



MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL
TO THE ABRIDGED MINUTES
OF THE MONETARY COUNCIL MEETING
OF 25 OCTOBER 2022

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The background material ‘Macroeconomic and financial market developments’ is based on information available until 19 October 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 2022 Q2, the pace of economic growth in the major economies generally slowed; the EU, the euro area and China saw an economic growth of 4.2, 4.1 and 0.4 percent, respectively, year-on-year. The US economy grew by 1.8 percent in annual terms; however, GDP levels have been declining for two consecutive quarters compared to the previous quarter. International confidence indices typically deteriorated further in September; consumer confidence is already at a historically low level.

In 2022 Q2, GDP growth generally decelerated across the world. The EU, the euro area and China registered an economic growth of 4.2, 4.1 and 0.4 percent, respectively, year-on-year. **The economy of the United States** grew by 1.8 percent in annual terms; however, on a quarter-on-quarter basis a fall was registered once again. The highest growth was registered in Ireland (+10.8 percent) of the EU-27 countries. The economy of Germany – Hungary’s main trading partner – expanded by 1.7 percent in the second quarter.

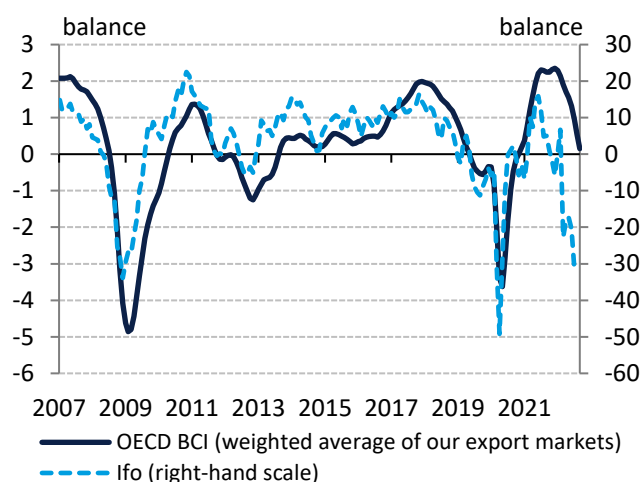
Monthly production indicators typically still show a positive picture. In August, industrial production in the United States grew by 3.7 percent, while in China it rose by 4.2 percent. In August, the euro area registered a year-on-year growth of 2.5 percent. In September, the volume of retail sales grew by 8.2 percent in the US and by 5.4 percent in China, year-on-year. In August, the euro area registered a 2.0 percent fall year-on-year.

In September, 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 September. Following the decline seen in previous months, the Purchasing Manager Index of the United States considerably increased in September, but it is still below the threshold (50 points).

International labour market trends were unchanged. In September, the unemployment rate in the United States was 3.5 percent, which is a slight decrease from 3.7 percent in August. In August, the unemployment rate in the euro area remained at 6.6 percent.

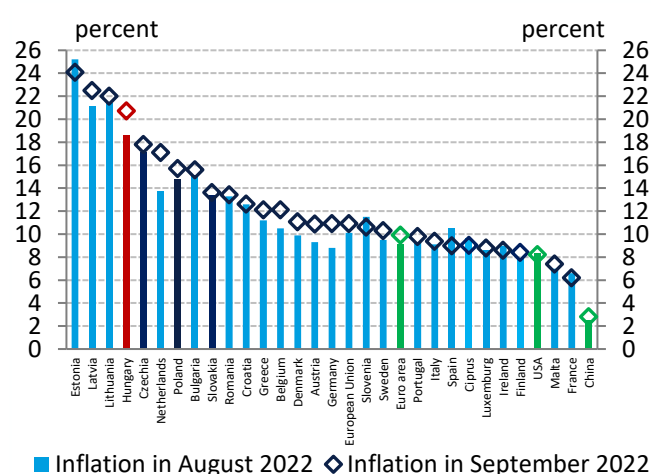
Based on available data for 103 countries, in September 2022 inflation slowed down or remained unchanged compared to the previous month in 42 countries. Global average inflation was 15.6 percent, and double-digit inflation was registered in September in 48 out of 103

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 US and China, where CPI inflation rates) are presented.

Source: Eurostat

countries. Nearly half of the countries with double-digit inflation in September are in Europe, where inflation is over 10 percent in 22 countries. As regards the individual continents, average inflation was the highest (27.8 percent) in Africa, while Australia and Oceania showed the lowest price dynamics (6.2 percent). The average rate of price increase in South America, North America, Asia and Europe was 16.6, 8.5, 12.6 and 13.4 percent, respectively.

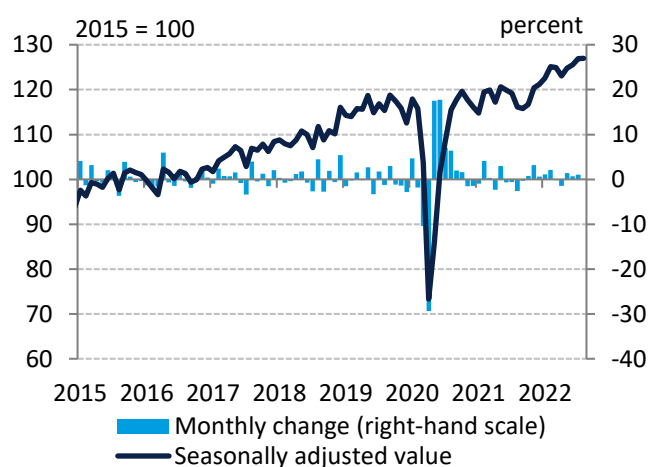
In annual terms, euro area inflation and core inflation rose to 9.9 percent and 4.8 percent, respectively in September. The preliminary inflation and core inflation data slightly exceeded analysts' expectations of 9.7 percent for inflation and 4.7 percent for core inflation. The rise in HICP inflation was most strongly connected to food prices and energy items in September.

