# MACROECONOMIC AND

# FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 25 APRIL 2023

APRIL

2023

Time of publication: 2 p.m. on 10 May 2023

*The background material 'Macroeconomic and financial market developments' is based on information available until 19 April 2023.*

*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:
https://www.mnb.hu/en/monetary-policy/the-monetary-council/minutes

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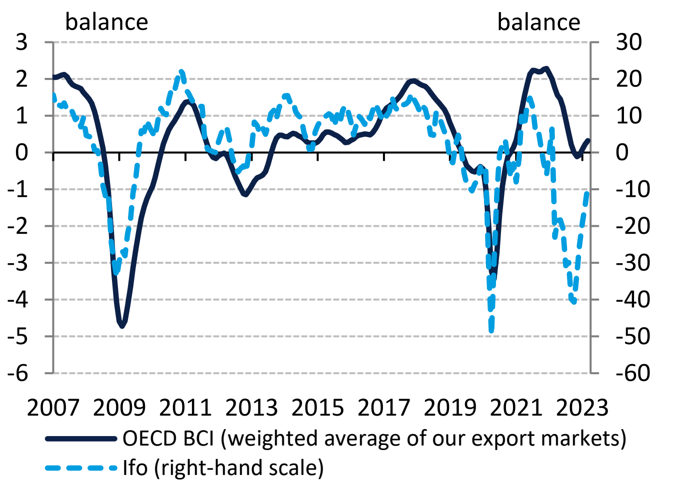
# 1. Macroeconomic developments

## 1.1. Global macroeconomic environment

In 2022 Q4, global economic growth slowed down, while in most EU countries GDP growth was more favourable than expected. The European Union, the euro area and the United States registered an economic growth of 1.7, 1.8 and 0.9 percent, respectively, year-on-year. In 2023 Q1, output in China rose by 4.5 percent, year-on-year. In March, forward-looking confidence indices deteriorated slightly in the euro area, while they improved further in the United States and in China.

**In 2022 Q4, GDP growth in the major economies slowed down further, while output in most EU countries was more favourable than expected.** The European Union, the euro area and the United States registered an economic growth of 1.7, 1.8 and 0.9 percent, respectively, year-on-year. Output in China rose by 4.5 percent in 2023 Q1, an unprecedentedly high growth since 2022 Q1. In an international comparison, among the EU countries annual GDP growth was the highest in Ireland (+13.1 percent) and in Greece (+5.2 percent) in 2022 Q4. Economic performance fell in Sweden (-0.1 percent), in Lithuania (-0.4 percent), in Luxembourg (-2.2 percent) and in Estonia (-4.4 percent). The economy of Germany – Hungary's main trading partner – expanded by 0.9 percent. On a quarter-on-quarter basis the output of ten EU Member States decreased, with the economy of Luxembourg (-3.8 percent) registering the largest decline. GDP in the EU-27 fell by 0.1 percent, while that of the euro area remained unchanged over a quarter.

Chart 1 Business climate indices in Hungary's export markets




Source: OECD, Ifo

**Monthly production indicators and retail sales showed a mixed picture in March.** Industrial production in the US grew by just 0.5 percent, the lowest since March 2021, while in China it rose by 3.9 percent, the highest growth rate since October last year. In February, a better-than-expected annual growth of 2.0 percent was registered in the euro area. In March, the volume of retail sales rose by 2.9 percent in the United States, while in China – owing to the lifting of the strict epidemiological restrictions – it grew significantly, by 10.6 percent, year-on-year. In February, a 3.0 percent fall was registered in the euro area.

**In March, forward-looking confidence indices deteriorated slightly in the euro area, while they improved further in the United States and in China** (Chart 1). In March, business sentiment in the euro area slightly deteriorated based on the Economic Sentiment Indicator (ESI) and the Purchasing Managers Index (PMI). The Purchasing Manager Index has been improving since January in the United States and since December in

China, and it was above the threshold (50 points) in both countries in March.

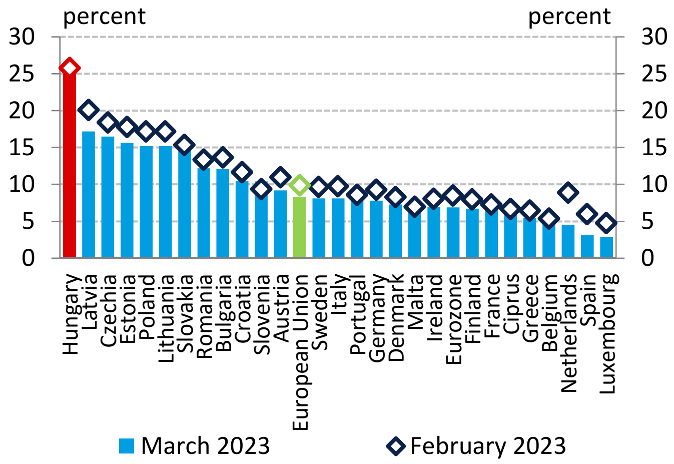
**International labour market developments remained unchanged.** In March, the unemployment rate in the United States was 3.5 percent, while in the euro area it stood at 6.6 percent in February.

**In March, inflation in the United States decreased to 5.0 percent, while in China, it fell from 1.0 percent in February to 0.7 percent in March, year-on-year.**

**In annual terms, inflation in the euro area was 6.9 percent in March, down from 8.5 percent in the previous month.** Core inflation was 5.7 percent in March, following 5.6 percent in February. The actual inflation figure was below analysts' expectations of 7.1 percent, while the core inflation figure was in line with analysts' consensus.

