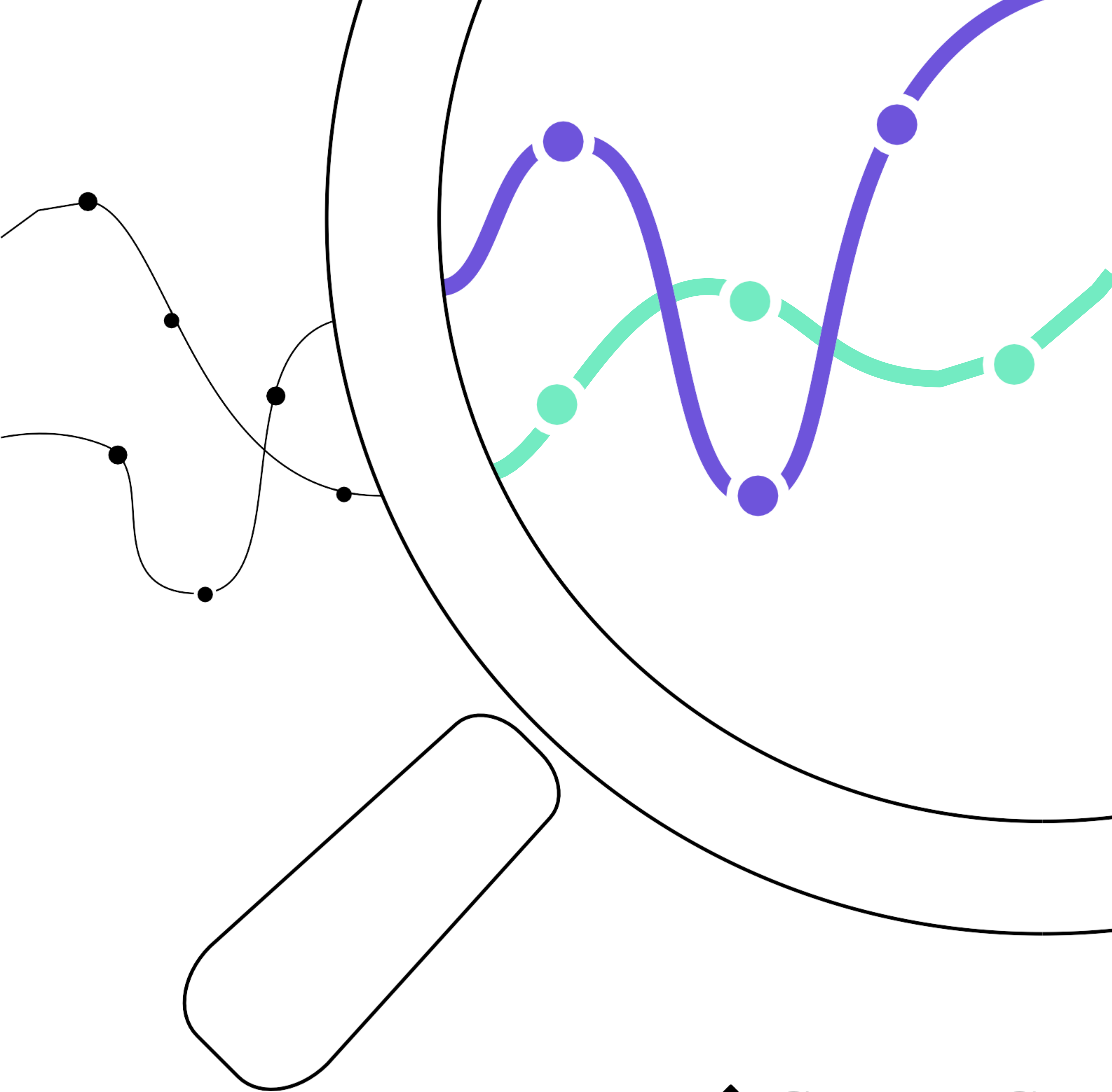
MACRO MONITOR

November 2024

Századvég
Konjunktúrakutató Zrt.



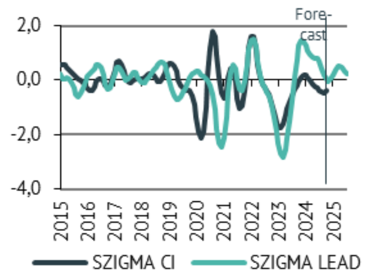
Századvég

Table of Contents

1. Summary

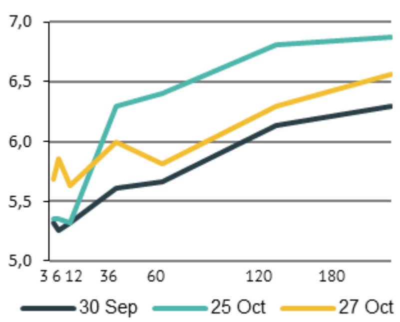
In Q3 2024, Hungary's economic output weakened by 0.7% on both an annual and quarterly basis, according to seasonally and calendar-adjusted and balanced data.

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 November 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 September, retail sales increased by 1.7% 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 1.5% in specialised and non-specialised food shops and by 5.7% in non-food retailing, while sales decreased by 5% in automotive fuel retailing.

Measured up to October 2024, the value of the monthly SZIGMA CI indicator, which provides a snapshot of the current state of the Hungarian economy, was -0.384, showing a slight improvement on a monthly basis. Although economic growth momentum is low, this means that there is a slight improvement. The coming months will show whether this improvement was a one-off or the start of a trend.

The other indicator, SZIGMA LEAD, a short-term indicator for the future of the Hungarian economy, still forecasts above-trend growth by the end of the forecast horizon, starting with a strong upturn and continuing with a marked weakening.

In October 2024, consumer prices increased by 3.2% on average on an annual basis, i.e. annual inflation slightly exceeded the central bank's target, but remained within the tolerance band.

2. Overview of the economy

2.1 External environment

In Q3 2024, the euro area's economic performance and employment data both improved.

Economic performance in the euro area showed a positive trend in Q3 2024. Seasonally adjusted GDP grew by 0.4% quarter on quarter. This is an improvement on the 0.2% growth rate in Q2. On an annual basis, GDP grew by 0.9%, also an improvement on the previous quarter's 0.6% growth rate. The average GDP growth rate in the European Union as a whole was slightly lower than in the euro area (0.3%). On an annual basis, however, GDP produced by EU Member States grew by 1.0% on average, also an improvement on the 0.8% annualised growth in Q2.

At Member State level, Cyprus achieved the highest growth rate. Quarterly GDP growth was 1.0% and the economy expanded by 3.8% on an annual basis. Spain's economy has also shown stable and strong growth over the past year. In Q3, its GDP grew by 0.8% quarter on quarter, while the annual growth rate was 3.4%.

