MACRO MONITOR

July 2024

Századvég
Konjunktúrakutató Zrt.

Table of Contents

1. Summary

In Q2 2024, Hungarian economic output strengthened by 1.3% year on year and weakened by 0.2% quarter on quarter, according to seasonally adjusted data.

At its July 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 6.75%, after a 25 basis point cut.

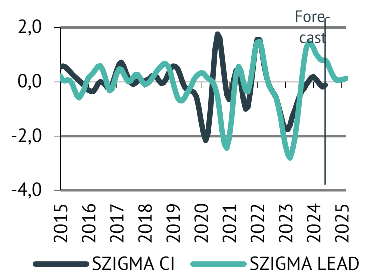
In May, retail sales increased by 3.6% year on year on both a raw and calendar-adjusted basis. Within this, compared to the same period of the previous year, sales increased by 6.3% in specialised and non-specialised food shops, 1.8% in non-food retailing and 0.7% in automotive fuel retailing.

The monthly value of the SZIGMA CI indicator, which provides feedback on the current state of the Hungarian economy, was -0.115 up to June 2024. This is down from the previous month's index value of 0.082. This means that the Hungarian economy is still growing at a rate below 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. A slight pick-up in above-trend growth is expected by the end of the forecast horizon.

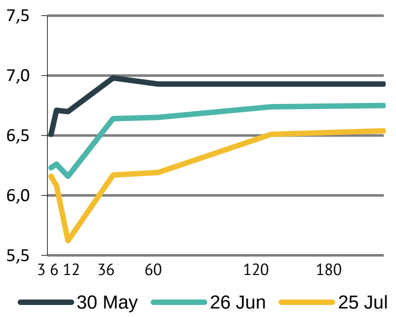
In June 2024, consumer prices rose by 3.7% on average year on year.

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

2. Overview of the economy

2.1 External environment

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

June 2024 data from Eurostat, the official statistical office of the European Union, show that the annual inflation rate in the euro area was 2.5%, down 0.1 percentage points on the previous month. It is important to note that this rate is a significant improvement compared to 5.5% a year earlier. For the European Union as a whole, annual inflation was 2.6% in June, down 0.1 percentage points on May, a significant difference from the previous year's rate of 6.4%.

June CPI data show a general decline across Europe, although there are also increases in some areas. In Latvia, inflation rose from 0.0% to 1.5% in June. On an annual basis, Finland, Italy and Lithuania were among the countries with the lowest CPIs, with June values of 0.5%, 0.9% and 1.0%, respectively. In the European Union, Belgium reported the highest increase in the harmonised index of consumer prices (HICP), at 5.4%. The second highest inflation rate was in Romania (5.3%), where inflation has been consistently high since February 2024. Both Hungary and Spain recorded a consumer price index of 3.6%.

June inflation data shows that the services sector contributed most to the increase in the annual inflation rate, with 1.84 percentage points. This was followed by food, alcohol and tobacco, which added 0.48 percentage points to the inflation rate. Non-energy products played a smaller role, contributing only 0.17 percentage points. It is important to highlight that the continuous negative contribution of the energy sector to inflation has come to an end, with an increase of 0.02 percentage points already recorded in June, mainly due to the build-up of base effects.

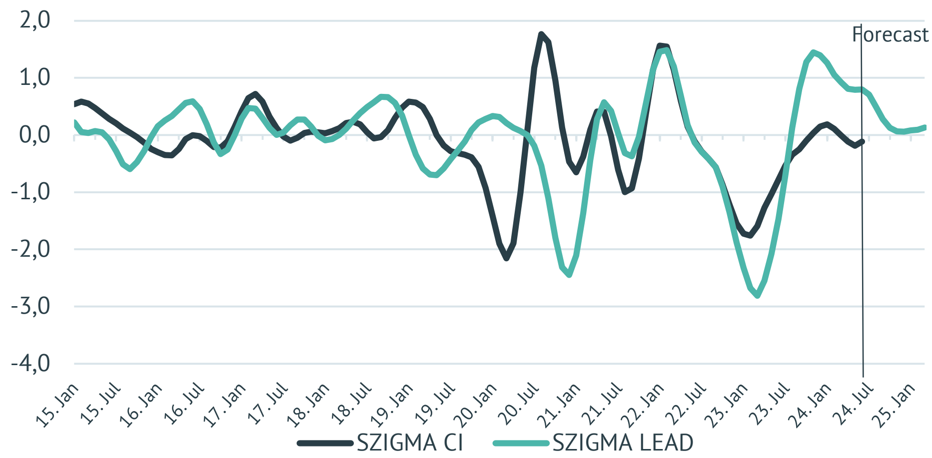
2.2 Our SZIGMA indicators

In July 2024, the Hungarian economy grew below its historical trend.

In July 2024, the value of the SZIGMA CI indicator reflecting the current state of the Hungarian economy was -0.115 up to June 2024. This is down from the previous month's index value of 0.082. This means that Hungarian economic growth went below its historical trend rate. Although domestic consumption started to expand slowly, a sharp fall in exports held back the growth rate of the Hungarian economy. In construction, the latest, May 2024, seasonally and working-day adjusted fixed-base (2021 average = 100.0%) **construction** output volume decreased by 3.8% from the previous month, which was due to a decrease in the output of civil engineering works (7.8%). The construction of buildings increased by 4.1%. Meanwhile, fixed-base construction orders at the end of the month fell both month on month (1.6%) and year on year (6.0%). Related to this, the number of new non-residential construction projects increased by 27.4% month on month and decreased by 13.0% year on year. **In industry**, the latest figures, for May 2024, show that the seasonally and working-day adjusted volume of industrial production, calculated on a fixed basis, decreased by 1.0% month on month and by 4.8% year on year. The volume of industrial sales (domestic and exports combined), seasonally and working-day adjusted and calculated on a fixed basis, fell, both month on month (1.4%) and year on year (6.6%), as the volume of export sales fell alongside the expansion in domestic sales on an annual and monthly basis. Export sales fell by 2.7% month on month and by 9.6% year on year. Domestic sales increased by 0.8% month on month and by 0.3% year on year.