**Based on data from the EU-27, annual inflation eased in all countries except Malta and Slovenia in March.** Hungary had the highest inflation rate among the EU countries, in addition, the Baltic countries and the Visegrad countries also had the highest annual price index. In the region, prices rose by 16.5 percent in the Czech Republic, 15.2 percent in Poland and 14.8 percent in Slovakia, year-on-year (Chart 2).

Chart 2 Developments of inflation in European Union




Note: HICP and CPI rates.
Source: Eurostat

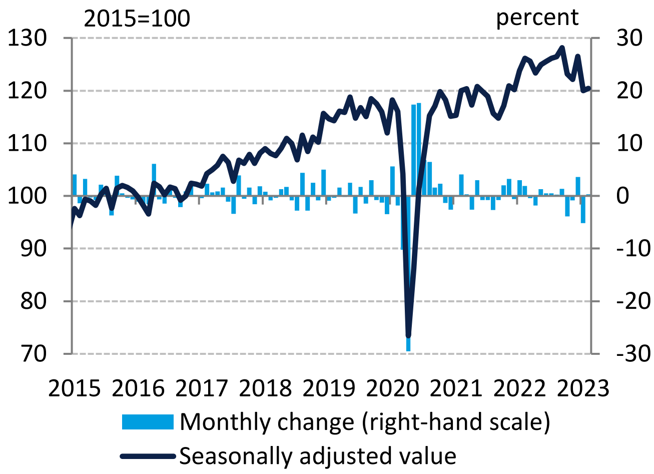
## 1.2. Real economic developments in Hungary

Incoming macroeconomic data mostly indicate a gradual decline in economic activity in the first months of the year. In February, the volume of retail sales fell sharply, by 10.1 percent, representing three months of declining sales on an annual basis. The average number of employees in the 15-74 age group was 4,691,000 in February 2023. Between December 2022 and February 2023, 15,000 more people worked in Hungary than in the same period last year. The unemployment rate stood at 4.0 percent in February.

### 1.2.1. Economic growth

**In 2022 Q4, Hungary's economic performance grew by 0.4 percent, year-on-year, while GDP declined by 0.4 percent, quarter-on-quarter.** According to the HCSO's data release, industry and market services were the largest contributors to the year-on-year growth. Annual growth was curbed primarily by a significant decline in agriculture.

Chart 3 Developments in industrial production




Source: MNB calculation based on HCSO data

**In February 2023, the decline in industrial production continued on an annual basis. Following the moderate, 0.2 percent decrease registered in January, the volume declined by 4.6 percent, year-on-year.** Compared to the previous month, the level of production rose by 0.3 percent (Chart 3). Production fell in most of the manufacturing subsectors but rose in the automotive industry and battery manufacturing, year-on-year. The output of the automotive industry, representing the largest share, grew by 7.5 percent, year-on-year. Production of electrical equipment, including battery production and the manufacture of electric motor, rose by 27.9 percent. Among the manufacturing subsectors, the output of petroleum refining (-31.4 percent), mining (-26.2 percent), chemical substances production (-23.5 percent), energy production (-18.3 percent), rubber, plastic and non-metal production (-16.5 percent), metal industry production (-14.2 percent), food production (-13.6 percent) and the manufacture of computers and electronic products (-8.9 percent) declined significantly compared to February last year.

**Following a fall of 3.6 percent registered in January, in February the volume of construction output declined by 11.8 percent, year-on-year.** Construction of buildings and other structures decreased by 8.8 percent and 17.7 percent, respectively, year-on-year. However, based on seasonally and calendar adjusted data, total construction output rose by 1.9 percent compared to January. The volume of new contracts signed was 44.4 percent lower than the base in February 2022. Within this, new contracts for the construction of buildings and of other structures declined by 36.6 percent and by 49.7 percent, respectively, year-on-year. At the end of February, the volume of construction companies' contract portfolio fell by 25.2 percent in annual comparison. The volume of outstanding contracts for the construction of buildings and of other structures declined by 13.6 percent and by 33.1 percent, respectively, in one year.

**In February 2023, the volume of retail sales fell by 10.1 percent, representing three months of declining sales** (-4.1 percent in December and -4.5 percent in January) **on an annual basis**. Excluding fuel trade, turnover declined by 9.1 percent based on data adjusted for the calendar effect. The volume of retail sales, excluding fuel trade, has been falling since last July on an annual basis. Compared to the previous month, the volume of retail sales declined by 2.0 percent, while its level in February was close to that registered at the beginning of 2021 based on seasonally and calendar adjusted data. Retail turnover declined in all product groups, except shops selling medicine, therapeutic products and perfume. After adjusting for the calendar effect, the volume of retail sales declined year-on-year in shops selling industrial goods by 19.1 percent, in stores selling furniture and appliances by 18.8 percent, at fuel stations by 14.5 percent, in online shops by 13.1 percent, in food stores and groceries by 8.6 percent, in textile, clothing and footwear shops by 7.8 percent, in book, IT goods and other industrial goods stores by 3.5 percent and in the motor vehicle and vehicle parts category by 0.6 percent. The sales of medicine, therapeutic products and perfume rose by 2.7 percent.

