

# MONTHLY MONITOR

August 2021

Századvég Economic Research Institute



SZÁZADVÉG

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## **DISCLAIMER**

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# 1. Summary

**THE HUNGARIAN ECONOMY GREW BY 17.9%**

**Q2 economic performance was 17.9% higher than a year earlier, and, on a quarterly basis, economic output grew by 2.7%. This figure is also better than analysts' expectations.**

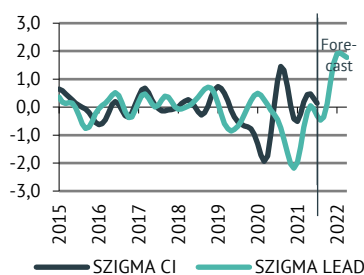
The economy of the European Union expanded slower than the Hungarian economy, by 13.2% on an annual basis and by 1.9% on a quarterly basis. The eurozone's growth rate was 13.6% and 2.0%, respectively.

The annual Hungarian growth rate was the third highest among the reporting Member States after Spain (19.8%) and France (18.7%), both of which suffered a significant downturn in the base period. In terms of quarter-on-quarter growth, Hungary was outgrown by Portugal (4.9%), Austria (4.3%), Latvia (3.7%), the Netherlands (3.1%) and Spain (2.8%).

Among the Visegrad countries, on a quarterly basis, the Czech economy expanded by only 0.6%, the Slovak economy by 2.0% and the Polish economy by 1.9%.

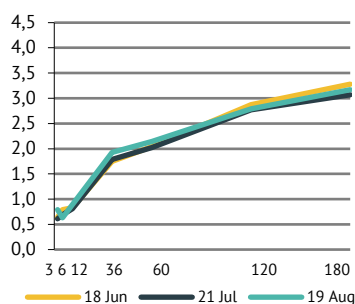
In July, inflation fell from 5.3% in the previous month to 4.6%. The increase in excise duty on tobacco products continues to play a role in this, bringing the price of tobacco products up 18.1% in one year. Inflation was also significantly affected by the 19.8% rise in fuel prices. Food prices were 3.1% and service prices were 2.9% higher than a year earlier.

**SZIGMA indicators**



Source: Századvég

**HUF yield curve (%)**



Source: Refinitiv

Forecast (22 June 2021)	2021
GDP volume change (%)	5,8
Inflation (annual average, %)	3,9
Gross wages	9,4
Exchange rate (annual average)	357

## 2. Economic overview

### 2.1. External environment

#### The Czech central bank raised interest rates in both July and August.

In the recent period, the Czech national bank raised its key rate by 25 base points at each of its June and August meetings to a total of 0.75%. However, it did not change the overnight deposit interest rate (0.05%), but it raised the credit rate by 75 basis points to 1.75%. The July decision was, however, not unanimous, with 4 decision-makers voting for the 25-base-point increase, 1 decision-maker voting for 50 base points, and 2 decision-makers voting for keeping the current level of interest rates. The interest rate decision in July was taken in the light of the latest inflation forecast, which indicates growing internal and external inflationary pressures, and to prevent inflation expectations from deviating permanently from the central bank's 2% target. The central bank expects prices to rise further in the next period and thus inflation to move out of the 1–3% tolerance range. This may be driven by soaring food prices, high core inflation and rising fuel prices, which may be intensified later by rising regulated prices. At the end of the year, however, inflation may gradually slow down as imported price pressures ease. At the same time, domestic inflationary pressures may remain strong in the wake of rising demand and wage growth, which may be supported by a rise in the minimum wage next year. Next year, however, inflation may return to close to the 2% target of the central bank, which will also be supported by the tightening of monetary conditions. According to the latest forecast of the central bank, the Czech economy may expand by 3.5% this year, 4.1% next year, and 3.0% in 2023, while inflation could be 3.0% in 2021, 2.8% in 2022 and 2.1% in 2023.

Annualised quarterly data show that U.S. GDP grew by 6.5% in Q2. This figure was, however, disappointing, with analysts expecting a significantly faster growth of 8.5% after the 6.3% in Q1. Compared to the same period last year, GDP grew by 12.2%, which, taking into account the 9.1% downturn in Q2 2020, means that the performance of the world's largest economy has already reached pre-crisis levels. Consumption and

investments were the engines of this growth. Household consumption expenditure rose by 16.2%, while private sector investment rose by 21.0%. By contrast, government consumption and investment had stagnated on an annual basis. The contribution of the foreign trade balance was negative as a result of the fact that while exports rose by 18.2%, imports rose by 30.8%. As a result, the U.S. foreign trade deficit at 2012 prices rose from USD 774.8 billion in Q2 2020 to USD 1,259.0 billion.

## The OECD published its Country Report for Hungary.

The OECD Economy Report on Hungary was published on 30 July 2021.

According to the OECD report, before the COVID-19 pandemic, economic growth was strong in Hungary. Employment and real incomes were rising significantly, and unemployment also fell to its lowest level in 30 years. The general government deficit and the government debt-to-GDP ratio were shrinking. The OECD expects that, given the growing external demand, the vaccination programme and the lifting of restrictions, economic activity would recover in the second half of 2021. At the same time, the pace and strength of the recovery is uncertain because new variants could put pressure on the health sector and potentially lead to new restrictions and lower domestic spending. Furthermore, other uncertainties also arise, such as disruptions in international supply chains, shortages of raw materials (e.g. semiconductors), transport delays and rising transport costs. The OECD makes recommendations regarding the post-pandemic recovery and the kick-starting of long-term growth.

The OECD Economic Report found that fiscal policy is supportive and that the prolonged crisis calls for further targeted support until the economy recovers and becomes self-sustaining again. After that, however, a tighter fiscal policy would be needed due to subsequent challenges, e.g. budgetary expenditure risks associated with an aging population (e.g. health, pensions). The report proposes that, following the introduction of the 65-

year retirement age in 2022, the date of retirement be linked to an increase in life expectancy.

In the summer of 2021, inflation exceeded the planned 3% and moved out of the central bank's tolerance range, so the OECD recommends continuing the policy of raising interest rates for as long as the inflation outlook justifies it and phasing out unconventional monetary policy.

According to the report, the tax system must continue to be made more growth friendly. This requires further cutting of taxes on labour and the elimination of competition-distorting sectoral taxes in the energy, finance and retail sectors. According to the proposal, this could be offset by an increase in consumption, real estate and environmental tax revenues. The report proposes the introduction of carbon taxes based on the polluter pays principle and the gradual harmonisation of carbon-free environmental taxes and charges. For energy, water, sewage and waste transport services, the report proposes, on the one hand, the introduction of measures to help lower-income households. On the other hand, to finance the necessary investments, it proposes to increase waste transportation, water and sewage service charges.

