MACRO MONITOR

June 2024

Századvég
Konjunktúrakutató Zrt.

Századvég

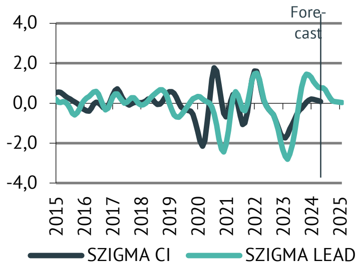
Table of Contents

DISCLAIMER

1. Summary

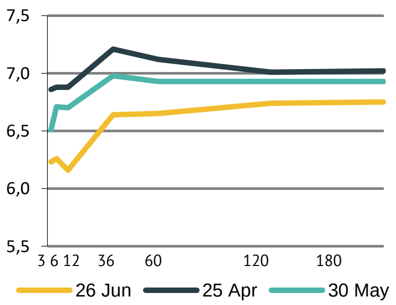
In Q1 2024, Hungarian economic output grew by 1.7% year on year and by 0.8% quarter on quarter, according to seasonally adjusted data.

SIGMA indicators



Source: Századvég

Forint yield curve (%)



Source: Refinitiv

Our forecast (18.06.2024)	2024
Change in the GDP (%)	2.7
Inflation (annual average, %)	4.1

At its June 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 7.0%, after a 25 basis point cut.

In April, retail sales increased by 3.2% year on year on both a raw and calendar-adjusted basis. Within this, compared to the same period of the previous year, sales increased by 3.6% in specialised and non-specialised food shops, 4.3% in non-food retailing and 2.0% in automotive fuel retailing.

The monthly value of the SZIGMA CI indicator, which provides feedback on the current state of the Hungarian economy, was 0.082 up to May 2024. This is an improvement on the previous month's index value of 0.072. This means that the Hungarian economy is still growing at a rate above its historical trend rate.

The other indicator, SZIGMA LEAD, a short-term indicator for the future of the Hungarian economy, forecasts above-trend growth by the end of the forecast horizon. This is an improvement from the previous month's forecast of below-trend growth at the end of the forecast horizon. So the slowdown in the growth rate of the Hungarian economy has turned into a stagnation.

In May 2024, consumer prices rose by 4.0% on average year on year.

2. Overview of the economy

2.1 External environment

May saw a break in the disinflationary trend that had been underway for more than a year in the European Union and the euro area

May 2024 data from Eurostat, the official statistical office of the European Union, show that the annual inflation rate in the euro area was 2.6%, up 0.2 percentage points on the previous month. It is important to note that this rate is a significant improvement compared to 6.1% a year earlier. For the European Union as a whole, annual inflation was 2.7% in May, up 0.1 percentage points on April and a significant difference from the previous year's rate of 7.1%.

May CPI data reflect a general decline in the European context, but also increases in some areas. There was no deflation in the month, but inflation fell back to 0.0% in Latvia. In 2024, the country's indicator changed between 0.6% and 1.1%, so the current figure indicates a stagnation other than the trends seen so far. Other countries with the lowest year-on-year CPI were Finland, Italy and Lithuania. Their rates were 0.4%, 0.8% and 0.9% in May. Within the EU, Romania continued to report the highest increase in the harmonised Index of consumer prices (HICP) (5.8%), with Belgium (4.9%) and Croatia (4.3%) in second and third place, respectively, in April.

An analysis of May inflation data shows that the services sector contributed most to the increase in the annual inflation rate, with 1.83 percentage points. This was followed by food, alcoholic beverages and tobacco products, which contributed 0.51 percentage points to the rise in inflation. Non-energy products play a less significant role, contributing 0.18 percentage points. It is important to note the continued negative trend in the contribution of the energy sector to inflation in recent months, which was broken in May, with an increase of 0.04 percentage points. This factor is also responsible for the interruption of deflationary processes and thus the slight increase in inflation.

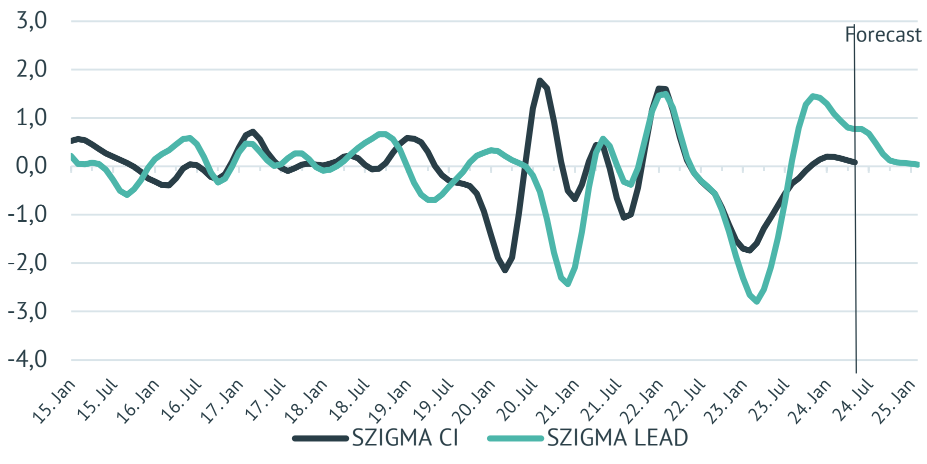
2.2 Our SZIGMA indicators

The growth rate of the Hungarian economy exceeded the historical trend in June 2024.

In June 2024, the value of the SZIGMA CI indicator, which reflects the current state of the Hungarian economy up to May 2024, was 0.082. This is an improvement on the previous month's index value of 0.072. This means that the Hungarian economy is still growing at a rate above its historical trend rate. This was supported by the slow expansion of domestic consumption, which was partly driven by slowing inflation and rising real incomes. In construction, the latest, April 2024, seasonally and working-day adjusted fixed-base (2021 average = 100.0%) **construction** output volume increased by 11.1% from the previous month. Both main groups of construction contributed to this volume growth, with output for buildings up by 11.2% and for civil engineering works by 8.8%. Meanwhile, the stock of construction orders on a fixed base at the end of the month decreased both month on month (by 2.9%) and year on year (0.6%). Similarly, the number of new non-residential construction projects also decreased by 2.5% month on month and by 13.3% year on year. **In industry**, the latest figures, for April 2024, show that the seasonally and working-day adjusted volume of industrial production, calculated on a fixed basis, decreased by 0.6% month on month and by 2.0% 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 (by 0.9%) and year on year (12.9%), as the volume of both sales fell, but more so for export sales. Month on month, export sales fell by 0.6% and domestic sales by 0.2%.

In June 2024, our short-term forward-looking indicator, SIGMA LEAD, shows improvement by the end of the forecast horizon, as the below-trend growth projected last month has changed and is now projected to remain above-trend until the end of the forecast period. At the same time, this implies a stagnation of the growth rate. Turning to the future outlook, total seasonally and working-day adjusted new industrial orders on a fixed basis strengthened both on a monthly basis (4.2%) and on an annual basis (13.6%). This was mainly driven by an increase in the stock of new industrial export orders, which rose by 6.9% month on month and 15.4% year on year. Meanwhile, the stock of new industrial domestic orders fell by 10.7% month on month, while it rose by 2.8% year on year. In sum, although the stock of domestic industrial orders fell in the short term, stronger exports contributed to the expansion in the stock of industrial orders. As for the German and EU indices affecting the Hungarian economy, the Ifo Business Climate Index for May 2024, **which measures change in business sentiment in the German economy**, weakened minimally, by 0.1 index points, from the previous month to stand at 89.4 index points in May, while it deteriorated by 2.0 index points year on year. In May 2024, the **Eurostat**'s consumer confidence index strengthened both month on month (0.3 index points)and year on year (12.3 index points). This month it stood at -24.2 index points.

