MACROECONOMIC AND

FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 24 OCTOBER 2023

OCTOBER

2023

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The background material 'Macroeconomic and financial market developments' is based on information available until 18 October 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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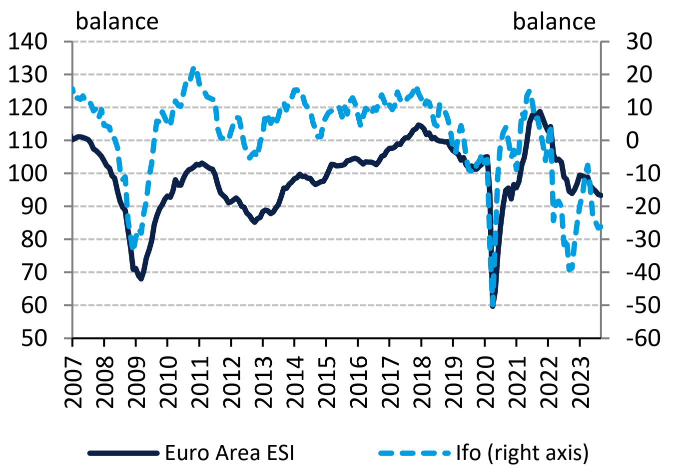
1. Macroeconomic developments

1.1. Global macroeconomic environment

In 2023 Q2, GDP growth continued to slow down in most EU economies, while it accelerated in the US. Although GDP growth in China decelerated, it still exceeded expectations in Q3. From the major economies, industrial production and the retail sales volume rose in the United States and in China, while they declined in the euro area. The PMI sentiment index improved moderately in China and the euro area, while it remained unchanged in the US. Inflation in the United States stagnated on an annual basis, standing at 3.7 percent both in August and September, while in China it decelerated to 0.0 percent in September after the level of 0.1 percent seen in August. Euro area inflation was 4.3 percent, while core inflation was 4.5 percent in September year on year. Both figures fell short of analysts' expectations, and inflation declined in the vast majority of the EU Member States.

In 2023 Q2, GDP growth continued to slow down in most EU economies, while it accelerated in the US. In international comparison, economic growth in the second quarter was 0.5 percent in the euro area, 0.4 percent across the European Union and 2.4 percent in the United States in annual terms. In China, annual growth in output slowed down to 4.9 percent in 2023 Q3 following 6.3 percent registered in 2023 Q2, but it still exceeded analysts' expectations. Among the EU countries, annual GDP growth was the strongest in Malta (+3.9 percent), Greece (+2.7 percent) and Romania (+2.6 percent) in 2023 Q2. Based on seasonally and calendar-adjusted data, in 11 countries a year-on-year fall was reported, with output decreasing most sharply in Estonia (-3.0 percent), Hungary (-2.3 percent) and Luxembourg (-1.7 percent). The economy of Germany, Hungary's main trading partner, shrank by 0.1 percent. Quarter on quarter, economic performance increased in 13 Member States, stagnated in Czechia, Germany and Portugal, while it declined in Luxembourg, Estonia, Italy, Denmark, Hungary, the Netherlands, Cyprus, Austria, Latvia, Sweden and Poland.

Chart 1 Business climate indices in Hungary's export markets

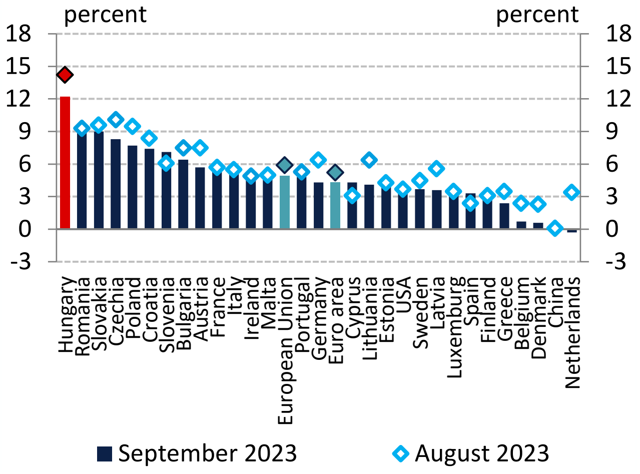


Source: European Commission, Ifo

Monthly production indicators fell in the euro area, while they rose in the US and China in annual terms. In September, industrial production rose by 4.5 percent, year on year in China and slightly, by 0.1 percent, in the United States. A 5.1 percent fall was reported in the euro area in August. Retail sales rose by 3.8 percent in the USA and by 5.5 percent in China in September, while in the euro area they fell by 2.1 percent in August, year on year.

In September, the purchasing managers' index increased slightly in China and the euro area, while it remained unchanged in the United States. In the euro area, the Economic Sentiment Indicator (ESI) showed a deterioration in both consumer confidence and business prospects, however the Purchasing Managers Index

Chart 2 Developments in the international inflation environment



Note: HICP (where available) and CPI rates.
Source: Eurostat

(PMI) showed a slight improvement on a monthly basis in September (Chart 1). The PMI was slightly above the threshold in the US and China and below the threshold in the euro area at 47.2 points.

There is still no sign of significant slowdown in international labour market developments. In September, the unemployment rate remained unchanged in the United States at 3.8 percent, i.e. the eighteen-month's high registered in August. On the other hand, the number of non-agricultural employees rose by a larger-than-expected 336,000 last month, which was the largest increase since January. The unemployment rate in the euro area stood at 6.4 percent in August.

Annual inflation in the United States remained at 3.7 percent in September after August, while in China it slowed to 0.0 percent after 0.1 percent in August. Euro area inflation was 4.3 percent, while core inflation was 4.5 percent in September year on year. The inflation figure was lower than analysts' median expectations of 4.5 percent, while the core inflation figure also fell short of analysts' expectations (of 4.8. percent).

