



MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL
TO THE ABRIDGED MINUTES
OF THE MONETARY COUNCIL MEETING
OF 27 SEPTEMBER 2022

SEPTEMBER
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The background material ‘Macroeconomic and financial market developments’ is based on information available until 21 September 2022.

Article 3 (1) of the MNB Act (Act CXXXIX of 2013 on the Magyar Nemzeti Bank) defines achieving and maintaining price stability as the primary objective of the Magyar Nemzeti Bank. The MNB’s supreme decision-making body is the Monetary Council. The Council convenes as required by circumstances, but at least twice a month, according to a pre-announced schedule. At the second scheduled meeting each month, members consider issues relevant to decisions on interest rates. Abridged minutes of the Council’s rate-setting meetings are released regularly, before the next policy meeting takes place. As a summary of the analyses prepared by staff for the Monetary Council, the background material presents economic and financial market developments, as well as new information which has become available since the previous meeting.

The abridged minutes and the background materials to the minutes are available on the MNB’s website at:

<http://www.mnb.hu/en/monetary-policy/the-monetary-council/minutes>

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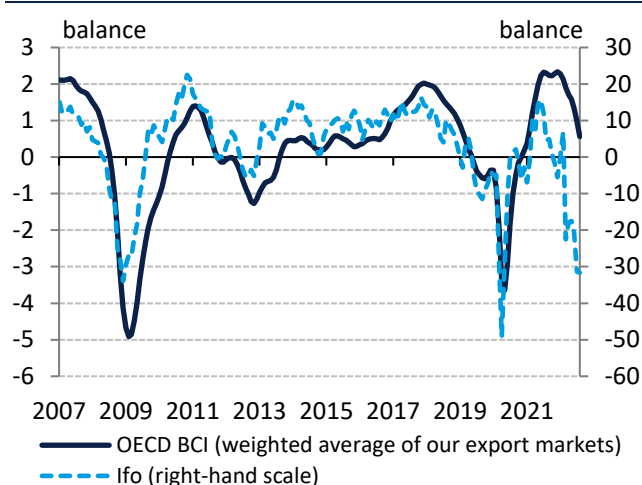
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1. Macroeconomic developments

1.1. Global macroeconomic environment

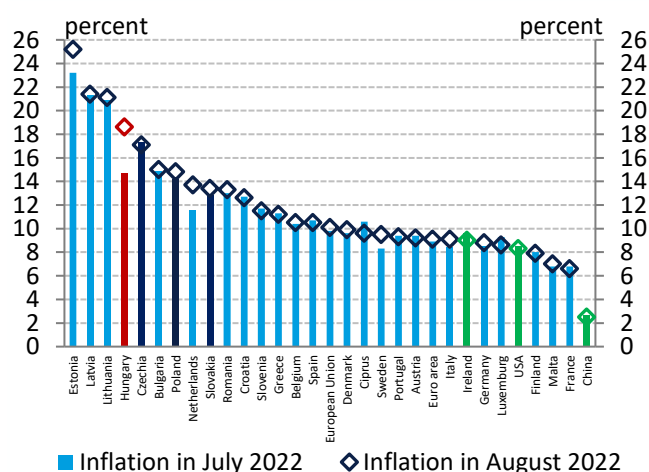
In 2022 Q2, the pace of economic growth in the major economies generally slowed; the EU, the euro area and China saw an economic growth of 4.2, 4.1 and 0.4 percent, respectively, year-on-year. US economy grew by 1.7 percent in annual terms; however, GDP levels have been declining for two quarters compared to the previous quarter. International confidence indices typically deteriorated further in August; the consumer confidence is already at a historically low level.

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

In 2022 Q2, GDP growth rate usually 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 1.7 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 2022 Q2.

Monthly production indicators typically still show a positive picture. In August, industrial production in the United States grew by 3.7 percent, while China's rose by 4.2 percent. In July, the euro area registered a year-on-year decline of 2.4 percent. In August, the volume of retail sales grew by 9.1 percent in the USA and by 5.4 percent in China, year-on-year. In July, the euro area registered a 0.9 percent fall year-on-year.

In August, forward-looking confidence indices declined further. 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) in August (Chart 1); consumer confidence index remains extremely low. The Purchasing Manager Index of the United States significantly deteriorated compared to July, and thus it is still below the threshold (50 points).

International labour market trends have not changed since the previous period. In July, unemployment rate in the United States was 3.5 percent, which is a slight decrease from 3.6 percent in previous months. In June, unemployment rate in the euro area remained at 6.6 percent, which corresponds to the figure registered in the previous two months.

In August 2022, global average inflation was 18.0 percent based on the available data of 112 countries. In August, 53 of the 112 countries registered double-digit inflation. Nearly half of the countries with double-digit inflation in August are in Europe, where inflation is over

10 percent in 20 countries. As regards the individual continents, average inflation was the highest (26.8 percent) in Africa, while Australia and Oceania showed the lowest price dynamics (6.0 percent). The average rate of price increase in South America, Asia, Europe and North America was 26.0, 19.8, 12.8 and 8.7 percent, respectively.

In annual terms, euro area inflation and core inflation rose to 9.1 percent and 4.3 percent, respectively in August. The inflation and core inflation data slightly exceeded analysts' expectations of 9.0 percent for inflation and 4.1 percent for core inflation. The rise in HICP inflation was most strongly connected to food prices and energy items in August.

