SZÁZADVÉG

MACROECONOMIC MONITOR

2025 JANUARY

SZÁZADVÉG KONJUNKTÚRAKUTATÓ ZRT. ....

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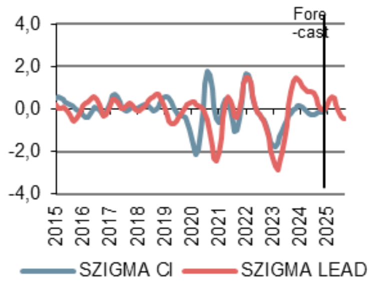
1. SUMMARY

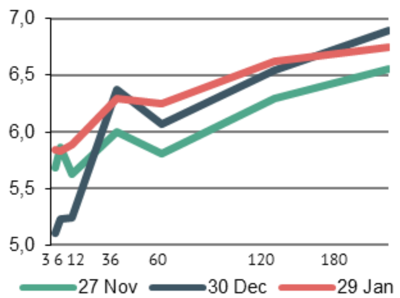
According to seasonally and calendar-adjusted and balanced data for Q4 2024, Hungary's economy grew by 0.2% year on year and by 0.5% compared to Q3 2024.

SIGMA indicators



Source: Századvég

Forint yield curve (%)



Source: Refinitiv

Our forecast (18.12.2024)	2025
Change in the GDP (%)	**2.6**
Inflation (annual average, %)	**3.6**

At its January meeting, the central bank's Monetary Council left the base rate in place since September, slowing monetary easing. The base rate in Hungary therefore remains at 6.5%.

In November, retail sales increased by 4.1% 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 5.3% in specialised and non-specialised food shops, 4.5% in non-food retailing and 1.3% in automotive fuel retailing.

The value of the SZIGMA CI indicator, which provides feedback on the current state of the Hungarian economy, was -0.476 up to December 2024, which is still below trend, but is trending closer to 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 is showing signs of slight improvement. The coming months will show the impact the economic programmes starting in 2025 and the changing international environment have on economic growth.

The other indicator, SZIGMA LEAD, a short-term indicator for the future of the Hungarian economy, forecasts continued below-trend growth by the end of the forecast horizon. The current forecast continues to foresee rapid and strong growth in the first period, with a sharp decline in the second period of the forecast.

In December 2024, consumer prices rose by 4.6% on average year on year. Thus, in 2024, consumer prices increased by 3.7% on average compared to 2023.

2. OVERVIEW OF THE ECONOMY

2.1 External environment

In Q3 2024, euro area gross debt stood at 88.2% of GDP.

In Q3 2024, the average gross government debt in the euro area was 88.2% of GDP, unchanged from the previous quarter. For the EU as a whole, the rate was 81.6%, which also remained unchanged compared to the previous quarter. Compared to the same period last year, the euro area saw a slight decrease (from 88.4% to 88.2%), while the EU saw a minimal increase (from 81.5% to 81.6%).

In terms of debt composition, securities account for the bulk of debt in both regions (84% in the euro area and 83.6% in the EU), while loans and currency and deposits make up a smaller share of debt.

The ratio of government debt to GDP varies considerably between Member States. The highest rates were recorded in Greece (158.2%), Italy (136.3%) and France (113.8%), while the lowest rates were in Estonia (24.0%), Bulgaria (24.6%) and Luxembourg (26.6%).

Compared to the previous quarter, debt ratios increased in 13 Member States and decreased in 14. The highest increases were recorded in Bulgaria (+2.4 percentage points) and Romania (+2.0 percentage points), while the largest decreases were registered in Portugal (-3.2 percentage points) and Slovenia (-2.6 percentage points). Compared with the same period of the previous year, Greece (-10.0 percentage points) and Portugal (-8.8 percentage points) showed the largest decreases, while Finland (+6.7 percentage points) and Estonia (+5.3 percentage points) recorded increases.

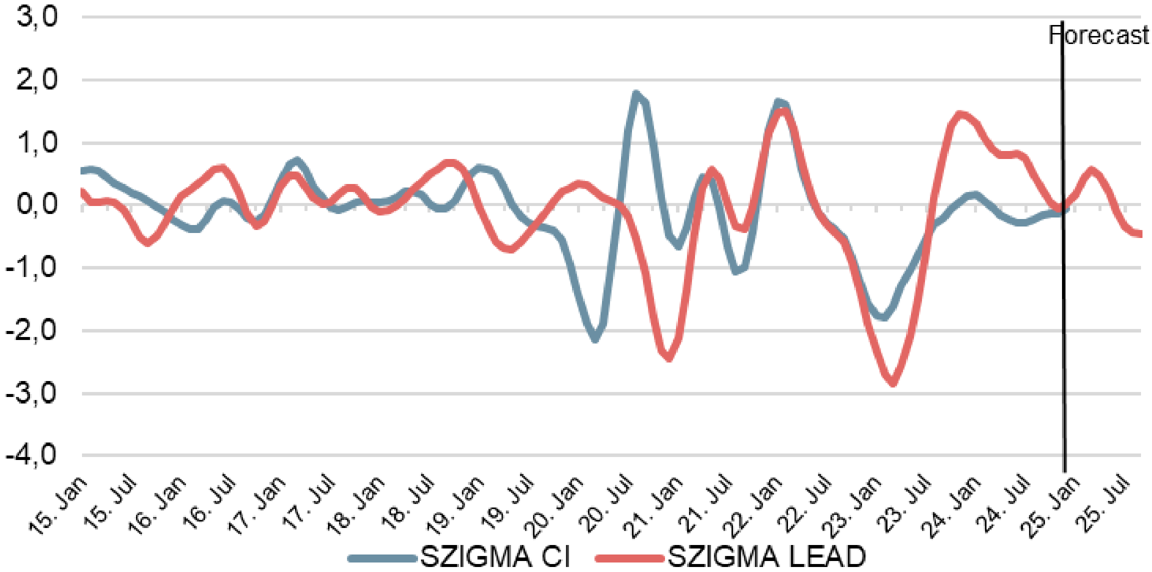
2.2 Our SZIGMA indicators

In January 2025, the Hungarian economy continued to grow below its historical trend.

In January 2025, the value of the ***SZIGMA CI indicator, which reflects the current state of the Hungarian economy***, was -0.048 up to December 2024, which is still below trend, but is trending closer to 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 is showing signs of slight improvement. The coming months will show the impact the economic programmes starting in 2025 and the changing international environment have on economic growth. As for ***industrial*** figures, which serve as the background for the indicators, the volume of industrial production decreased by 2.9% year on year and by 1.6% month on month, based on the latest November 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 export dimension, on a monthly basis, according to the fixed base (2021 monthly average = 100.0%) for November 2024. The volume of total sales (domestic and export combined) fell by 0.4% on an annual basis, while it increased by 0.4% on a monthly basis, due to an increase in domestic sales. Domestic industrial sales increased by 0.5% month on month and fell by 2.1% year on year. Meanwhile, export sales performance remained unchanged month on month but fell by 0.1% month on month. Based on the latest data, for November 2024, construction output shrank by 1.1% year on year and by 2.0% month on month. On a fixed base (monthly average of 2021 = 100.0), the stock of construction contracts at the end of November 2024 increased by 14.4% year on year, while it decreased by 1.8% month on month. The current level (82.7%) of the stock of contracts of construction firms, calculated on a fixed basis for the end of November 2024, was below the level at the end of January 2024 (87.1%).

