MONTHLY MONITOR

February 2022

Századvég Economic Research Institute

SZÁZADVÉG

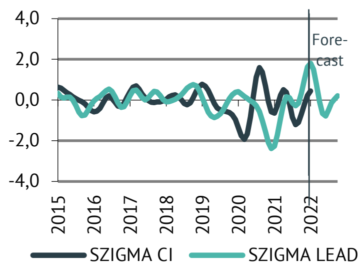
Table of Contents

1. Summary

1.1.HUNGARIAN ECONOMIC OUTPUT UP BY 7.1% IN 2021

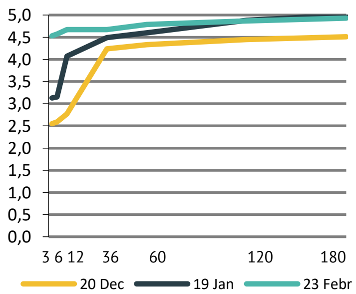
In Q4, economic output was 7.1% higher than a year earlier, and, on a quarterly basis, it grew by 2.1%. This figure is much better than analyst expectations.

SZIGMA indicators



Source: Századvég

HUF yield curve (%)



Source: Refinitiv

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

According to the Hungarian Central Statistical Office (KSH), market services were the main contributor to Q4 growth. Q4 annual growth rate in the European Union was 4.8% and the quarter-on-quarter rate was 0.4%, while in the euro area these two rates were 4.6% and 0.3%, respectively. Among the 20 Member States reporting data, Hungary had the highest quarterly growth rate, followed by Spain with 2.0% and Poland with 1.7%. By contrast, the Austrian economic output contracted by 2.2% on a quarter-on-quarter basis.

On an annual basis, the highest growth rate was registered in the Polish economy (7.7%), followed by Hungary and Italy (6.4%). The lowest growth rates were in Slovakia (1.1%) and Germany (1.4%).

Inflation was worse than expected in January, rising to 7.9% from 7.4% in December. The average price increase accelerated to 10.1% for food, 5.2% for services, 4.0% for clothing and 7.9% for consumer durables. The price increase for spirits and tobacco slowed to 7.7%, while that for other goods and fuels slowed to 11.3%, while the increase for household energy stagnated at 1.2%.

2. Economic overview

2.1. External environment

Growth in the US economy has accelerated.

US GDP grew at an annualised rate of 5.5% in Q4 2021, which is slightly faster than the 4.9% expansion in the previous quarter and is above analysts' expectations. In 2021 as a whole, the US economy grew by 5.7%, which, combined with a 3.4% downturn in 2020, means that the world's largest economy has already reached its pre-crisis output level on an annual basis. Growth was driven by consumption and investment in the last quarter of last year and for the year as a whole. In Q4, the former grew by 7.1% and the latter by 8.6% compared to the same period last year. By contrast, government spending stagnated in the last 3 months of 2021. The primary drag on growth was net exports. While exports grew by 5.3% in Q4, imports grew by 9.6%, mainly driven by an 18.3% increase in imports of services.

Following an increase of 677,000 in October, 647,000 new non-farm jobs were added to the US labour market in November, 510,000 in December 2021 and 467,000 in January 2022. In other words, the employment growth rate is gradually slowing, due to a shrinking labour reserve. The January figure was, however, still substantially higher than analysts' expectations of 150,000. The unemployment rate fell from 4.6% in October to 3.9% in December, to 6,300,000, and then rose slightly in January to 4.0%, i.e. 6,500,000. The latter has, however, been helped by an increase in activity in the world's largest economy, with the participation rate for the 15+ age group from 61.7% in October 2021 to 62.2% in January 2022, still more than one percentage point lower than before the coronavirus pandemic. Average hourly wages rose by 5.3% on an annual basis in the November–January period, which represents a fall in real wages as annual inflation rose to 7.0% in the year to December.

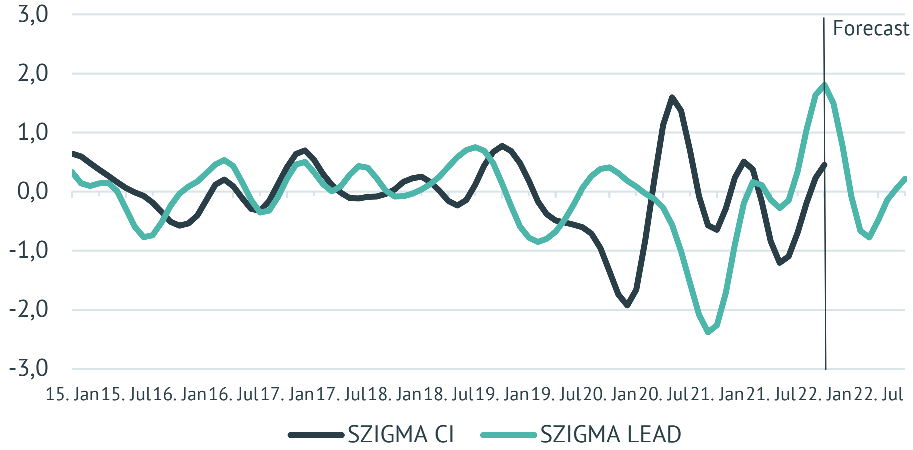
2.2. SZIGMA indicators

The SIGMA indicator has entered positive territory.

