MACRO MONITOR

April 2024

Századvég
Konjunktúrakutató Zrt.

Századvég

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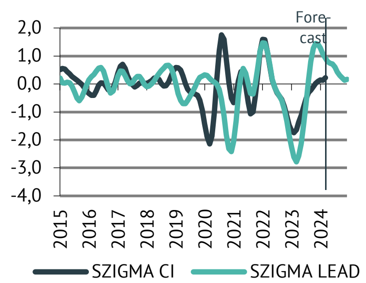
1. Summary

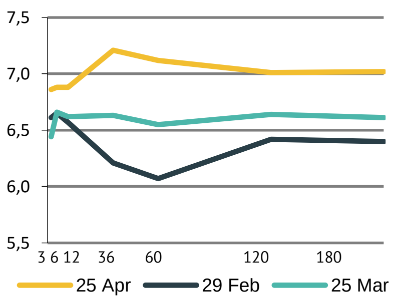
Preliminary data show that the Hungarian economy grew on both a monthly and annual basis in Q1 2024. Hungarian GDP expanded by 1.1% in raw data terms and by 1.7% in seasonally and calendar-adjusted and balanced data. In addition, the gross domestic product increased by 0.8% quarter on quarter.

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 April 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 7.75%, after a 50 basis point cut.

In February, retail sales increased by 1.1% year on year on both a raw and calendar-adjusted basis. Within this, specialised and non-specialised food retailing increased by 2.7%, while non-food retailing decreased by 2.1%. The turnover volume of petrol stations increased by 3.9% compared to the same period last year.

Measured up to March 2024, the value of the monthly SZIGMA CI indicator, which provides a snapshot of the current state of the Hungarian economy, was -0.223. This is a significant strengthening from the previous month's index value of -0.197. As a result, the growth rate of the Hungarian economy exceeded its historical trend rate, which last occurred in May 2022.

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 but also to be above the trend and then to turn into stagnation by the end of the forecast horizon. Compared to last month's forecast, the indicator projects a positive outlook.

In March 2024, consumer prices rose by an average of 3.6% on an annual 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.

March 2024 data from Eurostat, the official statistical office of the European Union, show that the annual inflation rate in the euro area slowed to 2.4%, a minimal decrease of 0.2 percentage points from 2.6% in February. It is important to note that this rate is a significant improvement compared to 6.9% a year earlier. For the European Union as a whole, annual inflation was 2.6% in March, also down from 2.8% in February and a significant change from 8.3% a year earlier.

March CPI data reflect a general decline in the European context, but also increases in some areas. Annual inflation accelerated slightly in Belgium (by 0.2 percentage point to 3.8%), Greece (by 0.3 percentage point to 3.4%) and Spain (by 0.4 percentage point to 3.3%), among others. The lowest inflation rates are in the Baltic States (0.6% in Latvia, 1.1% in Lithuania) and Italy (1.2%). Among the Central and Eastern European countries, inflation was 2.7% in Poland, 2.7% in Slovakia and 2.2% in the Czech Republic. Within the EU, the highest harmonised indices of consumer prices were in Romania (6.7%) and Croatia (4.9%).

An analysis of March inflation data shows that the services sector contributed most to the increase in the annual inflation rate, with 1.76 percentage points. This was followed by food, alcoholic beverages and tobacco products, which contributed 0.53 percentage points to the rise in inflation. The category of non-energy products also plays a significant role with a contribution of 0.3 percentage points. In addition, it is important to underline the continued negative contribution of the energy sector to inflation, which shows a decline of 0.16 percentage points. Compared to previous months, deflation was less pronounced, not due to the rise in energy prices, but rather to the build-up of the base effect.

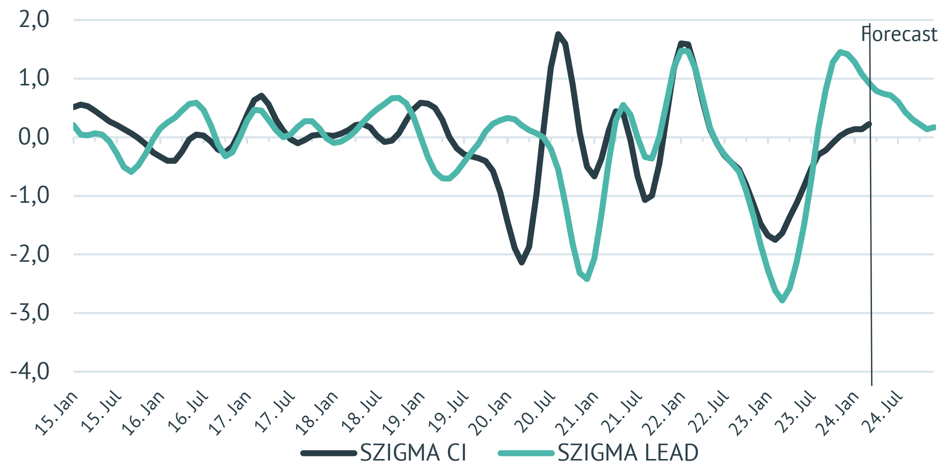
2.2 Our SZIGMA indicators

The short-term forecast is for the Hungarian economy to grow above the trend rate this year.

In April 2024, the value of the SZIGMA CI indicator, which reflects the current state of the Hungarian economy, was 0.223 up to March 2024. This is a significant strengthening from the previous month's index value of -0.197. This means that the growth rate of the Hungarian economy exceeded its historical trend rate for the first time. The last time this happened was in May 2022, after which the Hungarian economy grew below its historical trend rate. 2024 begun with the inflation rate falling further and real incomes continuing to rise, leading to a slow pick-up in household consumption. Q1 2024 GDP expanded more strongly than expected, by 1.1% on an annual basis in raw data terms and by 1.7% on an annual basis in terms of seasonally and calendar-adjusted and balanced data. However, this expansion was driven by the performance of market services, mainly 2 sectors (real estate transactions; information and communication), according to preliminary data from the Hungarian Central Statistical Office. Meanwhile, industry, which accounts for a significant share in GDP performance, held back Q1 performance. In construction, the latest, February 2024, seasonally and working-day adjusted fixed-base **construction** output volume decreased by 8.5% from the previous month, while it increased by 3.7% on an annual basis. In the main groups of construction, construction of buildings (5.9%) and civil engineering works (4.2%) both declined on a monthly basis. On a fixed base, the stock of construction orders at the end of the month increased by 4.9% on a monthly basis, but fell by 7.6% on an annual basis. The number of new non-residential construction projects increased by 11.9% month on month and decreased by 11.7% year on year. **In industry**, the latest figures, for February 2024, show that the seasonally and working-day adjusted volume of industrial production, calculated on a fixed basis, increased by 3.5% month on month and by 1.2% year on year. The volume of industrial sales (domestic and exports combined), seasonally and working-day adjusted and calculated on a fixed basis, increased by 2.8% month on month and decreased by 1.3% year on year. The decline in domestic industrial sales contributed to this. While export industrial sales grew by 7.0% month on month and by 0.5% year on year, domestic industrial sales contracted by 0.2% on a monthly basis and by 3.3% on an annual basis.