Based on the available data for 27 EU Member States, in September inflation declined or stagnated in 7 countries, while it rose in 20 countries. Inflation in the United States declined to 8.2 percent in September from 8.3 percent in August. Among EU countries, the highest inflation was also recorded in the Baltic countries in September, with year-on-year price rises of 24.2 percent in Estonia, 22.5 percent in Lithuania and 22.4 percent in Latvia. In the region, prices rose by 18.0 percent in the Czech Republic and by 17.2 percent in Poland compared with September 2021 (Chart 2).

1.2. Domestic real economic developments

According to real time data, following the favourable economic trends observed early this year the growth rate may already be lower in 2022 Q3. In August 2022, the average number of employees in the 15–74 age group was 4,713,000. In the June–August period, 52,000 more people worked in Hungary than in the same period last year. The unemployment rate stood at 3.6 percent in August.

Chart 3 Developments in industrial production



Source: MNB calculation based on HCSO data

1.2.1. Economic growth

Based on high frequency data, the Hungarian economy has been clearly decelerating since early June, which is expected to continue also in the second half of the year. Domestic demand items has contributed to growth throughout the year, while net exports have held back growth.

In August 2022, industrial production volume rose by 14.4 percent (by 9.3 percent based on seasonally and calendar-adjusted data) year-on-year. Based on the seasonally and calendar adjusted data, the volume of production increased slightly by 0.1 percent on a monthly basis (Chart 3). Output of most manufacturing subsectors rose. The automotive industry, representing the largest share, grew by 58.0 percent year-on-year, also reflecting the base effect resulting from the factory stoppages seen last year. The manufacture of computer and electronic products (+25.5 percent), other machinery (+23.8 percent) and electrical equipment (+52.1 percent) also increased to a larger degree, with major contribution by continued growth in battery and electric engine production. Of the manufacturing subsectors, the production volume of chemical substances (-29.9 percent), coke production (-14.6 percent), metal industry production (-5.8 percent) as well as of rubber, plastic and non-metal production (-2.9 percent) declined compared to last August.

Based on preliminary data, the trade balance showed a deficit of EUR 1.3 billion in August 2022. The balance deteriorated by EUR 582 million, compared to the same period of the previous year. The balance, adjusted for VAT residents, remained negative, with a deficit of EUR 1,911 million in August. Goods exports and imports rose by 37.1 percent and 40.6 percent, respectively, in euro terms, year-on-year. In August 2022, terms of trade deteriorated by 6.5 percent in an annual comparison. This is primarily attributable to mineral fuels, the impact of which deteriorated the terms of trade by 9.3 percentage points.

In August 2022, based on raw data, the volume of construction output was unchanged year-on-year. The construction of buildings increased by 5.5 percent, while the construction of other structures decreased by 8.5 percent, year-on-year. Output in the domestic construction industry fell by 4.4 percent compared to the previous month. The

volume of new contracts concluded fell by 50.4 percent in August, while construction companies' contract portfolio at the end of August was 7.8 percent lower than a year earlier.

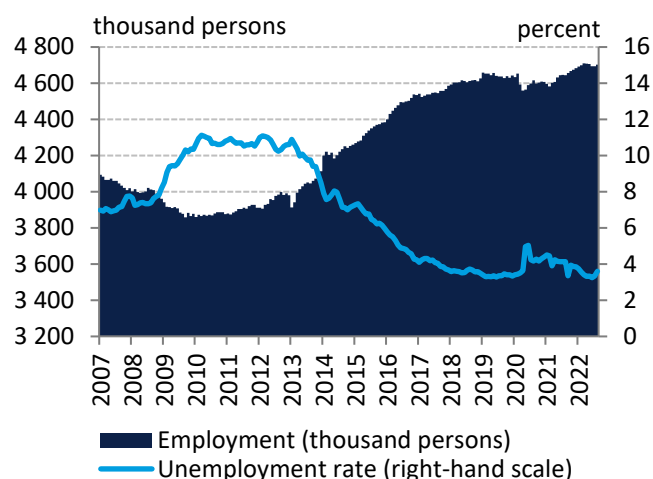
In August 2022, the volume of retail sales was up by 2.4 percent based on data adjusted for the calendar effect, year-on-year. The volume of sales grew to the largest degree in second-hand shops (6.2 percent), book, computer and other industrial goods stores (3.7 percent), general stores selling industrial goods (2.6 percent), and in pharmacies and perfumeries (2.0 percent). Based on calendar adjusted data, the volume of retail sales in food stores and groceries fell by 2.4 percent and rose by 0.5 percent in non-food stores. The fuel price cap contributed to the rise of 18.4 percent in the volume of fuel retail sales. Vehicle and components sales, not belonging to above retail sales, increased by 6.5 percent on a year-on-year basis, according to calendar-adjusted data.

