MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 25 JULY 2023

JULY

2023

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The background material 'Macroeconomic and financial market developments' is based on information available until 19 July 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

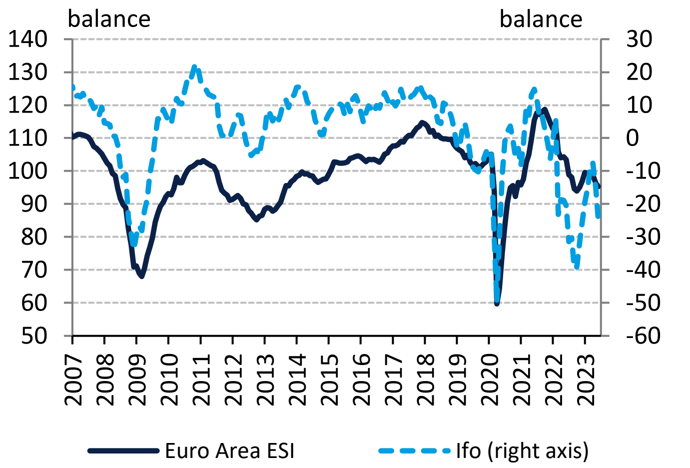
1.1. Global macroeconomic environment

In 2023 Q1, GDP growth in the major developed economies slowed down further. On an annual basis, China's economy has been growing at an increasing pace since the last quarter of 2022. However, the growth of 6.3 percent in 2023 Q2, substantially fell short of expectations. Monthly production indicators and retail sales rose in the United States and in China, while they fell in the euro area in May. In June, the purchasing managers' index deteriorated in the euro area, China and the United States. Based on the incoming US labour market data, the growth in the number of people in employment in the non-agricultural sector was the lowest in June since the end of 2020.

In 2023 Q1, GDP growth in the major economies slowed down further. In an international comparison, economic growth was 1.0 percent in the euro area and the European Union and 1.6 percent in the United States in year-on-year terms. The economy of China grew by 6.3 percent in Q2, which substantially fell short of the expectations albeit it was higher than in the previous quarter. According to available data, among the EU countries, annual GDP growth was the highest in Spain (+3.8 percent) and Cyprus (+3.4 percent) in 2023 Q1. Hungary's main trading partner, Germany's economy shrank by 0.5 percent. Quarter on quarter, economic performance rose in 18 Member States, stagnated in the Czech Republic, while it declined in Hungary, Estonia, Greece, the Netherlands, Ireland, Lithuania, Malta and Germany.

Monthly industrial production indicators and retail sales rose in the USA and in China, while they fall in the euro area. In May, industrial production in China and in the United States rose by 3.5 percent and 0.2 percent, respectively, while it fell by 2.2 percent in the euro area. In May, the volume of retail sales grew by 1.6 percent in the USA and 12.7 percent in China, year on year. A 2.9 percent fall was registered in the euro area.

Chart 1 Business climate indices in Hungary's export markets

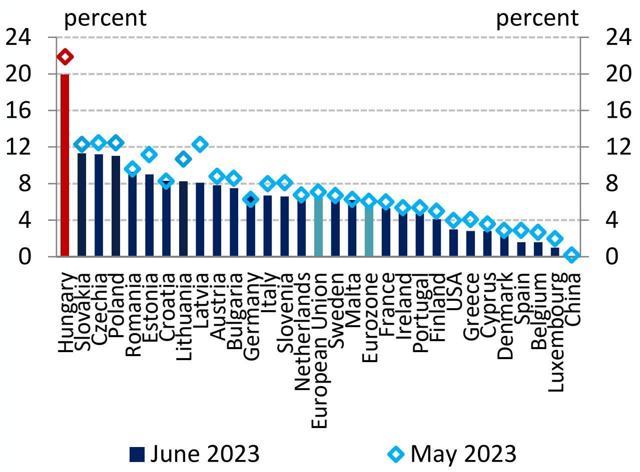


Source: Europen Commission, Ifo

In June, the Purchasing Managers Index deteriorated in the euro area, China and the United States (Chart 1). In June, business sentiment in the euro area deteriorated on a monthly basis, measured by the Economic Sentiment Indicator (ESI) and the Purchasing Managers Index (PMI). The PMI deteriorated in the United States and in China compared to the previous month, but remained above the threshold (50 points) in both countries in June.

There is still no sign of significant slowdown in international labour market developments. In June, the unemployment rate in the United States dropped to 3.6 percent. However, under the persistently tight labour market conditions the number of non-agricultural

Chart 2 Developments of inflation in European Union



Note: HICP and CPI rates.

Source: Eurostat

employees rose by 209,000 in June – compared to 306,000 persons registered in May – being the lowest figure since the end of 2020. The unemployment rate in the euro area stood at 6.5 percent in May.

In May, annual inflation in the United States fell to 3.0 percent, while in China it dropped from 0.2 percent of May to 0.0 percent in June.

In annual terms, inflation in the euro area was 5.5 percent in June, down from 6.1 percent in the previous month. Core inflation rose moderately in June, to 5.5 percent, compared to 5.3 percent registered in May. The preliminary inflation figure was slightly lower than analysts' expectations of 5.6 percent, while the core inflation figure was in line with analysts' expectations (5.5. percent).

Inflation declined in all but two EU countries in June. Hungary had the highest inflation rate among the EU countries. In addition, the annual price index was higher in the CEE region and the Baltic States. In the region, prices rose by 11.3 percent in Slovakia, 11.2 percent in the Czech Republic, 11.0 percent in Poland and 9.3 percent in Romania, year on year (Chart 2).

