MACRO MONITOR

February 2024

Századvég
Konjunktúrakutató Zrt.

Századvég 30

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1. Summary

In Q4 2023, Hungarian economic output increased by 0.4% year on year and stagnated quarter on quarter, according to seasonally adjusted data.

At its February meeting, the Monetary Council of the central bank continued to cut both the policy rate and the base rate, as it had done in the previous month. As a result, the base rate (and the policy rate) in Hungary is currently at 9.00%, after a 100 basis point cut.

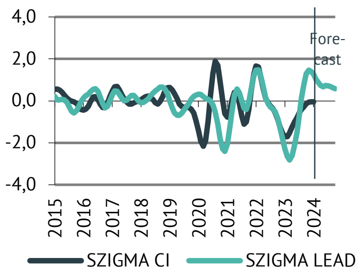
On an annual basis, turnover of retail stores fell by 1.0% in December on a raw basis and by 0.2% on a calendar-adjusted basis. Within this, sales decreased by 1.3% in specialised and non-specialised food retailing and by 3.0% in non-food retailing. The turnover volume of petrol stations increased by 3.8% year on year. In 2023, the volume of retail sales was 7.9% lower for the entire year. In the coming months, consumption growth could resume on an annual basis as real wages rise and the high volume base for fuel builds up.

Measured up to January 2024, the value of the SZIGMA CI indicator, which provides a snapshot of the current state of the Hungarian economy, improved slightly compared to the previous month, but the Hungarian economy was still operating below its historical trend value.

The other indicator, SZIGMA LEAD, a short-term forward-looking indicator for the future of the Hungarian economy, is now forecast to have stepped on a rather decelerating, sideways moving and stagnant path. In the past few months, it has tended to follow a steeply downward path, and this steep curve has been reduced to a sideways one.

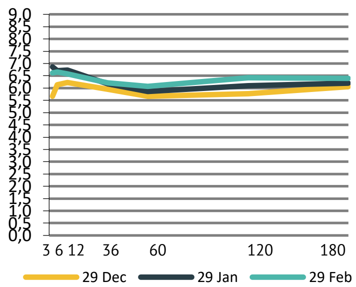
In January 2024, consumer prices rose by 3.8% on an annual average basis.

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

2. Overview of the economy

2.1 External environment

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

January 2024 data from Eurostat, the official statistical office of the European Union, show that the annual inflation rate in the euro area slowed to 2.8%, a minimal decrease of 0.1 percentage points from 2.9% in December. It is important to note that this rate is a significant improvement compared to 8.6% a year earlier. For the European Union as a whole, annual inflation was 3.1% in January, also down from 3.4% in December and a significant change from 10.0% a year earlier.

January's CPI data show a significant decline by European standards. While Hungary has an inflation rate of 3.7%, Belgium and Ireland in the Western region have inflation rates of 1.5% and 2.7% respectively. In Central Europe, the Czech Republic and Slovakia reported inflation rates of 2.7% and 4.4% respectively, showing that inflationary pressures have already eased in other countries in the region. Meanwhile, inflation was highest on an annual basis in Romania, where the harmonised index of consumer prices rose by 7.3%. With the exception of Romania, the differences between countries' inflation rates are relatively small, with Estonia's 5.0% inflation rate the second highest in the European Union.

Analysis of January inflation data shows clear trends across the euro area. The services sector was the largest contributor to the annual inflation rate, with 1.73 percentage points. This is closely followed by the category of food, alcoholic beverages and tobacco, which showed a contribution of 1.13 percentage points. The non-energy products segment also has a noticeable impact, with a contribution of 0.53 percentage points. However, the change in the energy sector is noteworthy, with a 0.62 percentage point decrease in its contribution to overall inflation in January. This latter phenomenon is particularly important, as it marks a significant moderation after the previous rise in energy prices. Overall, these figures show that inflationary pressures in the euro area are diverging in different areas, with falling energy prices offsetting price increases in other sectors, thus giving a complex picture of the inflation situation.

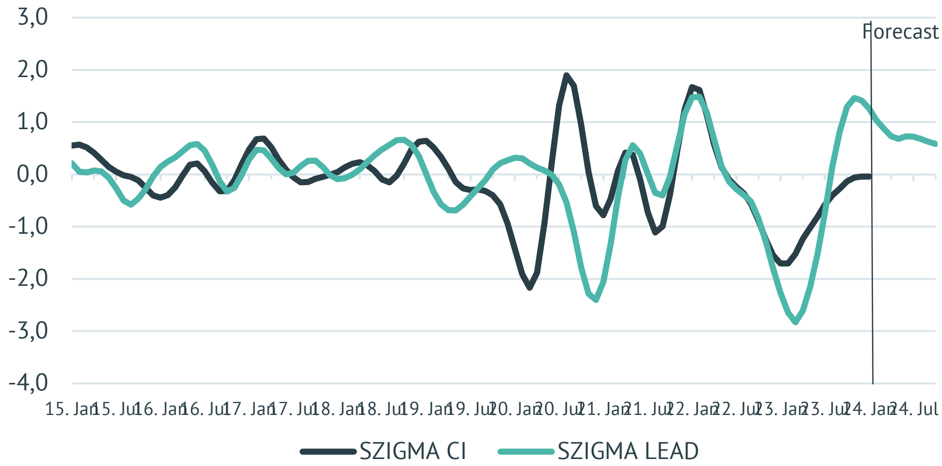
2.2 Our SZIGMA indicators

The growth rate of the Hungarian economy continued to slow.

In February 2024, the value of the SZIGMA CI indicator reflecting the current state of the Hungarian economy was -0,043 up to January 2024. This was a slight improvement from the previous month's -0.061. Although the Hungarian economy was still operating slightly below its historical trend rate, it is steadily approaching the trend rate in small steps. The figure clearly shows that the growth rate has slowed sharply and has stagnated close to, but below, trend. The last time the Hungarian 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, December 2023, seasonally and working-day adjusted fixed-base **construction** output volume increased by 5.0% from the previous month, while it fell by 4.8% on an annual basis. Month on month, improvements were observed in both the construction of buildings (8.7%) and civil engineering works (1.0%) within the main groups of construction. Fixed-base construction orders at the end of the month fell both year on year (23.5%) and month on month (6.5%). The number of new non-residential construction projects increased by 1.3% month on month and by 15.2% year on year. **In industry**, the latest figures, for December 2023, show that the seasonally and working-day adjusted volume of industrial production, calculated on a fixed basis, decreased by 0.26% month on month and by 8.8% year on year. The volume of industrial sales (domestic and exports combined), seasonally and working-day adjusted and calculated on a fixed basis, fell, both month on month (1.5%) and year on year (6.6%). Both the fall in export industrial sales and the decline in domestic industrial sales contributed to this. Both indicators showed a decline in volumes, with only the volume of export sales on a monthly basis showing a slight improvement, 0.4%.

