SZÁZADVÉG

MACROECONOMIC MONITOR

FEBRUARY 2025

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.

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

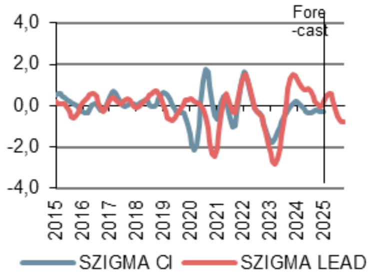
In November, retail sales increased by 0.1% year on year in terms of both raw and calendar-adjusted data. Within this, compared to the same period of the previous year, sales increased by 1.2% in specialised and non-specialised food shops and by 0.5% in non-food retailing, while they decreased by 6.9% in automotive fuel retailing.

Measured up to January 2025, the value of the monthly SZIGMA CI indicator, which provides a snapshot of the current state of the Hungarian economy, was -0.2845, still increasing below its historical trend value. Trend-wise, the present calculation suggests that the growth rate of the Hungarian economy is set to remain below its historical trend level from March 2024. This means that economic growth momentum has remained lower but stable. The coming months will show the impact of the economic programmes launched in 2025 and the changing international environment on the Hungarian economy.

The other indicator, SZIGMA LEAD, a short-term indicator for the future of the Hungarian economy, estimates unchanged below-trend growth by the end of the forecast horizon. The first part of the current forecast continues to project rapid and strong growth, while the second part forecasts a sharp decline and a stabilisation at a lower level.

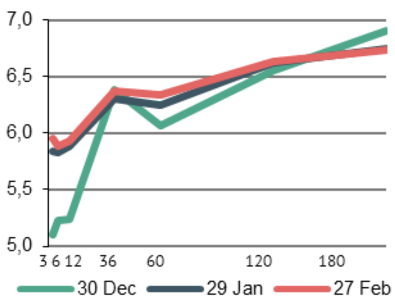
In January 2025, consumer prices rose by 5.5% on an annual average basis.

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

2. OVERVIEW OF THE ECONOMY

2.1 External environment

The annual inflation rate in the euro area rose from 2.4% in December to 2.5% in January 2025.

According to a Eurostat report published on 24 February 2025, the annual inflation rate in the euro area rose from 2.4% in December to 2.5% in January 2025. For the European Union, the figure was 2.8%, also up from 2.7% in December. Compared to the same period last year, however, there is a decline, as the inflation rate was 2.8% in the euro area and 3.1% in the EU in January 2024.

According to Eurostat's report, the lowest inflation rates were recorded in Denmark (1.4%), Ireland, Italy and Finland (all three at 1.7%), while the highest rates were in Hungary (5.7%), Romania (5.3%) and Croatia (5.0%).

The largest contributors to euro area inflation were services (+1.77 percentage points), followed by food, alcohol and tobacco (+0.45 percentage points), energy (+0.18 percentage points) and non-energy industrial goods (+0.12 percentage points).

Month-on-month inflation was -0.3% in the euro area and 0.0% in the EU. Compared with the previous month, the highest annualised increases were observed in Bulgaria (+1.8 percentage points), Slovakia (+1.8 percentage points) and Hungary (+1.5 percentage points), while significant decreases were recorded in Cyprus (-1.4 percentage points), Italy (-0.8 percentage points) and Ireland (-0.7 percentage points).

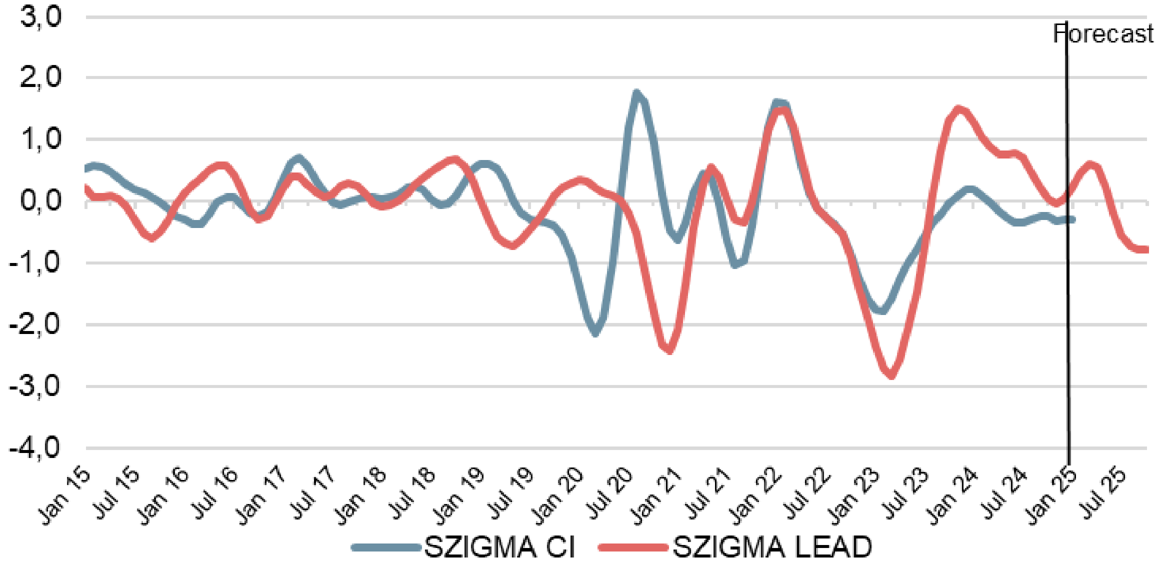
2.2 Our SZIGMA indicators

In February 2025, the growth rate of the Hungarian economy remained below its historical trend.

Measured up to January 2025, the value of the ***SZIGMA CI indicator, which provides a snapshot of the current state of the Hungarian economy***, was -0.2845 in February 2025, still increasing below its historical trend value. Trend-wise, the present calculation suggests that the growth rate of the Hungarian economy is set to remain below its historical trend level from March 2024. This means that economic growth momentum has remained lower but stable. The coming months will show the impact of the economic programmes launched in 2025 and the changing international environment on the Hungarian economy. 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 1.8% month on month, based on the latest December 2024 fixed base (2021 monthly average = 100.0%) seasonally and working-day adjusted data. The volume of industrial sales did not increase in any of the dimensions (domestic and exports) on a monthly and annual basis, according to seasonally and working-day adjusted data, on a fixed basis for December 2024 (2021 monthly average = 100.0%). The volume of total sales (domestic and export combined) fell by 4.7% year on year, driven by a 3.6% decline in domestic sales and a 3.9% decline in export sales. Industrial sales also fell on a monthly basis. Total sales were 2.5% lower compared to the previous month. This was caused by a 1.1% weakening in domestic sales and a 0.7% weakening in export sales. Based on the latest ***construction output*** data for December 2024, although construction output volume fell by 4.2% year on year, the 0.7% month on month increase may reflect a slight improvement, which could be further strengthened by economic programmes. Given that the increase in the volume of construction output on a monthly basis was only due to an increase in the volume of construction of buildings (9.9%). Construction output for civil engineering works fell by 7.4% compared to the previous month. On a fixed base (monthly average of 2021 = 100.0), the stock of construction contracts at the end of December 2024 increased by 15.6% year on year, driven by a 2.6% increase in the construction of buildings and a 24.8% increase in the construction of civil engineering works. Meanwhile, the volume of the stock of contracts in December 2024 decreased by 2.7% compared to the previous month, due to a decrease in the stock of contracts in both main construction groups: buildings decreased by 1.7% and civil engineering works by 4.0% compared to the previous month.