In the first month of 2022, the SZIGMA CI indicator, which provides a snapshot of the current state of the Hungarian economy, moved into positive territory, meaning that the economy expanded above trend. In December 2021, industrial sales, both domestic and export, increased on both a monthly and annual basis: by 0.6% and 1.5%, respectively, compared with November 2021 and by 10.3% and 4.8%, respectively, compared with December 2020. The volume index of new domestic sales orders in industry fell by 10.8% on a monthly basis, while it was 4.2% higher than a year earlier. By contrast, new export orders showed significant growth on both a monthly and annual basis, up 65.9% and 22.6%, respectively. The contribution of the industry to growth could, therefore, be positive; risks, however, remain from shortages of raw materials, chips, rising energy prices and transport difficulties. The end-of-month volume of construction contracts at the end of the previous year was below the baseline level, both on a monthly and annual basis (by 9.5% and 13.1%, respectively).

The SIGMA LEAD indicator, which reflects our expectations for the near-term performance of the domestic economy, points to above-trend expansion until March 2022, then below-trend expansion until August 2022, before returning to above-trend growth until the end of the forecast horizon. The Ifo Business Climate index, which measures business sentiment in the German economy, improved by 1.2 index points in January 2022 compared with December 2021 and by 5.2 index points compared with January 2021. The external environment continues to be dominated by the coronavirus pandemic, shortages of raw materials and rising energy prices. Retail sales continued to grow in December 2021. This year, retail could make a substantial contribution to economic growth, thanks to rising disposable income from major transfers and newly enacted tax benefits. Eurostat’s consumer confidence index improved on both a monthly and an annual basis (by 1.8 and 8.9 index points, respectively), but remained negative (-14.0 index points). In other words, by improving confidence, the segment's sales could be further increased. In 2022, the Hungarian economy is expected to expand by more than 5%.

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



Source: Századvég

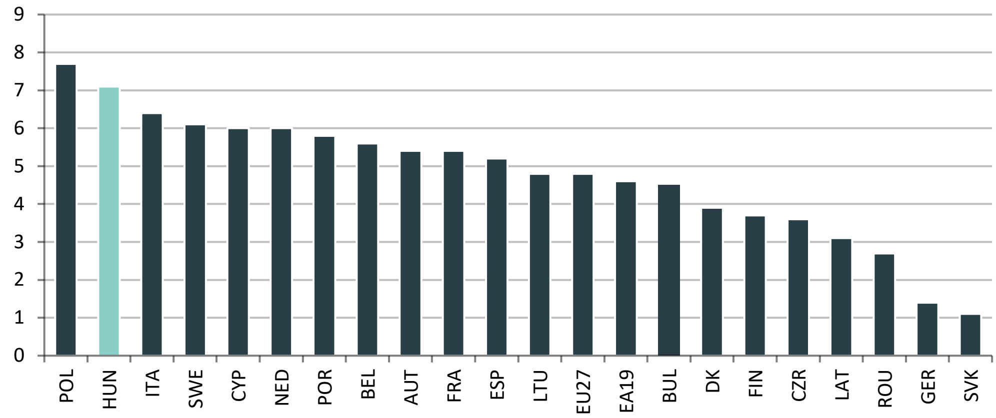
2.3. Real economy

Hungarian GDP grew by 7.1%.

According to the first estimate of the Hungarian Central Statistical Office (HCSO), the annual gross domestic product of the Hungarian economy grew by 7.2% based on raw and by 7.1% based on seasonally and calendar-adjusted data in Q4 2021, the latter exceeding analysts' consensus by 1.2 percentage points. In Q4 2021, the economy continued to recover from the crisis caused by the coronavirus pandemic, with economic output growing by 2.1% quarter on quarter, according to seasonally and calendar-adjusted and balanced data, well above analyst consensus expectations of 1.3% 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 4.8% and 4.6%, respectively). In the European Union, only Poland (7.7%) had a higher growth rate than Hungary, while Romania (2.7%), Germany (1.4%) and Slovakia (1.1%) had the smallest GDP growth rates in Q4 2021.

FIGURE 2: GDP-GROWTH ACROSS THE EU (Q42021; Y-O-Y; %)



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

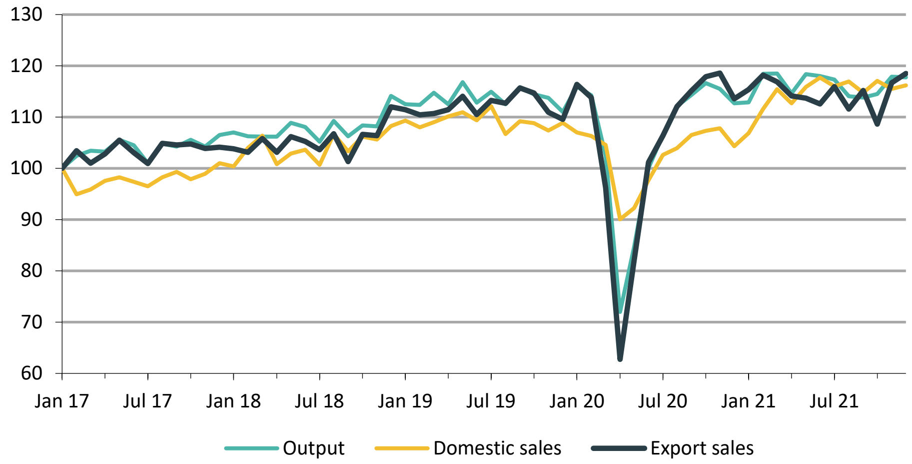
Source: Eurostat

Due to the restart of the economy, the production of most industries developed favorably. In Q4 2021, gross revenues of commercial accommodation providers in tourism increased more than six-fold at current prices, thanks to a low base resulting from the restrictive measures still in place at the end of the baseline year and a rebound in accommodation occupancy in the meantime. On a calendar-adjusted basis, retail sales were up 5.3% year-on-year, while construction output grew by 18.8% and industrial output by 1.7% in the fourth quarter. In a regional comparison, the volume of industrial production (among enterprises with at least five employees) grew fastest in the Northern Great Plain (19.0%), followed by Pest county (7.1%). In Q4, industrial production grew at a lower rate in Budapest, Southern Transdanubia (3.8% each) and Northern Hungary (2.9%). Output shrank, however, in Southern Great Plain (-1.3%) and in Central Transdanubia (-0.1%) and Western Transdanubia (-13.3%) compared to the same period last year.

