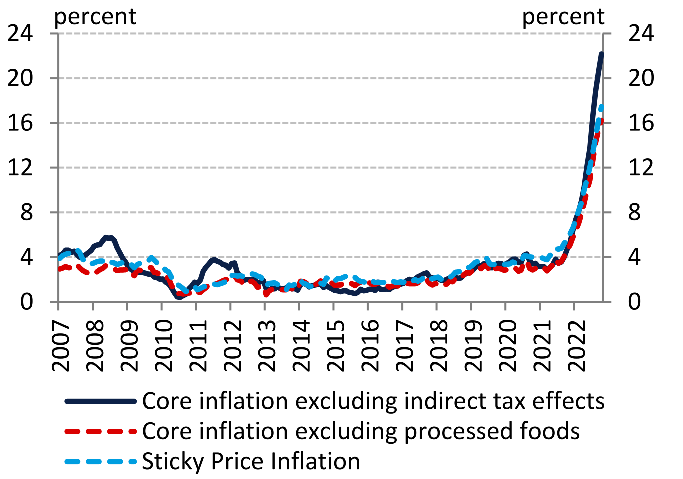


Source: MNB calculation based on HCSO data

1.3.2. Inflation developments

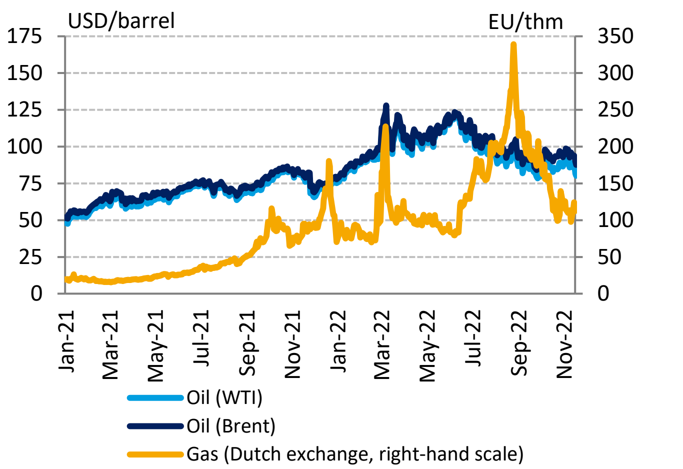
In October 2022, inflation calculated on a year-on-year basis was 21.1 percent (Chart 7). The data received was in line with the forecast range in the September Inflation Report, but at the upper end of the range. Core inflation stood at 22.3 percent and core inflation excluding indirect taxes was 22.2 percent. Food products contributed to this by 1.2 percentage points, while the contribution of fuels was negative (-0.5 percentage point) due to the base effect. Compared to the previous month, core inflation increased by 1.6 percentage point. Within core inflation, inflation of processed food rose to 47.6 percent, contributing 1.1 percentage points to the increase. Inflation of market services was 13.7 percent, while the annual price dynamics of industrial goods was 17.4 percent.

Chart 8 Measures of underlying inflation indicators



Note: Core inflation excluding processed food corresponds, with unchanged content, to the former demand sensitive inflation measure.
Source: MNB calculation based on HCSO data

Chart 9 Developments in oil and gas prices since December 2019



Source: Bloomberg

The monthly increase in core inflation excluding processed food, better reflecting market developments, was 1.6 percent, representing an acceleration compared to the repricing of 1.1 percent in September. Underlying inflation indicators capturing persistent trends – core inflation excluding processed food and inflation of sticky price products and services – increased compared to the previous month. (Chart 8).

