SZÁZADVÉG GAZDASÁGKUTATÓ

MONTHLY MONITOR

November 2020

The GDP fell by 4.6% in Q3.

Q3 data show that the output of the Hungarian economy shrank, on a year-on-year basis, by 4.6% according to raw data and by 4.7% according to seasonally and calendar-adjusted data. The GDP grew by 11.3% on a quarter-on-previous-quarter basis.

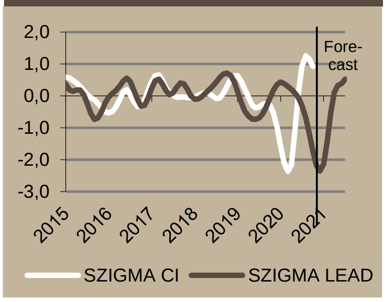
Though the Hungarian Central Statistical Office does not publish the different sectors' contribution to growth in its first estimate, it has already turned out that the financial, insurance, IT and communication sectors performed especially well. Monthly data and the summer restrictions show, however, that the output of several industries may have been significantly less than one year before. Tourism, transport services, the entertainment industry and—because of the decreasing demand—the construction industry may have been affected as such.

Q3 data show, however, that the recovery from the crisis has started, since the output of several sectors may have reached, or even exceeded, their previous year's levels. In Q4, restrictions connected to the second wave of the pandemic are again likely to result in a larger fallback on a year-on-year basis.

MNB data show that, by the end of Q3, the negative macroeconomic processes and the rising expenses of the central budget resulted in an increase of the government debt to GDP ratio by 3.5 percentage points to 73.8% on a quarter-on-previous-quarter basis.

In October, the price increase rate continued to moderate, the inflation was 3.0%, which is the target rate of the MNB. The core inflation rate, which describes the underlying processes, was, however,higher than that, 3.8%. The increase of food prices slowed down but remained significant at 6.5%.

SZIGMA indicators

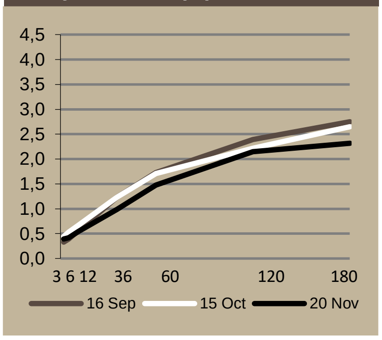


Source: Századvég

Forecast (10 September 2020)

	2020
GDP volume change (%)	5.2
Inflation (annual average, %)	3.7
Gross wages (annual change, %)	9.8
EUR/HUF	349

HUF yield curve (%)



Source: Datastream

Economic overview

External environment

In Q3, the downturn in the USA was only 2.9% on a year-on-year basis.

First estimates show that, in Q3, the GDP of the USA was 2.9% lower than in the same period of 2019. This means a significant improvement compared to the 9.0% downturn in Q2. In Q3, household consumption decreased by 2.9% on a year-over-year basis, primarily because the consumption of services fell by 7.2%, which was only partly offset by the 6.9% increase of the consumption of products. Investments also shrank by 3.8%; this, however, means a significant improvement compared to the 16.9% downturn in Q2. More specifically, retail investments increased by 6.6%, while non-retail investments fell by 5.0%. The foreign trade balance also had a negative impact on the economic growth, because imports decreased by only 8.9%, while exports shrank by 14.6% on a year-over-year basis. Only government spending (consumption and investments) increased on a year-on-year basis; this increase was, however, only 0.4% in Q3.

Following the increase by 1.8 million in July, 1.5 million non-agricultural workplaces were created in August, 672,000 in September and 638,000 in October in the USA. In other words, the economy of the USA continued to recover in autumn, but the recovery rate was gradually slowing down, despite the fact that the number of employees is still 9.2 million less than what was measured in the same period of 2019. As a result of the growing employment, the unemployment rate decreased from 10.2% in July to 6.9% in October. At the same time, there are still many people in the USA who—after losing their jobs—did not stay on the labour market and did not start to find a job, since the activity rate (61.7%) is still 1.6 percentage points lower than its level in the previous year. In the August–October period, average hourly wages raised by 4.5% in the USA, year on year. This was nevertheless caused by composition effects. Sectors paying low wages saw significant fluctuation of employment in the past period, which increased the average wage.

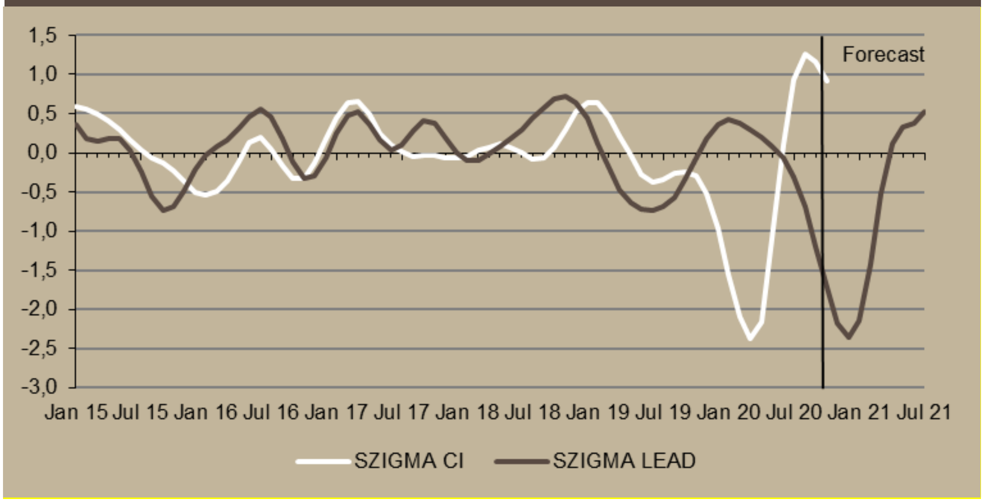
SZIGMA indicators

Our SZIGMA indicator's value became positive.

