MONTHLY MONITOR

May 2021

Századvég Economic Research Institute

SZÁZADVÉG

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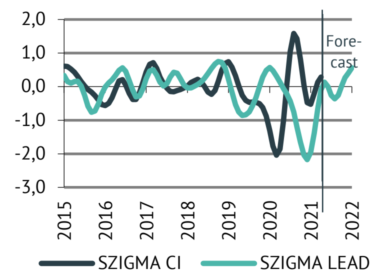
1. Summary

DOWNTURN ON AN ANNUAL BASIS, GROWTH ON A QUARTERLY BASIS

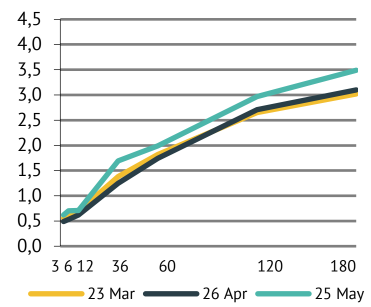
In Q1, economic output was 1.8% lower than one year before, but it increased by 1.9% quarter on quarter. These figures are substantially better than what the analysts expected.

SZIGMA indicators



Source: Századvég

HUF yield curve (%)



Source: Refinitiv

Forecast (18 March 2021)	2021
GDP volume change (%)	4,0
Inflation (annual average, %)	3,5
Gross wages	4,7
Exchange rate (annual average)	365

The better-than-expected performance of the Hungarian economy implies that the damage caused by the restrictions imposed in March was less than expected, and enterprises are increasingly learning to adapt to unexpected situations and can shift to digital sales. Q1 data also show that many sectors could perform well, from which the Hungarian Central Statistical Office mentioned the industry, IT, communications, finance, and insurance.

Because of the base effects and the increase of the excise tax, the inflation rate increased to 5.1% in April. In other words, it left the target range of the central bank. Given the decrease in the base period, fuel prices increased by 39.2%, while tobacco product prices increased by 20.1%. The average increase in food prices did, however, slow down and was, therefore, 2.4%. Meanwhile, the prices of durable consumer goods increased by 3.4% and the prices of services increased by 2.0% on a year-on-year basis.

Given the inflation trends, the Monetary Council of Magyar Nemzeti Bank is expected to tighten monetary conditions at its meeting in June.

2. Economic overview

2.1. External environment

Slower US jobs growth.

The number of new non-agricultural jobs in the USA was 233,000 in January, 536,000 in February, and 770,000 in March, predicting a quick recovery. The April increase was, however, only 266,000, although analysts expected it to be 978,000. It is still a question whether the April figures mean a temporary slowdown in the recovery. The April unemployment rate was 6.1%, corresponding to a significant decrease of 8.7 percentage points from the peak in April 2020. It is, however, still high, whereas, before the coronavirus pandemic, the unemployment rate was this high in August 2014. Positively, the activity rate is gradually increasing in the USA. For the population over 15, the April activity rate (61.7%) was only 1.2 percentage points lower than in April 2019, while this difference was still 1.8 percentage points in December 2020. Compared to the same period of the previous year, average hourly wages increased only by 0.3%. This was, however, strongly driven by composition effects. Last April, companies laid off employees with low productivity and, therefore, low wages, increasing the average wage, while the rehiring of these employees in the ongoing reopening is decreasing the average wage.

In its latest forecast (issued in the spring), the European Commission improved the growth outlooks of the European Union. The Commission forecasts a 4.2% growth rate for this year and 4.4% for the next year. Taking the 6.1% downturn in 2020 into account, this means that economic output can reach its pre-crisis level only in 2022. The forecast issued in the autumn of 2020 expected that the 2021 and 2022 growth rates would be 0.1 and 1.4 percentage points lower. With the restarting of the economy and the low oil prices' becoming the baseline, the inflation rate could increase from last year's 0.7% to 1.9% this year and then drop to 1.5% in 2022. Nevertheless, the unemployment rate in the EU could continue to increase this year, by 0.5 percentage points to 7.6%, and could then drop to 7.0% in 2022. The Commission does not expect fiscal discipline to return in the Member States, and the budget deficit could increase from 6.9% to 7.5% of the GDP, and then drop only to 3.7% in 2022. Because of that, the sovereign debt to GDP ratio could increase by 2.0 percentage points, to 94.4%, in 2021, then, in 2022, it could drop only to 92.9%.

2.2. SZIGMA indicators

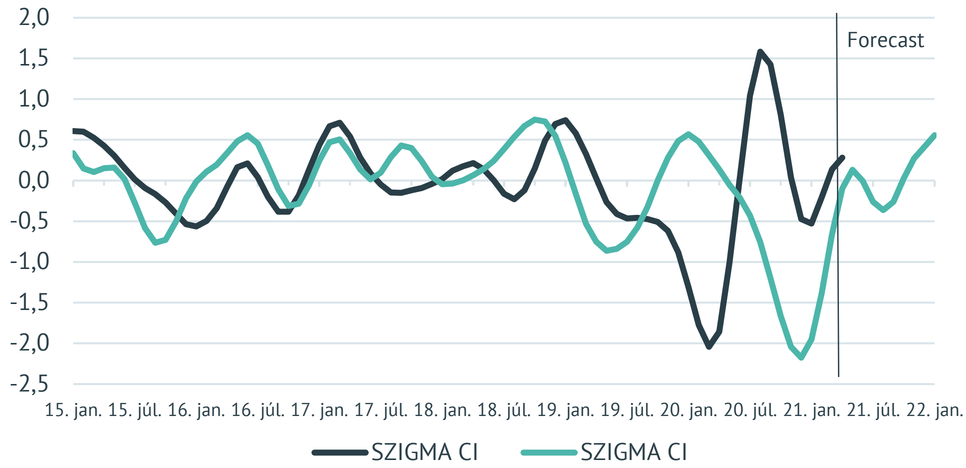
The SZIGMA indicator became positive.

