MACROECONOMIC AND

FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL

TO THE ABRIDGED MINUTES

OF THE MONETARY COUNCIL MEETING

OF 19 NOVEMBER 2024

NOVEMBER

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The background material 'Macroeconomic and financial market developments' is based on information available until 14 November 2024.

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 central bank 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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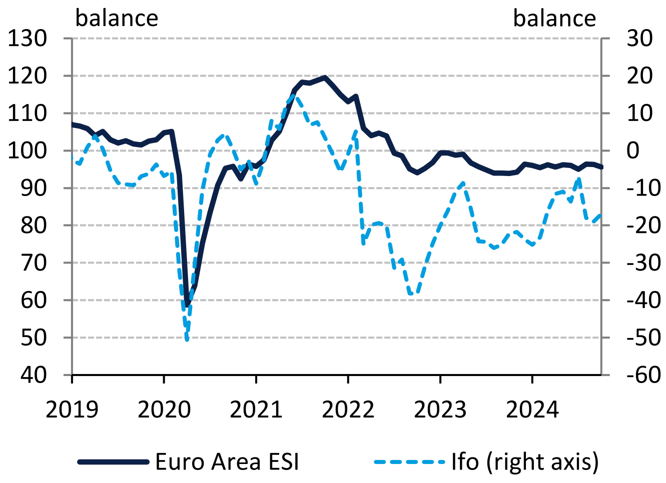
1. Macroeconomic developments

1.1. Global macroeconomic environment

In 2024 Q3, GDP grew slower year-on-year in the European Union, whereas it increased at a greater pace in China and the United States. In September, industrial production rose in China, while it fell in the US and the euro area on an annual basis. Retail sales increased in the US, China and the euro area in September. Standing at 2.6 percent, annualised inflation in the United States was 0.2 percentage points higher in October compared to the previous month. In China, consumer prices rose by 0.3 percent in annual terms. Euro area inflation rose to 2.0 percent year-on-year, while core inflation was unchanged at 2.7 percent in October, according to preliminary data. Both figures slightly exceeded analysts' expectations.

In 2024 Q3, GDP grew slower year-on-year in the European Union, whereas it increased at a greater pace in China and the United States. In China, the economy expanded by 4.6 percent in the third quarter, and in the United States, the economy grew by 2.7 percent on an annual basis in the third quarter, after growing by 3.0 percent in the second quarter. In the European Union, GDP for 2024 Q3 grew by 1.0 percent on an annual basis, while in the euro area it increased by 0.9 percent. Based on the 22 countries' currently available data, the highest year-on-year increases were recorded in the case of Cyprus (+3.8 percent), Spain (+3.4 percent) and Lithuania (+2.3 percent). Seven Member States registered a year-on-year decline, with the gross domestic product decreasing most sharply in Latvia (-1.4 percent), Hungary (-0.7 percent) and Estonia (-0.7 percent). Among the countries in the region, the economies of Slovakia (+1.7 percent), Poland (+1.6 percent) and the Czech Republic (+1.3 percent) also expanded compared to the same period last year. GDP in Germany, our main trading partner, fell slightly (-0.2 percent) on an annual basis.

Chart 1 Business climate indices in Hungary's export markets



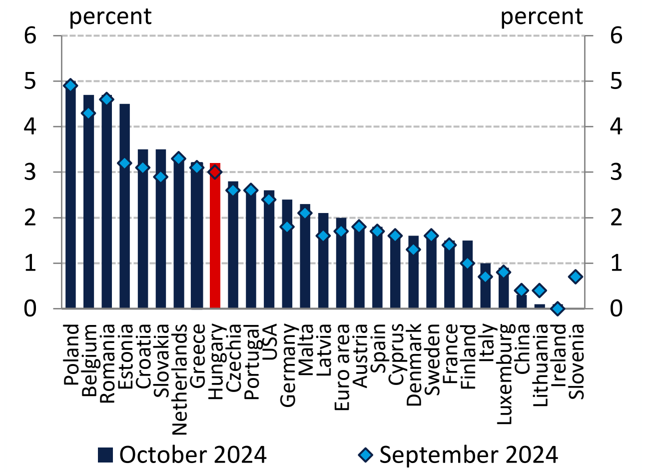
Source: European Commission, Ifo

Industrial production in China rose by 5.4 percent, while in the US it fell by 0.6 percent and in the euro area by 2.8 percent on an annual basis in September. Retail sales expanded by 1.7 percent in the United States, 3.2 percent in China and 2.9 percent in the euro area in September.

In October, the Purchasing Managers' Index for manufacturing rose in China, the United States and also the euro area. The index rose above the expansion threshold in China, while it remained below the threshold in the United States and the euro area. The euro area's Economic Sentiment Indicator (ESI) decreased by 0.7 points (Chart 1).

The unemployment rate in the United States remains low. In the United States, the unemployment rate eased slightly to 4.1 percent in September from 4.2 percent in August. Non-farm payrolls increased by 254,000, exceeding the average increase of 203,000 over the past year and

Chart 2 Developments in the international inflation environment



Note: Data from national statistical offices for Hungary, Czech Republic, Poland, Romania, Denmark and Sweden. Preliminary data for Poland and Sweden. Preliminary HICP inflation rates for other EU countries.

Source: Eurostat, national statistical offices

analysts' expectations. The unemployment rate in the euro area was 6.4 percent in August, the same as in July.

Annualised inflation in the United States was at 2.6 percent in October, in line with expectations and up by 0.2 percentage points on the previous month. **In China, consumer prices rose by 0.3 percent on an annual basis. Euro area inflation rose to 2.0 percent year-on-year**, while core inflation was unchanged at 2.7 percent in October, according to preliminary data. Both figures slightly exceeded analysts' expectations.

