MACRO MONITOR

March 2024

Századvég

Konjunktúrakutató Zrt.

Századvég

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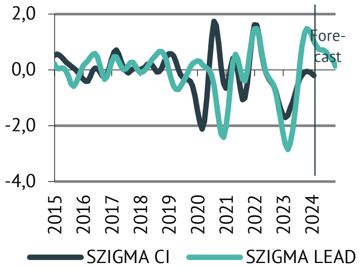
DISCLAIMER

1. Summary

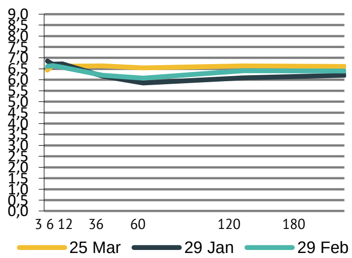
In Q4 2023, economic output grew by 0.5% year on year and stagnated quarter on quarter, according to seasonally and calendar-adjusted and balanced data. For all of 2023, Hungary's GDP decreased by 0.9% according to raw data and by 0.7% according to seasonally and calendar-adjusted and balanced data.

SIGMA indicators



Source: Századvég

Forint yield curve (%)



Source: Refinitiv

Our forecast (25.03.2024)	2024
Change in the GDP (%)	2.7
Inflation (annual average, %)	4.4

At its March meeting, the Monetary Council of the central bank continued to cut both the policy rate and the base rate, as it had done the previous month. As a result, the base rate (and the policy rate) in Hungary is currently at 8.25%, after a 75 basis point cut.

In January, retail sales increased by 0.6% year on year on both a raw and calendar-adjusted basis. Within this, specialised and non-specialised food retailing increased by 0.2%, while non-food retailing decreased by 0.9%. The turnover volume of petrol stations increased by 4.6% compared to the same period last year.

Measured up to February 2024, the value of the monthly SZIGMA CI indicator, which provides a snapshot of the current state of the Hungarian economy, was -0.197. This is a significant weakening from the previous month's index value of -0.043. In other words, the Hungarian economy started to move away from its historical trend and continued to operate below its historical trend.

According to the latest projection of the other indicator, SZIGMA LEAD, which is a short-term forward-looking indicator for the future of the Hungarian economy, the growth path is projected to decline sharply by the end of the forecast horizon. Compared to last month's forecast, the indicator projects a downward outlook.

In February 2024, consumer prices rose by 3.7% on an annual average basis.

2. Overview of the economy

2.1 External environment

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

February 2024 data from Eurostat, the official statistical office of the European Union, show that the annual inflation rate in the euro area slowed to 2.6%, a minimal decrease of 0.2 percentage points from 2.8% in January. It is important to note that this rate is a significant improvement compared to 8.5% a year earlier. For the European Union as a whole, annual inflation was 2.8% in February, also down from 3.1% in December and a significant change from 9.9% a year earlier.

February's CPI data also show a significant decline in the breakdown by country. In contrast to Hungary's 3.6% inflation rate (based on HICP), the rate in the western region was 2.7% in the Netherlands and 2.3% in Ireland. In Central Europe, the inflation rate was 2.2% in the Czech Republic and 3.8% in Slovakia, indicating that inflationary pressures have eased in other countries in the region. On an annual basis, the highest inflation rate was recorded in Romania, where the harmonised index of consumer prices rose by 7.1%. Apart from Romania, there are relatively small differences in inflation rates between EU Member States, with Croatia's 4.8% inflation rate the second highest in the EU in the month.

Analysis of the February inflation figures for the euro area reveals clear trends. It can be seen that the services sector made the largest contribution to the annualised inflation rate, at 1.73 percentage points. This is followed by the food, alcoholic beverages and tobacco category with a contribution of 0.79 percentage points. The non-energy goods segment also has a significant influence, contributing 0.42 percentage points. In addition, the change in the energy sector is noteworthy, with a 0.36 percentage point decline in the total inflation contribution in February. This change is particularly important as it shows that the fall in stock market prices, after the previous rise in energy prices, is now being reflected in consumer prices. Overall, inflationary pressures in the euro area vary across areas, with the fall in energy prices offsetting price increases in other areas.

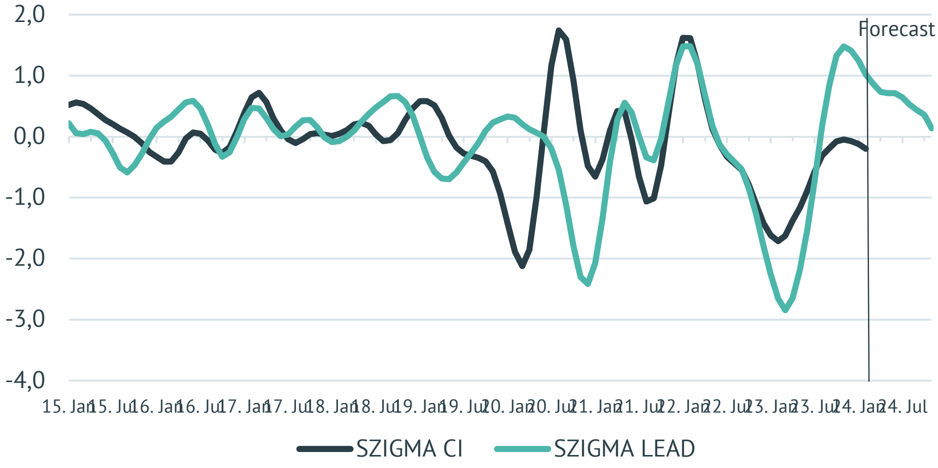
2.2 Our SZIGMA indicators

The short-term forecast is for a sharp decline in the growth rate of the Hungarian economy.

In March 2024, the value of the SZIGMA CI indicator, which reflects the current state of the Hungarian economy, was -0.197 up to February 2024. This is a significant weakening from the previous month's index value of -0.043. This means that the growth rate of the Hungarian economy has moved away from its historical trend level. The figure shows the growth rate stalling and starting to move away from trend. So the return of above-trend increase, as it was in May 2022, is still to come. Although inflation fell sharply in early 2024 and real income growth started to pick up, household consumption growth has not yet really taken off. At the same time, the volume of investments continued to fall. All of these continued to have a negative impact on individual sectors of the economy. In construction, the latest January 2024 seasonally and working-day adjusted fixed-base **construction** output volume increased by 10.1% from the previous month and by 15.3% on an annual basis. Month on month, improvements were observed in both the construction of buildings (7.2%) and civil engineering works (5.8%) within the main groups of construction. On a fixed base, the stock of construction orders at the end of the month increased by 25.8% on a monthly basis, but fell by 14.8% on an annual basis. The number of new non-residential construction projects fell by 15.1% on a monthly basis, while it increased by 17.4% on an annual basis. **In industry**, the latest figures, for January 2024, show that the seasonally and working-day adjusted volume of industrial production, calculated on a fixed basis, decreased by 1.1% month on month and by 3.6% 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 (3.8%) and year on year (3.0%). Both the fall in export industrial sales and the decline in domestic industrial sales contributed to this. Domestic industrial sales weakened by 0.7% on a monthly basis and by 1.2% on an annual basis, while industrial export sales weakened by 6.0% on a monthly basis and by 5.8% on an annual basis.