Inflation fell in the vast majority of EU countries in September. Hungary had the highest inflation rate among the EU countries. In addition, the annual price index was also high in the CEE region. In the region, prices rose by 9.2 percent in Romania, 9.0 percent in Slovakia, 8.3 percent in Czechia and 7.7 percent in Poland, year on year (Chart 2).

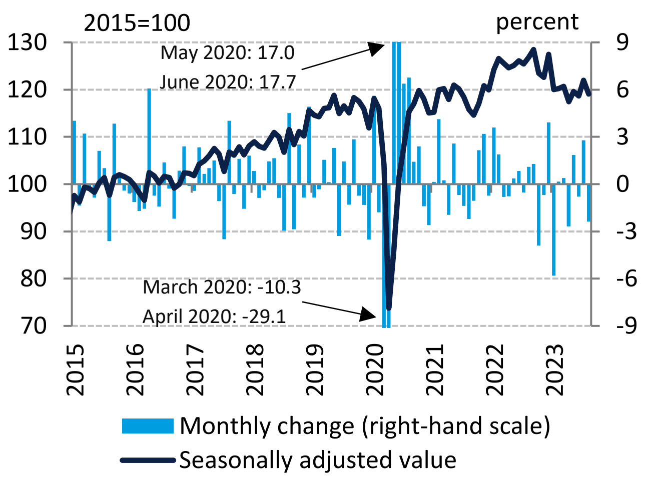
1.2. Real economic developments in Hungary

In 2023 Q2, GDP was down by 2.4 percent, year on year, while economic performance declined by 0.2 percent quarter on quarter. In August 2023, the volume of industrial production, retail sales, and construction output fell by 5.3 percent, 7.1 percent and 0.5 percent, respectively, year on year. In August 2023, the average number of employees in the 15–74 age group was 4,709,000. On average, there were 9,000 more people employed in Hungary in the period of June-August 2023 than in the same period last year. The unemployment rate stood at 4.0 percent in August.

1.2.1. Economic growth

In 2023 Q2, GDP was down by 2.4 percent, year-on year, while economic performance declined by 0.2 percent quarter on quarter. On the production side, both the output of industry (-5.7 percent) and construction (-6.2 percent) declined in 2023 Q1, while the favourable performance of agriculture cushioned the economic downturn. Among the manufacturing subsectors, rubber, plastic and non-metal production reduced industrial performance to the largest degree, while the decline was mostly curbed by the manufacturing of road vehicles and electrical equipment. Following last year's drought, the added value by the agriculture increased by 66.6 percent relative to the last year's low base. The overall added value in services fell by 2.8 percent. The performance of trade (-11.5 percent), transport and storage (6.1 percent) and real estate activities (-0.2 percent) sectors, with a large share, declined, while the performance of the information and communications sector increased by 1.4 percent and that of financial and insurance activities by 0.2 percent. Among the expenditure items, economic performance was raised only by net exports (+5.8 percent). Households' consumption expenditure and gross fixed capital formation declined by 3.5 percent and 15.2 percent, respectively, year on year. The contribution of changes in inventories to growth was substantially negative (-2.5 percentage points).

Chart 3 Developments in industrial production



Source: MNB calculation based on HCSO data

Industrial production continued to decline in August 2023, with output falling by 5.3 percent, year on year. Compared to the previous month, the level of production fell by 2.4 percent (Chart 3). Production fell in most of the manufacturing subsectors, with the only increases recorded in export-oriented automotive industry and the batteries and electric motors manufacturing industry year on year. The automotive industry, representing the largest share, grew by 4.6 percent, while the production of electrical equipment rose by 15.8 percent. This included a 39.0 percent increase in battery and accumulator manufacturing, and a 10.0 percent rise in the manufacturing of electric motors, electricity generator, distributor and regulator devices. The rest of the subsectors representing a larger share reported a decline in production. Pharmaceutical production was down by 16.5 percent compared to a year earlier. Output fell in energy production

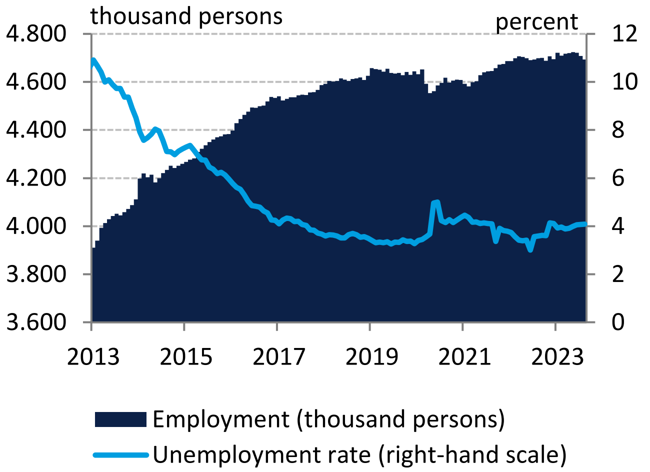
(-16.5 percent), mining (-33.0 percent), rubber, plastics and non-metal production (-16.2 percent), in the metal industry (-3.8 percent), petroleum refining (-10.0 percent), the food industry (-10.1 percent) and the manufacture of computers and electronic products (-11.2 percent) year on year.