In October, inflation rose in the countries of the region. Prices rose by 5.0 percent in Poland, 4.7 percent in Romania and 2.8 percent in the Czech Republic over a year, according to the data of the national statistical offices. Inflation in Slovakia was 3.5 percent in October, according to Eurostat's preliminary HICP data (Chart 2).

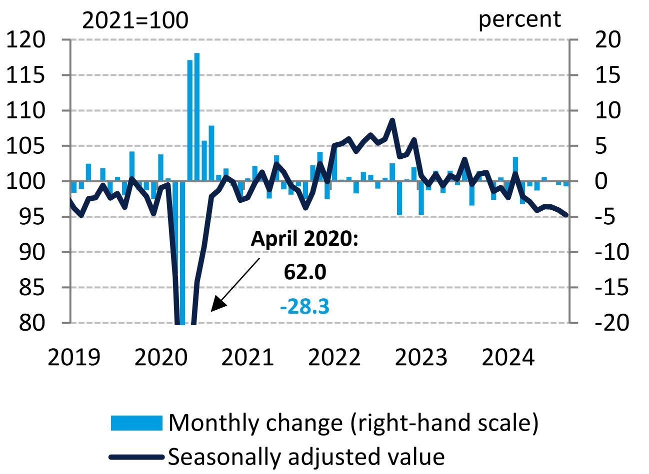
1.2. Real economic trends in Hungary

Gross domestic product fell by 0.8 percent in 2024 Q3 on the basis of preliminary raw data and by 0.7 percent on the basis of seasonally and calendar-adjusted data, compared to the same period of the previous year. Based on a quarterly comparison, economic performance also fell by 0.7 percent. In September, the volume of retail sales increased by 1.7 percent, while construction output fell by 8.2 percent and industrial production by 7.2 percent year-on-year. Based on preliminary data, trade balance showed a surplus of EUR 1.2 billion in September 2024. The number of employees aged between 15 and 74 was 4 million 699 thousand in September, which, seasonally adjusted, is 21 thousand less than in August. On average, 31,000 more people were in employment in Hungary in the period of July-September 2024 than in the same period last year. The unemployment rate stood at 4.5 percent.

1.2.1. Economic growth

Preliminary data released by HCSO indicate that, in 2024 Q3, Hungary's gross domestic product decreased by 0.8 percent, year-on-year. Based on seasonally and calendar-adjusted data, value added fell by 0.7 percent on an annual basis. Compared to the previous quarter, economic performance also declined by 0.7 percent. According to the HCSO, the combined performance of agriculture, industry and construction contributed to the decline in economic output by approximately 2 percentage points. At the same time, the economic downturn was held back by the growth in the value added of market and public services.

Chart 3 Developments in industrial production



Note: From January 2024, seasonally adjusted value is based on the monthly averages of 2021.

Source: MNB calculation based on HCSO data

According to the detailed data released, the volume of industrial production fell by 7.2 percent in September compared to the same period last year. Based on seasonally and working-day adjusted data, output fell by 5.7 percent on an annual basis. Industrial output was 0.7 percent lower in September than in the previous month, according to seasonally and working-day adjusted data (Chart 3). The monthly volume of industrial output was on a downward trend since September 2022 and was below the September 2021 level in September this year.

The output of industrial export dropped by 5.0 percent and the output of domestic industrial sales dropped by 2.9 percent compared to the same month a year earlier. The output of the automotive industry, representing the largest share, contracted by 11.4 percent on an annual basis. The production of electrical equipment fell by 10.0 percent year-on-year. Food, beverages and tobacco production grew by 0.7 percent compared to the same period a year earlier, thanks to an increase in both domestic and foreign sales. Output in pharmaceuticals fell by 12.4 percent in September, while output in the manufacture of chemicals and chemical products decreased by 6.1 percent on an annual basis.

In September 2024, the volume of construction output fell by 8.2 percent year-on-year. Construction of buildings fell by 2.0 percent and that of other construction by 17.0 percent on an annual basis. In September, the volume of new contracts signed increased by 2.7 percent. In particular, the volume of contracts for the construction of buildings was 17.8 percent lower and that for the construction of other structures 24.9 percent higher than a year earlier. The volume of contracts in the construction sector at the end of September increased by 36.0 percent on an annual basis, with contracts for the construction of buildings up by 1.5 percent and those for other construction up by 71.0 percent. The contract portfolio of other construction at the end of September increased significantly in July 2024, mainly due to the high-value contract concluded for the construction of the Danube bridge at Mohács. In addition, the low base in the same period of the previous year contributed to a significant year-on-year increase in the stock of other construction.

In September 2024, the volume of retail sales grew by 1.7 percent year-on-year. Retail trade excluding fuel sales rose by 3.2 percent on a calendar-adjusted basis. The annual volume of sales at filling stations decreased by 5.0 percent. On a monthly basis, turnover fell by 1.4 percent, which was also affected by the flood situation, according to the HCSO. Sales volumes in September were close to year-end 2022 levels, based on seasonally and calendar-adjusted data. Retail food trade rose by 1.5 percent on an annual basis in September. In addition, sales also increased in textiles, clothing and footwear (+11.1 percent), online (+10.8 percent), pharmaceuticals, medical products and perfumes (+6.7 percent), furniture, appliances and hardware (+3.9 percent) and other retail sale in non-specialised stores (+1.0 percent). In September, fuel sales (-5.0 percent) and sales also declined in the product groups of books and computers (-1.7 percent).