For July 2024, our short-term leading indicator, SZIGMA LEAD, continues to point to an improvement by the end of the forecast horizon, as the above-trend growth rate indicated last month strengthened slightly. Turning to the future outlook, total seasonally and working-day adjusted new industrial orders on a fixed basis shrank both on a monthly basis (13.6%) and on an annual basis (16.6%). 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 15.6% month on month and by 17.9% year on year. Meanwhile, the stock of new industrial domestic orders increased by 0.4% month on month, while it shrank by 8.4% year on year. In sum, the slow expansion in the stock of industrial domestic orders could not offset the marked weakening in exports. As for the German and EU indices affecting the Hungarian economy, the Ifo Business Climate Index for June 2024, **which measures change in business sentiment in the German economy**, weakened by 0.7 index points from the previous month to stand at 88.6 index points in June, while it improved by 0.1 index points year on year. In June 2024, the **Eurostat**'s consumer confidence index strengthened both month on month (1.2 index points) and year on year (9.5 index points). This month it stood at -23.0 index points.

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



Source: Századvég

2.3 The real economy

In the first half of 2024, Hungarian GDP expanded by 1.5%.

According to data published by the Hungarian Central Statistical Office, the performance of the Hungarian economy weakened in Q2 2024 (by 0.2%) compared to the previous quarter, on a seasonally and calendar-adjusted and balanced basis. On an annual basis, gross domestic product rose by 1.5% in Q2 2024, based on raw data, and by 1.3% on a seasonally and calendar-adjusted basis. Thus, in the first half of 2024, the Hungarian economy expanded by 1.5% compared to the respective period of the previous year on a seasonally and calendar-adjusted and balanced basis. Preliminary data show that in Q2 2024 the GDP was held back by industry. Meanwhile, construction and market services (including real estate) strengthened GDP performance.

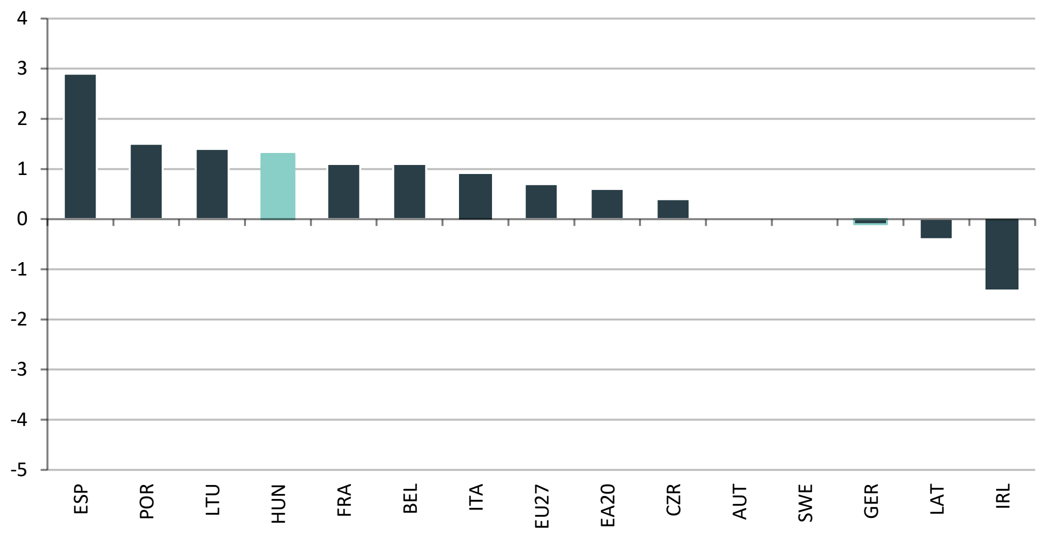
The international comparison also shows that preliminary GDP figures will come out earlier from this year. The published EU GDP data for Q2 2024 are for 13 Member States in addition to the euro area and the EU average, but these data cover a large share of EU GDP. The full EU dataset will be published in mid-August 2024. In Eurostat's preliminary (first estimate) ranking based on seasonally adjusted **annual** GDP for Q2 2024, Hungary's GDP grew by 1.3%, placing it fourth out of 13 in the ranking[1]. In Q1 2024, Spain recorded the highest annual growth rate of 2.9%, followed by Portugal with 1.4%. The third highest increase (1.3%) was in Lithuania.

On a **quarterly** basis, the EU average (EU27) and the euro area (EA20) grew by 0.3% on a quarterly basis. With a 0.2% decline in GDP in Q2 2024, Hungary is the second country with the smallest GDP decline.[2] On a quarterly basis, Ireland recorded the highest GDP growth rate (1.2%), followed by Lithuania with a monthly increase of 0.9%. The third highest monthly increase (0.8%) was in Spain. On a quarterly basis, 4 Member States (Germany, Hungary, Sweden and Latvia) saw their GDP fall. Germany with 0.1%, followed by Hungary with a 0.2% drop in GDP. Latvia suffered the largest month-on-month GDP decline (1.1%).

[1] 13 Member States, the EU27 and the euro area. 14 Member States not included due to lack of data: Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, Greece, Luxembourg, Malta, the Netherlands, Poland, Romania, Slovakia and Slovenia.

[2] 13 Member States, the EU27 and the euro area. 14 Member States not included due to lack of data: Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, Greece, Luxembourg, Malta, the Netherlands, Poland, Romania, Slovakia and Slovenia.

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



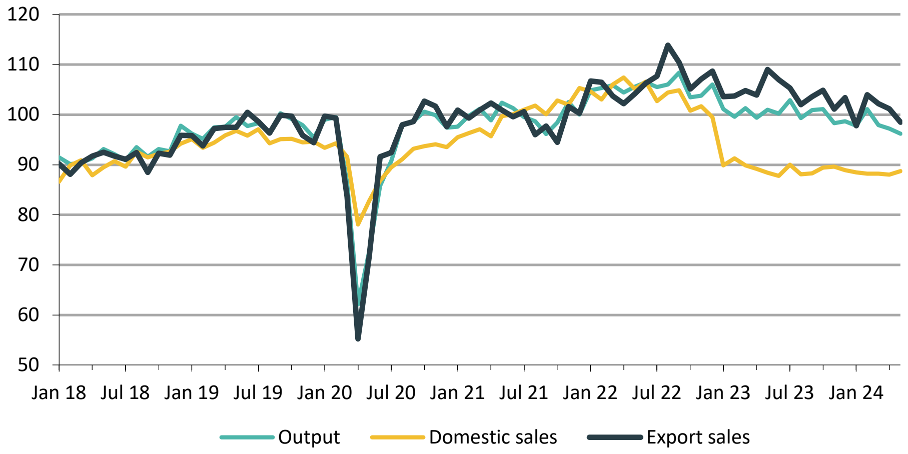
Remark: Seasonally and calendar adjusted indices. Preliminary estimate. (Not included due to lack of data: Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, Greece, Luxembourg, Malta, the Netherlands, Poland, Romania, Slovakia and Slovenia.)
Source: Eurostat

On a monthly basis, the volume of seasonally and working-day adjusted industrial production continued to decrease.