The SZIGMA CI indicator, which provides a picture of the current state of the Hungarian economy, remained positive in April 2020, showing that the Hungarian economy grew at a rate above the trend. The annual comparison shows that domestic and export sales in the industry as a sector increased in March 2021 (by 9.9% and 22.0%, respectively), while the monthly comparison shows that the former increased by 3.3% and the latter decreased by 0.8%. The volumes of new domestic and export sales orders also increased both month on month and year on year, by 12.1% and 8.5%, respectively, relative to February 2021, and by 8.7% and 23.0%, respectively, relative to March 2020. The positive March figures indicate that the industry as a sector had a positive impact on the economy in Q1, and this trend could, depending on the development of the external demand and the investments, continue, but the global shortage on microchips is a significant risk factor. In March 2021, the end-of-month volume of contracts was 13.2% higher than one year before and it was 9.6% on a month-over-previous-month basis. The number of new non-residential building projects increased substantially on a year-on-year basis (by 32.9%) as well as on a month-on-month basis (by 6.3%).

The SZIGMA LEAD indicator, which expresses our expectations for the short-term performance of the Hungarian economy, indicates that growth will be above the trend in the next month, then it will be below the trend until September. The Ifo Business Climate index, which provides a picture of the changes of the business climate of the German market, barely changed on a month-over-previous month basis in April (it increased by 0.2 index points), while it was substantially higher than in the same period of the previous year (by 21.1 index points). This means that the sentiment of

German companies improved relative to the previous year, but it did not change in the previous month. Accordingly, the contribution of the external environment to the output could be positive if the fight against the pandemic is successful. Retail sales continued to be below their level of last March, while it could slightly increase on a month-on-month basis. This could have been driven by the restrictive measures, the fear of the third wave of the pandemic and the strengthening caution as a motive. Retail sales could again support growth this year if the restrictions get lifted and the income situation starts to improve. Eurostat's customer confidence index decreased on a month-over-previous-month basis (by 2.9 index points), but it was 16.3 index points higher than in April 2020. The negative index value (-21.1 index points) indicates that restoring trust could expand sales in this segment. The overall economic growth rate could be 5.0% in 2021, if lifting the restrictions continues.

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



Source: Századvég

2.3. Real economy

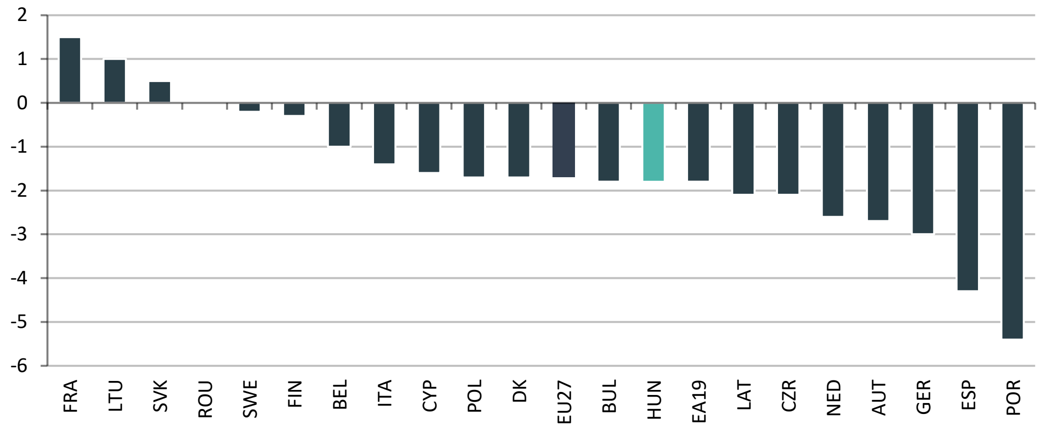
The Hungarian GDP shrank by 1.8%.

The first estimates of the Hungarian Central Statistical Office (HCSO) show that the annual gross domestic product of the Hungarian economy decreased by 2.3% in Q1 2021 on a raw-data basis and by 1.8% based on seasonally and calendar-adjusted data. The recovery from the coronavirus crisis continued in Q1. Despite the restrictive measures imposed in November last year and tightened in March this year, economic output grew by 1.9% on a quarter-on-quarter basis according to seasonally and calendar-adjusted and balanced data, significantly exceeding the analyst consensus expecting 0.3% decrease.

Seasonally adjusted data show that the GDP decreased in the EU and the eurozone, as compared to the same period of the previous year (by -1.7% and -1.8%, respectively). In the European Union, the largest downturns were in Portugal (-5.4%) and Spain (-4.3%), while the gross domestic product increased in France (by 1.5%), Lithuania (by 1.0%), and Slovakia (by 0.5%) in the first quarter of 2021.

The state of emergency caused by the coronavirus pandemic had a negative impact on the output of most industries. Q1 2021 saw the gross sales revenues (at current prices) of accommodation providers in the tourism sector drop by 83.6% due to the significant decrease in the accommodation sector, resulting from the coronavirus epidemic. Calendar-adjusted data show a 3.2% drop in retail sales and a 2.0% drop in construction sales relative to the same period of the previous year, while industrial output grew by 5.0% in Q1. The regional comparison shows that industrial output only shrank in the Southern Great Pain (-4.7%). The highest growth rates were recorded in Northern Hungary (11.2%), Pest County (10.5%), and the Northern Great Plain (9.7%). In Q1, industrial output grew in Budapest (by 6.1%), in the Central Transdanubia region (by 0.3%), and in the Western and Southern Transdanubia regions (by 1.0% in both) relative to the same period of the previous year.

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



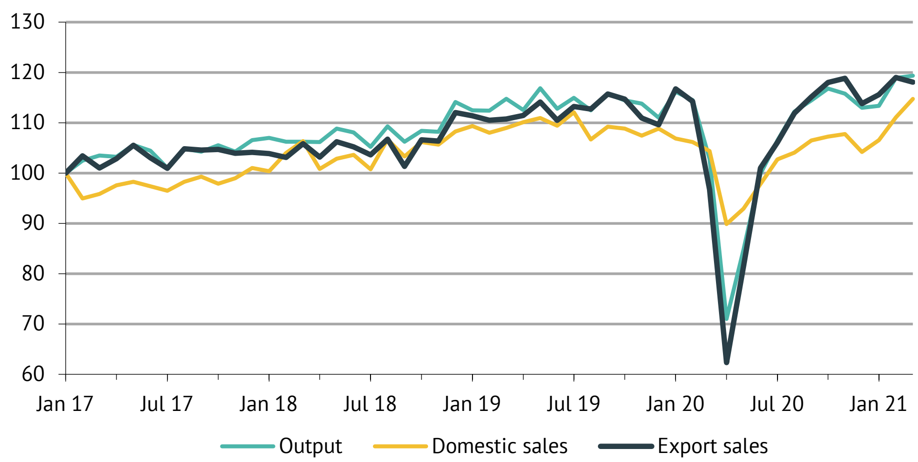
Remark: Seasonally and working-day adjusted data from the first estimates.