In April 2024, our short-term leading indicator, SZIGMA LEAD, forecasts above-trend growth over the forecast period. However, this is a drastically declining growth rate that could improve by the end of the forecast period. The modest, sideways-moving and declining growth path seen for two months has picked up in the previous month, but the weakening of the growth rate of the Hungarian economy is expected to stop and recover by the end of 2024, based on current data. Turning to the future outlook, total seasonally and working-day adjusted new industrial orders on a fixed basis increased both on a monthly basis (20.4%) and on an annual basis (24.3%). This was driven by the increase in the stock of new industrial export sales orders and the stock of new industrial domestic orders. The stock of new industrial export sales orders rose by 22.8% month on month and by 28.4% year on year. The stock of new industrial domestic sales orders rose by 7.3% month on month and by 1.0% year on year, which may continue to indicate an improving trend. Despite the month-on-month increase of new sales orders in the industry, only industrial domestic sales orders could increase month on month, while industrial export sales orders fell both month on month and year on year, and new industrial domestic sales orders fell year on year, which may point to a further weakening of industrial production. As for the German and EU indices affecting the Hungarian economy, the Ifo Business Climate Index for March 2024, **which measures change in business sentiment in the German economy**, strengthened by 2.3 index points from the previous month to stand at 87.9 index points in March, while it deteriorated by 4.9 index points year on year. In March 2024, the **Eurostat**'s consumer confidence index improved both month on month (3.4 index points) and year on year (11.0 index points). This month it stood at -23.1 index points.

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



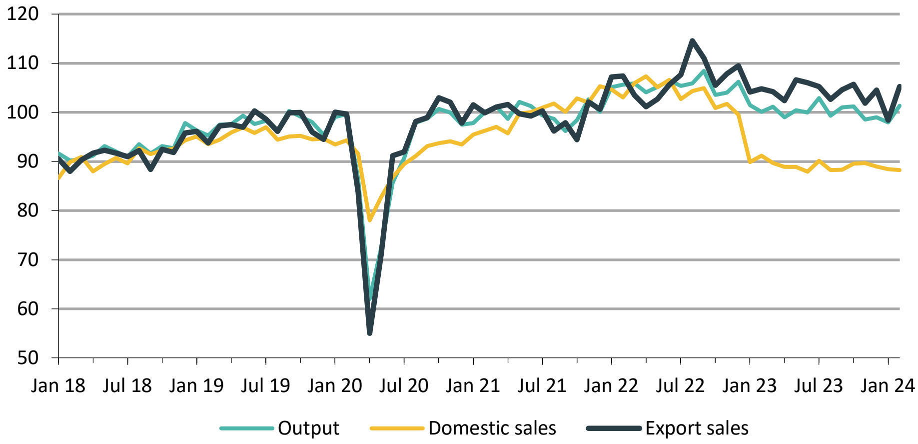
Source: Századvég

2.3 The real economy

Hungarian industrial output volume, adjusted for seasonal and working-day factors, increased by 3.5% month on month.

Compared with the same period of the previous year, industrial production increased by 1.8% year on year according to raw data and by 1.4% according to working-day adjusted data in February 2024. The volume of industrial production, adjusted for seasonal and working-day factors, increased by 3.5% month on month. Overall **industrial sales** contracted by 0.1% in February 2024 compared with the same period of the previous year, driven by an 2.6% decline in domestic industrial sales and a 1.4% increase in export sales. In February 2024, seasonally and working-day adjusted domestic industrial sales fell by 0.2%, while industrial export sales increased by 7.0% compared to January 2024. 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 are stagnating at a lower level, that of early 2018, the volume of export industrial sales continues to decline and is currently at or below pre-pandemic levels.

FIGURE 2: 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 increase in industrial production in February 2024 was due to a 1.8% expansion in manufacturing, as 96.5% of industrial production came from manufacturing. In February 2024, compared to the same period of the previous year, eight manufacturing subsectors out of 13 were able to increase their production. The largest volume growth rate (10.3%) was achieved by the food industry, which is the second largest. This was followed by a small sub-sector, the manufacture of coke and refined petroleum products, with 9.8%. The sub-sector with the third highest volume growth rate (6.5%) was the manufacture of pharmaceuticals, medicinal chemical and botanical products. The manufacture of transport equipment, which accounts for more than a quarter of manufacturing output (27.6%), increased its industrial output by 1.6%. The manufacture of electrical equipment, which has the third largest share (11.2%), saw a 0.8% year-on-year volume decline, of which battery and dry cell manufacturing grew by 6.0%, while the production of generating, distributing and controlling equipment fell by 19.9%. Mining and quarrying, which account for 0.4% of industrial production, increased its output by 15.3% year on year. At the same time, production in the energy industry, which accounts for 3.1% of the total, fell by 7.6% year on year.

