MACRO MONITOR

October 2024

Századvég
Konjunktúrakutató Zrt.

Századvég

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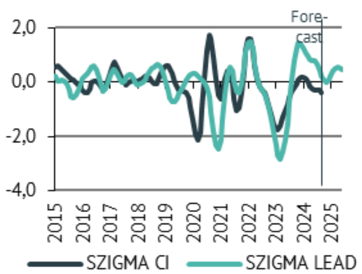
DISCLAIMER

1. Summary

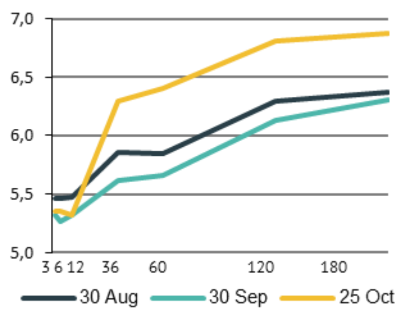
In Q3 2024, Hungary's economic output weakened by 0.7% on both an annual and quarterly basis, according to seasonally and calendar-adjusted and balanced data.

SIGMA indicators



Source: Századvég

Forint yield curve (%)



Source: Refinitiv

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

At its October meeting, the Monetary Council of the central bank left the base rate unchanged from the previous month, slowing monetary easing. Thus, the base rate in Hungary currently stands at 6.5%.

In August, retail sales increased by 4.1% 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 7.5% in specialised and non-specialised food shops and by 2.9% in non-food retailing, while sales decreased by 1.2% in automotive fuel retailing.

Measured up to September 2024, the value of the monthly SZIGMA CI indicator, which provides a snapshot of the current state of the Hungarian economy, was -0.383. This is down from the previous month's index value of -0.308. This means that the growth rate of the Hungarian economy is continuing to move away from its historical trend rate, in other words, economic growth momentum is still weakening.

The other indicator, SZIGMA LEAD, a short-term forward-looking indicator for the Hungarian economy, is most recently forecast to remain above trend, but slightly weakening, until the end of the forecast horizon.

In September 2024, consumer prices rose by an average of 3.0% on an annual basis, i.e. in line with the central bank's target.

2. Overview of the economy

2.1 External environment

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

September 2024 data from Eurostat, the official statistical office of the European Union, show that the annual inflation rate in the euro area was 1.7%, down 0.5 percentage points on the previous month. It is important to note that this rate is a significant improvement compared to 4.3% a year earlier. For the European Union as a whole, annual inflation was 2.1% in September, down 0.3 percentage points from 2.4% in August.

September's CPI data show a general decline in inflation rates across Europe. In total, 16 countries reported inflation below 2.0%, including Ireland, where inflation was 0.0% this month. Hungary showed a significant improvement of 0.4 percentage points, moving from fourth in the EU ranking in August to the eighth highest inflation rate at 3.0%. Among the worst performers, Romania is still facing exceptionally high inflation, although a 0.5 percentage point reduction in inflation to 4.8% is already visible.

Based on September inflation data, the services sector contributed the most to the increase in the annual inflation rate, with 1.76 percentage points. This was followed by food, alcohol and tobacco, which added 0.47 percentage points to the inflation rate. Non-energy products played a smaller role, contributing only 0.12 percentage points. By contrast, the energy sector's previous positive (inflation-increasing) contribution turned negative again, with a decline of 0.6 percentage points in September, bringing the total inflation rate down.

2.2 Our SZIGMA indicators

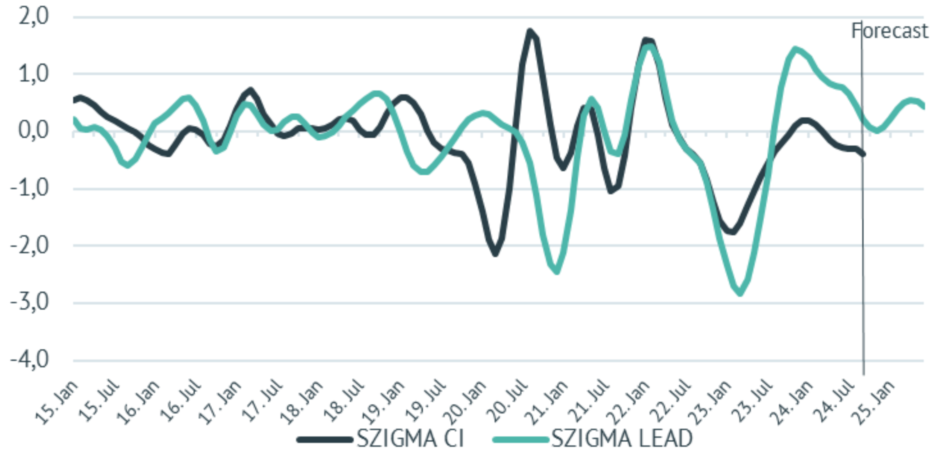
In October 2024, the Hungarian economy continued to grow below its historical trend.

In October 2024, the value of the SZIGMA CI indicator, ***which reflects the current state of the Hungarian economy***, was -0.383 up to September 2024. This represents a weakening from the previous month's index value of -0.308. This means that the growth rate of the Hungarian economy is continuing to move away from its historical trend rate, in other words, economic growth momentum is still weakening. The preliminary Hungarian GDP figure for Q3 2024, released at the end of October, showed a slowdown in the Hungarian economy, which came as a major surprise. According to the first estimate of the HCSO, the weak economic performance was mainly driven by the performance of agriculture, industry and construction, which together could have reached a level of around 2 percentage points. The slowdown in the growth rate of the Hungarian economy is typically caused by a lag in demand and related investment. The figures underlying the indicators also show a contraction in demand. **As for industry**, the volume of industrial production decreased by 3.6% year on year and by 0.5% unchanged month on month, based on the latest August 2024 fixed base (2021 monthly average = 100.0%) seasonally and working-day adjusted data. The volume of industrial sales decreased in all dimensions (domestic and exports) on an annual basis, according to seasonally and working-day adjusted data, on a fixed basis for August 2024 (2021 monthly average = 100.0%). The volume of total sales (domestic and exports combined) fell by 1.4% year on year, while it was unchanged month on month. The latter performance, month-on-month stagnation, was supported by a slight improvement (1.08%) in the volume of industrial export sales, while the decline of 0.23% in the volume of industrial domestic sales held it back. ***Construction*** is slowing down amid fluctuations in 2024. Although construction volume fell by 2.1% from the previous month, based on the latest seasonally and working-day adjusted fixed base (2021 monthly average = 100.0%) data for August 2024, the cumulative January-August 2024 construction output was 1.8% higher than the same period in 2023, despite the decline in output. Looking at the stock of contracts, the current level of construction firms' fixed-base (2021 monthly average = 100.0%) stock of contracts at the end of August 2024 was slightly above the level at the end of 2017, which preceded the 2018 "construction boom". The stock of construction contracts at the end of August 2024, although up 22.9% on an annual basis, was down 3.2% on the previous month. This could lead to a decline in construction output in the short term.