In August, inflation rose by 0.3 percentage point in the European Union as a whole, while price dynamics declined in twelve Member States. Based on the observable HICP data, the largest rise compared to July (3.9 percentage points) was registered in Hungary, since Eurostat – contrary to the methodology of HCSO – recognised the rise in the administrative energy prices (electricity and gas) in inflation already in August. Estonia had the highest inflation among EU countries also in August, where prices rose by 25.2 percent year-on-year. Prices also increased significantly in Latvia (21.4), Lithuania (21.1), in Hungary (18.9) and in the Czech Republic (17.1) (Chart 2). Inflation in the United States declined to 8.3 percent in August from 8.5 percent in July.

1.2. Domestic real economy developments

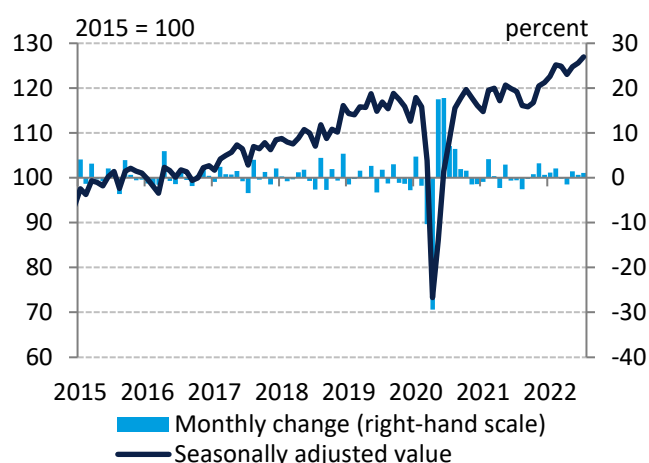
In 2022 Q2, Hungary's GDP rose by 6.5 percent year-on-year, while economic performance grew by 1.0 percent quarter-on-quarter. The annual growth rate of Hungary's GDP was the seventh highest in the EU. According to real time data, following the favourable economic trends observed early this year the 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.

1.2.1. Economic growth

The Hungarian economy continued to grow in the 2022 Q2. Hungary's GDP rose by 6.5 percent year-on-year. According to the seasonally and calendar adjusted, and balanced data, economic performance rose by 1.0 percent quarter-on-quarter. The performance of all sectors of the economy, excluding agriculture, grew year-on-year, with industry and market services showing the largest growth. Of the manufacturing sectors, the manufacture of electric equipment and the rise in food production were the strongest contributors to annual growth in industry. The significant – 35.5 percent – decline in agriculture's value added, resulting from the drought, curbed growth. According to the currently available data, the seasonally and calendar adjusted annual growth rate of Hungary's GDP was the seventh highest in the European Union and it was over the euro area (+4.1 percent) and the EU (+4.2 percent) average.

In July 2022, industrial production volume rose by 4.0 percent (by 6.6 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 1.1 percent on a monthly basis (Chart 3). Output of the manufacturing subsectors showed a mixed picture. The automotive industry, representing the largest share, grew by 16.6 percent year-on-year. Energy production (+29.1 percent), manufacture of computer and electronic products (+14.4 percent) and manufacture of electrical equipment (+26.3 percent) also increased to a larger degree, with major contribution by the continued growth in battery and electric engine production. Of the manufacturing subsectors, the production volume of chemical substances (-15.5 percent), rubber, plastic and non-metal production (-8.9 percent) and metal industry production (-6.9 percent) shrank to the largest degree compared to last July.

Chart 3 Development in industrial production



Source: MNB calculation based on HCSO data

Based on preliminary data, the merchandise trade balance showed a deficit of EUR 1.1 billion in July 2022, the largest deficit in the data release since 1995. The balance deteriorated by EUR 975 million, compared to the same period of the previous year. Balance, adjusted for VAT residents, remained negative, with a deficit of EUR 1,663 million in July. In July, goods exports and imports rose by 12.9 percent and 22.7 percent, respectively, in euro terms, year-

on-year. In July 2022, terms of trade deteriorated by 5.6 percent in an annual comparison. This is primarily attributable to mineral fuels, the impact of which deteriorated the terms of trade by 8.0 percentage points.

In July 2022, the volume of construction output was up by 3.0 percent year-on-year. The construction of buildings and other structures increased by 0.5 percent and 7.0 percent, respectively, year-on-year. Output in the domestic construction industry rose by 5.8 percent compared to the previous month. The volume of new contracts concluded rose by 16.6 percent in July, while construction companies' contract portfolio at the end of July exceeded the year-on-year value by 0.3 percent.

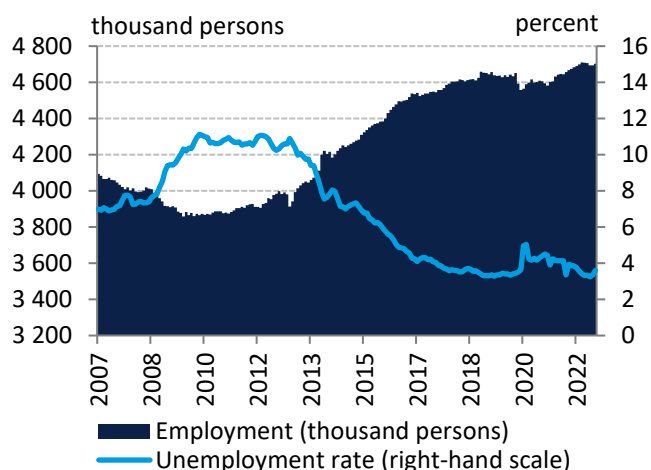
In July 2022, the volume of retail sales was up by 4.3 percent based on data adjusted for the calendar effect, year-on-year. Turnover stagnated compared to previous month. The volume of sales grew to the largest degree in second-hand shops (14.0 percent) and in pharmacies and perfumeries (7.1 percent). Based on calendar adjusted data, the volume of retail sales in food stores and groceries fell by 2.9 percent, and rose by 3.2 percent in non-food stores. The fuel price cap contributed to the rise of 27.6 percent in the volume of fuel retail sales. Vehicle and components sales, not belonging to retail sales, increased by 6.0 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 August grew by 2 percent on average year-on-year. In August, air passenger traffic fell short of its level registered in the same period last year by 20 percent, according to data received so far. Catering turnover rose by almost 23 percent in annual terms in August, owing to the low base of last year. Cinema attendance in August was almost 11 percent lower compared to the same period of 2019. Road passenger traffic and goods traffic declined by 4 and 3 percent, respectively, year-on-year. In August, the electricity load data were 3 percent below the same period last year. The number of housing market transactions decreased by nearly 18 percent on average, year-on-year. 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–