In February 2025, our **short-term leading indicator, SZIGMA LEAD**, is still pointing to below-trend growth at the end of the forecast period. The first part of the current forecast continues to project rapid and strong growth, while the second part forecasts a sharp decline and a stabilisation at a lower level. The future outlook for ***industry*** is mixed. This is because the stock of new orders in industry have increased markedly in the short term, on a monthly basis, thanks to exports. On a monthly basis, the total (domestic, export) stock of new orders in industry increased by 33.8%, with the volume of the stock of new export orders in industry rising by 39.5%, while the stock of new domestic orders in industry fell by 12.9%. Thus, the total stock of orders increased by 29.9%. This was due to an increase in both the stock of domestic orders (1.4%) and export orders (31.7%) in industry. So, it was not only the volume growth in the stock of new export orders that led to the increase in the stock of orders, but also that of new domestic orders, despite the latter's monthly decline in the stock of new domestic orders. The Ifo Business Climate Index, **which measures the change in business sentiment in the German economy**, improved by 0.5 index points on a monthly basis and weakened by 0.2 index points on an annual basis in January 2025, to stand at 85.2 index points. According to the German manufacturing sub-index, companies remain pessimistic, with capacity utilisation low due to falling orders. In January 2025, **Eurostat's consumer confidence index** weakened both on a monthly basis (0.3 index points) and on an annual basis (9.9 index points). Thus, in January 2025 it stood at -28.7 index points.

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.

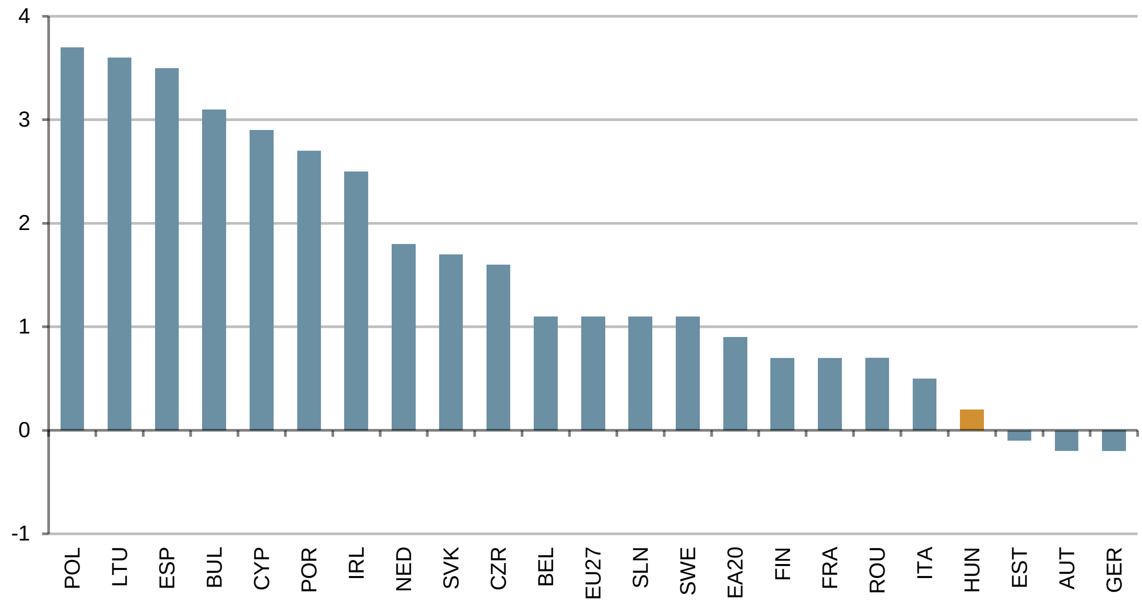
For international comparisons of the first estimate, the data are compared with the first estimate available in mid-February 2025. Eurostat publishes the preliminary data in two parts. The first publication, with fewer Member States, is published on the same day as the publication of the Central Statistical Office (CSO), while the second one is published in the middle of the following month.

According to the first estimate in the flash report of the Hungarian Central Office, published earlier, 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.

In **international** comparison, the first Q4 estimate for 2024 was published by Eurostat on 30 January 2025, when data were available for 12 Member States in addition to the euro area (EA20) and the EU average (EU27). The second full dataset of the preliminary series was published on 14 February 2025, summarising data from 21 member countries, the euro area (EA20) and the EU average (EU27).

Annualised GDP figures show that Hungary's GDP growth rate (0.5%) is below the EU average (EU27: 1.1%) and the euro area (EA20: 0.9%). Of the 21 Member States published, all but 3 recorded an increase in their annual GDP volume, with Poland showing the strongest performance (3.7%). While the lowest economic performance (-0.2%) was still recorded in Germany and Austria.[1]

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



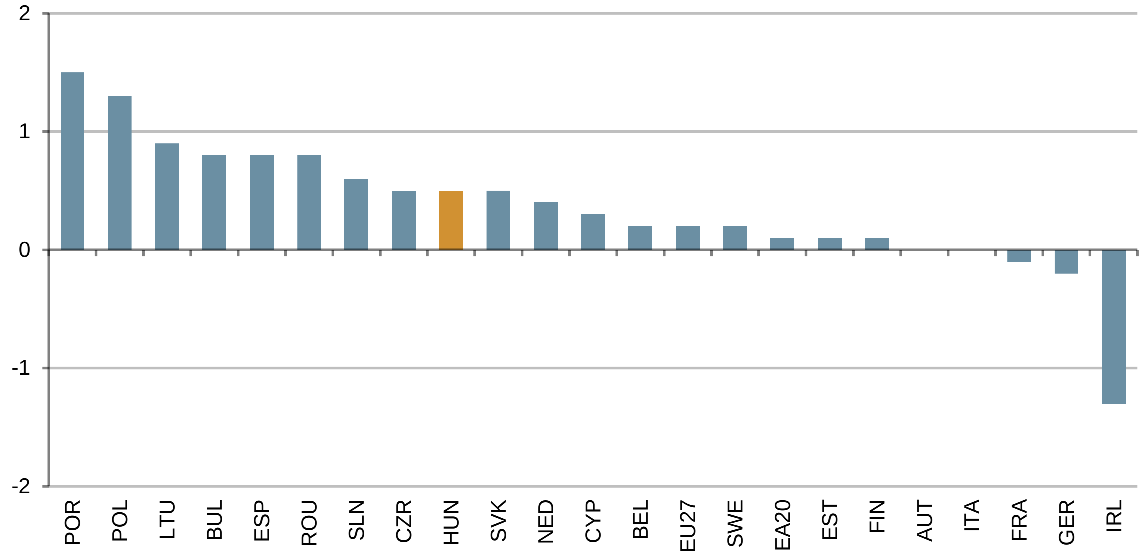
Remark: Seasonally and calendar adjusted indices. Preliminary (full) estimate. (Not included due to lack of data: Croatia, Denmark, Greece, Latvia, Luxembourg, Malta.)
Source: Eurostat

On a **quarterly** basis, among the 21 Member States, Hungarian GDP growth rate (0.5%) was in the middle of the range, above the EU average (0.2%) and the euro area (0.1%). The highest economic growth rate (1.5%) was in Portugal. Poland followed (1.3%), and Lithuania is next with a smaller gap (0.9%). On a monthly basis, 3 Member States (Bulgaria, Spain and Romania) recorded GDP volume growth of 0.8%. Slovenia followed with 0.6% and 2 Member States (the Czech Republic and Hungary) with 0.5%. On a quarterly basis, 3 Member States saw their economic performance fall: France (-0.1%), Germany (-0.2%) and Ireland (-1.3%).[2]

[1] 21 Member States, the EU27 and the euro area. 6 Member States not included due to lack of data: Croatia, Denmark, Greece, Latvia, Luxembourg, Malta.

