SZÁZADVÉG GAZDASÁGKUTATÓ

MONTHLY MONITOR

December 2020

4.6% downturn in Q3

The coronavirus pandemic had milder economic impacts in Q3 this year, and the economic output fell back by 4.6% because of less stringent restrictions. The 11.4% increase on a quarter-on-quarter basis also indicates the restart of economy.

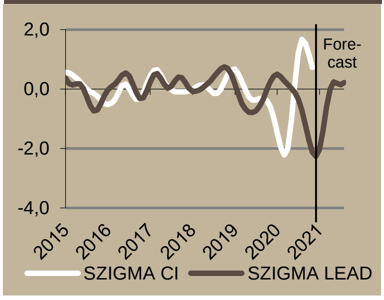
If we take the Q4-restrictions into account, then, at the end of the year, the year-on-year downturn in economic output might again have been higher, but still lower than in the spring.Accordingly, the fall of the GDP could be 6.1% in 2020, which could be followed by a 4.2% increase in 2021.

This year, the changes in consumption, investments, and net exports resulted in a decrease of the economic output—all these three factors could, however, contribute to growth next year. This year, the downturn in consumption could have been 2.8%, and it could have been 10.9% in investments, 8.6% in exports and 6.4% in imports. In 2021, the growth rates of these factors could be 4.1%, 4.8%, 6.7% and 4.6%, respectively.

The inflation rate slowed down in the last months and was 2.7% in November. Given this slow-down, the annual average inflation rate may be 3.3% in 2020 and 3.5% in 2021. In 2021, the base effect will also contribute to growth: the demand for oil fell back during the spring lockdowns, and the price of the product decreased accordingly.

By 2020, the sovereign debt may have increased from 65.4%—measured at the end of 2019—to 81.0%, and we estimate the sovereign debt to decrease to 76.0% by the end of 2021.

SZIGMA indicators

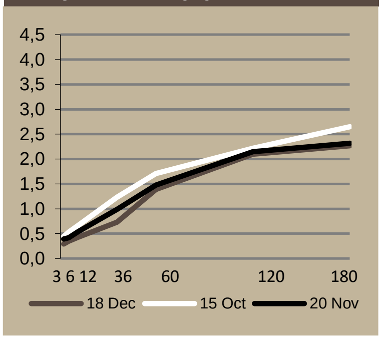


Source: Századvég

Forecast (17 December 2020)

	2021
GDP volume change (%)	4,2
Inflation (annual average, %)	3,5
Gross wages (annual change, %)	5,6
EUR/HUF	355

HUF yield curve (%)



Source: Datastream

Economic overview

External environment

The European Central Bank eased monetary policy.

The European Central Bank did not change its reference interest rate in December either, the base interest rate remained unchanged, at 0%, while the overnight deposit and credit interest rates are -0.5% and 0.25%, respectively. The Central Bank expects to keep the present (or lower) interest rates until the inflation outlooks persistently come close to 2%. The Central Bank also increased the allocation of the Pandemic Emergency Purchase Programme (PEPP) by EUR 500 billion to EUR 1,850 billion, while the deadline for purchases was postponed to the end of March 2022. The Central Bank also emphasised that it is not going to decrease the amount of the PEPP until the end of 2023. Additionally, the European Central Bank recalibrated the conditions of targeted longer-term refinancing operations (TLTRO-III), decided to start four additional pandemic emergency longer-term refinancing operations (PELTRO) in 2021 and extended the timescale of collateral easing measures, up to June 2022. Monetary policy easing was again necessary because the ECB’s December forecast expects the eurozone’s 7.3% economic drop of this year to be followed by a 3.9% increase in the next year and by a 4.2% increase in 2022. This means that the zone may reach its pre-crisis level only by the end of 2022. Consequently, the inflation rate may altogether reach 0.2% this year, and is expected to increase only to 1.4% by 2023, i.e. it may persistently remain below the central bank’s target.

In October, the unemployment rate was 7.6% in the European Union and 8.4% in the eurozone. Both figures indicate a 1.0 percentage point increase compared to the same period of the previous year. Quantitatively, the number of the unemployed increased by nearly 2.2 million in the European Union and by 1.7 million in the eurozone in a single year. The lowest rates were still measured in the Czech Republic (2.9%), in Poland (3.5%) and in Malta (3.9%), but also these 3 Member States saw a significant increase of unemployment, compared to the respective period of the previous year. The unemployment rate does, however, not reflect adequately the labour market trends in every country. France, for instance, saw a more than 500,000 (2.6%) decrease in the number of employees in Q3, compared to the same period of 2019, while the number of the unemployed raised only by 100,000. Similarly, Italian unemployment statistics show only a part of the 600,000 (2.4%) decrease in employment. Consequently, the largest part of those having lost their jobs became inactive and did not immediately start to look for a new job. By contrast, the nearly 650,000 (1.4%) decrease of employment in Germany approximately equals the change of the number of the unemployed.

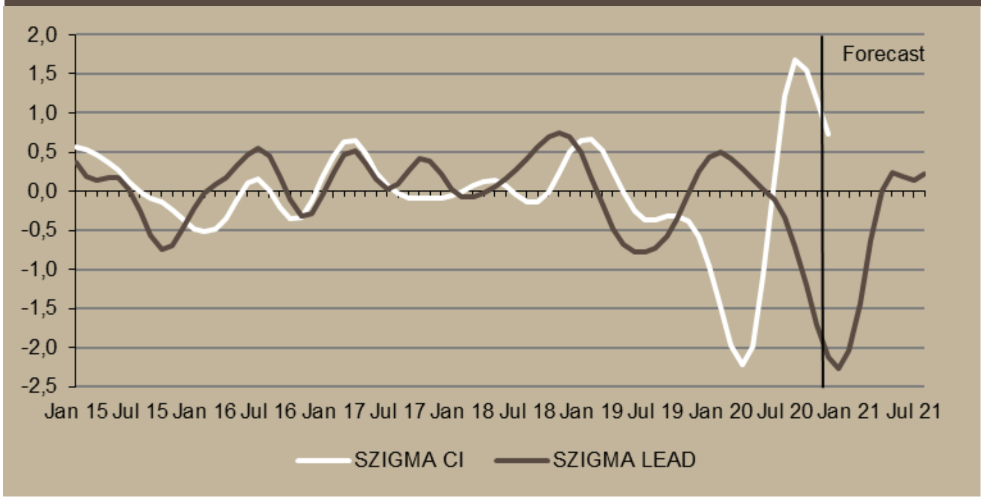
SZIGMA indicators

Our SZIGMA indicator had a positive value again in November.

The SZIGMA CI indicator, which provides a picture of the current state of the Hungarian economy, turned again slightly positive in November 2020, showing that the Hungarian economy grew at a rate above the trend. In October 2020, the domestic sales volume of the industry was slightly below the previous year’s data (by 1.7%), while its export sales volume was already above the previous year’s value (by 3.0%). They increased, however, on a month-over-previous-month basis (by 0.6% and 2.5%, respectively). On a year-on-year basis, new domestic and export sales orders increased in volume by 3.1% and 4.5%, respectively, while they were below their September 2020 value by 4.3% and 15.2%, respectively. We expect the industrial output to increase at the end of the year, while its contribution to the growth in Q4 may be neutral. In October 2020, the end-of-month volume of contracts in the construction industry was 10.0% below the level measured in 2019. The number of new non-residential building projects was, however, 13.5% higher than in October 2019.