Source: Eurostat

Given the weak baseline, the output of the industry as a sector could increase by 16.5% in March.

In March, industrial output grew significantly on a year-on-year basis, by 16.5% according to raw data and by 16.2% according to workday-adjusted data. A major driver of this growth was the weak baseline. On a month-over-previous-month basis, the output of the sector increased by 0.4%. In March 2021, sales in the industry as a sector were 17.2% higher than one year before. Within that, domestic sales increased by 10.6%, export sales increased by 21.1%.

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



Remark: Seasonally and working-day adjusted data

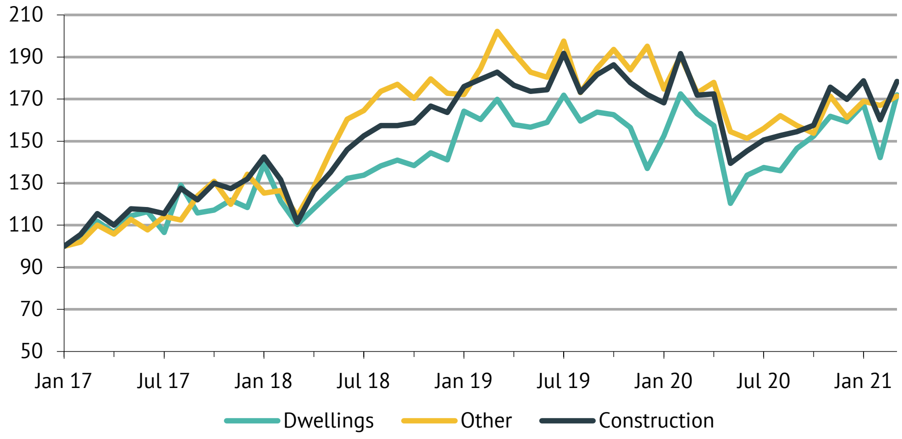
Source: HCSO, Századvég

Taking a closer look at the different subsectors of the industry, one can see that the output of mining was 8.6% lower than one year before, but the output of the manufacturing industry could increase by 16.8%, and energy industry output could increase by 9.6%. Within the manufacturing industry, the highest growth rate, 53.3%, was recorded for coke production and crude-oil processing. The second and third-highest growth rates were recorded for electric equipment manufacturing (37.3%) and the automotive industry (28.1%). Within the manufacturing industry, only the textile industry had a shrinking output, which shrank by 1.9%. The sales order volume of the sectors followed up by the Hungarian Central Statistical Office was 1.5% higher than one year before. More specifically, the aggregated value of new domestic sales orders increased by 6.7%, and that of new export sales orders increased by 1.2%. The aggregated value of new sales orders exceeds the low baseline of the last year by 20.9%. Taking a closer look, one can see that the aggregated value of new domestic sales orders increased by 8.7%, that of new export sales orders increased by 23.1%.

The output of the construction industry increased by 4.3% year on year.

After months of weak performance, the construction industry strengthened in May. The output of this industry could increase by 4.3% year on year and by 11.5% month on month. Year on year, the output in buildings increased by 6.4%; that in civil engineering works did, however, not change. The dynamic price increase continued in the sector, as prices increased by 7.0% year on year in Q1. EU funds and the returning business investments could further increase the output of this sector in the coming period. This is also demonstrated by the fact that this March, the sector's aggregated contract value was 13.2% higher than one year before: the aggregated value of new contracts for buildings was 28.6% higher, that for civil engineering works was 4.2% higher. The aggregated value of the contracts made in the month under review was 41.9% higher than in March 2020. More specifically, the aggregated value of new contracts for buildings was 53.4% higher, that for civil engineering works was 32.4% higher.

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



Remark: Seasonally and working-day adjusted data

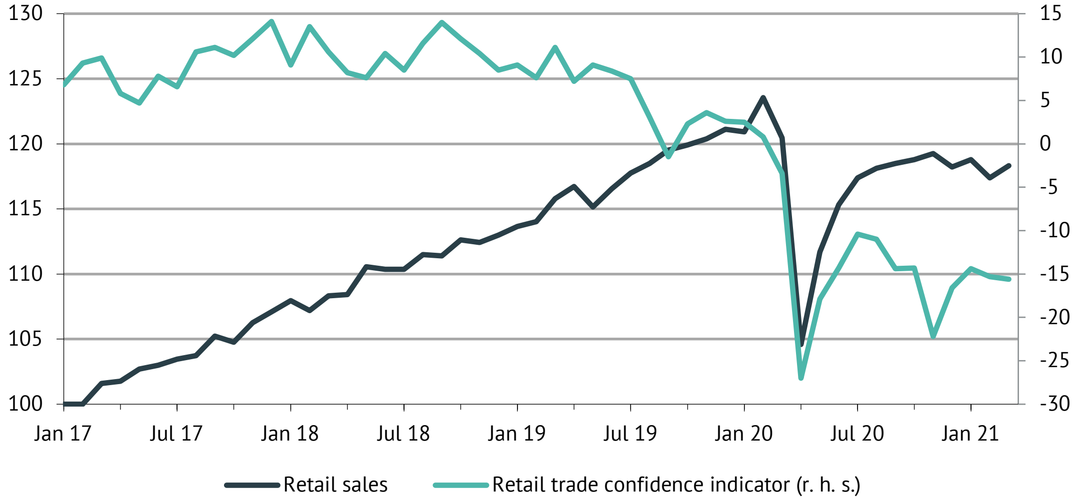
Source: HCSO, Századvég

The volume of retail sales decreased by 2.0%.