In October 2024, our **short-term leading indicator**, **SZIGMA LEAD**, continued to forecast above-trend, but slightly weakening growth for the end of the forecast horizon. Future prospects for ***industry*** remain bleak, as the total volume of new industrial orders is falling steadily and, in parallel, the total stock of industrial orders is shrinking. This implies a slowdown in industrial output in the short term. The current level of total industrial orders on a fixed basis remains below its level at the beginning of 2024. On a fixed basis, within the total stock of industrial orders, the volume of domestic industrial orders has slightly increased, exceeding the level of export orders, but this cannot offset the contraction in the stock of industrial export sales orders. The *total stock of new industrial orders* declined by 16.0% month on month based on the latest August 2024 seasonally and working-day adjusted fixed-base (2021 monthly average = 100.0%) data. Within this, the volume of new industrial domestic orders fell by 16.9% and the volume of new industrial export orders by 15.5% compared to the previous month. Related to this, the volume of *total industrial sales orders* fell by 3.6% month on month. Within this, the *stock of industrial domestic orders* increased slightly (by 0.9%), while the *stock of industrial export orders* fell by 4.0% compared to the previous month. German and EU indices that have an impact on the Hungarian economy show a mixed picture. The Ifo Business Climate Index, **which measures the change in business sentiment in the German economy**, weakened by 1.2 index points on a monthly basis and by 0.7 index points on an annual basis in September 2024, to stand at 85.4 index points in September. The sub-index for German manufacturing, which has a significant impact on the Hungarian economy, fell to its lowest level since

June 2020, as manufacturing companies surveyed rated their situation and future prospects much worse. **Eurostat's consumer confidence index** for September 2024 was down by 2.6 index points on a monthly basis, but up by 8.8 index points on an annual basis. It stood at -25.8 index points in September 2024.

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



Source: Századvég

2.3 The real economy

In the first three quarters of 2024, Hungarian GDP expanded by 0.7%, according to cumulative seasonally and calendar-adjusted and balanced data.

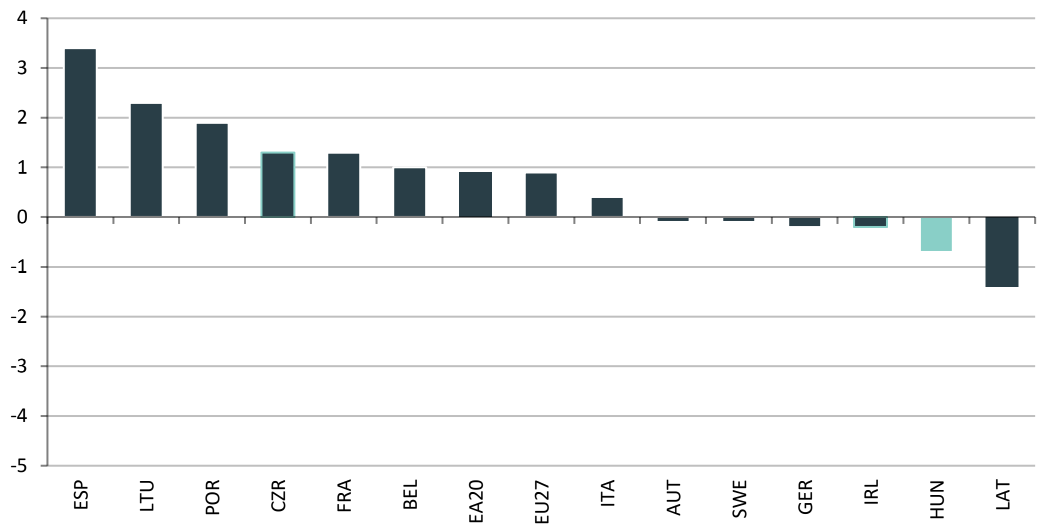
According to the first estimate in the flash report of the Hungarian Central Statistical Office, GDP volume weakened by 0.7% in Q3 2024 compared with the previous quarter, according to seasonally and calendar-adjusted and balanced data. On an annual basis, GDP volume contracted by 0.8% in Q3 2024 in raw data and by 0.7% in seasonally and calendar-adjusted and balanced data. On a cumulative basis, compared with the same period of the previous year, the Hungarian economy expanded by 0.7% in the first three quarters of 2024, on a seasonally and calendar-adjusted and balanced basis. According to preliminary data, GDP volume in Q3 2024 was held back by the combined performance of agriculture, industry and construction, which together accounted for roughly 2 percentage points. At the same time, this economic performance was boosted by the performance of market and non-market services.

By **international** standards, from 2024 onwards, preliminary EU GDP data will be published in two tranches. The first EU release coincides with the publication of Hungarian GDP data, which includes indicators for nearly half of the Member States. Two weeks later, Eurostat will publish preliminary GDP figures for the rest of the EU, including the other Member States. Eurostat will publish the preliminary full EU GDP series for Q3 2024 in mid-November 2024. According to Eurostat's first publication at the end of October, Hungary's GDP (-0.7%) was the second weakest performer among the 13 Member States, the euro area (EA20) and the EU27 average, based on preliminary Q3 2024 seasonally adjusted **annual** GDP data.[1] On an annual basis, the highest GDP growth was achieved in Spain (3.4%), followed by Lithuania with 2.3%. The Czech Republic and France had the third highest growth of 1.3%. For the annual base, the EU27 average and the euro area (EA20) average were both 0.9%. On a **quarterly** basis, the average economic growth rate for the 13 Member States published so far was 0.3% in the EU27 and 0.4% in the euro area (EA20). Hungary's quarter-on-quarter GDP performance in Q3 2024 (-0.7%) was the weakest among the 13 Member States.[2] On a quarterly basis, Ireland achieved the highest GDP growth (2.0%), followed by Lithuania (1.1%). The third highest monthly increase was in Spain (0.8%). GDP fell in 3 Member States on a quarterly basis. The largest economic decline was in Hungary (-0.7%). Two of these countries had smaller economic downturns: Latvia (-0.4%) and Sweden (-0.1%).

