MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 28 MARCH 2023

MARCH

2023

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The background material 'Macroeconomic and financial market developments' is based on information available until 22 March 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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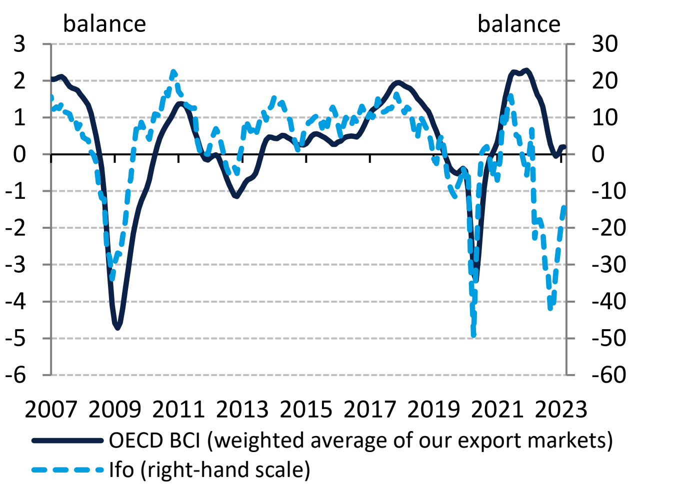
1. Macroeconomic developments

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. Economic growth in the European Union, the euro area, China and the United States was 1.7, 1.8, 2.9 and 0.9 percent, respectively, year-on-year. On a quarter-on-quarter basis GDP fell already in several countries. Forward-looking confidence indices varied in February, but remained at a low level.

In 2022 Q4, GDP growth in major economies slowed down further, while output in most EU countries was more favourable than expected. Economic growth in the European Union, the euro area, China and the United States was 1.7, 1.8, 2.9 and 0.9 percent, respectively year-on-year. In an international comparison, of the EU countries annual GDP growth was the highest in Ireland (+13.1 percent) and in Greece (+5.2 percent). Economic performance fell in Sweden (-0.1 percent), in Lithuania (-0.4 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 nine Member States decreased, with the economy of Poland (-2.4 percent) registering the largest decline. EU-27 GDP 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



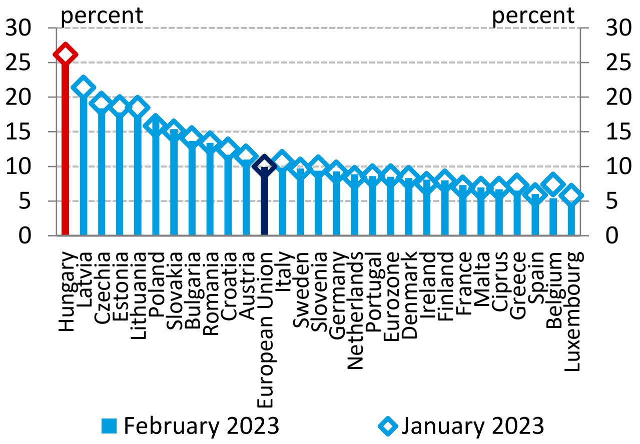
Source: OECD, Ifo

Monthly production indicators and the volume of retail sales showed a mixed picture in January. In January 2023, industrial production in the US grew by just 0.8 percent, the lowest since March 2021, and in China it rose by 2.4 percent. The euro area recorded a 0.9 percent year-on-year increase in the first month of this year. In January, the volume of retail sales grew by 6.4 percent in the USA and 3.5 percent in China, while fell by 2.3 percent in the euro area, in year-on-year terms.

In February, forward-looking confidence indicators showed a mixed picture and remain at low levels (Chart 1). Business sentiment in the euro area slightly deteriorated based on both the Economic Sentiment Indicator (ESI) and the Purchasing Managers Index (PMI). Compared to the previous month, the US Purchasing Manager Index slightly improved in February, and thus it is above the threshold (50 points), while in China the indicator has been improving since December.

International labour market trends were unchanged. In February, unemployment rate in the United States rose moderately, to 3.6 percent, from the fifty-year low of 3.4 percent registered in January, while in the euro area it stood at 6.6 percent in January.

Chart 2 Developments of inflation in European Union



Note: HICP and CPI rates.

Source: Eurostat

Inflation in the United States slightly decreased to 6.0 percent, while in China, it declined from 2.1 percent in January to 1.0 percent in February year-on-year.

In annual terms, inflation in the euro area was 8.5 percent in February from 8.6 percent in the previous month. According to preliminary data, core inflation may have stood steadily at 5.6 percent. The actual inflation figure was higher than analysts' expectations of 8.3 percent, while the preliminary core inflation figure slightly exceeded the analysts' consensus of 5.3 percent.

Based on preliminary data from the 27 EU countries, annual inflation declined or stagnated in 17 countries, while it rose in 10 countries in February. Hungary had the highest inflation rate among the EU countries in January, while the Baltic countries also saw an annual inflation of around 20 percent. In the region, based on the data of the national statistical offices, prices rose by 16.7 percent in the Czech Republic, 18.4 percent in Poland, 15.5 percent in Romania and in Slovakia year-on-year (Chart 2).

