# MACROECONOMIC AND

# FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 26 SEPTEMBER 2023

SEPTEMBER

2023

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*The background material 'Macroeconomic and financial market developments' is based on information available until 21 September 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

# Table of contents

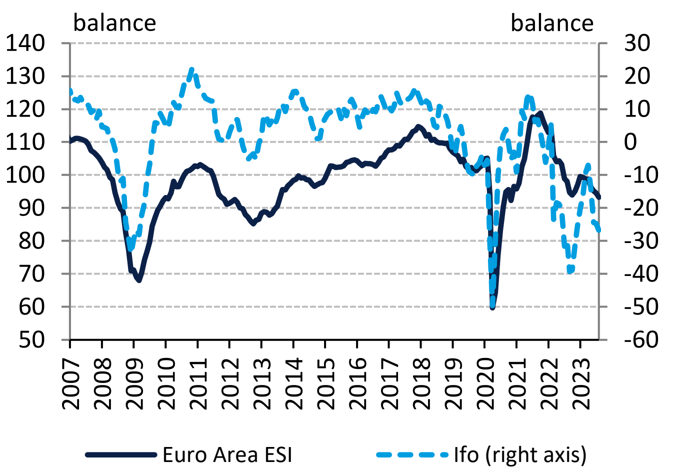
# 1. Macroeconomic developments

## 1.1. Global macroeconomic environment

In 2023 Q2, GDP growth continued to slow down in most EU economies, while it accelerated in the US and China. Out of the major economies, industrial output and retail sales rose in China and the United States, while they fell in the euro area. Sentiment indices deteriorated in the euro area, China and the United States. Annual inflation in the United States rose to 3.7 percent from 3.2 percent in July, while in China it rose to 0.1 percent in August from -0.3 percent in July. In annual terms, inflation in the euro area was 5.2 percent in August, while core inflation was 5.3 percent. The inflation figure was slightly above (5.1 percent), while core inflation was in line with analysts' expectations. Inflation rose in 11 EU countries in August.

**In 2023 Q2, GDP growth continued to slow down in most EU economies, while it accelerated in the US and China.** In international comparison, economic growth was 0.5 percent in the euro area, 0.4 percent across the European Union, 2.6 percent in the United States and 6.3 percent in China in annual terms. Among the EU countries, annual GDP growth was the strongest in Malta (+3.9 percent), Greece (+2.7 percent) and Romania (+2.7 percent) in 2023 Q2. In 12 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 Hungary's main trading partner, Germany, shrank by 0.1 percent. Quarter-on-quarter, economic performance increased in 15 countries, stagnated in Germany and Portugal, while it declined in Luxembourg, Estonia, Italy, Hungary, the Netherlands, Cyprus, Austria, Latvia, Sweden and Poland.

Chart 1 Business climate indices in Hungary's export markets



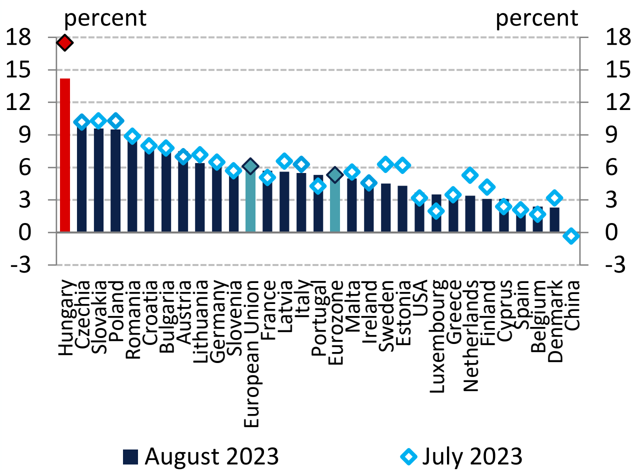

Source: European Commission, Ifo

**Monthly production indicators fell in the euro area, while they rose in the US and China in year-on-year terms.** In August, industrial production rose by 4.4 percent, year-on-year in China and by 0.2 percent in the United States, following a decline in the last two months. A 2.2 percent fall was reported in the euro area in July. Retail sales rose by 2.5 percent in the USA and by 4.6 percent in China in August, while in the euro area they fell by 1.0 percent in July, year-on-year.

**In August, sentiment indices deteriorated in the euro area, China and the United States** (Chart 1). In the euro area, the Economic Sentiment Indicator (ESI) showed a deterioration in both consumer confidence and business prospects, while the Purchasing Managers Index (PMI) showed a slight improvement in business sentiment on a monthly basis in August. The PMI deteriorated both in the United States and in China, bringing the index close to the threshold (50 points) in both economies.

**There is still no sign of significant slowdown in international labour market developments.** The

**Chart 2 Developments in the international inflation environment**




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

unemployment rate in the United States rose by 0.3 percentage points to 3.8 percent in August, the highest since February 2022. At the same time, the number of non-agricultural employees rose by a larger-than-expected 187,000 last month, following lower figures in June and July (105,000 and 157,000, respectively). The unemployment rate in the euro area stood at 6.4 percent in July.

**Annual inflation in the United States rose to 3.7 percent from 3.2 percent in July, while in China it rose to 0.1 percent in August from -0.3 percent reported in July. In annual terms, inflation in the euro area was 5.2 percent in August, while core inflation stood at 5.3 percent.** The inflation figure was slightly above (5.1 percent), while core inflation was in line with analysts' expectations.

