MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 20 JUNE 2023

JUNE

2023

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The background material 'Macroeconomic and financial market developments' is based on information available until 15 June 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

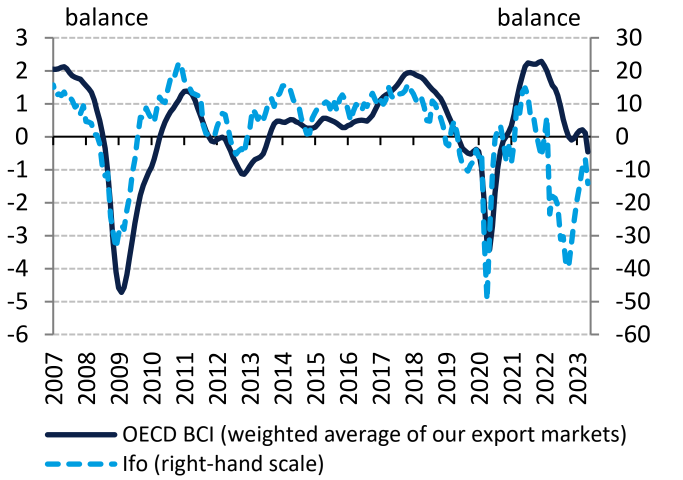
1.1. Global macroeconomic environment

In 2023 Q1, global economic growth slowed down. Economic growth was 1.0 percent in the euro area and the European Union, 1.6 percent in the United States and 4.5 percent in China in year-on-year terms. Monthly production indicators and retail sales rose in the USA and in China, while the euro area registered a decline. In May, Purchasing Managers Index improved in the United States and in China, while it deteriorated in the euro area.

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, 1.6 percent in the United States and 4.5 percent in China in year-on-year terms. 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 production indicators and retail sales rose in the USA and in China, while the euro area registered a decline. In April, industrial production in the US grew by just 0.2 percent, the lowest since March 2021. In April, industrial performance in China grew by 5.6 percent, nevertheless the figure fell short of the expectations. Industrial production in the euro area fell by 1.4 percent in March, year on year. In April, the volume of retail sales rose by 1.6 percent in the United States, while in China – owing to the lifting of the strict containment measures – it grew significantly, by 18.4 percent, year on year. In April, a 2.6 percent fall was registered in the euro area.

Chart 1 Business climate indices in Hungary's export markets

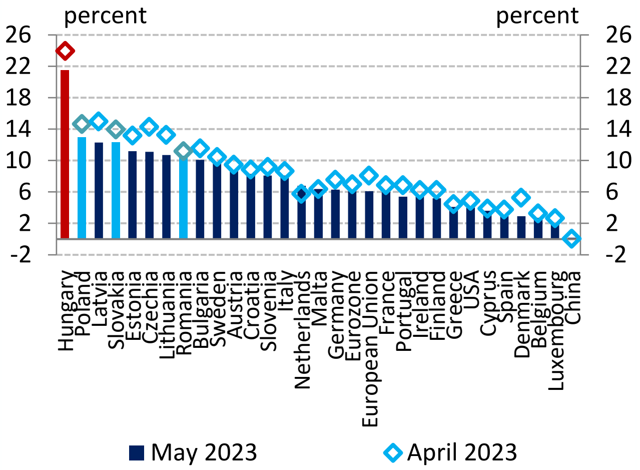


Source: OECD, Ifo

In May, the Purchasing Managers Index moderately improved in China and in the United States, while it deteriorated in the euro area (Chart 1)**.** In May, business sentiment in the euro area deteriorated slightly on a monthly basis, measured by the Economic Sentiment Indicator (ESI) and the Purchasing Managers Index (PMI). The PMI improved in the United States and in China compared to the previous month, and it was above the threshold (50 points) in both countries in May.

There is still no sign of deceleration in international labour market developments. In May, the unemployment rate in the United States rose to 3.7 percent in parallel with a simultaneous growth in

Chart 2 Developments of inflation in European Union



Note: HICP and CPI rates.
Source: Eurostat

employment, while in the euro area it stood at 6.5 percent in April.

In May, annual inflation in the United States fell to 4.0 percent, while in China it rose from 0.1 percent of April to 0.2 percent.

Based on preliminary data, inflation in the euro area slowed to 6.1 percent in May from 7.0 percent in the previous month, according to preliminary data. Meanwhile, core inflation in May declined to 5.3 percent following 5.6 percent in April. The preliminary inflation figure was lower than analysts' expectations of 6.3 percent, while the core inflation figure also fell short of analysts' expectations (5.5. percent).

Inflation declined in all but two EU countries in May, according to available data. Hungary had the highest inflation rate among the EU countries. In addition, the Baltic countries and the Visegrad countries also had higher annual price index. In the region, prices rose by 13.0 percent in Poland, 12.3 percent in Slovakia and 11.1 percent in the Czech Republic, year on year (Chart 2).