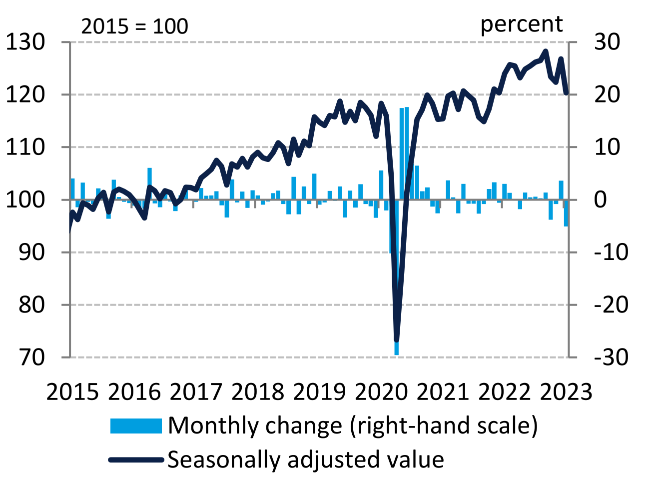
1.2. Real economic developments in Hungary

Incoming macroeconomic data mostly indicate decelerating economic activity in the first months of this year. The average number of employees in the 15-74 age group was 4,699,000 in January 2023. In the period of November 2022 - January 2023, 29,000 more people worked in Hungary than in the same period last year. The unemployment rate stood at 3.9 percent in January.

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. Within industry, particularly the manufacture of road vehicle and electrical equipment, while within market services mostly real estate transactions as well as transportation and warehousing registered significant growth year-on-year. Annual growth was curbed primarily by a significant decline in agriculture. In 2022 as a whole, Hungary's economic performance rose by 4.6 percent year-on-year. Last year Hungary's annual growth surplus compared to the European Union and the euro area was 1.0 and 1.1 percentage points, respectively.

Chart 3 Developments in industrial production



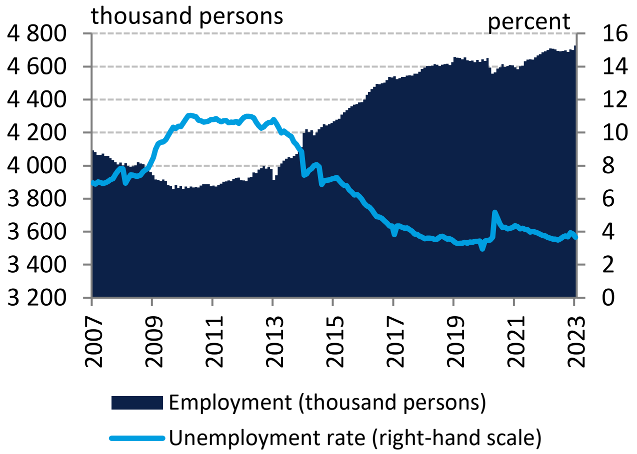
Source: MNB calculation based on HCSO data

In January 2023, industrial production decreased by 0.2 percent year-on-year. The last time when the volume of industrial production registered a fall in annual terms was in October 2021. Compared to the previous month, the level of production fell by 5.1 percent (Chart 3), and thus it moved further away from the trend seen before the coronavirus crisis. Production fell in most of the manufacturing subsectors but significantly increased in the automotive industry and battery manufacture year-on-year. The output of the automotive industry, representing the largest share, increased by 20.3 percent compared to the low base of the previous year. Production of electrical equipment, including battery production and the manufacture of electric motor, rose by 43.5 percent. Manufacture of computers and electronic products grew by 10.8 percent in January, following the decline measured in the previous two months. Among the manufacturing subsectors, the output of petroleum refining (-34.5 percent), chemical substances production (-28.4 percent), energy production (-19.5 percent), mining (-16.6 percent), rubber, plastic and non-metal production (-13.5 percent), metal industry production (-12.9 percent) and food production (-12.2 percent) declined significantly compared to last January.

Following a fall of 3.9 percent registered last December, in January 2023 the volume of construction output declined by 3.6 percent year-on-year. The construction of buildings and other structures decreased by 4.0 percent and 2.1 percent, respectively, year-on-year. Based on seasonally and calendar adjusted data, total construction output declined by 5.0 percent compared to December. The volume of new contracts was down by 28.0 percent from the high base in January 2022. Within that, new contracts for the construction of buildings and of other structures declined by 23.2 percent and by 36.2 percent, respectively, year-on-year. At the end of January, the volume of construction companies' contract portfolio fell by 18.2 percent on an annual basis. The volume of outstanding contracts for the construction of buildings and of other structures declined by 2.0 percent and by 29.6 percent, respectively, in one year.

In January 2023, retail sales volume fell by 4.5 percent year on year; while excluding fuel trade, turnover declined by 3.4 percent based on data after adjusting for the calendar effect. The volume of retail sales in food stores and groceries, representing the largest weight, fell by 4.8 percent. Sales declined to the largest degree at fuel stations (-9.7 percent) due to the lifting of the cap on fuel prices and the high base at the beginning of last year. In addition, the volume of sales by online shops (-7.6 percent), stores selling furniture and appliances (-6.5 percent), medicine, therapeutic products and perfume (-2.7 percent) and industrial goods (-1.9 percent) also fell. The volume of sales rose in the textile, clothing and footwear shops (+13.4 percent), book, IT goods and other industrial goods stores (+5.6 percent) and in the motor vehicles and vehicle parts (+1.3 percent) stores.

