# MONTHLY MONITOR

December 2021

Századvég Economic Research Institute

SZÁZADVÉG

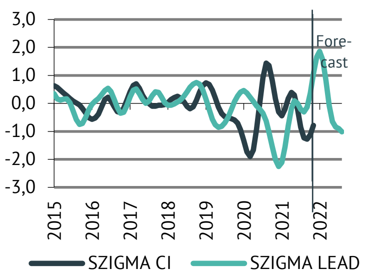
# Table of Contents

# 1. Summary

**THE ECONOMY COULD HAVE GROWN BY 6.6% IN 2021**

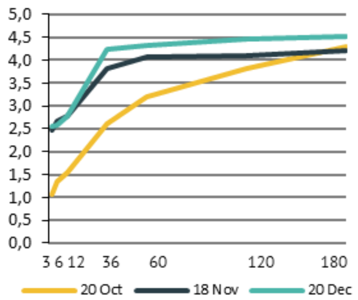
**According to our latest forecasts, economic growth could reach 5.3% in 2022 and 4.8% in 2023. After 5.1% in 2021, inflation could reach 5.3% in 2022 and 3.7% in 2023.**

### SZIGMA indicators




*Source: Századvég*

### HUF yield curve (%)




*Source: Refinitiv*

| Forecast (20 Dec 2021) | 2022 |
|---|---|
| **GDP volume change (%)** | 5,3 |
| **Inflation (annual average, %)** | 5,3 |
| **Gross wages** | 11,3 |
| **Exchange rate (annual average)** | 365 |

The latest forecast is based on the detailed GDP estimate for Q3. In the second estimate, the Hungarian Central Statistical Office confirmed that economic output was 6.1% up on a year earlier.

On the production side, agricultural output was 3.8% down on a year earlier, while industry grew by 2.5%, construction by 20.1% and services by 6.8%. This translates into a growth contribution of -0.2, 0.5, 1.0 and 3.8 percentage points for each sector, respectively.

On the consumption side, consumption grew by 5.2%, investment by 9.6% and government spending by 5.0%, adding 2.4, 2.7 and 0.5 percentage points to growth, respectively. The expansion of imports (5.6%) exceeded that of exports (1.4%), so the development of the foreign trade balance pulled back economic growth by 3.2 percentage points.

# 2. Economic overview

## 2.1. External environment

**The ECB has stopped the Pandemic Emergency Purchase Programme.**

The European Central Bank did not change its interest rate conditions at its December meeting. The base rate therefore remains unchanged at 0% in the euro area, while the interest rate corridor is -0.5% at the bottom and 0.25% at the top. However, there has been a significant change in asset purchase programmes. The ECB has decided to end the Pandemic Emergency Purchase Programme (PEPP) from March 2022. The central bank has, however, postponed the renewal of bonds purchased under the PEPP by one year, until the end of 2024. The central bank stressed that it would be flexible in renewing maturing bonds in the event of market turbulence and that it could also restart net purchases. The Communication illustrates this explicitly with the example of the Greek economy, i.e. under certain market conditions, reinvested bonds may include a higher proportion of a country's government securities than in the case of the maturing bonds, in order to ensure that the monetary transmission reaches all Member States equally. It was also decided that, to avoid a shock from the phasing out of the PEPP, the central bank will increase the monthly limit of the asset purchase programme (APP) to EUR 40 billion in Q2 and EUR 30 billion in Q3, returning to the previous pace of EUR 20 billion from Q4 onwards. The central bank is expected to complete asset purchases before the first interest rate increase, but it will continue to renew maturing bonds afterwards.

The latest forecast of the European Central Bank was published together with the December interest rate decision. It forecasts that the euro area economy could grow by 5.1% this year, slowing to 4.2% next year and 1.6% by 2024. Compared with the September forecast, this represents a slight improvement for this year and a 0.4% deterioration for next year. Inflation could reach 2.6% this year and 3.2% in 2022, before slowing to 1.8% in 2023-2024, slightly below the central bank’s target. This is mainly driven by energy price developments, with the inflation rate without energy prices likely to remain below the 2% target throughout the forecast period. The budget deficit is also expected to narrow only slowly in the euro area, reaching 3.9% of GDP this year, falling to 3.2% next year and 1.8% by 2024. Even so, the government debt-to-GDP ratio is set to decline substantially as a result of economic growth, from 97.3% last year to 96.6% this year and 89.7% over the next 3 years.

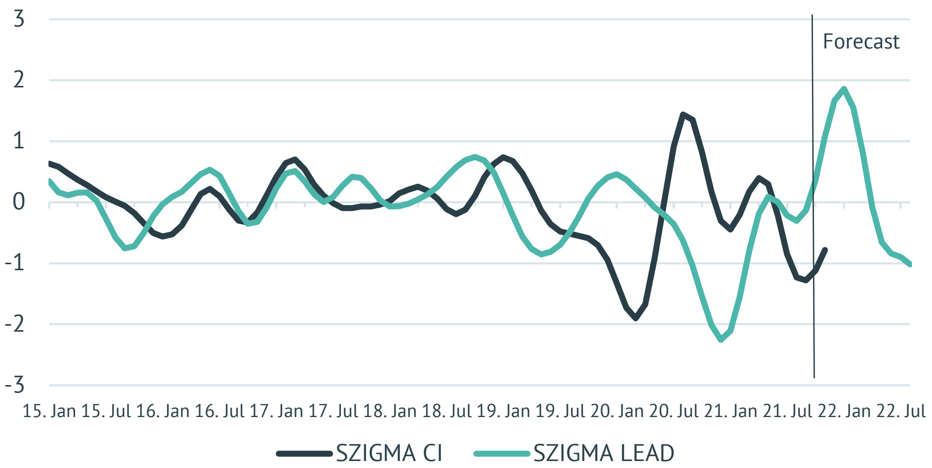
## 2.2. SZIGMA indicators

**The Hungarian economy continues to expand below trend.**

The SZIGMA CI indicator, which provides a snapshot of the current state of the Hungarian economy, remained negative in November, meaning that the economy continued to grow at a below-trend rate. The volume index of domestic industrial sales increased on both a monthly and annual basis in October 2021, by 2.1% and 9.5% respectively, while export sales fell by 5.9% compared to September 2021 and by 9.7% compared to October 2020. The segment's new domestic sales orders also increased on a monthly (+4.3%) and annual basis (+4.2%), while new export sales orders fell (by 25.2% and 17.6%, respectively). Risks to the industry's contribution to economic growth include shortages of raw materials, rising energy prices, chip shortages and transport difficulties. The month-end contract volume in construction decreased on a monthly basis (by 5.7%), while it exceeded the previous year's level (by 6.7%). The number of new non-residential buildings increased by 7.8% compared to September and by 44.6% compared to October 2020.