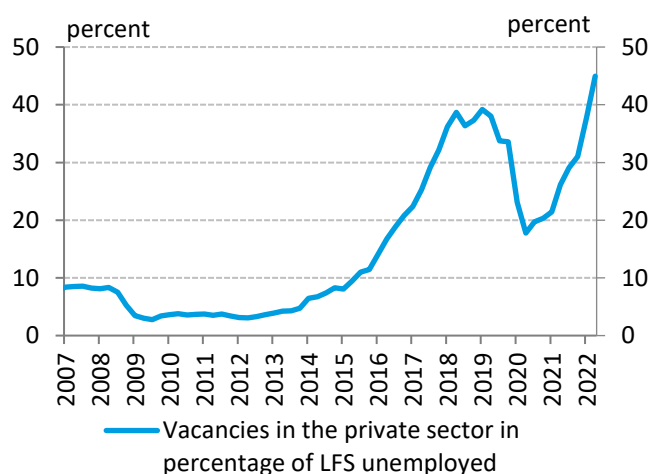
Chart 4 Number of persons employed and the unemployment rate



Note: The graph shows seasonally adjusted moving averages.

Source: HCSO

Chart 5 Development of labour market tightness indicator



Note: Quarterly data.

Source: National Employment Service, HCSO

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

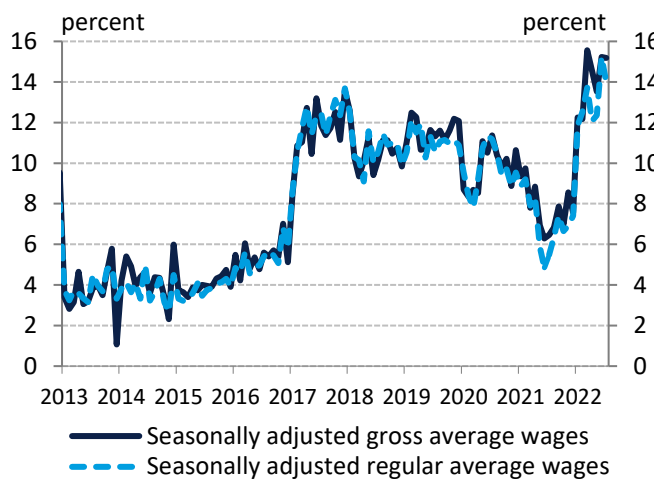
In August, the number of the unemployed was 177,000, falling short of the year-on-year figure by 18,000 persons, and as a result, overall unemployment rate stood at 3.6 percent. Based on the data published by the National Employment Service, “the number of registered jobseekers in Hungary was 231,000 both in July and August 2022 (representing a decline of 31,000 in July and 25,000 in August on an annual basis). Based on seasonally adjusted data, the number of the registered unemployed in August 2022 slightly increased compared to July, but it was still below the number measured in the months before the outbreak of the coronavirus pandemic.

Labour market tightness increased further and it also exceeds the outstanding values registered in the two years before the crisis (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 2022 Q2, 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 2022 Q1. Within the public sector job vacancies increased in healthcare, education and public administration.

1.3. Inflation and wages

In July 2022, inflation calculated on a year-on-year basis was 13.7 percent, core inflation and core inflation excluding indirect taxes stood at 16.7 and 16.6 percent, respectively. Inflation data for July partly reflects the impact of tax increases (excise duty, windfall taxes). Underlying inflation indicators capturing persistent trends also rose compared to the previous month. In July, the repricing rate was 2.3 percent, which significantly exceeded the typical rate of previous years at 0.1 percent and also that of last July at 0.3 percent. In June 2022, average earnings in the national economy (excluding bonuses) rose by 16.0 percent, while private sector wages increased by 15.0 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

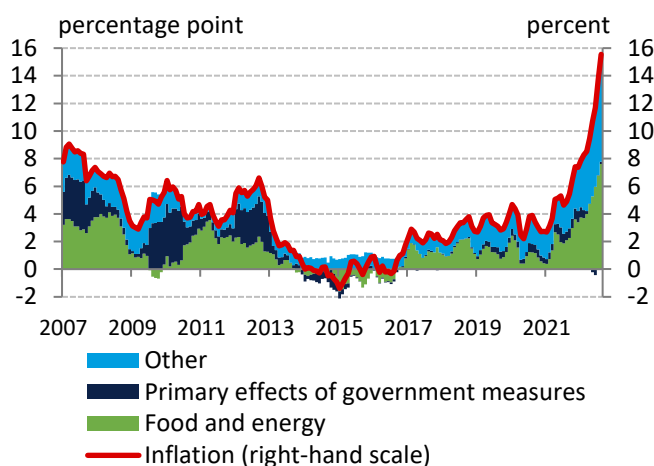
In July 2022, gross average wages in the private sector rose by 14.9 percent year-on-year. Based on seasonally adjusted data, the level of regular average wages fell by 1.4 percent compared to the previous month. The degree of bonus payments exceeded significantly the average of previous years. Average 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, the growth in gross average wages and regular average wages increased significantly 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 June, based on raw data, manufacturing wages were higher by 15.3 percent year-on-year. Wages in the automotive industry – representing the largest share – increased by 13.9 percent in annual terms. In market services, HCSO registered a growth of 14.9 percent. Annual wage dynamics was over 10.0 percent in most sectors. Wages increased to the largest degree in the healthcare (21.1 percent), transportation and warehousing (20.0 percent) and accommodation and catering (19.6 percent) sectors. Gross wages in the trade and construction sectors rose by 15.0 percent and 13.5 percent, respectively, year-on-year.

