MONTHLY MONITOR

May 2022

Századvég Economic Research Institute

SZÁZADVÉG

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DISCLAIMER

1. Summary

GDP GROWTH EXCEEDED EXPECTATIONS AGAIN IN Q1 THIS YEAR

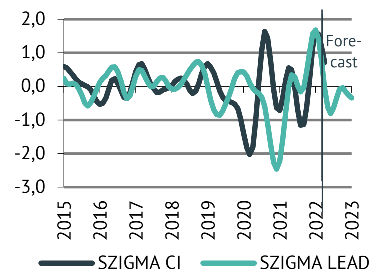
In Q1 this year, the Hungarian economy grew by 8.0% on an annual basis and by 2.1% on a quarterly basis. The annual growth rate was 0.6 percentage points above analysts' expectations.

According to the HCSO, almost all sectors contributed to growth in Q1 this year. Industry and market services played the biggest role. Within industry, the economy was driven by food and beverages, petroleum refining and electrical equipment manufacturing, while within market services, the economy was driven by trade, accommodation, catering, transport and storage.

Among EU countries, only Portugal (11.9%), Poland (9.1%) and Austria (8.7%) had higher GDP growth rates than Hungary in the beginning of this year. In contrast, the German economy expanded by only 1.4%, while the Slovak and Swedish economies grew by only 3.0%.

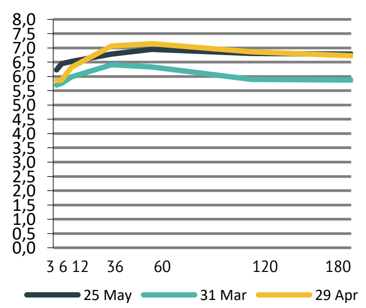
In March, the volume of retail sales increased by 16.2% on a year-on-year basis. The expansion was fuelled by improving household incomes, partly due to rising wages and government transfers paid in February (social security refunds, 13th month pensions) and also by the base effect, i.e. there were no epidemic restrictions this year as in the previous year. In addition, mid-month panic buying in fuel retailing also played a significant role in the strong performance, with the sector's turnover rising by 51.4% on an annual basis.

SZIGMA indicators



Source: Századvég

HUF yield curve (%)



Source: Refinitiv

Forecast (26 March 2022)	2022
GDP volume change (%)	3,9
Inflation (annual average, %)	9,3
Gross wages	13,8
Exchange rate (annual average)	369

2. Economic overview

2.1. External environment

At its meeting in early May, the Federal Reserve raised its benchmark interest rate by 50 basis points to a range of 0.75-1.0%, in line with market expectations. In its comments on the interest rate decision, the Fed highlighted strong household spending, business investment and employment growth despite the economic slowdown in Q1, while inflation remained high due to imbalances in supply and demand and rising energy prices. The communication also touches on the economic uncertainty caused by the Russo-Ukrainian war, which is creating further upward inflationary pressures and supply disruptions. The Fed expects inflation to return to the 2% target as monetary conditions gradually tighten and the labour market to remain strong. To this end, a decision has been taken to reduce the Fed's assets by USD 9,000 billion starting in June. The current plan is to reduce the stock of Treasury bills by USD 30 billion a month in the summer months through non-renewal of maturing securities, rising to USD 60 billion a month from September. In the case of mortgage-backed securities, the decision was taken to cut USD 17.5 billion a month in the first period and USD 35 billion a month in the second.

Inflation in Japan accelerated above the central bank's target.

The annual inflation rate in Japan accelerated from 1.2% in March to 2.5% in April, exceeding the central bank's target of 2%, which last happened in March 2015. The monthly price increase was 0.4% in the island nation. The Japanese economy has struggled with low inflation and deflation since the 1990s, but ultra-loose monetary policy and nonconventional central bank measures have failed to substantially stimulate the inflation rate. In April, food prices rose by 4.0%, housing by 0.4%, clothing by 0.8%, fuel by 15.7%, energy by 19.1% and tobacco by 6.3% on an annual basis, while services fell by 0.3% on average.

European Commission cuts growth forecast

On 16 May, the European Commission published its spring forecast. In the wake of the economic impact of the war, the Commission expects the EU economy to expand at a slower rate than previously expected, while inflation could remain above target.