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



Source: Századvég

2.3 The real economy

Hungarian GDP grew by 0.8% quarter on quarter.

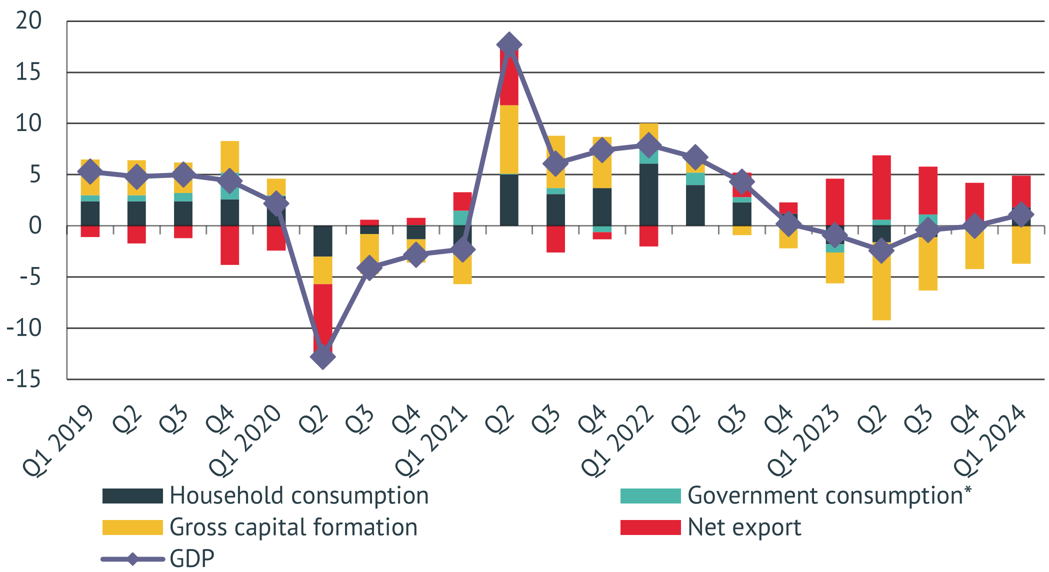
In Q1 2024, gross domestic product (GDP) strengthened by 1.1% on an annual basis in raw data and by 1.7% in seasonally and calendar-adjusted and balanced data. Compared to the previous quarter, GDP grew by 0.8%.

On the **production** side: Q1 2024 GDP volume growth was mainly supported by the services sector. Agriculture did not, while industrial output held it back. Output in the services sector expanded by 2.7% year on year, boosting Q1 2024 GDP by 1.7 percentage points. Within the services sector, the largest growth (9.8%) was achieved by the information and communication sector. This was followed by arts, entertainment, recreation and other services, up 7.3%, and education, up 6.6%. Industrial output fell by 4.2% year on year, including manufacturing by 4.8%. As a result, industrial output held back economic growth by 0.9 percentage points in Q1 2024. Construction grew by 3.0% year on year, contributing 0.1% to GDP growth. Accordingly, Q1 2024 GDP growth was driven by the services sector by 1.7 percentage points, construction by 0.1 percentage point, product taxes and subsidies by 0.2 percentage point, agriculture by 0.0 percentage point and industry by 0.9 percentage point.

On the **consumption** side, Q1 2024 GDP growth was mainly supported by the external trade balance and final consumption. However, gross accumulation has held back the growth of the Hungarian economy. Final consumption includes the actual final consumption of households and collective consumption. This final consumption last supported GDP growth substantially in Q4 2022; thereafter, domestic consumption declined and started to strengthen in Q4 2023, boosting GDP growth in Q4 2023 by 0.2 percentage point. This contribution strengthened to 1.8 percentage points in Q1 2024. This meant that final consumption grew by 2.4% compared to the same period last year. The two components of final consumption (household and collective consumption) followed different trends. While the actual final consumption of households increased by

3.4%, collective consumption decreased by 2.7%. Gross accumulation, which includes investment, fell by 21.8% year on year, weakening Q1 2024 GDP by 3.7 percentage points. Investment itself (gross fixed capital formation) fell by 6.9%. The external trade balance contributed 3.1 percentage points to Q1 2024 GDP, reflecting a sharper decline in imports. Year on year, exports fell by 5.3% and imports by 9.2%. Exports of goods, which account for a large share of foreign trade (nearly 80%), fell by 6.2%, while imports fell by 10.8%. Exports of services, including tourism, fell by 0.8%, while imports increased by 1.5%.

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



**Including social benefits in kind.*

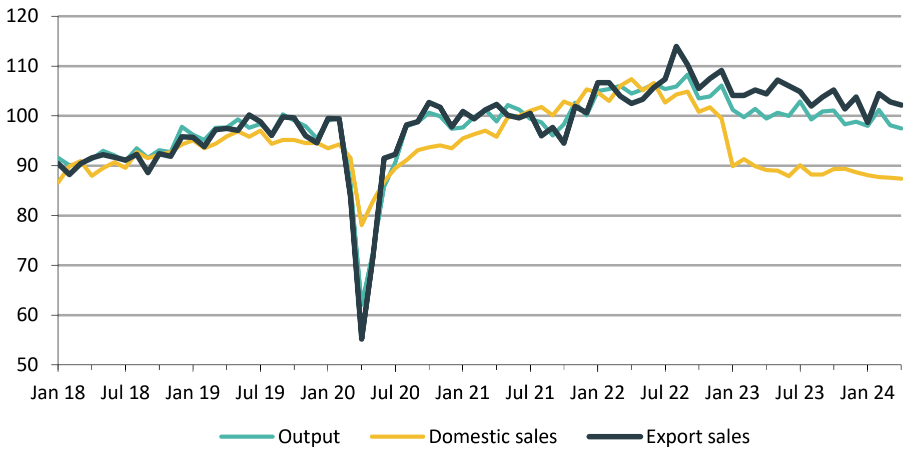
Source: Hungarian Central Statistical Office

On a monthly basis, the volume of seasonally and working-day adjusted industrial production decreased by 0.7%.