The SZIGMA CI indicator, which provides a picture of the current status of the Hungarian economy, turned again into positive in October 2020, showing that the Hungarian economy grew at a rate above the trend. In September 2020, domestic and export industrial sales remained slightly below their levels measured for the same period of the previous year (by 2.6% and 0.6%, respectively), but they increased on a month-over-previous-month basis (by 2.2% and 2.8%, respectively). Both on a year-on-year basis and on a month-on-month basis, new domestic and export sales orders increased in volume. They exceeded their September 2019 value by 7.1% and 8.4% respectively, and their August 2020 value by 18.0% and 37.9%, respectively. Industrial output is expected to expand in the remainder of this year; its contribution to growth is, however, still a question and greatly depends on the second wave of the pandemic and the recovery of external demand. In September 2020, the end-of-month volume of contracts in the construction industry was 16.4% below the level measured in 2019. The number of new non-residential building projects was, however, 8.5% higher than in September 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 0.5 index points on a month-over-previous-month basis and by 1.8 index points on a year-over-year basis. This is explained by the surging coronavirus pandemic in Germany. The external environment's contribution to the domestic output is expected to be negative upon arrival of the second wave of the pandemic. In September 2020, retail sales remained 2.0% below their level measured for the same period of the previous year, which is mostly attributable to the fall in fuel sales. In the remainder of this year, the retail sales' contribution to the output of the Hungarian economy may be positive. The consumer trust index (measured by Eurostat) dropped both on a month-over-month as well as on year-over-year basis: it fell by 4.3 index points relative to September and by 17.8 index points relative to October 2019. The negative index value implies that trust needs to be restored for increasing sales in the segment. Overall, the economic shock resulting from the coronavirus pandemic could reduce the output of the Hungarian economy by approximately 6.0% in 2020; this could, however, be materially affected by the restrictions ordered because of the second wave of the pandemic and by the development of external demand.

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



Source: Századvég

Real economy

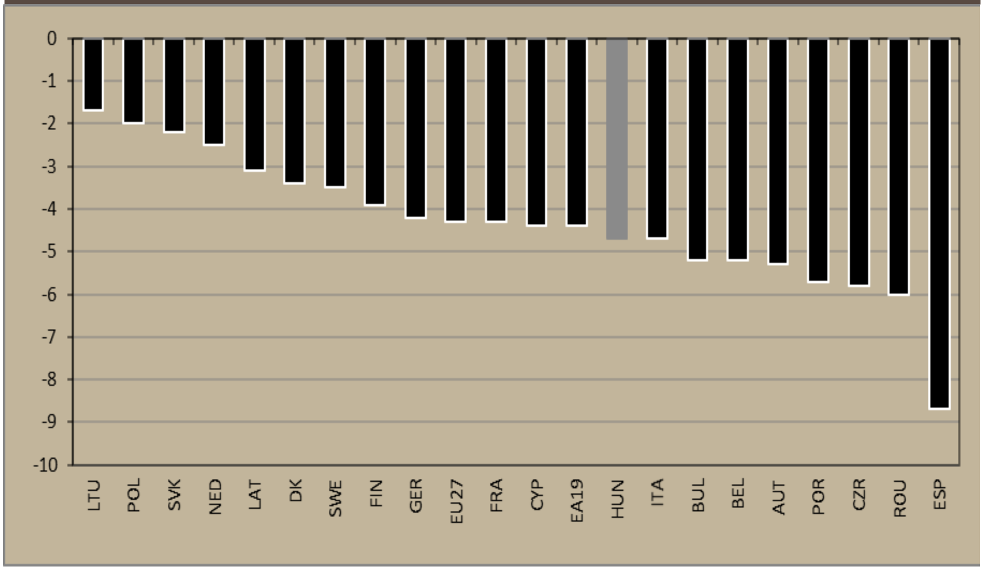
The Hungarian GDP decreased by 4.6%.

The first estimates of the Hungarian Central Statistical Office (HCSO) show that, in Q3 2020, the annual GDP of the Hungarian economy decreased by 4.6% based on raw data and by 4.7% based on seasonally and calendar-adjusted data. This drop is lower than the 5.2% decrease expected by the analyst consensus. In Q3, however, the recovery from the coronavirus crisis started: seasonally and calendar-adjusted data imply that economic output grew by 11.3% as compared to the previous quarter.

Seasonally adjusted data show that the GDP decreased in the EU and the eurozone, as compared to the same period of the previous year (by -4.3% and -4.4%, respectively). In the European Union, the worst downturns were in Spain (-8.7%) and Romania (-6.0%), while Latvia (-1.7%) and Poland (-2.0%) suffered the lightest slowdowns with regard to GDP in Q3 2020.

The state of emergency caused by the coronavirus epidemic had a negative impact on the output of most industries. Q3 2020 saw the gross sales revenues (at current prices) of accommodation providers in the tourism sector drop by 45.9% due to the significant decrease in the accommodation sector, resulting from the coronavirus epidemic. Calendar-adjusted data show a 0.8% drop in retail sales, relative to the same period of the previous year, while industrial output decreased by 2.6% and the output of the construction industry fell by 16.5% in Q3. The regional comparison shows that industrial output grew in Pest county (1.0%), in Northern Hungary (1.2%) and in the Northern Great Plain (11.8%). Industrial output decreased, however, in the Southern Great Plain (-5.1%), and in Central Hungary (-5.4%). In comparison with the same period of the previous year, the largest slowdown was in Budapest (-11.6%) in Q3.