Employment also improved, with the number of employees in the euro area rising by 0.2% quarter on quarter in Q3, while the annual increase was 1.0%. For all Member States, employment expanded by 0.8% on an annual basis, slowing slightly from 0.9% in the previous quarter. Although employment expanded at a slightly lower rate than in the euro area, it still showed a stable and positive trend.

2.2 Our SZIGMA indicators

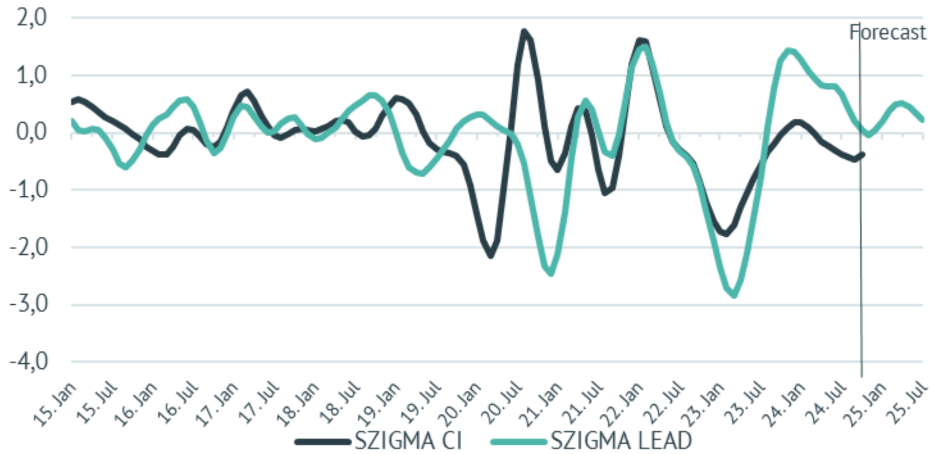
In November 2024, the Hungarian economy grew below its historical trend.

In November 2024, ***the value of the SZIGMA CI indicator, which reflects the current state of the Hungarian economy***, was -0.384 up to October 2024, showing a slight improvement (up

0.08). Thus, the time series, recalculated from actual data, shows that the months-on-month change improved for the first time in nine months, when compared to the previous month's index value. This means that, while the Hungarian economy is still growing at a rate below its historical trend, there has been a slight improvement, in other words, the economic growth momentum is weak but has improved slightly. The coming months will show whether this improvement was a one-off or the start of a trend. As for ***industrial*** figures, which serve as the background for the indicators, the volume of industrial production decreased by 5.7% year on year and by 0.7% month on month, based on the latest September 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 a monthly and annual basis, according to seasonally and working-day adjusted data, on a fixed basis for September 2024 (2021 monthly average = 100.0%). The volume of total sales (domestic and exports combined) fell by 3.7% year on year and by 0.5% month on month. The month-on-month and year-on-year decline in industrial sales was similar in both sectors (domestic and exports). Domestic industrial sales fell by 0.12% month on month and by 2.2% year on year, while export industrial sales declined by 0.29% month on month and by 2.2% year on year. ***Construction*** output fluctuated in 2024, slowing to a lower level. Although the cumulative construction output for January-September 2024 was 0.9% higher than in the same period in 2023, this is a downward trend. May 2024 had the highest cumulative construction output (up 6.1%) for January-May 2024 compared to January-May 2023. From then onwards, construction output on a cumulative annual basis has fallen steadily. Construction output fell by 2.7% month on month in September 2024. In terms of the stock of contracts, the current level (88.1%) of the stock of contracts of construction firms, calculated on a fixed basis (monthly average for 2021 = 100.0%) for the end of September 2024, was slightly higher than the level at the end of January 2024 (87.1%).

In November 2024, **our short-term forecast indicator, SZIGMA LEAD**, still projected above-trend growth at the end of the forecast horizon, starting with strong momentum and continuing with a marked weakening. Future prospects for ***industry*** are still bleak, but there are hopes for a slight improvement. In industry, both the aggregate stock of new orders and the stock of new orders for each category (exports and domestic) fell, with domestic new orders falling by 11% and exports by 1.9%. Although year-on-year volumes declined, it is encouraging that the change from the previous month showed a marked increase, with new industrial domestic orders up 21.5% and export orders up 43.3%, for an overall monthly increase of 41.0%. This means that the stock of contracts and performance could improve in the near future. For the performance level, it is more useful to review statistics with a fixed base. Although the current level of the total stock of industrial orders (84.7%), calculated on a fixed basis (2021 monthly average=100.0%), is still below its level at the beginning of 2024 (117.3%), the rate of decline has at least stopped and started to improve. Looking at the individual categories, the opposite process is taking place. The stock of domestic orders has improved month after month; and the current level (95.7%) is significantly higher than the January 2024 level (83.3%). Meanwhile, the stock of export orders weakened month after month, except for a spike in April 2024; and the current level of 83.9% was well below the January 2024 level (119.7%). This weakening in the stock of industrial export orders is mainly due to the difficulties of our largest export partner, the German industry. 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**, improved by 1.1 index points on a monthly basis and weakened by 0.5 index points on an annual basis in October 2024, to stand at 86.5 index points in October. Based on the sub-index for the German manufacturing sector, which has a significant impact on the Hungarian economy, companies perceived their current situation as worse; they were also pessimistic about their future prospects, as orders fell and capacity utilisation continued to decline. **Eurostat's consumer confidence index** for October 2024 was down by 0.7 index points on a monthly basis, but up by 5.6 index points on an annual basis. It stood at -26.5 index points in October 2024.

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



Source: Századvég

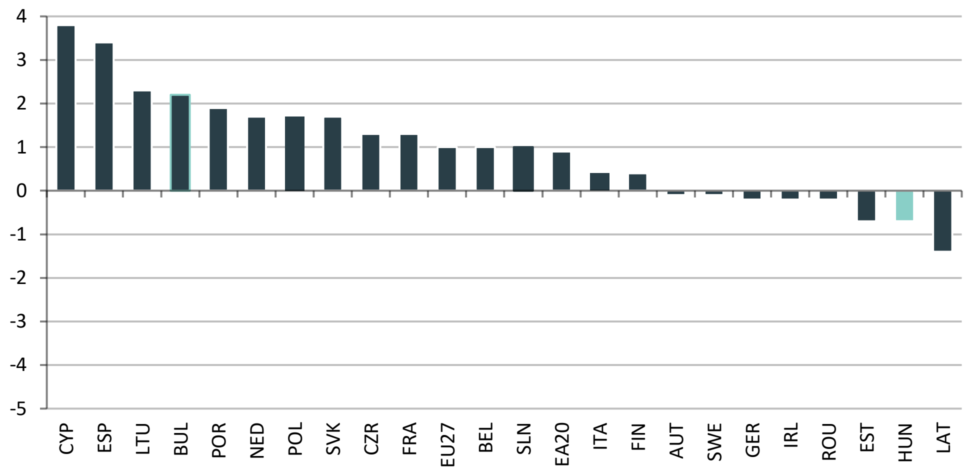
2.3 The real economy

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.