According to the proposal, labour market needs and training need to be brought closer in order to strengthen vocational training and higher education. To this end, the number of highly qualified engineers and ICT professionals as well as the number of student contracts should be increased. In the interests of more efficient vocational training, the report proposes that the funding of vocational schools be linked to the number of students in traineeships and that only a student contract be concluded where employment with a company is also guaranteed.

In addition, the OECD believes that more attention should be paid to general skills (such as problem solving). In order to facilitating access to the labour market, the report recommends reducing the number of permits and certificates required for certain occupations (e.g. professional certificate, licence, entrance examination, etc.), especially in sectors heavily affected by the pandemic. In addition, women's career opportunities could be enhanced by expanding childcare services. According to the report, worker

mobility could be improved by improving transport links from rural areas to cities and by modernising housing rules in order to expand the private rental market.

The report finds that the minimum wage has risen at a higher rate than the average wage, and that the ratio of the minimum wage to the median wage has exceeded that of most European countries. Continuous increases in the minimum wage are important to increase the incomes of low-skilled workers. The report recommends a slower increasing of the minimum wage, slower than the increase rate of the median wage.

According to the report, the adoption of digital technologies is lagging behind other countries in smaller companies and the public sector, and only a small portion of businesses use high-speed broadband. Low digital preparedness hinders the introduction of new technologies and integration into national and international supply chains. The digitisation of the public sector can serve as an example for the business sector. For this reason, the survey recommends making high-speed mobile internet cheaper and helping companies adopt digital technologies quickly.

## 2.2. SZIGMA indicators

The SZIGMA CI indicator, which provides a picture of the current state of the Hungarian economy, was positive in July 2021, showing that the

Hungarian economy continued to grow at a rate above the trend.

Both domestic and export sales of the industry grew on an annualised basis in June 2021 (by 21.6% and 10.9%, respectively), while month-on-month the former showed a 1.6%

increase and the latter a 0.9% decrease. By contrast, the volume

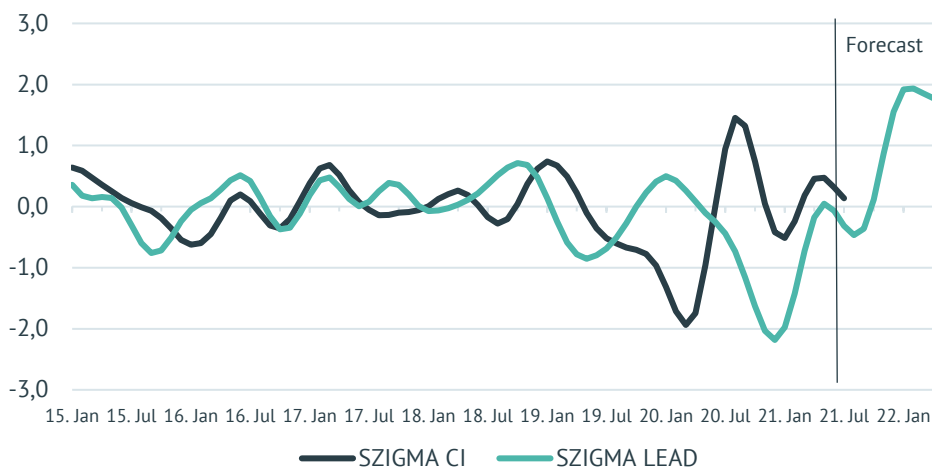
of new domestic and export orders increased on both an annual and monthly basis: compared to the same month of the previous year, they increased by 21.4% and 3.3%, respectively, and compared to May 2021 by 10.0% and 20.5%, respectively. As a result of the base effects, the industry's contribution to economic growth may have been positive in Q2 and for the year as a whole, but the chip shortage and the pandemic pose a risk to the output of the industry as a sector. In June 2021, the construction

**The SZIGMA indicator remained in the positive range.**

industry's end-of-month volume of contracts was substantially, 21.2% higher than last year's relevant level, while on a monthly basis it increased by 4.1%. The number of new non-residential buildings to be built decreased significantly, by 20.4%, month-on-month, while it increased by 16.9% year-on-year.

The SZIGMA LEAD indicator, which expresses our expectations for the short-term performance of the Hungarian economy, indicates that growth will be slightly below the trend until September, while it will be above the trend until the end of the forecast period. The Ifo Business Climate Index, which reflects the change in the business sentiment of the German economy, was 0.9 index points lower in July than in June, but 11.2 index points higher than in July 2020. The shortage of raw materials and the development of the coronavirus pandemic pose a significant risk to the external environment. Retail sales continued to expand in June 2021, allowing the sector's role in supporting growth to return, thanks to consumption due to previously deferred consumption and increasing employment as a result of easing restrictions. The consumer confidence index measured by Eurostat decreased by 4.5 index points on a monthly basis, while it was 10.4 index points higher than a year earlier. Based on the negative value of the index (-12.4 index points), sales in the segment could be further increased by improving confidence. Overall, we expect that economic growth this year could exceed 6%.

**FIGURE 1: SZIGMA SIMULTANEOUS (CI) AND LEADING (LEAD) INDICATORS**





Source: Századvég

## 2.3. Real economy

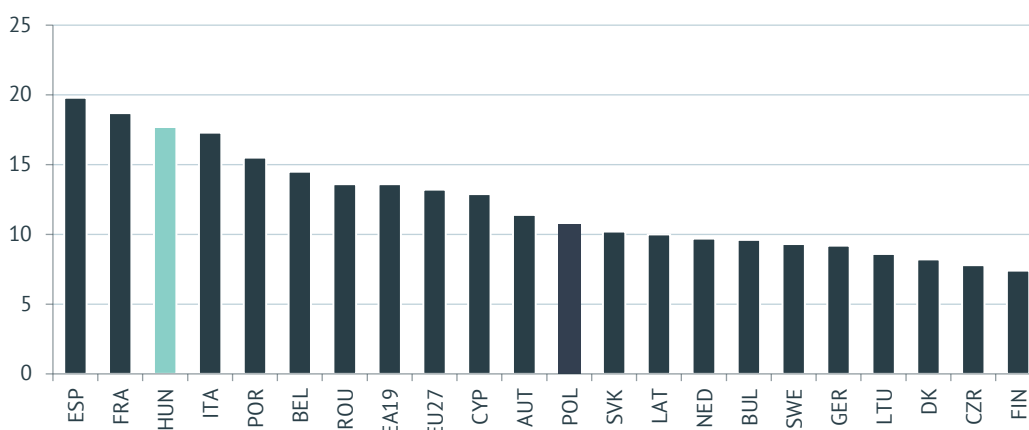
**Hungarian GDP  
increased by  
17.9%.**

According to the first estimate of the Hungarian Central Statistical Office (HCSO), the annual gross domestic product of the Hungarian economy grew by 17.9% based on raw and by 17.7% based on seasonally and calendar-adjusted data in Q2 2021, the former exceeding analysts' consensus by 0.7 percentage points. The recovery from the crisis caused by the coronavirus pandemic continued in Q2: with the almost complete lifting of restrictive measures, economic output increased by 2.7% quarter-on-quarter based on seasonally and calendar-adjusted and balanced data, significantly exceeding the 2.0% increase expected by the analysts' consensus.