[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: Q2 2024 GDP GROWTH IN THE EU (Y/Y, %)



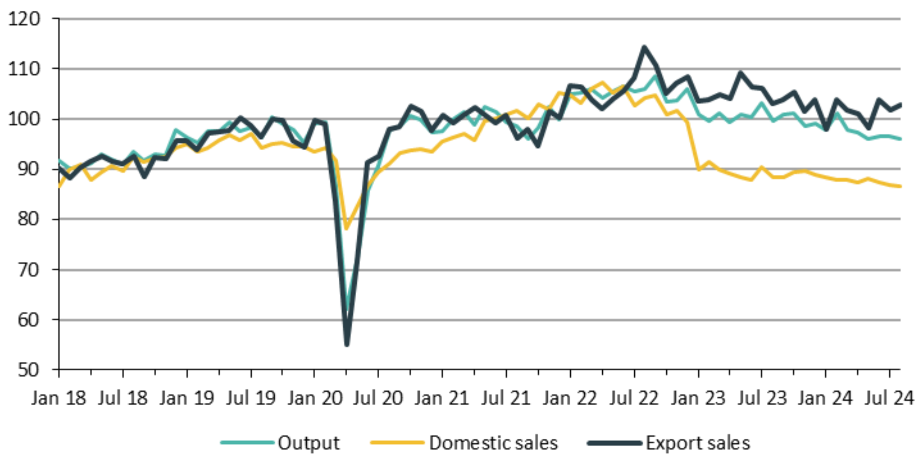
Remark: Seasonally and calendar adjusted indices. Preliminary (first) estimate. (Not included due to lack of data: Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, Greece, Luxembourg, Malta, the Netherlands, Poland, Romania, Slovakia and Slovenia.)
Source: Eurostat

Month on month, the volume of seasonally and working-day adjusted industrial production decreased by 0.5%.

Compared with the same period of the previous year, industrial production fell by 9.5% year on year according to raw data and by 4.1% according to working-day adjusted data in August 2024. The difference between the two figures is due to the number of working days, with two fewer working days in August 2024 than in August 2023. Total **industrial sales** in August 2024 were 6.7% lower than in August 2023. This was driven by a 7.3% decline in domestic industrial sales and an 6.3% decline in export sales. Thus, from January to August 2024, industrial production was 3.8% and industrial sales 4.0% lower than in the cumulative period January-August 2023.

On **a monthly basis**, the volume of industrial production in August 2024, seasonally and working-day adjusted, decreased slightly (by 0.5%) compared with the previous month (July 2024), while the volume of industrial sales remained unchanged. Within industrial sales, export sales increased by 1.1%, while domestic sales decreased by 0.2% compared to the previous month.

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



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

Turning back to industrial production, a 10.2% fall in manufacturing output, which was the dominant sector (94.1%), contributed to the decline in industrial production on an annual basis in August 2024. Of the other two sectors accounting for industrial output, energy, with a weight of 5.4%, grew by 6.2% and mining and quarrying, with a weight of 0.6%, by 10.6%. In manufacturing, industrial production increased in three of the 13 subsections and decreased in ten. The performance of the three main manufacturing sectors, which accounted for 50.1% of manufacturing output, declined. The manufacture of transport equipment, which accounts for the largest share (23.4%), fell by 12.4 % year on year. The output of the food industry, which accounts for the second largest share (15.6%), declined slightly (0.2%). This was followed by electrical equipment manufacturing, which weighed in at 11.1%, 15.7% below its August 2023 output. The three subsections with increasing output are among the low-weight manufacturing subsections. These three subsections are: The chemical industry, with a weight of 4.8%, grew by 5.3%, the wood industry, with a weight of 3.7%, by 1.2%, and the pharmaceutical industry, with a weight of 2.4%, by 3.5%.

In August 2024, **the stock of new orders** in priority manufacturing industries, on a fixed basis (i.e. at the average monthly price in 2021) fell on both a monthly and annual basis. On an annual basis, the total stock of new orders fell by 10.9%. Of this, the stock of new domestic orders fell by 14.5% and the stock of new export orders by 10.2%.

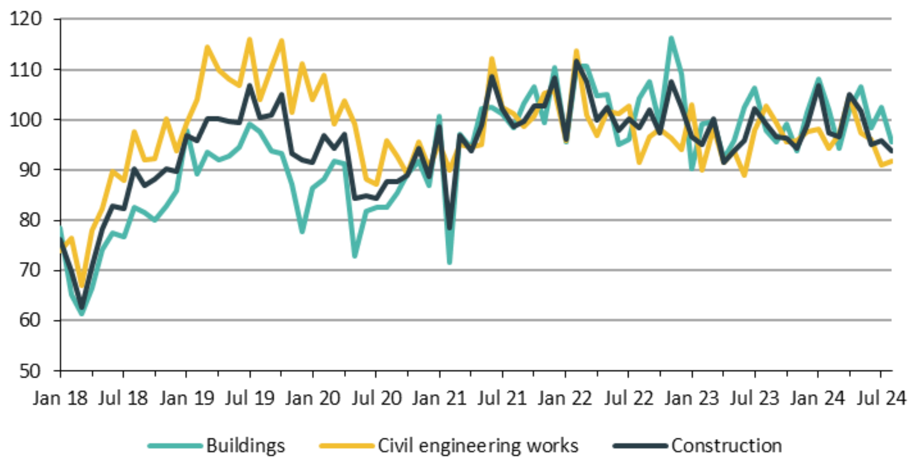
Together with the falling stocks of new orders, the stock of industrial orders fell at all levels except one in August 2024. The one exception is the stock of domestic industrial orders on a fixed basis (average monthly price in 2021) compared with the previous month, which increased slightly (0.9%) on a monthly basis. On a monthly basis, the stock of export orders fell by 3.9%.

Construction output grew by a cumulative annual rate of 1.8% in January-August 2024.

In August 2024, the volume of construction output fell by 6.0% year on year in terms of raw data. Within the two main groups of construction, the construction of buildings decreased by 3.2% year on year, while civil engineering works (roads, bridges, railways, complex industrial facilities, pipelines, etc.) decreased by 10.2%. Despite the steady decline, construction output in January-August 2024 still exceeded the cumulative performance in the first eight months of 2023 (1.8%). This was mainly due to the construction of buildings (2.2%), but the other main group of construction (civil engineering works) was also 1.0% higher compared to the cumulative period January-August 2023.

Construction output, seasonally and working-day adjusted on a **monthly basis**, which shows the short-term trend, fell by 2.1%, driven by a 6.6% decrease in the volume of construction of buildings and a 0.9% increase in the volume of construction of civil engineering works.

