MACRO MONITOR

December 2024

Századvég
Konjunktúrakutató Zrt.

SZÁZADVÉG

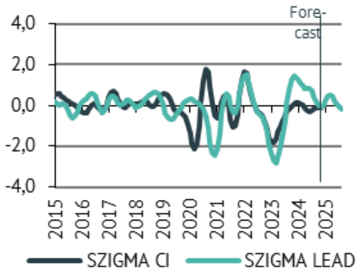
Table of Contents

DISCLAIMER

1. Summary

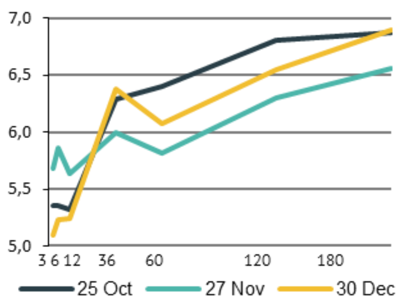
In Q3 2024, Hungary's economic output weakened by 0.7% year on year and by 0.7% quarter on quarter, according to seasonally adjusted data. Therefore, in the first three quarters of 2024, compared with the first three quarters of 2023, total growth was 0.6% in raw data terms and 0.7% in terms of seasonally and calendar-adjusted and balanced data.

SIGMA indicators



Source: Századvég

Forint yield curve (%)



Source: Refinitiv

Our forecast (18.12.2024)	2024
Change in the GDP (%)	0.7
Inflation (annual average, %)	3.7

At its December meeting, the Monetary Council of the central bank left the base rate unchanged from the previous month, slowing monetary easing. The base rate in Hungary therefore remains at 6.5%.

In October, retail sales increased by 3.6% year on year in terms of both raw and calendar-adjusted data. Within this, compared to the same period of the previous year, sales increased by 4.8% in specialised and non-specialised food shops and by 3.3% in non-food retailing, while sales decreased by 0.1% in automotive fuel retailing.

The value of the SZIGMA CI indicator, which provides feedback on the current state of the Hungarian economy, was -0.106 up to November 2024, which is still below trend, but is approaching the historical trend level. This means that, while the Hungarian economy is still growing at a rate below its historical trend, there has been 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, forecasts below-trend growth by the end of the forecast horizon. The current forecast foresees rapid and strong growth in the first half of the period, while the second half forecasts a sharp decline.

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

2. Overview of the economy

2.1 External environment

Inflation rates rose in the euro area and the European Union as a whole in November 2024.

Data published on Eurostat's website show that the inflation rate in the euro area rose to 2.2% on an annual basis in November, while in the European Union as a whole it was 2.5%, compared with 2.3% the previous month. The strongest inflation driver was again the services sector, which contributed 1.74 percentage points to inflation. This was followed by food, alcohol and tobacco, which contributed 0.53 percentage points. Non-energy manufactured goods contributed 0.17 percentage point to inflation, while energy prices reduced the inflation rate by 0.19 percentage point in November 2024.

There are significant differences in inflation rates across EU countries. The highest inflation rates were recorded in Romania (5.4%), Belgium (4.8%) and Croatia (4.0%), while the lowest rates were registered in Ireland (0.5%), Lithuania and Luxembourg (both 1.1%). The differences are generally due to the specificities of each country's energy dependence, economic structure and internal economic and political environment.

2.2 Our SZIGMA indicators

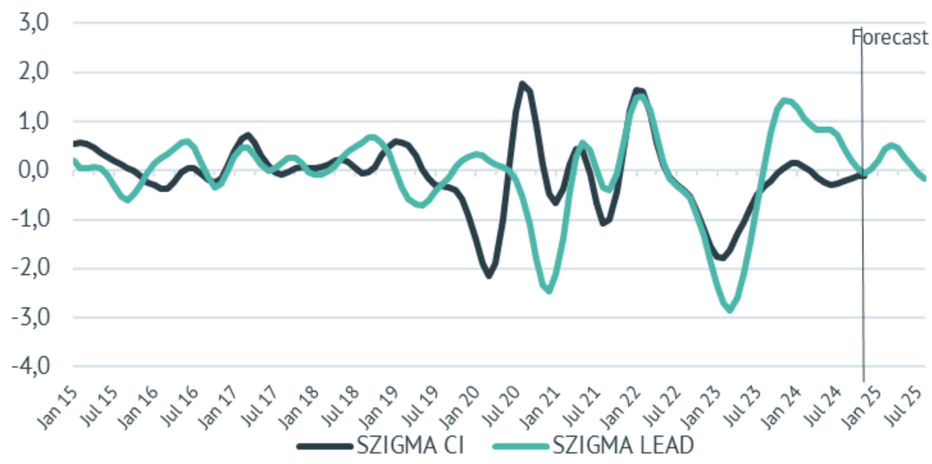
In December 2024, the Hungarian economy grew below its historical trend.

In December 2024, the ***SZIGMA CI indicator reflecting the current state of the Hungarian economy*** was -0.106 up to November 2024, which is still below trend, but is trending steadily towards the historical trend level. 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 how long this improvement will last. As for ***industrial*** figures, which serve as the background for the indicators, the volume of industrial production decreased by 5.7% year on year, but it increased slightly, by 2.0%. month on month, based on the latest October 2024 fixed base (2021 monthly average = 100.0%) seasonally and working-day adjusted data. The volume of industrial sales, seasonally and working-day adjusted, declined in all dimensions (domestic, exports) on an annual basis, while it increased in all other dimensions, except the domestic dimension, on a monthly basis, according to the fixed base (2021 monthly average = 100.0%) for October 2024. The volume of total sales (domestic and export combined) fell by 2.2% on an annual basis, while it increased by 1.5% on a monthly basis, mainly due to an increase in export sales. Domestic industrial sales fell by 0.2% month on month and by 3.6% year on year. Meanwhile, export sales performance declined by 0.6% year on year, but increased by 2.5% month on month. Based on the latest data, for October 2024, ***construction output*** stagnated at an annual rate (-0.3%), while it expanded by 4.6% month on month. In terms of the stock of contracts, the current level (84.2%) of the stock of contracts of construction firms, calculated on a fixed basis (monthly average for 2021 = 100.0%) for the end of October 2024, was below the level at the end of January 2024 (87.1%).