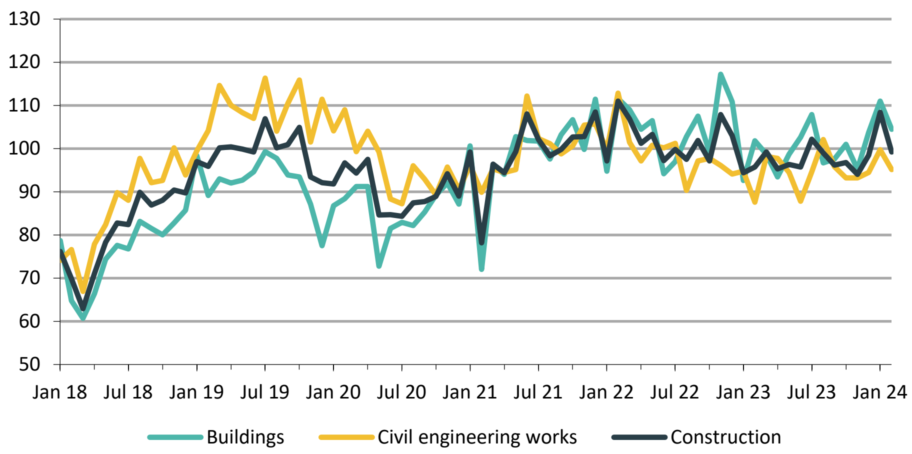
In February 2024, the total stock of orders of key manufacturing industries monitored by the Hungarian Central Statistical Office decreased by 19.6% year on year at comparable prices, with the base effect not playing any role. The main factor driving the decline in the stock of orders was the decline in the stock of export orders. While the stock of domestic orders fell by 10.9%, the stock of export orders fell by 20.1%.

In February 2024, the **stock of new orders** in key manufacturing industries increased by 24.3% year on year at comparable prices. The effect of a low base also played a minor role in this, in addition to the growing stock of new industrial export and domestic orders. The stock of new industrial export orders grew by 28.4%, to which the effect of the low base also contributed to a limited extent. Besides the low base, the stock of new industrial domestic orders expanded by 1.0% compared to the same period last year. The largest decline in the stock of new industrial export orders occurred in the manufacture of pharmaceuticals, medicinal chemical and botanical products (17.6%), the manufacture of chemicals and chemical products (14.2%) and the manufacture of electrical equipment (12.1%). The largest decline in the stock of new industrial domestic orders (39.0%) was in the manufacture of computer, electronic and optical products, followed by the manufacture of machinery and equipment n.e.c. (29.8%). The third largest decrease in the stock of new orders (9.7%) was in the metals industry.

In January 2024, construction output shrank by 8.5% compared with the previous month, while it expanded by 3.2% on an annual basis.

In February 2024, the annual volume of construction output increased by 3.2% in terms of raw data. Within the two main groups of construction, the construction of buildings increased by 2.8% year on year, while civil engineering works (roads, bridges, railways, complex industrial facilities, pipelines, etc.) increased by 4.4%. Compared with the previous month, seasonally and working-day adjusted construction output decreased by 8.5%, affecting both main groups of construction. Output of construction of buildings contracted by 5.9% and that of civil engineering works by 4.6%. There are high expectations that the recently announced home renovation programme will help boost construction output.

FIGURE 3: CHANGES IN THE CONSTRUCTION INDUSTRY (MONTHLY AVERAGE FOR THE YEAR 2021 = 100%)

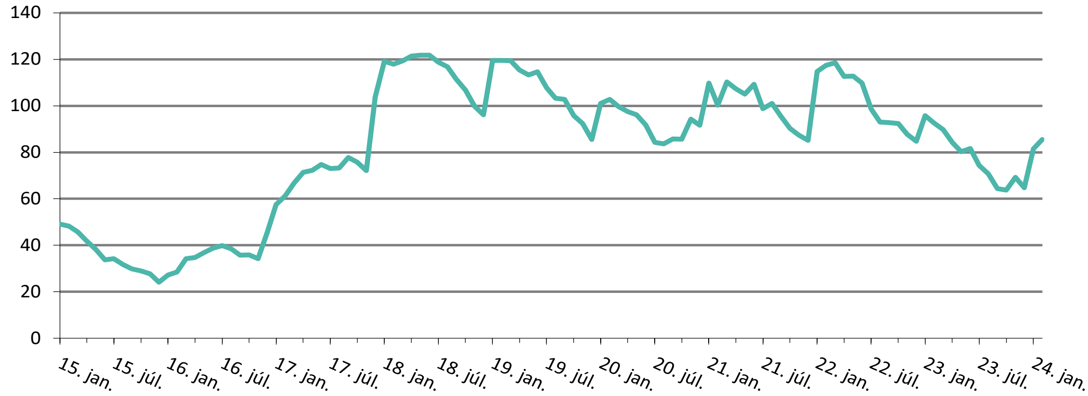


Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Századvég

Looking ahead, construction output may improve. 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 decreased by 30.8%, which was only due to a decrease in the stock of new contracts for the construction of buildings (69.6%). Meanwhile, the stock of new contracts for the construction of civil engineering works more than doubled. According to a communication by the KSH, this outstanding performance could be attributed to new contracts for road development. While the stock of new construction contracts signed in the month under review fluctuates continuously, the change in the stock of construction contracts at the end of the month under review may point to a more favourable trend. On a monthly basis, the stock of contracts at the end of February 2024, on a fixed base, increased by 4.9%, as illustrated in the graph below. Of the two main groups, only the expansion in civil engineering works (15.6%) contributed to the stock of contracts at the end of the month under review Meanwhile, the stock of contracts for the construction of buildings at the end of the month under review fell by 5.5%.

FIGURE 4: CHANGES IN MONTH-END CONSTRUCTION CONTRACTS (MONTHLY AVERAGE FOR 2021 = 100%)