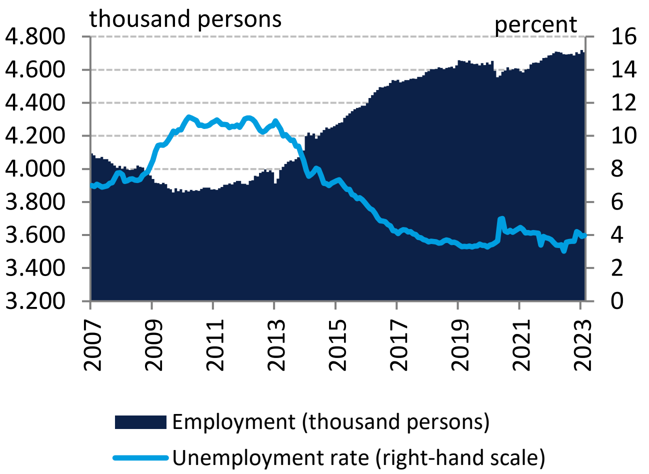
**Based on preliminary data, in February 2023 the external trade balance showed a surplus of EUR 513 million, which was a significant improvement after the deficit of EUR 413 million registered in January.** The trade balance showed a surplus in February for the first time since June 2021. The balance improved by EUR 749 million, compared to the same period of the previous year. The balance adjusted for VAT residents improved to a similar degree, by EUR 735 million on an annual basis, and it showed a deficit of EUR 22 million. In February, goods exports and imports in euro terms rose by 10.5 percent and 3.8 percent, respectively, year-on-year. In January 2023, terms of trade improved by 1.0 percent in an annual comparison. The last time when the terms of trade improved was in January 2021. Mineral fuels continue to contribute negatively to the terms of trade (-1.6 percent).

**In March 2023, high frequency data mostly reflect decelerating economic activity**. Based on online cash register data, nominal turnover in March rose by 13.6 percent, while real turnover including inflation fell by 9.5 percent in annual terms. Air passenger traffic, goods traffic and road passenger traffic declined (-9.2 percent, -3.7 percent, -4.6 percent, respectively) according to data received to date. Electricity load data fell by 9.3 percent. The number of housing market transactions declined by 42.4 percent, according to data available to date. Cinema attendance rose by 1.9 percent. Catering turnover rose by almost 20.6 percent in March. Google searches for the term “unemployment benefit” was low.

### 1.2.2. Employment

**Based on Labour Force Survey (LFS) data, the average number of employees in the 15-74 age group was 4,691,000 in February 2023. Between December 2022 and February 2023, the average number of employees was 4,690,000, exceeding the year-on-year figure by 15,000** (Chart 4). In December-February, on average, the number of employees in the primary labour market and of those working abroad rose by 12,000 and 13,000, respectively, while the number of fostered employees fell by 10,000, compared to the same period of the previous year.

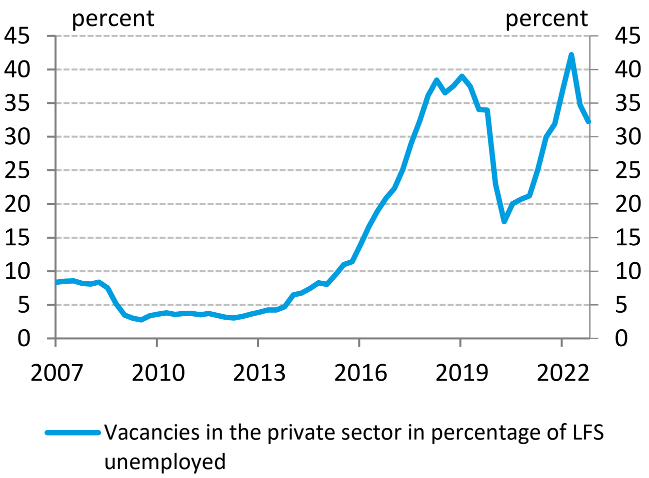
**Chart 4 Number of persons employed and the unemployment rate**




Note: Seasonally adjusted data.
Source: HCSO

**In February, the number of the unemployed was 196,000, exceeding the year-on-year figure by 17,000 persons, thus on the whole the unemployment rate stood at 4.0 percent.** Based on seasonally adjusted data, in February the number of unemployed increased compared to January. Based on data published by the National Employment Service in February and March 2023, the number of registered jobseekers in Hungary was 245,000 (-7,000 on an annual basis) and 244,000 (-7,000 on an annual basis), respectively. Based on seasonally adjusted data, the number of the registered jobseekers in March 2023 remained broadly unchanged compared to February, 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: Seasonally adjusted, quarterly data.
Source: HCSO

**The labour market remains historically tight** (Chart 5). In 2022 Q4, unsubsidised available vacancies amounted to 59,000 in the private sector, representing an increase of 4 percent in year-on-year terms and remaining broadly unchanged compared to the previous quarter. Labour demand remained unchanged in market services, while it declined moderately in manufacturing, quarter-on-quarter. In manufacturing, there were 400 fewer job vacancies in Q3. In 2022 Q4, job vacancies amounted to 33,500 in the services sector, the same as in the previous quarter. Within the market services sector, job vacancies grew by 500 in each of the real estate transactions, the professional and scientific activities and tourism sectors, quarter-on-quarter. Labour demand in the financial activities and infocommunication sectors moderately declined, quarter-on-quarter. Within the public sector, job vacancies in public administration declined significantly, by 1,100, and moderately in education, while they slightly rose in the healthcare sector compared to the third quarter.

## 1.3. Inflation and wages

In March 2023, domestic inflation continued to decline. Consumer prices rose by 25.2 percent in an annual comparison. However, core inflation rose to 25.7 percent after falling in February and core inflation excluding indirect taxes was 25.6 percent. The incoming inflation data were at the top of the band of analysts' expectations. In January 2023, average regular earnings (excluding bonuses) rose by 17.3 percent in annual terms in the overall economy, and by 18.2 percent in the private sector, respectively.

