SZÁZADVÉG
GAZDASÁGKUTATÓ

MONTHLY MONITOR

January 2021

The inflation rate was 3.3% in 2020

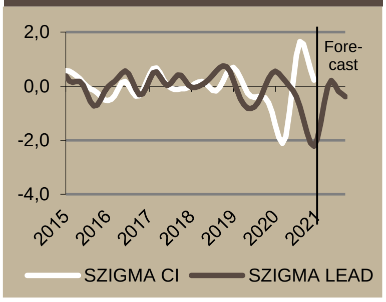
In 2020, the inflation rate was similar to the previous year, i.e., it stayed within the central bank's target range, but was slightly above the target. On an annual average, the core inflation rate, which describes the underlying trends, was 4.1%, meaning that the underlying inflation trends

As for the individual product groups, food products saw the highest price increase (7.2%), followed by alcoholic beverages and tobacco products (6.9%). Service prices increased at a lower-than-average rate, by 2.9% on average, while household energy prices increased by 0.3%. This is explained by the unchanged price caps. The price of durable consumer goods increased by 1.4%, and that of clothing did not change. Vehicle fuel prices dropped by 5.6%.

The restrictive measures, imposed because of the coronavirus epidemic, hit the sales volume of accommodation providers and, consequently, the whole tourism sector. In November, the total number of guest nights fell by 85.0% on a year-on-year basis. More specifically, the number of domestic guest nights decreased by 76.3% and that of foreign guest nights by 93.1% Consequently, accommodation providers' revenues were 84.7% lower than one year before.

Accrual data show that the general government deficit, as a share of GDP, was 4.6% in the first three quarters. This was attributable to the 1.0% increase of revenues and the 10.2% increase of expenditures. For the year as a whole, the Ministry of Finance estimates that the cash deficit could have been 8.6% (or even higher because of year-end expenditures). Accordingly, the debt-to-GDP ratio could have increased to 81.2% by the end of 2020, from the 65.4% recorded in 2019.

SZIGMA indicators

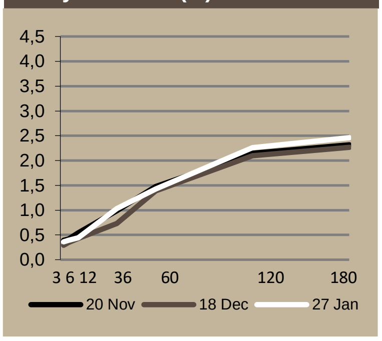


Source: Századvég

Forecast (17 December 2020)

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

HUF yield curve (%)



Source: Datastream

Economic overview

External environment

Employment decreased in the United States in December.

In the USA, the number of employees in non-agricultural sectors decreased by 140,000 in December, although analysts had expected an increase of 70,000. The negative employment data are primarily attributable to the increasing coronavirus-morbidity in December and the restrictive measures to counter the spread of the epidemic. This stopped the growth of the US labour market, which started in May, but was gradually slowing down. In December, the number of persons employed was 9,400,000 (6.2%) lower than in the previous year, i.e., it approximately equalled its 2015 level. In other words, the coronavirus pandemic caused a significant slump in US labour market in a rather short period of time. Despite negative employment data, the unemployment rate stagnated at 6.7% in the USA in December. Although this is a significant drop relative to the peak in April (14.8%), it is still twice as much as it was in February, i.e., before the pandemic (3.5%). In December, average hourly wages increased by 5.2% on a year-on-year basis, which is higher than in November (4.5%). This is, however, again driven by the trends observed in the spring: the layoffs in leisure services and the catering sector primarily affected employees with lower wages, increasing the value of the average hourly wages because of composition effects.

In December, prices increased by 1.4% on a year-on-year basis in the USA, while they increased by 0.4% on a month-on-month basis. Individual product groups show, however, significant differences. Food prices increased by 3.9%, while energy prices decreased by 7.0% in a single year. More specifically, fuel prices decreased by 20.0% in a single year, even though this product group saw a 10.0% price increase in December, on a month-on-month basis. The prices of other goods increased by 1.7% on a year-on-year basis; more specifically, the prices of new cars raised by 2.0% and those of used ones by 10.0%. Clothing prices decreased, however, by 3.9% and that of healthcare products also fell by 2.5% on a year-on-year basis. Services prices increased by 1.6% on average, which is mostly attributable to the 1.8% increase of accommodation prices and the 2.8% price increase of healthcare services, yet the 3.5% decrease of transport service prices held back the inflation.

The next Brexit chapter

Although the United Kingdom officially left the EU last January, the actual exit took place only on 1 January 2021. A transitional period was between the two dates, and all relations between the EU and the UK applied as if the UK had still been a member of the integration, i.e., the EU rules continued to apply to the UK, with the exception that the UK could certainly not take part in the decision making.

The deal, that is effective as of 2021, was reached on 24 December, virtually in the last moment. The complete deal is 1,200 pages long, regulating many questions in detail. In many issues, however, the terms of the relationship still need to be laid down.

Trade was one of the most important fields to be regulated. The parties had to regulate the trade of goods and services after they would abandon the free movement principle that had applied so far. Although no tariffs or quota will apply, trade will not remain absolutely free, because custom declarations will have to be filled in and customs controls could be expected at the border. This can cause delays in international trade. Some special restrictions will, however, apply. Raw meat, for example, can be imported from the UK into the EU only if it is frozen colder than -18 °C.

Free market access applies only to those products, in the case of which the UK's import exceeds its export. Up to now, the UK had a surplus in the foreign trade of services, but from now on, stricter terms and conditions will apply. This means that the agreement on the trade of services is not good for the UK. By this agreement, service-exporting companies will lose their automatic access to the EU markets and will have to comply with the regulations of each and every Member State, one-by-one.

