MONTHLY MONITOR

January 2022

Századvég Economic Research Institute

SZÁZADVÉG

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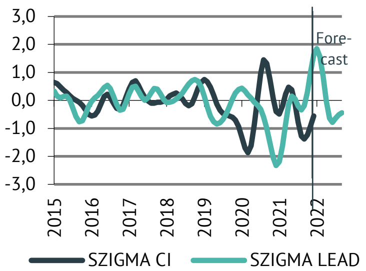
1. Summary

THE INFLATION RATE WAS 5.1% IN 2021

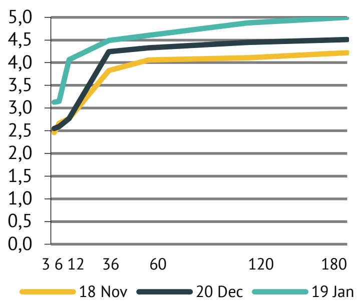
In 2021, the biggest increase, 10.9%, was in the price of spirits and tobacco due to the increase in excise duties. On average, food prices increased by 4.1%, prices of services by 2.9% and prices of consumer durables by 4.5%.

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

At 7.4%, the December inflation rate was higher than expected, i.e. it did not fall from the previous month's level. Although the fuel price cap has held down inflation, a significant month-on-month increase in food prices, 1.4%, has pulled it up. The MNB's core inflation indicators also increased significantly from November to December, with the core inflation rate net of indirect taxes rising from 5.3% to 6.4%, demand-sensitive inflation from 5.1% to 5.8% and inflation for goods with infrequently changing prices from 6.1% to 6.6%.

The cash deficit of the central budgetary subsystem in 2021 was significant, at HUF 5,101.5 billion, but lower than the HUF 5,548.6 billion of the previous year.

To achieve the inflation target, the central bank's Monetary Council tightened monetary conditions again at its January meeting. The interest rate increase was larger than expected, at 50 basis points. The base rate and the overnight deposit interest rate are now 2.9%, while the overnight lending rate is 4.9%. According to the central bank's communication, the base rate will gradually catch up with the one-week deposit rate, while the one-week deposit rate will normally change once a month on the Thursday following the central bank's interest rate meeting.

2. Economic overview

2.1. External environment

US inflation is at levels not seen for nearly forty years.

In December, prices in the US rose at the fastest rate in nearly forty years, since June 1982, by 7.0%, while the monthly inflation rate was 0.5%. Food prices increased by 6.3% in a year, while prices of other goods were 5.5% higher, largely due to a 37.3% increase in the prices of second-hand cars. By contrast, prices for services increased by only 3.7%. However, the record high inflation rate was driven by energy price developments. Energy prices in the US increased by 29.3% in a year, reflecting last year's low base and rising global prices. Within this, the prices of energy products increased by 48.9%, while those of energy services rose by 10.4%. Within the latter, electricity prices increased by 6.3% and natural gas prices by 24.1%. Nevertheless, the index excluding food and energy prices was also 5.5% in December, the highest growth rate since February 1991. Inflation in the US has thus been above the Fed's 2% target since March.

In November, industrial production in the euro area fell by 1.5% year-on-year, while it increased by 2.3% month-on-month. At the same time, the year-on-year decline can be attributed to a single product group, with production of capital goods falling by 9.8%, while intermediate goods increased by 1.9%, energy by 3.7%, nonperishable consumer goods by 4.4% and perishable consumer goods by 6.1%. There is also considerable variation at Member State level. In only 5 of the 19 Member States did production fall on an annual basis, by 30.4% in Ireland, 7.8% in Malta, 2.5% in Luxembourg and Germany and 0.2% in France. In other words, German industrial output continued to weaken, affecting the economy of the entire euro area, with a month-on-month decline of 0.1%, while in November, German industrial output was still 4.4% below the output level in December 2019, i.e. before the outbreak of the coronavirus pandemic.

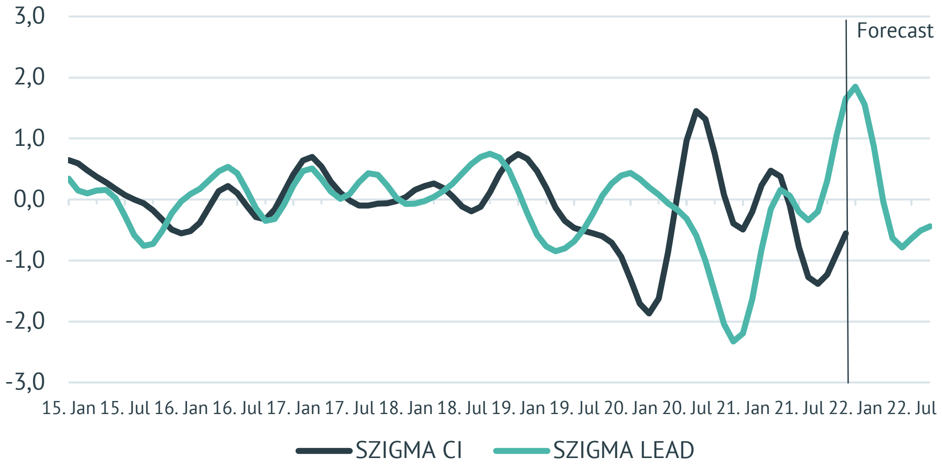
2.2. SZIGMA indicators

The SIGMA indicator takes a negative value.

