

The budget deficit was 5.3 % in H1 2020

The coronavirus significantly affected budgetary processes. H1 revenues were 1.4% less than in the previous year, while expenditures increased significantly, by 12.6%. Consequently, the balance-to-GDP fell by 6.0% in a single year.

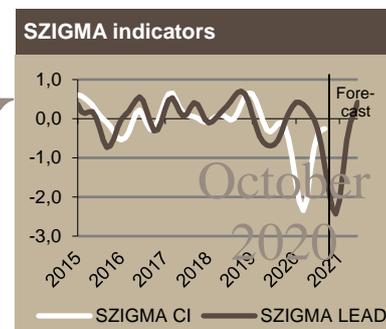
SZÁZADVÉG
GAZDASÁGTUDOMÁNYI ÉS
STATISZTIKAI ÉRTÉKELŐ

On the revenue side, negative macroeconomic processes contributed to the decrease. As a result of shrinking consumption, VAT revenues were 1.8% lower than in the previous year, while personal income tax revenues fell by 1.2% because of the decrease of employment and the increase of part-time employment.

On the expenditure side, the increase was attributable to economy protection and healthcare expenses. Expenses on direct employees' incomes increased by 9.7%, while social allowances were 8.5% higher and other expenses grew by 37.5%.

In the summer, however, several industries showed signs of recovery. In August, the volumes of industrial output and retail sales were only slightly below their last year's figures. In September, the arrival of the second wave of the coronavirus once again increased the uncertainty in the economy. If first-wave lockdowns are avoided, the economic recession might be lower, too.

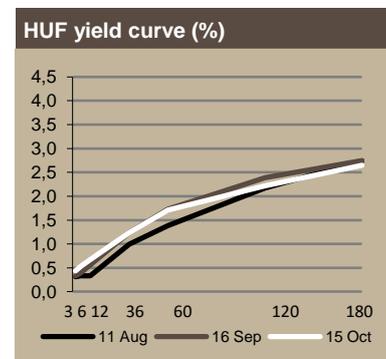
After reaching approximately 4% in the past months, inflation slowed down to 3.4% in September. More specifically, food prices continue to increase dynamically, by 7.3%.



Source: Századvég

Forecast 10 September 2020

	2020
GDP volume change (%)	5.2
Inflation (annual average, %)	3.7
Gross wages (annual change, %)	9.8
EUR/HUF	349



Source: Datastream

Economic overview

External environment

In August, the output of the construction industry fell by 1.5% in the European Union.

In August, the output of the construction industry in the EU was 1.5% below the previous year's level, while it increased by 2.4% compared to July. The industry, therefore, continues to recover, because, in April, at the bottom of the crisis, the output of the industry was more than a quarter (25.8%) below its 2019 level. Looking at the different industrial subsectors, the volume of buildings was 2.0% lower, that of civil engineering works 0.9% lower than one year before. Among the large Member States of the European Union, the output of the German construction industry decreased by 1.8% in August in comparison to the previous year. At the same time, we have to mention that German construction industry was only slightly affected by the crisis, the downturn in April amounted only to 0.7%. By contrast, the French construction industry stagnated in August, which is outstanding because the April output of this sector was 64.5% lower than in 2019. Spain is, however, recovering slower: the April decrease of 32.5% could only reduce to 8.6% by August.

In the USA, the inflation rate increased from 0.1% in May to 1.4% in September. In September, food prices increased by 3.9%, prices of other goods increased by 1.0% and those of services increased by 1.9%. Energy prices decreased, however, by 7.7%, which is mostly attributable to the 27.2% decrease of fuel prices. Taking a closer look at services, accommodation prices increased by 2.0% and prices of healthcare services increased by 4.9%, while prices of travel services decreased by 5.1%. By contrast, eurozone inflation rate increased from 0.1% in May to 0.4% in July. It then turned into deflation, which grew to 0.3% by September. This was primarily caused by the 8.2% decrease in energy prices, but the prices of industrial products fell by 0.3%, as well. At the same time, food, alcohol and tobacco prices increased by 1.8% and those of services by 0.5%, as compared to the same period of the previous year.

Nobel Memorial Prize in Economic Sciences 2020

In 2020, Paul R. Milgrom (1948) and Robert B. Wilson (1937) from the USA receive the Nobel Memorial Prize in Economic Sciences. The two professors of Stanford University, California, are awarded for their groundbreaking basic research in the field of auction theory and also for the practical implementation of their results. The public was informed on awarding the prize on 12 October 2020, while the official award ceremony will only take place next year, because of the Covid-19 pandemic. The laureates have significantly contributed to the elaboration of new auction forms. The Nobel Memorial Prize in Economic Sciences has been awarded together with the original Nobel Prizes since 1969, thanks to the donation of the Central Bank of Sweden (Sveriges Riksbank), to the persons selected by the Royal Swedish Academy of Sciences. The Prize comes with SEK 10 million (HUF 353 million).

By choosing the auction theory of Milgrom and Wilson, the Nobel Memorial Prize in Economic Sciences went to one of the largest fields of economic sciences, emphasized the Royal Swedish Academy of Sciences on Monday. Auctions of goods and services are more and more common and important in daily life, even if we do not notice them: electricity and stock prices, mobile phone licenses, open calls for tenders, the distribution of natural resources, emission certificates, fishing rights, airport slots

and online advertisements are just a few examples. Many consumers take part in auctions when, for example, shopping online or buying real estate. When Milgrom (one of the laureates and a teacher at Stanford) was asked at the press conference when he had bought anything on an auction the last time, he answered that he did not take part in auctions. But his wife immediately corrected him and told that they had bought the new ski boots on the eBay.

Both laureates largely built their works on the theory elaborated by William Vickrey (1914-1996), who was also awarded the Nobel Memorial Prize in Economic Sciences in the field of auction theories in 1996. The basic question raised by Vickrey was how companies behaved/bid in first-price tenders. His immediate recognition suggests that the companies' optimal bidding strategy depends on their ideas about the other companies' possible and probable bids and this is true vice versa. When submitting their bids, other bidding companies take into consideration the given company's strategy, too. Vickrey created an equilibrium bidding function for the basic idea.