The SZIGMA LEAD indicator, which expresses our expectations for the short-term performance of the Hungarian economy, indicates that growth will be below the trend until March 2021. The Ifo Business Climate index, which provides a picture of the changes of the business climate of the German economy, dropped by 1.8 index points on a month-over-previous-month basis and by 3.8 index points on a year-over-year basis, in November 2020. This is because the second wave of the coronavirus pandemic resulted in increasing uncertainty. The external environment's contribution to the domestic output is, therefore, expected to be negative. In October 2020, retail sales remained 1.9% below their level measured for the same period of the previous year, which is mostly attributable to the significant fall in fuel sales. The regulations in force significantly determine the retail sales' contribution to the economic growth in Q4. The consumer trust index measured by Eurostat was also below its level recorded in November 2019 (by 17.2 index points), it implied, however, an increase on a month-over-previous-month basis (by 1.4 index points). The negative index value implies that a restoring trust could further expand sales of this segment. Overall, the economic shock resulting from the coronavirus pandemic could reduce the output of the Hungarian economy by nearly 6.0% in 2020.

Fig 1 Szigma simultaneous (CI) and leading (LEAD) indicators



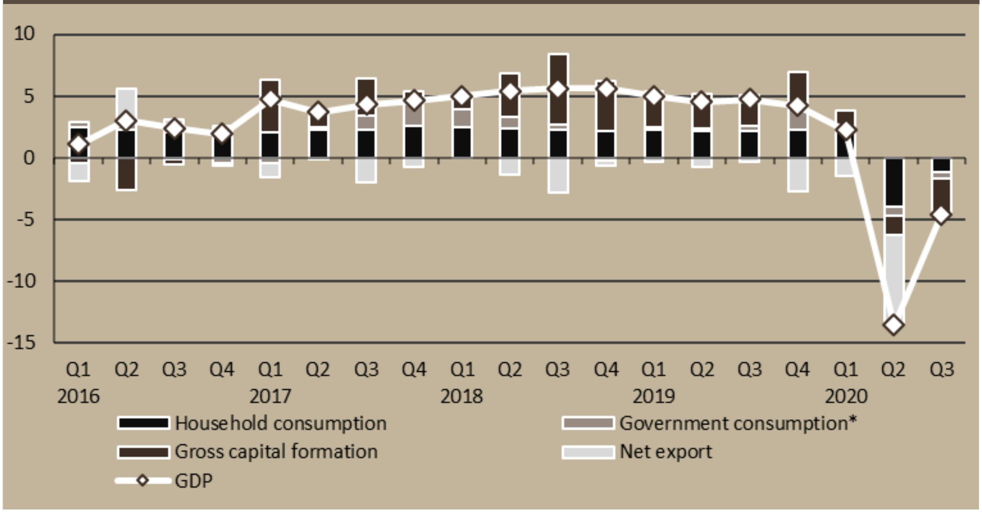
Source: Századvég

Real economy

The downturn became less severe, its rate fell to 4.6% in Q3.

The second estimate of the Hungarian Central Statistical Office for Q3 2020 showed a 4.6% decrease in the Hungarian gross domestic product because of the state of danger caused by the coronavirus pandemic. Both seasonally and calendar-adjusted data show that the GDP volume was 4.6% smaller than in the same period of the previous year, but the Hungarian economy started to recover from the crisis, showing an 11.4% increase relative to the figure for the previous quarter.

Fig 2 Contribution to y-o-y GDP-growth (expenditure approach; %)



Source: HCSO. *: with any kind of social transfers

On the production side, the added value generated by agriculture was 3.8% lower than one year before. In the period under review, the added value generated by the industry decreased, relative to Q3 2019, by 2.4%; within it, the manufacturing industry decreased by 1.9%. The added value generated by the construction industry in Q3 2020 was 17.6% smaller, that of services was 4.0% smaller than one year before. Agriculture meant 0.2 percentage points, the industry meant 0.4 percentage points, the construction industry meant 1.0 percentage points and services meant 2.2 percentage points in the decrease of the GDP.

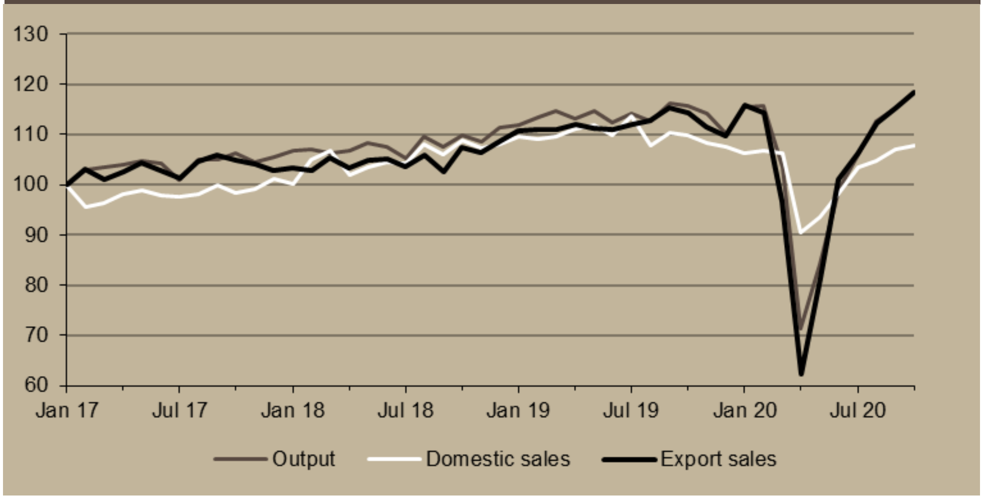
In terms of consumption, household consumer spending decreased by 2.2%, the volume of community consumption fell by 4.8% relative to Q3 2019. The state of danger and the lockdown caused by the coronavirus pandemic played a key role in the decrease of household consumption. In contrast to its considerable growth in the pre-crisis quarters, the gross accumulation of fixed assets decreased by 13.7% relative to the same period of the previous year, also because of the coronavirus pandemic.

In Q3 2020, the volume of exports and that of the imports were both 5.2–5.2% smaller than the level recorded for the same period of the previous year. Hence, the foreign trade balance reduced the growth of the GDP by 0.1 percentage points. Within total exports, the exports of services decreased by 29.2%, and the exports of goods increased by 2.7% on a year-on-year basis. As for imports, the imports of services decreased by 26.4%, and the imports of goods decreased by 0.6%, compared to the same period of the previous year.

In October, industrial output reached the level recorded one year before.

In October, the industrial output calculated on a raw data basis was 0.6% higher than one year before, and 2.8% higher on a workday-adjusted basis. The increase was 2.8% on a month-on-previous-month basis. This means, that the output of this sector reached the previous year's volume in the period under review; therefore, it returned to its pre-crisis level overall. The sales volume was, however, minimally (0.4%) below the level recorded one year before. Within that, domestic sales decreased by 3.1%, while export sales increased by 1.0%.