[2] 21 Member States, the EU27 and the euro area. 6 Member States not included due to lack of data: Croatia, Denmark, Greece, Latvia, Luxembourg, Malta.

FIGURE 3: GDP GROWTH IN Q4 2024 IN THE EU (Q/Q, %)



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

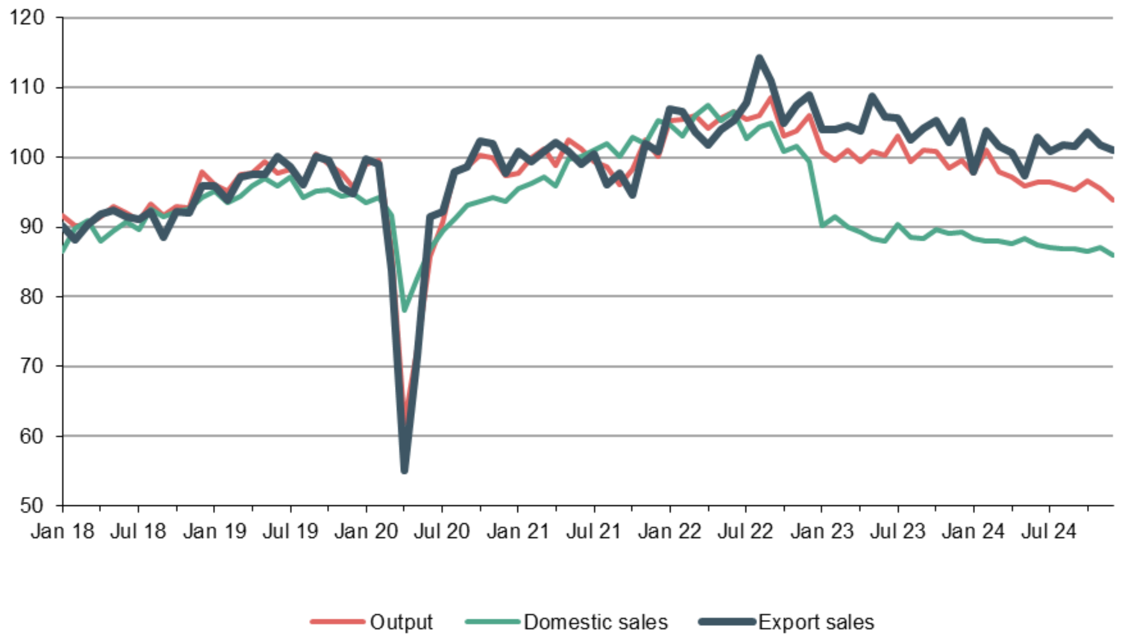
2.3.2 Industry

Month on month, the volume of seasonally and working-day adjusted industrial production decreased by 1.8%.

Compared with the same period of the previous year, industrial production fell by 5.3% year on year according to raw data and by 6.4% according to working-day adjusted data in December 2024. Total **industrial sales** fell by 3.3% year on year in December 2024. This was driven by a 2.8% decline in domestic industrial sales and a 3.6% decline in export sales. Thus, overall, industrial production in 2024 is 4.0% below the 2023 output, while industrial sales are 3.4% below.

Month on previous month (November 2024), seasonally and working-day adjusted industrial production in December 2024 decreased by 1.8%, while industrial sales decreased by 2.6%. Within industrial sales, export sales decreased by 0.6% and domestic sales by 1.1% compared to the previous month.

FIGURE 4: INDUSTRIAL PRODUCTION AND SALES TRENDS (2021 MONTHLY AVERAGE = 100%)



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

Turning back to industrial production, a 7.1% fall in manufacturing output, which was the dominant sector (93.5%), contributed to the decline in industrial production on an annual basis in December 2024. Of the other two sectors accounting for industrial output, energy, with a weight of 5.8%, increased by 23.9%, and mining and quarrying, with a weight of 0.7%, increased by 81.0%. In manufacturing, industrial production increased in 7 of the 13 subsections. The performance of the three main manufacturing sectors, which accounted for 46.7% of manufacturing output, was mixed. Manufacture of transport equipment, the largest contributor with a 22.1% share, fell by 21.2%. This was the third steepest volume decline among the 13 manufacturing subsections. The second largest subsection, food (with a weight of 14.7%), grew by 2.4%. The third largest subsection (9.9%), manufacture of computer, electronic and optical products, grew by 5.9%, the third highest volume growth among the 13 manufacturing subsectors. The biggest drop in output (24.6%) was in the manufacture of electrical equipment, which accounts for the fourth largest share (8.1%) of manufacturing output.

In December 2024, the **stock of new orders** in the priority manufacturing industries fell by 14.6% year on year on a fixed basis (average monthly price in 2021), while it **increased by 33.8% month on month**. With the stock of new orders up by 33.8% month on month, the **stock of industrial orders** on a fixed basis (for the average monthly price in 2021) **increased by 29.9% month on month. The monthly increase in the stock of industrial orders** was due to an increase in both the stock of export orders (31.7%) and the stock of domestic orders (1.4%).

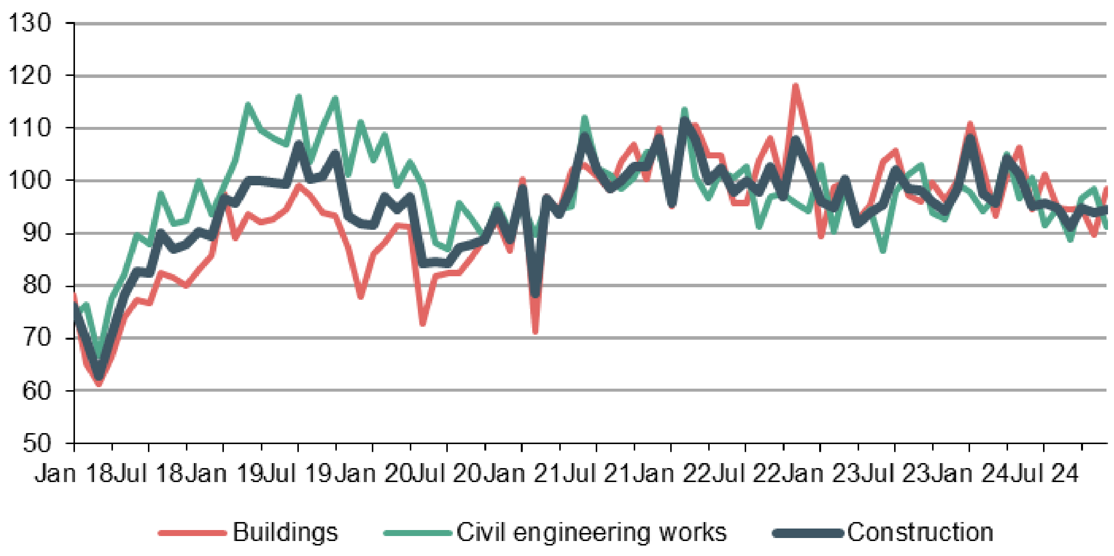
2.3.3 Construction

Construction output in December%2024 was up 0.7% on the previous month.

In December 2024, the annual volume of construction output fell by 4.2% in terms of raw data. Within the two main groups of construction, the construction of buildings decreased by 1.0% year on year, while civil engineering works (roads, bridges, railways, complex industrial facilities, pipelines, etc.) decreased by 10.2%. Thus, in 2024, construction output fell by 0.4% compared with 2023, with cumulative construction output in the January-November 2024 period still 0.5% above the cumulative output in the January-November 2023 period. Thus, the year-on-year decline in construction output in December 2024 was caused by a decline in construction output in 2024 compared with 2023. Within total construction output in 2024, the output of construction of buildings decreased by 0.5%, while the output in civil engineering works decreased by 0.1%.