The rules on residence in a Member State will also be stricter. UK citizens will need visa, if they spend more than 90 days in an EU Member State in a 180-day period. The prohibition of extra fees for roaming is no longer applicable for the UK.

Fishing rights, i.e., EU fishermen's access to British waters, were highly debated questions before the agreement. As a result of the compromise reached in this question, the access ratio will be gradually reduced within the next 5.5 years. From 2026, the UK will have the right to totally ban EU fishermen's access to British waters, but in this case the EU could levy duty on fish imports. Originally, The EU offered an 18% restriction of fish caught by other Member States, but the UK wanted an 80% reduction. The compromise will reduce the EU Member States' quota by 15% in the first year and by 2.5% each subsequent year.

Working in the UK is another a key issue for Hungarian citizens, because nearly 100,000 Hungarians work currently in the UK. The agreement will complicate working in the UK, but those who have already worked in the UK, can continue their activity. They are required apply for settlement status until the end of June. As of now, those who would like to immigrate into the UK from the EU will be considered as immigrants from third countries. We must emphasise, however, that university degrees and diplomas will not be automatically recognised in the future.

The Erasmus student exchange programme is an important programme of the EU. Except for the universities of Northern Ireland, however, the UK will no longer participate in it. Instead, from September 2021, the UK will elaborate a new programme to replace Erasmus, which will cover not only EU Member States, but the whole world.

The deal avoided, therefore, that the relations between the two economic areas be uncertain or overregulated in the future. During the negotiations, EU leaders, however, wanted to reach a deal which discourages other Member States from leaving the EU.

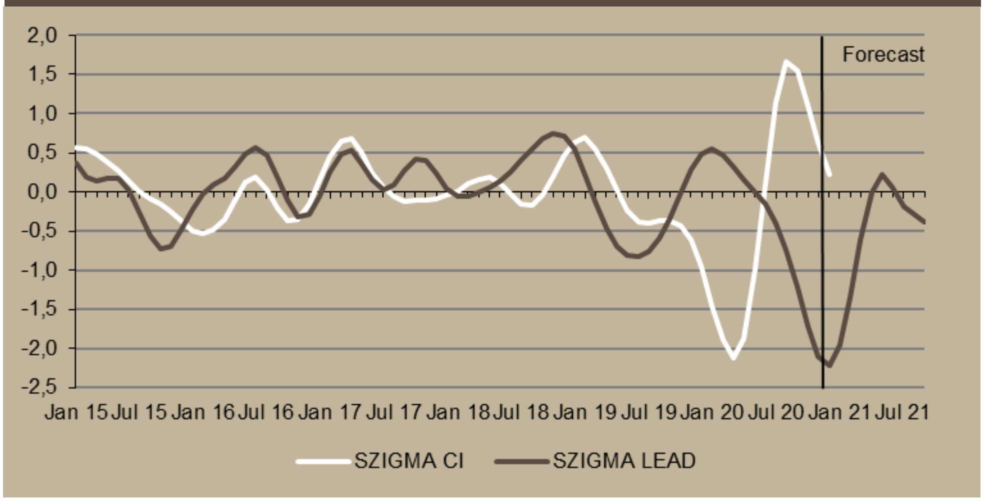
SZIGMA indicators

Our SZIGMA indicator got closer to zero.

Though the SZIGMA CI indicator, which provides a picture of the current state of the Hungarian economy, turned positive in the end of 2020, it moved closer to zero, showing that the Hungarian economy grew at a rate close to the trend in December 2020. In November 2020, the domestic sales volume of the industry changed in line with the same period of the previous year, while its export sales volume exceeded the reference level by 7.4%. Both data series imply a minimal increase on a month-over-previous-month basis (0.4% and 0.9%, respectively). By contrast, on a year-on-year basis, new domestic and export sales orders increased in volume by 7.8% and 10.3%, respectively, compared to the same period of 2019, while they increased by 1.0% and 4.6% compared to October 2020. The pandemic and the lifting of restrictions will strongly affect industrial output. In case the pandemic could be contained, and restrictions could be lifted, the industrial output could turn into positive. In November 2020, the end-of-month volume of contracts of the construction industry was 2.7% higher than in the previous year, while it increased by 10.0% on a month-on-month basis. In November 2020, the number of new non-residential building projects was significantly, 12.3% higher than in November 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 April 2021. In December 2020, the Ifo Business Climate index, which provides a picture of the changes of the business climate of the German economy, improved on a month-on-month basis (by 1.2 index points) but was still below the previous year's level (by 3.4 index points). This means that the sentiment of German companies improved. Overall, the external environment's contribution to domestic output may be positive if the pandemic is contained. In November 2020, the volume of retail sales was slightly (0.8%) below its level recorded in the reference period, which is mostly attributable to the significant downturn in fuel sales. If the pandemic restrictions get lifted this year, retail sales may contribute again to economic growth. In December 2020, the consumer trust index measured by Eurostat was significantly below its level recorded in December 2019 (by 21.1 index points), and it also implied a decrease on a month-over-previous-month basis (by 2.2 index points). The negative index value implies that trust needs to be restored for increasing sales in the segment. If the pandemic is contained, and the economy is not badly hit, the economy may increase by 4.2% in 2021.