In March 2024, our short-term leading indicator, the SMALL LEAD indicator, points to a marked weakening in the growth rate of the Hungarian economy. Last month, it forecast a decelerating, sideways moving and stagnant path, which the current forecast has changed to a sharply declining growth path. The economic growth rate falls sharply in the last two months of the forecast horizon and, although still above the historical trend rate, it approaches it drastically. Turning to the future outlook, total seasonally and working-day adjusted new industrial orders on a fixed basis fell both on a monthly basis (33.6%) and on an annual basis (5.1%). This was driven by new industrial exports, as the stock of new industrial export orders fell by 37.4% month on month and 5.2% year on year. At the same time, the stock of new domestic orders rose by 16.4% month on month, which may represent an improving trend; however, there was a 4.6% year-on-year decline. Despite the month-on-month increase in new industrial domestic orders, both industrial domestic orders and industrial export orders fell on both a monthly and annual basis, which may foreshadow a further weakening in industrial production. As for the German and EU indices affecting the Hungarian economy, the Ifo Business Climate Index for February 2024, **which measures change in business sentiment in the German economy**, strengthened by 0.5 index points from the previous month to stand at 85.7 index points in February. The **Eurostat** consumer confidence index for February 2024 weakened significantly on a monthly basis (by 7.7 index points). The index improved by 14.6 index points on an annual basis. This month it stood at -26.5 index points.

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



Source: Századvég

2.3 The real economy

Seasonally and calendar-adjusted and balanced data show that Hungarian GDP stagnated in Q4 2023 compared to the previous quarter.

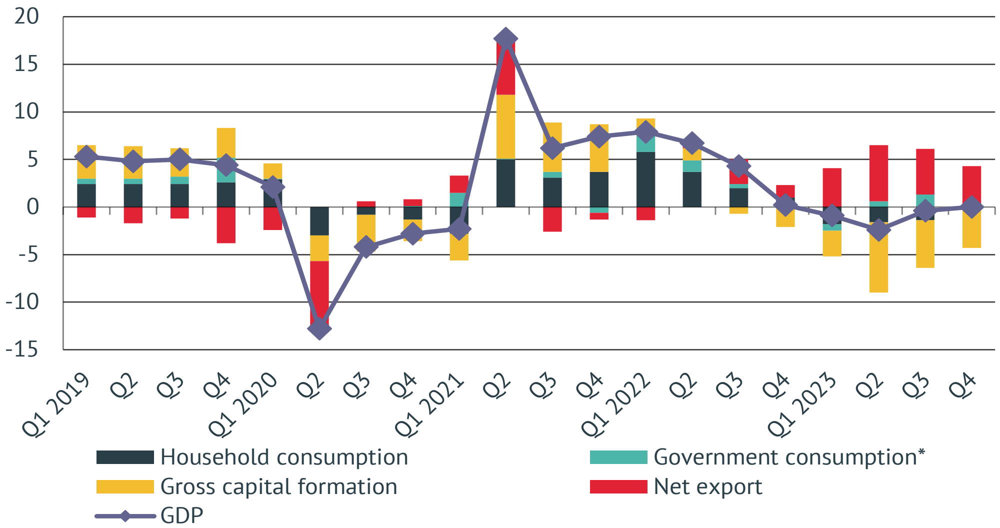
In its detailed second GDP estimate for Q4 2023, the Hungarian Central Statistical Office (KSH) revised its seasonally and calendar-adjusted and balanced volume index for the year: it became 0.1 percentage points higher than in the first estimate. In Q4 2023, Hungarian GDP stagnated in raw data terms and increased by 0.5% in terms of seasonally and calendar-adjusted and balanced data compared with the same period of the previous year. Compared with the previous quarter, growth in the Hungarian economy stagnated on the basis of seasonally and calendar-adjusted and balanced data. For 2023 as a whole, Hungary's gross domestic product (GDP) declined by 0.9% year on year in raw data terms and by 0.7% in seasonally and calendar-adjusted and balanced data terms.

On the **production** side, Q4 2023 GDP was curbed by all sectors except agriculture. While agriculture contributed 2.5 percentage points, industry -1.1 percentage points, construction -0.5 percentage points, services -0.6 percentage points and the balance of taxes and subsidies on products -0.2 percentage points to Q4 2023 GDP. In 2023 as a whole, GDP growth was supported only by agriculture (by 2.2 percentage points). The biggest drag on GDP volume growth in 2023 was in industry (-1.0 percentage point). This was followed by services (-0.9 percentage points), then the balance of taxes and subsidies on products (-0.9 percentage points) and construction (-0.3 percentage points). Agricultural output expanded by 81.1% year on year in Q4 2023 and by 68.5% in 2023 as a whole, with a record weak base due to the global drought of the previous year playing a marked role. Compared to the same period last year, the performance of the other sectors declined in both Q4 and in 2023 as a whole: industry fell by 6.4% and 5.2% in 2023, construction by 7.4% and 5.6% in 2023, and services by 1.0% and 1.6% in 2023. However, there is little hope that, on the basis of seasonally and calendar-adjusted and balanced quarterly data, the output of agriculture rose by 4.2% and services by 1.5% in Q4 2023.

On the **consumption** side, Q4 2023 GDP was curbed by gross accumulation (and within that, more by changes in inventories), while the external trade balance strengthened it. Consumption has picked up slightly. Gross accumulation contributed -4.2 percentage points (and within this, changes in inventories contributed -3.4 percentage points), final consumption (households and community) 0.1 percentage point and the external trade balance 4.1 percentage points to Q4 2023 GDP. In 2023 as a whole, final consumption declined while net exports increased more markedly: final consumption contributed -0.8 percentage points, gross accumulation -4.9 percentage points (including the change in inventories -2.4 percentage points) and net exports 4.8 percentage points to the 2023 GDP.

Actual household consumption (which includes in-kind transfers from government and non-profit institutions supporting households) increased by 0.1% in Q4 2023, compared with Q1-Q3 2023. However, despite this last quarterly increase, overall real household consumption fell by 1.2% in 2023. Also, unlike in the first three quarters, **final consumption** (which includes actual household consumption and collective consumption) increased in Q4 (by 0.2%). Despite this, overall final consumption fell by 1.2% in 2023. Q4 was interesting for investment. **Gross capital formation** fell by 13.0% year on year, but the decline in investment (gross fixed capital formation) itself was only 3.0%, which is much better than in the previous quarter. As a result, investments in 2023 were overall 8.7% lower than in the previous year. Gross accumulation fell by 14.4% year on year in 2023. Overall, the **trade balance** improved the volume of GDP for Q4 2023. The volume of exports fell by 4.7% and imports by 9.0% in Q4 2023. In 2023, exports fell by 0.1% overall and imports by 5.1%. For goods, which account for 80% of external trade, imports fell more than exports both in Q4 2023 and in 2023 as a whole. However, the opposite was true for services: exports grew faster than imports in Q4 2023 and in 2023 as a whole.