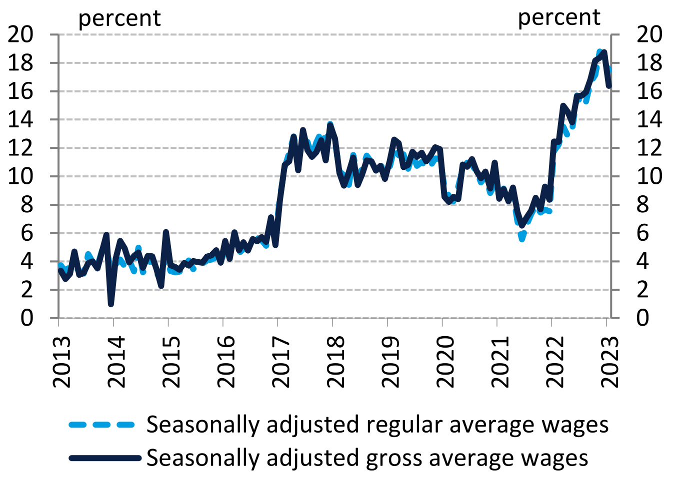
### 1.3.1. Wages

**Starting from the January 2023 data release, the HCSO compiles wage statistics for the whole range of employers, while formerly enterprises with fewer than 5 employees and non-profit organisations were excluded from the statistics.** The difference between the key indicators calculated for the two reference groups is not significant. Between 2019 and 2022, the differences in the monthly gross average wages were 2.6 and 3.5 percent (HUF 10,000 and 19,000).

**In January 2023, gross average earnings in the private sector rose by 17.0 percent, year-on-year.** The amount of bonus payments was close to the historical average in January. Average regular earnings (excluding bonuses) rose by 17.3 percent in annual terms in the whole economy and by 18.2 percent in the private sector, respectively.

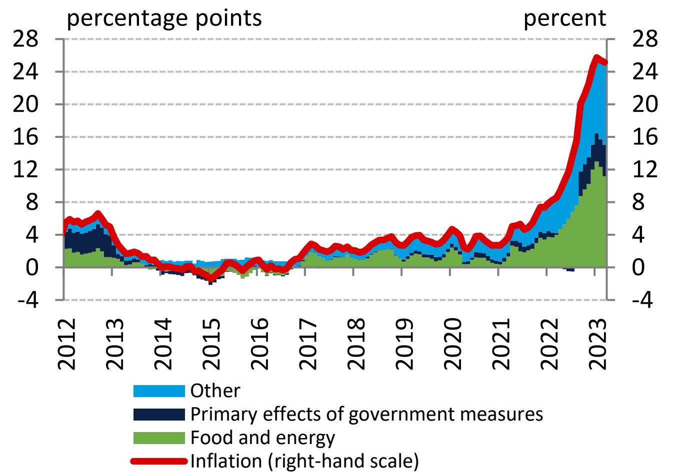
**According to seasonally adjusted data, growth in both gross average wages and regular average wages decelerated in the private sector compared to the previous month** (Chart 6). In the private sector, wage dynamics in manufacturing outstripped that in market services. Annual wage dynamics were over 10.0 percent in most sectors. In January, based on raw data, manufacturing wages were higher by 20.1 percent, year-on-year. In market services, the HCSO recorded a growth of 15.4 percent. Gross wages in construction and trade rose by 17.3 percent and 15.5 percent, respectively, in year-on-year terms.

Chart 6 Dynamics of average earnings in the private sector




Source: MNB calculation based on HCSO data

Chart 7 Decomposition of inflation

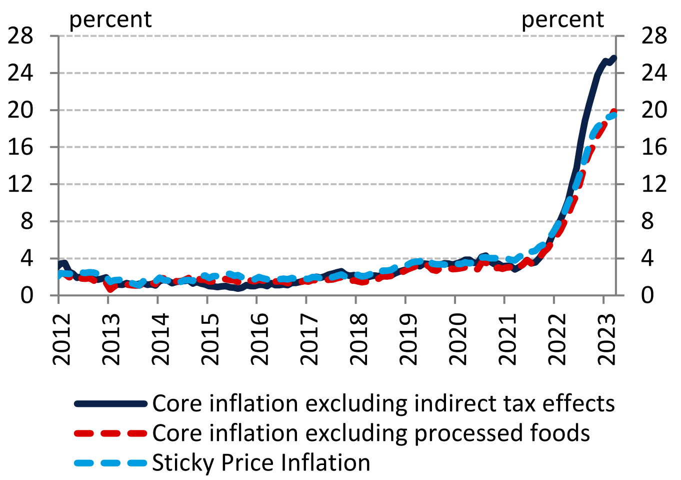



Source: MNB calculation based on HCSO data

### 1.3.2. Inflation developments

**In March 2023, inflation in Hungary continued to fall, and consumer prices rose by 25.2 percent, year-on-year** (Chart 7). Compared to the previous month, inflation declined by 0.2 percentage point. The largest contributors to the deceleration included fuels (-0.3 percentage point) and processed food (-0.2 percentage point). Core inflation rose to 25.7 percent after falling in February and core inflation excluding indirect taxes was 25.6 percent in March. Compared to the previous month, annual core inflation increased by 0.5 percentage point. The rise in core inflation is mainly due to accelerating inflation in

**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

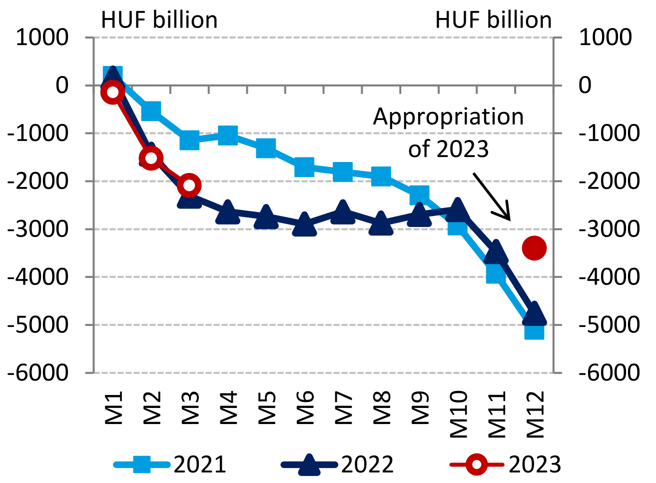
market services. The incoming inflation data were at the top of the band of analysts' expectations. The median was 25.0 percent, while expectations varied between 24.7 and 25.2 percent.