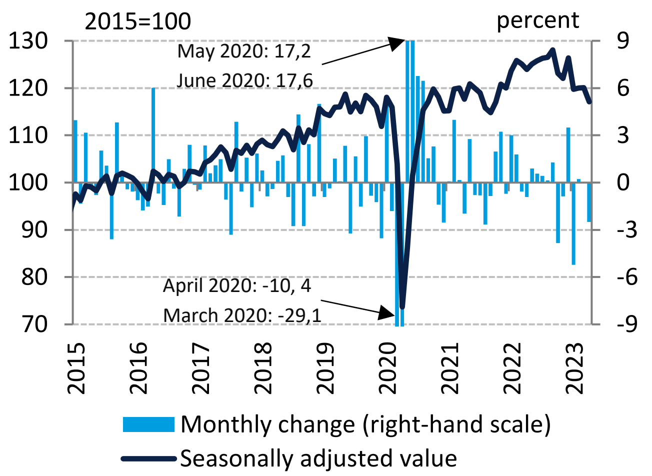
1.2. Real economic developments in Hungary

In 2023 Q1, Hungary's gross domestic product fell by 0.9 percent year on year. Incoming macroeconomic data indicate declining economic activity also in the second quarter. In April 2023, industrial production, the volume of retail sales and construction output fell by 8.3 percent, 12.6 percent and 3.2 percent, respectively, year on year. The average number of employees in the 15–74 age group was 4,710,000 in April 2023. In the period of February–April 2023, 14,000 more people worked in Hungary than in the same period last year. The unemployment rate stood at 3.9 percent in April.

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. Of the manufacturing subsectors, chemical substances production and the manufacture of chemical products reduced industrial performance to the largest degree, while the fall of industry was curbed the most 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 also 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. Of the market services, trade, transportation and storage – representing a large weight – declined, but this was offset by the rest of the subsectors. Of 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 April 2023, the decline in industrial production continued on an annual basis. Following the 4.1 percent decrease registered in March, the volume declined significantly by 8.3 percent, year on year. Seasonally and calendar adjusted series show a 5.6 percent decline compared to April last year. Compared to the previous month, the level of production fell by 2.5 percent (Chart 3). Production fell in the vast majority 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 10.5 percent, year on year, while production of electrical equipment, including battery production and the manufacturing of electric motors, rose by 17.8 percent. Mining (-31.0 percent), rubber, plastic and non-metal production (-23.9 percent), energy production (-23.6

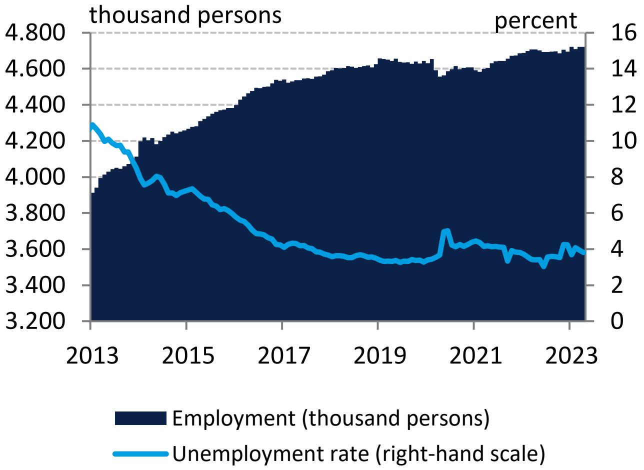
percent), petroleum refining (-22.8 percent), food production (-20.1 percent), metal industry production (-17.4 percent), manufacturing of chemicals (-17.4 percent) and the manufacturing of computers and electronic devices (-12.5 percent) declined significantly compared to last April.

The volume of construction output declined by 3.2 percent in April 2023, representing a steady fall since January on an annual basis. Construction of buildings and other construction decreased by 4.4 percent and 1.3 percent, respectively, year on year. Based on seasonally and calendar adjusted data, total construction output fell by 2.6 percent compared to March. The number of new contracts decreased by 37.5 percent compared to April 2022. The number of new contracts concluded for construction of buildings declined by 33.0 percent and for other construction by 42.3 percent. The end-April volume of construction companies' contract portfolio fell short of the value registered a year ago by 27.5 percent. Contracts for the construction of buildings and of other construction declined by 4.3 percent and by 41.2 percent, respectively, year on year.

In April 2023, the volume of retail sales fell by 12.6 percent, representing five months of declining sales on an annual basis. The base effect resulting from the government disbursements early last year was a significant contributor to the decline in April. Excluding fuel trade, turnover declined by 9.9 percent based on calendar adjusted data. The volume of retail sales, excluding fuel trade, has been falling since last July on an annual basis. Following the moderate improvement seen last month, the volume of retail sales declined by 0.9 percent on a monthly basis in April. 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.