In February 2024, our short-term leading indicator, SZIGMA LEAD, continued to forecast a slowing and gradually declining trajectory for the growth rate of the Hungarian economy, but the pace and curve of this declining path has changed significantly: in recent months it has been a steeply declining path, which in the current forecast has stepped on a decelerating, sideways moving and stagnant path. Overall, seasonally and working-day adjusted new industrial sales orders on a fixed basis improved by 44.9% month on month, while they fell by 15.7% year on year. This was driven by new industrial exports, as the stock of new industrial export sales orders rose by 54.0% month on month. The stock of new domestic sales orders fell by 17.8% month on month and by 14.5% year on year. Thanks to new export sales orders, the monthly level of industrial export sales orders on a fixed basis increased by 24.6%, which offset a 7.6% decline in domestic industrial sales orders. Overall, industrial sales orders on a fixed basis increased by 23.1% month on month. Despite this, industrial production and sales are still expected to stagnate or slightly improve. As for the German and EU indices affecting the Hungarian economy, the Ifo Business Climate Index for January 2024, **which measures change in business sentiment in the German economy**, weakened by 1.1 index points from the previous month to stand at 85.2 index points in January. The consumer confidence index, as measured by **Eurostat**, improved markedly on a monthly basis in January 2024. The index improved by 11.8 index points and by 27.0 index points on an annual basis. Thus, this month it stood at -18.8 index points, already significantly close to 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 GDP stagnated on a quarterly basis in Q4 2023.

According to data published by the Hungarian Central Statistical Office, the performance of the Hungarian economy stagnated in Q4 2023 compared to the previous quarter, on a seasonally and calendar-adjusted and balanced basis. On an annual basis, gross domestic product was stagnant in Q4 2023 on the basis of raw data, but rose by 0.4% on the basis of seasonally and calendar-adjusted data. Preliminary data show that in Q4 2023 the GDP was held back mainly by construction, industry and market services. At the same time, the performance of agriculture and two services sectors (human health, social services and information and communication) strengthened and improved the change in GDP volume.

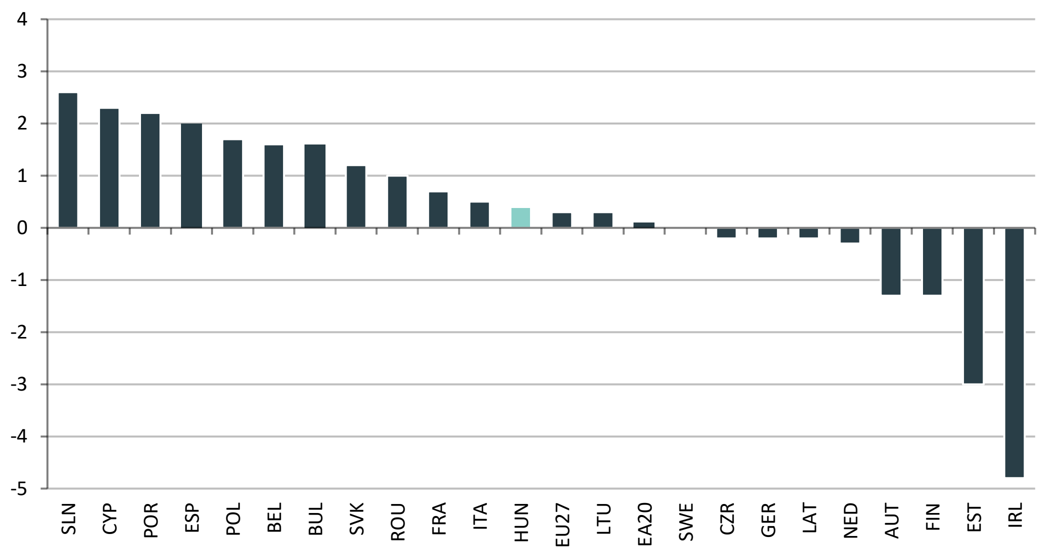
The international comparison shows that, based on Eurostat's preliminary (first estimate) ranking of seasonally adjusted annual GDP for Q4 2023, Hungarian GDP is in the middle of the pack: it was ranked[1] 12th out of 24, with a growth rate of 0.4%. In Q4 2023, Slovenia achieved the highest GDP

[1] 22 Member States, the EU27 and the euro area. 5 Member States not included due to lack of data: Denmark, Greece, Luxembourg, Malta, Denmark.

growth rate on an annual basis, 2.6%. It was followed by Cyprus with 2.3% and Portugal with 2.2% growth. In Q4 2023, the lowest growth rate (-4.8%) was in Ireland. It was followed by Estonia with -3.0% and Finland with -1.3%.

On a **quarterly** basis, Hungary's GDP in Q4 2023 was stagnant (0.0%), ranking 16th out of 24 in the ranking[2]. Apart from Hungary, the economies of Poland and France, as well as the euro area, stagnated. The EU average (EU27) was also only slightly better, at 0.1%. In a ranking of 24, gross domestic product increased in 13 Member States outside the EU27. The highest growth rate was in Slovenia (1.1%), followed by Portugal and Cyprus with 0.8% and Spain with 0.6%. However, GDP fell in 6 Member States, with the largest decrease in Ireland (-0.7%), followed by three countries (Finland, Romania and Estonia) with -0.4% and two countries (Germany and Lithuania) with -0.3%. On the downside, the quarter-on-quarter growth rate of the German economy has fallen: seasonally adjusted quarterly data show that the German economy stagnated (0.0%) in the first to third quarters of 2023, with all quarters showing stagnation; then, in Q4 2023, the economy contracted by 0.3%.

FIGURE 2: GDP GROWTH IN Q4 2023 IN THE EU (Y/Y, %)



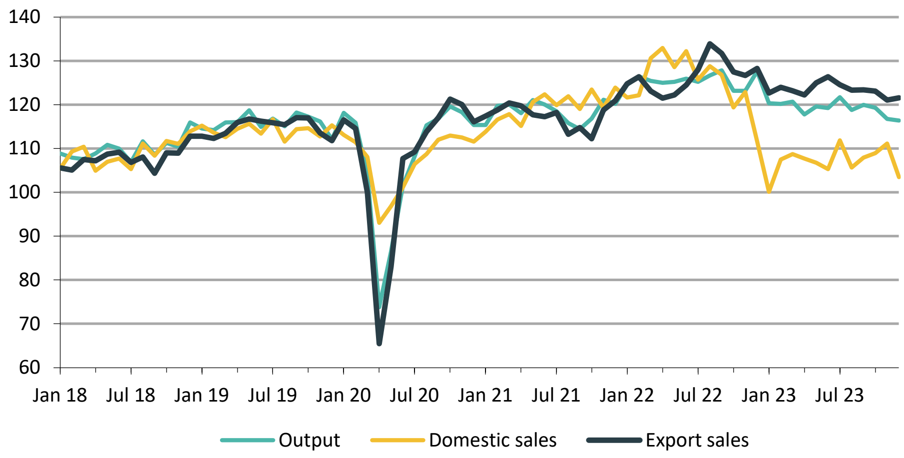
[2] 22 Member States, the EU27 and the euro area. 5 Member States not included due to lack of data: Denmark, Greece, Luxembourg, Malta, Denmark.

