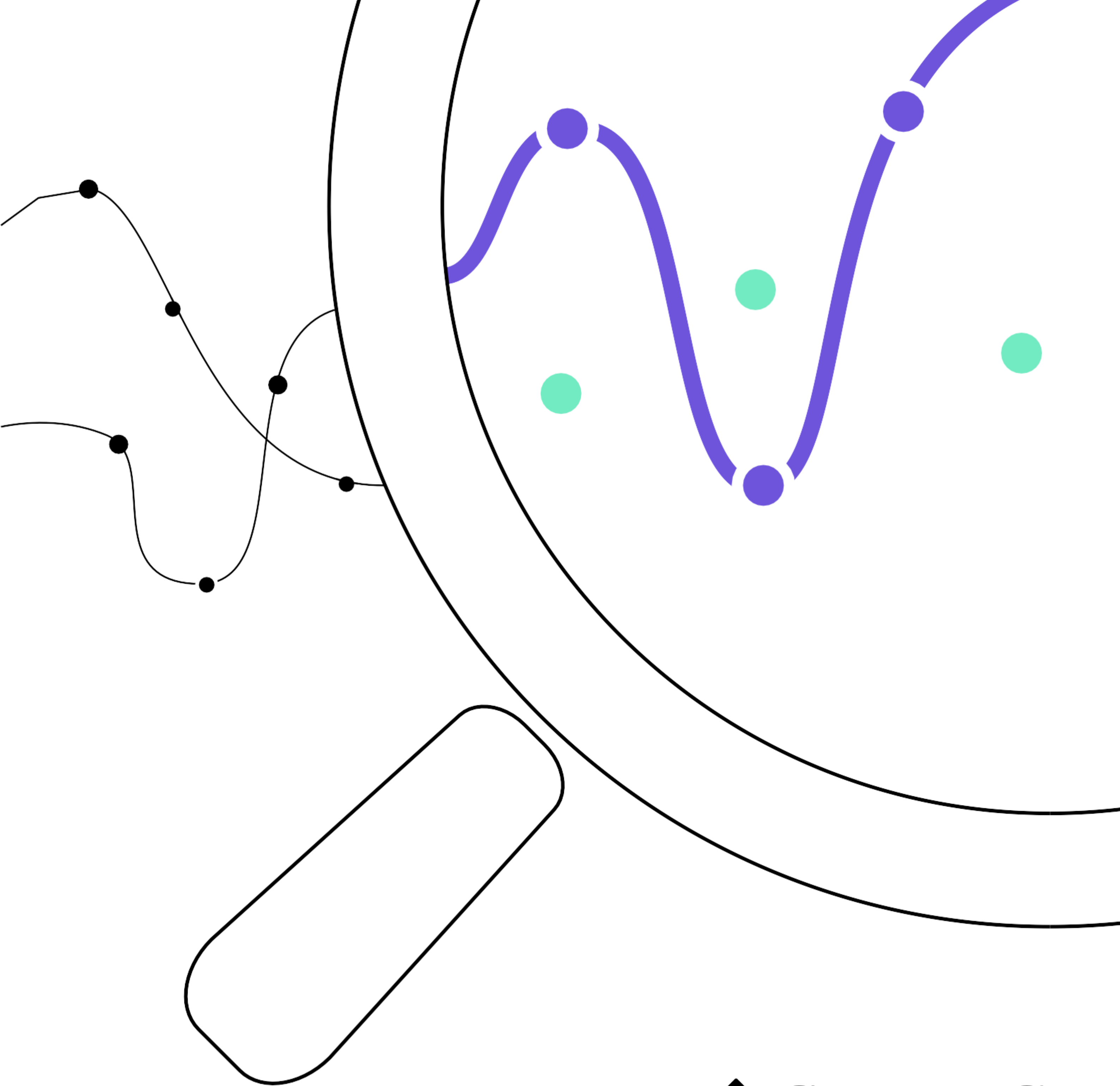
MACRO MONITOR

September 2024

Századvég

Konjunktúrakutató Zrt.



SZÁZADVÉG

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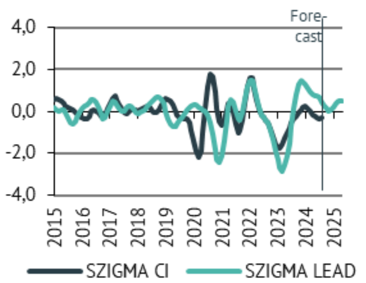
1. Summary

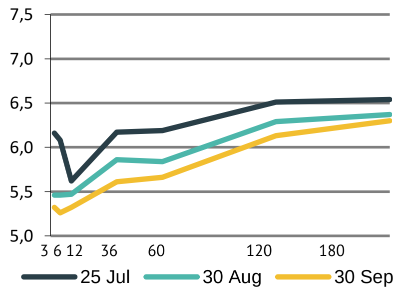
In Q2 2024, Hungarian economic output strengthened by 1.3% year on year and weakened by 0.2% quarter on quarter, according to seasonally adjusted data.

SIGMA indicators



Source: Századvég

Forint yield curve (%)



Source: Refinitiv

At its September meeting, the Monetary Council of the central bank continued monetary easing after maintaining the base rate the previous month. Thus, the base rate in Hungary currently stands at 6.5%.

In July, retail sales increased by 2.5% 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 2.0% in specialised and non-specialised food shops and by 3.8% in non-food retailing, while sales decreased by 0.6% in automotive fuel retailing.

Measured up to August 2024, the value of the monthly SZIGMA CI indicator, which provides a snapshot of the current state of the Hungarian economy, was -0.308. This is down from the previous month's index value of -0.252. This means that the growth rate of the Hungarian economy is moving away from its historical trend rate, in other words, economic growth momentum is slowing.

The most recent estimate of the other indicator, SZIGMA LEAD, a short-term forward-looking indicator for the Hungarian economy, forecasts continued above-trend and slightly improving growth until the end of the forecast horizon.

In August 2024, consumer prices rose by 3.4% on average year on year.

Our forecast (20.09.2024)	2024
Change in the GDP (%)	1.7
Inflation (annual average, %)	4.0

2. Overview of the economy

2.1 External environment

In August, the disinflationary trends that have been underway in the European Union since the beginning of last year picked up again.

August 2024 data from Eurostat, the official statistical office of the European Union, show that the annual inflation rate in the euro area was 2.2%, down 0.4 percentage points on the previous month. It is important to note that this rate is a significant improvement compared to 5.2% a year earlier. For the European Union as a whole, annual inflation was 2.4% in August, down 0.4 percentage points from 2.8% in July and a significant deviation from the previous year's rate of 5.9%.

August's CPI data show a general decline in inflation across Europe, although there are a few exceptions where inflation rose during the month. In total, ten countries reported inflation below 2.0%, including Luxembourg and Portugal, which joined the group for the first time this month. Inflation in Luxembourg fell from 2.7% to 1.7%, while in Portugal it eased from 2.7% to 1.8%. The other countries were already below 2.0% in the previous month. Hungary, although having the fourth highest inflation rate in the EU, showed a significant improvement of 0.7 percentage points, registering an inflation rate of 3.4%, together with Estonia. Among the worst performers, Romania continues to face exceptionally high inflation, although an improvement of 0.5 percentage points to 5.3% is already visible.

Based on August inflation data, the services sector contributed the most to the increase in the annual inflation rate, with 1.88 percentage points. This was followed by food, alcohol and tobacco, which added 0.46 percentage points to the inflation rate. Non-energy products played a smaller role, contributing only 0.11 percentage points. By contrast, the energy sector's previous positive (inflation-increasing) contribution turned negative again, with a decline of -0.29 percentage points in August, bringing the total inflation rate down.