In December 2024, our **short-term leading indicator, SZIGMA LEAD**, is pointing to below-trend growth at the end of the forecast period. The current forecast foresees rapid and strong growth in the first half of the period, while the second half forecasts a sharp decline. The future outlook for ***industry*** is still unfavourable and there are no signs of improvement at present. In terms of new industrial orders, apart from the year-on-year increase in new industrial export orders (10.2%), the stock of new industrial orders fell in all other dimensions. On a monthly basis, representing short-term growth, the stock of new industrial domestic orders fell by 1.7% and that of new industrial export orders by 5.3%. To see what this means, it is worth looking at the stock of industrial orders on a fixed basis. The current level of the total stock of industrial orders, on an average monthly basis fixed for 2021 (80.8%), is well below the January 2024 level (117.3%). The

Ifo Business Climate Index, **which measures the change in business sentiment in the German economy**, weakened by 0.9 index points on a monthly basis and by 1.7 index points on an annual basis in November 2024, to stand at 85.6 index points in November. According to the German manufacturing sub-index, the business environment in the manufacturing sector deteriorated. Orders are down, companies find the current situation difficult and are pessimistic. **Eurostat's consumer confidence index** for November 2024 was down by 2.9 index points on a monthly basis, but up by 2.4 index points on an annual basis. It stood at -29.4 index points in November 2024.

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



Source: Századvég

2.3 The real economy

In Q3 2024, Hungarian GDP fell by 0.7% quarter on quarter.

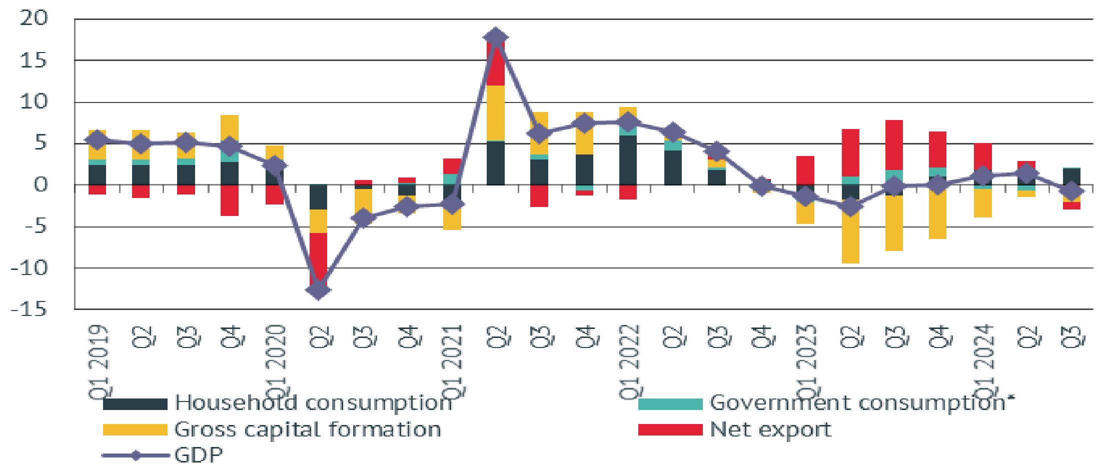
In Q3 2024, gross domestic product (GDP) weakened by 0.8% on an annual basis in raw data and by 0.7% in seasonally and calendar-adjusted and balanced data. Quarter on quarter, Q3 2024 GDP was 0.7% lower. **Therefore, in the first three quarters of 2024,** compared with the first three quarters of 2023, **total growth was 0.6% in raw data terms and 0.7% in terms of seasonally and calendar-adjusted and balanced data.**

On the **production** side: Q3 2024 GDP was helped most by the services sector (0.8 percentage point), but also by the balance of taxes and subsidies on products (0.3 percentage point). The decline in GDP was driven by a decline in both industry (-1.1 percentage points), construction (-0.2 percentage points) and agriculture (-0.6 percentage points). The Q3 performance of the individual sectors was as follows on an annual and quarterly basis: ***Compared with the same period last year, only the services sector was up (1.9%) out of the four sectors.*** Meanwhile, industrial output fell by 4.4%, construction by 4.0% and agriculture by 14.9%. ***Compared with the previous quarter, the performance of the services sector was essentially stagnant (up 0.1%). Meanwhile, industrial output grew by 0.3% compared to the previous quarter***. In Q3 2024, the performance of agriculture (-4.5%) and construction (-4.2%) declined significantly compared to Q2 2024.

On the **consumption** side, GDP growth in Q3 2024 continued to be boosted by household consumption, while investment and the external balance held it back. The ***actual final consumption of households*** boosted GDP growth by 2.3 percentage points, while collective consumption weakened it by 0.4 percentage point. Overall, final consumption, which includes both the actual final consumption of households and collective consumption, supported economic growth by 2.1 percentage points. This meant that the ***actual final consumption of households*** grew by 4.2% year on year and by 1.1% quarter on quarter. Gross accumulation, which includes investment and changes in inventories, reduced GDP growth by 2.1 percentage points. Examining the two items, it can be seen that while ***investments*** *held back economic growth by 4.3 percentage points*, the change in inventories boosted it by 2.0 percentage points. *Investment performance fell by 14.0% year on year and by 3.2% quarter on quarter.* The ***net export balance*** weakened quarter-on-quarter economic performance by 0.9 percentage point. In terms of the net export balance, exports weakened by a larger annual rate (-1.9%) than imports (-0.9%). Meanwhile, on a quarterly basis, imports strengthened more than exports (by 1.9% and

0.3%, respectively). Looking at the individual items of external trade, the evolution of ***trade in goods***, which accounts for the bulk of external trade (almost 80%), was as follows: *On an annual basis*, exports of goods fell by 3.4%, while imports fell by 1.5%. *Quarter on quarter*, exports of goods remained essentially unchanged (-0.1%), while imports increased by 2.2%. For **services**, which account for a smaller share of external trade, exports grew more than imports (by 2.1% and 0.9%, respectively) on an annual basis. Quarter on quarter, however, exports of services grew less than imports (by 0.4% and 0.6%, respectively).

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



*Remark: *Including social benefits in kind*

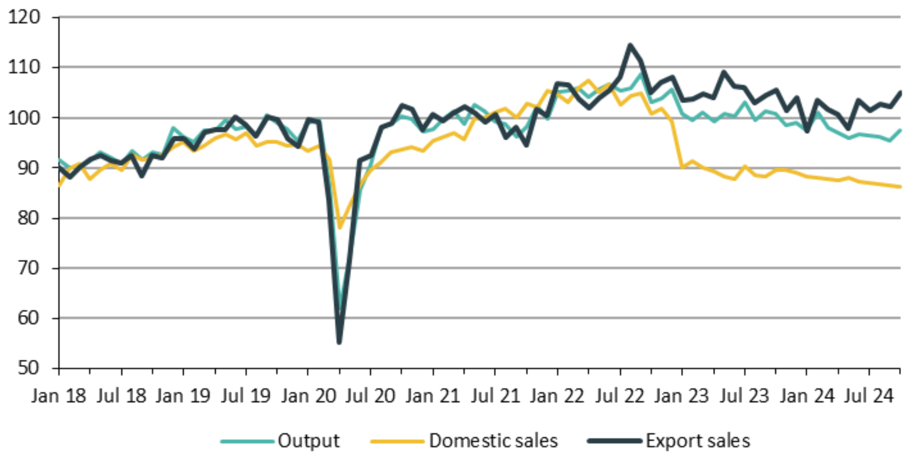
Source: Hungarian Central Statistical Office

On a monthly basis, the volume of seasonally and working-day adjusted industrial production increased by 2.0%.