Remark: Seasonally and calendar adjusted indices. Preliminary estimate. (Denmark, Greece, Croatia, Luxembourg and Malta are not included due to lack of data)
Source: Eurostat

The performance of Hungarian industry continued to weaken.

Compared with the same period of the previous year, industrial production fell by 13.7% year on year according to raw data and by 8.7% according to working-day adjusted data in December 2023. The significant difference between the raw and adjusted data was due to the number of working days, as there were two more working days in December 2022 than in December 2023. Month on month, the volume of industrial production, adjusted for seasonal and working-day factors, fell by 0.3%. Overall, in 2023, industrial production fell by 5.5% year on year. Overall **industrial sales** contracted by 11.9% in December 2023 compared with the same period of the previous year, driven by an 11.7% decline in domestic industrial sales and a 12.0% decline in export sales. Seasonally and working-day adjusted data, on a monthly basis, show that compared to November 2023, domestic industrial sales fell by 6.9% after a noticeable strengthening, while industrial export sales volumes improved (by 0.4%). Overall, compared to the previous year, domestic industrial sales fell by 14.8% and industrial export sales by 3.2%. For an overview of the current situation, in addition to the annual and monthly data, it is also worth reviewing the volume changes in industrial production and sales on a fixed basis below. Domestic industrial sales fluctuated sharply in 2023 and continued to fall sharply in December 2023; and, although the slowdown in industrial export sales has stopped and stagnated, the decline in industrial production volumes has intensified and is now lower than pre-pandemic levels.

FIGURE 3: 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, the decline in industrial production in December 2023 was due to a 12.5% fall in manufacturing, which accounted for more than 94% of industrial production. In December 2023, compared to the previous year, only three minor manufacturing sub-sectors out of 13 were able to increase their production. The largest volume increase (16.4%) was achieved in coke and refined petroleum products. The output of the three sub-sectors that account for almost half of manufacturing output fell sharply, with the manufacture of transport equipment down by 9.0%, the manufacture of electrical equipment by 23.0% and the manufacture of food products by 10.4%. Output in the other two sectors (mining and quarrying and energy) also fell, by 51.6% in mining and quarrying and 25.5% in energy.

In December 2023, the total stock of orders of key manufacturing industries monitored by the Hungarian Central Statistical Office decreased by 14.1% year on year at comparable prices, with the base effect playing a small role. The main driver of the fall in the stock of orders was a decline in the stock of export orders. While the stock of domestic orders fell by 4.2%, the stock of export orders fell by 14.6%.

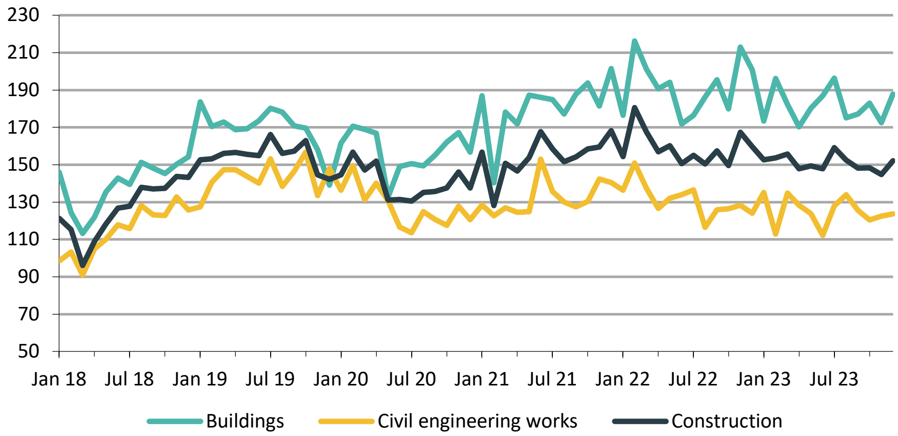
In December 2023, the **stock of new orders** in key manufacturing industries fell by 15.7% year on year at comparable prices. The base effect also played a minor role in this, in addition to the declining stock of new industrial export and domestic orders. The stock of new industrial export orders fell by 15.8%, which included the base effect. Despite the low base, the stock of new industrial domestic orders contracted by 14.5% compared to the same period last year. The largest decline in the stock of new industrial export orders occurred in the manufacture of pharmaceuticals and in the manufacture of machinery and equipment n.e.c. The stock of new industrial domestic orders fell in all the priority sectors surveyed, except for the manufacture of transport equipment. The largest decline in the stock of new industrial domestic orders was also in the manufacture of pharmaceuticals.

The construction sector continued to slow down.

In December 2023, the annual volume of construction output fell by 4.3% in terms of raw data. Within each main group of construction, the construction of buildings decreased by 6.0% year on year, while civil engineering works (roads, bridges, railways, complex industrial facilities, pipelines, etc.) decreased by 0.5%. Compared with the previous month, seasonally and working-day adjusted construction output increased by 5.1%. Overall, construction output contracted by 5.0% year on year in 2023. However, in 2023, producer prices in the construction sector rose by an average of 15.9% compared to the same period last year.

In December 2023, the stock of contracts at the end of the month fell by 23.5% year on year. This was more due to a 26.0% decrease in the stock of contracts for civil engineering works at the end of the month under review. In addition, the stock of contracts for buildings at the end of the month also fell, by 20.2%. On an annual basis, the stock of new contracts signed in the month under review increased slightly (by 0.6%). This was driven by a 0.1% decrease in the stock of new contracts for the construction of buildings and a 2.0% increase in the stock of new contracts for civil engineering works.

FIGURE 4: CHANGES IN THE CONSTRUCTION INDUSTRY (MONTHLY AVERAGE FOR THE YEAR 2015 = 100%)



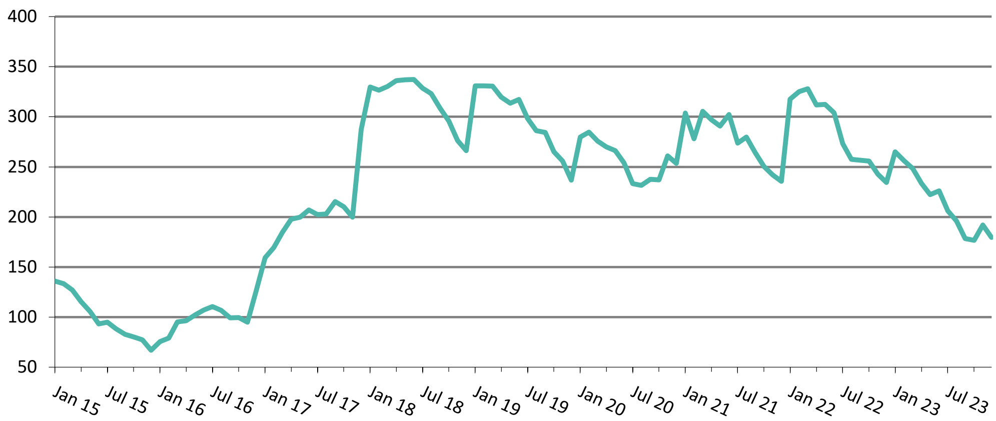
Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Századvég