Between 1967 and 1977, Wilson elaborated a theory on bidder behaviour and suggested optimal bidding strategies. Because at auctions with incomplete information on the real value of the bidding item, the risk of paying too much is too high for the person or company giving the highest bid, a phenomenon known as "the winner's curse". Wilson's analysis says that, to avoid the curse and a bad deal, the auction participants make too low bids. The economist also demonstrated that the higher the uncertainty is, and the more different the bidders' information levels are, the lower the closing price will be.

Milgrom also examined the results of various auction types and concluded that the problem of the winner's curse causes less problems in the so-called English auctions than in Dutch auctions. The former starts at a low reserve price that is increased step-by-step until only one bidder remains. The advantage of this system is that auction participants can continuously see when and at what price competitors withdraw, which gives them information on the value of a bidding item. The Dutch auction is different: here, the auctioneer decreases the price until finding a buyer who, therefore, cannot learn the preferences of other bidders and could pay too much.

In addition to the conception of the theory, this year's winners conceived a practical method by greatly contributing to the improvement and renewal of auctions, since traditional models were not suitable for selling increasingly complex products. Taking a closer look at auctions conceived by Milgrom and Wilson, the best-known is the so-called "Simultaneous Multi-Round Auction" (SMRA), which enables the simultaneous auctioning of a high number of items with many bidders.

SZIGMA indicators

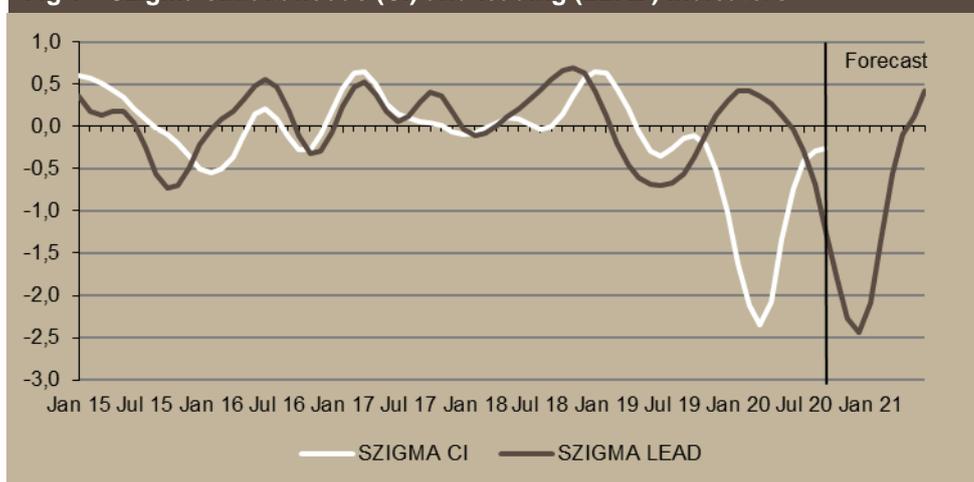
Our SZIGMA indicator shows that the economy is growing at a rate below the trend.

In September 2020, the SZIGMA CI indicator, which provides a picture of the current status of the Hungarian economy, remained almost at its August level. The negative value of the indicator implies that the Hungarian economy continued to grow at a rate below the trend in September 2020. In August 2020, domestic and export industrial sales remained below their levels measured for the same period of the previous year (by 2.4% and 1.0%, respectively), but they increased on a month-over-previous-month basis (by 1.4% and 5.5%, respectively). On a year-on-year basis, new domestic and export sales orders increased in volume (by 4.0% and 17.6%, respectively), while on a month-over-previous-month basis, the volume of new domestic sales orders decreased by 7.6%, that of new export sales orders increased by 5.9%. Industrial output is expected to

expand in the remainder of this year; its contribution to growth is, however, still a question and greatly depends on the second wave of the pandemic and the recovery of external demand. The end-of-month volume of contracts in the construction industry was 18.4% below the level measured in 2019. In August 2020, the number of new non-residential building projects continued to be considerably, 30.5% lower than in August 2019, which is explained by the coronavirus pandemic and the high base value.

The SZIGMA LEAD indicator, which expresses our expectations for the short-term performance of the Hungarian economy, indicates that growth will be below the trend until April 2021. The Ifo Business Climate index, which provides a picture of the changes of the business climate of the German economy, improved on a month-on-previous-month basis (by 0.9 index points) but was still below the August 2019 level (by 1.4 index points). The improving sentiment of the external environment is encouraging; its contribution to Hungarian economic output is, however, expected to be negative because of the slow recovery (indicated by the data) and the uncertainty regarding the second wave. In August 2020, retail sales decreased by 0.7% year on year, which is mostly attributable to the fall in fuel sales. In the remainder of this year, retail sales could contribute to the growth of the Hungarian economy. The consumer trust index measured by Eurostat improved by 0.7 index points on a month-over-previous-month basis but was still 19.1 index points lower on a year-on-year basis. The negative index value implies that an improvement in trust could further expand sales of the segment. Overall, the economic shock resulting from the coronavirus pandemic could reduce the output of the Hungarian economy by 5.2% in 2020; this could, however, be materially affected by the reopening of the economy, the development of external demand, and a new wave of the pandemic.

Fig 1 Szigma simultaneous (CI) and leading (LEAD) indicators

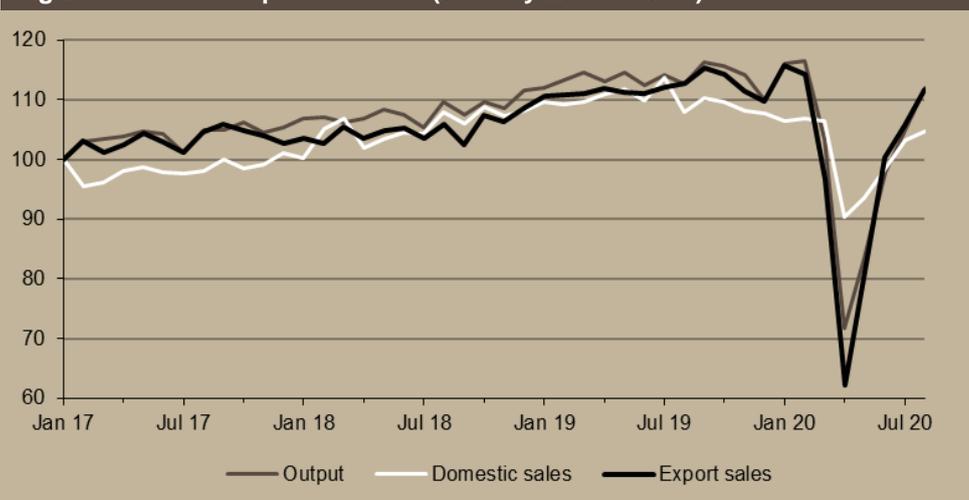


Source: Századvég

Real economy

The industrial output is slowly reaching its pre-crisis level.