Seasonally adjusted data show that the GDP increased in the EU and the eurozone, as compared to the same period of the previous year (by -13.2% and -13.6%, respectively). In the European Union, the Hungarian growth rate was exceeded only in Spain (19.8%) and France (18.7%), while the smallest Q2 2021 GDP growth rates were in Denmark (8.2%), the Czech Republic (7.8%) and Finland (7.4%).

Due to the restart of the economy, the production of most branches of the national economy developed favorably. In Q2 2021, the gross sales revenue of commercial accommodation providers in tourism almost doubled at current prices (186.9%), because of soaring accommodation booking after the lifting of restrictive measures. Calendar-adjusted data show a 7.2% increase in retail sales relative to the same period of the previous year, while the output of the construction industry increased by 13.4% and industrial output increased by 35.8% in Q2. In regional comparison, industrial output could increase the fastest in Western Transdanubia (74.8%), followed by Northern Hungary (52.2%) and Pest County (47.3%). Q2 also saw slower growth rates in industrial output in Budapest (20.0%), Central Transdanubia (33.3%) and South Transdanubia (18.4%) as well as the Northern Great Plain (24.2%) and the Southern Great Plain (39.8%), compared to the same period of the previous year.

FIGURE 2: GDP-GROWTH ACROSS THE EU (Q1 2021; Y-O-Y; %)



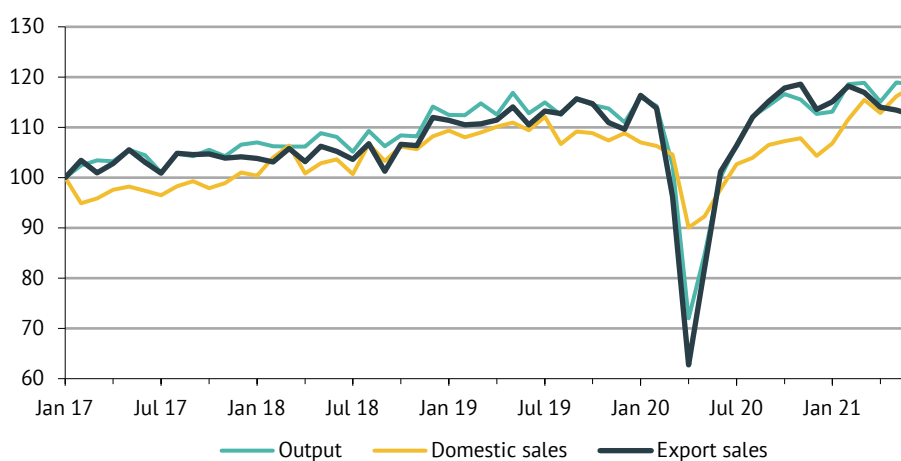
Remark: Seasonally and working-day adjusted data from the first estimates.

Source: Eurostat

**Industrial output increased by 22.0%**

Based on raw data, industrial output was 22.0% higher in June than in the same period of the previous year, while it was 18.6% higher based on working-day adjustment data. Output shrank by 0.3% in one month. The low baseline figure played a significant role in annual growth. The June sales volume was 17.7% higher than one year earlier. Within this, domestic sales increased by 23.4% and export sales by 14.4%.

FIGURE 3: INDUSTRIAL OUTPUT AND SALES (JANUARY 2017 = 100%)



Remark: Seasonally and working-day adjusted data

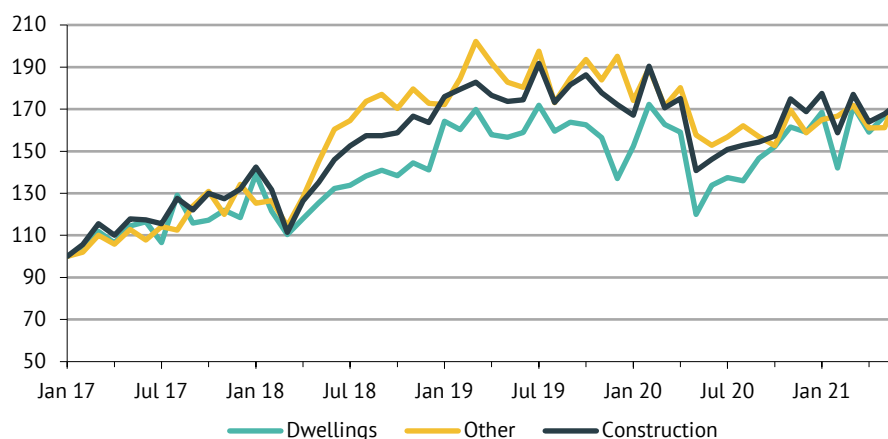
Source: HCSO, Századvég

Taking a closer look at the subsectors of the industry, one can see that output increased in mining (27.6%), manufacturing (22.2%) and the energy industry (12.8%) in June. Within the manufacturing industry, the largest expansion (69.9%) was achieved by the electrical equipment manufacturing sector, followed by coke production and oil refining with 37.7% and the metals industry with 33.5%. The output of the important automobile industry was 13.6% higher than one year before. At the end of June, the order books of key manufacturing industries were 8.8% larger than a year earlier. Within this, the volume of domestic sales orders was 1.4%, while that of export sales orders was 9.3% higher than a year earlier. The volume of new sales orders was 5.6% higher than one year before. Within this, the volume of new domestic sales orders increased by 21.4%, while that of new export sales orders increased by 3.3%.