Chart 4 Number of persons employed and the unemployment rate



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

Based on preliminary data, the trade balance showed a deficit of EUR 165 million in January 2023. The last time when the trade deficit was lower than this was in November 2021. The balance improved moderately, by EUR 3 million, compared to last December, and by EUR 78 million year-on-year. The deficit, adjusted for VAT residents, was EUR 582 million, a shortfall of EUR 151 million compared to the same month of previous year. Goods exports and imports rose by 14.6 percent and 13.6 percent, respectively, in euro terms, year-on-year in January. In December 2022, terms of trade deteriorated by 2.4 percent in an annual comparison. Deterioration in the terms of trade was lower than this for the last time in March 2021. The contribution of mineral fuels remained significant, deteriorating the terms of trade by 4.5 percentage points.

In the first month of this year high frequency data mostly reflect decelerating economic activity. Based on online cash register data, nominal turnover in February rose by 17.3 percent, while real turnover including inflation fell by 8.1 percent in annual terms. Air passenger (-7.4 percent), road passenger (-7.2 percent) and goods traffic (-6.7

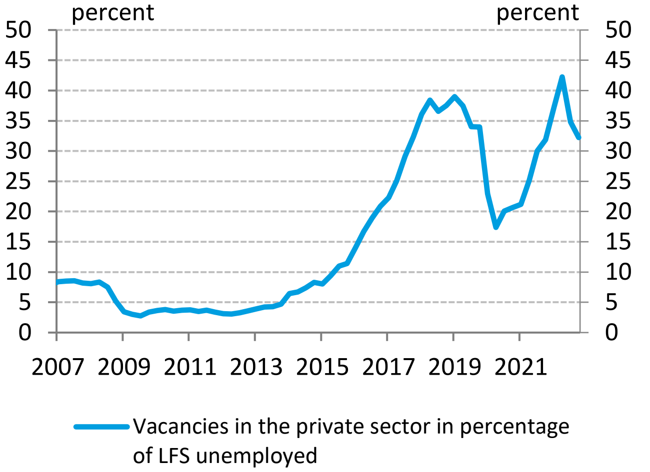
percent) declined according to data received so far. Electricity load data fell by 7.5 percent. The number of housing market transactions declined by 51.1 percent, according to data available to date. Cinema attendance remained broadly unchanged. Catering turnover rose by almost 20.9 percent. Google searches for the term "unemployment benefit" expanded by 15.4 percent.

1.2.2. Employment

Based on Labour Force Survey (LFS) data, the average number of employees in the 15-74 age group was 4,699,000 in January 2023. In the period of between November 2022 and January 2023, the average number of the employed was 4,706,000, exceeding the figure of previous year's corresponding period by 29,000 (Chart 4). In November-January, on average, the number of employees in the primary labour market and of those working abroad rose by 24,000 and 14,000, respectively, while the number of fostered employees fell by 9,000, compared to the same period of the previous year.

In January, the number of the unemployed was 192,000, falling short of the year-on-year figure by 9,000 persons, and as a result, on the whole the unemployment rate stood at 3.9 percent. Based on seasonally adjusted data, in January the number of the unemployed showed a decrease compared to December. Based on the data published by the National Employment Service and the number of registered jobseekers in Hungary was 244,000 (-5,000 on an annual basis) in January 2023 and 245,000 (-7,000 on an annual basis) in February. Based on seasonally adjusted data, the number of the registered jobseekers in February 2023 moderately declined compared to January, 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: Quarterly data.
Source: National Employment Service, HCSO

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 year-on-year 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. Manufacturing job vacancies fell short of the figure registered in Q3 by 400. 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 compared to the previous 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

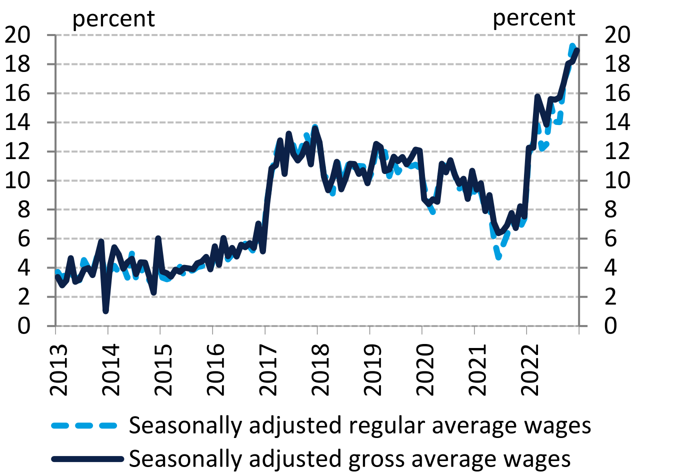
In February 2023, domestic inflation started to decline. In February, consumer prices rose by 25.4 percent in an annual comparison, following a growth of 25.7 percent in January. Incoming data are line with analysts' expectations. Core inflation stood at 25.2 percent and core inflation excluding indirect taxes was 25.1 percent. In annual terms, average regular wages (excluding bonuses) rose by 18.6 percent in the national economy, and by 18.1 percent in the private sector, respectively, in December 2022.