1.3.3. Inflation risks

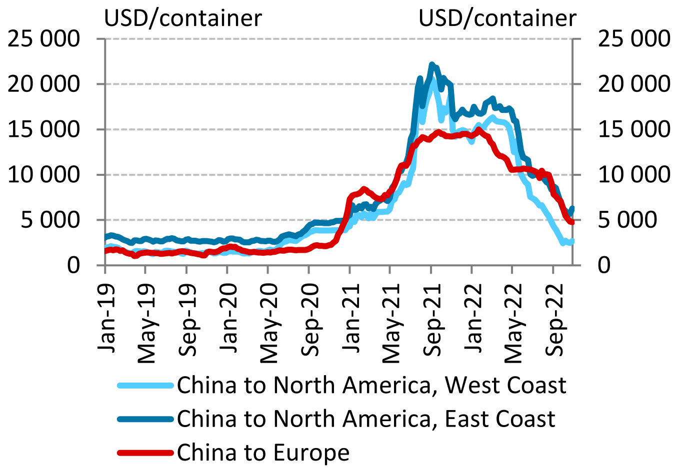
Recently fears of recession have strengthened globally, which may bring forward the turn in inflation. The Russia-Ukraine war, a potential new wave of the coronavirus pandemic, the high commodity prices of the recent period, the supply chain frictions and the tightening of global monetary conditions have collectively increased the risk of recession. The impact of the slowdown of the global economy can be also felt in commodity markets. A fall in commodity prices and food industry base material prices, declining transportation costs and the settlement of the problems in the global supply chains may project a turn in inflation, accelerating disinflation.

Since the previous interest rate decision oil prices remained broadly unchanged: the price of Brent crude oil was around USD 93 per barrel, while the US benchmark WTI oil price stood at around USD 85 per barrel. **Gas prices have risen slightly since the previous interest rate decision** (Chart 9). The filling level of European gas storage facilities is still high at 95 percent, while interruptions may occur in the future in US LNG exports, leading to price rises. The Freeport LNG export terminal in Texas was damaged back in June due to an accidental explosion, while the repair works may last longer than expected. **However, electricity prices declined**; German stock exchange prices fell by 14 percent. Of the industrial metals, the price of platinum, tin and iron ore increased, while the price of agricultural products slightly decreased. **The Bloomberg commodity price index, covering the entire commodity market, rose moderately, by 2.9 percent over the period.**

The repricing pattern has changed and, unlike to previous experiences, it may persist for a longer time within the year. In October, the monthly price change of the basket excluding fuels and administered prices was 2.4 percent, still well above the increase seen in recent years.

The drought in Europe may raise food prices further. In the past months, the sharp rise in food prices has become an increasingly important explanatory factor for rising inflation rates. In Hungary, food price inflation rose to 44.7

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



Source: Bloomberg

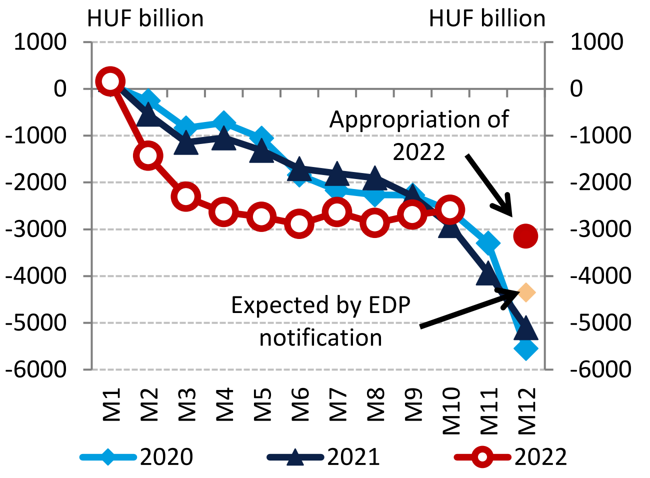
percent. Within the product group, the price index of both processed and unprocessed food grew substantially. Compared to September, food prices rose by 5.0 percent. The rise in unprocessed food prices was widespread, partly explained by the drought in Europe. The increase in processed food product price was primarily linked to the change in the price of milk, dairy products and bread. The growth in food prices is primarily attributable to global factors such as skyrocketing energy prices and high transportation costs, while looking ahead, the lower volume of crop resulting from the historic drought may have an upwards effect on the price level.