Raw data show that in August, the output of the industry as a sector was only 2.1% smaller, while workday-adjusted data show that it was 0.2% smaller than one year before. Although August data should always be handled carefully because of summer shutdowns, the fact that the output of the basis period was not strong either, can give reasons for some optimism, i.e. the August output of the industry may imply signs of recovery. Seasonally adjusted data show that, compared to July, industrial output increased by 6.8%. In August, the sales volume of the industry as a sector was 3.4% below the output recorded one year before. More specifically, domestic sales fell by 4.4%, export sales fell by 2.9%.

Fig 2 Industrial output and sales (January 2017 = 100%)

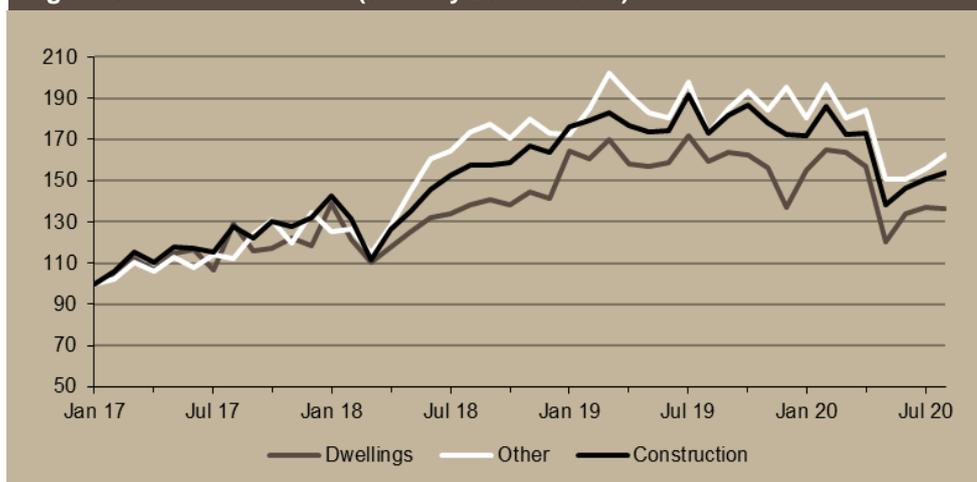
Remark: Seasonally and working-day adjusted data

Source: HCSO, Századvég

Breaking down the output of the entire industry as a sector, one can see that the output of mining shrank by 32.9%, and that of the manufacturing and energy industry shrank by 1.6%-1.6%, respectively. The annual comparison shows that 4 subsectors of the manufacturing industry could increase their output, while 9 shrank. The greatest increase (of 8.7%) was seen in electric equipment manufacturing, followed by the 6.2% increase of the automotive industry, an important sector in the Hungarian economy, and the 1.8% increase in computer manufacturing. The textile industry saw the greatest decrease (14.1%), followed by the 10.3% downturns in coke production, crude oil processing and mechanical engineering, but and the output of rubber industry was also 10.1% below last year data. In addition, it is also encouraging that the sales order volume of the sectors followed up by the Hungarian Central Statistical Office was 8.6% higher than one year before. More particularly, the volume of domestic sales orders was 11.3% higher, while the volume of export sales orders was 8.3% higher than one year before. In parallel, the volume of new sales orders saw a significant increase (15.6%), too. More specifically, the aggregated value of new domestic sales orders increased by 4.0%, that of new export sales orders grew by 17.7%.

The downturn seems to last in the construction industry.

In August, the output of the construction industry was still substantially, 13.6% lower than one year before; this setback is, however less than the data measured in the previous months. Compared to July, the sector's output was 1.9% higher. The annual comparison shows that the output shrank in both building groups, but to a different extent: the output in buildings shrank by 17.1%, and that in civil engineering works shrank by 8.9%. The volume of new contracts increased by 6.0%. More specifically, the volume of new contracts for buildings grew by 16.5%, and the volume of new contracts for civil engineering works decreased by 5.5%. Still, the total end-of-month volume of contracts was 18.4% lower than one year before. More specifically, the aggregated value of contracts for buildings decreased by 11.4%, that for civil engineering works decreased by 30.4%, which is explained by the unfavourable economic conditions and by the cyclicity of EU funds.

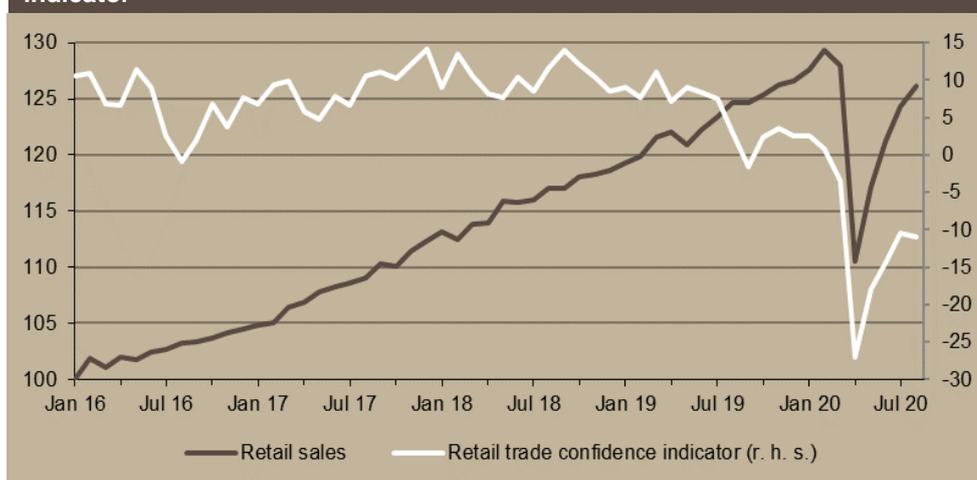
Fig 3 Construction sector (January 2017 = 100%)

Remark: Seasonally and working-day adjusted data

Source: HCSO, Századvég

The volume of retail sales decreased by 1.2%.