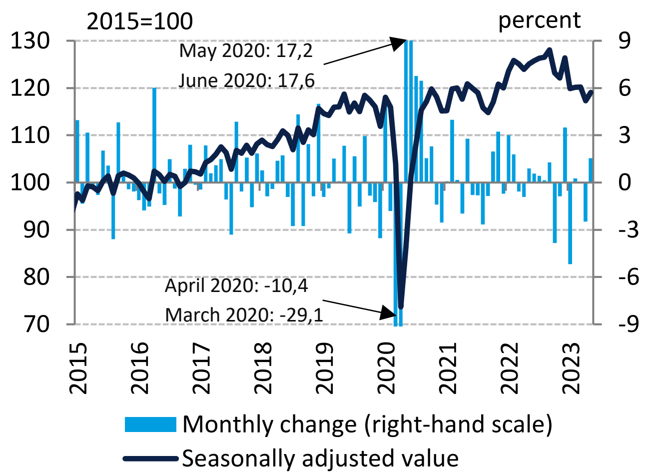
1.2. Real economic developments in Hungary

In 2023 Q1, Hungary's gross domestic product fell by 0.9 percent, year on year. Incoming macroeconomic data also indicate declining economic activity in the second quarter. In May 2023, the volume of industrial production, construction output and the volume of retail trade fell by 6.9 percent, 12.0 percent and 12.3 percent, respectively, year on year. In May 2023, the average number of employees in the 15-74 age group was 4,713,000. On average, 10,000 more people worked in Hungary in the period of March-May 2023 than in the same period last year. The unemployment rate stood at 3.8 percent in May.

1.2.1. Economic growth

In 2023 Q1, Hungary's economic performance was down by 0.9 percent, year on year, while GDP declined by 0.3 percent, quarter on quarter. On the production side both the output of industry (-3.2 percent) and construction (-8.6 percent) declined in Q1. The fall in the energy industry significantly contributed to the contraction of industrial performance. Among the manufacturing subsectors, chemical substances production and the manufacture of chemical products reduced industrial performance to the largest degree, while the decline of the industry was mostly curbed by the manufacturing of road vehicles and electrical equipment. Following last year's drought, the performance of agriculture significantly grew (+20.2 percent); in addition, contraction of the economy was reduced by the positive performance of services (+1.1 percent). The human health and social care sector was the largest contributor to growth in services (+16.9 percent), coming close to the level seen before the coronavirus pandemic. Among the market services, trade, transportation and storage - representing a large weight - declined, but this was offset by the rest of the subsectors. Among the expenditure items, economic performance was raised only by net exports (+4.4 percent). Households' consumption expenditure and gross fixed capital formation declined by 3.9 percent and 6.0 percent, respectively, year on year. The contribution of changes in inventories to growth was substantially negative (-1.9 percentage points).

Chart 3 Developments in industrial production



Source: MNB calculation based on HCSO data

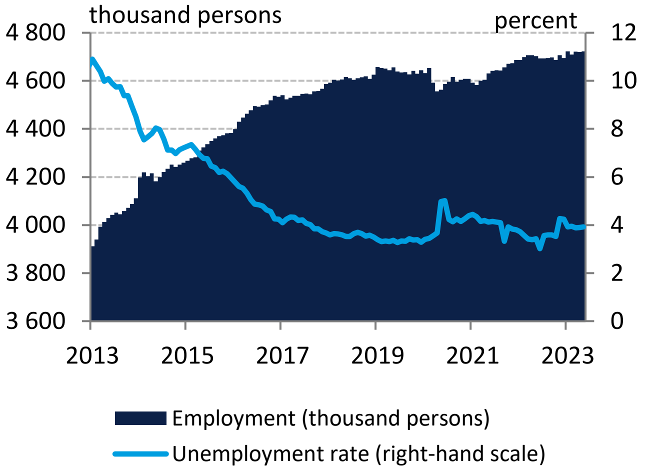
In May 2023, the decline in industrial production continued on an annual basis. Following the 8.3 percent decrease registered in April, the volume declined by 6.9 percent, year on year. Seasonally and calendar adjusted series show a 4.6 percent decline compared to May last year. Compared to the previous month, the level of production rose by 1.6 percent (Chart 3). Production fell in the vast majority of the manufacturing subsectors, but rose in the export-oriented automotive industry, battery manufacturing and pharmaceutical manufacturing, year on year. The output of the automotive industry, representing the largest share, grew by 10.5 percent compared to May last year, while production of electrical equipment, including battery production and the manufacturing of electric motors, rose by 13.4 percent. The decline registered in the past two months in the output of pharmaceutical manufacturing was followed by a rise of 6.7 percent in annual terms. The rest of the subsectors representing a larger weight registered a decline in production. The output of mining (-32.6 percent), energy production (-31.6 percent), rubber, plastics and non-metal production (-24.7 percent), chemical substances production (-20.0 percent), food production (-16.7 percent), metal industry production (-15.4 percent), manufacture of computers and electronic products (-6.9 percent) and petroleum refining (-3.9 percent) also declined compared to last May.

The volume of construction output declined by 12.0 percent in May 2023, representing a steady fall since January on an annual basis. Construction of buildings and other construction decreased by 13.2 percent and 10.0 percent, respectively, year on year. Based on seasonally and calendar adjusted data, total construction output fell by 1.7 percent compared to April. The number of new contracts decreased by 36.9 percent compared to May 2022. The number of new contracts concluded for construction of buildings declined by 48.5 percent and for other construction works by 11.9 percent. The end-May volume of construction companies' contract portfolio fell short of the value registered a year ago by 30.2 percent. Contracts for the construction of buildings and of other construction declined by 13.7 percent and by 40.8 percent, respectively, year on year.