**Inflation rose in 11 EU Member States in August.** Hungary had the highest inflation rate among the EU countries. In addition, the annual price index was also high in the CEE region. Prices rose by 10.1 percent in the Czech Republic, 9.6 percent in Slovakia, 9.5 percent in Poland and 9.3 percent in Romania, year-on-year (Chart 2).

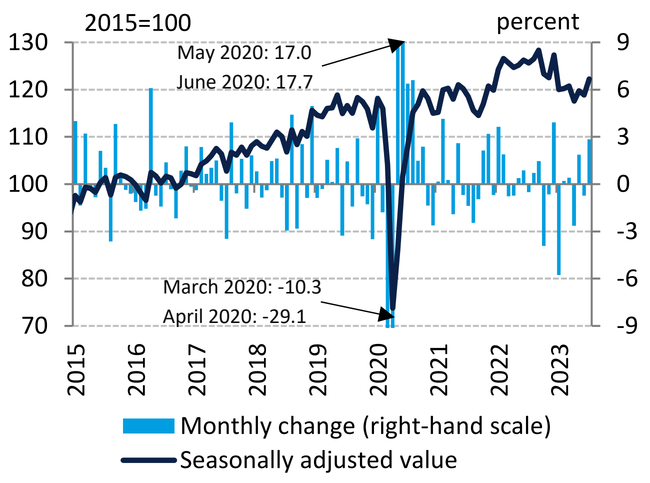
## 1.2. Real economic developments in Hungary

In 2023 Q2, GDP was down by 2.4 percent, year-on-year, while economic performance declined by 0.3 percent quarter-on-quarter. In July 2023, the volume of industrial production fell by 2.8 percent and retail sales volume decreased by 7.6 percent, while the volume of construction output grew by 3.4 percent, year-on-year. In July 2023, the average number of employees in the 15–74 age group was 4,745,000. On average, there were 29,000 more people worked in Hungary in the period of May–July 2023 than in the same period last year. The unemployment rate stood at 3.9 percent in July.

### 1.2.1. Economic growth

**In 2023 Q2, GDP was down by 2.4 percent, year-on year, while economic performance declined by 0.3 percent quarter-on-quarter.** On the production side, both the output of industry (-5.7 percent) and construction (-6.0 percent) declined in 2023 Q2, while the favourable performance of agriculture cushioned the economic downturn. Among the manufacturing subsectors, chemical substances production and the manufacture of chemical products 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 67.9 percent relative to the low base. The overall added value in services fell by 2.4 percent. The performance of trade (-12.6 percent) and transport and storage (-6.2 percent) sectors, with a large share, declined, while the performance of the information and communications sector increased by 2.6 percent, that of financial and insurance activities by 1.9 percent and that of real estate activities by 0.5 percent. Among the consumption items, net exports (+5.4 percentage points) and final consumption of government (+0.8 percentage points) boosted economic performance. Households' consumption expenditure and gross fixed capital formation declined by 3.2 percent and 15.6 percent, respectively, year-on-year. The contribution of changes in inventories to growth was substantially negative (-2.3 percentage points).

**Chart 3 Developments in industrial production**




Source: MNB calculation based on HCSO data

**Industrial production continued to decline in July 2023, with output falling by 2.8 percent, year-on-year.** Compared to the previous month, the level of production rose by 2.8 percent (Chart 3). Production fell in most of the manufacturing subsectors, but rose in the export-oriented automotive industry, battery and electric motor manufacturing, and pharmaceutical manufacturing, year-on-year. The automotive industry, representing the largest share, grew by 14.4 percent compared to July last year, while the production of electrical equipment rose by 9.8 percent. This included a 24.0 percent increase in battery and accumulator manufacturing, and an 8.1 percent rise in the manufacturing of electric motors, electricity generator, distributor and regulator devices. Pharmaceutical production grew by 20.7 percent compared to a year earlier, attributable in part to last year's low base. The rest of the subsectors representing a larger share reported a decline in production. Compared to July 2022, output fell in energy production (-21.3 percent), mining (-35.2 percent), chemical substances production (-15.5 percent), rubber, plastics and non-metal production (-20.1 percent), the metal industry (-12.2 percent), petroleum refining (-25.0 percent), the textile industry (-3.3 percent), the food industry (-9.3 percent), the wood and paper industry (-14.0 percent) and the manufacture of computers and electronic products (-5.0 percent).

**Construction output grew by 3.4 percent in July 2023, ending the year-on-year decline since December.** Construction of buildings increased by 11.6 percent, while other construction decreased by 5.0 percent, year-on-year. Compared to June, total construction output rose significantly by 8.5 percent, based on seasonally and calendar adjusted data, bringing output back above the level in the fourth quarter of 2019. The number of new contracts concluded decreased by 7.0 percent in year-on-year terms. The volume of new contracts related to the construction of buildings increased by 11.7 percent, while contracts for other construction work decreased by 24.5 percent. The end-of-July volume of construction companies' contract portfolio fell short of the value reported a year ago by 24.4 percent. The volume of contracts for the construction of buildings was 1.2 percent higher, while that for other construction works was 39.9 percent lower compared to the same period last year.

