MONTHLY MONITOR

November 2021

Századvég Economic Research Institute

SZÁZADVÉG

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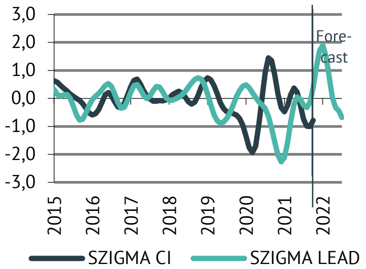
1. Summary

HUNGARIAN GROWTH SLOWED

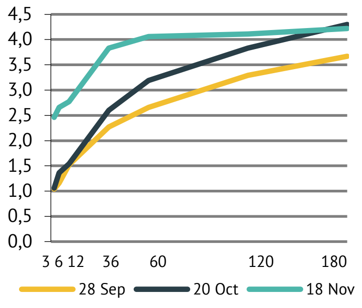
Q3 economic output was 6.1% higher than a year earlier, and, on a quarterly basis, it was 0.7% higher than in Q2. This figure is below analysts' expectations.

SZIGMA indicators



Source: Századvég

HUF yield curve (%)



Source: Refinitiv

Forecast (10 Sep 2021)	2021
GDP volume change (%)	7,8
Inflation (annual average, %)	4,7
Gross wages	8,4
Exchange rate (annual average)	353

Economic growth showed a mixed picture in the EU. Hungary's 6.1% annual growth rate was the second highest after Romania's 8.0%, but its 0.7% quarterly growth rate was the fourth lowest. Economic output in the European Union expanded by 2.1% compared to the previous quarter and by 3.9% compared to a year earlier, while in the euro area, the two growth rates were 2.2% and 3.7%, respectively. The lower quarterly growth rate but higher annual growth rate in Hungary is partly explained by the faster rebound of the Hungarian economy in earlier quarters.

Inflation continued to accelerate in Hungary, with the average rate of price increase reaching 6.5% in October, driven by a number of factors, such as higher fuel prices (explained by higher oil prices); an increase in excise duties on tobacco products; rising global energy prices; high demand; a weak forint exchange rate; and rising prices of scarce products. Core inflation stood at 4.7% in October, while the pensioner price index reached 5.7%.

2. Economic overview

2.1. External environment

In the third quarter, the US economy grew by 2.0% on an annualised quarterly basis, while analysts had expected a much faster, 2.7%, growth rate. On an annual basis, GDP grew by 4.9%, which, taking into account the 2.9% year-on-year decline in economic output last year, means that the US economy expanded by nearly 1.9% compared to the same period in 2019. Consumption and investment were the main drivers of growth in the third quarter, with the former increasing by 7.0% and the latter by 6.9% on an annual basis. In contrast, government spending increased by only 0.6%. US foreign trade also expanded, with exports up 5.7% on an annual basis and imports up 13.0%. Within exports, exports of goods and exports of services increased at the same rate, while within imports, imports of goods increased by only 10.7% and imports of services by 25.8%. The foreign trade deficit at 2012 prices amounted to USD 1,311.7 billion in Q3, 28.4% more than in the same period of the previous year.

US GDP expanded more slowly than expected

The Federal Reserve has kept its base rate in the 0%-0.25% range recently, although inflation in the US economy is now persistently above 5%. The central bank explains the rapid price increases mainly by temporary factors: supply and demand imbalances following the pandemic and the reopening. Even so, the Fed considers that expectations remain anchored at 2%. At the same time, at its November meeting, the Fed's Open Market Committee decided to slow the pace of asset purchase programmes: from November, the monthly pace of government bond purchases will slow by USD 10 billion to USD 70 billion, while that of mortgage-backed securities will slow by USD 5 billion to USD 35 billion. Starting in December, the Fed will continue to reduce the pace of asset purchases, with only USD 60 billion and USD 30 billion of net asset purchases per month planned for the two asset classes. In other words, from November, the Fed started to slowly tighten monetary policy, but the supportive role of monetary policy in the US has not been discontinued. According to the Fed's latest forecast in September, inflation in the US could reach 4.2% this year, easing to 2.2% next year, while GDP could grow by 3.8% in 2022 and 2.5% in 2023, after 5.9% this year. According to the box-plot released, half of Fed policymakers do not expect an interest rate increase next year, while the other half expect 1 or 2 rate increases.

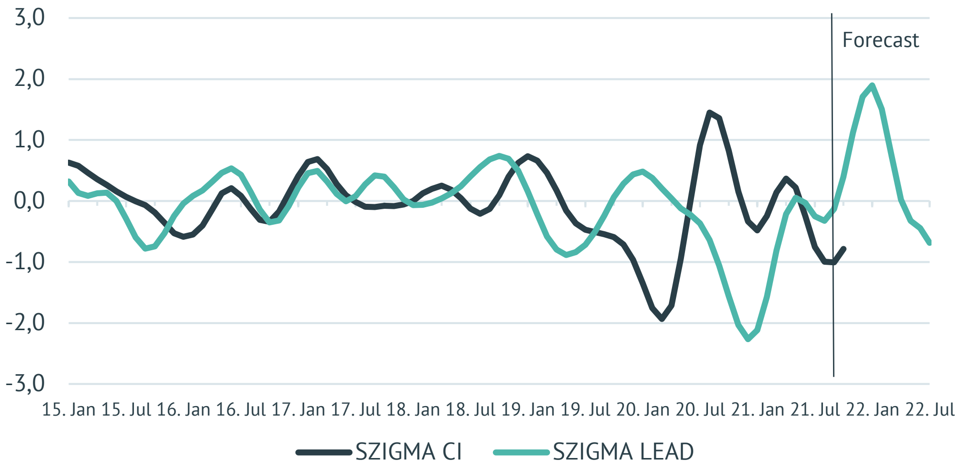
2.2. SZIGMA indicators

The Hungarian economy continues to expand below trend.