1.3.2. Inflation developments

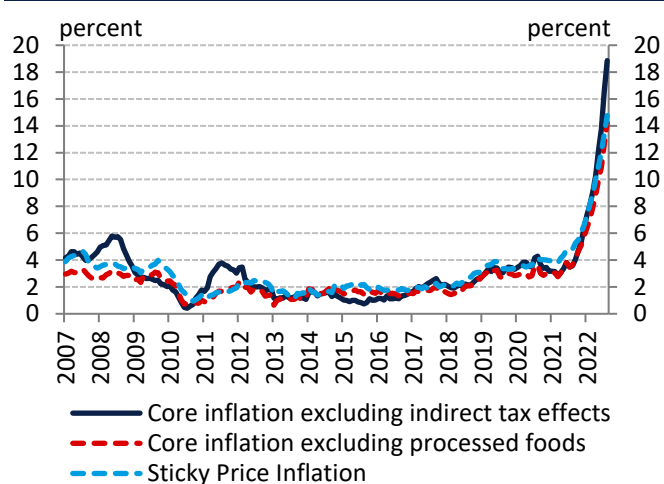
In August 2022, inflation calculated on a year-on-year basis was 15.6 percent. Core inflation stood at 19.0 percent and core inflation excluding indirect taxes was 18.9 percent (Chart 7). The August inflation data reflected the pass-through of the July tax increases (public health product tax, excise duty on alcohol and tobacco products, financial transaction levy, special retail tax, insurance tax) to inflation. Inflation was up by 1.9 percentage point compared to previous month, which is mostly attributable to the rise in the price index of food and industrial goods. Compared to the previous month, core inflation increased by 2.3 percentage point. Processed food made the largest contribution (1.1 percentage points) to the growth in core

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

inflation. Within core inflation excluding indirect taxes, inflation of processed food rose to 38.1 percent. Inflation of market services was 11.1 percent, while the annual price dynamics of industrial goods was 16.4 percent.

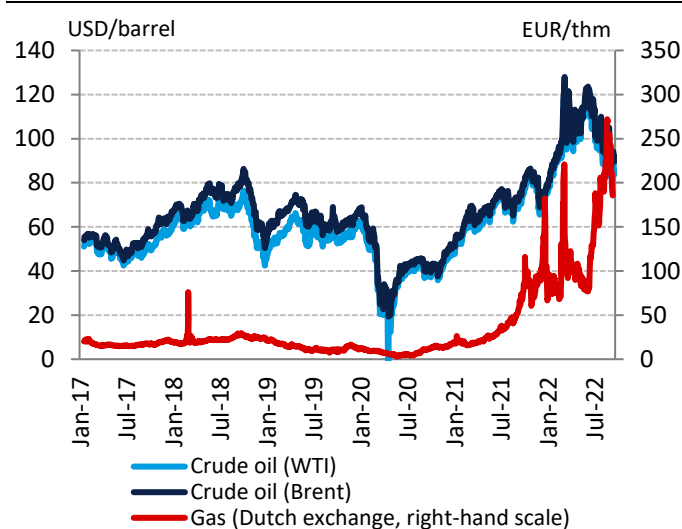
Underlying inflation indicators capturing persistent trends continued to rise, compared to the previous month (Chart 8). Underlying indicators capturing Hungary's short-term inflation trends also rose.

1.3.3. Inflation risks

The repricing pattern has changed and, contrary to previous experiences, it may persist for a longer time within the year, which determines the price dynamics of next months. In August, the monthly price change of the basket excluding fuels and administered prices was 2.0 percent, still above the increase seen in recent years. The higher repricing rate is a general phenomenon, which is attributable to the fact that the rise in global food, commodity and energy prices – similarly to previous months – passes through to the consumer prices in a wide range of products. Prices of industrial products rose by 1.9 percent compared to previous month, contrary to the price change of around 0 percent typical in August. Market services prices rose by 1.3 percent compared to the previous month. The price increase was higher than usual repricing in August, characterising a wide range of services.

In the past months, the sharp rise in food prices has become an increasingly important explanatory factor for rising inflation rates. In Hungary, inflation of food rose by 33.6 percent, and within that product group particularly the price index of processed food rose, while the price index of unprocessed food also registered further increase. The price rise characterised a wide range of products, and the August figures also reflected the price increasing effect of the continued pass-through of the public health product tax, impacting the price developments of processed food. The growth in food prices is primarily attributable to global factors such as skyrocketing energy prices and high transportation costs. However, in parallel with the expected easing of these external factors, their price increasing effect may also lessen. Looking ahead, the lower volume of crop resulting from this year's drought may have upwards effect on the price level. **On the whole, inflation in Hungary will temporarily increase further in autumn due to the aforementioned factors. However, inflation may significantly decrease in 2023.**