Compared with the same period of the previous year, industrial production fell by 5.2% year on year according to raw data and by 4.9% according to working-day adjusted data in May 2024. Overall **industrial sales** fell by 6.9% in May 2024 compared with the same period a year earlier. Of this, domestic industrial sales shrank by 0.5% and export sales by 10.5%. As a result, industrial production in the first 5 months of the year was 2.4% lower and sales were 3.7% lower than in the cumulative period of January-May 2023.

On a monthly basis, relative to April 2024, the volume of seasonally and working day-adjusted industrial production decreased by 1.1% and sales decreased by 1.4%. The decline in industrial sales was driven by the performance of export sales, as the 0.8% increase in domestic sales failed to offset the 2.7% fall in export sales.

FIGURE 3: **CHANGES IN INDUSTRIAL OUTPUT AND SALES (2021 MONTHLY AVERAGE = 100%)**



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

Returning to industrial production, the decline in industrial production in May 2024 raw data was contributed by a contraction in the output of the manufacturing sector. Manufacturing output fell by 6.4%, while energy grew by 7.3% and mining and quarrying by 18.7%. Three subsections accounted for 47.9% of manufacturing output, and their combined output shrank by 23.5% compared to the previous year. These three subsections are: The largest is the manufacture of transport equipment with a share of 24.6%, down 14.5% on an annual basis. The second one, the food industry with a 12.9% share, was the only one to expand its annual output (9.6%) in this trio. The third largest was the manufacture of electrical equipment with a 10.4% share, where annual output fell by 18.7%. Of the 13 manufacturing subsections, 5 saw their output increase, one of which was the above-mentioned food industry, with the addition of a 2.1% increase in the rubber industry, which is of medium weight, and 3 smaller subsections: wood processing, up 2.9%, chemicals and chemical products, up 1.9%, and coke production, up 0.2%. Of the 13 subsections, the two most heavily weighted subsections above have experienced the largest declines.

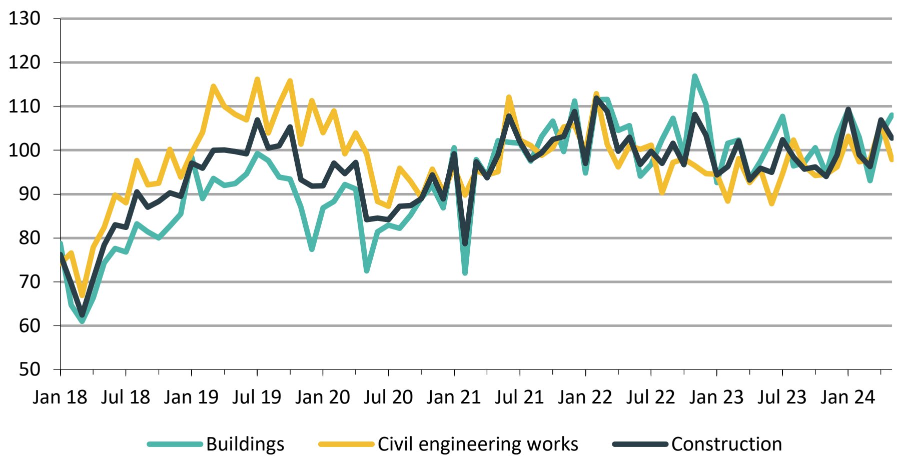
In May 2024, the **stock of new orders** in key manufacturing industries decreased by 16.6% year on year at comparable prices, combined with a weaker base. Of this, the stock of new industrial export orders contracted by 18.0% and the stock of new industrial domestic orders by 8.3% compared to the same period last year. In the stock of new industrial domestic orders, only the metals industry subsection managed to increase the stock of its new contracts by 3.5%, while that of other subsections shrank. As regards the stock of new industrial export orders, only two subsections saw an increase in the stock of new orders: paper manufacturing by 6.5% and chemical products by 6.9%.

With the weakening of the stock of new orders, in May 2024, the total stock of end-of-month orders of key manufacturing industries monitored by the Hungarian Central Statistical Office decreased by 23.9% year on year at comparable prices, with the base effect only playing a minor role. The main factor driving the decline in the stock of orders was the decline in the stock of export orders (by 24.8%), as the stock of domestic orders suffered a smaller decline (7.0%).

Construction output grew by a cumulative annual rate of 6.1% in the first five months of 2024.

In May 2024, the annual volume of construction output increased by 7.2% in terms of raw data. Within the two main groups of construction, the construction of buildings increased by 11.2% year on year, while civil engineering works (roads, bridges, railways, complex industrial facilities, pipelines, etc.) increased by 1.1%. In terms of trend, construction output in the first four months of this year was cumulatively 6.1% 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 4.7% and civil engineering works by 8.5% compared to the first five months of last year. On a less positive note, however, construction output, seasonally and working-day adjusted on a monthly basis, indicating a short-term trend, fell by 3.8%. This monthly performance in the two main groups of construction: the 4.1% improvement in the construction of buildings could not offset the 7.8% decline in the construction of civil engineering works. The improvement in building construction is beginning to reflect the delayed impact of the family homemaking allowance (CSOK) revised earlier this year. After earlier expectations, the home renovation programme started on 1 July 2024, which industry experts expect to cause further improvement.

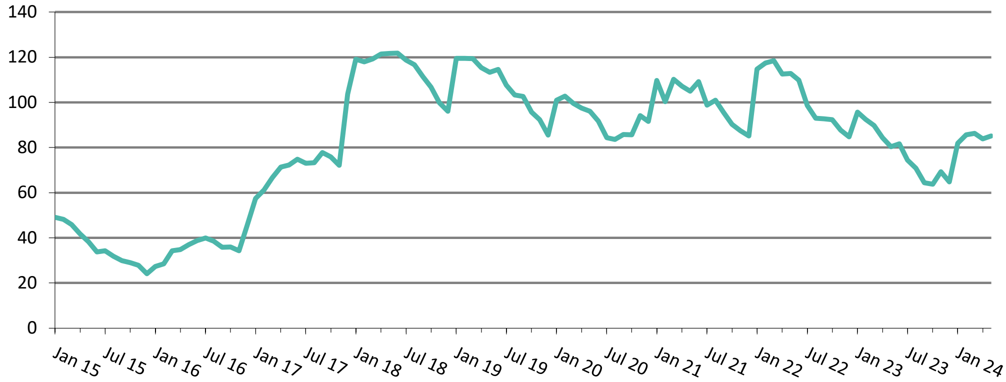
FIGURE 4: **CHANGES IN THE CONSTRUCTION INDUSTRY (MONTHLY AVERAGE FOR THE YEAR 2021 = 100%)**



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

Looking ahead, the month-on-month change in the stock of new contracts is not encouraging. The volume of new contracts signed in the month under review, calculated on a fixed basis, fell by 12.8% compared with the previous month. This decline was caused by a 29.2% shrinkage in the stock of new contracts for civil engineering works. The stock of new contracts for buildings expanded by 1.0%. Although the stock of new contracts fluctuated strongly, the stock of contracts at the end of May 2024 showed a slight improvement from the previous month: it increased by 1.6%. This was helped by a 7.5% increase in civil engineering works and a 7.8% weakening in building construction. This means that the month-end stock of contracts for May 2024 started to stabilise at the February-March level. This is reflected in the figure below.