Fig 3 Industrial output and sales (January 2017 = 100%)



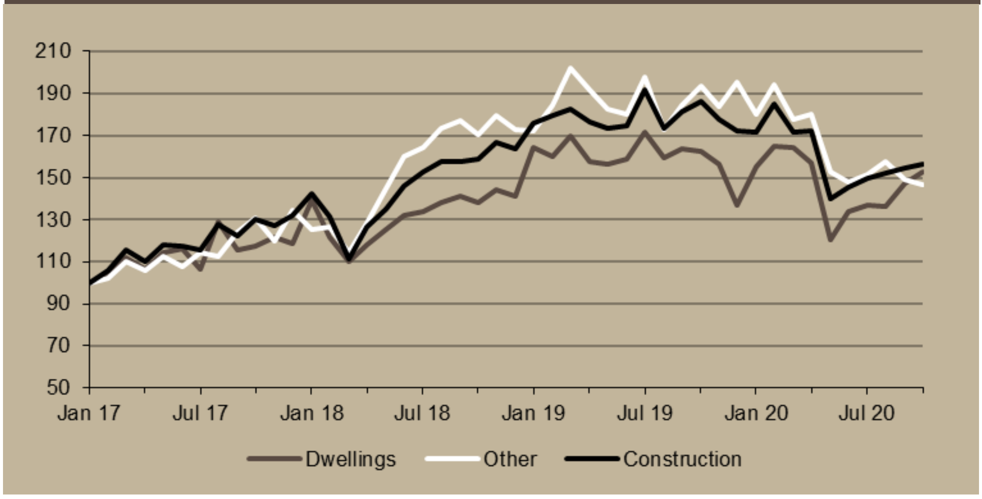
Remark: Seasonally and working-day adjusted data
Source: HCSO, Századvég

The production volume indices in different sectors of the industry show a rather mixed picture. The output of mining decreased by nearly one third, while that of the manufacturing industry was 1.2% higher and the energy industry's performance was 5.8% higher than one year before. The subsectors of the manufacturing industry also show a rather mixed picture. 8 from the 13 subsectors of the manufacturing industry saw decrease, while 5 saw increase. The greatest increase of output (15.8%) was seen in the chemical industry, followed by the raise in electric equipment manufacturing (13.1%) and the increase of the automotive industry (7.6%), which is an important sector in the Hungarian economy. The worst downturn (23.0%) was seen in coke production, crude oil processing, but the decrease was significant in the textile industry (18.5%) and in the rubber industry (11.5%), too. In terms of industrial output, the sales order volume developed positively in October; overall, it was 6.5% higher than one year before. More specifically, the volume of domestic sales orders was 1.5% higher, that of export sales orders was 6.9% higher relative to the previous year. The volume of new sales orders was 4.3% higher than one year before. More specifically, the volume of new domestic sales orders increased by 3.1%, that of new export sales orders raised by 4.5% in a single year.

The output of the construction industry is still below last year's level.

In October, the output of the construction industry was again considerably, 16.2% less than one year before, while seasonally and working-day adjusted data show a 1.3% increase on a month-on-month basis. The outputs of the individual building groups showed a mixed picture: buildings saw a decrease of only 5.3%, while the decrease of civil engineering works was 26.5%. The decrease is still attributable to the shrinkage of demand: companies are holding back their investments because of the uncertain economic circumstances, and local governments and the state do the same because of shortage of funding. The significant decrease in civil engineering works implies the same. The sales order volume of this sector was still significantly, 10.0% below the level recorded one year before. More specifically, the volume of sales orders for buildings grew by 25.0%, and that for civil engineering works dropped by 23.0%. The 17.3% increase in the volume of new contracts shows, however, a positive trend. More specifically, the volume of new contracts for buildings grew by 16.1%, and the volume of new contracts for civil engineering works grew by 17.3%.

Fig 4 Construction sector (January 2017 = 100%)



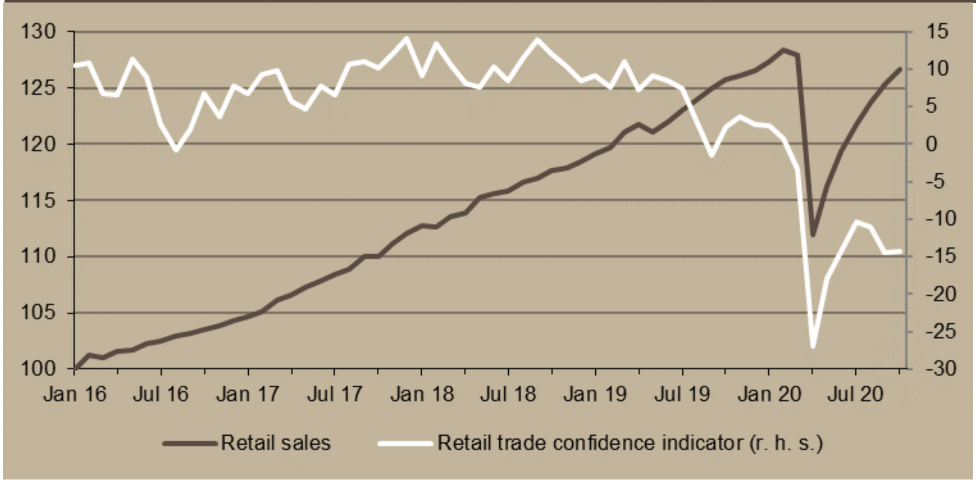
Remark: Seasonally and working-day adjusted data
Source: HCSO, Századvég

In October, retail sales were 2.4% below the volume recorded one year before.

October 2020 raw data show that retail sales shrank by 2.4% relative to the same period of the previous year, while calendar-adjusted data show a 1.9% decrease. Adjusted data show, however, a 1.2% month-on-month increase. In October 2020, the calendar-adjusted volume of sales increased by 1.2% in specialised and non-specialised food shops, while it decreased by 1.2% in non-food shops and by 10.5% in fuel retail, relative to October 2019.

In October 2020, parcel companies and web-shops continued to dynamically increase their sales: their calendar-adjusted data show a 43.4% increase on a year-on-year basis. A considerable decrease in sales was, however, recorded in the case of second-hand shops (-15.2%), shops selling books, newspapers, and stationery (-27.6%), shops selling furniture and electric goods (-19.4%), as well as textile products, clothing, and footwear (-11.2%). Additionally, the volume of sales of shops selling computers and other manufacturing goods dropped (by 4.5%), that of shops selling fragrances decreased (by 7.6%), and the volume of sales of shops selling non-specialised foodstuffs fell, too (by 2.2%). Relative to October 2019, the volume of sales of pharmaceuticals and medicinal products saw an increase (4.1%). Calendar-adjusted data show that, in October 2020, the sales volume of non-specialised food shops increased by 2.4%, relative to the same period of the previous year. Vehicle fuel sales were in turn 10.5% below the figure recorded for October 2019.