Chart 9 Developments in oil and gas prices since December 2019

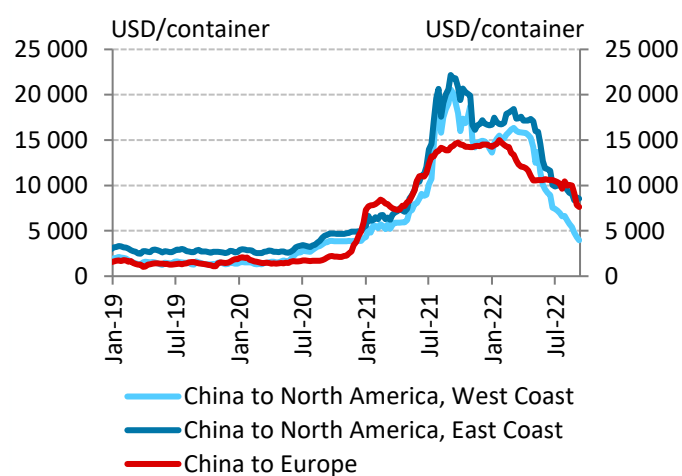


Source: Bloomberg

The Russia-Ukraine war, high commodity prices and the historic drought in Europe, pose a material risk on developments in inflation over the short term. In addition, shutdowns due to the coronavirus pandemic, and the subsequent restart, as well as the global semiconductor shortage continue to slow the recovery of the supply side. On a year-on-year basis, the extreme price rise in the energy market, the material increase in transportation costs and the shortening of value chains resulted globally rising inflation (Chart 9). **However, declining economic growth resulting from the fall in transportation costs, decreasing demand and the tightening measures of central banks of global relevance, and the fall in commodity and energy prices triggered by those are expected to reduce global inflation significantly from next year.**

Global value chains may recover more slowly than demand, leading to increased cost pressures in global transportation and industrial production. However, following the record high figures seen in the past twelve months, the cost of shipments from China to Europe shows correction, having declined by more than 46 percent by mid-September compared to the beginning of the year, which generally reduces the cost pressure on corporations. (Chart 10). However, merchants will presumably charge part of the extra costs resulting from the price increase relative to previous years to the consumers, as a result of which the price increasing effect of commodity prices and shipping costs appeared 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. On the other hand, the decline in global demand and strengthening fears of recession may result in a correction in commodity and energy prices, which may give rise to a turn in global inflation from next year.

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

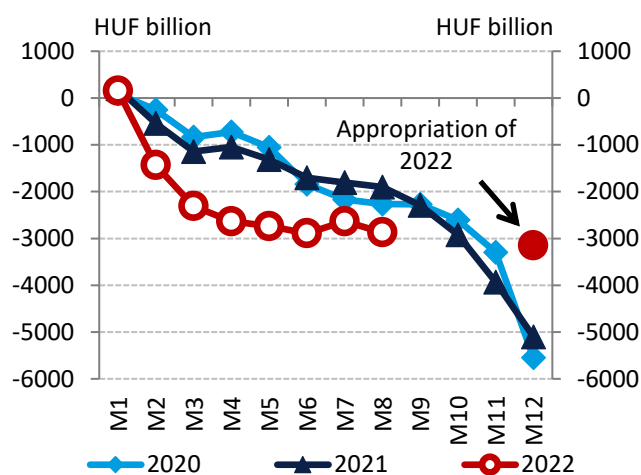


Source: Bloomberg

1.4. Fiscal developments

The balance of the central sub-sector of general government closed with a deficit of HUF 236 billion in August 2022. This increased this year's cumulated cash deficit to HUF 2,873 billion. Revenues of the central sub-sector exceeded the figure in August 2021 by HUF 84 billion: the rise of HUF 210 billion in tax and contribution revenues was partly offset by the HUF 127 billion shortfall in revenues linked to EU transfers. Expenditures exceeded the August 2021 figure by roughly HUF 223 billion, which was attributable to expenditures related to EU transfers, interest expenditures and the expenditure connected to increasing pension expenses as well as to medical and preventive care.

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



Source: Budget Act of 2022, Hungarian State Treasury

The balance of the central sub-sector of the general government in August 2022 was a deficit of HUF 236 billion. Thus, this year's accumulated cash deficit rose to HUF 2,873 billion (to 91 percent of the annual appropriation), exceeding the level seen at the end of last August by almost HUF 1000 billion (Chart 11).

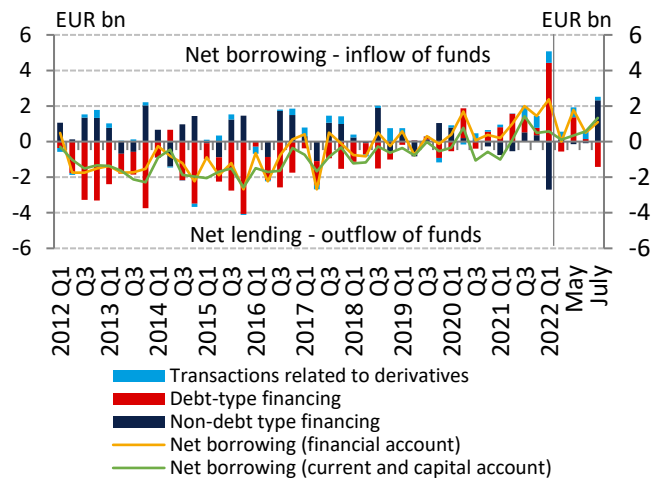
Revenues of the central sub-sector exceeded the figure registered in August 2021 by HUF 84 billion: the rise of HUF 210 billion in tax and contribution revenues was partly offset by the HUF 127 billion shortfall in revenues connected to EU transfers. The 16 percent increase in tax revenues is attributable to the strong wage dynamics and nominal consumption growth, similar to that observed in previous months. Net VAT revenues rose by 26 percent compared to the figure seen last August, while labour tax and contribution revenues grow by 11.6 percent.