1.3.1. Wages

In December 2022, gross average wages in the private sector rose by 18.3 percent year-on-year. The degree of bonus payments exceeded the historical average for December. Average regular earnings (excluding bonuses) rose by 18.6 percent in annual terms in the overall economy, and by 18.1 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 10.0 percent in most sectors. In December, based on raw data, manufacturing wages were higher by 19.5 percent year-on-year. In market services, HCSO registered a growth of 18.0 percent. Gross wages in construction and trade rose by 17.4 percent and 18.1 percent, respectively, in year-on-year terms.

Chart 6 Dynamics of average earnings in the private sector

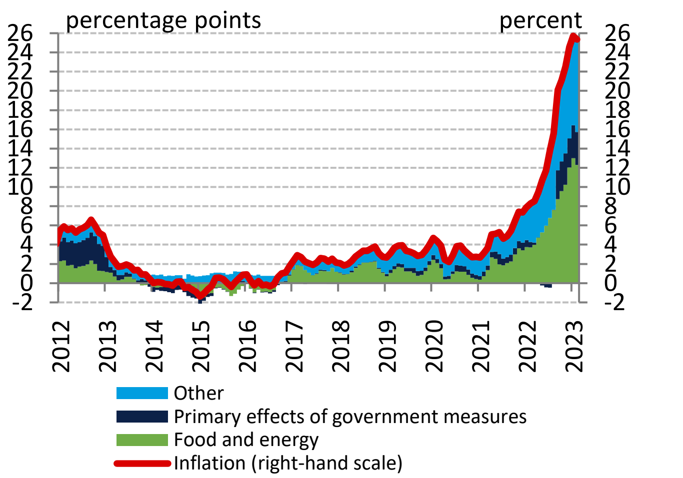


Source: MNB calculation based on HCSO data

1.3.2. Inflation developments

In February 2023, domestic inflation started to decline. In February, consumer prices rose by 25.4 percent in an annual comparison, following a growth of 25.7 percent in January (Chart 7). Core inflation stood at 25.2 percent and core inflation excluding indirect taxes was 25.1 percent. Compared to the previous month, inflation slowed by 0.3 percentage point. The largest contributors to the deceleration included fuels (-0.5 percentage point) and processed food (-0.2 percentage point). Compared to the previous month, annual core inflation decreased by 0.2 percentage point. The decline in core inflation was supported by the change in the price of processed food by 0.4 percentage point. Incoming data are line with analysts' expectations. The median was 25.4 percent, while expectations varied between 24.6 and 25.8 percent.

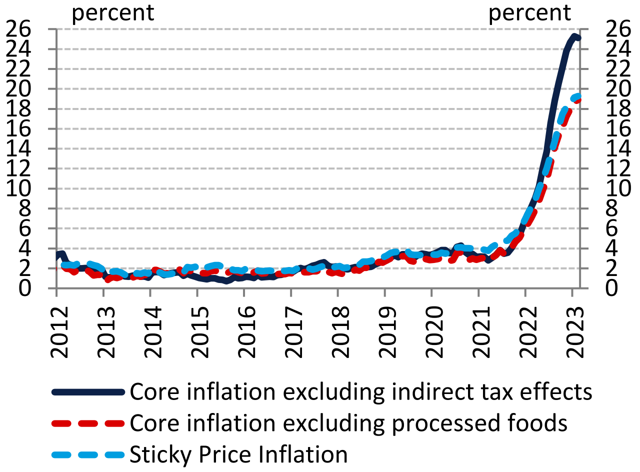
Chart 7 Decomposition of inflation



Source: MNB calculation based on HCSO data

The monthly increase in core inflation, which better reflects market developments and excludes processed food prices, was 1.2 percent. On an annual basis, underlying inflation indicators capturing persistent trends rose slightly compared to the previous month (Chart 8).

Chart 8 Measures of underlying inflation indicators



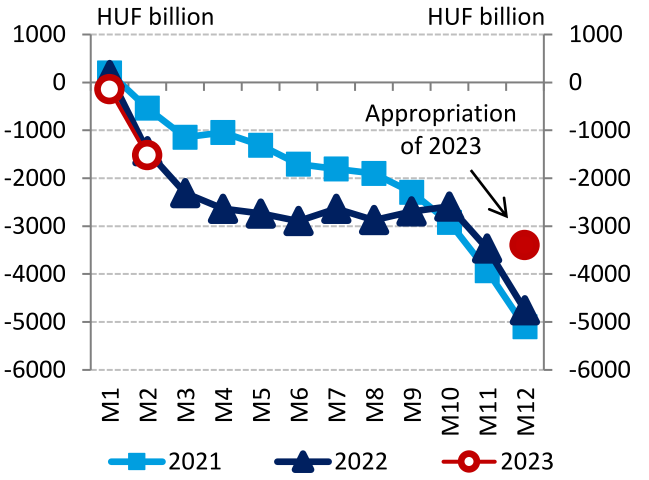
Note: Core inflation excluding processed food corresponds, with unchanged content, to the former demand sensitive inflation measure.