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



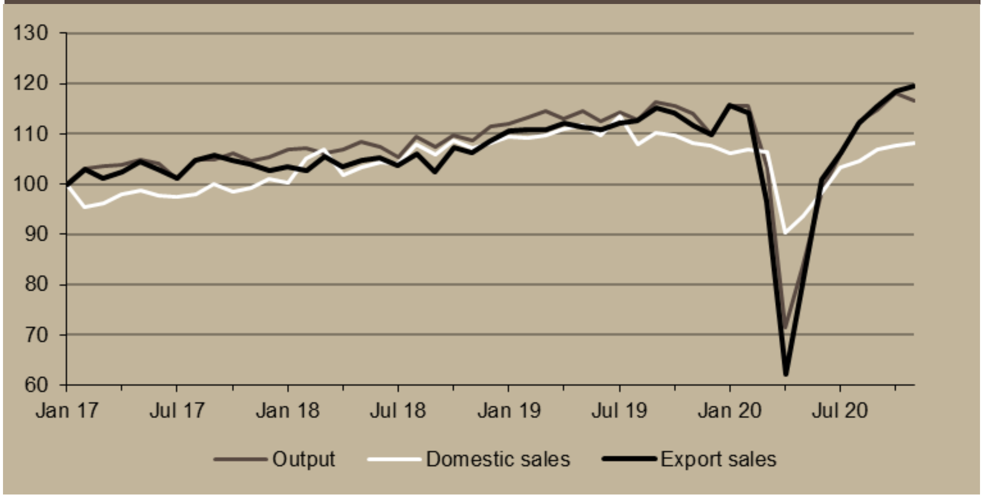
Source: Századvég

Real economy

Industrial output is around its level recorded one year before.

The annual comparison shows that the November output of the industry was 3.5% higher in terms of raw data and 1.6% in terms of workday-adjusted data. Compared to October, the sector's output was 1.2% lower. In November, the sales volume of the industry as a sector was 6.1% higher than one year before. The volume of domestic sales was 1.1% higher and that of export sales was 8.9% higher than in the same period of the previous year.

Fig 2 Industrial output and sales (January 2017 = 100%)



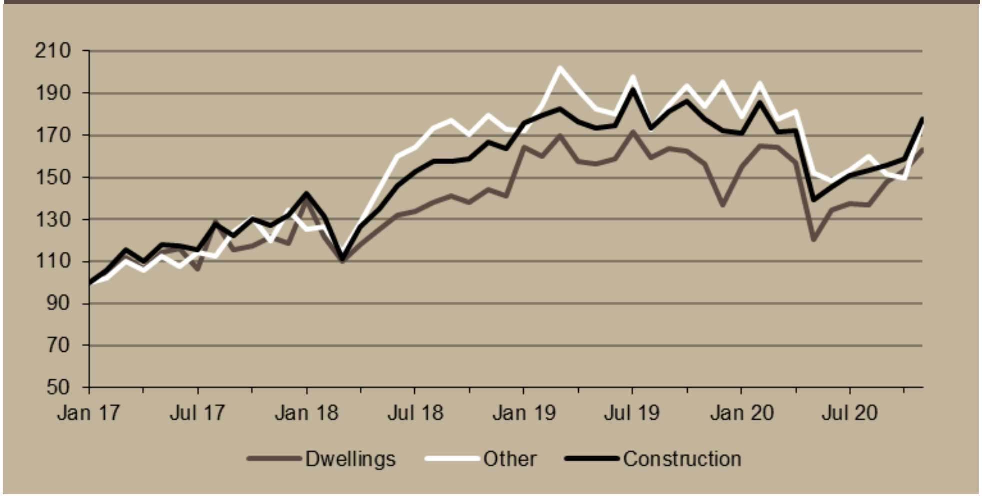
Remark: Seasonally and working-day adjusted data
Source: HCSO, Századvég

Breaking down the output of the entire industry as a sector, one can see that the output of mining shrank by 16.8%, while that of the manufacturing industry increased by 3.7% and that of the energy industry raised by 13.6%. More specifically, 7 subsectors of the manufacturing industry saw a decrease in output, while 6 subsectors showed an increase. The greatest increase (27.4%) was seen in electric equipment manufacturing, followed by 7.4% in the automotive industry, and 7.3% in mechanical engineering. The Hungarian Central Statistical Office (HCSO) recorded the largest decrease in the textile industry (8.9%) and in coke production, crude oil processing (8.4%). The sales order volume of the sectors followed up by HCSO was 6.5% higher than one year before. More specifically, the volume of domestic sales orders was 6.1%, that of export sales orders was 6.5% higher. Compared to data recorded one year ago, the volume of new sales orders increased by 10.0%; more specifically, the volume of new domestic sales orders grew by 7.7% and the volume of new export sales orders raised by 10.4%.

The construction industry gained new momentum.

In November, the construction industry performed much better than in the previous months. The output of this sector grew by 5.0% on a year-on-year basis, while it increased by 12.1% relative to the previous month. This increase is attributable to the growth of demand and the start of government's programmes. The annual comparison shows that the output increased in the case of both building groups. The output of buildings raised by 7.7%, that of civil engineering works grew by 2.2%. The sales order volume of this sector was also significantly higher in November. The volume of new sales orders was 55.5% higher than one year before. More specifically, the volume of new orders for buildings grew by 87.1%, and the volume of new orders for civil engineering works grew by 35.5%. Consequently, after 1.5 years, the sales order volume was 2.7 higher than one year before. Taking a closer look, one can, however, see that the two building groups show different pictures: HCSO recorded a 53.8% increase in the volume of contracts for buildings, while that for civil engineering works decreased by 15.0%.