In August 2023 the volume of construction output decreased by 0.5 percent, registering a decline on an annual basis for the eights time since last December. Construction of buildings declined by 7.6 percent, while other construction increased by 13.6 percent compared to the low base in August last year. Compared to July, total construction output fell by 5 percent, based on seasonally and calendar adjusted data, bringing output back close to the level of 2019 Q4. The number of new contracts concluded expanded by 31.9 percent. Within that, contracts for the construction of buildings rose by 22.3 percent as a result of high-value contracts concluded for industrial buildings. The volume of contracts for the construction of other structures grew by 46.6 percent due to the low base of last August. Construction companies' contract portfolio at the end of August fell by 23.9 percent on an annual basis. Within this, the volume of contracts for the construction of buildings exceeded the figure registered a year ago by 4.9 percent, while that for the construction of other structures fell short of it by 40.6 percent.

In August 2023, the volume of retail sales fell by 7.1 percent, thereby registering a decline for the ninth month on an annual basis. Declining fuel sales made a significant contribution to the decrease, excluding which turnover fell by 4.5 percent according to the calendar adjusted data. The volume of retail sales, excluding fuel trade, has been falling since last July on an annual basis. Monthly retail sales volume contracted slightly in August (-0.5 percent). Retail sales declined in all product groups, except shops selling medicine, perfume, motor vehicle and vehicle parts. Sales of industrial goods (-10.7 percent), furniture and appliance shops (-15.1 percent) and fuel (-18.1 percent) declined by more than 10 percent.

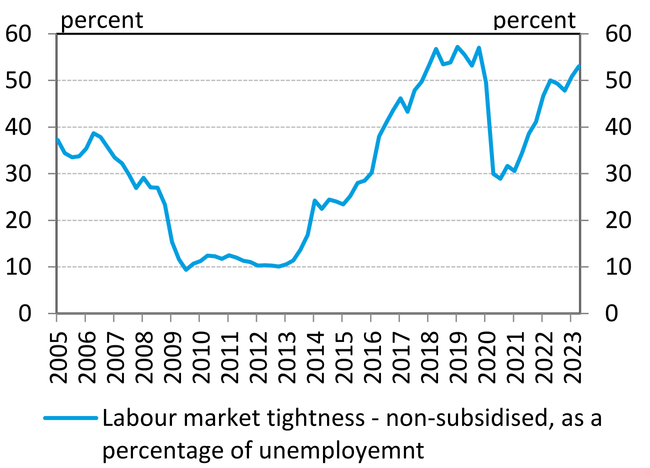
Based on preliminary data, the trade balance showed a surplus of EUR 708 million in August 2023. The balance improved by EUR 149 million compared to the previous month and by EUR 2.3 billion year on year. The balance adjusted for VAT residents improved by EUR 2.5 billion on an annual basis, and it showed a surplus of EUR 220 million. In August, the export of goods fell by 1.5 percent in euro terms on an annual basis. The nominal value of imports in euro terms shrank by almost 19 percent in a year, due to the fall in fuel prices and the decline in domestic demand. In July 2023, the terms of trade improved by 8.3 percent, year on

Chart 4 Number of persons employed and the unemployment rate



Note: Seasonally adjusted moving averages.
Source: HCSO

Chart 5 Developments in labour market tightness indicator



Note: Quarterly data.
Source: NES, HCSO

year. The contribution of mineral fuels significantly improved the terms of trade by 5.3 percentage points in July.

In September 2023, most of the high frequency data reflected a fall in economic activity (Chart 5). Based on online cash register data, nominal turnover rose by 7.9 percent in September, while real turnover adjusted for inflation fell by 4.3 percent in annual terms. Freight traffic increased slightly (+1.0 percent), while passenger flights and road passenger traffic declined (-10.2 percent and -6.8 percent, respectively) according to data received to date. Electricity load fell by 7.8 percent. Cinema attendance rose by 21.5 percent. Catering turnover rose by almost 22.9 percent. The number of housing market transactions declined by 2.4 percent. Google searches for the term ‘unemployment benefit’ slightly rose.

1.2.2. Employment

Based on the data of the Labour Force Survey in August 2023, the average number of employees in the 15–74 age group was 4,709,000. In the period of June to August 2023, the average number of employees was 4,721,000, exceeding the year-on-year figure by 9,000 (Chart 4). In June-August, the average number of employees in the primary labour market fell by 4,000, of those employed at local units abroad increased by 22,000, while the number of public workers decreased by 8,000, compared to the same period a year earlier.

In August, the number of unemployed was 195,000, which was 22,000 above the figure seen a year earlier, as a result, the unemployment rate stood at 4.0 percent, overall. Based on seasonally adjusted data, in August the number of unemployed increased slightly compared to July. Based on data published by the National Employment Service in August and in September 2023, the number of registered jobseekers in Hungary was 229,000 (-3,000 on an annual basis) and 228,000 (-10,000 on an annual basis), respectively. Based on seasonally adjusted data, the number of the registered jobseekers in September 2023 moderately declined compared to August, and it is still below the number measured in the months before the outbreak of the coronavirus pandemic.

The number of non-subsidised job vacancies grew further in the previous quarter, standing at a historic high (Chart 5). Based on data published by the National Employment Service (NES) in 2023 Q3 the number of job vacancies was 114,000, representing a year-on-year growth of 22.5 percent. Based on seasonally adjusted data, the number of vacancies has been rising steadily in the past five quarters.