In May 2023, the volume of retail sales fell by 12.3 percent, representing six months of declining sales on an annual basis. The base effect resulting from the government disbursements early last year and from the administrative fuel price significantly contributed to the decline in May. Excluding fuel trade, turnover declined by 8.9 percent based on calendar adjusted data. The volume of retail sales, excluding fuel trade, has been falling since last July on an annual basis. In May the volume of retail sales declined further on a monthly basis (-0.8 percent), as a result of which it fell in 11 of the past 14 months. The level of retail sales is still close to the level registered at the beginning of 2021 based on seasonally and calendar adjusted data. Retail turnover declined in all product groups, except shops selling medicine and perfume. Sales declined by more than 10 percent in clothing shops (-16.2 percent), furniture and appliance shops (-19.5 percent), industrial goods (-20.1 percent) and fuel (-25.9 percent).

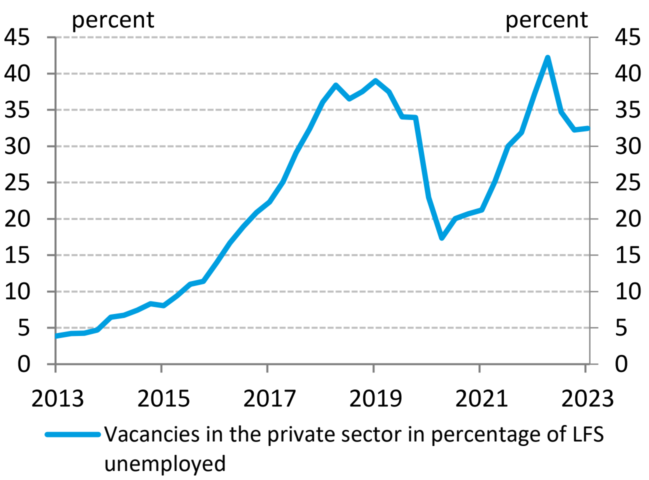
According to preliminary data, the merchandise trade surplus of EUR 366 billion, registered in April, rose to EUR 1.1 billion in May 2023. The balance improved by EUR 723 million compared to previous month and by EUR 1.3 billion

Chart 4 Number of persons employed and the unemployment rate



Note: Seasonally adjusted data.
Source: HCSO

Chart 5 Developments in labour market tightness indicator



Note: Seasonally adjusted, quarterly data.
Source: HCSO

in annual terms. The balance adjusted for VAT residents improved by EUR 1.4 billion on an annual basis, and it showed a surplus of EUR 550 million. In May, despite the further decline in industrial production, the value of goods exports in euro terms rose by 5.2 percent. In line with the slowdown in domestic demand, the nominal value of imports in euro terms fell by 5.4 percent, year on year. In April 2023, the terms of trade improved by 3.6 percent in an annual comparison. The contribution of mineral fuels improved the terms of trade; in April the effect of this was 2.3 percent.

In June 2023, most of the high frequency data reflect a fall in economic activity. In June, based on online cash register data, nominal turnover rose by 11.4 percent, while real turnover adjusted for inflation fell by 8.6 percent in annual terms. Freight traffic, passenger flights and road passenger traffic declined (-0.9 percent, -9.2 percent, -7.3 percent, respectively) according to data received to date. Electricity load fell by 10.4 percent. Cinema attendance rose by 16.6 percent. Catering turnover rose by almost 13.5 percent. In May, the number of housing market transactions declined by 27.3 percent, according to data available to date. Google searches for the term “unemployment benefit” was low.

1.2.2. Employment

Based on the data of the Labour Force Survey (LFS) in May 2023, the average number of employees in the 15-74 age group was 4,713,000. In the period of March to May 2023, the average number of employees was 4,704,000, exceeding the year-on-year figure by 14,000 (Chart 4). In March-May, on average, the number of employees in the primary labour market and of those employed at local units abroad rose by 14,000 and 5,000, respectively, while the number of fostered workers fell by 9,000, compared to the same period of the previous year.

In May, the number of the unemployed was 186,000, exceeding the year-on-year figure by 19,000 persons, thus on the whole the unemployment rate stood at 3.8 percent. Based on seasonally adjusted data, in May the number of unemployed increased slightly compared to April. Based on data published by the National Employment Service in May and June 2023, the number of registered jobseekers in Hungary was 229,000 (-5,000 on an annual basis) and 224,000 (-6,000 on an annual basis), respectively. Based on seasonally adjusted data, the number of the registered jobseekers in June 2023 remained essentially unchanged compared to May, and it is still below the number measured in the months before the outbreak of the coronavirus pandemic.

The labour market remains historically tight (Chart 5). In 2023 Q1, non-subsidised job vacancies amounted to 59,000 in the private sector, representing a decline of 5 percent in year-on-year terms and remaining broadly unchanged compared to the previous quarter. Within the public sector, job vacancies in public administration and healthcare fell, while it moderately rose in education compared to Q4.