The SIGMA LEAD indicator, which reflects our expectations for the near-term performance of the domestic economy, points to above-trend expansion until March 2022, and then below trend until the end of the forecast horizon. The Ifo Business Climate index, a gauge of business sentiment in the German economy, fell by 1.2 index points on a monthly basis in November, while it was 5.5 index points higher than a year earlier. The external environment continues to be dominated by the coronavirus pandemic and shortages of raw materials. Retail sales continued to expand in October 2021; the sector's contribution to growth could, therefore, be positive. The consumer confidence index measured by Eurostat dropped substantially, by 8.3 index points month on month, while it was 1.9 index points higher than a year earlier. The negative index value implies that an improvement in confidence could further expand sales of the segment. We expect economic growth to be between 6% and 7% for 2021.

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




*Source: Századvég*

## 2.3. Real economy

**Hungarian GDP grew by 6.1%.**

The Hungarian Central Statistical Office's second estimate for Q3 2021 showed a 6.1% year-on-year increase in gross domestic product, due to both the rebound in the economy and the base effect. On a seasonally and calendar-adjusted basis, GDP volume was 6.1% higher than in the same period of the previous year, while it was 0.7% higher than in the previous quarter.

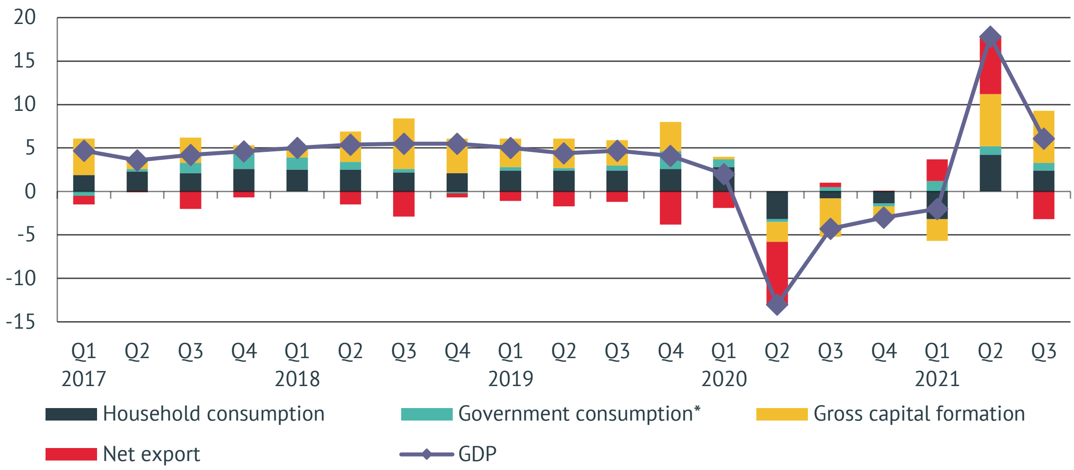
On the production side, the added value generated by agriculture decreased by 3.8% compared to the level a year earlier. The added value generated by the industry increased by 2.5% in the period under review, while that of manufacturing within the industry increased by 2.6% compared to Q3 2020. The added value generated by the construction industry in Q3 2021 was 20.1% higher, that of services was 6.8% higher than one year before. Construction contributed 1.0 percentage point to GDP growth, services 3.8

percentage points and industry 0.5 percentage point, while agriculture moderated GDP growth by 0.2 percentage point.

On the consumption side, household final consumption expenditure increased by 5.2% and the volume of collective consumption by 5.0% compared to Q3 2020. Gross fixed capital formation increased by 9.6% compared to the same period of the previous year.

In Q3 2021, the volume of exports was 1.4% higher than in the same period of the previous year, while the volume of imports was 5.6% higher. However, the trade balance reduced GDP growth by 3.2 percentage points. Within exports, exports of services increased by 13.0%, while exports of goods decreased by 1.2% on an annual basis. Imports of services increased by 13.3% and imports of goods by 4.3% compared to the same period last year.

**FIGURE 2: CONTRIBUTION TO Y-O-Y GDP-GROWTH (EXPENDITURE APPROACH; %)**

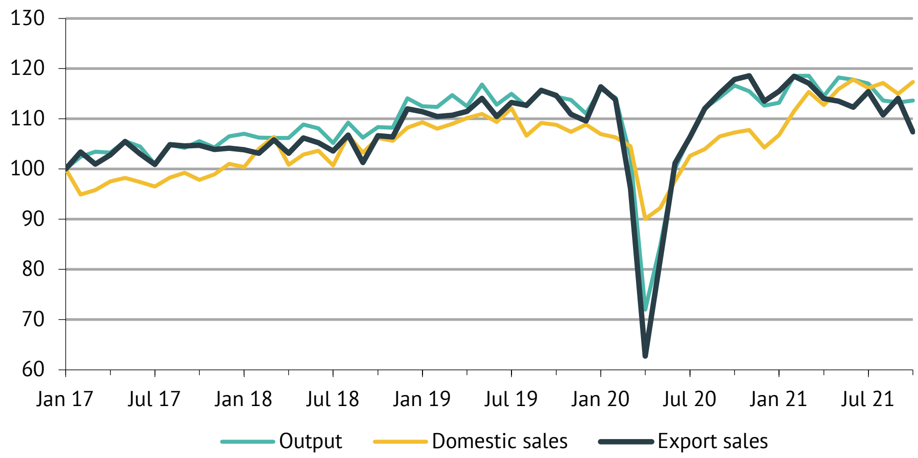



*Source: HCSO. *: with any kind of social transfers*

**Industrial production fell by 3.4%.**

In October, industrial production was again down on a year earlier, by 3.4% in raw data and 2.7% in working-day adjusted data, as a result of shortages of raw materials. Based on seasonally adjusted data, output increased by 0.3% compared to the previous month. The total volume of sales in the industry was 4.5% lower in September than one year before. Within this, domestic sales grew by 8.3%, while export sales fell by 11.3%.