**The monthly change in core inflation excluding processed food prices, which better reflects market developments, was 1.8 percent.** Underlying inflation indicators, capturing persistent trends on an annual basis, rose slightly compared to the previous month (Chart 8).

## 1.4. Fiscal developments

In March 2023, the deficit of the general government's central sub-sector was HUF 565 billion, which is HUF 311 billion more favourable than in March 2022. As a result, the year-to-date cumulative deficit rose to HUF 2,090 billion by the end of March, being 61 percent of the appropriation for the whole year. In March, revenues of the central sub-sector rose by HUF 485 billion, and within that tax and contribution revenues increased by HUF 137 billion in annual terms, while expenditures exceeded the March 2022 figure by roughly HUF 174 billion.

**Chart 9 Intra-year cumulative cash balance of the central government budget**




Source: Budget Act of 2023, Hungarian State Treasury

In March 2023, **the deficit of the general government's central sub-sector** was HUF 565 billion, HUF 311 billion more favourable than a year earlier. As a result, the year-to-date cumulative deficit rose to HUF 2,090 billion by the end of March, being 61 percent of the appropriation for the whole year (Chart 9).

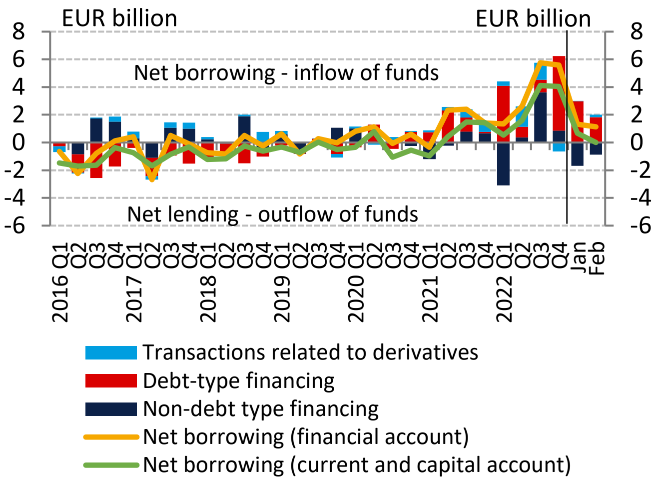
In March, **revenues of the central sub-sector** were HUF 485 billion higher in March than a year before. Tax and contribution revenues rose by HUF 137 billion compared to March 2022. The dynamics of revenues related to wages and other incomes declined compared to the previous month, reflecting the higher base resulting from the payment of armed forces' benefits last year. EU grants were recognised in the amount of HUF 330 billion during the month, the largest part of which had been received earlier.

**Expenditures** were nearly HUF 174 billion higher than in March 2022. The growth is primarily the result of the increase of HUF 132 billion in net interest expenditure and to the rise of HUF 100 billion in pension expenditure due to raising of pensions. By contrast, expenditure of budgetary organisations declined by HUF 162 billion compared to March 2022. The amount of normative and special subsidies was significantly below the level of January and February, mainly due to low energy expenditures.

## 1.5. External balance developments

In February 2023, the current account deficit declined significantly compared to previous month's data, which also showed an improvement, and in parallel with that the external position also improved. The current account deficit and net lending amounted to EUR 160 million and EUR 8 million, respectively. In addition, the trade balance of goods showed a surplus for the first time since June 2021. According to the January figures, the terms of trade rose by 1.0 percent in annual terms; the last time when the change in the terms of trade showed a positive value was in January 2021. According to financial accounts data, net external debt grew in parallel with the net outflow of foreign direct investments.

**Chart 10 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 February 2023, the current account deficit was EUR 160 million, while net lending amounted to EUR 8 million** (Chart 10). The current account deficit decreased significantly compared to the figure registered previous month, which also showed an improvement. The favourable development in the external balance was primarily the result of the fall in the goods deficit by around EUR 500 million, driven partly by the improved energy balance and partly by the dynamic growth in exports. The services balance surplus also rose by about EUR 200 million compared to January. The monthly income balance deficit was broadly unchanged compared to January, while the transfer balance deteriorated slightly.

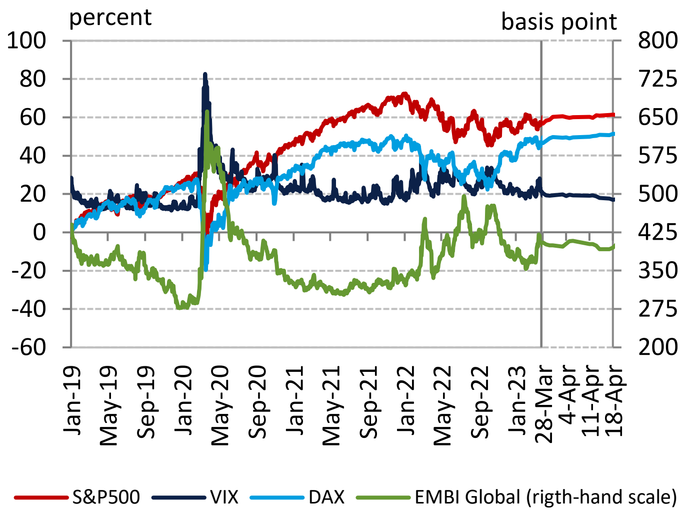
**According to financial accounts data, net external debt grew in parallel with the net outflow of foreign direct investments.** The decline in net foreign direct investments was partially the result of the acquisition of foreign participation by a resident company. Net external debt rose by about EUR 1.8 billion due to transactions, which was attributable to the rise in the government's indicator, while net external debt of banks and companies declined.