In June, the volume of construction output was 27.8% higher than the low figure recorded one year earlier, while compared to May, the growth rate was 3.5%. On an annual basis, both main building groups had expanded significantly: buildings by 25.0%, civil engineering works by 32.1%. The end-June contract volume of the sector was 21.2% larger than one year earlier. Within that, the volume of new contracts for buildings was 32.0% larger, that for civil engineering works was 14.3% larger. After last year's low, new contract volume increased significantly, by 65.9%. Within this, the volume of new contracts for buildings increased by 72.4% and that for civil engineering works by 56.1%. The dynamic rise in construction prices continued, on an annual basis it was 9.3% in Q2.

**The output of the construction industry increased by 27.8%.**

FIGURE 4: CONSTRUCTION SECTOR (JANUARY 2017 = 100%)



Remark: Seasonally and working-day adjusted data

Source: HCSO, Századvég

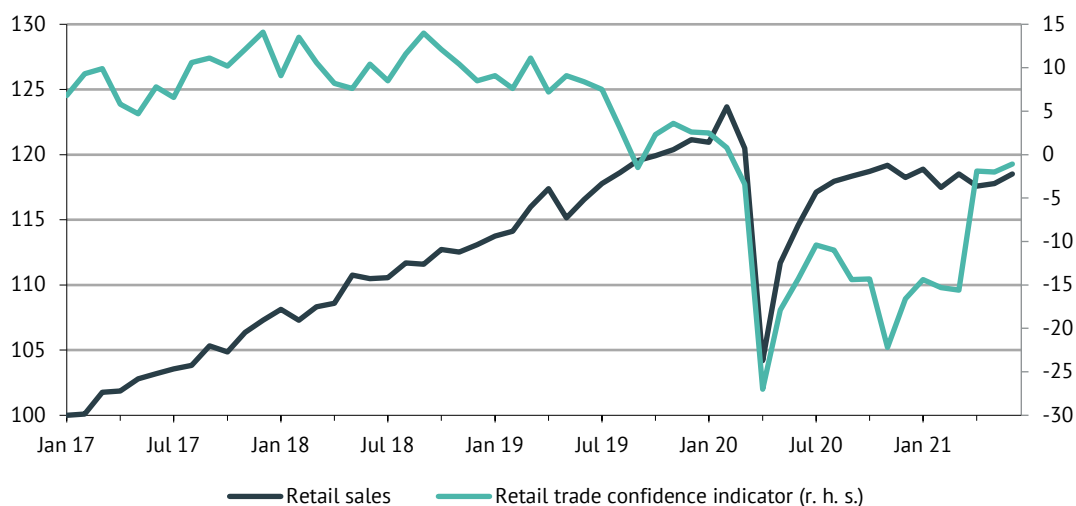
### The volume of retail sales increased by 5.8%.

In June 2021, retail sales volume increased by 6.2% according to raw data and by 5.8% according to calendar-adjusted data relative to the same period of the previous year. Based on adjusted data, an increase of only 0.6% can be observed compared to the previous month. In June 2021, the calendar-adjusted volume of sales increased by 7.2% in specialised and non-specialised food shops, by 3.0% in nonfood shops and by 8.6% in fuel retail relative to June 2020.

In June 2021, parcel companies and web-shops continued to dynamically increase their sales: their calendar-adjusted data show a 19.5% increase on a year-on-year basis. A considerable increase in sales could be seen in second-hand shops (31.3%) and shops selling textile products, clothing, and footwear (18.0%). Sales also increased in shops selling fragrances (8.4%), in shops selling a mixed range of manufactured goods (9.9%) and in shops selling pharmaceuticals and medicinal products (8.1%). Relative to June 2020, a decrease was, however, recorded in the sales volume of shops selling computers and other manufacturing goods (4.3%), shops selling books, newspapers and stationery (5.2%) and shops selling furniture and electrical appliances (23.4%). Calendar-adjusted data show that in June 2021, sales increased by 8.5% in non-specialised food shops and by 3.0%

in shops selling food products, beverages, and tobacco products, relative to the same period of the previous year.

**FIGURE 5: RETAIL SALES VOLUME (JANUARY 2017 = 100%) AND RETAIL TRADE CONFIDENCE INDICATO**



*Remark: Seasonally and working-day adjusted data*

*Source: HCSO, Eurostat, Századvég*

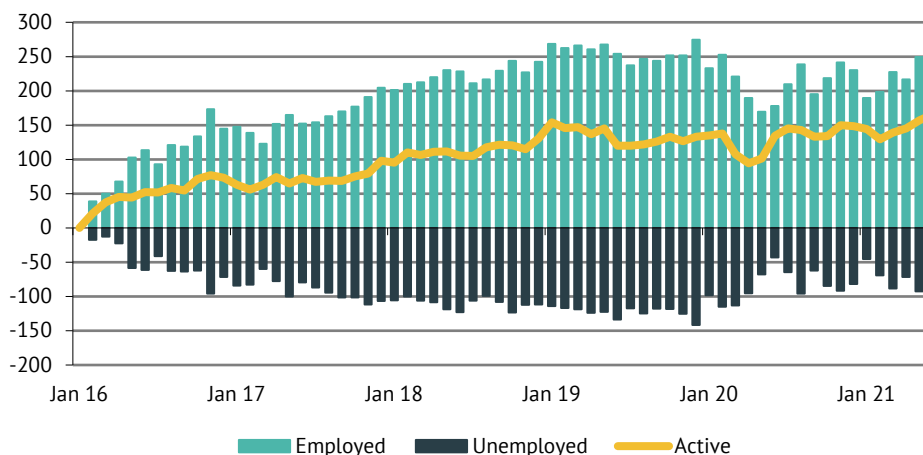
In June, according to seasonally adjusted data, the number of employees increased by 5,000 to 4,640,000. This represents an annual increase of 76,000, but the number of employees is still 20,000 lower than in December 2019. In June, activity also increased, by 9,000 on a monthly basis and by 31,000 on an annual basis, so the activity rate in the 15-74 age group was already 65.7 percent. As activity increased faster than employment, the number of the unemployed increased by 4,000 to 193,000.

**In May, the number of employees was close to pre-coronavirus levels.**

On an annual basis, however, the number of unemployed decreased by 45,000, while their share was 4.0%. The number of employees increased in May, by 12,000 on a monthly basis and by 294,000 on an annual basis; it was, therefore, only 12,000 lower than its level in December 2019, according to seasonally adjusted data. More specifically, the number of employees increased by nearly 14,000 at enterprises having at least 5 employees in the competitive sector in May 2021, while their number decreased by 2,000 in the public sector. In May 2021, 86,000 were

employees in public employment schemes, which is the same as in April, but 1,000 more than a year earlier.