Source: MNB calculation based on HCSO data

1.4. Fiscal developments

The central sub-sector of general government showed a deficit of HUF 1,381 billion in February 2023, which is 203 billion forints lower than in February 2022. In February, revenues of the central sub-sector exceeded the previous year's value by HUF 724 billion. Tax and contribution revenues rose by HUF 749 billion year-on-year. A significant part of the growth is linked to the personal income tax because parents with children were eligible for personal income tax refund in 2022. Expenditures were nearly HUF 520 billion higher than in February 2022.

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



Source: Budget Act of 2023, Hungarian State Treasury

The central sub-sector of general government showed a deficit of HUF 1,381 billion in February 2023, which is 203 billion forints lower than in February 2022. At the end of February, the year-to-date cumulative deficit was HUF 1,525 billion (Chart 9).

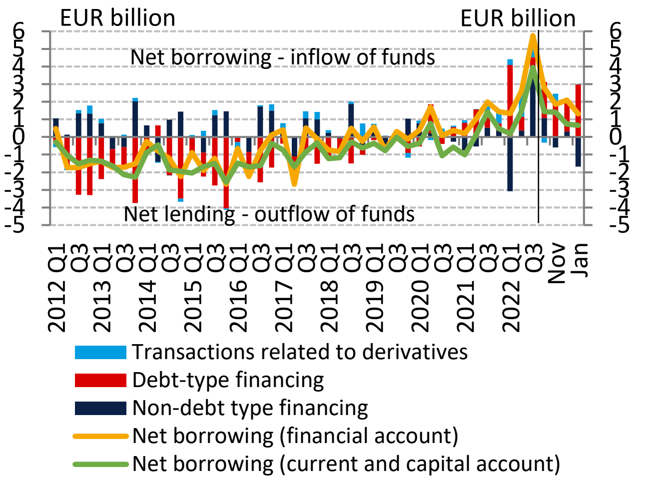
In February, **revenues of the central sub-sector** exceeded the previous year's value by HUF 724 billion. Tax and contribution revenues rose by HUF 749 billion. A significant part of the growth is linked to the personal income tax because parents with children were eligible for personal income tax refund in 2022. In addition to this, the growth in revenues was attributable to the rising wages and to certain windfall taxes.

Expenditures were nearly HUF 520 billion higher than in February 2022. The increase was partly attributable to payment disbursed from normative and special subsidies in the amount of HUF 450 billion to cover energy costs, and to pension expenditures exceeding those of last year by HUF 195 billion.

1.5. External balance developments

In January 2023, the current account deficit was EUR 781 million, while the net borrowing amounted to EUR 668 million. According to financial account data, in parallel with the decline in net foreign direct investments net external debt significantly grew.

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 January 2023, the current account deficit was EUR 781 million, while the net borrowing amounted to EUR 668 million (Chart 10)**.** The current account deficit slightly rose compared to previous month's figure, which showed a significant improvement, primarily linked to the fall in the services balance, while the balance of current transfers also declined. The goods deficit was more favourable than the figure registered in December by some HUF 100 million, contributed to by better the energy balance resulting from the lower gas prices. The services balance surplus registered in January declined due to the seasonality, while the monthly income balance deficit remained broadly unchanged compared to December. The transfer balance surplus slightly declined.

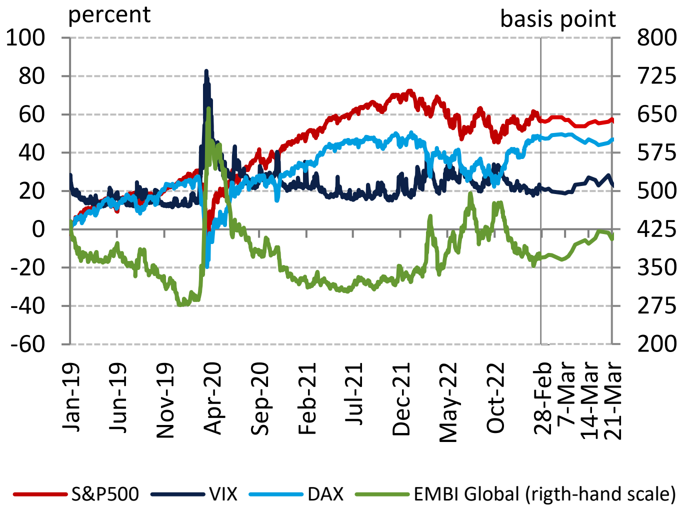
According to financial account data, in parallel with the decline in net foreign direct investments net external debt significantly grew. The decline in net foreign direct investments was partially attributable to the acquisition of a foreign-owned telecommunication company. The growth of EUR 3 billion in net external debt due to transactions was attributable to a substantial rise in the indicator of the banking sector and corporations, while external debt of the general government declined.