2.2 Our SZIGMA indicators

In September 2024, the Hungarian economy grew below its historical trend

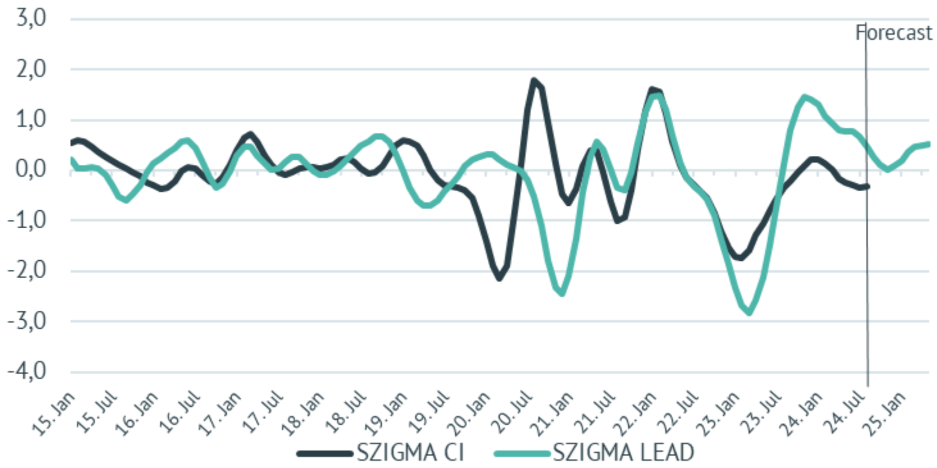
In September 2024, the value of the SZIGMA CI indicator reflecting the current state of the Hungarian economy was -0.308 up to August 2024. This represents a weakening from the previous month's index value of -0.252. This means that the growth rate of the Hungarian economy is moving away from its historical trend rate, in other words, economic growth momentum is slowing. This is supported by the Hungarian GDP forecasts for 2024 published in September, in which the expectations from the beginning of this year were revised downwards in the current forecast. The deceleration in the growth rate of the Hungarian economy is typically driven by lower external demand and investment. The industrial data also show a contraction in external demand, with the volume of export orders declining, while the volume of domestic orders is showing a slight pick-up. Given that the stock of orders also determines subsequent sales, the evolution of export and domestic sales volumes can be observed in the short term. Given that export sales accounted for 62% of total industrial sales in the first seven months of 2024, the change in export volumes has a substantial impact on industrial output. **As for industry**, the volume of industrial production decreased by 6.4% year on year and remained unchanged month on month, based on the latest July 2024 fixed base (2021 monthly average = 100.0%) seasonally and working-day adjusted data. Sales volume decreased in all dimensions according to July 2024 fixed base (2021 monthly average = 100.0%) seasonally and working-day adjusted data. The volume of total sales (domestic and exports combined) fell by 0.6% month on month and by 4.1% year on year. Domestic industrial sales fell by 0.5% month on month and by 3.8% year on year, while export industrial sales declined by 1.8% month on month and by 4.0% year on year. The weak investment data are also reflected in the construction indicators, although construction output fluctuated markedly in the first seven months of 2024. Based on the latest seasonally and working-day adjusted data for July 2024, the volume of **construction** output on a fixed base (2021 monthly average =

100.0%) increased by 1.0% month on month, which was only due to an increase in the construction volume of buildings. While the construction of buildings increased by 4.8%, the volume of civil engineering works fell by 5.4%. Meanwhile, thanks to a marked increase in the volume of new contracts signed in July 2024, the stock of construction contracts at the end of July 2024 on a fixed basis 2021 monthly average = 100.0%) increased both month on month (8.7%) and year on year (20.9%).

In September 2024, our short-term leading indicator, SZIGMA LEAD, continued to forecast above-trend and slightly improving growth at the end of the forecast horizon. Turning to the future industrial outlook, the stock of new industrial orders declined by 11.5% month on month based on the latest July 2024 seasonally and working-day adjusted fixed-base (2021 monthly average = 100.0%) data, driven by a 7.3% decline in new domestic industrial orders and a 12.1% decline in new export orders. On a monthly basis, the stock of domestic orders increased (by 2.1%), but the stock of export orders fell by 5.0%. Looking at the stock of orders on a fixed basis, it can be seen that while the stock of domestic orders have slightly increased, exceeding the level of the stock of export orders, the total stock of orders is below the level measured at the beginning of 2024.

German and EU indices that have an impact on the Hungarian economy show a mixed picture. The Ifo Business Climate Index for August 2024, **which measures change in business sentiment in the German economy**, weakened by 0.4 index points from the previous month to stand at 86.6 index points in August, while it strengthened by 0.7 index points year on year. The sub-index for German manufacturing, which has a significant impact on the Hungarian economy, gives a negative picture. The sub-index has fallen to its lowest level since February 2024. The companies surveyed reported a continuing decline in their stocks of orders. In August 2024, the **Eurostat**'s consumer confidence index improved month on month (by 0.4 index points) and year on year (by 8.9 index points). It stood at -23.2 index points in August 2024.

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



Source: Századvég

2.3 The real economy

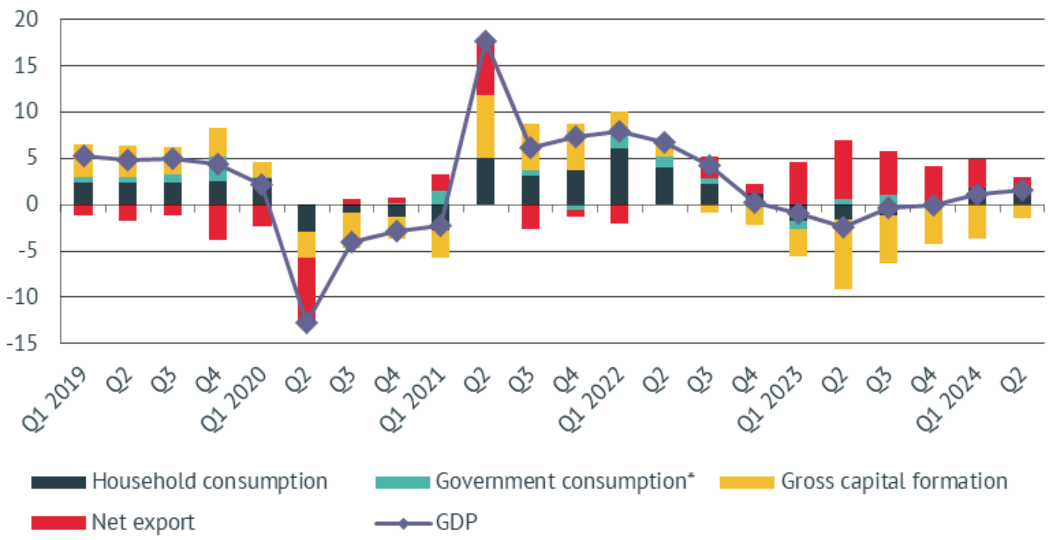
Hungarian GDP fell by 0.2% quarter on quarter.

In Q2 2024, gross domestic product (GDP) strengthened by 1.5% on an annual basis in raw data and by 1.3% in seasonally and calendar-adjusted and balanced data. Compared to Q1 2024, Q2 2024 GDP was 0.2% lower.

On the **production** side: Q2 2024 GDP volume growth was mainly supported by the services sector, as well as by construction and the balance of taxes and subsidies on products. Meanwhile, agricultural and industrial output held it back. The services sector contributed the largest share (1.4 percentage points) to GDP growth in Q2 2024. More specifically, the performance of the services sector grew by 2.4% year on year, while it remained unchanged compared to Q1 2024. Construction contributed 0.3 percentage point to GDP growth in Q2 2024, while the balance of taxes and subsidies on products contributed 0.4 percentage point. More specifically, construction output grew by 6.2% year on year and by 2.5% quarter on quarter. Industrial output held back GDP growth by 0.5 percentage point and agriculture by 0.2 percentage point in Q2 2024. More specifically, industrial output fell by 2.4% year on year and by 1.5% quarter on quarter. Due to a period of high water scarcity and a high base, Q2 2024 agricultural output was down by 5.2% year on year and 5.0% quarter on quarter.