Source: Hungarian Central Statistical Office, Századvég

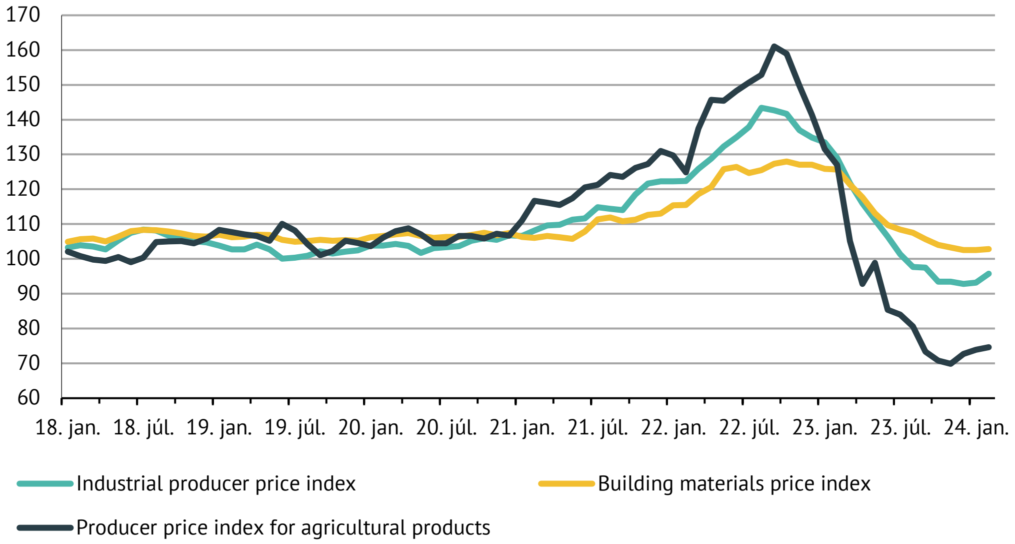
In February 2024, domestic sales prices in the food industry fell by 6.7% year on year.

In February 2024, the industrial producer price index and the agricultural producer price index continued to decrease year on year. The building materials price index stagnated compared with the previous month, as the **building materials** price index rose by 2.8% year on year in February 2024. Compared with the same period of the previous year, the **agricultural** producer price index fell by 25.4% in February 2024, in which the high base still played a great role, although now to a much lower extent. Despite the fall, producer prices for 3 products (potatoes, vegetables and fruits) increased. Potatoes producer prices increased by 5.5%, vegetables producer prices by 14.8% and fruits producer prices by 32.0%. For crops, partly due to the base effect, producer prices fell by 46.8% year on year for cereals, 31.6% for industrial crops and 31.4% for agricultural and horticultural products. However, the base for animal products is still high. As a result, producer prices fell by 9.6% for livestock and 23.1% for animal products. In February 2024, **industrial** producer prices fell by an average of 4.3% on an annual basis and increased by 0.5% on a monthly basis. On an annual

The volume of retail sales increased by 1.1% in February.

basis, domestic sales prices fell by 5.8% and export sales prices by 3.5%. On a monthly basis, industrial producer prices increased by 0.5% overall, of which domestic sales prices increased by 0.7% and export sales prices by 0.3%. 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 February 2024, in export sales, prices increased by 0.7% in manufacturing, which accounts for 82.9% of total export sales, while industrial producer prices fell by 33.1% in energy, which accounts for 16.7% of total export sales. Meanwhile, domestic sales prices declined by 2.0% in manufacturing, which accounts for 60.0% of total domestic sales, and industrial producer prices fell by 14.1% in energy, which accounts for 38.6%. Domestic sales prices in the food industry decreased by 6.7% compared to the same period of the previous year.

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



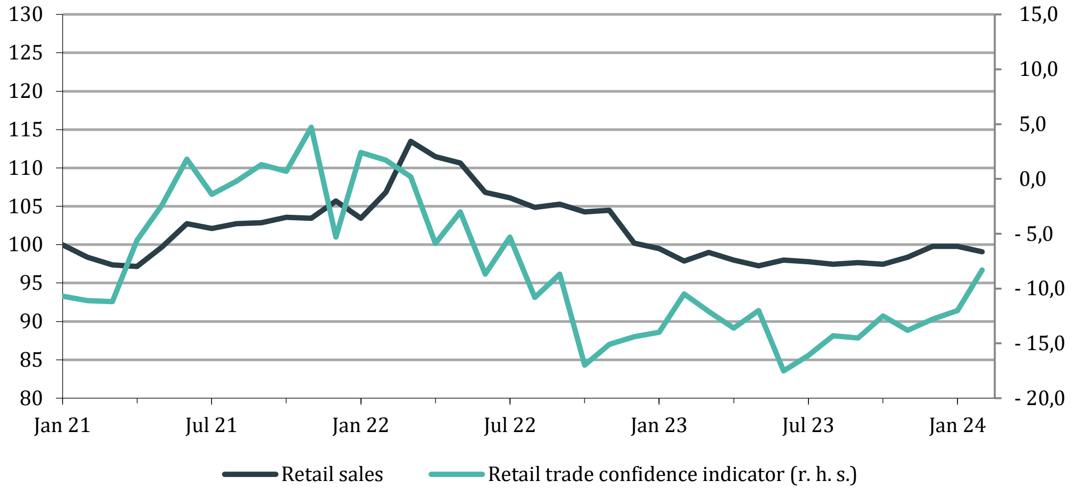
Source: Hungarian Central Statistical Office, Századvég

In February, retail sales increased by 1.1% year on year on both a raw and calendar-adjusted basis. For the first time in a long time, the volume of retail sales increased on an annual basis in January, and continued to do so in February. This recurrent positive result could mark a trend reversal after the steady decline seen in 2023. In the coming months, retail sales could also experience a sustained expansion as real wages rise, which could have a positive impact on Hungarian GDP.

In February 2024, turnover in specialised and non-specialised food shops increased by 2.7%, while turnover in non-food shops decreased by 2.1%. In the retail sales of motor fuel, turnover volumes increased by 3.9% in February compared to the previous year, mainly due to the significantly reduced turnover volumes relative to the base month after the weak results of the previous period.

In food retailing, the volume of sales in non-specialised food and beverages shops increased by 2.2% and by 1.3% in specialised food, beverage and tobacco stores, breaking the negative trend since January 2023. In non-food retailing, the volume of furniture and electric goods decreased by 10.1%, books, newspapers and stationery by 12.2% and second-hand goods by 13.0% year on year. Furthermore, a moderation was seen in clothing and footwear, where the decline in February was 2.8%, down from 8.1% in January (on an annual basis). In contrast, the biggest sales increase (7.8%) was in fragrances. For nonfood products, only this and pharmaceuticals and medical products (5.8%) showed an increase.

FIGURE 6: RETAIL SALES AND RETAIL CONFIDENCE INDEX (JANUARY 2021 = 100%)



Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Eurostat, Századvég

In March, the unemployment rate was 4.6%.