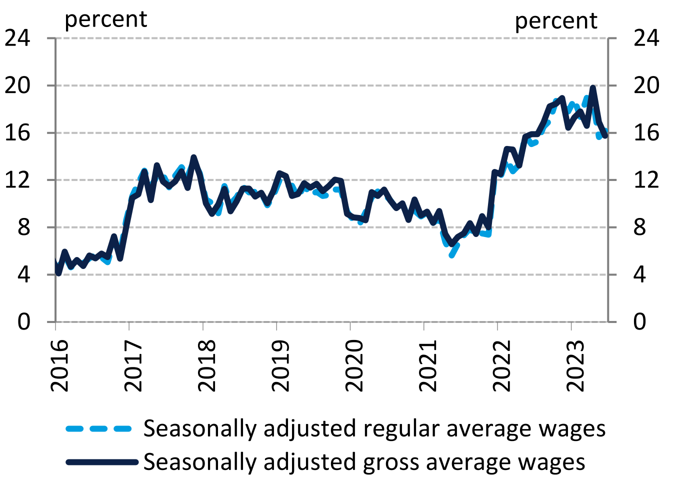
1.3. Inflation and wages

In September 2023, inflation in Hungary continued to fall at a faster pace than in previous months. Consumer prices rose by 12.2 percent, year on year, while both core inflation and core inflation excluding indirect tax effects fell to 13.1 percent. Incoming inflation data were slightly below analysts' expectations. In June 2023, average earnings in the national economy (excluding bonuses) rose by 15.6 percent with private sector wages increasing by 16.1 percent in annual terms.

1.3.1. Wages

In July 2023, gross average wages in the private sector rose by 15.4 percent year on year. Bonus payments were above the historic average in July. Average regular earnings (excluding bonuses) rose by 15.6 percent in annual terms in the whole economy and by 16.1 percent in the private sector.

Chart 6 Dynamics of average earnings in the private sector

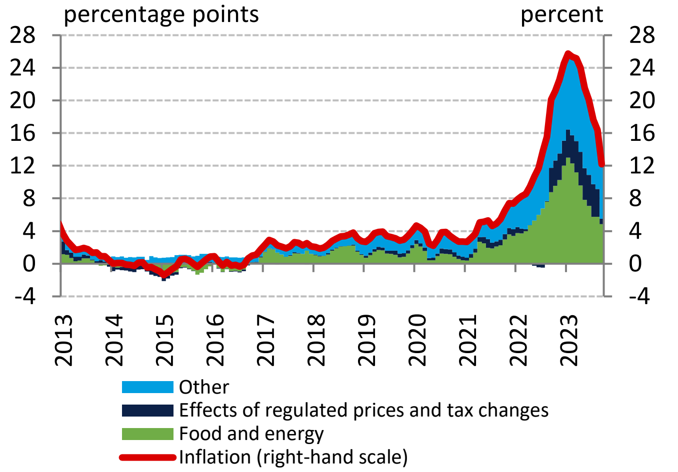


Source: MNB calculation based on HCSO data

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)**.** Within the private sector, wage dynamics of manufacturing exceeded those of market services. Annual wage dynamics were over 14.0 percent in most sectors. In June, based on raw data, manufacturing wages were higher by 15.8 percent year on year. In market services, the HCSO recorded a growth of 14.9 percent. Gross wages in construction and trade rose by 16.3 percent and 14.7 percent, respectively, in annual terms.

1.3.2. Inflation developments

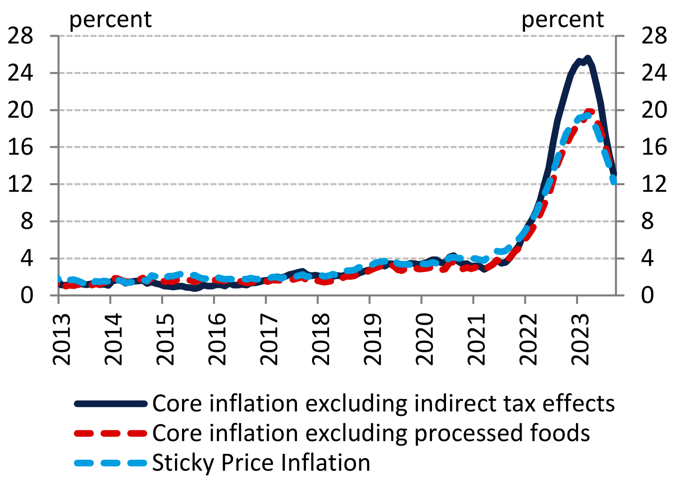
Chart 7 Decomposition of inflation



Source: MNB calculation based on HCSO data

In September 2023, inflation in Hungary continued to fall at a faster pace than in previous months. Consumer prices rose by 12.2 percent, year on year (Chart 7). Compared to the previous month, inflation declined by 4.2 percentage points. The largest contributors to the deceleration included products and services of regulated prices (-2.6 percentage points) and processed food (-0.7 percentage points). Annual core inflation fell by 2.1 percentage points to 13.1 percent. The annual price index of market services decreased to 15.2 percent, continuing the decreasing trend in price dynamics started in June. Annual price growth of processed food was 12.9 percent indicating a significant slowdown from 17.9 percent in the previous month. Inflation of products and services of regulated prices, calculated on an annual basis, declined by almost 20 percentage points to -1.1 percent due to the base effect resulting from the rise in retail gas and electricity prices last September. The incoming figure was slightly below analysts' expectations, with a median value of 12.4 percent and expectations ranging from 12.1 to 13.5 percent.