On the **consumption** side, Q2 2024 GDP growth was mainly supported by household consumption and the external trade balance, while investment held it back. The actual final consumption of households boosted Q2 2024 GDP growth by 2.3 percentage points, while collective consumption weakened it by 0.4 percentage point. Overall, final consumption, which includes both the actual final consumption of households and collective consumption, supported economic growth by 1.9 percentage points in Q2 2024. This meant that the actual final consumption of households grew by 4.0% year on years and by 1.1% quarter on quarter. Gross accumulation, which includes investment and changes in inventories, weakened economic growth by 1.4 percentage points in Q2 2024. Examining the two items, it can be seen that while investments held back economic growth by 4.3 percentage points, the change in inventories boosted it by 2.9 percentage points. Investment performance fell by 15.4% year on year and by 6.7% quarter on quarter. The net export position strengthened quarter-on-quarter economic performance by 1.0 percentage point. Looking at individual external trade items, imports weakened quarter-on-quarter economic growth more (-3.1 percentage points) than exports (-2.1 percentage points). Thus, the external trade balance of goods supported quarterly growth by 1.0 percentage point. In the case of external trade in services, both exports (0.7 percentage point) and imports (0.7 percentage point) contributed equally to economic growth. So, they cancelled each other out in the balance of this. So, the contribution of net exports came from a larger fall in the import of goods. While on an annual basis, total exports fell by 1.8% and total imports by 3.2%, on a quarterly basis, total exports increased by 0.7% and total imports by 0.5%.

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



**Including social benefits in kind.*

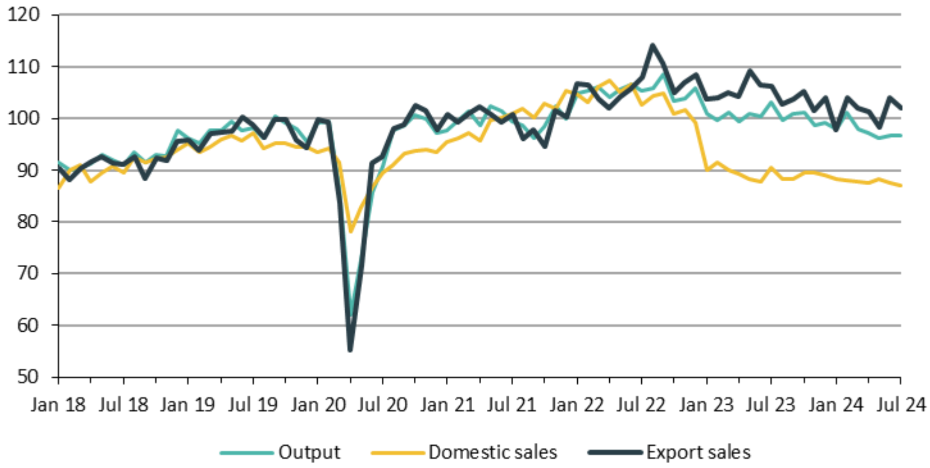
Source: Hungarian Central Statistical Office

Monthly 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 1.3% year on year according to raw data and by 6.4% according to working-day adjusted data in July 2024. The difference between the two figures is due to the evolution of the number of working days, with two more working days in July 2024 than in July 2023. Total **industrial sales** in July 2024 were 1.3% higher than in July 2023. This was driven by a 0.8% decline in domestic industrial sales and an 1.5% decline in export sales. Thus, in the first seven months of 2024, industrial production was 3.0% lower and sales 3.6% lower than in the cumulative period January-July 2023.

On **a monthly basis**, July 2024 industrial production was unchanged compared with the previous month (June 2024), seasonally and working-day adjusted, while sales fell by 0.7%. The decline in industrial sales is typically due to weaker export sales (by 1.9%), but was further weakened by a 0.5% drop in domestic 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 July 2024 raw data on a year-on-year basis was contributed to by a 2.4% fall in output in the manufacturing sector, which accounts for 95.4% of the total. Of the other two sectors accounting for industrial output, energy, with a weight of 4.0%, grew by 4.2%, and mining and quarrying, with a weight of 0.5%, by 24.9%. Thus, the decline in manufacturing output was still not offset by growth in the performance of the other two sectors. The main contributor to the decline in manufacturing output was a fall in the performance of the main subsections, but of the 13 priority manufacturing subsections surveyed, 5 experienced a fall in output. Within manufacturing, the manufacture of transport equipment, which accounts for the largest share (26.4%), fell by 10.0 % year on year. The output of the third largest (10.0%) subsection, electrical equipment manufacturing, was 10.0% below its July 2023 level. The output of the fourth largest (9.1%) subsection, manufacture of computer, electronic and optical products, was 1.0% below its July 2023 level. At the same time, the food industry, which represents the second largest share (13.3%), grew by 3.2% year on year. In July 2024, the largest drop in output (13.1%) was in the low-weight pharmaceutical sector.

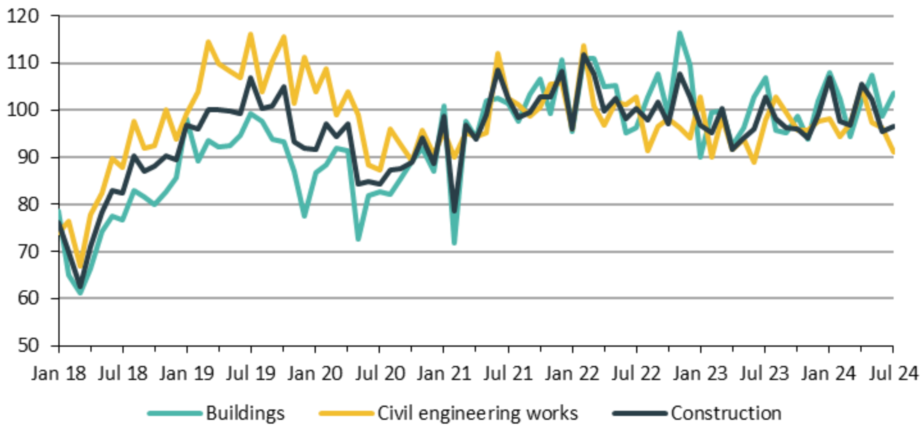
In July 2024, the **stock of new orders** in the priority manufacturing industries fell by 2.7% year on year on a fixed basis (average monthly price in 2021), driven by a 9.2% decline in the stock of new domestic orders and a 1.5% decline in the stock of new export orders. However, the change in the same indicator compared to the previous month was more pronounced, with the stock of new orders falling by 11.5% overall. Of these, the stock of new domestic orders fell by 7.3% and the stock of new export orders by 12.1% compared with June 2024. However, in sync with the month-on-month decline in the stock of new orders, the July 2024 **total stock of industrial orders** on a fixed basis (at the 2021 average monthly price) fell by 4.5% month on month, driven by a 5.0% decline in the stock of export orders and a 2.1% increase in the stock of domestic orders. This latter monthly increase could represent an expansion in domestic consumption.

Construction output grew by a cumulative annual rate of 3.0% in the first seven months of 2024.

In July 2024, the volume of construction output fell by 6.2% year on year in raw data terms. Within the two main groups of construction, the construction of buildings decreased by 2.8% year on year, while civil engineering works (roads, bridges, railways, complex industrial facilities, pipelines, etc.) increased by 10.6%. In terms of trend, construction output in the first seven months of 2024 was 3.0% higher on a cumulative annual basis than in the first seven months of 2023. This was driven by the strengthening performance of both main groups of construction to the same extent (3.0% and 3.1%, respectively).