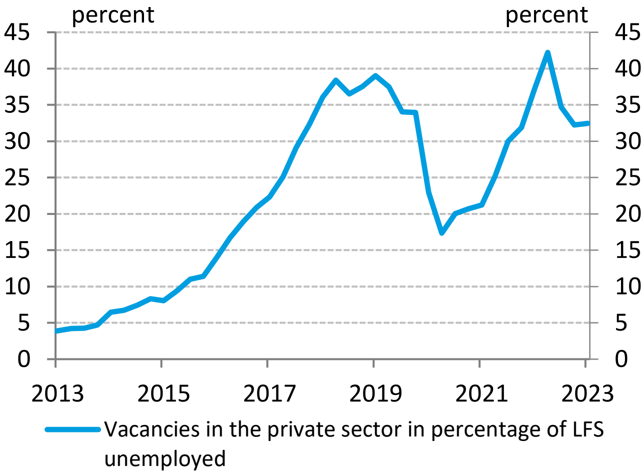
Based on preliminary data, the trade balance showed a surplus of EUR 308 million in April 2023, after a surplus of EUR 886 million in March. The balance improved by EUR 836 million, compared to the same period of the previous year, while it deteriorated by EUR 578 million compared to March. The balance adjusted for VAT residents improved by EUR 956 million on an annual basis, and it showed a deficit of EUR 154 million. In April, despite the further decline in industrial production, the value of goods exports in euro terms rose by 3.4 percent, while that of imports, in line with the slowdown in domestic demand items, registered a year-on-year decrease at 4.0 percent. In February 2023, the terms of trade improved by 5.2 percent in an annual comparison. The contribution of mineral fuels already improved the terms of

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

trade, for the first time since January 2021; in March the effect of this was 3.3 percent.

In May 2023, high frequency data mostly reflect decelerating economic activity. In May, based on online cash register data, nominal turnover rose by 8.9 percent, while real turnover adjusted for inflation fell by 12.7 percent in annual terms. Passenger flights, freight traffic and road passenger traffic declined (-12.2 percent, -7.8 percent, -4.2 percent, respectively) according to data received to date. Electricity load data fell by 9.1 percent. Cinema attendance rose by 2 percent. Catering turnover rose by almost 18.7 percent in May. In April, the number of housing market transactions declined by 38.7 percent, according to data available to date. 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 4,710,000 in April 2023. In the period of between February and April 2023, the average number of employees was 4,698,000, exceeding the year-on-year figure by 14,000 (Chart 4). In February–April, on average, the number of employees in the primary labour market and of those employed at local units abroad rose by 17,000 and 6,000, respectively, while the number of fostered workers fell by 9,000, compared to the same period of the previous year.

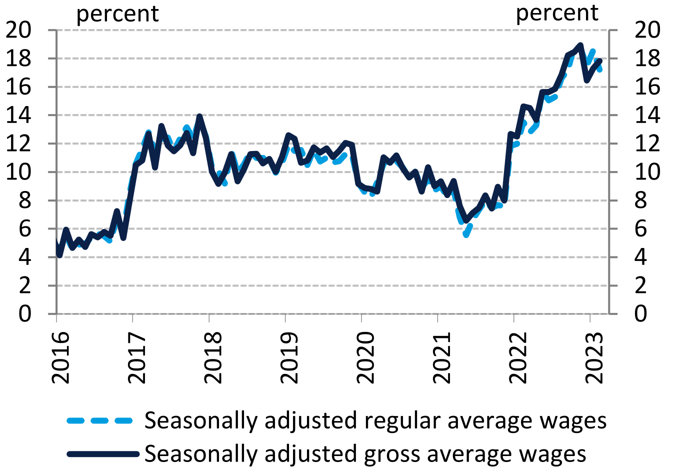
In April, the number of the unemployed was 190,000, exceeding the year-on-year figure by 20,000 persons, thus on the whole the unemployment rate stood at 3.9 percent. Based on seasonally adjusted data, in April the number of unemployed fell slightly compared to March. Based on data published by the National Employment Service in April and May 2023, the number of registered jobseekers in Hungary was 235,000 (-6,000 on an annual basis) and 229,000 (-5,000 on an annual basis), respectively. Based on seasonally adjusted data, the number of the registered jobseekers in May 2023 remained unchanged compared to April, 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. Labour demand remained unchanged in both market services and manufacturing, quarter-on-quarter. In 2023 Q1, job vacancies amounted to 33,400 in the services sector, basically the same as in the previous quarter. Within the market services sector, job vacancies fell by 500 in the trade sector, and by 400 in each of the infocommunication and transportation and storage sectors, quarter on 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

In May 2023, Hungarian inflation continued to fall at an accelerating pace for the fourth month. Consumer prices rose by 21.5 percent in an annual comparison. The decline in core inflation also continued, and thus it stood at 22.8 percent, while core inflation excluding indirect taxes was 22.7 percent. Incoming inflation data were below analysts' expectations. In March 2023, average regular earnings (excluding bonuses) rose by 15.7 percent in annual terms in the overall economy, and by 17.4 percent in the private sector, respectively.

Chart 6 Dynamics of average earnings in the private sector



Source: MNB calculation based on HCSO data

1.3.1. Wages

In March 2023, gross average earnings in the private sector rose by 18.7 percent year on year. The degree of bonus disbursements exceeded significantly the historical average for March. Average regular earnings (excluding bonuses) rose by 15.7 percent in annual terms in the whole economy and by 17.4 percent in the private sector, respectively.