1.3. Inflation and wages

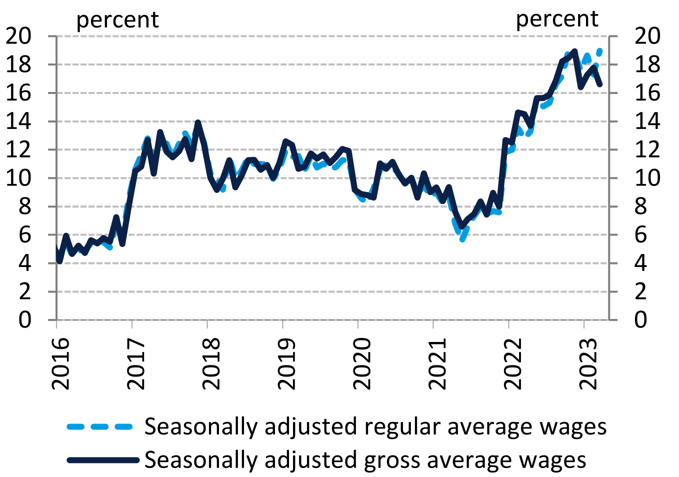
Domestic inflation fell for the fifth month in June 2023. Consumer prices rose by 20.1 percent, year on year. In May core inflation continued to fall and stood at 20.8 percent, while core inflation excluding indirect taxes was 20.7 percent. Incoming inflation data matched analysts' expectations. In April 2023, average earnings in the national economy (excluding bonuses) rose by 16.9 percent, while private sector wages increased by 18.9 percent in annual terms.

1.3.1. Wages

In April 2023, gross average wages in the private sector rose by 16.4 percent, year on year. Average regular earnings (excluding bonuses) rose by 16.9 percent in annual terms in the whole economy and by 18.9 percent in the private sector, respectively. Contrary to previous year, regular wages rose this April on a monthly basis, at a rate of 0.4 percent.

According to seasonally adjusted data, growth in gross average wage decelerated, while regular average wage accelerated 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 14.0 percent in most sectors. In April, manufacturing wages were higher by 18.7 percent, year on year. In market services, HCSO registered a growth of 15.0 percent. Gross wages in construction and trade rose by 14.4 percent and 14.9 percent, respectively, in annual terms.

Chart 6 Dynamics of average earnings in the private sector

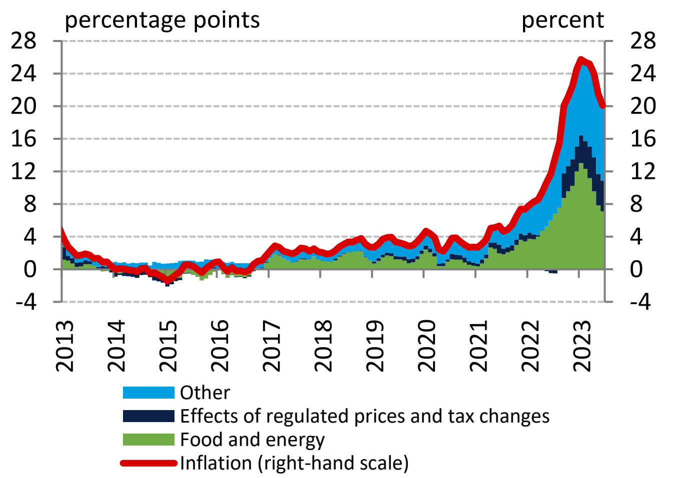


Source: MNB calculation based on HCSO data

1.3.2. Inflation developments

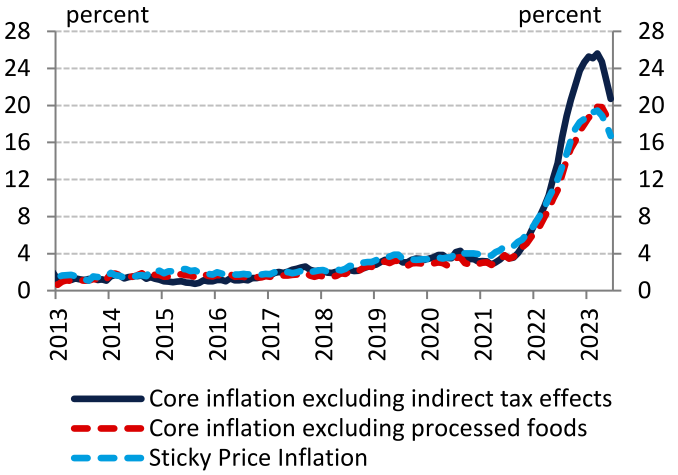
Domestic inflation fell for the fifth month in June 2023. Consumer prices rose by 20.1 percent, year on year (Chart 7). Compared to the previous month, inflation declined by 1.4 percentage points. The slowdown was almost entirely driven by foods (-0.9 percentage point) and industrial goods (-0.4 percentage point). In June, core inflation continued to fall and stood at 20.8 percent, while core inflation excluding indirect taxes was 20.7 percent. Annual inflation of market services declined for the first time since July 2021, and thus it stood at 18.4 percent. Prices of non-durable industrial goods rose on a monthly basis, which was only partially offset by the fall in durable industrial goods prices, resulting primarily from the decline in used car prices. Core inflation includes processed food, the annual price dynamics of which was 31.9 percent, representing a significant slowdown compared to 37.6 percent, registered in previous month. The incoming data were in line with analysts' expectations. The median was 20.2 percent, while expectations varied between 19.8 and 20.5 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.