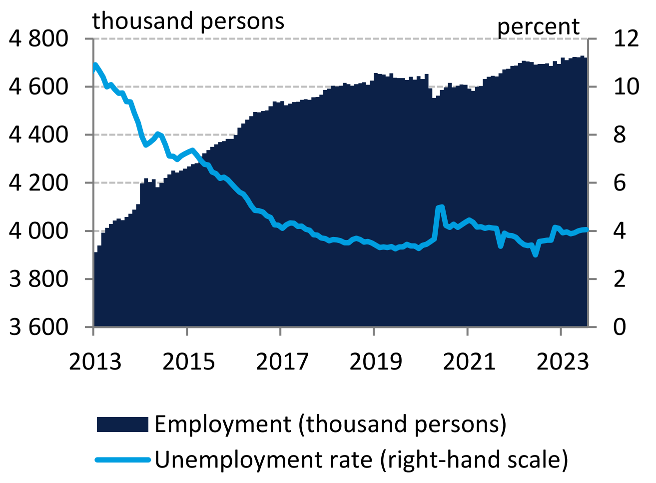
**In July 2023, the retail sales volume fell by 7.6 percent, indicating eight months of declining sales on an annual basis.** Lower fuel sales compared to the same period a year earlier continued to make a significant contribution to this decline. Excluding fuel sales, turnover declined by 4.7 percent according to data after the removal of calendar effects. Retail sales volume, excluding petrol station sales, has been falling since last July on an annual basis. Monthly retail sales volume fell slightly in July (-0.2 percent). In July, retail sales were still close to the level reported at the beginning of 2021, based on seasonally and calendar adjusted data. Turnover declined in all product groups, except shops selling medicine, perfume and online shops. Sales of industrial goods (-11.1 percent), furniture and appliance shops (-16.2 percent) and fuel (-20.5 percent) declined by more than 10 percent.

**Preliminary data for July 2023 show a surplus of EUR 697 million in external trade in goods.** Compared to the previous month's historically high surplus, the balance was down by EUR 871 million, while it improved by EUR 2 billion, year-on-year. The balance adjusted for VAT residents improved by EUR 2.2 billion on an annual basis, and it showed a surplus of EUR 263 million. In July, despite the further decline in industrial production, the export of goods rose by 4.3 percent in euro terms. The nominal value of imports in euro fell significantly by 12.9 percent, year-on-year, in line with the fall in domestic demand. In June 2023, the terms of trade improved by 5.4 percent, year-on-year. The contribution of mineral fuels improved the terms of trade by 4.2 percentage points in June.

**In August 2023, most of the high frequency data reflected a fall in economic activity.** Based on online cash register data, nominal turnover rose by 10.0 percent in August, while real turnover adjusted for inflation fell by 7.7 percent in annual terms. Freight traffic, passenger flights and road passenger traffic declined (-1.9 percent, -10.3 percent and -5.4 percent, respectively) according to data received to date. Electricity load fell by 5.4 percent. Cinema attendance rose by 24.0 percent. Catering turnover rose by almost 16.2 percent. In August, the number of housing market transactions declined by 11.9 percent, according to data available to date. Google searches for the term 'unemployment benefit' rose slightly.

### 1.2.2. Employment

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

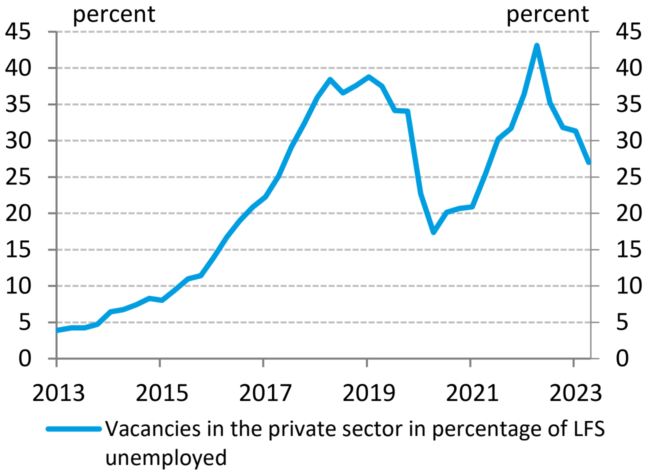



Note: Seasonally adjusted moving averages.
Source: HCSO

**According to the Labour Force Survey, the average number of employed persons aged 15–74 in July 2023 was 4 million 745 thousand. In the period of May to July 2023, the average number of employees was 4,728,000, exceeding the year-on-year figure by 29,000** (Chart 4). In the period of May–July, the average number of employees in the primary labour market and of those employed at local units abroad rose by 22,000 and 14,000, respectively, while the number of public workers fell by 7,000, compared to the same period a year earlier.

**In July, the number of unemployed was 194,000, which was 23,000 above the figure seen a year earlier, as a result, the unemployment rate stood at 3.9 percent, overall.** Based on seasonally adjusted data, the number of unemployed increased slightly in July compared to June. Based on data published by the National Employment Service (NES) in July and August 2023, the number of registered jobseekers in Hungary was 227,000 (-4,000 on annual basis) and 229,000 (-3,000 on annual basis), respectively. Based on seasonally adjusted data, the number of registered jobseekers in August 2023 remained unchanged compared to July, and it is still below the number reported in the months before the outbreak of the coronavirus pandemic.

**Chart 5 Developments in labour market tightness indicator**




Note: Quarterly data.
Source: NES, HCSO

**The labour market remains historically tight, with labour demand falling at the same time** (Chart 5). In 2023 Q2, non-subsidised job vacancies amounted to 55,000 in the private sector, representing a decline of 23 percent in annual terms and showing a 12 percent decline compared to the previous quarter. Quarter-on-quarter, there was a decrease in labour demand regarding both market services and manufacturing. In the market services sector, there were 30.5 thousand job vacancies in the second quarter of 2023, which is 12 percent lower than in the previous quarter. Within the market services sector, the number of job vacancies fell by 1,800 in the real estate, professional and administrative activities sectors, by 700 in the tourism sector and by 400 in the trade sector compared to the previous quarter. Within the public sector, the number of job vacancies fell slightly in public administration, while in healthcare and education there was no significant change in demand for labour compared to the first quarter.