Fig 2 GDP-growth across the EU (Q3 2020; y-o-y; %)

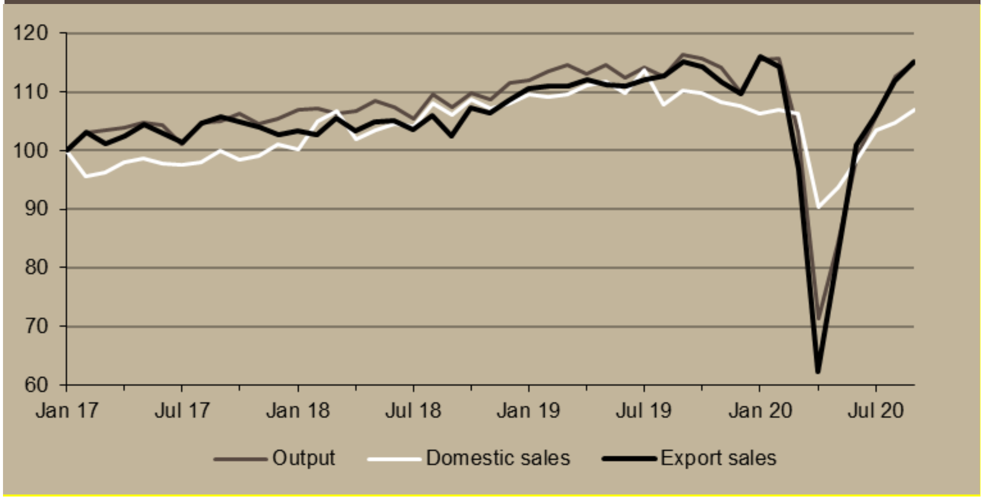


Remark: Seasonally and working-day adjusted data from the first estimates.
Source: Eurostat

In September, the output of the industry already reached the previous year's level.

September raw data show that industrial output was 2.2% higher than one year before, while working day adjusted data show that this output was 1.0% below previous year's data. Compared to August, the sector's output was 2.3% higher. The sector seems to have recovered from the effects of the pandemic, but the impacts of the arrival of the second wave are still uncertain. In September, the sales volume of the industry as a sector was 2.5% higher than in the same period of the previous year. Within that, domestic sales stagnated, while export sales increased by 3.8%.

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



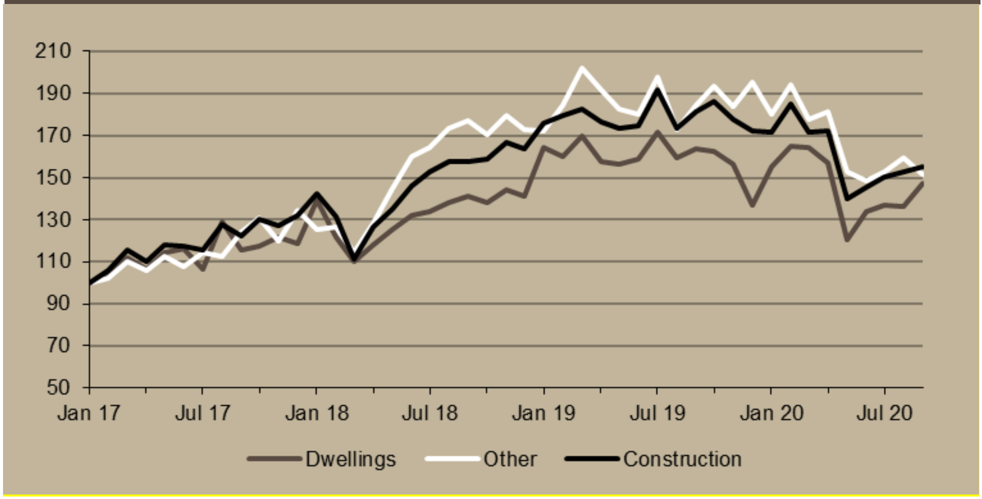
Remark: Seasonally and working-day adjusted data
Source: HCSO, Századvég

Breaking down the output of the entire industry as a sector, one can see that the output of mining shrank by 26.4% in comparison to the previous year, while the output of the manufacturing industry increased by 3.3% and that of the energy industry grew by 0.2%. Individual subsectors of the manufacturing industry show a rather mixed picture. The HCSO measured a downturn in 7 subsectors of the manufacturing industry, while 6 subsectors saw an increase. The greatest increase (of 23.6%) was seen in electric equipment manufacturing, followed by the 7.8% increase of the automotive industry, an important sector in the Hungarian economy, and the 6.7% increase of the pharmaceutical industry. The textile industry saw the greatest decrease (13.9%), followed by the 7.2% downturn in coke production, crude oil processing and the 4.8% shrinking of mechanical engineering. The 6.9% year-over-year increase of the volume of new sales orders in the industry is encouraging as regards the output of the upcoming months. More specifically, the volume of domestic sales orders was 6.6%, that of export sales orders was 6.9% higher. The volume of new sales orders is 8.2% higher than one year before, which means a 7.0% increase in the volume of new domestic sales orders and an 8.4% growing in the volume of new export sales orders.

The output of the construction industry was more over 10% less than one year before.

In September, the output of the construction industry was still substantially, 14.7% less than one year before, which is explained by the decreasing demand. Businesses, the government and local governments are holding back their investments because of the uncertain economic circumstances and decreasing revenues, but the cyclicality of EU funds contributed to the decrease, too. The output of this sector grew by 1.4% relative to the previous month. On a year-on-year basis, the output of the two building groups shrank differently: the output in buildings decreased by 9.1%, that in civil engineering works decreased by 20.6%. Despite the downturn, prices continued to increase in the sector, though the increase rate fell to 7.0% in Q3. The output of this sectorwill probably continue to decrease: the total order volume is 16.3% smaller than one year before. The volume of new contracts for buildings increased, however, by 13.8%, while the volume of new contracts for civil engineering works dropped by 27.6% relative to the same period of the previous year. The volume of new contracts was 7.4% smaller than one year before; more specifically, the volume of contracts for buildings decreased by 26.4%, the volume of contracts for civil engineering works increased by 2.9%.

