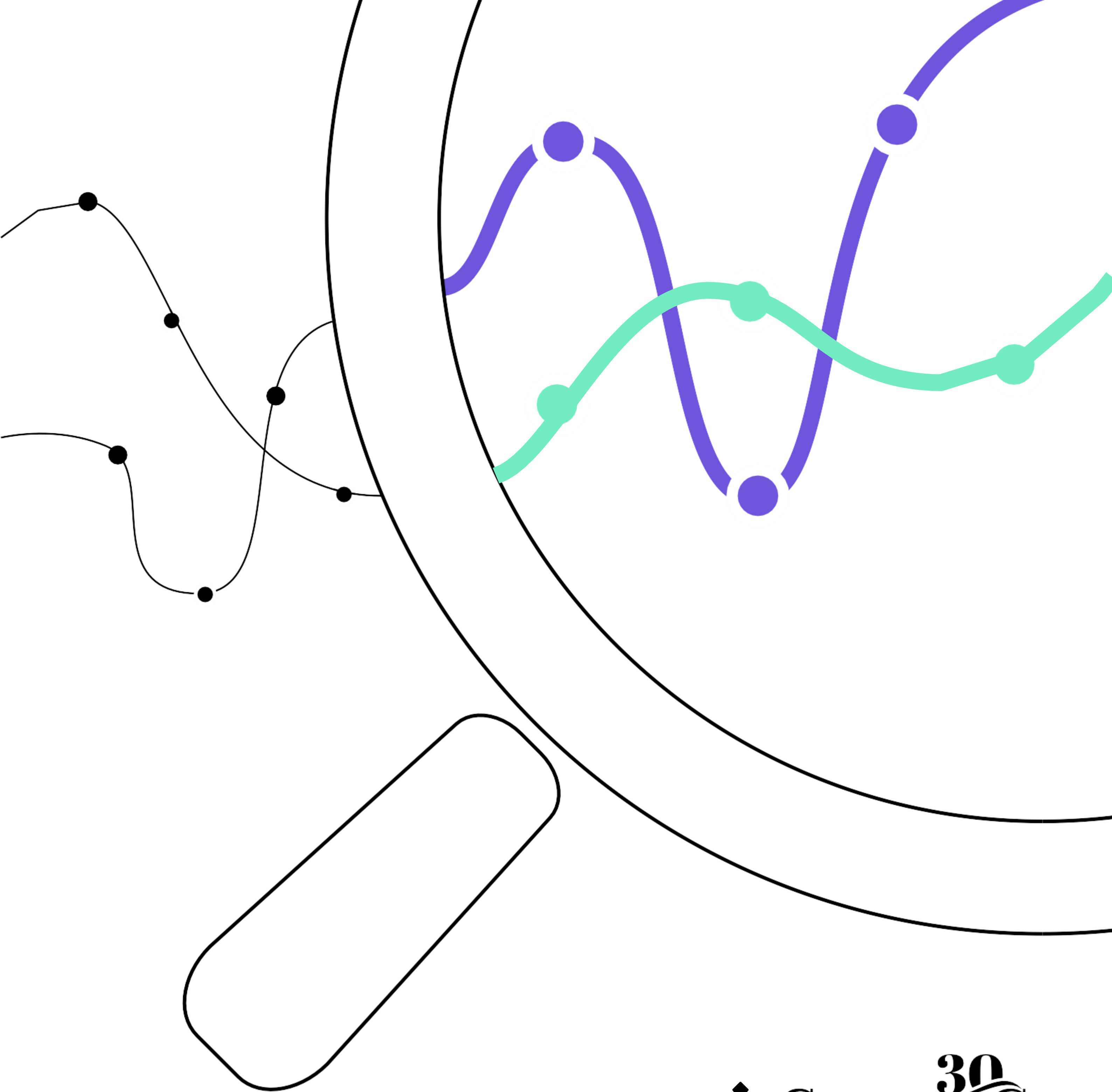
MACRO MONITOR

January 2024

Századvég
Konjunktúrakutató Zrt.



Századvég 30

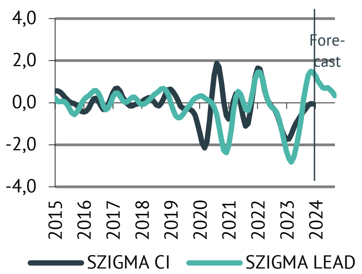
Table of Contents

DISCLAIMER

1. Summary

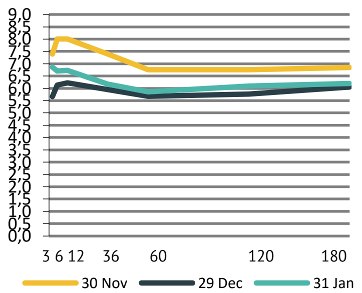
In Q3 2023, Hungarian economic output contracted by 0.3% year on year and increased by 0.9% quarter on quarter, according to seasonally adjusted data.

SIGMA indicators



Source: Századvég

Forint yield curve (%)



Source: Refinitiv

Our forecast (20.12.2023)	2023
Change in the GDP (%)	-0.7
Inflation (annual average, %)	17.7
EUR/HUF (annual average)	381.9

At its January meeting, the Monetary Council of the central bank continued to cut both its policy rate and its base rate, as it had done the previous month. As a result, the Hungarian base rate (and the policy rate) currently stands at 10.00%, down 75 basis points.

Both raw data and calendar-adjusted data show that retail sales decreased by 5.4% in November 2023, compared to the same period of the previous year. Within this, sales decreased by 0.6% in specialised and non-specialised food shops and by 3.9% in non-food shops. The turnover volume of petrol stations fell by 21.4%, significantly more than the other main groups.

In January 2024, the value of the SZIGMA CI indicator, which provides feedback on the current state of the Hungarian economy, was -0.061 up to December 2023, weaker than the previous month's value, as the indicator already showed above-trend growth in the previous month. Current data suggest that the growth rate of the Hungarian economy has slowed and is stagnating below trend.

The other indicator, SZIGMA LEAD, which is a short-term forward-looking indicator for the future of the Hungarian economy, predicts a slowing and gradually decreasing trajectory in the growth rate of the Hungarian economy.

In a still higher but decreasing interest rate and inflation environment, the trend towards a preference for premium Hungarian government bonds with above-inflation yields over those with fixed yields continued.

2. Overview of the economy

2.1 External environment

In December, the disinflationary trends that have been underway since the beginning of the year continued in the EU and the euro area.

December 2023 data from Eurostat, the official statistical office of the European Union, show that the annual inflation rate in the euro area increased to 2.9%, an increase of 0.5 percentage points from 2.4% in November. It is important to note that this rate is still a significant improvement compared to 9.2% a year earlier. For the European Union as a whole, annual inflation was 3.4% in December, also up from 3.1% in November and a significant improvement from 10.4% a year earlier.

December's CPI data show significant differences across Europe, but there is convergence across regions. While Hungary had medium inflation at 5.5%, in the West, Belgium had 0.5% and the Netherlands had 1.0%. In central Europe, the Czech Republic had 7.6% inflation, Slovakia 6.6% and Romania 7.0%, showing that inflationary pressures in neighbouring countries are already higher than in Hungary. Among the Southern Member States, Greece and Spain reported inflation figures of 3.7% and 3.3% respectively, showing the internal diversity of the European economic space in terms of inflation trends.