According to real time data, following the favourable economic trends observed in the first half of this year, economic growth may decline in 2022 Q3. Based on online cash register data, nominal turnover in September grew by 1.5 percent on average year-on-year. In September, air passenger traffic fell short of its level registered in the same period last year by 21 percent, according to data received so far. Catering turnover rose by almost 18 percent in annual terms in September, owing to the last years' low base. Cinema attendance in September was almost 34 percent lower compared to the same period of 2019. Road passenger traffic and goods traffic declined by 4 and 5 percent, respectively, year-on-year. In September, the electricity load data were nearly 1 percent below the same period last year. The number of housing market transactions decreased by 29 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.

1.2.2. Employment

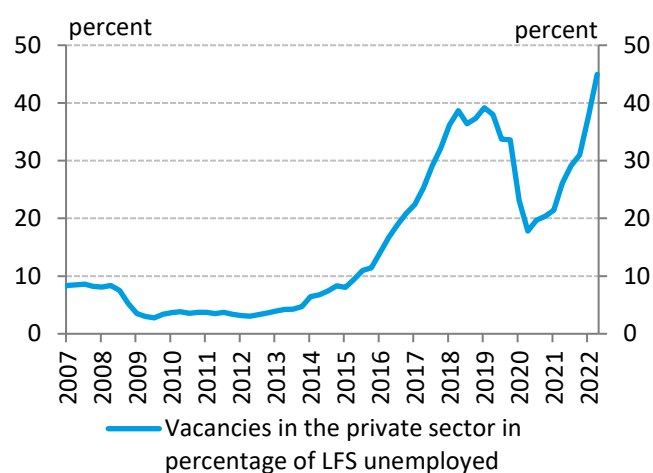
Based on the data of the Labour Force Survey (LFS) in August 2022, the average number of employees in the 15–74 age group was 4,713,000. In the period of June to August 2022, the average number of employees was 4,711,000, exceeding the year-on-year figure by 52,000 (Chart 4). In June-August, on average, the number of employees in the primary labour market and of those working abroad rose by 62,000 and 4,000, respectively, while the number of fostered

Chart 4 Number of persons employed and the unemployment rate



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

Chart 5 Developments in labour market tightness indicator



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

employees fell by 14,000, compared to the same period of the previous year.

In August, the number of unemployed was 177,000, falling short of the year-on-year figure by 18,000 persons, and as a result, overall unemployment rate stood at 3.6 percent.

Based on seasonally adjusted data, in August the number of unemployed increased slightly compared to July. Based on the data published by the National Employment Service (Nemzeti Foglalkoztatási Szolgálat - NFSZ) in August and September 2022 the number of registered jobseekers in Hungary was 231,000 (-25,000 on an annual basis) and 238,000 (-12,000 on an annual basis), respectively. Based on seasonally adjusted data, the number of registered jobseekers in September 2022 increased compared to August, but it is still below the number measured in the months before the outbreak of the coronavirus pandemic.

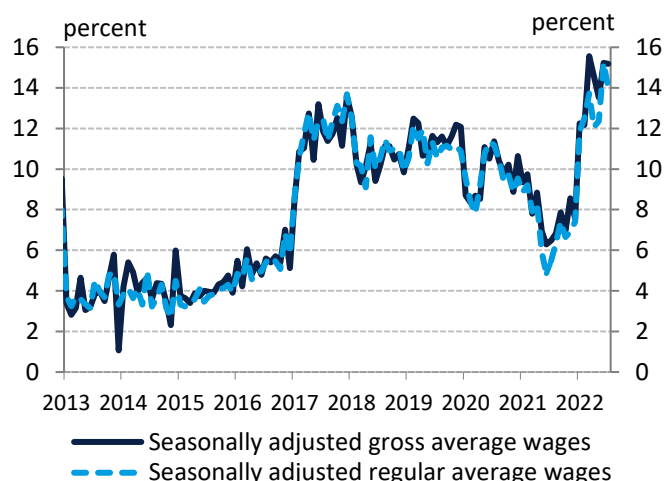
Labour market tightness increased further and exceeded the level seen before the coronavirus (Chart 5). In 2022 Q2,

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 line with the expectations, in September 2022, inflation calculated on a year-on-year basis was 20.1 percent. Core inflation and core inflation excluding indirect taxes stood at 20.7 percent and 20.6 percent, respectively. Almost 85 percent of the 4.5 percent rise in inflation compared to August is attributable to two product groups: administered prices and food contributed to the acceleration in the consumer price index by 2.8 and 1.0 percent, respectively. The monthly increase in core inflation excluding processed food, better reflecting market developments, declined to 1.1 percent following the repricing of 1.7 percent in August, i.e. this product group registered a decline in inflation developments. In June 2022, average earnings in the national economy (excluding bonuses) rose by 14.8 percent, while private sector wages increased by 13.6 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

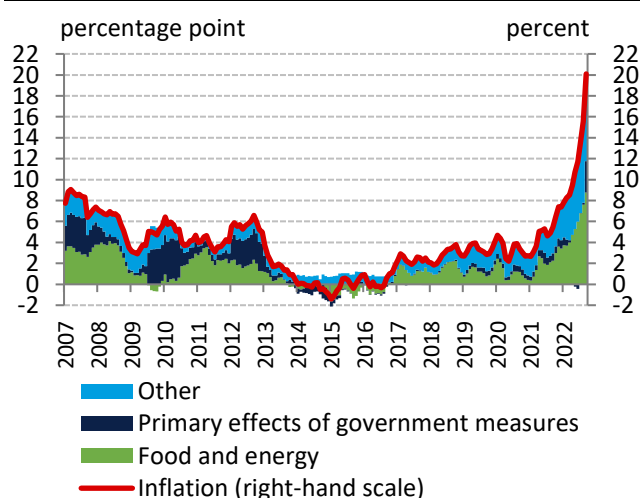
In July 2022, gross average wages in the private sector rose by 14.9 percent year-on-year. The degree of bonus payments exceeded significantly the average of previous years. Average earnings in the national economy (excluding bonuses) rose by 14.8 percent, while private sector wages increased by 13.6 percent in annual terms.