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




*Remark: Seasonally and working-day adjusted data*

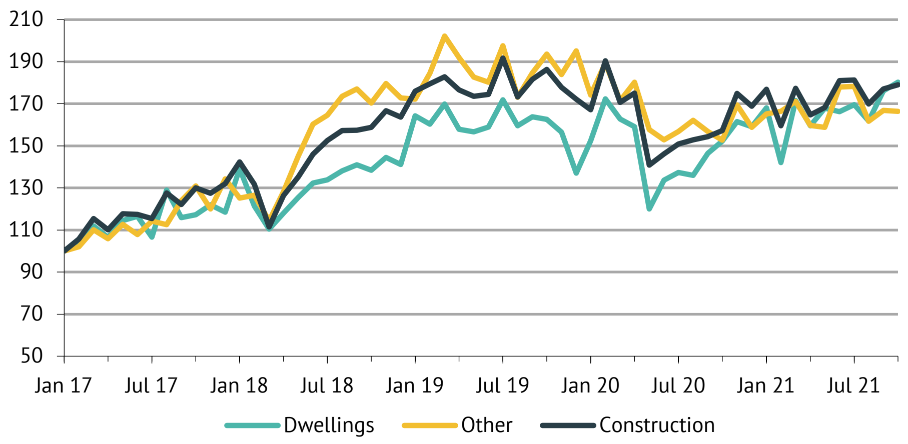
*Source: HCSO, Századvég*

Among the individual sub-sectors of industry, mining output was 19.8% higher, energy output was 11.1% higher and manufacturing output was 4.6% lower than in October 2020. A major contributor to the decline in manufacturing output was the significant 29.8% drop in the output of the automotive sector. However, there were also notable declines in computer manufacturing (10.7%) and pharmaceuticals production (9.2%). The highest growth in October was recorded in the coke and refined petroleum products sector (32.5%), followed by electrical equipment (19.3%) and the metals industry (18.0%). The volume of orders in the priority sectors is up significantly, by 11.5% compared to a year earlier. This is explained by high demand and the supply struggling to satisfy it. At the same time, domestic sales orders are 10.9% lower than a year earlier, while export sales orders are 13.5% higher. The volume of new orders in priority sectors is 14.5% lower than a year earlier. Within this, the volume of new domestic sales orders increased by 4.2% and that of new export sales orders fell by 17.6%, which is a negative sign for the industry's expected performance.

**Construction output grew by over 10%.**

Construction output continues to develop positively: in October, the sector's output was 14.5% higher than in the same period last year and 1.1% higher than in September. The two main building groups grew at different rates on an annual basis, with buildings increasing by 19.7% and civil engineering works by 9.7%. The contract volume in the sector at the end of October was 6.7% higher than a year earlier. Within this, the volume of contracts for the construction of buildings increased by 12.6% and that for civil engineering works by 2.8%. The volume of new sales orders was considerably, 3.7% lower than one year before. Year on year, the volume of new contracts for buildings fell by 4.5% and that for civil engineering works by 2.9%.

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




*Remark: Seasonally and working-day adjusted data*

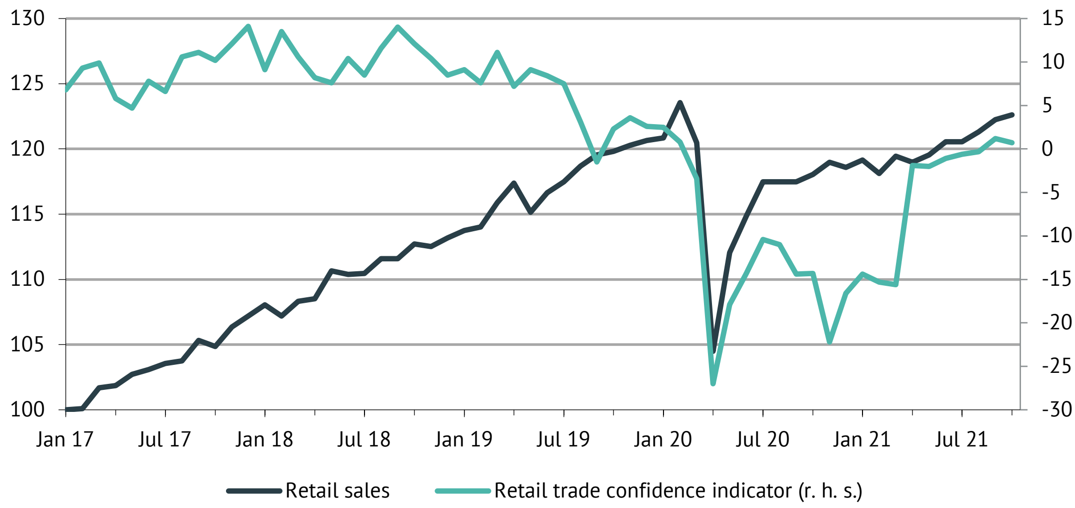
*Source: HCSO, Századvég*

**The volume of retail sales increased by 5.7%.**

In October 2021, retail sales increased by 5.7% compared to the same period of the previous year, based on both raw data and calendar-adjusted data. Adjusted data show an increase of 0.3% compared to the previous month. In October 2021, the calendar-adjusted volume of sales increased by 3.4% in specialised and non-specialised food shops, by 6.3% in non-food shops and, given the low baseline value, by 11.5% in fuel retail, relative to October 2020.

In October 2021, parcel companies and web-shops continued their years of dynamic growth, up 11.9% year on year on a calendar-adjusted basis. Significant increases were also seen in the turnover of shops selling second-hand goods (16.7%), shops selling textile products, clothing and footwear (16.1%), and shops selling pharmaceuticals and medicinal products (10.4%). In addition, an above-average increase in sales was also recorded in books, newspapers and stationery (6.8%), perfumes (8.9%), and computers and other manufactured goods (8.0%). The sales of shops selling a mixed range of manufactured goods also increased (by 3.0%), although less than the turnover of retail shops. The sales volume of shops selling furniture and electric goods fell compared to October 2020 (by 8.3%). Calendar-adjusted data show that, in October 2021, sales increased by 4.0% in non-specialised food shops and by 1.7% 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**