Fig 3 Construction sector (January 2017 = 100%)

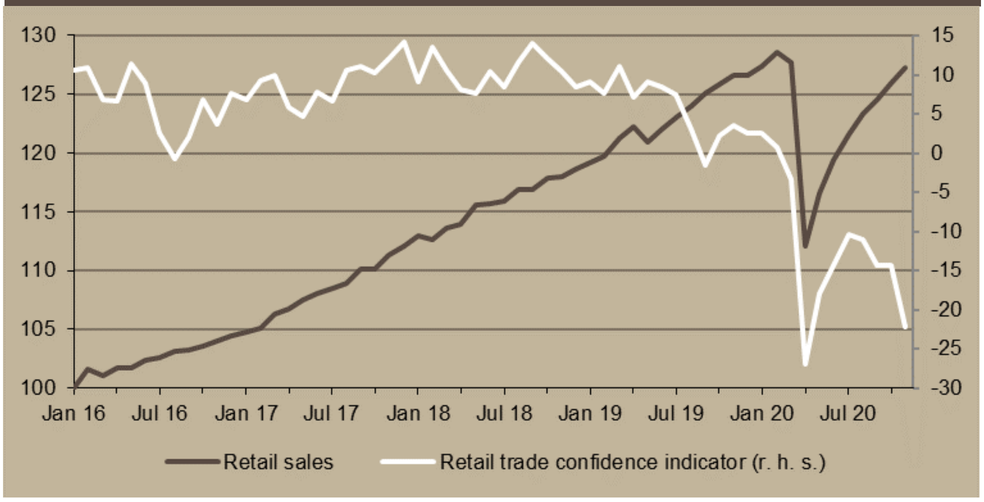


Remark: Seasonally and working-day adjusted data
Source: HCSO, Századvég

In November, the volume of retail sales decreased minimally.

November 2020 raw data show that retail sales shrank by 0.3% relative to the same period of the previous year, while calendar-adjusted data show a 0.8% decrease. Adjusted data show, however, a 1.1% month-on-month increase. In November 2020, the calendar-adjusted volume of sales increased by 1.8% in specialised and non-specialised food shops, while it decreased by 1.0% in non-food shops and by 9.4% in fuel retail, relative to November 2019.

Fig 4 Retail sales volume (January 2016 = 100%) and retail trade confidence indicator



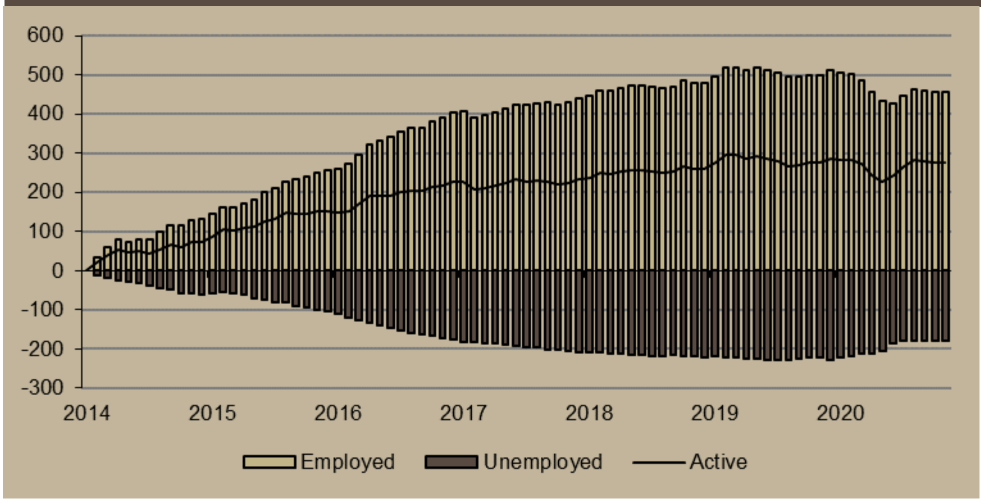
Remark: Seasonally and working-day adjusted data
Source: HCSO, Eurostat, Századvég

In November 2020, parcel companies and web-shops continued to dynamically increase their sales: their calendar-adjusted data show a 43.2% increase on a year-on-year basis. A considerable decrease in sales was, however, recorded in the case of second-hand shops (27.9%), shops selling books, newspapers, and stationery (25.8%), shops selling furniture and electric goods (20.7%), as well as textile products, clothing, and footwear (26.7%). Additionally, the volume of sales of shops selling computers and other manufacturing goods dropped (by 7.5%), that of shops selling fragrances decreased (by 1.3%), and the volume of sales of non-specialised retail stores fell, too (by 2.6%). Relative to November 2019, the volume of sales of pharmaceuticals and medicinal products saw an increase (11.3%). Calendar-adjusted data show that, in November 2020, the sales volume of non-specialised food shops increased by 3.0%, relative to the same period of the previous year. Vehicle fuel sales were in turn 9.4% below the figure recorded for November 2019.

The labour market stagnated in November.

November saw no significant changes in the labour market. Compared to the previous month, the seasonally adjusted number of employees decreased by 1,000, to 4,455,000, corresponding to a 43,000 decrease on a year-to-year basis. Consequently, the second wave of the pandemic did not cause any extensive layoffs in the Hungarian economy. Compared to the previous month, the seasonally adjusted number of the active population increased by 1,000, to 4,664,000. This equals to the data of the previous year, meaning that, contrary to the spring months, the restrictions did not cause a raise of inactivity. The combined result of these two effects was the slight increase in the seasonally adjusted number of the unemployed by 2,000 to 209,000 in November, corresponding to an unemployment rate of 4.5%. The annual increase was 43,000. Seasonally adjusted data show that in October the number of employees increased by 11,000 to 3,087,000 in total, on a month-over-previous-month basis. Although this is still 102,000 below the previous year's data, the downturn rate is gradually decreasing. Consequently, as the economy is restarting, more and more people are returning to full-time employment. In the private sector, the number of employees increased by 14,000 in a single month, while the number of employees in the public sector decreased by 3,000, as shown by seasonally adjusted data. On a year-on-year basis, these two sectors decreased by 98,000 and 10,000, respectively. The decrease in the public sector is attributable to public employment schemes. In October, raw data show that 91,500 people worked in these schemes, which is 8,000 less than one year before.

