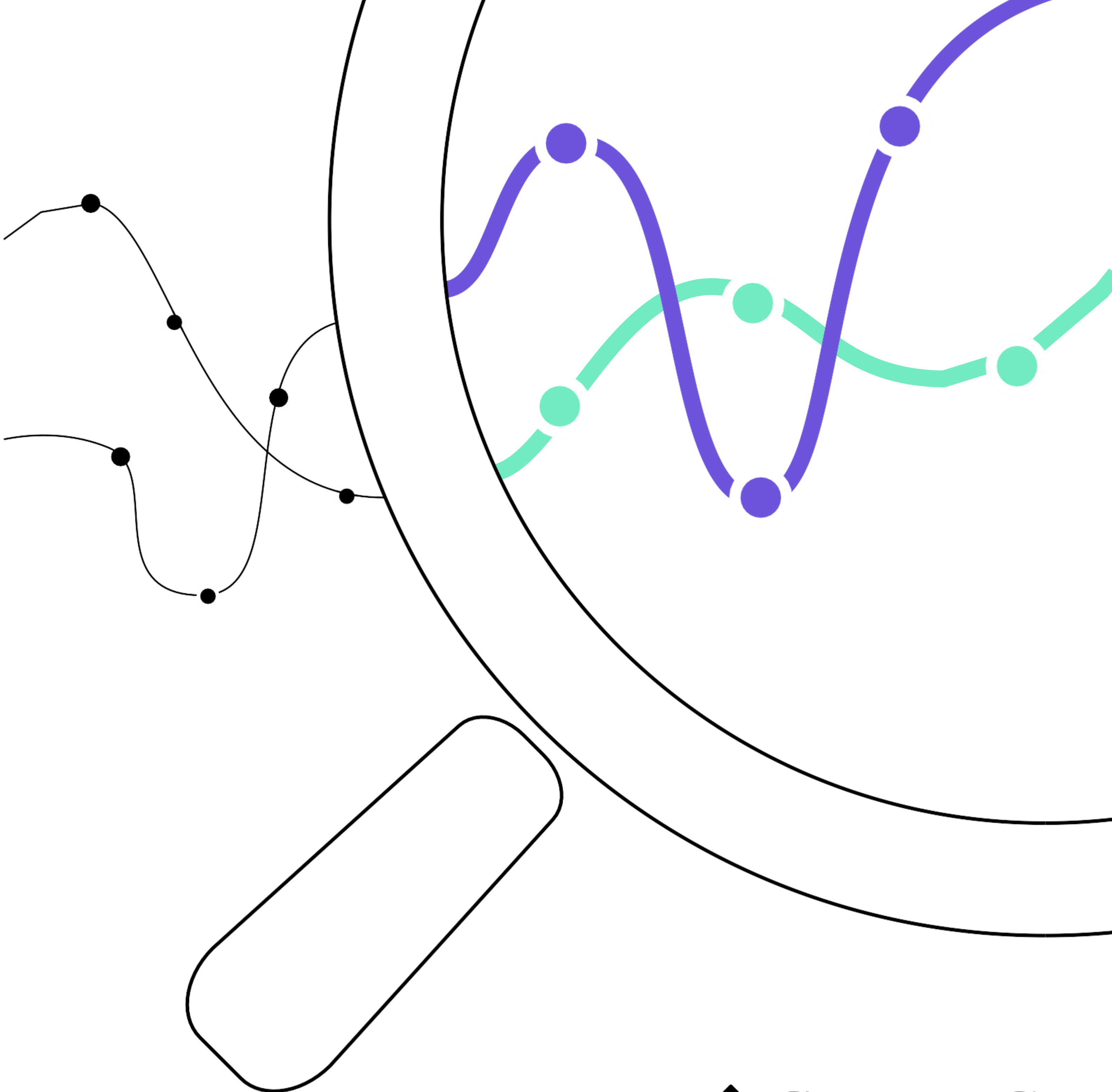
MACRO MONITOR

May 2024

Századvég

Konjunktúrakutató Zrt.



Századvég

Table of Contents

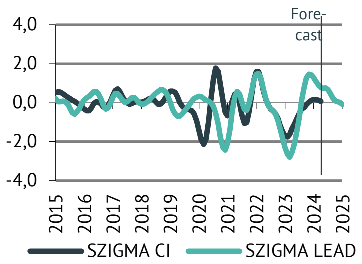
DISCLAIMER

1. Summary

In Q1 2024, Hungarian economic output grew by 1.7% year on year and by 0.8% quarter on quarter, according to seasonally adjusted data.

At its May 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 7.25%, after a 50 basis point cut.

SIGMA indicators

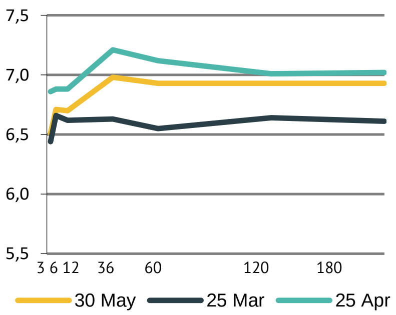


Source: Századvég

In March, turnover of retail stores increased by 4.2% year on year on both a raw and calendar-adjusted basis. Within this, sales increased by 5.7% in specialised and non-specialised food retailing, while it decreased by 0.6% in non-food retailing. The turnover volume of petrol stations increased by 3.3% compared to the same period last year.

Measured up to April 2024, the value of the monthly SZIGMA CI indicator, which provides a snapshot of the current state of the Hungarian economy, was 0.072. This is down from the previous month's index value of 0.223. Nevertheless, the Hungarian economy still grew at a rate above its historical trend rate.

Forint yield curve (%)



Source: Refinitiv

The other indicator, SZIGMA LEAD, a short-term indicator for the future of the Hungarian economy, forecasts a return to below-trend growth by the end of the forecast period. Although the slope of the declining growth rate has become less steep, the Hungarian economy continues to experience a slowdown in growth.

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

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

2. Overview of the economy

2.1 External environment

In April, inflation stabilised at low levels in both the European Union and the euro area.

April 2024 data from Eurostat, the official statistical office of the European Union, show that the annual inflation rate in the euro area was 2.4%, the same as published in March. It is important to note that this rate is a significant improvement compared to 7.0% a year earlier. For the European Union as a whole, annual inflation was 2.6% in April, also in line with March and a significant deviation from the previous year's rate of 8.1%.

April CPI data reflect a general decline in the European context, but also increases in some areas. On an annual basis, the biggest change was recorded in Belgium, where the CPI rose by 1.1 percentage points to 4.9% compared with the previous month. Further increases were observed in Cyprus and the Czech Republic, where the inflation rate increased by 0.5 percentage point to 2.1% and by 0.9 percentage point to 3.1% respectively. Like in the previous month, the lowest inflation rates are in the Baltic States (Latvia 1.1%, Lithuania 0.4%) and Italy (0.9%). Among the Central and Eastern European countries, inflation was 3.0% in Poland and 2.4% in Slovakia. Within the EU, Romania (6.2%) continued to report the highest increase in the harmonised index of consumer prices, but Belgium (4.9%) took second place from Croatia (4.7%).