Chart 8 Measures of underlying inflation indicators



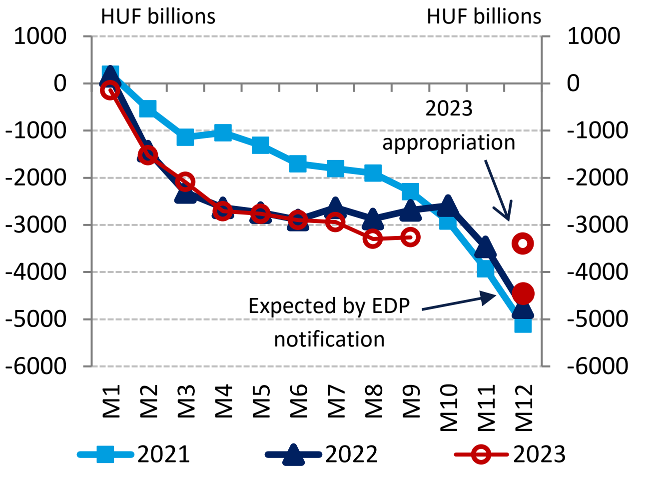
Note: Core inflation excluding processed food corresponds, with unchanged content, to the former demand sensitive inflation measure.
Source: MNB calculation based on HCSO data

Underlying inflation indicators, capturing persistent trends on an annual basis, also moderated. Inflation for sticky-price goods fell by 1.8 percentage points, while annual core inflation excluding processed food decreased by 1.4 percentage points compared with the previous month (Chart 8).

1.4. Fiscal developments

In early October the Government raised its ESA deficit target for 2023 from 3.9 percent to 5.2 percent, and as a result, the expected cash-based deficit for 2023 in the October EDP notification rose from HUF 3,400 billion to HUF 4,450 billion. In September, the central sub-sector of the general government registered a surplus of HUF 34 billion, and thus by the end of 2023 Q3 the year-to-date cumulative deficit declined to HUF 3,265 billion, i.e. to 82 percent of the cash-based deficit raised to HUF 4,450. In September, revenues of the central sub-sector were HUF 216 billion higher than a year before, while expenditures rose by HUF 364 billion.

Chart 9 The cumulative cash balance of the central government budget from the beginning of the year



Source: Budget Act of 2023, Hungarian State Treasury, EDP notification

In September, the **central sub-sector of the general government** closed with a surplus of HUF 34 billion, and thus the year-to-date cumulative deficit declined to HUF 3,265 billion, i.e. to 96 percent of the appropriation amended in March 2023, and to 82 percent of the cash-based deficit of HUF 4,450 included in the October EDP notification (Chart 9).

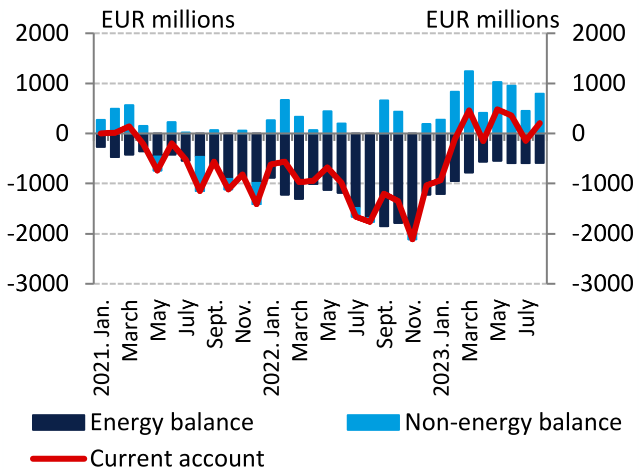
In September, **revenues of the central sub-sector** were HUF 216 billion higher than a year earlier. Within this, tax and contribution revenues increased by HUF 118 billion, while EU revenues rose by HUF 66 billion, year on year. Tax and contribution revenues from labour increased by HUF 112 billion, while payments by enterprises dropped by HUF 32 billion. The annual growth rate in gross VAT revenues was only 2 percent in September.

Expenditures were HUF 364 billion higher than in September 2022. The growth is primarily attributable to the rise of HUF 120 billion and HUF 83 billion related to state property and pension expenditures, respectively, as well as to the higher level of the expenditures of central budgetary organisations and EU disbursements.

1.5. External balance developments

In August 2023, the current account surplus and net lending amounted to EUR 200 million and around EUR 410 million, respectively. The monthly increase in the current account balance is mostly attributable to a fall in the income balance deficit. Based on financial accounts data, net direct investment increased by EUR 0.3 billion in August, due to an increase in reinvested earnings in Hungary.

Chart 10 Developments of current account and energy balance



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

In August 2023, the current account surplus amounted to around EUR 200 million and net lending around EUR 410 million (Chart 10). The monthly increase in the current account balance is mostly attributable to the fall in the income balance deficit linked to the correction of dividend payments on portfolio investments in previous month. Goods balance slightly deteriorated on a monthly basis, while it improved by roughly EUR 2.1 billion in annual terms, which is partly attributable to the declining energy imports bill and partly to the fall in domestic demand. In August, the services balance surplus remained at the high level seen in the previous month. The transfer balance increased, with an increase in EU funds.

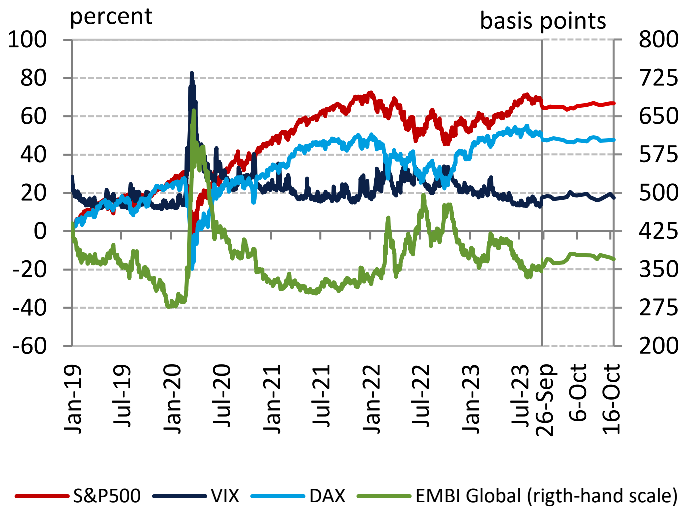
Based on financial accounts data, net direct investment increased by EUR 0.3 billion in August, fuelled by an increase in reinvested earnings in Hungary. The fall of EUR 0.4 billion in net external debt due to transactions was linked to corporations. The growth in the public sector's indicator has essentially offset the fall in the banking sector's debt.