In the final month of 2021, the SZIGMA CI indicator, which provides a snapshot of the current state of the Hungarian economy, remained negative, meaning that the economy continued to expand at a rate below the trend. In November 2021, the volume index of domestic industrial sales decreased on a monthly basis (-1.5%), while on an annual basis it increased (+6.5%); by contrast, export sales increased on a monthly basis (+7.1%) and decreased on an annual basis (-1.7%). However, new domestic sales orders in the industry increased on both a monthly and annual basis, by 4.7% and 7.3%, respectively, while new export sales orders were 22.6% higher compared to October 2021 and 3.8% lower compared to November 2020. Risks to the industry's contribution to growth continue to include shortages of raw materials, rising energy prices, chip shortages and transport difficulties. In construction, the end-of-month volume of contracts declined on both a monthly and annual basis, by 3.8% and 6.7%, respectively. The number of new non-residential buildings to be constructed fell substantially on a monthly and annual basis, by 30.7% and 13.9%, 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, and then below trend until the end of the forecast horizon. The Ifo Business Climate index, a gauge of business sentiment in the German economy, decreased by 1.9 index points on a monthly basis in the last month of 2021, while it was 2.0 index points higher than a year earlier. The external environment continues to be dominated by the coronavirus pandemic and shortages of raw materials. Retail sales continued to expand in November 2021. This year, retail could make a substantial contribution to economic growth, thanks to rising disposable income from expected major transfers and newly enacted tax benefits. The consumer confidence index measured by Eurostat increased on a monthly and annual basis, by 4.6 and 8.7 index points respectively, but remains negative (-15.8 index points), meaning that an improvement in confidence would allow the segment's turnover to increase further. In 2022, the Hungarian economy is expected to expand by more than 5%.

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



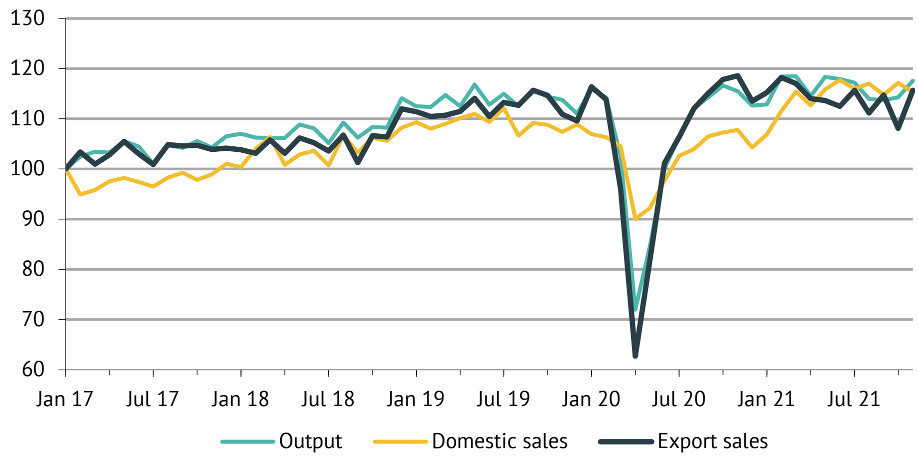
Source: Századvég

2.3. Real economy

Industrial production increased by 2.6%.

Industrial production was better than expected in November, with output up by 2.6% on a raw basis and 2.1% on a working-day adjusted basis, compared with the same period a year earlier. Compared to October, production increased by 2.9%. The better-than-expected figure may have been due to the fact that the decline in vehicle production was smaller than in preceding months. Industrial sales were 2.3% higher in November than a year earlier. Within this, domestic sales increased by 6.9%, while export sales decreased by 0.4%.

FIGURE 2: INDUSTRIAL OUTPUT AND SALES (JANUARY 2017 = 100%)