## 1.3. Inflation and wages

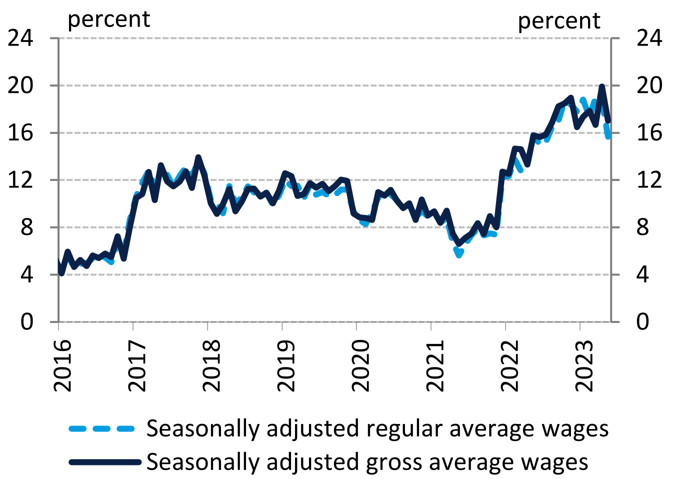
Domestic inflation continued to fall in August 2023, with consumer prices rising by 16.4 percent, year-on-year. Both core inflation and core inflation excluding indirect tax effects fell to 15.2 percent. Incoming inflation data slightly exceeded analysts' expectations. In June 2023, average wages in the national economy (excluding bonuses) rose by 14.9 percent, while wages in the private sector increased by 15.9 percent in annual terms.

### 1.3.1. Wages

**In June 2023, gross average wages in the private sector rose by 17.3 percent, year-on-year.** Bonus payments were above the historic average in June. Average regular earnings (excluding bonuses) rose by 14.9 percent in annual terms in the whole economy and by 15.9 percent in the private sector.

**Based on seasonally adjusted data, both the dynamics of gross average wages and regular average wages slowed down 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 15.0 percent in most sectors. In June, manufacturing wages were higher by 19.7 percent, year-on-year. In market services, HCSO registered a growth of 16.1 percent. Gross wages in construction and trade rose by 16.9 percent and 15.2 percent, respectively, in annual terms.

Chart 6 Dynamics of average earnings in the private sector

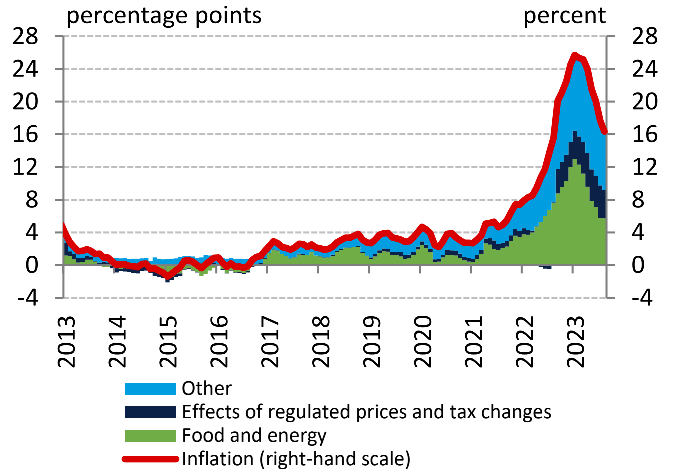



Source: MNB calculation based on HCSO data

### 1.3.2. Inflation developments

**Domestic inflation continued to fall in August 2023, with consumer prices rising by 16.4 percent, year-on-year** (Chart 7). Compared to the previous month, inflation declined by 1.2 percentage points. This slowdown was driven mostly by processed foods (-0.6 percentage points) and industrial goods (-0.5 percentage point). Annual core inflation fell by 2.3 percentage points, more than the headline inflation rate, to 15.2 percent. The annual price index of market services decreased to 16.4 percent, continuing the decreasing trend in price dynamics started in the previous months. Annual price growth of processed food was 17.9 percent indicating a significant slowdown from 22.1 percent in the previous month. The incoming figure was slightly above analysts' expectations, with a median value of 16.2 percent and expectations ranging from 15.6 to 16.5 percent.

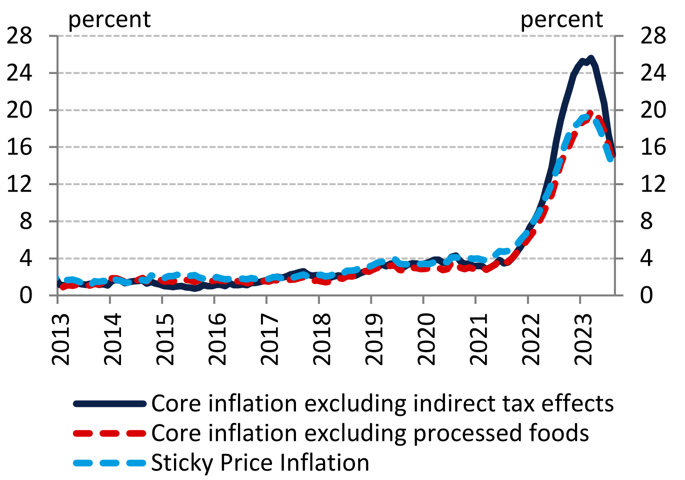
Chart 7 Decomposition of inflation




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 1.2 percentage points, while annual core inflation excluding processed food decreased by 1.8 percentage points compared with the previous month (Chart 8).