An analysis of April inflation data shows that the services sector contributed most to the increase in the annual inflation rate, with 1.64 percentage points. This was followed by food, alcoholic beverages and tobacco products, which contributed 0.55 percentage points to the rise in inflation. Non-energy products also play a significant role, contributing 0.23 percentage points. It is also important to note the continuing negative trend in the contribution of the energy sector to inflation, which is currently declining by 0.04 percentage points. Compared with previous months, deflation was lower, not due to the rise in energy prices but rather to the build-up of the base effect.

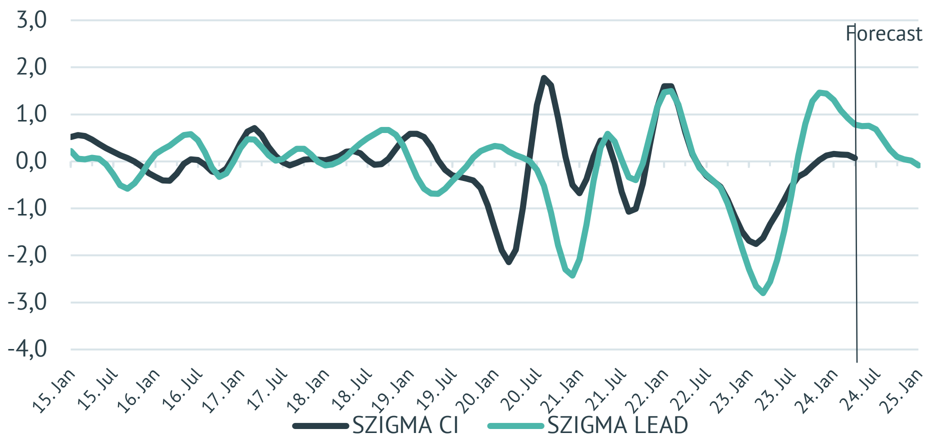
2.2 Our SZIGMA indicators

In May 2024, the growth rate of the Hungarian economy was above the historical trend.

In May 2024, the value of the SZIGMA CI indicator, which reflects the current state of the Hungarian economy, was 0.072 up to April 2024. This is down from the previous month's index value of 0.223. This means that the Hungarian economy still grew at a rate above its historical trend rate. This was helped by a further decline in the inflation rate in early 2024 and continued growth in real income. In construction, the latest, March 2024, seasonally and working-day adjusted fixed-base **construction** output volume decreased by 4.3% from the previous month. This volume decrease was due to a decline in building construction output (11.6%). Meanwhile, the construction volume of civil engineering works improved slightly (by 1.2%). On a fixed base, the stock of construction orders at the end of the month increased by 0.9% on a monthly basis, but fell by 3.8% on an annual basis. The number of new non-residential construction projects decreased by 7.0% month on month and by 26.8% year on year. **In industry**, the latest figures, for March 2024, show that the seasonally and working-day adjusted volume of industrial production, calculated on a fixed basis, decreased by 3.0% on both a monthly and annual basis. 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 (0.4%) and year on year (1.6%), as both sales volumes declined. The 1.6% monthly decline in export sales is the main sign of a decline in export sales. The decline in domestic sales is slowing. Although the volume of domestic sales fell by 2.4% on an annual basis, the monthly decline was 0.1%.

In May 2024, our short-term leading indicator, SZIGMA LEAD, is again pointing to below-trend growth at the end of the forecast period. Although the slope of the declining growth rate has become less steep, the Hungarian economy continues to experience a slowdown in growth. Turning to the future outlook, total seasonally and working-day adjusted new industrial orders on a fixed basis decreased both on a monthly basis (18.3%) and on an annual basis (14.0%). This was driven by a fall in the stock of new industrial export orders. This is because the stock of new industrial export orders fell by 21.4% month on month. Meanwhile, the stock of new industrial domestic orders increased by 4.4% month on month, but at a lower rate than in the same period of the previous year, so that the year-on-year decline in the stock of new industrial domestic orders was 4.9%. In sum, although the stock of domestic industrial orders is growing, a moderation in exports is holding back the growth of the stock of industrial orders. No improvement in exports could signal a further weakening in industrial production. As for the German and EU indices affecting the Hungarian economy, the Ifo Business Climate Index for April 2024, **which measures change in business sentiment in the German economy**, strengthened by 1.4 index points from the previous month to stand at 89.3 index points in April, while it deteriorated by 3.8 index points year on year. In April 2024, the **Eurostat**'s consumer confidence index weakened month on month (1.4 index points) but improved year on year (8.3 index points). This month it stood at -24.5 index points.

Figure 1: **CURRENT (CI) AND FORECASTING (LEAD) SZIGMA INDICATORS**



Source: Századvég

2.3 The real economy

Hungarian GDP expanded by 0.8% on a quarterly basis in Q1 2024.

According to data published by the Hungarian Central Statistical Office, the performance of the Hungarian economy increased in Q1 2024 (by 0.8%) compared to the previous quarter, on a seasonally and calendar-adjusted and balanced basis. On an annual basis, gross domestic product rose by 1.1% in Q1 2024, based on raw data, and by 1.7% on a seasonally and calendar-adjusted basis. Preliminary data show that in Q1 2024 the GDP was held back mainly by industry. While market services (including real estate transactions and information and communication) boosted GDP performance.

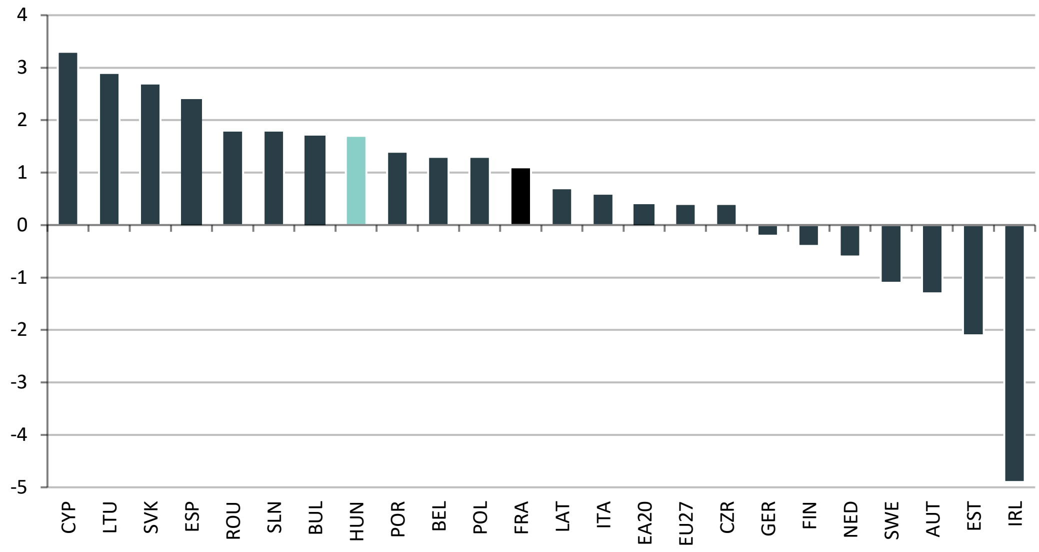
The **international** comparison shows that, based on Eurostat's preliminary (first estimate) ranking of seasonally adjusted **annual** GDP for Q1 2024, Hungary's GDP was in the top third of the 24-strong ranking[1], with a growth rate of 1.7%, the sixth highest performance. In Q1 2024, Cyprus achieved the highest annual GDP growth rate with 3.3%. Next came Lithuania (2.9%), Slovakia (2.7%) and Spain (2.4%). Then Romania and Slovenia, both with 1.8% of GDP. In addition to Hungary, Bulgaria achieved 1.7% GDP growth