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

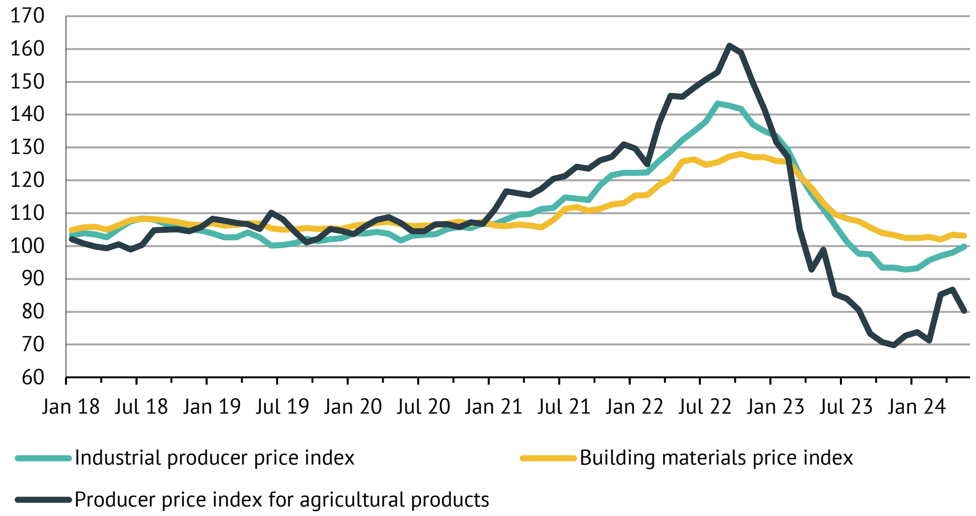


Source: Hungarian Central Statistical Office, Századvég

Domestic sales prices in the food sector fell by 5.5% year on year in the first four months of the year.

In May 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 0.3 percentage points) compared with the previous month. Thus, the **building materials price index** increased by 3.1% year on year in May. Compared with the same period of the previous year, the **agricultural** producer price index fell by 19.7% in May 2024, with the base effect not playing a role. This leaves agricultural producer prices 21.4% lower in the first five months of 2024 compared to the first five months of 2023. For individual agricultural products, producer prices increased for two other products (fruit and vegetables), albeit slightly. Despite the high base effect, producer prices rose by 0.6% for vegetables and 1.6% for fruit. At the same time, the producer price of potatoes fell by 6.0% on an annual basis, in contrast to the increase in producer prices seen in previous months. Producer prices for crops (cereals, industrial crops) continued to fall on an annual basis, despite the low base: cereals by 37.2% and industrial crops by 17.4%. Producer prices for animal products (livestock and animal products) continued to fall due to the high base effect. In May 2024, **industrial** producer prices fell by an average of 0.2% on an annual basis and increased by 0.2% on a monthly basis. The 0.2% annual decrease was driven by a 3.9% fall in domestic sales prices and a 1.7% increase in export sales prices. 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. The small month-on-month increase (0.2%) was driven by a 0.9% fall in domestic sales prices and a 0.7% increase in export sales prices. Reflecting the downward trend in industrial producer prices, industrial producer prices fell by 2.3% year on year in the first five months of 2024. Within this, export sales fell by 1.0%, while producer prices for domestic sales fell by 4.6%. Within domestic sales, food producer prices fell by 5.5% in the first five 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 3.6% in May.

In May, retail sales increased by 3.6% year on year on both a raw and calendar-adjusted basis compared to the respective period of the previous year. The first month of this year saw the first annualised increase in a long time, and the trend continued in the following months.

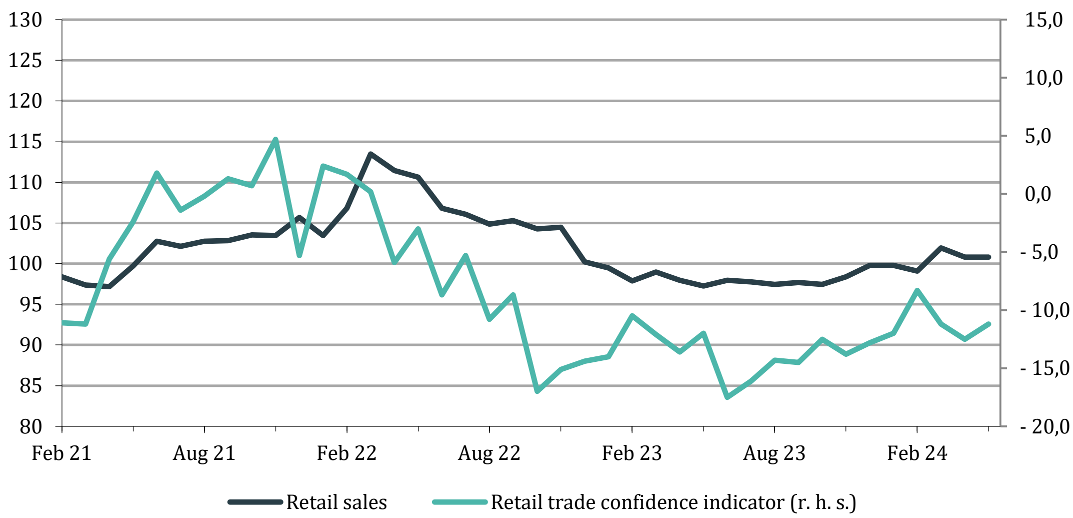
Although the continued year-on-year growth is positive, month-on-month growth falls short of expectations. Consumption is expected to expand further in the coming months as real wages rise, consumer confidence strengthens and the real value of savings gets restored.

In May 2024, turnover in specialised and non-specialised food shops increased by 6.3%, and the turnover in non-food shops increased by only 1.8%. In fuel retailing, sales increased by 0.7% year on year in May.