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



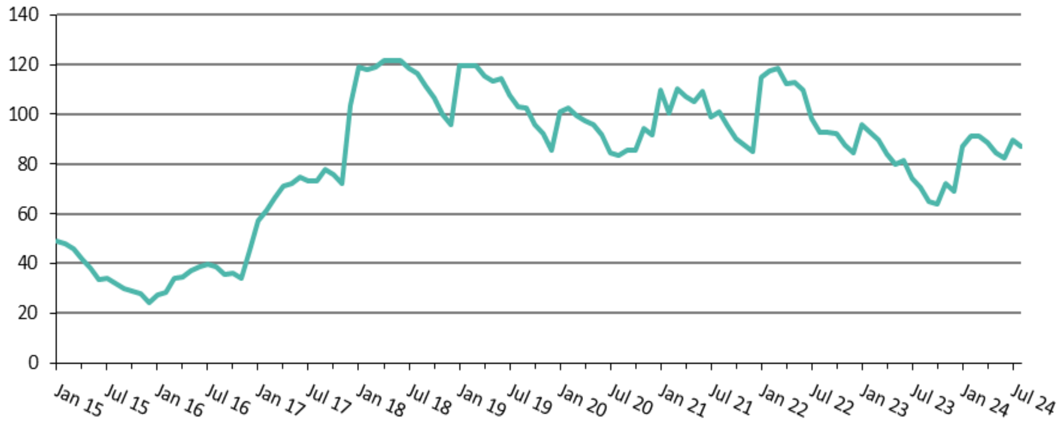
Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Századvég

A negative future trend appears in the volume of new contracts signed in August 2024, down by 19.6% year on year, and in the month-end stock of contracts for August 2024, down by 22.8% year on year. On a monthly basis, the volume of all other indicators within each main groups of construction decreased, with the exception of new contracts for the construction of buildings.

The figure below shows the stock of construction contracts at the end of the month under review with a fixed base (2021 monthly average = 100.0). This illustrates the current level of construction contracts. By the end of August 2024, the stock of construction contracts had started to fluctuate at a slightly higher level, after the low in the second half of 2023, and is now at the level of the end of 2017, before the “construction boom” that started in 2018.

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

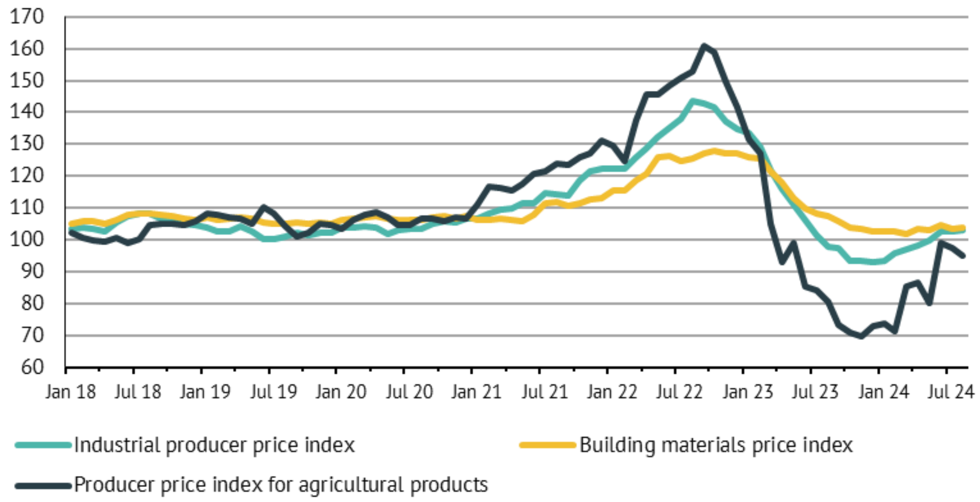


Source: Hungarian Central Statistical Office, Századvég

The agricultural producer price index continues to fall.

In August 2024, compared with the same period of the previous year, only the agricultural producer price index decreased, while the industrial producer price index and the building materials price index started to increase. The **building materials** price index for August 2024 increased by 0.2 percentage points compared with the previous month, rising by 3.8% year on year in August. The **agricultural** producer price index stood at 95.1% in August 2024, down 2.2 percentage points from the previous month and down 4.9% year on year (compared with August 2023). Overall, agricultural producer prices in January-August 2024 were 15.4% lower than in the same period in 2023. Producer prices for individual agricultural products fell for almost all product types. In August 2024, producer prices fell year on year for all product types except animal products, which prices increased by 4.6%. Thus, producer prices of cereals fell by 1.5%, producer prices of industrial crops by 2.3%, producer prices of vegetables by 14.7%, producer prices of potatoes by 24.2%, producer prices of fruit by 7.1%, producer prices of crop and horticultural products by 4.2%, and producer prices of live animals by 10.2%. The cumulative producer price index for January-August 2024 fell even more significantly (15.4%) compared with January-August 2023. Producer prices for all types of agricultural products except fruit fell significantly. Overall, producer prices for fruit increased by 6.7% over this period, while producer prices for other product types fell. Producer prices fell by 27.9% for cereals, 10.4% for industrial crops, 12.7% for vegetables, 14.0% for potatoes, 18.6% for crops and horticultural products, 10.2% for livestock and 9.8% for animal products. **Industrial** producer prices are on the rise, increasing by an annual average of 3.0% in August 2024 and by 1.3% on a monthly basis. Despite slow growth, the cumulative industrial producer price index in January-August 2024 was still 1.0% lower than in the first eight months of 2023. The increase in industrial producer prices is due to higher prices for industrial export sales. While industrial export sales prices increased by 0.1% in the cumulative period, domestic industrial sales prices fell by 3.1%. 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. In the period of January-August 2024, manufacturing prices rose by 0.3% for domestic sales and by 2.6% for export sales. Energy prices fell by 10.4% for domestic sales and 17.6% for export sales. Over the same period, domestic industrial sales prices in the food industry fell by 4.4%.

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 increased by 4.1% in August.

In August, retail sales increased by 4.1% 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 accelerated further in August. Consumption is expected to expand further in the coming period as a result of the economic action plan announced by the government, which will mainly support consumption.

In August 2024, turnover in specialised and non-specialised food shops increased by 7.5%, and the turnover in non-food shops increased by 2.9%. In fuel retailing, sales fell by 1.2% year on year, in August.

In food retailing, sales volumes increased by 8.9% in non-specialised food and beverages shops, while the volume in specialised food, beverage and tobacco stores rose by 3.4%, continuing the positive trend since February.

In non-food retailing, the volume of mixed range of manufactured goods fell by 2.8%, while the turnover of books, newspapers and stationery fell by 3.8% compared to the same period last year. In non-specialised shops dealing in manufactured goods, turnover in textiles, clothing and footwear shops fell by 2.2%, after a slight increase of 1.5% in June. In addition, sales of second-hand goods continued to fall, by 6.9%. The volume of sales in computer equipment and other specialised stores showed a decline in July (0.9%), which was broken in August, when it rose by 1.7%. A similar change was seen for books, computer equipment and other specialised stores, which fell 1.5% in July and rose 1.2% in August. Other categories showed a general increase, with pharmaceutical, medical goods up 8.2% and cosmetics shops up 7.3%, for an overall increase of 7.4%.

