MACROECONOMIC AND

FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES OF THE

MONETARY COUNCIL MEETING

OF 19 JUNE 2018

JUNE

2018

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The background material 'Macroeconomic and financial market developments' is based on information available until 15 June 2018.

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:
http://www.mnb.hu/en/monetary-policy/the-monetary-council/minutes

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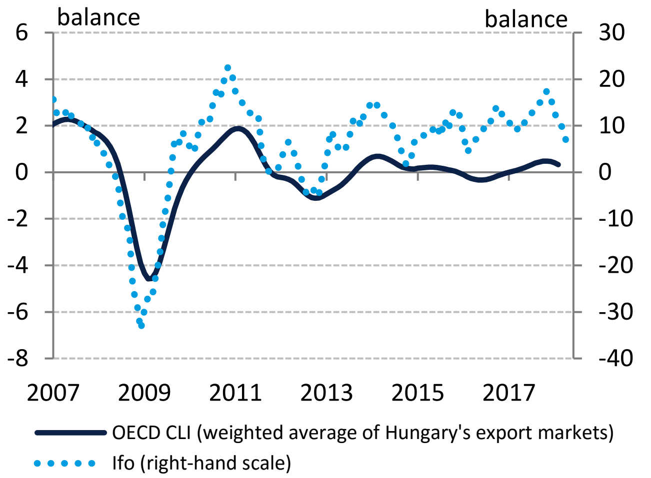
1. Macroeconomic developments

1.1. Global macroeconomic environment

In the first quarter of 2018, both the economic growth in the euro area and the GDP growth of the United States continued. According to the updated forecasts of international institutions, medium-term outlooks of the euro area continue to be favourable; however, on the whole, the business climate deteriorated in recent months, which may imply risks to global growth prospects. The news related to import tariffs generated economic uncertainty.

Chart 1: Business climate indices in Hungary's export markets



Source: OECD, Ifo

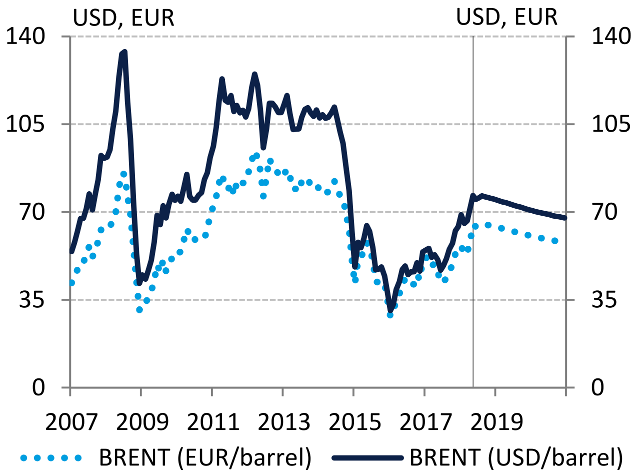
Growth in the global economy, and particularly in the euro area, continued in the first quarter of 2018. The economy of the United States expanded at a rate beyond expectations, i.e. by 2.8 percent year on year. Economic growth was supported primarily by investments; however, household consumption, general government expenditures and net exports also made positive contribution to growth. The year-on-year growth rate in the first quarter in the United Kingdom was 1.2 percent, which falls short of the expectations. Gross fixed capital formation and household consumption supported, while net exports curbed growth.

The economy of the euro area expanded by 2.5 percent in annual terms in the first three months of 2018. Germany's GDP growth – despite the moderate industrial production – continued in the first quarter, which was supported primarily by rising corporate investments and steadily increasing household consumption. **German exports were restrained, which was also attributable to the appreciation of the euro against the dollar. The economic performance of Hungary's most important trading partner** (Germany) **may develop favourably in the coming years as well, in line with the positive projections of the international institutions**. However, the growth of German industrial production continued at a more moderate rate compared to the previous months, while new orders of the German industry stagnated in April. In addition, Ifo expectations declined further in May (Chart 1).

Growth in the larger economies of the euro area varied: the performance of the French, Spanish and Italian economies rose in the first quarter of 2018, slightly falling short of the growth rate registered in the previous quarters. Dynamic economic growth in Austria and the Netherlands continued at the beginning of this year as well, mostly contributed to by the rise in household consumption and investments. The Greek economy grew by 2.3 percent year on year, which is the highest rate since the crisis.

Similarly to the previous quarters, the Central and Eastern Europe region proved to be the engine of the European Union's growth in early 2018 as well. According to the seasonally adjusted data, the Polish economy rose at a rate

Chart 2: Brent crude oil world market prices



Source: Bloomberg

of 5.0 percent, outstripping the value registered in the previous quarter. GDP in Slovakia and in the Czech Republic increased in the first quarter by 3.6 percent and 4.4 percent, respectively, year on year. Economic performance of Romania at the beginning of the year decelerated from last year's high base at a rate that exceeded the economists' expectations, and thus GDP rose by 4.2 percent in annual terms, which is also reflected by the correction of the Romanian growth prospects. Growth in the countries of the region was primarily supported by the dynamically increasing domestic demand at the beginning of the year as well. In addition, the growth in retail sales volume and industrial production of the region continued at a more moderate rate.