Looking ahead, construction output sector may continue to decline, due to a reduction in the stock of contracts and new contracts at the end of the month under review. To eliminate the base effects, we review the fixed base of contract stocks, to which the figure below is linked. On a monthly basis, the stock of new contracts signed in the month under review fell by 30.2% on a fixed basis, following a surge in the previous month. Although the stock of new contracts for buildings increased by 36.3%, this could not offset the 62.5% decrease in the stock of new contracts for civil engineering works. The stock of new construction contracts signed in the month under review fluctuates continuously, so it is better to focus on the evolution of the stock of construction contracts at the end of the month under review. On a monthly basis, the stock of contracts at the end of December 2023, on a fixed base, decreased by 6.5%. Within each main group, the trend was similar in both areas, with the stock of contracts for buildings falling by 6.8% at the end of the month under review, while the stock of contracts for civil engineering works fell by 6.9% at the end of the month under review.

The figure below, which shows the evolution of construction contracts at the end of the month (buildings and civil engineering works) on a fixed basis, shows that 2023 was not a year for construction. This is because the value of the month-end stock of construction contracts has been declining steadily and sharply since January 2023, reaching 179.5% on a fixed basis in December 2023, which is already lower than the value in the period before the construction boom that started in 2018.

FIGURE 5: CHANGES IN MONTH-END CONSTRUCTION CONTRACTS (MONTHLY AVERAGE FOR 2015 = 100%)

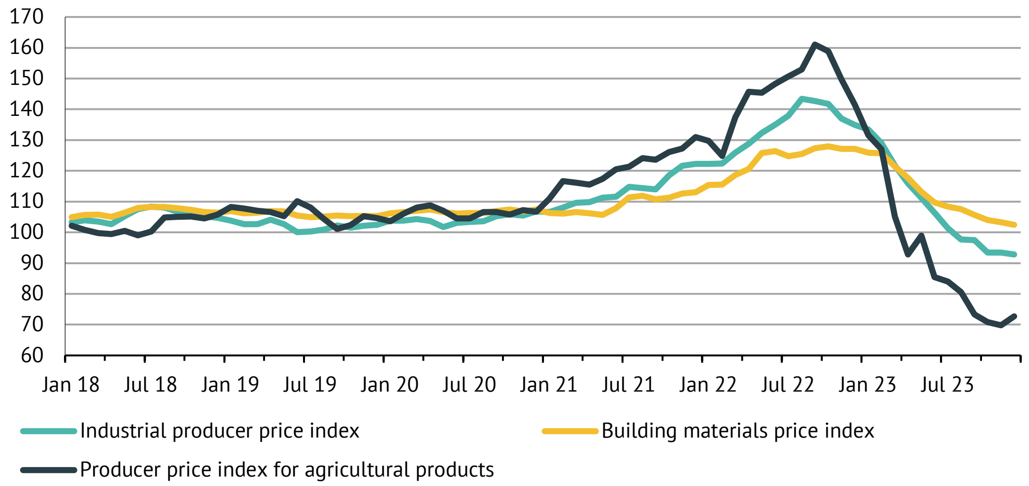


Source: Hungarian Central Statistical Office, Századvég

In December 2023, producer prices for agricultural products fell by 27.3% on average.

In December 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 continued to slow. The **building** materials price index rose by 2.5% year on year in the month under review, 0.8 percentage points less than in the previous month. Construction producer prices increased by 1.0% quarter on quarter in Q4 2023. However, on an annual basis, construction producer prices increased by 9.2% in Q4 2023. Overall, construction producer prices were on average 15.9% higher in 2023 than in 2022. Compared with the same period of the previous year, the **agricultural** producer price index fell by 27.3% in December 2023, in which the high base still played a great role. Despite the decline, producer prices for individual products within the indicator showed different trends. Producer prices fell for all products except potatoes (4.0%), vegetables (2.9%) and fruit (7.9%). Due to the high base, producer prices fell by 51.2% year on year for cereals, 37.8% for industrial crops, 35.7% for agricultural and horticultural products, 6.2% for livestock and 19.8% for animal products. In December 2023, **industrial** producer prices fell by 7.2% on an annual basis and by 0.7% on a monthly basis. On an annual basis, domestic sales prices fell by 3.6% and export sales prices by 8.9%. On a monthly basis, industrial producer prices fell by 0.7% overall, of which domestic sales prices fell by 0.6% and export sales prices by 0.8%. Overall, industrial producer prices increased by an average of 7.8% in 2023, with domestic sales prices rising by 25.4% and export sales prices falling by 0.7%. The difference between domestic and export sales prices is caused by the different proportions of the manufacturing industry and the energy industry 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 December 2023, for export sales, prices fell by 3.2% in manufacturing, which accounts for 90% of total sales, and by 50.6% in energy, which accounts for 9.8% of total sales. Meanwhile, domestic sales prices declined by 3.1% in manufacturing, which accounts for 65% of domestic sales prices, and by 5.6% in energy, which accounts for 30%.

FIGURE 6: INDUSTRIAL PRODUCER PRICE INDEX, CONSTRUCTION INPUT PRICE INDEX, AGRICULTURAL PRODUCER PRICE INDEX (SAME PERIOD OF PREVIOUS YEAR = 100%)



Source: Hungarian Central Statistical Office, Századvég

The volume of retail sales fell by 0.2% in December.

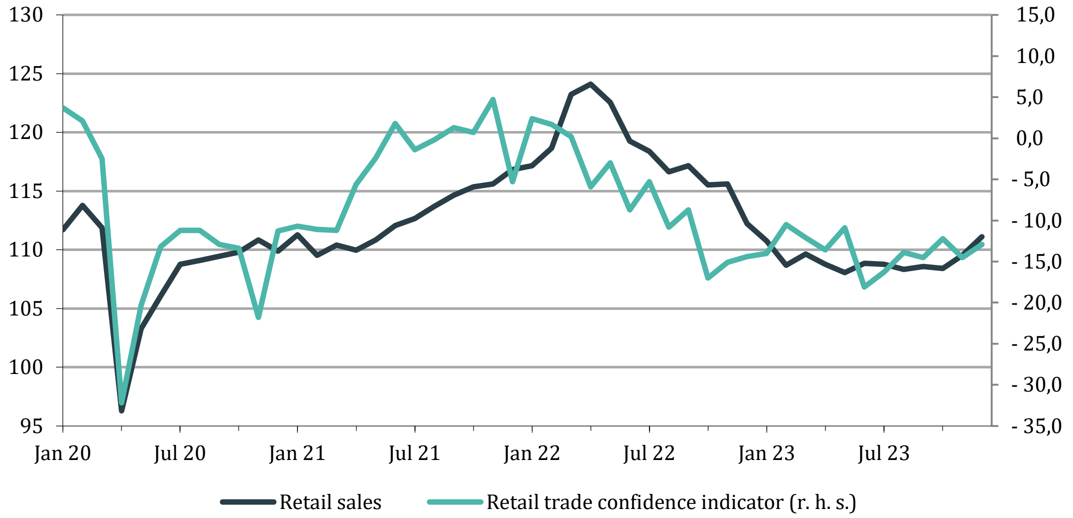
In December, the turnover of retail stores was down by 1.0% on a raw basis and by 0.2% on a calendar-adjusted basis compared with the same period a year earlier. On the other hand, on a month-on-month basis, seasonally and calendar-adjusted data were up 1.4%. This result may already signal a trend reversal in the long declining volume index on sales in retail stores. 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 December 2023, turnover in specialised and non-specialised food shops decreased by 1.3%, while turnover in non-food shops also decreased by 3.0%. In the retail sales of automotive fuel, turnover volumes increased by 3.8% in December compared to the previous year, mainly due to the abolition of the price cap on fuels in December of the previous year, after the weak results of the previous period, and thus compared to the significantly lower turnover volumes in the base month.