**FIGURE 6: LABOUR MARKET TRENDS (JANUARY 2016 = 0, THOUSANDS OF PERSONS)**



*Remark: Seasonally and working-day adjusted data*

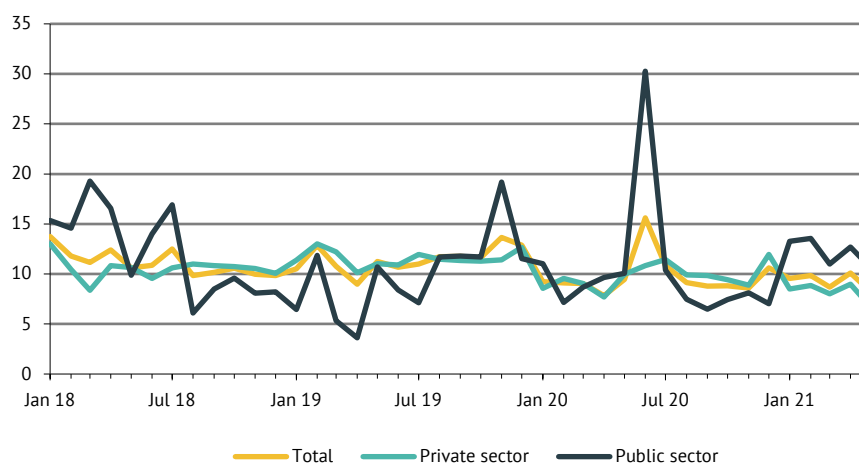
*Source: HCSO, Századvég*

In May, the average gross monthly wage of full-time employees was HUF 431,600, while the median wage was HUF 347,400. The former translates

**Following the salary increases of doctors, judges, prosecutors and nursery workers, the average wage in the public sector increased by 10.6% in May.**

to an 8.2%, the latter translates to a 10.0% increase in one year. In May 2021, the value of average earnings increased by only 6.7% in the competitive sector and by 10.6% in the public sector as a result of public wage decompressions (doctors, judges, prosecutors, nursery workers). The average net monthly wage also increased by 8.2%, to HUF 287,000; if we take the benefits into account, then it increased by 7.8%, to HUF 295,800. Taking the higher than 5% inflation rate into account, net real wages increased by only 3.0% in one year.

FIGURE 7: GROSS WAGES (ANNUAL CHANGE, %)



Remark: Seasonally and working-day adjusted data

Source: HCSO, Századvég

## 2.4. External balance

In May, the EUR value of product exports increased by 39%, and the EUR value of product imports increased by 40% year-on-year. This means that the foreign trade balance was EUR 68 million, which is EUR 19 million less than last year.

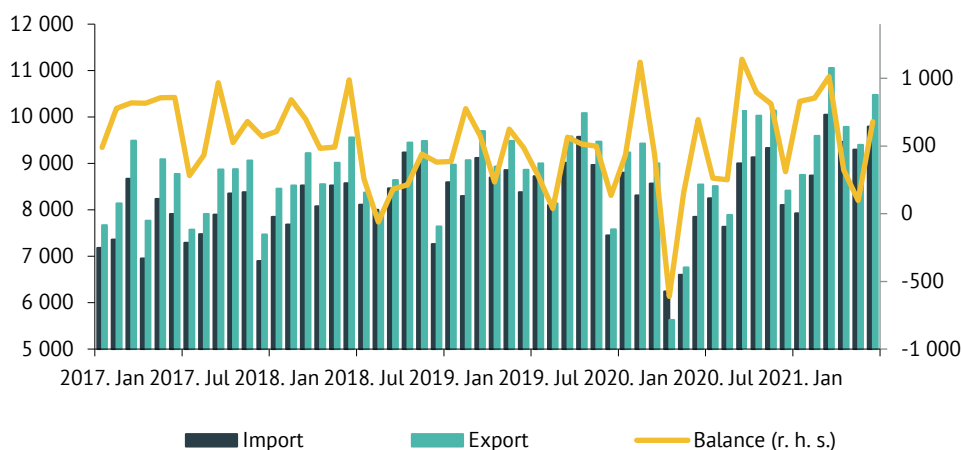
In May 2021, the volume of food product imports increased by 7.5%, and food product exports increased by 3.1% year-on-year. As for energy carriers, import decreased by 4.5% and exports increased by 29.9%. As for processed products, imports increased by 15.1%, exports raised by 20.8% on a year-on-year basis. As for machinery and transport equipment, imports increased by 58.2%, and exports by 50.2%.

**Exports and imports also grew dynamically in May.**

In June 2021, the EUR value of exports was 22% higher, while the EUR value of imports was 24% higher than one year before. The foreign trade balance was therefore EUR 680 million, which is EUR 1.7 million more than one year before.

In June 2021, the current account balance was EUR 154.6 million. The balance of the first six months of this year is minus EUR 25.2 million, better than the minus EUR 977.1 million balance of January–June 2020.

FIGURE 8: BALANCE OF TRADE (IN MILLION EUR)



Remark: The data relating to June 2021 derive from the first estimates.

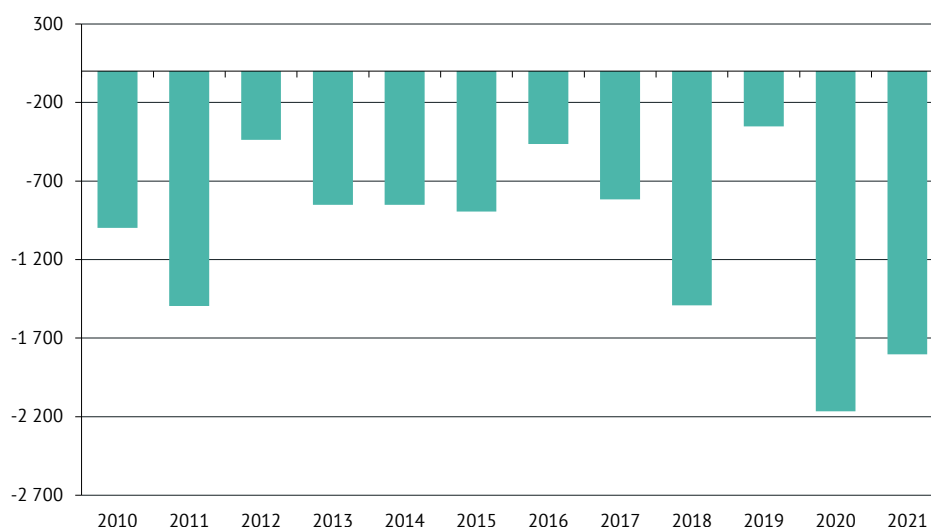
Source: HCSO

## 2.5. Fiscal outlook

In the first seven months of this year, the balance of the budget balance of the general government subsector showed a deficit of HUF 1803.7 billion. This is attributable to a general government deficit of HUF 1,620.9 billion, the social security funds subsector's deficit of HUF 221.9 billion and the extra-budgetary funds' surplus of HUF 39.1 billion.