Construction output, seasonally and working-day adjusted on a **monthly basis**, which shows the short-term trend, rose by 1.0%, helped by a 4.8% increase in the volume of construction of buildings and a 5.4% fall in the volume of civil engineering works.

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

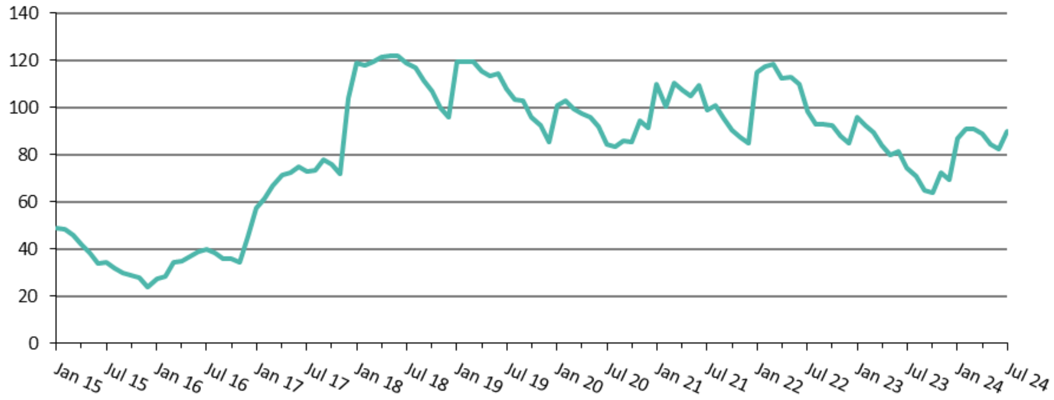


Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Századvég

Looking ahead, it is encouraging that, together with the increase in the volume of new contracts signed in July 2024, the month-end stock of contracts of July 2024 also increased both year on year and month on month. Based on the fixed base (2021 monthly average = 100.0%) indicators, the volume of construction contracts at the end of July 2024 increased by 20.9% year on year and by 8.7% month on month. This bounce in construction contracts at the end of July 2024 is shown in the graph below. However, looking at the main group of construction, it can be seen that the volume increase in the stock of contracts is only related to civil engineering works, which is mostly related to government and/or municipal investment projects. At the end of July 2024, *on a monthly basis,* the stock of contracts for civil engineering works increased by 20.8%, while the stock of contracts for buildings decreased by 5.5%.

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



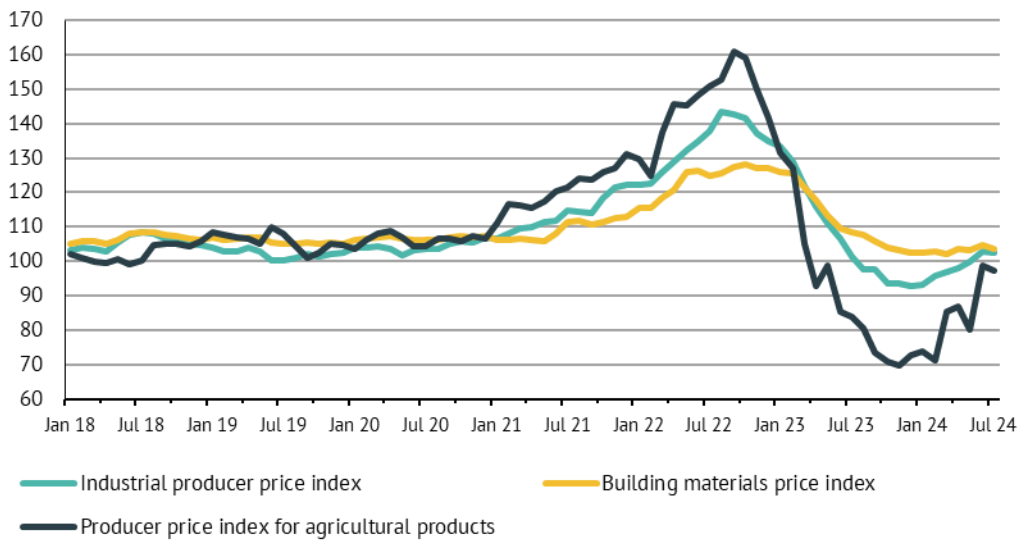
Source: Hungarian Central Statistical Office, Századvég

The agricultural producer price index continued to fall.

In July 2024, compared with the same period of the previous year, only the agricultural producer price index fell, while the industrial producer price index and the building materials price index both showed a decline in their rates of increase.

In July 2024, the **building materials** price index decreased by 1.0 percentage points compared with the previous month. Thus, the **building materials price index** increased by 3.6% year on year in July. The agricultural producer price index fell by 2.7% in July 2024 compared with the same period a year earlier. As a result, agricultural producer prices in the first seven months of 2024 were 16.4% lower than in the same period in 2023. However, on an annual basis, producer prices for individual agricultural products developed differently: Cereal prices (-0.1%) and crop and horticultural prices (-0.4%) remained essentially unchanged. Producer prices for industrial crops increased by 3.7% due to the low base effect. In addition, producer prices for vegetables (-12.9%) and potatoes (-23.6%) fell significantly, which may have been due to the high base. The producer price of fruit rose by 15.7%, despite the high base. While producer prices for animal products increased by 5.4%, livestock producer prices fell by 10.9%. In July 2024, **industrial** producer prices increased by an average of 2.5% on an annual basis and by 0.7% on a monthly basis. The year-on-year increase in industrial producer prices was driven by a 1.4% increase in domestic sales prices and a 3.0% 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 0.7% increase in industrial producer prices in July 2024 from June 2024 was only due to a 2.0% increase in domestic sales prices, as export sales prices remained unchanged. Overall, industrial producer prices were 1.6% lower in the first seven months of 2024 than in the first seven months of 2023. However, this cumulative result was driven by a sharper decline in domestic sales prices: Domestic sales prices fell by 3.8% and export sales prices by 0.5% compared to the first seven months of 2023. In addition, in domestic sales, food producer prices fell by 5.0% cumulatively in the first seven months of 2024 compared with the first seven months of 2023.

FIGURE 6: INDUSTRIAL PRODUCER PRICE INDEX, CONSTRUCTION INPUT PRICE INDEX, AGRICULTURAL PRODUCER PRICE INDEX (SAME PERIOD LAST YEAR = 100%)



Source: Hungarian Central Statistical Office, Századvég

Retail sales volume increased by 2.5% in July.

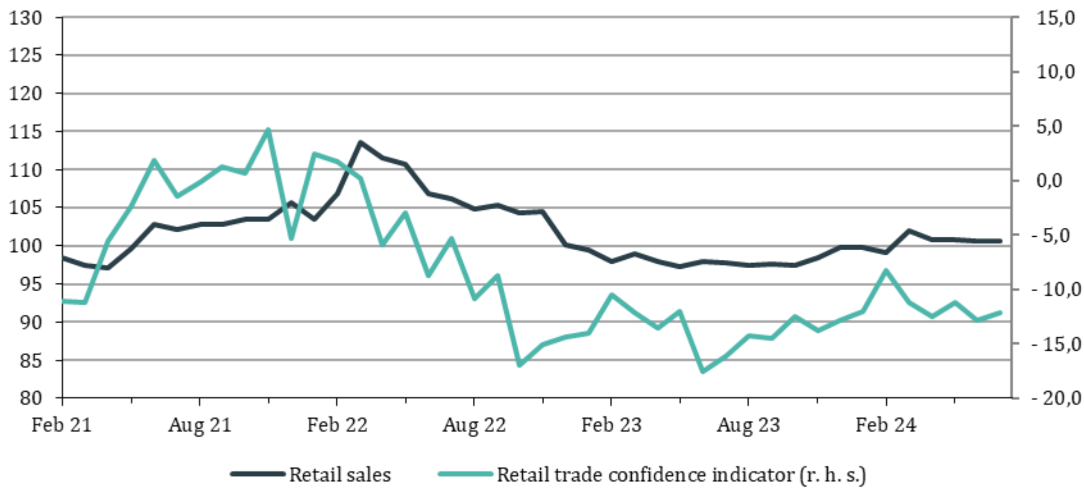
In July, retail sales increased by 2.5% year on year on both a raw and calendar-adjusted basis compared to the respective period of the previous year. The first half of this year saw the first increase on an annual basis in a long time, and the trend continued in July. This continued positive result shows the end of the downturn seen in 2023. Consumption is expected to expand further in the coming months as real wages rise and consumer confidence strengthens.