In food retailing, sales volumes increased by 6.8% for specialised and non-specialised food retailing, while the volume in specialised food, beverage and tobacco stores rose by 4.6%, continuing the positive trend since February.

In non-food retailing, the sales volume in books, computer equipment and other specialised stores fell by 2.3%, while the turnover of books, newspapers and stationery fell by 8.6% compared to the same period last year. The decline shows a slight moderation compared to the 14.5% drop in April. In non-specialised shops dealing in manufactured goods, turnover in textiles, clothing and footwear shops fell by 3.0%, after an increase of 0.1% in April. The sales volume of computers and other specialised goods also increased in April (by 2.4%), but fell by 1.8% in May. In addition, motor vehicle fuel sales also fell, by 0.7%, in contrast to the upward trend seen in previous months, which had been in place since December 2023.

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



Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Eurostat, Századvég

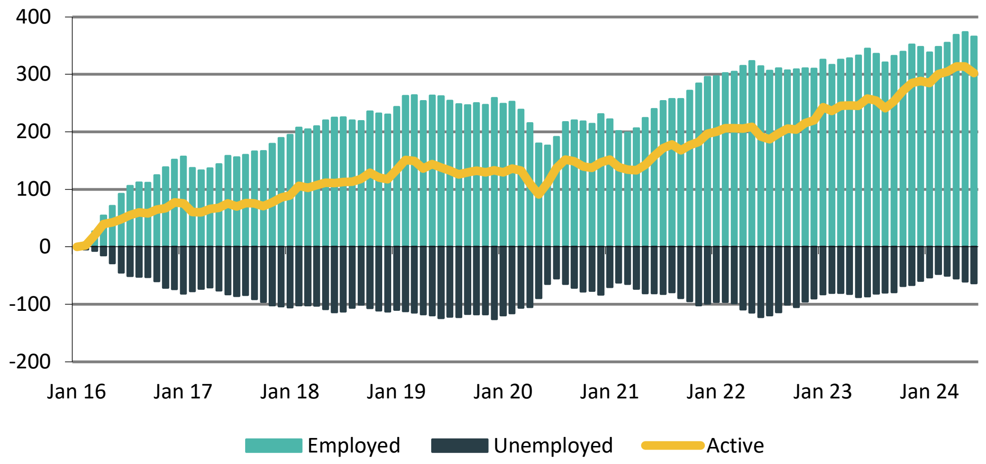
In June, the unemployment rate was 4.5%.

In June 2024,[3] the seasonally adjusted activity rate of the population aged 15–74 was 68.2% (4,968,000 persons), which means a labour market growth of 44,100 compared to the same period of the last year. In the period under review, the seasonally adjusted number of employees reached 4,753,000, a year-on-year increase of 21,400. The number of the unemployed continued to decrease, to 215,500, a year-on-year increase of 22,700. 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 May, the seasonally adjusted number of employees decreased by 8,700 compared to the same period last year. Compared to May 2023, there were 12,100 fewer employees in the competitive sector (enterprises with 5 or more employees) and 5,300 fewer employees in the public sector. The number of people employed in the non-profit sector increased by 8,700 in one year.

[3] Three-month moving average

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



Remark: Seasonally and calendar adjusted indices.

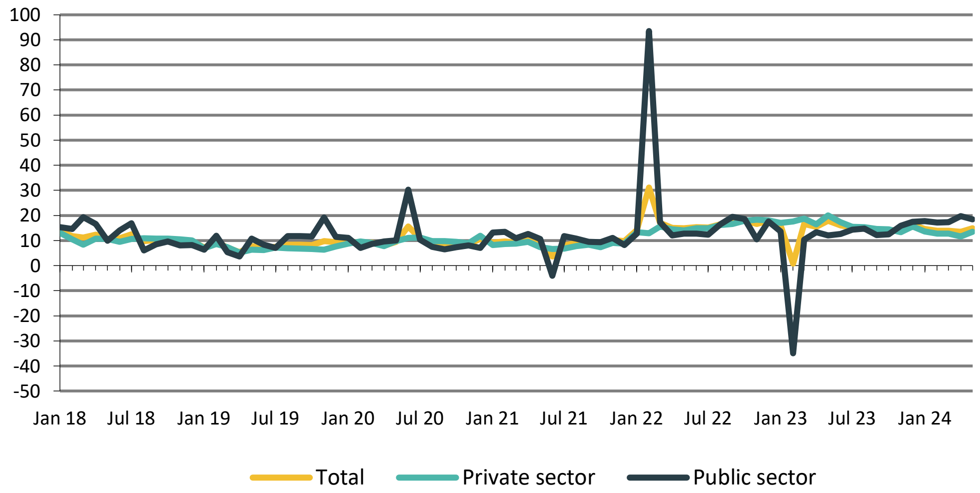
Source: Hungarian Central Statistical Office, Századvég

Real earnings continued to rise in May.

In May, average gross monthly earnings in the national economy were HUF 652,000, up 14.8% compared to the same period last year. The highest average gross earnings were recorded in the competitive sector, at HUF 663,700. 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 525,100, 16.9% higher than a year earlier. The increase shows that some companies have not only increased the wages of workers on the minimum wage and guaranteed minimum wage but have also made significant wage adjustments for other employees to avoid wage compression. Taking benefits into account, average net earnings reached HUF 448,700, 14.6% higher than in May 2023. Real earnings increased by 10.4%, while consumer prices rose by 4.0%.

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 in the second half of the year 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

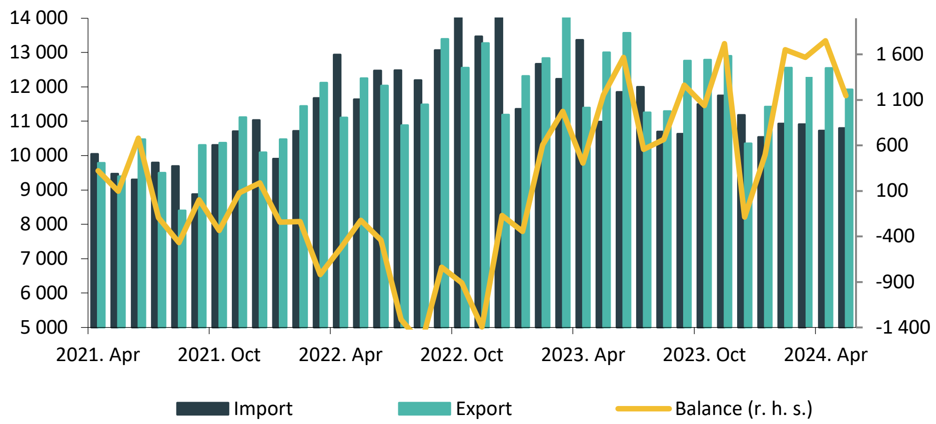
In April, the volume of exports of goods increased by 13% and imports by 2.5% year on year. This brought the external trade balance to a surplus of EUR 1.7 billion, an improvement of EUR 1.4 billion compared to the previous year.