Fig 5 Labour market trends (January 2014 = 0, thousands of persons)

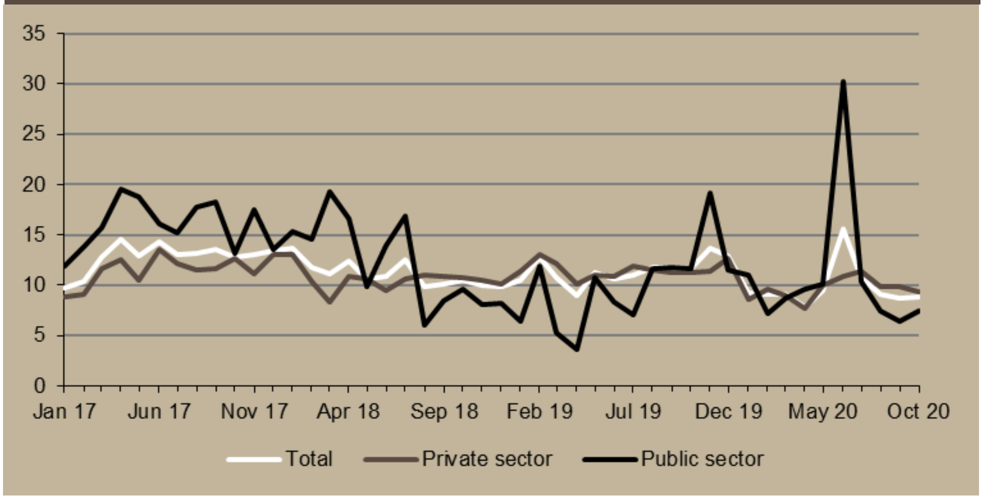


Remark: Seasonally and working-day adjusted data
Source: HCSO, Századvég

Employer organisations and employees' representatives could not agree on the minimum wage.

The average gross monthly wage was 8.8% higher than in the previous year and slightly exceeded HUF 397,000. Wages raised despite the negative economic climate, thanks to the 8% increase of the minimum wage and the guaranteed wage minimum, and to carry-over trends (labour shortage) from last year, which caused companies to increase wages at higher rates in the beginning of the year. The decrease in the number of the employed hit mainly the sectors of lower average income (e.g., tourism), which also contributed to the increase of the average gross monthly wage. In October, the average monthly wage increased by 9.4% in the private sector, while public sector wages increased by 7.4% on a year-on-year basis. In October, the average net monthly wage was HUF 264,247, which is 8.8% higher than in October 2019. If we take the different tax benefits into account, the average net monthly wage was HUF 272,900 in October. Thanks to the slowdown of the inflation, the pace of growth of net real wages increased to 5.7%. One of the key drivers of the 2021 wage trends will be the date when the employer organisations and employee organisations can agree on the amount of the minimum wage and the guaranteed wage minimum. This did not happen in December. Another key driver is how long companies will postpone their usual wage increases from the beginning of the year, so that they could assess economic trends more thoroughly.

Fig 6 Gross wages (annual change, %)



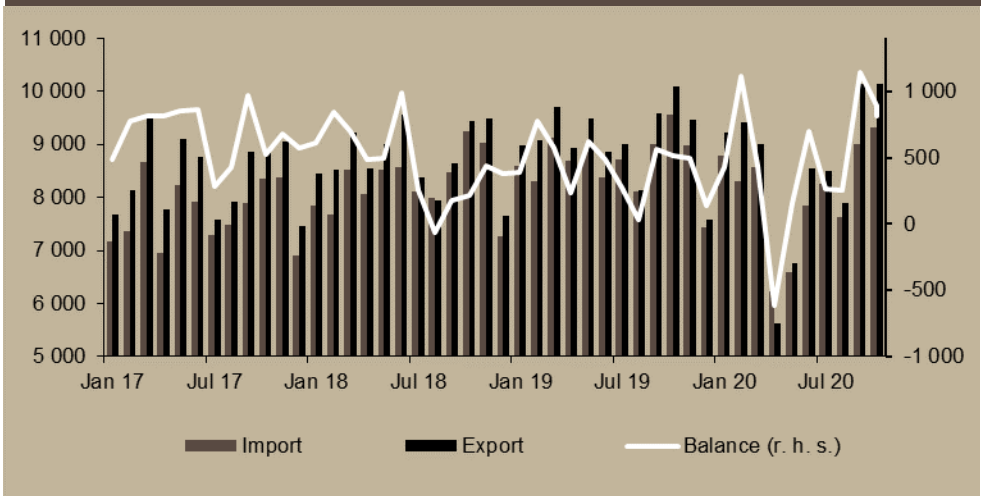
Remark: Seasonally and working-day adjusted data
Source: HCSO, Századvég

External balance

The foreign trade surplus increased in October and November as well.

In October, product exports changed minimally, and product imports decreased by 5.1% in EUR value, on a year-on-year basis. This means that the foreign trade balance was EUR 894 million, which is EUR 515 million more than last year.

Fig 7 Balance of trade (in million EUR)



Source: HCSO

In October, the volume of food product imports increased by 5.9%, and food product exports decreased by 0.7% on a year-on-year basis. As for energy carriers, import increased by 4.7% and exports raised by 3.5%. As for processed products, imports increased by 2.2%, exports raised by 1.6% on a year-on-year basis. As for machinery and transport equipment, imports increased by 5.4%, and exports decreased by 1.3%.

In November 2020, the EUR value of exports was 6.9% higher, while the EUR value of imports was 1.9% higher than one year before. The foreign trade balance was therefore EUR 811 million, which is EUR 482 million more than one year before.