Compared with the same period of the previous year, industrial production fell by 0.2% year on year according to raw data and by 3.1% according to working-day adjusted data in October 2024. Total **industrial sales** increased by 1.7% in October 2024 compared with October 2023. This was driven by a 2.1% decline in domestic industrial sales and a 4.0% increase in export sales. Thus, cumulated industrial production from January to October 2024 was 3.9% lower and industrial sales 3.5% lower than in the cumulated period January-October 2023.

On a monthly basis, relative to the previous month (September 2024), the volume of seasonally and working day-adjusted industrial production increased by 2.0% and sales by 1.5% in October 2024. Within industrial sales, export sales increased by 2.6%, 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 0.2% fall in manufacturing output, which was the dominant sector (95.6%), contributed to the 0.6% decline in industrial production on an annual basis in October 2024. Of the other two sectors accounting for industrial output, energy, with a weight of 3.9%, increased by 5.6%, and mining and quarrying, with a weight of 0.5%, increased by 30.4%. In manufacturing, industrial production fell in five of the 13 subsections, stagnated in one and increased in the remaining seven. The performance of the three main manufacturing sectors, which accounted for 50.8% of manufacturing output, was mixed. Output in the largest (26.5 per cent) subsection, manufacture of transport equipment, fell by 3.9%, which was the smallest volume decline of the five declining subsections. The second largest subsection, food (with a weight of 13.4%), grew by 2.7%. The output of the third largest (10.9%) subsection, manufacture of computer, electronic and optical products, increased by 16.3%, the highest growth rate of all the subsections surveyed.

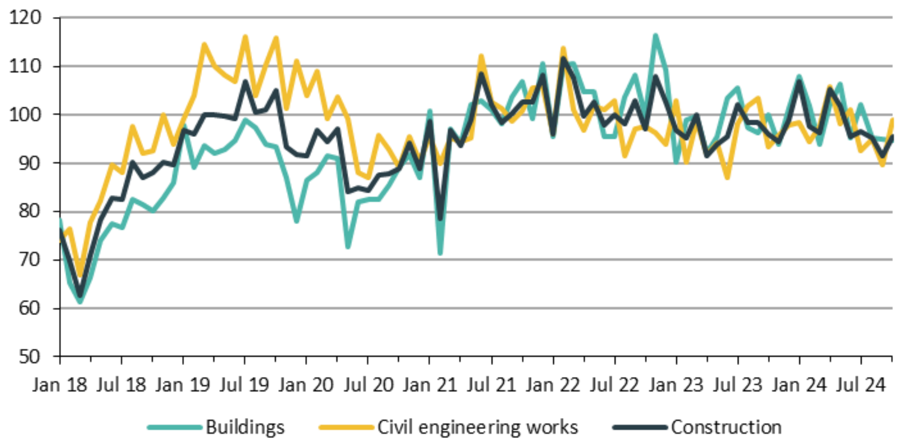
In October 2024, **the stock of new orders** in priority manufacturing industries, on a fixed basis (i.e. at the average monthly price in 2021) fell on both a monthly and annual basis. With the stock of new orders falling by 5.6% month on month, the **stock of industrial orders** on a fixed basis (for the average monthly price in 2021) fell by 4.6% month on month. The decline in the stock of industrial orders was only due to a contraction in exports (5.0%). On a monthly basis, the stock of domestic industrial orders increased by 0.3% in October 2024.

Construction output grew by a cumulative annual rate of 0.7% in January-October 2024.

In October 2024, the annual volume of construction output decreased by 0.5% in terms of raw data. Within the two main groups of construction, the construction of buildings decreased by 5.7% year on year, while civil engineering works (roads, bridges, railways, complex industrial facilities, pipelines, etc.) increased by 7.5%. Thus, cumulative construction output in January-October 2024 was 0.7% above the first ten months of 2023, despite a gradual decline in recent months. Both construction of buildings (0.6%) and construction of civil engineering works (0.9%) contributed to the cumulative January-October 2024 construction output.

In October 2024, construction output, seasonally and working-day adjusted on a **monthly basis**, which shows the short-term trend, increased by 4.6%, driven by a 0.3% decrease in the volume of construction of buildings and a 10.5% increase in the volume of construction of civil engineering works.

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



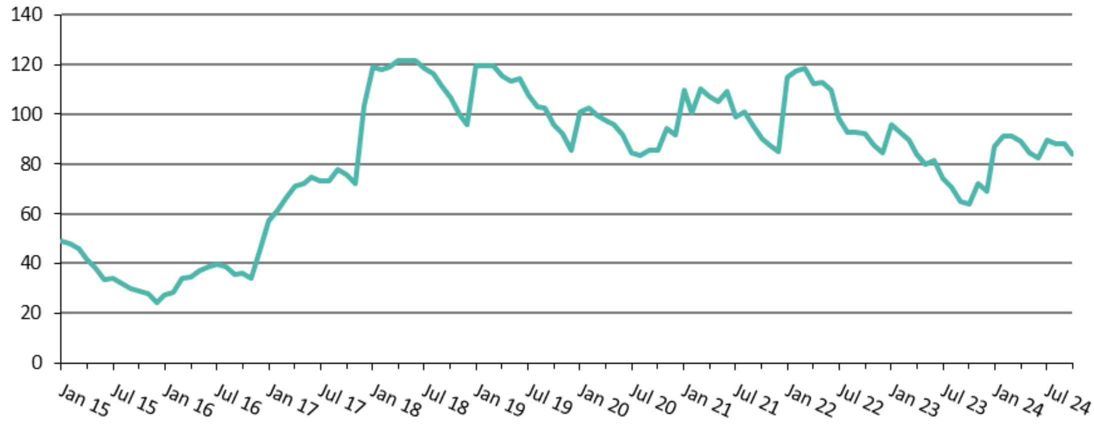
Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Századvég

As regards future prospects, the **month-on-month** decline in the stock of new contracts in October 2024 (30.6%) and the stock of contracts at the end of October 2024 (4.4%) is also negative. By main group, both the month-end stock of contracts for buildings (4.8%) and for civil engineering works (4.0%) decreased for October 2024.

The figure below shows the level of the stock of construction contracts at the end of the month with a fixed base (monthly average for 2021 = 100.0%). This illustrates the current level of construction contracts. The stock of construction contracts at the end of October 2024 showed a decrease, but this was still higher than the level before the end of 2017, before the construction “boom” from 2018.

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



Source: Hungarian Central Statistical Office, Századvég

Retail sales increased by 3.6% in October.

In October, retail sales increased by 3.6% year on year on both a raw and calendar-adjusted basis compared to the respective period of the previous year. The first half of this year saw the first annualised increase in a long time, slowing down in September, but showing another large increase in October.