In March 2024[1], the seasonally adjusted activity rate of the population aged 15-74 was 68.1% (4,971,000 persons), which means a labour market growth of 59,600 compared to the same period of the last year. In the period under review, the seasonally adjusted number of employees was around 4,742,000, a year-on-year increase of 29,300. The number of the unemployed decreased slightly, to 229,000, a year-on-year increase of 30,300.

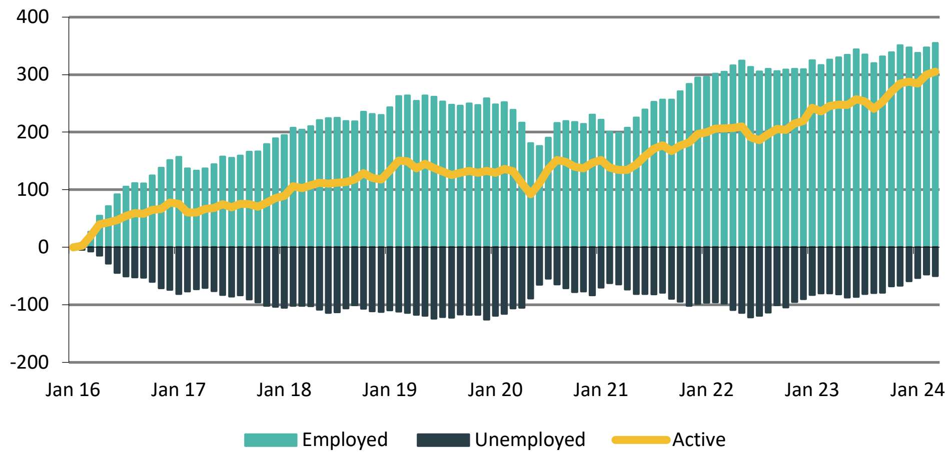
Looking at the different age groups, there are clearly discernible employment trends. In the January-March period, employment increased the most in the 55-74 age group, by 45,800, while the number of unemployed increased by 4,400. The increase in activity in the oldest age group (55-74) is striking and fits in with the multi-year trend, but the rise in cost of living may also be a factor. Over the same period, the number of employees in the 25-54 age group fell by only 100, while the number of unemployed increased by 7,700. Considering that the 25-54 age group is highly active, as they are the stable earners, the minimal decrease in employment and the increase in unemployment to this degree is not particularly significant for this age group. In the 15-24 age group, the number of employees decreased by 16,400 and the number of the

[1] Three-month moving average

unemployed increased by 18,000. The decline in employment of the youngest age group (15-24) is also a multi-year trend, partly due to the increase in the number of years spent in school, but such a rise in the number of jobseekers is outstanding. Given the favourable labour market opportunities for this age group, given their high adaptability and the tax incentives for their employment, we believe that the rise in unemployment in this age group remains a low economic risk.

In February, the seasonally adjusted number of employees decreased by 7,100 compared to the same period last year. The number of people employed in the competitive sector fell slightly, with 5,900 fewer people working in enterprises with 5 or more employees compared to February 2023. However, the public sector has seen a significant reduction of 9,000 fewer employees in the past year. The number of people employed in the non-profit sector increased by 7,800 in one year.

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



Remark: Seasonally and calendar adjusted indices.

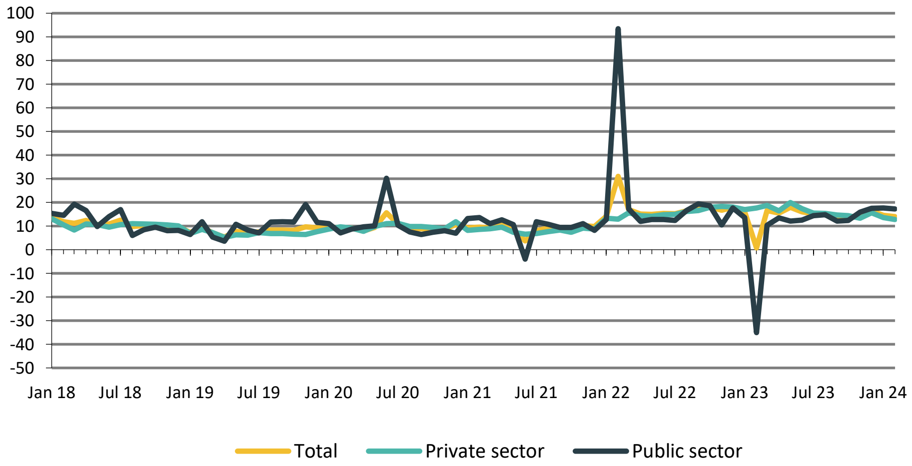
Source: Hungarian Central Statistical Office, Századvég

Real earnings continued to rise in February.

In February, the average gross earnings in the national economy were HUF 605,400, up 14.0% compared to the same period last year. The highest average gross earnings were recorded in the business sector, at HUF 611,800. The wage dynamics of the month were strongly influenced by the increase in the minimum wage (15%), the guaranteed minimum wage (10%), which came into force in December, and by government wage increases in the public sector. Median gross earnings were HUF 491,900, 15.3% 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 417,100, 13.8% higher than in February 2023. Real earnings increased by 9.9%, while consumer prices rose by 3.7%.

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



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

2.4 External balance

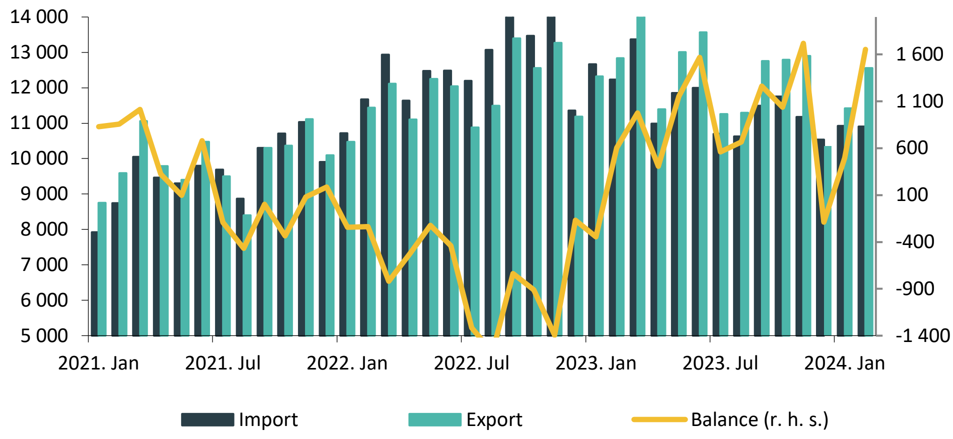
In January, the volume of exports of goods decreased by 3.3%, and imports by 8.2% year on year. This brought the external trade balance to a surplus of EUR 583 million, an improvement of EUR 986 million compared to the previous year.