In July 2024, turnover in specialised and non-specialised food shops increased by 2.0%, and the turnover in non-food shops increased more significantly, by 3.8%. In fuel retailing, sales fell by 0.6% year on year, in July.

In food retailing, sales volumes increased by 2.6% in non-specialised food and beverages shops, while the volume in specialised food, beverage and tobacco stores rose by 0.3%, continuing the positive trend since February.

In non-food retailing, the sales volume in books, computer equipment and other specialised stores fell by 1.6%, while the turnover of books, newspapers and stationery fell by 7.3% compared to the same period last year. In non-specialised shops dealing in manufactured goods, turnover in textiles, clothing and footwear shops fell by 0.9%, after a slight increase of 1.4% in June. The sales volume of computers and other specialised goods declined in June (1.8%) and continued to do so in July (1.0%). In addition, sales of second-hand goods also fell, by 1.3%. Other categories showed a general increase, with cosmetics shops up 10.6% and pharmaceuticals and medical products up 7.6%, for an overall increase of 9.3%. The third largest increase was in mail order and internet retailing, where volumes grew by 6.4%. Other categories saw a more moderate increase of less than three percent.

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



Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Eurostat, Századvég

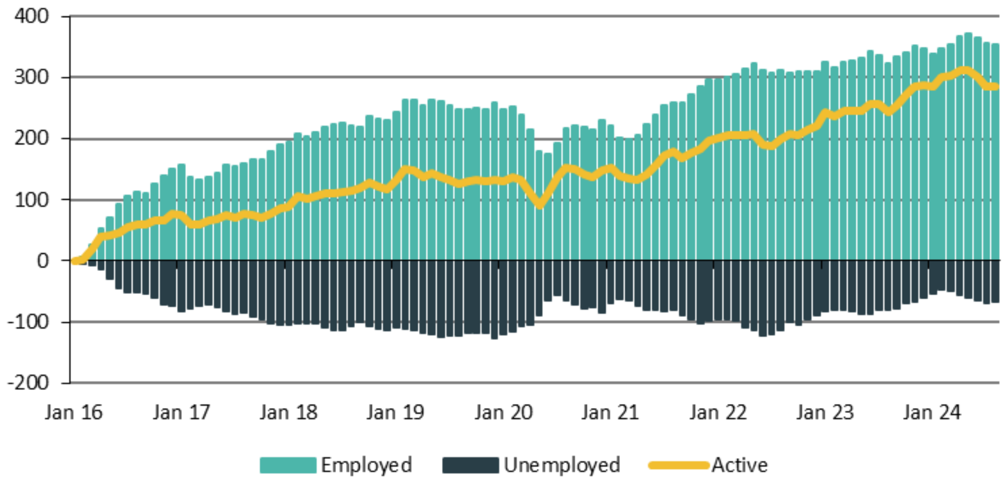
In August, the unemployment rate was 4.3%.

In August 2024[1], the seasonally adjusted activity rate of the population aged 15-74 was 68.0% (4,952,000 persons), which means a labour market growth of 43,300 compared to the same period of the last year. The seasonally adjusted number of employees reached 4,740,700, a year-on-year increase of 31,600. The number of the unemployed was 211,300, a year-on-year increase of 11,600.

In July, the seasonally adjusted number of employees decreased by 5,700 compared to the same period last year. Compared to July 2023, there were 11,000 fewer employees in the competitive sector (enterprises with 5 or more employees) and 1,400 fewer employees in the public sector. The number of people employed in the non-profit sector increased by 6,700 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.

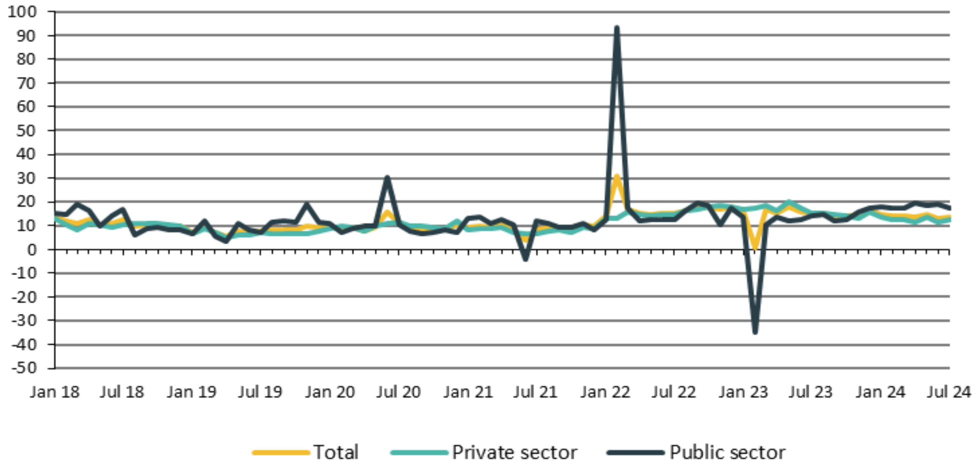
Source: Hungarian Central Statistical Office, Századvég

Real earnings rose again in July.

In July, average gross earnings in the national economy were HUF 636,700, up 13.9% compared to the same period last year. The highest average gross monthly wage was recorded in the non-profit sector, at HUF 650,800. 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 524,100, 15.3% higher than a year earlier. The increase shows that some companies have not only increased the wages of workers on the minimum wage and guaranteed minimum wage but have also made significant wage adjustments for other employees to avoid wage compression. Taking benefits into account, average net earnings reached HUF 442,000, 16.5% higher than in July 2023. Real earnings increased by 9.4%, while consumer prices rose by 4.1%.

Our expectation is 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

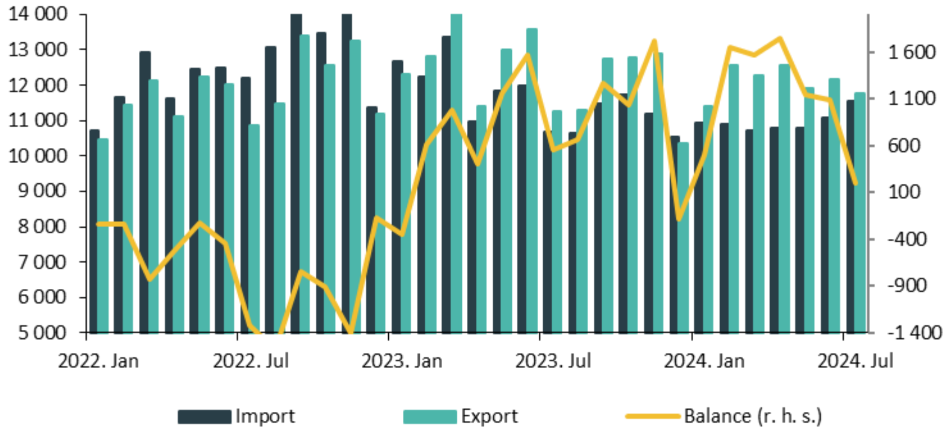
In June, the volume of exports of goods decreased by 8.1%, and imports by 5.2% year on year. This brought the external trade balance to a surplus of EUR 1.1 billion, a deterioration of EUR 411 million compared to the previous year.