In November 2020, the current account balance was EUR 272 million. This means that, in the first eleven months of 2020, the cumulative current account balance for the year increased to EUR 1034 million, which exceeds the EUR 118 million balance of the January–November period of 2019.

Fiscal outlook

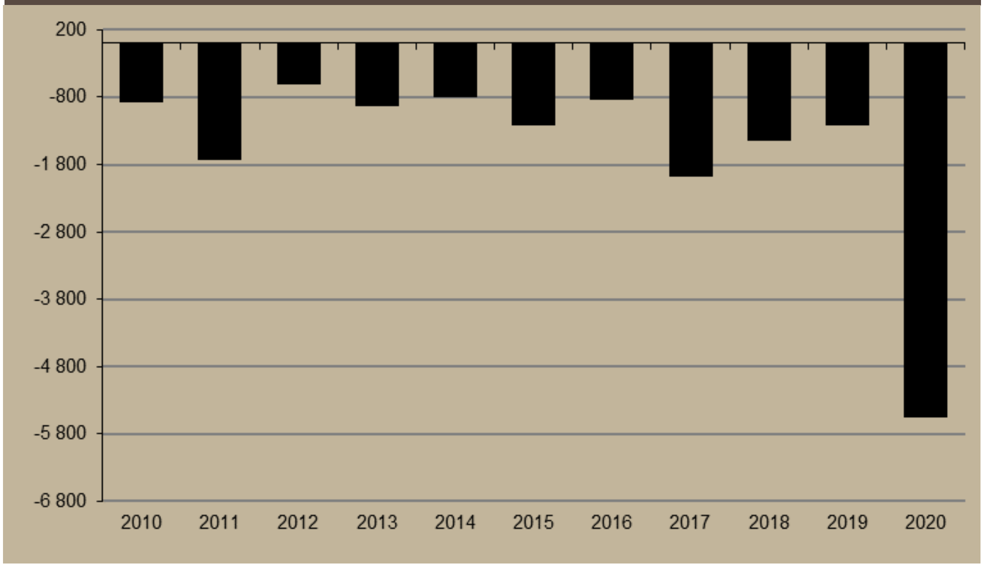
The budget deficit was HUF 2,270.3 billion in the first nine months of 2020.

In 2020, the central budgetary subsystem accumulated a deficit of HUF 5,548.6 billion. This is attributable to the general government deficit of HUF 4,953.5 billion, the social security funds subsector's deficit of HUF 641.8 billion, and the extra-budgetary funds' surplus of HUF 46.7 billion.

As for Government revenues in 2020, value added tax revenues were HUF 136.7 billion (3.0%) higher than in 2019. This growth was driven by the increase of domestic, tobacco and import VAT revenues, and the increase of VAT revenues on pandemic-related equipment, while the downturn in the sales of the pandemic-hit sectors and the shorter payment deadline for the payment of the refundable VAT applied for SMEs held back the increase. In addition, revenues from excise duty and personal income tax also increased. The increase in the first category was HUF 19.7 billion (1.7%), that in the second category was HUF 103.2 billion (4.3%), compared to the figures of the previous year. In the case of excise duty, we must mention that the increase of the tax rate raised the revenues, while the drop of fuel sales decreased them. As a result of the discontinuation of the tax advance top-up liability in December 2019, corporate tax revenues increased by HUF 103.2 billion (34.0%) in 2020. Relative to 2019, general government revenues from social contribution tax, pension, health insurance and labour market contributions decreased by HUF 163.7 billion (3.0%).

The revenues from EU programmes reached HUF 1,681.1 billion in 2020, while the related expenditures were HUF 2,025.4 billion. Between January and December 2020, the government spent HUF 614.7 billion on healthcare equipment for the coronavirus pandemic. Among the development programmes implemented from Hungarian state funds, we should mention the projects financed from the Earmarked Scheme for Tourism Development (HUF 244.9 billion), the priority public road projects (HUF 200.7 billion) and the amounts spent on competitiveness subsidies (HUF 193.2 billion).

Fig 8 Cumulated budget deficit (Jan–Dec, in bn HUF)



Source: Ministry of National Economy

Monetary developments

The inflation rate dropped to 2.7%.

In December 2020, consumer prices increased by 2.7% on average, compared to the same period of the previous year. In the past year, the highest price increase was recorded for food products, alcoholic beverages, and tobacco products. In comparison with the same period of the previous year, the price of alcoholic beverages and tobacco products increased by 8.8% on average, while that of food products increased by 4.9%. 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 14.4% as compared to the same period of 2019.

The 4.9% average price increase of food products was driven mainly by the 7.8% increase in Extrawurst and sausage prices, the 13.7% increase in cooking oil prices and especially the 22.2% increase in the price of 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 (14.2%), poultry prices (0.9%) and pork prices (3.9%) held back the average inflation of food products.