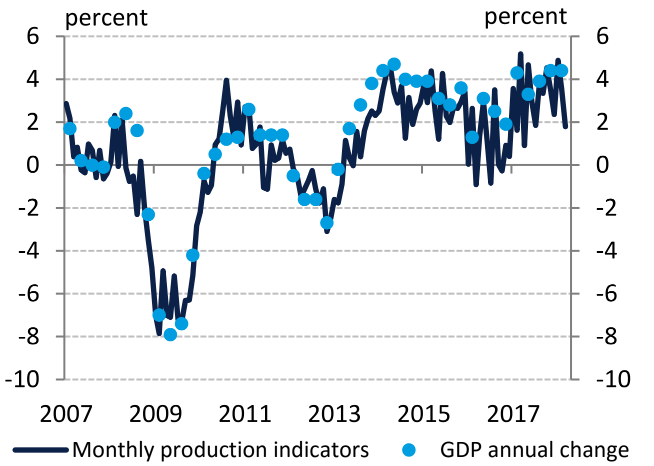
According to the expectations, medium-term growth prospects of the euro area are still surrounded by two-directional risks. Fiscal stimulus in the United States (the announced infrastructure investment programme and tax cuts) may be identified as an upside risk; at the same time, the business climate deteriorated in the past period, which may be attributable to risks surrounding global growth prospects. **The import tariffs announced recently may exert negative impact on the global economy** due to the dominance of the United States within global imports. The exit of the United Kingdom from the EU and the lack of clarity concerning the circumstances of the process, represent negative risk for the European Union's medium-term growth prospects.

Global inflation rose in the past month; however, underlying inflation in the euro area continues to develop moderately. In May, euro area inflation rose, primarily reflecting the growth in fuel prices. The world market price of crude oil – after the major rise in April – was between USD 75 and USD 80 in the past month (Chart 2). The volatility of oil prices, observed in the previous month, was caused by the geopolitical tensions in the Middle East, the crisis in Venezuela and the declarations about the production cut agreement of OPEC. The price of industrial commodities has not changed, while the world market price of unprocessed food rose in May.

1.2. Domestic real economy developments

According to the HCSO's detailed data release, in 2018 Q1 Hungary's GDP grew by 4.4 percent year on year. Economic growth on the expenditure side was supported by consumption and investments, while on the output side market services were the key growth contributors. In the period of February - April 2018, the unemployment rate stood at 3.8 percent. The tightness indicators calculated from the ratio of vacancies and unemployed persons still indicate historically tight labour market environment.

Chart 3: Monthly production indicators and GDP growth



Note: Weighted average of monthly production indicators (industrial output, construction output and retail sales). The weights are derived from regression explaining GDP growth.
Source: MNB calculation based on HCSO data

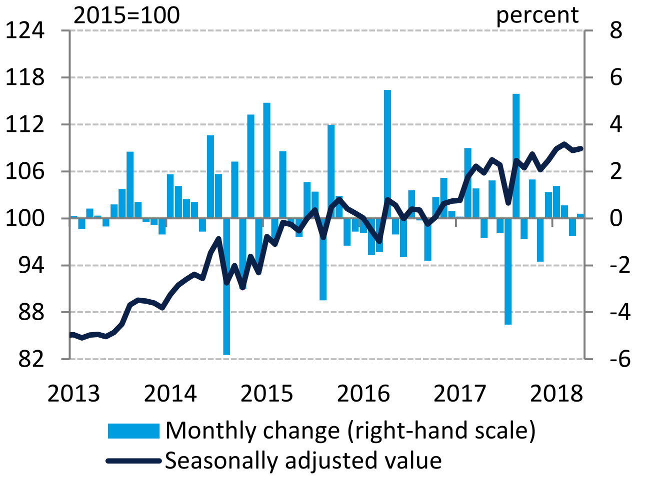
1.2.1. Economic growth

According to the data release by the HCSO, **in the first quarter of 2018, Hungary's gross domestic product grew at a rate of 4.4 percent** year on year. Based on the data after seasonal and working-day effect adjustment, **Hungary's GDP rose by 1.2 percent quarter on quarter.** Economic growth on the expenditure side was primarily supported by **consumption and investments**, while on the output side **market services** were the key contributors (Chart 3).

On the output side, the **performance of the market services sector**, closely related to the upturn in domestic demand, **dynamically rose and made a major contribution to growth**. The rise in services was supported by a wide range of the subsectors; the largest growth was recorded by the trade, hotels and restaurants, information and communication subsectors. **The rise in industrial output continued in the first quarter of 2018**, albeit – primarily due to temporary factors – at a more moderate rate than observed in the past quarters. As regards the structure of production, the output of vehicle manufacturing, representing a considerable weight, stagnated year on year. **Construction output** – despite the moderate performance in March – **substantially increased**, mainly supported by the construction of other structures, while construction of buildings also continued to rise. The growth was equally attributable to the government infrastructure developments, implemented from own and EU funds, and to private sector constructions.

On the expenditure side, **the rise in household consumption continued at a faster rate than in the previous quarter**, which was still supported by the growth in expenditures used for the purchase of durable and semi-durable products – which continue to have major recovery potential – materially exceeding total consumption. The **dynamic growth in investments** was contributed to by the rise in the building investments, as well as in machinery and equipment investments. While building investments may have been supported by infrastructure developments, home constructions and commercial property developments, the growth in machinery investment may have been attributable also to the capacity expansion

Chart 4: Development in industrial production



Source: MNB calculation based on HCSO data

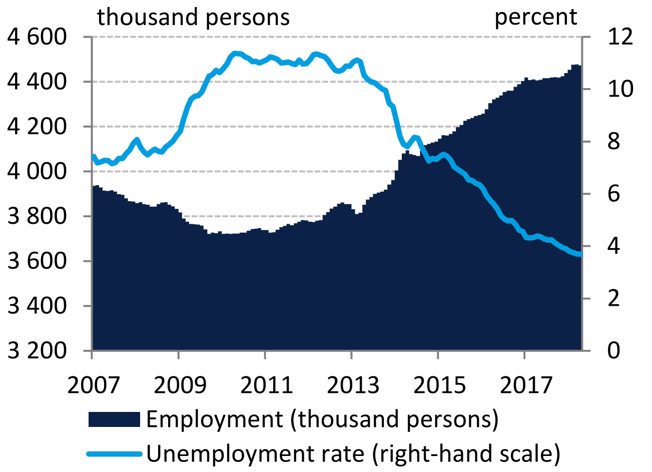
investments. **Economic growth in the first quarter was fostered by public consumption, while developments in inventories decelerated it.**