Analysis of December inflation data shows clear trends across the euro area. The services sector was the largest contributor to the annual inflation rate, with 1.74 percentage points. This is closely followed by the category of food, alcohol and tobacco, which added a positive contribution of 1.21 percentage points. The non-energy products segment also has a noticeable impact, with a contribution of 0.66 percentage points. However, the change in energy is noteworthy, where the contribution to total inflation was in negative territory, at -0.68 percentage points in December. This latter phenomenon is particularly important, as after the previous rise in energy prices, this fall has a positive impact not only directly on energy prices, but also indirectly on the prices of various goods and services.

Overall, there were significant disinflationary developments in the European Union during 2023, but there are still significant differences between countries in terms of inflation.

2.2 Our SZIGMA indicators

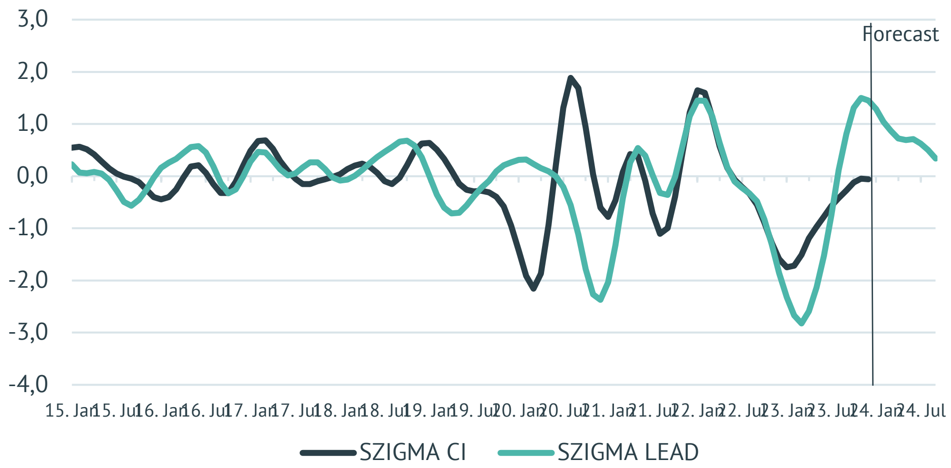
The growth rate of the Hungarian economy has slowed down.

In January 2024, the value of the SZIGMA CI indicator, which reflects the current state of the Hungarian economy, was -0.061 up to December 2023. This is down from the previous month's index value of 0.093. While last month the Hungarian economy grew above its historical trend rate, this month it has again grown below trend. The figure clearly shows that the growth rate has stagnated and is currently below trend. The last time the economy was growing above trend was in May 2022, but then it was on a downward path. This downward trajectory bottomed in January 2023 and then began a slow recovery. At the beginning of 2023, high inflation has led to a fall in household consumption, while the state and local governments were postponing development due to tight budgets and businesses due to the high interest rate environment and other adverse economic effects. This also had an impact on individual economic sectors. In construction, the latest November 2023 seasonally and working-day adjusted fixed-base **construction** output volume fell by 2.6% from the previous month and by 12.7% on an annual basis. Within the main building groups, only civil engineering works improved by 0.6% compared to the previous month, which can rather be seen as a stronger stagnation. The month-end stock of construction orders on a fixed basis showed a small pick-up, rising by 8.4% compared to the previous month. It remains to be seen how long this pick-up will last. The number of new non-residential construction projects increased by 1.0% month on month and fell by 23.0% year on year. **In**

industry, the latest figures, for November 2023, show that the seasonally and working-day adjusted volume of industrial production, calculated on a fixed basis, decreased by 2.3% month on month and by 5.4% year on year. On a seasonally and working-day adjusted fixed basis, industrial sales (domestic and exports combined) were broadly flat on a monthly basis (down -0.4%), while on an annual basis, they continued to fall (down 6.7%). The reasons for this: on a monthly basis, domestic industrial sales strengthened (by 2.3%), while export sales contracted (by 1.6%). Compared to the same period of the previous year, however, there was a decline in both segments: Domestic sales were down 9.2% and exports 4.3%.

In January 2024, our short-term leading indicator, SZIGMA LEAD, forecasts a slowing and gradually declining trajectory for the growth rate of the Hungarian economy. It shows a sharper decline in the growth rate of the Hungarian economy at the beginning of the 9 months of the forecast horizon, which will pause for a short period and then continue to decline significantly. Seasonally and working-day adjusted new industrial orders, calculated on a fixed basis, improved by 5.0% overall, with new industrial exports playing the largest role. The stock of new domestic industrial orders remained broadly flat, with an improvement of 0.2%, while the stock of new export industrial orders increased by 5.7%. However, sales orders continued to fall in both sectors on a monthly basis. Only the year-on-year figures for new domestic industrial orders showed an improvement, with a gain of 2.3%, mainly due to the recovery in domestic demand that started in the second half of 2023. On this basis, industrial production and sales are expected to stagnate, with a slight improvement. As for the German and EU indices affecting the Hungarian economy, the Ifo Business Climate Index for December 2023, **which measures change in business sentiment in the German economy**, strengthened by 0.9 index points from the previous month to stand at 86.3 index points in December. **Eurostat**'s consumer confidence index improved by 1.2 index points month on month and by 17.3 index points by year on year in December 2023. Thus, this month it stood at -30.6 index points, but still far from the -10.2 index points of February 2022, before the outbreak of the Russia-Ukraine war.

FIGURE 1: CURRENT (CI) AND FORECASTING (LEAD) SZIGMA INDICATORS



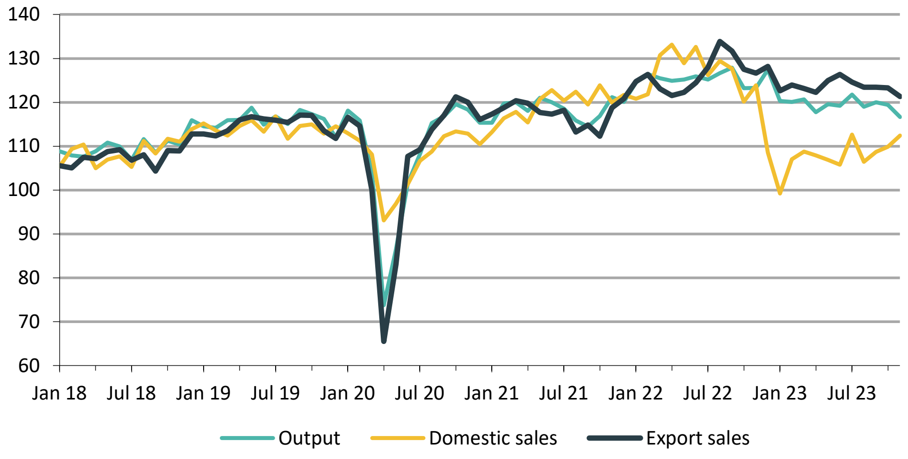
Source: Századvég

2.3 The real economy

Hungarian industrial output is still weakening.

Compared with the same period of the previous year, industrial production fell by 5.8% year on year according to raw data and by 5.2% according to working-day adjusted data in November 2023. What is even more worrying is that the volume of industrial production, adjusted for seasonal and working-day factors, fell by 2.3% month on month. Overall **industrial sales** contracted by 6.9% in November 2023 compared with the same period of the previous year, with domestic industrial sales contracting by 8.7% and export sales by 5.7%. At the same time, on a monthly basis, domestic industrial sales started to strengthen noticeably, up 2.3% on October 2023. The expansion was not driven by the base effect. However, export sales have also started to slow, but are still higher than the levels seen before the coronavirus pandemic.