According to seasonally adjusted data, growth in gross average wage accelerated, while regular average wage slowed down 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 March, based on raw data, manufacturing wages were higher by 22.7 percent, year on year. In market services, HCSO registered a growth of 16.7 percent. Gross wages in construction and trade also rose by 16.7 percent and 15.6 percent, respectively, in annual terms.

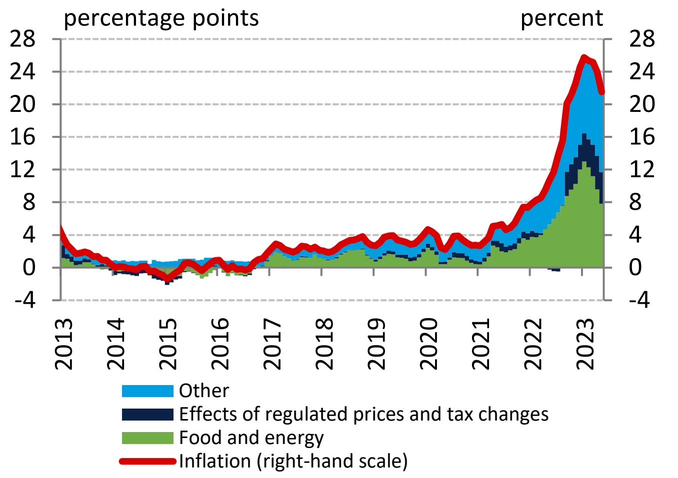
1.3.2. Inflation developments

In May 2023, inflation in Hungary continued to fall at an accelerating pace for the fourth month, and consumer prices rose by 21.5 percent, year on year (Chart 7). Compared to the previous month, inflation declined by 2.5 percentage point. The slowdown is primarily linked to the price index of food (-1.0 percentage point), fuels (-0.7 percentage point) and industrial goods (-0.5 percentage point). In May core inflation continued to fall and stood at 22.8 percent, while core inflation excluding indirect taxes was 22.7 percent. Compared to the previous month, annual core inflation decreased by 2.0 percentage points. The fall in core inflation is attributable to the decline in the inflation of processed food and industrial goods. The incoming data were in line with analysts' expectations. The median was 22.3 percent, while expectations varied between 22.0 and 23.0 percent.

Core inflation excluding processed food, which better reflects market developments, was down by 0.9 percent.

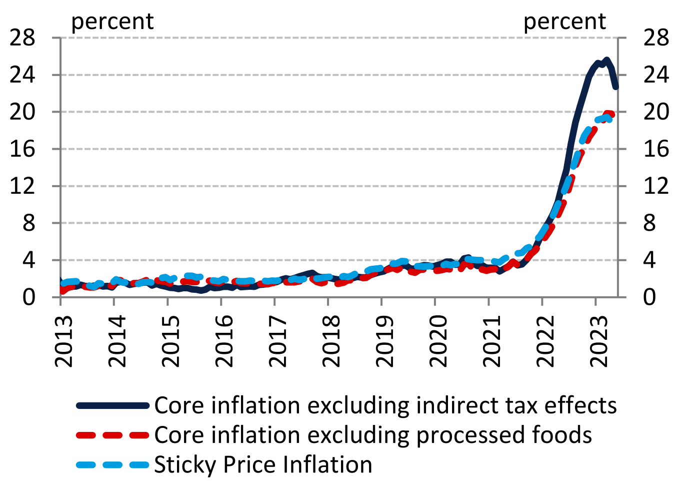
The rest of the indicators, capturing persistent inflation trends, also declined on an annual basis (Chart 8).

Chart 7 Decomposition of inflation



Source: MNB calculation based on HCSO data

Chart 8 Underlying inflation indicators

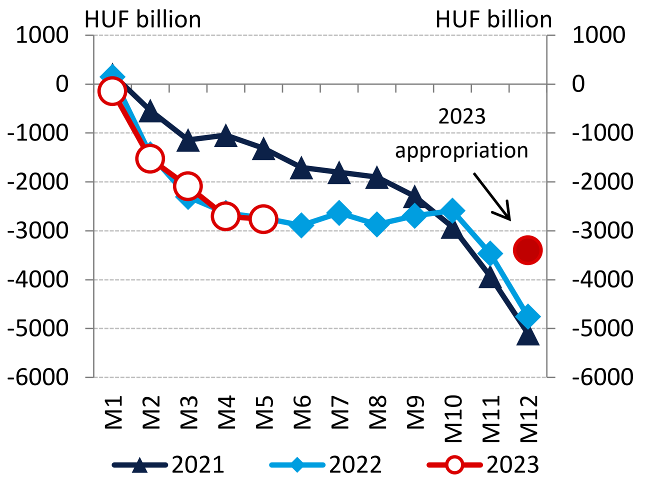


Note: Core inflation excluding processed food, is unchanged from previous demand-sensitive inflation.
Source: MNB calculation based on HCSO data

1.4. Fiscal developments

In May 2023, the deficit of the general government's central sub-sector was HUF 54 billion, which is some HUF 50 billion more favourable than in May 2022. This increased the cumulative deficit for 2023 to HUF 2,763 billion by the end of May, which is 81 percent of the HUF 3,400 billion annual appropriation. In May, revenues of the central sub-sector were HUF 437 billion higher than a year before. Of these, tax and contribution revenues rose by HUF 427 billion year on year. Expenditures exceeded the amount registered in May 2022 by HUF 389 billion.