Construction output, seasonally and working-day adjusted on a **monthly basis**, which shows the short-term trend, increased by 0.7% in December 2024, driven by a 9.9% increase in the volume of construction of buildings and a 7.4% decrease in the volume of construction of civil engineering works.

FIGURE 5: CHANGES IN THE CONSTRUCTION INDUSTRY (MONTHLY AVERAGE FOR THE YEAR 2021 = 100%)

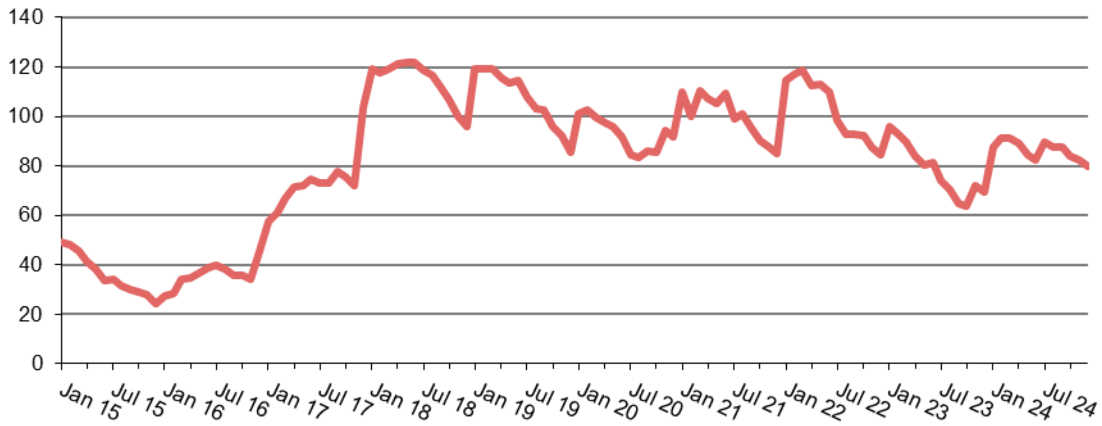


Source: Hungarian Central Statistical Office, Századvég, Remark: Seasonally and calendar adjusted indices.

As regards future prospects, despite the significant **month-on-month** increase in the stock of new contracts in December 2024 (25.9%), the stock of contracts at the end of December 2024 (2.7%) 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 more than doubled (increased by 107.6%), but the stock of contracts at the end of December 2024 decreased by 1.7%. The stock of new contracts for the construction of civil engineering works decreased by 24.1%, which resulted in a 4.0% month-on-month decrease in the stock of contracts at the end of December 2024. In addition to this, it is also worth looking at the **cumulative** data, because although the volume of new construction contracts fell by 2.6% in 2024, the month-end stock of construction contracts still managed to increase. Cumulative end-month stocks for January-December 2024 were 15.7% higher than in the same period of the previous year.

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-December 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 remains essential to improve construction performance.

FIGURE 6: 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 0.1% ¤in December.

In December, retail sales increased by 0.1% year on year on both a raw and calendar-adjusted basis compared to the respective period of the previous year. In the months preceding December, turnover grew by more than 3.0% in several cases, with the slowdown in growth mainly due to the six-day long weekend.

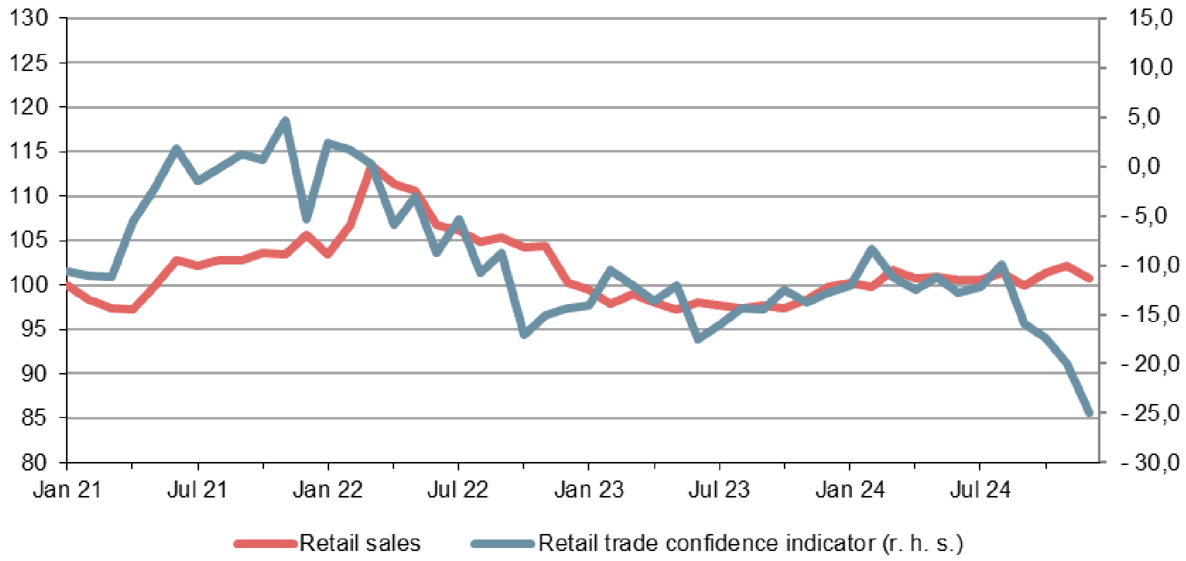
In December 2024, turnover in specialised and non-specialised food shops increased by 1.2%, and the turnover in non-food shops increased by 0.5%. In fuel retailing, sales fell by 6.9% year on year in December.

Within food retailing, the volume of sales in non-specialised food and beverages shops increased by 1.2%, while the volume of sales in food, beverages and tobacco stores increased by 1.8%.

In non-food retailing, the volume of mixed range of manufactured goods increased by 0.4%, while the turnover of books, newspapers and stationery fell by 1.7% compared to the same period last year. In non-specialised shops dealing in manufactured goods, turnover in textile products, clothing and footwear shops fell by 3.6%. In addition, sales of second-hand goods also fell, by 1.6%. The sales volume of computers and other specialised goods decreased by 6.2%. A similar change was seen for books, computer equipment and other specialised stores, which, after a 1.1% increase in November, decreased by 5.8%. Other categories showed an overall increase, with the most notable being cosmetics shops, which grew by 7.1%, pharmaceuticals, medical products and cosmetics shops, which increased by 2.1%.

Overall, the largest growth was in non-specialised food shops, more specifically, cosmetics shops, where volumes increased by 7.1%. 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