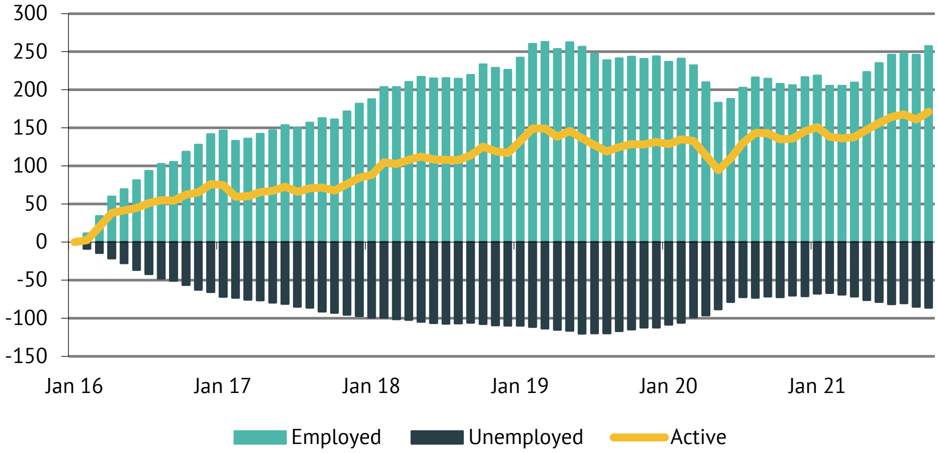

*Remark: Seasonally and working-day adjusted data*

*Source: HCSO, Eurostat, Századvég*

**The unemployment rate fell to 3.9%.**

In the period August-October 2021, the number of employees was 4,648,000, based on seasonally adjusted data. This represents an increase of nearly 12,000 compared to the previous 3 months and nearly 50,000 compared to the same period last year. Employment has also been accompanied by an increase in activity, up by 10,000 on a quarterly basis and 36,000 on an annual basis. Consequently, the number of the unemployed fell to below 191,000 over the period, while their share decreased to 3.9%. By contrast, the number of employees stagnated at 2,843,000 in September, based on seasonally adjusted data, while it increased by nearly 140,000 compared to the same period last year. Compared to August, the number of employees increased by 1,000 in both the competitive sector and the non-profit sector, while the number of employees in the public sector decreased by 2,000. The latter is partly explained by public employment, where the number of employees fell by 1,000 in September compared with the previous month, to below 82,000.

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



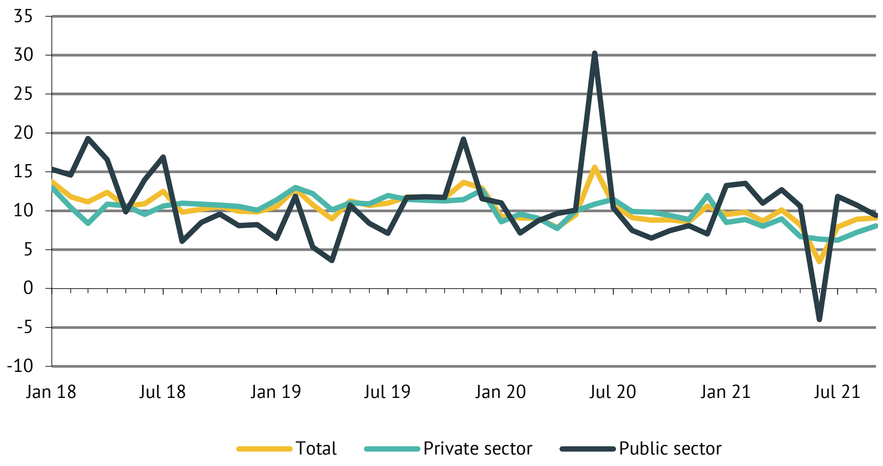

*Remark: Seasonally and working-day adjusted data*

*Source: HCSO, Századvég*

**The median gross monthly wage was close to HUF 350,000.**

In September, the average gross monthly wage in the national economy was close to HUF 428,100, an increase of 9.1% compared to the same period last year. The median gross monthly wage was HUF 349,300 in September 2021. The average gross monthly wage increased by 8.0% in the business sector and by 9.4% in the public sector. This is driven by wage increases for doctors, judges, prosecutors, and nursery workers. The average net monthly wage also increased by 9.1% to close to HUF 284,700, while taking into account tax allowances, it rose to HUF 293,400. However, with inflation rising above 5%, net real wages rose by only 3.4% on an annual basis in September.

FIGURE 7: GROSS WAGES (ANNUAL CHANGE, %)




*Remark: Seasonally and working-day adjusted data*

*Source: HCSO, Századvég*

## 2.4. External balance

**The foreign trade balance deteriorated.**

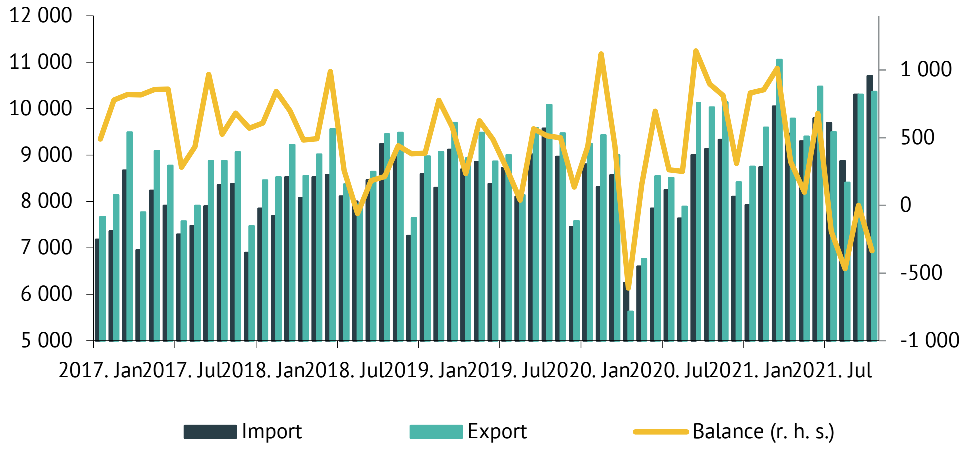
In September, exports of goods were unchanged, while imports increased by 14% year-on-year in euro terms. The foreign trade deficit was, therefore, EUR 128 million, EUR 1.316 million less than in the previous year..

In September, the volume of food imports rose by 3.3% and exports by 0.5% year-on-year. As for energy carriers, imports decreased by 1.3% and exports increased by 7.9%. Imports of manufactured goods were up 1.2% and exports were down 4.5% from a year earlier. As for machinery and transport equipment, imports decreased by 2.1%, and exports by 13.0%.