As a result of the new restrictions imposed on retail, among others, from 8 March and of the base effect of the pandemic retail sales in March 2021 were lower than in the same period of the previous year, by 1.5% according to raw data and by 2.0% according to calendar-adjusted data. Adjusted data show a 0.8% month-on-month growth rate. In March 2021, the calendar-adjusted volume of sales increased by 2.0% in specialised and non-specialised food shops, it decreased by 5.9% in non-food shops, and it increased by 2.1% in fuel retail, relative to March 2020.

In March 2021, parcel companies and web-shops continued to dynamically increase their sales: their calendar-adjusted data show a 61.8% increase on a year-on-year basis. A considerable decrease in sales was, however, recorded in the case of second-hand shops (59.4%), shops selling books, newspapers, and stationery (38.4%), shops selling furniture and electric goods (45.9%), as well as textile products, clothing, and footwear (48.2%). Sales also shrank in shops selling computers and other manufacturing goods (by 18.0%), shops selling fragrances (by 12.0%), and in shops selling pharmaceuticals and medicinal products (by 20.0%). Sales increased, however, in shops selling a mixed range of manufactured goods, relative to March 2020 (by 8.8%). Calendar-adjusted data show that in March 2021, sales decreased by 1.8% in non-specialised food shops and by 2.9% 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

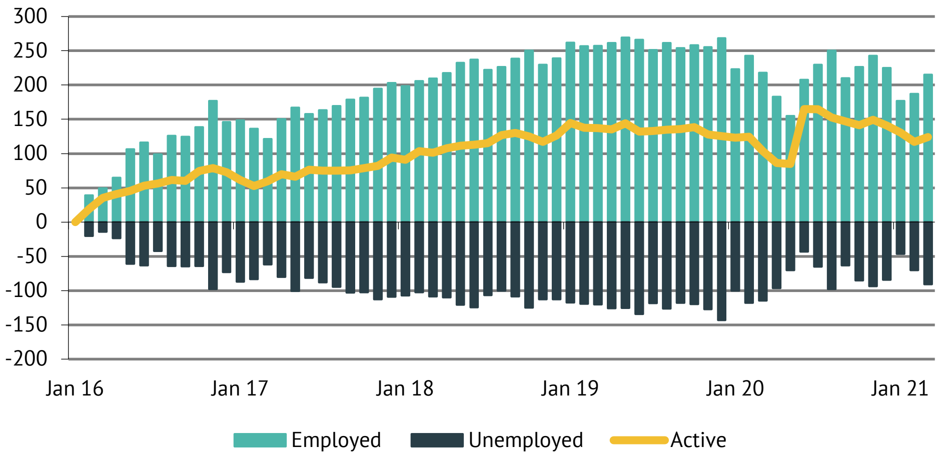
Source: HCSO, Eurostat, Századvég

In March, the number of employees increased to nearly 4,600,000.

In March 2021, the seasonally adjusted number of employees increased at an outstanding rate, by nearly 28,000, to 4,598,000. This was, however, 3,000 less than the figure recorded for March 2020, when the pandemic-related restrictions were already in force, and 42,000 less than the figure recorded for March 2019. In other words, although employment showed some recover despite the appearance of the third wave of the pandemic, it was still below the pre-crisis level. Activity also grew, by 7,000 in a single month, and by 21,000, relative to March 2020. The combined result of these two effects was that the seasonally adjusted number of the unemployed decreased by 21,000, near to 192,000, month on month in March 2021, still corresponding to a nearly 24,000 increase year on year Consequently, the unemployment rate was 4.0% in the age group of between 15 and 74 in March 2021. The seasonally adjusted number of full-time employees increased by 13,000 at enterprises having at least 5 employees, government units, and non-profit organisations that are significant employers. Here, the year-on-year decrease was 51,000, while it was 68,000, relative to

February 2019. The rate of the year-on-year downturn is, however, decreasing month by month, as it was, 117,000 in the autumn months, on average. In sum, reaching pre-crisis output levels also results in reducing the number of part-time employees and again increasing the number of employees in some sectors (industry, construction industry, some service sectors); in other sectors that are still affected by the restrictions (primarily tourism), however, the number of employees is still below the pre-crisis level. The number of employees employed in public work schemes did not change in February and was 84,000, corresponding to a year-on-year decrease of 5,000.

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



Remark: Seasonally and working-day adjusted data

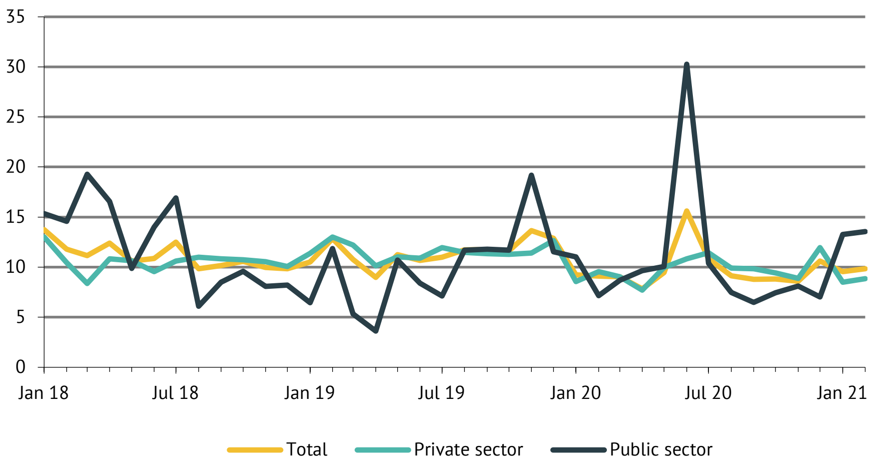
Source: HCSO, Századvég

In February 2021, the average gross monthly wage of full-time employees was HUF 414,400 at enterprises having at least 5 employees, government units, and non-profit organisations that are significant employers. This corresponds to a 9.8% increase year on year. By contrast, the median wage was HUF 330,000, which increased at a slightly lower rate, by 9.6%, year on year. More specifically, the average wage increased only by 8.9% in the business sector, while it increased by 13.5% in the public sector due to the wage developments. February wage data were driven not only by public sector trends but also by the minimum wage

Taking the tax allowances into account, the average net monthly wage was HUF 284,000 in February.

increase, which is 4% for 2021 and applies from February. The average net monthly wage increased at the same rate as the gross wage, i.e. 9.8%, to HUF 275,600; if we take the tax allowances into account, then it increased to HUF 284,100. Taking the effect of the 3.7% inflation rate into account, this corresponds to a 5.9% real growth in a single year.