Remark: Seasonally and working-day adjusted data

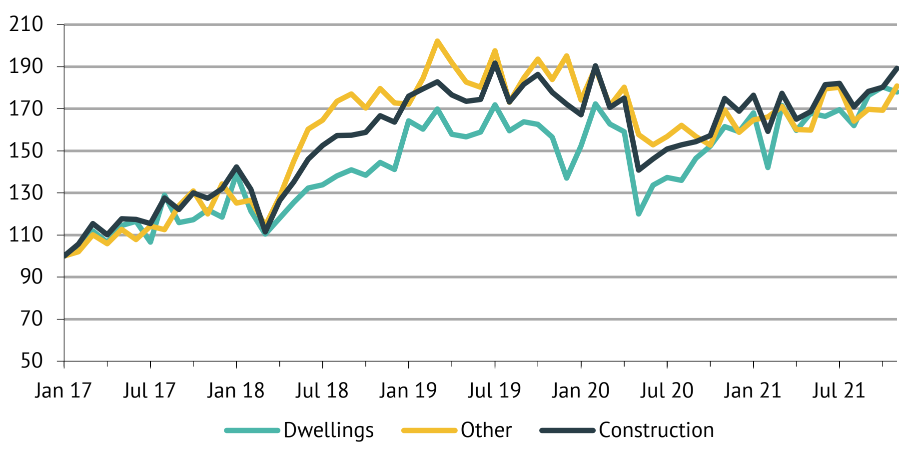
Source: HCSO, Századvég

Within industry, output in the mining and quarrying sector, one with a relatively small weight, increased by 37.2% in 1 year, while manufacturing was up by 1.3% and energy by 10.1%. Within manufacturing, the largest increase in November was in the food industry (17.4%), followed by the metals industry (16.2%) and electrical equipment manufacturing (15.7%). The downturn in the automotive industry, one with a significant weight, was 15.1%, but the production of pharmaceuticals was also substantially, 10.2%, below November 2020. Order books in the manufacturing industries monitored by the Hungarian Central Statistical Office were 11.7% higher at the end of November than a year earlier. Within this, domestic sales orders decreased by 9.4%, and export sales orders increased by 13.7%. The November volume of new sales orders was 2.2% lower than one year before. Within this, the volume of domestic new orders increased by 7.3%, while that of export new orders decreased by 3.7%.

Construction output continued to grow.

Construction output changed positively in November, up 4.9% month-on-month and 12.3% year-on-year. Compared to the same period of the previous year, construction of buildings increased by 11.6%, while construction of civil engineering works by 14.8%. For the future, however, there are risks associated with the reduction in the volume of contracts, explained by the postponement of some public investment projects and the lack of funds at local governments. The total volume of contracts at the end of November was 6.7% lower than a year earlier. Within this, the volume of contracts for buildings fell by 7.8% and that for civil engineering works by 6.0%. The volume of new contracts was half that of a year earlier: new contracts for buildings fell by 41.5%, while those for civil engineering works fell by 58.1%.

FIGURE 3: CONSTRUCTION SECTOR (JANUARY 2017 = 100%)



Remark: Seasonally and working-day adjusted data

Source: HCSO, Századvég

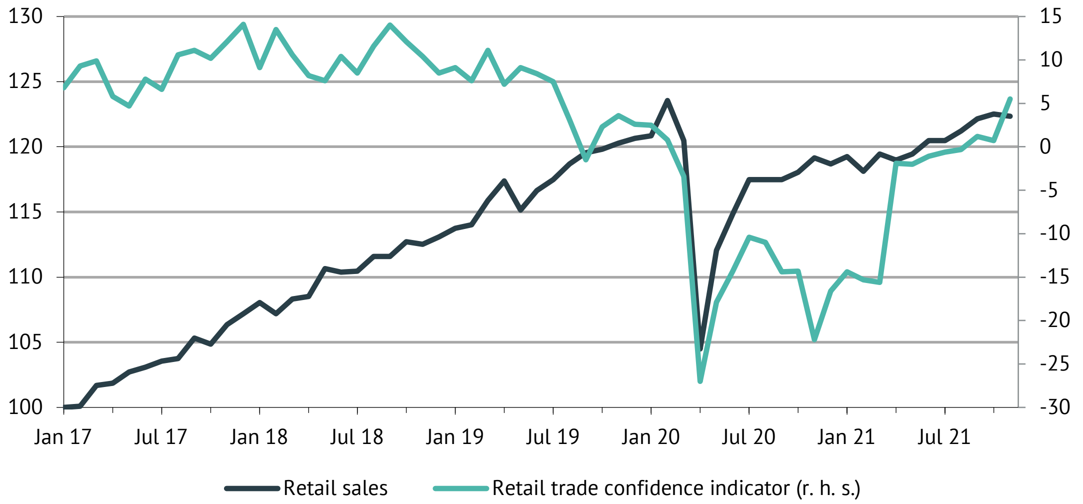
The volume of retail sales increased by 3.8%.

In November 2021, retail sales increased by 3.8% compared to the same period of the previous year, based on both raw data and calendar-adjusted data. Adjusted data show a decrease of 0.1% compared to the previous month. In November 2021, the calendar-adjusted volume of sales increased by 2.1% in specialised and non-specialised food shops, by 4.9% in non-food shops and by 6.2% in fuel retail, relative to November 2020.

Several years of dynamic growth in sales in parcel companies and online specialty stores came to a halt in November, up just 0.9% year-on-year on a calendar-adjusted basis, which may be due to the high base. Significant increases were, however, seen in the turnover of shops selling second-hand goods (28.1%), shops selling textile products, clothing and footwear (29.0%), and shops selling pharmaceuticals and medicinal products (13.1%).

In addition, an above-average increase in sales was also recorded in books, newspapers and stationery (5.9%), perfumes (8.0%), and computers and other manufactured goods (6.7%). The sales of shops selling a mixed range of manufactured goods also increased (by 2.9%), although less than the turnover of retail shops. The sales volume of shops selling furniture and electric goods fell compared to November 2020 (by 7.4%). Calendar-adjusted data show that, in November 2021, sales increased by 2.2% in non-specialised food shops and by 1.6% in shops selling food products, beverages, and tobacco products, relative to the same period of the previous year.