Fig 4 Construction sector (January 2017 = 100%)

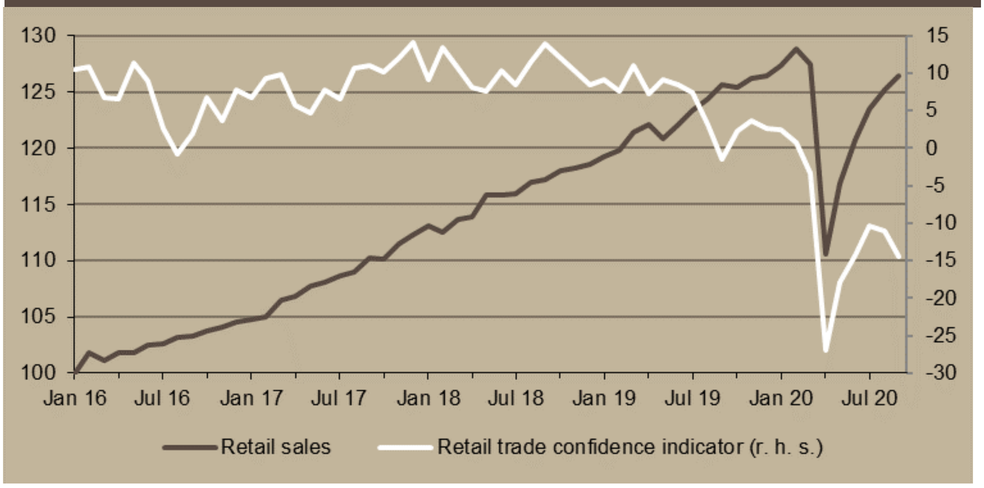


Remark: Seasonally and working-day adjusted data
Source: HCSO, Századvég

The volume of retail sales decreased by 1.6%.

In September 2020, raw data show that retail sales shrank by 1.6% relative to the same period of the previous year, while calendar-adjusted data show a 2.0% decrease. In September 2020, the calendar-adjusted volume of sales increased by 2.0% in specialised and non-specialised food shops, while it decreased by 3.8% in non-food shops and by 9.8% in fuel retail, relative to September 2019.

Fig 5 Retail sales volume (January 2017 = 100%) and retail trade confidence indicator



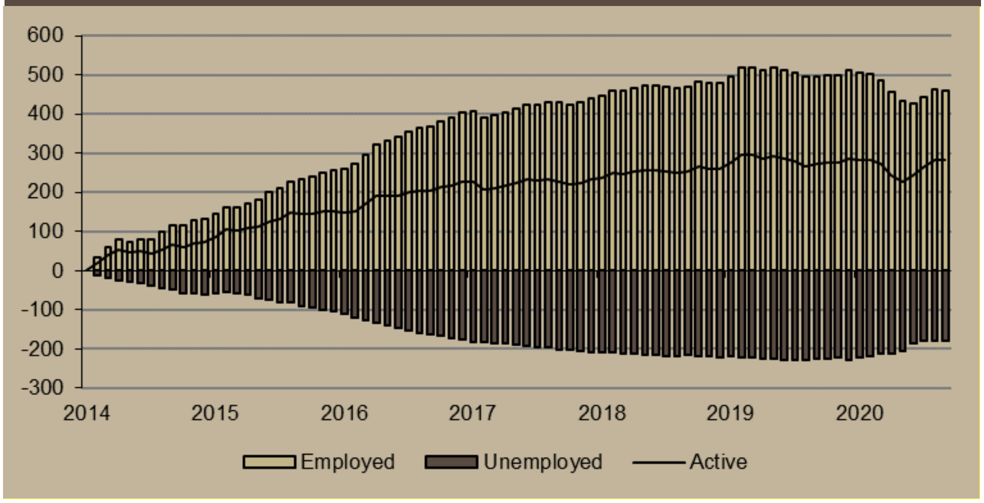
Remark: Seasonally and working-day adjusted data
Source: HCSO, Eurostat, Századvég

Parcel companies and web-shops continued to dynamically increase their sales in September as well: calendar-adjusted data show that, relative to September 2019, their sales volume increased by 32.7%. A considerable decrease in sales was, however, recorded in the case of second-hand shops (–22.6%), shops selling books, newspapers, and stationery (–25.3%), shops selling furniture and electric goods (–20.6%), as well as textile products, clothing, and footwear (–20.7%). Additionally, the volume of sales of shops selling computers and other manufacturing goods also decreased (by – 5.0%). Sales increased, however, in the case of shops selling fragrances (4.8%), shops selling a mixed range of manufactured goods (0.7%), and shops selling pharmaceuticals and medicinal products (5.7%), relative to the same period of the previous year. Calendar-adjusted data show that, in September 2020, the sales volume of non-specialised food shops increased by 2.2%, relative to the same period of the previous year. Vehicle fuel sales were in turn 9.8% below the figure recorded for September 2019.

The growth of the labour market came to a halt in September.

Compared to the previous month, the seasonally adjusted number of employees decreased slightly, by 2,000, to 4,460,000 in September 2020. This means a decrease of 36,000 compared to the respective period of the previous year. Parallel to the decrease in employment, the number of the active population also fell, although minimally. This indicator shows, however, a slight improvement of 10,000 relative to previous year's data. As a result of the two trends, the number of the unemployed stagnated at 208,000, which resulted in an unemployment rate of 4.5% in September, while the number of the unemployed increased by 46,000 (1 percentage point) on a year-on-year basis. September data show, that, in the meantime, the unemployment rate of the EU increased from 6.6% to 7.5% in a single year. By contrast, seasonally adjusted data show that the number of employees increased by over 13,000 in August on a month-over-previous-month basis, while the decrease remains significant, 131,000, on a year-over-year basis. More specifically, the number of employees increased by nearly 18,000 at enterprises having at least 5 employees in the competitive sector in August 2020, while their number decreased by 6,000 in the public sector. On a year-on-year basis, the number of employees is 126,000 less in the competitive sector, while it is 10,000 less in the public sector. In August 2020, the number of people employed in public employment schemes stagnated at 90,000, which shows a decrease of 8,000 compared to the same period of 2019.