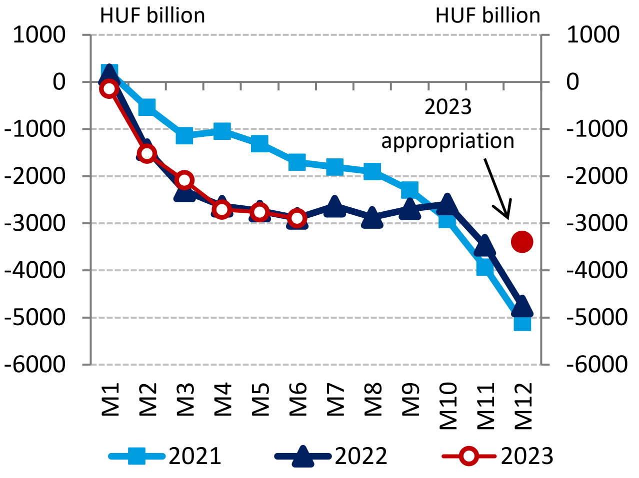
Source: MNB calculation based on HCSO data

Underlying inflation **indicators, capturing persistent trends on an annual basis, also moderated.** Core inflation excluding processed food fell to 17.8 percent, while the inflation of sticky price products and services declined by 1.2 percentage points to 16.7 percent in June (Chart 8).

1.4. Fiscal developments

In June 2023, the deficit of the general government's central sub-sector was HUF 133 billion, which is some HUF 20 billion more favourable than in June 2022. Similarly to last year, the cumulative deficit of the first six months rose close to 2,900 billion, accounting for 85 percent of the HUF 3,400 billion annual appropriation. In June, revenues and expenditures of the central sub-sector exceeded the June 2022 figure by HUF 370 billion and by roughly HUF 347 billion, respectively.

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



Source: Budget Act of 2023, Hungarian State Treasury

In June 2023, **the deficit of the general government's central sub-sector** was HUF 133 billion, which is some HUF 20 billion more favourable than in June 2022. Similarly to last year, the cumulative deficit of the first six months rose close to 2,900 billion, representing 85 percent of the HUF 3,400 billion annual appropriation (Chart 9).

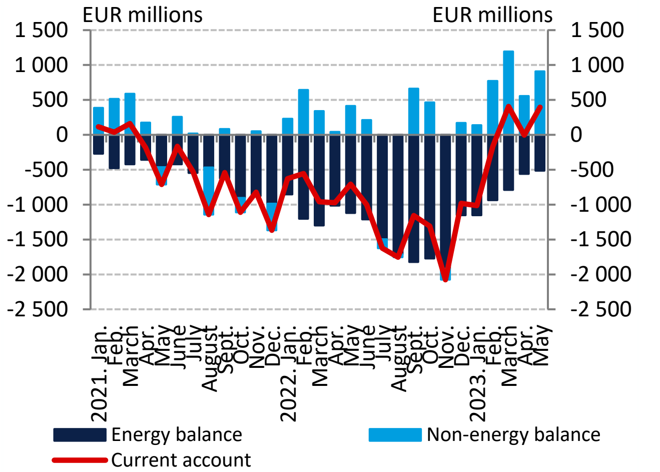
In June, **revenues of the central sub-sector** were HUF 370 billion higher than a year before. Most of this – i.e. HUF 304 billion – was attributable to tax and contribution revenues, where payments by enterprises rose by almost HUF 160 billion, while social contribution tax and contribution revenues increased by HUF 86 billion on an annual basis. Growth in gross VAT revenues decelerated to 6 percent in June.

June expenditures were HUF 347 billion higher than in June 2022. The rise was primarily attributable to the higher realisation of central budgetary organisations' expenditures, normative and special subsidies and pensions by HUF 115 billion, HUF 102 billion and HUF 98 billion, respectively. Net interest expenditures in June fell short of those of last year by HUF 53 billion, which is primarily the result of the expiry of a large portfolio of high-interest government securities in 2022.

1.5. External balance developments

In May 2023, the current account surplus approached EUR 400 million, primarily as a result of the record high trade surplus of EUR 1.3 billion. Net lending amounted to over EUR 600 million. The improvement in the current account balance was mostly attributable to the developments in goods trade, which once again turned into a surplus due to a pick-up in exports and the continued decline in imports amid falling domestic demand. According to financial accounts data, net external debt expanded again in parallel with a slight net inflow of foreign direct investments. The growth of HUF 0.2 billion in foreign direct investments was mostly attributable to the rise in intercompany loans.

Chart 10 Developments of current account and energy balance



Note: The May value of the energy balance is estimated.
Source: MNB, HCSO

In May 2023, the current account surplus came close to EUR 400 million, primarily as a result of the record high trade surplus of EUR 1.3 billion (Chart 10). **Net lending amounted to more than EUR 600 million.** The improvement in the current account balance was mostly attributable to the developments in goods trade, which once again turned into a surplus due to a pick-up in exports and the continued decline in imports under falling domestic demand. In May, the services balance surplus remained close to the high level seen in previous month. The income balance deficit moderately increased, while the transfer balance surplus significantly declined.

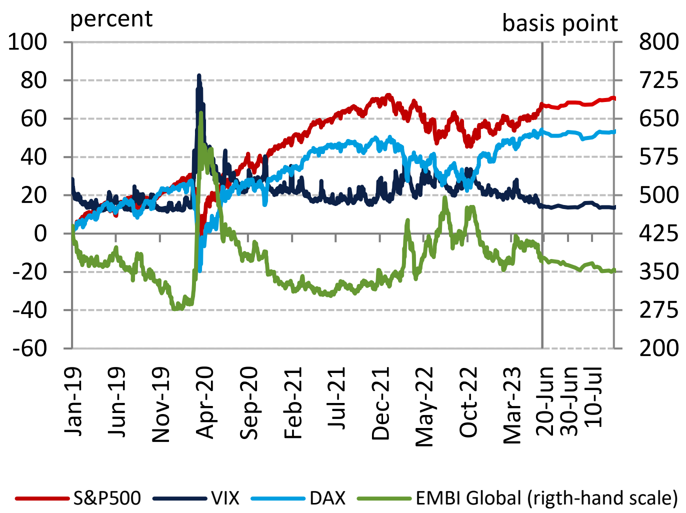
According to financial accounts data, net external debt expanded again in parallel with a slight net inflow of foreign direct investments. The growth of HUF 0.2 billion in foreign direct investments was mostly attributable to the rise in intercompany loans. The growth of EUR 0.8 billion in net external debt due to transactions was attributable to a rise in the external debt of banks, while the indicator of the general government and corporations declined.