In October 2021, the value of the SZIGMA CI indicator, which provides a snapshot of the current state of the Hungarian economy, remained negative, meaning that the economy continued to grow below trend. The volume index of domestic industrial sales showed a monthly decline (-1.8%) and an annual increase (+7.2%) in September this year. In contrast, export sales grew by 3.1% on a monthly basis, but were almost flat on an annual basis (+0.2%). The segment's new domestic sales orders and export sales orders increased on a monthly basis (+5.4% and +51.2%, respectively); on an annual basis, however, they were below their level of a year earlier (-5.5% and -6.9%, respectively). Risks to the industry's contribution to economic growth include shortages of raw materials, rising energy prices, chip shortages and transport difficulties. The end-of-month volume of contracts in construction fell by 5.5% compared with August, while it rose by 12.9% compared with September 2020 in the ninth month of this year. The number of new non-residential buildings to be built increased by 8.2% on a monthly basis and by 29.0% on an annual basis.

The SIGMA LEAD indicator, which reflects our expectations for the near-term performance of the domestic economy, points to above-trend expansion until April 2022, and then below trend until the end of the forecast horizon. The Ifo Business Climate index, a measure of business sentiment in the German economy, fell by 1.2 index points in October compared with September, while it was 5.5 index points higher than in the same period last year. External risk factors include shortages of raw materials, energy prices and transport difficulties, but sentiment is also being weighed down by a strengthening fourth wave. Retail sales continued to expand in September 2021, so the sector's contribution to growth could be positive. Eurostat's consumer confidence index for the tenth month of this year showed a monthly improvement of 6.4 index points and an annual improvement of 11.6 index points. However, the index remains negative (-12.1 index points), suggesting that the segment's turnover could be further boosted by improving confidence. Overall, economic growth is projected to approach 7% for 2021.

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



Source: Századvég

2.3. Real economy

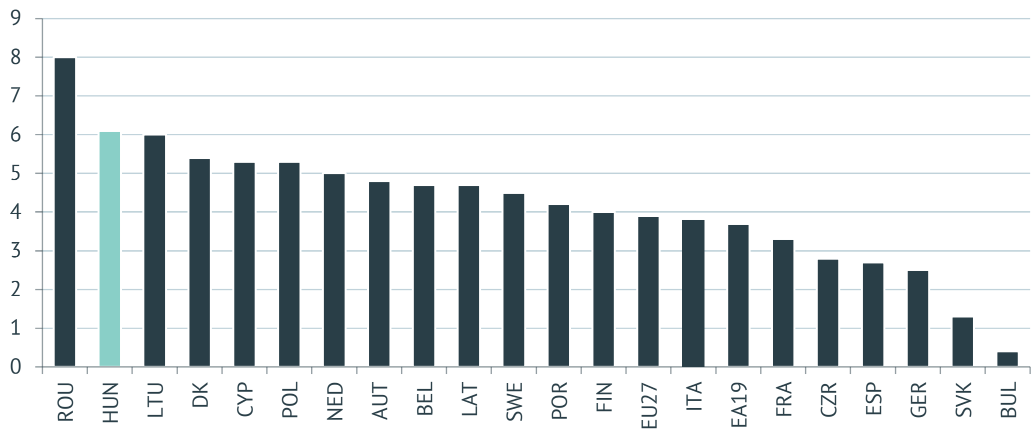
Hungarian GDP grew by 6.1 percent.

According to the first estimate of the Hungarian Central Statistical Office (HCSO), the annual gross domestic product of the Hungarian economy grew by 6.1% in the third quarter of 2021, both on the basis of raw and seasonally and calendar-adjusted data, with the former 1.3 percentage points below analysts' consensus. In the third quarter, the economy continued to recover from the crisis caused by the coronavirus pandemic at a slower pace than in previous periods, with economic output growing by 0.7% quarter on quarter, according to seasonally and calendar-adjusted and balanced data, below analyst consensus expectations of 1.1% growth.

Seasonally adjusted data show that the GDP increased in the EU and the euro area, as compared to the same period of the previous year (by 3.9% and 3.7%, respectively). In the European Union, only Romania (8.0%) is expected to see higher growth rate than Hungary, while Germany (2.5%), Slovakia (1.3%) and Bulgaria (0.4%) will see the lowest GDP growth rates in Q3 2021.

Due to the restart of the economy, the production of most industries developed favorably. In Q3 2021, the gross sales revenue of commercial accommodation in tourism increased by almost one and a half times (47.0%) at current prices, thanks to a rebound in accommodation booking after the lifting of the restrictive measures. Calendar-adjusted data show a 4.3% increase in retail sales relative to the same period of the previous year, while the output of the construction industry increased by 15.9% and industrial output increased by 5.7% in Q3. In a regional comparison, the volume of industrial production was highest in Pest county (22.0%), followed by Budapest (12.9%). In Q3, the volume of industrial production grew less in South Transdanubia (5.4%), North Hungary (4.1%) and North Great Plain (3.8%). However, volumes also declined in Southern Great Plain (-4.0%), Central Transdanubia (-0.2%) and Western Transdanubia (-11.1%) compared to the same period last year.

FIGURE 2: GDP-GROWTH ACROSS THE EU (Q3 2021; Y-O-Y; %)



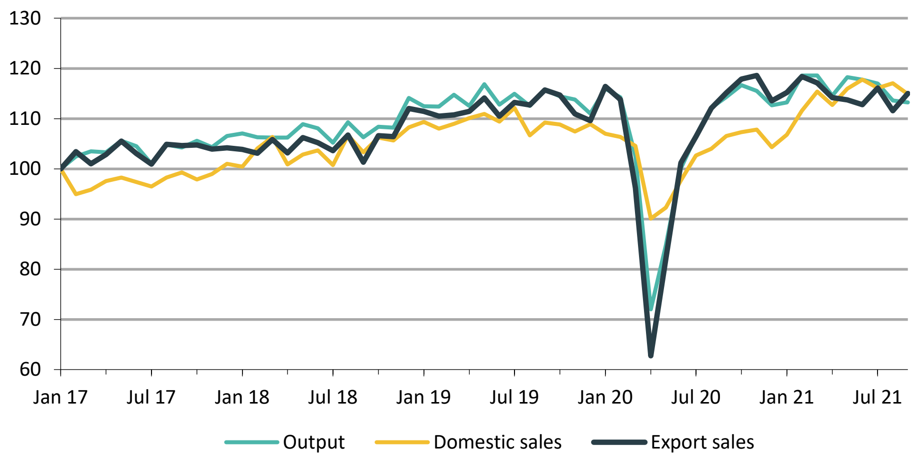
Remark: Seasonally and working-day adjusted data from the first estimates.