**Chart 8 Measures of underlying inflation indicators**

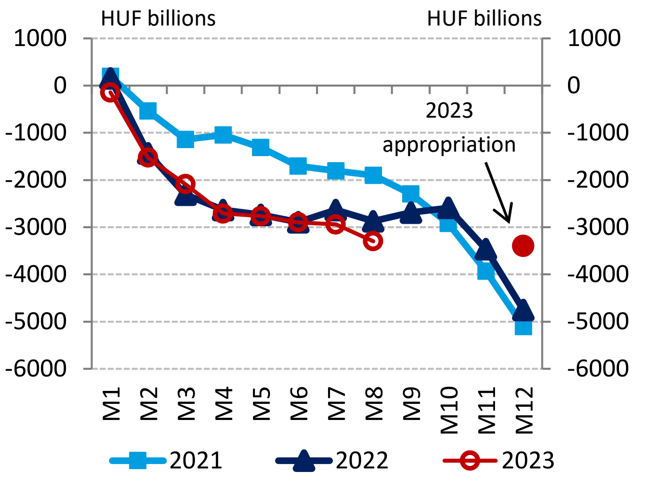



Note: Core inflation excluding processed food corresponds, with unchanged content, to the former demand sensitive inflation measure.
Source: MNB calculation based on HCSO data

## 1.4. Fiscal developments

The cash deficit of the central sub-sector of the government budget, cumulated from the beginning of the year, rose to nearly HUF 3,300 billion in August 2023, which is equivalent to 97 percent of the HUF 3,400 billion target. The central sub-sector produced a high deficit of HUF 358 billion in August, which is about HUF 122 billion over the level seen in August 2022. In August, revenues of the central sub-sector were HUF 205 billion higher than a year before, while expenditures rose by HUF 327 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

The cash deficit of the **central sub-sector of the government budget,** cumulated from the beginning of the year, rose to nearly HUF 3,300 billion in August 2023, that is equal to 97 percent of the HUF 3,400 billion target. The central sub-sector closed with a high deficit of HUF 358 billion in August, which is about HUF 122 billion above the level seen in August 2022 (Chart 9).

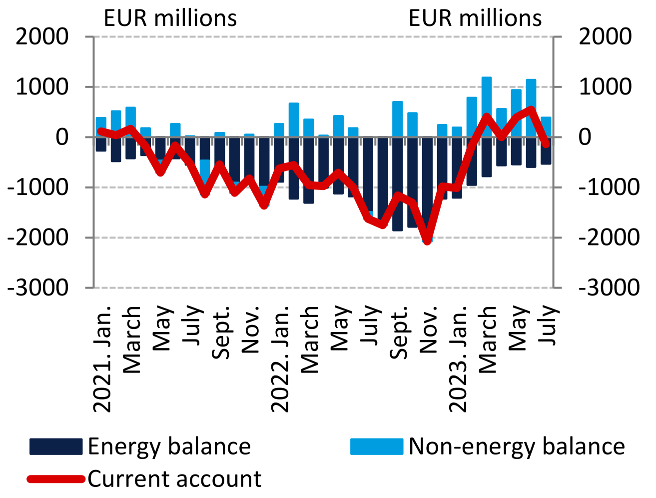
In August, **revenues of the central sub-sector** were HUF 205 billion higher than a year earlier. Within this, tax and contribution revenues increased by HUF 118 billion, while EU revenues rose by HUF 74 billion, year-on-year. Tax and contribution revenues from labour increased by HUF 131 billion, while payments by enterprises remained essentially stagnant. The annual rate of growth in gross VAT revenues decelerated to 1 percent, while the revenue net of refunds fell at a similar pace as in July.

**Expenditures** were HUF 327 billion higher than in August 2022. The rise is mainly attributable to a HUF 120 billion increase in net expenditure of central budgetary organisations and a HUF 83 billion increase in pension expenditures. Similarly to July, net interest expenditure decreased in August compared to the same period last year, again mainly due to high interest income.

## 1.5. External balance developments

In July 2023, the current account deficit amounted to around EUR 140 million and the net borrowing to nearly EUR 100 million. The monthly decline in the current account balance was mainly related to a decrease in merchandise trade surplus, but there was a significant year-on-year improvement, driven by a further pick-up in exports and a continued decline in imports amidst falling domestic demand. Based on financial accounts data, net direct investment increased by EUR 0.7 billion in July, fuelled by an increase in reinvested earnings in Hungary.

**Chart 10 Developments of current account and energy balance**




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

**In July 2023, the current account deficit amounted to around EUR 140 million and the net borrowing to nearly EUR 100 million** (Chart 10). The monthly decline in the current account balance was mainly related to a decrease of the goods trade surplus, but there was a significant year-on-year improvement, driven by a further expansion in exports and a continued decline in imports amidst falling domestic demand. In July, the surplus of services balance increased further from the previous month's high level. The income balance deficit increased again, while the transfer balance turned from surplus to deficit as EU funds decreased.