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

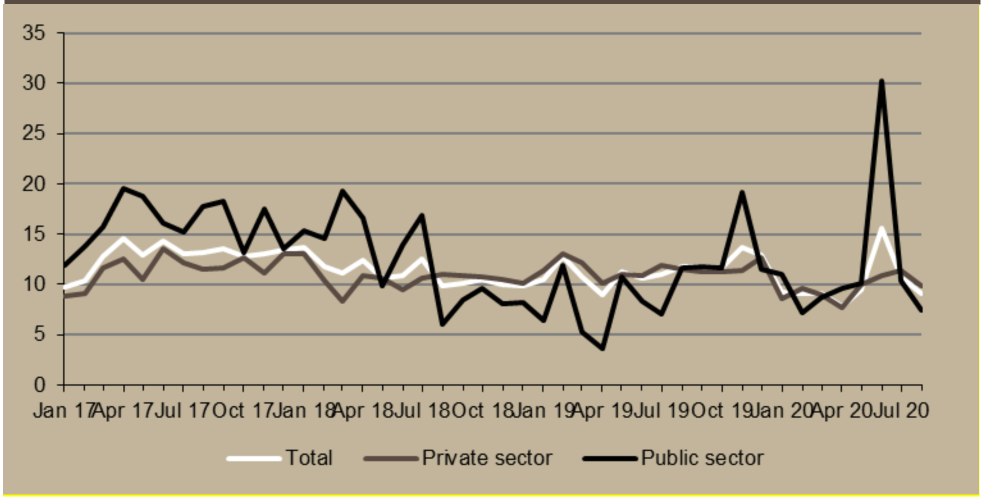


Remark: Seasonally and working-day adjusted data
Source: HCSO, Századvég

In August, the growth rate of the monthly wages fell below 10%.

The average gross monthly wage in the national economy was HUF 391,600 in August, which means a 9.1% increase compared to the same period of the previous year. More specifically, the value of the average wage increased by 9.9% to HUF 406,900 in the private sector and by 7.5 to HUF 359,800 public sector. The primary drivers of the change of the average wage were the wage increases at the beginning of the year, still before the coronavirus pandemic, and the 8% raise of the minimal wage and the guaranteed wage minimum. The wage increase may also be explained by the fact that in a crisis, companies first lay off employees who are less productive and, therefore, earn less, which could improve the value of the average wage through the composition effect. The average net monthly wage increased by the same rate as the average gross monthly wage to HUF 260,400; if we take the benefits into account, then it increased to HUF 269,000. If one takes inflation into account, which rose to 3.9% in August, then the real wage increase rate is 5.0%.

Fig 7 Gross wages (annual change, %)



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

The living standard of households in 2019

In November, the HCSO issued its annual regular review of the living standard of households. The review states that the living standard of the households continued to improve in the last year. The available net per capita income of households increased by 12.5%, which means that the real increase rate is 8.8%, if one takes inflation into account. More specifically, the share of incomes from work in household incomes continued to increase, to 74.3%, in 2019.

The difference between the poorest and richest 10% of the society slightly decreased in 2019, from 7.77-fold to 7.57-fold—in terms of net income, at least. It is worth mentioning that while the share of income from work is only 50.9% among the poorest 10%, it is 83.0% among the richest 10%. The HCSO found that people between 55 and 64 years of age and people with higher education degrees are overrepresented in the higher income categories. At the same time, both the Gini index, which measures the even distribution of income, and the S80/S20 ratio, which describes the difference between the richest and the poorest 20% of the society increased slightly in 2019, which implies the increase of social differences. In Hungary, both indicators are lower than the EU average, i.e. social differences in Hungary are more moderate than the EU.

The publication also covers the trends of poverty. Several indicators are used to measure poverty. The most important indicator is the one also used by EU, which measures the rate of those who are vulnerable to social exclusion. This indicator consists of three sub-indicators: relative income poverty (the net income does not reach 60% of the median), serious material deprivation (people who cannot afford 4 or more of 9 predefined consumer goods), and very low work intensity (where working-age family members living in the household spend less than 20% of their possible working time working). In 2019, the number of people who are vulnerable to social exclusion decreased by 118,000 to 1,695,000, which means 17.7% of the total population. The indicator peaked in 2012 at 34.8%. Its value has been constantly decreasing ever since, thus the rate of people who are vulnerable to social exclusion halved in 7 years. More specifically, relative income poverty affects most people (12.2%). This is followed by serious material deprivation (affecting 8.0%) and very low work intensity (affecting 3.6% of the population). 110,000 people were affected by all three indicators, which implies a slight increase relative to the 103,000 recorded in the previous year.People of lower education and the unemployed are most vulnerable to social exclusion, while there is no difference between the genders.

External balance

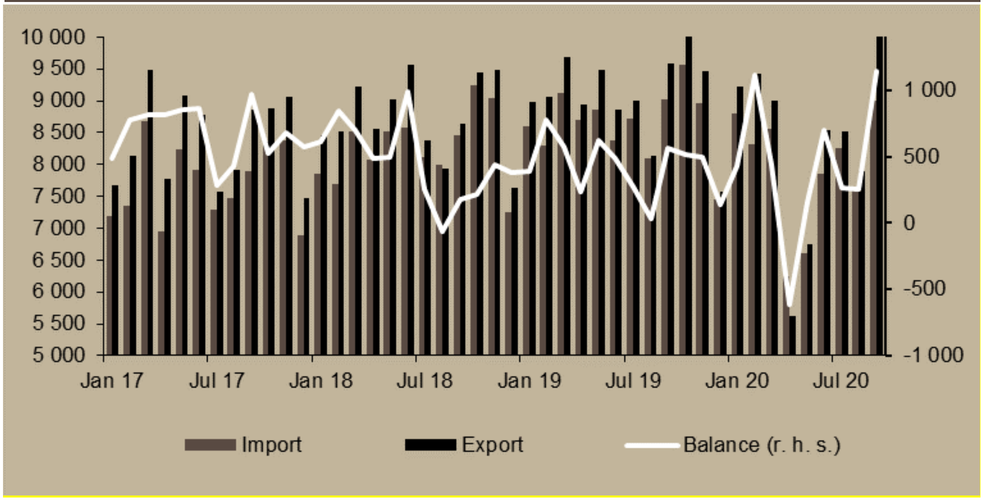
The EUR value of exports and imports decreased in September.

In August, product exports decreased by 2.2% and product imports decreased by 5.3% in EUR value, on a year-on-year basis. This means that the foreign trade balance was EUR 272 million, which is EUR 257 million more than last year.

In August, the volume of food product imports decreased by 1.8%, and food product exports increased by 2.8% on a year-on-year basis. As for energy carriers, import dropped by 22% and exports dropped by 8.5%. As for processed products, imports increased by 6.5%, exports raised by 2.3% on a year-on-year basis. As for machinery and transport equipment, imports increased by 0.6%, and exports increased by 2.1%.