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. According to Eurostat's publication of 14 November 2024, Hungary's GDP (-0.7%) was the second weakest performer among the 17 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 Cyprus (3.8%), followed by Spain (3.4%) and Lithuania (2.3%). On an annual basis, the EU average (EU27) improved to 1.0%, while the euro area (EA20) average remained at 0.9%. On a **quarterly** basis, the average economic growth rate 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.[2] On a quarterly basis, Ireland achieved the highest GDP growth rate (2.0%), followed by Lithuania (1.1%) and Cyprus (1.0%). On a quarterly basis, GDP fell in three other Member States apart from Hungary, Sweden (-0.1%), Poland (-0.2%) and Latvia (-0.4%).

Figure 2: **Q2 2024 GDP GROWTH IN THE EU (Y/Y, %)**



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

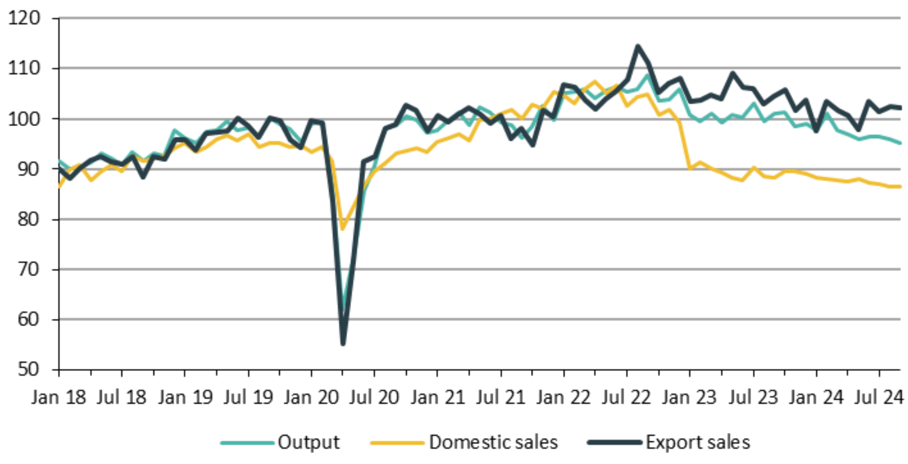
[1] 13 Member States, the EU27 and the euro area. 5 Member States not included due to lack of data: Croatia, Denmark, Greece, Luxembourg, Malta.
[2] 13 Member States, the EU27 and the euro area. 5 Member States not included due to lack of data: Croatia, Denmark, Greece, Luxembourg, Malta.

Month on month, the volume of seasonally and working-day adjusted industrial production decreased by 0.7%.

Compared with the same period of the previous year, industrial production fell by 7.2% year on year according to raw data and by 5.4% according to working-day adjusted data in September 2024. Overall **industrial sales** fell by 4.2% in September 2024 compared with September 2023. This was driven by a 2.9% decline in domestic industrial sales and an 5.0% decline in export sales. Thus, from January to September 2024, industrial production was 4.3% and industrial sales 4.1% lower than in the cumulative period January-September 2023.

On a monthly basis, relative to the previous month (August 2024), the volume of seasonally and working day-adjusted industrial production decreased by 0.7% and sales by 0.5% in September 2024. Within industrial sales, export sales fell by 0.3%, while domestic sales 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 8.3% fall in manufacturing output, which was the dominant sector (95.5%), contributed to the decline in industrial production on an annual basis in September 2024. Of the other two sectors accounting for industrial output, energy, with a weight of 3.9%, fell by 2.2%, and mining and quarrying, with a weight of 0.5%, increased by 29.2%. In manufacturing, industrial production increased in two of the 13 subsections and decreased in eleven. The performance of the three main manufacturing sectors, which accounted for 50.7% of manufacturing output, was mixed. The second largest subsection, food (with a weight of 13.8%), grew by 0.7%, while the other two main subsections declined. The manufacture of transport equipment, the largest subsection (26.5% weight), fell by 11.4% and the manufacture of electrical equipment, the third largest (10.4%), by 10.0%. In manufacturing, the other sector in which performance increased was wood processing, which has a small weight.

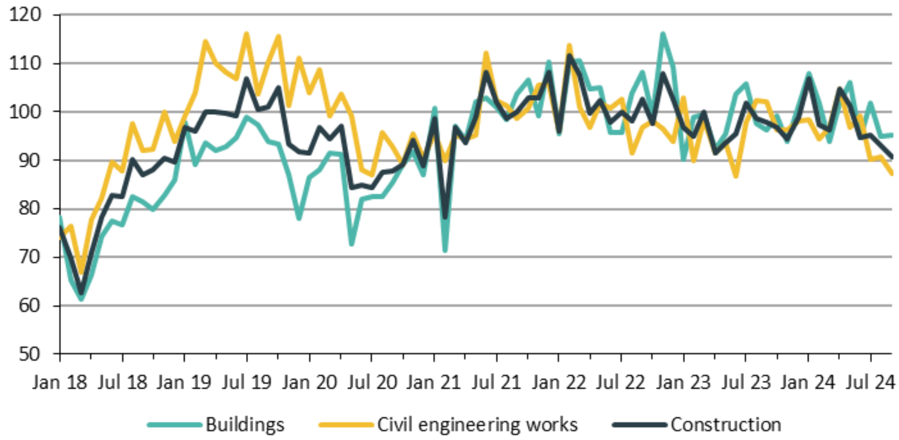
In September 2024, **the stock of new orders** in priority manufacturing industries, on a fixed basis (i.e. at the average monthly price in 2021), increased on a monthly basis and decreased on an annual basis. With the 41.0% month-on-month increase in the stock of new orders, **the stock of industrial orders** on a fixed basis (average monthly price in 2021) also increased (by 1.19%), which was only due to an increase in exports. In September 2024, the stock of domestic industrial orders fell by 1.5% month-on-month.

Construction output grew by a cumulative annual rate of 0.9% in January-September 2024.

In September 2024, the annual volume of construction output fell by 8.2% in terms of raw data. Within the two main groups of construction, the construction of buildings decreased by 2.0% year on year, while civil engineering works (roads, bridges, railways, complex industrial facilities, pipelines, etc.) decreased by 17.0%. Despite the steady decline, construction output in January-September 2024 still exceeded the cumulative performance in the first nine months of 2023 (0.9%). It should be noted that this cumulative surplus is left over from the cumulative maximum growth in January-May 2024, when the cumulative surplus was the highest (by 6.1%) compared to January-May 2023, and the cumulative construction output has been declining steadily since then. The main contributor to the cumulative construction output in January-September 2024 was the construction of buildings (1.4%), while the cumulative output of the other main group of construction (civil engineering works) remained unchanged compared to the cumulative January-September 2023 period.