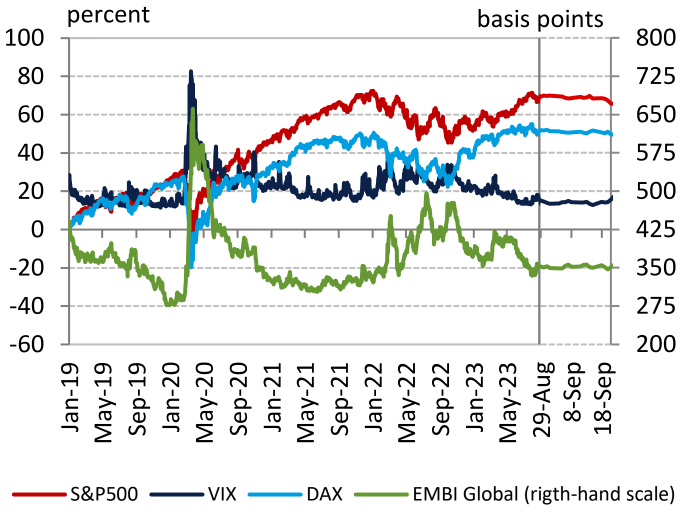
**According to financial account data, net direct investment increased by EUR 0.7 billion in July**, driven by an increase in reinvested earnings in Hungary. The decline of EUR 0.2 billion in net external debt due to transactions was the result of a decrease in the public sector index and an increase in banking sector's debt. Net external debt within the corporate sector also increased.

# 2. Financial markets

## 2.1. International financial markets

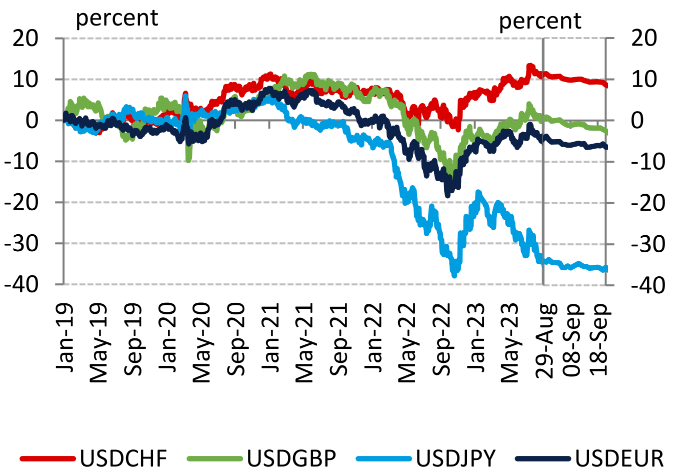
Investor sentiment has deteriorated since the last interest rate decision. Negative news on the Chinese economy and interest rate decisions by the world's leading central banks have set the tone for market developments. Among the risk indicators, the VIX index, the key indicator measuring equity market volatility, increased compared to the level at the previous interest rate decision. Stock market indices in the developed markets fell and bond yields rose significantly. The dollar appreciated against developed and emerging market currencies, while oil prices rose significantly.

**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

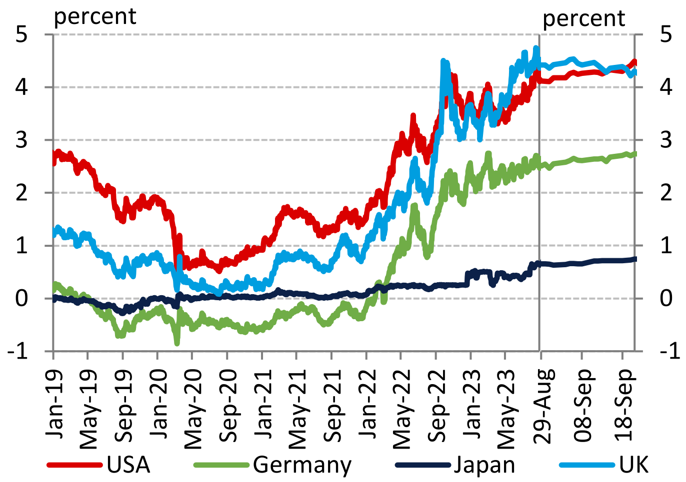
**Investor sentiment has deteriorated since the last interest rate decision.** Market participants focused on expectations for the interest rate policies by the world's leading central banks and investors' concerns about the slowdown in China. At the beginning of the period, there was further negative news on the state of the Chinese economy as lending continued to decrease and analysts revised their growth expectations downwards for this year. In the second half of the period, market developments were dominated by rate-setting decisions by central banks in developed countries. Among the risk indicators, the VIX index, the key measure of equity market volatility, increased overall by half a percentage point to 15.49 percent, compared to the level reported at the previous interest rate decision, while in emerging markets the EMBI Global bond spread slightly decreased by 2 basis points (Chart 11).

**Leading stock indices fell during the period.** The US S&P index fell by 1.7 percent and the Dow Jones by 1 percent over the period. Among leading European stock market indices, the German DAX fell by 3.2 percent, while the French CAC40 decreased by 1.2 percent. Among Asian indices, the Shanghai stock market index fell by 0.3 percent, while the Japanese index was the only developed market index to rise by 3.2 percent since the previous rate-setting decision. Overall, the developed and the emerging market MSCI composite indices decreased by 0.8 and 1.3 percent, respectively.

**The dollar appreciated against the major currencies** (Chart 12). The US dollar appreciated by 2.2 percent against the British pound and by 1.8 percent against the euro (to below 1.07). The US currency appreciated against the Japanese yen and the Swiss franc by 1.7 and 2.6 percent, respectively, while it also appreciated against the emerging market currencies over the period.