In January, the import volume of food products, beverages and tobacco decreased by 6.4%, and their export volume increased by 19.0% year on year. As for fuels and electric energy, imports increased by 10%, while exports by 7.3%. As for manufactured products, imports decreased by 0.7%, and exports increased by 2.4% year on year. As for machinery and transport equipment, imports decreased by 18.0%, and exports by 9.9%.

The external trade balance improved in February.

In February 2024, the first estimate put the value of exports in euro terms at 2.4% lower and imports in euro at 12.0% lower than a year earlier. This brought the foreign trade surplus in goods to EUR 1,652 million, which is EUR 1,127 million better than a year earlier.

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



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

Source: Hungarian Central Statistical Office, Századvég

2.5 Fiscal outlook

Up to the end of March, government incomes increased by 7.4% and expenditures by 8.1%.

At the end of March 2024, the deficit of the central budgetary subsystem stood at HUF 2,321.4 billion. The deficit was made up of a deficit of HUF 2,338.3 billion of the central budget, a deficit of HUF 61.7 billion of social security funds, as well as a surplus of HUF 78.6 billion in extra-budgetary funds.

Central government revenues in the first three months of 2024 were 7.4% higher than in the same period of the previous year.

Payments by economic units increased slightly, by 1.0%, HUF 6.5 billion, compared to the first three months of 2023. Corporate tax receipts, the most significant item, were 13.2% (HUF 22.7 billion) higher by the end of March, while tolls were 38.1% (HUF 42.1 billion) higher than in the first three months of the previous year. The temporary special taxes, most of which were 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 63.1 billion, and mining royalties, also a major item, fell by

HUF 48.3 billion. The increase in other special taxes could only offset a small part of the decline in the two large items mentioned above.

Revenues from taxes on consumption increased by 6.5% (HUF 132.9 billion) compared to a year earlier. VAT receipts, the most significant item, were HUF 44.6 billion (2.8%) higher than at the end of March in the previous year. The increase in receipts is mainly due to a fall in VAT refunds, but it is also positive news that VAT payments in March increased, albeit by a very small 0.1%, compared to March 2023. Excise tax revenues also continued to grow, with an increase of HUF 43.7 billion, or 14.5%, at the end of March, compared to only 5.3% in February. It is also worth mentioning the increase in insurance tax and tourism development contribution payments, where we see HUF 26.8 billion and HUF 15.8 billion of additional revenue in the first three months, respectively.

Personal income tax receipts increased by 14.4% (HUF 135.8 billion) compared to the end of March in 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 15.1% (HUF 253.1 billion) compared to the same period of the previous year, also caused by wage increases.

Revenue from EU programmes was HUF 328.2 billion in the first two months, HUF 208.3 billion less than in the first three months of 2023. In contrast, expenditure on EU programmes amounted to HUF 533.5 billion, HUF 319.0 billion less than the previous year.

In the first three months of 2024, central government expenditure was 8.1% higher than in the previous year. Within this, central government budgetary spending increased by 8.0%.

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 461.3 billion in January, down HUF 217.8 billion, i.e. 32.1%, on the same period last year.

Housing subsidies decreased by HUF 178.2 billion, or 78.6%, compared to the same period last year. The decrease is due to the closure of the Home Renovation Programme at the end of 2022 and the end of its payments at the beginning of 2023.

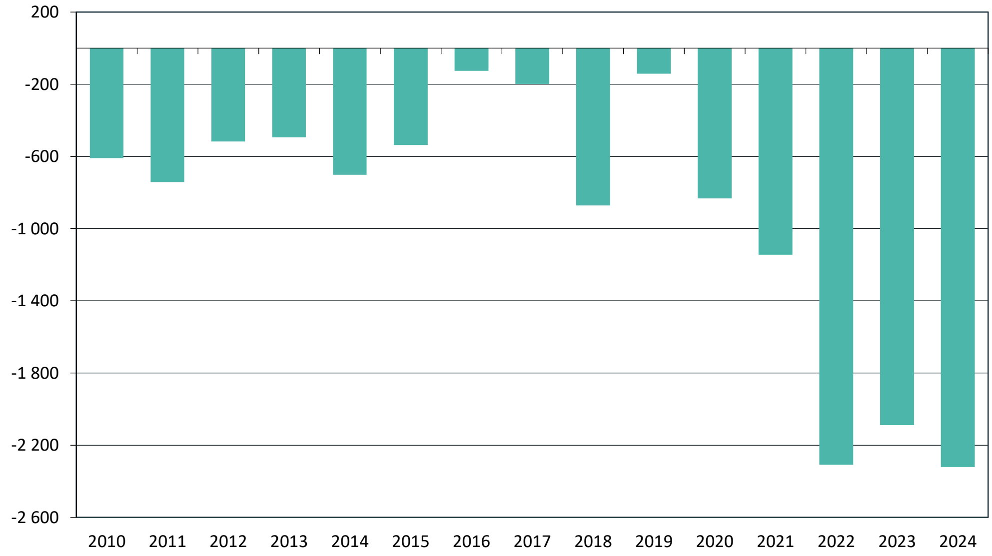
Expenditure on central budgetary institutions and chapter-administered appropriations was HUF 338.5 billion higher than in the first three month of the previous year. This corresponds to an increase of 11.9%, while the Budget Act (under revision) would provide for a reduction of 12%.

Expenditures related to state property amounted to HUF 561.1 billion, HUF 137.8 billion more than the end-March 2023 figure, and reached 105.0% of the 2024 budget estimate.