FIGURE 7: GROSS WAGES (ANNUAL CHANGE, %)



Remark: Seasonally and working-day adjusted data

Source: HCSO, Századvég

2.4. External balance

In February, the EUR value of product exports increased by 1.9%, and the EUR value of product imports increased by 5.3% year on year. This means that the foreign trade balance was EUR 849 million, which is EUR 262 million less than last year.

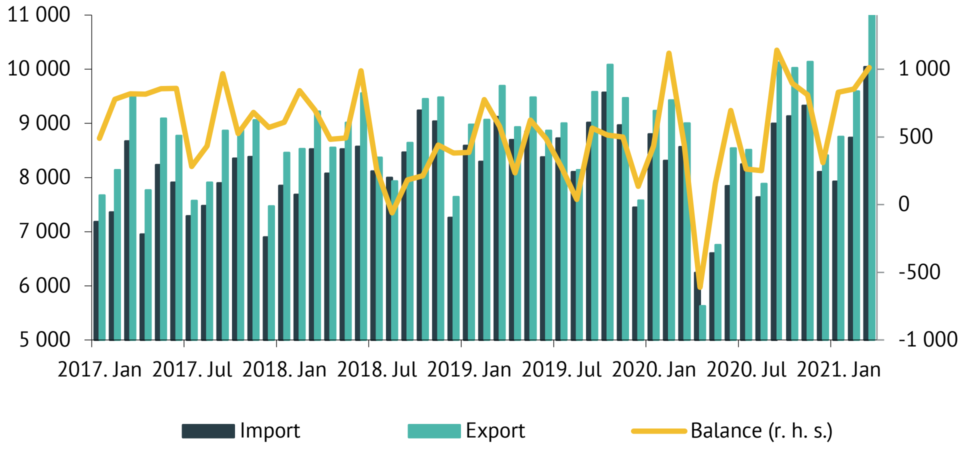
The foreign trade balance improved.

In February 2021, the volume of food product imports decreased by 5.7%, and food product exports increased by 2.1% year on year. As for energy carriers, imports increased by 12.0%, and exports decreased by 17.0%. As for processed products, imports increased by 5.0%, exports raised by 2.5% on a year-on-year basis. As for machinery and transport equipment, imports increased by 8.3%, and exports increased by 4.1%.

In March 2021, the EUR value of exports was 22.0% higher, while the EUR value of imports was 15.0% higher than one year before. The foreign trade balance was therefore EUR 1,013 million, which is EUR 685 million more than one year before.

The current account balance was EUR 330.1 million in March 2021. The balance of the first three months of this year is EUR 445.8 million, exceeding the EUR 200.9 million balance of January–March 2020.

FIGURE 8: BALANCE OF TRADE (IN MILLION EUR)



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

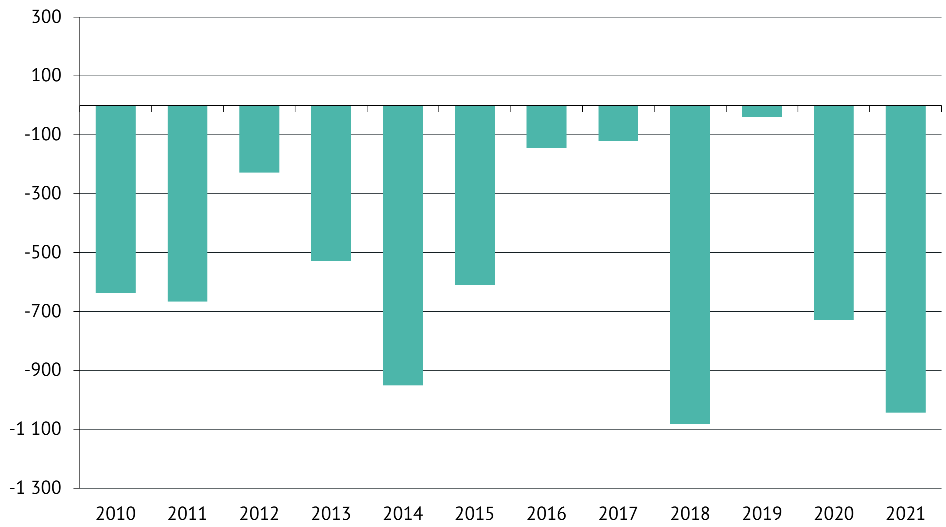
Source: HCSO

2.5. Fiscal outlook

In the first four months of 2021, the central budgetary subsystem had a deficit of HUF 1,043.6 billion. This consisted of the HUF 890.0 billion deficit of the central budget, the HUF 14.5 billion deficit of extra-budgetary funds, and the HUF 139.1 billion deficit of social security funds.

The general government deficit was HUF 1,043.6 billion in the first four months.

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



Source: PM

Value-added tax revenues were 14.0% (HUF 217.4 billion) higher than in the same period of 2020. The growth was driven by the increasing VAT revenues paid for domestic sales, tobacco products, and imports, and it was held back by the shorter VAT refunding deadline for SMEs. Excise tax revenues also increased in the first four months, they were 3.7% (HUF 13.3 billion) higher than in January–April 2020. This increase was driven by the increase of the excise tax on tobacco products, while it was held back by the drop in fuel sales. Personal income tax revenues up to the end of April 2021 were 8.9% (HUF 73.1 billion) higher than one year before. Social contribution tax revenues and social security contribution revenues were, however, still below their levels recorded one year before, by 1.0% (HUF 18.3 billion).

Revenues from EU programmes were HUF 153.5 billion in the first four months of this year, while the relate expenses were HUF 743.4 billion. Pandemic-related expenses were at HUF 398.8 billion at the end of April, and we should also mention the extension of the sector-specific wage subsidies among the measures. As for the development projects financed from Hungarian funds, HUF 86.1 billion was spent to increase competitiveness, HUF 60.2 billion was spend on railway development projects, and HUF 59.4 billion was spent on programmes to develop the transport sector and on prefinancing. Pandemic-related expenses were at HUF 342.8 billion at the end of March, and we should also mention the extension of the sector-specific wage subsidies and employer tax allowances among the actions. As for the development projects implemented from Hungarian funds, HUF 80.1 billion was spent to enhance competitiveness, HUF 60.2 billion was spent on railway development projects, and HUF 57.5 billion was spent on public road development projects.