In October 2021, the EUR value of exports was 0.9% higher and the EUR value of imports was 14.0% higher than a year earlier. The trade deficit in goods amounted to EUR 335 million, which is EUR 1,255 million less than a year earlier.

The current account balance stood at EUR -817.2 million in October 2021. The deficit for the first ten months of this year stands at EUR 2,357.4 million, up from a deficit of EUR 1,650.0 million in January–October 2020.

**FIGURE 8: BALANCE OF TRADE (IN MILLION EUR)**




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

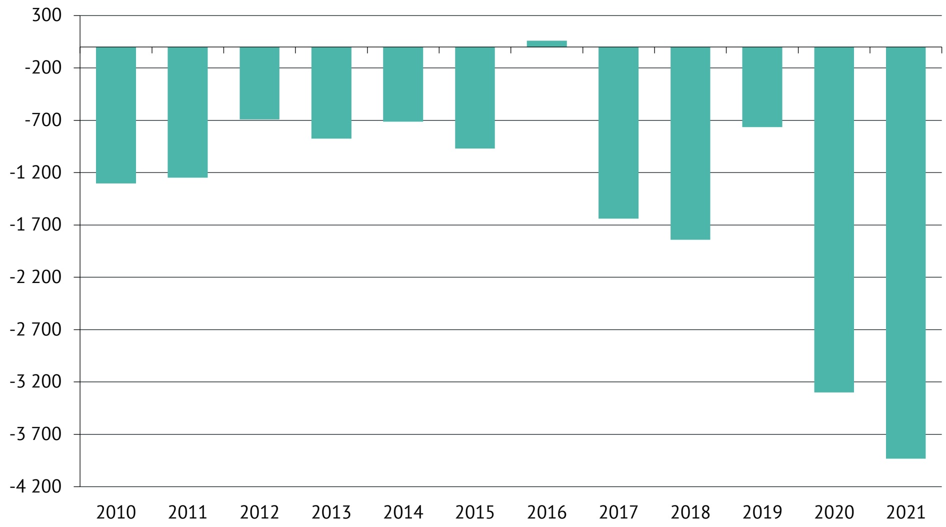
*Source: HCSO*

## 2.5. Fiscal outlook

**The November budget deficit was over HUF 1,000 billion.**

In November 2021, the central budgetary subsystem closed with a deficit of HUF 3,931.3 billion. This is attributable to the general government deficit of HUF 3,610.1 billion, the social security funds subsector's deficit of HUF 347.1 billion, and the extra-budgetary funds' surplus of HUF 26.0 billion.

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




*Source: PM*

In November, cumulative VAT revenues were HUF 708.9 billion (17.3%) higher than in the same period of the previous year, thanks to an increase in VAT paid on domestic, import and tobacco products. Excise duty revenues in January–November 2021 were HUF 38.2 billion (3.5%) higher than a year earlier. Increases in fuel consumption, higher taxes on tobacco products and higher energy consumption have all contributed to this. Personal income tax revenue was also higher on an annual basis in the first eleven months, by HUF 325.2 billion (14.2%). The total amount of social contribution tax and social security contributions collected by the end of November was HUF 274.3 billion (5.6%) higher than between January and November 2020.

Revenue from EU programmes closed at HUF 1,009.2 billion at the end of November 2021, while related expenditure closed at HUF 2,059.2 billion, based on cumulative fulfilment. In domestic spending, pension benefits, which will rise to HUF 3,795.5 billion by the end of November, and preventive health care benefits, which will amount to HUF 1,633.7 billion, are the main items. The former includes expenditure related to the pension correction and the pension premium paid in November, while the latter includes health expenditure related to the epidemic.

## 2.6. Monetary developments

**In November, prices increased by 7.4%, on average.**

In November 2021, consumer prices increased by 7.4% 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 11.0% on average, while that of food products increased by 6.0%. 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 16.8% as compared to the same period of 2020.

More significant drivers of the 6.0% average increase in food prices were the 9.0% increase in poultry prices, the 28.0% increase in potato prices, the

10.5% increase in the prices of restaurant meals, the 10.1% increase in pre-ordered menu meals at workplaces, the 12.1% increase in bread prices and the 26.9% increase in cooking oil prices. The latter is driven by the record high price of rapeseed, which is the result of soaring Chinese demand as China rebuilds its large pig population, previously decimated by African swine fever, and which needs large quantities of rapeseed, among other things, for feed. Average food inflation was, however, held back by a fall in the prices of Extrawurst, cold cuts and sausages (-0.8%), salami, dry sausages and ham (-0.5%) and pork (-1.1%) as well as the just 1.9% increase in the prices of fresh Hungarian and southern fruits.

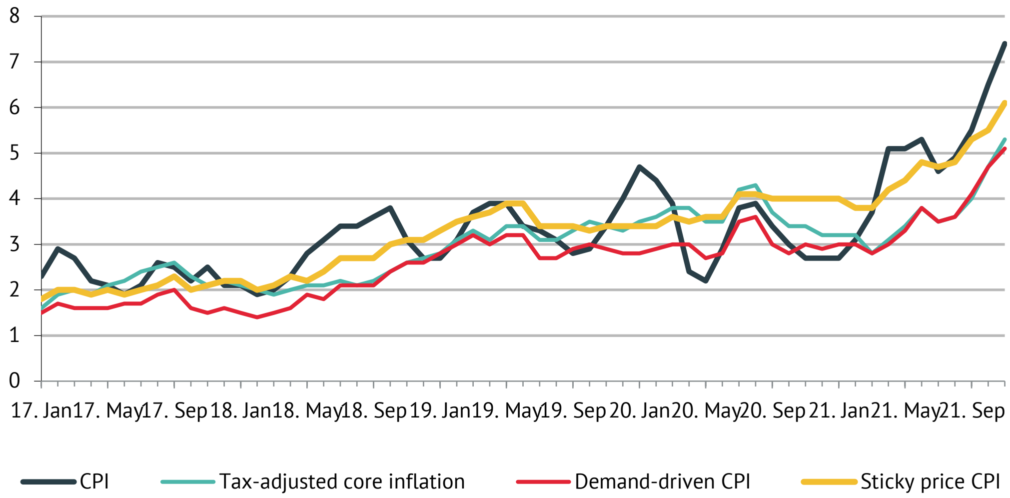
The prices of other products and fuels increased by 15.1% in November, year-on-year. Within this, the price of vehicle fuels increased by 37.7%, mainly explained by the base effect and supply-demand imbalances.