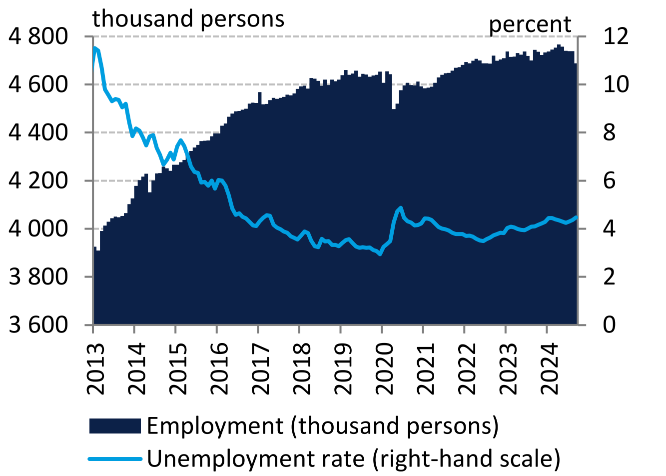
Based on preliminary data, trade balance showed a surplus of EUR 1.2 billion in September 2024. The balance improved by EUR 790 million compared to the previous month, while deteriorating by EUR 187 million compared to the same period of the previous year. The balance adjusted for VAT residents increased by EUR 456 million, amounting to a decrease of EUR 275 million compared to a year earlier. The 12-month rolling balance of external trade in goods fell short of its historic peak in April, showing a surplus of EUR 11.9 billion in September. The rolling balance adjusted for VAT residents continued to fall moderately to EUR 3.8 billion. In September, the value of goods exports in euro terms fell by 5.0 percent, while the nominal value of goods imports in euro terms decreased by 4.0 percent on an annual basis. Compared to August, the value of exports fell by 1.5 percent and imports by 3.2 percent in September.

The NTCA's (National Tax and Customs Administration) inflation-adjusted turnover of online cash registers was 1.9 percent higher in September year-on-year. The nominal turnover of online cash registers increased by 4.9 percent year-on-year. In September, freight traffic increased (+20.0 percent), while passenger road traffic declined (-13.9 percent). Electricity load decreased by 4.3 percent. Cinema attendance increased by 12.5 percent and catering turnover by 13.2 percent. The number of Google searches for "unemployment benefits" increased in September.

1.2.2. Employment

According to the Labour Force Survey, in September 2024, the average number of employees aged between 15 and 74 amounted to 4 million 699 thousand, which, adjusted seasonally, was 21 thousand less than in August. In its latest publication, the HCSO translated the lower-than-expected 2022 Census figures into employment and unemployment statistics. As a result, the level of employment has fallen by 20-30 thousand over the past period. **In the period of July-September 2024, the average number of persons employed was 4,709,000, which was substantially unchanged compared to the same period of the previous year**. On average, the number of persons in the primary labour market increased by 7,000 between July and September, while the number of people working abroad remained stable and the number of persons in fostered employment fell by 10,000.

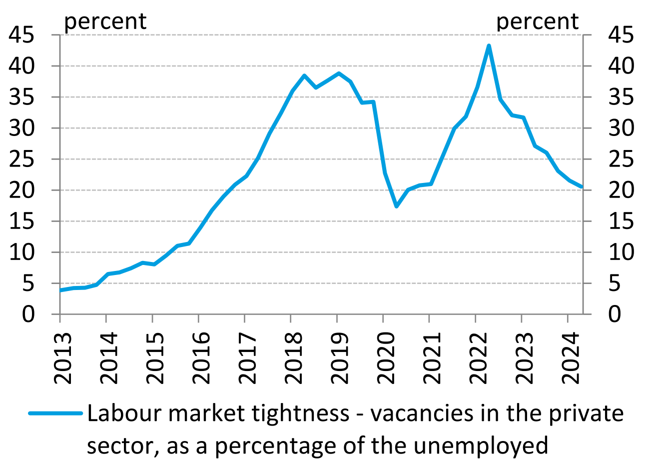
Chart 4 Number of persons employed and the unemployment rate



Note: Employment based on seasonally adjusted data.
Source: HCSO

The number of unemployed persons was 220,000 in September, which is 17,000 more than in the same period of the previous year. Overall, the unemployment rate was 4.5 percent (Chart 4). In September, seasonally adjusted data show that the number of unemployed persons increased by 9,000 compared to August. According to the raw data of the National Employment Service (NES), there were 228,000 registered jobseekers in Hungary in September 2024 and 226,000 in October 2024. Thus, there was no significant change compared to the same period last year. Based on seasonally adjusted data, the number of registered jobseekers in October 2024 decreased by 2,000 compared to September and remains lower than in the months before the outbreak of the coronavirus pandemic.

Chart 5 Labour market tightness indicator



Note: Seasonally adjusted quarterly data.
Source: HCSO, MNB calculation

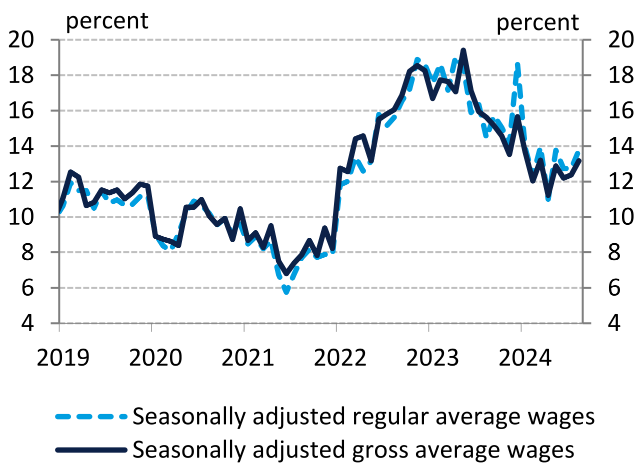
The labour market has become less tight in recent months (Chart 5). There were 46,400 vacancies in the private sector in 2024 Q2, 15.6 percent fewer year-on-year and 5.0 percent fewer compared to the previous quarter. Labour demand in both manufacturing and market services fell compared to the previous quarter. In manufacturing, there were 0.3 thousand fewer job vacancies than in 2024 Q1. In the market services sector, there were 28,300 job vacancies in 2024 Q2, 1,300 fewer than in the previous quarter. In the public sector, the number of job vacancies remained broadly unchanged compared to the previous quarter.