In April, the import volume of food products, beverages and tobacco increased by 10%, and their export volume increased by 35% year on year. As for fuels and electric energy, imports increased by 6.9%, while exports by 16.0%. As for manufactured products, imports increased by 10.0%, and exports by 15.0% year on year. As for machinery and transport equipment, imports decreased by 3.5%, and exports increased by 9.2%.

The external trade balance weakened in May.

In May 2024, the first estimate put the value of exports in euro terms at 8.8% lower and imports in euro at 9.0% lower than a year earlier. This brought the foreign trade surplus in goods to EUR 1,146 million, which is EUR 73 million weaker than a year earlier.

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



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

Source: Hungarian Central Statistical Office, Századvég

2.5 Fiscal outlook

By the end of June, 66.7% of the revised annual deficit target had been met.

At the end of June 2024, the deficit of the general government subsector increased to HUF 2,656.4 billion, despite the deficit of HUF 107.8 billion in June being the most favourable indicator for the 6th month in 22 years. The cumulative deficit was made up of a deficit of HUF 2,640.1 billion of the central budget, a deficit of HUF 161.9 billion of social security funds, as well as a surplus of HUF 145.6 billion in extra-budgetary funds. By the end of June, 66.7% of the revised annual deficit target had been met.

In the first half of 2024, central subsystem revenues increased by 6.2% compared to the first half of 2023.

Payments by economic units decreased by 1.2%, HUF 22.2 billion, compared to the first six months of 2023. By the end of June, corporate tax revenues, the most significant item, were only 0.8%, or HUF 5.2 billion, higher than in the first half of the previous year. Road tolls performed much better, with a 49.4%, or HUF 98.7 billion, increase compared to the first six months of the previous year. The special taxes, most of which were levied in 2022, showed a mixed picture, but overall payments decreased compared to the first half of 2023. This was due to the fact that the surtax on energy suppliers, the largest item, fell by HUF 91.1 billion, and mining royalties, also a major item, fell by HUF 84.7 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 8.9% (HUF 388.9 billion) compared to a year earlier. VAT receipts, the most significant item, were HUF 208.9 billion (6.3%) higher than at the end of June in the previous year. The increase in VAT receipts was primarily due to a decrease in VAT refunds during the year. The monthly increase in VAT payments fell from 4% in May to 0.8% in June. Excise tax receipts continued to grow in June, with an increase of HUF 99.3 billion, or 15.3%, at the end of the month. Payments of insurance tax and tourism development contribution also increased, by HUF 25.8 billion and HUF 27.8 billion respectively, compared to the first half of 2023.

Personal income tax receipts increased by 13.5% (HUF 257.8 billion) compared to the figure measured at the end of June of the previous year. The rise was driven by an increase in wage bills and earnings. Receipts from social contribution tax and social security tax increased by 14.8% (HUF 511.3 billion) compared to the same period of the previous year, also caused by wage increases.

Revenue from EU programmes was HUF 578.2 billion in the first half year, HUF 176.5 billion less than in the first six months of 2023. In contrast, expenditure on EU programmes amounted to HUF 945.7 billion, HUF 515.7 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 cash deficit.

In the first half of 2024, central government expenditure was 4.2% higher than in the previous year. Within this, central subsystem expenditure increased by 1.4%.

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 598.1 billion in the first six months of the year, but were HUF 371.2 billion, or 38.3%, lower than in the same period of the previous year.

Housing subsidies decreased by HUF 242.4 billion, or 73.3%, 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.

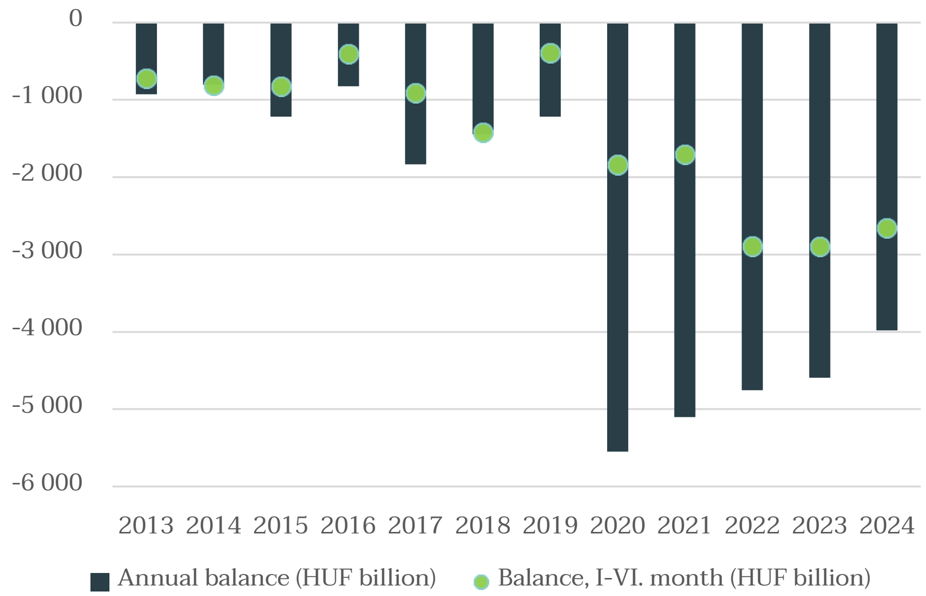
Expenditure on central budgetary institutions and chapter-administered appropriations was HUF 492.7 billion higher than in the first six month of the previous year. This corresponds to an increase of 8.1%, while the Budget Act (under revision) would provide for a reduction of 12%.

Expenditures related to state property amounted to HUF 708.9 billion, HUF 107.9 billion more than the end-June 2023 figure, and reached 132.7% of the 2024 budget estimate.

By the end of June 2024, pension payments amounted to HUF 3,326 billion, an increase of 10.9% compared to the same period last year. During the same period, the Health Security Fund spent HUF 2274.9 billion, an increase of 16.2% 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 20.8%.

The balance of interest expenditures and receipts was HUF 601.8 billion (51.3%) more negative than at the end of June of the previous year. However, this is a slightly less negative balance than the end-May figure.