In June, the import volume of food products, beverages and tobacco decreased by 4.0%, and their export volume increased by 8.2% year on year. As for energy carriers, imports increased by 5.3%, while exports by 44.0%. As for manufactured products, imports decreased by 4.2%, and exports by 1.7% year on year. As for machinery and transport equipment, imports decreased by 8.4%, and exports by 15.0%.

The trade surplus fell in July.

In July 2024, the first estimate put the value of exports in euro terms at 4.3% higher and imports in euro at 7.9% higher than a year earlier. This brought the foreign trade surplus in goods to EUR 203 million, which is EUR 362 million weaker than a year earlier.

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



Remark: The July 2024 figures are from the first estimate.
Source: Hungarian Central Statistical Office, Századvég

2.5 Fiscal outlook

At the end of August, the revised annual deficit target was 71.8% of target.

The monthly deficit in August 2024 was HUF 414.3 billion, bringing the deficit of the general government subsector to HUF 2,857.7 billion by the end of the month. The cumulative deficit was made up of a deficit of HUF 2,862.1 billion of the central budget, a deficit of HUF 168.4 billion of social security funds, as well as a surplus of HUF 172.8 billion in extra-budgetary funds. By end-August, the revised annual deficit target was 71.8% of the cash-flow balance.

In the first eight months, central subsystem revenue increased by 6.8% compared to the same period last year.

Payments by economic units decreased by 0.7%, HUF 17.7 billion, compared to the first eight months of 2023. Corporate tax receipts, the most significant item, were 0.7% (HUF 5.1 billion) less by the end of August than in the first eight months of the previous year. In contrast, the second largest item, tolls, generated 51.4% more revenue, i.e. HUF 135.4 billion. 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 104.6 billion, and mining royalties, also a major item, fell by HUF 108.1 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 12.1% (HUF 694.4 billion) compared to a year earlier. VAT receipts, the most significant item, were HUF 402.5 billion (9.2%) higher than at the end of August in the previous year. The increase in VAT receipts was primarily due to a decrease in VAT refunds during the year. Since August, total VAT payments have already shown an increase compared to the previous year. On a positive note, VAT payments increased by 6.4% compared to August 2023, an acceleration compared to the previous month (4.2%). The growth in excise tax revenues continued in August, with an increase of HUF 187.8 billion, or 21.2%, at the end of the month. Payments of insurance tax and tourism development contribution also increased, with HUF 48.3 billion and HUF 30.4 billion respectively in the first eight months.

Personal income tax receipts increased by 13.2% (HUF 347.8 billion) compared to the end of August 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 681.4 billion) compared to the same period of the previous year, also caused by wage increases.

Revenue from EU programmes was HUF 673.8 billion in the first eight months, HUF 367.1 billion less than in the first eight months of 2023. In contrast, expenditure on EU programmes amounted to

HUF 1,086.3 billion, HUF 727.5 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 cash deficit that could result.

In the first eight 2024, central government expenditure was 4.3% higher than in the previous year. Within this, central subsystem expenditure increased by only 1.5%.

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, while subsidies for utilities fell.

The balance sheet item "Support of utility services", which also includes subsidies for household energy overhead protection, amounted to HUF 673 billion in the first eight months of the year, HUF 412 billion, or 38%, lower than in the same period of the previous year.

Housing subsidies decreased by HUF 257 billion, or 69.6%, compared to the same period last year. The decrease is due to the closure of the Home Renovation Programme at the end of 2022 and the end of its payments at the beginning of 2023.

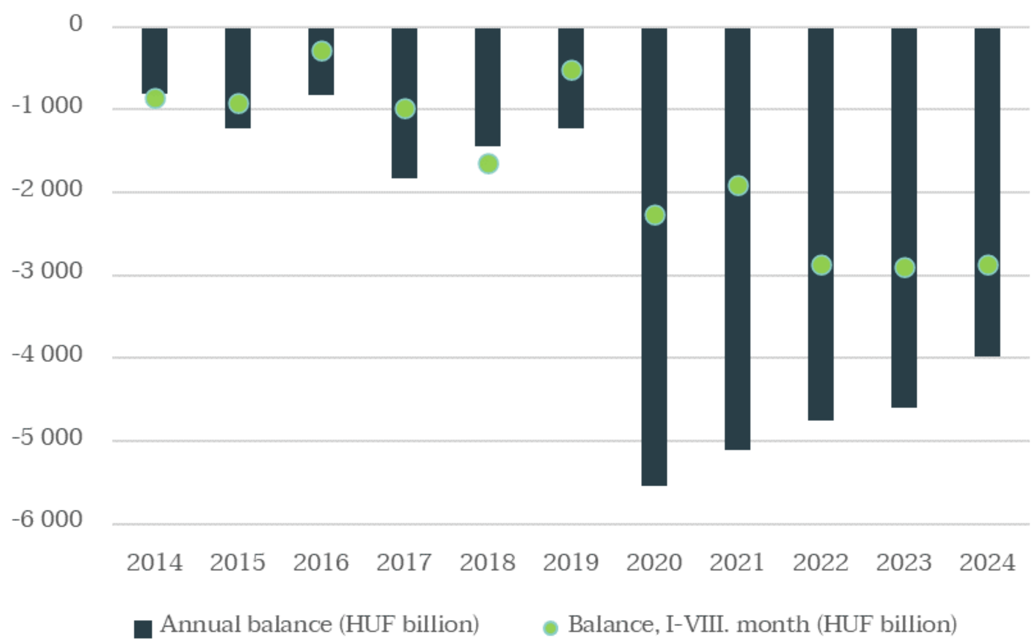
Expenditure on central budgetary institutions and chapter-administered appropriations was HUF 582.3 billion higher than in the first eight month of the previous year. This corresponds to an increase of 7.2%, while the Budget Act (under revision) would provide for a reduction of 12%.

Expenditures related to state property amounted to HUF 782.9 billion, HUF 172.7 billion more than the end-August 2023 figure, and reached 146.6% of the 2024 budget estimate.

In August 2024, pensions amounted to HUF 4,281.8 billion, an increase of 11% compared to the same period last year. During the same period, the Health Insurance Fund spent HUF 3,006.7 billion, an increase of 14.7% compared to the base period. Within this, expenditure on curative preventive care, which accounts for more than half of the Fund's expenditure, increased by 17.8%.

The balance of interest expenditures and receipts was HUF 684.5 billion (47.7%) more negative than at the end of August of the previous year.

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



Source: Ministry of Finance, Hungarian State Treasury;

2.6 Monetary developments

Consumer prices rose by 3.4% on average in August.

In August 2024, consumer prices increased by 3.4% on average, compared to the same period of the previous year. Over the past year, prices of services has increased the most (9.5%). Prices of electricity, gas and other fuels fell by 4.3% 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 4.6% higher than in the same period of the previous year.

A larger share of the 2.4% average increase in food prices was due to a 27.7% rise in flour prices, a 10.6% rise in the price of chocolate and cocoa.

The price of coffee in catering rose by 8.3%, meals at schools by 8.2%, meals at restaurants by 8.0% and fruit and vegetable juices by 6.7%, 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: dry pasta prices fell by 8.1%, eggs by 7.9% and potatoes by 16.1%. Prices of alcoholic beverages and tobacco rose by an average of 3.9%, driven more by wine, which increased by 5.1%, and there were no price decreases in this category.