In September 2020, the EUR value of exports was 4.6% lower, while the EUR value of imports was 2.4% lower than one year before. The foreign trade balance was therefore EUR 1.141 million, which is 665 million more than one year before.

Fig 8 Balance of trade (in million EUR)



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

In August 2020, the current account balance was minus EUR 213.9 million. For the first eight months of 2020, this means that the cumulative current account balance for this year dropped to minus EUR 1,522.9 million, which is much less than the minus EUR 288.4 million balance of the January–August period of 2019.

Fiscal outlook

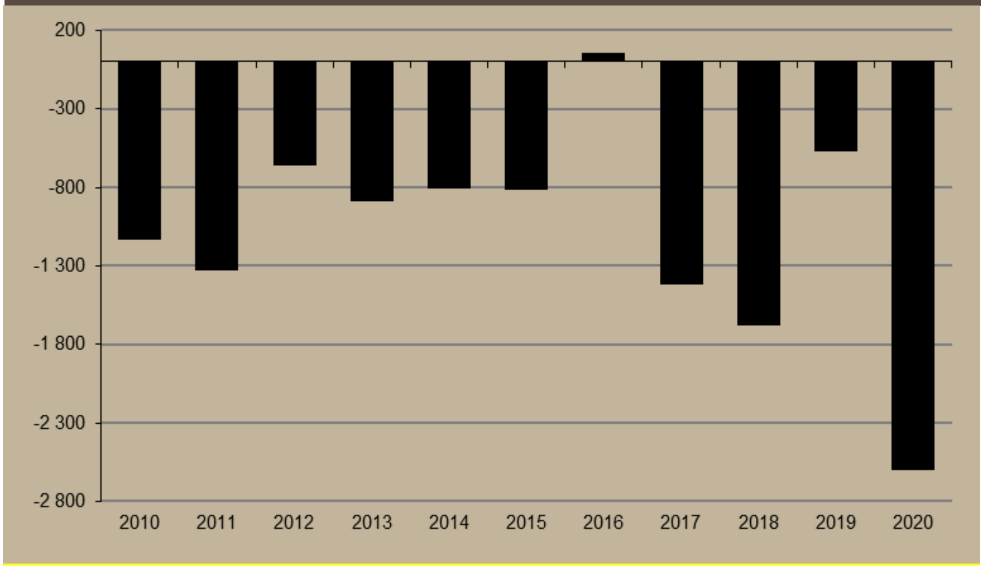
The general government deficit grew significantly because of the coronavirus epidemic.

The central budgetary subsystem closed with a deficit of HUF 2,604.2 billion at the end of October 2020. This is attributable to the general government deficit of HUF 2,140.0 billion, the social security funds subsector’s deficit of HUF 489.9 billion, and the extra-budgetary funds’ surplus of HUF 25.7 billion.

This means that value added tax revenues were only 0.2% (HUF 8.8 billion) less than they were in January–October 2019. At the end of October, excise tax revenues were 1.5% (HUF 14.2 billion) higher than in the same period of the previous year. Furthermore, personal income tax revenues and corporate tax revenues also increased relative to the reference period. General government revenues were by 4.4% (HUF 88.1 billion) and by 61.5% (HUF 131.7 billion) higher, respectively, in these budged lines. As regards corporate tax, higher tax revenues are still attributable to the discontinuation of the tax advance top-up liability in December 2019. In January-October 2020, general government revenues from social contribution tax, pension, health insurance and labour market contributions decreased by 3.1% (HUF 142.1 billion), relative to the same period of 2019.

The revenues from EU programmes were HUF 997.4 billion and the related expenditures exceeded HUF 1,642.0 billion in the January–October period. The expenditures on healthcare equipment for the coronavirus pandemic closed at HUF 593.3 billion at the end of October 2020. Among the development programmes implemented from Hungarian state funds, we should mention the amounts spent on competitiveness subsidies (HUF 165.0 billion), the priority public road projects (HUF 200.2 billion) and the expenditures covered from the Earmarked Scheme for Tourism Development (HUF 196.3 billion).

Fig 9 Budget deficit in January-October (bn HUF)



Source: Ministry of National Economy

Monetary processes

The inflation rate decreased to 3.0%.

In October 2020, consumer prices increased by 3.0% 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 to the same period of the previous year, the price of alcoholic beverages and tobacco products increased by 6.1% on average, while that of food products increased by 6.5%. 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 9.3% as compared to the same period of 2019.

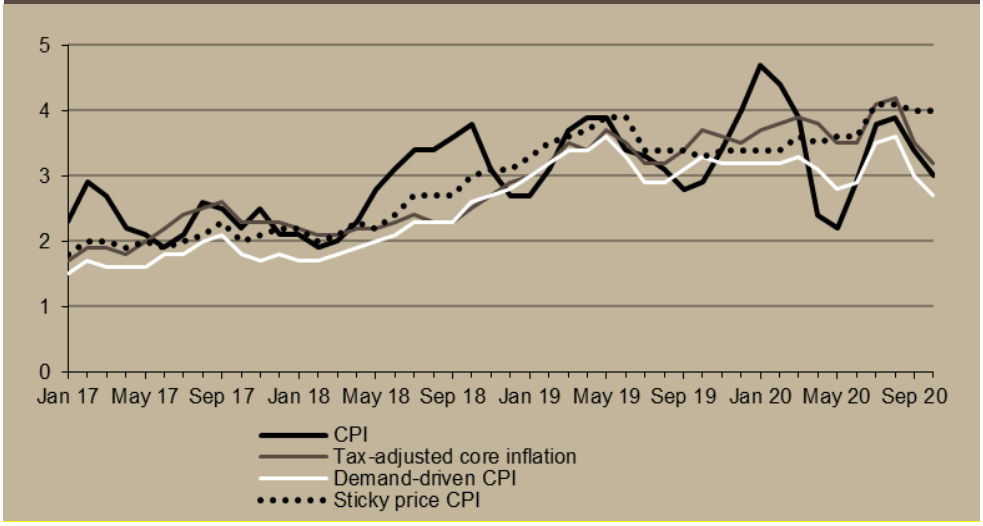
The 6.5% average price increase of food products was driven mainly by the 13.4% increase in Extrawurst and sausage prices, the 7.7% increase in bread prices and especially the 31.4% increase in fresh Hungarian and tropical fruits. The increase in fruit prices is primarily attributable to the poor harvest caused by unfavourable weather. The drop in potato prices (-12.3%) and coffee prices (-0.7%), furthermore the 1.3% increase of fresh vegetable and poultry prices and the 2.7% raise of milk prices held back the average inflation of food products.