Fig 5 Retail sales volume (January 2016 = 100%) and retail trade confidence indicator

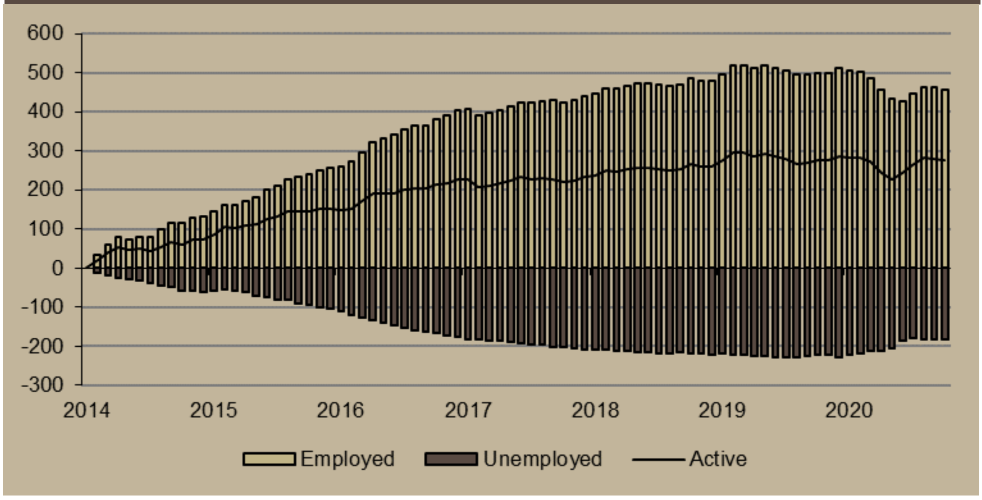


Remark: Seasonally and working-day adjusted data
Source: HCSO, Eurostat, Századvég

Companies in the private sector are again gradually increasing their headcounts.

Seasonally adjusted data show that, on a month-on-month basis, the number of the employed decreased further by nearly 5,000 to 4,457,000 in October, while, on a year-on-year basis, it decreased by 41,000. Consequently, the arrival of the second wave affected the economy, too; however, without extensive layoffs.The number of the active population decreased slightly again. Similar to the first wave, this is attributable to the fact that some of those having lost their jobs became inactive. Taking that into account, the number of the unemployed still did not change significantly in the last 3 months and was only 1,000 below its September value in October 2020. The number of the unemployed (205,000) meant a 4.4% unemployment rate in October. Seasonally adjusted data show that, on a month-on-month basis, the number of the employed increased by nearly 14,000 in September, while on a year-on-year basis the decrease fell to 112,000. Consequently, companies are gradually increasing the number of their employees, and more and more people are returning to full-time employment. The entire growth is attributable to the business sector, where the number of employees increased by 17,000 on a month-on-month basis, which is, however, still 107,000 below the previous year’s figure. By contrast, on a month-on-month basis, the number of the employed decreased by 4,000 in the public sector, while it dropped by 11,000 on a year-on-year basis. In September, nearly 91,000 employees worked in public employment schemes, which number equals the July and August data.

Fig 6 Labour market trends (January 2014 = 0, thousands of persons)

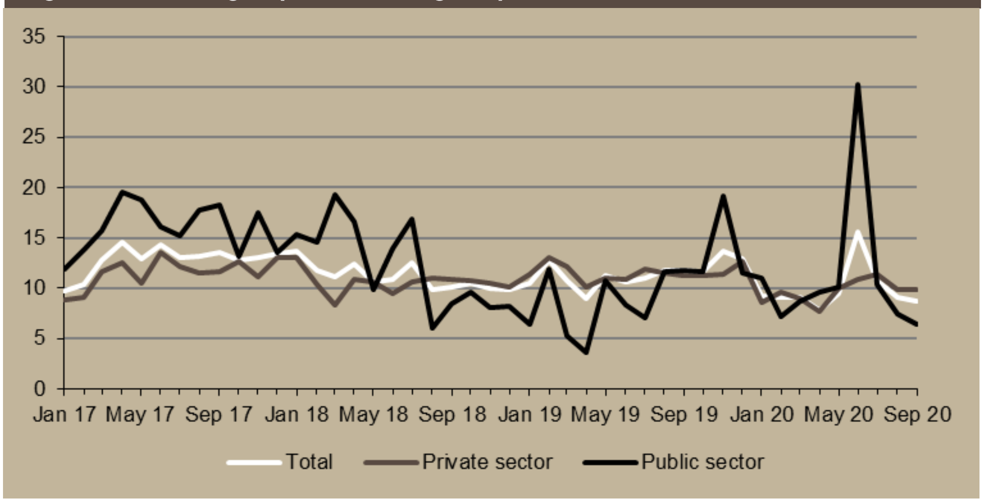


Remark: Seasonally and working-day adjusted data
Source: HCSO, Századvég

Companies might postpone their usual wage increases at the beginning of next year.

In September, the average gross monthly wage increased by 8.8%, to HUF 392,349 relative to the same period of the previous year. More specifically, the increase rate of the average monthly wage was 9.8% in the private sector, while public sector wages increased by 6.5%. The key drivers of the wage trends were still the 8% increase of the minimum wage and the guaranteed wage minimum at the beginning of the year and the economic effects of the coronavirus pandemic. As a consequence of the pandemic, companies can employ a part of their employees only on a part-time basis, who are therefore not included in the statistics. The pandemic also significantly limits wage increase opportunities. In September, the average net monthly wage was HUF 260,912, which corresponds to an 8.8% increase. Taking the 3.4% inflation into account, the increase is 5.2% in real terms. The key driver of next year's wage trends will be the increase of the minimum wage and the guaranteed wage minimum. The Permanent Consultation Forum of the Competitive sector and the Government is still negotiating the rate of the increase. Most companies are, however, expected to postpone their usual wage increases at the beginning of the year so that they can assess economic trends more thoroughly.

Fig 7 Gross wages (annual change, %)



Remark: Seasonally and working-day adjusted data
Source: HCSO, Századvég

External balance

The EUR value of exports increased in September and decreased in October.

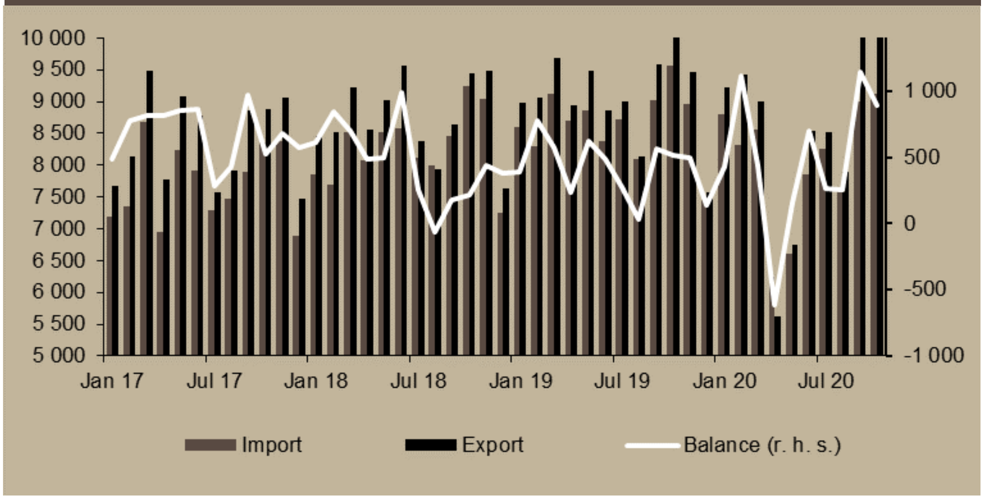
In September, product exports increased by 6.1% and product imports decreased by 0.8% in EUR value, on a year-on-year basis. This means that the foreign trade balance was EUR 1.1 billion, which is EUR 664 million more than last year.