1.3. Inflation and wages

In October 2024, consumer prices rose by 3.2 percent year-on-year. Both core inflation and core inflation excluding indirect tax effects fell to 4.5 percent. The incoming figure was below the mid-range of the September Inflation Report's forecast and below the consensus of analysts' expectations. In August 2024, average wages in the national economy (excluding bonuses) rose by 13.8 percent, while wages in the private sector increased by 13.1 percent in annual terms.

1.3.1. Wages

Chart 6 Dynamics of average earnings in the private sector



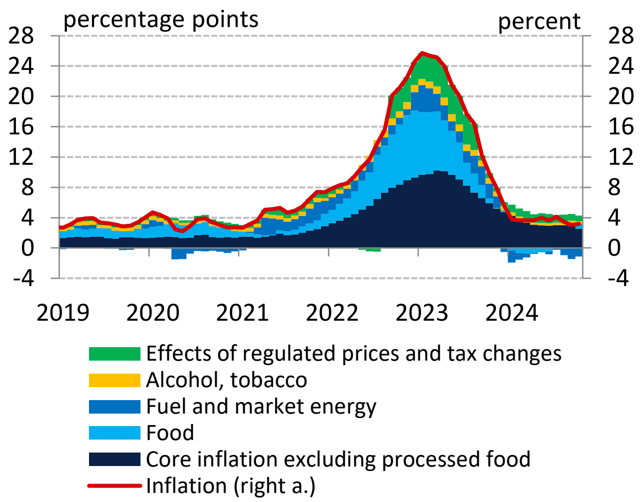
Source: MNB calculation based on HCSO data

In August 2024, average gross earnings rose by 13.1 percent in the national economy and by 12.5 percent in the private sector year-on-year. In annual terms, average regular earnings (excluding bonuses) rose by 13.8 percent in the national economy and by 13.1 percent in the private sector. Regular earnings increased by 0.3 percent on a monthly basis. Premium payments were 5.4 percent of regular earnings, down from last year but up from previous years.

Based on seasonally adjusted data, the dynamics of both gross average wages and regular average wages accelerated in the private sector (Chart 6). In the private sector, the wage dynamics of market services exceeded those of manufacturing on the basis of raw data. In manufacturing, wages were 12.1 percent higher in August compared to the same period last year. With regard to market services, the Hungarian Central Statistical Office registered an increase of 12.4 percent. As for the sectors of the national economy, wages in construction grew by 14.6 percent, by 13.8 percent in tourism and by 12.8 percent in trade compared to the same period of the previous year.

1.3.2. Inflation developments

Chart 7 Decomposition of inflation

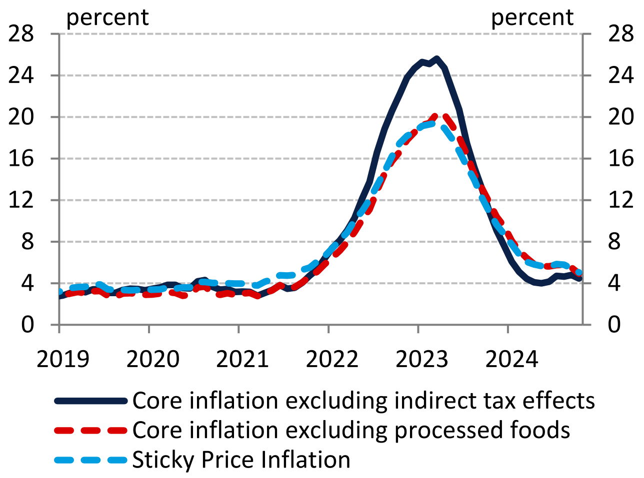


Source: MNB calculation based on HCSO data

In October 2024, consumer prices rose by 3.2 percent year-on-year (Chart 7). Both core inflation and core inflation excluding indirect tax effects fell to 4.5 percent. In monthly terms, the price of the representative consumer basket increased by 0.1 percent, while the price of the core inflation basket remained unchanged. The annualised consumer price index increased by 0.2 percentage points relative to the previous month.

The rise was explained by accelerating food and fuel price dynamics, partly offset by moderating annual price increases for market services. The deceleration in year-on-year core inflation was caused by a decline in the prices of market services, including in particular telecommunication services, compared to the previous month. The annual inflation rate for industrial goods eased to 1.4 percent and the annual average price index for market services fell to 8.5 percent. Prices of the latter main component fell by 0.6 percent on a monthly basis, an unprecedented historical decline regarding this main component. This outlier was explained by a 7 percent drop

Chart 8 Measures of underlying inflation indicators



Source: MNB calculation based on HCSO data

in the price of mobile phone and internet services. Unprocessed food prices rose by 5.7 percent and processed food prices by 2.7 percent year-on-year. Fuel prices fell by 5.2 percent on an annual basis. The annual price index for goods and services with regulated prices was 0.8 percent.

The incoming figure was below the mid-range of the September Inflation Report's forecast and below the consensus of analysts' expectations. The median was 3.6 percent, with expectations ranging from 3.4 to 4.0 percent.