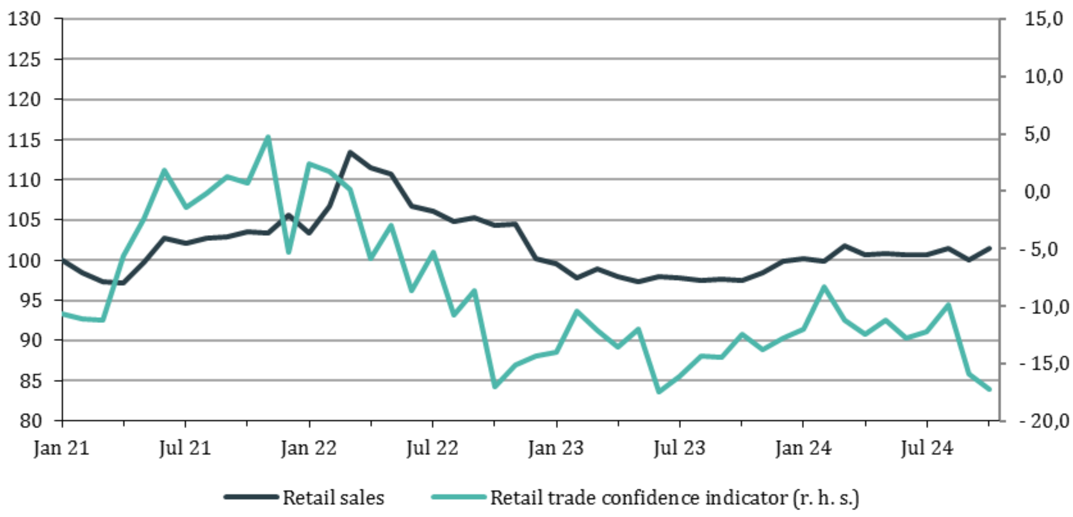
In October 2024, turnover in specialised and non-specialised food shops increased by 4.8%, and the turnover in non-food shops increased by 3.3%. In fuel retailing, sales fell by 0.1% year on year in October.

In food retailing, sales volumes increased by 5.1% in non-specialised food and beverages shops, while the volume in specialised food, beverage and tobacco stores rose by 3.9%.

In non-food retailing, the volume of mixed range of manufactured goods increased by 1.7%, while the turnover of books, newspapers and stationery fell by 4.5% compared to the same period last year. In non-specialised shops dealing in manufactured goods, turnover in textiles, clothing and footwear shops increased by 0.1%. In addition, sales of second-hand goods also increased, by 0.3%. The sales volume of computers and other specialised goods fell by 0.6% in October. Other categories showed a general increase, with pharmaceutical, medical goods up 9.0% and cosmetics shops up 9.3%.

Overall, the largest growth was in non-specialised food shops, including pharmaceutical, medical goods and cosmetics shops, where volumes increased by 9.4%. Other categories showed a more moderate but overall increase.

Figure 6: **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 was 4.7% in November.

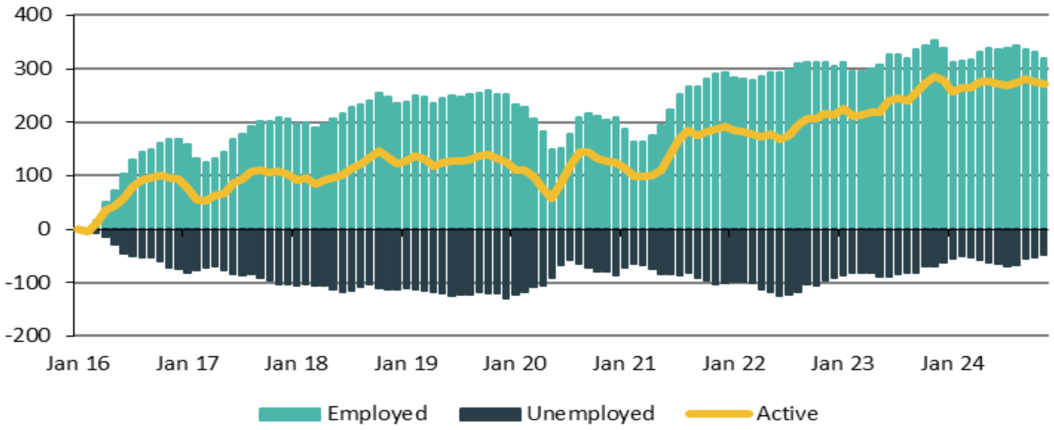
In November 2024[1], the seasonally adjusted activity rate of the population aged 15-74 was 68.2% (4,922,000 persons), which means a labour market contraction of 16,000 compared to the same period of the last year. The seasonally adjusted number of employees reached 4,691,000, a year-on-year increase of 36,000. The number of the unemployed was 231,000, a year-on-year increase of 20,000. According to latest data from November, activity continued to decline slightly on a monthly basis, while 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

[1] Three-month moving average

difficulties in the automotive sector and the slowdown in construction. As the economic outlook improves, the number of the unemployed will return to its previous trajectory.

In October, the seasonally adjusted number of employees decreased by 7,200 compared to the same period last year. Compared to October 2023, there were 14,500 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 4,700 in one year.

Figure 7: **CHANGES IN THE LABOUR MARKET (JANUARY 2016 = 0, THOUSAND EMPLOYEES)**



Remark: Seasonally and calendar adjusted indices

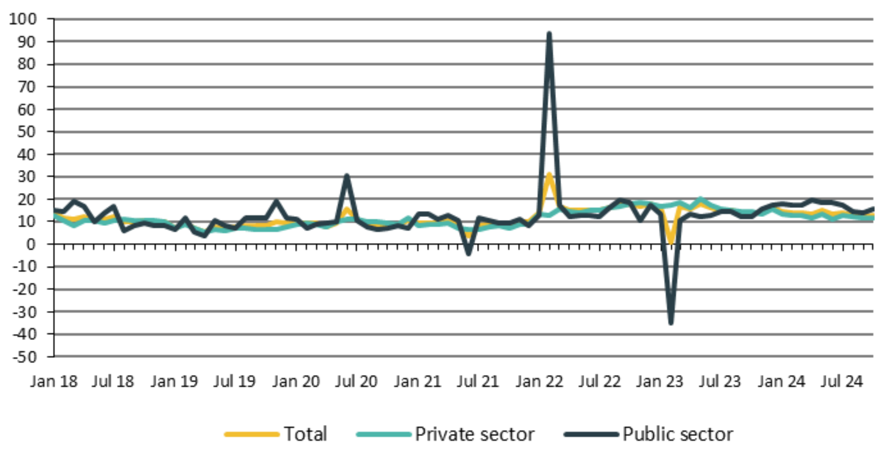
Source: Hungarian Central Statistical Office, Századvég

Real earnings continued to rise in October.