FIGURE 2: CONTRIBUTION TO ANNUAL GDP GROWTH (CONSUMPTION SIDE, %)



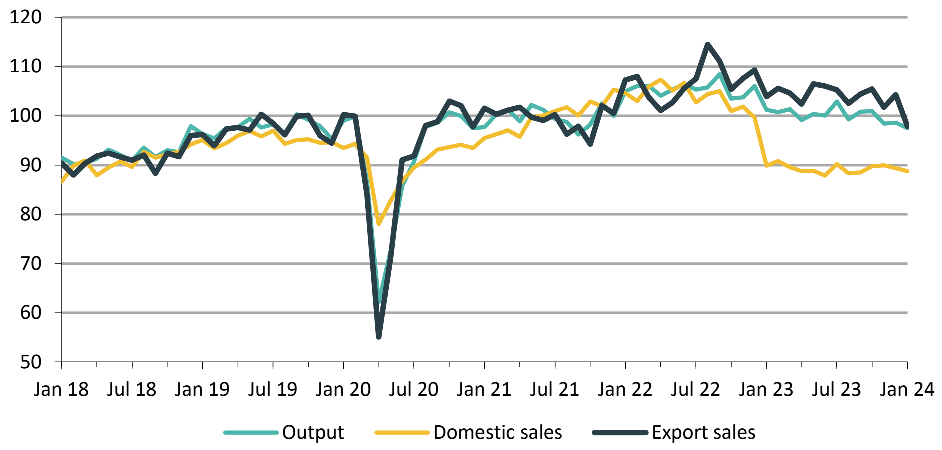
**Including social benefits in kind.*

Source: Hungarian Central Statistical Office

Hungarian industrial output volumes continue to fall.

Compared with the same period of the previous year, industrial production fell by 3.6% year on year according to raw data and by 4.1% according to working-day adjusted data in January 2024. The volume of industrial production, adjusted for seasonal and working-day factors, fell by 1.1% month on month. Overall **industrial sales** contracted by 4.2% in January 2024 compared with the same period of the previous year, driven by an 1.0% decline in domestic industrial sales and a 6.3% decline in export sales. In January 2024, seasonally and working-day adjusted domestic industrial sales fell by 0.7% and industrial export sales by 6.1% compared to December 2023. 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. While domestic industrial sales have started to stagnate, the volume of export industrial sales has turned sharply downwards and is now at or below pre-pandemic levels.

FIGURE 3: CHANGES IN INDUSTRIAL OUTPUT AND SALES (2021 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 January 2024 was due to a 4.4% fall in manufacturing, which accounted for 93.4% of industrial production. In January 2024, compared to the previous year, only three manufacturing subsectors out of 13 were able to increase their production. The largest volume increase (9.4%) was achieved in the manufacture of coke and refined petroleum products, a subsector with a relatively small weight. This was followed by the food industry, with 7.6%, the second largest manufacturing sector (with a weight of 12.9%). The third subsector was other manufacturing, which managed to increase its output by 4.0% year on year. The manufacture of transport equipment, which accounts for a quarter of manufacturing output, fell by 4.7%. The manufacture of electrical equipment, which has the third largest share (12.2%), saw a 1.3% drop in volume. Mining and quarrying, which accounts for 0.4% of industrial production, increased its output by 25.5% year on year, while the energy industry, which accounts for 6.3%, grew by 2.4%.

In January 2024, the total stock of orders of key manufacturing industries monitored by the Hungarian Central Statistical Office decreased by 16.2% year on year at comparable prices, with the base effect playing a minor 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 13.4%, the stock of export orders fell by 16.3%.

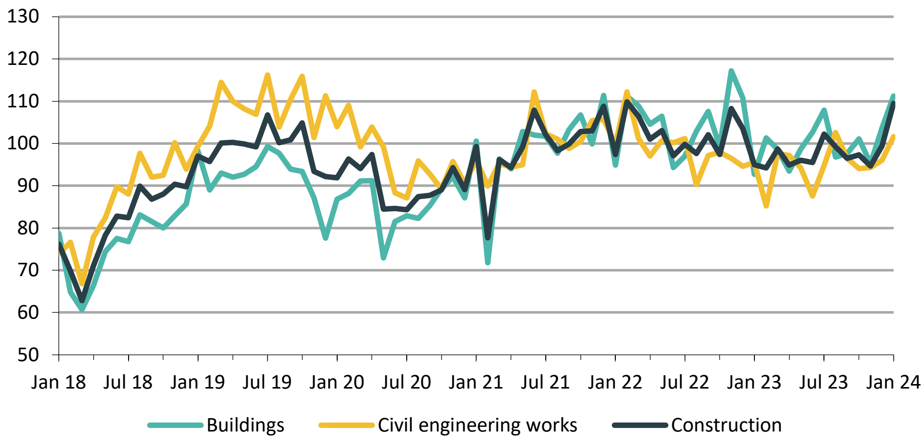
In January 2024, the **stock of new orders** in key manufacturing industries fell by 5.1% year on year at comparable prices. The base effect also played a minor role in this, in addition to the declining stock of new industrial export and domestic orders. The stock of new industrial export orders fell by 5.1%, which included the base effect. Despite the low base, the stock of new industrial domestic orders contracted by 4.7% 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 transport equipment. Also in terms of new industrial domestic orders, the manufacture of pharmaceuticals saw the largest decline in the volume of new orders. This was followed by a decline in new order volumes in the manufacture of machinery and equipment and in the manufacture of computer, electronic and optical products sectors.

Construction output increased in January 2024.

In January 2024, the annual volume of construction output increased by 17.2% in terms of raw data. Construction output in each main group of construction, the construction of buildings decreased by 20.5% year on year, while civil engineering works (roads, bridges, railways, complex industrial facilities, pipelines, etc.) increased by 11.6%. Compared with the previous month, seasonally and working-day adjusted construction output increased by 10.2%, driven by volume growth in both building construction and the construction of civil engineering works. This monthly increase could signal the start of a positive trend. However, this picture is nuanced by the fact that, despite a

21.5% increase in new contracts signed in January 2024 compared to the same period last year, the number of contracts at the end of the month fell by 14.9%. Within the main groups of construction, the volume of contracts for buildings at the end of the month decreased by 9.1%, with a high stock of new contracts. As regards civil engineering works, where the volume of new contracts also fell, the volume of contracts at the end of the month fell by 20.5%.