1.3.4 **The degree of global value chain frictions has declined in recent months from the historic highs seen at the end of 2021.** Following the record high figures seen in the past twelve months, the cost of shipments from China to Europe showed a correction, having declined by 63 percent by the beginning of November compared to the beginning of the year (Chart 10). Following the onset of the coronavirus, global value chains have become fragmented. There were stoppages in international forwarding, which repeatedly increased temporarily after the outbreak of the Russia-Ukraine war. However, in recent months supply chain problems have been gradually resolved, which may have a positive impact also on production and pricing trends.

1.4. Fiscal developments

The balance of the central sub-sector of the general government registered a surplus of HUF 101 billion in October 2022. This reduced this year's cumulated cash deficit to HUF 2,590 billion. Revenues of the central sub-sector exceeded the figure registered in October 2021 by HUF 618 billion, contributed to by a growth in tax and contribution revenues of HUF 435 billion and in EU revenues of HUF 151 billion. Expenditures fell short of the October 2021 figure by roughly HUF 113 billion, which – similar to previous month – is mostly attributable to the fall in own net expenditures of budgetary organisations and chapters, in expenditures linked to EU projects and in expenses related to state property.

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



Source: Budget Act of 2022, Hungarian State Treasury, EDP notification

The balance of the central sub-sector of the general government in October 2022 showed a surplus of HUF 101 billion. This reduced this year's cumulated cash deficit to HUF 2,590 billion (to 82 percent of the annual appropriation), which is HUF 330 billion more favourable than in October last year (Chart 11).

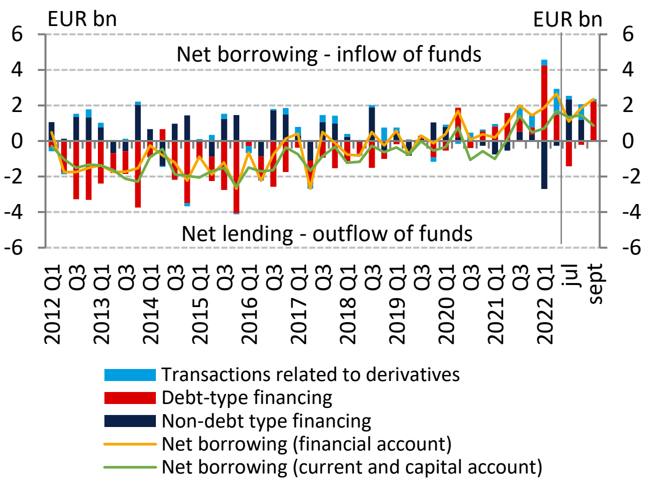
Revenues of the central sub-sector exceeded the figure registered in October 2021 by HUF 618 billion, contributed to by a growth in tax and contribution revenues of HUF 435 billion and in EU revenues of HUF 151 billion. Net VAT revenues rose by 26 percent compared to the figure seen last October, while the growth rate of labour tax and contribution revenues were above 11 percent. Contributions by enterprises almost doubled compared to last year, mostly as a result of windfall taxes.

Expenditures fell short of the October 2021 figure by roughly HUF 113 billion, which – similar to previous month – is mostly attributable to the decrease in own net expenditures of budgetary organisations and chapters, in expenditures related to EU projects and to the lower expenses related to state property. The rise in normative and individual subsidies in the amount of HUF 205 billion was mostly connected to the support of energy providers.

1.5. External balance developments

In September 2022, the current account deficit was EUR 1,129 million, while net borrowing amounted to EUR 866 million. According to the financial account data, under a significant increase in net external debt, net foreign direct investments remained broadly unchanged in September.

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 September 2022, the current account deficit was EUR 1,129 million, while net borrowing amounted to EUR 866 million (Chart 12). Both the current account balance and net borrowing substantially improved compared to previous month. The fall in the deficit is attributable to a significant improvement in the goods balance, due to strengthening exports resulting from the recovery in industry, while rising imports, as a result of the persistently high energy prices, had an opposite effect. The services balance surplus slightly declined further, which was attributable to the decreasing surplus of tourism.