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



Source: Budget Act of 2023, Hungarian State Treasury

The balance of the **central sub-sector of the general government** in May 2023 was a deficit of HUF 54 billion. The cumulative deficit for 2023 increased to HUF 2,763 billion by the end of May, which is 81 percent of the HUF 3,400 billion annual appropriation (Chart 9).

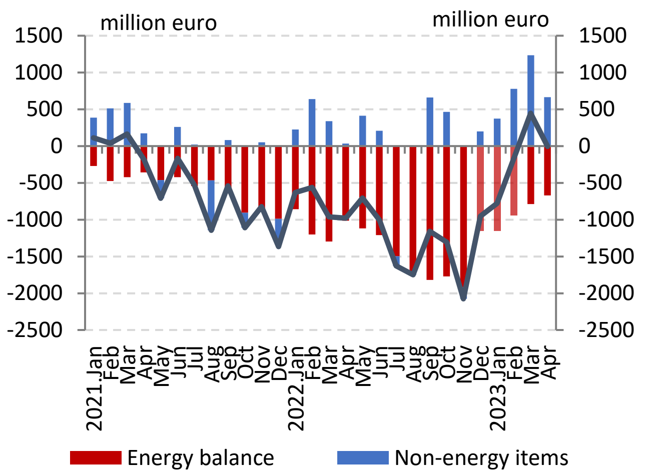
In May, **revenues of the central sub-sector** were HUF 437 billion higher than a year before. This is largely attributable to the rise of HUF 427 billion in tax and contribution revenues at an annual level. Within this, payments by enterprises, VAT revenues and social contribution tax revenues rose by HUF 243 billion, HUF 58 billion and HUF 86 billion, respectively. Net VAT revenues fell by HUF 59 billion due to the rise in reclaims, while gross revenues rose by 7 percent due to the decline in the volume of retail trade.

Expenditures were HUF 389 billion higher than in May 2022. The growth was primarily attributable to this year's realisation of pensions, EU expenditures and normative and special subsidies in an amount higher by HUF 95 billion, HUF 75 billion and HUF 74 million, respectively. Net interest expenditures and expenditures related to state property exceeding those of last year by HUF 76 billion and HUF 143 billion, respectively, were partly offset by the fall of HUF 94 billion in central organisations' own expenditures.

1.5. External balance developments

In April 2023, the current account balance was close to equilibrium, while net lending amounted to almost EUR 200 million. The fall in the current account balance was mostly attributable to the developments in goods trade, resulting from the decline in exports growth dynamics. According to the financial account data, net external debt declined in parallel with a significant inflow of foreign direct investments. The growth of HUF 1.2 billion in net foreign direct investments was mostly attributable to the rise in intercompany loans.

Chart 10 Developments of current account and energy balance



Source: MNB, HCSO

In April 2023, the current account balance was close to equilibrium, while net lending amounted to almost EUR 200 million (Chart 10). The fall in the current account balance was mostly attributable to the developments in goods trade, resulting from the decline in exports' growth dynamics. In April, the growth in the service balance and transfer balance surplus also improved the external balance, while the rising income balance deficit had an opposite effect.

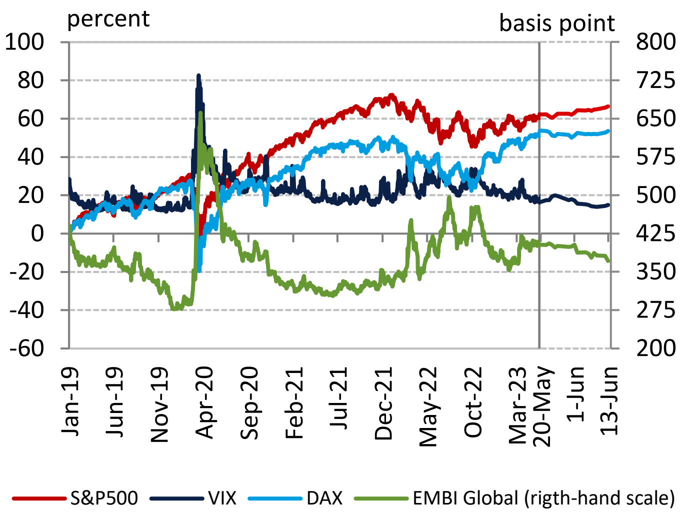
According to the financial account data, net external debt declined in parallel with a significant inflow of foreign direct investments. The growth of HUF 1.2 billion in net foreign direct investments was mostly attributable to the rise in intercompany loans. The decline of almost EUR 1.1 billion in net external debt due to transactions was attributable to a fall in the indicator of the general government and corporations, while external debt of banks increased.