In the Commission's assessment, the EU economy was facing a prolonged and robust expansionary phase before the outbreak of war, thanks to an improving epidemiological situation and supply difficulties expected to ease over the rest of the year, which pushed up prices for energy and other raw materials. Growth prospects were also supported by the improving labour market situation, high savings levels, a favourable financing environment and the implementation of RRF programmes. But the war fundamentally changed the situation: supply chains were further disrupted, leading to higher prices and increased uncertainty. In the Commission's assessment, the EU economy is also particularly exposed to the effects of war because of its geographical proximity, its role in global value chains, the high proportion of imported energy products and the large number of refugees.

The European Union economy is expected to expand by 2.7% this year and 2.3% next year, compared with the winter forecast of 4.0% and 2.8%, respectively. The carry-over effect of last year's expansion will account for about 2 percentage points of this year's momentum, while intra-year growth will be only 0.8 percentage points. The Commission has, however, significantly revised upwards its inflation forecast, from 2.5% to 6.8% this year, which may fall to 3.2% next year. The Commission explains the above-target inflation by energy prices, which were already high before the outbreak of the war due to imbalances in supply and demand. The war made the situation worse, increasing uncertainty and volatility in the markets, which pushed up prices even more. Energy prices are a cost factor in the price of all products, which is exacerbated by disruptions in supply chains. The unemployment rate could fall from 7.0% last year to 6.7% in 2022 and 6.5% in 2023, meaning that the labour market could tighten further, even as the forecast anticipates a gradual inflow of refugees from Ukraine into the labour market. The budget deficit in the EU could remain above the Maastricht threshold at 3.6% this year and fall below it to 2.5% next year. The decline in the deficit is due to the gradual phasing out of the measures taken to combat the coronavirus and the improving economic situation, which the Commission expects to offset the costs of rising energy prices and the handling of refugees. The sovereign debt to GDP ratio could still fall further from 89.7% in 2021 to 85.2% in two years.

The Commission expects economic growth to be highest in 2022 in Portugal (5.8%), followed by Ireland (5.4%), Malta (4.2%) and Spain (4.0%). In contrast, the Estonian economy is expected to grow by only 1.0%, Finland and Germany by 1.6% and Lithuania by 1.7%. The French economy is forecast to expand by 3.1% this year, while the Italian economy is forecast to expand by 2.4%, while among the countries in the region, the Czech economy is forecast to grow by 1.9%, the Polish by 3.7% and the Slovak by 2.3%. In 2022, the Irish and Maltese economies are expected to expand at the fastest rates of 4.4% and 4.0%, respectively, while Sweden and the Netherlands are expected to grow by 1.4% and 1.6%, respectively, and Belgium, France, Italy, Denmark and Austria are expected to grow at less than 2%. Among the Visegrad Countries, the Slovak economy is expected to grow fastest next year, at 3.6%, followed by Poland at 3.0% and the Czech Republic at 2.7%.

In the Commission's assessment, last year's rapid economic growth in Hungary continued in the Q1 of this year, but the Russo-Ukrainian war is substantially weighing on economic expectations. The Hungarian economy is forecast to grow by 3.6% this year, slowing to 2.6% next year. The winter forecast was for growth of 5.6% and 3.2%, respectively. The Commission thinks that the slowdown is due to the continued fading of government transfers and the decline in purchasing power due to rising inflation, rising costs and fiscal consolidation, which are holding back investment, and falling external demand, which is also holding back exports. Inflation could accelerate to 9.0% this year on the back of rising costs, high demand and a weakening exchange rate. The Commission expects the peak to occur in Q3, following the phasing out of the price caps. Inflation in the Hungarian economy is expected to slow to 4.1% next year, as demand moderates due to higher prices. The Commission expects the budget deficit to remain high this year, reaching 6.0% of GDP, due to the fiscal measures introduced and additional expenditure linked to high energy prices. The deficit could narrow to 4.9% next year as some measures expire and nominal growth remains high. As a result, sovereign debt may fall only slowly from 76.8% of GDP this year to 76.4% and 76.1% next year.