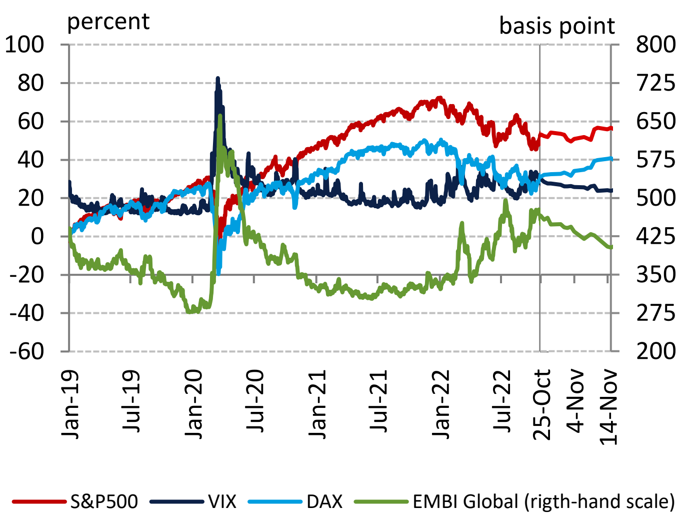
According to the financial account data, under a significant increase in net external debt, net foreign direct investments remained broadly unchanged in September. Net external debt rose by EUR 2.2 billion, which was fully connected to the general government. The substantial rise in the general government's indicator (EUR 6.3 billion) was partly connected to the repurchase agreement concluded with international organisations, which, however also materially increased the level of foreign exchange reserves. The foreign currency liquidity provided to banks at the end of the months increased the general government net debt ratio, while it reduced that of banks. In addition, the issuance of forint discount bonds in the amount of HUF 3.4 billion at the end of the quarter to mitigate swap market tensions, also increased the net external debt of the general government, while it reduced that of the banking sector. As a result of the foregoing, banks' net external debt declined by EUR 3.5 billion. Net external debt of corporations fell by EUR 0.5 billion.

2. Financial markets

2.1. International financial markets

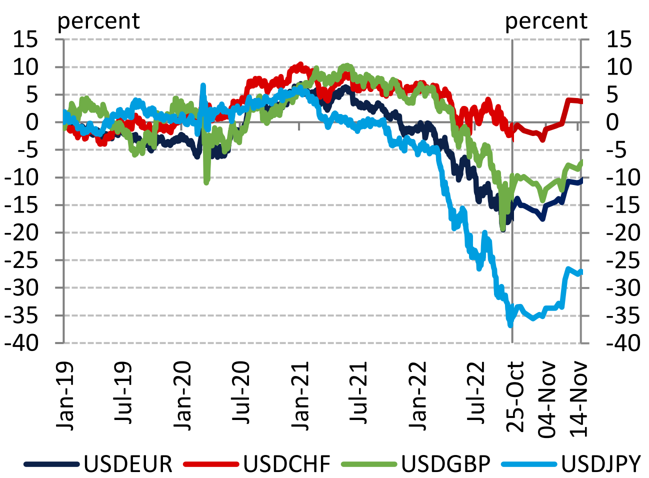
Since the previous interest rate decision, global investor sentiment has been shaped primarily by expectations related to interest rate hikes by the Federal Reserve and other major central banks, recession fears, the energy crisis in Europe and the concerns about the Russia-Ukraine war. Long-term yields fell less in the developed markets and more in the CEE region. The leading stock indices rose significantly.

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



Source: Bloomberg

Chart 14 Developed market FX exchange rates



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

Since the previous interest rate decision, global investor sentiment has been shaped primarily by the expectations related to interest rate hikes by Fed and other leading central banks, recession fears, the energy crisis in Europe and the concerns about the Russia-Ukraine war.