FIGURE 11: **CENTRAL SUBSYSTEM BALANCE, 2014-2024 (JUNE CUMULATIVE BALANCE, HUF BILLION)**



Source: Ministry of Finance, Hungarian State Treasury

2.6 Monetary developments

In June, prices rose 3.7% on average.

In June 2024, consumer prices increased by 3.7% on average, compared to the same period of the previous year. Over the past year, prices of services has increased the most (9.7%). Prices of electricity, gas and other fuels fell by 2.7% compared to the same period of the previous year, due to the inclusion of the base effect. Consumer prices did not change in a month. The seasonally adjusted core inflation rate was 4.1% higher than in the same period of the previous year.

A larger share of the 1.1% average increase in food prices was due to a 27.4% rise in sugar prices, a 9.2% rise in buffet prices and a 9.1% rise in the price of chocolate and cocoa. The price of fruit and vegetable juices rose by 8.7%, coffee in catering by 8.6%, meals at schools by 8.2% and meals at restaurants by 8.1%, all of which were above the average food inflation rate for the month. In contrast, deflation was observed in several products, as in the previous months: egg prices fell by 22.3%, flour by 19.2%, pork fat by 15.0% and potatoes by 13.2%. The main drivers of the 4.2% average inflation in alcoholic beverages and tobacco were primarily the 5.9% increase in wine prices.

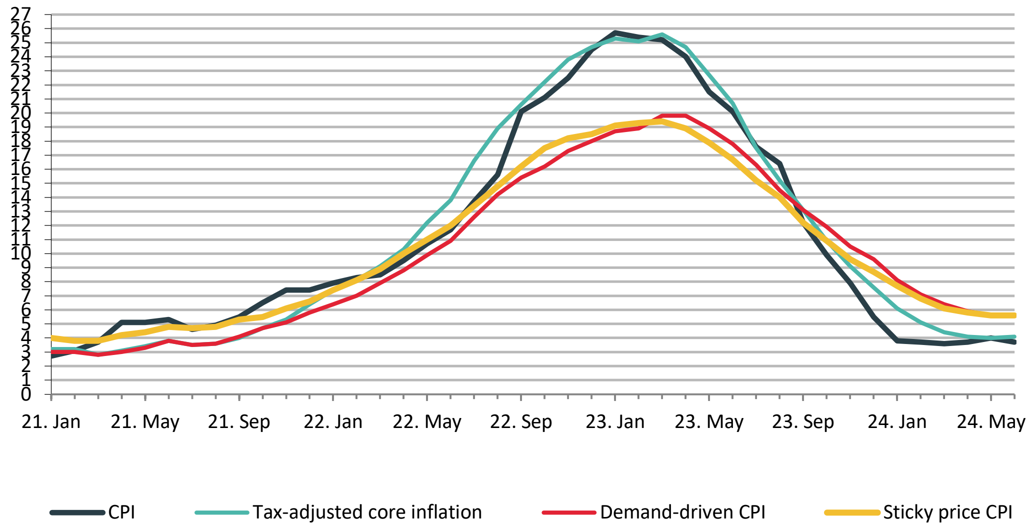
The 1.3% average fall in the prices of consumer durable goods shows a significant improvement, supported by a number of factors in addition to tight monetary policy. These include persistently lower commodity prices, supply chains that are once again operating efficiently, falling demand and a stabilising exchange rate. If we look at the main group in more detail, we can see that the price of new passenger cars increased by 5.7% and jewellery by 7.4%, which is above average. The deflation of consumer durable goods was supported by a 4.3% decrease in the prices of durable goods for recreation and a 4.6% decrease in the prices of computers, cameras and phones. It is also important to mention the positive trend in the market of second-hand passenger cars, where the price paid for second-hand cars in June was already 8.8% lower compared to the respective period of the previous year, which has a significant impact on the overall result of the main group, due to the high weight of just over 2%.

Thanks to the build-up of the base effect in September, the average fall in the prices of electricity, gas and other fuels in June was 2.7% year on year. Within electricity, gas and other fuels, the price of natural and manufactured gas fell by 5.2%, briquettes and coke by 2.5% and electricity by 2.4% over the past year. Prices of butane and propane gas were also 1.4% lower.

In June, the price of services rose by an average of 9.7%, with theatre up 25.3%, game of chance up 20.6% and postal services up 19.4%. Both TV fees and cinema prices show significant increases (15.0% and 15.8%, respectively). The average increase in the price of services was moderated by, among other things, the stagnation of prices for refuse disposal, water and sewerage, and a 21.7% decrease in the price of travel to work and school due to the introduction of county and country passes, which were unchanged in May and June.

Compared to the previous month, consumer prices were on average unchanged, but a closer look at the category shows that food prices increased by 0.3% on average. The biggest contributors to the decline were the larger price falls of 8.1% and 11.1% for potatoes and fresh vegetables respectively. For potatoes, this significant change (in May, the increase was 16.5%) is mainly due to seasonal reasons. Prices of services rose by 1.0% on a monthly basis, while the price of electricity, gas and other fuels decreased by 2.3% compared with the previous month. Prices of other goods included motor fuels and lubricants fell by 1.1% compared with May, which also contributed to the month-on-month decline in inflation.

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



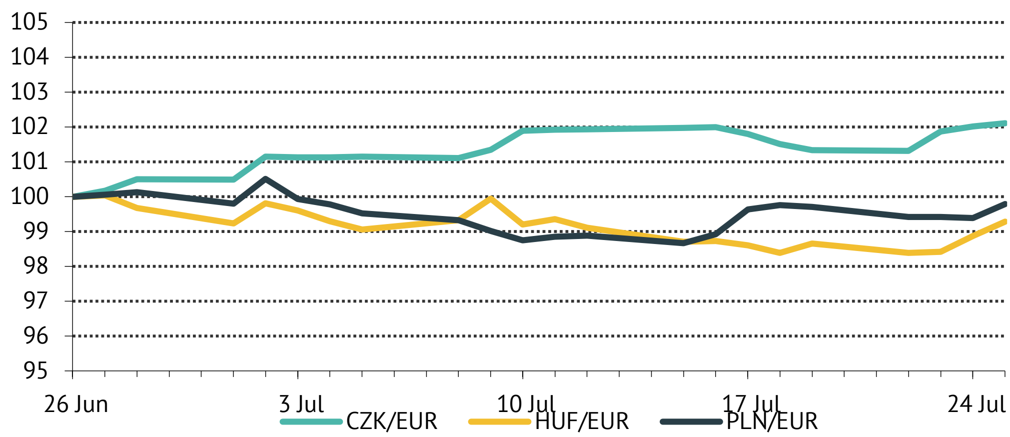
Source: MNB, Századvég

Among the core inflation indicators published by the MNB, the core inflation rate net of indirect taxes was 4.1%, the core inflation rate excluding processed food and the sticky price inflation rate were 5.6% in the sixth month of the year.