In August 2020, raw data show that retail sales shrank by 1.2% relative to the same period of the previous year, while calendar-adjusted data show a 0.7% decrease. In August 2020, the calendar-adjusted volume of sales increased by 1.2% in non-food shops, while it decreased by 0.2% in specialised and non-specialised food shops and by 4.5% in fuel retail, relative to August 2019.

Fig 4 Retail sales volume (January 2016 = 100%) and retail trade confidence indicator

Remark: Seasonally and working-day adjusted data

Source: HCSO, Eurostat, Századvég

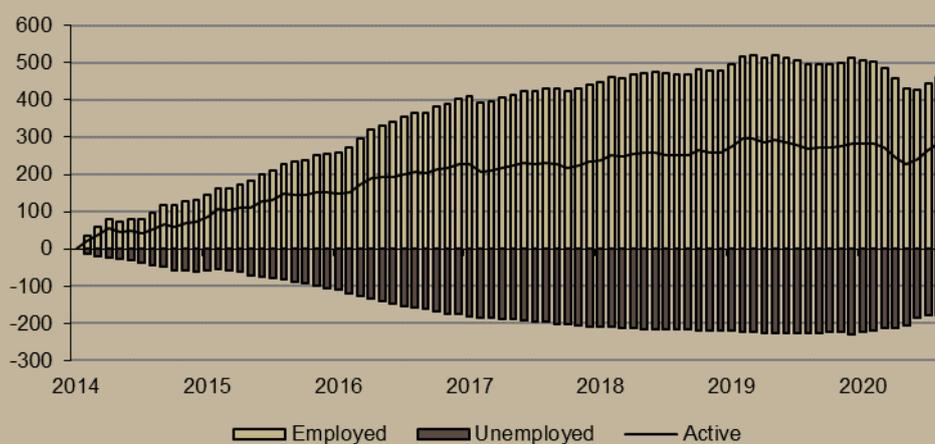
Parcel companies and web-shops continued to dynamically increase their sales in August as well: calendar-adjusted data show that, relative to August 2019, their sales volume increased by 27.5%. A considerable decrease in sales was, however, recorded in the case of second-hand shops (16.9%), shops selling books, newspapers, and stationery (19.0%), as well as textile products, clothing, and footwear (8.4%). Additionally, the volume of sales of shops selling furniture and electric goods dropped (by 6.9%) and the volume of sales of shops selling computers and other manufacturing goods decreased, too (by 1.0%). Sales increased, however, in the case of shops selling fragrances (2.4%) and shops selling mixed range of manufactured goods, and shops selling pharmaceuticals and medicinal products (1.9-1.9%, respectively), relative to the same period of the previous year. Calendar-adjusted data show that, in August 2020, the sales volume of non-specialised food shops did not change, relative to the same

period of the previous year. Vehicle fuel sales were in turn 4.5% below the figure recorded for August 2019.

The number of employees continued to grow in the last summer month.

Seasonally adjusted data show that in August the number of employees increased by 18,000 to 4,462,000 in total, on a month-over-previous-month basis; which is only 34,000 lower than the data measured at the end of summer 2019. The number of active population increased at the same rate as the number of employees, i.e. the unemployed who became inactive because of the pandemic and the imposed restrictions are returning to the labour market. Consequently, the number of the unemployed did not change on a month-over-previous-month basis and is 210,000. This still means a 4.5% unemployment rate. In July the seasonally adjusted number of employees raised by further 12,000 above 3,026,000, which was at the same time 157,000 lower than one year before. More specifically, the number of employees at enterprises having at least 5 employees in the competitive sector saw an increase of 18,000, while their number decreased by 5,000 in the public sector. The annual comparison still shows, however, that enterprises having at least 5 employees employed 150,000 less employees, who worked at least 60 hours per week. July saw the number of employees in public employment schemes increase by 2,000, above 90,000, which is at the same time still 8,000 lower than the previous year's data, i.e. the Start employment programmes do not seem to soar yet.

Fig 5 Labour market trends (January 2012 = 0, thousands of persons)

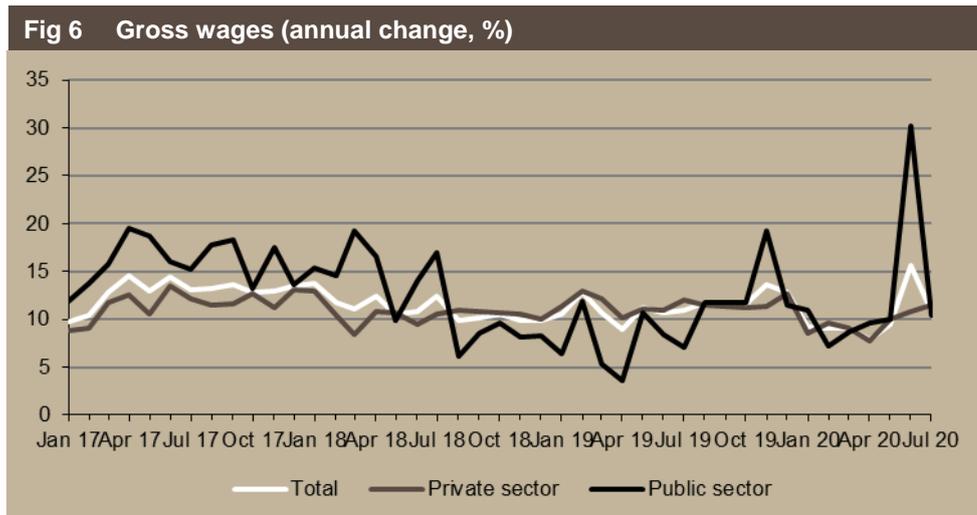


Remark: Seasonally and working-day adjusted data

Source: HCSO, Századvég

The average monthly wage, adjusted for tax allowances, exceeded HUF 275,000.

Compared to the same period of 2019, in July, the average gross monthly wage increased by 10.8%, to HUF 402,000. The wage increase rate was relatively balanced among the sectors, amounting to 11.5% in the business sector and to 10.4% in the public (budgetary) sector. Parallel to the reopening of the economy, new tendencies appear in income data. On the one hand, as the number of persons employed in part-time jobs is decreasing, the average income as indicator is becoming increasingly representative; on the other hand, the re-entering employees do not necessarily get their former wages, but only a smaller one, which can result in the decrease of the average income recorded by statistics. The average net monthly wage also increased by 10.8%, to HUF 267,200; if we take the tax benefits into account, then it increased to HUF 275,900. This means a 6.8% increase in real wages, eliminating the effect of the inflation that is heading towards the upper limit of the central bank's target range.