Industrial production in December was better than expected.

Industrial production in December was better than expected, rising by 5.8% year-on-year in terms of raw data and by 3.6% in terms of working-day adjusted data. Compared to November, the volume of production stagnated. Sales in the sector in the last month of the year were 8.6% up on a year earlier. Within that, domestic sales increased by 10.9%, export sales increased by 7.0%.

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



Remark: Seasonally and working-day adjusted data

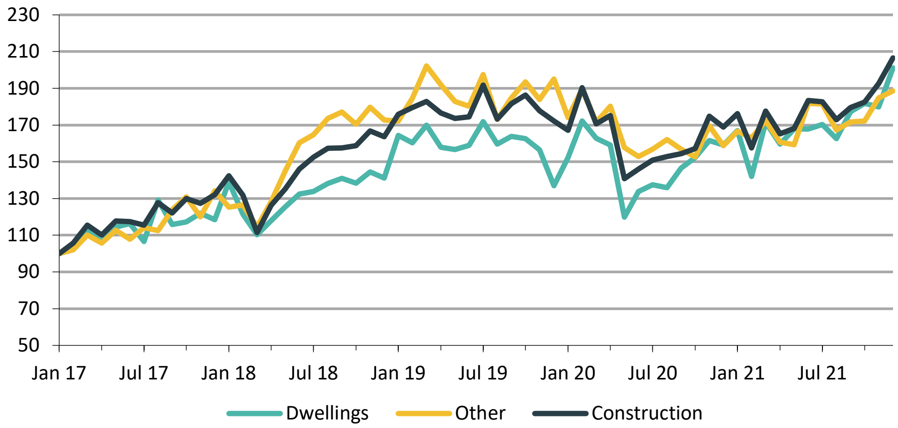
Source: HCSO, Századvég

Among the individual sub-sectors of industry, the output of mining increased by 25.0%, that of manufacturing by 3.5% and that of energy by 26.7%. Within manufacturing, the largest increase of 22.5% was in the electrical equipment manufacturing. This was followed by 14.8% growth in computer manufacturing, 14.3% growth in the textile industry and 14.2% growth in the food industry. The only sector to show a decline in December was the automotive industry, which has a considerable weight in the entire manufacturing sector, where output was 19.8% down on a year earlier. The sector's production is held back not by a lack of demand but by a lack of chips. The order books of the sectors monitored by the HCSO at the end of the year were up by a remarkable 22.3% on a year earlier, with domestic sales orders falling by 18.0% and export sales orders rising by 25.0%. Order books showed a hectic pattern across sectors with pharmaceuticals down by more than half and computer manufacturing up by 77.7%. The volume of new orders was 20.8% higher than a year earlier. Within this, domestic new orders increased by 4.1%, while export new orders increased by 22.6%.

Construction output increased by almost a third in December.

The volume of construction output increased significantly in December, by 29.0% on an annual basis and by 7.2% on a monthly basis. Compared to the same period of the previous year, construction of buildings increased by 32.7% and that of civil engineering works increased by 24.8%. As a result of high demand and rising costs, prices in Q4 were 16.7% higher than a year earlier, bringing the average price increase in 2021 to 11.4%. As a result of the postponement of some government investment projects, the sector's order books at the end of December were 13.1% below a year earlier. Within this, the volume of contracts for buildings fell by 13.9% and that for civil engineering works fell by 12.5%. At the same time, the volume of new contracts was the same as a year earlier, but while the volume of new contracts for buildings fell by 4.3%, the volume of new contracts for civil engineering works increased by 5.9%.

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



Remark: Seasonally and working-day adjusted data

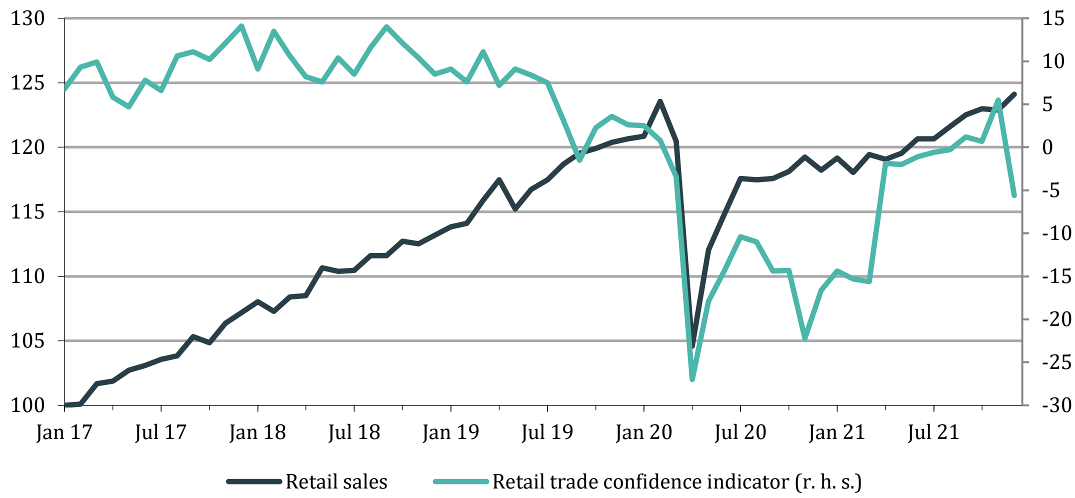
Source: HCSO, Századvég

In December 2021, retail sales increased by 6.7% in terms of raw data and by 6.2% in terms of calendar-adjusted data compared to the same period of the previous year. Adjusted data show an increase of 1.0% compared to the previous month. In December 2021, the calendar-adjusted volume of sales increased by 2.7% in specialised and non-specialised food shops, by 8.7% in non-food shops and by 11.5% in fuel retail, relative to December 2020.