**The budget deficit is HUF 1,803.7 billion.**

FIGURE 9: BUDGET DEFICIT IN JANUARY-JULY (BN HUF)



Source: PM



Cumulative VAT revenues were HUF 571.7 billion (22.9%) higher than in the same period of the previous year, which was partly driven by the increase in VAT revenues from domestic sales, imports and tobacco products. The increase in revenues was, however, curbed by higher refunds as a result of the shorter VAT refund deadline for SMEs. Excise tax revenues also increased: their January–July 2020 level was exceeded by HUF 24.8 billion (3.8%) based on data at the end of July 2021. Growth was supported by higher fuel sales, higher tax rates in the first quarter, while curbed by the inventory accumulation following the tax rate increase on tobacco products. Relative to the same period of the previous year, the treasury had higher revenues from personal income tax (HUF 203.1 billion, i.e. 14.1%) as well as social contribution tax and social security contribution (HUF 97.9 billion, i.e. 3.1%).

Revenues related to EU programmes amounted to HUF 362.7 billion in the January–July period, compared to HUF 1,145.1 billion in expenditure. Among the developments financed from Hungarian state funds, road developments (HUF 172.9 billion), transport sector programmes (HUF 123.1 billion) and competitiveness-enhanced subsidies (HUF 91.8 billion) should be highlighted.

## 2.6. Monetary developments

In July 2021, consumer prices increased by 4.6% on average, compared to the same period of the previous year. Over the past year, the highest price increase was recorded for alcoholic beverages, tobacco products, and fuels. In comparison with the same period of the previous year, the price of alcoholic beverages and tobacco products increased by 11.1% on average, while that of food products increased by 3.1%. 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 18.1% as compared to the same period of 2020.

**In July, prices increased by 4.6%, on average.**

The 3.1% average price increase of food products was driven mainly by the 7.7% increase in poultry meat prices, the 13.4% increase in the prices of

fresh vegetables and the 27.5% increase in cooking oil prices. The latter was driven by the record high price of rapeseed, which is due to the fact that China has bought Ukrainian rapeseed and products made from it; not enough rapeseed enters, therefore, the Hungarian and European markets. However, the drop in the prices of fresh Hungarian and tropical fruits (7.4%), the drop in potato prices (6.0%), the drop in pork prices (2.6%) held back the average inflation of food products.

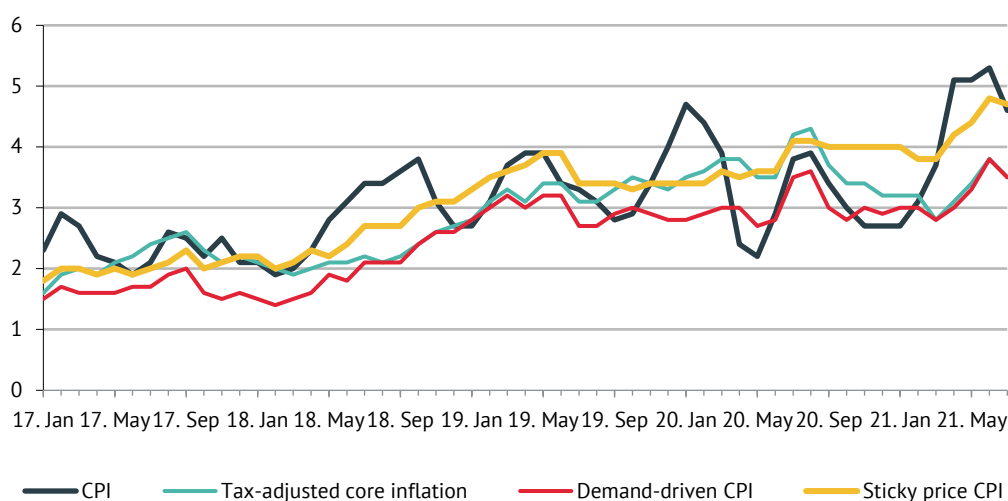
The prices of other products and fuels increased by 8.6% in July, year-on-year. Fuel prices increased by 19.8%, primarily because of the base effect. Coursebook prices decreased by 96.9%, which is attributable to the free school coursebooks from the 2020-2021 school year.

The average increase in household energy prices was 0.4% in July as compared to the same period of the previous year. Within household energy, fuelwood prices increased by 2.7%, coal prices increased by 5.3%, and bottled gas prices increased by 3.2% in a single year. The price of electricity, pipeline gas and district heating remained unchanged.

In July, prices of services increased by 2.9% on average, which was driven by the 5.3% increase in motorway tolls, vehicle renting, parking prices and the prices of healthcare services, the 11.3% increase in home repair and maintenance prices, the 7.3% increase in vehicle repair and maintenance prices and the 6.1% increase in the price of body care services. The average price increase of services was moderated by the 2.2% increase in rents, the 0.2% increase in gambling prices, the 6.4% decrease in the prices of other long-distance travels, and the 0.3% decrease in telephony and internet prices.

Clothing prices decreased by 0.2% and the prices of durable consumer goods increased by 3.8% on average, in a single year. Taking a closer look at the latter, one can see that jewellery prices increased by 10.5%, home furniture prices increased by 10.7%, new car prices increased by 7.5%, but used car prices dropped by 0.4%.

FIGURE 10: INFLATION (Y-O-Y, %)



Source: MNB

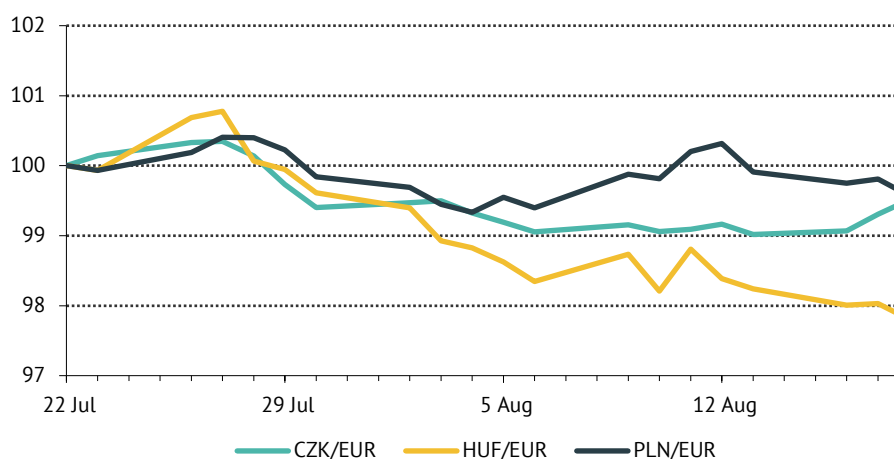
Based on the base inflation indicators disclosed by MNB, the seasonally adjusted core inflation rate was 3.3%, while both the core inflation rate excluding the effects of indirect taxes and the demand-sensitive inflation rate were 3.5% in July. The sticky price inflation rate was 4.7% in July.