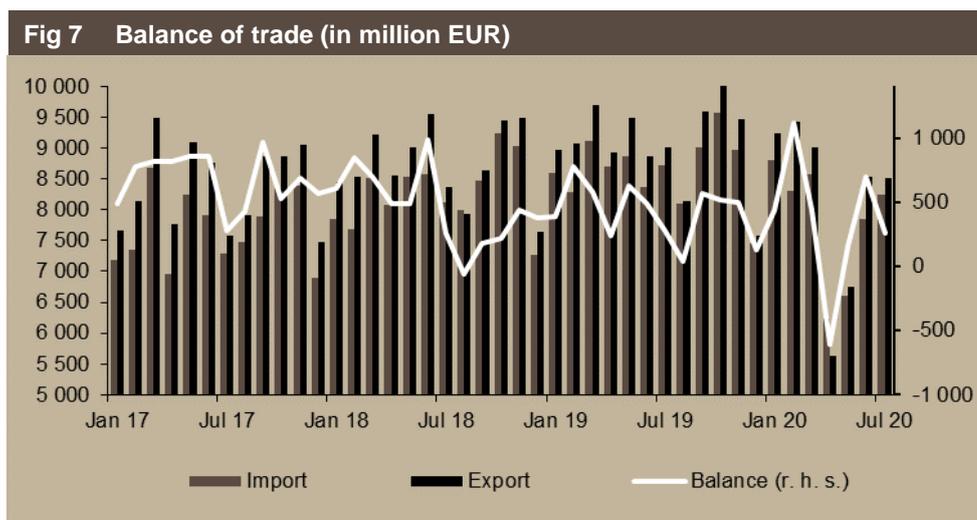


Remark: Seasonally and working-day adjusted data
 Source: HCSO, Századvég

External balance

The foreign trade balance increased in both July and August.

In July, product exports decreased by 4.3% and product imports decreased by 5.8% in EUR value, on a year-on-year basis. This means that the foreign trade balance was EUR 207 million, which is EUR 129 million more than last year.



Source: HCSO

In July, the volume of food product imports increased by 0.3%, and food product exports increased by 4.3% on a year-on-year basis. As for energy carriers, import dropped by 2.1% and exports dropped by 0.7%. As for processed products, imports increased by 0.6%, exports raised by 2.6% on a year-on-year basis. As for machinery and transport equipment, imports decreased by 0.7%, and exports dropped by 2.6%.

In August 2020, the EUR value of exports was 2.5% lower, while the EUR value of imports was 5.4% lower than one year before. The foreign trade balance was therefore EUR 251 million, which is 236 million more than one year before.

In July 2020, the current account balance was minus EUR 297.2 million. This means that, in the first seven months of 2020, the cumulative current account balance for this year increased to minus EUR 1,309 million, which is much less than the EUR 27.4 million balance of the January–July period of 2019.

Fiscal outlook

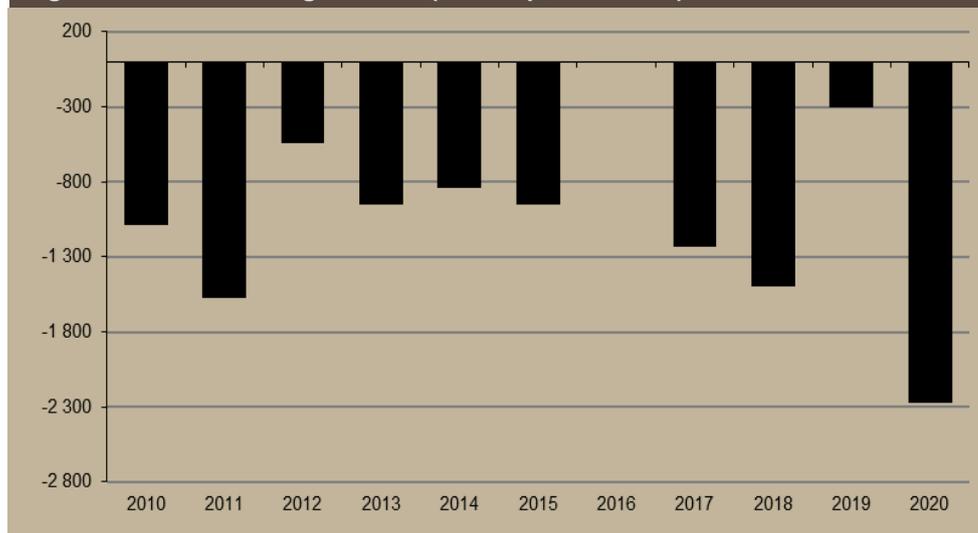
The budget deficit was HUF 2,270.3 billion in the first nine months of 2020.

The central budgetary subsystem closed with a deficit of HUF 2,270.3 billion at the end of September 2020. This deficit consisted of the HUF 1,841.8 billion deficit of the central budget, the HUF 441.8 billion deficit of the social security funds subsector and the HUF 13.3 billion surplus of the extra-budgetary funds.

On the revenue side, the value added tax revenues are HUF 65.7 billion (2.0%) less in January–September 2020 than they were in the same period of the previous year. By the end of September, the amount received from excise duty was slightly, HUF 7.5 billion (0.9%) higher than in the same period of the previous year. By contrast, personal income tax revenues and corporate tax revenues increased by HUF 74.6 billion and HUF 128.6 billion (4.2% and 73.2%), respectively, relative to the same period of 2019. This latter is explained by the discontinuation of the tax advance top-up liability in December 2019 and by the fact that the deadline for fulfilling tax calculation, return and payment obligations was postponed to 30 September. As for the social contribution tax, pension insurance, healthcare insurance contributions and labour market contribution, their revenues fell short of the amounts received in the same period of the previous year: their total revenue was HUF 129.0 billion (3.1%) lower.

The revenues from EU programmes were at HUF 906.1 billion and the related expenditures reached HUF 1,500.8 billion at the end of September 2020. The expenditures on healthcare equipment for the coronavirus pandemic increased to HUF 581.4 billion by the end of September 2020. Among the programmes implemented from Hungarian state funds, we should mention the amounts spent on competitiveness subsidies (HUF 150.9 billion), the priority public road projects (HUF 140.0 billion) and the expenditures covered from the Earmarked Scheme for Tourism Development (HUF 128.5 billion).