2. Financial markets

2.1. International financial markets

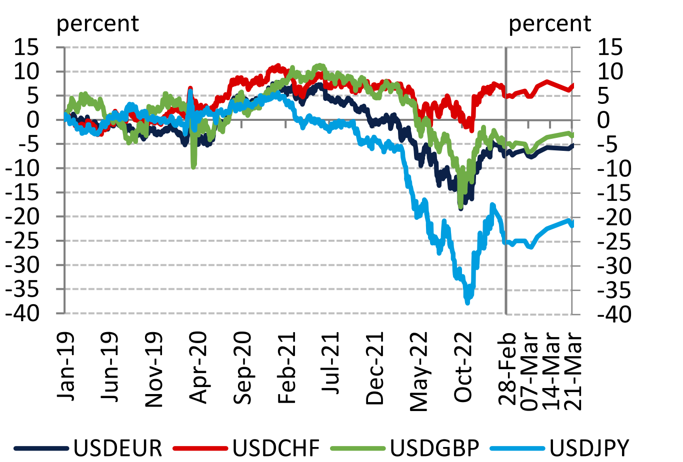
Since the previous interest rate decision, global investor sentiment has primarily been shaped by expectations for the world's leading central banks' monetary policy, incoming macroeconomic data and the turbulence unleashed by the US bank failures. Long-term yields generally declined in developed markets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

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: Reuters

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

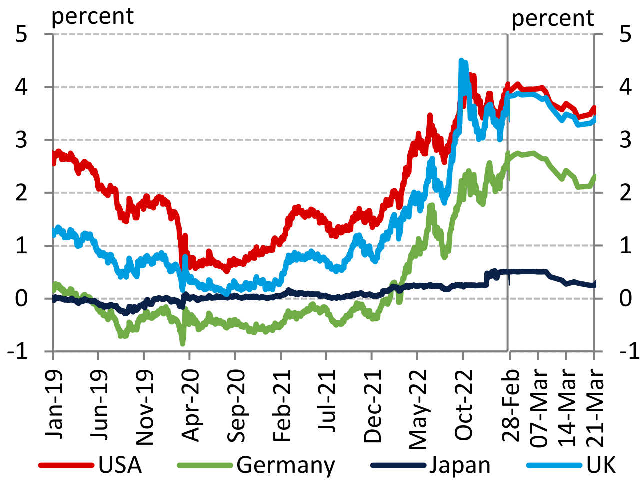
Financial market sentiment deteriorated since the previous interest rate decision. Of the risk indicators, the VIX index, the key measure of equity market volatility, rose overall compared to the level registered at the previous interest rate decision by 2.5 percentage points to 23.9 percent, while in emerging markets the EMBI Global bond market premium increased by 36 basis points. The MOVE index (measure of the developed bond market volatility) rose by 39 basis points to 162 basis points (Chart 11).

Leading stock indices were mixed. Over the period, the US S&P rose by 0.8 percent, while the Dow Jones fell by 0.3 percent. Out of the leading European stock market indices, the German DAX and the French CAC40 declined by 0.9 and 2.2 percent, respectively. From the Asian indices, the Japanese Nikkei rose by 0.1 percent, while the Shanghai stock market index fell by 0.4 percent compared to the level seen at the previous interest rate decision. During the period under review, the turbulences arising for the failure of some US banks generated high volatility. Overall, the developed and emerging market MSCI composite indices decreased by 0.1 and 1.2 percent, respectively.

The dollar depreciated against major currencies. The dollar exchange rate depreciated against the Japanese yen by 2.8 percent, against the euro by 2.0 percent, against the British pound by 2.2 percent, against the Swiss franc by 2.3 percent and against the Chinese renminbi by 0.7 percent. The euro-dollar exchange rate was volatile during the period under review, and at the end of the period it was close to 1.08 (Chart 12).

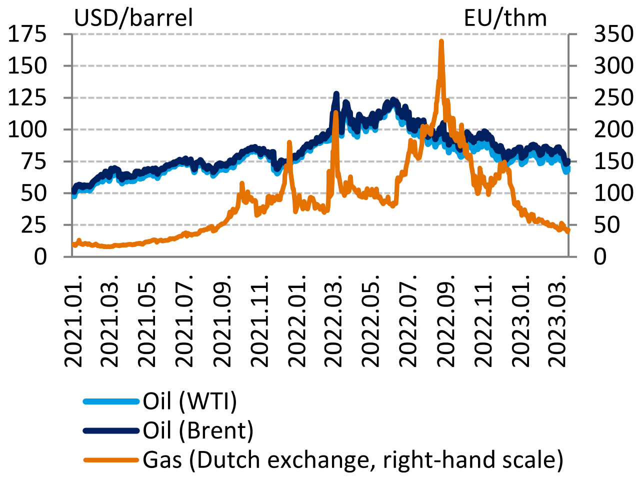
Long-term yields generally moderated in developed markets and in the CEE region (Chart 13). Ten-year US and