2. Financial markets

2.1. International financial markets

Global investor sentiment has been uncertain since the last interest rate decision and has deteriorated overall. In addition to the expectations related to the monetary policy of the world's leading central banks and the yield increase in the global bond markets, the focus of market participants was on investor concerns due to the Gaza-Israel war that broke out on 7 October. From the risk indicators, the VIX index, the key measure of US equity market volatility, stands at a similar level as at the time of the previous interest rate decision, unseen since spring. Stock market indices in the developed markets were mixed and bond yields rose significantly. The dollar's performance was mixed against developed and emerging market currencies, while gas prices rose significantly and oil prices moderated overall amid high volatility.

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



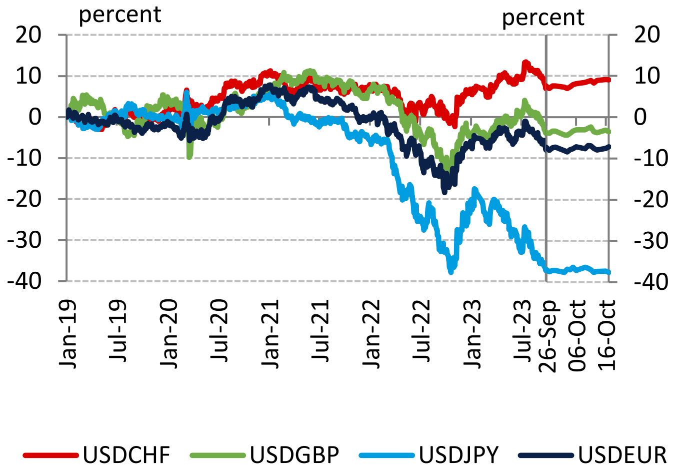
Source: Bloomberg

Foreign investor sentiment has been uncertain since the last interest rate decision and has deteriorated overall. The focus of market participants was on the expectations related to the monetary policy of major central banks, the yield increase in global bond markets and the investor concerns due to the Gaza-Israel war that broke out on 7 October. At the beginning of the period, the significant yield increase in global bond markets has increasingly become the hot topic of the day. Of the ten-year government bond yields the US one rose by almost 70 basis points between end of August and the first week of October, reaching 4.8 percent, a level unprecedented since 2007. The US thirty-year yield exceeded the level of 5 percent in the period under review. There may have been several factors underlying the increase in yields: market participants increasingly tend to anticipate a "higher for longer" interest environment, rising oil prices once again fuel inflation concerns, and an increasing number of market participants may close their loss-making bond positions. **Amid these market uncertainties, Hamas launched a major attack on Israel on 7 October, which shook investor sentiment and triggered a price increase in the commodity markets.**

Of the risk indicators, the VIX index, the key measure of the US equity market volatility, is at similar level registered at the previous interest rate decision, while in emerging markets the EMBI Global bond market premium increased by 14 basis points (Chart 11).

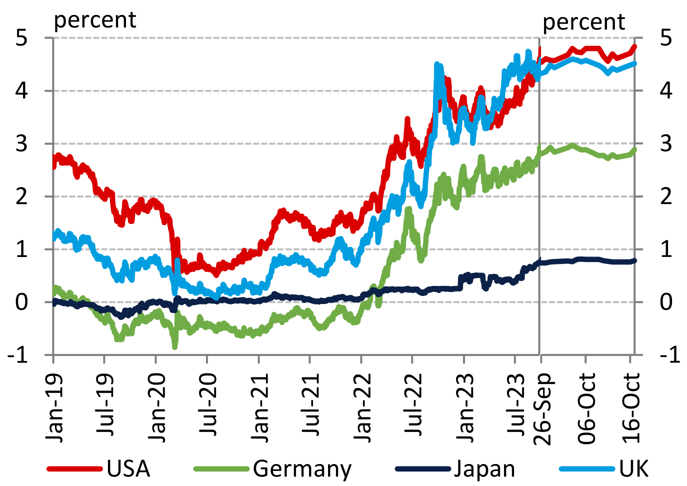
Leading stock indices showed a mixed picture over the period. Since the last interest rate decision, the US S&P 500, the Dow Jones and the Russel 2000 small-cap index rose by 2.3 percent, 1.1 percent and 0.3 percent, respectively. Of the European leading stock market indices, the German DAX remained broadly unchanged, while the French CAC 40 declined by 0.6 percent. Among the Asian indices, the Shanghai stock market index and

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

Chart 13 Yields on developed market long-term bonds



Source: Bloomberg

the Japanese Nikkei 225 have decreased by 0.6 percent and 0.9 percent, respectively, since the previous interest rate decision. Overall, the developed MSCI composite index was up by 1.5 percent and the emerging market index by 0.4 percent.