Retail sales increased by 6.2% in December.

Several years of dynamic growth in sales in parcel companies and online specialty stores came to a halt in November and remained so also in December up just 1.4% year-on-year on a calendar-adjusted basis, which may be due to the high base. There was, however, a significant increase in the turnover of second-hand goods (34.4%) and textile products, clothing and footwear (36.9%). In addition, an above-average increase in sales was also recorded in pharmaceuticals and medicinal products (14.4%), books, newspapers and stationery (11.8%), perfumes (12.1%), and computers and other manufactured goods (9.5%). The sales of shops selling a mixed range of manufactured goods also increased (by 5.0%), although less than the turnover of retail shops. The sales volume of shops selling furniture and electric goods fell compared to December 2020 (by 0.6%). Calendar-adjusted data show that, in December 2021, sales increased by 2.7% in non-specialised food shops and by 2.1% 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



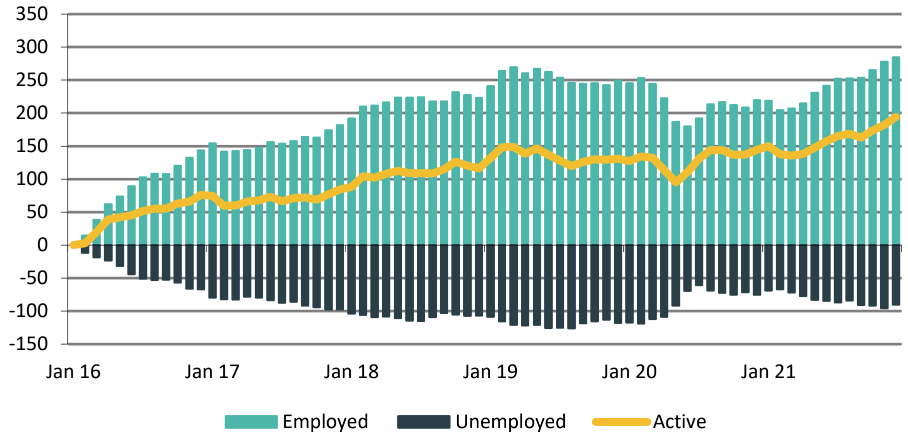
Remark: Seasonally and working-day adjusted data

Source: HCSO, Eurostat, Századvég

At the end of 2021, the number of employees was 35,000 higher than before the crisis.

In Q4, the seasonally adjusted number of employees was close to 4,672,000. This represents an increase of nearly 31,000 compared to Q3 and nearly 65,000 compared to the same period last year. Compared to the last quarter before the crisis, the number of employees increased by 35,000. On a quarter on quarter basis, the source of increase was almost entirely the increase in activity, while on an annual basis it accounted for three quarters of the increase. Therefore, the seasonally adjusted number of unemployed persons stagnated at 190,000 on a quarter-on-quarter basis, while on an annual basis it fell by nearly 15,000. The unemployment rate in the last three months of 2021 was 3.9% for the 15-74 age group. In November, the seasonally adjusted number of employees increased by 5,000 month on month and by 108,000 year on year. Within this, there was a 6,000 increase in the number of employees in the competitive sector among enterprises having at least 5 employees and a 1,000 decrease in the number of public sector employees. In November, the number of people in public employment stagnated for the fourth month in a row at around 82,000.

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



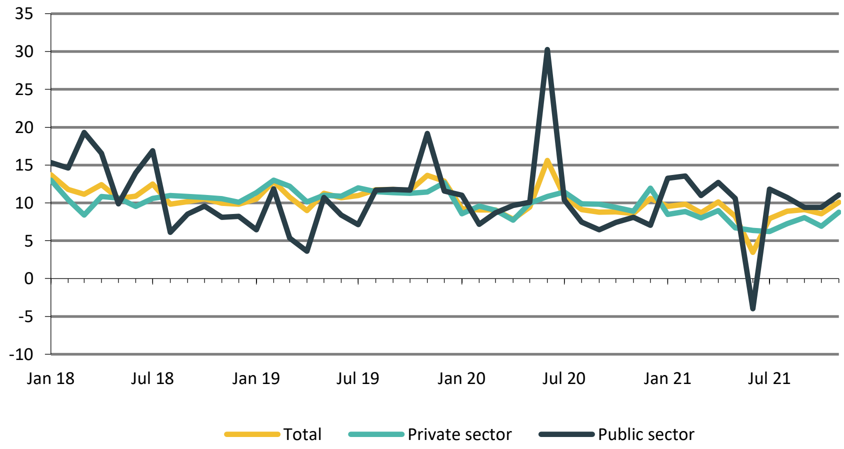
Remark: Seasonally and working-day adjusted data

Source: HCSO, Századvég

Real wages continued to rise in November.