The average increase in household energy prices was 0.9% in November, compared to the same period of the previous year. Within household energy, fuelwood prices increased by 7.4%, coal prices increased by 7.8%, and bottled gas prices increased by 3.9% in a single year. The price of electricity, pipeline gas and district heating remained unchanged.

In November, prices of services increased by an average of 4.6%, mostly driven by a 35.9% increase in motorway tolls, vehicle rental and parking, a 5.7% increase in the prices of health services, a 14.5% increase in home repair and maintenance prices, an 9.1% increase in vehicle repair and maintenance prices, and a 6.1% increase in the prices of personal care services. The average increase in the prices of services was moderated by the stagnation in the price of gambling, a 3.0% increase in the price of condominium common charges and a 1.0% decrease in the price of telephone and internet.

Clothing prices increased by 1.8% and the prices of durable consumer goods increased by 6.6% on average in a single year. Taking a closer look at the latter, one can see that jewellery prices increased by 10.1%, home furniture prices increased by 13.2%, new car prices increased by 7.1% and used car prices increased by 5.3%.

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




*Source: MNB*

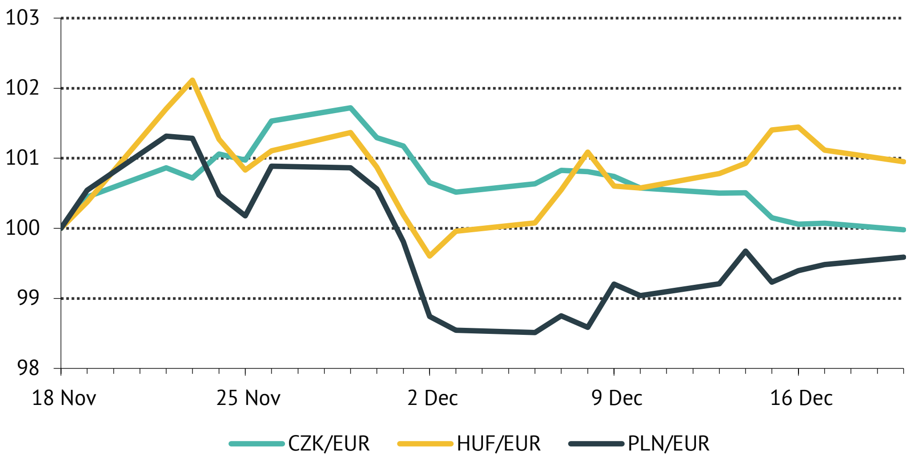
Among the core inflation indicators published by the MNB, the seasonally adjusted core inflation rate was 5.2%, the demand-sensitive inflation rate was 5.1% and the core inflation rate net of indirect taxes was 5.3% in November. The sticky price inflation rate was 6.1% in November.

Both the ECB Board of Governors and the Federal Open Market Committee met in the recent period. Euro area 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. Furthermore, the Fed's Federal Open Market Committee (FOMC), which decides on interest rates, has not changed its target range of 0%–0.25%.

**Long yields in the region have barely changed.**

Exchange rates in the region showed a mixed picture in relation to the euro. The Czech koruna has remained broadly flat, while the Polish zloty has strengthened by 0.4% against the euro over the period. The Czech 10-year government bond yield closed 9 basis points higher at 2.81%, while the Polish 10-year yield closed 13 basis points lower at 3.35%.

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




*Source: Refinitiv*

**The forint weakened by 1.0% against the euro.**

Overall, indicators of the Hungarian financial and foreign currency markets have shown a mixed picture in the past period. The yield of 5-year treasury securities closed at 4.33%, rising 27 basis points. The HUF weakened by 1.0% against the euro, by 1.9% against the Swiss franc and by 1.6% against the US dollar. This means that on 20 December 2021, one Euro was worth HUF 367, one US Dollar was worth HUF 326, and one Swiss Franc was worth HUF 353. Sovereign debt held by foreigners has recently decreased by HUF 60 billion to HUF 4,431 billion.

**The interest rate on a one-week deposit is 3.6%.**

At its interest rate meeting in December, the Monetary Council of MNB raised its base interest rate by 30 basis points; the base interest rate is, therefore, 2.4%. The Monetary Council of the central bank raised the bottom and the top of the interest rate corridor by 80 and 30 basis points, respectively, bringing the overnight deposit interest rate to 2.4% and the lending rate to 4.4%. The central bank decides on the interest rate for the one-week deposit facility on a weekly basis, which is currently set at 3.6%, 120 basis points above the base rate. The MNB has increased the effective interest rate by 285 basis points since the start of the rate hike cycle. The asymmetric interest rate corridor defines the overnight interest rates on the interbank market.

The central bank attaches the utmost importance to using its monetary policy instruments to support the achievement of price stability as soon as possible. To this end, at its meeting in December 2021, the Monetary Council decided to close the government bond purchases and the Bond Funding for Growth Scheme. This means that there will be no new purchases of government bonds, but of course the central bank will continue to hold its government bond holdings until maturity. With regard to corporate bonds, no further corporate bond purchases will be made after the ongoing issuer negotiations, up to capped purchases.