FIGURE 4: RETAIL SALES VOLUME (JANUARY 2017 = 100%) AND RETAIL TRADE CONFIDENCE INDICATO



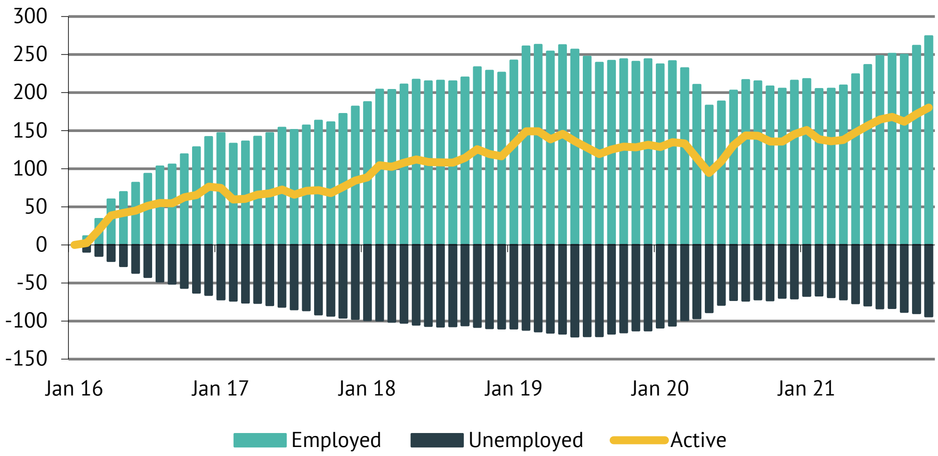
Remark: Seasonally and working-day adjusted data

Source: HCSO, Eurostat, Századvég

Employment continued to rise in the autumn months.

In the autumn months, the seasonally adjusted number of employees exceeded 4,665,000. Compared to the summer months, the number of employees increased by 23,000, while it increased by 69,000 compared to the same period of the previous year. On a quarter-on-quarter basis, the increase in activity and the fall in unemployment were roughly equally shared in the increase of the number of employees, while on an annual basis the former was the main driver (45,000 and 24,000, respectively). The seasonally adjusted number of unemployed persons thus fell to 183,000 in the autumn months, while the unemployment rate fell below 3.8%. The number of employees also increased in October, by 4,000 compared to the previous month, to 2,852,000, according to seasonally adjusted data. The increase is attributable to enterprises having at least 5 employees, where the number of employees increased by 5,000 to close to 1,990,000. This is only minimally, 3,000, fewer than the pre-crisis peak in December 2019. In the public sector, the number of employees fell minimally, by 1,000, compared to the preceding month. The number of people employed in public employment schemes stagnated at 82,000 in October.

FIGURE 5: LABOUR MARKET TRENDS (JANUARY 2016 = 0, THOUSANDS OF PERSONS)



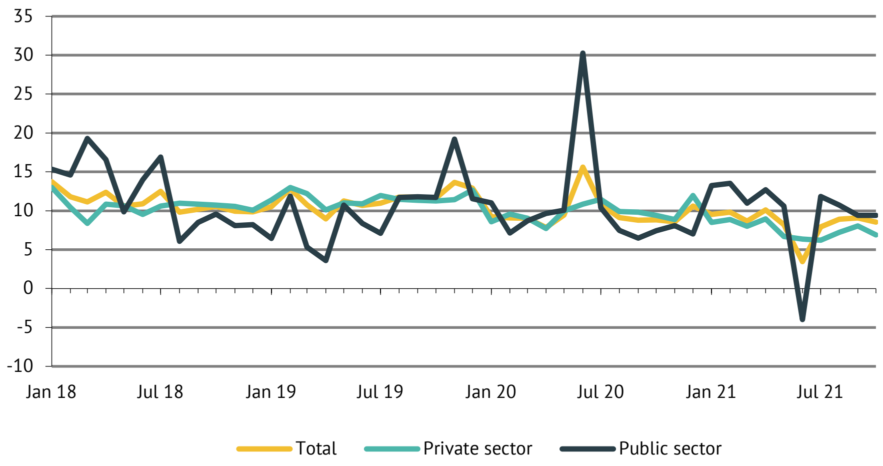
Remark: Seasonally and working-day adjusted data

Source: HCSO, Századvég

Earnings grew faster in the public sector.

In October, the average gross monthly wage in the national economy was HUF 431,300, 8.5% more than in the same period of the previous year. Average wages grew faster in the public sector, by 9.4%, thanks to wage settlements for judges, prosecutors, doctors and nursery workers, while in the private sector the rate of wage growth was only 6.9%. The average net monthly wage increased by the same rate, 8.5%, as the average monthly gross wage, to HUF 286,800; if we take the benefits into account, then it increased by 9.3%, to HUF 295,500. This corresponds to a real growth of just 1.9%, after a 6.5% inflation rate in October.

FIGURE 6: GROSS WAGES (ANNUAL CHANGE, %)



Remark: Seasonally and working-day adjusted data

Source: HCSO, Századvég

2.4. External balance

The foreign trade balance deteriorated in both October and November.