# 2. Financial markets

## 2.1. International financial markets

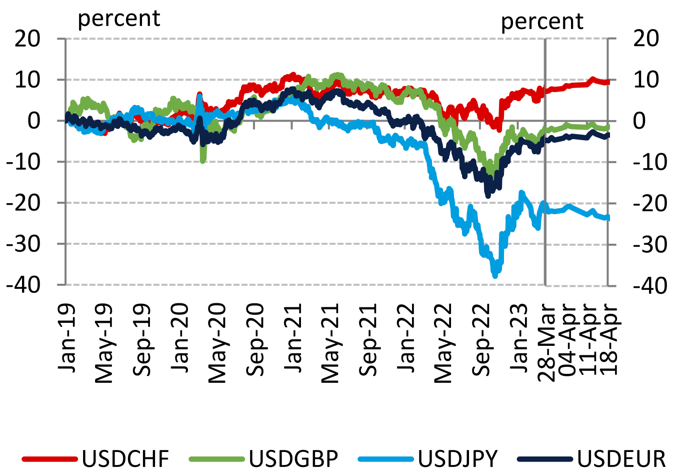
Since the previous interest rate decision, global investor sentiment has been shaped primarily by expectations for the world's leading central banks' monetary policy, incoming macroeconomic data and developments in US bank failures. Long-term yields generally rose in developed markets and in the CEE region. Leading stock indices rose slightly.

**Chart 11 Developed market equity indices, the VIX index and the EMBI Global Index**




Source: Bloomberg

**Chart 12 Evolution of developed market FX exchange rates from January 2019**




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

**Since the previous interest rate decision, global investor sentiment has been shaped primarily by expectations for the world's leading central banks' monetary policy, incoming macroeconomic data and developments in US and Swiss bank failures.**

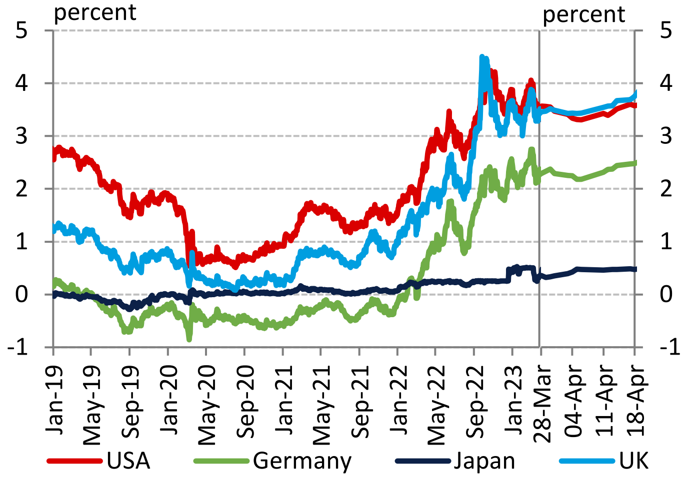
**Financial market sentiment has improved since the previous interest rate decision.** Among the risk indicators, the VIX index, the key measure of equity market volatility, decreased overall by 2.5 percentage points to 17.5 percent compared to the level registered at the previous interest rate decision, while in emerging markets the EMBI Global bond market premium decreased by 10 basis points (Chart 11). The MOVE index (a measure of developed bond market volatility) declined by 33 basis points to 122 basis points.

**Leading stock indices rose.** The US S&P 500 and the Dow Jones increased by 3.2 and 3.8 percent, respectively, over the period. Among leading European stock market indices, the German DAX and the French CAC40 rose by 3.4 and 4.8 percent, respectively. Among the Asian indices, the Japanese Nikkei was up by 0.1 percent, while the Shanghai stock market index rose by 2.6 percent compared to the level seen at the previous interest rate decision. Overall, the developed and emerging market MSCI composite indices increased by 3.5 and 2.1 percent, respectively.

**The US dollar exchange rate was mixed against the major currencies** (Chart 12). The dollar appreciated by 3.0 percent against the Japanese yen, and by 0.3 percent against the Chinese renminbi, while it depreciated by 0.8 percent against the euro, by 0.5 percent against the British pound and by 2.2 percent against the Swiss franc. The EUR/USD exchange rate showed a high volatility during the period under review, and by the end of the period it was close to 1.09.