In October, prices of other products and fuels decreased by 0.9% in comparison with the same period of the previous year, but vehicle fuel prices dropped by 5.3%. 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 October, compared to the same period of the previous year. Within household energy, fuelwood prices increased by 2.0%, coal prices increased by 4.4%, and bottled gas prices increased by 0.6% in a single year. The price of electricity, pipeline gas and district heating remained unchanged.

In October, the prices of services increased by 2.4% 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 5.7% increase in the prices of healthcare services. The average price increase of services was moderated by the 7.3% decrease in the prices of other long-distance travels, the 2.9% decrease in telephony and internet prices, as well asthe 0.7% increase of rents and the 1.6% raise of in the prices of domestic holiday services. Clothing prices decreased by 0.5% and the prices of durable consumer goods increased by 2.9% on average in a single year. Taking a closer look at the latter, one can see that jewellery prices increased by 21.7%, new car prices increased by 12.7%, but used car prices dropped by 3.9%.

Based on the base inflation indicators published by MNB, the seasonally adjusted core inflation rate was 3.8%, while the core inflation rate excluding the effects of indirect taxes was 3.2% in October. The demand-sensitive inflation rate was 2.7%, the sticky-price inflation rate was 4.0% in October.

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



Source: NBH, Századvég

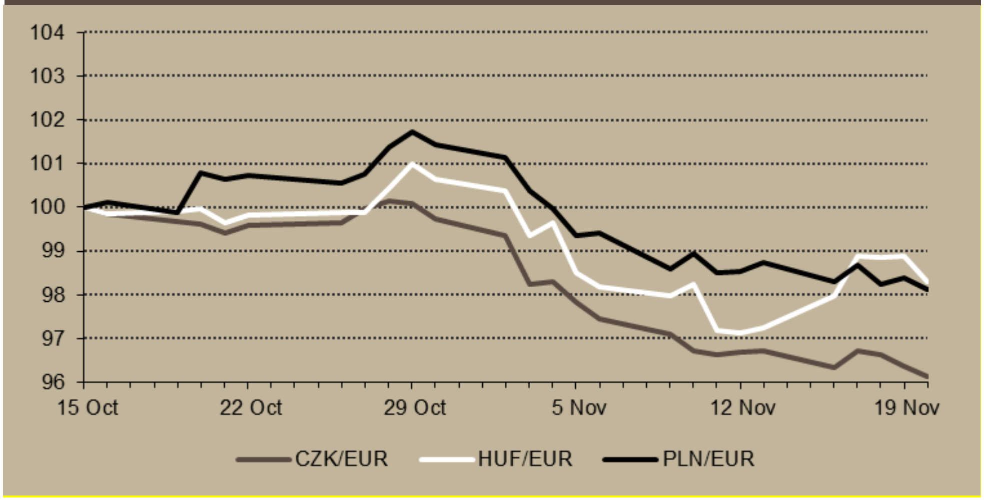
Neither the ECB nor the FED changed their monetary conditions.

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% a-nd -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 rather positive picture. In the past period, the Czech koruna weakened by 3.9%, the Polish zloty weakened by 1.9% against the Euro. The CDS spread (5-year CDS) dropped by 1 base points, to 39 base points, in the Czech Republic and by 6 base points, to 54 base points, in Poland.

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

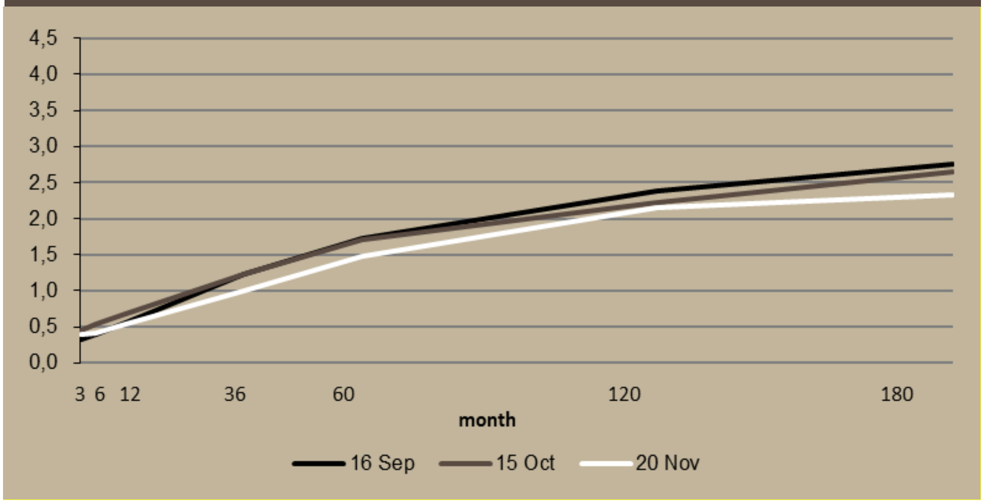


Source: Thomson Reuters Datastream

Indicators of the Hungarian financial market showed a mixed picture.

Indicators of the Hungarian financial and foreign currency markets have shown a mixed picture in the past period. The value of the 5-year CDS spread increased by 5 base points to 62 base points. The HUF weakened by 1.7% against the Euro and by 2.5% against the Swiss Franc, but it strengthened by 3.0% against the US Dollar. This means that on 20 November, one Euro was worth HUF 359, one US Dollar was worth HUF 303, and one Swiss Franc was worth HUF 333. Sovereign debt held by foreigners has recently increased by HUF 161 billion to HUF 4,511 billion.

Fig 12 The HUF yield curve (%)



Source: Government Debt Management Agency, Századvég

Hungarian monetary conditions remained unchanged.