According to seasonally adjusted data, growth in gross average wage accelerated slightly, while regular average wage slowed down in the private sector compared to the previous month (Chart 6). In the private sector wage dynamics of manufacturing slightly outstripped that of market services. Annual wage dynamics was over 10.0 percent in most sectors. In June, based on raw data, manufacturing wages were higher by 15.3 percent year-on-year. In market services, the HCSO recorded a growth of 14.9 percent.

1.3.2. Inflation developments

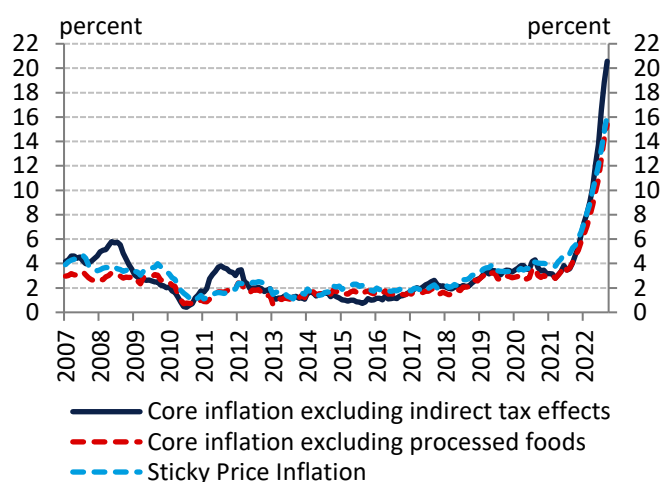
In September 2022, inflation calculated on a year-on-year basis was 20.1 percent (Chart 7). **The data received was in line with the forecast in the September Inflation Report. Core inflation stood at 20.7 percent and core inflation excluding indirect taxes was 20.6 percent.** Almost 85 percent of the 4.5 percent rise in inflation compared to August is attributable to two product groups: administered prices and food contributed to the acceleration in the consumer price index by 2.8 and 1.0 percent, respectively. The significant increase in the prices of products and services of administered prices is mostly linked to the amendment of household utility prices (gas and electricity). Compared to the previous month, core inflation increased by 1.7 percentage point. Within core inflation, inflation of processed food rose to 42.5 percent, contributing 0.9 percentage point to the increase. Inflation of market services was 12.6 percent, while the annual price dynamics of industrial goods was 17.1 percent.

Chart 7 Decomposition of inflation



Source: MNB calculation based on HCSO data

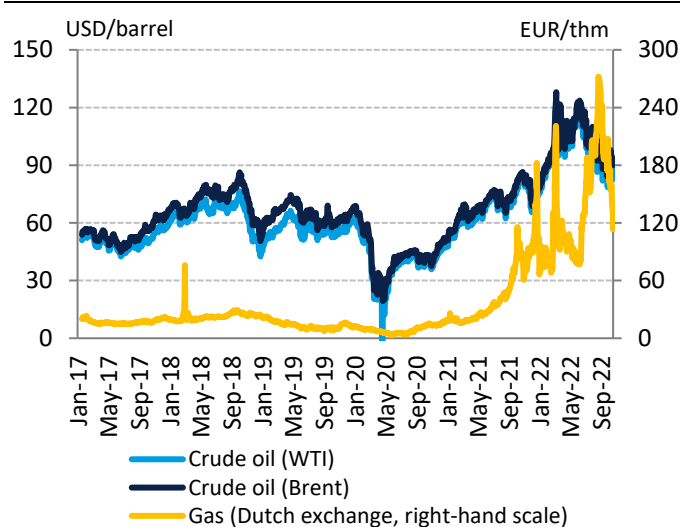
Chart 8 Measures of underlying inflation indicators



Note: Core inflation excluding processed food corresponds, with unchanged content, to the former demand sensitive inflation measure.

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, declined to 1.1 percent following the repricing of 1.7 percent in August, i.e. this product group reflects a decline in inflation developments. Industrial goods prices rose by 0.9 percent compared to previous month, i.e. the growth rate halved compared to August; last time the monthly price increase of this product group was similarly low in January this year. On an annual basis, underlying inflation indicators capturing persistent trends continued to rise compared to the previous month (Chart 8).