FIGURE 4: CHANGES IN THE CONSTRUCTION INDUSTRY (MONTHLY AVERAGE FOR THE YEAR 2021 = 100%)

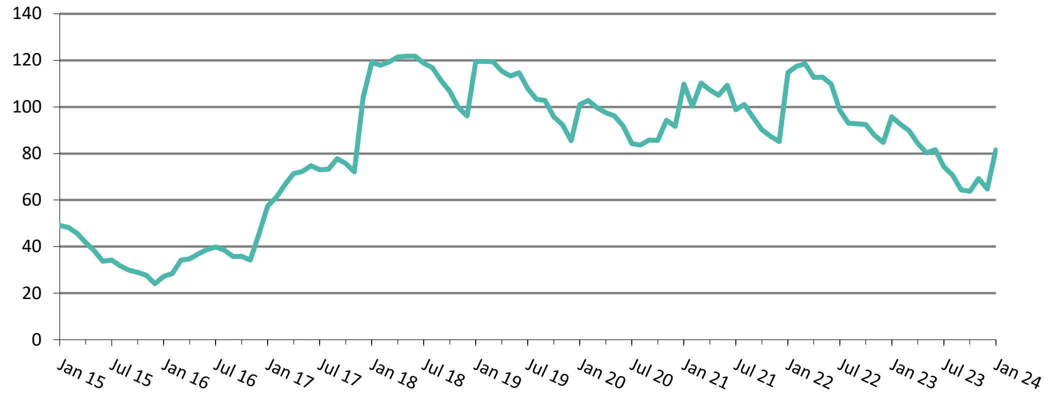


Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Századvég

Looking ahead, construction output may improve, due to a growth 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 fixed monthly basis, the stock of new contracts signed in the month under review increased by 31.8%, which was only due to an increase in the stock of new contracts for the construction of buildings (93.5%). At the same time, the stock of new contracts for the construction of civil engineering works decreased by 54.0%. 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 January 2024, calculated on a fixed basis, increased by 25.8%, driven by expansion in both main groups of construction. At the end of the month under review, the stock of contracts for buildings increased by 47.1%, while the stock of contracts for civil engineering works increased by 9.2%. This rebound at the end of the month under review is illustrated in the figure below.

FIGURE 5: CHANGES IN MONTH-END CONSTRUCTION CONTRACTS (MONTHLY AVERAGE FOR 2021 = 100%)

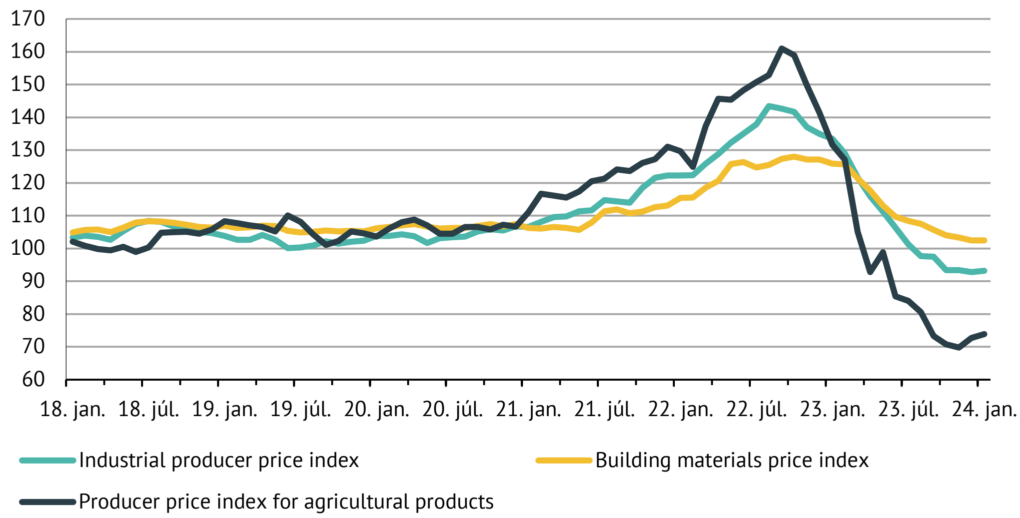


Source: Hungarian Central Statistical Office, Századvég

In January 2024, domestic sales prices in the food industry fell by 6.2% year on year.

In January 2024, the industrial producer price index and the agricultural producer price index continued to fall year on year. The building materials price index stagnated compared with the previous month, as the **building materials** price index rose by 2.5% year on year in January 2024, the same as in the previous month. Compared with the same period of the previous year, the **agricultural** producer price index fell by 26.1% in January 2024, in which the high base still played a great role. The base effect will disappear in the near future. Despite the fall, producer prices for 3 products (potatoes, vegetables and fruit) increased. Producer prices rose by 8.1% for potatoes, 20.4% for vegetables and 20.5% for fruit. Due to the high base, producer prices fell by 48.2% year on year for cereals, 35.3% for industrial crops, 32.5% for agricultural and horticultural products, 8.6% for livestock and 24.3% for animal products. In January 2024, **industrial** producer prices fell by 6.8% on an annual basis and increased by 0.3% on a monthly basis. On an annual basis, domestic sales prices fell by 7.6% and export sales prices by 6.3%. On a monthly basis, industrial producer prices rose by 0.3% overall, driven by export sales prices: domestic sales prices fell by 1.1%, while export sales prices rose by 1.0%. 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 January 2024, in export sales, prices fell by 2.7% in manufacturing, which accounts for 82.9% of total sales, and by 36.6% in energy, which accounts for 16.7% of total sales. Meanwhile, domestic sales prices declined by 3.8% in manufacturing, which accounts for 60.0% of domestic sales prices, and by 16.6% in energy, which accounts for 38.6%. Domestic sales prices in the food industry fell by 6.2% year on year.

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

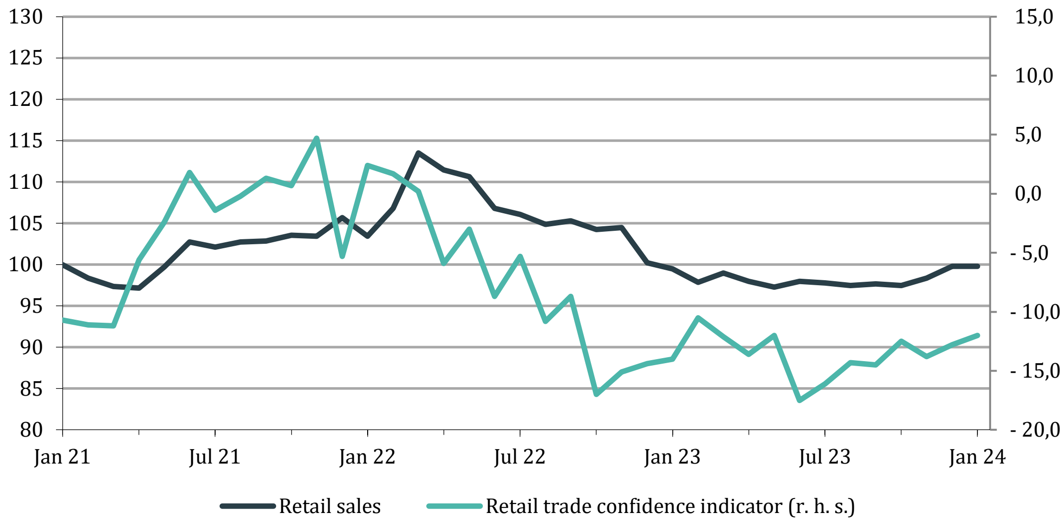
The volume of retail sales increased by 0.6% in January.

In January, retail sales increased by 0.6% year on year on both a raw and calendar-adjusted basis. On a positive note, retail sales volumes increased on an annual basis for the first time in a long time. This result could mark a trend reversal after the steady decline seen in 2023. 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 the first month of 2024, turnover in specialised and non-specialised food shops increased by 0.2%, while turnover in non-food shops decreased by 0.9%. In the retail sales of automotive fuel, turnover volumes increased by 4.6% in January 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 1.0%, while it decreased by 2.1% in specialised food, beverage and tobacco stores. In non-food retailing, the volume of furniture and electric goods decreased by 8.2%, books, newspapers and stationery by 9.8% and second-hand goods by 8.4% year on year. There was also a significant decrease for textiles and footwear (8.1%). In contrast, the biggest sales increase (11.9%) was in fragrances. For nonfood products, only this, mail order and internet retailing (4.3%) and pharmaceuticals and medical products (5.5%) showed an increase.