2.6. Monetary developments

Prices increased by 5.1% on average in April.

In April 2021, consumer prices increased by 5.1% on average, compared to the same period of the previous year. In 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 prices of alcoholic beverages and tobacco products increased by 12.2% on average, while that of food products increased by 2.4%. 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 20.1% as compared to the same period of 2020.

The 2.4% average price increase of food products was driven mainly by the 4.1% increase in egg prices, the 7.8% increase in the prices of cafeteria products, the 22.8% increase in cooking oil prices, and the 6.5% increase in the price of fresh Hungarian and tropical fruits. The increase in fruit prices is primarily attributable to the poor harvest caused by the unfavourable weather. The drop in potato prices (21.5%), Extrawurst and sausage prices (1.6%), cheese prices (1.2%), and pork prices (6.9%), however, held back the average inflation of food products. The drop in pork prices can be associated with the Chinese import ban imposed because of the African swine fever.

The prices of other products and fuels increased by 13.9% in April, year on year. Fuel prices increased by 39.2%, primarily because of the base effect.

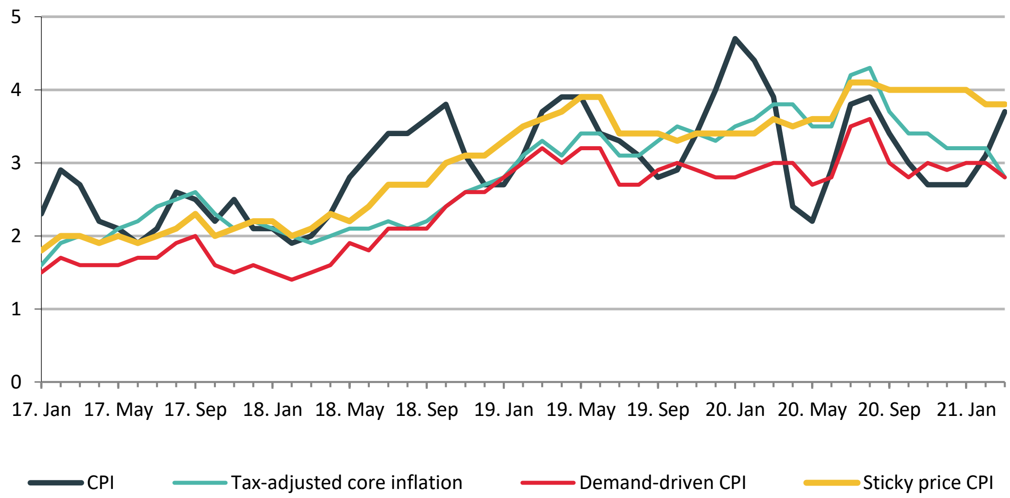
Coursebook prices decreased by 96.9%, which is attributable to the free school coursebooks from the 2020-2021 school year.

The average increase in household energy prices was 0.4% in April as compared to the same period of the previous year. Within household energy, fuelwood prices increased by 2.7%, coal prices increased by 5.2%, and bottled gas prices increased by 1.4% in a single year. The price of electricity, pipeline gas and district heating remained unchanged.

In April, the prices of services increased by 2.0% on average, which was driven by the 10.3% increase in home repair and maintenance prices, the 7.3% increase in vehicle repair and maintenance prices, the 6.0% increase in the prices of personal care, and the 5.4% increase in the prices of healthcare services. The average price increase of services was moderated by the 0.6% increase in rents, the 0.2% increase in gambling prices, the 6.4% decrease in the prices of other long-distance travels, and the 3.0% decrease in telephony and internet prices.

Clothing prices decreased by 0.2% and the prices of durable consumer goods increased by 3.4% on average, in a single year. Taking a closer look at the latter, one can see that jewellery prices increased by 13.1%, new car prices increased by 10.4%, but used car prices dropped by 2.2%.

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



Source: MNB

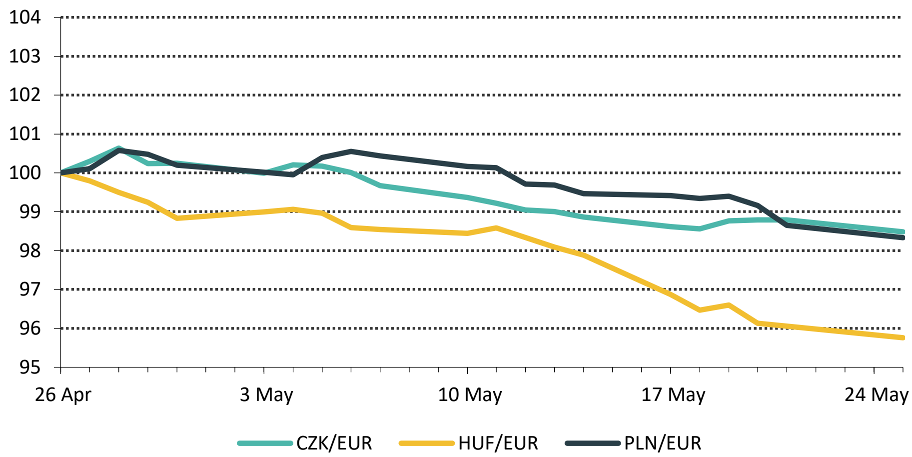
Based on the base inflation indicators published by MNB, the seasonally adjusted core inflation rate was 3.0%, while the core inflation rate excluding the effects of indirect taxes was 3.1% in April. The demand-sensitive inflation rate was 3.0%, the sticky price inflation rate was 4.2% in April.

Neither the ECB Governing Council nor the Federal Open Market Committee has 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%.

The currencies of the region strengthened.

The currencies of the region strengthened against the euro. The foreign currency exchange rates for both the Czech koruna and the Polish zloty have strengthened against the Euro, by 1.5% and 1.6%, respectively. The Czech 10-year government securities yields decreased by 2 base points to 1.77%, the Polish 10-year yield increased by 25 base points, to 1.79%.