FIGURE 2: CHANGES IN INDUSTRIAL OUTPUT AND SALES (2015 MONTHLY AVERAGE = 100%)



Remark: Seasonally and calendar adjusted indices. Source: Hungarian Central Statistical Office, Századvég

Returning to industrial production, all industries (mining, manufacturing and energy) contributed to the decline in industrial production volumes in November 2023. The output of the manufacturing sector, which is the main contributor to industrial production, was 5.0% lower than in the same period of the previous year. In addition, the performance of the energy industry, which has a small weight (4.5%), decreased by 10.7%, while the performance of the mining industry, which also has a small weight, decreased by 36.0%. Within manufacturing, which accounts for 95.1% of total output, only sub-sectors with a smaller weight showed year-on-year growth: coke and refined petroleum products increased by 18.7%, and chemicals and chemical products by 3.1%. In manufacturing, the output of the largest sector, automotive manufacturing, (27.1%) fell by 1.7%, the second largest, food production, (12.7%) fell by 7.7% and the third largest, electrical equipment manufacturing, (10.7%) fell by 12.2% year on year. The performance of the latter sub-sector declined the most.

In November 2023, total new sales orders of key manufacturing industries monitored by the Hungarian Central Statistical Office decreased by 9.4% year on year at comparable prices, reflecting the high base effect. The main factor driving the decline in sales orders was export sales orders. While domestic sales orders increased by 2.4% due to the low base effect, export sales orders fell by 10.1% due to the high base effect.

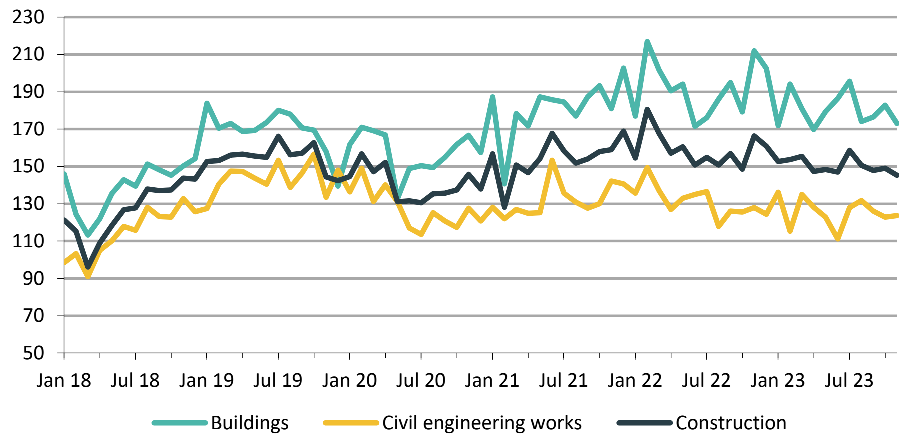
In November 2023, **new sales orders** in key manufacturing industries fell by 8.41% year on year at comparable prices, reflecting a decline in both new export and domestic sales orders, as well as a high base. New export sales orders were down by 7.8% year on year, despite the high base, and new domestic sales orders were down by 11.9%, despite the low base. New industrial export sales orders declined in all branches except for paper and paper products and chemicals and chemical products. New domestic industrial sales orders fell in all subsectors except electrical equipment manufacturing.

The construction sector continued to slow down.

In November 2023, the annual volume of construction output increased by 12.8% in terms of raw data. As for main building groups, while the construction of buildings increased by 18.3% year on year, the construction of civil engineering works (roads, bridges, railways, complex industrial installations, pipelines, etc.) shrank by 3.5% year on year. Compared with the previous month, seasonally and working-day adjusted construction output decreased by 2.6%.

In November 2023, the stock of contracts at the end of the month fell by 21.2% year on year. This was due to a 15.6% drop in the stock of contracts for the construction of buildings at the end of the month under review as well as a 25.3% drop in the stock of contracts for civil engineering works at the end of the month under review. However, the stock of new contracts signed in the month under review jumped up by 60.3% on an annual basis. This was driven by a dramatic 186% increase in the stock of new contracts for civil engineering works. This could presumably relate to an order for a single major investment.

FIGURE 3: CHANGES IN THE CONSTRUCTION INDUSTRY (MONTHLY AVERAGE FOR THE YEAR 2015 = 100%)

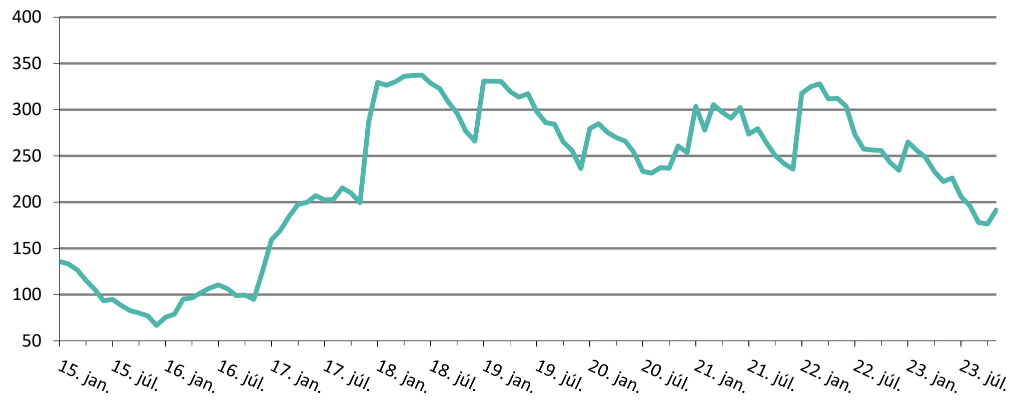


Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Századvég

Looking ahead, it is encouraging that the stock of new contracts signed in the month under review on a fixed basis continued to rise on a monthly basis. The total stock of new construction contracts increased by 40.4% month on month, driven only by a strong increase in contracts for civil engineering works. Within main building groups, the construction of buildings fell by 12.3%, while the construction of civil engineering works increased strongly, by 95.5%. Although the stock of new construction contracts signed in the month under review has been fluctuating, the sharp decline in the stock of construction contracts at the end of the month under review **has reversed and turned into an increase**. This is illustrated in the following figure. which shows the evolution of end-of-month construction contracts (buildings and civil engineering works combined) on a fixed basis. In November 2023, the stock of contracts at the end of the month, on fixed base, stood at 191.4% thanks to the bounce, but this is still lower than one of the weakest periods of 2020, the “COVID-19 year”, when the indicator stood at 231.4%.