Compared with the same period of the previous year, industrial production fell by 6.4% year on year according to raw data in April 2024. At the same time, industrial production fell by 2.4%, according to working-day adjusted data. The difference is due to the fact that there were three more working days in April 2024 than in

2023 (Easter fell at the end of March). Overall **industrial sales** grew by 5.2% in April 2024 compared with the same period a year earlier. Of this, domestic industrial sales increased by 2.1% and export sales by 7.1%. On a monthly basis, the volume of seasonally and working-day adjusted industrial production decreased by 0.7%. In terms of industrial sales, seasonally and working-day adjusted domestic industrial sales fell by 0.3% and industrial export sales by 0.7% in April 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

Turning back to industrial production, its increase in April 2024 raw data was driven by an expansion in the output of all industrial sectors. Manufacturing grew by 6.5%, energy by 2.4% and mining and quarrying by 36.6%. Three subsections accounted for 48.6% of manufacturing output, and their combined output increased by 19.1% compared to the previous year. These three subsections are manufacture of transport equipment with 25.9%, food with 12.4% and manufacture of electrical equipment with 10.3%. Of the 13 subsections in the manufacturing sector, the output of 3 subsections declined, one of which, the manufacture of electrical equipment, is the third largest subsection in manufacturing output. Production in this subsection fell by 6.7%. Production increased by 7.0%

in the manufacture of transport equipment, the heaviest subsection, and by 18.8% in the food industry, the second heaviest subsection. The latter was also the largest increase in manufacturing output. The biggest drop in manufacturing output (8.8%) was in a small subsection (coke and refined petroleum products).

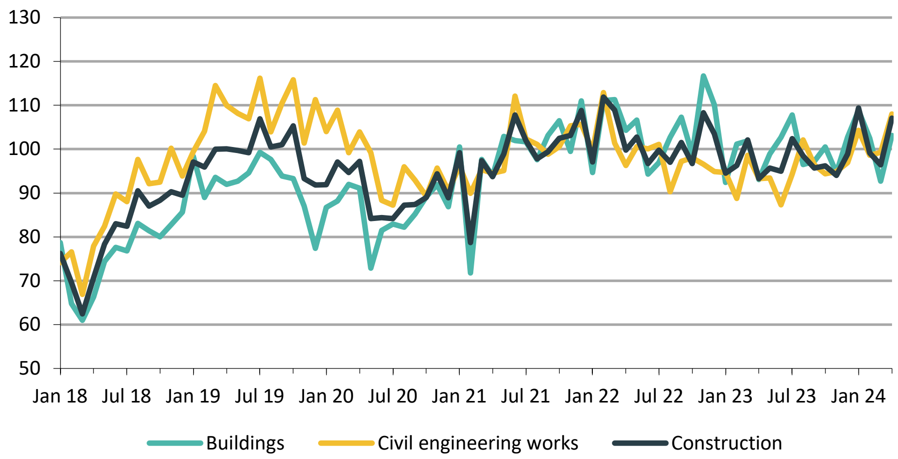
In February 2024, the **stock of new orders** in key manufacturing industries increased by 13.6% year on year at comparable prices, from a low base. Of this, the stock of new industrial export orders increased by 15.4% and the stock of new industrial domestic orders by 2.8% compared to the same period last year. As regards the stock of new industrial domestic orders, three subsections were able to expand, one of which was the manufacture of transport equipment, which grew by 32.8%. The other two, less heavy subsections are the metals industry (8.6%) and paper (2.9%). As regards the stock of new industrial export orders, however, only two subsections saw a decrease in the stock of new orders: the manufacture of pharmaceuticals, medicinal chemical and botanical products by 27.4% and the manufacture of electrical equipment by 12.0%.

Despite the increase in the stock of new orders, the total stock of orders in the priority manufacturing industries monitored by the HCSO fell by 18.1% in April 2024 at comparable prices compared to the same period of the previous year, with only a small base effect. The decrease in the stock of orders was due to a decline in both the stock of domestic orders (18.8%) and the stock of export orders (6.6%).

Construction output grew by a cumulative annual rate of 5.4% in the first four months of 2024.

In April 2024, the annual volume of construction output increased by 15.6% in terms of raw data. Within the main groups of construction, the construction of buildings increased by 10.8% year on year, while civil engineering works (roads, bridges, railways, complex industrial facilities, pipelines, etc.) increased by 22.6%. In terms of trend, construction output in the first four months of this year was cumulatively 5.7% higher year on year in the first four months of the previous year. Both main groups of construction contributed to this, but the main contributor was the output in civil engineering works. Buildings increased by 2.9% and civil engineering works by 11.1% compared to the first four months of last year. In addition, month on month, seasonally and working-day adjusted construction output increased by 11.0%, within the two main groups of construction, the construction of buildings increased by 11.3% and construction of civil engineering works by 8.8%. The previously announced home renovation programme to boost the construction sector will start on 1 July 2024.

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

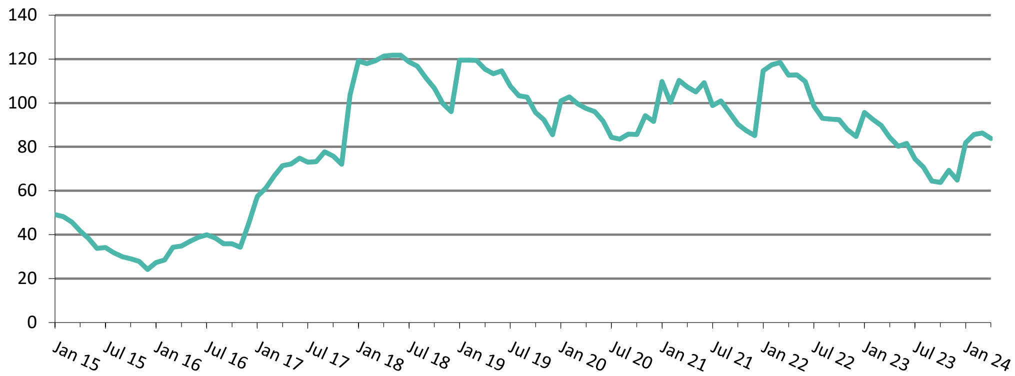


Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Századvég

Looking ahead, the home renovation programme, which will be launched in the coming days, is promising and experts expect demand to increase. The change in the volume of new contracts is not in itself a cause for optimism. Although the stock of new contracts is fluctuating strongly, the volume of new contracts signed in the month under review, calculated on a fixed basis, fell by 20.2% compared with the previous month. In addition, although the value of the same indicator increased by 23.0% compared to the previous year, the stock of construction contracts at the end of the month decreased. This is because, of the monthly and annual stocks of contracts at the end of the month under review calculated on a fixed basis, only the annual stock of contracts for the construction of buildings increased (1.1%). On an annual basis, the decline in the stock of contracts for the construction of buildings, calculated on a fixed basis, also led to a 0.6% fall in the stock of contracts for total construction at the end of the month under review. This is reflected in the figure below.

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

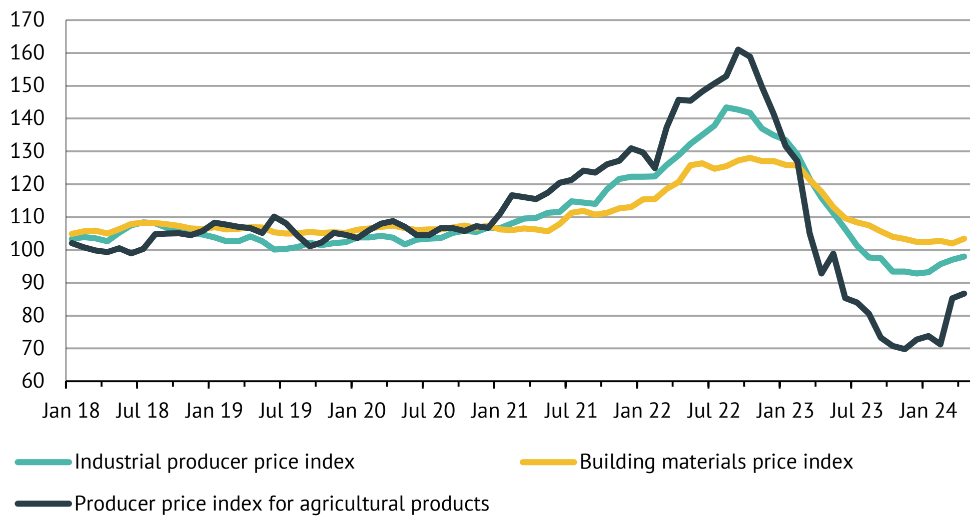


Source: Hungarian Central Statistical Office, Századvég

Domestic sales prices in the food sector fell by 6.4% in the first four months of the year.