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



Source: Refinitiv

The HUF strengthened.

Overall, indicators of the Hungarian financial and foreign currency markets have shown a mixed picture in the past period. The 5-year yield decreased by 25 base points to 1.99%. The HUF strengthened by 4.2% against the euro, by 3.3% against the Swiss franc and by

5.5% against the US dollar. This means that on 25 May 2021, one Euro was worth 348 Forints, one US Dollar was worth 284 Forints and 1 Swiss Franc was worth 318 Forints. Sovereign debt held by foreigners has recently decreased by HUF 218 billion to HUF 4,470 billion.

The MNB might tighten monetary conditions in June.

At its interest rate meeting in May, 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 (which foresaw increasing interest rates from June). 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%.

Potential interest risk management

Interest risk is considered a market risk because the changing of a market variable either by the central bank or the market could change the value of a financial product. Interest risk means that interest rate increases or decreases could cause losses or profits to market players. Among market players, we analysed households and businesses and their opportunities to protect against their interest risks, what are their risk exposures, and how the specific interest rate increase foreseen by the central bank would affect them.

Businesses and households predominantly take loans, make bank deposits, and pay or receive interest for these financial products. Loan interests could be fixed or variable. In the latter case, the so-called reference interests (e.g. the 3-month BUBOR) and the additional interest premium determine the interest rate the debtor must pay for the loan. Its changes could, therefore, affect the interest paid by the debtor. If, therefore, the Hungarian central bank increases its base interest rate or its one-week deposit interest rate, it can affect a debtor with a 3-month interest period, i.e. the debtor assumes interest risks.

It is no coincidence that economic policy decision-makers and commercial banks have for quite some time recommended to retail clients to fix the interests rates of their new loans to the longest possible period even despite the low interest rate environment. This way, debtors could avoid taking interest risks. As opposed to debtors with loans having short interest periods, who take interest risks, because increasing interests cause additional interest expenditure to them.

Businesses have much more tools to protect against increasing loan interests.

- For instance, they have the option of fixing the interest of a future loan in the present (this is a forward rate agreement or FRA).
- Or they can buy interest options where they have the option, but not the obligation, to take loans with a specific interest rate in the future.
- Or they have the option to make an interest swap transaction where, expecting increasing interest rates, it is worth replacing loans with variable interest to ones with fixed interest rates.

Regarding new loans, a significant portion of households took loans with interest rates fixed for a long period. Businesses can primarily make transactions to mitigate or protect against interest risks (FRA, interest potion, interest swap) on interbank markets. This means that, assuming higher future interest rates now, it is worth for businesses to make FRAs and fixing the interest rates of their future loans or buying interest options to ensure that they can take loans for lower interest rates agreed now in a future situation with higher interest rates. And an interest swap allows the replacement of variable-interest loans with fixed-interest ones if interest rates increase.

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 128.96 billion in the past period, meaning that the total value of the secondary-market government securities held by the MNB increased to HUF 2,047.49 billion. In the past period, the MNB did not purchase mortgage bonds from the primary market (total value: HUF 143.8 billion). The MNB purchased mortgage bonds in the total value of

HUF 4.0 billion on the secondary market, i.e. the total value of this portfolio increased to HUF 157.029 billion. The MNB's FX swap portfolio is currently HUF 1,786 billion, which did not change in comparison to the previous month.

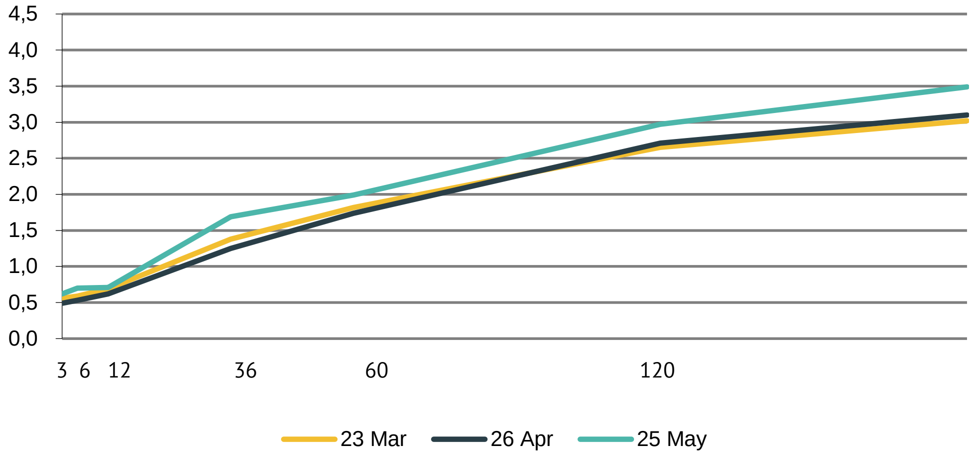
In the last month, shorter-term yields changed by between -9 and -17 base points on the secondary market yield curve of the government securities market. This means that the 3-month yield was 0.62%, the 6-month yield was 0.70% and the 1-year yield was 0.71% on 25 May. The 3-year yield increased by 44 base points to 1.69%. Month on month, 5-year yields increased by 25 base points, 10-year yields increased by 26 base points, and 15-year yields increased by 39 base points. These three yields changed, therefore, to 1.99%, 2.97%, and 3.49%, respectively. Yields changed more than in the previous month, showing the impacts of the expected interest rate increases in Hungary on the bond market.

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 April 2021, the total value of government bonds held by retail investors was HUF 5,639.75 billion, which implies a HUF 120.86 billion increase compared to the HUF 5,518.89 portfolio value in March.

The share of foreign currency debt in the sovereign debt changed to 18.29% in February (corresponding to a decrease of 0.2 percentage points), 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. Foreign-currency treasury bonds neither were issued or matured in April.

None of the big international credit rating agencies had an 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.