Source: Eurostat

Shortages of raw materials continue to hold back industrial output.

Industrial production continues to be held back by a shortage of raw materials and transport difficulties, with the sector's output down 2.3% in September on a raw basis and 1.7% on a working-day adjusted basis compared with the same period last year. Compared to August, the decrease was 0.3%. Sales in the sector in September were 2.2% higher than a year earlier. Within this, domestic sales grew by 7.0% and export sales stagnated.

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



Remark: Seasonally and working-day adjusted data

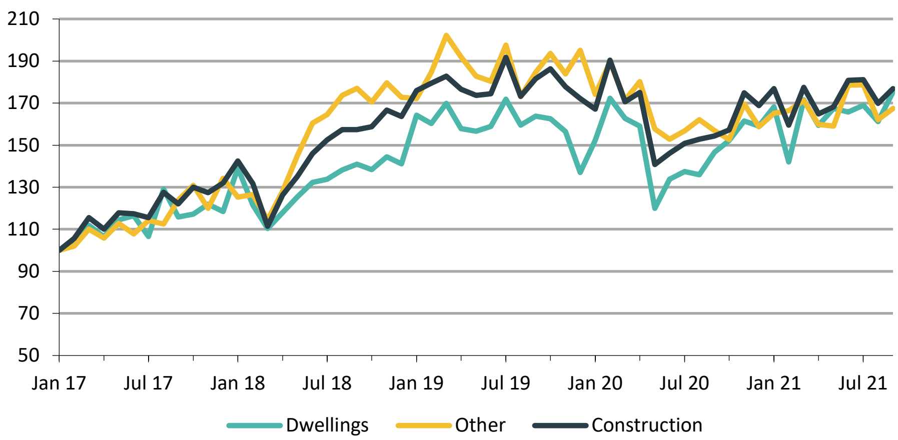
Source: HCSO, Századvég

Within industry, mining and quarrying output increased by 19.1% and energy by 15.0%, while manufacturing output fell by 3.5%. Within manufacturing, the sub-sectors showed a mixed picture: Production volumes increased in 8 sectors, stagnated in 1 and decreased in 4 compared to the same period of the previous year. The largest decline of 25.9% was in the heavyweight automotive sector, but computer manufacturing also fell by over 10%. The largest increase (28.2%) was in electrical equipment manufacturing, followed by mechanical engineering and the metals industry (13.3% and 12.3%, respectively). Order books in the manufacturing industries monitored by the HCSO were 12.4% higher at the end of September than a year earlier. Within this, domestic sales orders declined by 14.0%, while export sales orders grew by 14.7%. By contrast, the volume of new orders fell by 6.8%, with new domestic orders down by 5.5% and new export orders down by 7.0%.

The volume of construction output increased.

Construction output was up 14.2% in September compared with a year earlier and 4.2% from August. Construction of the two main groups of buildings increased by different rates compared to the previous year: buildings by 21.2% and civil engineering works by 6.7%. Construction prices continued to grow rapidly in Q3, rising by 12.8% on an annual basis and by 4.2% on a quarterly basis. The volume of sales orders in the sector at the end of September was 12.9% larger than a year earlier, with the volume of contracts for buildings up 21.4% and for civil engineering works up 7.7%. In contrast, the volume of new contracts fell by 16.1%. However, the two construction categories show a diverging picture: the volume of new contracts for buildings increased to 28.4%, while that for civil engineering works fell by 34.9%.

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



Remark: Seasonally and working-day adjusted data

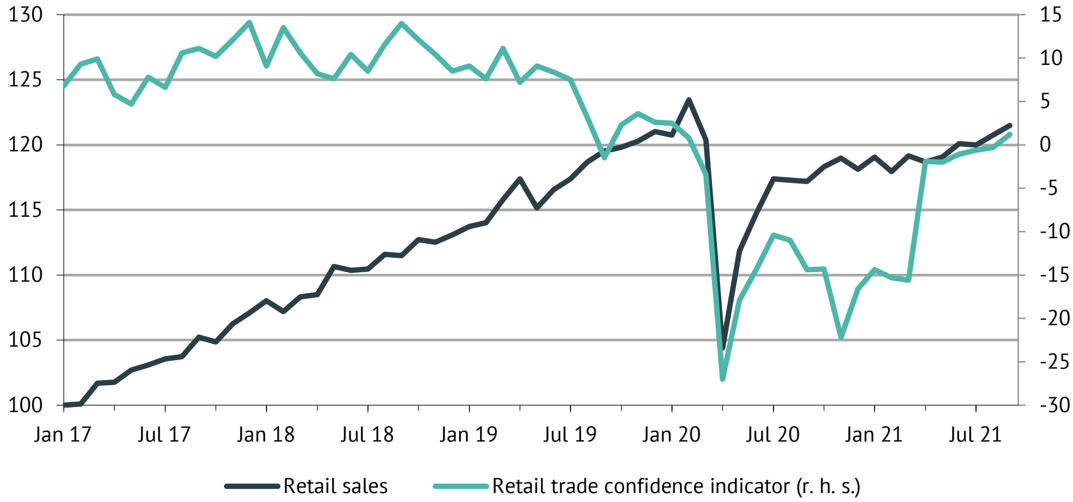
Source: HCSO, Századvég

The volume of retail sales increased by 5.8%.

In September 2021, the volume of retail sales increased by 5.8% year-on-year on both a raw and calendar-adjusted basis. Adjusted data show an increase of 0.7% compared to the previous month. In September 2021, the calendar-adjusted volume of sales increased by 3.0% in specialised and non-specialised food shops and by 8.1% in non-food shops and by 8.4% in fuel retail, relative to September 2020.