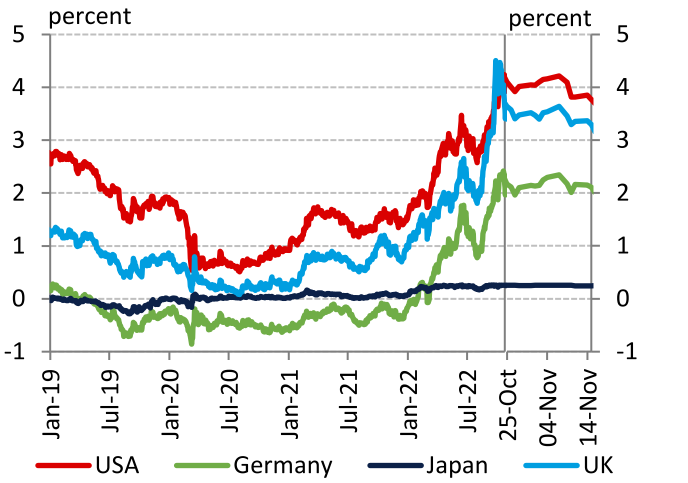
Financial market sentiment was volatile overall. Of the risk indicators, the VIX index, measuring equity market volatility, decreased by 5.0 percentage points compared to its level at the previous interest rate decision to 24.9 percent, the MOVE index, measuring developed bond market volatility, came close to 128 basis points after a decline of 20 basis points, while in emerging markets, the EMBI Global bond market spread declined by 70 basis points (Chart 13).

Both developed and emerging stock market indices rose significantly. The US S&P 500 and the Dow Jones advanced by 6.4 and 8.1 percent, respectively. Of the European leading stock market indices, the German DAX and the French CAC rose by 11.9 and 9.5 percent, respectively. The Japanese and Chinese stock market indices rose by 4.2 percent and 2.7 percent, respectively, compared to the level seen at the previous interest rate decision. Overall, the developed and emerging MSCI composite indices increased by 8.8 and 11.1 percent, respectively.

The dollar depreciated significantly against the major currencies (Chart 14). The dollar exchange rate depreciated against the Japanese yen by 6.0 percent, against the euro by 4.5 percent, against the British pound by 3.8 percent and against the Chinese yuan by 2.7 percent. The euro-dollar exchange rate moved steadily around parity during the period under review, and at the end of the period it was close to 1.04.

Developed market government bond yields moderated (Chart 15)**.** Ten-year US and German yields fell by 23 and 3 basis points, respectively, and thus the US yield closed the period at 3.77 percent, while the German one at 2.08

Chart 15 Yields on developed market long-term bonds



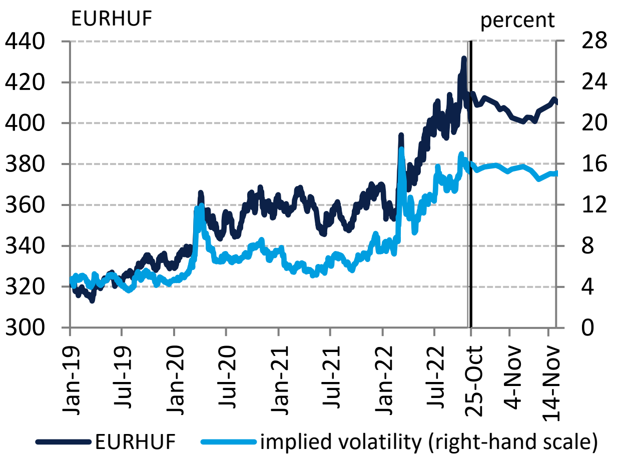
Source: Bloomberg

percent. Yields in the Mediterranean countries also dropped: Portuguese and Spanish yields down by 13-13 basis points, and Italian and Greek yields by 16-16 basis points. Yields on 10-year government bonds in the countries of the CEE region also fell sharply: Polish, Romanian, Czech and Hungarian yields down by 90, 95, 100 and 146 basis points, respectively.