At its interest rate setting meeting in November, 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 179.93 billion in the past period, meaning that the total value of the secondary-market government securities held by the MNB increased to HUF 658.79 billion. The MNB purchased mortgage bonds in the total value of HUF 47.4 billion from the primary market.HUF 143.8 billion) and HUF 5.5 billion on the secondary market, i.e. the total value of this portfolio increased to HUF 131 billion. The MNB's FX swap portfolio is currently HUF 1,786 billion, which did not change in comparison to the previous month.

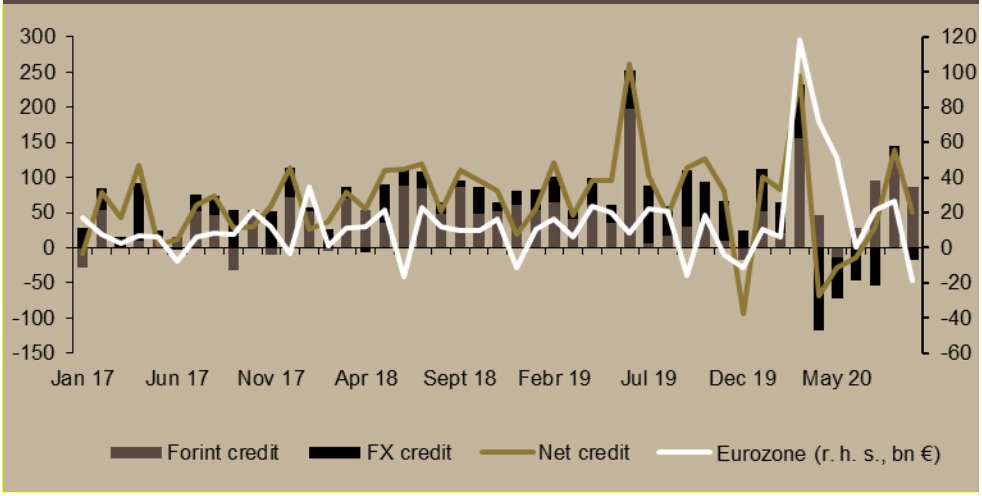
In the last month, shorter-term yields decreased by between 5 and 13 base points on the secondary market yield curve of the government securities market. This means that the 3-month yield was 0.39%, the 6-month yield was 0.42% and the 1-year yield was 0.54% on 20 November. The 3-year yield changed by 24 base points to 1.23%. On a month-over-previous-month basis, 5-year yields decreased by 23 base points, 10-year yields decreased by 7 base points, and 15-year yields decreased by 33 base points. These three yields shrank, therefore, to 1.48%, 2.15% and 2.32%, 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 October 2020, the total value of government bonds held by retail investors was HUF 4,958.42 billion, which implies a HUF 118.92 billion increase compared to the HUF 4,839.5 portfolio value in September.

The share of foreign currency debt in the sovereign debt changed to 18.53% in October (corresponding to a decrease of 0.2 percentage points), which is in the range (10–20%) specified in the financing plan for 2020 of the Government Debt Management Agency Ltd. On 12 November, the Government Debt Management Agency Ltd. successfully issued treasury bonds denominated in foreign currencies. The data of bond issuances to prefinance foreign currency bonds that reach their maturity dates in 2021, were 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 13 Corporate borrowing (in billion HUF)



Source: NBH, ECB, Századvég

The aggregate value of foreign-currency loans held by the business sector decreased, while that of HUF loans increased.

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector was HUF 86.2 billion in September 2020. The net repayment of foreign currency debt was HUF 18.3 billion in September 2020, i.e. the aggregated value of business credits decreased. This means that, based on seasonally adjusted data, total net borrowing was HUF 49.7 billion in September. Corporate loan repayment in the eurozone was EUR 18.14 billion in September.

In September, the value of gross loan placement in Hungarian forints over and above bank overdrafts was HUF 76.1 billion, which is HUF 16.8 billion less than the amount of the previous month. The sum of newly granted euro-loans was HUF 21.6 billion, which is HUF 4.2 billion more than the figure for September.

Századvég forecast[1]

Fig 14 Q3 2020 projection

	2019	2020				2020	2021				2021
	annual	Q1	Q2	Q3	Q4	annual	Q1	Q2	Q3	Q4	annual
Gross domestic product (volume index, %)	**4,9**	2,0	-13,6	*-5,7*	*-3,3*	***-5,2***	*-3,4*	*13,5*	*3,4*	*4,6*	***4,5***
Household consumption expenditure (volume index, %)	**5,0**	5,0	-8,4	*2,6*	*2,9*	***0,5***	*3,2*	*9,8*	*2,6*	*0,9*	***4,1***
Gross fixed capital formation (volume index, %)	**15,3**	-2,6	-13,5	*-2,5*	*-0,9*	***-4,9***	*-2,5*	*13,5*	*1,8*	*-0,5*	***3,1***
Export volume index (based on national accounts, %)	**6,0**	-0,5	-24,0	*-5,8*	*-4,0*	***-8,6***	*-5,1*	*26,8*	*1,4*	*5,8*	***7,2***
Import volume index (based on national accounts, %)	**6,9**	1,3	-15,8	*0,9*	*0,3*	***-3,3***	*-0,2*	*21,6*	*-1,2*	*1,2*	***5,4***
Foreign trade balance (bn EUR)	**4,9**	1,87	0,2	*-1,0*	*-0,2*	***0,2***	*0,5*	*1,3*	*-0,4*	*1,0*	***0,6***
Consumer price index (%)	**3,4**	4,3	2,5	*4,0*	*4,1*	***3,7***	*3,4*	*4,9*	*4,0*	*4,1*	***4,1***
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**					***-4,1***					***-3,2***
External financing capacity as a percentage of GDP	**1,6**					***-1,9***					***-0,8***
General government ESA-balance as a percentage of GDP	**-2,0**					***-7,3***					***-3,5***
GDP based external demand (volume index, %)	**4,9**	2,0	-13,6	*-5,7*	*-3,3*	***-5,2***	*-3,4*	*13,5*	*3,4*	*4,6*	***4,5***

Source: HCSO, NBH, Századvég

Fig 15 Changes compared to our previous forecast

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

Source: HCSO, NBH, Századvég

[1] The forecast is valid as of 10 September 2020

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