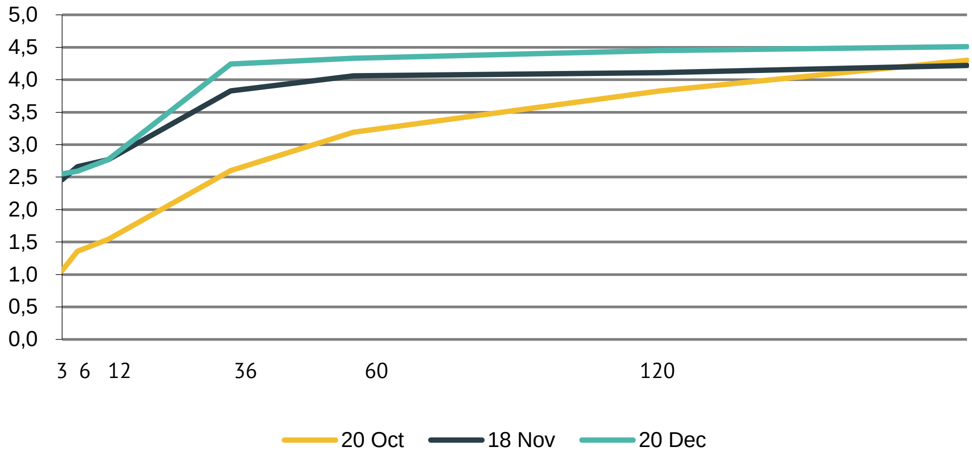
Over the past month in the government bond market, yields for shorter maturities varied between -7 basis points and 9 basis points on the secondary yield curve. This means that the 3-month yield was 2.55%, the 6-month yield was 2.59% and the 1-year yield was 2.77% on 20 December. The 3-year yield increased by 41 basis points to 4.24%. On a month-over-previous-month basis, 5-year yields increased by 27 basis points, 10-year yields increased by 34 basis points, and 15-year yields increased by 29 basis points. These three yields changed, therefore, to 4.33%, 4.45%, and 4.51%, 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 November 2021, the total value of treasury securities held by retail investors was HUF 5,894.13 billion after a HUF 214.05 billion decrease from the HUF 6,108.18 billion level in mid October 2021. In a high inflation environment, more people are choosing government bonds that track inflation and thus offer a fixed real interest rate.

The share of foreign currency debt in the sovereign debt changed to 20.98% in October (corresponding to an increase of 0.15 percentage points), which is above the upper edge of the range (10–20%) specified in the financing plan for 2021 of the Government Debt Management Agency Ltd.

No major international credit rating agency has recently announced a date for a change or confirmation of the risk rating of Hungarian sovereign debt. The rating of Hungary's sovereign debt is currently unchanged at Baa2 with stable outlook with Moody's, BBB with S&P and BBB with Fitch. Thus, all three major international credit rating agencies have a risk rating for Hungarian treasury securities that is one category above the lowest grade that is still recommended for investment.

**FIGURE 12: THE HUF YIELD CURVE (%)**

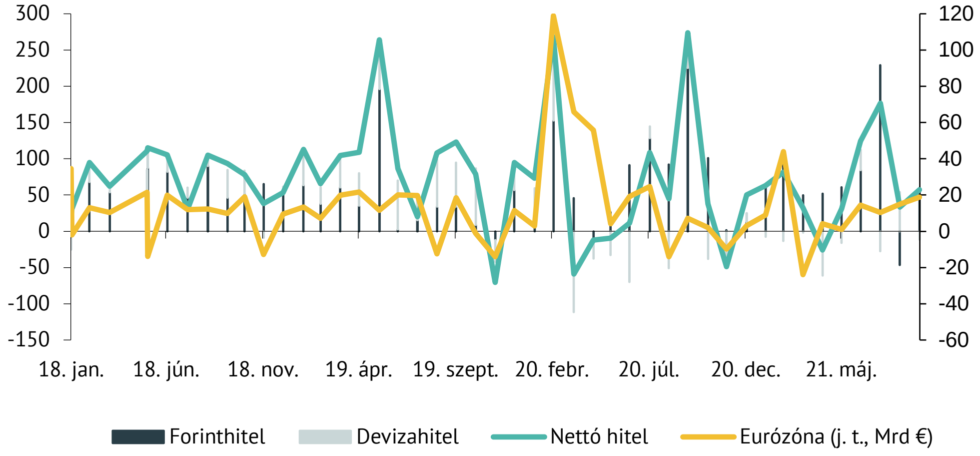



*Source: ÁKK, Századvég*

**Corporate HUF loans increased, while foreign currency loans decreased.**

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector was HUF 59.7 billion in October 2021. Net repayments of foreign currency loans amounted to HUF 11.9 billion in the tenth month of the year, meaning that the aggregated value of corporate foreign currency loans, i.e. the exposure to foreign exchange risk, decreased. Total net borrowing, based on seasonally adjusted data, amounted, therefore, to HUF 57.4 billion in October. Corporate borrowing in the euro area was EUR 18.867 billion in October 2021.

**FIGURE 13: CORPORATE BORROWING (IN BILLION HUF)**




*Source: MNB, ECB*

In October, the value of gross loan placement in HUF over and above bank overdrafts was HUF 97.8 billion, which is HUF 14.1 billion more than the amount of the previous month. The sum of newly granted euro-loans was HUF 61.3 billion, which is HUF 43.7 billion more than the figure for September.

# 3. Macroeconomic forecast of Századvég Economic Research

**Economic growth could reach 5.3% next year.**

According to our latest forecast, the Hungarian economy could expand by 6.6% this year, 5.3% next year and 4.8% in 2023. This year's growth is, therefore, robust due to the rebound in the economy, although the disruption in international supply chains is holding back the performance of manufacturing, especially the automotive sector. Economic growth will be driven more by domestic demand in the early part of the forecast period, while in 2023, as supply chains recover and investments turn productive, the contribution of net exports to growth could be positive.

Household final consumption expenditure is expected to grow by 3.3% in 2021, 7.4% in 2022 and 3.7% in 2023. Growth next year will rely heavily on the base effect (we no longer expect restrictive measures like this spring), high employment, an expected substantial rise in real wages supported by labour shortages and a sharp increase in the minimum wage, as well as a reduction in taxes on labour, and significant government transfers (such as tax refunds for families).

Although the government has postponed some investments due to budget deficit cuts and capacity constraints in the construction sector, the start of the new EU budget cycle and rising business investment could boost investment volumes by 8.8% this year, 6.4% next year and 7.5% in 2023. The investment rate could, therefore, remain high for a long time, and business investment could later improve on the export side.

However, it is only from 2023 onwards that net exports will be able to positively influence growth again: while in the first half of this year their impact on growth was positive, from the third quarter onwards this effect has turned negative, due to strong domestic demand and difficulties in the manufacturing sector. With the recovery of supply chains and international tourism, we expect a positive contribution to growth in 2023.

Inflation has recently risen to over 7%. This was largely driven by international factors (rising oil prices, energy prices, supply chain disruption) and to a lesser extent by domestic factors (strong demand, weak forint exchange rate, increase in excise duties on tobacco products). The rate of monetary deterioration is expected to moderate slowly over the next period, from 5.1% in 2021 to 5.3% in 2022, before slowing to 3.7% in 2023. This means that we expect a stabilising external environment and tighter fiscal and monetary policy to stabilise or moderate price increases. The main risks related to monetary deterioration are the incorporation of high past inflation into expectations and changes in international trends. With inflation higher than usual in recent years, but not historically high, real wages could continue to rise, by 5.7% in 2022 and 6.7% in 2023, according to our estimates.