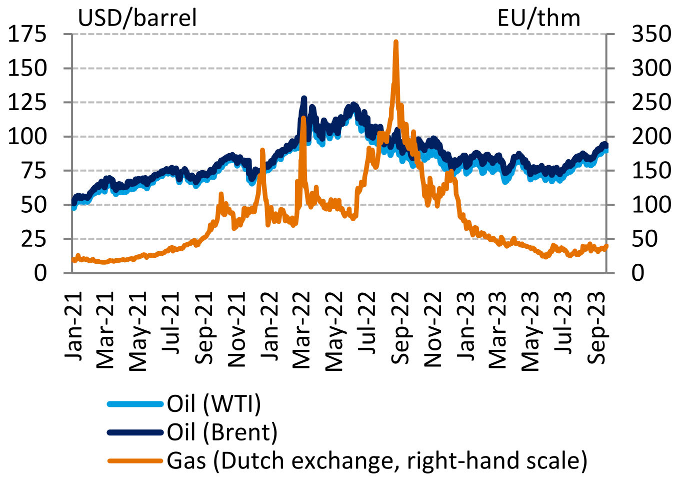
**Long-term yields rose considerably in developed markets** (Chart 13). The US and German ten-year yields rose by 37 and 23 basis points, respectively, and thus the

**Chart 13 Yields on developed market long-term bonds**




Source: Bloomberg

**Chart 14 Developments in oil and gas prices since January 2021**




Source: Bloomberg

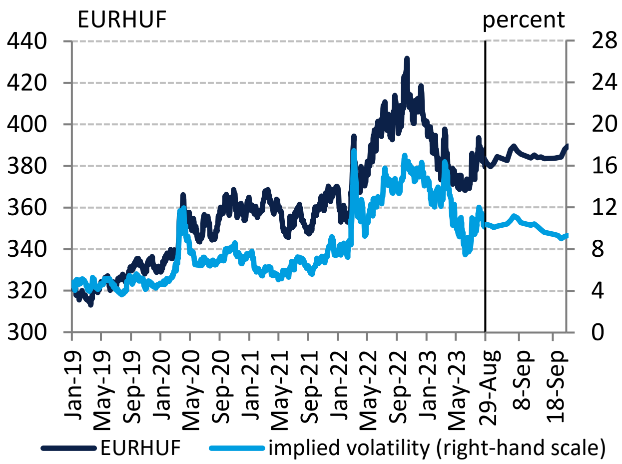
US yield closed the period at 4.49 percent, while the German at 2.74 percent. Yields in the Mediterranean countries also increased, with Italian yields up 36, Spanish 27, Portuguese 26 and Greek 29 basis points. Among the 10-year government bond yields in our region, Polish yields increased by 12, Czech yields by 30 and Romanian yields by 5 basis points. Hungarian yields have fallen by 15 basis points since the interest rate decision in August.

**Oil prices have risen significantly since the last rate-setting decision** (Chart 14). The price of North Sea Brent crude oil rose by 10.3 percent to USD 94.3 per barrel, while the US benchmark, WTI, rose by 12.3 percent to USD 91.2 per barrel. Over the period, oil prices have been driven up mainly by the production cuts announced by Saudi Arabia and Russia, which have led to a growing number of market participants expecting oil prices to rise to USD 100. **European gas prices have risen by 4.5 percent since the previous rate-setting decision, from EUR 35.2/MWh to EUR 36.8/MWh,** mainly due to uncertainty around strikes at Australian LNG export units. Prices of major commodities have been mixed in the recent period. The Bloomberg Commodity Price Index, which covers the entire commodity market, rose by 1.3 percent over the period, mainly driven by higher oil prices.

## 2.2. Developments in domestic money market indicators

Since the interest rate decision in August, the forint has been in the range of 380 and 390 against the euro, depreciating overall from its level at the beginning of the period. The government securities market's yield curve has shifted downwards. The 3-month BUBOR has fallen by 98 basis points to 12.75 percent.

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



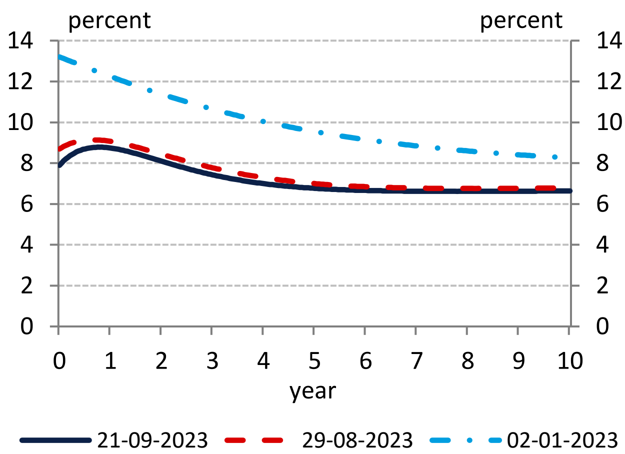

Source: Bloomberg

**Over the past weeks, the forint has been in the range of 380 and 390 against the euro, depreciating overall from its level at the beginning of the period** (Chart 15). In the days following the previous interest rate decision, the forint strengthened slightly by more than 1 percent, before weakening in the first half of September and crossing the 390 level. The exchange rate then corrected, and weakened again at the end of the period. The implied volatility of exchange rate expectations has declined since the previous rate-setting decision. Among the currencies in the region, the Romanian leu weakened slightly against the euro by 0.6 percent, the Czech koruna by 1.5 percent and the Polish zloty by 3.4 percent over the period.

**The 3-month BUBOR, relevant for monetary policy transmission, has decreased by 98 basis points to 12.75 percent since the last interest rate decision.**

**The government securities market's yield curve has shifted downwards since the previous rate-setting decision** (Chart 16). The yield curve has decreased for both short-term and long-term maturities.