2. Financial markets

2.1. International financial markets

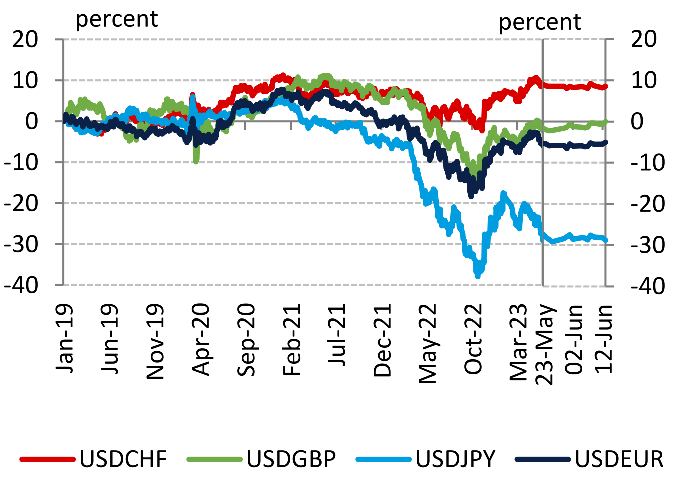
Overall, in the period since the last interest rate decision investor sentiment has improved. As concerns about the US debt ceiling subsided, market participants focused on the expectations for the world's leading central banks' interest rate policy and macroeconomic data releases. Long-term yields generally declined 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 1, 2019



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

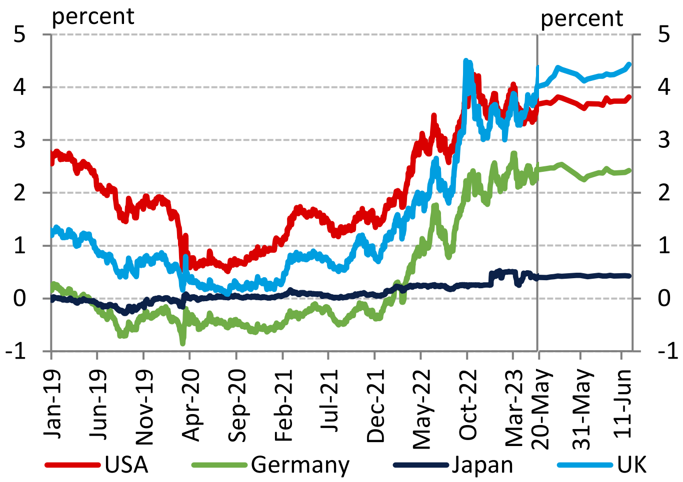
Risk indicators improved. The VIX index, the key measure of equity market volatility, decreased overall by 2.5 percentage points to 15.0 percent compared to the level registered at the previous interest rate decision, while in emerging markets the EMBI Global bond market premium decreased by 35 basis points (Chart 11). The MOVE index (a measure of developed bond market volatility) declined by 13 basis points to 119 basis points.

Leading stock indices typically rose. The US S&P 500 and the Dow Jones increased by 5.4 and 3.5 percent, respectively, over the period. Among leading European stock market indices, the German DAX rose by 1.0 percent, while and the French CAC40 fell by 0.5 percent. Among the Asian indices, the Japanese Nikkei was up by 8.2 percent, while the Shanghai stock market index fell 0.5 percent since the previous interest rate decision. Overall, the developed and emerging market MSCI composite indices increased by 4.0 and 3.5 percent, respectively.

The dollar depreciated slightly against the major currencies (Chart 12). The US dollar depreciated by 1.8 percent against the British pound, 1.6 percent against the Canadian dollar, 2.6 percent against the Australian dollar and 0.3 percent against the euro (to 1.08). It appreciated against the Japanese yen, the Chinese renminbi and the Swiss by 0.9 percent, 1.3 percent and 0.2 percent, respectively.

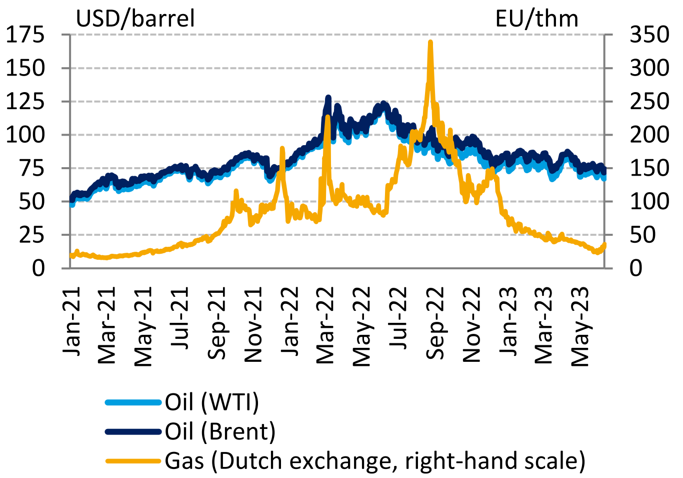
Long-term yields generally moderated in developed markets, excluding the US and UK, and in the CEE region (Chart 13). Ten-year US and UK yields rose by 12 and 28 basis points, respectively, while the German yields fell by 5 basis points, and thus the US yield closed the period at 3.81 percent, while the German yield at 2.42 percent. Yields in the Mediterranean countries moderated: the Spanish and Portuguese yields were 14 basis points lower, the Italian yields fell by 26 basis points and the Greek yields by 16 basis points. Among the yields on 10-year government bonds in the countries of the CEE region, Polish, Czech and Romanian yields decreased by 12, 37