In January 2025, our short-term leading indicator, SZIGMA LEAD, continues to point to below-trend growth at the end of the forecast period. The current forecast continues to foresee rapid and strong growth in the first period, with a sharp decline in the second period of the forecast. The future outlook for industry is still unfavourable and there are no signs of improvement at present. Stocks of new industrial orders fell in all dimensions on an annual basis, with new industrial export orders contracting by 3.2% and new industrial domestic orders by 6.4%. As for short-term growth, the volume of new industrial orders fell by 2.5% month on month, while that of exports stagnated, resulting in a 5.8% drop in total new industrial orders from the previous month. 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 2.0 index points on an annual basis in November 2024, to stand at 84.7 index points in December. According to the sub-index for the German manufacturing sector, companies remain pessimistic and see the current situation as difficult as orders have fallen. In December 2024, the **Eurostat**'s consumer confidence index improved month on month (by 1.0 index points) and year on year (by 2.2 index points). It stood at -28.4 index points in December 2024.

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



Source: Századvég

2.3 The real economy

2.3.1 GDP

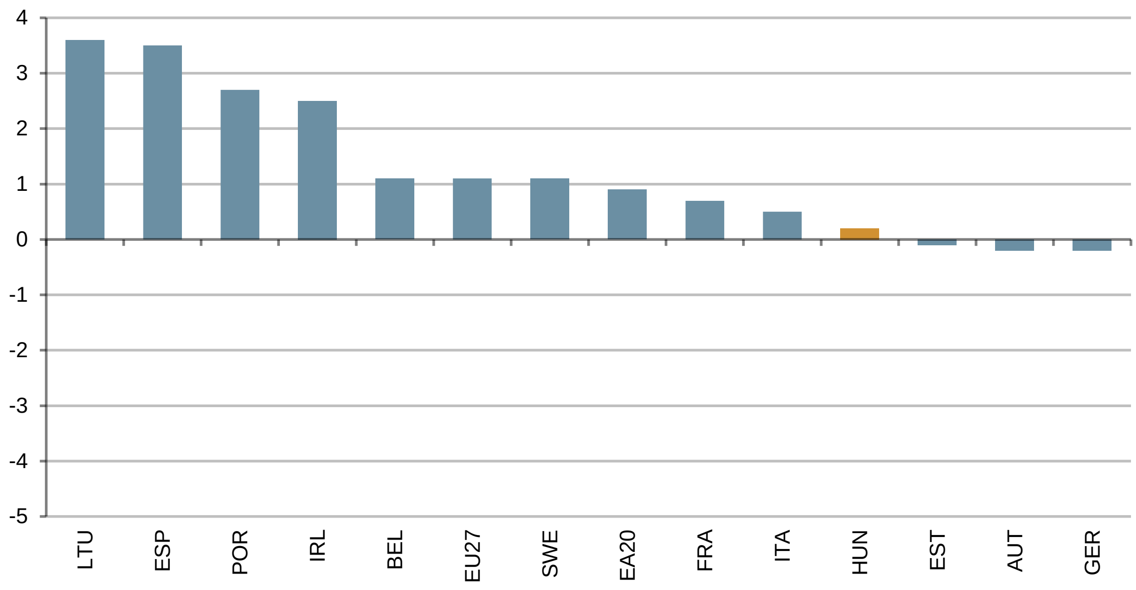
Seasonally and calendar-adjusted and balanced data suggest that Hungary's GDP grew by 0.6% in 2024.

According to the first estimate in the flash report of the Hungarian Central Office, GDP volume increased by 0.4% in raw data terms and increased by 0.2% in terms of seasonally and calendar-adjusted and balanced data in Q4 2024 compared with the same period of the previous year. The Hungarian economy expanded on a quarter-on-quarter basis as well. According to seasonally and calendar-adjusted and balanced data, Hungarian GDP volume grew by 0.5%. Therefore, on an annual basis, Hungarian GDP volume expanded by 0.5% in raw data terms and by 0.6% in seasonally and calendar-adjusted and balanced data. According to preliminary data for Q4 2024, the combined performance of services boosted Hungary's economic growth, while the combined performance of agriculture, industry and construction held it back.

As for **international** comparisons, from 2024 onwards, preliminary EU GDP data are published in two releases. 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 first preliminary data set on 30 January 2025 (fewer countries) and the full preliminary data set on 14 February 2025. Based on the first publication at the end of January 2025, preliminary seasonally adjusted GDP data for the 12 Member States, the euro area (EA20) and the EU27 for Q4 2024 were as follows:

Annualised GDP figures show that Hungary's GDP growth rate (0.5%) is well below the EU average (EU27: 1.1%) and the euro area (EA20: 0.9%). Of the 12 Member States, 9 recorded an increase in their annual GDP volume, with Lithuania showing the strongest performance (3.6%). While Germany suffered the weakest (-0.2%).[1] On a **quarterly** basis, Hungary's GDP growth rate (0.5%) was the fourth highest among the 12 Member States with figures published so far, ahead of the EU average (0.1%) and the euro area (0.0%). The highest economic growth rate (1.5%) was in Portugal. This was followed by Lithuania (0.9%) and Spain (0%). Of the 12 Member States, 3 saw their outputs fall compared to the previous quarter (Q3 2024). The weakest economic growth rate was in Ireland (-1.3%). This was followed by Germany (-0.2%) and France (-0.1%).[2]

FIGURE 2: GDP GROWTH IN Q4 2024 IN THE EU (Y/Y, %)



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

[1] 12 Member States, the EU27 and the euro area. 15 Member States not included due to lack of data: The Czech Republic, Bulgaria, Croatia, Cyprus, Denmark, Finland, Greece, Latvia, Luxembourg, Malta, the Netherlands, Poland, Romania, Slovakia and Slovenia.

[2] 12 Member States, the EU27 and the euro area. 15 Member States not included due to lack of data: The Czech Republic, Bulgaria, Croatia, Cyprus, Denmark, Finland, Greece, Latvia, Luxembourg, Malta, the Netherlands, Poland, Romania, Slovakia and Slovenia.