FIGURE 12: THE HUF YIELD CURVE (%)

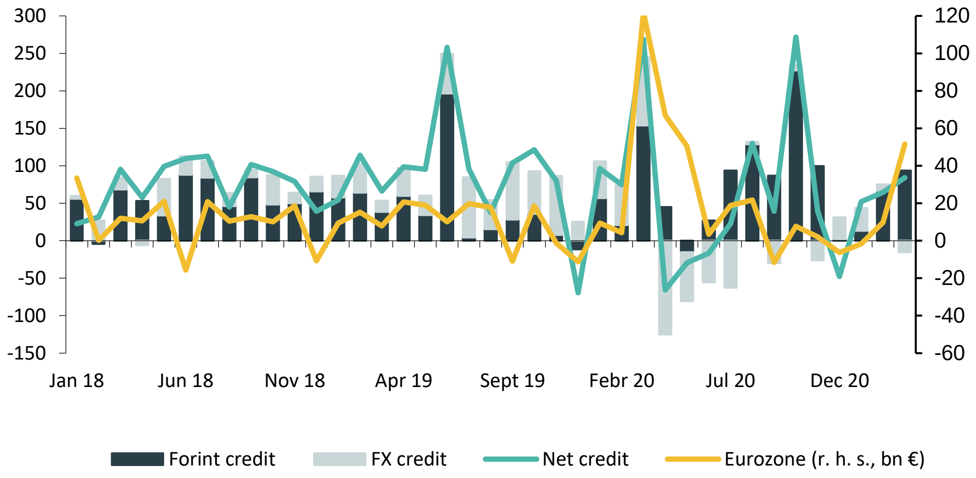


Source:: ÁKK, Századvég

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector was HUF 93.5 billion in March 2021. The net repayment of foreign currency debt was HUF 15.3 billion in March 2021, i.e. the aggregated value of business credits decreased. This means that, based on seasonally adjusted data, total net borrowing was HUF 84.1 billion in March. Corporate borrowing in the eurozone was EUR 51.703 billion in March 2021.

The amount of loans held by the business sector increased.

FIGURE 13: CORPORATE BORROWING (IN BILLION HUF)



Source: MNB, ECB

In March, the value of gross loan placement in Hungarian forints over and above bank overdrafts was HUF 205.8 billion, which is HUF 113.3 billion more than the amount of the previous month. The sum of newly granted euro-loans was HUF 20.0 billion, which is HUF 23.7 billion less than the figure for February.

3. Századvég forecast [1]

TABLE 1: Q1 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**	-4,5	11,0	4,6	5,0	**4,0**	6,7	5,0	4,5	4,2	**5,1**
Household consumption expenditure (volume index, %)	**-2,5**	-5,0	8,3	4,0	5,5	**3,2**	5,4	4,1	3,8	5,6	**4,7**
Gross fixed capital formation (volume index, %)	**-7,3**	-4,8	8,9	14,9	10,9	**7,5**	10,9	4,4	4,6	3,1	**5,8**
Export volume index (based on national accounts, %)	**-6,7**	-4,1	30,2	4,3	4,2	**8,7**	11,0	9,8	6,6	4,8	**8,1**
Import volume index (based on national accounts, %)	**-3,9**	-4,5	24,6	7,0	4,1	**7,8**	8,0	7,2	6,2	6,5	**7,0**
Foreign trade balance (bn EUR)	**5,8**	1,8	1,3	1,1	2,2	**6,3**	2,7	2,2	1,3	1,8	**8,0**
Consumer price index (%)	**3,3**	3,1	4,2	3,3	3,4	**3,5**	3,3	3,0	3,2	3,4	**3,2**
Central bank's base rate at the end of the period (%)	**0,6**	0,6	0,6	0,6	0,6	**0,6**	0,6	0,6	0,6	0,75	**0,75**
Unemployment rate (%)	**4,2**	4,6	4,6	3,9	3,8	**4,2**	3,9	3,7	3,4	3,4	**3,6**
Gross average earnings (year-on-year change, %)	**9,7**	8,0	4,4	4,1	2,4	**4,7**	5,5	7,5	9,1	10,3	**8,1**
Current account balance as a percentage of GDP	**0**					**-0,3**					**0,4**
External financing capacity as a percentage of GDP	**2,6**					**2,8**					**3,3**
General government ESA-balance as a percentage of GDP	**-9,0**					**-7,1**					**-5,0**
Government debt (% of GDP)	**81,0**					**81,4**					**79,2**
GDP based external demand (volume index, %)	**-6,2**	0,0	9,5	2,6	2,6	**3,7**	4,7	4,0	3,5	3,3	**3,9**

Source: MNB, HCSO, Századvég-Calculation

TABLE 2: CHANGES COMPARED TO OUR PREVIOUS FORECAST

	2021			2022		
	Dec 2020	Marc 2021	Difference	Dec 2020	Mar 2021	Difference
Gross domestic product (volume index, %)	4,2	**4,0**	-0,2	4,5	5,1	0,6
Household consumption expenditure (volume index, %)	4,1	**3,2**	-0,9	4,3	4,7	0,4
Gross fixed capital formation (volume index, %)	4,8	**7,5**	2,7	6,3	5,8	-0,6
Export volume index (based on national accounts, %)	6,7	**8,7**	2,0	5,2	8,1	2,9
Import volume index (based on national accounts, %)	4,6	**7,8**	3,2	4,8	7,0	2,2
Foreign trade balance (bn EUR)	6,5	**6,3**	-0,2	7,2	8,0	0,8
Consumer price index (%)	3,5	**3,5**	0,0	3,2	3,2	0,0
Central bank's base rate at the end of the period (%)	0,6	**0,60**	0,0	0,75	0,75	0,0
Unemployment rate (%)	3,7	**4,2**	0,6	3,5	3,6	0,1
Gross average earnings (year-on-year change, %)	5,6	**4,7**	-0,9	8,2	8,1	-0,1
Current account balance as a percentage of GDP	-0,6	**-0,3**	0,3	-0,2	0,4	0,6
External financing capacity as a percentage of GDP	1,5	**2,8**	1,3	1,9	3,3	1,4
General government ESA-balance as a percentage of GDP	-6,7	**-7,1**	-0,4	-3,5	-5,0	-1,5
	76,0	**81,4**	5,4	73,7	79,2	5,5
GDP based external demand (volume index, %)	3,3	**3,7**	0,4	2,8	3,9	1,1

Source: Századvég-calculatio

[1] The forecast is valid as of 18 March 2021