Overall, the largest increase was in non-specialised food shops, where volumes rose by 8.9%. Other categories showed a more moderate increase.

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

Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Eurostat, Századvég

The unemployment rate rose to 4.6% in September.

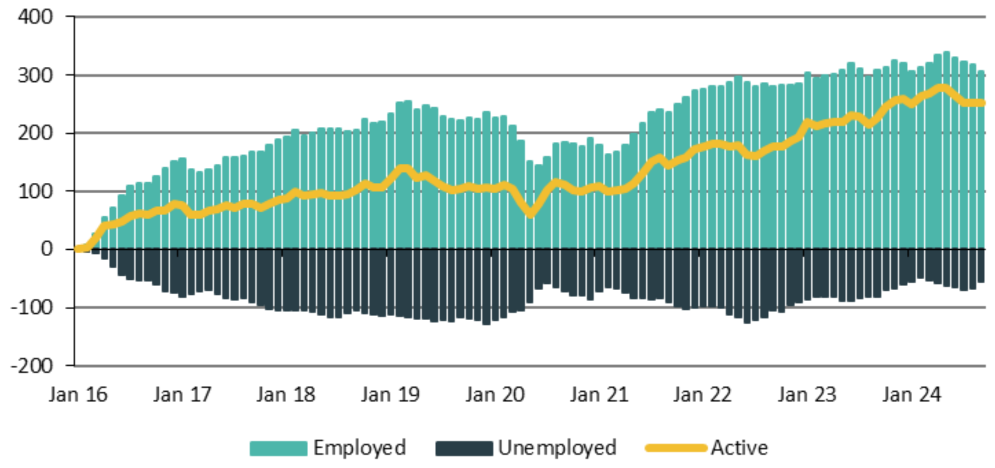
In September 2024[3], the seasonally adjusted activity rate of the population aged 15-74 was 68.1% (4,918,000 persons), which means a labour market growth of 25,500 compared to the same period of the last year. The seasonally adjusted number of employees reached 4,693,000, a year-on-year increase of 800. The number of the unemployed was 224,500, a year-on-year increase of 26,300. The expansion of the labour market and the simultaneous rise in the number of unemployed continue to show that inactivity is falling. Finding a new labour market equilibrium is time consuming, and several macroeconomic trends (difficulties in the global automotive sector, the slowdown in construction) are hitting the labour market at the same time, leading employers to wait and see. As the economic outlook improves, the number of unemployed will return to its previous trajectory.

In August, the seasonally adjusted number of employees decreased by 6,100 compared to the same period last year. Compared to August 2023, there were 10,000 fewer employees in the competitive sector (enterprises

[3] Three-month moving average

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 5,400 in one year.

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



Remark: Seasonally and calendar adjusted indices.

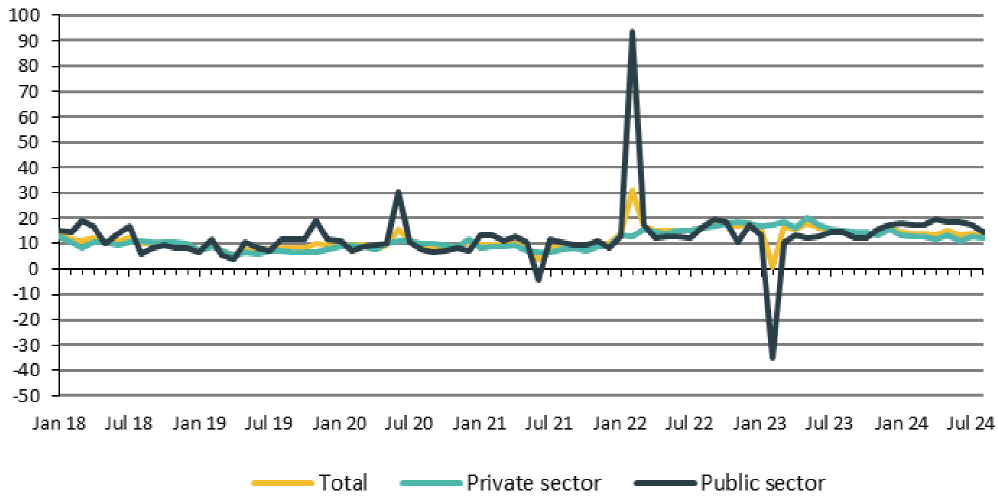
Source: Hungarian Central Statistical Office, Századvég

Real earnings continued to rise in August.

In August, the average gross monthly wage in the national economy was HUF 628,800, up 13.1% compared to the same period last year. The highest average gross monthly wage was recorded in the non-profit sector, at HUF 641,600. 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 520,000, 15.6% higher than a year earlier. The increase shows that some companies have not only increased the wages of workers on the minimum wage and guaranteed minimum wage but have also made significant wage adjustments for other employees to avoid wage compression. Taking benefits into account, average net earnings reached HUF 433,100, 12.9% higher than in the same period of the previous year. Real earnings increased by 9.4%, while consumer prices rose by 3.4%.

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 July, the volume of exports of goods increased by 4.9% and imports by 7.1% year on year. This brought the external trade balance to a surplus of EUR 167 million, an deterioration of EUR 398 million compared to the previous year.

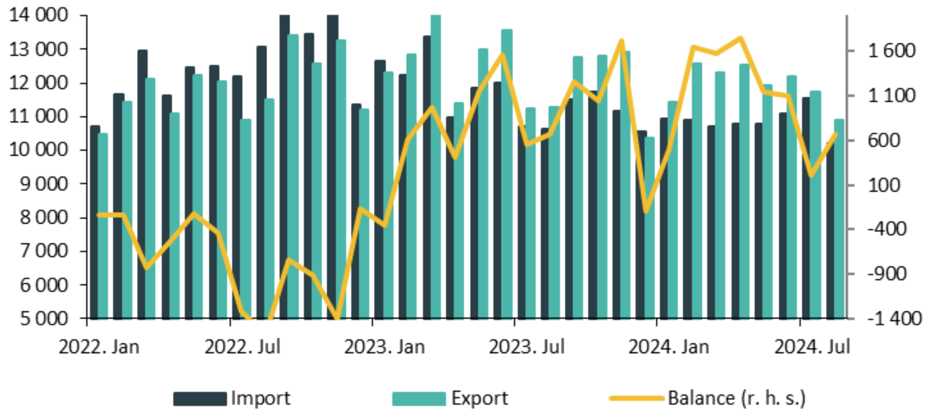
In July, the import volume of food products, beverages and tobacco increased by 9.7%, and their export volume by 18.0% year on year. As for energy carriers, imports increased by 5.3%, while exports by 27.0%. Both imports and exports of manufactured products increased by 11.0%

compared to a year earlier. As for machinery and transport equipment, imports increased by 4.4%, and exports decreased by 0.7%.