FIGURE 7: RETAIL SALES AND RETAIL CONFIDENCE INDEX (JANUARY 2021 = 100%)



Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Eurostat, Századvég

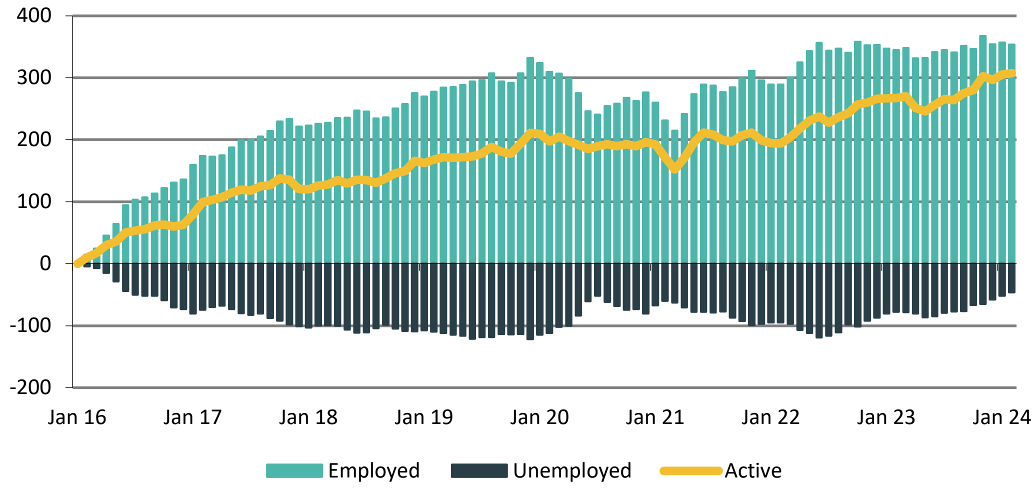
The unemployment rate was 4.7% in February.

In February 2024,[1] the seasonally adjusted activity rate of the population aged 15–74 was 67.3% (4,914,000 persons), which means a labour market growth of 41,000 compared to the same period of the last year. In the period under review, the seasonally adjusted number of employees was around 4,684,000, a year-on-year increase of 9,000. The number of the unemployed continued to rise, to 229,000, a year-on-year increase of 32,000. 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 January, the seasonally adjusted number of employees decreased by 7,700 compared to the same period last year. The number of people employed in the competitive sector fell slightly, with 4,500 fewer people working in enterprises with 5 or more employees compared to January 2023. However, the public sector has seen a significant reduction of 10,200 fewer employees in the past year. The number of people employed in the non-profit sector increased by 7,000 in one year.

[1] Three-month moving average

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



Remark: Seasonally and calendar adjusted indices.

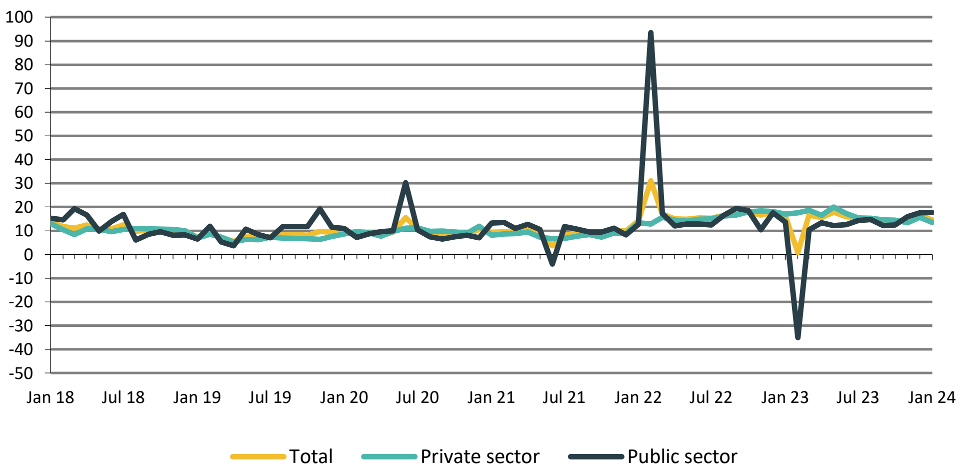
Source: Hungarian Central Statistical Office, Századvég

Real earnings continued to rise in January.

In January, the average gross earnings in the national economy was HUF 605,100, up 14.6% compared to the same period last year. The highest average gross earnings were recorded in the competitive sector, at HUF 611,400. 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 493,700, 16.9% 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 416,600, 14.5% higher than in January 2023. Real earnings increased by 10.4%, while consumer prices rose by 3.8%.

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

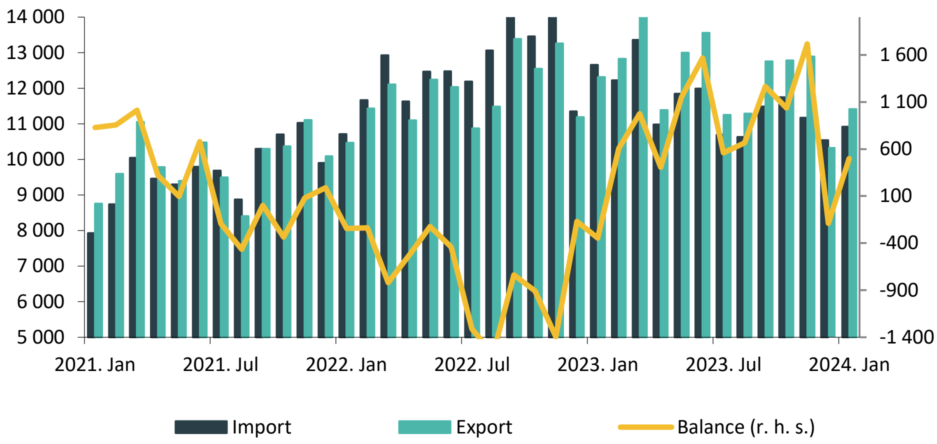
In December, the volume of exports of goods decreased by 8.4%, and imports by 0.8% year on year. The trade deficit was, therefore, EUR 271 million, EUR 27 million less than in the previous year.

In December, the import volume of food products, beverages and tobacco decreased by 14.0%, and their export volume increased by 5.0% year on year. As for fuels and electric energy, imports increased by 57%, while exports by 26%. As for manufactured products, imports decreased by 5.6%, and exports by 6.1% year on year. As for machinery and transport equipment, imports decreased by 7.5%, and exports by 13.0%.

The trade balance improved in January.

In January 2024, the first estimate put the value of exports in euro at 7.4% lower and imports in euro at 14.0% lower than a year earlier. This brought the trade surplus in goods to EUR 497 million, which is EUR 900 million better than a year earlier.

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



Remark: The January 2024 figures are from the first estimate.

Source: Hungarian Central Statistical Office, Századvég

2.5 Fiscal outlook

February's deficit of HUF 1,758.8 billion is the second highest monthly deficit in 14 years.