In April 2024, the industrial producer price index and the agricultural producer price index continued to fall year on year. The **building materials price index** increased slightly (by 1.4 percentage points) compared with the previous month. Thus, the **building materials price index** increased by 3.4% year on year in April. The **agricultural** producer price index fell by 13.3% in April 2024 compared with the same period of the previous year, meaning that, despite the low base, it has declined considerably. At the same time, producer prices of three of the same products (potatoes, vegetables and fruit) increased slightly, but to a lesser extent. Despite the high base effect, producer prices rose by 2.1% for vegetables and 3.0% for potatoes. For fruit, excluding the base effect, producer prices increased by 14.5%. Producer prices for crops (cereals, industrial crops) continued to fall on an annual basis, despite the low base: cereals by 25.4% and industrial crops by 18.6%. At the same time, producer prices for animal products (livestock and animal products) continued to fall due to the high base effect. In April 2024, **industrial** producer prices fell by 2.0% on average year on year, of which domestic sales prices fell by 5.0% and export sales prices by 0.4%. 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 fell slightly (by 0.9%), with domestic sales prices falling by 0.3% and export sales prices by 1.2%. Reflecting the downward trend in industrial producer prices, industrial producer prices fell by 4.0% year on year in the first four months of 2024. Within this, export sales fell by 3.0%, while producer prices for domestic sales fell by 5.9%. Within domestic sales, food producer prices fell by 6.4% in the first four 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

Retail sales volume increased by 3.2% in April.

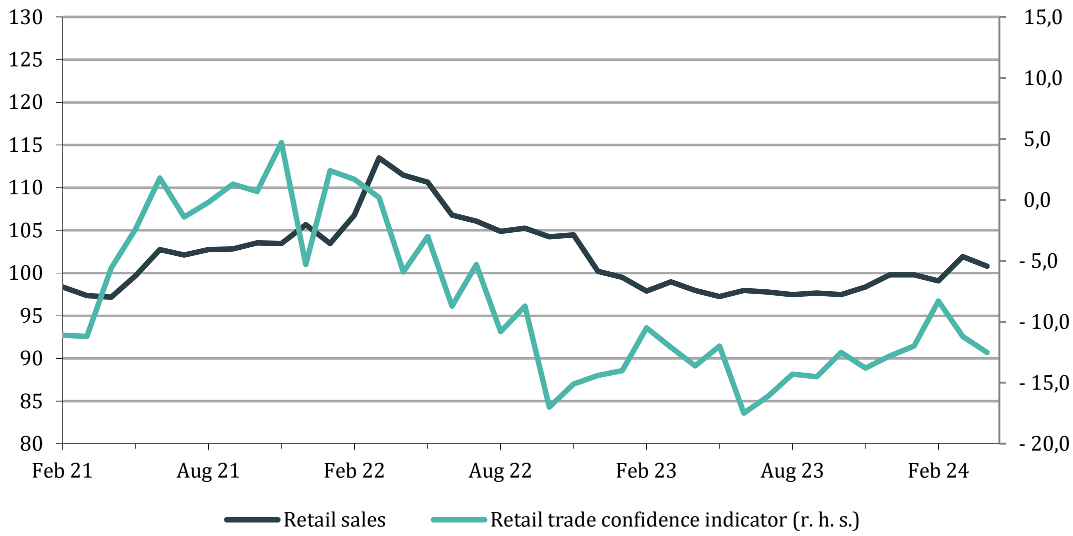
In April, retail sales increased by 3.2% year on year on both a raw and calendar-adjusted basis compared to the respective period of the previous year. January saw the first annualised increase in a long time, and the trend continued in the following months, including April. This steady positive result already marks a reversal of the trend after the downturn in 2023. Consumption is expected to expand further in the coming months as real wages rise and consumer confidence strengthens.

In April 2024, turnover in specialised and non-specialised food shops increased by 3.6%, and the turnover in non-food shops increased by 4.3%. In fuel retail, turnover volumes increased by 2.0% in April compared to the previous year, mainly due to the abolition of the price cap on fuels in January of the previous year, after the weak results of the previous period, so this year's volume is now compared to the declining volume.

In food retailing, sales volumes increased by 4.4% for specialised and non-specialised food retailing, while the volume in specialised food, beverage and tobacco stores rose by 1.8%, continuing the positive trend since February.

In non-food retailing, the volume of furniture and electrical goods fell by 1.8%, while the turnover of books, newspapers and stationery fell by 14.6% compared to the same period last year. April saw significant changes, with all but the two categories mentioned above showing increases. For example, the turnover of clothing and footwear, which fell by 2.8% in March, is now up by 7.7%. Sales volumes of pharmaceuticals and medicinal products also fell in March, but rose by 1.5% in April. In addition, sales of non-food products and second-hand goods increased by 5.0%, in contrast to the previous months, which showed a decrease.

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



Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Eurostat, Századvég

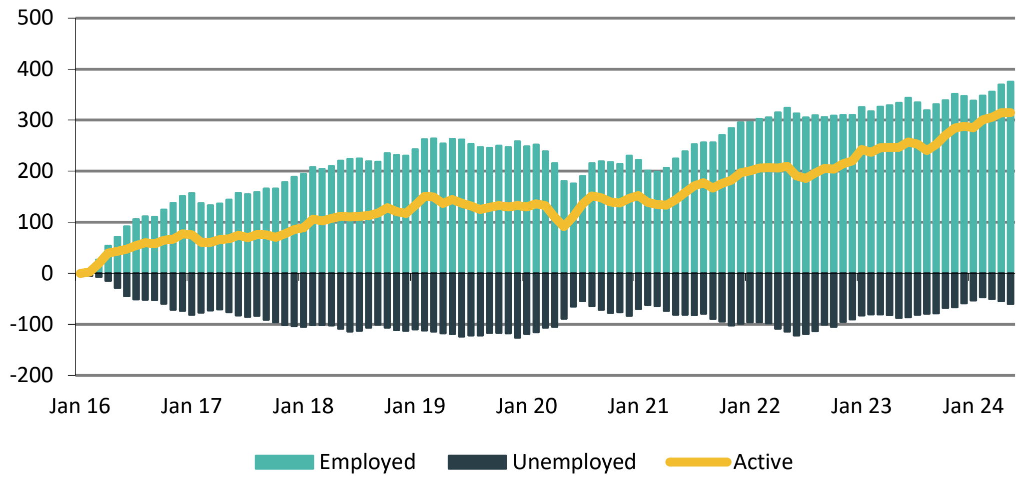
In May, the unemployment rate was 4.5%.