2.2. Developments in domestic money market indicators

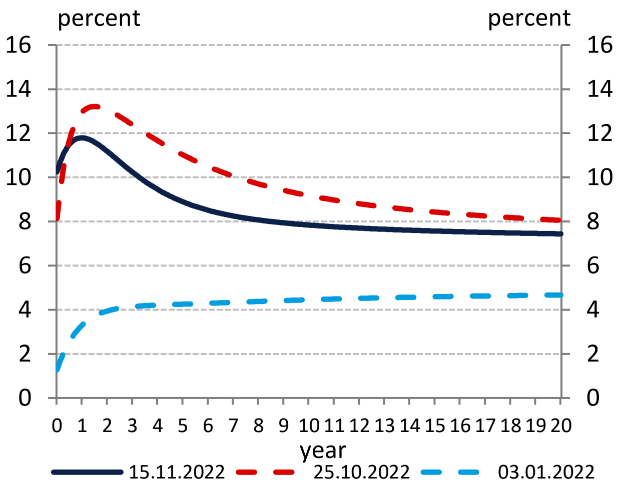
The forint has appreciated against the euro since the October interest rate decision. The government securities market's yield curve shifted downwards. The 3-month BUBOR fell by around 110 basis points to close to 15.6 percent. In the past month, there was strong demand at government bond auctions. Average auction yields generally declined both on Treasury bills and government bonds.

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 October interest rate decision, the forint exchange rate appreciated against the euro by a total of 1.7 percent, and it stands at around 407. (Chart 16). Of the currencies of the CEE region, the Polish zloty and Czech koruna appreciated against the euro by 1.4 percent and 0.7 percent, respectively, while the Romanian leu depreciated by 0.4 percent.

The 3-month BUBOR, relevant for monetary policy transmission, has fallen by 110 basis points to 15.62 percent since the last interest rate decision.

The government securities market's yield curve shifted downwards (Chart 17). At the 1-year section of the yield curve a fall of 110 basis points was registered, while on the medium and longer maturities yields declined by 120-210 basis points.

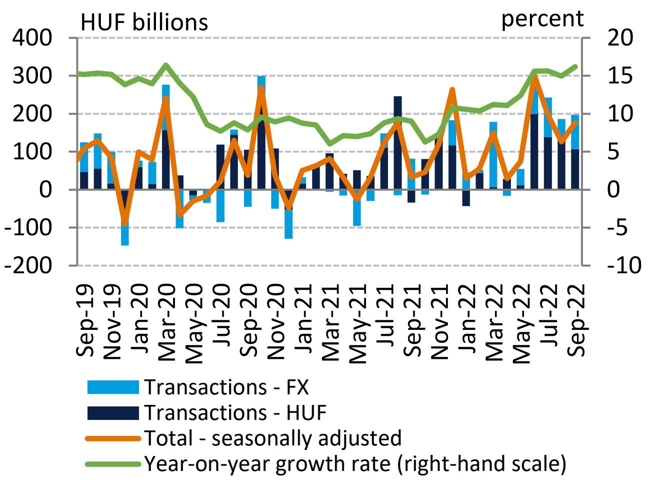
Government bond auctions held by the Government Debt Management Agency since the last interest rate decision were characterised by strong demand. In the period under review, discount Treasury bill auctions were successful overall: the Government Debt Management Agency reduced the originally announced volume on two occasions and raised it on seven occasions. Demand at the bond auctions was also strong on the whole, and the Government Debt Management Agency was able to raise higher volume of funds than announced. Average yields mostly fell both on Treasury bills and on government bonds.

Non-residents' holdings of forint government securities increased. Non-residents' holdings in forint government securities increased by HUF 193 billion to HUF 5,563 billion. The market share of forint government securities held by non-residents increased to close to 19.8 percent.

3. Trends in lending

In September 2022, non-financial corporations' outstanding borrowing grew by HUF 197 billion, as a combined result of the increase in outstanding forint borrowing by HUF 107 billion and in foreign currency loans by HUF 90 billion. As a combined result of disbursements and repayments, outstanding borrowing of households rose by HUF 46 billion in September, thereby reducing the annual growth rate to 8.0 percent. In September 2022, the smoothed interest rate spread on forint corporate loans stood at -0.05 percent, down 0.66 percentage point compared to previous month. The average smoothed interest rate spread on variable rate housing loans calculated based on the annual percentage rate (APR) declined to -1.13 percentage points during the month.