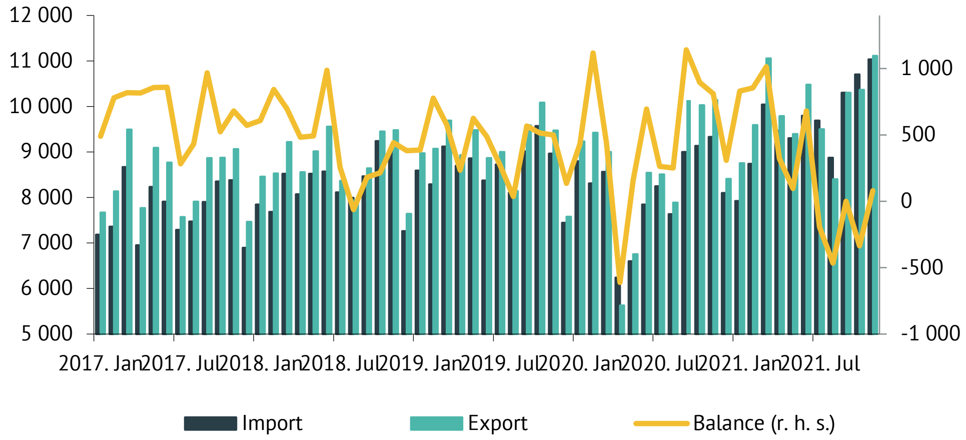
In October, exports of goods increased by 0.3% and imports by 13% year-on-year in euro terms. The foreign trade deficit was, therefore, EUR 302 million, EUR 1.2 billion less than in the previous year.

In October 2021, the volume of food product imports increased by 4.5%, and food product exports decreased by 1.7% year-on-year. As for energy carriers, imports decreased by 3.7% and exports decreased by 19.0%. Imports of manufactured goods were up 1.1% and exports were down 1.1% from a year earlier. As for machinery and transport equipment, imports decreased by 11.3%, and exports by 14.9%.

In November 2021, the EUR value of exports was 7.7% higher and the EUR value of imports was 14.0% higher than a year earlier. The foreign trade surplus in goods thus amounted to EUR 81 million, which is EUR 526 million less than a year earlier.

In November 2021, the current account balance was EUR -485.9 million. The balance of the first eleven months of 2021 was EUR -2,843.3 million, below the EUR -2,126.5 million balance of January–November 2020.

FIGURE 7: BALANCE OF TRADE (IN MILLION EUR)



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

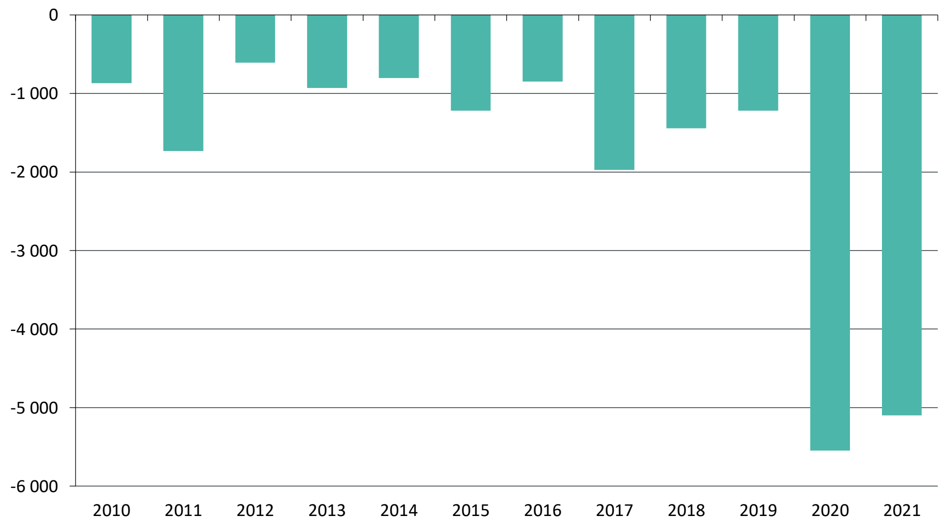
Source: HCSO

2.5. Fiscal outlook

The budget cash deficit was HUF 5,101.5 billion in 2021.

In 2021 as a whole, the central budgetary subsystem accumulated a deficit of HUF 5,101.5 billion, consisting of a deficit of HUF 4,662.3 billion in the central budget, a deficit of HUF 19.8 billion in the extra-budgetary funds and a deficit of HUF 419.4 billion in the social security funds subsector.

FIGURE 8: BUDGET DEFICIT IN JANUARY-DECEMBER (BN HUF)



Source: PM

Value-added tax revenue in 2021 was 15.6% (HUF 728.2 billion) higher than in 2020. This was driven by increases in value-added tax revenues on domestic, import and tobacco products. Excise tax revenues also exceeded the previous year's level, thanks to higher fuel sales, a gradual increase in the excise tax rate and higher energy consumption: Their cumulative value in December 2021 was 4.0% (HUF 47.3 billion) higher than in December 2020. Revenues from personal income tax increased by 14.3% (HUF 360.8 billion) on an annual basis last year, while social contribution tax and social security contributions increased by 6.1% (HUF 327.1 billion).

At the end of December 2021, cumulative revenues related to EU programmes amounted to HUF 1,544.5 billion, while cumulative expenses related to EU programmes was HUF 2,235.0 billion. From Hungarian government funds, HUF 237.4 billion was spent on road improvements, HUF 211.3 billion on the Hungarian Village Programme and HUF 200.6 billion on transport sector programmes. Also noteworthy are the HUF 4,117.7 billion spent on pension benefits and the HUF 1,880.0 billion spent on preventive medical benefits: the former was attributable to pension corrections, pension premium and the first instalment of the 13th month's pension, while the latter was attributable the launch of a comprehensive wage increase programme for doctors, which will last for several years, going beyond the fight against the coronavirus pandemic.

2.6. Monetary developments

Inflation stagnated at above 7%.