In March 2024, pensions amounted to HUF 1,895.7 billion, an increase of 10.9% compared to the same period last year. During the same period, the Health Insurance Fund spent HUF 1059.3 billion, an increase of 7.7% 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 564.2 billion (104.1%) more negative than at the end of March in the previous year.

FIGURE 10: CENTRAL SUBSYSTEM BALANCE, 2010–2024 (IN EACH MARCH, HUF BILLION)



Source: MINISTRY OF FINANCE, HUNGARIAN STATE TREASURY;

2.6 Monetary developments

In March, prices rose by 3.6% on average.

In March 2024, consumer prices increased by 3.6% on average—compared to the same period of the previous year. Over the past year, the price of services has increased the most (by 9.9%). Prices of electricity, gas and other fuels fell by 3.1% compared to a year earlier, due to the inclusion of the base effect. Consumer prices rose by 0.8% on average over a month. The seasonally adjusted core inflation rate was 4.4% higher than in the same period of the previous year.

The more significant contributors to the 0.7% average increase in food prices were the 30.9% rise in the price of sugar, the 11.6% rise in the price of chocolate and cocoa, the 11.5% increase in the price of meals at kindergartens and nurseries and the 11.3% rise in the price of meals at schools. The 10.4% inflation of cup of coffee in catering and buffet products and the 7.5% inflation of non-alcoholic beverages also exceeded average food inflation for the month. In contrast, deflation is already evident in many cases: flour prices fell by 20.3%, eggs by 19.7%, butter by 13.1% and pasta products by 13.1%. The main drivers of the 4.4% average inflation in alcoholic beverages and tobacco were primarily the 7.8% increase in wine prices.

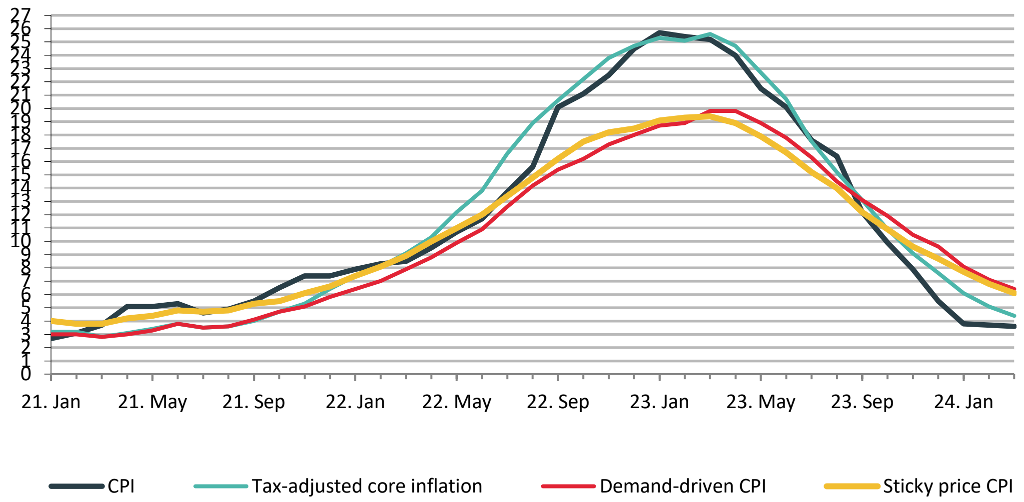
The average price decrease of 1.8% for durable consumer goods represents a significant improvement, driven by factors including strict monetary policy, sustained lower input material prices, the resumption of more efficient supply chains, falling demand and a stabilising forint exchange rate. Looking at the main group, above-average increases were also recorded for kitchen and other furniture (6.0%) and jewellery (4.6%). The deflation of durable consumer goods is moderated by a 4.6% decrease in tv set prices and a 5.4% decrease in the prices of computer, cameras and phone. It is also important to highlight the improving trend for second-hand cars: in March, second-hand cars were already 9.3% less expensive than a year earlier, which has a significant impact on the overall result for the main group, due to the high weight of just over 2%.

Thanks to the build-up of the base effect in September, the average fall in prices of electricity, gas and other fuels in March was 3.1% year on year. Within electricity, gas and other fuels, the price of natural and manufactured gas fell by 16.9% and electricity by 3.2% over the past year. The price of firewood was also 0.8% lower.

In March, the price of services rose by an average of 9.9%, with theatre up 25.9%, games of chance up 20.4%, postal services up 19.4% and cinema up 14.7%. 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 0.8%, with food prices up by 0.1% on average. The biggest contributor to the price increase was a 0.7% rise in seasonal food prices. The price of services increased by 1.8% on a monthly basis, mainly due to price increases by telecommunications companies, which largely outpaced inflation in the previous year. The price of electricity, gas and other fuels increased by 1.1% compared with the previous month. The price of motor fuels and oils increased by 2.1% compared to February, which also contributed to monthly inflation.

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



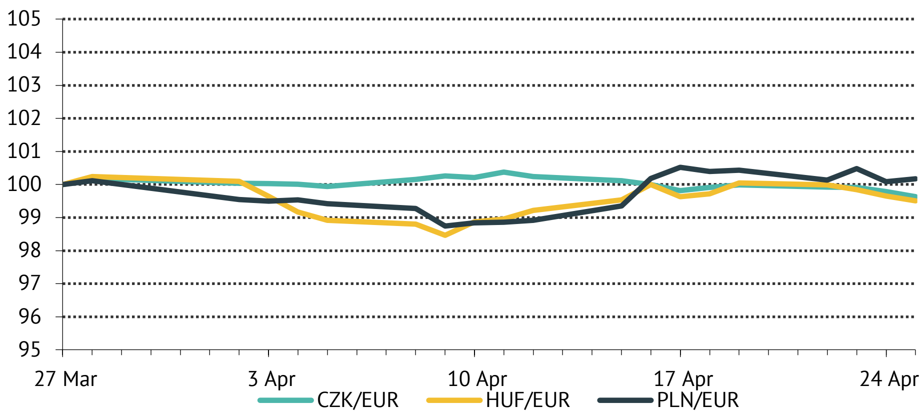
Source: MNB, Századvég

Among the underlying inflation indicators published by the MNB, the core inflation excluding indirect taxes was 4.4%, the core inflation rate excluding processed food was 6.4% and the sticky price inflation rate was 6.1% in the third month of the year.