In April 2018, **industrial output was up 7.8 percent** year on year, while production **rose by 0.2 percent compared to the previous month** (Chart 4). There were two more working days in April than last year, and thus the production level adjusted for the working-day effect rose at a more moderate rate. **The output of the majority of the manufacturing subsectors rose year on year.** The output of vehicle manufacturing, representing a considerable weight, significantly increased; within that manufacturing of vehicle parts was characterised by a higher, while the production of vehicles by a more moderate growth rate. Chemical industry was supported in April by an increase in rubber and plastic manufacturing, as well as by the production of other chemical products and drug manufacturing. In addition, material growth in metal and light industry, and growth in the engineering sector could be observed. Domestic sales and exports both contributed to the rise in **industrial sales. On the whole, forward-looking indicators show a mixed picture with regard to the outlooks of the Hungarian industry.** The business sentiment of Hungary's key trading partners has slightly deteriorated according to the external demand confidence indicator. In addition, the decline in Ifo expectations, capturing the outlooks of the German industry, continued. In April, domestic new export orders increased, in line with the growth in the German new industrial orders; nevertheless a slowdown in growth can be still observed. Of the indicators applicable to domestic industry, the ESI and the manufacturing sector BMI continued to rise further from the former favourable levels.

Expressed in euro terms, **the value of exports and imports was up 10.7 and 15.7 percent, respectively,** year on year in April 2018, and thus trade surplus decreased by EUR 263 million. In March 2018, the terms of trade slightly improved year on year. As regards the developments in the terms of trade, the terms of trade deteriorating effect of the change in the relative price of mineral fuels and processed goods was counterweighted by the relative price change of food and various processed goods.

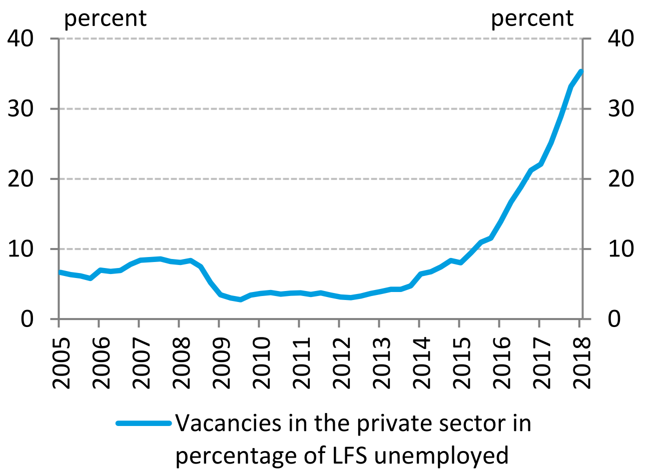
In April 2018, the volume of construction output was up by 14.2 percent year on year, while output increased by 6.5 percent compared to the previous month. Output increased both in the case of buildings and other structures. In the case of the construction of buildings, the output growth was primarily attributable to industrial buildings. Owing to the government investments (mostly

Chart 5: Number of persons employed and the unemployment rate



Source: HCSO

Chart 6: Development of labour market tightness indicator



Note: quarterly data
Source: National Employment Service, HCSO

infrastructure developments), construction of other structures continued to rise significantly, albeit at a decelerating rate. The volume of new contracts rose again year on year, contributed to by both main construction groups. The rise in the new contracts concluded for the construction of buildings is primarily attributable to contracts for office, warehouse and educational buildings, while new contracts for the construction of other structures involved public utility and waste-water treatment plants. The month-end volume of the construction companies' contract portfolio substantially exceeds that of last year, which primarily reflects the housing market contracts committed until 2019 and the already committed EU funds.

In April, according to the preliminary data, **retail sales volume was up 4.3 percent year on year, based on the unadjusted data,** at the same time when adjusted for the calendar effect, it showed a growth of 6.0 percent due to the Easter effect. In the past months turnover increased in a wide range of products. The considerable rise in the turnover of non-food consumer durables continued to be the primary contributor to the sales growth. Turnover accelerated in the CEE region, which is explained primarily by the acceleration in the growth of Romanian retail trade.

1.2.2. Employment

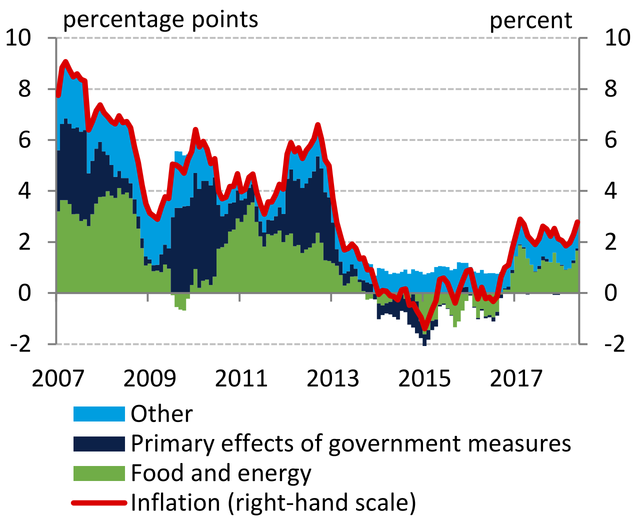
According to the seasonally adjusted data of the Labour Force Survey, in the period of February - April 2018, both the labour force participation rate and total employment remained practically unchanged. **The unemployment rate stood at 3.8 percent** (Chart 5). The number of public workers and employees temporarily working abroad continued to decrease, and thus the growth in employment in the primary labour market continued.