FIGURE 4: CHANGES IN MONTH-END CONSTRUCTION CONTRACTS (MONTHLY AVERAGE FOR 2015 = 100%)



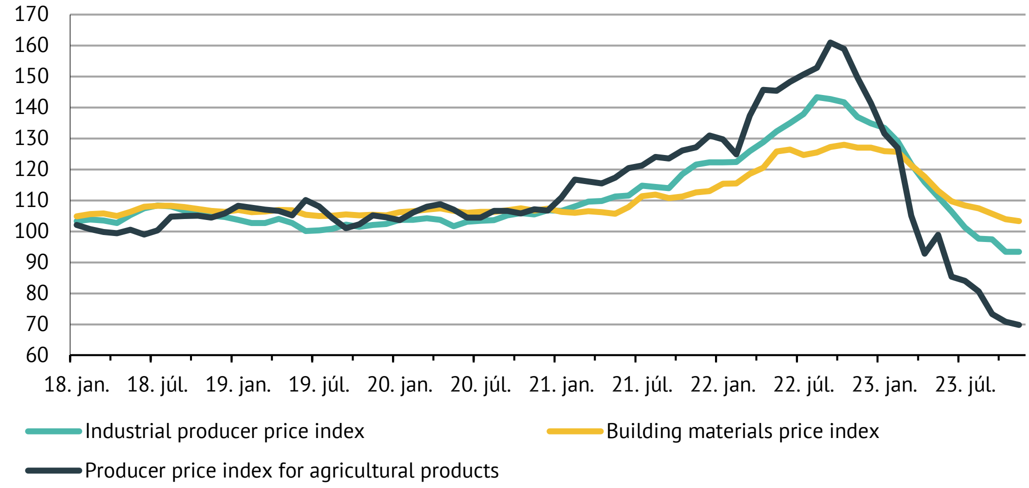
Source: Hungarian Central Statistical Office, Századvég

Agricultural product prices continued to fall.

In November 2023, the industrial producer price index and the agricultural producer price index continued to decrease year on year. The building materials price index has not yet started to decline in real terms, but price increases have slowed down. The building materials price index rose by 3.3% year on year in the month under review, 0.7 percentage points less than in the previous month. Compared with the same period of the previous year, the **agricultural** producer price index fell by 30.2% in November 2023, in which the high base still played a great role. Within the indicator, individual product prices vary significantly. All products except potatoes (9.5%) and fruit (6.0%) saw their producer prices fall. Compared to the previous months, the slowing rate of increase in producer prices for potatoes continued. In the case of fruit, the high base effect contributed to the lower rate of producer price growth. Due to the high base, producer prices fell by 52.5% year on year for cereals, 44.3% for industrial crops, 2.6% for vegetables, 38.5% for agricultural and horticultural products, 5.1% for livestock and 25.7% for animal products. In November 2023, **industrial** producer prices fell by 6.6% on an annual basis and by 0.8% on a monthly basis. On an annual basis, domestic sales prices fell by 1.9% and export sales prices by 8.9%. On a monthly basis, industrial producer prices fell by 0.8% overall. More specifically, domestic sales prices fell by 0.7% and export sales prices by 0.9% month on month.

The difference between domestic and export sales prices is caused by the different proportions of manufacturing and energy in the two sectors. Manufacturing has a smaller share in domestic sales and energy has a larger share in it than in export sales. In November 2023, for export sales, prices fell by 3.8% in manufacturing, which accounts for 90% of total sales, and by 46.2% in energy, which accounts for 9.8% of total sales. Meanwhile, domestic sales prices were down 2.6% for manufacturing, which weighed 65%, and 1.6% for energy, which weighed 30%.

FIGURE 5: INDUSTRIAL PRODUCER PRICE INDEX, CONSTRUCTION INPUT PRICE INDEX, AGRICULTURAL PRODUCER PRICE INDEX (SAME PERIOD OF PREVIOUS YEAR = 100%)



Source: Hungarian Central Statistical Office, Századvég

Retail sales contracted by 5.4% in November.

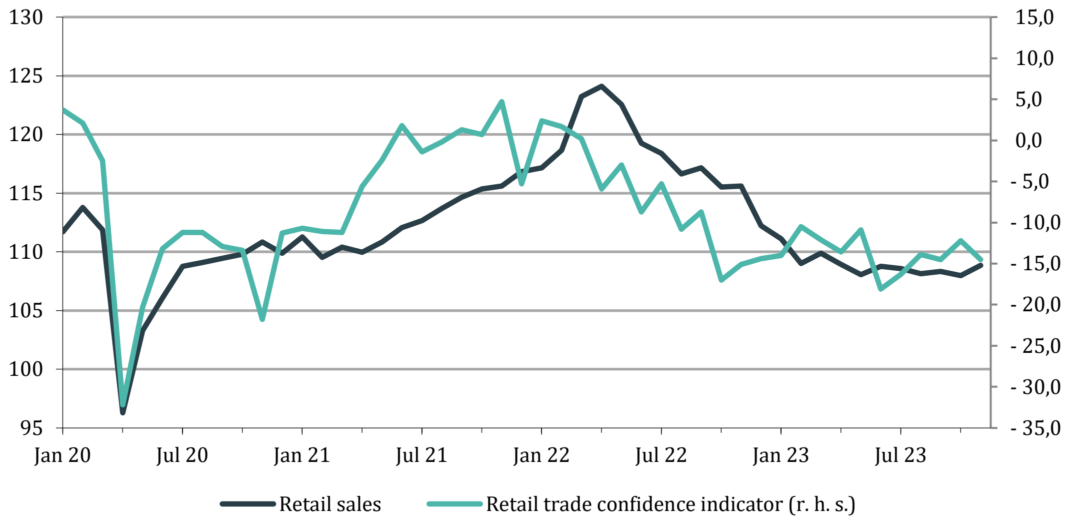
Both raw data and calendar-adjusted data show that retail sales decreased by 5.4% in November 2023, compared to the same period of the previous year. On the other hand, on a month-on-month basis, seasonally and calendar-adjusted data were up 0.8%. This result may already signal a trend reversal in the long declining retail sales volume index. Consumption could also resume growing on an annual basis in the coming months as real wages rise and the high volume base for fuel builds up.

In November 2023, turnover in specialised and non-specialised food shops decreased by 0.6%, while turnover in non-food shops also decreased by

3.9%. In fuel retailing, sales fell significantly, by 21.4% year on year, in November. If we look at the volume of retail sales excluding fuel sales, we see a year-on-year decline of only 2.2%.

In food retailing, sales in non-specialised foodstuffs stagnated in volume, while beverages and tobacco shrank by 2.6%. In nonfood sales, the volume of furniture and electric goods decreased by 7.8%, books, newspapers and stationery by 7.7% and computer and other industrial goods by 4.8% year on year. There was also a significant decrease in the mixed range of manufactured goods (9.2%). In contrast, the biggest sales increase (5.1%) was in fragrances. For nonfood products, only this and pharmaceuticals and medical products (2.4%) showed an increase.

FIGURE 6: RETAIL SALES AND RETAIL CONFIDENCE INDEX (JANUARY 2018 = 100%)



Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Eurostat, Századvég

The unemployment rate was 4.4% in December 2023.