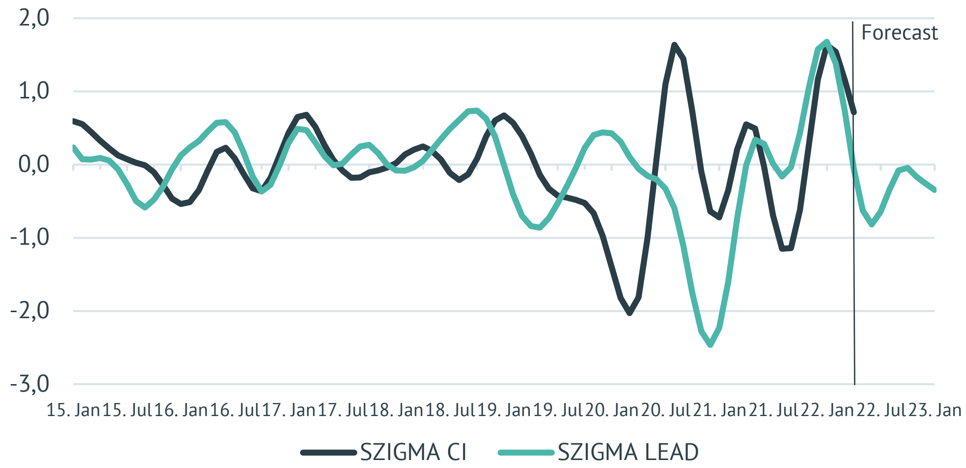
2.2. SZIGMA indicators

The Hungarian economy continues to expand above trend.

In April 2022, the SZIGMA CI indicator, which provides a snapshot of the current state of the Hungarian economy, remained in positive territory, meaning that the economy expanded above trend. In March 2022, both the domestic and export values of industry increased on an annual basis by 10.9% and 2.7%, respectively, while on a monthly basis, the former increased by 6.6% and the latter decreased by 2.0%. In contrast, the volume of domestic and export sales orders increased on both an annual and monthly basis, with the February 2022 value rising by 16.5% and 2.9%, respectively, while the March 2021 value was 9.3% and 1.5% higher. Overall, the industry's contribution to growth could be positive, but the economic impact of the Russo-Ukrainian war, shortages of raw materials and chips, and rising energy prices remain risks. The month-end volume of contracts in construction decreased on a monthly basis (2.0%), while it increased on an annual basis (6.4%). The number of new non-residential buildings to be built showed another significant increase, both on a monthly (35.6%) and annual (13.8%) basis.

The SIGMA LEAD indicator, which reflects our expectations for the short-term performance of the Hungarian economy, points to below-trend growth until the end of the forecast horizon. The Ifo Business Climate index, a gauge of business sentiment in the German economy, improved on a monthly basis by 1.0 index point in April 2022, but was 4.6 index points lower than a year earlier. Retail sales expanded more than expected in March 2022, thanks to government transfers, so the sector's contribution to growth could be positive. Eurostat's consumer confidence index fell on both a monthly and annual basis in the fourth month of this year, by 1.1 and 2.0 index points, respectively. Based on the negative value of the index (-23.1 index points), the segment's turnover can be further expanded by improving confidence. In 2022, we expect economic growth to be close to 4%, but the uncertainty surrounding this remains significant.

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



Source: Századvég

2.3. Real economy

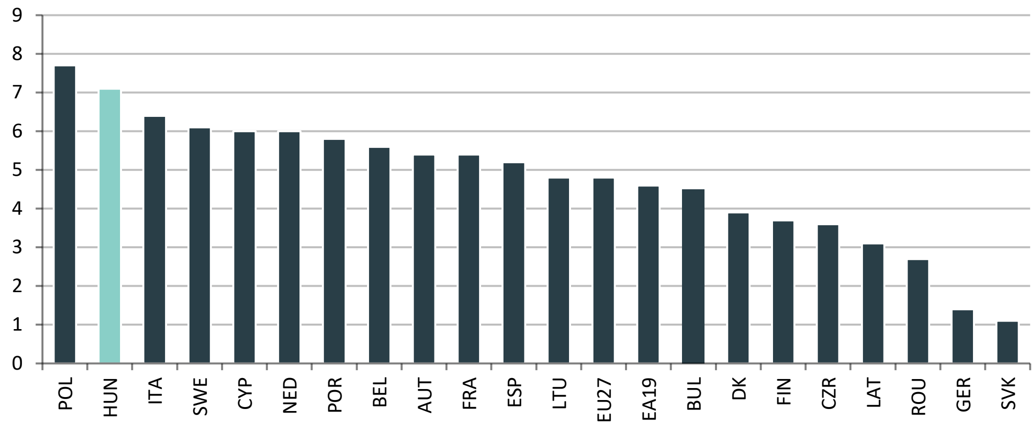
GDP grew by 8.0%, above expectations.