1.3.3. Inflation risks

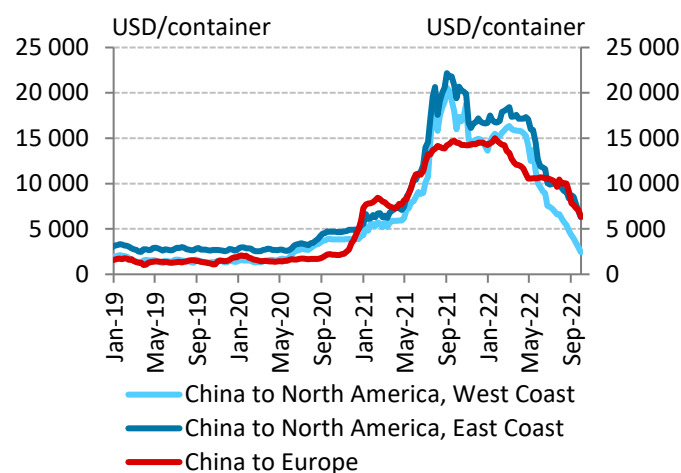
Recently fears of recession have strengthened globally, which may bring forward the turn in inflation. The Russia-Ukraine war, a potential new wave of the coronavirus pandemic, the high commodity prices of the recent period, the supply chain frictions and the tightening of global monetary conditions have collectively increased the risk of recession. The impact of the slowdown in 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 have slightly increased: the price of Brent crude oil rose by 6.9 percent to USD 92 per barrel, while the US benchmark WTI oil price increased by 9.6 percent to USD 86.1 per barrel. The rise was attributable to the decision of the OPEC member states at their meeting held on 5 October to cut their production by 2 million barrels per day. **On the other hand, gas prices declined significantly:** European gas prices fell by 40 percent since the date of the last interest rate decision (Chart 9). The fall in European gas prices was mostly attributable to the warmer than expected weather and the high filling level of gas storage facilities. Electricity prices also considerably declined; German stock exchange prices fell by 60 percent. **The Bloomberg commodity price index, covering the entire commodity market, rose moderately, by 0.3 percent.**

The repricing pattern has changed and, unlike to previous experiences, it may persist for a longer time within the year. In September, the monthly price change of the basket excluding fuels and administered prices was 1.7 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

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



Source: Bloomberg

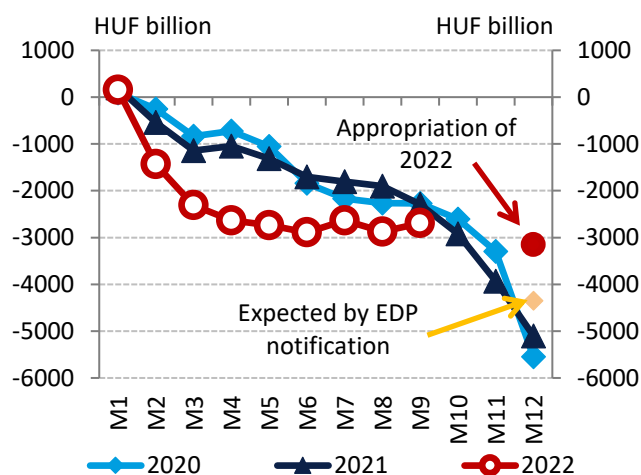
an increasingly important explanatory factor for rising inflation rates. In Hungary, food price inflation rose to 38.6 percent. Within the product group, the price index of both processed and unprocessed food grew substantially. Compared to August, food prices rose by 3.8 percent. The rise in unprocessed food prices was widespread, partly explained by the drought in Europe. The increase in processed food product prices 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.

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 October 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 181 billion in September 2022. This reduced this year's cumulated cash deficit to HUF 2,692 billion. Revenues rose by HUF 361 billion; within that tax and contribution revenues increased by HUF 391 billion year-on-year. Expenditures fell short of the figure registered in September 2021 by HUF 211 billion.

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 September 2022 showed a surplus of HUF 181 billion. This reduced this year's cumulated cash deficit to HUF 2,692 billion (to 85 percent of the annual appropriation from 91 percent registered in August), exceeding last year's level by HUF 400 billion (Chart 11).

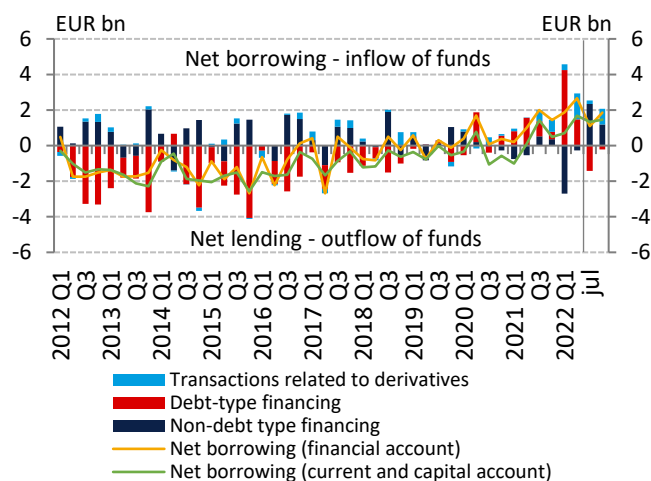
Revenues of the central sub-sector exceeded the figure registered in September 2021 by HUF 361 billion; mainly due to a HUF 391 billion increase in tax and contribution revenues. Net VAT revenues rose by 35 percent, while labour tax and contribution revenues increased by 10 percent on an annual basis. Contributions by enterprises almost doubled compared to last year, mostly as a result of windfall taxes.

Expenditures fell short of the September 2021 figure by roughly HUF 211 billion, which is mostly attributable to own net expenditures of budgetary organisations and chapters, and to the lower expenses related to state property. This was partly offset by the increasing pension expenditures, expenses related to medical and preventive care, home building subsidies and rising interest expenditures.

1.5. External balance developments

In August 2022, the current account deficit was EUR 1,693 million, while net borrowing amounted to EUR 1,452 million. In August, according to the financial account data, the significant increase in net foreign direct investments continued, while net external debt slightly decreased.