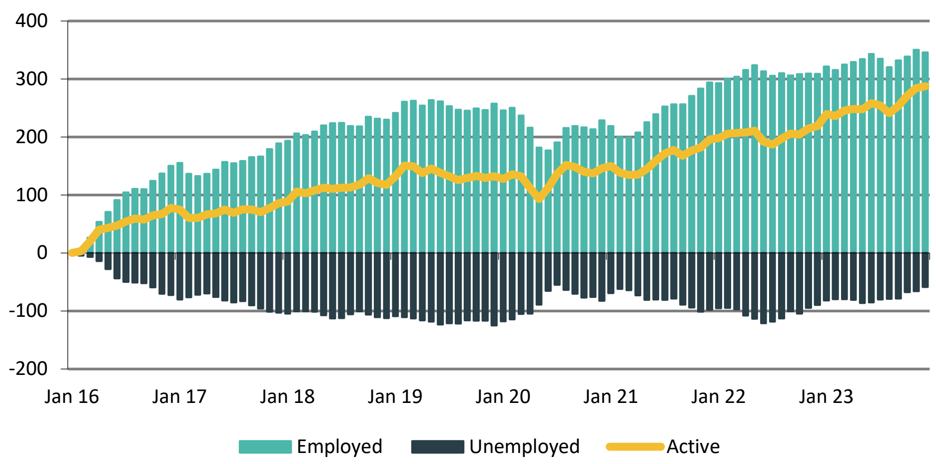
In December 2023[1], the seasonally adjusted activity rate of the population aged 15-74 was 67.8% (4,953,000 persons), which means a labour market growth of 68,000 compared to the same period of the last year. In the period under review, the seasonally adjusted number of employees was around 4,734,000, a year-on-year increase of 37,000. The number of the unemployed continued to rise, to 220,000, a

[1] Three-month moving average

year-on-year increase of 31,000. The recent rise in employment has not been matched by a fall in unemployment. High inflation caused real wages to fall between January and August, and the high interest rate environment has also increased loan repayment for some households. Increased costs have encouraged some of the inactive population to enter the labour market. A part of this labour supply could immediately find a job, while some remained jobseekers for a shorter or longer period.

In November, the seasonally adjusted number of employees increased by 5,100 compared to the same period last year. The most significant increase was in the competitive sector, with 5,600 more working in enterprises with 5 or more employees compared to November 2022. However, the number of public sector employees has fallen significantly, by 7,300 over the past year. The number of people employed in the non-profit sector increased by 6,800 in one year.

FIGURE 7: CHANGES IN THE LABOUR MARKET (JANUARY 2016 = 0, THOUSAND EMPLOYEES)



Remark: Seasonally and calendar adjusted indices.

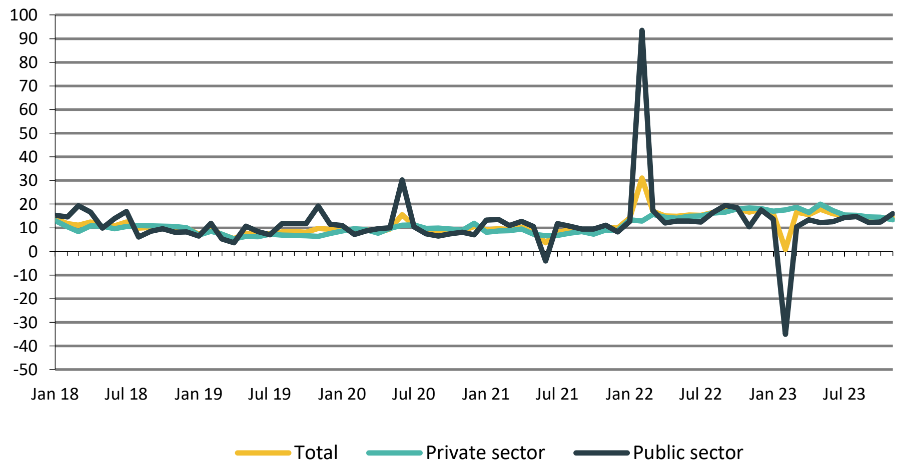
Source: Hungarian Central Statistical Office, Századvég

Real earnings continued to rise in November.

In November, the average gross monthly wage in the national economy was HUF 621,150, up

14.1% compared to the same period last year. The highest average gross monthly wage was recorded in the competitive sector, at HUF 624,800. The average net monthly wage including benefits was HUF 427,700, an annual increase of 14.0%. The average regular gross monthly wage, excluding bonuses, rewards and one-off benefits, increased by 14.3% in September 2023 compared to a year earlier, to an estimated HUF 548,600. Consumer prices rose by 7.9% in October, meaning real earnings increased by 5.7% compared to the same period last year. The wage dynamics in the near future will be strongly influenced by the increase in the minimum wage (15%) and the guaranteed minimum wage (10%), which came into force in December, as well as by the continued wage increases in the public sector (teachers, nurses, law enforcement and military).

FIGURE 8: CHANGES IN GROSS WAGES (ANNUAL CHANGE, %)



Remark: Seasonally and calendar adjusted indices.
Source: Hungarian Central Statistical Office, Századvég

2.4 External balance

In October, the volume of exports of goods decreased by 3.0%, and imports by 2.5% year on year. This brought the trade balance to a surplus of EUR 1.0 billion, an improvement of EUR 1.9 billion compared to the previous year.

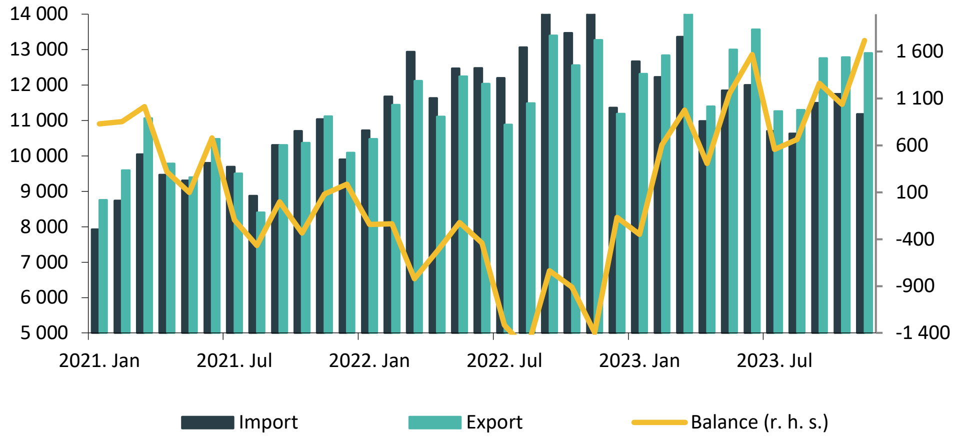
In October, the import volume of food products, beverages and tobacco decreased by 9.6%, and their export volume increased by 12% year on year.

As for energy carriers, imports increased by 4.4%, while exports by 55.0%. As for processed products, imports decreased by 1.0%, and exports by 1.9% year on year. As for machinery and transport equipment, imports decreased by 6.7%, and exports by 0.8%.

The trade balance improved significantly.

In November 2023, the first estimate put the value of exports in euro at 3.8% higher and imports in euro at 25.0% lower than a year earlier. The trade surplus in goods amounted to EUR 1.7 billion, which is EUR 3.2 billion higher than a year earlier.

FIGURE 9: BALANCE OF TRADE IN GOODS (EUR MILLION)



Remark: The November 2023 figures are from the first estimate.

Source: Hungarian Central Statistical Office, Századvég

2.5 Fiscal outlook

In 2023, the ESA deficit is expected to reach 5.9% of GDP.

The December deficit of the central budgetary subsystem amounted to HUF 519 billion, bringing the accumulated deficit to HUF 4,593.4 billion by the end of December 2023. This is equivalent to 110.2% of the revised annual cash deficit target, while the ESA deficit is expected to be at 5.9% of GDP, compared to the revised deficit target of 5.2%. This deficit consisted of the HUF 4,293.3 billion deficit of the core budget, the HUF 412.3 billion deficit of social security funds and the HUF 112.3 billion surplus of extra-budgetary funds.