The turnover of parcel companies and internet shops continued its years of dynamic growth in September, up 18.7% year-on-year on a calendar-adjusted basis. More significant increases were also seen in the turnover of shops selling second-hand goods (16.3%) and shops selling textile products, clothing and footwear (23.2%). In addition, the sales of books, newspapers and stationery (6.6%), medicines and medical products (9.8%) and perfumes (6.8%) also grew at an above-average rate. The sales of shops selling a mixed range of manufactured goods (2.1%) and of shops selling computers and other manufacturing goods (4.8%) also increased, although less than the turnover of retail shops. The sales volume of shops selling furniture and electric goods fell compared to September 2020 (by 6.2%). Calendar-adjusted data show that in September 2021, sales increased by 3.6% in non-specialised food shops and by 1.4% 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

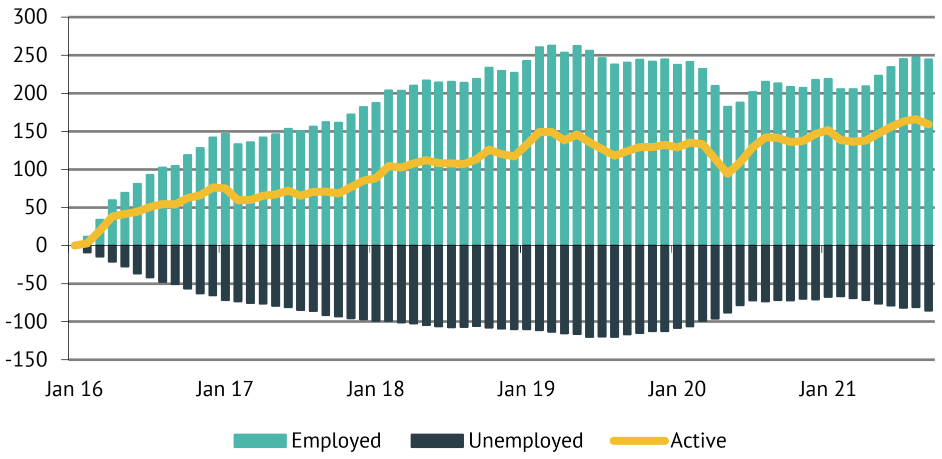
Source: HCSO, Eurostat, Századvég

In Q3, the seasonally adjusted number of employees was close to 4,636,000. This is an increase of 10,000 compared to Q2, and nearly 32,000 compared to the same period last year. Activity grew in line with employment, by 3,000 quarter on quarter and by nearly 18,000 year on year, based on seasonally adjusted data. As a result, the number of the unemployed fell to below 192,000 in Q3, down by nearly 7,000 from the previous quarter and nearly 14,000 from the same period last year. The Q3 unemployment rate was 4.0%.

The unemployment rate decreased to 4% by Q3.

The number of employees exceeded 2,846,000 in August, based on seasonally adjusted data, down slightly by 4,000 on the previous month, but up by nearly 192,000 year on year. Among employees in the competitive sector, the number of employees in enterprises having at least 5 employees stagnated month on month, while it increased by nearly 192,000 year on year. In the public sector, however, the number of employees fell significantly, by nearly 37,000 on a monthly basis, according to raw data. This is mainly due to methodological reasons: since August, the HCSO has included educational institutions that have undergone a change of ownership in the non-profit sector. Accordingly, in August the number of employees in non-profit organisations increased by nearly 35,000 month on month. The number of public sector employees was also reduced by public employment, where the number of employees fell by 1,000 in a month to below 83,000, while on an annual basis the decline was 8,000.

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



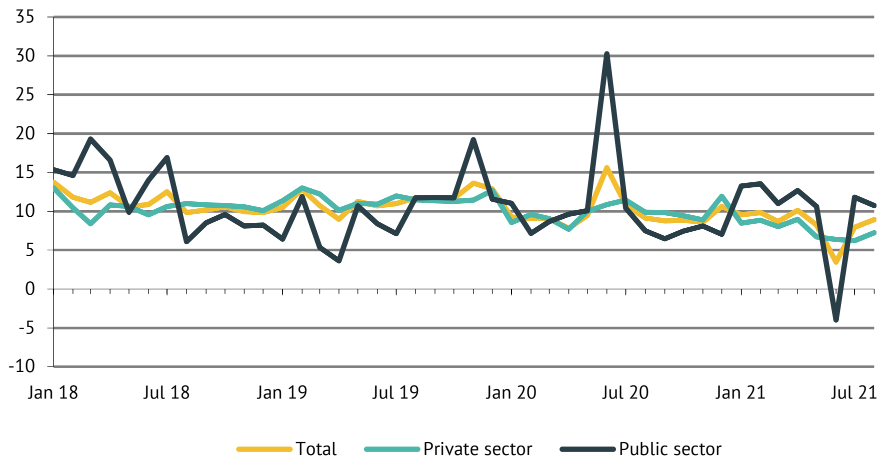
Remark: Seasonally and working-day adjusted data

Source: HCSO, Századvég

Despite the 5% inflation rate, real wages rose by nearly 4% in August.

In August, the average gross monthly wage in the national economy rose by 8.9% to HUF 426,500. Within this, wages increased by 7.2% in the competitive sector, which means an acceleration on the previous months, and by 10.7% in the public sector. In the latter, the increase in the salaries of doctors, judges, prosecutors and nursery workers played a significant role, but the data may have been distorted by the composition effect of the reclassification mentioned above. The average net monthly wage increased by the same rate, 8.9%, as the average monthly gross wage, to HUF 283,600; if we take the benefits into account, then it increased by 9.3%, to HUF 292,300. This represents a modest increase in real wages of 3.8%, taking into account the impact of inflation approaching 5%.

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.