On a quarter-on-quarter basis, Hungary's GDP growth rate of 0.8% in the Q1 2024 was the third best in the 24-strong ranking[2]. On a quarter-on-quarter basis, the highest GDP growth rate (1.2%) was also achieved by Cyprus, followed by Ireland with GDP growth of 1.1%. The EU average (EU27) and the euro area (EA20) grew by 0.3% quarter on quarter. At quarterly level, GDP fell in three Member States (the Netherlands, Sweden and Estonia). The Netherlands and Sweden experienced a 0.1% drop in GDP, while Estonia suffered a 0.4% drop. One of Hungary's important partners, Germany, achieved a GDP growth of 0.2% quarter on quarter, but recorded a year on year decline of 0.2%.

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

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

Figure 2: **EU Q1 2024 GDP GROWTH (YEAR/YEAR, %)**

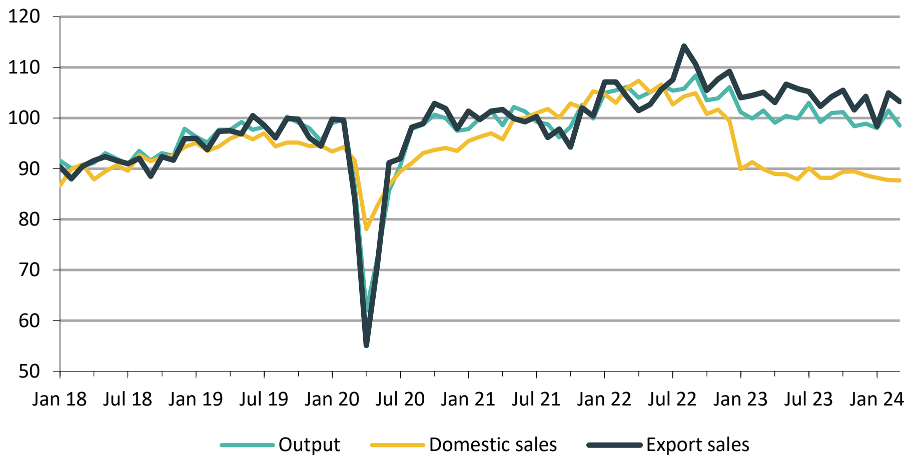


Remark: Seasonally and calendar adjusted indices. Preliminary estimate. (Not included due to lack of data: Denmark, Greece, Croatia, Luxembourg and Malta)
Source: Eurostat

The volume of industrial production, adjusted for seasonal and working-day factors, fell by 2.8% month on month.

Compared with the same period of the previous year, industrial production fell by 10.4% year on year according to raw data and by 2.8% according to working-day adjusted data in March 2024. In March 2024, there were 3 fewer working days than in 2023, which is the reason for the significant difference between the raw and adjusted figures. Overall **industrial sales** fell by 10.5% in March 2024 compared with the same period a year earlier. This was driven by a 7.7% decline in domestic industrial sales and a 12.2% decline in export sales. The volume of industrial production, adjusted for seasonal and working-day factors, fell by 3.0% month on month. In terms of industrial sales, seasonally and working-day adjusted domestic industrial sales fell by 0.1% and industrial export sales by 1.6% in March 2024.

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, its decline in March 2024 was driven by a fall in the performance of all industrial sectors, with the exception of mining and quarrying. Manufacturing output fell by 11.3% and energy output by 0.6%. All manufacturing subsections saw their output fall. The three largest subsections (manufacture of transport equipment, manufacture of electrical equipment and food production) account for 49.7% of manufacturing. The performance of these three subsections was 32.4% lower than in the same period of the previous year. Of this, the second largest decrease in output (17.0%) was in the manufacture of electrical equipment. The leading subsection was a minor one (manufacture of machinery and equipment n.e.c.), down 18.6%.

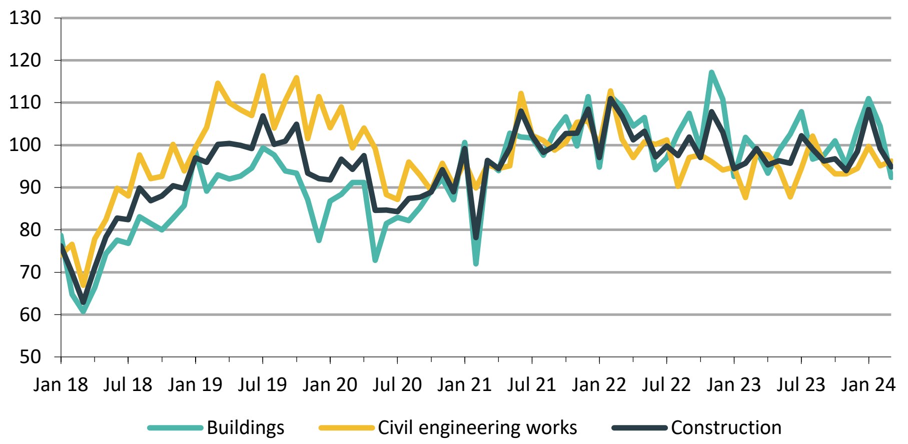
In March 2024, the **stock of new orders** in key manufacturing industries decreased by 14.0% year on year at comparable prices, with no significant base effect. The largest decline was in the stock of new industrial export orders (15.4%). Besides the low base, the stock of new industrial domestic orders continued to shrink, by 4.9%, compared to the same period last year. Two sectors (manufacture of electrical equipment with 29.1% and manufacture of transport equipment with 7.2%) were able to increase their stock of new industrial domestic orders. As regards the stock of new industrial export orders, only the manufacture of computer, electronic and optical products (17.1%) could expand.

As a result of the shrinking stock of new orders, in March 2024, total new sales orders of the key manufacturing industries monitored by the HCSO decreased by 20.7% year on year at comparable prices. The base effect played a minor role while the stock of new contracts shrank. The main factor driving the decline in the stock of orders was the decline in the stock of export orders (by 21.6%). Compared to exports, the stock of domestic orders fell much less, by 4.2%, compared to the previous year.

Construction output grew by a cumulative annual rate of 2.3% in the first three months of 2024.