Central government revenue were 22.2% higher than in the previous year.

Payments from business organisations were 25.5% higher than in 2022. Within payments by business organisations, corporate tax, the largest revenue generator, was 35.8% (HUF 267.2 billion) higher than in the previous year. Payments from the energy sector increased significantly, by HUF 230.8 billion on an annual basis, and the (special) tax on pharmaceutical manufacturers, which became a new revenue item from 2023, also amounted to HUF 91.1 billion.

Revenues from consumption-related taxes were 3.9% (HUF 336.2 billion) higher than a year earlier. VAT receipts were only HUF 121.6 billion, or 1.8%, higher than in the last year. On the positive side, VAT receipts in December were now higher than in the same month in 2022. Excise tax revenue was HUF 130.3 billion (10.6%) more than in 2022. The highest increases were recorded for excise tax receipts on fuel and tobacco (HUF 77.8 billion and HUF 29.0 billion respectively).

Personal income tax receipts increased by HUF 1,189.1 billion compared to the previous year. The increase is roughly half and half due to the low base from last year’s family tax rebates and to wage increases. Receipts from social contribution tax and social insurance contributions increased by 14.6% (HUF 894.9 billion) compared to the previous year, also caused by wage increases.

In December, the EU made a significant payment of nearly HUF 945 billion, bringing the total receipts from EU programmes to HUF 2,229.2 billion by the end of December, which was HUF 838.1 billion (60.3%) more than in 2022. In contrast, expenditure on EU programmes amounted to HUF 2,812.2 billion, HUF 177.3 billion (5.9%) less than the previous year.

In 2023, central government expenditure was 18.9% higher than in the previous year.

Among significant expenditure items, expenditure on specific and normative subsidies, housing subsidies, expenditure on public property and interest expenditure were higher than a year earlier.

The amount spent on specific and normative subsidies was HUF 1,601.9 billion higher than in 2022. The most significant item behind the increase was the increase in expenditure to keep household utility bills at a low level, which rose to HUF 1,373.5 billion in 2023, an increase of HUF 674.3 billion. The second largest increase was in road availability fees, which were HUF 332.8 billion higher than in the previous year.

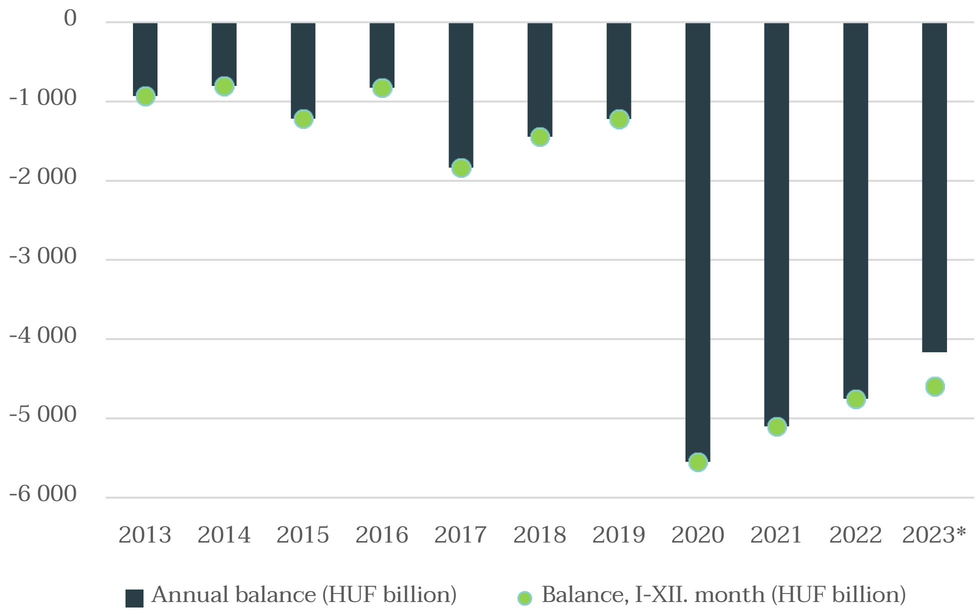
Expenditure on state property increased by HUF 595.8 billion, while expenditure on housing subsidies was HUF 190 billion lower than in the previous year.

Expenditure on budgetary bodies and chapter-administered appropriations increased by HUF 727.6 billion, or 6%, year on year, but this is in the opposite direction to the government's spending cut plans of 11.7%.

In 2023, pension expenditure amounted to HUF 5,759.9 billion, up by 20.2%, or HUF 969.6 billion, compared to 2022. In the past year, expenditure on the Health Insurance Fund amounted to HUF 4,113.2 billion, an increase of 10% (HUF 373.4 billion) compared to the base period. Within this, expenditure on medical and preventive care, which accounts for more than half of the Fund's expenditure, increased by 9.4%.

The balance of interest expenditure and interest income was HUF 476.8 billion (25.8%) more negative at the end of 2023 than in 2022.

FIGURE 10: CENTRAL SUBSYSTEM BALANCE, 2015–2023 (EACH MONTH BETWEEN JANUARY TO DECEMBER, HUF BILLION)



Source: Ministry of Finance, Hungarian State Treasury; *compared to the actual deficit in 2013-2022 and the planned (revised) deficit in 2023

2.6 Monetary developments

In December, prices increased by 5.5%, on average.

In December 2023, consumer prices increased by 5.5% on average, compared to the same period of the previous year. In the past year, the highest price increases have been in services (12.4%). Household energy prices fell by 13.9% compared to a year earlier, due to the inclusion of the base effect. Consumer prices fell by 0.3% on average over the month, with food prices down 0.1% and fuel prices down 5.0%. The seasonally adjusted core inflation rate was 7.6% higher than in the same period of the previous year.

Over the year as a whole, consumer prices increased by an average of 17.6% year on year, with food prices rising by the highest rate of 25.9%. Household energy inflation was 22.1%, other product and fuel prices increased by 18.6%, prices of alcoholic beverages and tobacco increased by 15.4%, prices of services increased by 13.2%, clothing prices increased by 8.3% and prices of consumer durables increased by 5.6%.

A more significant contribution to the 4.8% average increase in food consumer prices came from the 42.1% rise in the consumer prices of sugar, the 17.2% increase in the consumer prices of chocolate and cocoa and the 16.1% rise in the consumer prices of non-alcoholic beverages. The 12.6% inflation rate for fruit and vegetable juices and the 14.1% inflation rate for (retail) coffee also exceeded the average food inflation rate for the month. In contrast, deflation is already evident in many cases: egg prices fell by 18.1%, flour by 17.8%, butter and buttercream by 14.5% and milk by 10.3%. The main drivers of the 10.3% average inflation in spirits and tobacco were primarily the 14.3% increase in beer prices.