Construction output, seasonally and working-day adjusted on a **monthly basis**, which shows the short-term trend, fell by 2.7%, driven by a 0.1% increase in the volume of construction of buildings and a 4.0% decrease in the volume of construction of civil engineering works.

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

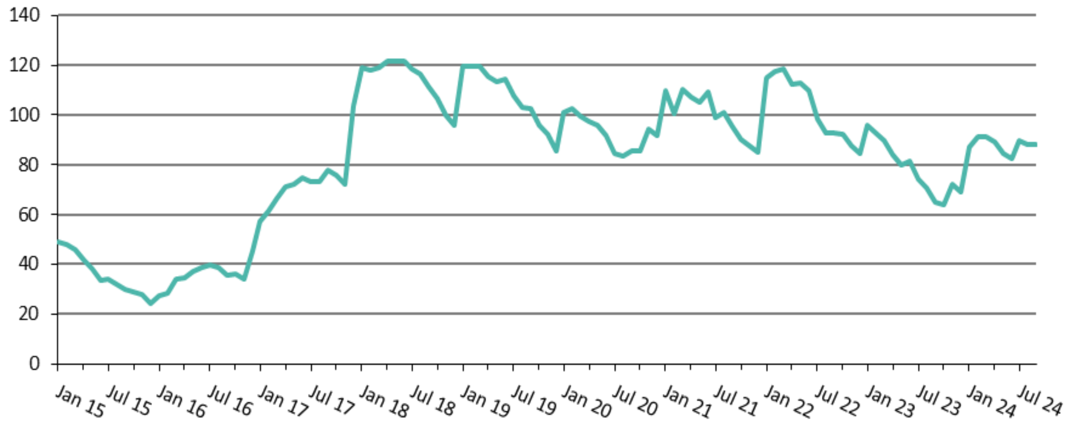


Remark: Seasonally and calendar adjusted indices.
Source: Hungarian Central Statistical Office, Századvég

A negative future trend appears in the volume of new contracts signed in September 2024, up by 2.7% year on year, and in the month-end stock of contracts for September 2024, up by 36.0% year on year. On a **monthly** basis, the volume of all other indicators within each main groups of construction decreased, with the exception of the stock of contracts for the construction of buildings at the end of September.

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 September 2024, the stock of construction contracts stabilised from its low level in the second half of 2023 and above its level at the end of 2017, before the "construction boom" that started in 2018. Thus, the stock of contracts of construction firms at the end of September 2024 is at or above the level before the overheated construction output that started in 2018.

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



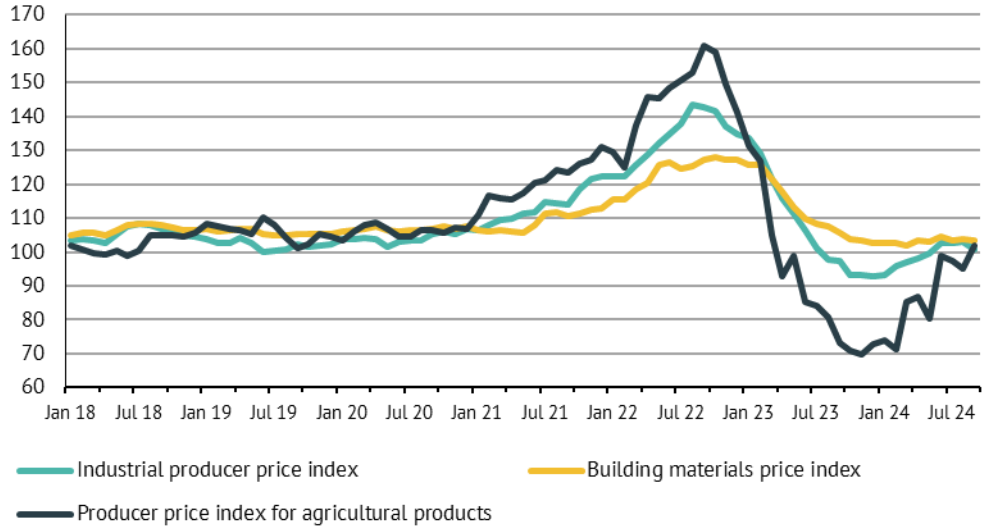
Source: Hungarian Central Statistical Office, Századvég

The agricultural producer price index increased after 17 months.

In September 2024, the industrial producer price index and the building materials price index decreased in growth rate compared to the same period of the previous year. The **building materials** price index for September 2024 decreased by 0.4 percentage points compared with the previous month, rising by 3.4% year on year in September. The **agricultural** producer price index stood at 101.19% on an annual basis in September 2024, up 6.8 percentage points from the previous month. This has resulted in mixed changes in producer prices for some agricultural products. Producer prices of the following agricultural products increased on an annual basis: cereals (4.8%), industrial crops (11.3%), fruit (26.2%), crop and horticultural products (5.2%) and animal products (9.0%). In contrast, producer prices fell for the following agricultural products on an annual basis: vegetables (-8.5%), potatoes (-19.5%), livestock (-8.1%) and livestock and animal products (-3.2%). **On a cumulative basis (January-September 2024), agricultural producer prices fell by 12.3% compared to January-**

September 2023. Looking at the different categories of agricultural products, only the producer price of fruit increased (13.8%), while the largest price decrease (-24.0%) was recorded for cereals. **Industrial** producer prices are on the rise, increasing by an annual average of 0.9% in September 2024 and decreasing by 0.4% on a monthly basis. On a *cumulative annual basis*, the industrial producer price index fell by 0.8% in January-September 2024 compared with the first nine months of 2023. The price index for domestic industrial sales fell by 2.9%, while that for exports rose by 0.3%. The difference between domestic and export sales prices is caused by the different proportions of the manufacturing industry and the energy industry. While manufacturing has a higher share of export sales than of domestic sales, energy has a higher share of domestic sales than of export sales. In September 2024, these weights were as follows. For manufacturing: 60% in domestic sales and 82.9% in exports. For energy: 38.6% in domestic sales and 16.7% in exports. In the first nine months of 2024, in these two sectors, manufacturing prices for domestic industrial sales rose by 0.2%, while energy prices fell by 9.5%. Over the same period, export prices in manufacturing rose by 2.5%, while energy prices fell by 15.8%. Thus, overall (exports and domestic combined), the industrial producer price index for manufacturing rose by 1.9%, while that for energy fell by 12.4% in the first nine months of 2024 on an annual basis. Over the same period, domestic industrial sales prices in the food industry fell by 3.9%.

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 1.7% in September.

In September, retail sales increased by 1.7% year on year on both a raw and calendar-adjusted basis compared to the respective period of the previous year. The year-on-year growth is positive news, but it is below the 3% to 4% expansion seen in recent months.