In November, the average gross monthly wage in the national economy, partly due to year-end bonuses, reached HUF 482.4 thousand, an annual increase of 10.1% over a year. Also this month, wage growth was slower in the competitive sector, at 8.8%, while the average wage in the public sector rose by 11.1%. In the case of the former, the increase in mandatory minimum wages and labour shortages were the main drivers, while in the case of the latter, wage decompressions in the public sector (judges, prosecutors, doctors, nursery workers) were the main driver. The average net monthly wage also increased by 10.1% to HUF 320,800, while taking into account family tax allowances, they rose to HUF 329,700. This represents an increase of 2.5% in real terms, despite inflation accelerating to 7.4%.

FIGURE 7: GROSS WAGES (ANNUAL CHANGE, %)



Remark: Seasonally and working-day adjusted data

Source: HCSO, Századvég

2.4. External balance

Foreign trade closed with a deficit in November and with a surplus in December.

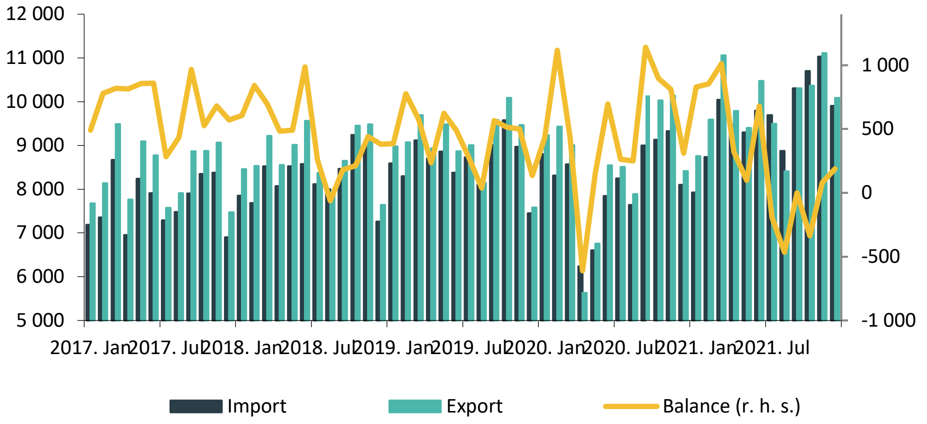
In November, exports of goods increased by 8.2% and imports by 16% year-on-year in euro terms. The foreign trade deficit was, therefore, EUR 76 million, EUR 682 million less than in the previous year.

In November 2021, the volume of food product imports increased by 13.0%, and food product exports increased by 2.8% year-on-year. As for energy carriers, imports decreased by 6.4% and exports decreased by 17.0%. As for processed products, imports decreased by 1.5%, exports increased by 2.1% on a year-on-year basis. As for machinery and transport equipment, imports decreased by 3.2%, and exports by 4.6%.

In December 2021, the EUR value of exports was 20.0% higher and the EUR value of imports was 21.0% higher than a year earlier. The foreign trade surplus in goods thus amounted to EUR 187 million, which is EUR 93 million less than a year earlier.

In December 2021, the current account balance was EUR -622.3 million. Last year's balance was EUR -4,405.3 million, which is more negative than the EUR -2,167.0 million in January–December 2020.

FIGURE 8: BALANCE OF TRADE (IN MILLION EUR)



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

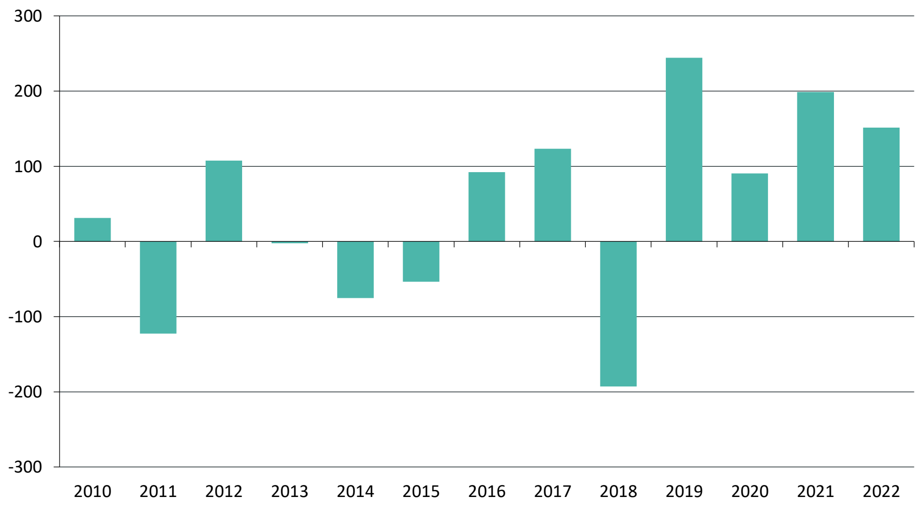
Source: HCSO

2.5. Fiscal outlook

The budget closed with a surplus in January.

In the first month of 2022, the central budgetary subsystem closed with a surplus of HUF 151.3 billion, with a surplus of HUF 84.4 billion in the central budget, HUF 34.3 billion in the extra-budgetary funds and HUF 32.6 billion in social security funds.

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



Source: PM

VAT receipts in January 2022 were HUF 9.5 billion (22.4%) higher than in the same month of the previous year. The increase in VAT receipts was driven by higher VAT paid on domestic and imported goods but moderated by lower amounts paid on tobacco products. Excise tax revenues were HUF 7.3 billion (6.8%) below their January 2021 level, due to higher fuel and lower tobacco sales. By contrast, personal income tax revenues increased by HUF 2.6 billion (1.0%), while social contribution tax and social security contributions decreased by HUF 66.9 billion (13.8%). The background to the latter was the reduction of the social contribution tax rate from 15.5% to 13.0% and the abolition of the contribution to vocational training.