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

Regional currencies movements were mixed against the euro in July. In the past period, the Czech koruna strengthened by 2.11%, while the Polish zloty weakened by 0.21% against the euro. Government bond yields also fell over the period, with the Czech 10-year government bond yield 39 basis points lower at 3.80% and the Polish 10-year yield 11 basis points lower at 5.57%.

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



Source: Refinitiv, Századvég

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

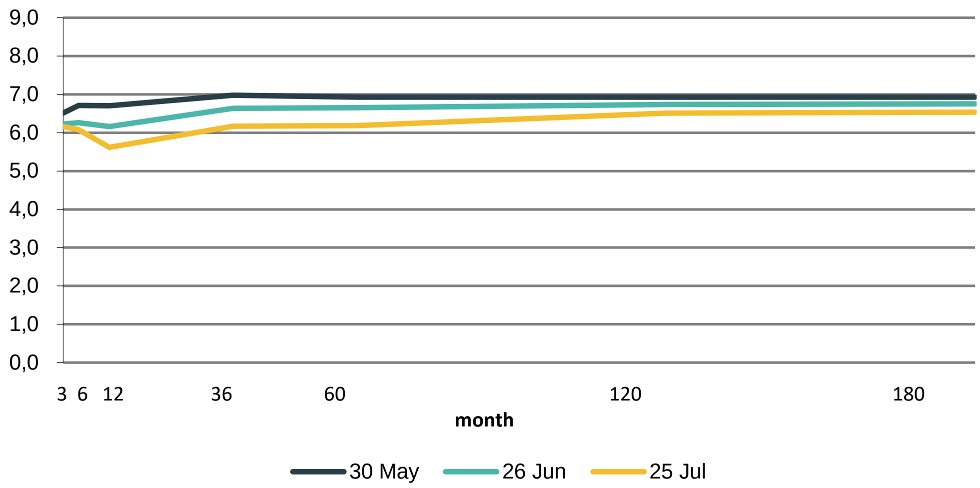
Hungarian money and foreign exchange market indicators showed a strengthening last month. The HUF strengthened by 0.7% against the euro, by 0.3% against the Swiss franc, and by 2.1% against the US dollar. This means that at the end of July 2024, 1 euro was worth 394 forints, 1 US dollar was worth 363 forints and 1 Swiss franc was worth 412 forints. Sovereign debt held by foreigners decreased by HUF 481 billion to HUF 6,572 billion in July.

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

At its July 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 6.75%, down 25 basis points. Accordingly, the upper limit of the interest rate corridor was changed to 7.75% and the lower limit to 5.75%. The pace of monetary easing has been gradual; according to the central bank's communication, the decision took into account the change in consumer prices, 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 the government bond market, yields for shorter maturities varied between -54 basis points and -7 basis points on the secondary yield curve in July. This means that the 3-month yield was 6.16%, the 6-month yield was 6.08% and the 1-year yield was 5.62% on 25 June. The 3-year yield fell by 47 basis points to 6.17%. Yields are down 46 basis points over the 5-year horizon, 23 basis points over the 10-year horizon and 15 basis points over the 21-year horizon compared to the previous month. These three yields changed, therefore, to 6.19%, 6.51%, and 6.54%, respectively.

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



Source: GDMA, Századvég

On 23 July 2024, the total value of "MÁP Plusz" government securities held by retail investors was HUF 663.3 billion after a HUF 109 billion decrease from the HUF 772.63 billion level in mid-December 2022. In addition, the cumulative value of PMÁP securities was HUF 7,136.52 billion, while the cumulative value of the "Bónusz" Hungarian Government Bonds was HUF 1,067.92 billion. The total value of the new 1MÁP securities is HUF 744.24 billion, that of Treasury Savings Bills is HUF 502.53 billion and that of FixMÁP securities is HUF 541.18 billion. Funds held in "Baby" Bonds amounted to HUF 340.0 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 11,100.9 billion at the end of July 2024, up from HUF 9,810.2 billion at the beginning of 2024, i.e. HUF 1,290.7 billion more than in the first month of 2024.

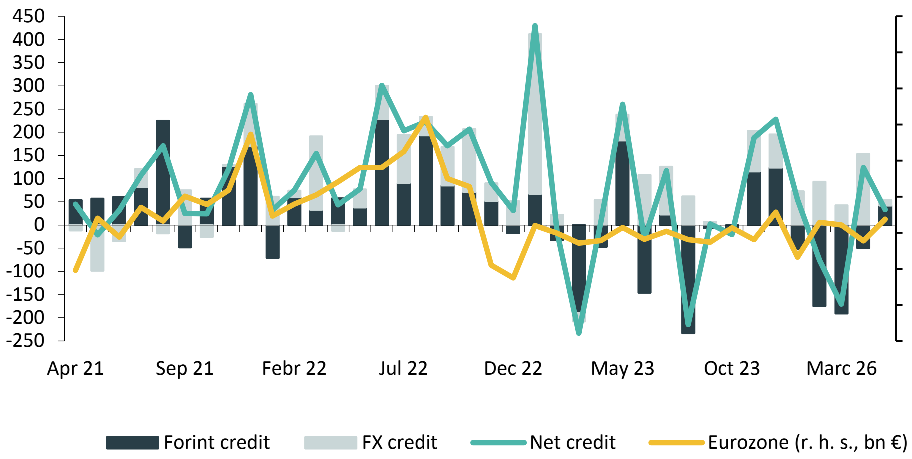
The share of foreign currency debt in the sovereign debt changed to 28.8% in May (i.e. decreased by 0.33 percentage point from the previous month), which is in the range (maximum 30%) specified in the financing plan for 2024 of GDMA. Over the past 12 months, the average foreign currency debt ratio averaged 27.4%, with the May 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 for investment category of all three major international credit rating agencies.

Corporate credits increased in Hungary.

Based on seasonally adjusted data, the net HUF borrowing of companies was HUF 42.1 billion in May 2024. Net lending in foreign currency also increased, with net borrowing amounting to HUF 12.4 billion in the fifth month of the year. Seasonally adjusted total net borrowing increased by HUF 32.8 billion in the period under review. Corporate borrowing in the euro area was EUR 7.42 billion in May 2024.

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



Source: MNB, ECB, Századvég

3. Századvég's forecast[4]

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.

[4] Date of preparation: 18 June 2024