In September 2024, turnover in specialised and non-specialised food shops increased by 1.5%, and the turnover in non-food shops increased by 5.7%. In fuel retailing, sales fell by 5% year on year, in September.

In food retailing, sales volumes increased by 2.7% in non-specialised food and beverages shops, while the volume in specialised food, beverage and tobacco stores fell by 2.3%, ending the positive trend since February.

In non-food retailing, the volume of mixed range of manufactured goods increased by 1.0%, 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 increased by 11.1%. In addition, sales of second-hand goods again fell, albeit only marginally, by 0.2%. The sales volume of computer equipment and other specialised stores rose by 1.7% in August, but in September the annualised sales volume fell by 1.1%. A similar change was seen for books, computer equipment and other specialised stores, which fell 1.7% following an increase in August. Other categories showed an overall increase, with mail order and internet retailing up 10.8% and pharmaceutical and medical goods up 6.3%. The sales volume of cosmetics shops grew by 7.2%. Overall, the largest growth was in non-specialised food shops, including textile products, clothing and footwear, where volumes increased by 11.1%. 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

In October, the unemployment rate stagnated at 4.6%.

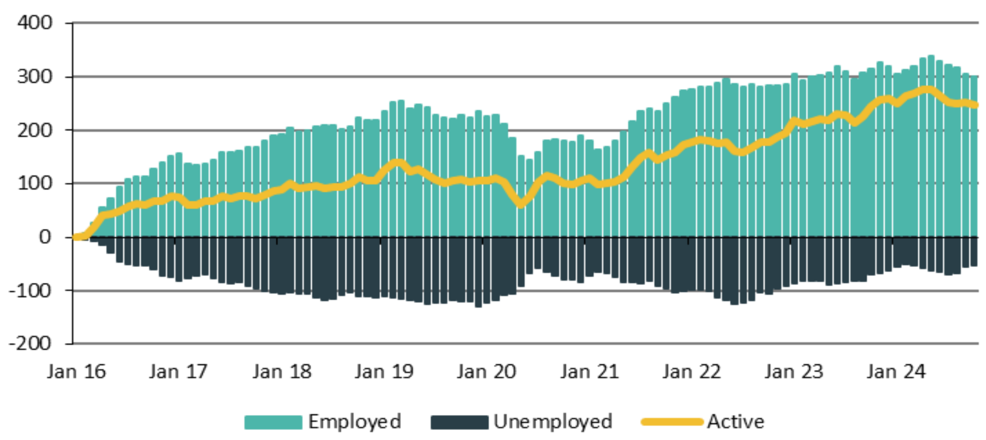
In October[3], the seasonally adjusted activity rate of the population aged 15-74 was 68.1% (4,912,000 persons), which means a labour market growth of 3,000 compared to the same period of the last year. The seasonally adjusted number of employees reached 4,687,000, a year-on-year increase of 13,200. The number of the unemployed was 225,600, a year-on-year increase of 16,200. According to latest data from October, activity has started to decline slightly on a monthly basis, while

[3] Three-month moving average

employment has also fallen. The trends currently dominating the labour market appear to be changing, which we identify as the combined effect of several macroeconomic processes such as global difficulties in the automotive sector and the slowdown in construction. As the economic outlook improves, the number of unemployed will return to its previous trajectory.

In September, the seasonally adjusted number of employees decreased by 9,500 compared to the same period last year. Compared to September 2023, there were 18,200 fewer employees in the competitive sector and 800 fewer in the public sector. The number of people employed in the non-profit sector increased by 4,400 in one year.

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



Remark: Seasonally and calendar adjusted indices.

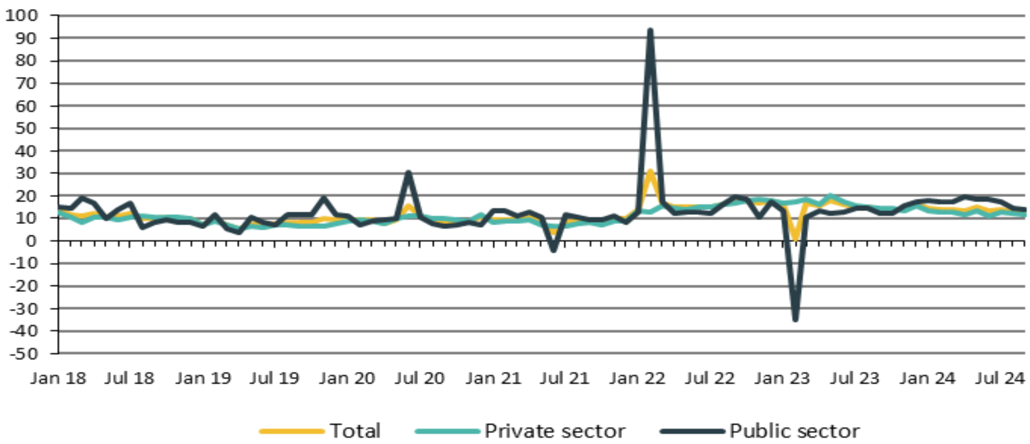
Source: Hungarian Central Statistical Office, Századvég

Real earnings continued to rise in September.

In September, the average gross monthly wage in the national economy was HUF 627,400, up 12.5% compared to the same period last year. The highest average gross monthly wage was recorded in the non-profit sector, at HUF 638,600. 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 519,500, 15.5% higher than a year earlier. The increase shows that 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 432,200, 12.3% higher than in the same period of the previous year. Real earnings increased by 9.2%, while consumer prices rose by 3.0%.

We expect real wage growth in 2024 to continue until the end of the year. At the end of November, the Permanent Consultative Forum (PCF) of the Competitiveness Sector and the Government agreed on the 2025 minimum wage and guaranteed minimum wage. Next year, the minimum wage will rise by 9% to HUF 290,800 gross, while the guaranteed minimum wage will increase by 7% to HUF 348,800. The PCF has agreed on a 3-year wage agreement, under which the minimum wage figures are known until 2027. Based on the latest information available, our wage forecast for next year shows that average gross wages will rise by 7.2% in 2025, while real wages will increase by 3.5%.