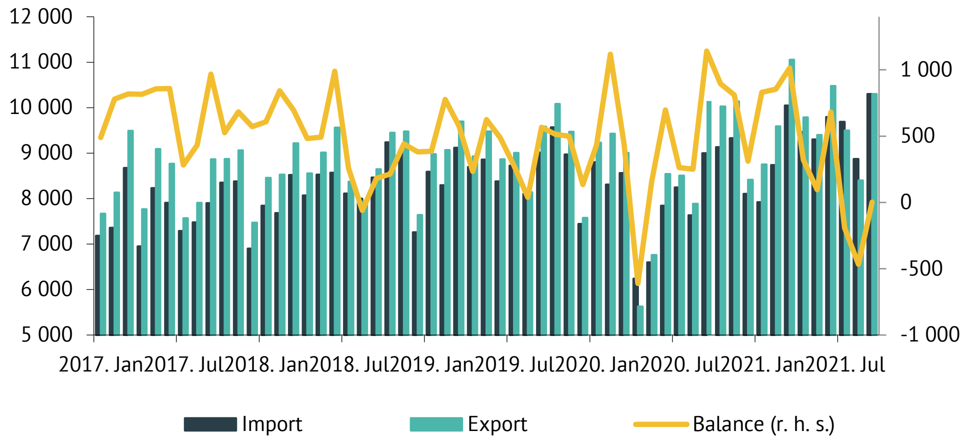
In August, exports of goods increased by 4.2% and imports by 19% year-on-year in euro terms. The foreign trade deficit was, therefore, EUR 751 million, thus, the balance was EUR 1.1 million less than in the previous year.

In August, the volume of food product imports increased by 0.9%, and food product exports raised by 8.9% on a year-on-year basis. As for energy carriers, imports decreased by 6.6% and exports increased by 8.9%. As for processed products, imports increased by 9.4%, exports increased by 5.8% on a year-on-year basis. As for machinery and transport equipment, imports increased by 6.4%, and exports by 10.0%.

In September 2021, the EUR value of exports was 0.6% lower, while the EUR value of imports was 12.0% higher than one year before. The foreign trade balance was EUR 1.3 million, which is EUR 1,187 million less than one year before.

In September 2021, the current account balance was EUR 392.8 million. The balance of the first nine months of this year is EUR -1540.2 million, better than the EUR -1650.0 million balance of January–September 2020.

FIGURE 8: BALANCE OF TRADE (IN MILLION EUR)



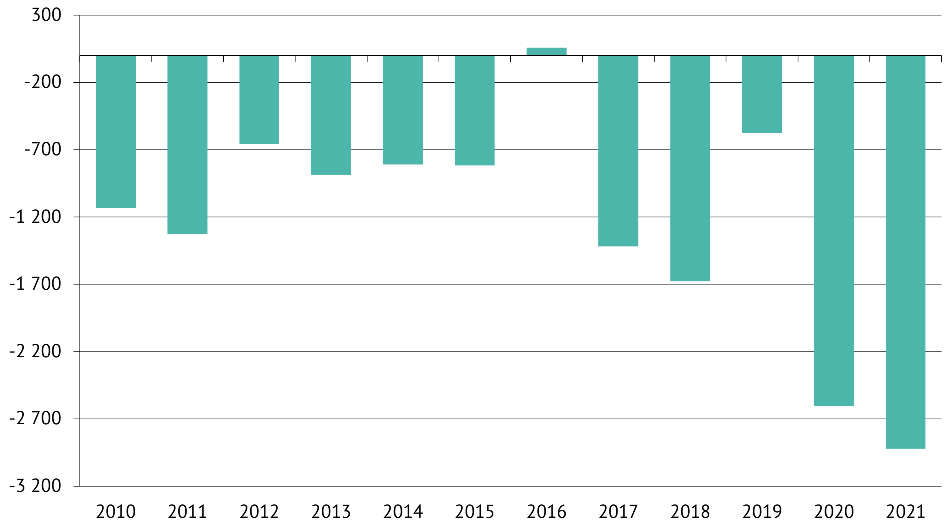
Remark: The data relating to September 2021 derive from the first estimates.
Source: HCSO

2.5. Fiscal outlook

The general government deficit was HUF 2,922.2 billion in the first ten months.

This October, the central budgetary subsystem accumulated a deficit of HUF 2,922.2 billion. This is attributable to the general government deficit of HUF 2,704.4 billion, the social security funds subsector's deficit of HUF 265.1 billion, and the extra-budgetary funds' surplus of HUF 47.3 billion.

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



Source: PM

In the first ten months of the year, value-added tax revenue was 17.5% (HUF 663.2 billion) higher than in the same period last year. The rise in VAT paid on domestic, import and tobacco products contributed to this, while the increase in refunds had a dampening effect. Revenues from excise duties exceeded their January–October 2020 level by 4.2% (HUF 41.6 billion). This was due to an increase in fuel consumption, higher taxes on tobacco products and higher energy consumption. Personal income tax revenues also increased, by 14.3% (HUF 296.8 billion) over a year. Revenue from social contribution tax and social security contributions was 5.3% (HUF 236.4 billion) higher between January and October 2021 than in the base period.

Revenue from EU programmes amounted to HUF 805.0 billion and expenditure to HUF 1,623.0 billion in the first ten months of the year. Among domestically financed developments, road development (HUF 172.9 billion), the Hungarian Village Programme (HUF 156.0 billion) and transport sector programmes (HUF 153.8 billion) are worth highlighting.

2.6. Monetary developments

In October 2021, consumer prices increased by 6.5% 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 11.3% on average, while that of food products increased by 5.2%. 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 17.6% as compared to the same period of 2020.

In October, prices increased by 6.5%, on average.

More significant drivers of the 5.2% average increase in food prices were the 9.3% increase in poultry prices, the 26.7% increase in potato prices, the 7.9% increase in the prices of restaurant meals, the 10.1% increase in pre-ordered menu meals at workplaces, the 8.1% increase in bread prices and the 30.4% 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 (-0.2%), salami, dry sausages and ham (-1.4%) and pork (-2.4%) as well as the just 1.2% increase in the prices of fresh Hungarian and southern fruits.