Chart 13 Yields on developed market long-term bonds



Source: Bloomberg

Chart 14 Developments in oil and gas prices since January 2021



Source: Bloomberg

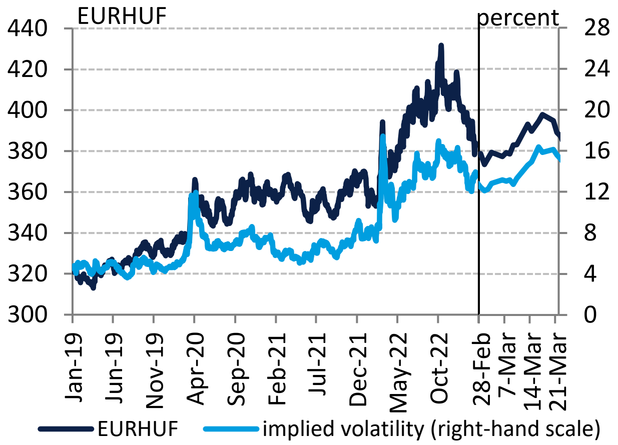
German yields fell by 31 and 36 basis points, respectively, and thus the US yield closed the period at 3.61 percent, while the German one at 2.29 percent. Yields in the Mediterranean countries also dropped: Portuguese and Spanish yields were down by 34 and 25 basis points, and Italian and Greek yields by 23 and 33 basis points, respectively. Yields on 10-year government bonds in the countries of the CEE region also declined: Polish, Romanian and Czech yields were down by 56, 47 and 45 basis points, respectively, while the Hungarian yields are 7 basis points lower than at the February rate decision.

Since the previous interest rate decision oil prices have decreased: the price of Brent crude oil was down by 10.8 percent to USD 75 per barrel, while the US benchmark WTI oil price fell by 10.3 percent to USD 69 per barrel (Chart 14). Gas prices fell by 10 percent, and thus as a result, of the declining trend which started at the end of August 2022, gas prices fell to levels last seen in July 2021. Currently, gas storage facilities in Europe are filled up to 56 percent on average and their utilisation was around the average capacity typical for this period of the year, which was also due to milder winter weather in the region and stronger imports of liquefied natural gas. The price of **industrial metals** declined, with the price of copper falling by 2 percent, zinc and aluminium falling by 5 percent. **The Bloomberg commodity price index, covering the entire commodity market, declined by 3.6 percent over the period.**

2.2. Developments in domestic money market indicators

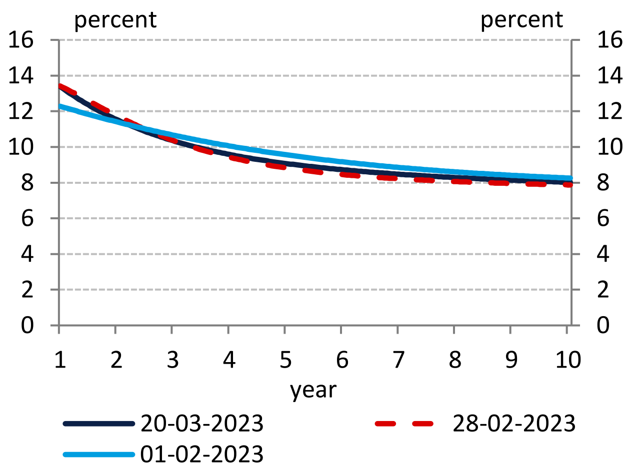
Since the interest rate decision in February, **the forint exchange rate depreciated against the euro**. The depreciation took place amid high volatility. The government yield curve flattened out. The 3-month BUBOR rose by 3 basis points to 16.31 percent.

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

Since the interest rate decision in February, the forint exchange rate depreciated against the euro by 2.7 percent (Chart 15)**.** Of the currencies in the CEE region, the Czech koruna depreciated by 1.3 percent, while the Polish zloty appreciated by 0.5 percent and the Romanian leu remained broadly unchanged against the euro. On the other, the forint registered daily depreciation of outstanding magnitude several times.

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

The government yield curve flattened out (Chart 16). At the 1-year section of the yield curve a fall of 10-20 basis points was registered, while on the medium maturities yields increased by 20-30 basis points on average. The long section of the curve remained broadly unchanged.

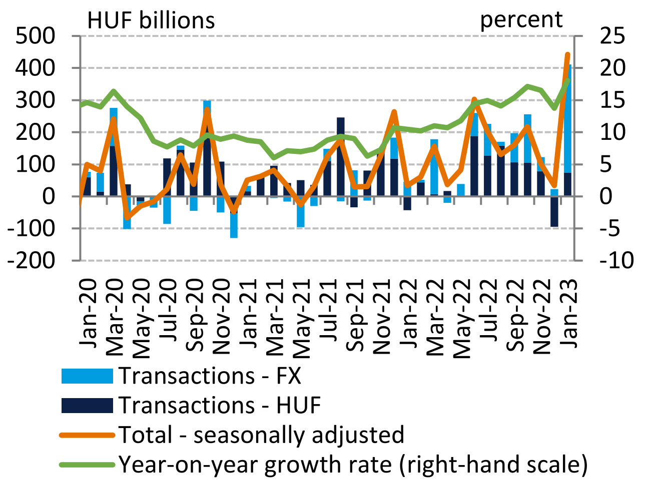
Government bond auctions held by the Government Debt Management Agency since the last interest rate decision were characterised by a moderate demand. During the period under review, the Government Debt Management Agency typically accepted lower volume of government bonds than announced. Lower demand characterised mostly the 3- and 5-year government securities auctions, with a few examples of accepting lower volumes than announced also at the 10-year auctions. Average yields typically rose. The discount Treasury bill auctions were also characterised by a main trend of rising average yield, as a result of which average yield at the 3-month discount Treasury bill auctions rose from 14.64 to 14.9 percent.