In October, the average gross monthly wage in the national economy was HUF 637,200, up 12.9% compared to the same period last year. The highest average gross monthly wage was recorded in the non-profit sector, at HUF 646,700. The wage dynamics of 2024 were strongly influenced by the increase in the minimum wage (15%), the guaranteed minimum wage (10%), which came into force in December 2023, and by government wage increases in the public sector. Median gross earnings were HUF 529,000, 15.9% 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 438,900, 12.7% higher than in the same period of the previous year. Real earnings increased by 9.4%, while consumer prices rose by 3.2%.

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. This 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. We expect the measure to have a strong impact on Hungarian wages and real wage growth to continue in 2025.

Figure 8: **CHANGES IN GROSS WAGES (ANNUAL CHANGE, %)**



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

2.4 External balance

In September, the volume of exports of goods decreased by 3.5%, and imports by 0.3% year on year. This brought the external trade balance to a surplus of EUR 949 million, a deterioration of EUR 470 million compared to the previous year.

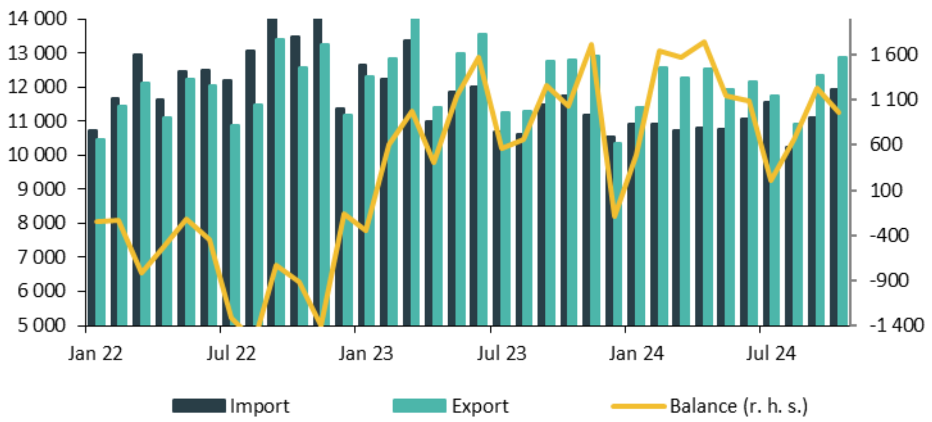
In September, the import volume of food products, beverages and tobacco increased by 7.9%, and their export volume decreased by 0.9% year on year. As for energy carriers, imports increased by 5.6% and exports decreased by

22.0%. As for manufactured products, imports decreased by 0.6%, and exports increased by 0.8% year on year. As for machinery and transport equipment, imports decreased by 1.1%, and exports by 4.4%.

The foreign trade surplus shrank in October.

In October 2024, the first estimate for the EUR value of exports was down by 0.8% and that of imports up by 0.2% compared with the same period a year earlier. This brought the foreign trade surplus in goods to EUR 965 million, which is EUR 127 million weaker than a year earlier.

Figure 9: **BALANCE OF FOREIGN TRADE IN GOODS (EUR MILLION)**



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

Source: Hungarian Central Statistical Office, Századvég

2.5 Fiscal outlook

By the end of November, the interest balance had deteriorated by

In November 2024, public finances reached a one-month deficit of HUF 233.8 billion, so, by the end of the month, the deficit of the general government subsector had increased to HUF 3,284.3 billion. This means that the increased annual cash deficit target of 68.6% as set in the EDP report[2] has been met. The cumulative deficit was made up of a deficit of HUF 3,257.5 billion of the central budget, a deficit

[2] published in early October

of HUF 226.8 billion of social security funds, as well as a surplus of HUF 200 billion in extra-budgetary funds.

In the first eleven months, central subsystem revenue increased by 6.2%, and central budget revenue increased by 4.0% compared to the same period last year.

Payments by economic units decreased by 3.7%, i.e. HUF 121.9 billion, compared to the first eleven months of 2023. Corporate tax receipts, the most significant item, were 0.8% (HUF 7.9 billion) less by the end of November than in the same period of the previous year. In contrast, the second largest item, tolls, generated 51.1% more revenue, i.e. HUF 184 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 135.1 billion, was in the surtax on energy suppliers, the largest item, and mining royalties, also a major item, fell by HUF 121.2 billion. Since October, the budget line including the special levy on banks has also been declining, with a specific value of HUF 45.9 billion in November, while the previous months were characterised by an increase in revenue.

Revenues from taxes on consumption increased by 11.1% (HUF 899.4 billion) compared to a year earlier. VAT receipts, the most significant item, were HUF 461 billion (7.5%) higher than at the end of November in the previous year. The increase in VAT receipts was primarily due to a decrease in VAT refunds during the year. The growth rate of monthly VAT payments also accelerated slightly in November, reaching 2%, but this is still a low figure. The growth in excise tax revenues continued in November, with an increase of HUF 234.8 billion, or 18.8%, at the end of the month. Payments of insurance tax and tourism development contribution also increased, with HUF 97.3 billion and HUF 33.1 billion, respectively, in the first eleven months, compared to the same period of the previous year. This means that the annual surplus in insurance tax revenue has doubled in a single month, as the Ministry of Finance reported a surplus of only HUF 49.9 billion in October.

Personal income tax receipts increased by 13.4%, HUF 482.5 billion, compared to the end-November 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 14.2% (HUF 908.1 billion) compared to the same period of the previous year, also caused by wage increases.

Revenue from EU programmes was HUF 1037.4 billion in the first eleven months of the year, HUF 228 billion less than in the first eleven months of 2023. In contrast, expenditure on EU programmes amounted to HUF 1,445.6 billion, HUF 851.6 billion less than the previous year. However, 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 eleven months of 2024, central government expenditure was 3.3% higher than in the previous year. Within this, central subsystem expenditure increased by 1.3%.

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 716.8 billion in the first eleven months of the year, which was HUF 595.2 billion, or 45.4%, lower than in the same period of the previous year.

Housing subsidies decreased by HUF 273.3 billion, or 63.8%, 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.)