Figure 9: **CHANGES IN GROSS WAGES (ANNUAL CHANGE, %)**



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

2.4 External balance

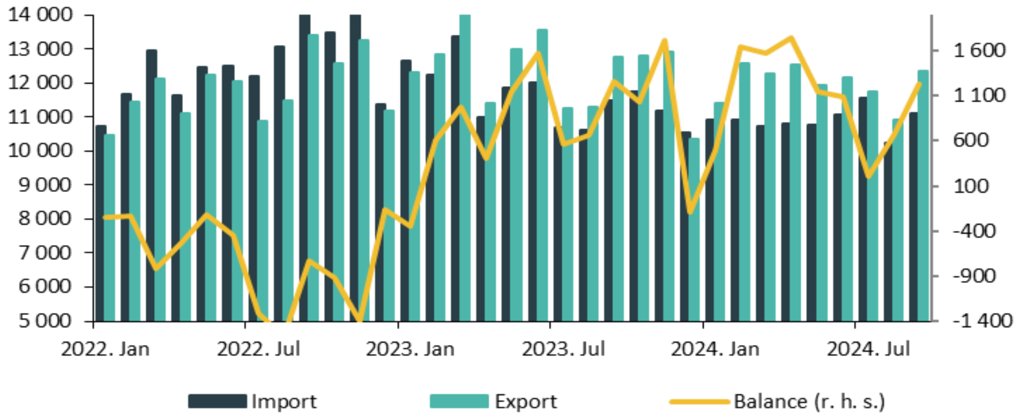
In August, the volume of exports of goods decreased by 5.6%, and imports by 4.5% year on year. This brought the external trade balance to a surplus of EUR 443 million, a deterioration of EUR 238 million compared to the previous year.

In August, the import volume of food products, beverages and tobacco increased by 1.7%, and their export volume decreased by 0.9% year on year. As for energy carriers, imports decreased by 7.7% and exports increased by 15.0%. As for manufactured products, imports increased by 0.8%, and exports by 2.5% year on year. As for machinery and transport equipment, imports increased by 7.4%, and exports by 11.0%.

The foreign trade surplus fell in September.

In September 2024, the first estimate put the value of exports in euro terms at 5.0% lower and imports in euro at 4.0% lower than a year earlier. This brought the foreign trade surplus in goods to EUR 1.2 billion, which is EUR 187 million weaker than a year earlier.

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



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

Source: Hungarian Central Statistical Office, Századvég

2.5 Fiscal outlook

By the end of October, central budget revenue had increased by 5.3% and expenditure by 2.6%.

In October 2024, public finances reached a one-month deficit of HUF 427 billion, so, by the end of the month, the deficit of the general government subsector had increased to HUF 3,050.5 billion. This means that the increased annual cash deficit target of 63.7% as set in the EDP report[4] has been met. The cumulative deficit was made up of a deficit of HUF 3,048.5 billion of the central budget, a deficit of HUF 199 billion of social security funds, as well as a surplus of HUF 197 billion in extra-budgetary funds.

In the first ten months, central subsystem revenue increased by 7.1%, and central budget revenue increased by 5.3% compared to the same period last year.

Payments by economic units decreased by 2.4%, HUF 72 billion, compared to the first ten months of 2023. Corporate tax receipts, the most significant item, were 0.1% (HUF 0.9 billion) less by the end of October than in the first ten months of the previous year. In contrast, the second largest item, tolls, generated 51.4% more revenue, i.e. HUF 167.8 billion. With a few exceptions, receipts from most of the temporary special taxes levied in 2022 are down compared to the same period in 2023. The largest decrease, HUF 135.6 billion, was in the surtax on energy suppliers, the largest item, and mining royalties, also a major item, fell by HUF 120.2 billion. The turnaround is also marked by the fact that in October the budget line including the special levy on banks already showed a decrease of HUF 45.6 billion, while the previous months were characterised by an increase in revenues.

Revenues from taxes on consumption increased by 9.9% (HUF 743.8 billion) compared to a year earlier. VAT receipts, the most significant item, were HUF 395.8 billion (6.8%) higher than at the end of October in the previous year. During the year, the increase in VAT receipts was primarily due to a decrease in VAT refunds. After a decline in

[4] published in early October

September, monthly VAT payments in October again showed an increase of 1.1% year on year. The growth in excise tax revenues continued in October, with an increase of HUF 213.4 billion, or 19%, at the end of the month. Payments of insurance tax and tourism development contribution also increased, with HUF 49.9 billion and HUF 32.2 billion, respectively, in the first nine months, compared to the same period of the previous year.

Personal income tax receipts increased by 13.6%, HUF 447.3 billion, compared to the end-October 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 841.2 billion) compared to the same period of the previous year, also caused by wage increases.

Revenue from EU programmes was HUF 999.8 billion in the first ten months, HUF 191.7 billion less than in the first ten months of 2023. In contrast, expenditure on EU programmes amounted to HUF 1,299.6 billion, HUF 851.6 billion less than the previous year. No change from last 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 ten months of 2024, central government expenditure was 5% higher than in the previous year. Within this, central subsystem expenditure increased by 2.6%.

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 711.6 billion in the first ten months of the year, which was HUF 574.7 billion, or 44.7%, lower than in the same period of the previous year.

Housing subsidies decreased by HUF 268.1 billion, or 65.7%, 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.)

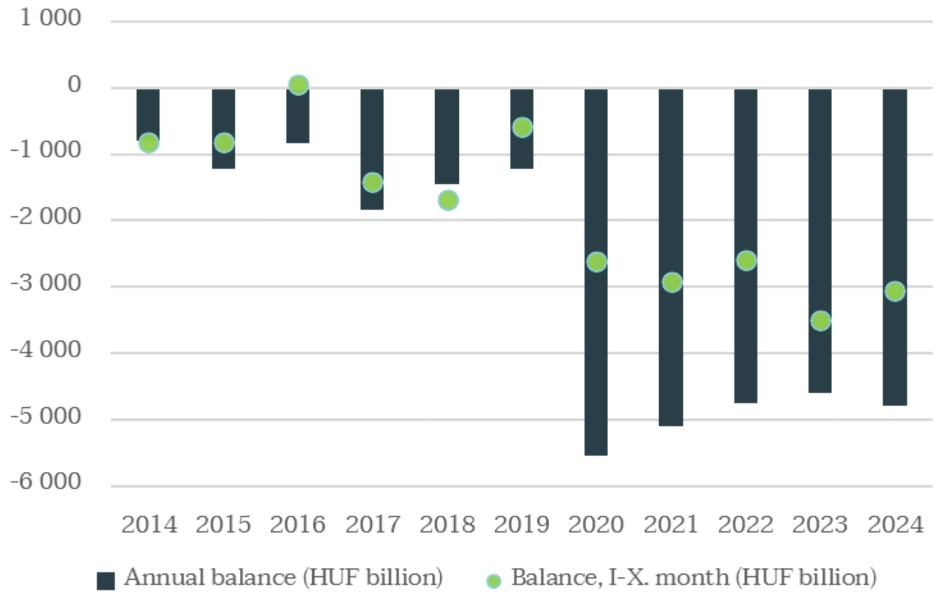
Expenditure on central budgetary institutions and chapter-administered appropriations was HUF 953.7 billion higher than in the first ten month of the previous year, which was significantly, HUF 366 billion, higher than at the end of September. The overall rate of expenditure growth increased to 9.7%.