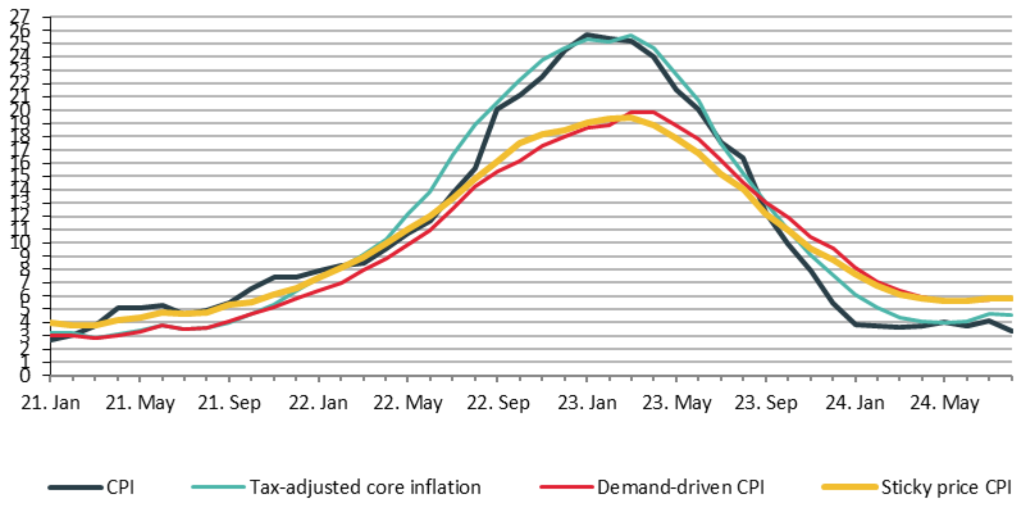
The 0.2% average fall in the prices of consumer durable goods shows a significant improvement, supported by a number of factors in addition to tight monetary policy. These include persistently lower commodity prices, increasingly efficient supply chains, slowly growing demand and a stabilising exchange rate. If we look at the main group in more detail, we can see that the price of new passenger cars increased by 6.6% and jewellery by 9.2%, which is above average. The deflation of consumer durable goods was supported by a 3.0% decrease in the prices of durable goods for recreation and a 3.9% 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 August was already 6.7% 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 2023, the average fall in the prices of electricity, gas and other fuels in August was 4.3% year on year. Within electricity, gas and other fuels, the price of natural and manufactured gas fell by 9.4%, briquettes and coke by 4.4% and electricity by 1.7% over the past year. Butane and propane gas alone was 0.4% more expensive across the group, while the other items showed a decrease.

In August, the price of services rose by an average of 9.5%, with theatre tickets up 25.3% and game of chance up 20.6%. Data on these price changes are the same as in July. The price of postal services rose by 15.6% in both of the last two months compared to the previous year. Telephone, internet and telecommunication prices also showed a more significant increase, with their inflation at 17.0%. In contrast, 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 April.

On average, consumer prices were unchanged compared with the previous month. Within this, food prices were also unchanged compared to the previous month. Month on month, the price of services rose by 0.4%, while the price of electricity, gas and other fuels fell by 0.3% compared with the previous month. The prices of other goods and fuels were also 0.3% lower compared to July, which had a significant impact on the monthly inflation rate.

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



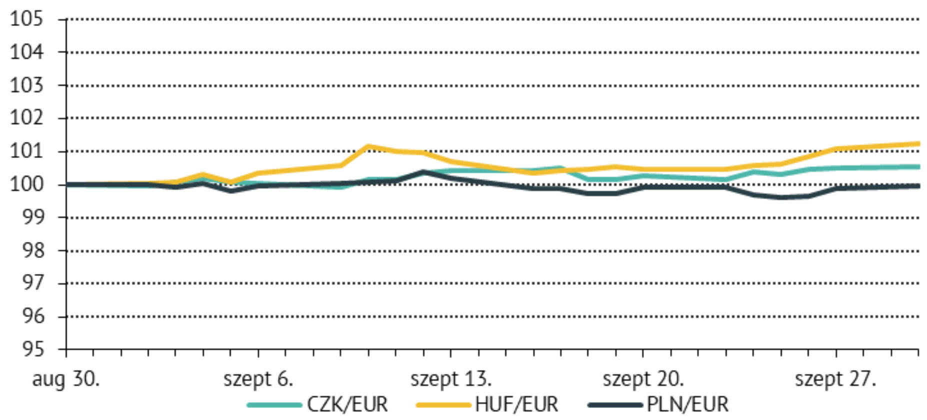
Source: MNB, Századvég

Among the core inflation indicators published by the MNB, the core inflation rate net of indirect taxes was 4.6%, the core inflation rate excluding processed food and the sticky price inflation rate were 5.8% in the eighth month of the year.

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

Regional currencies were mixed against the euro in September. The Czech koruna weakened by 0.56%, while the Polish zloty was unchanged against the euro. Government bond yields also fell over the period, with the Czech 10-year government bond yield 19 basis points lower at 3.68% and the Polish 10-year yield 18 basis points lower at 5.46%.

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 dollar.

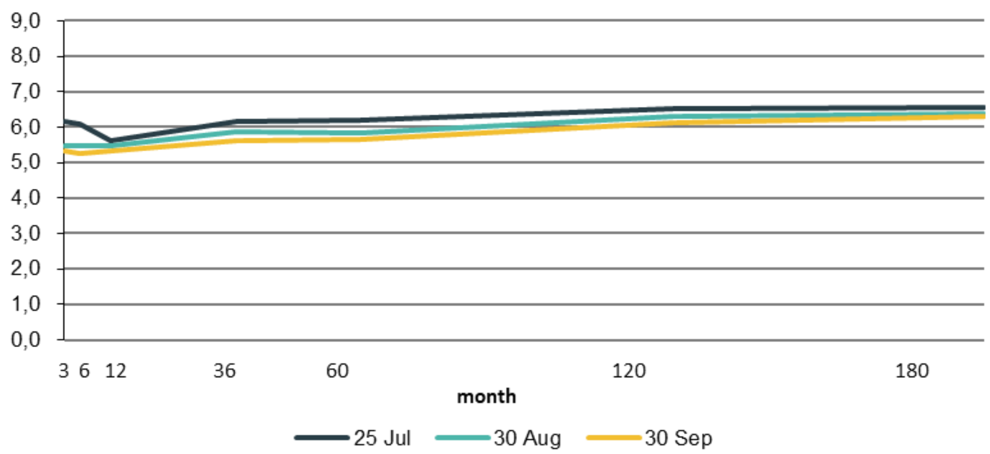
Hungarian money and foreign exchange market indicators showed a strengthening last month. The HUF weakened by 1.2% against the euro, by 0.1% against the US dollar and by 0.7% against the Swiss franc. This means that at the end of September 2024, 1 euro was worth 398 forints, 1 US dollar was worth 355 forints and 1 Swiss franc was worth 421 forints. Sovereign debt held by foreigners decreased by HUF 551 billion to HUF 5,852 billion in September.

In September, the central bank started cutting the base rate again.

At its September meeting, the Monetary Council of the central bank continued monetary easing after maintaining the base rate the previous month. Thus, the base rate in Hungary currently stands at 6.5%. The upper end of the interest rate corridor became 7.5% and the lower end 5.5%. The central bank said that the decision was made taking into account, among other factors, the Fed and ECB rate cuts, the moderate performance of the European economy, the risks surrounding disinflation, confidence indicators and geopolitical tensions. The geopolitical situation, 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 -25 basis points and -7 basis points on the secondary yield curve in September. This means that the 3-month yield was 5.32%, the 6-month yield was 5.26% and the 1-year yield was 5.32% on 30 September. The 3-year yield fell by 25 basis points to 5.61%. Yields are down 18 basis points over the 5-year horizon, 16 basis points over the 10-year horizon and 15 basis points over the 7-year horizon compared to the previous month. These three yields changed, therefore, to 5.66%, 6.13%, and 6.30%, respectively.

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



Source: GDMA, Századvég

Corporate credits decreased in Hungary.