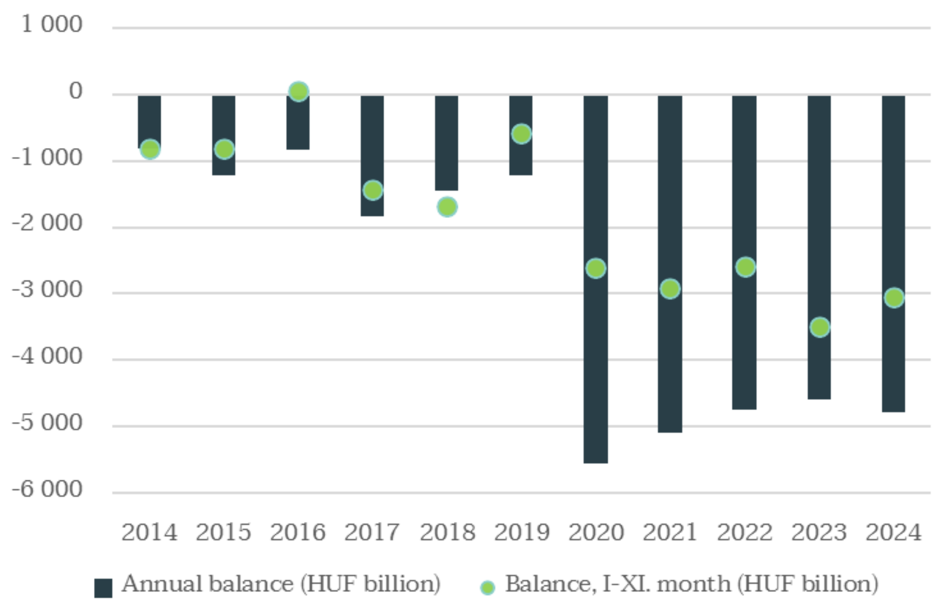
Expenditure on central budgetary institutions and chapter-administered appropriations was HUF 997.4 billion higher than in the first eleven month of the previous year. On the positive side, the overall rate of expenditure growth fell to 9.1%.

Expenditures related to state property amounted to HUF 859.3 billion and reached 160.9% of the 2024 budget estimate. The increase in expenditure is mainly due to the financing of the buy-back of Budapest Liszt Ferenc Airport.

In November 2024, pensions amounted to HUF 5,727.7 billion, an increase of 7.8% compared to the same period last year. During the same period, the Health Insurance Fund spent HUF 4,126.3 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 11.2%.

The balance of interest expenditures and receipts was HUF 830 billion (37.8%) more negative than at the end of November of the previous year. However, this is HUF 68.5 billion better than at the end of October.

Figure 10: **CENTRAL SUBSYSTEM BALANCE, 2014–2024 (NOVEMBER, CUMULATIVE BALANCE, HUF BILLION)**



Source: Ministry of Finance, Hungarian State Treasury;

2.6 Monetary developments

Consumer prices increased by 3.7% in November.

In November 2024, consumer prices increased by 3.7% on average—compared to the same period of the previous year. Over the past year, food prices have increased more significantly, by 4.9%. Prices of electricity, gas and other fuels fell by 3.2% compared to the same period of the previous year. Consumer prices rose by 0.5% 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 4.9% average increase in food prices was due to a 39.3% rise in flour prices, a 16.6% rise in milk prices and a 15.4% rise in fresh vegetable prices. The price of chocolate and cocoa rose by 12.8%, fresh domestic and tropical fruit by 5.4% and fruit and vegetable juices by 11.7%, all of which were above the average food inflation rate for the month. In contrast, deflation was observed in several products, as in the previous months: potato prices fell by 2.0%, dry pasta by 6.4% and edible offal by 4.5%. Prices of alcoholic beverages and tobacco rose by an average of 4.0%, driven more by wine, which increased by 5.1%, and there were no price decreases in this category.

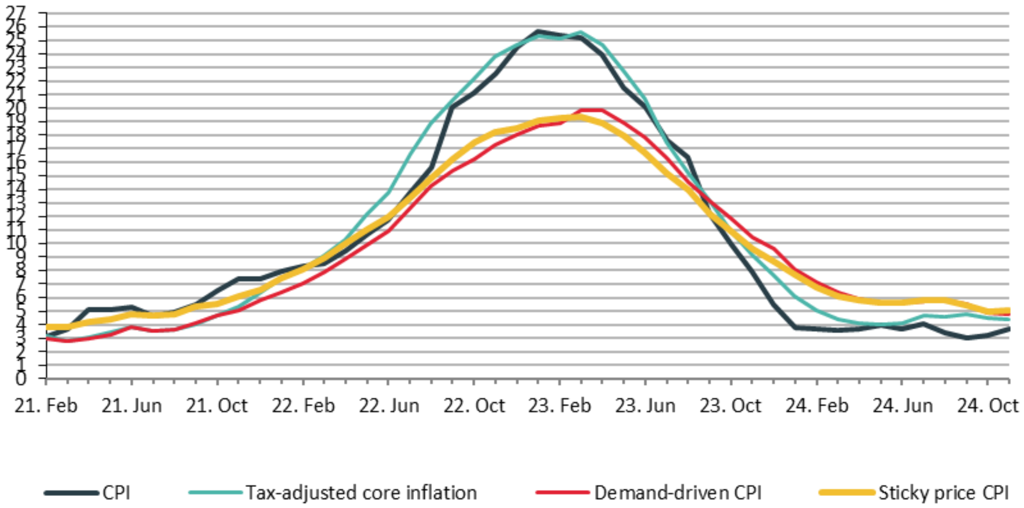
The average 0.3% fall in the prices of consumer durable goods in October was followed by an average fall of 0.2% in November. Sustained lower commodity prices, efficiently functioning supply chains, slowly growing demand and tight monetary policy also support the positive developments. If we look at the main group in more detail, we can see that the price of new passenger cars increased by 5.6% and jewellery by 13.8%, which is above average. In contrast, deflation in consumer durable goods was supported by a 3.1% fall in the prices of durable goods for recreation, a 3.7% 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 November was already 6.6% 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 3.2% in November, compared to the same period of the previous year. Within electricity, gas and other fuels, the price of natural and manufactured gas fell by 6.3%, firewood by 5.9% and briquettes and coke by 4.5% over the past year. Within the group, butane and propane gas costs 4.5% more and coal 3.7% more.

In November, prices of services rose by an average of 4.8%, with cinema tickets and TV subscriptions contributing the most, at 23.4% and 16.0% respectively. The price increase for games of chance, which has been a significant contributor in previous months, was a mere 0.2%. The price of postal services has risen by 15.6% in the last five months compared to the previous year. Telephone, internet and communication prices rose by 4.7% from October and by 4.9% year on year. 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, and a 9.2% decrease in the price of other long-distance travel.

Compared with the previous month, consumer prices rose by 0.5% on average. Within the overall consumer basket, food prices rose by 0.9% compared with the previous month. Prices for services and electricity, gas and other fuels both increased by 0.2% and 0.4%, respectively, from the previous month. The prices of other goods and fuels also increased by 0.8% from October.