Expenditures related to state property amounted to HUF 841.2 billion and reached 157.5% of the 2024 budget estimate. The increase in expenditure is mainly due to the financing of the buy-back of Budapest Liszt Ferenc Airport. The figures also show that the amount of around HUF 635 billion spent on company-related expenditure by the end of October alone will not cover the estimated purchase price of the state's stake in the airport, estimated at HUF 970 billion.

In October 2024, pensions amounted to HUF 5,244.2 billion, an increase of 11% compared to the same period last year. During the same period, the Health Insurance Fund spent HUF 3,727.8 billion, an increase of 13.4% compared to the base period. Within this, expenditure on medical and preventive care, which accounts for more than half of the Fund's expenditure, increased by 16.1%.

The balance of interest expenditures and receipts was HUF 898.5 billion (46.3%) more negative than at the end of October of the previous year. This is HUF 152.9 billion worse than at the end of September.

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



Source: Ministry of Finance, Hungarian State Treasury;

2.6 Monetary developments

Consumer prices increased by 3.2% in October.

In October 2024, consumer prices increased by 3.2% on average—compared to the same period of the previous year. Over the past year, prices of services has increased the most (7.2%). In contrast, prices of electricity, gas and other fuels fell by 4.8% compared to the same period of the previous year. Consumer prices rose by 0.2% in a month. The seasonally adjusted core inflation rate was 4.4% higher than in the same period of the previous year.

A larger share of the 4.5% average increase in food prices was due to a 38.9% rise in flour prices, a 16.8% rise in milk prices and a 19.3% rise in fresh vegetable prices. The price of chocolate and cocoa rose by 9.8%, fresh domestic and tropical fruit by 11.1% and fruit and vegetable juices by 12.1%, all of which were above the average food inflation rate for the month. In contrast, deflation was observed in several products, as in the previous months: potato prices fell by 4.5%, dry pasta by 7.3% and edible offal by 3.8%. Prices of alcoholic beverages and tobacco rose by an average of 3.8%, driven more by wine, which increased by 5.3%, and there were no price decreases in this category.

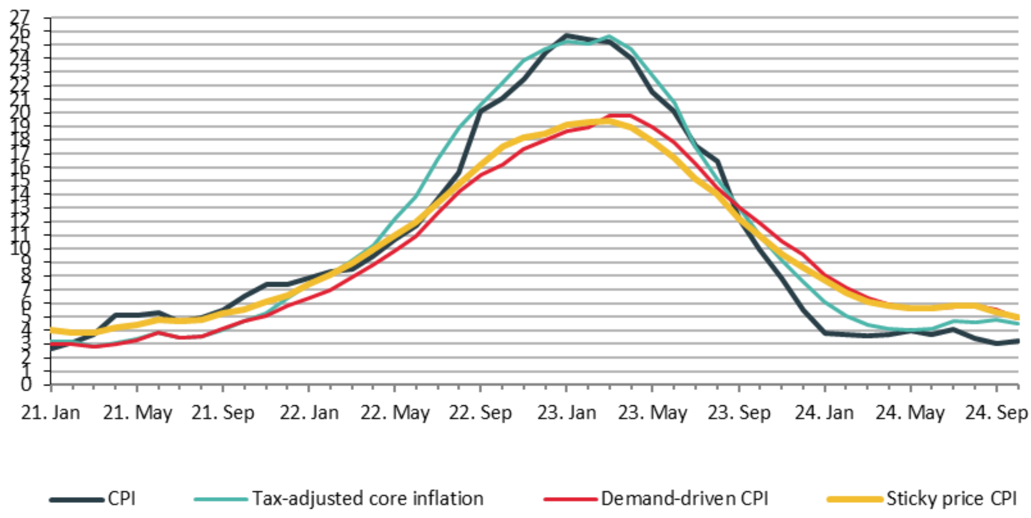
The average 0.2% fall in the prices of consumer durable goods in September was followed by an average fall of 0.3% in October. Sustained lower commodity prices, supply chain efficiency, slowly growing demand and tight monetary policy also play a role in the improved price environment. If we look at the main group in more detail, we can see that the price of new passenger cars increased by 5.9% and jewellery by 11.4%, which is above average. Deflation in consumer durable goods was supported by a 2.8% fall in the prices of durable goods for recreation, a 3.4% fall in computers, cameras and telephones and a 5.3% 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 October was already 7.5% 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 4.8% in October, compared to the same period of the previous year. Within electricity, gas and other fuels, the price of natural and manufactured gas fell by 9.5%, firewood by 6.1% and briquettes and coke by 6.8% over the past year. Within the group, butane and propane gas costs 2.6% more and coal 2.3% more.

In October, prices of services rose by an average of 7.2%, with cinema tickets and TV subscriptions contributing the most, at 16.6% and 16.0% respectively. The price increase for games of chance, which has been a significant contributor in previous months, has slowed from 3.8% to 0.0%, meaning that there was no longer any visible increase on an annual basis. The price of postal services has risen by 15.6% in the last three months compared to the previous year. Telephone, internet and communication prices rose by 9.0% and 9.2% respectively. 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.

Compared with the previous month, consumer prices rose by 0.2% on average. 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 0.9% from the previous month. The prices of other goods and fuels also increased by 0.2% from September.

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



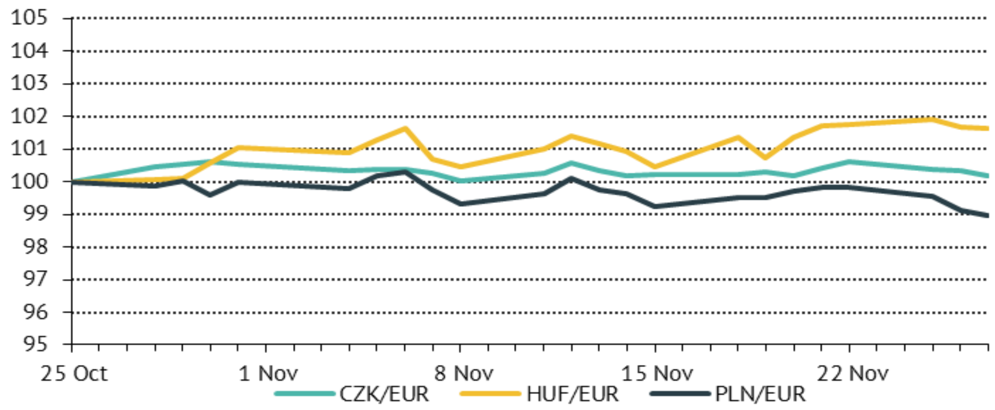
Source: MNB, Századvég

Among the core inflation indicators published by the MNB, the core inflation rate net of indirect taxes was 4.5%, the core inflation rate excluding processed food was 4.9% and the sticky price inflation rate was 5.0% in the tenth month of the year. The core inflation rate, 1.3 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.