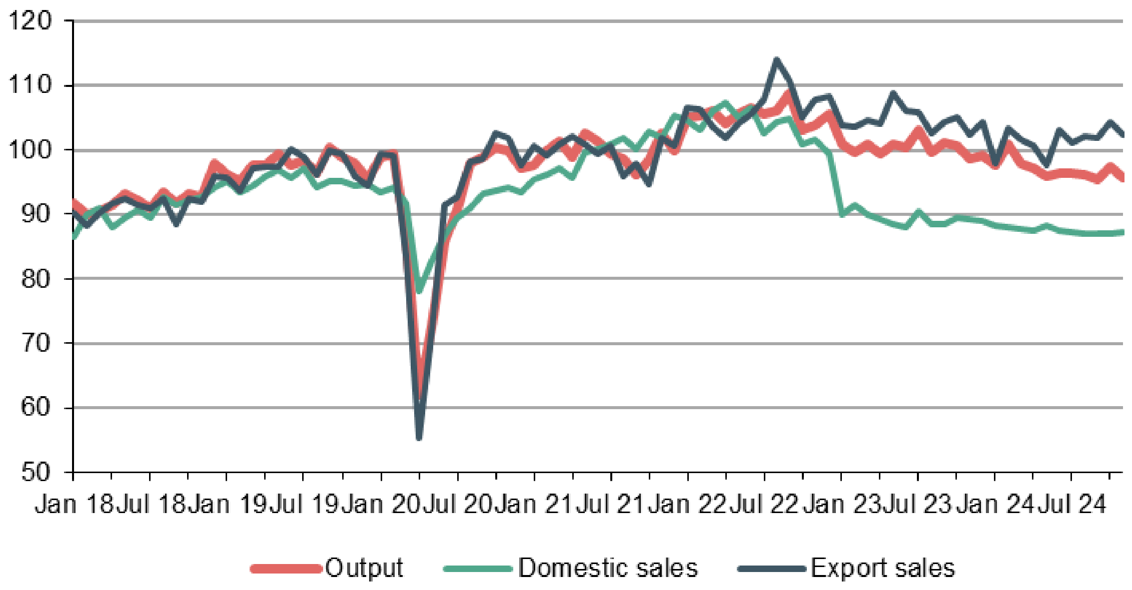
2.3.2 Industry

Month on month, the volume of seasonally and working-day adjusted industrial production decreased by 1.6%.

Compared with the same period of the previous year, industrial production fell by 4.2% year on year according to raw data and by 2.9% according to working-day adjusted data in November 2024. Overall, **industrial sales** fell by 2.2% in November 2024 compared with November 2023. This was driven by a 1.7% decline in domestic industrial sales and a 2.5% decline in export sales. Thus, cumulated industrial production from January to November 2024 was 3.9% lower and industrial sales 3.3% lower than in the cumulated period January-November 2023.

Month on previous month (October 2024), seasonally and working-day adjusted industrial production in November 2024 decreased by 1.6%, while industrial sales increased by 0.5%. Within industrial sales, export sales fell by 2.0%, while domestic sales increased by 0.5% compared to the previous month.

FIGURE 3: INDUSTRIAL PRODUCTION AND SALES TRENDS (2021 MONTHLY AVERAGE = 100%)



Source: HCSO, Századvég, Remark: seasonally and calendar-adjusted indices.

Turning back to industrial production, a 5.1% fall in manufacturing output, which was the dominant sector (95.4%), contributed to the decline in industrial production on an annual basis in November 2024. Of the other two sectors accounting for industrial output, energy, with a weight of 4.0%, increased by 5.1%, and mining and quarrying, with a weight of 0.6%, increased by 51.8%. In manufacturing, industrial production increased in three of the 13 subsections, while the other 10 sub-sectors saw their output fall. The three subsections where production volumes have increased are among the smaller manufacturing subsections. The performance of the three main manufacturing sectors, which accounted for 48.7% of manufacturing output, declined. Manufacture of transport equipment, the largest contributor with a 25.2% share, fell by 13.5%. This was the steepest volume decline among the 13 manufacturing subsections. The second largest subsection, food (with a weight of 12.9%), decreased by 2.1%. The output of the third largest (10.6%) subsection, manufacture of computer, electronic and optical products, decreased by 0.6%.

In November 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 5.8% month on month, the **stock of industrial orders** on a fixed basis (for the average monthly price in 2021) fell by 3.1% month on month. The decrease in the stock of industrial orders was due to a decline in both the stock of export orders (3.1%) and the stock of domestic orders (3.4%).

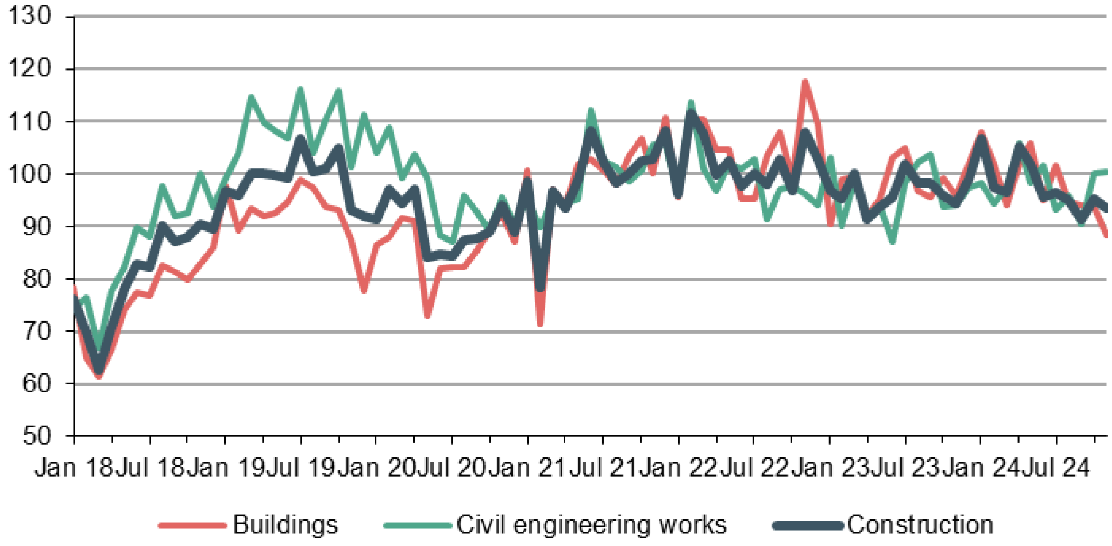
2.3.3 Construction

Construction output grew by a cumulative annual rate of 0.5% in January-November 2024.

In November 2024, the annual volume of construction output decreased by 1.7% in terms of raw data. Within the two main groups of construction, the construction of buildings decreased by 9.0% year on year, while civil engineering works (roads, bridges, railways, complex industrial facilities, pipelines, etc.) increased by 8.2%. Consequently, cumulative construction output in January to November 2024 was still 0.5% higher than in January to November 2023. Within each main group of construction, the cumulative construction of buildings decreased by 0.4% in January-November 2024, while the cumulative construction of civil engineering works increased by 1.8%.

In November 2024, construction output, seasonally and working-day adjusted on a **monthly basis**, which shows the short-term trend, decreased by 2.0%, driven by a 5.7% decrease in the volume of construction of buildings and a 0.3% increase in the volume of construction of civil engineering works.