At the end of February 2024, the deficit of the general government subsector stood at HUF 1,704 billion. The deficit was made up of a deficit of HUF 1,759.5 billion of the central budget, a deficit of HUF 23.5 billion of social security funds, as well as a surplus of HUF 79 billion in extra-budgetary funds. February's monthly deficit of HUF 1,758.8 billion is also the second highest monthly deficit in 14 years.

The Ministry of Finance has highlighted three factors as the reasons for the high deficit:

- the seasonality of VAT disbursements,
- the 13th monthly pension payment,
- and the interest payments on certain series of Premium Hungarian Government Securities (PMÁP),

which were payable in February.

Central government revenue in February was 11.4% higher than in the same period of the previous year.

Payments by economic units increased slightly, by 1.7%, HUF 7.7 billion, compared to the first two months of 2023. Corporate tax receipts, the most significant item, were 19.9% (HUF 23.4 billion) higher by the end of February, while tolls were HUF 20.6 billion higher than in the first two months of the previous year. The temporary special taxes levied in 2022 showed a mixed picture, but overall payments decreased compared to the same period in 2023. This was due to the fact that payments by the energy sector, the largest item, fell by HUF 49.7 billion, and mining royalties, also a major item, fell by HUF 33.7 billion. The increase in other special taxes only partially offset the decline in the two large items mentioned above.

Revenues from taxes on consumption increased by 2.9% (HUF 39.1 billion) compared to a year earlier. Within this, the most significant item, value-added tax receipts, were HUF 12.5 billion (1.2%) lower than at the end of February in the previous year. VAT receipts were still down 2.6%. Excise tax receipts have started to pick up, with an increase of HUF 11.8 billion (5.3%) at the end of February, following a decline in January. Receipts growth was also supported by a significant increase in insurance tax and tourism development contribution payments, with HUF 25.5 billion and HUF 13.5 billion respectively in the first two months.

Personal income tax receipts increased by 15.2% (HUF 100.9 billion) compared to the figure measured at the end of February 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 16.5% (HUF 186.1 billion) compared to the same period of the previous year, also caused by wage increases.

Revenue from EU programmes was HUF 280.4 billion in the first two months, HUF 72 billion more than in the first two months of 2023. In contrast, expenditure on EU programmes amounted to HUF 192.1 billion, HUF 121.2 billion less than the previous year.

In January 2024, central government expenditure was 11.5% higher than in the previous year. Within this, central government budgetary spending increased by 12%.

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 334.1 billion in January, down HUF 283.1 billion, i.e. 45.9%, on the same period last year.

Housing subsidies decreased by HUF 126.4 billion, or 85.6%, compared to the same period last year. The decrease is due to the closure of the Home Renovation Programme at the end of 2022.

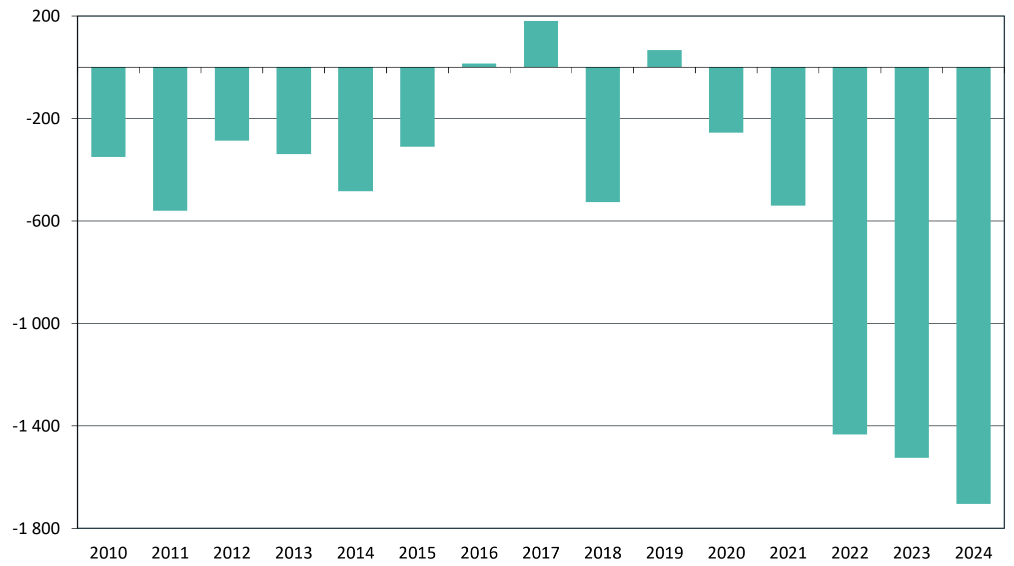
Expenditure on central budgetary institutions and chapter-administered appropriations was HUF 364.7 billion higher than in the first month of the previous year. This corresponds to an increase of 23.2%, while the current Budget Act would provide for a reduction of 12%.

Expenditures related to state property amounted to HUF 512.6 billion, HUF 127.6 billion more than the end-February 2023 figure, and reached 96% of the 2024 budget estimate.

In February 2024, pensions amounted to HUF 1420.7 billion, an increase of 11.1% compared to the same period last year. During the same period, the Health Insurance Fund spent HUF 712.3 billion, an increase of 7.5% 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 5.6%.

The balance of interest expenditures and receipts was HUF 438.6 billion (136.1%) more negative than in February of the previous year.

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



Source: Ministry of Finance, Hungarian State Treasury;

2.6 Monetary developments

In February, prices increased by 3.7%, on average.

In February 2024, consumer prices increased by 3.7% on average relative to the same period of the previous year. In the past year, the highest price increases have been in services (10.0%). Prices of electricity, gas and other fuels fell by 9.0% compared to a year earlier, due to the inclusion of the base effect. Consumer prices rose by 0.7% on average over a month. The seasonally adjusted core inflation rate showed a year-on-year increase of 5.1%.

A more significant contribution to the 3.6% average increase in food prices came from the 32.8% rise in sugar prices, the 14.4% rise in chocolate and cocoa prices, the 12.7% rise in the prices of non-alcoholic beverages and the 12.2% rise in the prices of buffet products. The 12.2% rise in the price of a cup of coffee in catering, the 9.4% rise in pork prices and the 9.0% rise in the price of fruit and vegetable juice also exceeded the average food inflation rate for the month. In contrast, deflation is already evident in many cases: flour prices fell by 19.6%, eggs by 19.1%, butter by 15.3% and pasta products by 13.4%. The main drivers of the 5.3% average inflation in alcoholic beverages and tobacco were primarily the 9.5% increase in wine prices.

The average price decrease of 2.0% for durable consumer 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 stabilising forint exchange rate. Looking at the main group, above-average increases were also recorded for kitchen and other furniture (6.9%), jewellery (4.3%) and washing-machines, spin-dryers (3.1%). The deflation of durable consumer goods is moderated by a 4.2% decrease in television prices and a 4.5% decrease in the prices of computers, cameras and phones. It is also important to highlight the improving trend for second-hand passenger cars: in February, second-hand passenger cars were already 10.5% 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 February was 9.0% year on year. Within electricity, gas and other fuels, the price of natural and manufactured gas fell by 19.3% and electricity by 3.3% over the past year. The price of firewood was also 1.9% lower.