Figure 11: **THE EVOLUTION OF INFLATION (ANNUAL CHANGE IN PERCENTAGE)**



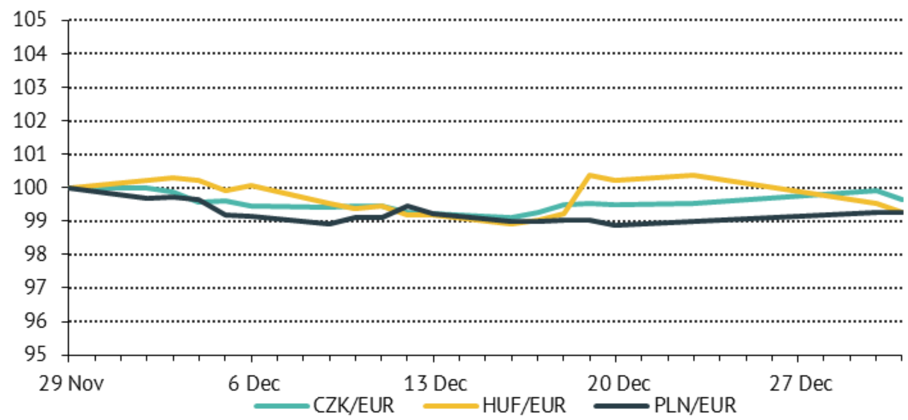
Source: MNB, Századvég

Among the core inflation indicators published by the MNB, the core inflation rate net of indirect taxes was 4.4%, the core inflation rate excluding processed food was 4.8% and the sticky price inflation rate was 5.1% in the eleventh month of the year. In contrast to the acceleration in the overall consumer basket, core inflation fell, albeit only slightly, compared to October, indicating that inflation in goods with fast-moving prices played a larger role in the increase in inflation during the month.

The currencies of competitors in the region have

Regional currencies strengthened against the euro in December. In the past period, the Czech koruna strengthened by 0.37% and the Polish zloty by 0.75% against the euro. Government bond yields also increased over the period, with the Czech 10-year government bond yield 25 basis points higher at 4.14%, and the Polish 10-year yield 37 basis points higher at 5.89%.

Figure 12: **CHANGES IN EXCHANGE RATES IN THE REGION (BASELINE VALUE = 100%)**



Source: Refinitiv, Századvég

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

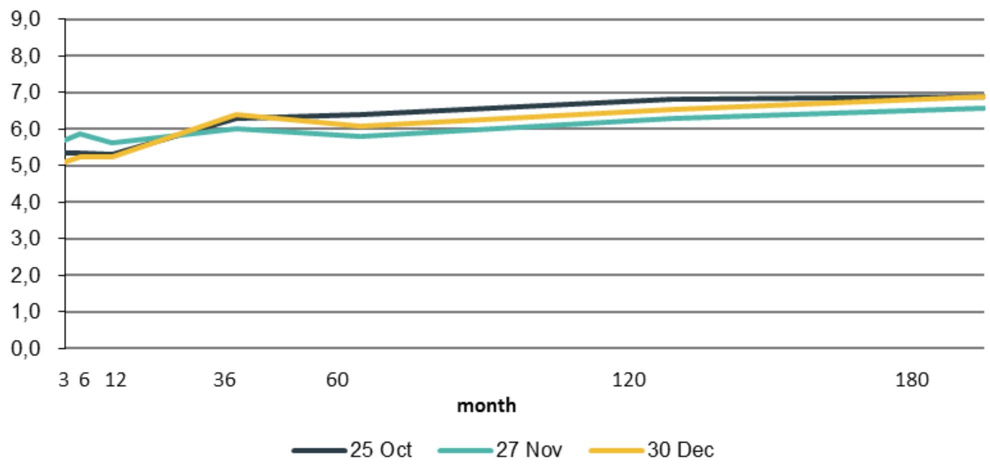
Hungarian money and foreign exchange market indicators showed a mixed picture over the last month. The HUF weakened by 0.7% against the euro, strengthened by 2.0% against the Swiss franc, and weakened by 0.6% against the US dollar. Thus, at the end of December 2024, 1 euro was worth 410 forints, 1 US dollar 394 forints and 1 Swiss franc 435 forints. Sovereign debt held by foreigners decreased by HUF 597 billion to HUF 4,868 billion in December.

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

At its November meeting, the Monetary Council of the central bank left monetary conditions unchanged from September, 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 the central bank's communication, the decision took into account the interest rate paths and fiscal policies of the major economies, the unfavourable outlook for European industrial production, volatile investor sentiment in global markets and the increasing risks from geopolitical conflicts. Inflation is expected to start declining again from early 2025, but the central bank still sees a tight monetary policy as warranted to reduce financial market turbulence, thereby supporting the maintenance of price stability.

In the government bond market, yields for shorter maturities varied between -0.63 basis points and 38 basis points on the secondary yield curve December. This means that the 3-month yield was 5.10%, the 6-month yield was 5.23% and the 1-year yield was 5.24% on 30 December. The 3-year yield increased by 38 basis points to 6.38%. Yields are up 26 basis points over the 5-year horizon, 25 basis points over the 10-year horizon and 34 basis points over the 15-year horizon compared to the previous month. These three yields changed, therefore, to 6.07%, 6.55%, and 6.90%, respectively.

Figure 13: **CHANGES IN THE HUF YIELD CURVE (%)**



Source: GDMA, Századvég

On 20 December 2024, the total value of "MÁP Plusz" government securities held by retail investors was HUF 652.6 billion after a HUF 13.4 billion decrease from the HUF 666.0 billion level in the previous month. In addition, the cumulative value of PMÁP securities was HUF 7,045.2 billion, while the cumulative value of the "Bónusz" Hungarian Government Bonds was HUF 1,195.0 billion. The total value of the 1MÁP securities is HUF 420.7 billion, that of Treasury Savings Bills is HUF 531.5 billion and that of FixMÁP securities is HUF 967.4 billion. In addition, funds held in "Baby" Bonds amounted to HUF 392.3 billion and funds held in Printed MÁP Plus amounted to HUF 103.9 billion. The retail stock of FixMÁP increased by HUF 69.4 billion and that of "baby bonds" (babakötvény) by HUF 40.9 billion compared to the previous month. The total stock of government securities held by retail investors stood at HUF 11,308.7 billion at the end of December 2024, up from HUF 9,810.2 billion at the beginning of 2024, meaning that people held HUF 1,498.5 billion more in government securities than in the first month of 2024.