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

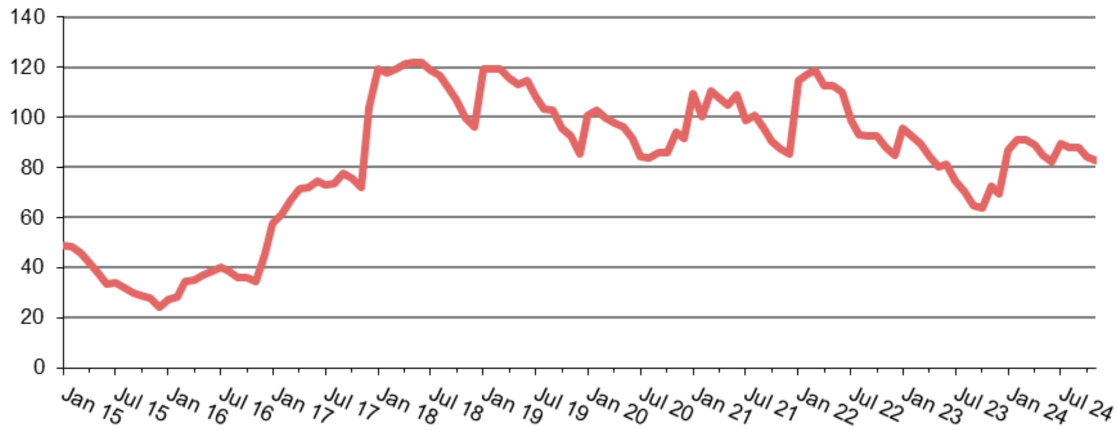


Source: Hungarian Central Statistical Office, Századvég, Remark: Seasonally and calendar adjusted indices.

As regards future prospects, despite the marked month-on-month increase in the stock of new contracts in November 2024 (43.7%), the stock of contracts at the end of November 2024 (1.8%) decreased on a monthly basis. Looking at each main group of construction, more specifically, the stock of contracts for buildings, the stock of new contracts decreased by 10.2%, bringing the stock of contracts at the end of November 2024 down by 3.1%. As for the stock of construction contracts for civil engineering works, the stock of new contracts increased markedly, by 118.8%, which could not increase the stock of contracts at the end of November 2024, as the stock of contracts at the end of the month decreased by 0.4%.

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%), showing that the end-November 2024 stock of construction contracts is still at the end-2017 level, despite the continuous decline. This is the level that preceded the construction "boom" from 2018. Despite the high level of construction contracts over the longer term, halting and reversing the gradual decline is necessary to improve construction performance.

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



Source: Hungarian Central Statistical Office, Századvég

2.3.4 Retail

The volume of retail sales increased by 4.1% in November.

In November, 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. An annualised increase was recorded for the first time in a long time in the first half of this year, but this trend slowed down slightly in September, but after October, a larger increase was recorded in November.

In November 2024, turnover in specialised and non-specialised food shops increased by 5.3%, and the turnover in non-food shops increased by 4.5%. In fuel retailing, sales increased by 1.3% year on year in November.

In food retailing, sales volumes increased by 5.7% in non-specialised food and beverages shops, while the volume in specialised food, beverage and tobacco stores rose by 3.7%.

In non-food retailing, the volume of mixed range of manufactured goods increased by 4.3%, while the turnover of books, newspapers and stationery fell by 4.6% compared to the same period last year. In non-specialised shops dealing in manufactured goods, turnover in textiles, clothing and footwear shops increased by 7.5%. In addition, sales of second-hand goods also increased, by 3.5%. The sales volume of computers and other specialised goods increased by 1.6%. A similar change was seen for books, computer equipment and other specialised stores, which, after a 0.1% increase in October, increased again by 1.1%. Other categories showed an overall increase, with the most notable being cosmetics shops, which grew by 13.0%, pharmaceuticals, medical products and cosmetics shops, which increased by 7.7%, and pharmaceuticals and medicinal products, which increased by 4.4%.

Overall, the largest growth was in non-specialised food shops, more specifically, cosmetics shops, where volumes increased by 13.0%. Other categories showed a more moderate 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

2.3.5 Labour market

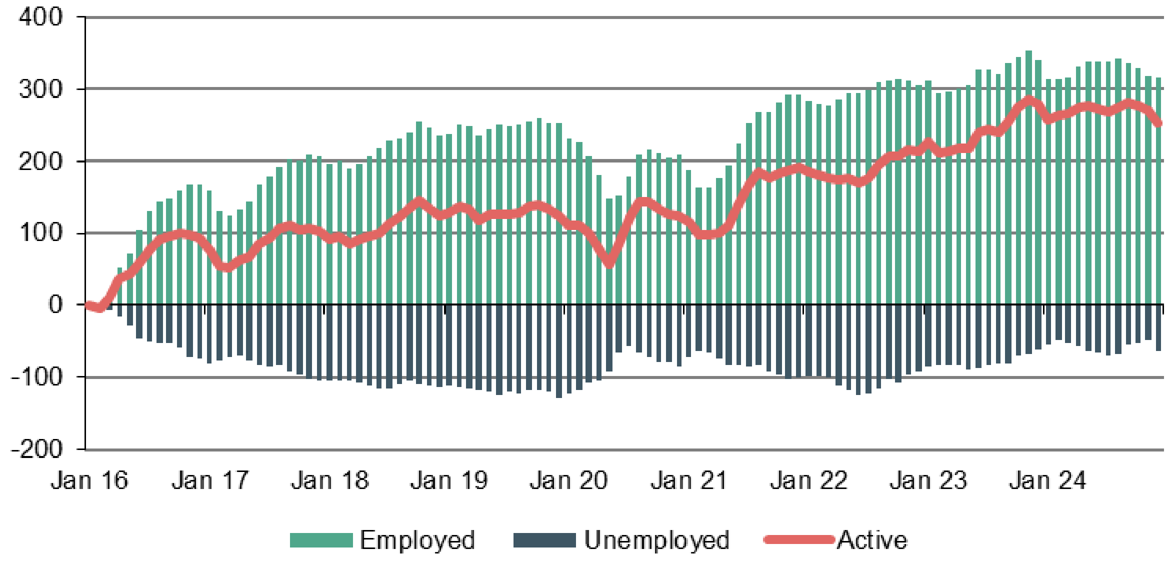
The unemployment rate fell to 4.4% in December.

In December 2024[3], the seasonally adjusted activity rate of the population aged 15-74 was 68.0% (4,905,000 persons), which means a labour market contraction of 25,000 compared to the same period of the last year. The seasonally adjusted number of employees was 4,689,000, a year-on-year decrease of 23,000. The number of the unemployed was 216,000, a year-on-year decrease of 2,000. According to latest data from December, activity fell slightly and employment remained unchanged from one month to the next. 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. The number of the unemployed fell by 15,000 compared to November, reflecting the withdrawal of a significant number of people from the labour market.