In food retailing, the volume of sales in non-specialised food and beverages shops increased by 2.4%, while it decreased by 1.5% in specialised food, beverage and tobacco stores. In non-food retailing, the volume of furniture and electric goods decreased by 8.9%, books, newspapers and stationery by 7.0% and second-hand goods by 15.0% year on year. There was also a significant decrease for textiles and footwear (6.0%). In contrast, the biggest volume growth was in fragrances (8.4%). For nonfood products, only this and pharmaceuticals and medical products (3.7%) showed an increase.

In 2023, the volume of retail sales was 7.9% lower for the entire year. Within this, the volume of sales fell by 4.6% in specialised and non-specialised food retailing, by 6.4% in non-food retailing and by 19.5% in the retail sales of automotive fuel.

FIGURE 7: 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 January.

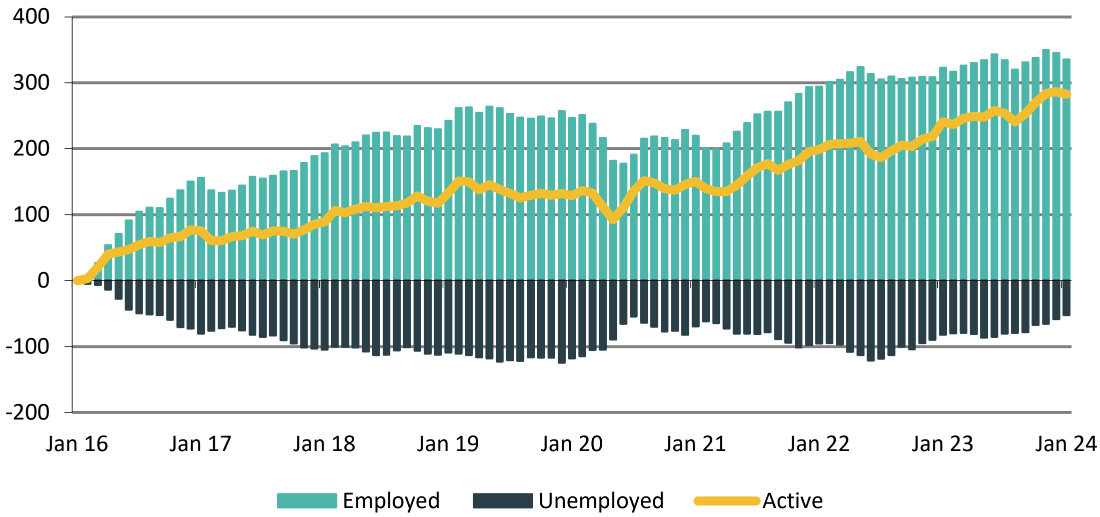
In January 2024[3], the seasonally adjusted activity rate of the population aged 15–74 was 67.8% (4,949,000 persons), which means a labour market growth of 42,000 compared to the same period of the last year. In the period under review, the seasonally adjusted number of employees was around 4,723,000, a year-on-year increase of 12,500. The number of the unemployed continued to rise, to 226,000, a year-on-year increase of 30,000. 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 December, the seasonally adjusted number of employees decreased by 3,500 compared to the same period last year. The number of people employed in the competitive sector fell slightly, with 1,500 fewer people working in enterprises with 5 or more employees compared to

[3] Three-month moving average

December 2022. However, the public sector has seen a significant reduction of 8,200 fewer employees in the past year. The number of people employed in the non-profit sector increased by 6,200 in one year.

FIGURE 8: CHANGES IN THE LABOUR MARKET (JANUARY 2016 = 0, THOUSAND EMPLOYEES)



Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Századvég

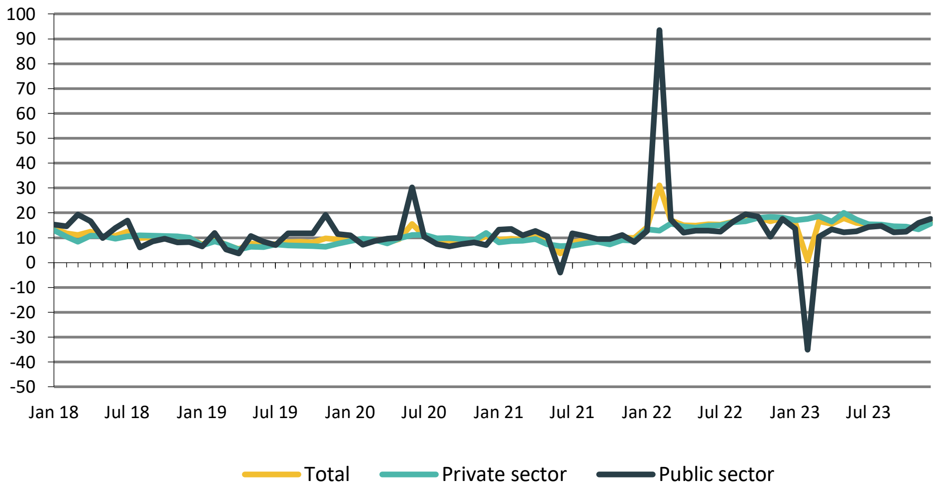
Real earnings continued to rise in December.

In December, average gross earnings in the national economy were HUF 655,600, up 16.4% compared to the same period last year. The highest average gross earnings were recorded in the competitive sector, at HUF 669,700. The wage dynamics of the month were strongly influenced by the increase in the minimum wage (15%) and the guaranteed minimum wage (10%), which came into force in December. Median gross earnings were HUF 496,100, 16.0% higher than a year earlier. The increase shows that some companies have not only increased the wages of workers on the minimum wage and guaranteed minimum wage, but have also made significant wage adjustments for other employees to avoid wage compression. Taking benefits into account, average net earnings reached HUF 451,300, 16.3% higher than in December 2022. Real earnings increased by 10.3%, while consumer prices rose by 5.5%.

For 2023 as a whole, average gross earnings were HUF 571,200, while average net earnings were HUF 379,800, both 14.2% higher than in 2022. Real earnings fell by 2.9%, while consumer prices rose by 17.6% year on year.