In the first quarter of 2018, according to the data released by the HCSO related to vacancies, corporate labour demand grew both in manufacturing and the market services sectors. The **tightness indicator** calculated from the ratio of vacancies and unemployed persons **still indicates historically tight labour market environment** (Chart 6).

1.3. Inflation and wages

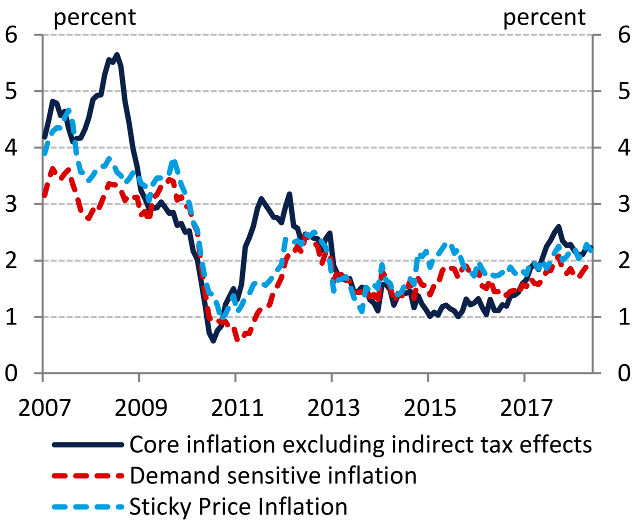
In May 2018, inflation stood at 2.8 percent, core inflation at 2.4 percent and core inflation excluding indirect taxes at 2.2 percent. Underlying inflation indicators essentially remained unchanged compared to the previous month. The indicators continue to be around 2 percent, below the core inflation. In March 2018, gross average wage in the private sector rose by 8.4 percent year on year. The continued vigorous wage dynamics was supported, in addition to the historically tight labour market environment determining the underlying wage trend, by the administrative wage increases, the rate of which was lower than in the previous year.

Chart 7: Decomposition of inflation



Source: MNB calculation based on HCSO data

Chart 8: Measures of underlying inflation indicators



Source: MNB calculation based on HCSO data

1.3.1. Wage setting

In March 2018, gross average wage in the private sector rose **by 8.4 percent**, while regular average wage was **up 9.3 percent year on year.** The dynamics of both the gross and regular average wages decelerated compared to February. The regular average wage increased more than usual on a monthly basis, while bonus payments fell short of those observed last year. **The continued vigorous wage dynamics was supported, in addition to the historically tight labour market environment determining the underlying wage trend, by the administrative wage increases, the rate of which was lower than in the previous year**.

1.3.2. Inflation developments

In May 2018, year-on-year inflation was 2.8 percent, while core inflation and core inflation excluding indirect taxes stood at 2.4 and 2.2 percent, respectively (Chart 7). Relative to the previous month, inflation rose by 0.5 percentage point, while core inflation dropped by 0.1 percentage point. The increase in inflation was primarily attributable to the rise in fuel prices.

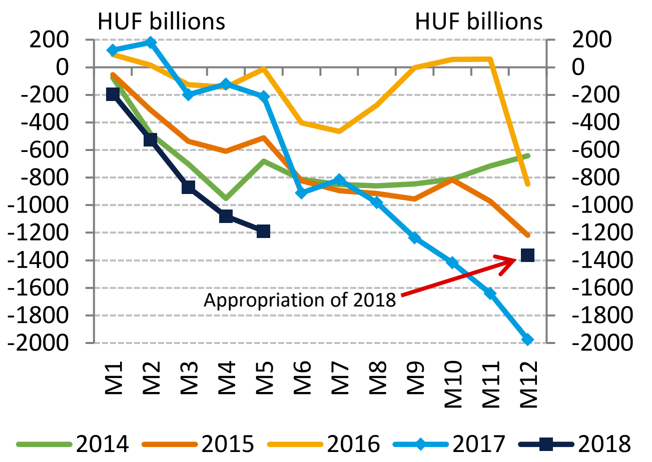
Underlying inflation indicators essentially remained unchanged compared to the previous month. The indicators continued to be around 2 percent (Chart 8). In April 2018, agricultural producer prices rose by 1.2 percent in annual terms, while the domestic sales prices of the consumer goods sectors increased also by 1.2 percent.

If the assumptions Upon the materialisation of the assumptions in the June forecast hold, consumer price index will temporarily slightly exceed 3 percent in the coming months due to the rise in oil prices. **With the fading of the direct impacts of the rise in oil prices, the inflation rate will decline again and the rise in underlying inflation will ensure that from mid-2019 inflation will reach the 3 percent target in a sustainable structure**.

1.4. Fiscal developments

In May 2018, the central sub-sector of the general government closed with a deficit of HUF 106 billion, and thus the current year's cumulated balance amounted to -HUF 1,188 billion, representing a higher deficit than registered in the previous years.

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



Source: Budget Act of 2018, Hungarian State Treasury

In May 2018, the central sub-sector of the general government closed with a deficit of HUF 106 billion, and thus the current year's cumulated balance amounted to -HUF 1,188 billion, representing a higher deficit than registered in the previous years (Chart 9). The persistent rise in the government deficit is mostly attributable to the continued pre-financing of EU transfers, as well as to the budgetary organisations' substantially higher expenditures than last year.