In March 2024, the annual volume of construction output fell by 6.3% in terms of raw data. Within the two main groups of construction, the construction of buildings decreased by 10.0% year on year, while civil engineering works (roads, bridges, railways, complex industrial facilities, pipelines, etc.) increased by 0.8%. At the same time, construction output grew by 2.3% year on year in the first three months of the year on a cumulative basis. This was driven by both main groups of construction, but most notably by civil engineering works, which improved by 6.0% compared to the first three months of the previous year. In addition, seasonally and working-day adjusted construction output fell by 2.8% compared to the previous month, driven by a 9.1% decline in the construction of buildings within the two main groups of construction. Meanwhile, civil engineering works increased slightly (0.3%) compared to the previous month. Expectations remain high that the previously announced, but not yet launched, home renovation programme will stimulate the construction sector.

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

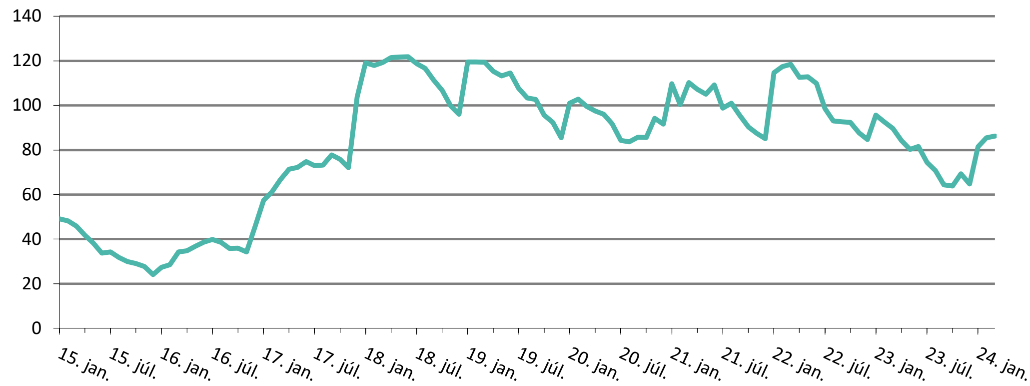


Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Századvég

Looking ahead, construction output may improve. To eliminate the base effects, we review changes in the fixed base of contract stocks, to which the figure below is linked. On a monthly basis, the volume of new contracts signed in the month under review, calculated on a fixed base according to the monthly average of 2021, decreased by 1.0%, due to a decrease (56.7%) in the stock of new contracts for civil engineering works and an increase of 83.5% in the stock of new contracts for the construction of buildings. The reason for the surge in the volume of new contracts for the construction of buildings is not given in the communication of the HCSO. Related to this, the stock of construction contracts at the end of the month under review increased slightly (by 0.9%), driven by an 8.4% improvement in the construction of buildings and a 3.8% decline in contracts for civil engineering works.

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



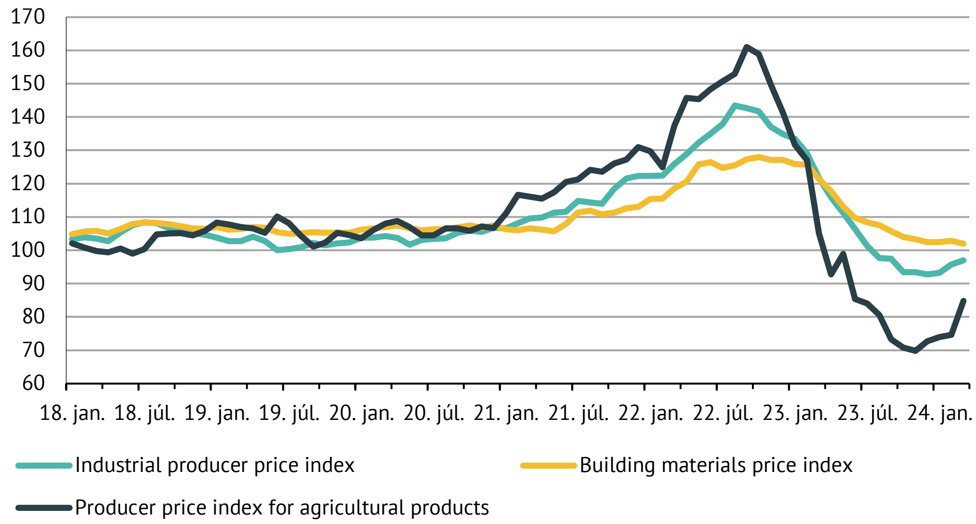
Source: Hungarian Central Statistical Office, Századvég

Domestic sales prices in the food sector fell by 6.5% in the first three months of the year.

In March 2024, the industrial producer price index and the agricultural producer price index continued to fall year on year. The **building materials price index** fell slightly (by 0.8 percentage points) compared with the previous month. Thus, the **building materials price index** increased by 2.0% year on year in March. In addition, the quarterly construction producer price index rose by 2.4% compared to the previous quarter and by 6.7% compared to the first quarter of the previous year, driven by price increases in all three construction sectors (buildings, civil engineering works, specialised construction activities). Compared with the same period of the previous year, the **agricultural** producer price index fell by 15.2% in March 2024, with the high base effect not playing a role. Despite the fall, producer prices of 3 products (potatoes, vegetables and fruits) continued to increase. Despite the high base effect, producer prices rose by 1.4% for potatoes and 5.8% for vegetables. Fruits producer prices rose the most (13.4%), against a lower base. Producer prices for crops (cereals and industrial crops) continued to fall on an annual basis, despite the low base: cereals by 28.6% and industrial crops by 25.0%. At the same time, producer prices for animal products (livestock and animal products) fell on an annual basis due to the high base effect. In March 2024,

industrial producer prices fell by 3.0% on average year on year, of which domestic sales prices fell by 5.2% and export sales prices by 1.9%. The difference between domestic and export sales prices is caused by the different proportions of the manufacturing industry and the energy industry. Within exports, the manufacturing sector accounts for a larger share and the energy sector for a smaller share, while the reverse is true for domestic sales. On a monthly basis, industrial producer prices were broadly flat (up 0.1%), driven by a 0.3% fall in domestic sales prices and a 0.3% increase in export sales prices. Reflecting the downward trend in industrial producer prices, industrial producer prices fell by 4.7% year on year in the first three months of 2024. Within this, export sales fell by 3.9% in the first three months, while producer prices for domestic sales fell by 6.2%. Within domestic sales, food producer prices fell by 6.5% in the first three months of the 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

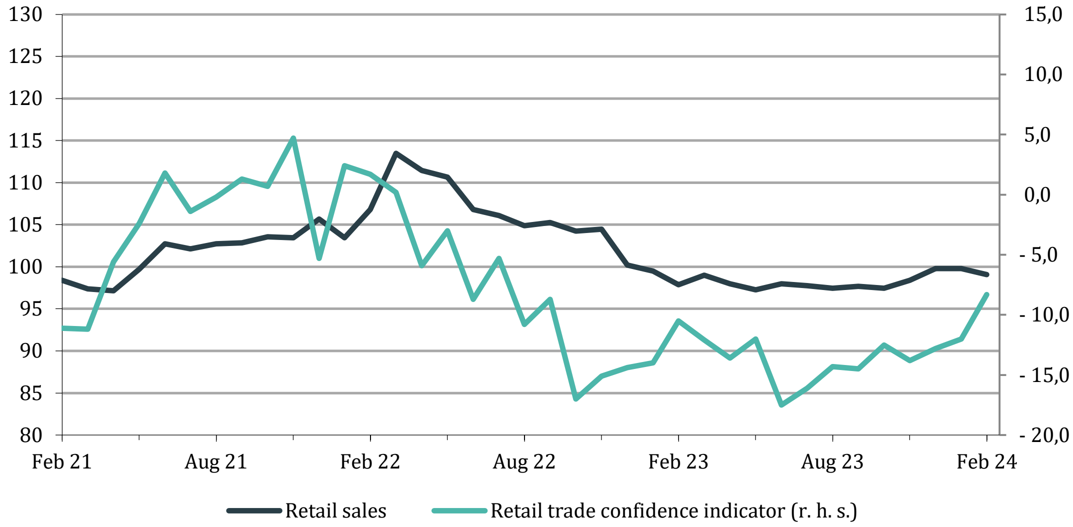
The volume of retail sales increased by 4.2% in March.