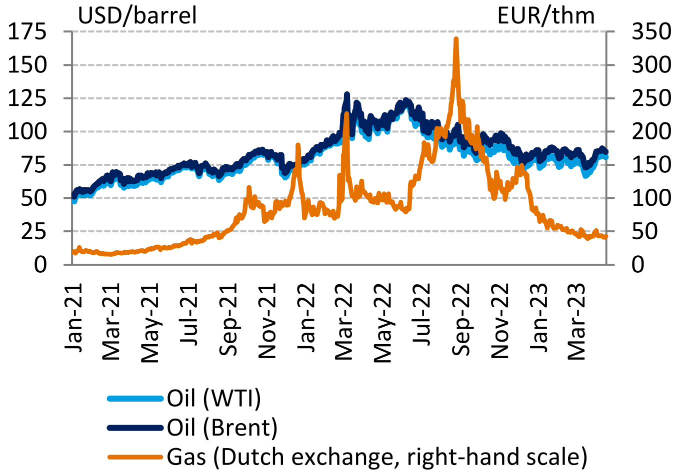
**Long-term yields generally rose in developed markets and in the CEE region** (Chart 13). The ten-year US and German yield rose by 5 and 19 basis points, respectively, and thus the US yield closed the period at 3.62 percent, while the German yield at 2.51 percent. Yields in the

Chart 13 Yields on developed market long-term bonds




Source: Bloomberg

Chart 14 Developments in oil and gas prices since January 2021




Source: Bloomberg

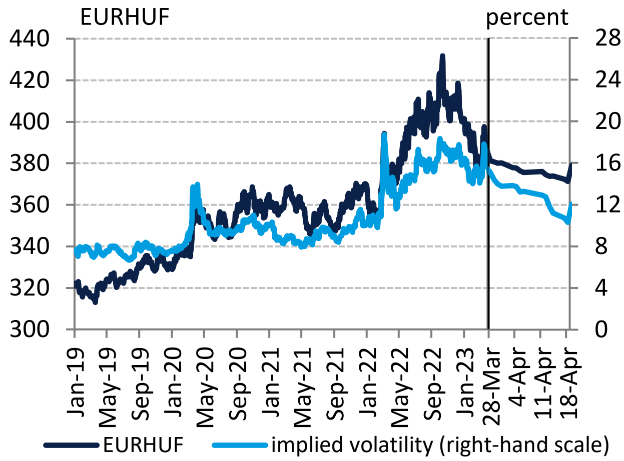
Mediterranean countries also rose: Spanish yields were up by 35 basis points, Portuguese and Italian yields by 34-34 basis points, and Greek yields by 25 basis points. Yields on 10-year government bonds in the countries of the CEE region also moved higher: Romanian, Czech and Polish yields were up by 29, 23 and 8 basis points, respectively, while Hungarian yields are 25 basis points higher than at the March rate decision.

**Oil prices have increased since the previous interest rate decision:** the price of Brent crude oil rose by 7.8 percent to USD 85 per barrel, while the US benchmark WTI oil price was up by 9.8 percent to USD 81 per barrel (Chart 14). Gas prices declined by 1.2 percent, representing a minor shift compared to the fluctuations seen previously; accordingly, the gas market shows signs of stabilisation. Currently, gas storage facilities in Europe are filled up to 57 percent on average, which is roughly the double the average capacity seen in previous years in this period. This reflects, among others, the milder winter weather and stronger imports of liquefied natural gas. **The price of industrial metals declined, while the price of certain commodities (e.g. sugar and coffee) rose significantly. The Bloomberg commodity price index, covering the entire commodity market, rose by 4.5 percent over the period.**

## 2.2. Developments in domestic money market indicators

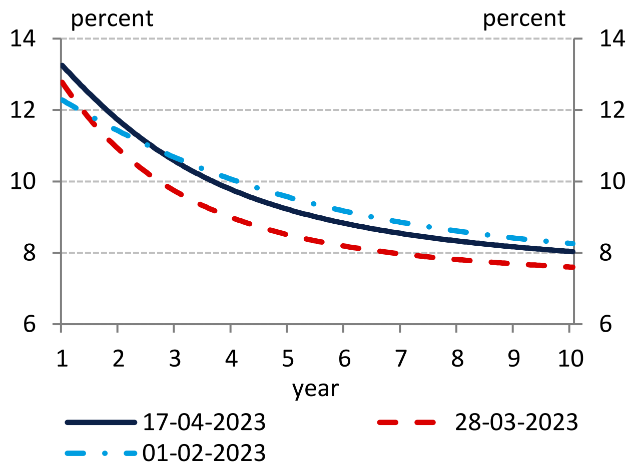
The forint first appreciated against the euro since the interest rate decision in March, outperforming the currencies in the region, then after an adjustment, it moderately appreciated overall. The government securities yield curve shifted upward. The 3-month BUBOR rose by 1 basis point to 16.31 percent.

Chart 15 EUR/HUF exchange rate and the implied volatility of exchange rate expectations




Source: Bloomberg

Chart 16 Shifts in the spot government yield curve




Source: Bloomberg

**The forint first appreciated against the euro since the interest rate decision in March, outperforming the currencies in the region, then after an adjustment, it appreciated overall moderately, by 0.6 percent** (Chart 15). Among the currencies of the CEE region, the Polish zloty, the Czech koruna and the Romanian leu appreciated against the euro by 1.2 percent, 0.8 percent and 0.4 percent, respectively.

**The 3-month BUBOR, relevant for monetary policy transmission, rose by 1 basis point to 16.31 percent since the last interest rate decision.**

**The government securities yield curve shifted upward** (Chart 16)**.** At the 1-year section of the curve yields rose by 40–60 basis points, while at medium and longer maturities they rose by an average of 50–80 basis points.