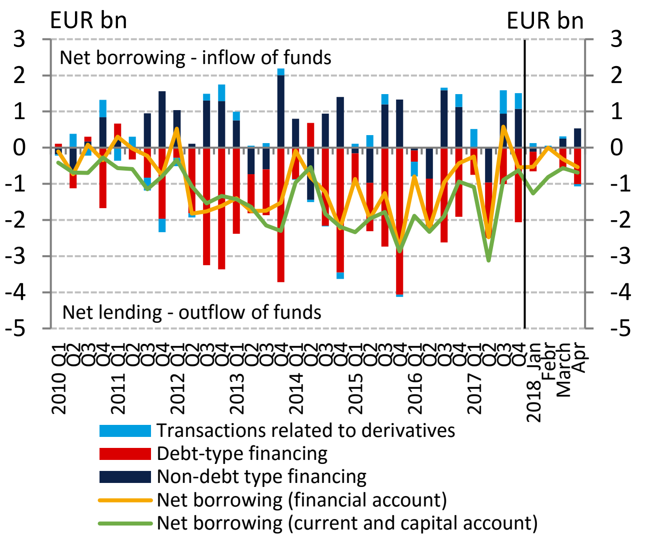
The **revenues of the central sub-sector** fell short of the year-on-year figure by HUF 62 billion, which is the consequence of the exhaustion of the Tax Credit for Growth and the change in the deadline for the reimbursement of VAT revenues, which raised last year's revenues. Gross VAT revenues and labour tax payments exceed the expectations.

The **expenditures of the central sub-sector** were lower by HUF 48 billion year on year, the key components of which include the lower expenditure related to EU transfers, the declining other expenses of the central sub-sector and decreasing net interest expenses. The expenditures related to EU transfers amounted to HUF 136 billion in May 2018, with total payments of HUF 993 billion disbursed in the first five months.

1.5. External balance developments

In April – following the decline observed in the previous months – net lending of the economy and the current account slightly increased. According to the financial account data, decrease in net external debt continued in April, while foreign direct investments rose.

Chart 10: Structure of net lending (unadjusted transactions)



Note: Positive values indicate borrowing requirement (inflow of funds), while negative values indicate net lending (outflow of funds).
Source: MNB

In April – following the decline observed in the previous months – net lending of the economy and the current account slightly increased. The growth in both indicators is attributable to the slight increase in the trade balance, which is in line with the growth in industrial production recorded in April. Meanwhile, there was no material change in the absorption of EU transfers and income balance during the month. The April figure – similarly to the previous months – indicates significant net lending.

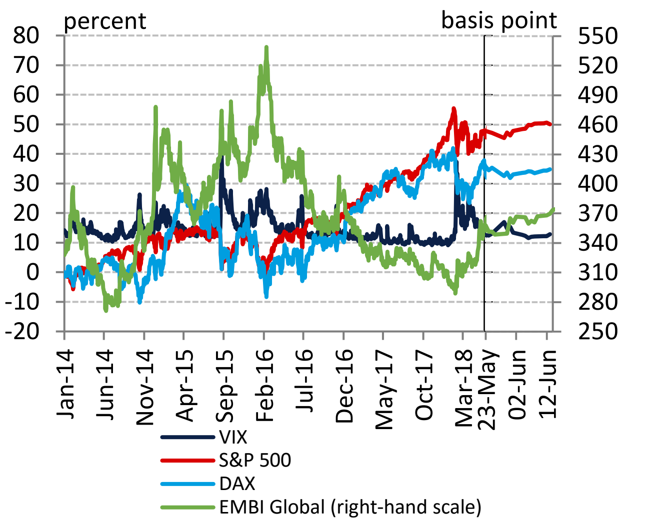
According to the financial account data, decrease in net external debt continued in April, while foreign direct investments rose. In April, the net inflow of foreign direct investments was higher than observed in the previous months – in which the decline in outward investments was a determinant factor –, while the reinvested earnings of non-resident companies were at a similar level as last month. Based on the monthly transactions, net external debt declined significantly, by more than EUR 1 billion. The largest contributor to this was the decline of EUR 650 million observed in the **banking sector**, accompanied by a decrease in the **general government**'s net external debt of roughly EUR 410 million. In the case of the banking sector, the decline in the indicator can be explained by the rise in foreign assets in excess of liabilities. The decline observed at the general government was caused partly by the rise in claims, related to the absorption of EU transfers, and partly by the moderate growth in foreign exchange reserves. No material change occurred in the net external debt of the **corporate sector**.

2. Financial markets

2.1. International financial markets

In the period following the previous interest rate decision, sentiment in the US markets improved, while in Europe, the developments in the domestic politics of Italy led to a major rise in asset prices and to the temporary depreciation of the euro. As a result of the expectations related to the ECB's asset purchase programme, the euro exchange rate against the dollar slightly appreciated at the end of the period, while after the decision of ECB it fell back to 1.15. Developed market long-term government securities yields fell, the US yield level dropped slightly below 3 percent, and the long-term yields of the euro area and the United Kingdom also showed a similar decrease, around 10-15 basis points. In the emerging government securities market, the 25-percent growth in the EMBI Global bond spread reflected the continuation in the aversion to risk in the emerging markets: several emerging market yields continued to rise, while the more vulnerable emerging currencies depreciated. After the vigorous growth observed in the previous period, world market price of oil dropped by 4-8 percent, which may have been caused by the intention of OPEC to terminate the production cut agreement and by the dynamic growth in US oil extraction.