In March, turnover of retail stores increased by 4.2% 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 February and continued to do so in March. This recurrent positive result marks 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 March 2024, turnover in specialised and non-specialised food shops increased by 5.7%, and the turnover in non-food shops increased by 0.6%. In the retail sales of motor fuel, turnover volumes increased by 3.3% in March compared to the previous year, mainly due to the already lower turnover volumes in 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 5.7%, and it increased by 4.8% in specialised food, beverage and tobacco stores. The fact that Easter in 2024 fell on the turn of the month could have played a role in this, so families did their shopping in March. In non-food retailing, the volume of furniture and electric goods decreased by 4.4%, books, newspapers and stationery by 7.5% and second-hand goods by 5.9% year on year. Furthermore, a continued moderation was seen in clothing and footwear, where the decline in March was 1.9%, down from 3.5% in February (on an annual basis). In contrast, the biggest turnover volume growth was in fragrances (3.9%). For non-food products, only this and the categories of books, computer equipment and other specialised goods (1.5%), computers and other specialised goods (1.9%) and mail order and internet retailing (4.2%) 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

In April, the unemployment rate was 4.5%.

In April 2024,[3] the seasonally adjusted activity rate of the population aged 15–74 was 68.3% (4,982,000 persons), which means a labour market growth of 67,900 compared to the same period of the last year. In the period under review, the seasonally adjusted number of employees reached 4,757,000, a year-on-year increase of 40,900. The number of the unemployed continued to decrease, to 224,200, a year-on-year increase of 27,000.

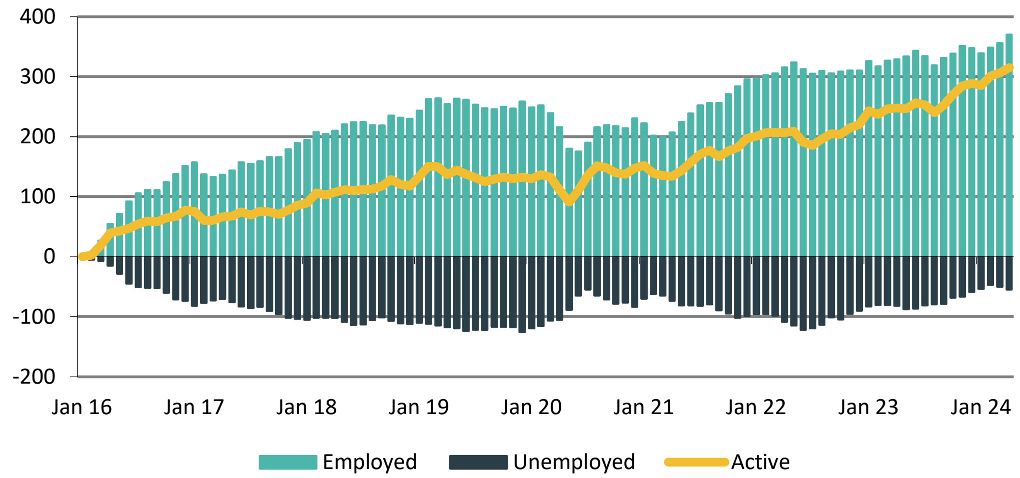
Employment trends for each age group have changed slightly compared to last month. In the February–April period, employment increased most in the 55-74 age group, by 8,300, while the number of unemployed increased by 500. Over the same period, the number of employees in the 25-54 age group fell by only a few hundred, while the number of unemployed decreased by 2,200. In the 15-24 age group, the number of employees increased by 6,500 and the number of the unemployed increased by 3,200. We can say that the labour market transformation has continued, with the increase in the number of employees outpacing the decrease in the number

[3] Three-month moving average

of the unemployed in two age groups, i.e. people who were previously inactive have started working, while the 25-54 age group has seen a minimal decline in activity.

In March, the seasonally adjusted number of employees decreased by 5,800 compared to the same period last year. The number of people employed in the competitive sector fell, with 6,700 fewer people working in enterprises with 5 or more employees compared to March 2023. However, the public sector has seen a significant reduction of 7,900 fewer employees in the past year. The number of people employed in the non-profit sector increased by 8,900 in one year.

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



Remark: Seasonally and calendar adjusted indices.

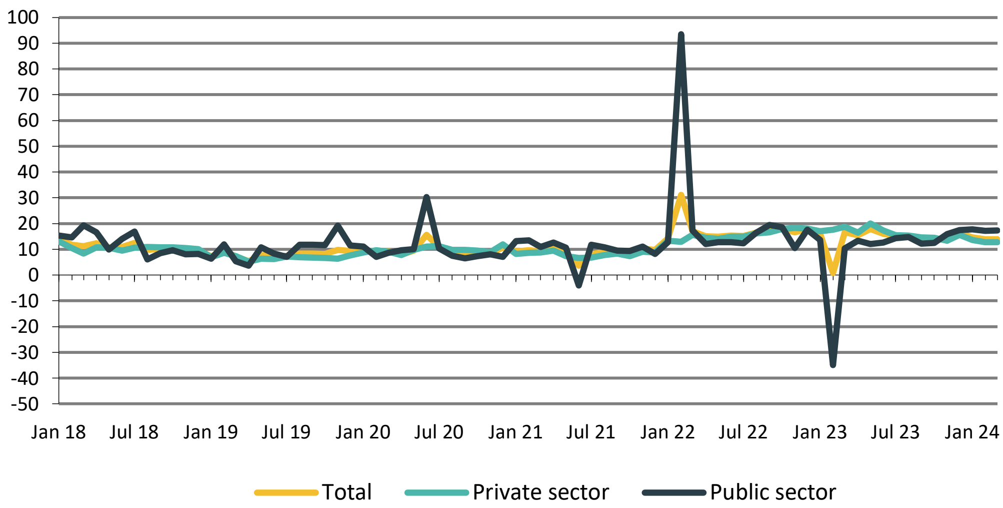
Source: Hungarian Central Statistical Office, Századvég

Real earnings continued to rise in March.

In March, average gross earnings in the national economy were HUF 658,400, up 13.9% compared to the same period last year. The highest average gross earnings were recorded in the competitive sector, at HUF 675,300. The wage dynamics of the year 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 510,000, 15.7% 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 452,700, 13.7% higher than in March 2023. Real earnings increased by 9.9%, while consumer prices rose by 3.6%.