In December 2021, consumer prices increased by 7.4% on average, compared to the same period of the previous year. Over the past year, the price of spirits, tobacco and vehicle fuels have risen the most, but food prices have also increased significantly. In comparison with the same period of the previous year, the price of alcoholic beverages and tobacco products increased by 8.9% on average, while that of food products increased by 8.0%. Taking a closer look at alcoholic beverages and tobacco products, one can see that the excise tax increase caused the price of tobacco products to increase by 12.7% as compared to the same period of 2020.

More significant drivers of the 8.0% average increase in food prices were the 13.4% increase in poultry prices, the 30.3% increase in potato prices, the 9.6% increase in the prices of restaurant meals, the 9.9% increase in pre-ordered menu meals at workplaces, the 15.2% increase in bread prices and the 26.8% increase in cooking oil prices. The latter is driven by the record high price of rapeseed, which is primarily 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 salami, dry sausages, and ham (-0.1%), and pork (-1.6%) as well as the just 1.0% increase in the prices of Extrawurst, cold cuts and sausages and the 3.6% increase in the prices of fresh Hungarian and southern fruits.

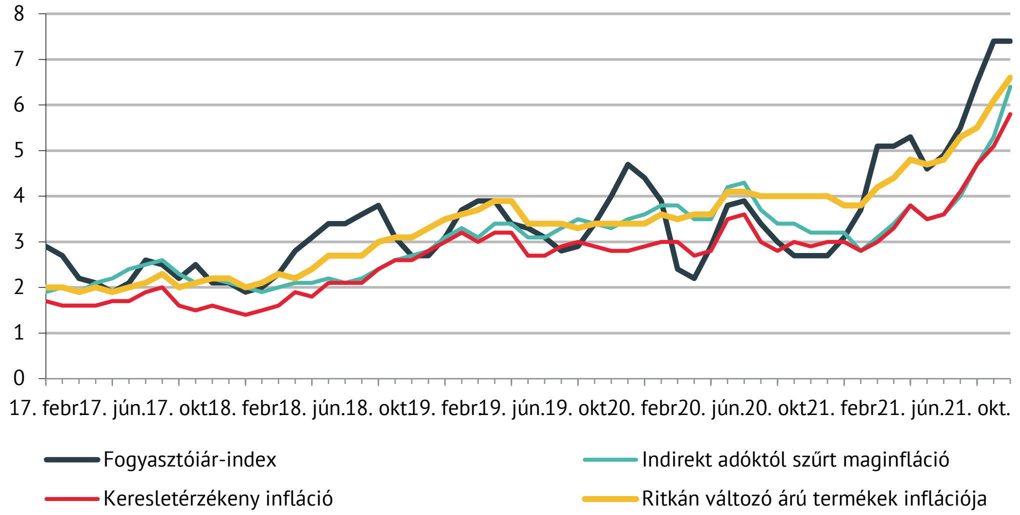
The prices of other products and fuels increased by 11.7% in December, year-on-year. Within this, the price of vehicle fuels increased by 25.9%, mainly explained by the base effect and supply-demand imbalances. However, the impact of the price cap is already visible in the more moderate annualised price increase than in previous months.

The average increase in household energy prices was 1.2% in December, compared to the same period of the previous year. Within household energy, fuelwood prices increased by 9.0%, coal prices increased by 9.8%, and bottled gas prices increased by 6.4% in a single year. The price of electricity, pipeline gas and district heating remained unchanged.

In December, prices of services increased by an average of 5.0%, mostly driven by a 40.5% increase in motorway tolls, vehicle rental and parking, a 6.0% increase in the prices of health services, a 14.5% increase in home repair and maintenance prices, an 9.6% increase in vehicle repair and maintenance prices, and am 8.0% 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 2.9% increase in the price of condominium common charges and a 0.2% decrease in the price of telephone and internet.

Clothing prices increased by 2.8% and the prices of durable consumer goods increased by 7.5% on average in a single year. Taking a closer look at the latter, one can see that jewellery prices increased by 10.5%, home furniture prices increased by 14.5%, new car prices increased by 8.4% and used car prices increased by 7.2%.

FIGURE 9: INFLATION (Y-O-Y, %)



Source: MNB

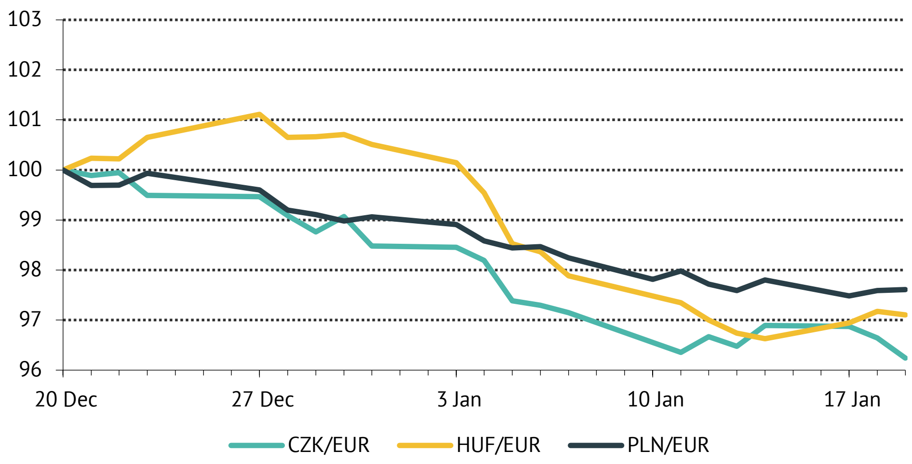
Among the core inflation indicators published by the MNB, the seasonally adjusted core inflation rate was 6.3%, the demand-sensitive inflation rate was 5.8% and the core inflation rate net of indirect taxes was 6.4% in December. The sticky price inflation rate was 6.6% in December.