Chart 11: Developed market equity indices, the VIX index (left-hand scale) and the EMBI Global Index (right-hand scale)

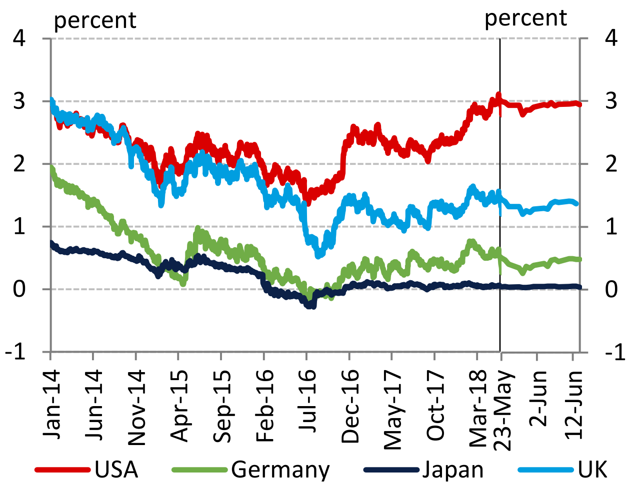


Source: Bloomberg

On the whole, in the past period investor sentiment in the US equity markets improved, while it deteriorated in the emerging market equity and bond markets. The improved sentiment in the US may have been attributable to the decline in the expectations related to the interest rate hike by Fed in May, while the repeated deepening of the commercial tensions had lesser effect on the sentiments. The interest rate hike by Fed in June, and the forecast of the fourth interest rate increase expected for this year, caused only a minor decline in the overseas indices, since the probability of this has already been included in the market pricing for quite a while. In Europe, the domestic policy tensions in Italy caused material rise in the risk premiums of the periphery countries, and it also contributed to the fall of the European stock exchanges and the depreciation of the euro, although the formation of the Italian government partially eased these tensions. In the emerging markets, tension in the bond market persisted, which was accompanied by a rise in the bond market risk premium and capital outflows. The VIX index, apart from the temporary soar at the end of May, fluctuated close to 12 percent at the end of the period (Chart 11).

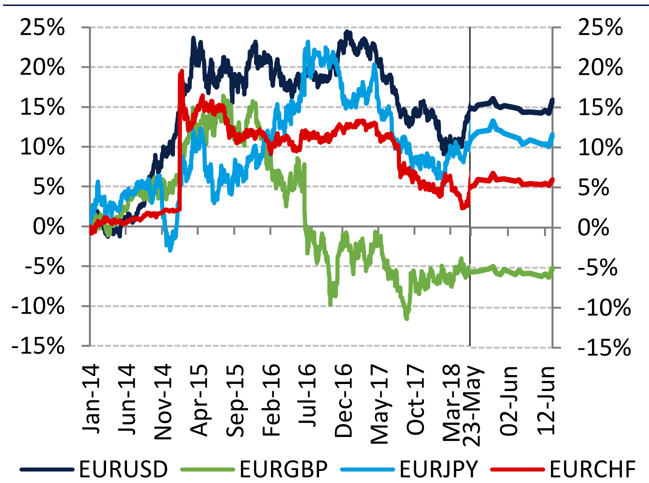
Overseas stock exchange indices rose, while the European, Japanese and emerging market stock market indices fell in the period under review. On the whole, US stock exchange indices rose by 2 percent, while the developed European indices and the Japanese stock exchange decreased by 2-3 percent and half percent, respectively. The Italian and Spanish stock exchanges declined by 3-6 percent during the period under review, although by the end of the period they managed to slightly adjust part of the major decline recorded at the end of May/beginning of June. The MSCI, measuring emerging

Chart 12: Yields on developed market long-term bonds



Source: Bloomberg

Chart 13: Developed market FX exchange rates



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

Source: Reuters

equity market performance, also declined by half percent compared to the start of the period. The unfavourable performance of the emerging markets was primarily caused, in addition to the general risk averse sentiment, by individual country risks, although the preliminary agreement reached between Argentine and the IMF on a stand-by facility had a calming effect on market sentiment.

In the developed bond markets, US yields sank back below 3 percent, and the euro area and British long-term yields also showed similar decline, around 10-15 basis points (Chart 12). **In the emerging markets, the rise in yields continued, albeit at a somewhat slower rate than before, due to the decline in the developed market yields.** The bond market tensions was still felt in the emerging region, also reflected by the 25 basis point rise in EMBI Global, with continued outflow of capital from the emerging market bond funds. The largest yield increase was still registered in the countries deemed vulnerable in terms of external balance (Brazil, South Africa, Turkey).

After a temporary decline in May, expectations related to the US interest rate increase at the end of the year once again rose. At its June meeting, the Fed raised the target band of the benchmark rate by 25 basis points, and also published its forecast with regard to the interest rate path. Based on this, most of the policymakers anticipate further 2 interest rate hikes this year. In the case of the ECB, the June interest rate decision was preceded by increased expectations, since prior to the meeting, senior central bank experts sent signals based on which the market anticipated the announcement related to the date of ending the asset purchase programme for June or July. **Pursuant to the decision, after September, the ECB will reduce the monthly amount of the purchases to EUR 15 billion, and after December 2018 it will stop the asset purchases.** It will continue to reinvest the expiring government securities, in accordance with the current practice. The present key interest rate will be maintained at the current level at least until summer 2019 (or until such time as it is justified by the inflation processes).

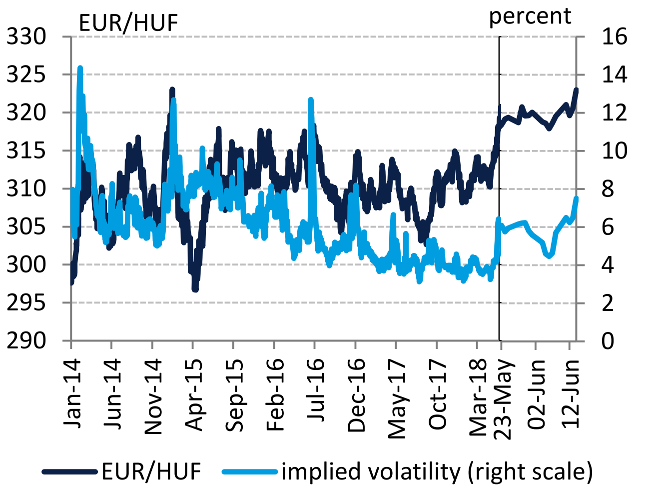
In the first half of the period under review, the dollar appreciated and then, from the end of May, it gradually depreciated against the major currencies. At the very end of the period, after the Fed and ECB meetings, the dollar once again appreciated against the major currencies, while the euro depreciated (Chart 13). After the ECB's decision, the euro depreciated within the day by roughly 2 percent, which is due to the fact that the market anticipated the raising of the deposit rate somewhat earlier than indicated by the ECB, while the ECB committed to maintaining the key interest rates until mid-2019. Of the emerging currencies, the exchange rates of the Brazilian real and the Argentine peso showed high volatility; the latter continued to depreciate, even despite the IMF agreement. By the end of the period, the currencies of the Central and Eastern European region managed to recover from the minor depreciation against the dollar, observed until the end of May.