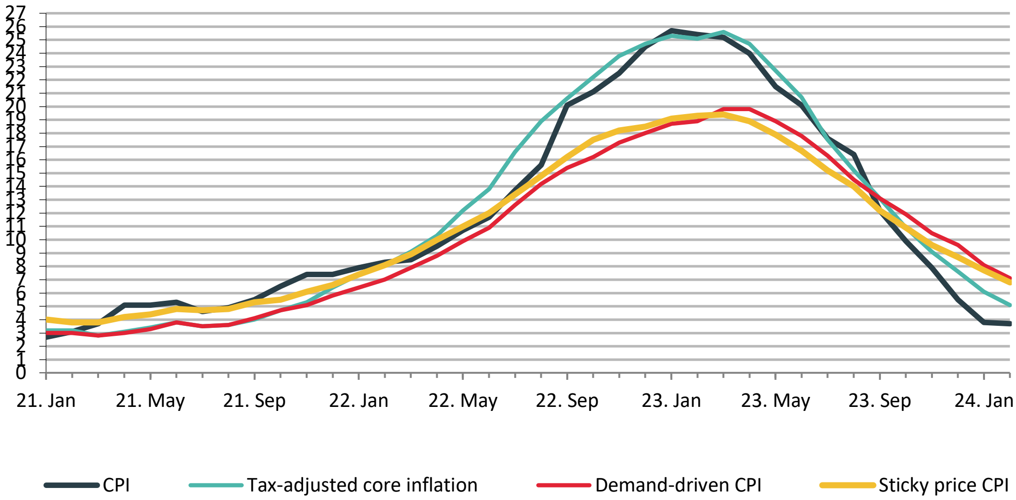
In February, the price of services rose by an average of 10.0%, with theatre up 26.3%, postal services up 21.7%, games of chance up 20.2% and cinema up 15.5%. The average increase in the price of services was moderated by, among other things, the prices of refuse disposal, water charges and sewerage 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 with the previous month, consumer prices rose by 0.7%, with food prices increasing by 0.2% on average. The biggest contributor to the increase was a 1.1% rise in the price of seasonal food. Prices of services rose by 0.6% on a monthly basis, while the price of electricity, gas and other fuels increased by 0.6% compared with the previous month. The price of

Currencies of regional competitors broadly stagnated against the euro.

motor fuels and oils increased by 6.7% compared to January, which had a significant impact on monthly inflation.

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

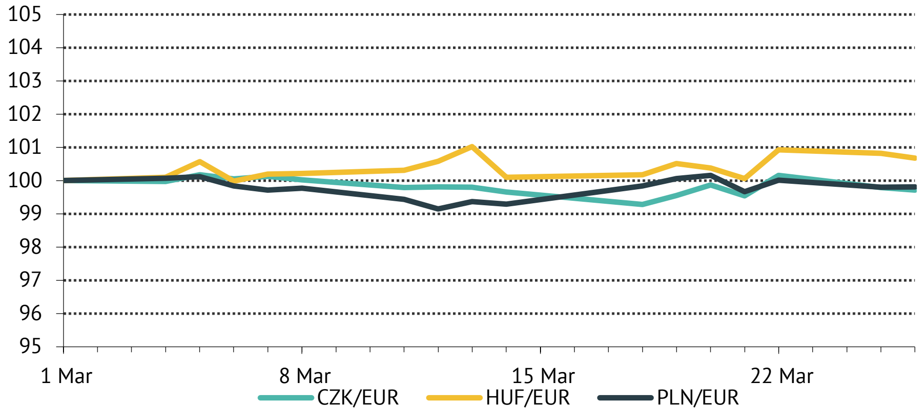


Source: MNB, Századvég

Among the core inflation indicators published by the MNB, the core inflation rate net of indirect taxes was 5.1%, the core inflation rate excluding processed food was 7.1% and the sticky price inflation rate was 6.8% in the second month of the year.

The regional currencies under review moved against the euro in March. In the past period, the Czech koruna weakened by 0.3%, the Polish zloty weakened by 0.2% against the Euro. Government bond yields also increased over the period, with the Czech 10-year government bond yield 4 basis points higher at 3.85%, and the Polish 10-year yield 25 basis points higher at 5.57%.

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



Source: Refinitiv, Századvég

The Hungarian currency strengthened against the Swiss franc, while it weakened slightly against the euro and the dollar.

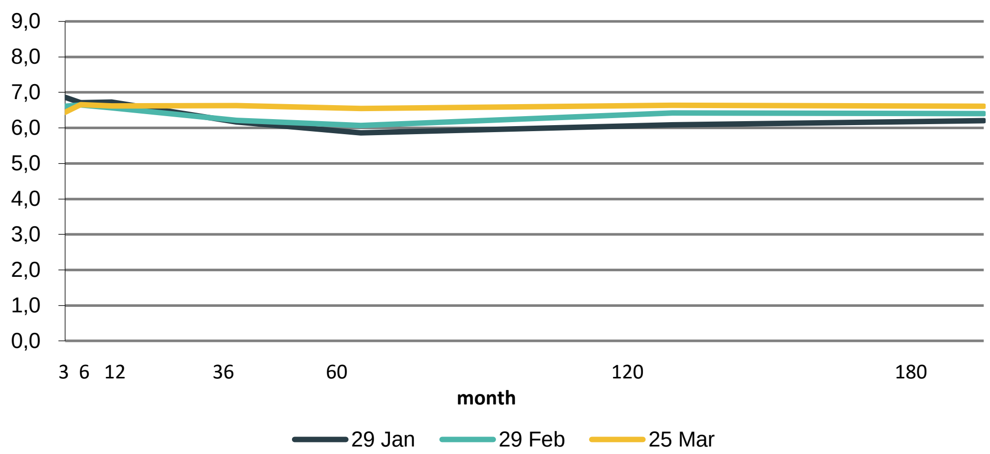
Hungarian money and foreign exchange market indicators showed a mixed picture over the last month. The HUF weakened by 0.7% against the Euro and strengthened by 1.5% against the Swiss franc. It weakened by 0.3% against the US dollar. This means that at the end of March 2024, 1 euro was worth 396 forints, 1 US dollar was worth 365 forints and 1 Swiss franc was worth 405 forints. In March, forint-denominated government debt held by foreigners fell by HUF 236 billion to HUF 7,164 billion.

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

At its March 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 8.25%, down 75 basis points. Accordingly, the upper limit of the interest rate corridor was changed to 9.25% and the lower limit to 7.25%. The pace of monetary easing has been gradual, with the central bank's communication saying that the decision was based on better-than-expected inflation developments during the month.

In the government bond market, yields for shorter maturities varied between -17 basis points and 5 basis points on the secondary yield curve in March. This means that the 3-month yield was 6.44%, the 6-month yield was 6.66% and the 1-year yield was 6.62% on 29 March. The 3-year yield increased by 42 basis points to 6.63%. Yields are up 48 basis points over the 5-year horizon, 22 basis points over the 10-year horizon and 21 basis points over the 15-year horizon compared to the previous month. These three yields changed, therefore, to 6.55%, 6.64%, and 6.61%, respectively.