Revenues from EU programmes were HUF 6.6 billion in the first month of this year, while the related expenses were HUF 420.4 billion. This year's budgetary developments will be heavily influenced by tax cuts and tax reliefs that have come into force (e.g. the personal income tax exemption for people below 25), transfers to families, rising wages and pension expenditure.

2.6. Monetary developments

The inflation rate increased to 7.9% in January.

In January 2022, consumer prices increased by 7.9% on average relative to the same period of the previous year. The most significant price increases over the past year have been in vehicle fuels and food. On average, food prices increased by 10.1% and fuel prices by 22.5% compared to the same period last year.

More significant contributors to the 10.1% average increase in food prices were the 18.0% increase in poultry prices, the 28.5% increase in potato prices, the 16.9% increase in milk prices, the 31.0% increase in flour prices, the 18.0% increase in bread prices and the 33.4% increase in cooking oil prices. Average food inflation was, however, held back by a fall in the price of salami, dry sausages and ham (-0.4%), as well as by a 0.2% increase in pork prices, a 1.5% increase in Extrawurst, cold cut and sausage prices, a 3.0% increase in non-alcoholic beverage prices, a 7.1% increase in fresh vegetable prices and 7.4% increase in the prices of fresh domestic and southern fruit.

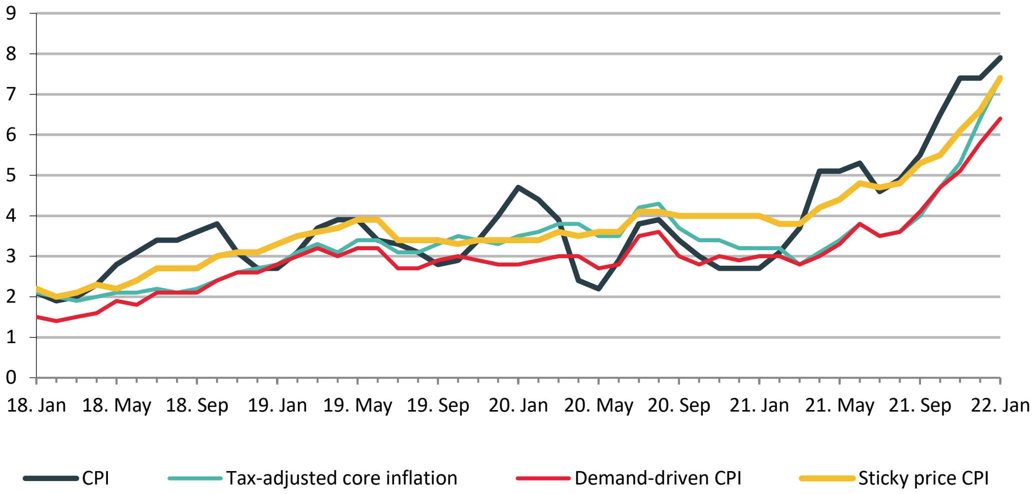
The prices of other products and fuels increased by 11.3% in January, year-on-year. Within this, the price of vehicle fuels increased by 22.5%, explained by the base effect and supply-demand imbalances. Higher price increases were, however, held back by the government's fuel price cap.

The average increase in household energy prices was 1.2% in January, compared to the same period of the previous year. Within household energy, fuelwood prices increased by 8.3%, coal prices increased by 13.1%, and bottled gas prices increased by 6.3% in a single year. The price of electricity, pipeline gas and district heating remained unchanged.

In January, prices of services increased by an average of 5.2%, mostly driven by a 40.7% increase in motorway tolls, vehicle rental and parking, a 6.9% increase in the prices of health services, a 16.3% increase in home repair and maintenance prices, an 10.7% increase in vehicle repair and maintenance prices, and am 9.1% increase in the prices of personal care services. The average increase in the prices of services was moderated by the stagnation in the price of gambling, a 3.1% increase in the price of condominium common charges and a 2.1% decrease in the price of telephone and internet.

Clothing prices increased by 4.0% and the prices of durable consumer goods increased by 7.9% on average in a single year. Taking a closer look at the latter, one can see that jewellery prices increased by 10.1%, home furniture prices increased by 13.9%, new car prices increased by 7.3% and used car prices increased by 8.2%. Prices of spirits and tobacco increased by an average of 7.7%, including tobacco by 10.0%, compared to the same period in 2021.

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



Source: MNB

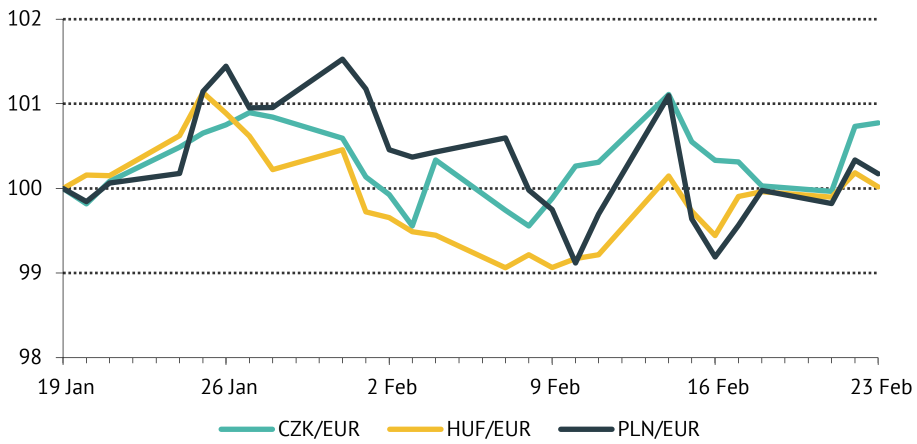
Among the core inflation indicators published by the MNB, each of the seasonally adjusted core inflation rate, the core inflation rate excluding the effects of indirect taxes and the sticky price inflation rate stood at 7.4% in January. Core inflation excluding processed food was 6.4% in the first month of the year.