The ECB Governing Council did not meet in the recent period, but the Federal Open Market Committee did. Therefore, Eurozone interest rate conditions have not changed, 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%.

### Regional exchange rates strengthened.

The currencies of the region strengthened against the euro. The Czech koruna has depreciated by 0.5% and the Polish zloty by 0.4% against the euro in the recent period. The Czech 10-year government securities yields increased by 7 base points to 1.83%, the Polish 10-year yield increased by 18 base points, to 1.79%.

FIGURE 11: REGIONAL EXCHANGE RATES (START DATE = 100%)



Source: Refinitiv

### The HUF strengthened against the EUR.

Overall, indicators of the Hungarian financial and foreign currency markets have shown a mixed picture in the past period. The 5-year government bond yield closed at 2.14%, rising 12 basis points. The HUF strengthened by 2.2% against the euro, by 1.1% against the Swiss franc and by 1.6% against the US dollar. This means that on 18 August 2021, one Euro was worth HUF 351, one US Dollar was worth HUF 300, and one Swiss Franc was worth HUF 328. Sovereign debt held by foreigners has recently increased by HUF 105 billion to HUF 4,694 billion.

### The MNB continued to increase the base interest rate.

At its interest rate meeting in August, the Monetary Council of MNB raised its base interest rate by 30 base points; the base interest rate is, therefore, 1.5%. The MNB Monetary Council also moved the edges of the interest rate corridor symmetrically upwards by 30 base points, leaving the overnight deposit interest rate at 0.55% and the credit rate at 2.45%. The central bank also raised the interest rate on the one-week deposit instrument by 30 base points to 1.5%.

The Monetary Council launched two programmes on 4 May 2020: 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. Regarding the portfolio of government

securities held by the central bank, which has grown close to the upper limit of HUF 3,000 billion, the MNB Monetary Council decided to reduce the weekly purchase limit from HUF 60 billion to HUF 50 billion.

In the last month, shorter-term yields changed by between -6 and 18 base points on the secondary market yield curve of the government securities market. This means that the 3-month yield was 0.79%, the 6-month yield was 0.63% and the 1-year yield was 0.89% on 19 August. The 3-year yield increased by 14 base points to 1.93%. On a month-over-previous-month basis, 5-year yields increased by 12 base points, 10-year yields increased by 2 base points, and 15-year yields increased by 10 base points. These three yields changed, therefore, to 2.14%, 2.79%, and 3.17%, respectively.

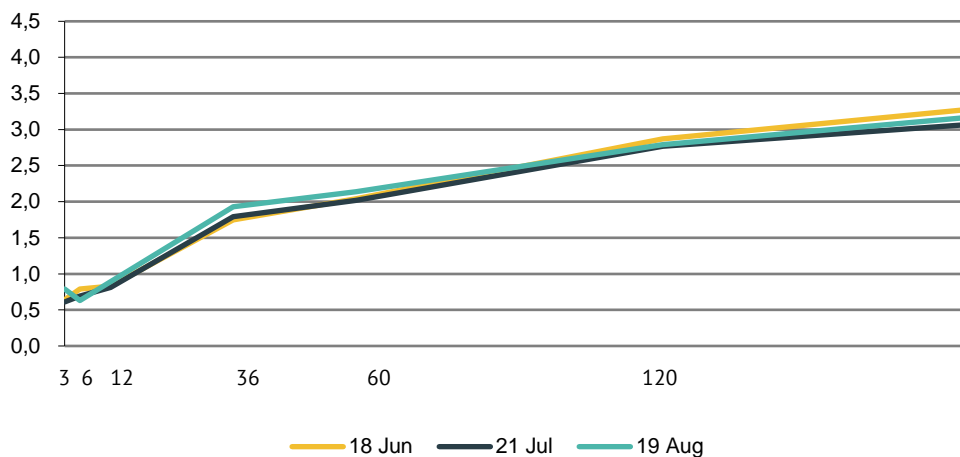
Since 3 June 2019, retail investors can buy super government bonds (MÁP+) with a relatively high interest rate that gradually increases during its term, ensuring a total annual yield of 4.95%. On 15 August 2021, the total value of government bonds held by retail investors was HUF 5,917.5 billion after a HUF 141.42 billion increase from the HUF 5,776.08 billion level at the end of June.

The share of foreign currency debt in the sovereign debt changed to 17.8% in June (corresponding to an increase of 0.1 percentage point), which is near the upper edge of the range (10–20%) specified in the financing plan for 2021 of the Government Debt Management Agency Ltd. There were no maturing foreign currency bonds in June, but domestically there were issues from the P€MAK series worth EUR 2.21 million and EUR 5.99 million with maturities on 20.11.2024 and 27.11.2026, respectively. The variable interest rate on the former is 0.75% above EU inflation, while the latter is 1.25%.

Recently, two major international credit rating agencies had announced dates (Fitch: 30 July, S&P: 13 August) to change or confirm their risk ratings. None of them changed the risk rating of sovereign debt and its outlook. 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.