The trade surplus fell in August.

In August 2024, the first estimate put the value of exports in euro terms at 4.1% lower and imports in euro at 4.2% lower than a year earlier. This brought the foreign trade surplus in goods to EUR 671 million, which is EUR 10 million weaker than a year earlier.

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



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

2.5 Fiscal outlook

Based on the new EDP report, the government has increased the cash deficit target to 5.9% of GDP, while leaving the ESA deficit target of 4.5% of GDP unchanged.

In September 2024, public finances reached a surplus of HUF 234.2 billion, so, by the end of the month, the deficit of the general government subsector had decreased to HUF 2,623.5 billion. The cumulative deficit was made up of a deficit of HUF 2,607.9 billion of the central budget, a deficit of HUF 202.4 billion of social security funds, as well as a surplus of HUF 186.8 billion in extra-budgetary funds.

In early October, important information on the government budget was released in the new EDP report, which showed that the government had raised the cash deficit target to 5.9%, or HUF 4,790.4 billion, from HUF 3,981.9 billion, while leaving the ESA deficit target of 4.5% of GDP unchanged. Accordingly, by end-August, the revised annual deficit target was 54.8% of the cash-flow balance.

Turning back to the monthly figures of public finances, it is clear that, in the first nine months, central subsystem revenue increased by 6.8% compared to the same period last year.

Payments by economic units decreased by 0.6%, HUF 15.5 billion, compared to the first nine months of 2023. Corporate tax receipts, the most significant item, were 0.2% (HUF 2 billion) more by the end of September than in the first nine months of the previous year. In contrast, the second largest item, tolls, generated 51% more revenue, i.e. HUF 151.2 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 135 billion, and mining royalties, also a major item, fell by HUF 119.1 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 10.4% (HUF 686.4 billion) compared to a year earlier. VAT receipts, the most significant item, were HUF 369.3 billion (7.3%) higher than at the end of September in the previous year. The increase in VAT receipts was primarily due to a decrease in VAT refunds during the year. On the downside, VAT payments fell by 2.2% compared to September 2023, after several months of growth. The growth in excise tax revenues continued, albeit at a slower pace, in September, with an increase of HUF 203.5 billion, or 20.3%, at the end of the month. Payments of insurance tax and tourism development contribution also increased, with HUF 49.1 billion and HUF 31.1 billion, respectively, in the first nine months, compared to the same period of the previous year.

Personal income tax receipts increased by 13.1% to HUF 370.6 billion compared to the end-September figure 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 14.5% (HUF 755.4 billion) compared to the same period of the previous year, also caused by wage increases.

Revenue from EU programmes was HUF 917.1 billion in the first nine months, HUF 242.8 billion less than in the first nine months of 2023. In contrast, expenditure on EU programmes amounted to HUF 1,152 billion, HUF 840 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 nine months of 2024, central government expenditure was 3.8% higher than in the previous year. Within this, central subsystem expenditure increased by only 1.0%.

Among significant expenditure items, expenditure on central budgetary institutions and chapter-administered appropriations, pensions, expenditure of the Health Security Fund and interest expenditure were higher than a year earlier, 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 679.4 billion in the first nine months of the year, which was HUF 421.3 billion, or 38.3%, lower than in the same period of the previous year.

Housing subsidies decreased by HUF 262.7 billion, or 67.7%, 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.

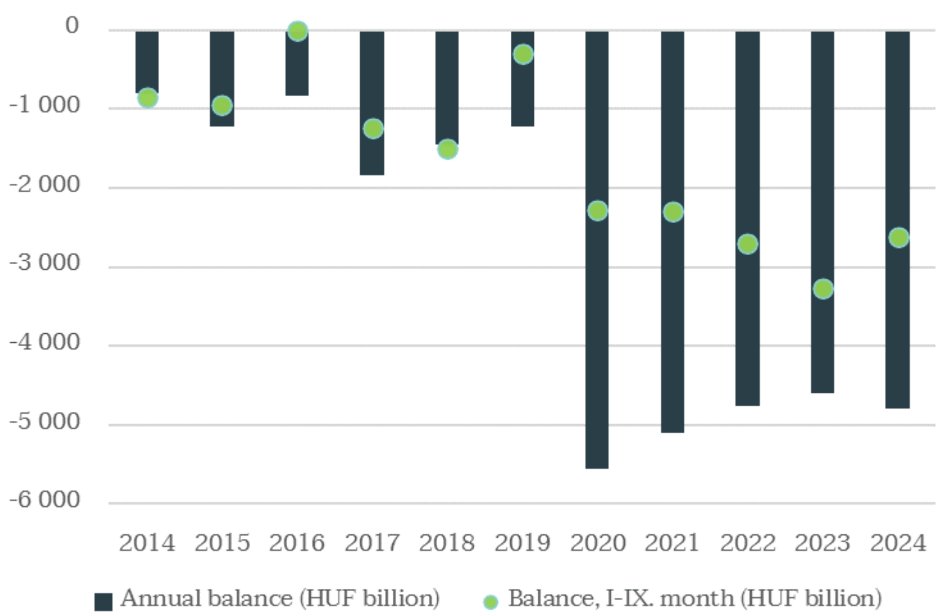
Expenditure on central budgetary institutions and chapter-administered appropriations was HUF 587.5 billion higher than in the first nine month of the previous year and was only HUF 5.2 billion higher than in September 2023. As a result, the rate of expenditure growth also declined by 0.6 percentage point, to 6.6% overall. However, the plan to cut expenditure by 12% set out in the act on the budget will almost certainly not be met.

Expenditures related to state property amounted to HUF 815 billion, HUF 85.1 billion more than the end-September 2023 figure, and reached 152.6% of the 2024 budget estimate.

In September 2024, pensions amounted to HUF 4,762.3 billion, an increase of 11% compared to the same period last year. During the same period, the Health Insurance Fund spent HUF 3,370.6 billion, an increase of 13.7% 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 16.5%.

The balance of interest expenditures and receipts was HUF 745.6 billion (48.5%) more negative than at the end of September of the previous year.

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



Source: Ministry of Finance, Hungarian State Treasury;

2.6 Monetary developments

Consumer prices rose by 3.0% on average in September.

In September 2024, consumer prices increased by 3.0% on average—compared to the same period of the previous year. Over the past year, prices of services has increased the most (8.4%). Prices of electricity, gas and other fuels fell by 5.0% compared to the same period of the previous year. Consumer prices fell by 0.1% in a month. The seasonally adjusted core inflation rate was 4.8% higher than in the same period of the previous year.