In 2024, we expect real wages to continue to rise, in line with the upward trend that has started in recent months. Nominal wage increases may be somewhat lower, as price changes seem to be stabilising this year, which reduces the bargaining power of employees somewhat. At the same time, the changing wage structure in companies and sectors due to the increase in the minimum wage and guaranteed minimum wage may also be an important factor in wage negotiations at the beginning of the year.

FIGURE 9: CHANGES IN GROSS WAGES (ANNUAL CHANGE, %)



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

2.4 External balance

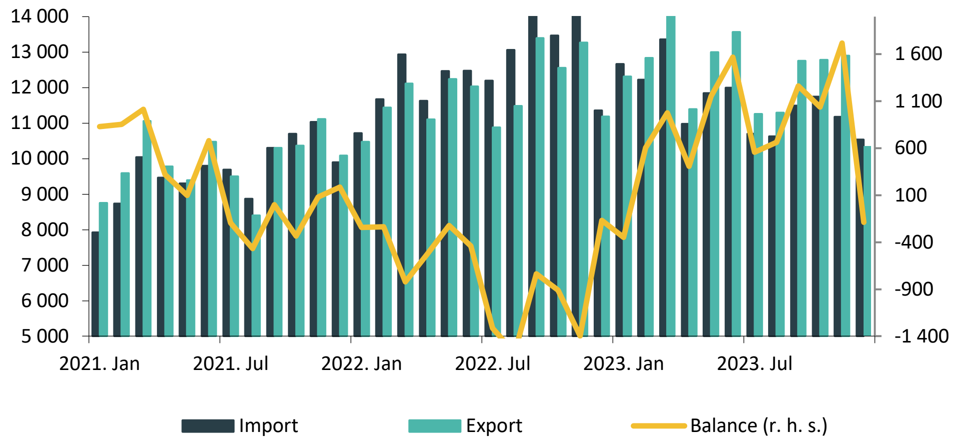
In November, the volume of exports of goods decreased by 3.6%, and imports by 16.0% year on year. This brought the trade balance to a surplus of EUR 1.6 billion, an improvement of EUR 3.0 billion compared to the previous year.

In November, the import volume of food products, beverages and tobacco decreased by 12.0%, and their export volume increased by 6.2% year on year. As for fuels and electric energy, imports increased by 7.9%, while exports by 35.0%. As for manufactured products, imports decreased by 11.0%, and exports by 1.9% year on year. As for machinery and transport equipment, imports decreased by 26.0%, and exports by 8.0%.

The trade balance improved.

In December 2023, the first estimate put the value of exports in euro at 7.8% lower and imports in euro at 8.6% lower than a year earlier. Therefore, the trade deficit in goods amounted to EUR 188 million, which is EUR 110 million better than a year earlier.

FIGURE 10: BALANCE OF TRADE IN GOODS (EUR MILLION)



Remark: The December 2023 figures are from the first estimate.
Source: Hungarian Central Statistical Office, Századvég

2.5 Fiscal outlook

In the first month, government income was 16.9% higher, while expenditure was 9.5% higher than in January 2023.

At the end of January 2024, the surplus of the central budgetary subsystem stood at HUF 54.4 billion. Against a deficit of HUF 37.4 billion in the central budget, social security funds showed a surplus of HUF 50.2 billion and extra-budgetary funds a surplus of HUF 41.6 billion.

Central government revenue in January was 16.9% higher than in the same period of the previous year.

Payments by economic units fell slightly, by 1.3%, i.e. HUF 3.1 billion, compared to January 2023. The primary reason for the decline is that among the special taxes temporarily introduced in 2022, mining allowances decreased by HUF 19.1 billion and the surtax on energy suppliers by HUF 14.4 billion compared to January last year. Within payments of economic units, corporate taxes, the most significant item, were 22.5% (HUF 14.6 billion) higher in January than in the same month of the previous year.

Revenues from taxes on consumption decreased by 2.6% (HUF 27.7 billion) compared to a year earlier. Within this, the most significant item, value-added tax receipts, were HUF 40.6 billion (4.7%) lower than in January of the previous year. However, the decline in VAT payments was smaller than the fall in VAT receipts, at 2.7%, as the 2% increase in VAT reimbursements contributed to the fall in receipts. Excise tax receipts were HUF 15 billion (10.4%) less than in January 2023. The decline was driven by a larger (HUF 22 billion) drop in excise duty receipts on tobacco products and a small (HUF 0.4 billion) drop in excise duty receipts on alcoholic beverages, while excise duty receipts on fuels increased (by HUF 6 billion).

Personal income tax receipts increased by 15.7% (HUF 58.4 billion) compared to January of the previous year. The rise was driven by an increase in wage bills and earnings. Receipts from social contribution tax and social security tax increased by 18.4% (HUF 107.9 billion) compared to the same period of the previous year, also caused by wage increases.

Revenue from EU programmes was HUF 225.9 billion in the first month, HUF 191.4 billion more than in 2023. In contrast, expenditure on EU programmes amounted to HUF 80.1 billion, HUF 71 billion less than the previous year.

In January 2024, central government expenditure was 9.5% higher than in the previous year. Within this, central government budgetary spending increased by 8.2%.

Among significant expenditure items, expenditure on central budgetary institutions and chapter-administered appropriations, pensions, expenditure of the Health Security Fund and interest expenditure were higher than a year earlier.

A new balance sheet item compared to 2023 is the support of utility services, which includes, among other things, subsidies for discount residential utility charges. Support of utility services amounted to HUF 181.3 billion in January, up HUF 8.3 billion on the same period last year.

Housing subsidies decreased by HUF 49.5 billion, or 75.9%, compared to the same period last year. The decrease is due to the closure of the Home Renovation Programme at the end of 2022.

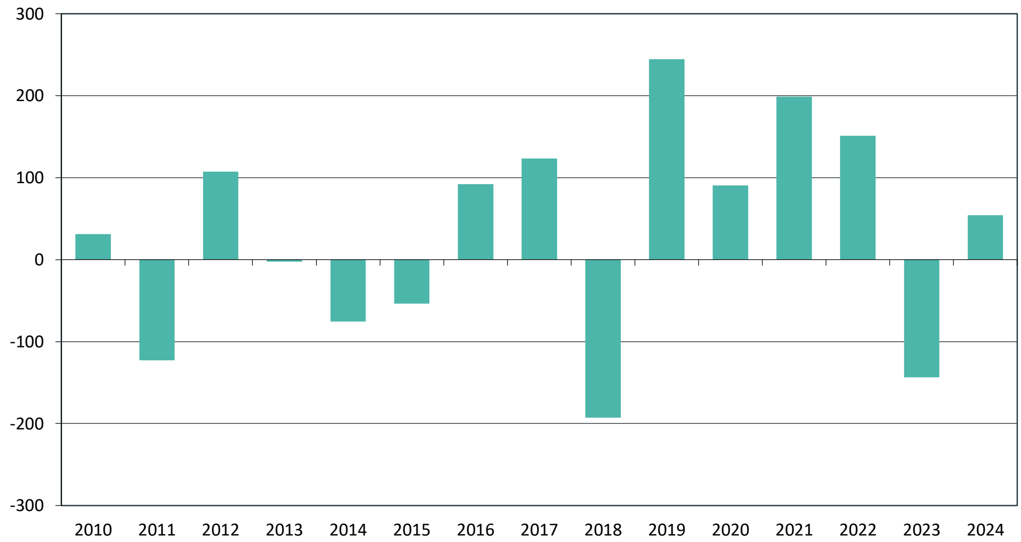
Expenditure on central budgetary institutions and chapter-administered appropriations was HUF 170.6 billion higher than in the first month of the previous year. This corresponds to an increase of 23.2%, while the current Budget Act would provide for a reduction of 12%.