In September, the volume of food product imports increased by 5.7%, and food product exports raised by 8.2% on a year-on-year basis. As for energy carriers, imports dropped by 21%, while exports hardly changed. As for processed products, imports increased by 8.2%, exports raised by 11.0% on a year-on-year basis. As for machinery and transport equipment, imports increased by 5.1%, and exports increased by 11.0%.

In October 2020, the EUR value of exports was 1.5% lower, while the EUR value of imports was 6.8% lower than one year before. The foreign trade balance was therefore EUR 896 million, which is 516 million more than one year before.

In September 2020, the current account balance was EUR 636 million. This means that, in the first nine months of 2020, the cumulative current account balance for this year increased to EUR 366 million, which exceeds the EUR 249.6 million balance of the January–September period of 2019.

Fig 8 Balance of trade (in million EUR)



Remark: The data relating to October 2020 derive from the first estimates.
Source: HCSO

Fiscal outlook

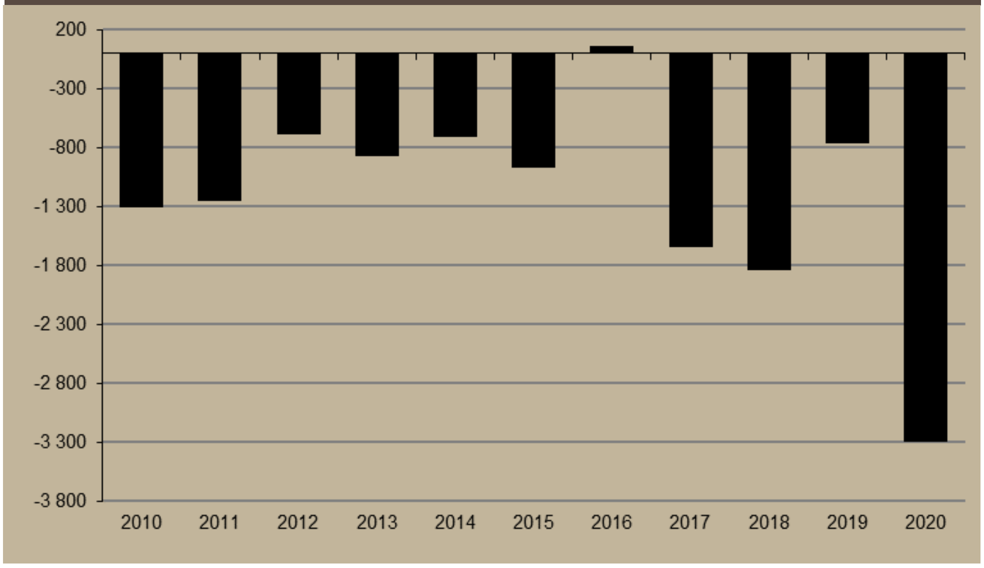
The coronavirus crisis caused the budget deficit to increase sharply.

In the first eleven months of the year, the central budgetary subsystem accrued a deficit of HUF 3,298.1 billion. This is attributable to the general government deficit of HUF 2,778.4 billion, the social security funds subsector's deficit of HUF 572.7 billion, and the extra-budgetary funds' surplus of HUF 53.0 billion.

As for Government revenues until the end of November 2020, value added tax revenues were 0.4% (HUF 17.6 billion) less than one year before. By contrast, excise tax revenues were 1.2% (HUF 12.6 billion) higher and personal income tax revenues were 4.6% (HUF 101.3 billion) higher than in the same period of the previous year. Corporate tax revenues were still significantly, 54.7% (HUF 134.5 billion) higher than in the period between January and November 2019. Among the changes affecting the above taxes, we should mention the shorter payment deadline for reclaimable VAT and the decrease of fuel sales. In the case of corporate tax, the discontinuation of the tax advance top-up liability in December 2019 is worth mentioning. General government revenues from social contribution tax, pension, health insurance and labour market contributions decreased by 2.9% (HUF 146.1 billion), relative to the same period of 2019.

The revenues from EU programmes reached HUF 1,016.1 billion between January and November 2020, while the related expenditures amounted to HUF 1,804.5 billion. By the end of November 2020, the government spent HUF 599.4 billion on healthcare equipment for the coronavirus pandemic. Among the development programmes implemented from Hungarian state funds, we should mention the Earmarked Scheme for Tourism Development (HUF 202.0 billion), the priority public road projects (HUF 200.2 billion) and the amounts spent on competitiveness subsidies (HUF 179.6 billion).

Fig 9 Cumulated budget deficit (Jan–Nov, in bn HUF)



Source: Ministry of National Economy

Monetary developments

The inflation rate slowed down to 2.7%.

In November 2020, consumer prices increased by 2.7% on average, compared to the same period of the previous year. In the past year, the highest price increase was recorded for food products, alcoholic beverages and tobacco products. In comparison with the same period of the previous year, the price of alcoholic beverages and tobacco products increased by 6.6% on average, while that of food products increased by 6.2%. Taking a closer look at alcoholic beverages and tobacco products, one can see that the excise tax increase caused the price of tobacco products to increase by 10.1% as compared to the same period of 2019.

The 6.2% average price increase of food products was driven mainly by the 12.6% increase in Extrawurst and sausage prices, the 7.8% increase in bread prices and especially the 27.0% increase in fresh Hungarian and tropical fruits. The increase in fruit prices is primarily attributable to the poor harvest caused by unfavourable weather. The drop in potato prices (12.3%) and coffee prices (0.7%), furthermore the 0.4% increase of poultry prices and the 2.1% raise of milk prices held back the average inflation of food products.