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 August 2022, the current account deficit was EUR 1,693 million, while net borrowing amounted to EUR 1,452 million (Chart 12). Both the current account balance and net borrowing deteriorated slightly compared to previous month. The rise in the deficit is attributable to a sharp deterioration in the goods balance resulting from the annual growth of imports outstripping that of exports. The degree of the goods deficit is primarily influenced by the rising commodity and energy prices, and the acceleration of the filling of gas storage facilities. The services balance surplus in August was similar to that of July, and thus it still falls short of the pre-pandemic level seen in 2019, while it slightly exceeded the figure registered in August 2021.

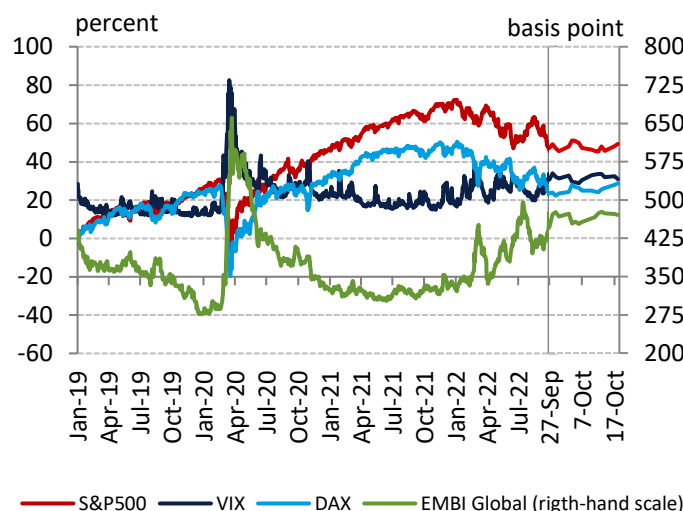
In August, according to the financial account data, the significant increase in net foreign direct investments continued, while net external debt slightly decreased. Net foreign direct investments rose by EUR 1 billion in August, which was mostly linked to reinvested earnings. Net external debt fell by EUR 0.2 billion due to transactions. Net external debt of the general government remained broadly unchanged, while that of banks rose by EUR 0.1 billion and of corporations fell by EUR 0.3 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 Fed and other major central banks, recession fears, the energy crisis in Europe and the concerns about the Russia-Ukraine war. Long-term yields rose less in the developed markets and more in the CEE region. The EMBI Global spread also increased further. The leading stock indices rose and emerging markets indices fell.

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

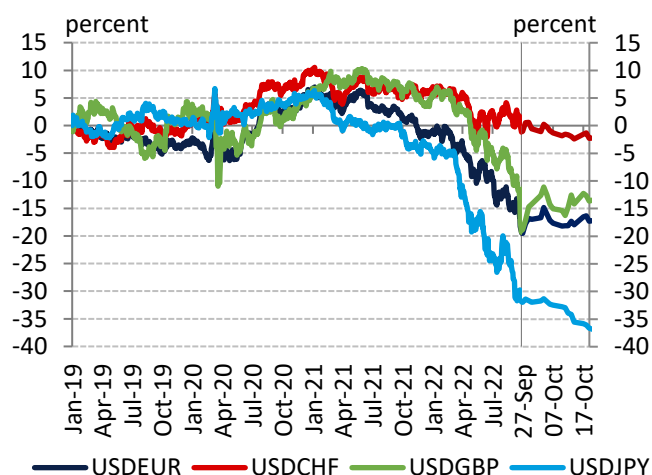


Source: Bloomberg

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.

Overall, investor sentiment in emerging markets has deteriorated since the previous interest rate decision. Certain sub-markets (e.g. British bond market) continued to experience strong turbulence. Of the risk indicators, the VIX index, measuring equity market volatility, decreased by 1.3 percentage points compared to its level at the previous interest rate decision to 30.9 percent, the MOVE index, measuring developed bond market volatility, came close to 146 basis points after a decline of 12 basis points. In emerging markets, however, the EMBI Global bond market premium increased by 24 basis points (Chart 13).

Chart 14 Developed market FX exchange rates



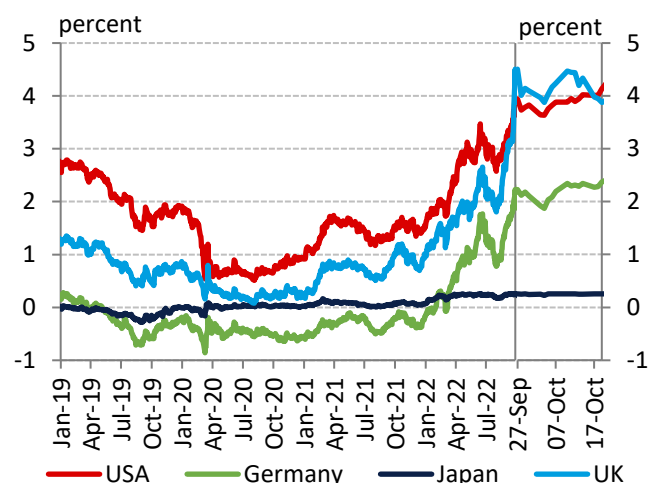
Note: Positive values indicate the strengthening of the variable (second) currency.

Source: Reuters

Developed market stock indices rose, while the emerging ones generally declined. The US S&P 500 and the Dow Jones advanced by 2 and 4.8 percent, respectively. Of the European leading stock market indices, the German DAX and the French CAC rose by 5.4 and 5.8 percent, respectively. The Japanese stock market index also increased by 2.6 percent compared to the level seen at the previous interest rate decision, while the Chinese stock exchange closed the period with a fall of 1.6 percent. Overall, the developed MSCI composite index was up by 2.2 percent, whereas the emerging market index fell 1.4 percent.