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

Regional currencies were mixed against the euro in November. The Czech koruna weakened by 0.19%, while the Polish zloty strengthened by 1.02% against the euro over the period. Government bond yields also fell over the period, with the Czech 10-year government bond yield 15 basis points lower at 3.90% and the Polish 10-year yield 22 basis points lower at 5.60%.

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.

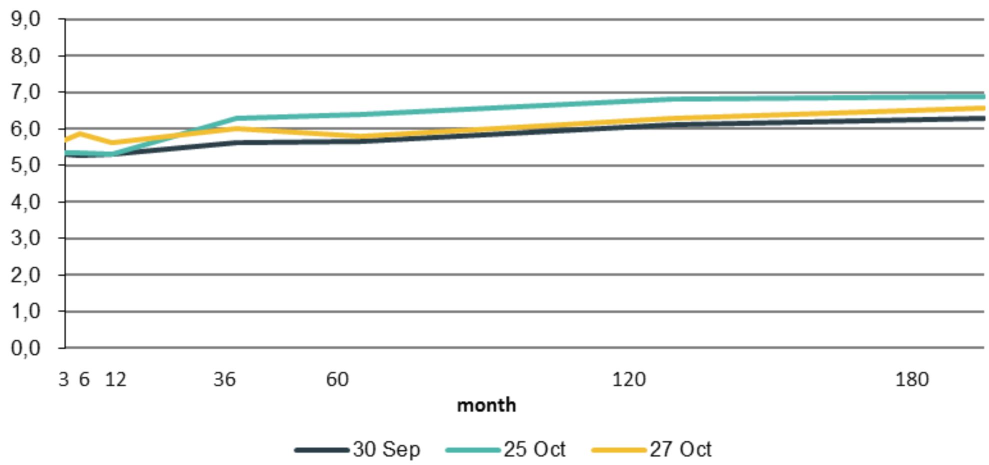
Hungarian money and foreign exchange market indicators showed a strengthening last month. The HUF weakened by 1.6% against the euro, by 4.4% against the US dollar and by 2.6% against the Swiss franc. Thus, at the end of November 2024, 1 euro was worth 411 forints, 1 US dollar 391 forints and 1 Swiss franc 442 forints. Sovereign debt held by foreigners decreased by HUF 8 billion to HUF 5,942 billion in November.

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

At its November meeting, the Monetary Council of the central bank left monetary conditions unchanged, and 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 a central bank statement, the decision was taken taking into account, among other things, the macroeconomic outlook for advanced economies, the ECB's unchanged interest rate path, the strengthening US dollar, risk aversion towards emerging markets 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 -59 basis points and 51 basis points on the secondary yield curve in November. Thus, the 3-month yield was 5.68%, the 6-month yield 5.86% and the 1-year government bond yield 5.63% on 27 November. The 3-year yield fell by 29 basis points to 6.00%. Yields are up 59 basis points over the 5-year horizon, 51 basis points over the 10-year horizon and 31 basis points over the 15-year horizon compared to the previous month. These three yields changed, therefore, to 5.81%, 6.30%, and 6.56%, respectively.

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



Source: GDMA, Századvég

On 22 November 2024, the total value of “MÁP Plusz” government securities held by retail investors was HUF 666.0 billion. In addition, the cumulative value of PMÁP securities was HUF 7,062.1 billion, while the cumulative value of the “Bónusz” Hungarian Government Bonds was HUF 1,181.9 billion. The total value of the 1MÁP securities is HUF 481.7 billion, that of Treasury Savings Bills is HUF 522.8 billion and that of FixMÁP securities is HUF 898.0 billion. In addition, funds held in “Baby” Bonds amounted to HUF 351.4 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 11,270.5 billion at the end of November 2024, up from HUF 9,810.2 billion at the beginning of 2024, meaning that people held HUF 1,460.3 billion more in government securities than in the first month of 2024.

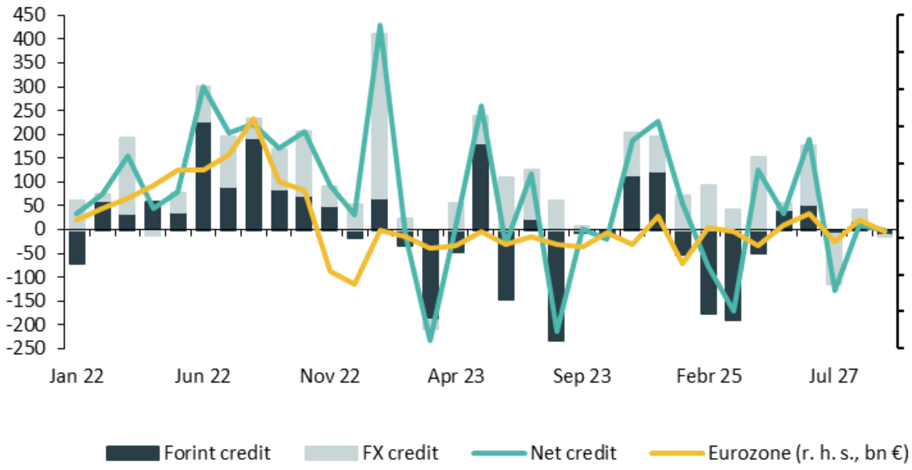
The share of foreign currency debt in the sovereign debt changed to 28.9% in September (i.e. increased by 0.05 percentage point from the previous month), which is in the range (maximum 30%) specified in the financing plan for 2024 of GDMA. Over the past 12 months, the average foreign currency debt ratio averaged 28.4%, with the September ratio higher than this.

Hungary's sovereign debt rating remains BBB-/A-3 with a stable outlook from S&P and BBB with a negative outlook from Fitch. With its decision on Friday, 29 November, Moody's Investors Service maintained Hungary's debt rating at Baa2, but changed its stable outlook to negative. The decision was taken in the light of blocked EU funding and weak growth in the German economy. According to Moody's, EU funding for Hungary is 24% of GDP, but 10% of this is conditional on meeting targets. The suspended cohesion funds (0.5% of GDP) are likely to be lost by the end of 2024 unless an agreement is reached with the EU. Moody's forecasts GDP growth of 1.9% in 2025 and 0.7% in 2024, while public debt will reach 73.4% of GDP. The negative outlook for the decision could be exacerbated by fiscal risks ahead of the 2026 elections and the absence of an agreement with the EU. At the same time, the rating agency is positive about the diversified economy and the decline in inflation. The risk rating of Hungarian government bonds is therefore in the recommended for investment category of all three major international credit rating agencies.

Corporate credits decreased in Hungary.

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector decreased by HUF 11.2 billion in September 2024. Net foreign currency loans also decreased, with repayments amounting to HUF 0.2 billion in September 2024. Seasonally adjusted total net borrowing decreased by HUF 0.8 billion in the period under review. Corporate borrowing in the euro area was EUR 3000 million in September 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