2.3.5 Labour market

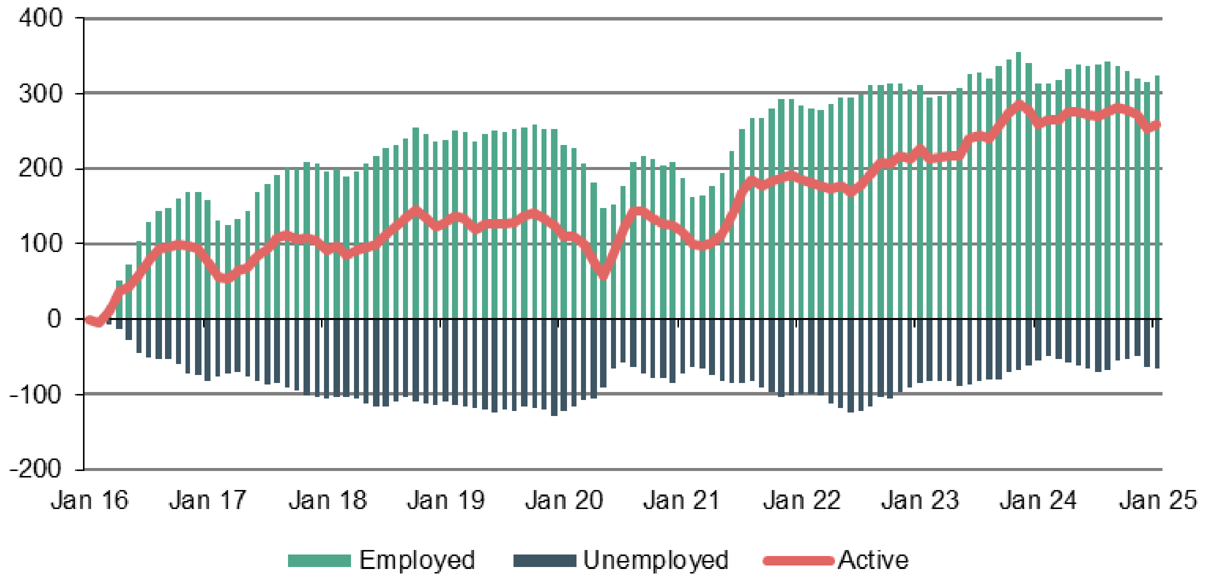
The unemployment rate fell to 4.3% in December.

In January 2025,[3] the seasonally adjusted activity rate of the population aged 15-74 was 68.1% (4,910,000), almost the same as in January 2024. The seasonally adjusted number of employees was 4,697,000, an increase of 21,000 compared to the same period of the previous year. The number of the unemployed was 213,000, a year-on-year decrease of 11,000. January data show that activity stagnated on a month-on-month basis, while employment increased at the expense of unemployment. Labour market trends still reflect the macroeconomic developments that had a major impact last year, such as the global automotive difficulties and the slowdown in construction, but a consolidation is also visible.

[3] Three-month moving average

In December, the number of people in full-time employment fell by 4,400 compared with the same period last year. Compared to December 2023, there were 12,700 fewer employees in the competitive sector and 2,300 fewer employees in the public sector. The number of people employed in the non-profit sector increased by 6,000 in one year.

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



Source: Hungarian Central Statistical Office, Századvég

Real earnings rose by 6.1% in December.

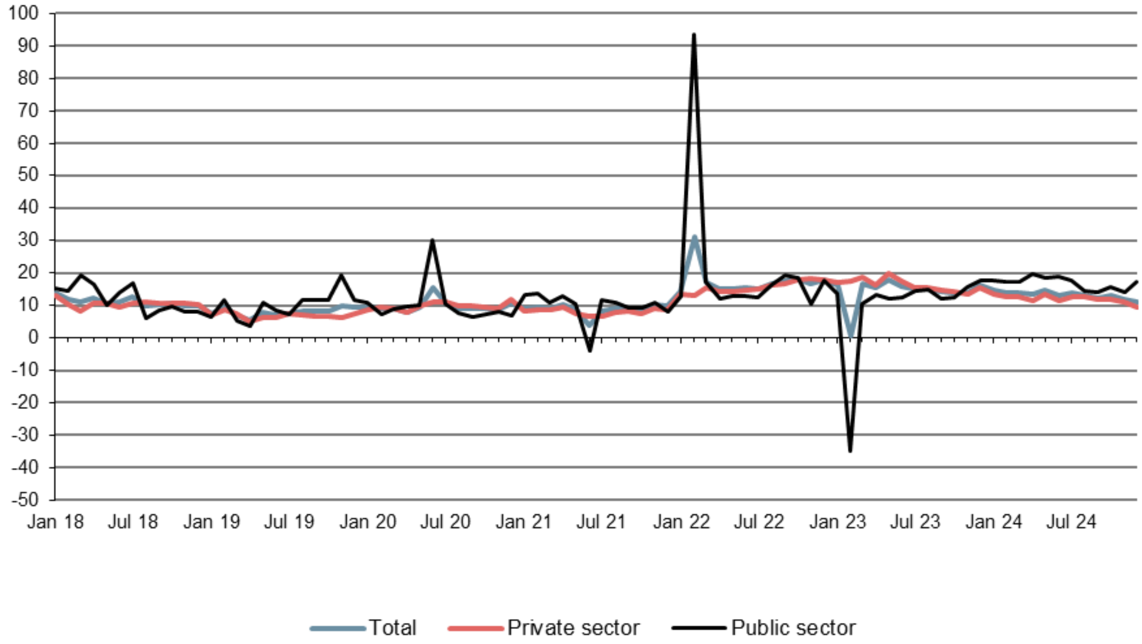
In December, average gross earnings in the national economy were HUF 727,700, up 11.0% compared to the same period last year. Median gross earnings were HUF 560,900, an increase of 13.1% in a year. Real earnings increased by 6.1%, while consumer prices rose by 4.6%.

In addition to the favourable monthly data, data for the year as a whole are also available. In the period January-December 2024, average gross earnings increased to HUF 646,800, up 13.2% compared to the same period of the previous year.

In 2024, the average increase in average gross earnings was 12.1% in the business sector, 16.8% in the public sector and 15.6% in the non-profit sector. Behind the performance of the competitive sector is the direct and indirect impact of increases in the minimum wage and the guaranteed minimum wage. The strong performance of public sector wages was boosted by the increase in teachers' salaries (32.2% in January 2024), the increase in the salaries of law enforcement personnel (January 2024) and the increase in the salaries of the defence forces (January 2024, with a payment in March), all under the multiannual wage increase programme.

Taking into account that in 2025 the minimum wage will increase by 9% and the guaranteed minimum wage by 7%, we forecast that next year average gross earnings will continue to rise by 8.4% and real earnings by 4.6%.

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



Remark: Seasonally and calendar-adjusted indices

Source: Hungarian Central Statistical Office, Századvég

2.4 External balance

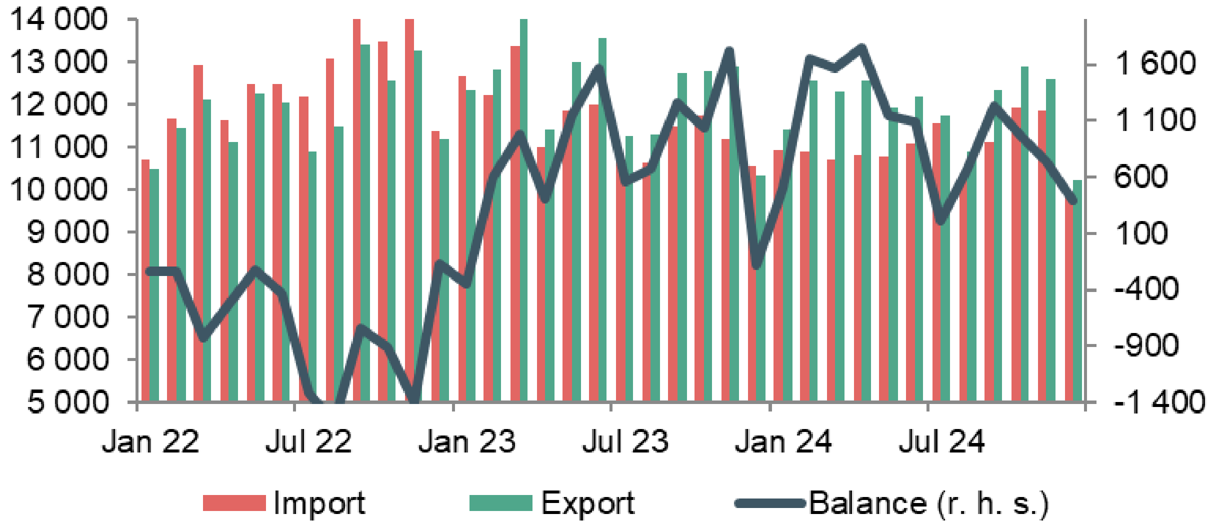
In November, the volume of exports of goods decreased by 0.3% and imports by 1.4% year on year. This brought the external trade balance to a surplus of EUR 819 billion, a deterioration of EUR 639 million compared to the previous year.