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



Source: GDMA, Századvég

On 18 March 2024, the total value of "MÁP Plusz" government securities held by retail investors was HUF 759.76 billion after a HUF 13 billion decrease from the HUF 772.63 billion level in mid-February 2022. In addition, the total value of PMÁP securities decreased to HUF 7,113.76 billion, while the total value of the "Bónusz" Hungarian Government Bonds was HUF 935 billion. The total stock of government securities held by retail investors stood at HUF 10,231.6 billion in mid-March 2024, up from HUF 9,810.2 billion at the beginning of 2024, i.e. HUF 212.9 billion more than in the second month of 2024.

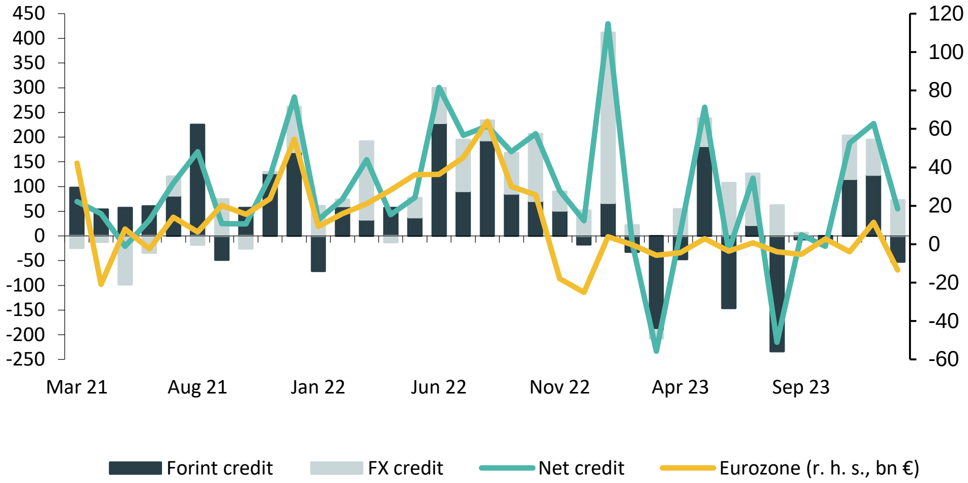
The share of foreign currency debt in the sovereign debt changed to 28.9% in January (i.e. increased by 2 percentage point from the previous month), which is in the range (maximum 30%) specified in the financing plan for 2024 of Government Debt Management Agency Ltd. Over the previous year, average foreign currency debt averaged 26.2%, a share of foreign currency debt lower than in January.

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 52.5 billion in January 2024. However, the value of net foreign currency lending increased, with net borrowing amounting to HUF 72.5 billion in the first month of the year. Seasonally adjusted total net borrowing amounted to HUF 54.8 billion in the period under review. Corporate loan repayment in the euro area was EUR 13.5 billion in January 2023.

FIGURE 15: CORPORATE BORROWING (HUF BILLION)



Source: MNB, ECB, Századvég

3. Macroeconomic forecast

In 2023, the volume of Hungarian gross domestic product (GDP) fell slightly by 0.7%, while growth is likely to remain subdued in the following years. We expect Hungarian economic output to grow by 2.7% in 2024 and 3.4% in 2025. This year and next will be marked by a slow recovery process.

Looking at global developments, the decline and expected further moderation in global oil prices should ease external and internal inflationary pressures. Weakening German growth prospects may have a downward impact on Hungarian exports in the period ahead. Geopolitical tensions such as the Russia-Ukraine war or the conflict in Gaza could be a cause for concern.

Inflation was 17.1% in 2023, mainly due to high core inflation. Over the forecast horizon, inflation could ease steadily thanks to declining external inflationary pressures, an expected moderation in producer prices and a high base in 2022. Some moderation or even an increase in year-on-year dynamics is expected this year, but inflation could still be lower than in the past at 4.4%. In 2025, the CPI could return to the target range, with an average inflation rate of 3.7%, according to our calculations.

As disinflation strengthened, the Magyar Nemzeti Bank started to cut its policy rate in early 2023, reaching the level of the base rate in September. We expect monetary policy to ease further this year, with inflation returning to the central bank's target range of 3±1% in 2025 at the earliest.

Economic growth is expected to be subdued at 2.7% this year, followed by 4.4% next year. Slowly recovering domestic demand will be the main expansion driver in both 2024 and 2025. As inflation moderates slowly and real wages increase, consumption is expected to rise gradually. Consumption could rise by 2.6% this year and 4.0% next year. Investment could be supported in particular by easing interest rate conditions, the arrival of EU funds and strengthening business trust. In 2024 (after -14.4% in the previous year), investment volumes could rise by 9.6%. Investment could grow by 4.8% in 2025.

The past year brought changes in the labour market as well. In 2023, employment continued to grow in line with the previous trend, while unemployment also started to rise slightly, reversing the previous downward trend. 2023 saw burdens on households rise, mainly due to an increase in overall price levels. This process encouraged more previously inactive households to re-enter the labour market. Last year's figures show that nearly half of those entering the labour market were able to find a job within a short time, while the other half are slower to find a job. We forecast that the changes observed last year will continue this year, with employment continuing to expand and unemployment rising, the latter to 4.4%, and the market returning to its previous state by 2025, when the unemployment rate will fall back to 3.2% while employment remains high.

Net exports may not support Hungary's economic growth in 2024, but they will from 2025 onwards. Domestic exports heavily depend on German economic output, with negative news at the beginning of the year carrying downward risks. Exports could grow by 5.9% this year and 7.7% next year. Imports, supported mainly by consumption and export growth, could rise by 7.6% in 2024 and 7.5% in 2025.

Our calculations suggest that the ESA deficit on an accrual basis reached 6.3% of GDP at the end of 2023, but this could still be affected by the accounting of EU funds received at the end of the year. The government forecast showed that gross government debt as a share of GDP fell to 73.4% at the end of last year. In 2024, the ESA general government deficit could reach 4.5% of GDP, in line with government plans that have not yet been officially released, but there are already material downside risks to the deficit target. We expect government debt to fall further to 72.4% of GDP by the end of the year.

4. Századvég's forecast[2]

TABLE 1: Q1 2024 FORECAST

	2023	2024	2025
Gross domestic product (volume index)	-0.7	2.7	3.4
Household final consumption expenditure (volume index)	-2.0	2.6	4.0
Gross fixed capital formation (volume index)	-14.4	9.6	4.8
Export volume index (based on national accounts)	-0.1	5.9	7.7
Import volume index (based on national accounts)	-5.1	7.6	7.5
Balance of trade in goods (EUR billion)	0.4	2.2	6.9
Consumer price index (%)	17.1	4.4	3.7
Central bank base interest rate at the end of the period (%)	11.4	6.5	5.7
Unemployment rate (%)	4.1	4.4	3.2
Current account balance as a percentage of GDP	1.0	1.6	3.2
Net lending as a percentage of the GDP	3.3	3.8	5.2
ESA balance of public finances as a percentage of GDP	-6.3	-4.5	-3.7
Sovereign debt as a percentage of GDP	73.4	72.4	71.5

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.

[2] Date of preparation: 25 March 2024