A larger share of the 3.7% average increase in food prices was due to a 32.9% rise in flour prices, a 13.8% rise in milk prices and a 12.0% rise in fresh vegetable prices. The price of chocolate and coffee rose by 10.1%, fresh domestic and tropical fruit by 8.8% and fruit and vegetable juices by 8.5%, 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: potato prices fell by 9.9%, dry pasta by 5.8% and edible offal by 4.6%. Prices of alcoholic beverages and tobacco rose by an average of 3.9%, driven more by wine, which increased by 6.9%, and there were no price decreases in this category.

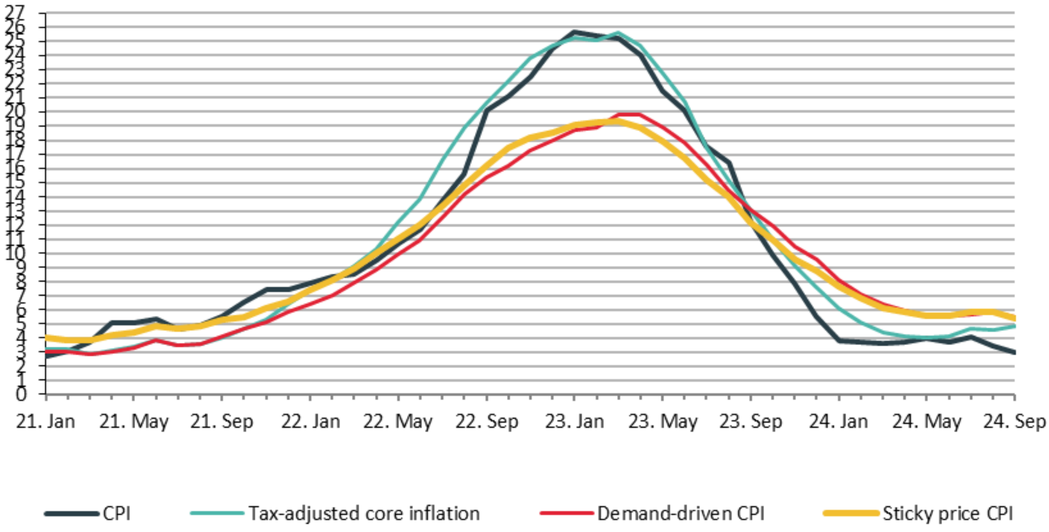
The average price decline of 0.2% in consumer durable goods in August and September shows an improving trend, supported by a number of external and internal factors. These include sustained lower commodity prices, efficient supply chains, slowly growing demand and tight monetary policy. If we look at the main group in more detail, we can see that the price of new passenger cars increased by 6.3% and jewellery by 10.7%, which is above average. Deflation in consumer durable goods was supported by a 3.5% fall in the prices of durable goods for recreation, a 4.4% fall in computers, cameras and telephones and a 5.4% fall in motorcycles. 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 September was already 6.1% 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%.

The average decrease in household energy prices was 5.0% in September, compared to the same period of the previous year. Within electricity, gas and other fuels, the price of natural and manufactured gas fell by 9.4%, firewood by 6.1% and briquettes and coke by 4.1% over the past year. Butane and propane gas alone was 1.5% more expensive across the group, while the other items showed a decrease.

In September, the price of services rose by an average of 8.4%, with theatre tickets up 25.3% and cinemas up 17.3%. The price increase for games of chance, which has been a significant contributor in previous months, has slowed from 20.6% to 3.8%. The price of postal services has risen by 15.6% in the last three months compared to the previous year. Telephone services and internet prices also showed inflation of 17.0% in September, the same as in August. 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 fell by 0.1% from the previous month. Within the overall consumer basket, food prices rose by 1.0% compared with the previous month. Prices for services and electricity, gas and other fuels both fell by 0.8% from the previous month. The prices of other goods and fuels were also 1.1% lower compared to August, which also had a significant impact on the monthly inflation rate.

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



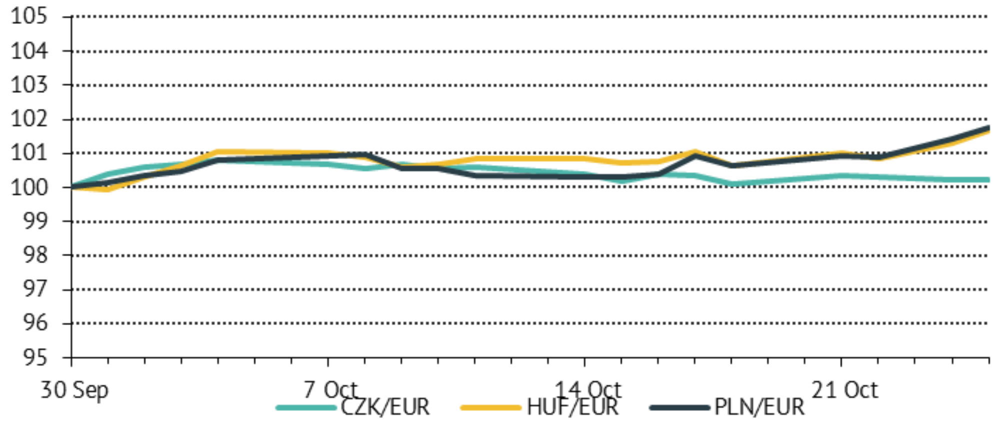
Source: MNB, Századvég

Among the core inflation indicators published by the MNB, the core inflation rate net of indirect taxes was 4.8%, the core inflation rate excluding processed food was 5.5% and the sticky price inflation rate was 5.4% in the ninth month of the year. The core inflation rate, 1.8 percentage points higher than total inflation, suggests that inflation in goods and services with fast-moving prices was more supportive of the slowdown in inflation in the month.

Currencies of regional competitors weakened against the euro.

The regional currencies surveyed weakened against the euro in October. In the past period, the Czech koruna weakened by 0.21%, the Polish zloty weakened by 1.74% against the Euro. Government bond yields also increased over the period, with the Czech 10-year government bond yield 33 basis points higher at 4.05%, and the Polish 10-year yield 37 basis points higher at 5.79%.

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.