The MNB's annualised indicators, which capture more persistent inflation trends, declined in October. In annual terms, the inflation of sticky-price goods was 5.0 percent, while core inflation excluding processed food was at 4.9 percent (Chart 8).

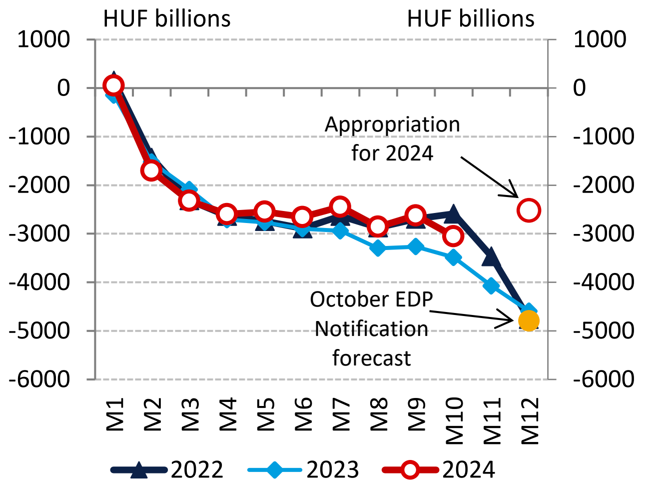
1.4. Fiscal and external balance trends

In October, the central sub-sector of general government registered a deficit of HUF 427 billion, increasing the cumulative deficit to HUF 3050 billion since the beginning of the year. This corresponds to 64 percent of the annual cash deficit target, which was raised to nearly HUF 4,800 billion in the October EDP notification. Revenues of the central sub-sector increased by HUF 137 billion in October, while expenditures rose by HUF 341 billion on an annual basis. In the first nine months of the year, the current account balance showed a surplus of more than EUR 5 billion, with the monthly surplus rising to EUR 0.7 billion in September.

1.4.1. Fiscal trends

In October, the **central sub-sector of general government** registered a deficit of HUF 427 billion, which is about HUF 200 billion higher than the deficit in October of the previous year. The cumulative deficit from the start of the year rose to HUF 3,050 billion by the end of the month (Chart 9). This is around HUF 440 billion lower than last year's cumulative figure and corresponds to 64 percent of the annual cash deficit target, which was raised to nearly HUF 4,800 billion in the October EDP notification.

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

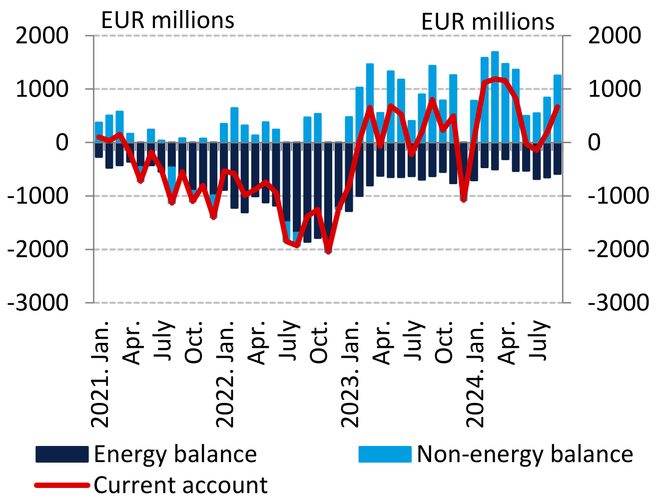


Source: 2024 Budget Act, Hungarian State Treasury, HCSO

Revenues of the central sub-sector increased by HUF 137 billion on an annual basis in October. Tax and contribution revenues increased by HUF 151 billion (7 percent), while EU revenues rose by HUF 51 billion. Labour taxes and contributions grew by HUF 148 billion (16 percent), while financial transaction levy revenues rose by HUF 18 billion (65 percent). Net VAT receipts increased by HUF 27 billion (4 percent) and gross VAT receipts by 1 percent on an annual basis. Corporate surtax revenues fell by HUF 76 billion compared to October last year, as the payment deadlines for the special tax on financial institutions were changed, so banks did not have to pay this tax in October 2024.

Budgetary expenditures in October were HUF 341 billion higher than in the same period of the previous year. The increase was mainly due to higher monthly net expenditure by HUF 191 billion of budgetary institutions and chapters and by HUF 109 billion of the public investment chapter, which includes certain investments. Net interest expenditure was HUF 153 billion higher than in October last year, mainly due to the increase in the stock of large-scale bonds paying interest this month. The increase in expenditures was partly offset by a reduction of around HUF 180 billion in public overheads protection expenditures.

Chart 10 Developments in current account and energy balance



Note: The last monthly value of the energy balance is an estimate.
Source: MNB, HCSO

1.4.2. External balance developments

In September 2024, the current account surplus amounted to almost EUR 0.7 billion, bringing the total surplus to over EUR 5 billion in the first nine months of the year (Chart 10). The surplus in September was EUR 667 million, which is EUR 483 million higher than the previous month and only moderately below the level of a year earlier. The annual decline in the trade balance was driven by the change in the balance of goods. The year-on-year fall in the value of exports of goods of more than 6 percent occurred against a background of a decline in industrial production. The 5 percent decline in imports of goods was partly linked to a moderation in exports, while a pick-up in retail sales had the opposite effect. In September, the income balance deficit narrowed significantly on a year-on-year basis, while the transfer balance also deteriorated, reflecting the decline in the EU balance.