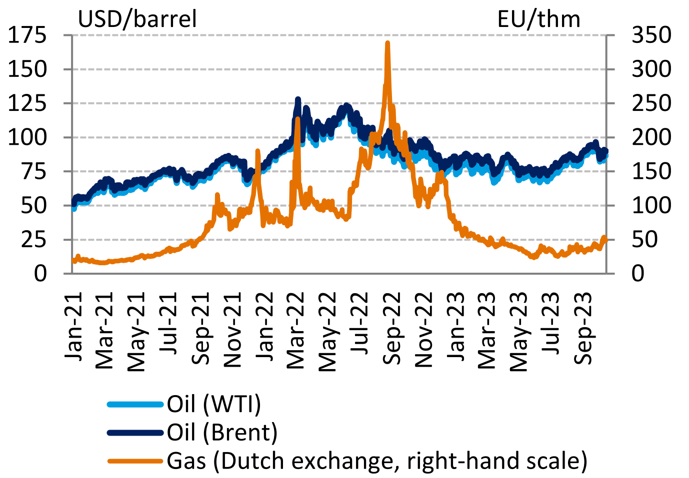
The dollar performed mixed against the major currencies (Chart 12). The dollar remained broadly unchanged against the euro (fluctuating around 1.058), while it depreciated against the British pound and the Swiss franc by 0.2 percent and 1.7 percent, respectively. During the period under review, the US currency appreciated against the Japanese yen and the Australian dollar by 0.5 percent each and by 1.0 percent against the Canadian dollar, while it typically depreciated against the emerging market currencies.

Long-term yields rose in developed markets (Chart 13). The US and German ten-year yields rose by 30 and 7 basis points, respectively, and thus the US yield closed the period at 4.83 percent, while the German at 2.88 percent. Yields in the Mediterranean countries also increased, with Italian yields up 15, Spanish 10, Portuguese 3 and Greek 6 basis points. Among the yields on 10-year government bonds in the countries of the CEE region, Polish and Czech yields declined by 5 and 8 basis points, respectively, while Romanian yields increased by 17 basis points. Hungarian yields have increased by 27 basis points since the September rate decision.

Oil prices have moderated overall since the previous interest rate decision (Chart 14). Until early October, the price of North Sea Brent crude oil declined by 15.3 percent from USD 98 to USD 83 per barrel due to the anticipated fall in global demand, then in the volatile trading resulting from the outbreak of the Gaza–Israel conflict quotes bounced by 10 percent to USD 92. The price of the US benchmark WTI fell by 13.8 percent from USD 94 to USD 81 per barrel until early October, followed by a rise of 9.8 percent to exceed USD 89 due to the war in Israel. The market remains extremely volatile with high susceptibility to all supply-related news and supply shocks.

Since the last interest rate decision, European gas prices rose on the whole from EUR 40/MWh to **EUR 54/MWh** due to supply concerns, the conflict in Israel, the shutting of Chevron's gas field in Israel and the strikes at Australian LNG export units. The price of industrial metals fell by 2 percent, nickel by 2.1 percent, copper by 1.6 percent and tin by 1.2 percent. The Bloomberg commodity price index, covering the entire commodity market, increased

Chart 14 Developments in oil and gas prices since January 2021



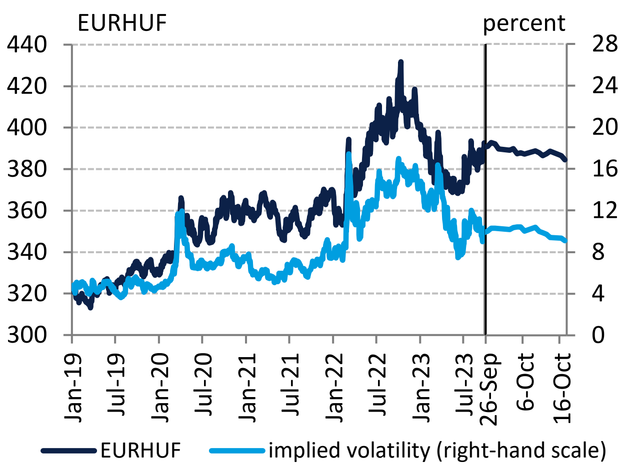
Source: Bloomberg

by 0.2 percent over the period, mainly due to a rise in the energy sub-index.

2.2. Developments in domestic money market indicators

The forint has been stable against the euro since the September interest rate decision and appreciated at the end of the period. The long end of the government securities yield curve rose. The 3-month BUBOR fell by 51 basis points to 12 percent.

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



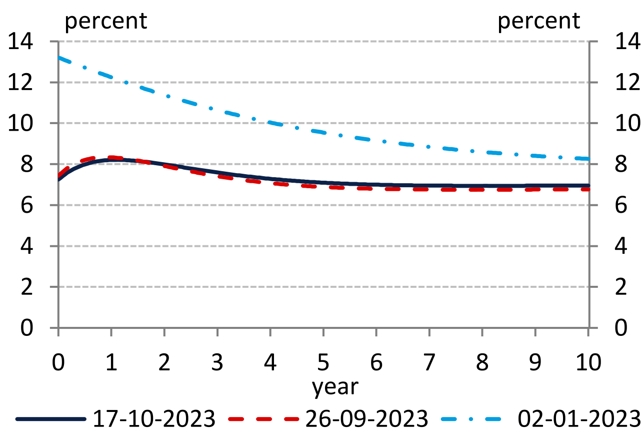
Source: Bloomberg

The forint has been stable against the euro since the previous interest rate decision and then appreciated at the end of the period (Chart 15). On the week after the September interest rate decision, the forint has slightly depreciated, followed by an appreciation of 1.65 percent in total, in parallel with the strengthening of the euro. Performance of the currencies in the CEE region varied: the Polish zloty appreciated to a larger degree than the forint, i.e. by 4 percent, the Czech koruna depreciated by 1 percent, while the exchange rate of the Romanian leu remained broadly unchanged.

The 3-month BUBOR, relevant for monetary policy transmission, has decreased by 51 basis points to 12 percent since the last interest rate decision.

The government securities market's yield curve has shifted upwards since the previous rate-setting decision (Chart 16). Yield levels rose on average by 15-20 basis points on the medium- and long-term maturities, while the short end of the yield curve remained broadly unchanged.