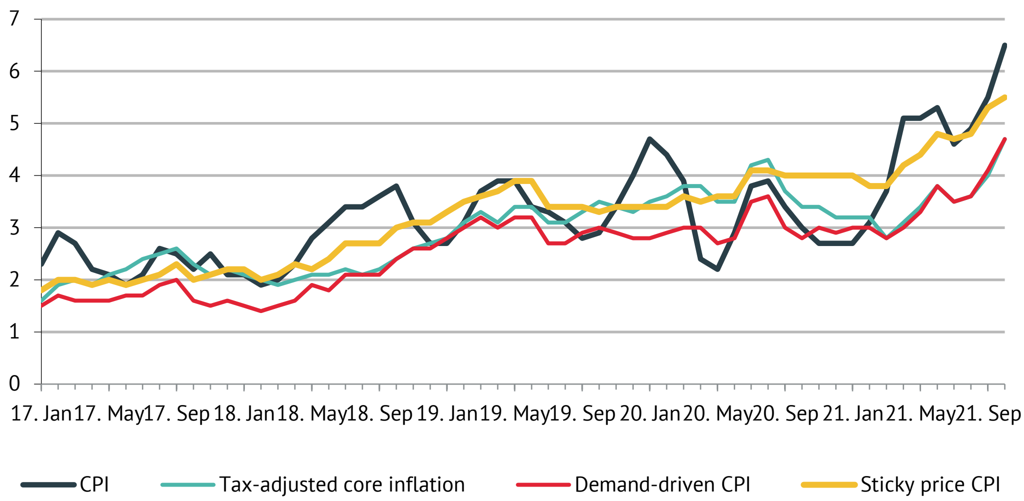
The prices of other products and fuels increased by 13.0% in October, year-on-year. Within this, the price of vehicle fuels increased by 30.7%, mainly explained by the base effect and supply-demand imbalances.

The average increase in household energy prices was 0.6% in October, compared to the same period of the previous year. Within household energy, fuelwood prices increased by 5.0%, coal prices increased by 4.5%, and bottled gas prices increased by 2.5% in a single year. The price of electricity, pipeline gas and district heating remained unchanged.

In October, prices of services increased by an average of 3.7%, mostly driven by a 4.8% increase of rents, a 4.7% increase in the prices of healthcare services, a 13.8% increase in the prices of home repair and maintenance, an 8.4% increase in the prices of vehicle repair and maintenance, and a 7.8% increase in the prices of personal care services. The average increase in the price of services was moderated by the stagnation in the price of gambling, a 2.4% increase in the price of condominium common charges and a 0.2% decrease in the price of telephone and internet.

Clothing prices increased by 0.9% and the prices of durable consumer goods increased by 5.4% on average in a single year. Taking a closer look at the latter, one can see that jewellery prices increased by 10.8%, home furniture prices increased by 12.5%, new car prices increased by 6.9% and used car prices increased by 2.5%.

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



Source: MNB

Among the core inflation indicators published by the MNB, the seasonally adjusted core inflation rate, the demand-sensitive inflation rate and core inflation rate excluding the effects of indirect taxes were the same, 4.7%, in October. The sticky price inflation rate was 5.5% in October.

HUF 480 price cap for petrol and diesel

On 11 November, the Government announced that from 15 November it would cap the retail price of 95 octane petrol and diesel at HUF 480 per litre for 3 months. At the same time, the Government does not compensate distributors and does not reduce the tax content of fuels, so the distributors' margin gets reduced. The Government Decree applies for the duration of the state of danger, which currently lasts until the beginning of January, so if it is not extended, the price cap will also expire. After the 3-month deadline, the government will review the regulation, with the possibility of extending the deadline for the price cap if fuel prices do not stabilise.

Price limits were necessary mainly because of global market trends, which have an impact on domestic inflation and the functioning of the economy. The global price of Brent crude oil was still around USD 50 at the beginning of the year, from where it rose to over USD 75 by the beginning of July. Then, after a minimal correction, the oil price started to rise again from mid-September, reaching USD 80 by the beginning of October, peaking above USD 85 at the end of October, and then between USD 80 and USD 85 in the recent period.

The development of global oil prices, together with the dollar/forint exchange rate, has a direct impact on fuels prices in Hungary, which accounts for almost 6% of the consumer basket. In recent times, fuel price developments have also played a significant role in accelerating domestic inflation. Following last year's slump, price increases accelerated to 39.2% in April, then slowed to 19.8% in July, before rising back above 30% in October. However, the base effect of fuel prices in 2020 also played a role. In HUF terms, the average price of petrol was HUF 385 in January, while the average price of diesel was HUF 401, rising to HUF 487 and HUF 499 by October, according to the HCSO. In one year, the average price of petrol has increased by HUF 113, while that of diesel by HUF 133. Prior to the decision, the price of diesel stood at HUF 512 per litre and petrol at

HUF 506, so the price cap will lead to a direct reduction in prices. However, price rises do not only affect consumers, but also companies, where fuel prices are a cost of production, so that their increase either leads to price rises or reduces the ability of companies to generate income.

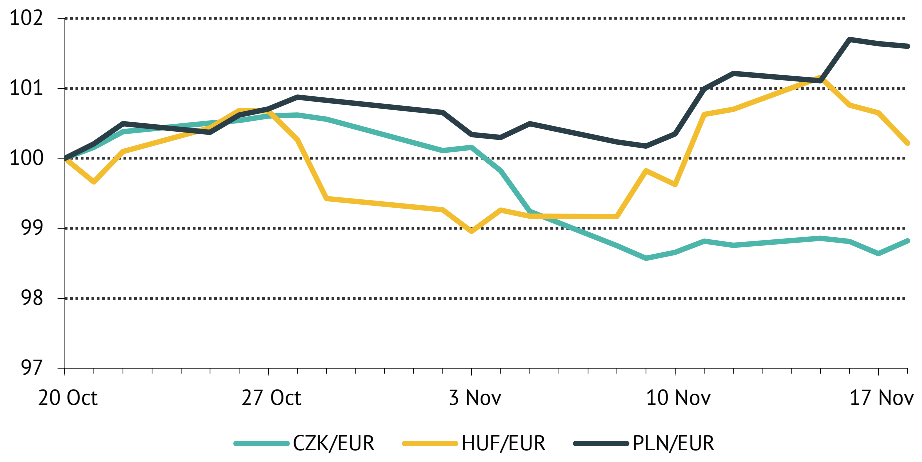
Under the detailed rules on the price cap, distributors who have marketed the fuels covered by the Decree in the last 3 months must continue to market them, while if they have not, the cap applies to premium fuel. In addition, distributors must not have shorter opening hours than normal and must ensure that the fuel concerned is available within 7 days during opening hours for a total of at least 48 hours, otherwise they must declare a closure. In the event of an outage, the Minister for Innovation and Technology, László Palkovics, can decide which licensed operator can take over the unit. Compliance with the Decree is monitored by the NTCA, which may impose a fine of between HUF 100,000 and HUF 3,000,000 for the first violation, and a suspension of between 1 day and six months for repeated violations.