In November, the seasonally adjusted number of employees decreased by 7,500 compared to the same period last year. Compared to November 2023, there were 16,400 fewer employees in the competitive sector and 1,200 fewer employees in the public sector. The number of people employed in the non-profit sector increased by 5,000 in one year.

[3] Three-month moving average

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



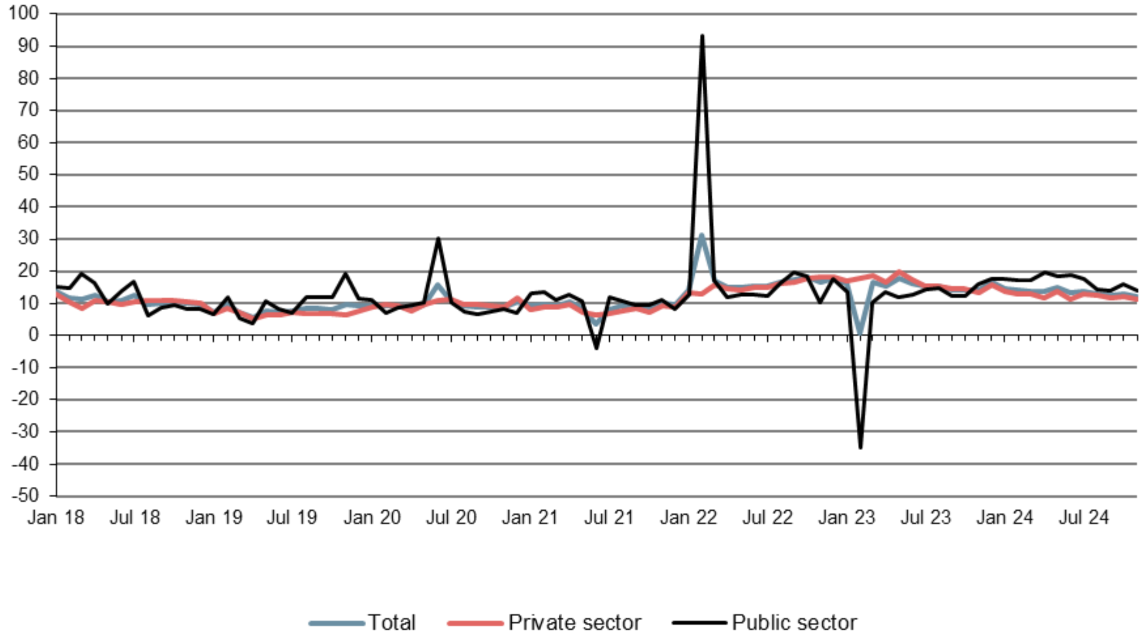
Source: Hungarian Central Statistical Office, Századvég

Real earnings continued to grow strongly in November.

In November, average gross earnings in the national economy were HUF 695,100, up 11.9% compared to the same period last year. The highest average gross monthly wage was recorded in the non-profit sector, at HUF 703,600. 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 550,800, 12.5% 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 478,900, 11.8% higher than in the same period of the previous year. Real earnings increased by 7.9%, while consumer prices rose by 3.7%.

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 increased by 9% to HUF 290,800 gross, while the guaranteed minimum wage rose 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

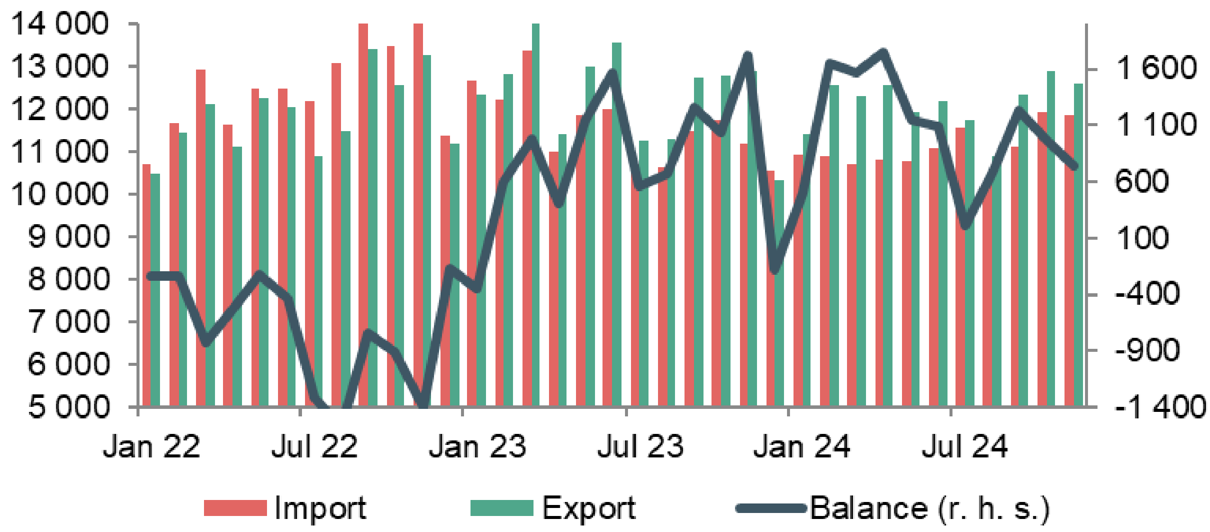
In October, the volume of exports of goods decreased by 1.3%, and imports by 1.4% year on year. This brought the external trade balance to a surplus of EUR 1.0 billion, a deterioration of EUR 53 million compared to the previous year.

In October, the import volume of food products, beverages and tobacco increased by 8.3%, and their export volume by 6.3% year on year. As for energy carriers, imports increased by 3.8% and exports by 2.7%. As for manufactured products, imports increased by 0.5%, and exports by 4.1% year on year. As for machinery and transport equipment, imports did not change, and exports contracted by 3.4%.

The foreign trade surplus fell in November.

In November 2024, the first estimate for the EUR value of exports was down by 3.5% and that of imports up by 2.3% compared with the same period a year earlier. This brought the foreign trade surplus in goods to EUR 742 million, which is EUR 716 million weaker than a year earlier.

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



Remark: The November 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 HUF 830 billion compared to 2023.

In December 2024, the one-month general government deficit reached HUF 811.5 billion, bringing the deficit of the general government subsector to HUF 4,095.8 billion at the end of the year. The cumulative deficit was made up of a deficit of HUF 4,003.9 billion of the central budget, a deficit of HUF 230.1 billion of social security funds, as well as a surplus of HUF 138.2 billion in extra-budgetary funds. The cash deficit of the central budget for 2024 ended up HUF 340 billion lower than the end-2023 figure.

According to the Ministry for National Economy, the accrual-based deficit (ESA) will be 4.8% of GDP. This is slightly higher than the government's target of 4.5%. On the other hand, it is also worth noting that the government has significantly reduced the deficit by around 2 percentage points compared to last year's deficit of 6.7%.