In November, the import volume of food products, beverages and tobacco increased by 0.5%, and their export volume decreased by 5.1% year on year. As for energy carriers, imports decreased by 8.1% and exports increased by 7.4%. As for processed products, imports decreased by 3.3%, and exports by 2.1% year on year. Imports of machinery and transport equipment increased by 12.0%, while exports decreased by 4.8%.

The foreign trade surplus increased in December.

In December 2024, the first estimate for the EUR value of exports was down by 0.5% and that of imports by 7.0% compared with the same period a year earlier. This brought the foreign trade surplus in goods to EUR 387 million, which is EUR 684 million stronger than a year earlier.

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



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

2.5 Fiscal outlook

The January deficit is attributable mainly to the absence of EU funds and to a significant increase in expenditure by budgetary bodies, chapter-administered appropriations and interest expenditure.

At the end of January 2025, the deficit of the general government subsector stood at HUF 67.8 billion. Against a deficit of HUF 166.1 billion in the central budget, social security funds showed a surplus of HUF 62.9 billion and extra-budgetary funds a surplus of HUF 35.4 billion.

In January, central government revenues were 1.2% lower than in the same period of the previous year, while tax and contribution receipts were 12.5% higher. Central subsystem revenue also decreased by 4.8%.

Payments by economic units increased by 10.1%, i.e. HUF 23.2 billion, compared to January 2024. The primary reason for the increase is that tolls, the second largest revenue item, increased by HUF 10.3 billion. Within payments from economic units, corporate tax receipts, the most significant item, were 5% (HUF 4.0 billion) higher than in the same month of the previous year.

Revenues from taxes on consumption increased by 13.4% (HUF 138.6 billion) compared to a year earlier. VAT receipts, the most significant item, were HUF 103.7 billion (12.6%) higher than in January of the previous year. The increase in VAT receipts was driven by a 5% (or HUF 60.1 billion) increase in VAT payments, while the rest of the increase was due to a decrease in VAT refunds. Excise tax receipts was HUF 22.4 billion (17.4%) more than in January 2024. The increase was driven by higher tax rates, which resulted in an increase of

HUF 11.9 billion in excise duty revenues from tobacco products, HUF 8.8 billion from fuels and HUF 1.8 billion from other products including alcoholic beverages.

Personal income tax receipts increased by 13.9% (HUF 63.9 billion) compared to January 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 11.8% (HUF 82.0 billion) compared to the same period of the previous year, also caused by wage increases.

Revenue from EU programmes was HUF 7.3 billion in the first month, but direct EU revenue fell from HUF 216.2 billion in 2024 to zero. Expenditure on EU programmes amounted to HUF 97.6 billion, up HUF 17.5 billion on the previous January. It is important to note that the shortfall in EU revenues was the biggest contributor to the January deficit.

In January 2025, central government expenditure was 2.5% higher than in the previous year. Within this, central subsystem expenditure increased by 0.7%.

Among significant expenditure items, expenditure on central budgetary institutions and chapter-administered appropriations, expenditure of the Health Security Fund and interest expenditure were higher than a year earlier, while expenditure on public assets fell significantly.

Subsidies for utility services, which include subsidies for household energy bills, are practically unchanged compared to last January. At the same time, road network availability charges increased by HUF 12.5 billion.

Housing subsidies decreased slightly, by HUF 3.1 billion, compared to the same period last year.

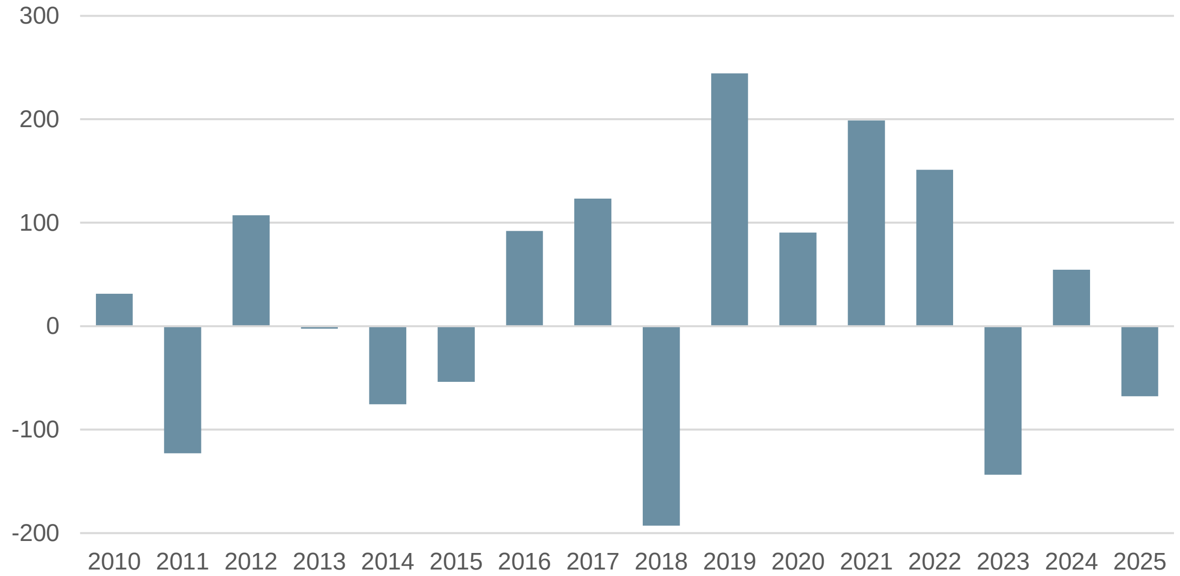
Expenditure on central budgetary institutions and chapter-administered appropriations was HUF 126.1 billion higher than in the first month of the previous year. This corresponds to an increase of 13.9%, while the Budget Act foresees a decrease of 6.5%.

Expenditure on public assets decreased by HUF 232.1 billion compared to January 2024, as last January was also affected by the expenditure related to the buy-back of Budapest Liszt Ferenc Airport.

In January 2025, pensions amounted to HUF 499.2 billion, an increase of 5% compared to the same period last year, exceeding the official pension increase of 3.2%. During the same period, the Health Insurance Fund spent HUF 384.8 billion, an increase of 13.2% compared to the base period. Within this, expenditure on curative preventive care, which accounts for more than half of the Fund’s expenditure, increased by 14.0%.

The balance of interest expenditures and receipts was HUF 100.5 billion (39.5%) more negative than in January of the previous year.

FIGURE 11: CENTRAL SUBSYSTEM BALANCE*, 2014-2025 (CUMULATIVE BOTTOM LINE FOR EACH JANUARY, HUF BILLION)



Source: Ministry of Finance, Hungarian State Treasury;

2.6 Monetary developments

2.6.1 Consumer prices

Consumer prices rose by an average of 5.5% in January.

In January 2025, consumer prices increased by 5.5% on average—compared to the same period of the previous year. Over the past year, prices of services have increased the most (8.5%). Food prices rose by 0.2% compared to the same period of the previous year. Consumer prices rose by 1.5% in a month. The seasonally adjusted core inflation rate was 5.6% higher than in the same period of the previous year.