**Chart 16 Shifts in the spot government yield curve**




Source: Bloomberg

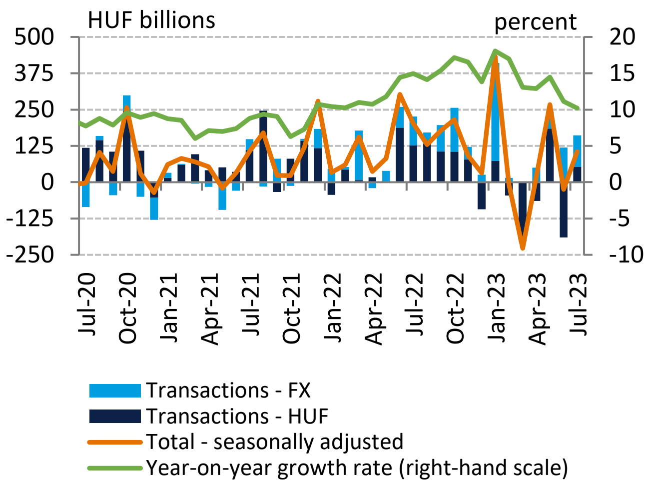
**Government bond auctions held by the Government Debt Management Agency since the last interest rate decision have been characterised by mixed demand.** During the period under review, demand was mixed in discount treasury bond auctions, while strong in government bond auctions. Average yields on discount treasury bonds rose over the period, before returning to the level at the time of the August rate-setting decision.

**Non-residents' holdings of forint government securities increased.** Non-residents' holdings in forint government securities increased by HUF 292 billion to HUF 7,311 billion. The market share of forint government securities held by non-residents increased to near 21.7 percent.

# 3. Trends in lending

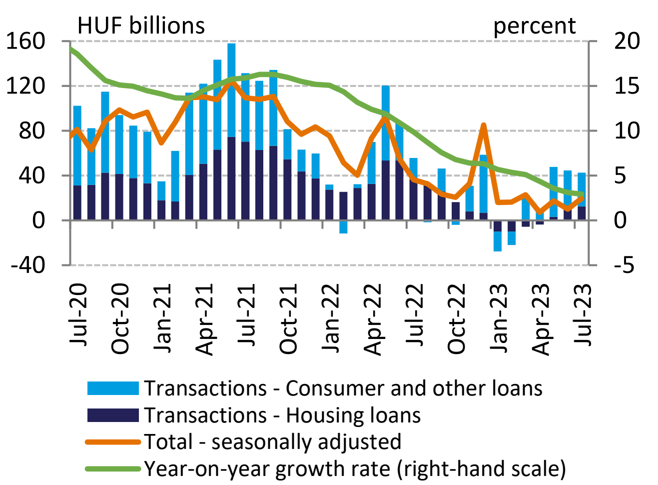
In July 2023, the stock of corporate loans increased by HUF 162 billion, driven by a HUF 54 billion increase in forint loans and a HUF 108 billion increase in foreign currency loans. In July, households' outstanding borrowing increased by HUF 43 billion due to transactions, reducing the annual growth rate to 2.9 percent from 3.1 percent last month. The smoothed interest rate spread on forint corporate loans has not changed materially compared to the previous month at 1.58 percentage points in July 2023.

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




Source: MNB

**Chart 18 Net borrowing by households**



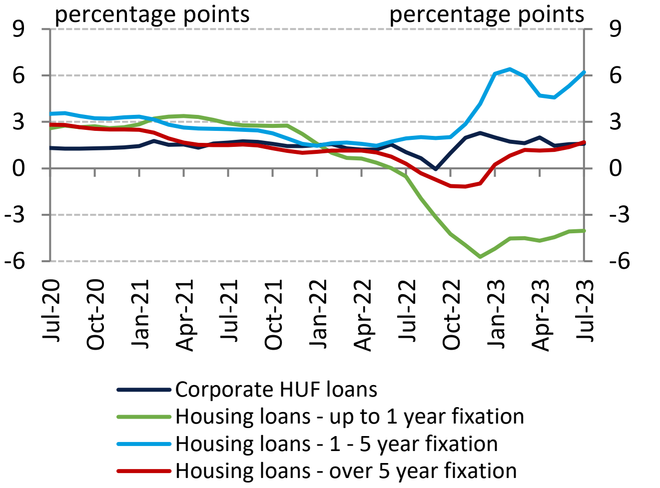

Source: MNB

**In July 2023, the stock of corporate loans increased by HUF 162 billion, driven by a HUF 54 billion increase in forint loans and a HUF 108 billion increase in foreign currency loans** (Chart 17). The annual growth rate slowed to 10.2 percent from 11.1 percent in the previous month. Credit institutions extended new non-overdraft corporate loans in the amount of HUF 219 billion, 28 percent less than a year earlier. The slowdown was mainly concentrated in the SME segment.

**In July, outstanding borrowing by households increased by HUF 43 billion due to transactions, reducing the annual growth rate to 2.9 percent from 3.1 percent last month** (Chart 18). The HUF 143 billion volume of new household loan contracts was 25 percent lower than in the same period last year, and 6 percent lower than in June. The decline affected all of the main credit products; the largest decline was in housing loans, down 44 percent from July last year. This continued to be driven (albeit to a lesser extent than in previous months) by the base effect of the ZOP and the closure of the home renovation subsidy at the end of 2022, which led to a significant year-on-year decline in the volume of loans for new housing purchases and renovations.

**The smoothed interest rate spread on forint corporate loans has not changed materially compared to the previous month at 1.58 percentage points in July 2023** (Chart 19). For housing loans, the spread on products with interest rate fixation periods longer than 5 years increased by 0.31 percentage point, and stood at 1.69 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