Chart 13 Yields on developed market long-term bonds



Source: Bloomberg

Chart 14 Developments in oil and gas prices since January 2021



Source: Bloomberg

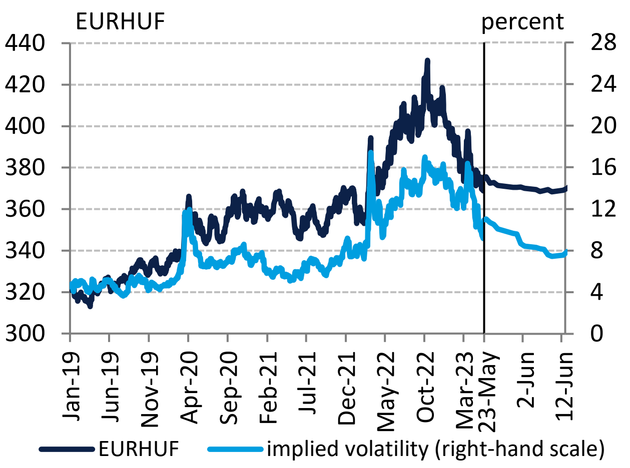
and 33 basis points respectively. Hungarian yields have fallen by 85 basis points since the May rate decision.

Oil prices have decreased since the previous interest rate decision (Chart 14)**.** The price of North Sea Brent crude oil fell by 7.6 percent from USD 78 to USD 72 per barrel, while the US benchmark WTI oil price declined by 7.5 percent to USD 67 per barrel. The fall was primarily attributable to the oversupply seen on the oil market. Nevertheless, the market remains susceptible to supply shocks, also reflected by the higher volatility observed in recent period. **Early June, European gas prices fell close to the 2-year low of EUR 23/MWh**, since European gas storage facilities operate at a filling level of 70 percent (which is well above the 2022 year-on-year level of 45 percent). However, since then **under volatile trade, gas prices rebounded to over EUR 30/MWh, i.e. the level seen at the previous interest rate decision**. The price of industrial metals rose by 1.5 percent, and that of copper, nickel and zinc grew by 5.2, 4.5 and 0.6 percent, respectively. The Bloomberg commodity price index, covering the entire commodity market, declined by 1.7 percent over the period, mainly due to a fall in the energy sub-index.

2.2. Developments in domestic money market indicators

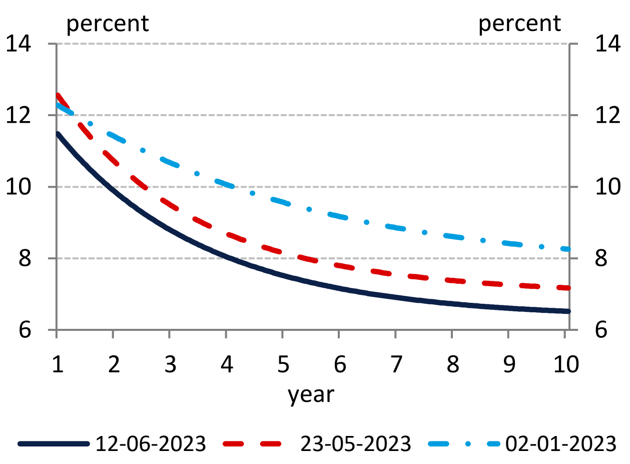
Since the interest rate decision in May, the forint strengthened against the euro by 1.4 percent. The government securities market's yield curve shifted downwards. The 3-month BUBOR, relevant for monetary policy transmission, decreased by 38 basis points to 15.64 percent since the last interest rate decision.

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

Since the interest rate decision in May, the forint strengthened against the euro by more than 1.4 percent (Chart 15). Of the currencies of the CEE region, the Polish zloty was unchanged, the Romanian leu appreciated against the euro by 0.2 percent, while the Czech koruna depreciated by 0.6 percent.

The 3-month BUBOR, relevant for monetary policy transmission, decreased by 38 basis points to 15.64 percent since the last interest rate decision.

The government securities market's yield curve shifted downwards (Chart 16). At the below one year section of the yield curve a fall of 85-170 basis points was registered, while on the medium and longer maturities yields declined on average by 60-85 basis points.