A larger share of the 6.0% average increase in food prices was due to a 43.2% rise in flour prices, a 25.0% rise in milk prices and a 23.8% rise in egg prices. The price of edible oil increased by 21.5%, fruit and vegetable juices by 16.0% and butter and butter cream by 15.5%, all of which exceeded the average food inflation rate for the month. In contrast, deflation was observed in several products, as in the previous months: edible offal prices fell by 6.5%, prices of other confectionery products by 5.1% and the price of pasta products by 3.6%. Prices of alcoholic beverages and tobacco rose by an average of 4.9%, driven more by wine, which increased by 6.9%, and there were no price decreases in this category.

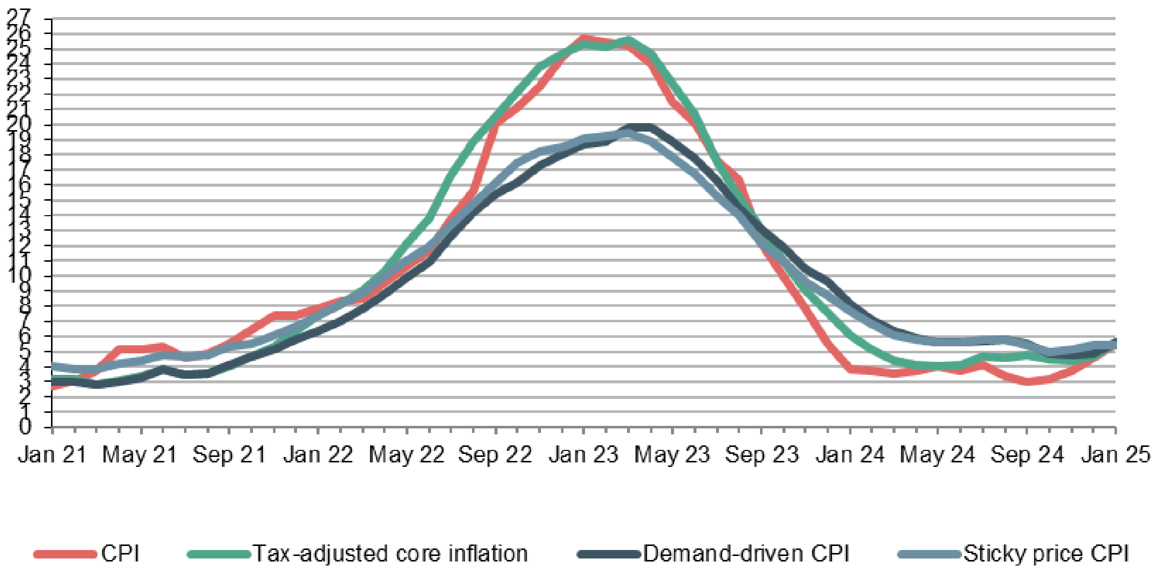
The average 0.6% fall in the prices of consumer durable goods in December was followed by an average 0.8% rise in January, which may have been influenced by the weakening of the forint in recent months. If we look at the main group in more detail, we can see that the price of new passenger cars increased by 6.6% and jewellery by 17.4%, which is above average. The fall in the inflation in durable consumer goods was supported by a 2.5% rise in washing machines and dishwashers, a 3.7% rise in vacuum cleaners and air conditioners, and a 2.6% rise in living and dining-room furniture. It is also important to note the positive trend in the motorcycle market, where motorcycle prices were 7.0% lower in January compared to the same period last year. However, this item could not have a significant impact on the overall result of the main group.

The average increase in household energy prices was 0.2% in January, compared to the same period of the previous year. Within electricity, gas and other fuels, the price of briquettes and coke fell by 1.9% and firewood by 6.7% over the past year. However, butane and propane gas was 9.1% more expensive, coal 5.2% more expensive and natural and manufactured gas 1.5% more expensive across the group.

In January, the price of services rose by an average of 8.5%, with postal services and communications contributing the most, with increases of 16.8% and 15.1% respectively. The price increase for games of chance, which has not made a significant contribution in previous months, was still only 0.4% in December. The price of telephone and internet services increased by 15.0% compared to the previous year. Cinema and TV subscription prices increased by 13.3% and 13.2% respectively compared to the same period last year. By contrast, the average price increase of services was moderated by, among other things, no change in the prices of sanitation, water and sewerage. The price of travelling to work and school has also remained unchanged thanks to the country and county passes. Prices for other long-distance trips fell by 2.2%.

Compared with the previous month, consumer prices rose by 1.5% on average. Within the overall consumer basket, food prices rose by 1.9% compared with the previous month. Prices for services and electricity, gas and other fuels increased by 2.2% and 1.7% respectively compared to the previous month. The prices of other goods and fuels also increased by 1.5% from September.

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



Source: MNB, Századvég

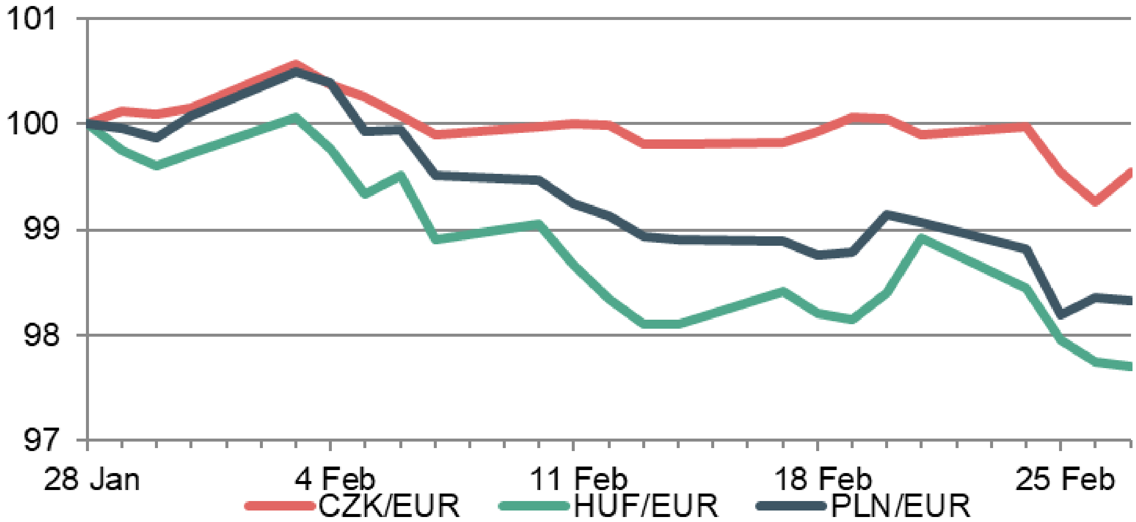
Among the core inflation indicators published by the MNB, the core inflation rate net of indirect taxes was 5.6%, the core inflation rate excluding processed food was 5.6% and the sticky price inflation rate was 5.4% in the first month of the year. The core inflation rate, 0.1 percentage point higher than total inflation, shows that, in contrast to the previous month's trends, inflation in fast-moving goods is no longer the only factor driving the inflation rate.

2.6.2 Regional currencies

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

Regional currencies strengthened against the euro in February. In the past period, the Czech koruna strengthened by 0.46% and the Polish zloty by 1.68% against the euro. Government bond yields also fell over the period, with the Czech 10-year government bond yield 5 basis points lower at 3.98% and the Polish 10-year yield 21 basis points lower at 5.76%.

FIGURE 13: 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

Hungarian money and foreign exchange market indicators showed a strengthening last month. The HUF strengthened by 2.3% against the Euro, by 1.9% against the Swiss franc, and by 2.8% against the US dollar. Thus, at the end of February 2025, 1 euro was worth 400 forints, 1 US dollar 381 forints and 1 Swiss franc 425 forints. In February, sovereign debt held by foreigners increased by HUF 395 billion to HUF 5,523 billion.