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%.

Polish 10-year yields increased significantly.

Exchange rates in the region showed a mixed picture in relation to the euro. In the past period, the Czech koruna strengthened by 1.2%, while the Polish zloty weakened by 1.6% against the euro. The Czech 10-year treasury securities' yields increased by 14 base points to 2.72%, the Polish 10-year yield increased by 76 base points, to 3.48%.

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



Source: Refinitiv

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 4.06%, rising 87 basis points. The HUF weakened by 0.2% against the euro, by 2.6% against the Swiss franc and by 2.8% against the US dollar. This means that on 18 November 2021, one Euro was worth HUF 364, one US Dollar was worth HUF 320 and one Swiss Franc was worth HUF 346. Sovereign debt held by foreigners has recently decreased by HUF 353 billion to HUF 4,491 billion.

The 5-year yield increased by 87 base points.

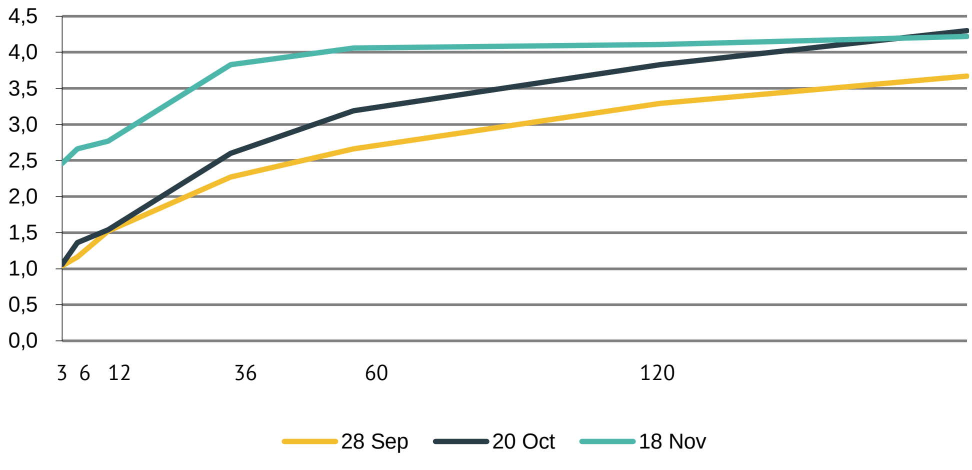
At its interest rate meeting in November, the Monetary Council of MNB raised its base interest rate by 30 base points; the base interest rate is, therefore, 2.1%. The MNB Monetary Council also moved the edges of the interest rate corridor symmetrically upwards by 30 base points, increasing the overnight deposit interest rate to 1.15% and the credit rate to 3.05%. The MNB raised the interest rate on the one-week deposit instrument by 40 base points more than the base rate, by a total of 70 base points to 2.5%. The MNB has increased the effective interest rate by 175 base points since the start of the rate hike cycle.

The MNB raised the base rate by 30 base points, while the rate for the one-week deposit was raised by 70 base points.

The Monetary Council launched two programmes on 4 May 2020: a government bond purchase programme on the secondary market to ensure the stable liquidity of the government securities market and relaunched its mortgage bond purchase programme to increase the long-term supply of funds for the banking system. Regarding the portfolio of government securities held by the central bank, which has grown close to the upper limit of HUF 3,000 billion, the MNB Monetary Council maintained its decision to reduce the weekly purchase limit from HUF 40 billion at its meeting in November 2021. The next time it decides to change the target amount of weekly purchases for the next quarter is at the December interest rate meeting. Furthermore, the central bank does not sell its treasury securities, but holds them until maturity. The Monetary Council also aims to keep short-term interest rates around the optimal level for the central bank in all segments. Taking this into account, the central bank phased out its swap facility providing liquidity in forint at its November meeting.

Over the past month, yields on the secondary yield curve in the treasury securities market have risen by between 123 and 140 base points for shorter maturities. This means that the 3-month yield was 2.46%, the 6-month yield was 2.66% and the 1-year yield was 2.77% on 18 November. The 3-year yield increased by 123 base points to 3.83%. On a month-over-previous-month basis, 5-year yields increased by 83 base points, 10-year yields decreased by 28 base points, and 15-year yields decreased by 8 base points. These three yields changed, therefore, to 4.06%, 4.11%, and 4.22%, respectively.

FIGURE 12: THE HUF YIELD CURVE (%)



Source: ÁKK, Századvég

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.

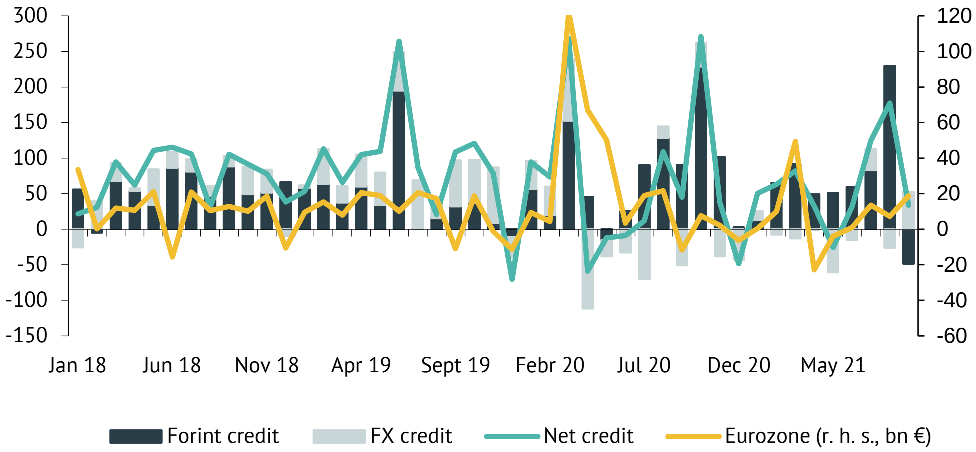
The share of foreign currency debt in the sovereign debt changed to 20.98% in October (corresponding to an increase of 0.15 percentage points), which is above the upper edge of the range (10–20%) specified in the financing plan for 2021 of the Government Debt Management Agency Ltd.