Fig 8 Cumulated budget deficit (Jan–Sep, in bn HUF)



Source: Ministry of National Economy

Monetary developments

The inflation rate decreased to 3.4%.

In September 2020, consumer prices increased by 3.4% on average — compared to the same period of the previous year. In the past year, the highest price increase was recorded for food products, alcoholic beverages and tobacco products. In comparison with the same period of the previous year, the price of alcoholic beverages and tobacco products increased by 6.3% on average, while that of food products increased by 7.3%.

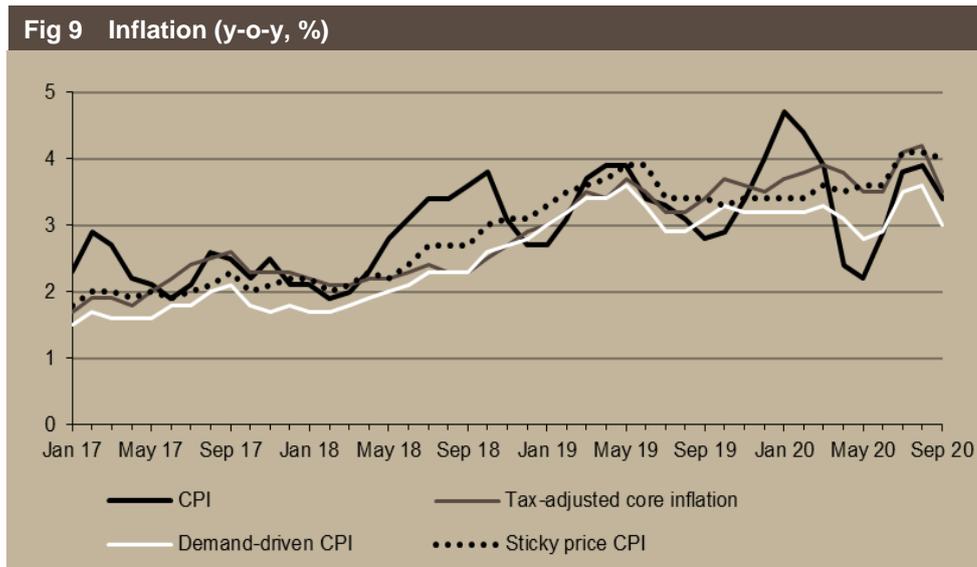
Taking a closer look at alcoholic beverages and tobacco products, one can see that the excise tax increase caused the price of tobacco products to increase by 9.6% as compared to the same period of 2019.

The 7.3% average price increase of food products was driven mainly by the 17.0% increase in Extrawurst and sausage prices, the 8.1% increase in bread prices and especially the 41.0% increase in fresh Hungarian and tropical fruits. The increase in pork prices is attributable to the swine fever virus, while the increase in fruit prices is attributable to the poor harvest caused by unfavourable weather. The drop in potato prices (7.5%), and the increase of fresh vegetable and poultry prices (1.3-1.3%, respectively) held back the average inflation of food products.

In September, prices of other products and fuels did not change in comparison with the same period of the previous year, but vehicle fuel prices dropped by 3.4%. This was caused by the decrease of oil prices, which is explained by the drop in demand as a result of the coronavirus epidemic. In addition to vehicle fuels, coursebook prices decreased by 96.9%, which is attributable to the free school coursebooks from the 2020-2021 school year. The average increase in household energy prices was 0.3% in September, compared to the same period of the previous year. Within household energy, fuelwood prices increased by 3.6% and coal prices increased by 3.3%, while the prices of bottled gas decreased by 0.1% in a single year. The price of electricity, pipeline gas and district heating remained unchanged.

In September, the prices of services increased by 2.4% on average, which was driven by the 11.0% increase in home repair and maintenance prices, the 8.3% increase in vehicle repair and maintenance prices, the 7.8% increase in gambling prices and the 5.3% increase in the prices of healthcare services. The average price increase of services was moderated by the 7.1% decrease in the prices of other long-distance travels, the 1.3% increase of rents, and the 1.9% increase in motorway tolls, vehicle renting and parking prices. Clothing prices increased by 0.6% and the prices of durable consumer goods increased by 2.6% on average in a single year. Taking a closer look at the latter, one can see that jewellery prices increased by 20.3%, new car prices increased by 12.7%, but used car prices dropped by 4.6%.

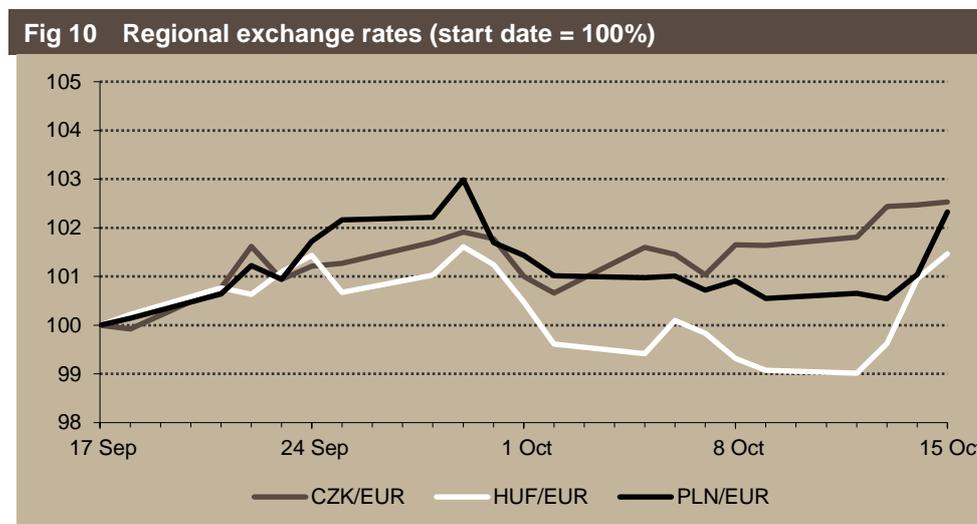
Based on the base inflation indicators disclosed by MNB, the seasonally adjusted core inflation rate was 4.0%, while the core inflation rate excluding the effects of indirect taxes was 3.5% in September. The demand-sensitive inflation rate was 3.0%, the sticky price inflation rate was 4.0% in September.