We maintain our expectation that, in 2024, 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 stabilizing 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

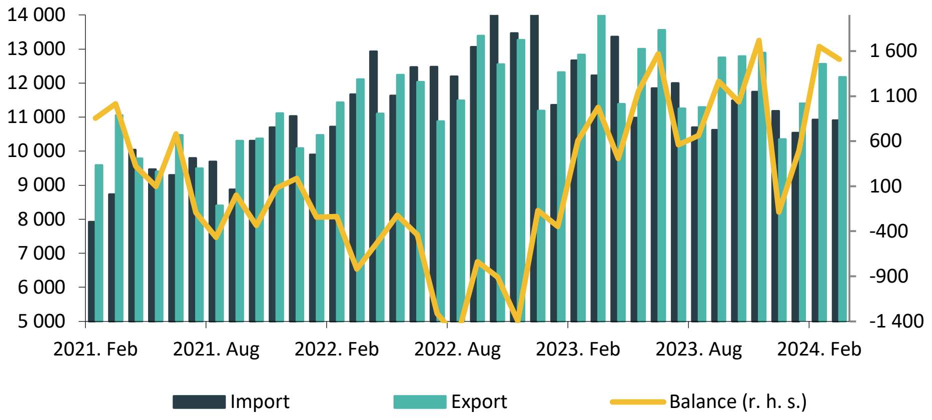
In February, the volume of exports of goods increased by 3.4%, and imports decreased by 4.7% year on year. This brought the trade balance to a surplus of EUR 1.7 billion, an improvement of EUR 1.2 billion compared to the previous year.

In February, the import volume of food products, beverages and tobacco decreased by 2.1%, and their export volume increased by 20.0% year on year. As for fuels and electric energy, imports increased by 5.3%, while exports by 41%. As for manufactured products, imports decreased by 2.3%, and exports increased by 7.3% year on year. As for machinery and transport equipment, imports decreased by 9.8%, and exports by 3.2%.

The trade balance improved in March.

In March 2024, the first estimate put the value of exports in euro terms at 15% lower and imports in euro at 20% lower than a year earlier. This brought the foreign trade surplus in goods to EUR 1,510 million, which is EUR 512 million better than a year earlier.

Figure 10: **BALANCE OF EXTERNAL TRADE IN GOODS (EUR MILLION)**



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

Source: Hungarian Central Statistical Office, Századvég

2.5 Fiscal outlook

A particular paradox of the first four months of the budget is that we have seen both a 15.1% increase in payroll tax revenues and a 3.1% fall in VAT payments.

At the end of April 2024, the deficit of the central budgetary subsystem stood at HUF 2,597.5 billion. The deficit was made up of a deficit of HUF 2,590.6 billion of the central budget, a deficit of HUF 103.3 billion of social security funds, as well as a surplus of HUF 96.4 billion in extra-budgetary funds.

Central government revenues in the first four months of 2024 were 6.9% higher than in the same period of the previous year.

Payments by economic units increased minimally, by 0.2%, HUF 2.1 billion, compared to the first four months of 2023. Corporate taxes, the most significant item, were 13.2% (HUF 30.9 billion) higher by the end of April, while tolls were 42.4% (HUF 59.9 billion) higher than in the first four 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 82.6 billion, and mining royalties, also a major item, fell by HUF 65.3 billion. The increase in other special taxes could only offset a part of the decline in the two large items mentioned above.

Revenues from taxes on consumption increased by 6.0% (HUF 179.2 billion) compared to a year earlier. VAT receipts, the most significant item, were HUF 73.1 billion (3.1%) higher than at the end of April in the previous year. However, the increase in receipts is solely due to a decline in VAT refunds, while monthly VAT refunds in April showed another small decline of 1.2% compared to the same month in 2023. In contrast, excise tax receipts continued to grow in April, with an increase of HUF 54.3 billion, or 12.5%, at the end of the month. It is also worth mentioning the increase in insurance tax and tourism development contribution payments, where we see HUF 28.9 billion and

HUF 21.9 billion of additional revenue in the first four months, respectively.

Personal income tax receipts increased by 14.5% (HUF 181.5 billion) compared to the figure measured at the end of April of the previous year. The rise was driven by higher employment and higher wages. Receipts from social contribution tax and social security tax increased by 15.3% (HUF 350 billion) compared to the same period of the previous year, also caused by wage increases. A particular paradox of the first four months of the budget is that we have seen both a 15.1% increase in payroll tax revenues and a 3.1% fall in VAT payments. This is partly because wage growth has not yet been matched by a similar increase in consumption.

Revenue from EU programmes was HUF 360.6 billion in the first four months, HUF 242.6 billion less than in the first four months of 2023. In contrast, expenditure on EU programmes amounted to HUF 616.4 billion, HUF 534.8 billion less than the previous year. These figures show that, as in the previous year, the government is responding to the shortfall in EU funding by severely cutting back on payments for EU programmes, while at the same time reducing the potential deficit that could result.

In the first four months of 2024, central government expenditure was 4.8% higher than in the previous year. Within this, central government budgetary spending increased by 2.5%.

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.

The balance sheet item “Support of utility services”, which also includes subsidies for household energy overhead protection, amounted to HUF 540 billion in the first four months of the year, but were HUF 307.4 billion, or 36.3%, lower than in the same period of the previous year.

Housing subsidies decreased by HUF 219.1 billion, or 77.3%, 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.

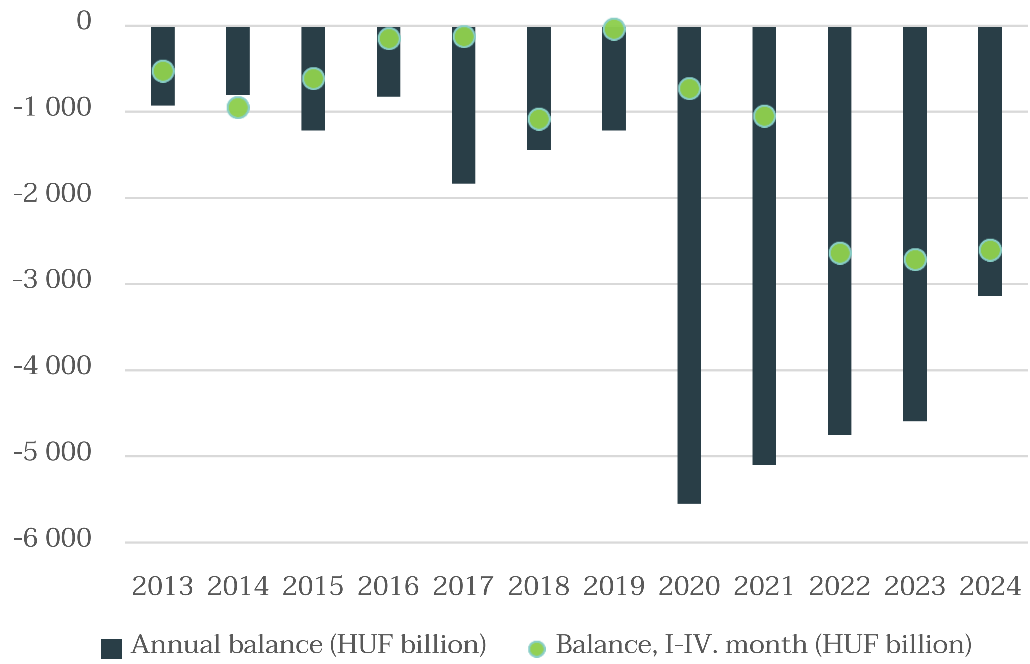
Expenditure on central budgetary institutions and chapter-administered appropriations was HUF 309.4 billion higher than in the first four months of the previous year. This corresponds to an increase of 7.9%, while the Budget Act (under revision) would provide for a reduction of 12%. At the same time, the expenditure surplus decreased by HUF 29.1 billion compared to the end-March figure.