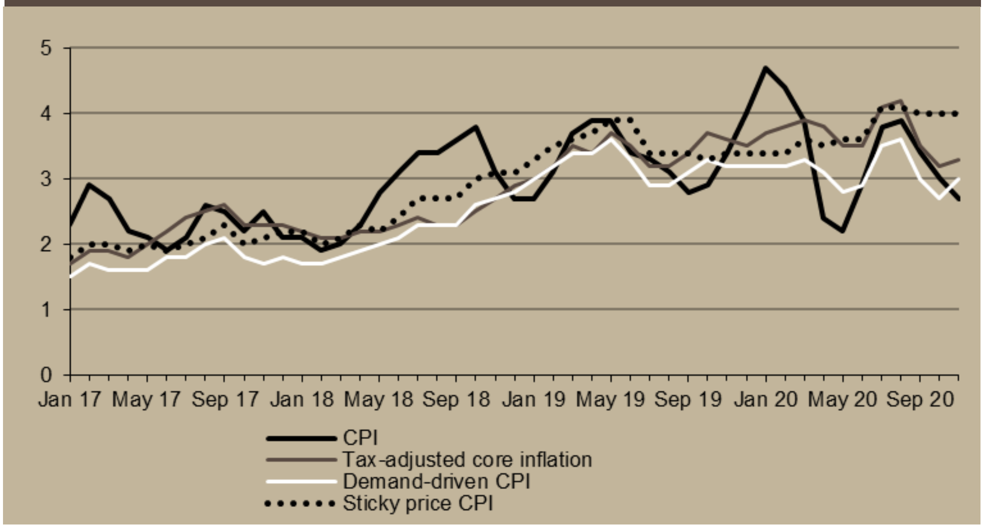
In November, prices of other products and fuels decreased by 1.7% in comparison with the same period of the previous year, but vehicle fuel prices dropped by 7.6%. This was caused by the decrease of oil prices, which is explained by the drop in demand as a result of the coronavirus epidemic. In addition to vehicle fuels, coursebook prices decreased by 96.9%, which is attributable to the free school coursebooks from the 2020-

2021 school year. The average increase in household energy prices was 0.2% in November, compared to the same period of the previous year. Within household energy, fuelwood prices increased by 1.2%, coal prices increased by 4.1%, and bottled gas prices increased by 0.8% in a single year. The price of electricity, pipeline gas and district heating remained unchanged.

In November, the prices of services increased by 1.9% on average, which was driven by the 10.9% increase in home repair and maintenance prices, the 8.4% increase in vehicle repair and maintenance prices, the 7.8% increase in gambling prices and the 5.9% increase in the prices of healthcare services. The average price increase of services was moderated by the 21.0% decrease in motorway tolls, vehicle renting and parking prices, the 7.1% decrease in the prices of other long-distance travels, the 1.5% decrease in telephony and internet prices, and the 0.5% increase of rents. Clothing prices decreased by 1.0% and the prices of durable consumer goods increased by 2.6% on average, in a single year. Taking a closer look at the latter, one can see that jewellery prices increased by 20.0%, new car prices increased by 11.2%, but used car prices dropped by 3.7%.

Based on the base inflation indicators published by MNB, the seasonally adjusted core inflation rate was 3.9%, while the core inflation rate excluding the effects of indirect taxes was 3.3% in November. The demand-sensitive inflation rate was 3.0%, the sticky price inflation rate was 4.0% in November.

Fig 10 Inflation (y-o-y, %)



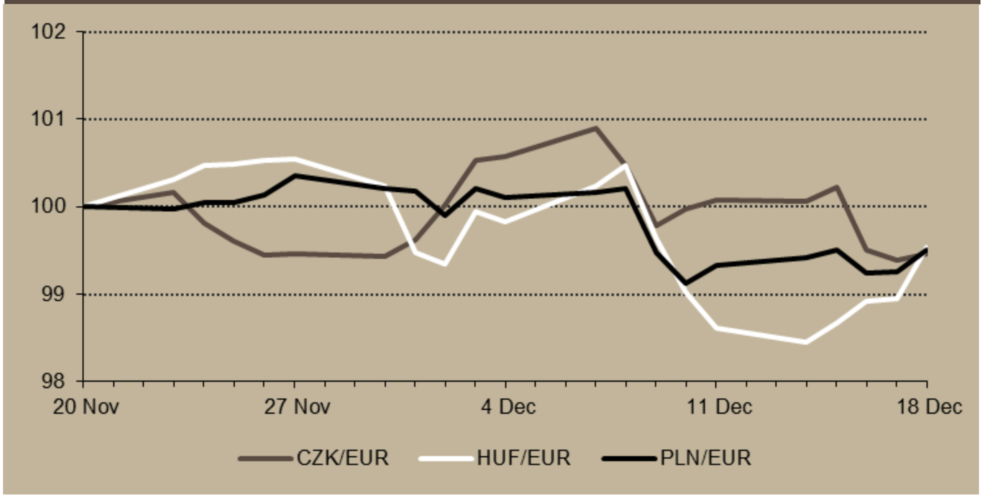
Source: NBH, Századvég

Neither the ECB nor the FED changed their interest rates.

Both the ECB Governing Council and the Federal Open Market Committee met in the recent period. Eurozone interest rate conditions did not change, i.e. the reference interest rate is still 0.00%, the active and deposit rates of central bank availability are 0.25% and -0.50%, respectively. The Federal Open Market Committee did not change its base interest rate with a target range from 0% to 0.25%.

Our region showed a more positive picture. The foreign currency exchange rates for both the Czech koruna and the Polish zloty have strengthened against the Euro, by 0.5% and 0.5%, respectively. The CDS spread (5-year CDS) increased by 2 base point, to 41 base points in the Czech Republic, while it decreased by 4 base point to 50 base points in Poland.

Fig 11 Regional exchange rates (start date = 100%)



Source: Thomson Reuters Datastream

The HUF strengthened against the EUR.

Indicators of the Hungarian financial and foreign currency markets have shown an overall more positive picture in the past period. The value of the 5-year CDS spread decreased by 1 base points to 61 base points. The HUF strengthened by 0.5% against the Euro, by 0.8% against the Swiss Franc, and by 3.6% against the US Dollar. This means that on 18 December, one Euro was worth HUF 358, one US Dollar was worth HUF 292, and one Swiss Franc was worth HUF 330. Sovereign debt held by foreigners has recently increased by HUF 38 billion to HUF 4,549 billion.

The base interest rate remained unchanged (0.6%).

At its interest rate setting meeting in December, the Monetary Council of the MNB did not change the reference interest rate; the base interest remained therefore 0.6%. This decision met the expectations and the prior communications of the MNB. The MNB Monetary Council did not change the interest rate corridor either and left the overnight deposit interest rate at -0.05% and the credit rate at 1.85%. The MNB kept the interest rate of the one-week deposit instrument at 0.75%.

The Monetary Council launched two programmes on 4 May: a government bond purchase programme on the secondary market to ensure the stable liquidity of the government securities market and relaunched its mortgage bond purchase programme to increase the long-term supply of funds for the banking system. The MNB bought further government securities in the value of HUF 82.98 billion in the past period, meaning that the total value of the secondary-market government securities held by the MNB increased to HUF 740.77 billion. In the past period, the MNB did not purchase mortgage bonds from the primary market (total value: HUF 143.8 billion). The MNB purchased mortgage bonds in the total value of HUF 4.0 billion on the secondary market, i.e. the total value of this portfolio increased to HUF 135 billion. The MNB's FX swap portfolio is currently HUF 1,786 billion, which did not change in comparison to the previous month.