The dollar exchange rate was varied against the major currencies, following earlier strength (Chart 14). The dollar exchange rate appreciated by 2.5 percent against the euro and by 5.1 percent against the pound sterling, while the US currency gained 0.7 percent against the Swiss franc, 0.6 percent against the Chinese yuan and 3 percent against the Japanese yen. The EUR/USD exchange

Chart 15 Yields on developed market long-term bonds



Source: Bloomberg

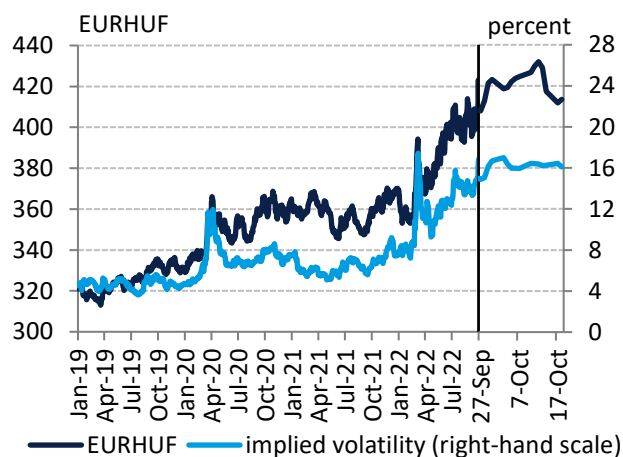
rate moved steadily below parity during the period under review, and at the end of the period it was close to 0.983.

Developed market government bond yields typically increased (Chart 15). Ten-year US and German yields rose by 11 and 9 basis points, respectively, and thus the US yield closed the period at 4.06 percent, while the German one at 2.32 percent. Yields in the Mediterranean countries also generally rose: Portuguese and Spanish yields were up by 5-5 basis points, and Greek yields were up by 12 basis points. Following a significant rise, UK long-term yields registered a correction as due to the unfavourable market response the government cancelled most of the tax measures announced in September. Yields on 10-year government bonds in the countries of the CEE region also rose sharply: Polish, Romanian, Czech and Hungarian yields rose by 137, 72, 52 and 115 basis points, respectively.

2.2. Developments in domestic money market indicators

Since the September interest rate decision the forint has depreciated in highly volatile conditions, while from mid-October it appreciated against the euro. The government securities yield curve shifted upward. The 3-month BUBOR rose by 367 basis points to 16.65 percent. In the past month, there was mixed demand at government bond auctions. Average auction yields rose both on Treasury bills and government bonds.

Chart 16 EUR/HUF exchange rate and the implied volatility of exchange rate expectations

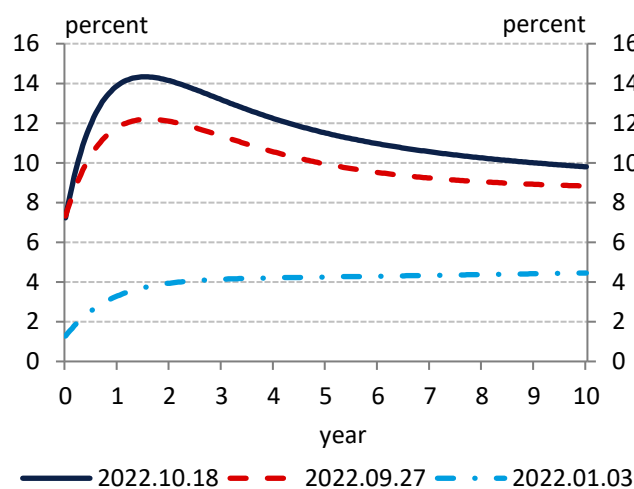


Since the September interest rate decision, the forint has depreciated in highly volatile conditions, while from mid-October it appreciated against the euro (Chart 16). The forint depreciated by a total of 1.2 percent, while of the currencies in the CEE region, the Polish zloty depreciated by 0.6 percent, and the Czech koruna and the Romanian leu appreciated by 0.4 and 0.1 percent, respectively.

The 3-month BUBOR, relevant for monetary policy transmission, rose by 367 basis points to 16.65 percent since the last interest rate decision.

The government securities yield curve shifted upward (Chart 17). At the 1-year section of the yield curve a rise of 210 basis points was registered, while on the medium and longer maturities yields rose by 80-210 and 100-180 basis points, respectively.

Chart 17 Shifts in the spot government yield curve



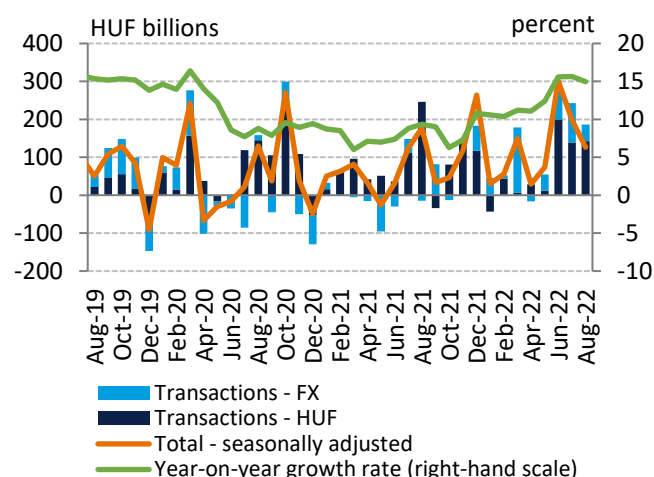
Government bond auctions held by the Government Debt Management Agency since the last interest rate decision were characterised by mixed demand. In the period under review, demand at the discount Treasury bill auctions varied, and the Government Debt Management Agency reduced the originally announced volume on three occasions and raised it on five occasions. Demand also varied at the bond auctions, but on the whole the Government Debt Management Agency was able to raise higher volume of funds than announced. Average yields rose both on Treasury bills and on government bonds.