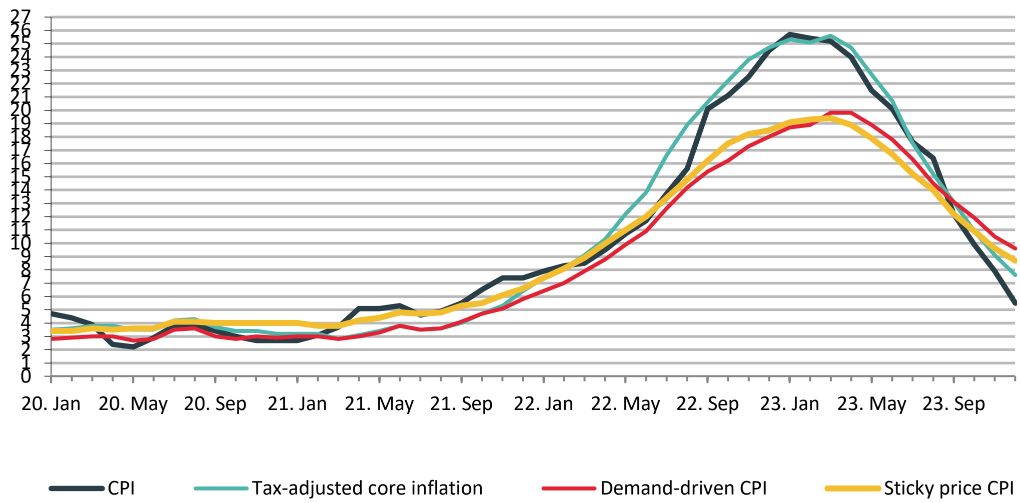
The average price decrease of 1.0% for consumer durables represents a significant improvement compared with the previous period, driven by factors including strict monetary policy, sustained lower input material prices, the resumption of more efficient supply chains, falling demand and a significantly stronger exchange rate compared with the same period a year earlier. Looking at the main group, above-average increases were also recorded for kitchen and other furniture (7.0%), motorcycles (9.6%) and radios (7.0%). Consumer durables inflation is moderated by a 3.0% decrease in television prices and a 1.4% decrease in the prices of computers, cameras and telephones. It is also important to highlight the improving trend for second-hand cars: in December, second-hand cars were already 10.3% less expensive than a year earlier, which has a significant impact on the overall result for the main group, due to the high weight of just over 2%.

Thanks to the build-up of the base effect in September, the average fall in household energy prices in December was 13.9% year on year. Within household energy, the price of piped gas fell by 29.6% and electricity by 3.5% over the past year. In contrast, firewood was 0.6% more expensive and cylinder gas 0.4% more expensive.

In December, prices for services rose by an average of 12.4%, with the main contributors being a 28.6% increase for travel to other destinations, a 21.7% increase for postal services, a 20.2% increase for TV subscriptions and a 19.9% increase in the price of gambling. The price of theatre tickets also increased significantly, by 25.1%, but this item has a low weight in the consumer basket. The average increase in the price of services was moderated by, among other things, the prices of garbage collection, water and sewerage services remaining unchanged (100.0%) and the introduction of county and country passes, which reduced the price of travel to work and school by 21.7%. The month has already seen a decline in year-on-year inflation for services.

Compared with the previous month, food prices fell by 0.3% on average, driven by a 4.1% fall in sugar, a 2.3% fall in flour and a 1.7% fall in poultry meat. Clothing prices rose by 0.2% on a monthly basis, while the price of household energy was 1.1% higher than in the previous month. Vehicle fuel prices fell by 5.0% from October.

FIGURE 11: THE EVOLUTION OF INFLATION (ANNUAL CHANGE IN PERCENTAGE)



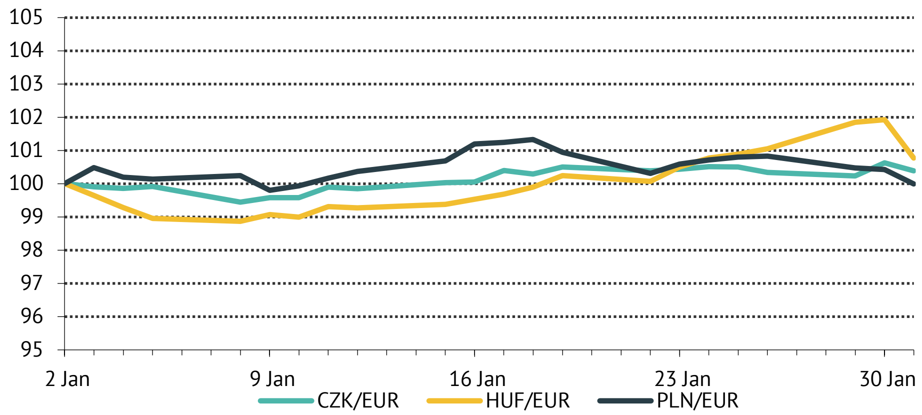
Source: MNB, Századvég

Among the core inflation indicators published by the MNB, the core inflation rate net of indirect taxes was 7.6%, the core inflation rate excluding processed food was 9.6% and the sticky price inflation rate was 8.7% in the twelfth month of the year.

The currencies of competitors in the region showed a mixed performance against the euro.

Regional currencies were mixed against the euro in January. In the past period, the Czech koruna strengthened by 0.4%, while the Polish zloty did not change against the euro. Government bond yields also fell over the period, with the Czech 10-year government bond yield 10 basis points higher at 3.9%, and the Polish 10-year yield 8 basis points higher at 5.38%.

FIGURE 12: CHANGES IN EXCHANGE RATES IN THE REGION (BASELINE VALUE = 100%)



Source: Refinitiv, Századvég

The Hungarian currency weakened slightly against the euro and the Swiss franc and significantly against the dollar.

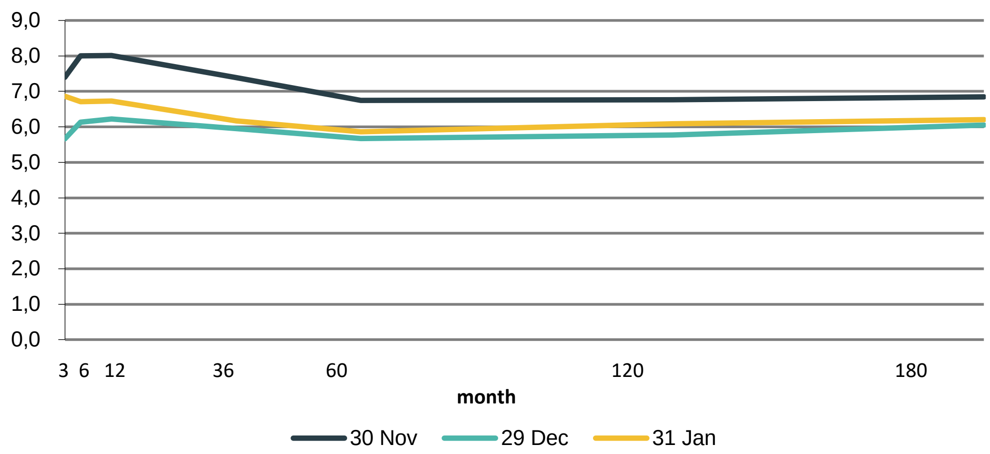
Hungarian money and foreign exchange market indicators turned slightly negative last month. The HUF weakened by 0.8% against the Euro and by 0.6% against the Swiss franc. It weakened by 2.6% against the US dollar. This means that at the end of January 2024, one euro was worth 385 forints, one US dollar was worth 356 forints and one Swiss franc was worth 412 forints. In January, sovereign debt held by foreigners increased by HUF 1,396 billion to HUF 7,270 billion.