In May 2024[1], 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 68,300 compared to the same period of the last year. In the period under review, the seasonally adjusted number of employees reached 4,762,000, a year-on-year increase of 41,100. The number of the unemployed continued to decrease, to 218,800, a year-on-year increase of 27,000. The employment trends of the previous months seem to be slowly normalising, with the unemployment rate for the youngest age group, 15-24, rising last year and now falling again, while the increasing activity of the oldest age group has been maintained.

In April, the seasonally adjusted number of employees decreased by 4,100 compared to the same period last year. Compared to April 2023, there were 13,600 fewer employees in the competitive sector (enterprises with 5 or more employees) and 8,300 fewer employees in the public sector. The number of people employed in the non-profit sector increased by 8,400 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.

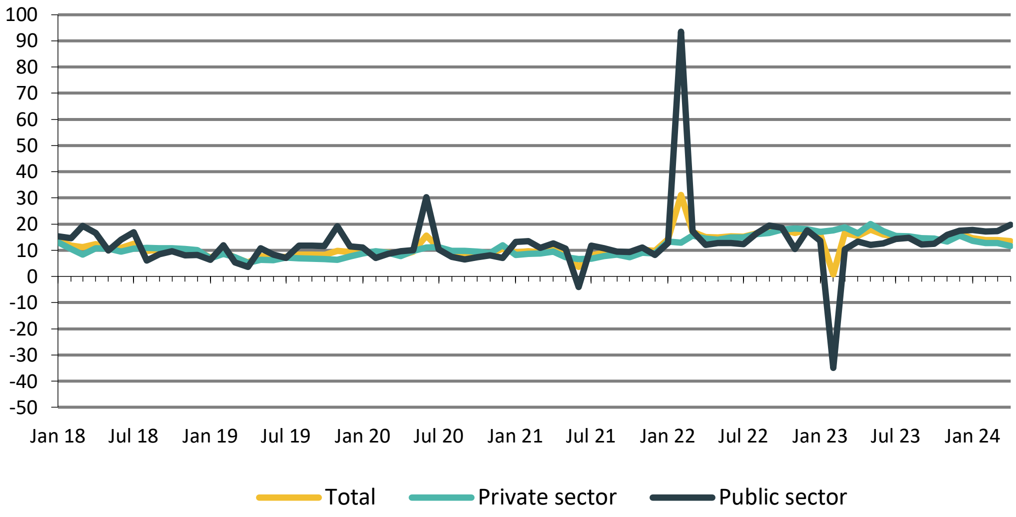
Source: Hungarian Central Statistical Office, Századvég

Real earnings continued to rise in April.

In April, average gross earnings in the national economy amounted to HUF 645,300, up 13.5% compared to the same period last year. The highest average gross earnings were recorded in the competitive sector, at HUF 653,300. 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 516,000, 16.6% 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 444,000, 13.4% higher than in April 2023. Real earnings increased by 9.5%, while consumer prices rose by 3.7%.

We maintain our expectations that the real wage growth that started in recent months will continue in 2024. 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

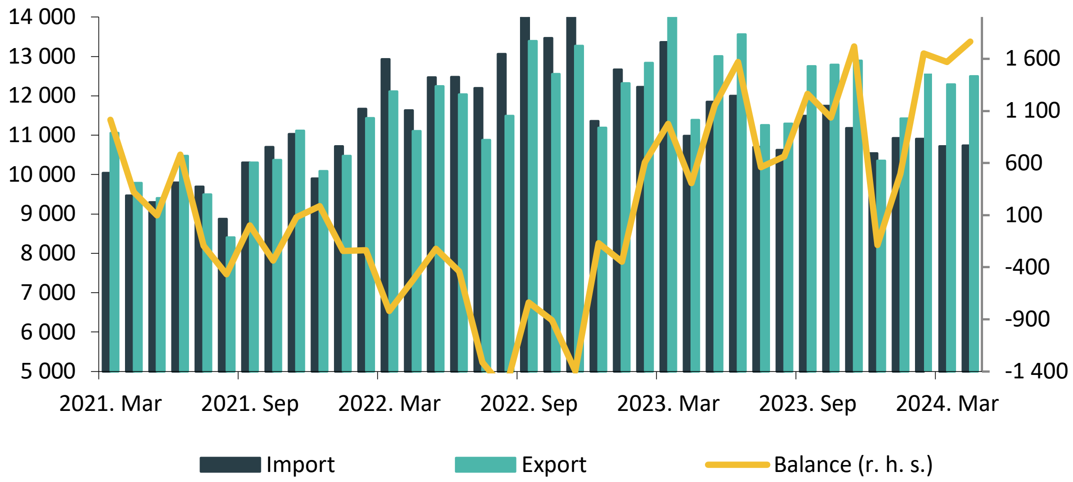
In March, the volume of exports of goods decreased by 10%, and imports by 15% year on year. This brought the external trade balance to a surplus of EUR 1.6 million, an improvement of EUR 572 million compared to the previous year.

In March, the import volume of food products, beverages and tobacco decreased by 13%, and their export volume increased by 6.7% year on year. As for fuels and electric energy, imports increased by 6.1%, while exports by 5.7%. As for manufactured products, imports decreased by 13%, and exports by 5.3% year on year. As for machinery and transport equipment, imports decreased by 20%, and exports by 16%.

The external trade balance improved in April.

In April 2024, the first estimate put the value of exports in euro terms at 8.8% higher and imports in euro at 3.5% lower than a year earlier. This brought the foreign trade surplus in goods to EUR 1766 million, which is EUR 1.4 billion better than a year earlier.

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



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

Source: Hungarian Central Statistical Office, Századvég

2.5 Fiscal outlook

The 4.2% increase in VAT payments in May is a positive turnaround.

Thanks to a positive monthly balance of HUF 49 billion, the deficit of the general government subsector fell to HUF 2,548.5 billion at the end of May 2024. The cumulative deficit was made up of a deficit of HUF 2,559.7 billion of the central budget, a deficit of HUF 104.3 billion of social security funds, as well as a surplus of HUF 115.5 billion in extra-budgetary funds.

In the first five months, central subsystem revenue increased by 6.7% compared to the same period last year.

Payments by economic units increased minimally, by 0.3%, HUF 4.7 billion, compared to the first five months of 2023. Corporate tax receipts, the most significant item, were 6.4% (HUF 38.9 billion) higher by the end of May, while tolls were 48.3% (HUF 81.7 billion) higher than in the first five 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 the surtax on energy suppliers, the largest item, fell by HUF 53.1 billion, and mining royalties, also a major item, fell by HUF 73 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 10.1% (HUF 355.3 billion) compared to a year earlier. VAT receipts, the most significant item, were HUF 198 billion (7.5%) higher than at the end of April in the previous year. The increase in VAT receipts was primarily due to a decrease in VAT refunds during the year. However, the fact that VAT payments increased by 4.2% compared to May 2023, while in three of the previous four months we saw a decline, is a positive sign. The growth in excise tax revenues continued in May, with an increase of HUF 81.5 billion, or 15.5%, at the end of the month. Payments of insurance tax and tourism development contribution also increased, with HUF 25.7 billion and HUF 26.5 billion respectively in the first five months.