2. Financial markets

2.1. International financial markets

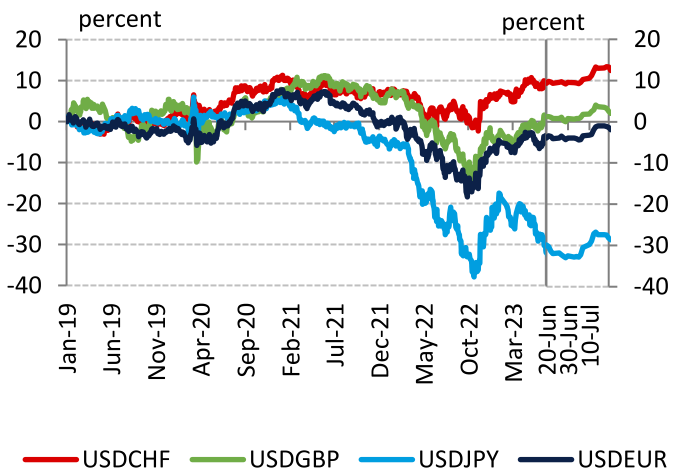
Following a temporary decline, investor sentiment has improved in the period since the last interest rate decision. During the period, investors' attention was focused on the expectations for the world's leading central banks' interest rate policy and macroeconomic data releases. Long-term yields generally rose in developed markets and fell in the Central and Eastern European 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 1, 2019



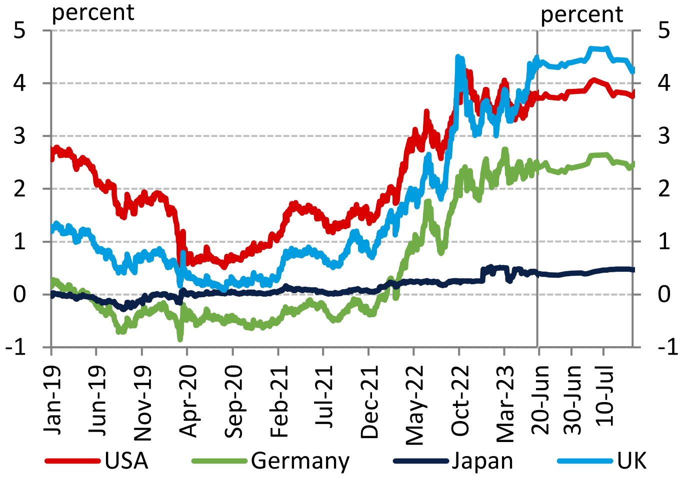
Note: Positive values indicate the strengthening of the variable (second) currency.
Source: Bloomberg

In the period since the last interest rate decision investor sentiment improved, following a temporary dip. Market participants' attention was focused on the expectations for the world's leading central banks' interest rate policy and macroeconomic data releases. Data were still less favourable at the beginning of the period and the concerns about the slowdown of the Chinese economy initially had a negative impact on financial market sentiment. However, the announcement of the easing of the monetary stance in China and the favourable macroeconomic data released in the second half of the period strengthened market confidence. Among the risk indicators, the VIX index, the key measure of equity market volatility, decreased overall by 0.5 percentage points to 13.3 percent compared to the level registered at the previous interest rate decision, while in emerging markets the EMBI Global bond market premium decreased by 15 basis points (Chart 11). On the other hand, the MOVE index (measure of the developed bond market volatility) rose by 2 basis points to 112 basis points.

Leading stock indices typically rose. The US S&P 500 and the Dow Jones increased by 4 and 3 percent, respectively, over the period. Among leading European stock market indices, the German DAX rose by 1.7 percent and the French CAC40 by 1 percent. Among the Asian indices, the Japanese Nikkei and the Shanghai stock market index are essentially unchanged since the previous interest rate decision. Overall, the developed and emerging market MSCI composite indices increased by 4.1 and 2.7 percent, respectively.

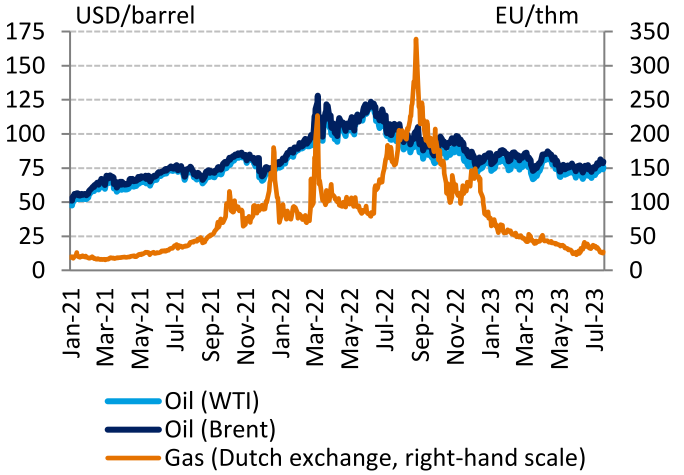
The dollar depreciated slightly against the major currencies (Chart 12). The US dollar depreciated by 1.5 percent against the British pound and the Australian dollar and by 2.4 percent against the euro (to 1.12). The US currency depreciated against the Japanese yen and the Swiss franc by 3.2 and 4 percent, respectively, while it moderately appreciated against the emerging market currencies.