Chart 16 Shifts in the spot government yield curve



Source: Bloomberg

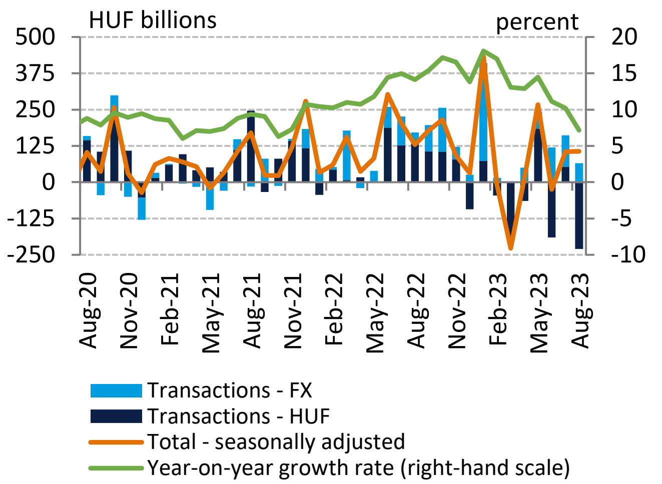
Government securities auctions held by the Government Debt Management Agency since the last interest rate decision were characterised by an adequate demand. During the period under review, the volume of bids submitted was well above the announced volume both at the discount Treasury bill and bond auctions, and in most cases the Government Debt Management Agency accepted higher volume than announced.

Non-residents' holdings of forint government securities increased. Non-residents' holdings in forint government securities increased by HUF 185 billion to HUF 7,121 billion. The market share of forint government securities held by foreign actors remained around 21 percent.

3. Trends in lending

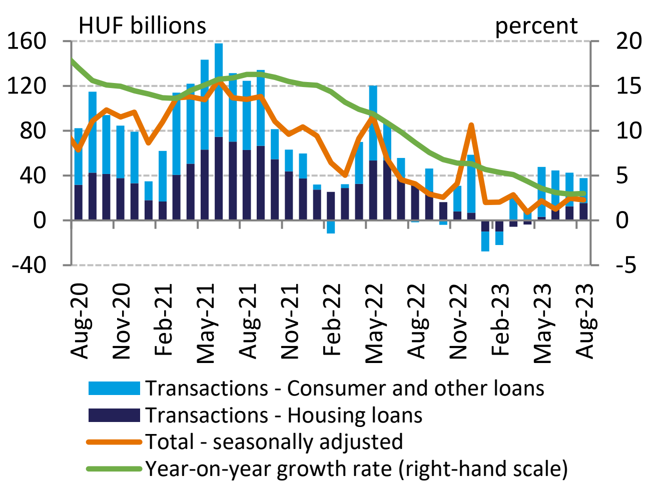
In August 2023, total outstanding loans of non-financial corporations decreased by HUF 164 billion, driven by a HUF 229 billion decline in forint loans and a HUF 65 billion increase in foreign currency loans. In August, households' outstanding loans increased by HUF 38 billion due to transactions, as a result the annual growth rate accelerated to 3.0 percent from 2.9 percent seen last month. The smoothed interest rate spread on forint corporate loans has risen significantly, by 0.82 percentage points to 2.40 percentage points in August 2023.

Chart 17 Net borrowing by non-financial corporations



Source: MNB

Chart 18 Net borrowing by households



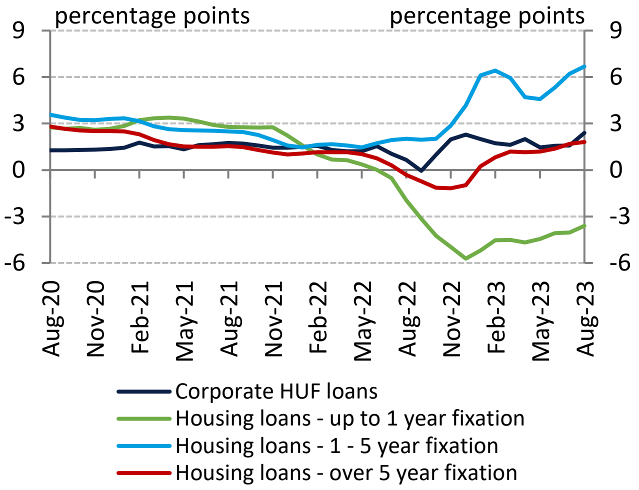
Source: MNB

In August 2023, outstanding loans of non-financial corporations decreased by HUF 164 billion, driven by a HUF 229 billion decline in forint loans and a HUF 65 billion increase in foreign currency loans (Chart 17)**.** As a result, the annual growth rate slowed to 7.1 percent from 10.2 percent registered in previous month. Credit institutions extended new non-overdraft corporate loans in the amount of HUF 296 billion, 4 percent more than in the same period last year.

In August, households' outstanding borrowing increased by HUF 38 billion due to transactions, slightly accelerating the annual growth rate to 3.0 percent from 2.9 percent last month (Chart 18). The volume of new household loan contracts, amounting to HUF 151 billion, was 23 percent lower than in the same period last year, but 6 percent higher than in July. The disbursement of housing loans declined to the largest degree in an annual comparison, while demand for personal loans remains steadily high.

The smoothed interest rate spread on forint corporate loans has risen significantly, by 0.82 percentage points to 2.40 percentage points in August 2023. (Chart 19). For housing loans, the spread on products with interest rate fixation periods longer than 5 years increased by 0.13 percentage points, and stood at 1.82 percentage points at the end of the period under review.

Chart 19 Developments in corporate and household credit spreads



Note: In the case of household loans, APR-based smoothed spreads calculated using the average reference rate for the month in which the loan was issued. In the case of forint corporate loans and 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 margin above the relevant IRS.
Source: MNB