In 2024, central subsystem revenue increased by 3.3%, and central budget revenue increased by 0.3% from the last year.

Payments by economic units decreased by 4.3%, i.e. HUF 154.8 billion, compared to 2023. Corporate tax receipts, the most significant item, were 0.6% (HUF 5.9 billion) less than in 2023. In contrast, the second largest item, tolls, generated 47.6%, i.e. HUF 192.4 billion, more revenue. With a few exceptions, receipts from most of the temporary special taxes levied in 2022 are down compared to 2023, meaning that the government has started phasing out special taxes this year. The largest decrease, HUF 155.5 billion, was in the surtax on energy suppliers, the largest item, and mining royalties, also a major item, fell by HUF 120.5 billion.

Since October, the budget line including surtaxes on banks has also declined, with payments already HUF 86.7 billion lower by the end of December than in the previous year.

Revenues from taxes on consumption increased by 9.7% (HUF 879.5 billion) compared to a year earlier. VAT receipts, the most significant item, were HUF 394.3 billion (5.6%) higher than at the end of the previous year. The increase in VAT receipts was primarily due to a decrease in VAT refunds during the year, while VAT payments increased by only 0.6% for the year as a whole. A further 4% drop in VAT payments in December did not contribute to the improvement in the budget balance. The growth in excise tax revenues reached HUF 255.3 billion in December, which corresponds to an increase of 18.8%. Payments of insurance tax and tourism development contribution also increased, closing the year with revenues respectively HUF 98.7 billion and HUF 34.5 billion higher than in the previous year.

Personal income tax revenues increased by 12.7% (HUF 507.2 billion) compared to 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 13.9% (HUF 980.1 billion) compared to 2023, also caused by wage increases.

December usually sees a significant inflow of EU funds into the budget, but this December only saw HUF 152 billion, compared to nearly HUF 945 billion in EU funds last year. In the end, total annual budget revenue from EU programmes reached HUF 1,267.3 billion, which is HUF 963.5 billion below the 2023 figure. Expenditure on EU programmes amounted to HUF 1,516.1 billion, HUF 1297.7 billion less than the previous year. Throughout the year, the government's response to the lack of incoming funds from the EU was, as in 2023, to severely cut back on payments for EU programmes, while at the same time reducing the potential cash deficit that this could create.

In 2024, central government expenditure was 2.1% higher than in the previous year. Within this, central subsystem expenditure fell, albeit marginally, by 0.2% over the year. The decline in central subsystem expenditure was also due to the fact that expenditure in December was HUF 396.6 billion lower than in December 2023.

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 1,041.2 billion, which was HUF 305.8 billion, or 22.7%, lower than in the previous year.

Housing subsidies decreased by HUF 277.6 billion, or 62.4%, from the previous 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.)

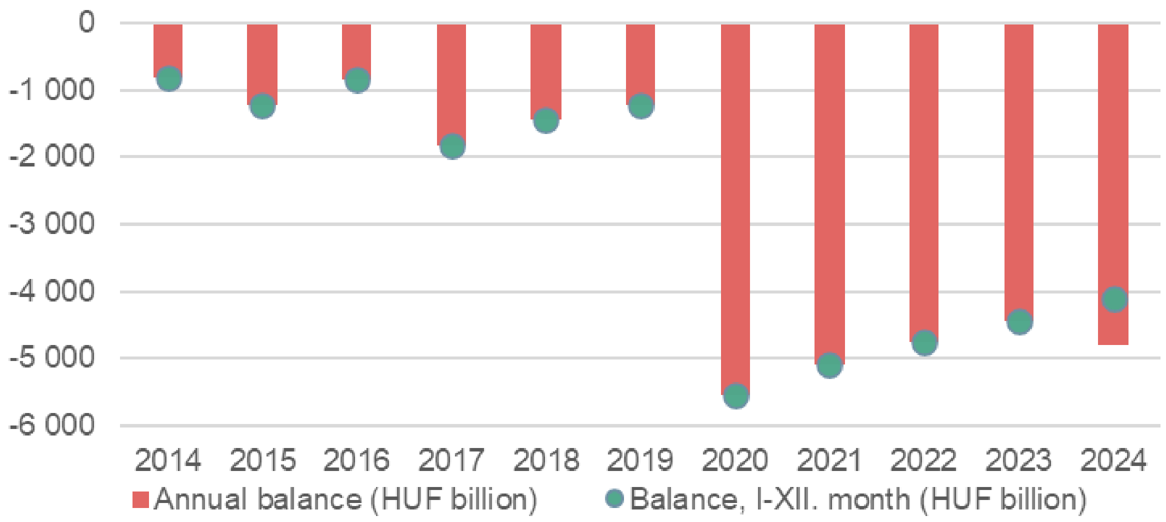
Expenditure on central budgetary institutions and chapter-administered appropriations was HUF 995.8 billion higher than in the previous year. The positive news is that December saw no further increase in expenditure at all, bringing the overall annual rate of expenditure growth down to 7.7%.

Expenditures related to state property amounted to HUF 962.3 billion and reached 180.2% 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 2024, pensions amounted to HUF 6,209.6 billion, an increase of 7.8% compared to the previous year. During the year, the Health Insurance Fund spent HUF 4,538.3 billion, an increase of 10.3% 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 11.4%.

The balance of interest expenditure and revenues related to debt service improved by nearly HUF 290 billion in December, thanks to an unprecedented improvement in revenues related to debt service of nearly HUF 340 billion. Thanks to the improvement in the balance in November and December, the interest balance was only HUF 541.9 billion (23.3%) more negative than at the end of the previous year. This figure is not positive in itself, but if we compare it with the HUF 898.5 billion more negative balance at the end of October, we can see the improvement in the last two months.

FIGURE 10: CENTRAL SUBSYSTEM BALANCE*, 2014–2024 (DECEMBER, MONTHLY CUMULATIVE BALANCE, HUF BILLION)



**cash-flow balance*

Source: Ministry of Finance, Hungarian State Treasury;

2.6 Monetary developments

2.6.1 Consumer prices

Consumer prices rose by an average of 4.6% in December.

In December 2024, consumer prices increased by 4.6% on average—compared to the same period of the previous year. Over the past year, prices of services have increased the most (6.8%). Prices of electricity, gas and other fuels fell by 0.5% 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 4.7% higher than in the same period of the previous year.

A larger share of the 5.4% average increase in food prices was due to a 36.2% rise in flour prices, a 21.9% rise in egg prices and a 19.5% rise in milk prices. Prices for fruit and vegetable juices rose by 17.3%, butter and butter cream by 16.4% and edible oil by 13.7%, all of which were above the average food inflation rate for the month. In contrast, deflation was observed for several products, as in the previous months: prices of edible offal fell by 7.3%, pasta products by 7.1% and other confectionery products by 5.8%. Prices of alcoholic beverages and tobacco rose by an average of 4.3%, driven more by wine, which increased by 5.6%, and there were no price decreases in this category.