Personal income tax receipts increased by 13.2% (HUF 214.3 billion) compared to the end of May 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 14.7% (HUF 424.3 billion) compared to the same period of the previous year, also caused by wage increases.

Revenue from EU programmes was HUF 546.2 billion in the first five months, HUF 104.8 billion less than in the first five months of 2023. This is a significant improvement on the end-April figure and is due to the fact that HUF 138 billion more funds were received in May than in May last year. In contrast, expenditure on EU programmes amounted to HUF 801.9 billion, HUF 530.4 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 five months of 2024, central subsystem expenditure was 4.4% higher than in the previous year. Within this, central subsystem expenditure increased by 1.9%.

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 589 billion in the first five months of the year, but were HUF 305.6 billion, or 34.2%, lower than in the same period of the previous year.

Housing subsidies decreased by HUF 247.6 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.

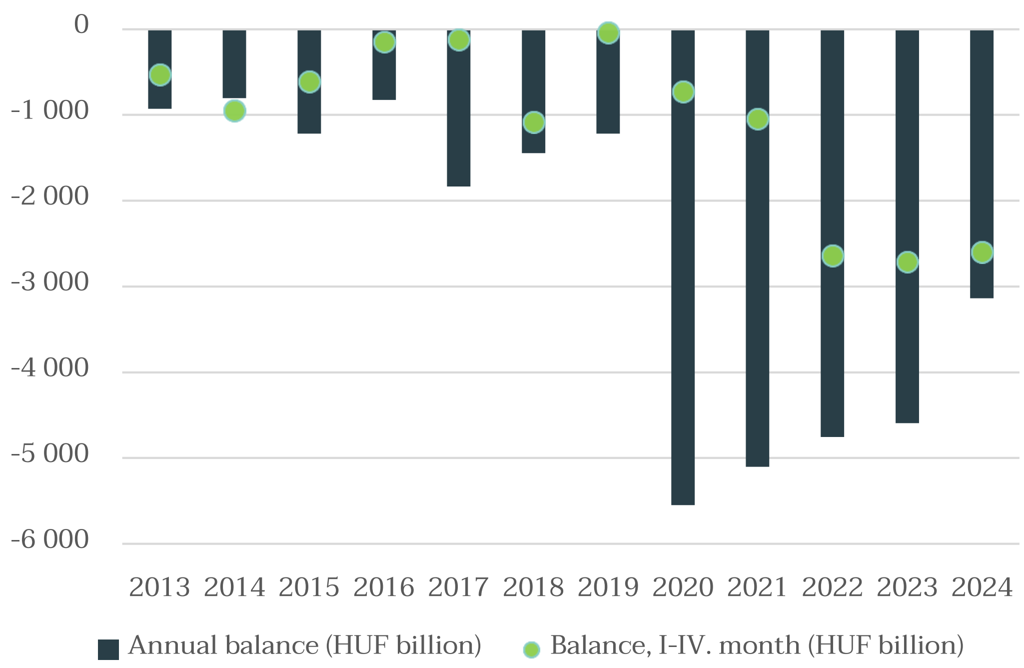
Expenditure on central budgetary institutions and chapter-administered appropriations was HUF 378.5 billion higher than in the first month of the previous year. This corresponds to an increase of 7.3%, while the Budget Act (under revision) would provide for a reduction of 12%.

Expenditures related to state property amounted to HUF 701 billion, HUF 24.7 billion more than the end-March 2023 figure, and reached 131.2% of the 2024 budget estimate.

In May 2024, pensions amounted to HUF 2,848.4 billion, an increase of 10.9% compared to the same period last year. During the same period, the Health Insurance Fund spent HUF 1,861.1 billion, an increase of 14.1% 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 16.9%.

The balance of interest expenditures and revenues related to debt service was HUF 606.3 billion (63.6%) more negative than at the end of May last year.

FIGURE 11: CENTRAL SUBSYSTEM BALANCE, 2014–2024 (MAY, CUMULATIVE RESULT, BILLION HUF)



Source: Ministry of Finance, Hungarian State Treasury

2.6 Monetary developments

In May, prices increased by 4.0% on average.

In May 2024, consumer prices increased by 4.0% on average, relative to the same period of the previous year. Over the past year, prices of services has increased the most (9.5%). However, food prices have risen by only 1.0% and have been within the target range expected by the central bank since the beginning of the year. Consumer prices decreased by 0.1% on average over a month. The seasonally adjusted core inflation rate was 4.0% higher than in the same period of the previous year.

A more significant contribution to the 1.0% average increase in food consumer prices came from the 29.6% rise in the consumer prices of sugar, the 9.8% increase in the consumer prices of chocolate and cocoa, the 9.5% rise in the consumer prices of fruit and vegetable juices and the 8.9% rise in the consumer prices of a cup of coffee in catering. The 8.8% rise in the price of buffet products, the 8.7% rise in meals at schools and the 8.1% rise in the price of meals at restaurants not by subscription also exceeded the average food inflation rate for the month. In contrast, deflation is already evident in many cases: egg prices fell by 22.0%, pork fat by 19.0%, flour by 19.6% and butter by 11.7%. The main drivers of the 3.5% average inflation in alcoholic beverages and tobacco were primarily the 6.2% increase in wine prices, in line with previous months.

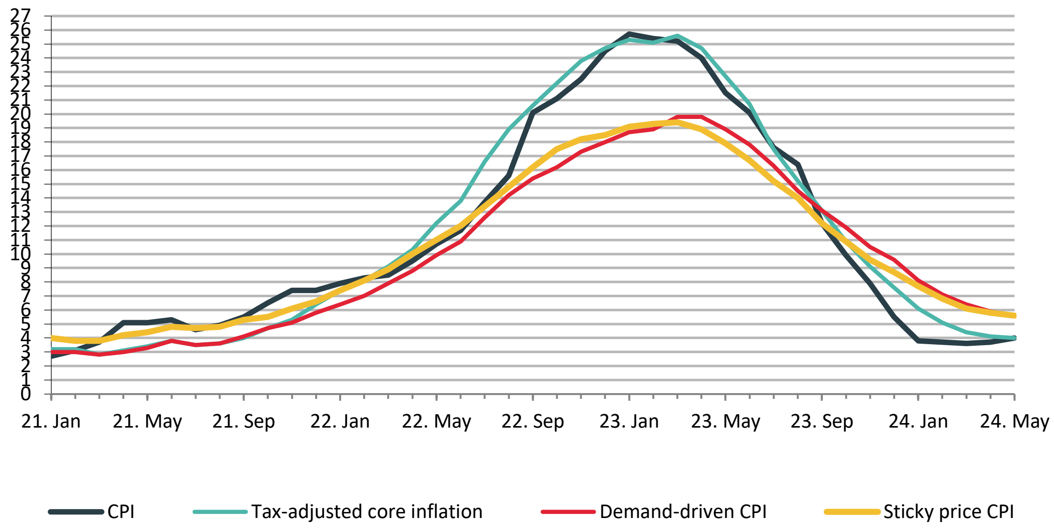
The average price decrease of 1.7% for durable consumer goods represents a significant improvement, driven by factors including the resumption of more efficient supply chains and falling demand in the past year. Looking at the main group, above-average increases were also recorded for new passenger cars (4.8%) and jewellery (6.1%). The deflation of durable consumer goods was supported by a 4.6% decrease in the prices of durable goods for recreation and a 4.9% decrease in the prices of computers, cameras and phones. It is also important to highlight the improving trend for second-hand passenger cars: in May, second-hand passenger cars were already 9.6% 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%.