Expenditures exceeded the August 2021 figure by roughly HUF 223 billion, which was attributable to expenditures related to EU transfers, interest expenditures and the expenditure connected to increasing pension expenses as well as to medical and preventive care.

1.5. External balance developments

In July 2022, current account deficit was EUR 1,674 million, while net borrowing amounted to EUR 1,337 million. In July, according to the financial account data, net foreign direct investments significantly increased, while net external debt 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 July 2022, current account deficit was EUR 1,674 million, while net borrowing amounted to EUR 1,337 million (Chart 12). Both the current account balance and net borrowing substantially deteriorated compared to previous month. The rise in the deficit is attributable to a major deterioration in the goods balance resulting from the annual growth of imports outstripping that of exports, primarily due to the soar in energy prices. In addition to the rising commodity and energy prices along with the acceleration of the filling of gas storage facilities, global semiconductor shortage and supply chain frictions resulting from the Russia-Ukraine conflict continue to have a significant effect on the degree of the goods deficit. Due to the slowdown of tourism, services balance surplus in July declined compared to previous month, and thus it still falls short of the pre-pandemic level seen in 2019, while it slightly exceeded the figure registered in July 2021.

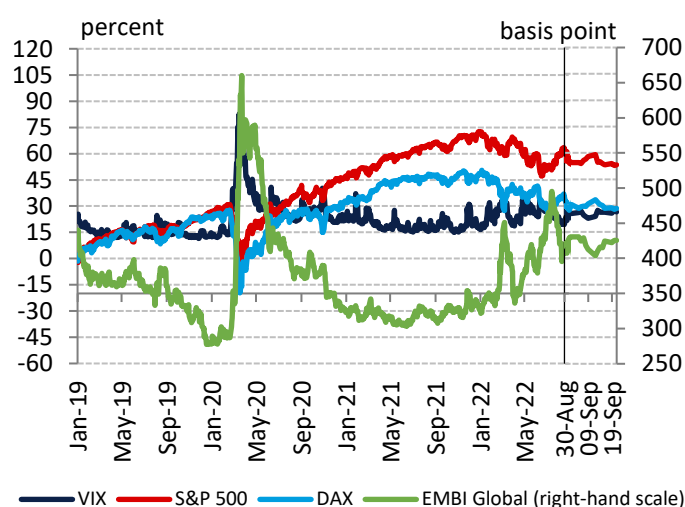
In July, according to the financial account data, net foreign direct investments significantly increased, while net external debt decreased. In July, net foreign direct investments rose significantly, by EUR 2.2 billion, which was primarily attributable to the investment of a multinational company. Net external debt fell by EUR 1.4 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. The general government's indicator significantly decreased due to closing the repurchase agreement concluded with international organisations and the maturity of the discount bonds issued in June. In parallel with this, banks' net external debt rose due to the repayment of the foreign currency liquidity received at the end of June. Net external debt of corporations fell slightly.

2. Financial markets

2.1. International financial markets

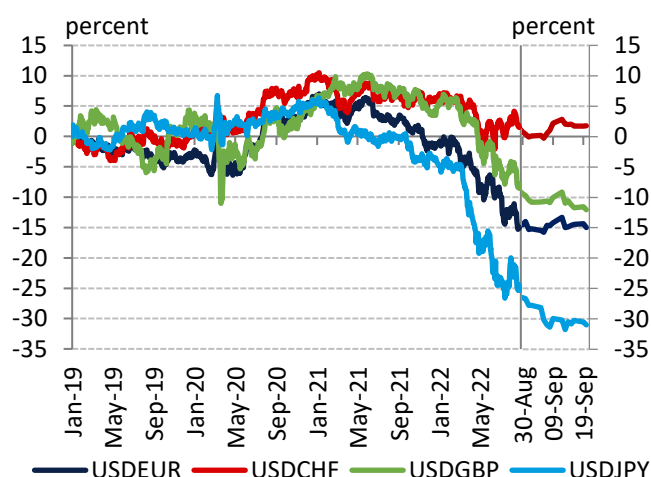
Since the previous interest rate decision, global investor sentiment was shaped primarily by the expectations related to interest rate hikes by Fed and other key central banks, recession fears, the energy crisis in Europe and the concerns about the Russia-Ukraine war. Long-term yields rose in the developed markets and in the CEE region. The EMBI Global spread continued to rise. The leading stock indices fell.

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 was shaped primarily by the expectations related to interest rate hikes by Fed and other key central banks, recession fears, the energy crisis in Europe and the concerns about the Russia-Ukraine war.

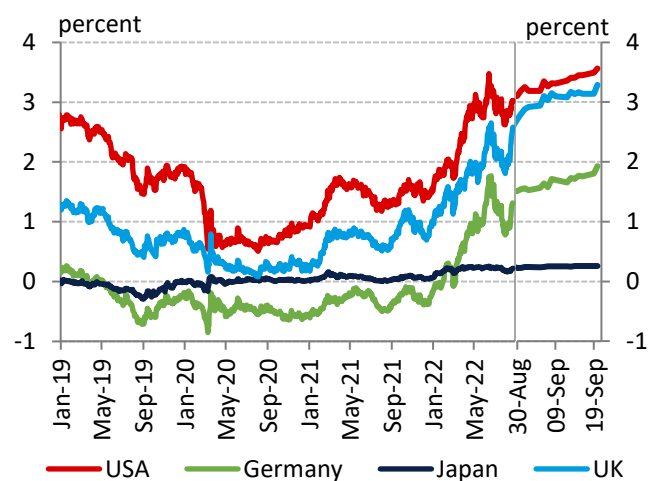
Overall, financial market sentiment deteriorated since the previous interest rate decision. At the beginning of the period risk appetite was still able to improve, while in the second half of the period – primarily after the publication of the US inflation figure for August – markets were once again dominated by risk aversion. Of the risk indicators, the VIX index, measuring equity market volatility, rose by 1.7 percentage points compared to its level at the previous interest rate decision to 27.9 percent, the MOVE index, measuring developed bond market volatility, came close to 131 basis points after a rise of 3 basis points, while the EMBI Global emerging market bond spread rose by 7 basis points (Chart 13).