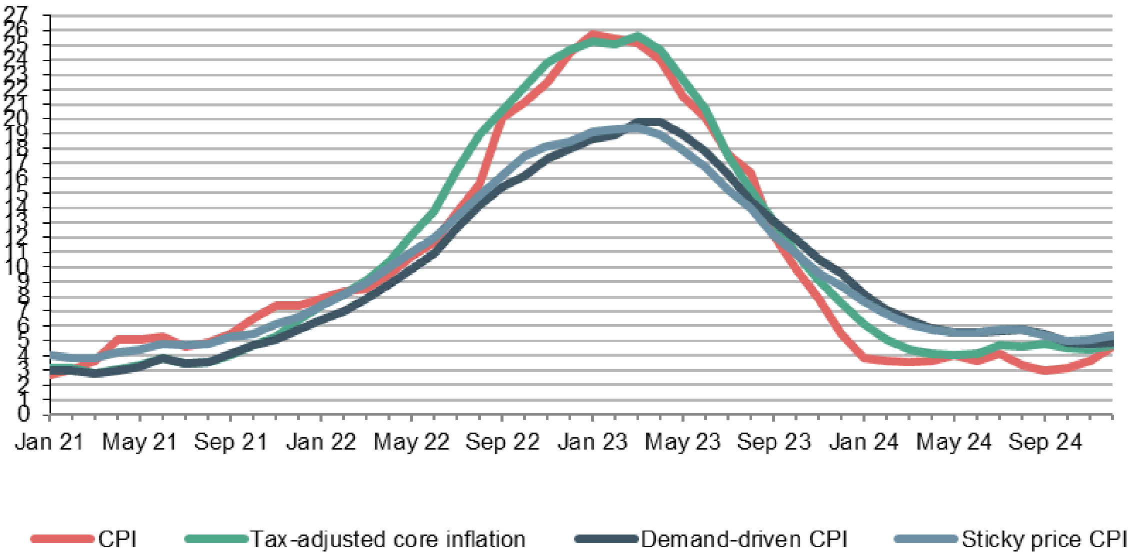
The average price decrease of 0.2% for consumer durable goods in November was followed by an average price increase of 0.6% in December, showing a worsening trend, with several external and internal factors contributing. If we look at the main group in more detail, we can see that the price of new passenger cars increased by 5.3% and jewellery by 15.3%, which is above average. Inflation in durable consumer goods was supported by a 3.5% rise in washing machines and dishwashers, a 3.4% rise in vacuum cleaners and air conditioners, and a 2.7% rise in radios and living and dining-room furniture. It is also important to note the positive trend in the motorcycle market, where, after November, motorcycle prices were 5.4% lower in December compared to the same period last year, but this did not have a significant impact on the overall result of this main group.

The average decrease in household energy prices was only 0.5% in December, compared to the same period of the previous year. Only two groups saw a decrease in prices compared to the same period last year. Within electricity, gas and other fuels, the price of natural and manufactured gas fell by 0.4% and firewood by 6.2% over the past year. However, in the same group, the price of butane and propane gas was 7.6% higher, briquettes and coke 0.5% higher and coal 2.4% higher.

In December, prices of services rose by an average of 6.8%, with cinema tickets and TV subscriptions contributing the most, at 13.9% and 16.0% respectively. The price increase for games of chance, which has been a significant contributor in previous months, has increased from 0.2% to 0.4%. The price of postal services has risen by 15.6% in the last six 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 13.3% 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 0.4% compared with the previous month. Prices for services and electricity, gas and other fuels both increased by 0.4% and 1.7%, respectively, from the previous month. The prices of other goods and fuels also increased by 0.9% from September.

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



Source: MNB, Századvég

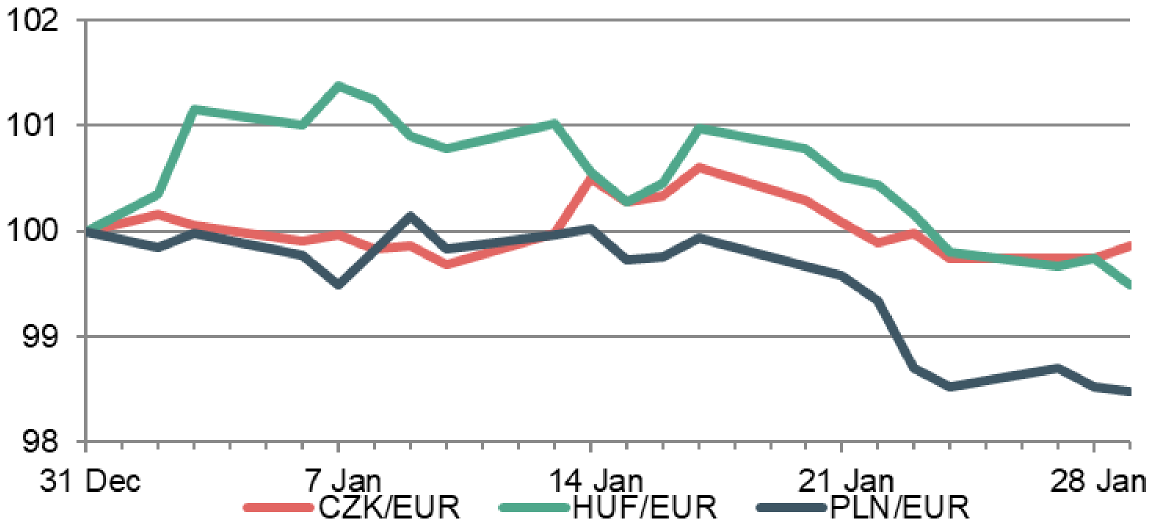
Among the core inflation indicators published by the MNB, the core inflation rate net of indirect taxes was 4.7%, the core inflation rate excluding processed food was 4.9% and the sticky price inflation rate was 5.4% in the twelfth month of the year. The core inflation rate, 1.1 percentage points higher 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.

2.6.2 Regional currencies

The currencies of competitors in the region have strengthened against the euro.

Regional currencies strengthened against the euro in January. In the past period, the Czech koruna strengthened by 0.14% and the Polish zloty by 1.52% against the euro. Government bond yields also fell over the period, with the Czech 10-year government bond yield 14 basis points lower at 4.0% and the Polish 10-year yield 4 basis points lower at 5.85%.

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



Source: Refinitiv, Századvég

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

Hungarian money and foreign exchange market indicators showed a strengthening last month. The HUF strengthened by 0.5% against the Euro, by 0.6% against the Swiss franc, and by 0.4% against the US dollar. Thus, at the end of January 2025, 1 euro was worth 408 forints, 1 US dollar 392 forints and 1 Swiss franc 433 forints. In January, sovereign debt held by foreigners increased by HUF 457 billion to HUF 5,128 billion.