The ECB Governing Council met in the recent period, but the Federal Open Market Committee did not. 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. The Fed’s Federal Open Market Committee (FOMC), which decides on interest rates, kept, therefore, the target range of 0%-0.25%.

The Czech koruna and the Polish zloty strengthened slightly.

Exchange rates in the region were favourable against the euro. The foreign currency exchange rates for both the Czech koruna and the Polish zloty have strengthened against the Euro, by 0.8% and 0.2%, respectively. The Czech 10-year government bond yield was 23 basis points lower at 3.02%, while the Polish 10-year yield closed 2 basis points lower at 3.97%.

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



Source: Refinitiv

The HUF exchange rate barely changed.

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 4.79%, rising 19 basis points. The forint weakened by HUF 0.07 against the euro, gained 0.6% against the Swiss franc and 0.1% against the US dollar. This means that on 23 February 2022, one Euro was worth HUF 357, one US Dollar was worth HUF 314, and one Swiss Franc was worth HUF 341. Sovereign debt held by foreigners has recently increased by HUF 219 billion to HUF 4,788 billion.

MNB raised its base interest rate again by 50 basis points.

At its interest rate meeting in February, the Monetary Council of MNB raised its base interest rate by 50 basis points; the base interest rate is, therefore, 3.4%. The Monetary Council of the central bank raised the interest rate corridor by 50 basis points, bringing the overnight deposit interest rate to 3.4% and the lending rate to 5.4%. The central bank decides on the interest rate for the one-week deposit facility on a weekly basis, which is currently set at 4.6%, 120 basis points above the base rate. The MNB has increased the effective interest rate by 385 basis points since the start of the rate hike cycle. The asymmetric interest rate corridor defines the overnight interbank market interest rate and the central bank's one-week deposit rate.

MNB will continue to focus on keeping short interest rates in line with what it considers to be the optimal short interest rate. Therefore, the MNB will again actively use its swap facility for foreign exchange liquidity from the beginning of March.

In a statement issued about its February meeting, the Monetary Council declared the objective that all monetary policy instruments of MNB should support the achievement of price stability as quickly as possible. This is why MNB stopped buying government bonds in December. Maintaining the stability of the government securities market continues, however, to remain important to the Monetary Council, which is, therefore, ready to intervene with temporary purchases of government bonds if necessary, which does not imply a change in its fundamental monetary policy stance.

Over the past month in the government bond market, yields for shorter maturities increased by between 60 basis points and 142 basis points on the secondary yield curve. This means that the 3-month yield was 4.53%, the 6-month yield was 4.57% and the 1-year yield was 4.67% on 23 February. The 3-year yield rose by 18 basis points to 4.67%. Over the 5-year horizon, yields are up 19 basis points, over the 10-year horizon they are down 1 basis point and over the 15-year horizon they are down 7 basis points compared to the previous month. These three yields changed, therefore, to 4.79%, 4.87%, and 4.93%, respectively.

Since 3 June 2019, retail investors can buy super government bonds (MÁP+) with a relatively high interest rate that gradually increases during its term, ensuring a total annual yield of 4.95%. On 15 February 2022, the total value of treasury securities held by retail investors was HUF 5,919.63 billion after a HUF 26.81 billion decrease from the HUF 5,946.44 billion level at the end of December 2021. In a high inflation environment, more and more people are choosing government bonds that track inflation and thus offer a fixed real interest rate. The GDMA currently maintains the interest rate premium on the 5-year government bond at 1.5 percentage points, while the interest rate premium on the 3-year government bond at 0.75 percentage points.

The share of foreign currency debt in the sovereign debt changed to 20.1% in January (i.e. decreased by 0.5 percentage point), which is in the range (10–25%) specified in the financing plan for 2022 of GDMA.

Among the major international credit rating agencies, S&P has recently had an announced date (11 February 2022) for the risk rating of Hungarian sovereign debt to be revised or confirmed. S&P has, however, not issued a statement. Hungary's sovereign debt rating remains unchanged: Baa2 with a stable outlook from Moody's, BBB with a stable outlook from S&P and BBB with a stable outlook from 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.

2020–2021 trends in key characteristics of investment fund managers and funds

The net asset value of each type of investment fund is shown in the following table:

Name	31.12.2020	31.12.2021	2021/2020 (%)	2021–2020 (HUF billion)
Investment funds	7,456.313	8,828.534	118%	1,372.221
Liquidity funds	27.796	7.725	28%	-20.071
Money market funds	25.643	22.688	88%	-2.955
Short bond funds	1,138.954	1,210.336	106%	71.381
Long bond funds	332.946	318.224	96%	-14.723
Open-ended bond funds	110.741	118.389	107%	7.648
Bond-heavy mixed funds	518.643	584.119	113%	65.476
Balanced mixed funds	619.810	787.386	127%	167.577
Dynamic mixed funds	194.519	526.809	271%	332.291
Equity funds	738.698	1,012.662	137%	273.963
Commodity funds	41.179	53.155	129%	11.976

Absolute return funds	859.581	825.297	96%	-34.284
Capital-protected funds	146.889	86.549	59%	-60.341
Derivative funds	85.904	90.595	105%	4.690
Funds investing directly in real estate	2,180.944	2,303.612	106%	122.668
Funds investing indirectly in real estate	247.640	346.573	140%	98.933
Venture capital funds	7.782	8.851	114%	1.069
Private equity funds	178.644	525.566	294%	346.922

Source: MNB

The data represent the net asset values and their changes, i.e. the market value at which the assets of a given type of investment fund could be sold. Comparing end-2021 and end-2020 data, we show the three fund types that are growing fastest in both proportion and nominal terms. These funds grew therefore either the most dynamically or the most in terms of value in the past year.