Non-residents' holdings of forint government securities decreased. Non-residents' holdings in forint government securities decreased by HUF 67 billion to HUF 6,739 billion. The market share of forint government securities held by non-residents declined to around 21.5 percent.

3. Trends in lending

In January 2023, outstanding loans to non-financial corporations (due to the high-amount transactions realised during the month) grew to an exceptional degree, by HUF 411 billion, reflecting a rise in forint loans by HUF 74 billion and in foreign currency loans by HUF 337 billion. In January, outstanding borrowing by households increased by HUF 28 billion due to transactions, reducing the annual growth rate to 5.7 percent from 6.3 percent last month. In January 2023, the smoothed interest rate spread on forint corporate loans stood at 2.01 percent, down 0.28 percentage point compared to previous month.

Chart 17 Net borrowing by non-financial corporations

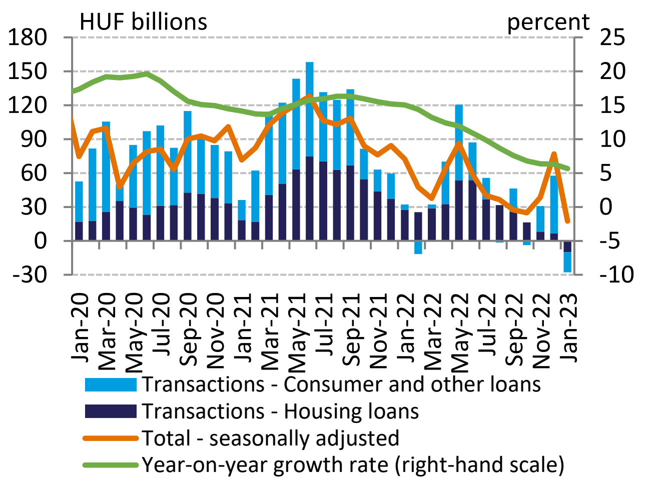


Source: MNB

In January 2023, outstanding loans to non-financial corporations (due to the high-amount transactions realised during the month) grew to an exceptional degree, by HUF 411 billion, reflecting a rise in forint loans by HUF 74 billion and in foreign currency loans by HUF 337 billion. (Chart 17). As a result, the annual growth rate accelerated to 18.1 percent from 13.8 percent registered in previous month. Credit institutions disbursed new loans in the amount of HUF 493 billion, with major contribution by the transaction linked to the acquisition of an ownership share in 4iG Vodafone. Excluding this, the volume of new corporate loans in January was HUF 143 billion, a shortfall of 25 percent compared to last year.

In January, outstanding borrowing by households increased by HUF 28 billion due to transactions, reducing the annual growth rate to 5.7 percent from 6.3 percent last month. (Chart 18). Disbursements of new household loans amounted to HUF 98 billion during the month, which was 48 percent lower than in the same period of the previous year. The decline impacted all key credit products. In parallel with the rise in interest rate on loans, average loan amounts of housing loan contracts declined further and the number of contracts also decreased.

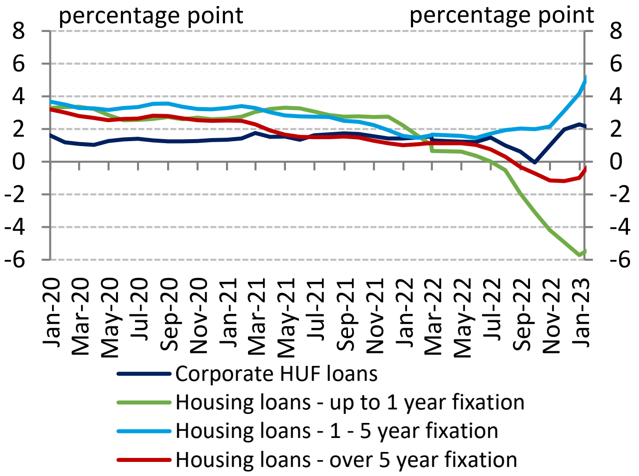
Chart 18 Net borrowing by households



Source: MNB

In January 2023, the smoothed interest rate spread on forint corporate loans stood at 2.01 percent, following a decrease of 0.28 percentage point compared to previous month. (Chart 19). After a rise of 2.93 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 6.10 percentage points in January, while the spread on products with interest rate fixation periods of more than 5 years rose by 1.22 percentage point and stood at 0.24 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.

Chart 19 Developments in corporate and household credit spreads



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

Source: MNB