The average decrease in the prices of electricity, gas and other fuels was 2.4% in May, compared to the same period of the previous year. Within electricity, gas and other fuels, the price of natural and manufactured gas fell by 4.7% and electricity by 2.9% over the past year. Prices of butane and propane gas were also 3.5% lower.

In May, the price of services rose by an average of 9.5%, with theatre up 25.3%, game of chance up 20.6%, postal services up 19.4% and TV fees up 15.0%. 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 and the introduction of county and country passes, which reduced the price of travel to work and school by 21.7% in May, which was unchanged this month. Year-on-year inflation in services continued to fall in the month.

Compared with the previous month, consumer prices fell by 0.1%. On a monthly basis, food prices rose by 0.1% on average, with a 16.5% increase in potatoes playing the biggest role. Prices of services rose by 0.9% on a monthly basis, while the price of electricity, gas and other fuels decreased by 0.9% compared with the previous month. Prices of other goods included motor fuels and lubricants fell by 1.4% compared with April, which also contributed to the month-on-month decline.

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



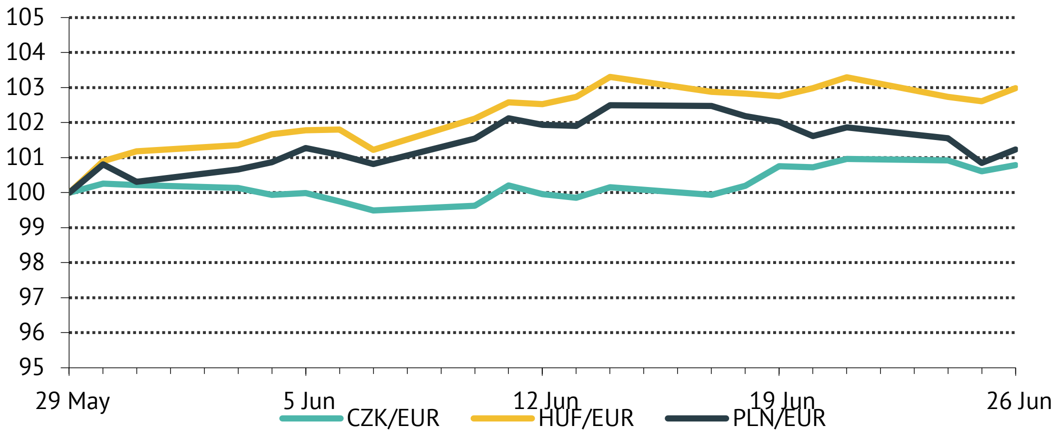
Source: MNB, Századvég

Among the core inflation indicators published by the MNB, the core inflation rate net of indirect taxes was 4.0%, the core inflation rate excluding processed food and the sticky price inflation rate were 5.6% in the fifth month of the year.

Currencies of regional competitors weakened against the euro.

The regional currencies surveyed weakened against the euro in June. In the past period, the Czech koruna weakened by 0.78%, the Polish zloty weakened by 1.24% against the Euro. Government bond yields also fell over the period, with the Czech 10-year government bond yield 29 basis points lower at 4.14% and the Polish 10-year yield 10 basis points lower at 5.71%.

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



Source: Refinitiv, Századvég

The Hungarian currency weakened against the Swiss franc, the euro and the

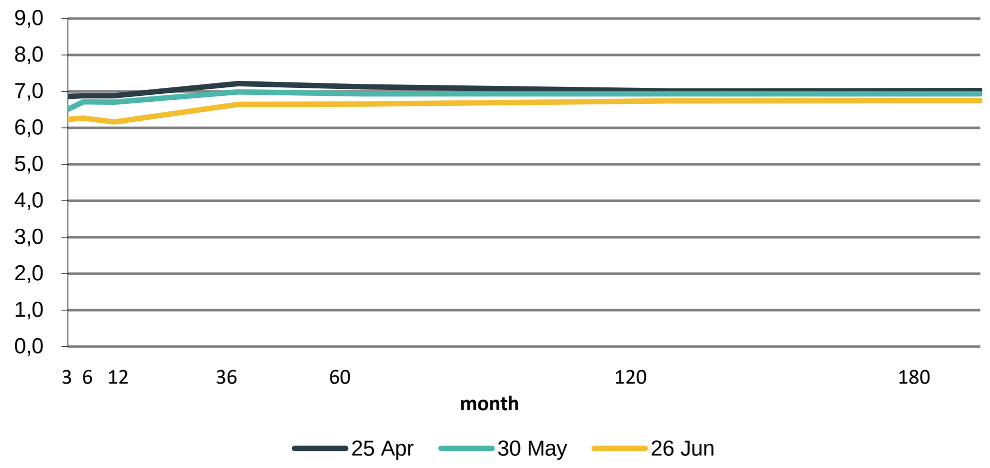
Hungarian money and foreign exchange market indicators also showed a weakening last month. The HUF weakened by 2.9% against the euro, by 5.8% against the Swiss franc, and by 4.2% against the US dollar. This means that at the end of June 2024, 1 euro was worth 396 forints, 1 US dollar was worth 371 forints and 1 Swiss franc was worth 413 forints. Sovereign debt held by foreigners decreased by HUF 184 billion to HUF 7,036 billion in June.

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

At its June 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%, down 25 basis points. Accordingly, the upper limit of the interest rate corridor was changed to 8% and the lower limit to 6%. The pace of monetary easing has been gradual. According to the central bank's communication, the decision took into account the risks and confidence indicators surrounding disinflation as well as the downward growth outlook. The volatile international investor sentiment and the interest rate policies of the globally dominant central banks warrant a cautious and patient monetary policy.

In June, government bond market yields for shorter maturities varied between -54 basis points and -18 basis points on the secondary yield curve. This means that the 3-month yield was 6.23%, the 6-month yield was 6.26% and the 1-year yield was 6.16% on 30 June. The 3-year yield fell by 34 basis points to 6.64%. Yields are down 28 basis points over the 5-year horizon, 19 basis points over the 10-year horizon and 15 basis points over the 18-year horizon compared to the previous month. These three yields changed, therefore, to 6.65%, 6.74%, and 6.75%, respectively.

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



Source: GDMA, Századvég

On 24 June 2024, the total value of "MÁP Plusz" government securities held by retail investors was HUF 693.03 billion after a HUF 80 billion decrease from the HUF 772.63 billion level in mid-December 2022. In addition, the cumulative value of PMÁP securities was HUF 7,138.21 billion, while the cumulative value of the "Bónusz" Hungarian Government Bonds was HUF 1,017.82 billion. The total value of the new 1MÁP securities is HUF 783.44 billion, that of Treasury Savings Bills is HUF 497.53 billion and that of FixMÁP securities is HUF 454.42 billion. Funds held in "Baby" Bonds amounted to HUF 337.38 billion and funds held in Printed MÁP Plus amounted to HUF 104.7 billion. The total stock of government securities held by retail investors stood at HUF 11,026.5 billion at the end of June 2024, up from HUF 9,810.2 billion at the beginning of 2024, i.e. HUF 1,216.3 billion more than in the first month of 2024.