After the vigorous growth observed in the previous period, world market price of oil decreased by 4-8 percent, as a result of which the WTI and Brent oil price fell to USD 65 and USD 75, respectively. The fall in the oil prices may have been attributable to the rumours about the intention of OPEC to terminate the production cut agreement and to the dynamic growth in US oil extraction.

2.2. Developments in domestic money market indicators

During the period under review, the forint, in line with the international environment and the currencies of the region, depreciated against the euro, and at the end of the period, it slightly depreciated further. The 3-month BUBOR rose by 3 basis points to 13 basis points. All sections of the government securities yield curve shifted upwards, but the yield increase was smaller on the shorter maturities, and thus the curve became steeper. Non-residents' forint government securities holding slightly increased by the end of the period, and thus their holding is once again around HUF 3,700 billion, with the ratio of their holding still being around 22 percent. Hungarian 5-year CDS spread stood at 97 basis points, representing a rise of 7 basis points since the last interest rate decision.

Chart 14: EUR/HUF exchange rate and the implied volatility of exchange rate expectations

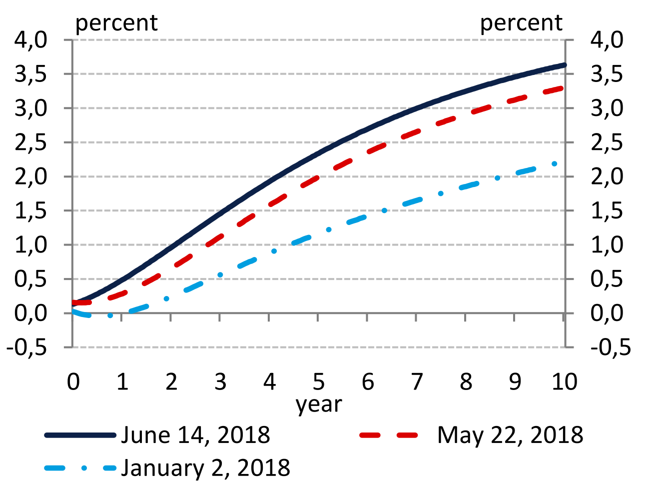


Source: Bloomberg

During the period under review, the forint, in line with the international environment and the currencies of the region, depreciated against the euro, and at the end of the period, it slightly depreciated further. Thus, among the currencies of the region, the forint depreciated against the euro by one and a half percent, the Romanian leu and the Czech koruna by around half percent, while there was no major shift in the exchange rate of the Polish zloty in the period under review. The forint closed the period near HUF 323.5 Exchange rate volatility rose from the historic low level of below 4 percent, and it was 7.52 percent at the end of the period (Chart 14).

The 3-month BUBOR, relevant for the monetary policy transmission, rose slightly, by 3 basis points, and thus it stood at 0.13 percent at the end of the period. **The 1-3 year section and the over 5-year section of the government yield curve shifted upward by 20-25 basis points and by 30-35 basis points**, respectively, thereby making the yield curve steeper (Chart 15).

Chart 15: Shifts in the spot government yield curve



Source: MNB, Reuters

Forint government securities auctions were characterised by strong demand, and thus the Government Debt Management Agency accepted higher than the announced quantity for almost all maturities. In the case of the 3-month auctions, the accepted quantity was raised on all occasions, while the average auction yield dropped from 0.17 percent to 0.13 percent. The bid-to-cover ratio at the 12-month Treasury bill auction was weaker than in the case of the other papers, and thus at this auction the accepted quantity fell short of the announced quantity, while the average auction yield rose by 16 basis points to 0.28 percent. On the other hand, demand was outstanding for the 3- and 5-year bonds, and thus, as a result of the two- or three-fold excess demand, the Government Debt Management Agency in all cases accepted higher quantity than announced. In line with the secondary market processes, the average yield at the auctions of the 3- and 5-year securities rose, and thus the average yields of the last government bond auctions for the three-year and five-year maturities was 1.14 and 1.65 percent, respectively. In the case of the new securities with maturity in 2038, the

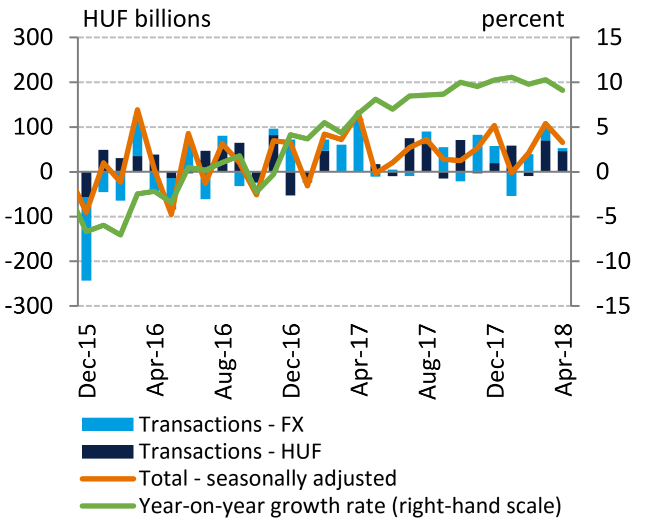
Government Debt Management Agency accepted only HUF 6 billion compared to the announced amount of HUF 7 billion, while the average yield was 3.96 percent.