Currencies of regional competitors broadly stagnated against the euro.

Regional currencies were mixed against the euro in April. In the past period, the Czech koruna strengthened by 0.37% and the Polish zloty weakened by 0.17% against the Euro. Government bond yields also increased over the period, with the Czech 10-year government bond yield 35 basis points higher at 4.35%, and the Polish 10-year yield 20 basis points higher at 5.79%.

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



Source: Refinitiv, Századvég

The Hungarian currency strengthened against the Swiss franc, the euro and the dollar.

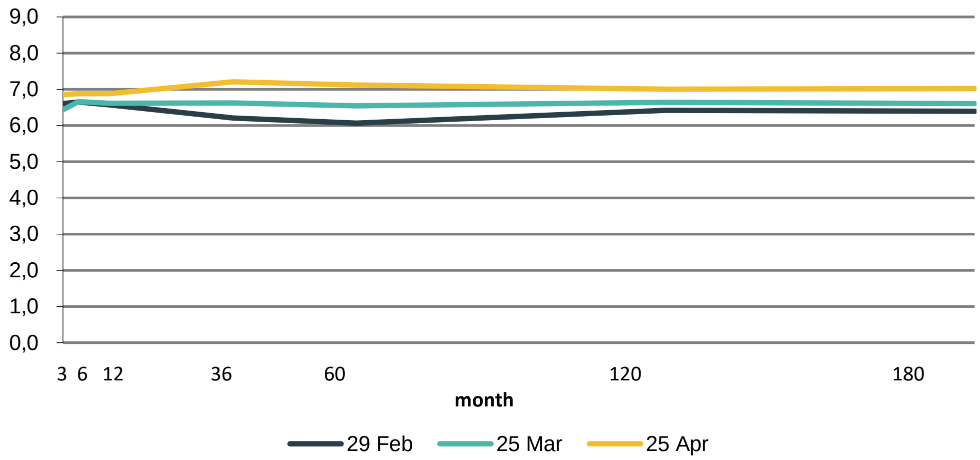
Hungarian money and foreign exchange market indicators showed a slight strengthening last month. The HUF strengthened by 0.6% against the Euro and by 1% against the Swiss franc. It strengthened against the US dollar, by 0.55%. This means that at the end of April 2024, 1 euro was worth 393 forints, 1 US dollar was worth 366 forints and 1 Swiss franc was worth 401 forints. Sovereign debt held by foreigners decreased by HUF 462 billion to HUF 6,702 billion in April.

The central bank continued to cut the base rate in April

At its April 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 7.75%, down 50 basis points. Accordingly, the upper limit of the interest rate corridor was changed to 8.75% and the lower limit to 6.75%. The pace of monetary easing was gradual and, according to the central bank's communication, the decision was made taking into account the favourable inflation environment, but also emphasising the importance of maintaining HUF stability.

In the government bond market, yields for shorter maturities varied between -17 basis points and 5 basis points on the secondary yield curve in April. 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 April. 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 13: CHANGES IN THE HUF YIELD CURVE (%)



Source: GDMA, Századvég

On 22 April 2024, the total value of "MÁP Plusz" government securities held by retail investors was HUF 751.91 billion after a HUF 20 billion decrease from the HUF 772.63 billion level in mid-December 2022. In addition, the cumulative value of PMÁP securities was HUF 7,140.83 billion, while the cumulative value of the "Bónusz" Hungarian Government Bonds was HUF 961.1 billion. The total value of the new 1MÁP securities is HUF 768.7 billion, that of Treasury Savings Bills is

HUF 489.64 billion and that of FixMÁP securities is HUF 318.76 billion. The total stock of government securities held by retail investors stood at HUF 10,242.5 billion in mid-April 2024, up from HUF 9,810.2 billion at the beginning of 2024, i.e. HUF 10.9 billion more than in the third month of 2024.

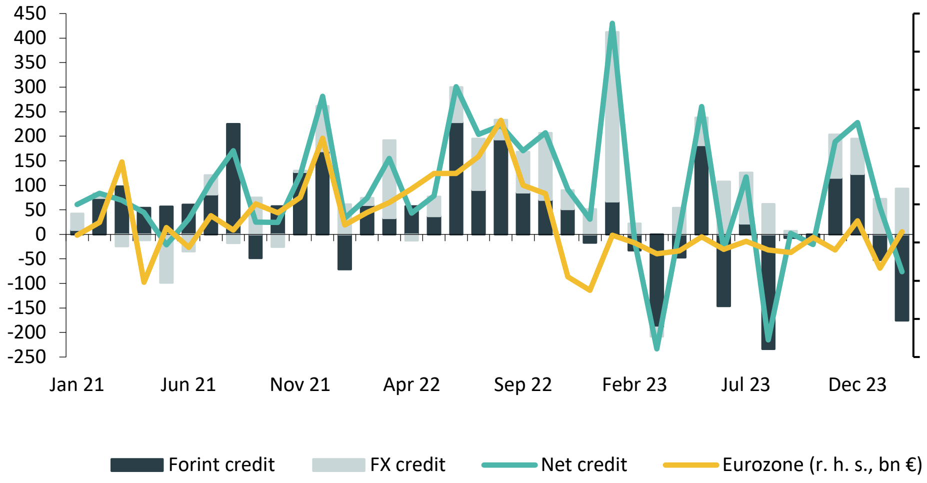
The share of foreign currency debt in the sovereign debt changed to 29.2% in February (i.e. increased by 3 percentage point from the previous month), which is in the range (maximum 30%) specified in the financing plan for 2024 of Government Debt Management Agency Ltd. Over the previous year, average foreign currency debt averaged 26.5%, a share of foreign currency debt lower than in February.

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.

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector reduced by HUF 175.5 billion in February 2024. However, the value of net lending in foreign currency increased, with net borrowing amounting to HUF 93.2 billion in the second month of the year. Seasonally adjusted total net borrowing decreased by HUF 76.4 billion in the period under review. Corporate borrowing in the euro area was EUR 5.7 billion in February 2024.

FIGURE 14: CORPORATE BORROWING (HUF BILLION)



Source: MNB, ECB, Századvég

3. Századvég's forecast[2]

TABLE 1:2024 Q1 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 international 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