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%.

Both the Czech koruna and the Polish zloty strengthened.

Exchange rates in the region showed a mixed picture in relation to the euro. The foreign currency exchange rates for both the Czech koruna and the Polish zloty have strengthened against the Euro, by 3.7% and 2.4%, respectively. The Czech 10-year treasury securities' yields increased by 44 basis points to 3.25%, the Polish 10-year yield increased by 64 basis points, to 3.99%.

FIGURE 10: REGIONAL EXCHANGE RATES (START DATE = 100%)



Source: Refinitiv

The forint strengthened, but 5-year yields increased.

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 4.60%, rising 27 basis points. The HUF strengthened by 2.9% against the euro, by 2.7% against the Swiss franc and by 3.6% against the US dollar. This means that on 19 January 2022, one Euro was worth HUF 356, one US Dollar was worth HUF 314, and one Swiss Franc was worth HUF 343. Sovereign debt held by foreigners has recently increased by HUF 138 billion to HUF 4,569 billion.

The base rate increased to 2.9%.

At its interest rate meeting in January, the Monetary Council of MNB raised its base interest rate by 50 basis points; the base interest rate is, therefore, 2.9%. The Monetary Council of the central bank raised the interest rate corridor by 50 basis points, bringing the overnight deposit interest rate to 2.9% and the lending rate to 4.9%. The central bank decides on the interest rate for the one-week deposit facility on a weekly basis, which is currently set at 4.0%, 110 basis points above the base rate. The MNB has increased the effective interest rate by 325 basis points since the start of the rate hike cycle. The asymmetric interest rate corridor defines the overnight (O/N) interest rates on the interbank market.

The central bank attaches the utmost importance to using its monetary policy instruments to support the achievement of price stability as soon as possible. To this end, at its meeting in December 2021, the Monetary Council decided to close the government bond purchases and the Bond Funding for Growth Scheme. This means that there will be no new purchases of government bonds, but of course the central bank will continue to hold its government bond holdings until maturity. In the government securities market, the central bank reserves the right to be a market participant, but its orientation remains unchanged. As a result of the central bank's actions, real interest rates will rise later this year.

Over the past month in the government bond market, yields for shorter maturities varied between 56 basis points and 130 basis points on the secondary yield curve. This means that the 3-month yield was 3.13%, the 6-month yield was 3.15% and the 1-year yield was 4.07% on 19 January. The 3-year yield increased by 25 basis points to 4.49%. On a month-over-previous-month basis, 5-year yields increased by 27 basis points, 10-year yields increased by 43 basis points, and 15-year yields increased by 49 basis points. These three yields changed, therefore, to 4.60%, 4.88%, and 5.00%, 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 31 December 2021, the total value of treasury securities held by retail investors was HUF 5,946.44 billion after a HUF 52.31 billion increase from the HUF 5,894.13 billion level in mid November 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. This was also encouraged by the GDMA, when it increased the interest rate premium on the 5-year government bond from 1.25 percentage points to 1.5 percentage points (the 3-year government bond's interest rate premium remained at 0.75 percentage points).

The share of foreign currency debt in the sovereign debt changed to 21.01% in October (corresponding to an increase of 0.03 percentage points), which is above the upper edge of the range (10–20%) specified in the financing plan for 2021 of the GDMA.

Analysis of the 2022 Financing Plan of the Government Debt Management Agency (GDMA)

On 17 December 2021, the 2022 Financing Plan of GDMA was published, which contains a number of new features compared to last year in terms of its strategy and benchmarks.

As regards the strategic objectives, the GDMA has set itself the objective of financing the budget with acceptable risks and minimum costs in the long term. To this end, GDMA applies the following strategic objectives for government debt management:

1. The primary objective of debt management, as set out in the Fundamental Law, is to achieve a debt ratio of 50% of GDP and to support the process of reducing the debt ratio.
2. The secondary objective is to diversify the government debt portfolio appropriately:
    a. on the one hand, the continued development of the HUF government securities market for institutional investors,
    b. on the other hand, to further develop sales of retail government securities,
    c. thirdly, while actively managing the share of foreign currency debt, maintaining a market presence in order to achieve the necessary funding in foreign currency.
3. A third objective is to increase the residual maturity of debt, which, although it has increased recently, remains relatively low by international standards.

4. The fourth objective is to incorporate sustainability considerations into the debt management framework, which is essentially based on the principle of risk-return optimisation.