Source: NBH, Századvég

Interest rate conditions did not change in the Eurozone and the USA.

Both the ECB Governing Council and the Federal Open Market Committee met in the recent period. Eurozone interest rate conditions did not change, i.e. the reference interest rate is still 0.00%, the active and deposit rates of central bank availability are 0.25% and -0.50%, respectively. The Federal Open Market Committee did not change its base interest rate with a target range from 0% to 0.25%.

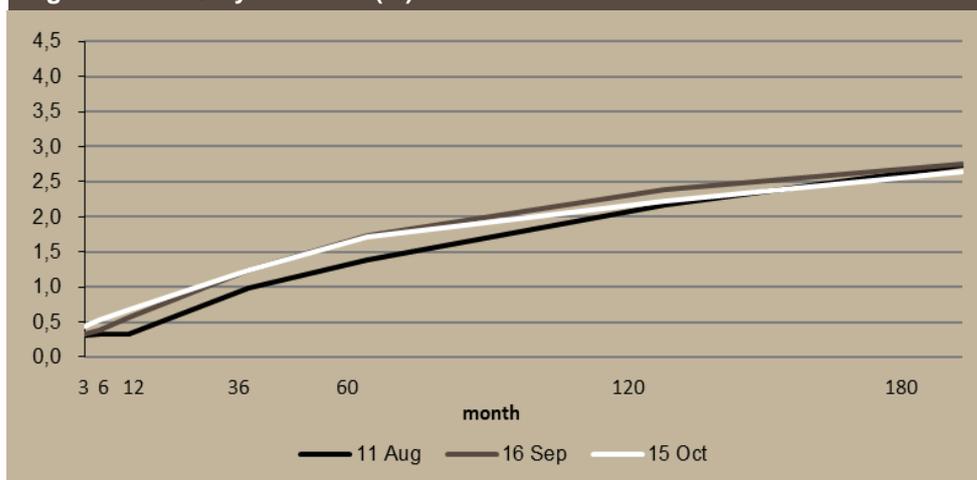


Source: Thomson Reuters Datastream

Both the Czech koruna and the Polish zloty weakened.

Our region showed a rather negative picture. In the past period, the Czech koruna weakened by 2.5%, the Polish zloty weakened by 2.3% against the Euro. The CDS spread (5-year CDS) increased by 2 base points, to 40 base points, in the Czech Republic while by 4 base points, to 60 base points, in Poland.

Indicators of the Hungarian financial and foreign currency markets have shown a mixed picture in the past period. The value of the 5-year CDS dropped by 6 base points to 57 base points. The HUF weakened by 1.8% against the euro, by 2.2% against the Swiss franc and by 3.2% against the US dollar. This means that on 15 October, one Euro was worth HUF 365, one US Dollar was worth HUF 312 and one Swiss Franc was worth HUF 341. Sovereign debt held by foreigners has recently increased by HUF 292 billion to HUF 4,080 billion.

Fig 11 The HUF yield curve (%)

Source: Government Debt Management Agency, Századvég

***The Magyar Nemzeti Bank
(the central bank of
Hungary) did not change
its monetary conditions.***

At its interest rate setting meeting in October, the Monetary Council of the MNB did not change the reference interest rate; the base interest remained therefore 0.6%. This decision met the expectations and the prior communications of the MNB. The MNB Monetary Council did not change the interest rate corridor either and left the overnight deposit interest rate at -0.05% and the credit rate at 1.85%. The MNB kept the interest rate of the one-week deposit instrument at 0.75%.

The Monetary Council launched two programmes on 4 May: a government bond purchase programme on the secondary market to ensure the stable liquidity of the government securities market and relaunched its mortgage bond purchase programme to increase the long-term supply of funds for the banking system. The MNB bought further government securities in the value of HUF 205 billion in the past period, meaning that the total value of the secondary-market government securities held by the MNB increased to HUF 518.86 billion. The MNB purchased mortgage bonds in the total value of HUF 12.45 billion from the primary market (total value: HUF 96.39 billion) and HUF 29 billion on the secondary market, i.e. the total value of this portfolio increased to HUF 125.5 billion. The MNB's FX swap portfolio is currently HUF 1,786 billion, which did not change in comparison to the previous month.

In the last month, shorter-term yields increased by between 11 and 14 base points on the secondary market yield curve of the government securities market. This means that the 3-month yield was 0.44%, the 6-month yield was 0.53% and the 1-year yield was 0.67% on 15 October. The 3-year yield did not change from 1.23%. On a month-over-previous-month basis, 5-year yields decreased by 2 base points, 10-year yields decreased by 17 base points, and 15-year yields decreased by 10 base points. These three yields shrank, therefore, to 1.71%, 2.22% and 2.65%, respectively. The still low short-term yields are attributable to the excess liquidity, the interest rate cut, and the still loose monetary policy, while the change of longer-term yields is in line with international trends.

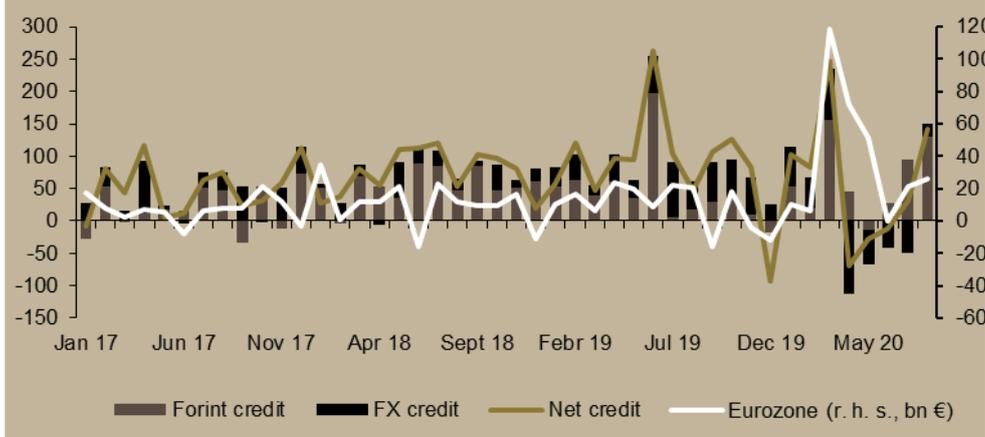
Since 3 June 2019, retail investors can buy super government bonds (MÁP+) with a relatively high interest rate that gradually increases during its term. At the end of September 2020, the total value of government bonds held by retail investors was HUF 4,839.5 billion.