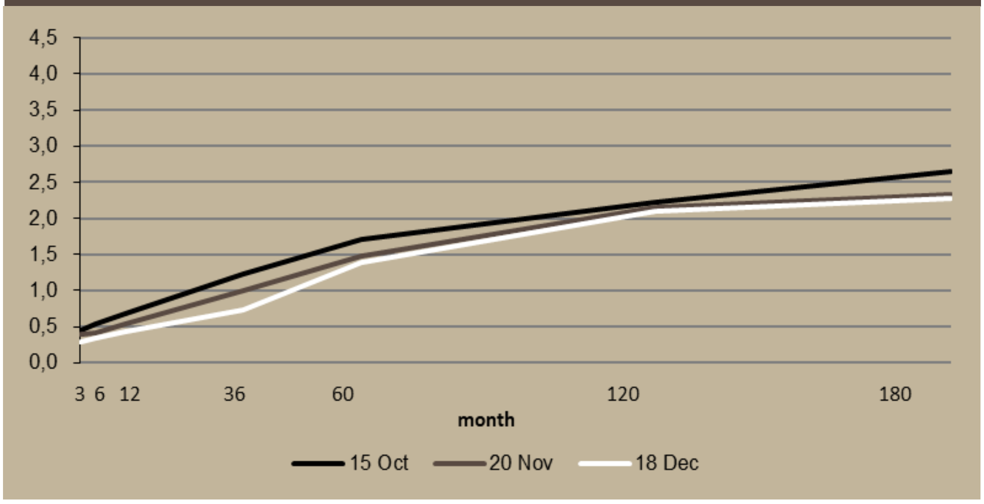
In the last month, shorter-term yields decreased by between 7 and 11 base points on the secondary market yield curve of the government securities market. This means that the 3-month yield was 0.29%, the 6-month yield was 0.35% and the 1-year yield was 0.43% on 18 December. The 3-year yield decreased by 26 base points to 0.73%. On a month-over-previous-month basis, 5-year yields decreased by 9 base points, 10-year yields decreased by 5 base points, and 15-year yields decreased by 5 base points, too. These three yields shrank, therefore, to 1.39%, 2.1% and 2.27%, respectively. The still low short-term yields are attributable to the excess liquidity, the interest rate cut, and the still loose monetary policy, while the change of longer-term yields is in line with international trends.

Since 3 June 2019, retail investors can buy super government bonds (MÁP+) with a relatively high interest rate that gradually increases during its term, ensuring a total annual yield of 4.95%. At the end of November 2020, the total value of government bonds held by retail investors was HUF 5,110.09 billion, which implies a HUF 151.67 billion increase compared to the HUF 4,958.42 portfolio value in October.

The share of foreign currency debt in the sovereign debt changed to 20.16% in November (corresponding to an increase of 1.63 percentage points), which is above the upper edge of the range (10–20%) specified in the financing plan for 2020 of the Government Debt Management Agency Ltd. Namely, on 12 November, the Government Debt Management Agency Ltd. successfully issued treasury bonds denominated in foreign currencies. The issuance of bonds to secure funds to repay foreign currency bonds maturing in 2021 was favourable. The Government Debt Management Agency Ltd. issued the 10-year treasury bond of EUR 1.25 billion with a 0.5% annual coupon and the 30-year treasury bond of also EUR 1.25 billion with a 1.5% annual coupon, at a nearly five-fold oversubscription.

None of the big international credit rating agencies had a pre-announced rating date in the past period for changing or confirming the risk rating. The Hungarian government debt is, therefore, rated as Baa3 with a positive outlook at Moody's, BBB with a stable outlook at S&P, and BBB with a stable outlook at Fitch. This means that Moody's rates the risk of Hungarian government securities at the lowest level of the category recommended for investment, the other two big international credit rating agencies rate it one category higher.

Fig 12 The HUF yield curve (%)

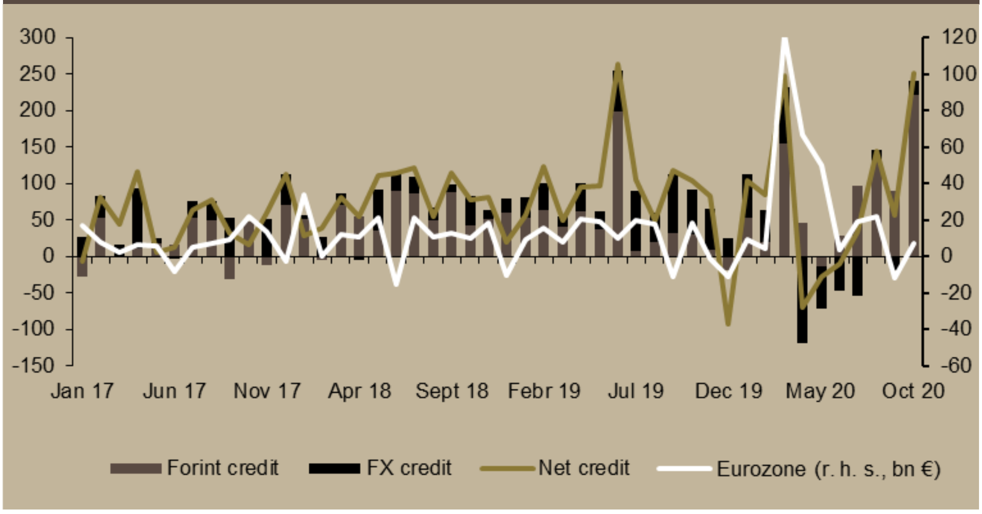


Source: Government Debt Management Agency, Századvég

Corporate credits increased.

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector was HUF 221.7 billion in October 2020. The net borrowing of foreign currency loans was HUF 18.8 billion in October; in other words, the aggregate value of the foreign currency loans held by the business sector increased again. This means that, based on seasonally adjusted data, total net borrowing was HUF 250.9 billion in October. Corporate borrowing in the eurozone was EUR 7.462 billion in October.

Fig 13 Corporate borrowing (in billion HUF)



Source: NBH, ECB, Századvég

In October, the value of gross loan placement in HUF over and above bank overdrafts was HUF 147.2 billion, which is HUF 71.1 billion more than the amount of the previous month. The sum of newly granted euro-loans was HUF 54.6 billion, which is HUF 33.0 billion more than the figure for September.

Macroeconomic update by Századvég Economic Research Institute

We expect a 6.1% downturn this year and a 4.2% increase next year.

Since our September forecast, new strict measurements have been imposed, because the second wave of the pandemic was worse than expected. The Q3 downturn was, however, less severe than expected. Taking these factors into account, we expect that the 2020 downturn will be higher than forecasted, 6.1%. Taking the January carryovers and lasting consequences of the restrictions into account, and the upcoming availability of vaccines, we expect the economy to increase by 4.2% in 2021. In our forecast for 2022, we expect an increase of 4.5%, i.e. the economy may return to its former dynamic growth trend in the long run.