Chart 13 Yields on developed market long-term bonds



Source: Bloomberg

Chart 14 Developments in oil and gas prices since January 2021



Source: Bloomberg

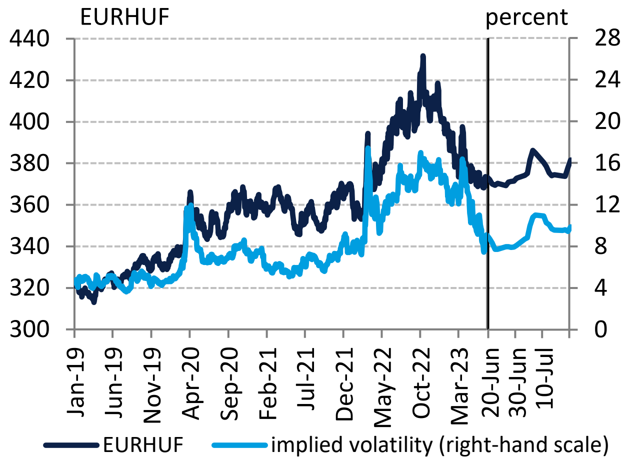
Long-term yields rose slightly in developed markets (Chart 13). Ten-year US and German yields rose by 2 basis points, and thus the US yield closed the period at 3.79 percent, while the German one at 2.38 percent. Yields in the Mediterranean countries rose slightly: the Spanish, Portuguese, Italian and Greek elevated by 7, 4, 3 and 24 basis points, respectively. Among the yields on 10-year government bonds in the countries of the CEE region, Polish, Czech and Romanian yields decreased by 42, 22 and 19 basis points respectively. Hungarian yields have fallen by 36 basis points since the June rate decision.

Oil prices rose since the previous interest rate decision (Chart 14): the price of the North Sea Brent crude oil rose by 6.7 percent from USD 75 to USD 80 per barrel, while the US benchmark WTI oil price increased by 7.1 percent to USD 75.5 per barrel. The rise is primarily attributable to the depreciation of the dollar and the concerns about oil supply. Since the previous interest rate decision, **European gas prices** fell by 35 percent from EUR 39/MWh to EUR 25/MWh, since European gas storage facilities operate at an extremely high, 82 percent, filling level, which is well above the 2022 year-on-year level of 58 percent. The **price of industrial metals** fell by 2.1 percent, and that of copper and nickel declined by 1.3 and 4.5 percent, respectively. The Bloomberg commodity price index, covering the entire commodity market, declined by 0.02 percent over the period, mainly due to a decline in the cereals sub-index.

2.2. Developments in domestic money market indicators

Since the June interest rate decision, overall, the forint has slightly depreciated against the euro, showing significant volatility. The government securities market's yield curve shifted downwards. The 3-month BUBOR fell by 43 basis points to 15.06 percent.

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

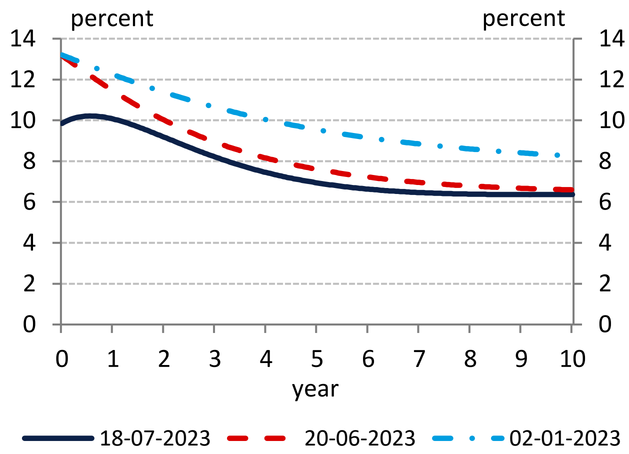


Source: Bloomberg

Overall, the forint has depreciated slightly against the euro since the June interest rate decision (Chart 15). Outperforming other currencies in the CEE region, the forint appreciated against the euro by almost 1 percent in the first days after the previous interest rate decision, while in the first week of July, it temporarily depreciated, close to the level of 388.5, indicating a depreciation of over 4 percent compared to the day of the June interest rate. By contrast, the currencies in the CEE region depreciated to a lesser degree. In the second week of July, outperforming the region, the forint exchange rate against the euro adjusted close to the level of 374.5. Of the currencies in the region, the Czech koruna depreciated by 0.4 percent and the Polish zloty by 0.15 percent, while the Romanian leu appreciated by 0.5 percent against the euro.

The 3-month BUBOR, relevant for monetary policy transmission, decreased by 43 basis points to 15.06 percent since the last interest rate decision.

Chart 16 Shifts in the spot government yield curve



Source: Bloomberg

The government securities market's yield curve shifted downwards (Chart 16). The yield curve fell by an average of 200 basis points on the below-one-year section of the curve, while on the medium and longer maturities yields declined on average by 20-130 basis points.