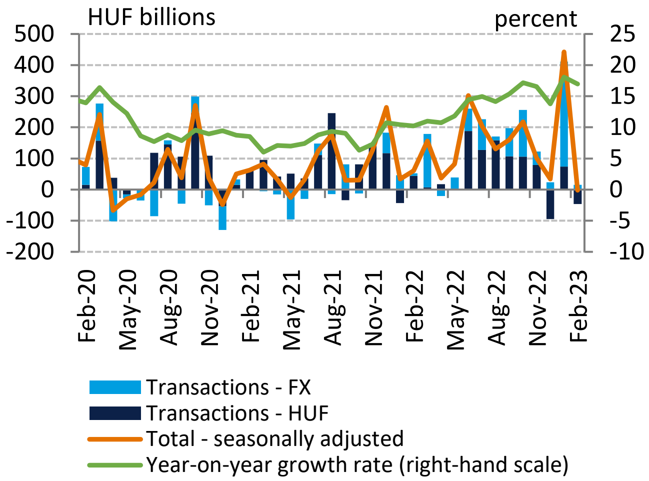
**Since the last interest rate decision, government bond auctions held by the Government Debt Management Agency have been characterised by mixed demand.** During the period under review, at certain government bond auctions the Government Debt Management Agency accepted lower volume than announced, while at other auctions significant tap issuance was made, so overall, a greater amount long-term funds was raised than originally announced. Average yields typically declined. **The discount Treasury bill auctions were mostly characterised by rising average yield and strong demand.**

**Non-residents' holdings of forint government securities increased.** Forint government securities held by non-residents increased by HUF 302 billion to HUF 6,948 billion. The market share of forint government securities held by foreign actors increased to close to 21.6 percent.

# 3. Trends in lending

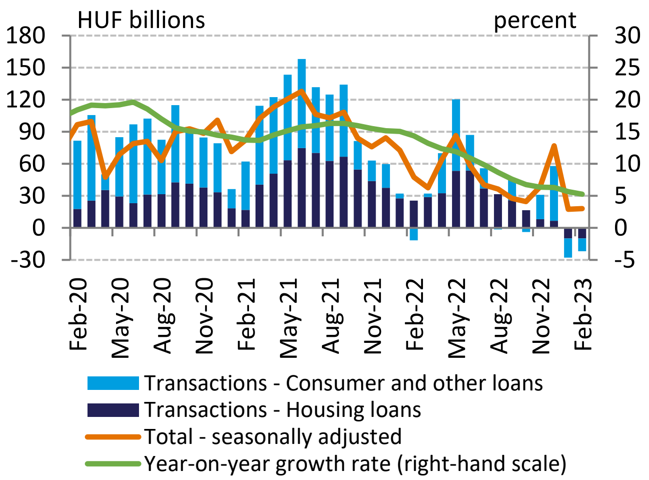
Reflecting a fall in forint loans by HUF 46 billion and a rise in foreign currency loans by HUF 15 billion, outstanding loans to non-financial corporations fell by HUF 31 billion in February 2023. In February, outstanding borrowing by households decreased by HUF 22 billion due to transactions, reducing the annual growth rate to 5.3 percent from 5.7 percent last month. In February 2023, the smoothed interest rate spread on forint corporate loans stood at 1.72 percentage points, after a decline of 0.29 percentage points compared to previous month.

**Chart 17 Net borrowing by non-financial corporations**




Source: MNB

**Chart 18 Net borrowing by households**



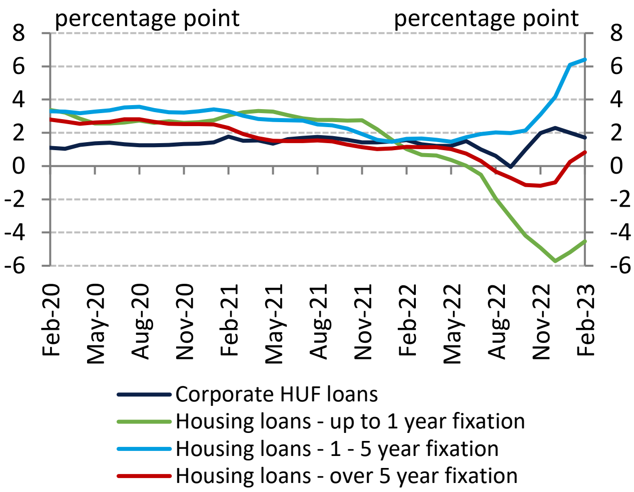

Source: MNB

**Reflecting a fall in forint loans by HUF 46 billion and a rise foreign currency loans by HUF 15 billion, outstanding loans to non-financial corporations fell by HUF 31 billion in February 2023** (Chart 17). As a result, the annual growth rate slowed to 17.0 percent from 18.1 percent registered in previous month. Credit institutions disbursed new loans in the amount of HUF 188 billion, 28 percent less than a year earlier.

**In February, outstanding borrowing by households decreased by HUF 22 billion due to transactions, reducing the annual growth rate to 5.3 percent from 5.7 percent last month** (Chart 18). The volume of new household loan contracts, amounting to HUF 98 billion, was 49 percent lower than in the same period last year. The decline affected all of the main credit products, with the disbursement of housing loans registering the largest decline both in terms of volume and number of contracts. In parallel with the rise in interest rate on loans, average loan amounts of housing loans declined further.

**In February 2023, the smoothed interest rate spread on forint corporate loans stood at 1.72 percentage points, after a decline of 0.29 percentage points compared to previous month** (Chart 19). After a rise of 0.31 percentage point, the average APR-based spread on housing loans with interest rate fixation periods longer than 1 year and up to 5 years increased to 6.41 percentage points in February, while the spread on products with interest rate fixation periods of more than 5 years grew by 0.59 percentage point and stood at 0.83 percentage points at the end of the period under review. The spread is always calculated based on the average reference rate prevailing in the month when the loan was disbursed, and thus due to the delayed nature of the repricing negative spreads may develop temporarily in certain sub-markets. In the case of subsidised loans, the interest rate also includes the state interest subsidy; accordingly, the calculated average spreads are higher than those actually seen by customers. This effect appears particularly in the case of housing loans with interest rate fixation for 1–5 years.

**Chart 19 Developments in corporate and household credit spreads**




Note: Above APR, 3-month smoothed spreads. 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