After significant shocks in Q2, the economy started to regenerate. By the end of Q3, the output of several sectors reached or exceeded its pre-virus value. By contrast, the output of some other sectors (e.g. tourism, transport services) was significantly below the former volume. In terms of healthcare, the second wave turned out to be more serious than expected, so restrictions were again imposed. The resulting downturn is, however, expected to be lower than in Q2, the economic shutdown caused by the restrictions was not as severe as in the spring. When the pandemic-restrictions get lifted and the vaccines will be available, the economy may gradually return to its previous output. We expect the economic output to be lower in 2021 than in 2019, but significantly higher than in 2020. We must, however, mention that the prognoses for the next years contain higher risks than usual: the recovery process and the volume of long-lasting damages are still unknown. Accordingly, the increase in 2021 may be significantly lower or higher as compared to the baseline projections.

We expect that household consumption will decrease by less than 3% in 2020. This is largely because some products and services became temporarily unavailable, some part of household consumption was postponed because of the uncertainty; and the travel restrictions, reflected by fuel sales, were also key factors. The stability of the labour market prevented, however, any major decrease in consumption, and employment decreased only slightly. We estimate the unemployment rate to increase only to 4.2%, as a result of the former labour shortage. We expect employment to increase again after the pandemic and some industries may again face labour shortage. The restored level of employment is, however, still a question in the sectors hit by the pandemic, which means that some employees of these sectors may have to find jobs in other industries.

This year, investments may have decreased by more than 10%. This is largely explained by pandemic-caused uncertain economic circumstances and by the fact that the government, the local governments and the companies postponed their investments because of funding shortage; and finally, the cyclicality of EU funds contributed to the decrease, too. In the next two years, we expect an increase in this regard as well; the utilisation rate of EU funds will be a key factor in this respect.

In the case of exports, the spring shutdown of European economies caused a significant decrease. This was then followed by a bounce-back, so exports nearly reached their pre-crisis volume. By contrast, the downturn of imports may have been slighter this year, taking the import of healthcare equipment also into account. We expect the foreign trade balance to improve in the next two years.

In the past period, the inflation rate decreased, so we expect the inflation rate to be 3.3% on a year-to-year basis, which is above the central bank's target but within target range and lower than before. More specifically, food prices will increase, however, faster than the average, so households will sense the inflation rate to be higher. Next year, the inflation rate may be 3.5%, in which the excise tax increase due at the beginning of next year and the base effect may be the key factors: at the time of spring shutdown of economies oil prices slumped, which resulted low base data.

As a result of deteriorating macroeconomic conditions and increasing government spending, the government deficit is expected to be high, above 8% of the GDP this year. Therefore, the return to the strict budgetary policies of the former years and the definite reduction of the government debt will have to be priorities. We expect the government deficit to be high (6.7%) next year, but it may decrease to 3.5% by 2022. This year, the government debt-to-GDP ratio may increase to 81.0% from 65.4% measured in 2019, but this could decrease to 73.7% by 2022.

Századvég forecast[1]

Fig 14 Q2 2020 projection

	2019	2020				2020	2021				2021
	annual	Q1	Q2	Q3	Q4	annual	Q1	Q2	Q3	Q4	annual
Gross domestic product (volume index, %)	*4,6*	*2,2*	*–13,6*	*–4,6*	–7,5	**–6,1**	–5,3	12,9	3,8	5,4	**4,2**
Household consumption expenditure (volume index, %)	*4,6*	*4,6*	*–8,3*	*–2,7*	–4,2	**–2,8**	0,2	7,8	3,7	4,7	**4,1**
Gross fixed capital formation (volume index, %)	*12,2*	*–4,1*	*–10,9*	*–13,7*	–12,3	**–10,9**	–5,6	7,8	8,6	8,3	**4,8**
Export volume index (based on national accounts, %)	*5,8*	*–0,3*	*–24,2*	*–5,2*	–4,2	**–8,6**	–5,1	18,2	6,9	6,7	**6,7**
Import volume index (based on national accounts, %)	*7,5*	*1,4*	*–16,4*	*–5,2*	–5,4	**–6,4**	–4,4	11,3	5,0	6,6	**4,6**
Foreign trade balance (bn EUR)	*4,4*	*1,9*	*0,2*	*1,7*	1,0	**2,8**	1,5	1,6	2,2	1,1	**6,5**
Consumer price index (%)	*3,4*	*4,3*	*2,5*	*3,7*	2,8	**3,3**	2,7	4,5	3,3	3,3	**3,5**
Central bank's base rate at the end of the period (%)	*0,9*	*0,90*	*0,75*	*0,60*	0,60	**0,6**	0,60	0,60	0,60	0,60	**0,6**
Unemployment rate (%)	*3,5*	*3,7*	*4,6*	*4,4*	4,1	**4,2**	3,9	3,7	3,6	3,4	**3,7**
Gross average earnings (year-on-year change, %)	*11,4*	*9,1*	*11,0*	*10,2*	8,9	**9,8**	8,8	5,2	4,3	4,2	**5,6**
Current account balance as a percentage of GDP	*–0,3*					**–2,0**					**–0,6**
External financing capacity as a percentage of GDP	*1,5*					**1,4**					**1,5**
General government ESA-balance as a percentage of GDP	*–2,0*					**–8,3**					**–6,7**
GDP based external demand (volume index, %)	*1,5*	*–2,4*	*–14,0*	*–4,2*	–8,0	**–7,2**	–6,2	12	2,8	4,6	**3,3**

Source: HCSO, NBH, Századvég

Fig 15 Changes compared to our previous forecast

	2020			2021		
	Sep 2020	Dec 2020	Difference	Sep 2020	Dec 2020	Difference
Gross domestic product (volume index, %)	–5,2	**-6,1**	*-0,9*	4,5	**4,2**	*-0,3*
Household consumption expenditure (volume index, %)	0,5	**-2,8**	*-3,3*	4,1	**4,1**	*0,0*
Gross fixed capital formation (volume index, %)	–4,9	**-10,9**	*-6,0*	3,1	**4,8**	*1,7*
Export volume index (based on national accounts, %)	–8,6	**-8,6**	*0,0*	7,2	**6,7**	*-0,6*
Import volume index (based on national accounts, %)	–3,3	**-6,4**	*-3,1*	5,4	**4,6**	*-0,7*
Foreign trade balance (bn EUR)	0,2	**4,7**	*4,5*	0,6	**6,5**	*5,9*
Consumer price index (%)	3,7	**3,3**	*0,0*	4,1	**3,5**	*0,0*
Central bank's base rate at the end of the period (%)	0,60	**0,60**	*0,0*	0,6	**0,6**	*0,0*
Unemployment rate (%)	4,2	**4,2**	*0,0*	3,7	**3,7**	*0,0*
Gross average earnings (year-on-year change, %)	9,8	**9,8**	*0,0*	5,6	**5,6**	*0,0*
Current account balance as a percentage of GDP	–4,1	**-2,0**	*2,1*	-3,2	**-0,6**	*2,6*
External financing capacity as a percentage of GDP	–1,9	**1,4**	*3,3*	-0,8	**1,5**	*2,3*
General government ESA-balance as a percentage of GDP	–7,3	**-8,3**	*-1,0*	-3,5	**-6,7**	*-3,2*
GDP based external demand (volume index, %)	–7,1	**-7,2**	*0,0*	6,1	**3,3**	*-2,8*

Source: HCSO, NBH, Századvég

[1] The forecast is valid as of 17 December 2020.

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