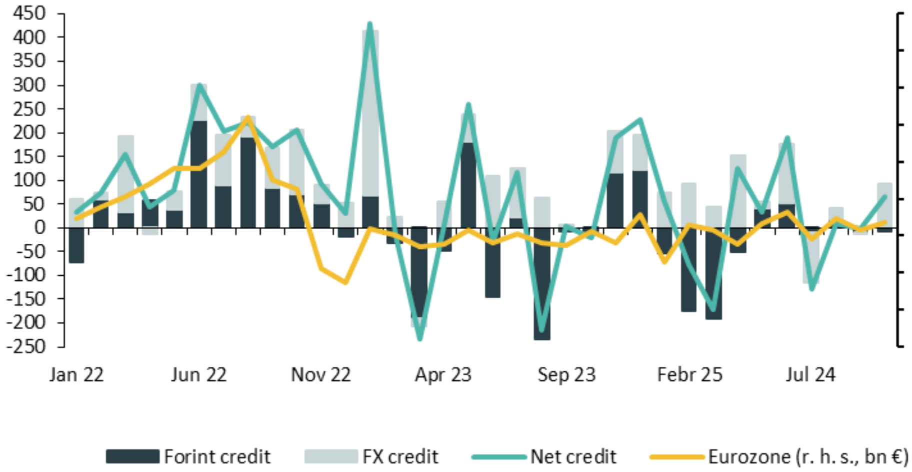
The share of foreign currency debt in the sovereign debt changed to 29.8% in October (i.e. increased by 0.88 percentage point from the previous month), which is in the range (maximum 30%) specified in the financing plan for 2024 of GDMA. Over the past 12 months, the average foreign currency debt ratio averaged 28.6%, with the October ratio higher than this.

The rating of Hungarian sovereign debt remained in the investment grade by all three major international rating agencies. S&P maintains a stable outlook of "BBB-/A-3", while Fitch revised Hungary's debt rating to stable from a negative outlook of "BBB" on 6 December. However, Moody's revised its stable outlook to negative at the end of the previous month (November), while maintaining its rating at "Baa2".

Corporate credits increased in Hungary.

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector decreased by HUF 7.3 billion in October 2024. The value of net foreign currency lending increased, with borrowing amounting to HUF 91.2 billion in the tenth month of the year. Seasonally adjusted total net borrowing increased by HUF 65.0 billion in the period under review. Corporate borrowing in the euro area was EUR 7,321 million in October 2024.

Figure 14: **CORPORATE BORROWING (HUF BILLION)**



Source: MNB, ECB, Századvég

3. Macroeconomic forecast

We estimate that the Hungarian economy will expand by 0.7% in 2024, 2.6% in 2025 and 3.1% in 2026. In the light of the Q3 GDP data, the outlook for the growth path of the Hungarian economy has deteriorated somewhat. The exchange rate risk, mainly stemming from the geopolitical situation, continues to carry uncertainty about imported inflation. Next year's growth engine could be consumption, which we expect to grow by 3.3% next year, thanks to the economic action plan and interest payments on government bonds. Investment is expected to grow slightly, while exports are set to expand by 5.6% in 2025.

Inflation is expected to be 3.7% this year, 3.6% next year and 2.9% in 2026. International disinflationary trends are likely to continue in the next two years, which could have a positive impact on the development of prices in Hungary. However, the evolution of the forint exchange rate will remain an important issue in the coming years: with a weaker exchange rate, inflation could remain above 3.0%. The forint exchange rate also determines the central bank's room for manoeuvre: the next few quarters are unlikely to provide much room for further interest rate cuts, but we expect a more favourable interest rate environment in the longer term.

In 2024, the Hungarian gross domestic product (GDP) is expected to grow by 0.7%, while in the next two years, it is forecast to expand by 2.6% and 3.1%, respectively. In the light of the favourable consumption data recorded during the year, consumption is expected to grow by 4.0% this year. Thereafter, consumption is expected to grow by 3.3% in 2025 and 2.9% in 2026. Rising real wages, easing inflationary dynamics, the effects of the economic action plan and the payment of interest on government bonds due in 2025 could boost consumption and reduce households' cautiousness. The 21-point action plan can support household spending in two ways: firstly, it aims to increase earnings through wage agreements, and, secondly, it boosts household investment (new housing purchases) by improving housing conditions.

Investment is expected to fall by 9.1% over 2024. Over the coming years, improving the SME sector's access to finance and supporting its investment will be a key area for economic policy. However, even with this and the low interest rate environment, we expect a slow recovery in investment activity, with investment expected to grow by 0.8% in 2025. In 2026, however, growth is expected to reach 4.1%.

Exports could shrink by 1.3% in 2024, followed by a 5.6% expansion in 2025 and 4.6% in 2026. The most important factor for Hungarian export performance is the development of external demand, especially the development of German automotive capacities, for which expectations are still negative. If German industrial performance picks up again and can expand substantially, this could further boost demand for Hungarian exports.

Imports are expected to shrink by 2.4% in 2024. In contrast, imports are expected to increase by 5.9% and 4.2%, respectively, over the next two years. Overall, we expect net exports to remain negative in 2024 and 2025, and we expect our foreign trade activity to contribute positively to GDP growth only from 2026 onwards.

In Q3 2024, as employment fell, activity fell, while the number of unemployed rose. It is clear that many of the new entrants to the labour market last year managed to find a job in the last quarter. The fall in activity may be due to the fact that new entrants last year only temporarily returned to the labour market and left after price levels stabilised (students and pensioners). 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 the unemployed will return to its previous trajectory. We forecast employment to continue to rise over the forecast horizon, while unemployment will start to fall slowly from next year. We estimate that unemployment will reach 4.6% by the end of 2024, and then the market will return to its previous state by 2025, when the unemployment rate will fall again to 4.2%, combined with a high level of employment.

According to our fiscal forecast for 2024, the ESA deficit target of 4.5% of GDP will be met: we can already see that the budget has sufficient room for manoeuvre to reach the deficit target by the last month. The assumption behind our projection of a 73.2% government debt level at the end of the year is that the government will take sufficient action to ensure a declining debt path.

We consider the 3.7% deficit target projected in the 2025 Budget Act to be currently sustainable under strict fiscal management, with the main downside risks related to maintaining the planned level of expenditure in the budget bodies and professional chapters. Our projections suggest that government debt could fall to 72.9% of GDP. This is only 0.3 percentage point higher than the level of government debt in government plans.

4. Századvég's forecast[3]

TABLE 1: Q4 2024 FORECAST

	2023	2024	2025	2026
Gross domestic product (volume index)	-0.8	0.7	2.6	3.1
Household final consumption expenditure (volume index)	-1.5	4.0	3.3	2.4
Gross fixed capital formation (volume index)	-16.9	-9.1	0.8	4.1
Export volume index (based on national accounts)	1.5	-1.3	5.6	4.6
Import volume index (based on national accounts)	-3.8	-1.3	5.9	4.2
Balance of international trade in goods (EUR billion)	0.3	1.7	2.4	3.4
Consumer price index (%)	17.1	3.7	3.6	2.9
Central bank base interest rate at the end of the period (%)	11.4	6.5	5.4	3.5
Unemployment rate (%)	4.1	4.6	4.2	3.4
Current account balance as a percentage of GDP	0.2	1.0	1.0	1.0
Net lending as a percentage of the GDP	1.2	1.9	1.9	1.7
ESA balance of public finances as a percentage of GDP	-6.7	-4.5	-3.7	-3.2
Sovereign debt as a percentage of GDP	73.4	73.2	72.9	72.2

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.

[3] Date of preparation: 18 December 2024