The central bank continued to cut the base rate in January.

At its January meeting, the Monetary Council of the central bank continued monetary easing after cutting the base rate the previous month. As a result, the base rate in Hungary is currently at 10.0%, down 75 basis points. Accordingly, the upper limit of the interest rate corridor was changed to 11.0% and the lower limit to 9.0%. The degree of monetary easing fell short of analysts' expectations, with the central bank's communication saying that the decision was based on the financial market volatility experienced in the second half of the month.

In January, government bond market yields for shorter maturities increased between 120 basis points and 51 basis points on the secondary yield curve. This means that the 3-month yield was 6.86%, the 6-month yield was 6.71% and the 1-year yield was 6.73% on 31 January. The 3-year yield increased by 22 basis points to 6.17%. Yields are up 19 basis points over the 5-year horizon, 32 basis points over the 10-year horizon and 15 basis points over the 15-year horizon compared to the previous month. These three yields changed, therefore, to 5.86%, 6.09%, and 6.20%, respectively.

FIGURE 13: CHANGES IN THE HUF YIELD CURVE (%)



Source: GDMA, Századvég

On 15 January2024, the total value of "MÁP Plusz" government securities held by retail investors was HUF 790.0 billion after a HUF 1,644.5 billion decrease from the HUF 2,434.5 billion level at the end of December 2022. The main reason for this, is that in a high interest rate environment, households prefer to buy discount bonds that exceed the interest rate of MÁP Plusz and the inflation-tracking Premium Hungarian Government Bond (PMÁP), whose cumulative value has risen to HUF 7,023.4 billion, an increase of HUF 2,701.7 billion compared to the end of 2022. The total stock of government securities held by households stood at HUF 9,810.2 billion in mid-January 2024, up from HUF 8,619.3 billion at the end of 2022, i.e. HUF 1190.9 billion more than in the last month of 2022.

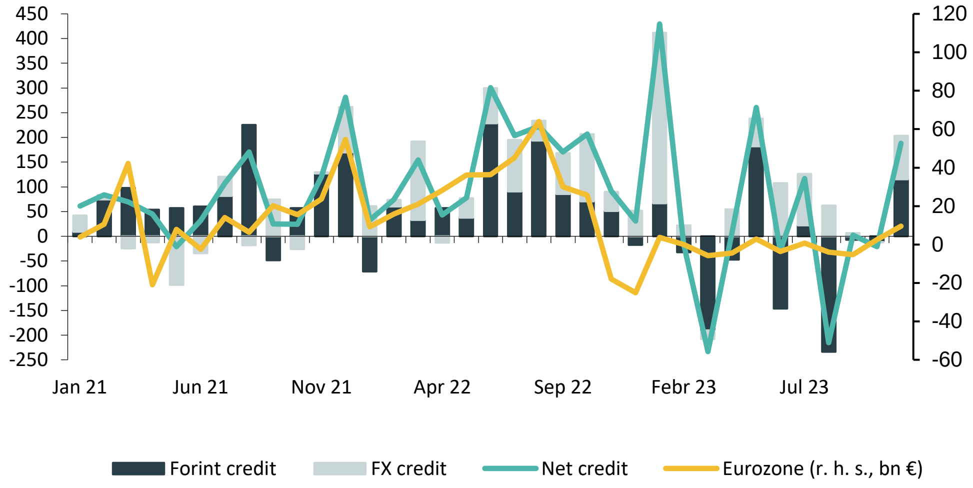
The share of foreign currency debt in the sovereign debt changed to 26.4% in November (i.e. decreased by 0.3 percentage point from the previous month), which is in the range (maximum 30%) specified in the financing plan for 2023 of GDMA. In the first eleven months of the year, average foreign currency debt averaged 25.9%, a share of foreign currency debt higher than in November.

Hungary's sovereign debt rating remained at Baa2 with a stable outlook at Moody's, BBB with a stable outlook at S&P and BBB with a negative outlook at Fitch. The risk rating of Hungarian government bonds is therefore in the recommended for investment category of all three major international rating agencies.

Corporate credits increased in Hungary.

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector was HUF 115.4 billion in November 2023. At the same time, net lending in foreign currency increased, with net borrowing amounting to HUF 87.8 billion in the eleventh month of the year. Seasonally adjusted total net borrowing amounted to HUF 188.4 billion in the period under review. Corporate borrowing in the euro area was EUR 9.5 billion in November 2023.

FIGURE 14: CORPORATE BORROWING (HUF BILLION)



Source: MNB, ECB, Századvég

3. Századvég's forecast[2]

TABLE 1:2023 Q4 FORECAST

	2022	2023	2024
Gross domestic product (volume index)	4.6	-0.7	2.7
Household final consumption expenditure (volume index)	5.8	-2.0	2.6
Gross fixed capital formation (volume index)	2.2	-12.1	8.1
Export volume index (based on national accounts)	11.8	0.5	2.8
Import volume index (based on national accounts)	11.1	-3.9	4.5
Balance of trade in goods (EUR billion)	-15.2	-10.4	-13.9
Consumer price index (%)	14.6	17.7	5.9
Central bank base interest rate at the end of the period (%)	13.0	12.1	9.7
Unemployment rate (%)	3.6	3.9	4.2
Current account balance as a percentage of GDP	-8.2	-4.8	-6.5
Net lending as a percentage of the GDP	-6.0	-2.6	-4.4
ESA balance of public finances as a percentage of GDP	-6.2	-5.4	-4.0
Sovereign debt as a percentage of GDP	73.3	71.7	71.2

Source: MNB, Hungarian Central Statistical Office, Századvég's calculation, Remark: The base rate of the central bank applies to the last quarter of the year.

TABLE 2:QUARTER-ON-QUARTER CHANGE OF OUR FORECAST

	2023			2024		
	09.2023	12.2023	change	09.2023	12.2023	change
Gross domestic product (volume index)	-0.3	-0.7	**-0.4**	2.5	2.7	**0.2**
Household final consumption expenditure (volume index)	-1.5	-2.0	**-0.5**	1.8	2.6	**0.8**
Gross fixed capital formation (volume index)	-10.1	-12.1	**-2.0**	8.1	8.1	**0.0**
Export volume index (based on national accounts)	3.7	0.5	**-3.2**	2.6	2.8	**0.2**
Import volume index (based on national accounts)	-0.2	-3.9	**-3.7**	4.1	4.5	**0.4**
Balance of trade in goods (EUR billion)	-11.0	-10.4	**0.6**	-13.4	-13.9	**-0.5**
Consumer price index (%)	17.8	17.7	**-0.1**	5.5	5.9	**0.4**
Central bank base interest rate at the end of the period (%)	11.0	12.1	**1.1**	7.3	9.7	**2.4**
Unemployment rate (%)	3.8	3.9	**0.1**	3.5	4.2	**0.7**
Current account balance as a percentage of GDP	-5.2	-4.8	**0.4**	-6.6	-6.5	**0.1**
Net lending as a percentage of the GDP	-3.1	-2.6	**0.5**	-4.5	-4.4	**0.1**
Balance of public finances as a percentage of GDP	-5.2	-5.4	**-0.2**	-3.7	-4	**-0.3**
Sovereign debt as a percentage of GDP	70.8	71.7	**0.9**	70.4	71.2	**0.8**

Source: Századvég's calculation

[2] Date of preparation: 20 December 2023