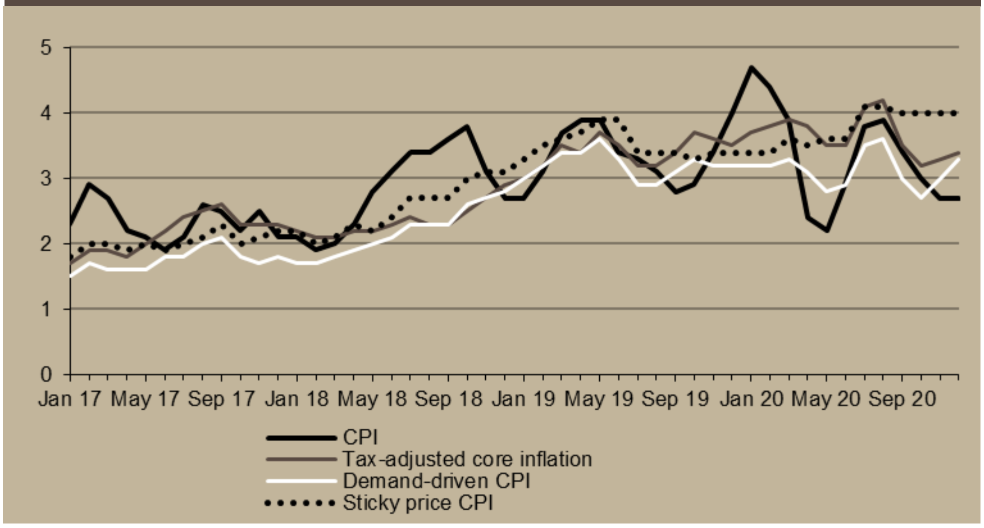
In December, prices of other products and fuels decreased by 0.5% in comparison with the same period of the previous year, but vehicle fuel prices dropped by 4.5%. This was caused by the decrease of oil prices, which is explained by the drop in demand as a result of the coronavirus epidemic. In addition 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 December, compared to the same period of the previous year. Within household energy, fuelwood prices increased by 0.7%, coal prices increased by 5.3%, and bottled gas prices increased by 1.0% in a single year. The price of electricity, pipeline gas and district heating remained unchanged.

In December, the prices of services increased by 1.7% on average, which was driven by the 11.1% increase in home repair and maintenance prices, the 8.6% increase in vehicle repair and maintenance prices, the 7.8% increase in gambling prices and the 5.8% increase in the prices of healthcare services. The average price increase of services was moderated by the 23.4% decrease in motorway tolls, vehicle renting and parking prices, the 6.4% decrease in the prices of other long-distance travels, the 2.3%

decrease in telephony and internet prices, and the 0.2% increase of rents. Clothing prices decreased by 1.5% and the prices of durable consumer goods increased by 2.8% on average, in a single year. Taking a closer look at the latter, one can see that jewellery prices increased by 18.5%, new car prices increased by 10.9%, but used car prices dropped by 3.5%.

Based on the base inflation indicators published by MNB, the seasonally adjusted core inflation rate was 4.0%, while the core inflation rate excluding the effects of indirect taxes was 3.4% in December. The demand-sensitive inflation rate was 3.3%, the sticky price inflation rate was 4.0% in December.

Fig 9 Inflation (y-o-y, %)

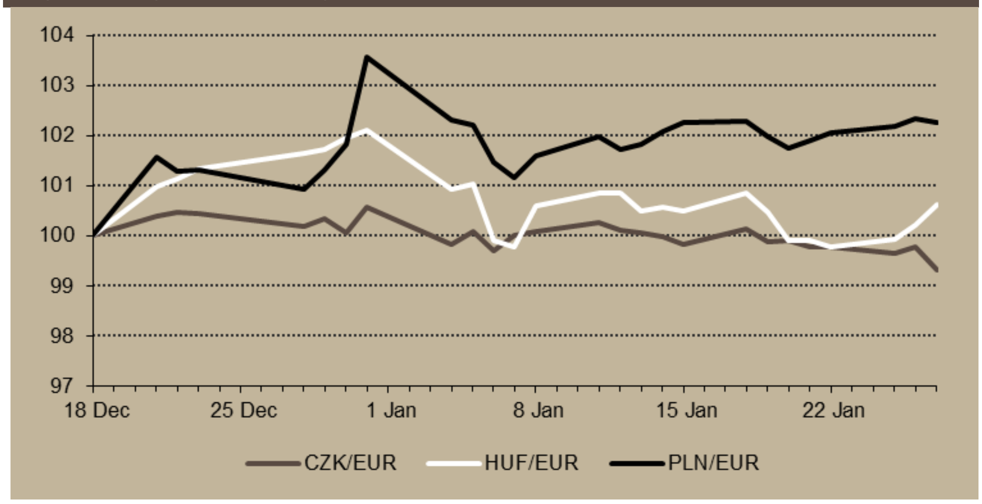


Source: NBH, Századvég

The major economies did not change their interest rate 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% 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%.

Fig 10 Regional exchange rates (start date = 100%)



Source: Thomson Reuters Datastream

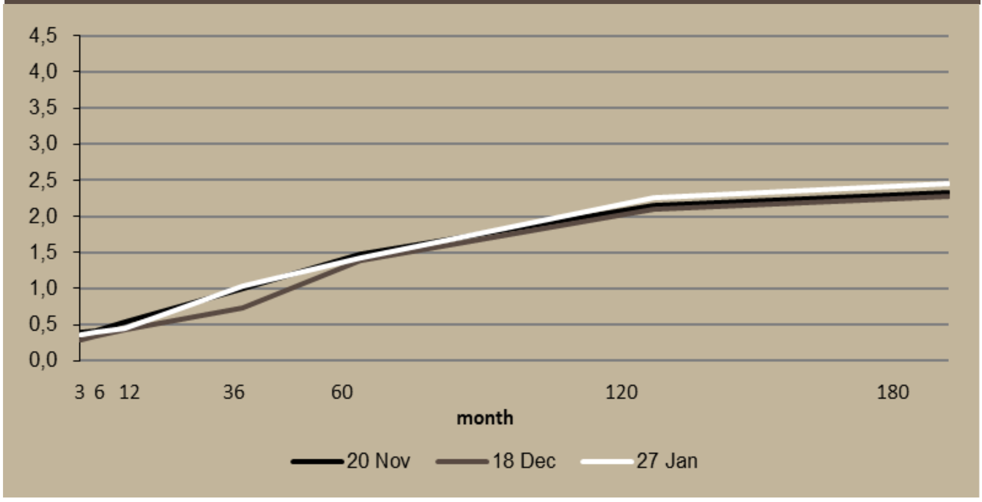
The HUF slightly weakened against the EUR.