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.

The aggregated value of forint loans to businesses fell, while that of foreign currency loans increased.

Seasonally adjusted data show that the net repayment of HUF loans in the business sector was HUF 48.6 billion in September 2021. The net borrowing of foreign currency loans was HUF 52.9 billion in September; in other words, the aggregate value of foreign currency loans held by the business sector, i.e. exchange rate risk exposure, increased. This means that, based on seasonally adjusted data, total net borrowing was HUF 33.9 billion in September. Corporate borrowing in the euro area was EUR 18.737 billion in September 2021.

FIGURE 13: CORPORATE BORROWING (IN BILLION HUF)



Source: MNB, ECB

In September, the value of gross loan placement in Hungarian forints over and above bank overdrafts was HUF 83.3 billion, which is HUF 5.7 billion less than the amount of the previous month. The sum of newly granted euro-loans was HUF 17.4 billion, which is HUF 12.6 billion lower than the figure for August.

3. Századvég forecast [1]

TABLE 1: Q3 2021 PROJECTION

	2020	2021				2021	2022				2022
	annual	Q1	Q2	Q3	Q4	annual	Q1	Q2	Q3	Q4	annual
Gross domestic product (volume index, %)	**–5,0**	–2,1	17,9	*7,7*	*7,5*	***7,8***	*6,8*	*5,3*	*5,0*	*4,9*	***5,5***
Household consumption expenditure (volume index, %)	**–2,5**	–4,8	10,6	*8,7*	*6,2*	***5,2***	*8,8*	*4,7*	*3,7*	*4,1*	***5,3***
Gross fixed capital formation (volume index, %)	**–7,3**	–0,1	8,3	*16,2*	*15,3*	***9,9***	*12,7*	*2,2*	*3,1*	*3,6*	***5,4***
Export volume index (based on national accounts, %)	**–6,8**	3,3	33,0	*5,6*	*5,5*	***11,9***	*5,2*	*7,9*	*7,2*	*5,9*	***6,6***
Import volume index (based on national accounts, %)	**–4,4**	1,1	23,4	*5,9*	*5,4*	***9,0***	*5,2*	*5,3*	*5,1*	*4,0*	***4,9***
Foreign trade balance (bn EUR)	**5,8**	2,6	1,0	*1,8*	*2,0*	***7,5***	*3,0*	*1,9*	*2,6*	*2,7*	***10,2***
Consumer price index (%)	**3,3**	3,2	5,2	*4,9*	*5,4*	***4,7***	*4,4*	*3,9*	*3,6*	*3,4*	***3,8***
Central bank's base rate at the end of the period (%)	**0,6**	0,6	0,9	*1,8*	*2,1*	***2,1***	*2,1*	*2,1*	*2,4*	*2,4*	***2,4***
Unemployment rate (%)	**4,2**	4,5	4,1	*3,8*	*3,7*	***4,0***	*3,8*	*3,7*	*3,5*	*3,5*	***3,6***
Gross average earnings (year-on-year change, %)	**9,7**	9,3	7,2	*8,8*	*8,1*	***8,4***	*9,6*	*10,9*	*10,7*	*11,3*	***10,6***
Current account balance as a percentage of GDP	**–0,1**					***1,0***					***2,1***
External financing capacity as a percentage of GDP	**1,9**					***2,7***					***3,9***
General government ESA-balance as a percentage of GDP	**–8,1**					***–7,2***					***–5,4***
Government debt (% of GDP)	**80,4**					***77,2***					***73,6***
GDP based external demand (volume index, %)	**–5,0**	–2,1	17,9	*7,7*	*7,5*	***7,8***	*6,8*	*5,3*	*5,0*	*4,9*	***5,5***

Source: MNB, HCSO, Századvég-Calculation

TABLE 2: CHANGES COMPARED TO OUR PREVIOUS FORECAST

	2021			2022		
	Mar 2021	June 2021	Difference	Mar 2021	June 2021	Difference
Gross domestic product (volume index, %)	5,8	**7,8**	*1,9*	4,7	**5,5**	*0,8*
Household consumption expenditure (volume index, %)	3,7	**5,2**	*1,5*	5,3	**5,3**	*0,1*
Gross fixed capital formation (volume index, %)	7,2	**9,9**	*2,8*	8,3	**5,4**	*–2,9*
Export volume index (based on national accounts, %)	11,9	**11,9**	*0,0*	6,3	**6,6**	*0,3*
Import volume index (based on national accounts, %)	9,7	**9,0**	*–0,8*	5,7	**4,9**	*–0,8*
Foreign trade balance (bn EUR)	7,9	**7,5**	*–0,4*	9,2	**10,2**	*1,0*
Consumer price index (%)	3,9	**4,7**	*0,8*	3,5	**3,8**	*0,3*
Central bank's base rate at the end of the period (%)	1,20	**2,10**	*0,9*	1,5	**2,40**	*0,9*
Unemployment rate (%)	4,0	**4,0**	*0,0*	3,6	**3,6**	*0,1*
Gross average earnings (year-on-year change, %)	9,4	**8,4**	*–1,1*	10,3	**10,6**	*0,4*
Current account balance as a percentage of GDP	0,6	**1,0**	*0,4*	0,8	**2,1**	*1,3*
External financing capacity as a percentage of GDP	2,5	**2,7**	*0,2*	2,9	**3,9**	*1,0*
General government ESA-balance as a percentage of GDP	–7,9	**–7,2**	*0,7*	–6,1	**–5,4**	*0,7*
	80,1	**77,2**	*–2,9*	79,6	**73,6**	*–6,0*
GDP based external demand (volume index, %)	4,2	**5,1**	*0,9*	4,4	**4,6**	*0,2*

Source: Századvég-calculati

[1] The forecast is valid as of 10 September 2021