Chart 18 Net borrowing by non-financial corporations

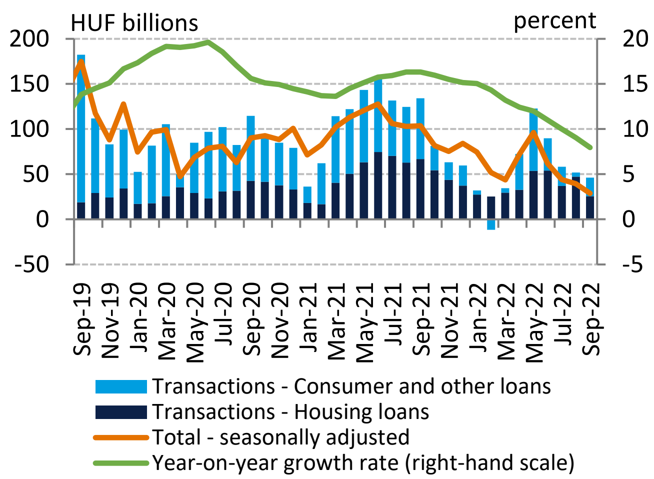


Source: MNB

In September 2022, outstanding borrowing of non-financial corporations grew by HUF 197 billion, as a combined result of the increase in outstanding forint borrowing by HUF 107 billion and in foreign currency loans by HUF 90 billion (Chart 18)**.** Thus the annual growth rate rose to 16.2 percent from 15.0 percent registered in previous month. Including bond transactions in the balance sheet of credit institutions, the annual growth rate in the month came to 20.7 percent. Credit institutions disbursed new loans in the amount of HUF 422 billion, which exceeds the year-on-year figure by 40 percent. The ratio of foreign currency loans in new corporate loans significantly rose during the month, and thus it amounted to 75 percent.

As a combined result of disbursements and repayments, outstanding borrowing of households rose by HUF 46 billion in September, thereby reducing the annual growth rate to 8.0 percent (Chart 19). Disbursements of new household loans amounted to HUF 167 billion during the month, which was 34 percent lower than in the same period of the previous year. In parallel with the termination of the FGS Green Home Programme, a rise in interest rates and shrinking housing market demand, the disbursement of housing loans continued to decline, reflected both in the number of loan contracts and in the average loan amounts.

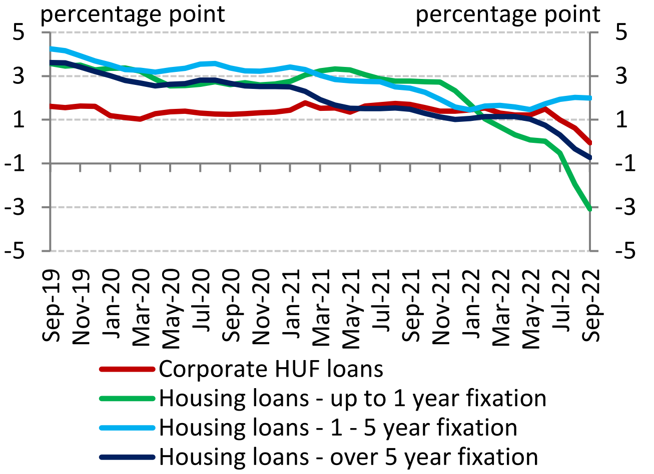
Chart 19 Net borrowing by households



Source: MNB

In September 2022, the smoothed interest rate spread on forint corporate loans stood at -0.05 percent, down 0.66 percentage point compared to previous month. The average smoothed interest rate spread on variable rate housing loans calculated based on the annual percentage rate (APR) declined to -1.13 percentage points during the month. After a decline of 0.04 percentage point, the average spread on housing loans with interest rate fixation periods longer than 1 year and up to 5 years fell to 1.99 percentage points in September, while the spread on products with interest rate fixation periods of more than 5 years fell by 0.40 percentage point and stood at -0.72 percentage point at the end of the period under review. (Chart 20).

Chart 20 Developments in 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