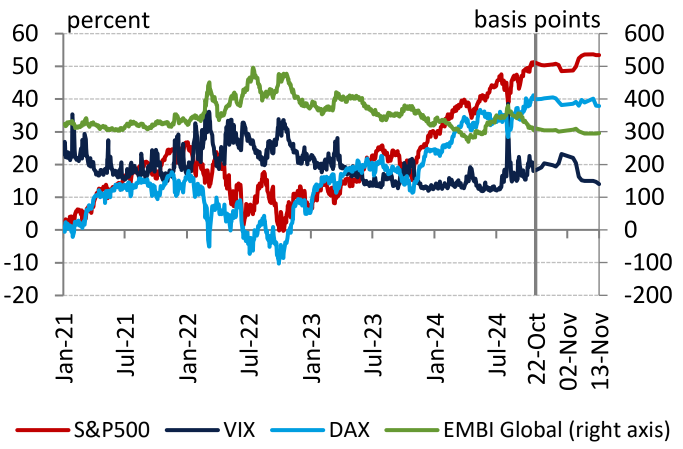
Financial account data show that net direct investment fell to a slight extent, while net external debt also declined due to transactions. The net outflow of EUR 0.2 billion of FDI was driven by dividend payments by foreign companies and investment outflows by domestic economic operators. The decrease of EUR 0.3 billion in net external debt resulting from transactions was mainly linked to the banking system, while the government indicator increased.

2. Financial markets

2.1. International financial markets

In the period since the previous interest rate decision, initial uncertainty after the US elections has been followed by improved investor sentiment in developed markets, with the dollar strengthening, long-term bond yields rising and oil prices falling. At the same time, risk aversion towards emerging markets increased, which has become more pronounced following the US elections.

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

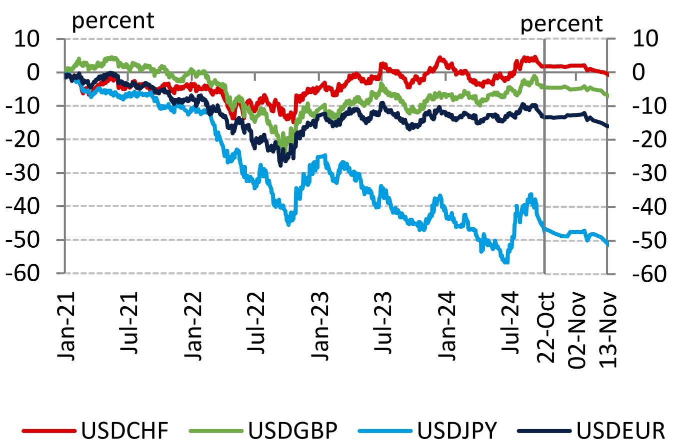


Note: Stock indices (S&P500 and DAX) normalised to the beginning of 2021.
Source: Bloomberg

In the period since the previous interest rate decision, the US elections have been the main factor influencing international financial and capital market developments. In addition, the Federal Reserve's interest rate decision in November and the upward shift in expectations for the central bank's future interest rate path shaped investor sentiment. The outcome of the US elections emerged more quickly than expected, which has reduced overall market uncertainty.

Developed market risk indicators typically rose towards election day and then declined significantly thereafter. The VIX index, which measures US stock market volatility, was thus around 15 percent, while the Vstoxx index, which measures European stock market volatility, was below 18 percent at the end of the period. The EMBI Global index, which captures emerging market bond spreads, fell by 14 basis points and the MOVE index, which measures developed bond market volatility, declined by 20 basis points since the previous interest rate decision (Chart 11).

Chart 12 Evolution of developed market foreign exchange rates compared to the first trading day of January 2021

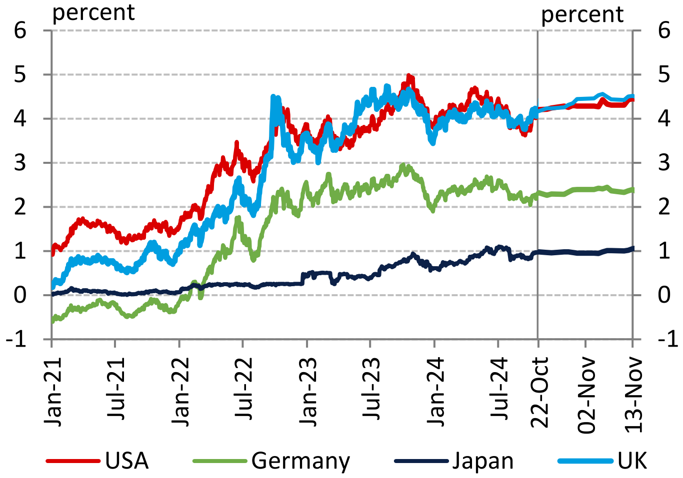


Note: Positive values indicate the strengthening of the variable (second) currency.
Source: Bloomberg

US stock market indices rose, while European indices typically declined over the period. The main US stock market indices rose by between 2.2 and 6.8 percent overall, with a large part of the increase occurring after the elections. The leading European stock market indices fell by 2.1 to 4.2 percent. Among Asian indices, Chinese indices rose, while Japanese, Korean and Indian indices declined. The MSCI index of emerging market stock exchanges declined by 3.9 percent.