In the wake of deteriorating inflation data, the central bank has started to tighten monetary policy over the past six months, with a steady stream of small interest rate hikes and the withdrawal of asset purchase programmes from its nonconventional toolkit. We expect the tightening to continue in the near future, but at a slower pace than before. Monetary policy will therefore be tighter than so far, but the real interest rate will remain negative even in 2022, so it will not be tight in any case.

Fiscal policy has also changed its tune, with the Ministry of Finance announcing that the deficit planned for 2022 could be 1 percentage point lower than originally foreseen in the Act on the Budget, at 4.94%. This is certainly welcome, as the rebounding economy does not require the same level of budgetary resources as before, and lower spending will help to improve the balance indicators (inflation, current account, budget balance). At the same time, the 4.9% deficit is not considered overly stringent and will only be gradually reduced to maintain growth. We estimate that the budget deficit could be 5.2% of GDP in 2022 and 3.5% of GDP in 2023, while the sovereign debt to GDP ratio could fall from 79.9% at the end of this year to 75.0% over the next two years.

We therefore expect the Hungarian economy to continue its dynamic growth once it has overcome the pandemic. However, there are risks: for example, how the pandemic will evolve in the future in Hungary and abroad, when supply chains will be restored, and what will happen to energy prices.

# 4. Századvég forecast [1]

### TABLE 1: Q4 2021 PROJECTION

| | 2021 | 2022 | | | | 2022 | 2023 | | | | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | annual | Q1 | Q2 | Q3 | Q4 | annual | Q1 | Q2 | Q3 | Q4 | annual |
| **Gross domestic product (volume index, %)** | **6,6** | 5,0 | 4,4 | 5,3 | 6,3 | **5,3** | 6,3 | 5,6 | 4,5 | 2,9 | **4,8** |
| **Household consumption expenditure (volume index, %)** | **3,3** | 9,8 | 6,5 | 7,0 | 6,4 | **7,4** | 8,2 | 2,7 | 1,2 | 2,8 | **3,7** |
| **Gross fixed capital formation (volume index, %)** | **8,8** | 10,9 | 0,8 | 5,6 | 8,3 | **6,4** | 5,8 | 12,6 | 9,5 | 2,1 | **7,5** |
| **Export volume index (based on national accounts, %)** | **9,8** | 4,4 | 7,0 | 8,2 | 4,5 | **6,0** | 4,4 | 4,6 | 4,8 | 4,4 | **4,6** |
| **Import volume index (based on national accounts, %)** | **8,6** | 7,7 | 7,8 | 7,0 | 3,9 | **6,6** | 3,3 | 3,5 | 3,6 | 3,9 | **3,6** |
| **Foreign trade balance (bn EUR)** | **4,0** | 1,9 | 0,8 | −0,8 | 1,7 | **3,6** | 2,3 | 1,2 | −0,5 | 1,9 | **4,9** |
| **Consumer price index (%)** | **5,1** | 6,8 | 5,8 | 5,1 | 3,6 | **5,3** | 3,4 | 3,4 | 3,8 | 4,0 | **3,7** |
| **Central bank's base rate at the end of the period (%)** | **2,4** | 3,0 | 3,4 | 3,20 | 3,2 | **3,2** | 3,2 | 3,20 | 3,20 | 3,20 | **3,20** |
| **Unemployment rate (%)** | **4,1** | 3,7 | 3,6 | 3,5 | 3,4 | **3,6** | 3,3 | 3,2 | 3,2 | 3,1 | **3,2** |
| **Gross average earnings (year-on-year change, %)** | **8,7** | 11,5 | 12,2 | 11,4 | 10,1 | **11,3** | 9,3 | 9,9 | 11,1 | 12,0 | **10,6** |
| **Current account balance as a percentage of GDP** | **−2,6** | | | | | **−1,9** | | | | | **−1,1** |
| **External financing capacity as a percentage of GDP** | **−0,8** | | | | | **0,0** | | | | | **1,2** |
| **General government ESA-balance as a percentage of GDP** | **−7,6** | | | | | **−5,2** | | | | | **−3,5** |
| **Government debt (% of GDP)** | **79,9** | | | | | **78,0** | | | | | **75,0** |
| **GDP based external demand (volume index, %)** | **5,6** | 5,1 | 4,8 | 4,4 | 3,8 | **4,5** | 3,1 | 2,6 | 2,3 | 2,1 | **2,5** |

*Source: MNB, HCSO, Századvég-Calculation*

### TABLE 2: CHANGES COMPARED TO OUR PREVIOUS FORECAST

| | 2022 | | |
|---|---|---|---|
| | Sep 2021 | Dec 2021. | Difference |
| **Gross domestic product (volume index, %)** | 5,5 | **5,3** | *−0,2* |
| **Household consumption expenditure (volume index, %)** | 5,3 | **7,4** | *2,1* |
| **Gross fixed capital formation (volume index, %)** | 5,4 | **6,4** | *1,0* |
| **Export volume index (based on national accounts, %)** | 6,6 | **6,0** | *−0,5* |
| **Import volume index (based on national accounts, %)** | 4,9 | **6,6** | *1,7* |
| **Foreign trade balance (bn EUR)** | 10,2 | **3,6** | *−6,6* |
| **Consumer price index (%)** | 3,8 | **5,3** | *1,5* |
| **Central bank's base rate at the end of the period (%)** | 2,40 | **3,20** | *0,8* |
| **Unemployment rate (%)** | 3,6 | **3,6** | *−0,1* |
| **Gross average earnings (year-on-year change, %)** | 10,6 | **11,3** | *0,7* |
| **Current account balance as a percentage of GDP** | 2,1 | **−1,9** | *−4,0* |
| **External financing capacity as a percentage of GDP** | 3,9 | **0,0** | *−3,9* |
| **General government ESA-balance as a percentage of GDP** | −5,4 | **−5,2** | *0,2* |
| **Government debt as a percentage of GDP** | 73,6 | **78,0** | *4,4* |
| **GDP based external demand (volume index, %)** | 4,6 | **4,5** | *0,0* |

[1] The forecast is valid as of 20 December 2021