Expenditures related to state property amounted to HUF 663.1 billion, HUF 187,2 billion more than the end-April 2023 figure, and reached 124.1% of the 2024 budget estimate.

In April 2024, pensions amounted to HUF 2,371.7 billion, an increase of 11% compared to the same period last year. During the same period, the Health Insurance Fund spent HUF 1,492.3 billion, an increase of 14.2% 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 17.5%, a jump from the 5.6% increase at the end of March.

The balance of interest expenditures and receipts was HUF 584.1 billion (77.2%) more negative than at the end of April of the previous year.

Figure 11: **CENTRAL SUBSYSTEM BALANCE, 2014–2024 (IV. CUMULATIVE BALANCE, HUF BILLION)**



Source: MINISTRY OF FINANCE, HUNGARIAN STATE TREASURY;

2.6 Monetary developments

In April, prices rose by 3.7% on average.

In April 2024, consumer prices increased by 3.7% on average, compared to the same period of the previous year. In the past year, the highest price increases have been in services (9.5%). Prices of electricity, gas and other fuels fell by 4.5% 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 was 4.1% higher than in the same period of the previous year.

A more significant contribution to the 1.0% average increase in food prices came from the 30.4% rise in sugar prices, the 9.2% rise in chocolate and cocoa prices, the 9.6% rise in the prices of buffet products and the 9.2% rise in pork prices. The 8.9% rise in the price of a cup of coffee in catering, the 8.7% rise in meals at schools and the 8.0% rise in the price of meals at kindergartens, nurseries also exceeded the average food inflation rate for the month. In contrast, deflation is already evident in many cases: flour prices fell by 19.7%, eggs by 20.3%, butter by 12.1% and pasta products by 12.5%. The main drivers of the 3.8% average inflation in alcoholic beverages and tobacco were primarily the 7.4% increase in wine prices, in line with previous months.

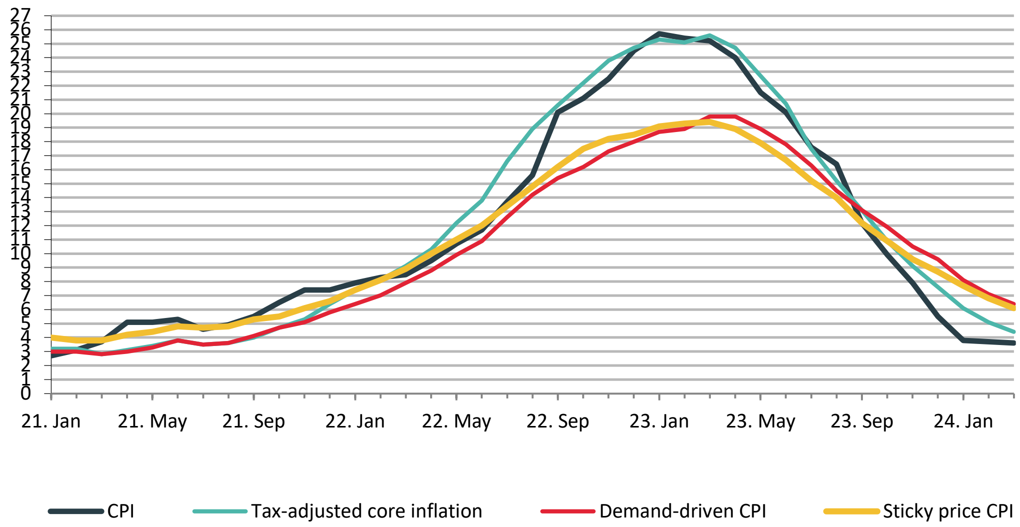
The average price decrease of 1.7% for durable consumer goods represents a significant improvement, driven by factors including strict monetary policy, sustained lower input material prices, the resumption of more efficient supply chains, falling demand and a stabilising forint exchange rate. Looking at the main group, above-average increases were also recorded for kitchen and other furniture (4.5%) and jewellery (5.3%). The deflation of durable consumer goods is moderated by a 3.3% decrease in tv set prices and a 5.0% decrease in the prices of computers, cameras and phones. It is also important to highlight the improving trend for second-hand passenger cars: in April, second-hand passenger cars were already 9.8% 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 continued in April, down 4.5% year on year. Within electricity, gas and other fuels, the price of natural and manufactured gas fell by 8.2% and electricity by 2.9% over the past year. The price of firewood was also 2.0% lower.

In April, the price of services rose by an average of 9.5%, with theatre up 24.7%, game of chance up 20.6%, postal services up 19.4% and cinema up 15.6%. 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 up by 0.3% on average. The biggest contributor to the price increase was a 1.5% rise in seasonal food prices. Prices of services rose by 1.3% on a monthly basis, while the price of electricity, gas and other fuels decreased by 2.4% compared with the previous month. The price of motor fuels and oils increased by 3.5% compared to March, which had a significant impact on monthly inflation. Thanks to the government's efforts, the trend could reverse in the coming months, with fuel prices more likely to stagnate or fall on a monthly basis if global prices remain unchanged.

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



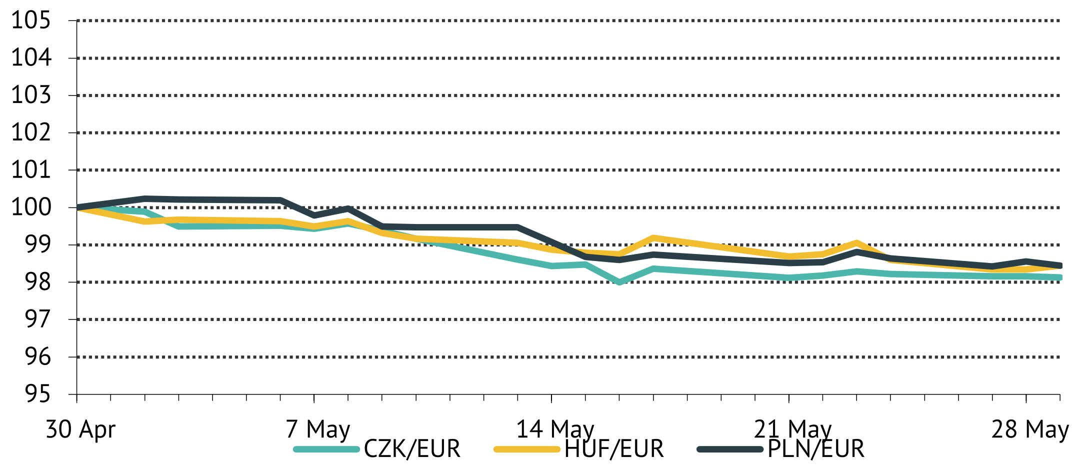
Source: MNB, Századvég

Among the underlying inflation indicators published by the MNB, the core inflation excluding indirect taxes was 4.1%, the core inflation rate excluding processed food was 5.9% and the sticky price inflation rate was 5.8% in the fourth month of the year.