The stock of Hungarian forint-denominated government securities held by non-residents rose slightly in the period, by HUF 10 billion, and thus it amounted to roughly HUF 3,742 billion. The share of non-residents compared to the total government securities portfolio outstanding in the market remained at around 22 percent, the level observed at the end of May. In line with the trends observed in the region, the 5-year Hungarian CDS spread rose by 7 basis points and finally closed the period at 97 basis points.

3. Trends in lending

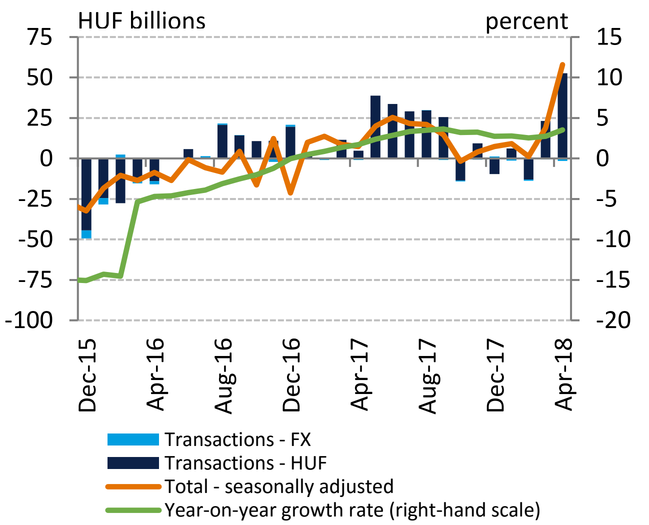
In April, the outstanding corporate loans of credit institutions rose by HUF 53 billion due to transactions, which is equivalent to an increase of HUF 66 billion on a seasonally adjusted basis. The outstanding loans of credit institutions to households rose by HUF 51 billion as a result of transactions, which represents a growth of HUF 58 billion on a seasonally adjusted basis. Thus the annual growth in outstanding lending amounted to 3.5 percent in April 2018. The smoothed interest rate spread of forint corporate loans rose by 15 basis points to 1.65 percentage points in April.

Chart 16: Net borrowing by non-financial corporations



Source: MNB

Chart 17: Net borrowing by households

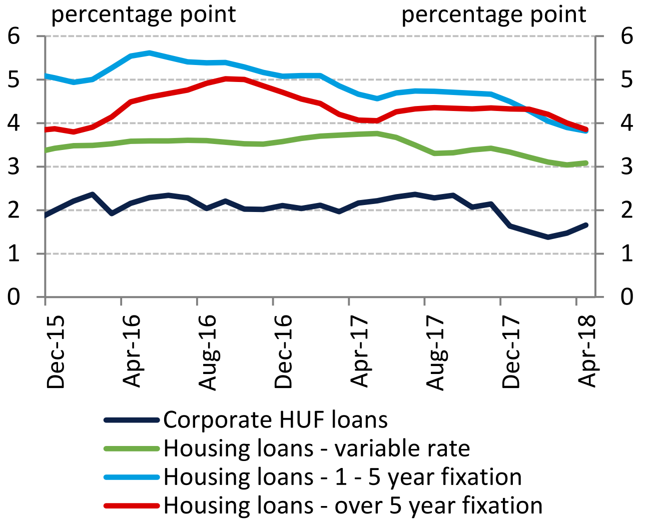


Source: MNB

In April, outstanding corporate loans of credit institutions rose by HUF 53 billion due to transactions, which is equivalent to an increase of HUF 66 billion on a seasonally adjusted basis (Chart 16). In a breakdown by currency, forint loans and foreign currency loans increased by HUF 46 billion and HUF 7 billion, respectively. In April 2018, corporate lending rose by 9.1 percent in annual terms, which slightly falls short of the lower bound of the band (10-15 percent), deemed desirable by the MNB on its new credit convergence path. Excluding money market transactions, the volume of new loans amounted to HUF 247 billion during the month; the value of the money market transactions was HUF 86 billion. Accordingly, the gross amount of new loans in April was up 24 percent in annual terms.

The outstanding loans of credit institutions to households rose by HUF 51 billion as a result of transactions, which represents a growth of HUF 58 billion on a seasonally adjusted basis. Thus, the annual growth in outstanding lending amounted to 3.5 percent in April 2018 (Chart 17). The value of new contracts concluded during the month was HUF 131 billion, and thus in annual terms it registered a growth of 38 percent. As regards the individual sub-segments, the volume of new housing loans and personal loans rose by 41 and 52 percent, respectively. During the month, Certified Consumer-friendly Housing Loans were disbursed in the amount of HUF 21 billion, accounting for 50 percent of the fixed-rate housing loans, while the total value of contracts concluded since September amounts to HUF 87 billion.

Chart 18: Development of 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

The smoothed interest rate spread of forint corporate loans rose by 15 basis points to 1.65 percentage points in April (Chart 18). However, the spread on small-amount market loans – typically taken by SMEs – exceeds the average of the other Visegrád countries by 80 basis points.

The average smoothed interest rate spread on variable rate housing loans calculated on the basis of the annual percentage rate (APR) dropped by 25 basis points compared to September 2017, to 3.1 percentage points. In the case of loans the interest rate of which is fixed for 5 years at the most, this value dropped by 90 basis points to 3.8 percentage points, while in the case of loans fixed for more than 5 years, it fell by 50 basis points to 3.85 percentage points. The problem of high spreads affects primarily the market of long-term fixed-rate transactions.