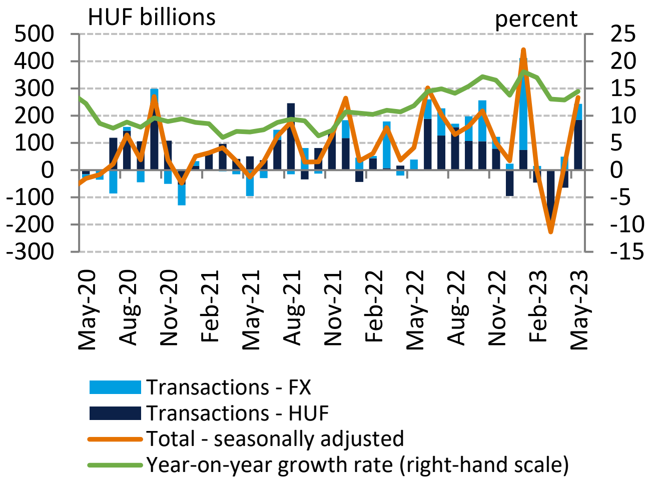
Government bond auctions held by the Government Debt Management Agency since the last interest rate decision were characterised by a strong demand. During the period under review, in almost all government bond auctions the Government Debt Management Agency mostly accepted higher volume than announced, under 4.1-fold average oversubscription. Average yields typically declined. **At the end of the period, the discount Treasury bill auctions were characterised by falling demand and moderately increasing average yields.**

Non-residents' holdings of forint government securities decreased. Non-residents' holdings in forint government securities decreased by HUF 358 billion to HUF 6,788 billion. The market share of forint government securities held by non-residents declined to around 20.2 percent.

3. Trends in lending

Reflecting an increase of HUF 184 billion in forint loans resulting from large transaction group and a rise in foreign currency loans by HUF 59 billion, outstanding loans to non-financial corporations was up by HUF 243 billion in May 2023. In May, households' outstanding borrowing increased by HUF 48 billion due to transactions, reducing the annual growth rate to 3.6 percent from 4.4 percent last month. In May 2023, the smoothed interest rate spread on forint corporate loans stood at 1.46 percent, down 0.54 percentage point compared to the previous month.

Chart 17 Net borrowing by non-financial corporations

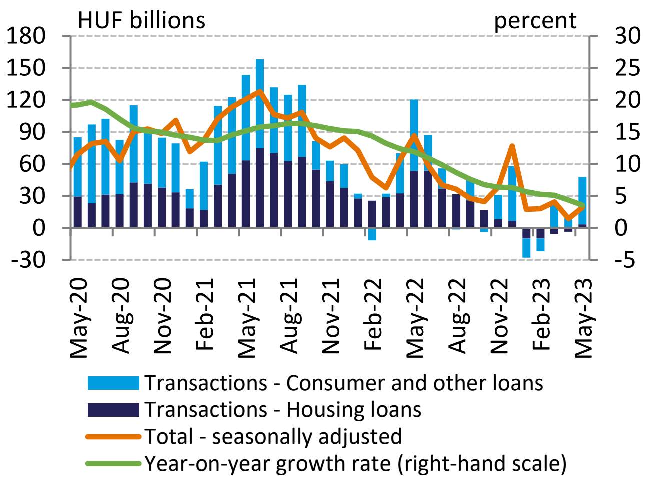


Source: MNB

Reflecting an increase in forint loans by HUF 184 billion as a result of large transaction group and a rise in foreign currency loans by HUF 59 billion, outstanding loans to non-financial corporations increased by HUF 243 billion in May 2023 (Chart 17). As a result, the annual growth rate accelerated moderately, from 12.9 percent in the previous month to 14.5 percent, which was largely fuelled by a growth in large corporations' outstanding borrowing. Credit institutions extended new loans in the amount of HUF 215 billion, 26 percent less than a year earlier. Subsidised loan schemes (Széchenyi Card Program Max+, Baross Gábor Reindustrialisation Program) made a major contribution to the disbursement of new corporate loans in May.

In May, outstanding borrowing by households increased by HUF 48 billion due to transactions, reducing the annual growth rate to 3.6 percent from 4.4 percent last month (Chart 18). The volume of new household loan contracts, amounting to HUF 142 billion, was 49 percent lower than in the same period last year, but 19 percent higher than in April. The decline affected all of the main credit products, the largest decline was in housing loans impacted by the downturn.

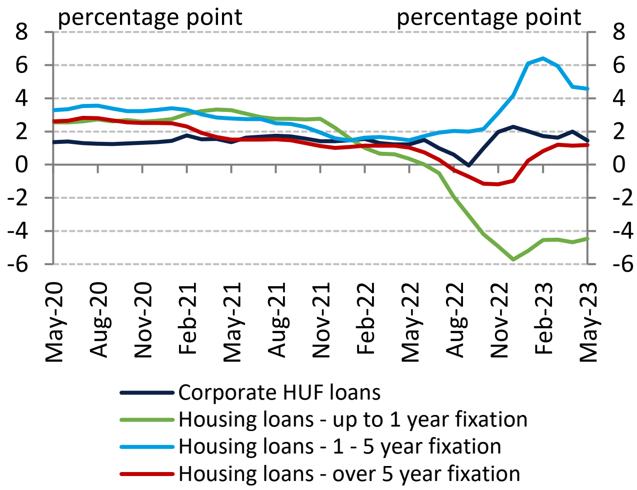
Chart 18 Net borrowing by households



Source: MNB

In May 2023, the smoothed interest rate spread on forint corporate loans stood at 1.46 percent, down 0.54 percentage point compared to previous month (Chart 19). After a decline of 0.12 percentage points, the average APR-based spread on housing loans with interest rate fixation periods longer than 1 year and up to 5 years stood at 4.58 percentage points in May, while the spread on products with interest rate fixation periods of more than 5 years rose slightly by 0.04 percentage point and stood at 1.19 percentage points at the end of the period under review. 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