The currencies of competitors in the region have strengthened against

Regional currencies strengthened against the euro in May. In the past period, the Czech koruna strengthened by 1.85% and the Polish zloty by 1.51% against the Euro. Government bond yields also fell over the period, with the Czech 10-year government bond yield 3 basis points lower at 4.32% and the Polish 10-year yield 4 basis points lower at 5.75%.

Figure 13: **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

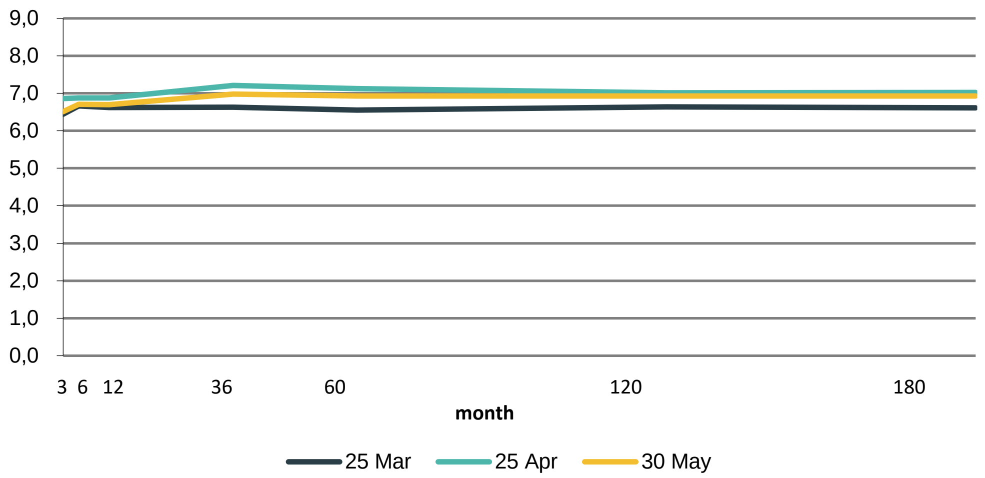
Hungarian money and foreign exchange market indicators showed a strengthening last month. The HUF strengthened by 1.8% against the Euro and by 3.2% against the Swiss franc. It strengthened against the US dollar, by 3.1%. This means that at the end of May 2024, 1 euro was worth 385 forints, 1 US dollar was worth 355 forints and 1 Swiss franc was worth 389 forints. Sovereign debt held by foreigners increased by HUF 518 billion to HUF 7,220 billion in May.

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

At its May 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 7.25%, down 50 basis points. Accordingly, the upper limit of the interest rate corridor was changed to 8.25% and the lower limit to 6.25%. 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. Despite a stabilising inflation environment, no major cut in the base rate is expected in the second half of the year.

In the government bond market, yields for shorter maturities varied between -35 basis points and -17 basis points on the secondary yield curve in May. This means that the 3-month yield was 6.51%, the 6-month yield was 6.71% and the 1-year yield was 6.70% on 30 May. The 3-year yield fell by 23 basis points to 6.98%. Yields are down 19 basis points over the 5-year horizon, 8 basis points over the 10-year horizon and 15 basis points over the 9-year horizon compared to the previous month. These three yields changed, therefore, to 6.93%, 6.93%, and 6.93%, respectively.

Figure 14: **CHANGES IN THE HUF YIELD CURVE (%)**



Source: GDMA, Századvég

On 23 May 2024, the total value of "MÁP Plusz" government securities held by retail investors was HUF 744.35 billion. In addition, the cumulative value of PMÁP securities was HUF 7,141.16 billion, while the cumulative value of the "Bónusz" Hungarian Government Bonds was HUF 975.94 billion. The total value of the new 1MÁP securities is HUF 790.91 billion, that of Treasury Savings Bills is HUF 493.7 billion and that of FixMÁP securities is HUF 391.15 billion. Funds held in "Baby" Bonds amounted to HUF 334.17 billion and funds held in Printed MÁP Plus amounted to HUF 105.24 billion. The total stock of government securities held by retail investors stood at HUF 10,976.62 billion in mid-May 2024, up from HUF 9,810.2 billion at the beginning of 2024, i.e. HUF 1,166.42 billion more.

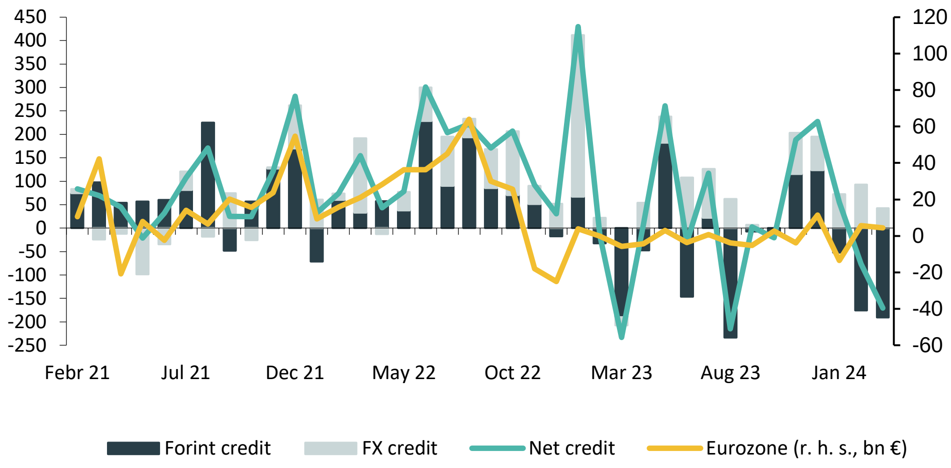
The share of foreign currency debt in the sovereign debt changed to 28.7% in March (i.e. decreased by 0.5 percentage point from the previous month), which is in the range (maximum 30%) specified in the financing plan for 2024 of GDMA. Over the previous year, average foreign currency debt averaged 26.7%, a share of foreign currency debt lower than in March.

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 decreased in

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector decreased by HUF 190.8 billion in March 2024. However, the value of net lending in foreign currency increased, with net borrowing amounting to HUF 42.7 billion in the third month of the year. Seasonally adjusted total net borrowing decreased by HUF 170.6 billion in the period under review. Corporate borrowing in the euro area was EUR 4.35 billion in March 2024.

Figure 15: **CORPORATE BORROWING (HUF BILLION)**



Source: MNB, ECB, Századvég

3. Századvég's forecast[4]

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.

[4] Date of preparation: 25 March 2024