Non-residents' holdings of forint government securities increased. Non-residents' holdings of forint government securities increased by HUF 201 billion to HUF 5,370 billion. The market share of forint government securities held by non-residents declined to close to 19 percent.

3. Trends in lending

In August 2022, non-financial corporations' outstanding borrowing grew by HUF 186 billion, as a combined result of the increase in outstanding forint borrowing by HUF 143 billion and in foreign currency loans by HUF 43 billion. Outstanding borrowing by households increased by HUF 52 billion due to transactions, reducing the annual growth rate to 9.1 percent in August. In August 2022, the smoothed interest rate spread on forint corporate loans stood at 0.61 percent, down 0.38 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 -1.95 percentage points during the month.

Chart 18 Net borrowing by non-financial corporations



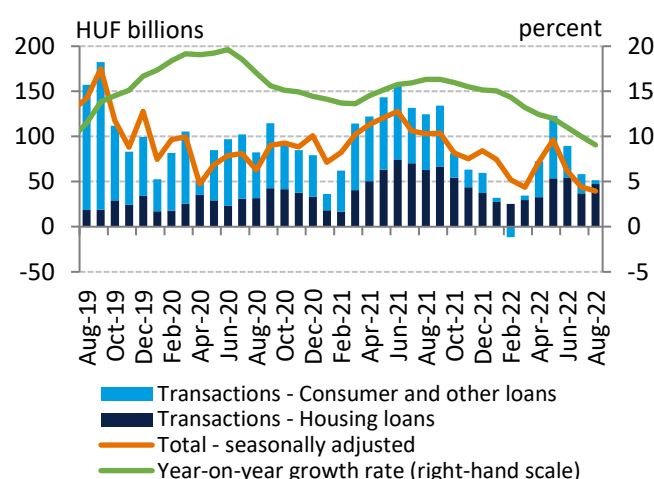
Source: MNB

In July 2022, outstanding borrowing of non-financial corporations grew by HUF 186 billion, as a combined result of the increase in outstanding forint borrowing by HUF 143 billion and in foreign currency loans by HUF 43 billion (Chart 18). As a result, the annual growth rate slowed to 15 percent from 15.6 percent registered in previous month. Including bond transactions in the balance sheet of credit institutions, the annual growth rate in the month came to 21.3 percent. Credit institutions disbursed new loans in the amount of HUF 259 billion, which exceeds the year-on-year figure by 18 percent. Following the phasing-out of the Széchenyi Card Go! Programme, the ratio of market-based loans rose to 80 percent within new SME loans.

Outstanding borrowing of households increased by HUF 52 billion due to transactions in August, reducing the annual growth rate to 9.1 percent (Chart 19). Disbursements of new household loans amounted to HUF 196 billion during the month, which was 16 percent lower than in the same period of the previous year. In parallel with the termination of the FGS Green Home Programme (GHP), the rise in interest rates and the decline in housing market transactions, the volume and number of housing loans also shows a decline, and together with that average loan amounts and maturities also registered a correction, coming close to pre-GHP levels.

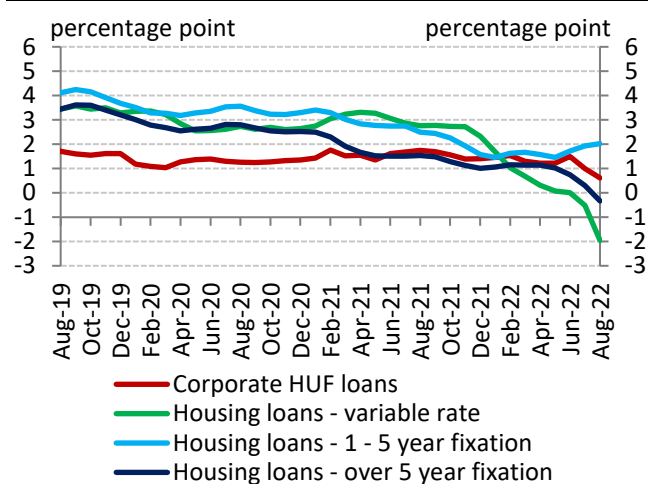
In August 2022, the smoothed interest rate spread on forint corporate loans stood at 0.61 percent, following a decrease of 0.38 percentage point compared to previous month. (Chart 20). The average smoothed interest rate spread on variable rate housing loans calculated based on the annual percentage rate (APR) declined to -1.95 percentage point during the month. After a rise of 0.1 percentage point, the average spread on housing loans with interest rate fixation periods longer than 1 year and up to 5 years increased to 2.03 percentage points in August, while the spread on products with interest rate fixation periods of more than 5 years fell by 0.64 percentage point and stood at -0.33 percentage points at the end of the period under review.

Chart 19 Net borrowing by households



Source: MNB

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