Expenditures related to state property amounted to HUF 368.2 billion, 1.1% lower than in January 2023.

In January 2024, pensions amounted to HUF 475.6 billion, an increase of 11.2% compared to the same period last year. During the same period, the Health Security Fund spent HUF 340 billion, an increase of 10.3% compared to the base period. Within this, expenditure on curative preventive care, which accounts for more than half of the Fund's expenditure, increased by 9.9%.

The balance of interest expenditures and receipts was HUF 254.7 billion (60.6%) more negative than in January of the previous year.

FIGURE 11: CENTRAL SUBSYSTEM BALANCE, 2010–2024 (IN EACH JANUARY, HUF BILLION)



Source: MINISTRY OF FINANCE, HUNGARIAN STATE TREASURY;

2.6 Monetary developments

In January, prices rose by 3.8% on average.

In January 2024, consumer prices increased by an average of 3.8% year on year. In the past year, the highest price increases have been in services (10.4%). Prices of electricity, gas and other fuels fell by 11.3% compared to a year earlier, due to the inclusion of the base effect. Consumer prices rose by an average of 0.7% over a month, with a significant contribution from repricing at the beginning of the year. The seasonally adjusted core inflation rate was 6.1% higher than in the same period of the previous year.

A more significant contribution to the 3.6% average increase in food prices came from the 38.2% rise in sugar prices, the 14.6% rise in the prices of non-alcoholic beverages, the 14.% rise in chocolate and cocoa prices and the 12.7% rise in the prices of buffet products. The 13.8% inflation rate for fresh vegetables, the 10.2% inflation rate for pork and the 9.9% inflation rate for coffee at shops also exceeded the average food inflation rate for the month. In contrast, deflation is already evident in many cases: flour prices fell by 19.0%, eggs by 17.8%, butter by 13.8% and pasta products by

13.2%. The main drivers of the 8.1% average inflation in alcoholic beverages and tobacco were primarily the 8.6% increase in wine prices.

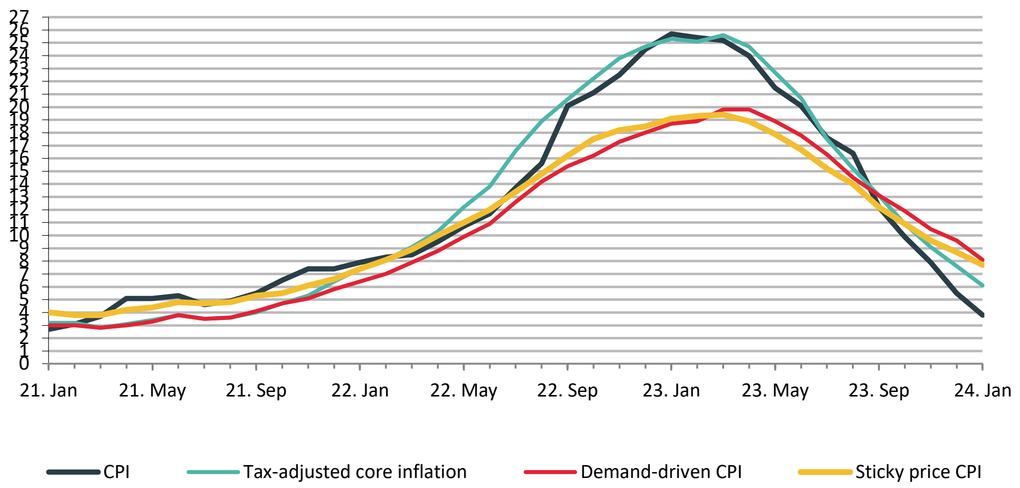
The average price decrease of 1.4% for consumer durable goods represents a significant improvement, driven by factors including strict monetary policy, sustained lower input material prices, the resumption of more efficient supply chains, falling demand and a significantly stronger exchange rate compared with the same period a year earlier. Looking at the main group, above-average increases were also recorded for kitchen and other furniture (7.6%), jewellery (5.0%) and radio sets (7.0%). The inflation of durable consumer goods is moderated by a 3.1% decrease in television prices and a 2.9% decrease in the prices of computers, cameras and phones. It is also important to highlight the improving trend for second-hand passenger cars: in January, second-hand passenger cars were already 9.9% 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 the prices of electricity, gas and other fuels in January was 11.3% year on year. Within electricity, gas and other fuels, the price of natural and manufactured gas fell by 25.0% and electricity by 3.4% over the past year. In contrast, the price of firewood was 2.0% higher.

In January, the price of services rose by an average of 10.4%, with theatre up 26.1%, postal services up 21.7%, games of chance up 19.9% and cinema up 16.2%. The average increase in the price of services was moderated by, among other things, the prices of refuse disposal, water charges and sewerage disposal 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%. Year-on-year inflation in services continued to fall in the month.

Compared to the previous month, food prices rose by an average of 1.2%, with seasonal food prices rising by 6.4%, the biggest contributor. Excluding this, food prices rose by 0.7% on average. As a result of end-of-season markdowns, clothing prices fell by 2.1% on a monthly basis, while prices of electricity, gas and other fuels were 0.9% higher than in the previous month. Vehicle fuel prices fell by 0.5% from December.

FIGURE 12: THE EVOLUTION OF INFLATION (ANNUAL CHANGE IN PERCENTAGE)



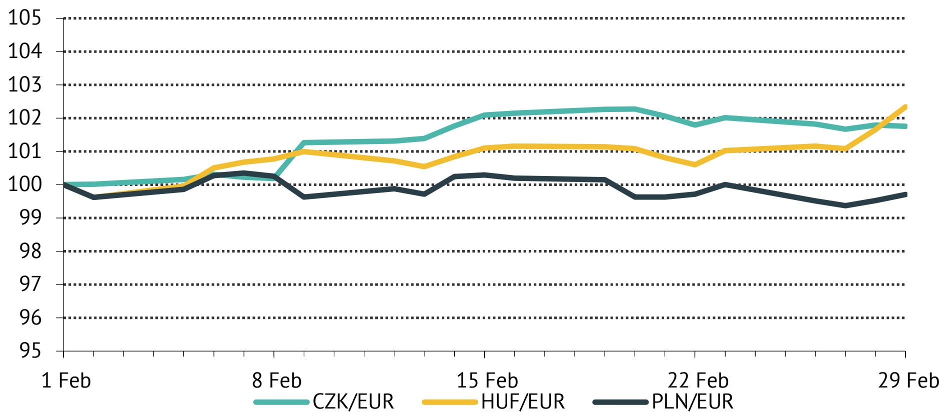
Source: MNB, Századvég

Among the core inflation indicators published by the MNB, the core inflation rate net of indirect taxes was 6.1%, the core inflation rate excluding processed food was 8.1% and the sticky price inflation rate was 7.7% in the first month of the year.