The dollar typically appreciated against the major currencies (Chart 14). The dollar exchange rate appreciated by a total of 1.7 percent against the euro, while the US currency appreciated against the Swiss franc by 0.3 percent, the Chinese yuan by 2.6 percent, the British pound by 3.4 percent and the Japanese yen by 5 percent. The euro-dollar exchange rate broke parity several times during the period under review, and at the end of the period it was close to 0.985.

Macroeconomic figures were in line with analysts' expectations. Retail sales developed favourably both in the USA and in China, and US car sales also improved further. On the other hand, the picture is somewhat qualified by the fact that the turnover of global ports moderately decreased along with a fall in the New York manufacturing index.

The leading stock indices fell. The US Nasdaq, the S&P and the Dow Jones fell by 5.6, 4.9 and 5.1 percent, respectively. Of the European leading stock market indices, the German DAX and the French CAC declined by

Chart 15 Yields on developed market long-term bonds



Source: Bloomberg

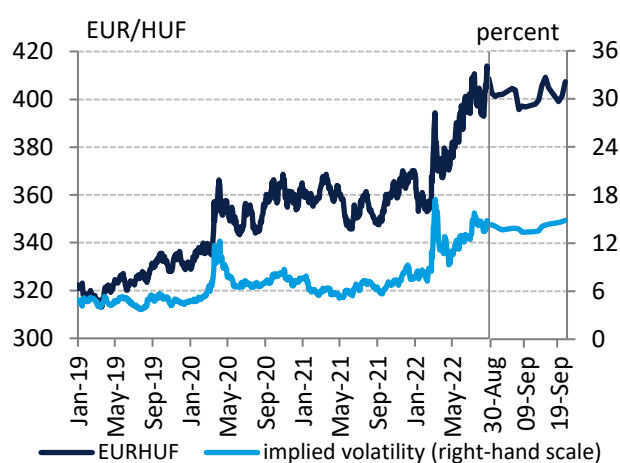
2.6 and 4.1 percent, respectively. The Japanese stock market index fell by 3.7 percent compared to the level seen at the previous interest rate decision, while the Chinese stock exchange also closed the period with a fall of 3.7 percent. Overall, the developed and emerging MSCI composite indices declined by 4.9 and 6.1 percent, respectively.

Developed market government bond yields increased (Chart 15). The ten-year US and German yield rose by 44 and 37 basis points, respectively, and thus the US yield closed the period at 3.54 percent, while the German one at 1.88 percent. Yields in the Mediterranean countries also rose: the Italian, Spanish, Portuguese and Greek yields were up by 29, 32, 32 and 44 basis points, respectively. Yields on the 10-year government bonds in the countries in the region also mostly rose: the Polish, Czech, Romanian and Hungarian yield rose by 3, 7, 33 and 44 basis points, respectively.

2.2. Developments in domestic money market indicators

Since the August interest rate decision the forint exchange rate remained broadly unchanged against the euro showing major volatility. The government securities yield curve shifted upward. The 3-month BUBOR rose by 47 basis points to 12.92 percent. In the past month, there was strong 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



Source: Bloomberg

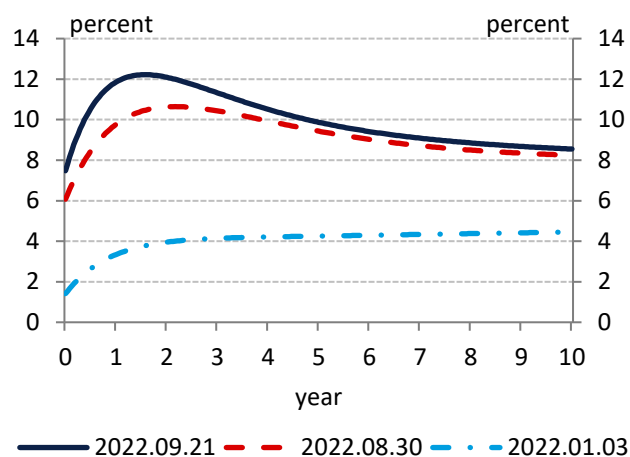
Since the August interest rate decision, the forint exchange rate remained broadly unchanged against the euro, under major volatility, and is around the 407 level.

Of the currencies in the CEE region, the Polish zloty depreciated by 1 percent, while the Czech koruna and the Romanian leu depreciated by 0.4 and 1.6 percent, respectively. (Chart 16).

The 3-month BUBOR, relevant for monetary policy transmission, rose by 47 basis points to 12.92 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 200 basis points was registered, while on the medium and longer maturities yields rose by 90-200 and 30-90 basis point, respectively.