Private equity fund: a closed-ended AIF (alternative investment fund) established for the purpose of financing the acquisition of companies or parts of companies, its collective investment securities are issued in private placement exclusively to professional investors, is not leveraged and does not allow redemption rights to be exercised within five years of the date of the initial investment. Here, the annual increase amounted to HUF 347 billion.

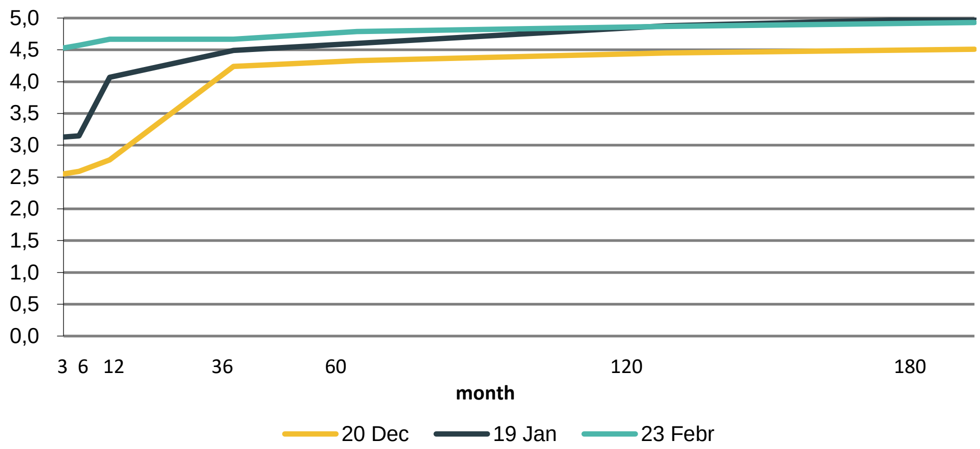
Dynamic mixed funds: the share of non-bond assets in the portfolio exceeds 65%. Non-equity assets (e.g. real estate or commodity assets) may have a share of maximum 40% per category. The annual increase in this category was the second largest (HUF 332 billion) in 2021.

For **equity funds**, the share of equity assets in the portfolio exceeds 80%. Here, the annual increase amounted to HUF 274 billion.

Funds investing indirectly in real estate include funds with indirect real estate exposure exceeding 40% (through funds, real estate shares, etc.). The annual increase for these types of investment funds was HUF 99 billion.

Overall, the total assets of investment funds increased by HUF 1,372 billion.

FIGURE 12: THE HUF YIELD CURVE (%)

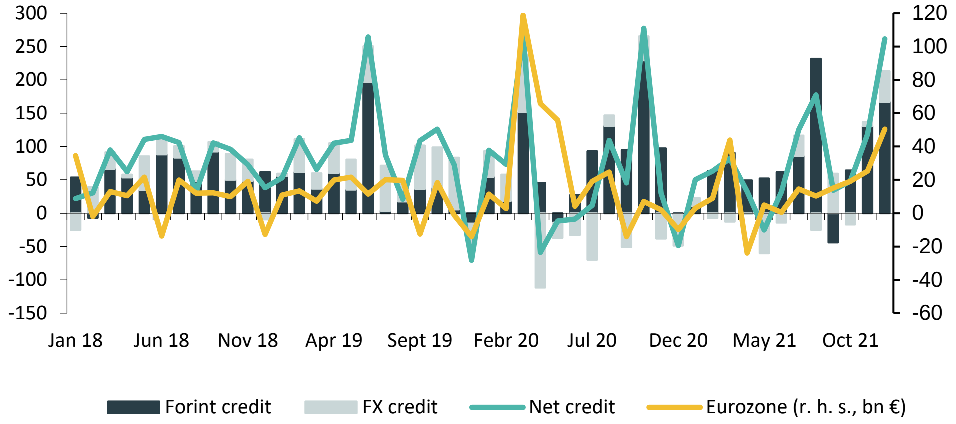


Source: ÁKK, Századvég

Corporate credits continued to increase.

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector was HUF 166.8 billion in December 2021. The net borrowing of foreign currency loans was HUF 46.5 billion in December; 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 261.8 billion in December. Corporate borrowing in the euro area was EUR 50,519 billion in December 2021.

FIGURE 13: CORPORATE BORROWING (IN BILLION HUF)



Source: MNB, ECB

In December, the value of gross loan placement in HUF over and above bank overdraft facilities was HUF 167.8 billion, which is HUF 60.9 billion more than the amount of the previous month. The sum of newly granted euro-loans was HUF 59.3 billion, which is HUF 16.9 billion less than the figure for November.

3. Századvég forecast [1]

TABLE 1: Q4 2021 PROJECTION

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

Source: MNB, HCSO, Századvég-Calculation

TABLE 2: CHANGES COMPARED TO OUR PREVIOUS FORECAST

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

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