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

The regional currencies under review moved against the euro in February. In the past period, the Czech koruna strengthened by 1.75%, while the Polish zloty did not change against the euro. Government bond yields also increased over the period, with the Czech 10-year government bond yield 8 basis points higher at 3.83%, and the Polish 10-year yield 21 basis points higher at 5.35%.

FIGURE 13: CHANGES IN EXCHANGE RATES IN THE REGION (BASELINE VALUE = 100%)



Source: Refinitiv, Századvég

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

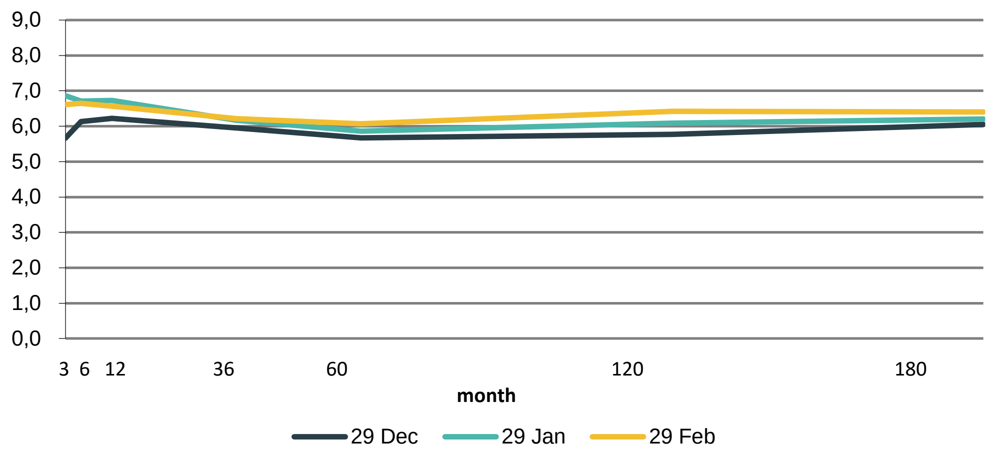
Hungarian money and foreign exchange market indicators turned slightly negative last month. The HUF weakened by 2.3% against the Euro and by 0.7% against the Swiss franc. It weakened by 1.8% against the US dollar. This means that at the end of February 2024, one euro was worth 394 forints, one US dollar was worth 363 Forints and one Swiss franc was worth 413 forints. Sovereign debt held by foreigners decreased by HUF 149 billion to HUF 7,236 billion in February.

In February, the central bank continued to cut the base rate.

At its February 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 9.0%, down 100 basis points. Accordingly, the upper limit of the interest rate corridor was changed to 10.0% and the lower limit to 8.0%. The extent of monetary easing exceeded analysts' expectations, with the central bank's communication saying that the decision was based on better-than-expected inflation trends during the month.

In February, in the government bond market, yields for shorter maturities decreased by between 6 basis points and 25 basis points on the secondary yield curve. Thus, the 3-month yield was 6.61%, the 6-month yield was 6.65% and the 1-year yield was 6.75% on 29 February. The 3-year yield rose by 4 basis points to 6.21%. Yields are up 21 basis points over the 5-year horizon, 33 basis points over the 10-year horizon and 20 basis points over the 15-year horizon compared to the previous month. These three yields changed, therefore, to 6.07%, 6.42%, and 6.40%, respectively.

FIGURE 14: CHANGES IN THE HUF YIELD CURVE (%)



Source: GDMA, Századvég

On 15 February 2024, the total value of “MÁP Plusz” government securities held by retail investors was HUF 772.63 billion after a HUF 17 billion decrease from the HUF 790 billion level in mid-January 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 7,152.4 billion. The total stock of government securities held by retail investors stood at HUF 10,018.7 billion in mid-February 2024, up from HUF 9,810.2 billion at the beginning of 2024, i.e. HUF 208.5 billion more than in the first month of 2024.

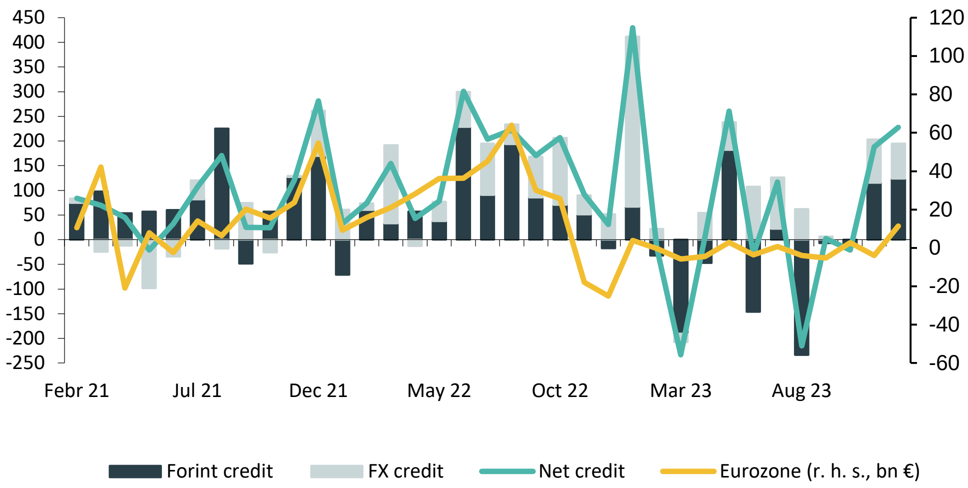
The share of foreign currency debt in the sovereign debt changed to 26.9% in December (i.e. decreased by 0.5 percentage point from the previous month), which is in the range (maximum 30%) specified in the financing plan for 2024 of GDMA. Over the year as a whole, foreign currency debt averaged 26.0%, with the December rate higher than this.

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 credit rating agencies.

Corporate credits increased in Hungary.

Based on seasonally adjusted data, the net HUF borrowing of companies was HUF 71.6 billion in December 2023. At the same time, net lending in foreign currency increased, with net borrowing amounting to HUF 123.4 billion in the twelfth month of the year. Seasonally adjusted total net borrowing amounted to HUF 227.7 billion in the period under review. Corporate borrowing in the euro area was EUR 11.4 billion in December 2023.

FIGURE 15: CORPORATE BORROWING (HUF BILLION)



Source: MNB, ECB, Századvég

3. Századvég's forecast[4]

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

[4] Date of preparation: 20 December 2023