Our region showed a mixed picture. In the past period, the Czech koruna strengthened by 0.7%, while the Polish zloty weakened by 2.3% against the euro. The CDS spread

(5-year CDS) decreased by 5 base point, to 36 base points in the Czech Republic, while it increased by 1 base point to 51 base points in Poland.

Overall, 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 3 base points to 64 base points. The HUF weakened by 0.6% against the euro, by 1.3% against the Swiss franc and by 1.7% against the US dollar. This means that on 27 January 2021, one Euro was worth HUF 360, one US Dollar was worth HUF 297, and one Swiss Franc was worth HUF 334. Sovereign debt held by foreigners has recently increased by HUF 154 billion to HUF 4,703 billion.

Fig 11 The HUF yield curve (%)



Source: Government Debt Management Agency, Századvég

The MNB (the central bank of Hungary) did not change its monetary conditions.

At its interest rate setting meeting in January, 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 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. The MNB bought further government securities in the value of HUF 154.99 billion in the past period, meaning that the total value of the secondary-market government securities held by the MNB increased to HUF 928.56 billion. In the past period, the MNB did not purchase mortgage bonds from the primary market (total value: HUF 143.8 billion). The MNB purchased mortgage bonds in the total value of HUF 5.0 billion on the secondary market, i.e., the total value of this portfolio increased to HUF 140 billion. The MNB’s FX swap portfolio is currently HUF 1,786 billion, which did not change in comparison to the previous month.

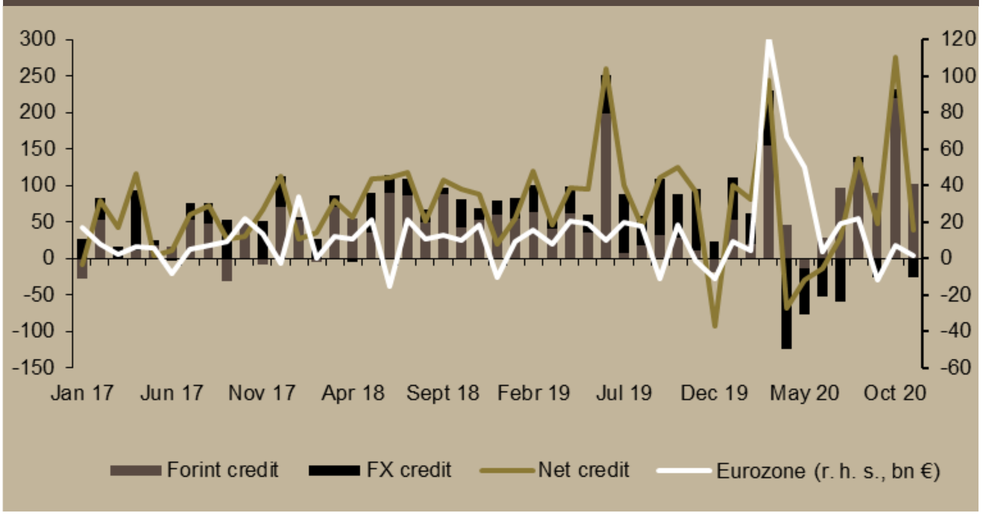
In the last month, shorter-term yields increased by between 1 and 7 base points on the secondary market yield curve of the government securities market. This means that the 3-month yield was 0.36%, the 6-month yield was 0.39% and the 1-year yield was 0.44% on 27 January. The 3-year yield increased by 30 base points to 1.03%. It is important to mention that the benchmark securities’ name changed from 2023/C to 2024/C, which indicates a longer term and caused a significant increase in the yield of the 3-year treasury bonds. On a month-over-previous-month basis, 5-year yields increased by 4 base points, 10-year yields increased by 16 base points, and 15-year yields increased by 19 base points. These three yields raised, therefore, to 1.43%, 2.26% and 2.46%, respectively. The still low short-term yields are attributable to the excess liquidity 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 December 2020, the total value of government bonds held by retail investors was HUF 5,221.24 billion, which implies a HUF 111.15 billion increase compared to the HUF 5,110.09 portfolio value in October.

The share of foreign currency debt in the sovereign debt changed to 19.95% in December (corresponding to a decrease of 0.21 percentage points), which is at the upper edge of the range (10–20%) specified in the financing plan for 2020 of the Government Debt Management Agency Ltd. No treasury bonds denominated in foreign currency were issued or became mature in December.

None of the major 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. Next time, Fitch and S&P will rate Hungary, on 12 February 2021.

Fig 12 Corporate borrowing (in billion HUF)



Source: NBH, ECB, Századvég

Corporate credits increased.

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector was HUF 102.5 billion in November 2020. The net repayment of foreign currency debt was HUF 25.3 billion in November 2020, i.e., the aggregated value of business credits decreased. This means that, based on seasonally adjusted data, total net borrowing was HUF 39.6 billion in November. Corporate borrowing in the eurozone was EUR 1.204 billion in November.

In November, the value of gross loan placement in Hungarian forints over and above bank overdrafts was HUF 91.2 billion, which is HUF 56.0 billion less than the amount of the previous month. The sum of newly granted euro-loans was HUF 26.0 billion, which is HUF 28.5 billion lower than the figure for October.

Századvég forecast[1]

Fig 13 Q4 2020 projection

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

Source: HCSO, NBH, Századvég

Fig 14 Changes compared to our previous forecast

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

Source: HCSO, NBH, Századvég

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

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