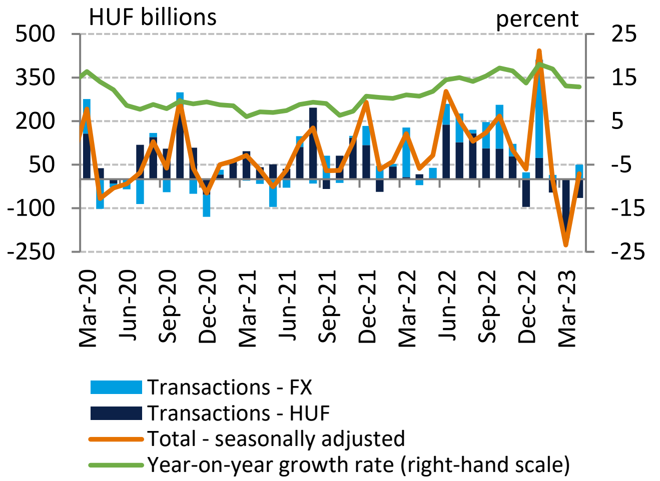
Government bond auctions held by the Government Debt Management Agency since the last interest rate decision were characterised by a strong demand. During the period under review, at certain government bond auctions the Government Debt Management Agency mostly accepted higher volume than announced, under 4.4-fold average oversubscription. Average yields typically declined. The discount Treasury bill auctions were characterised by falling average yields and strong demand.

Non-residents' holdings of forint government securities decreased. Non-residents' holdings in forint government securities decreased by HUF 6 billion to HUF 7,172 billion. The market share of forint government securities held by non-residents increased to close to 21.8 percent.

3. Trends in lending

Reflecting a fall in forint loans by HUF 64 billion as a result of a large transaction and a rise in foreign currency loans by HUF 50 billion, outstanding loans to non-financial corporations fell by HUF 14 billion in April 2023. In April, outstanding borrowing by households increased by HUF 5.2 billion due to transactions, reducing the annual growth rate to 4.4 percent from 5.1 percent last month. In April, 2023, the smoothed interest rate spread on forint corporate loans stood at 2.00 percent following a rise of 0.38 percentage point compared to previous month.

Chart 17 Net borrowing by non-financial corporations

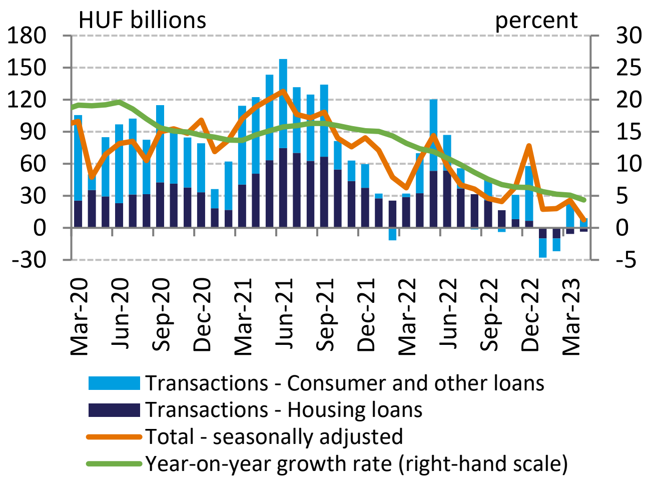


Source: MNB

Reflecting a fall in forint loans by HUF 64 billion as a result of a large transaction and a rise in foreign currency loans by HUF 50 billion, outstanding loans to non-financial corporations fell by HUF 14 billion in April 2023 (Chart 17). As a result, the annual growth rate slowed slightly to 12.9 percent from 13.1 percent registered in previous month. Credit institutions disbursed new loans in the amount of HUF 345 billion, which exceeds the year-on-year figure by 98 percent. Subsidised loan schemes (Széchenyi Card Program Max+, Baross Gábor Reindustrialisation Program) made a major contribution to the disbursement of new corporate loans in April.

In April, outstanding borrowing by households increased by HUF 5.2 billion due to transactions, reducing the annual growth rate to 4.4 percent from 5.1 percent last month (Chart 18). The volume of new household loan contracts, amounting to HUF 120 billion, was 52 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.

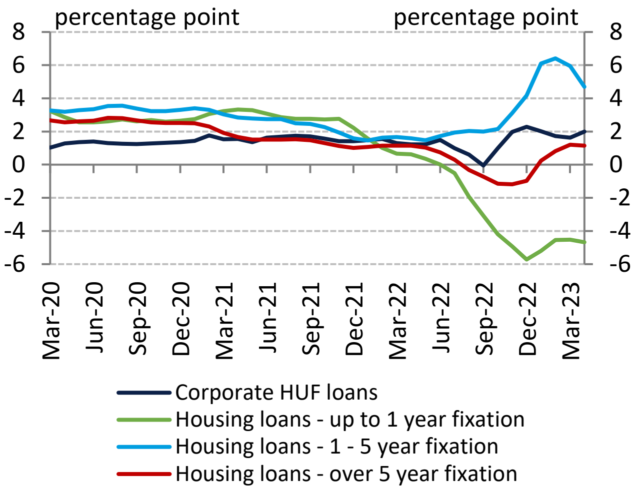
Chart 18 Net borrowing by households



Source: MNB

In April 2023, the smoothed interest rate spread on forint corporate loans stood at 2.00 percent, following a rise of 0.38 percentage point compared to previous month. (Chart 19). After a decline of 1.25 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 4.70 percentage points in April, while the spread on products with interest rate fixation periods of more than 5 years fell by 0.05 percentage point and stood at 1.15 percentage point 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