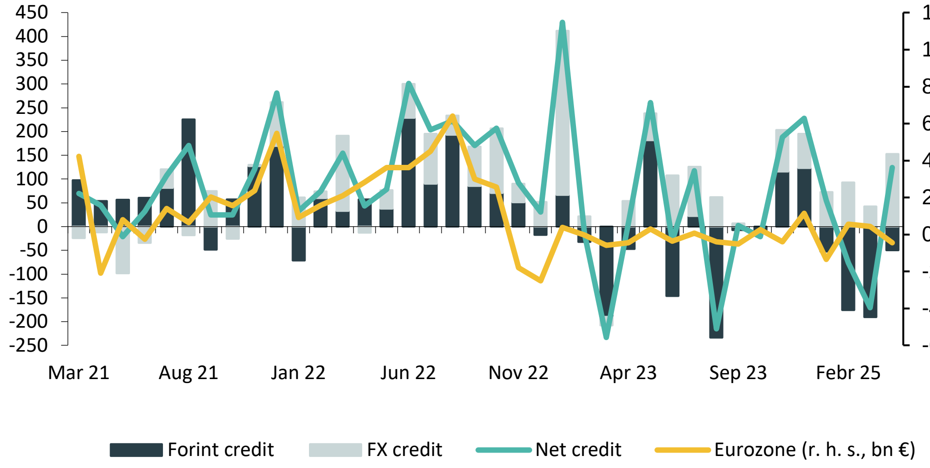
The share of foreign currency debt in the sovereign debt changed to 29.2% in April (i.e. increased by 0.5 percentage point from the previous month), which is in the range (maximum 30%) specified in the financing plan for 2024 of GDMA. Over the past 12 months, the average foreign currency debt ratio averaged 27.1%, with the April ratio higher than this.

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

Corporate credits increased in Hungary.

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector decreased by HUF 49.7 billion in April 2024. However, the value of net lending in foreign currency increased, with net borrowing amounting to HUF 153.0 billion in the fourth month of the year. Seasonally adjusted total net borrowing increased by HUF 124.3 billion in the period under review. Euro area corporate debt fell by EUR 4.51 billion in April 2024.

FIGURE 15: CORPORATE BORROWING (HUF BILLION)



Source: MNB, ECB, Századvég

3. Macroeconomic forecast

The Hungarian economy could grow by 2.7% in 2024, 3.9% in 2025 and 2.9% in 2026. However, growth conditions are fragile, so it may be worth taking a cautious view of economic expectations for the coming years. Looking at global trends, reducing prices of energy carriers and external disinflationary developments point to a further moderation in Hungarian inflation. Regarding Hungarian exports, the output gap in the euro area could close at the end of 2025, which could be supportive for Hungarian exports, but deteriorating growth prospects in the euro area could also have an impact in Hungary.

Hungarian inflation averaged 17.1% in 2023, but the inflation rate was declining throughout the year and continued to do so in the first half of 2024. We expect the disinflationary process to continue, although inflation is expected to pick up towards the end of the year. Overall, inflation could fall to 4.1% in 2024, followed by 3.8% in 2025 and 3.0% in 2026.

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. Since then, the central bank has continuously eased monetary conditions, but the degree of easing has varied in recent months, ranging between 50 and 100 basis points. We expect monetary policy to ease further in the second half of the year, but we do not expect the base rate to fall below 6% this year. The earliest date for inflation to return to the central bank's target range of 3±1% is 2025.

In 2023, gross domestic product (GDP) fell slightly by 0.7% in Hungary, but economic growth is expected to reach 2.7% in 2024, followed by 3.9% next year. Q1 2024 was characterised by expanding consumption and sharply declining investment. Looking ahead, we expect consumption to pick up gradually in the coming quarters and investment to rebound in late 2024/early 2025, driven by falling interest rate conditions, rising business confidence and a low base. Overall, investment is expected to fall by 1.3% this year, while consumption is expected to expand by 3%.

Exports could grow by 3.2% in 2024, 7.9% in 2025 and 6.1% in 2026. Imports, supported mainly by consumption and export growth, could increase by 3.0% in 2024 and by 8.3% and 5.5% percent in the next two years, respectively. Thus, overall, net exports should make a positive contribution to economic growth this year, but next year, despite the growth in the euro area, we believe that net exports could make a negative contribution to GDP.

The labour market has also undergone a transformation in the last year and a half. In 2023, employment continued to grow in line with the previous trend, while unemployment also started to rise slightly, reversing the previous downward trend. This has continued in the first half of this year, reflecting an increase in the number of economically active people. To understand this unusual trend, it is helpful to analyse economic activity data for the main age groups. We can see that the majority of new entrants to the labour market came from the 55-74 age group, who were able to find employment within a short period of time, and a smaller proportion came from the youngest age group, some of whom were still jobseekers. The rise in the number of the unemployed is partly due to new entrants to the labour market who are slower to find a job, and partly due to people aged 25-54 who were previously active but are now jobseekers. Available data suggest that this trend has continued this year. We forecast that the changes observed in the last year and a half will continue this year, with employment continuing to expand and unemployment rising, the latter to 4.6%, and the market returning to its previous state by 2025, when the unemployment rate will fall back to 3.7% while employment remains high.

At the end of 2023, the ESA deficit on an accrual basis reached 6.7% of GDP and the gross public debt-to-GDP ratio fell to 73.5%. We forecast the ESA deficit of public finances to reach 4.9% of GDP in 2024 without further government adjustment measures. We expect sovereign debt to fall only marginally to 73.4% of GDP by the end of the year, reflecting the buy-back of Liszt Ferenc International Airport. In 2025, the pick-up in growth will help to achieve the planned fiscal path, so we expect the government to reach the fiscal path targeted at the beginning of the year at the latest by next year, and the corresponding 3.7% budget deficit target. Sovereign debt will fall to 72.6% of GDP by the end of the year. Based on current expectations, a budget deficit target of 2.9% in 2026 seems realistically achievable.

4. Századvég's forecast[2]

TABLE 1:2024 Q2 FORECAST

	2023	2024	2025
Gross domestic product (volume index)	-0.7	2.7	3.9
Household final consumption expenditure (volume index)	-2.2	3.0	3.7
Gross fixed capital formation (volume index)	-14.4	-1.3	7.8
Export volume index (based on national accounts)	-0.1	3.2	7.9
Import volume index (based on national accounts)	-5.1	3.0	8.3
Balance of international trade in goods (EUR billion)	0.4	2.5	4.7
Consumer price index (%)	17.1	4.1	3.8
Central bank base interest rate at the end of the period (%)	11.4	6.2	5.4
Unemployment rate (%)	4.1	4.6	3.7
Current account balance as a percentage of GDP	1.0	1.7	2.1
Net lending as a percentage of the GDP	3.3	3.9	4.1
ESA balance of public finances as a percentage of GDP	-6.3	-4.9	-3.7
Sovereign debt as a percentage of GDP	73.5	73.4	72.6

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: 18 June 2024