2.6.3 Base rate

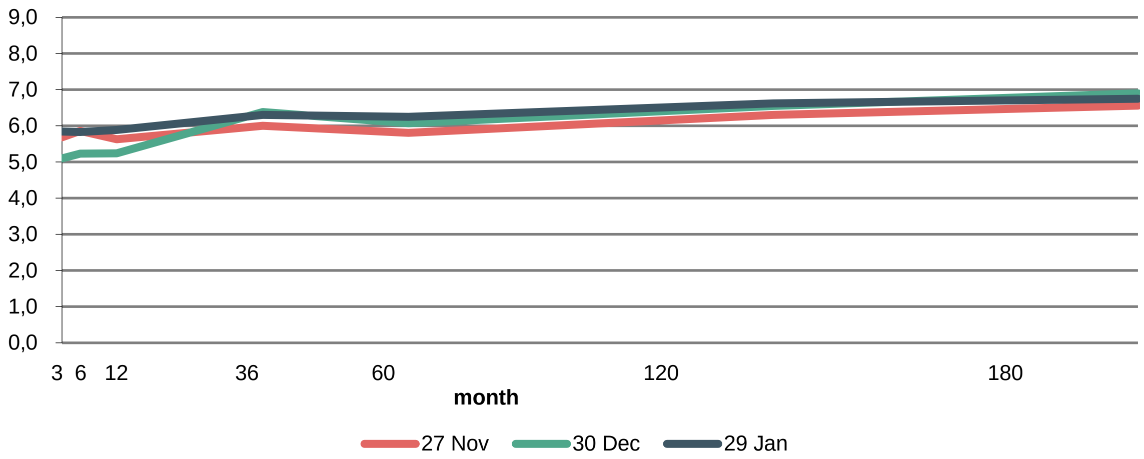
At its January meeting, the central bank's Monetary Council kept the base rate at 6.5%.

At its January 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, volatile investor sentiment in global markets, slightly improving consumer confidence due to real wage growth, and the increasing risks from geopolitical conflicts and the associated rise in oil and gas prices. The central bank still sees a tight monetary policy as warranted to reduce financial market turbulence, thereby supporting the maintenance of price stability.

2.6.4 Government securities market

In the government bond market, yields for shorter maturities varied between -0.15 basis points and 74 basis points on the secondary yield curve January. This means that the 3-month yield was 5.84%, the 6-month yield was 5.83% and the 1-year yield was 5.89% on 29 January. The 3-year yield fell by 8 basis points to 6.30%. Yields are up 18 basis points over the 5-year horizon and 7 basis points over the 10-year horizon but are down 15 basis points over the 15-year horizon compared to the previous month. These three yields changed, therefore, to 6.25%, 6.62%, and 6.75%, respectively.

FIGURE 13: CHANGES IN THE HUF YIELD CURVE (%)



Source: GDMA, Századvég

On 22 January 2025, the total value of “MÁP Plusz” government securities held by retail investors was HUF 668.32 billion after a HUF 15.7 billion increase from the HUF 652.6 billion level in the previous month. In addition, the cumulative value of PMÁP securities was HUF 6,951.7 billion, while the cumulative value of the “Bónusz” Hungarian Government Bonds was HUF 1,222.6 billion. The total value of the 1MÁP securities is HUF 301.4 billion, that of Treasury Savings Bills is HUF 541.84 billion and that of FixMÁP securities is HUF 1,084.29 billion. In addition, funds held in “Baby” Bonds amounted to HUF 401.75 billion and funds held in Printed MÁP Plus amounted to HUF 102.89 billion. The retail stock of FixMÁP increased by HUF 116.9 billion and that of BMÁP by HUF 27.59 billion compared to the previous month. The total stock of government securities held by retail investors stood at HUF 11,274.8 billion at the end of January 2025, up from HUF 9,810.2 billion at the beginning of 2024, meaning that people held HUF 1,464.6 billion more in government securities than in the first month of 2024.

2.6.5 Sovereign debt

The share of foreign currency debt in the sovereign debt remained 29.8% in November (i.e. it did not change 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 28.9%, with the November ratio higher than this.

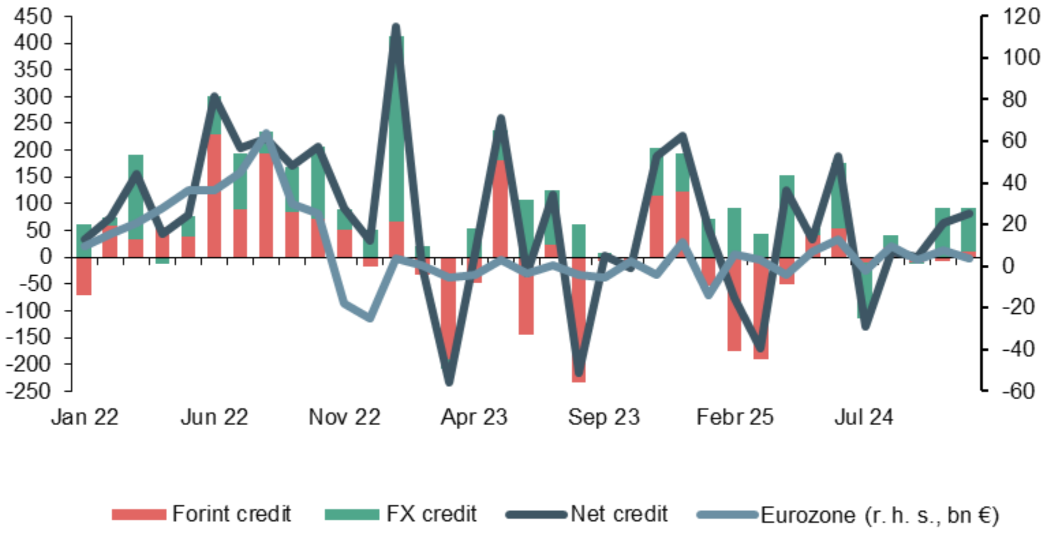
The rating of Hungarian sovereign debt remained in the investment grade by all three major international rating agencies. S&P maintains a stable outlook of “BBB-/A-3”, while Fitch revised Hungary’s debt rating to stable from a negative outlook of “BBB” on 6 December. However, Moody’s revised its stable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

2.6.6 Corporate credits

Corporate credits increased in Hungary.

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector increased by HUF 9.5 billion in November 2024. The value of net lending in foreign currency increased, with net borrowing amounting to HUF 83.5 billion in the eleventh month of the year. Seasonally adjusted total net borrowing increased by HUF 81.2 billion in the period under review. Corporate borrowing in the euro area was EUR 3,460 million in November 2024.

FIGURE 14: CORPORATE BORROWING (HUF BILLION)



Source: MNB, ECB, Századvég

3. SZÁZADVÉG'S FORECAST[4]

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.

[4] Date of preparation: 18 December 2024

SZÁZADVÉG

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