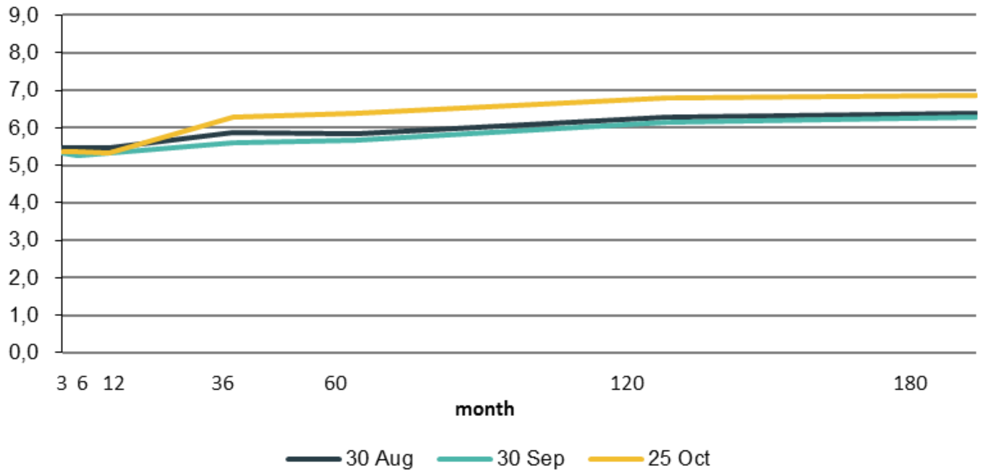
Hungarian money and foreign exchange market indicators showed a strengthening last month. The HUF weakened by 1.6% against the euro, by 5.0% against the US dollar and by 2.3% against the Swiss franc. Thus, at the end of October 2024, 1 euro was worth 404 forints, 1 dollar 373 forints and 1 Swiss franc 431 forints. Sovereign debt held by foreigners decreased by HUF 463 billion to HUF 5,879 billion in October.

In October, the central bank did not change the base rate.

At its October meeting, the Monetary Council of the central bank left the base rate unchanged from the previous month, slowing monetary easing. Thus, the base rate in Hungary currently stands at 6.5%. The upper end of the interest rate corridor remained at 7.5% and the lower end at 5.5%. According to the central bank's communication, the decision was taken taking into account, among other factors, the protracted weakness in European industrial production, the ECB's interest rate cut, the faltering Hungarian economic recovery, 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 0 basis points and 74 basis points on the secondary yield curve in October. This means that the 3-month yield was 5.35%, the 6-month yield was 5.35% and the 1-year yield was 5.32% on 25 October. The 3-year yield increased by 68 basis points to 6.29%. Yields are up 74 basis points over the 5-year horizon, 68 basis points over the 10-year horizon and 57 basis points over the 15-year horizon compared to the previous month. These three yields changed, therefore, to 6.40%, 6.81%, and 6.87%, respectively.

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



Source: GDMA, Századvég

On 22 October 2024, the total value of "MÁP Plusz" government securities held by retail investors was HUF 663.2 billion after a HUF 109 billion decrease from the HUF 772.6 billion level in mid-December 2022. In addition, the cumulative value of PMÁP securities was HUF 7,070.5 billion, while the cumulative value of the "Bónusz" Hungarian Government Bonds was HUF 1,156.4 billion. The total value of the 1MÁP securities is HUF 581.0 billion, that of Treasury Savings Bills is HUF 517.2 billion and that of FixMÁP securities is HUF 811.4 billion. In addition, funds held in "Baby" Bonds amounted to HUF 348.4 billion and funds held in Printed

MÁP Plus amounted to HUF 106.6 billion. The total stock of government securities held by retail investors stood at HUF 11,254.7 billion at the end of October 2024, up from HUF 9,810.2 billion at the beginning of 2024, meaning that people held HUF 1,444.5 billion more in government securities than in the first month of 2024.

The share of foreign currency debt in the sovereign debt changed to 28.1% in August (i.e. decreased by 0.25 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 28.2%, with the August ratio higher than this.

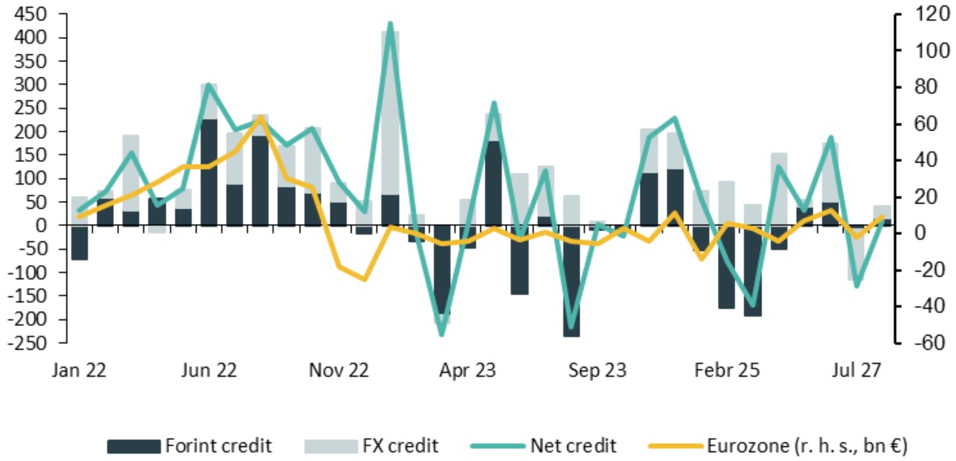
Hungary's sovereign debt rating remains as follows: Baa2 with a stable outlook at Moody's, while BBB with a negative outlook at Fitch. The autumn reviews by credit rating agencies will be launched by Standard and Poor's[4] (S&P) on 25 October 2024, followed by Moody's in November and Fitch in December. S&P affirmed its long-term and short-term sovereign debt ratings (BBB-/A-3) for Hungary in foreign and local currency and maintained its "stable" outlook. S&P justified its stable outlook by saying that it expects the government's fiscal consolidation efforts to be supported over the medium term by the Hungarian economic recovery, continued disinflation and stabilisation of debt costs, which in turn should allow debt-to-GDP ratios to stabilise. The rating agency has specified both favourable and unfavourable scenarios/processes in the justification for the sovereign debt rating. It identified a much weaker-than-forecast fiscal performance and significant external pressures (e.g. energy supply shocks) with negative implications for the forint exchange rate and inflation as negative developments. A significant improvement in the Hungarian fiscal position would be a positive scenario, which would reduce external vulnerabilities. The risk rating of Hungarian government bonds is therefore in the recommended for investment category of all three major international credit rating agencies.

[4] Standard and Poor's assessment release of 25 October 2024: https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3275006

Corporate credits increased in Hungary.

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector increased by HUF 17.3 billion in August 2024. Net foreign currency loans also decreased, with repayments amounting to HUF 24.6 billion in August 2024. Seasonally adjusted total net borrowing increased by HUF 9.5 billion in the period under review. Corporate loan repayment in the euro area was EUR 644 billion in August 2024.

FIGURE 15: CORPORATE BORROWING (HUF BILLION)



Source: MNB, ECB, Századvég

3. Századvég's forecast[5]

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.

[5] Date of preparation: 20 September 2024