The GDMA plans to test these objectives against the following benchmarks:

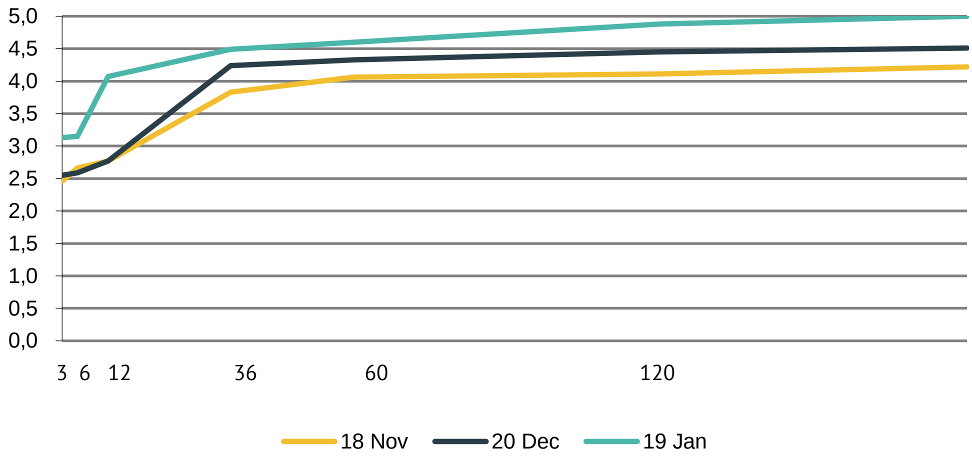
1. Composition in terms of foreign currency: the share of foreign currency debt in total debt should be within the 10-25% range. This represents an increase of the ceiling by 5 percentage points compared to last year. The rationale is that, on the one hand, the low ratios were rewarded by international credit rating agencies in their previous upgrade decisions. On the other hand, the higher ceiling creates opportunities for market presence through financing flexibility and cost advantages.
2. Portfolio composition in terms of foreign currency: 100% euro hedging to reduce the risk of exchange rate fluctuations.
3. For both forint and foreign currency debt, the targeted share of fixed rate instruments is 70-90%, while the target share of variable rate instruments is 10-30%. Two comments are pertinent. First, foreign-currency treasury bonds are all fixed rate and second, it is a good strategy to benchmark a higher share of fixed-rate instruments by the GDMA in the current environment of rising interest rates.
4. For average time to repricing (ATR), the GDMA's target is a minimum of 4 years. In order to increase the value of this indicator, the GDMA has previously issued longer maturity bonds denominated in forint with fixed interest rates.
5. The GDMA has set the minimum average time to maturity (ATM) for forint debt is 4.5 years.
6. Liquidity: setting a minimum value for the Treasury Settlement Account (TSA) and maintaining its end-of-day value above this level in order to ensure the safe financing of the budget.

The GDMA recently increased the interest rate premium on 5-year premium government bonds from 1.25 percentage points to

1.5 percentage points in order to increase the average maturity of HUF-denominated government bonds and to promote the purchase of HUF-denominated retail government securities. In a high inflation environment, this move will provide an additional incentive to retail investors. With this move, the GDMA can either encourage retail investors to save more or divert savings from the super government bond. The GDMA will thus use its own instruments to increase the stock of retail government securities and thus reach the HUF 11,000 billion target for 2023, and to shrink the inflation rate by encouraging more savings.

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

FIGURE 11: THE HUF YIELD CURVE (%)

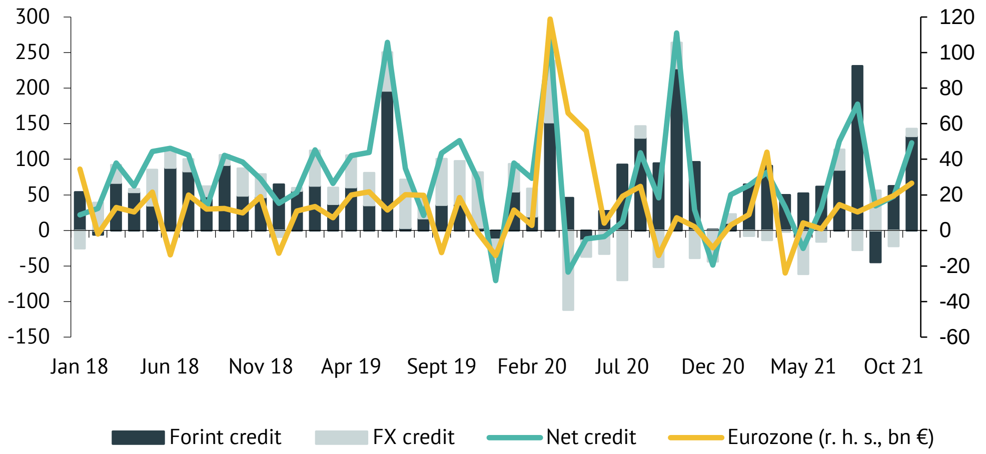


Source: ÁKK, Századvég

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector was HUF 132.5 billion in November 2021. The net borrowing of foreign currency loans was HUF 10.5 billion in November; 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 123.1 billion in November. Corporate borrowing in the euro area was EUR 26,505 billion in November 2021.

Corporate credits increased by HUF 123.1 billion.

FIGURE 12: CORPORATE BORROWING (IN BILLION HUF)



Source: MNB, ECB

In November, the value of gross loan placement in HUF over and above bank overdrafts was HUF 97.8 billion, which is HUF 9.1 billion more than the amount of the previous month. The sum of newly granted euro-loans was HUF 76.2 billion, which is HUF 14.9 billion higher than the figure for October.

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