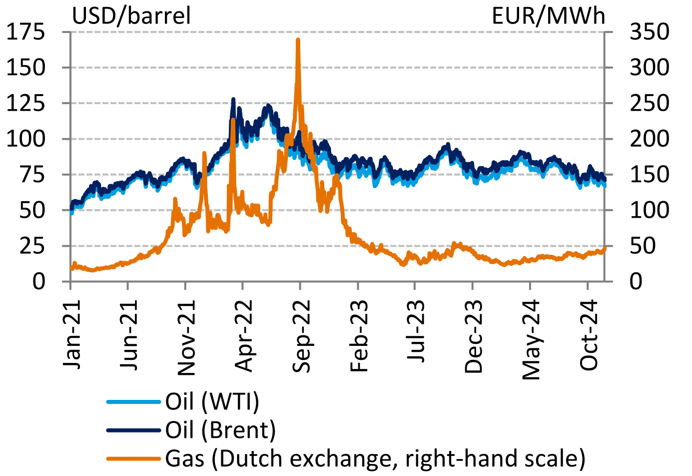
Following the US elections, the dollar strengthened significantly against developed market currencies (Chart 12). As election day approached, the dollar continued to weaken against the euro, reaching a level of 1.093. In the days following the results, however, the dollar strengthened significantly, by 3 percent overall, to a level of 1.06, in parallel with the Federal Reserve's interest rate cuts. Overall, the dollar appreciated by 1.0-2.4 percent against developed market currencies over the period.

Chart 13 Yields on developed market long-term bonds



Source: Bloomberg

Chart 14 Developments in oil and gas prices



Source: Bloomberg

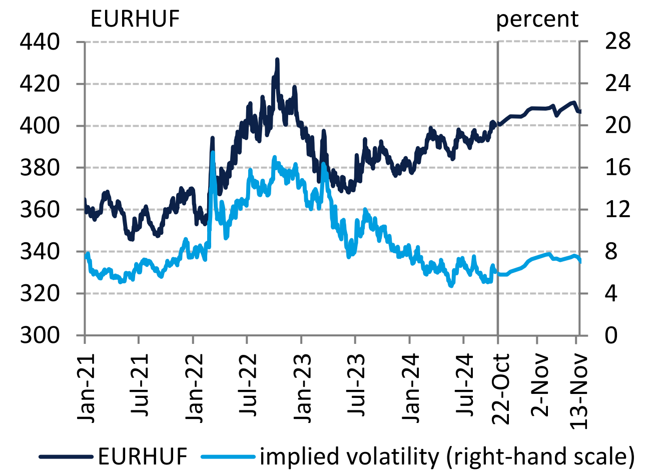
Developed and emerging market long yields generally rose since the last interest rate decision (Chart 13). The US 10-year yield rose by 23 basis points since the previous interest rate decision and is back above the 4.4 percent level, while the German long yield rose by 10 basis points and the Japanese long yield by 9 basis points. **Ten-year government bond yields in the region rose by 3 to 15 basis points.**

Commodity prices have generally fallen since the last interest rate decision, while gas prices have risen. The Bloomberg commodity price index fell by 2.6 percent during the period. The largest contributors to the decline were the falls in the industrial metal (4.5 percent) and energy (2.8 percent) subindices. In the energy market, oil prices have been volatile. In the first week of November, world oil prices rose due to the fall in US crude oil stocks, the repeated postponement of OPEC+'s planned production increase and uncertainty over the US presidential election. Towards the end of the period, the easing of supply risks and the potential impacts of the Trump presidency put downward pressure on the oil market again. Overall, Brent oil prices fell by 5.5 percent to near USD 72, while WTI fell to near USD 68 since the previous interest rate decision (Chart 14). European gas prices rose by 8.7 percent since the previous interest rate decision.

2.2. Developments in domestic money market indicators

The forint has depreciated against the euro since the interest rate decision in October. Government bond market yields generally rose, especially with shorter maturities. The 3-month BUBOR rose by 11 basis points to 6.51 percent. Demand at government bond auctions was strong in general, while demand at discount treasury bond auctions was moderate.

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

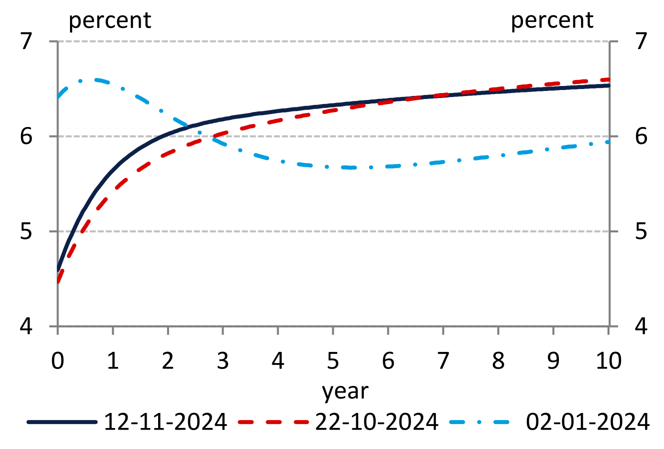


Source: Bloomberg

The forint depreciated by around one and a half percent against the euro since the October interest rate decision (Chart 15). Following the October interest rate decision, the forint initially weakened gradually, by 2.7 percent in total. The weakening of the forint was driven by developments related to the US elections, weaker-than-expected third-quarter growth in Hungary and uncertainties about the fiscal and monetary policy outlook in Hungary. Following the elections, global investor sentiment improved significantly, and the forint strengthened to the 404 level. As the dollar strengthened at the end of the period, emerging market currencies, including the forint, depreciated again. Among the currencies of the region, the Polish zloty and the Czech koruna also weakened, but to a lesser extent than the forint: the Czech koruna depreciated by 0.2 percent and the zloty by 0.5 percent against the euro.

The 3-month BUBOR, which is relevant to monetary transmission, has risen by 11 basis points since the previous interest rate decision to 6.51 percent.