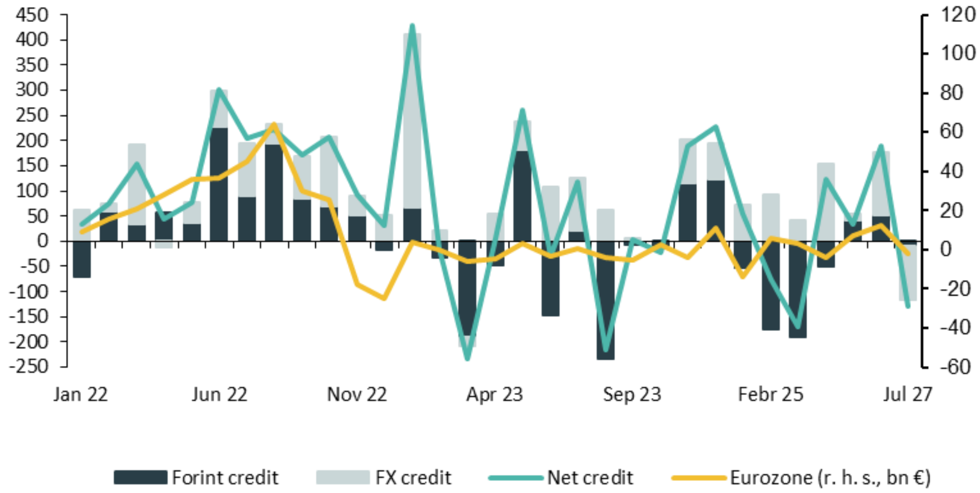
On 23 September 2024, the total value of "MÁP Plusz" government securities held by retail investors was HUF 661.3 billion after a HUF 111 billion decrease from the HUF 772.6 billion level in mid-December 2022. In addition, the cumulative value of PMÁP securities was HUF 7,128.4 billion, while the cumulative value of the "Bónusz" Hungarian Government Bonds was HUF 1,131.9 billion. The total value of the 1MÁP securities is HUF 624.3 billion, that of Treasury Savings Bills is HUF 513.0 billion and that of FixMÁP securities is HUF 736.3 billion. In addition, funds held in "Baby" Bonds amounted to HUF 345.6 billion and funds held in Printed MÁP Plus amounted to HUF 105.8 billion. The total stock of government securities held by retail investors stood at HUF 11,246.6 billion at the end of September 2024, up from HUF 9,810.2 billion at the end of 2024, meaning that people held HUF 1,436.4 billion more in government securities than in the first month of 2024.

The share of foreign currency debt in the sovereign debt changed to 29.1% in July (i.e. decreased by 0.1 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 28.0%, with the July 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.

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector decreased by HUF 9.3 billion in July 2024. Net foreign currency loans also decreased, with repayments amounting to HUF 106.0 billion in September 2024. Seasonally adjusted total net borrowing decreased by HUF 128.9 billion in the period under review. Corporate loan repayment in the euro area was EUR 2.0 billion in July 2024.

FIGURE 15: CORPORATE BORROWING (HUF BILLION)



Source: MNB, ECB, Századvég

3. Macroeconomic forecast

We forecast the Hungarian economy to expand by 1.7% in 2024, 3.8% in 2025 and 3.2% in 2026. However, the conditions for growth are fragile, with both downside and upside risks in the Hungarian economy, so caution is warranted when making forecasts. In the global context, external disinflationary developments are working towards lower domestic inflation, but the geopolitical situation may continue to be a key factor. In terms of internal factors, the predominant factors for the Hungarian economy this year are the cautiousness of the household sector, low investment activity and the subdued performance of domestic exports in light of the weakening German manufacturing sector. However, in the period ahead, exports could pick up again as international demand—especially German demand—strengthens, which, combined with improving investment activity, could lead to dynamic GDP growth in 2025 and 2026.

The average annual inflation rate could be 4.0% this year, down from 17.1% last year, bringing it back into the central bank's tolerance band of 2-4% as early as this year. Inflation is expected to peak this December, followed by average consumer price inflation of 3.7% in 2025 and 3.1% in 2026.

The central bank base rate is currently 6.75% and is expected to fall further over the forecast horizon, but easing will be subject to the international inflation and interest rate environment and developments in domestic demand.

In 2024, gross domestic product (GDP) in Hungary is expected to grow by 1.7%, while in the next two years it is forecast to expand by 3.8% and 3.2% respectively. Compared with our previous forecast, consumption in the second half of the year is better than expected at 4.1%. Despite the positive consumption figure, retail sales still grow slower than real wages, so the cautiousness of households may still be present in the economy. However, foreign online shops also take up a substantial part of demand, which is part of consumption but does not have a positive impact on domestic retail sales. In our own forecast, we expect caution to gradually ease, with consumption expected to grow by 3.5% this year. We project consumption growth to be 1.8% in 2025 and 2.2% in 2026, but with a reduction in caution in a lower inflation environment, consumption could grow at higher rates over the forecast horizon.

Investments fell by 20.2% and 5.0% respectively in the first half of the year. Investment activity is likely to remain subdued until the end of the year, so we estimate that investment could fall by 6.5% this year. Given the low base this year, investment could grow by 6.9% next year, followed by a 2.9% expansion in 2026.

Exports could grow by 0.1% in 2024, 10.5% in 2025 and 7.3% in 2026. Exports are strongly influenced by external demand, in particular the development of the German economy, which shows negative trends. If the German economy, especially its manufacturing sector, which is key for Hungarian exports, recovers, this could boost demand for Hungarian exports.

The main drivers of imports are consumption and exports, hence we expect a contraction of 1.1% in 2024. Over the next two years, imports could increase by 9.8% and 6.2% respectively. In 2024, net exports could make a positive contribution to economic growth due to falling imports. Then, in the next two years, net exports could have a positive effect on economic growth, with exports and imports already expanding.

Last year, the cost of living increased dramatically, to which households responded by increasing its labour market activity in the second half of 2023. Some of those who (re-)entered the labour market were able to find work quickly, while others were slower to find a job, so the number of employed and unemployed increased at the same time. With consumer prices moderating, labour market trends also appear to be stabilising, with employment projected to continue to rise over the forecast horizon and unemployment to start to fall slowly from next year. We estimate that unemployment will reach 4.8% by the end of 2024, and then the market will return to its previous state by 2025, when the unemployment rate will fall again to 4.5%, combined with a high level of employment.

For 2024, our fiscal forecast projects the cash deficit to meet the government's target of 4.5%, but the ESA deficit could be 0.8 percentage points worse than the 4.5% target for the deficit-to-GDP ratio, reaching 5.3%. We stress that our estimates of EU programme revenues and expenditure are subject to higher than average uncertainty. According to government plans, gross government debt could fall to 73.2% of GDP by the end of 2024.

The deficit target of 3.7% for 2025 is expected to be met. Our projections suggest that government debt could fall to 73.1% of GDP. This is 1 percentage point higher than the level of government debt in government plans.

4. Századvég's forecast[2]

TABLE 1: Q3 2024 FORECAST

	2023	2024	2025
Gross domestic product (volume index)	-0.7	1.7	3.8
Household final consumption expenditure (volume index)	-2.2	3.5	1.8
Gross fixed capital formation (volume index)	-14.9	-6.5	6.9
Export volume index (based on national accounts)	0.9	0.1	10.5
Import volume index (based on national accounts)	-4.3	-1.1	9.8
Balance of international trade in goods (EUR billion)	0.3	0.5	2.3
Consumer price index (%)	17.1	4.0	3.7
Central bank base interest rate at the end of the period (%)	11.4	6.5	5.3
Unemployment rate (%)	4.1	4.8	4.5
Current account balance as a percentage of GDP	0.2	0.1	0.5
Net lending as a percentage of the GDP	1.2	1.1	1.4
ESA balance of public finances as a percentage of GDP	-6.7	-5.3	-3.7
Sovereign debt as a percentage of GDP	73.5	73.2	73.1

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: 20 September 2024