2.6.3 Base rate

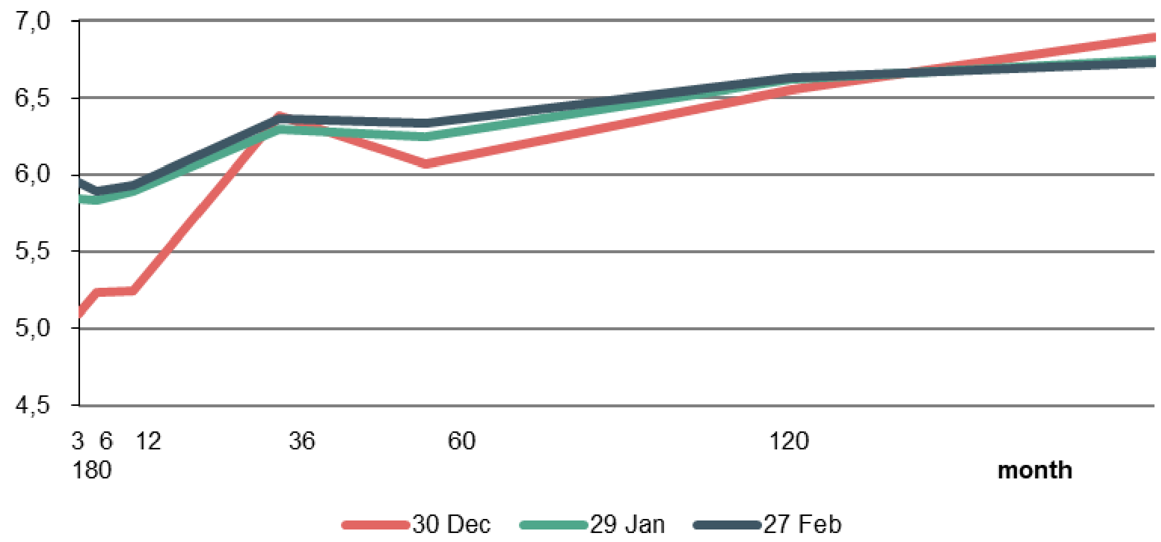
At its February meeting, the central bank's Monetary Council kept the base rate at 6.5%.

At its February 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%. The two most important factors in the central bank's decision were the inflation outlook and the maintenance of financial stability. Inflation was stronger than expected in January, and market participants expect the annual inflation rate to accelerate further, prompting the central bank to adopt a stricter stance and see no room for interest rate cuts. In addition, the evolution of the forint exchange rate has also played a key role: the weakening at the end of last year reinforced stability concerns, so central bank easing does not seem a realistic option in the short term.

2.6.4 Government securities market

In the government bond market, yields for shorter maturities varied between -2 basis points and 11 basis points on the secondary yield curve in February. Thus, the 3-month was 5.95 percent, the 6-month 5.89 percent and the 1-year 5.93 percent on 27 February. The 3-year yield increased by 7 basis points to 6.37%. Yields are up 9 basis points over the 5-year horizon and 1 basis points over the 10-year horizon but are down 15 basis points over the 2-year horizon compared to the previous month. These three yields changed, therefore, to 6.34%, 6.63%, and 6.73%, respectively.

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



Source: GDMA, Századvég

On 24 February 2025, the total value of "MÁP Plusz" government securities held by retail investors was HUF 702.46 billion after a HUF 34.1 billion increase from the HUF 668.3 billion level in the previous month. In addition, the cumulative value of PMÁP securities was

HUF 6,549.11 billion, while the cumulative value of the “Bónusz” Hungarian Government Bonds was HUF 1,306.82 billion. The total value of the 1MÁP securities is HUF 239.58 billion, that of Treasury Savings Bills is HUF 553.7 billion and that of FixMÁP securities is HUF 1491.51 billion. In addition, funds held in “Baby” Bonds amounted to HUF 440.41 billion and funds held in Printed MÁP Plus amounted to HUF 101.47 billion. The retail stock of FixMÁP increased by HUF 407.2 billion and that of BMÁP by HUF 84.2 billion compared to the previous month. Significant decreases are observed in the PMÁP (HUF 402.6 billion) and 1MÁP (HUF 61.82 billion). The total stock of government securities held by retail investors stood at HUF 11,385.06 billion at the end of February 2025, up from HUF 11,274.79 billion at the beginning of 2025, meaning that people held HUF 110.27 billion more in government securities than in the first month of 2025.

2.6.5 Sovereign debt

The share of foreign currency debt in the sovereign debt remained 29.8% in December (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 29.2%, with the December ratio higher than this.

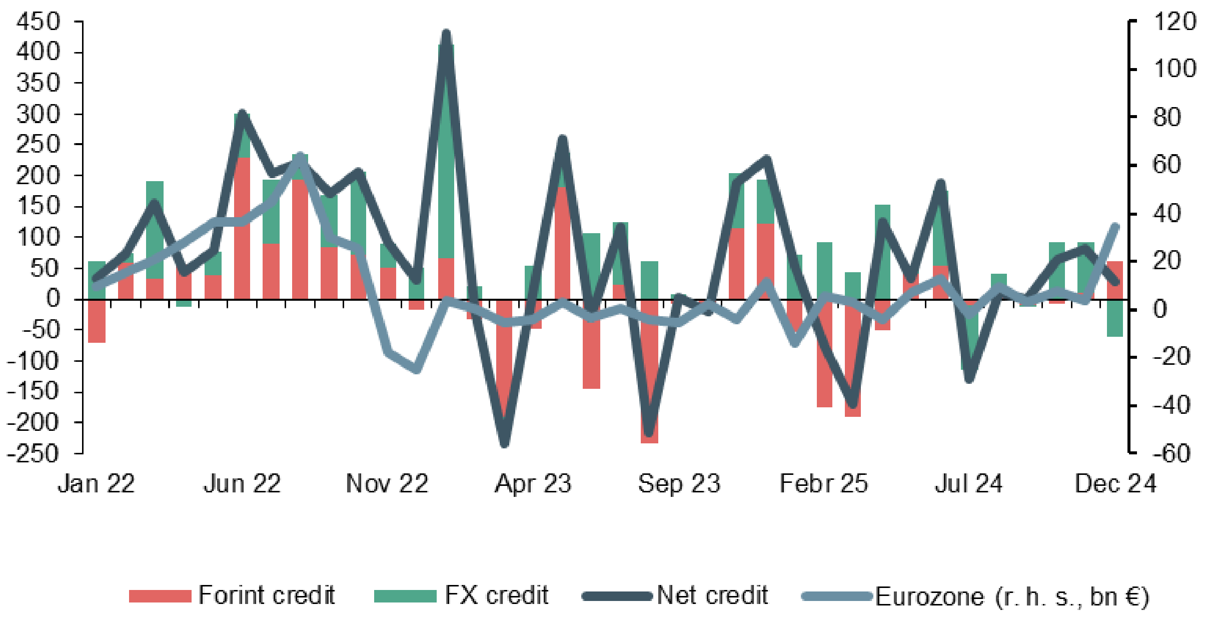
The rating of Hungarian sovereign debt remained in the investment grade by all three major international rating agencies. S&P maintains a stable outlook of “BBB-/A-3”, while Fitch revised Hungary’s debt rating to stable from a negative outlook of “BBB” on 6 December. However, Moody’s revised its stable 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 60.9 billion in December 2024. However, net foreign currency loans decreased, with repayments amounting to HUF 61.2 billion in the last month of the year. Seasonally adjusted total net borrowing increased by HUF 27.6 billion in the period under review. Corporate borrowing in the euro area was EUR 34,466 million in December 2024.

FIGURE 15: CORPORATE BORROWING (HUF BILLION)



Source: MNB, ECB, Századvég

3. SZÁZADVÉG'S FORECAST[4]

TABLE 1: 2024 Q4 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

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