The share of foreign currency debt in the sovereign debt changed to 18.73% in September (corresponding to an increase of over 0.5 percentage points), which is in the

range (10–20%) specified in the financing plan for 2020 of the Government Debt Management Agency Ltd. The higher share of foreign currency debt was primarily caused by the issuing of Japanese yen-denominated government bonds, starting in September. As it is, on September 18, the Hungarian state issued government bonds denominated in Japanese yen with terms of 3, 5, 7 and 10 years.

Among the big international credit rating agencies, Moody's had a pre-announced rating date in the past period for changing or confirming the risk rating. Unexpectedly, on 25 September Moody's changed the former rating of Hungarian government securities from "stable outlook" to "positive outlook". Moody's rating implies that the primary cause for improving the outlook was the past and possible future economic output, which exceeds the average of countries of similar rating. This means that they acknowledged the strong economic expansion and debt reduction, and their analysis mentioned that these were interrupted by the pandemic, at the same time they are still of the opinion that Covid-19 pandemic will affect the Hungarian economy much less than other countries. The Hungarian government debt is, therefore, rated as Baa3 with a positive outlook at Moody's, BBB with a stable outlook at S&P, and BBB with a stable outlook at Fitch. This means that Moody's rates the risk of Hungarian government securities at the lowest level of the category recommended for investment, the other two big international credit rating agencies rate it one category higher. The improvement of outlook is a good sign for the Hungarian economic policy; one can, however, see that Moody's still rates Hungarian government bonds one category lower (though with positive outlook).

Fig 12 Corporate borrowing (in billion HUF)



Source: NBH, ECB, Századvég

**Corporate credits
increased.**

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector was HUF 130.3 billion in August 2020. The net borrowing of foreign currency loans was HUF 18.8 billion in August; in other words, the aggregate value of the foreign currency loans held by the business sector increased. This means that, based on seasonally adjusted data, total net borrowing was HUF 141.2 billion in August. Raising to EUR 26.14 billion, corporate borrowing increased, relative to the previous month, in the eurozone in August 2020.

In August, the value of gross loan placement in Hungarian forints over and above bank overdrafts was HUF 92.9 billion, which is HUF 3.0 billion less than the amount of the previous month. The sum of newly granted euro-loans was HUF 17.5 billion, which is HUF 12.9 billion less than the figure for July.

Századvég forecast¹

Fig 13 Q3 2020 projection

	2019					2020					2021				
	annual	Q1	Q2	Q3	Q4	annual	Q1	Q2	Q3	Q4	annual	Q1	Q2	Q3	Q4
Gross domestic product (volume index, %)	4,9	2,0	-13,6	-5,7	-3,3	-5,2	-3,4	13,5	3,4	4,6	4,5				
Household consumption expenditure (volume index, %)	5,0	5,0	-8,4	2,6	2,9	0,5	3,2	9,8	2,6	0,9	4,1				
Gross fixed capital formation (volume index, %)	15,3	-2,6	-13,5	-2,5	-0,9	-4,9	-2,5	13,5	1,8	-0,5	3,1				
Export volume index (based on national accounts, %)	6,0	-0,5	-24,0	-5,8	-4,0	-8,6	-5,1	26,8	1,4	5,8	7,2				
Import volume index (based on national accounts, %)	6,9	1,3	-15,8	0,9	0,3	-3,3	-0,2	21,6	-1,2	1,2	5,4				
Foreign trade balance (bn EUR)	4,9	1,87	0,2	-1,0	-0,2	0,2	0,5	1,3	-0,4	1,0	0,6				
Consumer price index (%)	3,4	4,3	2,5	4,0	4,1	3,7	3,4	4,9	4,0	4,1	4,1				
Central bank's base rate at the end of the period (%)	0,9	0,90	0,75	0,60	0,60	0,6	0,60	0,60	0,60	0,60	0,6				
Unemployment rate (%)	3,5	3,7	4,6	4,4	4,1	4,2	3,9	3,7	3,6	3,4	3,7				
Gross average earnings (year-on-year change, %)	11,4	9,1	11,0	10,2	8,9	9,8	8,8	5,2	4,3	4,2	5,6				
Current account balance as a percentage of GDP	-0,3					-4,1					-3,2				
External financing capacity as a percentage of GDP	1,6					-1,9					-0,8				
General government ESA-balance as a percentage of GDP	-2,0					-7,3					-3,5				
GDP based external demand (volume index, %)	4,9	2,0	-13,6	-5,7	-3,3	-5,2	-3,4	13,5	3,4	4,6	4,5				

Source: HCSO, NBH, Századvég

Fig 14 Changes compared to our previous forecast

	2020			2021		
	June 2020	Sep 2020	Difference	June 2020	Sep 2020	Difference
Gross domestic product (volume index, %)	-3,1	-5,2	-2,8	5,1	4,5	1,7
Household consumption expenditure (volume index, %)	-0,3	0,5	0,8	4,4	4,1	-0,3
Gross fixed capital formation (volume index, %)	-5,6	-4,9	0,8	4,3	3,1	-1,3
Export volume index (based on national accounts, %)	-6,8	-8,6	-1,8	11,6	7,2	-4,3
Import volume index (based on national accounts, %)	-5,2	-3,3	1,9	10,3	5,4	-5,0
Foreign trade balance (bn EUR)	0,4	0,2	-0,2	0,7	0,6	-0,1
Consumer price index (%)	3,2	3,7	0,0	3,7	4,1	0,0
Central bank's base rate at the end of the period (%)	0,90	0,60	-0,3	0,90	0,60	-0,3
Unemployment rate (%)	4,7	4,2	-0,5	4,4	3,7	-0,7
Gross average earnings (year-on-year change, %)	9,4	9,8	0,4	7,4	5,6	-1,8
Current account balance as a percentage of GDP	-1,6	-4,1	-2,5	-1,0	-3,2	-2,2
External financing capacity as a percentage of GDP	0,4	-1,9	-2,3	0,9	-0,8	-1,7
General government ESA-balance as a percentage of GDP	-3,9	-7,3	-3,4	-3,3	-3,5	-0,2
GDP based external demand (volume index, %)	-7,1	-7,1	0,0	5,4	6,1	0,7

Source: HCSO, NBH, Századvég

¹ The forecast is valid as of 10 September 2020.

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