Chart 16 Shifts in the spot government yield curve



Source: Bloomberg

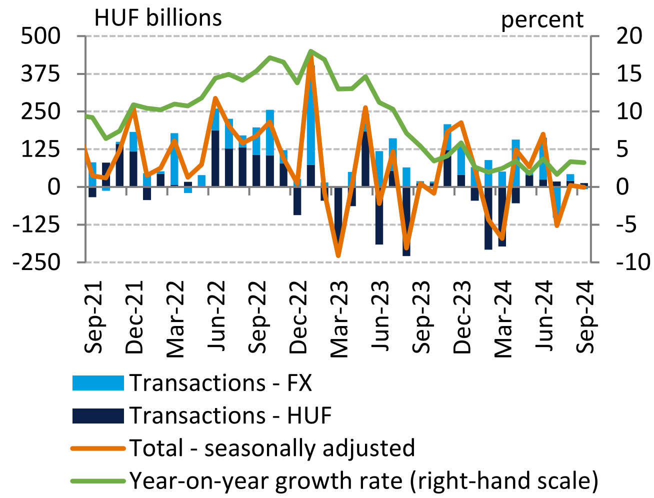
The shorter section of the government bond market yield curve shifted upwards (Chart 16). The section of the yield curve around 1 year moved up by 20-25 basis points, whereas the middle section was up by 10 basis points on average, and the long section was down by 10-20 basis points.

Since the previous interest rate decision, demand at government bond auctions was typically strong, while demand at discount treasury bond auctions was moderate. During the period under review, the volume of bids submitted for government bond auction significantly exceeded the quantity offered in advance, and the Debt Manager accepted quantities in excess of those announced in several cases. Coverage was particularly high for 5, 7 and 10-year securities, while for discount treasury bill auctions in November, on average, bids submitted were below the quantity offered.

3. Trends in lending

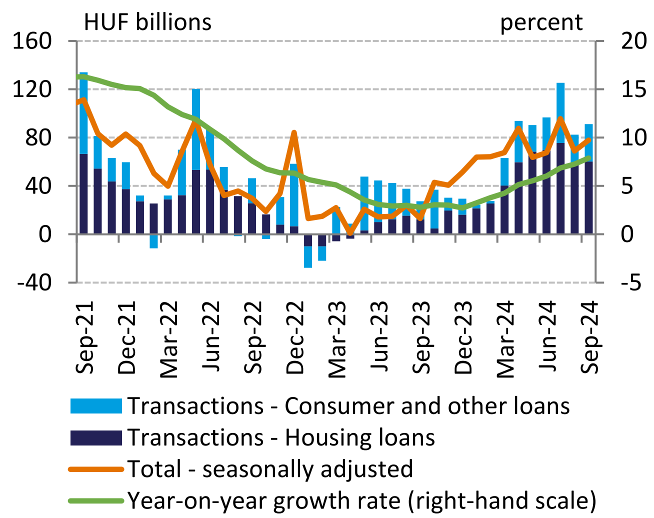
Outstanding corporate loans increased by HUF 5 billion in September 2024, slowing the annual growth rate of loans outstanding to 3.2 percent from 3.4 percent in August. In addition, household lending increased by HUF 91 billion due to transactions, bringing the annual growth rate of the stock to 7.9 percent, up by 0.6 percentage points from August.

Chart 17 Net borrowing by non-financial corporations



Source: MNB

Chart 18 Net borrowing by households



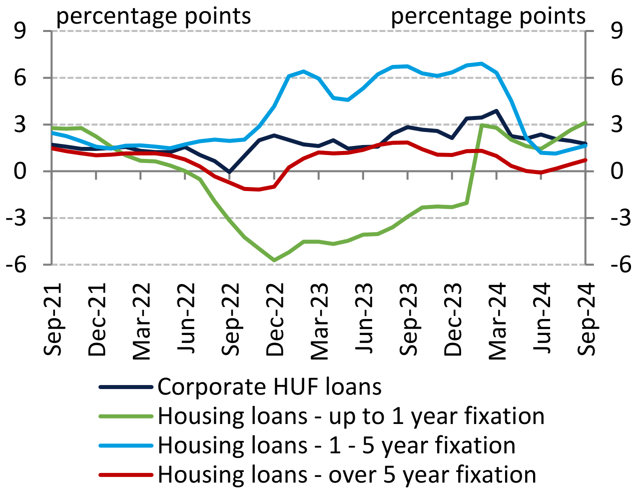
Source: MNB

Corporate loans increased by HUF 5 billion in September 2024, driven by a HUF 13 billion increase in forint loans and a HUF 8 billion decrease in foreign currency loans. **The annual growth rate of loans slowed** from 3.4 percent in August **to 3.2 percent** (Chart 17). Credit institutions contracted new non-overdraft loans in an amount of HUF 217 billion during the month, which is 32 percent lower than in the same period last year. Within new issuance, large individual transactions (transactions above HUF 5 billion) accounted for HUF 76 billion, a share significantly lower than the average of the past year.

In September, household lending increased by HUF 91 billion due to transactions, bringing the annual growth rate of the stock to 7.9 percent, up 0.6 percentage points from August (Chart 18). Due to the low base, the HUF 264 billion volume of new household loan contracts was 80 percent higher than in the same period last year. In this context, the value of newly contracted housing loans rose by 122 percent year-on-year. 1,000 contracts were signed in September under the HPS Plus programme, available since January, worth HUF 27 billion and amounting to 24 percent of new home loans disbursed during that month.

The smoothed interest rate spread on corporate forint loans decreased by 18 basis points compared to the previous month and equalled 1.77 percentage points in September 2024 (Chart 19). As for housing loans, the spread on products with a fixed interest rate beyond 5 years increased by 26 basis points to 0.71 percentage points at the end of the period under review.

Chart 19 Developments in corporate and household credit spreads



Note: APR-based smoothed spreads on household loans, 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