Chart 17 Shifts in the spot government yield curve



Source: MNB, Reuters

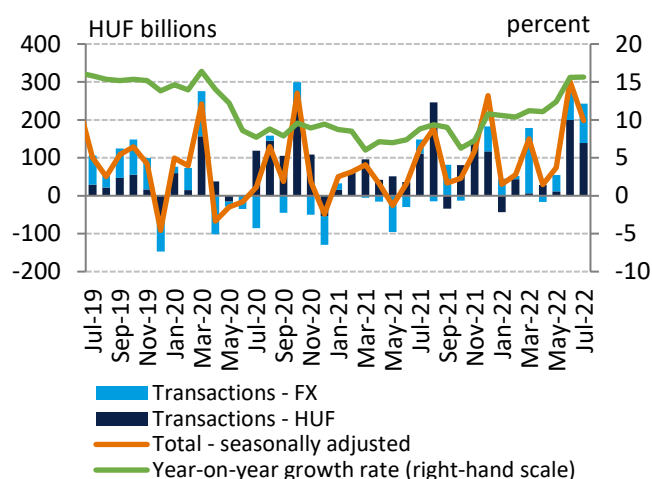
Government bond auctions held by the Government Debt Management Agency since the last interest rate decision were characterised by strong demand. In the period under review, demand at the discount Treasury bill auctions was moderate, and the Government Debt Management Agency reduced the originally announced volume on two occasions. By contrast, demand was usually high at the bond auctions and the Government Debt Management Agency was able to raise higher volume of funds than announced in several cases. Average yields rose both on Treasury bills and on government bonds.

Non-residents' holdings in forint government securities increased. Non-residents' holdings in forint government securities increased by HUF 69 billion to HUF 5,343 billion. The market share of forint government securities held by non-residents still stands at 20 percent.

3. Trends in lending

In July 2022, non-financial corporations' outstanding borrowing grew by HUF 242 billion, as a combined result of the increase in outstanding forint borrowing by HUF 139 billion and in foreign currency loans by HUF 103 billion. In July, outstanding borrowing of households increased by HUF 58 billion due to transactions, and thus reducing the annual growth rate to 10 percent. In July 2022, the smoothed interest rate spread on forint corporate loans stood at 1 percent following a decline of 0.49 percentage point compared to previous month.

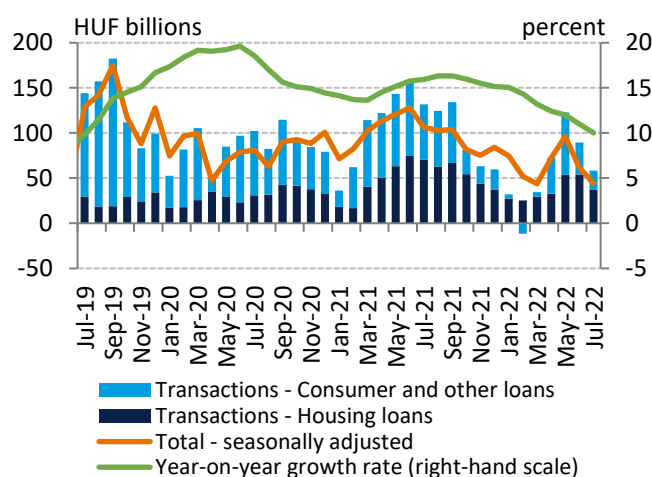
Chart 18 Net borrowing by non-financial corporations



Source: MNB

In July 2022, outstanding borrowing of non-financial corporations grew by HUF 242 billion, as a combined result of the increase in outstanding forint borrowing by HUF 139 billion and in foreign currency loans by HUF 103 billion (Chart 18). Thus the annual growth rate rose to 15.6 percent from 15 percent registered in previous month. Together with the bond transactions in the balance sheet of credit institutions, the annual growth rate reached 22 percent. In July, credit institutions disbursed new loans in the amount of HUF 297 billion, which exceeds the year-on-year figure by 22 percent. Following the phase-out of the subsidised credit schemes under the Széchenyi Card Go! Programme, the ratio of market-based loans rose to 80 percent within new loans, representing a significant increase “compared to 55 percent registered in previous month.

Chart 19 Net borrowing by households

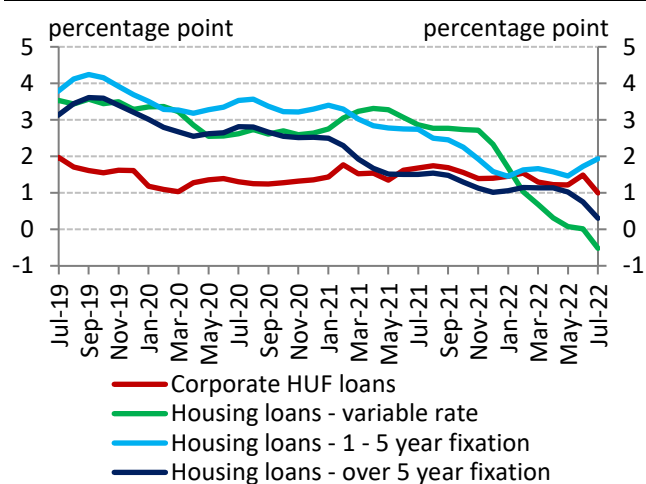


Source: MNB

In July, outstanding borrowing of households increased by HUF 58 billion due to transactions, and thus the annual growth rate moderated to 10 percent (Chart 19). Disbursement of new household loans amounted to HUF 192 billion, which was 26 percent lower than in the same period of the previous year. In parallel with the ending of the FGS Green Home Programme, rise in interest rates and the decline in housing market transactions, the volume of housing loans was moderate during the month, with a decrease in both the average loan amount of housing loans and in the number of those compared to previous month.

In July 2022, the smoothed interest rate spread on forint corporate loans stood at 1 percent, following a decline of 0.49 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 -0.52 percentage point during the month. After a rise of 0.20 percentage point, the average spread on housing loans with interest rate fixation periods longer than 1 year and up to 5 years increased to 1.93 percentage points in July, while the spread on products with interest rate fixation periods of more than 5 years fell by 0.44 percentage point and stood at 0.31 percentage points at the end of the period under review.

Chart 20 Development of corporate and household credit spreads



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

Source: MNB