FIGURE 12: THE HUF YIELD CURVE (%)

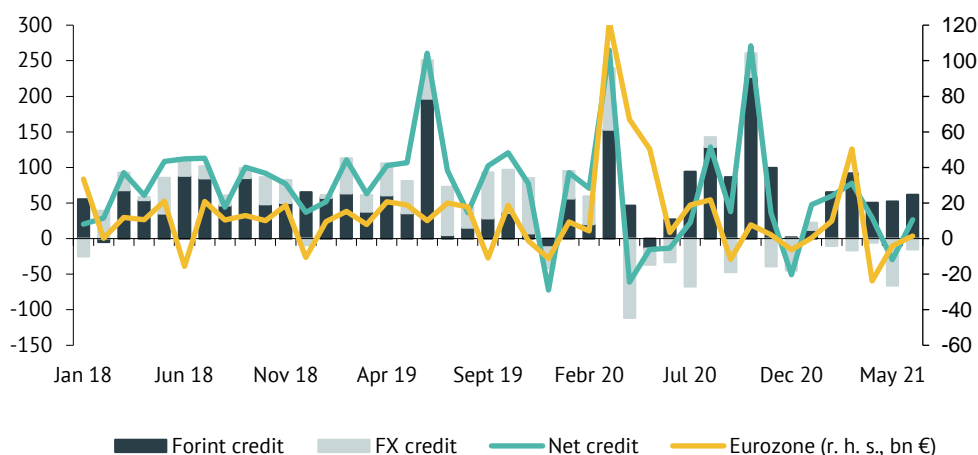


Source: ÁKK, Századvég

**Corporate credits increased in June.**

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector was HUF 61.5 billion in June 2021. The net repayment of foreign currency debt was HUF 15.3 billion in June 2021, i.e. the aggregated value of business credits decreased. This means that, based on seasonally adjusted data, total net borrowing was HUF 26.5 billion in June. Corporate borrowing in the eurozone was EUR 1.482 billion in June 2021.

FIGURE 13: CORPORATE BORROWING (IN BILLION HUF)



Source: MNB, ECB

In June, the value of gross loan placement in HUF over and above bank overdrafts was HUF 76.1 billion, which is HUF 8.8 billion more than the amount of the previous month. The sum of newly granted euro-loans was HUF 26.8 billion, which is HUF 8.3 billion less than the figure for May.

### 3. Századvég forecast <sup>1</sup>

TABLE 1: Q2 2021 PROJECTION

	2020	2021				2021	2022				2022
	annual	Q1	Q2	Q3	Q4	annual	Q1	Q2	Q3	Q4	annual
Gross domestic product (volume index, %)	-5,0	-2,1	15,4	5,9	4,1	<b>5,8</b>	5,5	3,5	4,2	5,6	<b>4,7</b>
Household consumption expenditure (volume index, %)	-2,5	-4,8	8,5	5,6	5,3	<b>3,7</b>	5,8	5,6	4,2	5,4	<b>5,3</b>
Gross fixed capital formation (volume index, %)	-7,3	-0,1	2,6	12,0	14,1	<b>7,2</b>	16,9	4,7	4,9	6,5	<b>8,3</b>
Export volume index (based on national accounts, %)	-6,8	3,3	34,7	5,7	3,7	<b>11,9</b>	3,8	7,2	6,9	7,1	<b>6,3</b>
Import volume index (based on national accounts, %)	-4,4	1,1	24,3	7,3	6,1	<b>9,7</b>	2,8	7,9	6,4	5,8	<b>5,7</b>
Foreign trade balance (bn EUR)	5,8	2,6	2,4	1,4	1,5	<b>7,9</b>	3,0	2,4	1,7	2,0	<b>9,2</b>
Consumer price index (%)	3,3	3,2	4,3	3,9	4,0	<b>3,9</b>	3,5	3,5	3,4	3,6	<b>3,5</b>
Central bank's base rate at the end of the period (%)	0,6	0,6	0,9	1,05	1,2	<b>1,2</b>	1,2	1,35	1,35	1,50	<b>1,50</b>
Unemployment rate (%)	4,2	4,5	4,1	3,8	3,7	<b>4,0</b>	3,7	3,6	3,5	3,4	<b>3,6</b>
Gross average earnings (year-on-year change, %)	9,7	9,4	8,0	10,1	10,2	<b>9,4</b>	11,8	11,1	9,6	8,6	<b>10,3</b>
Current account balance as a percentage of GDP	-0,1					<b>0,6</b>					<b>0,8</b>
External financing capacity as a percentage of GDP	1,9					<b>2,5</b>					<b>2,9</b>
General government ESA-balance as a percentage of GDP	-8,1					<b>-7,9</b>					<b>-6,1</b>
Government debt (% of GDP)	80,4					<b>80,1</b>					<b>79,6</b>
GDP based external demand (volume index, %)	-6,2	-1,7	3,9	7,0	7,7	<b>4,2</b>	5,9	4,6	3,7	3,3	<b>4,4</b>

Source: MNB, HCSO, Századvég-Calculation

TABLE 2: CHANGES COMPARED TO OUR PREVIOUS FORECAST

	2021			2022		
	Mar 2021	June 2021	Difference	Mar 2021	June 2021	Difference
Gross domestic product (volume index, %)	4,0	<b>5,8</b>	1,8	5,1	<b>4,7</b>	-0,4
Household consumption expenditure (volume index, %)	3,2	<b>3,7</b>	0,5	4,7	<b>5,3</b>	0,5
Gross fixed capital formation (volume index, %)	7,5	<b>7,2</b>	-0,3	5,8	<b>8,3</b>	2,5
Export volume index (based on national accounts, %)	8,7	<b>11,9</b>	3,2	8,1	<b>6,3</b>	-1,8
Import volume index (based on national accounts, %)	7,8	<b>9,7</b>	1,9	7,0	<b>5,7</b>	-1,3
Foreign trade balance (bn EUR)	6,3	<b>7,9</b>	1,6	8,0	<b>9,2</b>	1,2
Consumer price index (%)	3,5	<b>3,9</b>	0,0	3,2	<b>3,5</b>	0,0
Central bank's base rate at the end of the period (%)	0,60	<b>1,20</b>	0,6	0,8	<b>1,5</b>	0,8
Unemployment rate (%)	4,2	<b>4,0</b>	-0,2	3,6	<b>3,6</b>	0,0
Gross average earnings (year-on-year change, %)	4,7	<b>9,4</b>	4,7	8,1	<b>10,3</b>	2,2
Current account balance as a percentage of GDP	-0,3	<b>0,6</b>	0,9	0,4	<b>0,8</b>	0,4
External financing capacity as a percentage of GDP	2,8	<b>2,5</b>	-0,3	3,3	<b>2,9</b>	-0,4
General government ESA-balance as a percentage of GDP	-7,1	<b>-7,9</b>	-0,8	-5,0	<b>-6,1</b>	-1,1
Government debt (% of GDP)	80,8	<b>80,1</b>	-0,7	78,7	<b>79,6</b>	0,9
GDP based external demand (volume index, %)	3,7	<b>4,2</b>	0,5	3,9	<b>4,4</b>	0,5

Source: Századvég-calculati

<sup>1</sup> The forecast is valid as of 22 June 2021