According to the first estimate of the Hungarian Central Statistical Office (HCSO), the annual gross domestic product of the Hungarian economy grew by 8.2% based on raw and by 8.0% based on seasonally and calendar-adjusted data in Q1 2022, the latter exceeding analysts' consensus by 0.6 percentage points. Economic output grew by 2.1% in Q1 compared with the previous quarter, according to seasonally and calendar-adjusted and balanced data, above the analyst consensus of 1.7%.

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 5.2% and 5.1%, respectively). In the European Union, only Portugal (11.9%), Poland (9.1%) and

Austria (8.7%) show higher growth than in Hungary, while Germany (1.4%), Slovakia and Sweden (3.0% in both) show the smallest growth in GDP in Q1 2022.

FIGURE 2: GDP-GROWTH ACROSS THE EU (Q12022; Y-O-Y; %)



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

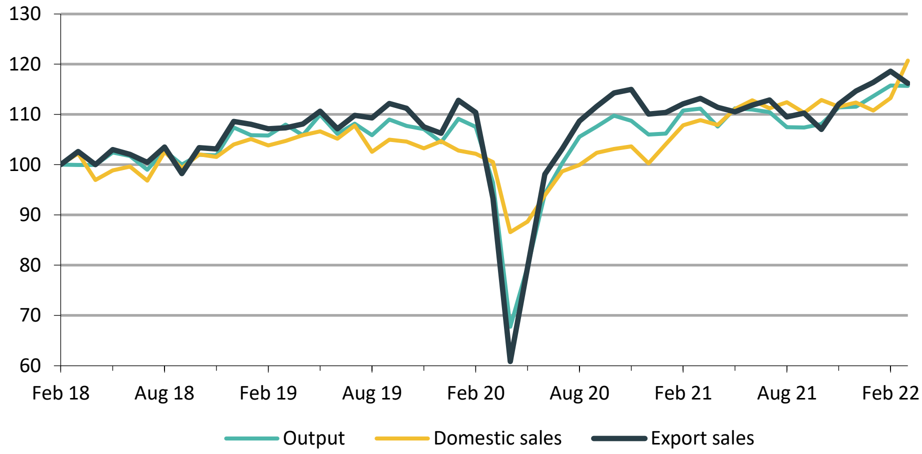
Source: Eurostat

Output was positive in most industries. In Q1 2022, the gross turnover of commercial accommodation providers in tourism increased more than sevenfold at current prices, thanks to a low baseline resulting from the restrictive measures still in place at the beginning of the base year and a rebound in accommodation bookings in the meantime. On a calendar-adjusted basis, retail sales were up 10.3% year-on-year, while construction output grew by 15.7% and industrial output by 6.2% in Q1. In a regional comparison, the volume of industrial production (among enterprises with at least five employees) was highest in Pest County (15.7%), followed by the Southern and Northern Great Plain (11.1% and 10.8%, respectively). In Q1, industrial production grew less in Budapest (8.8%), Central Transdanubia (3.7%) and Northern Hungary (3.4%). Volumes, however, decreased in Southern Transdanubia (-0.6%) and Western Transdanubia (-7.0%) compared to the same period last year.

Industrial production continued to grow on an annual basis in March.

In March, industrial output was 3.6% higher than a year earlier according to raw data and 4.2% higher according to data adjusted for working-day effects. Production was unchanged compared to February. Sales volume grew by 6.0% in a year. Domestic sales were 11.8% higher than a year earlier, while export sales were 2.4% higher.

FIGURE 3: INDUSTRIAL OUTPUT AND SALES (JANUARY 2018 = 100%)



Remark: Seasonally and working-day adjusted data

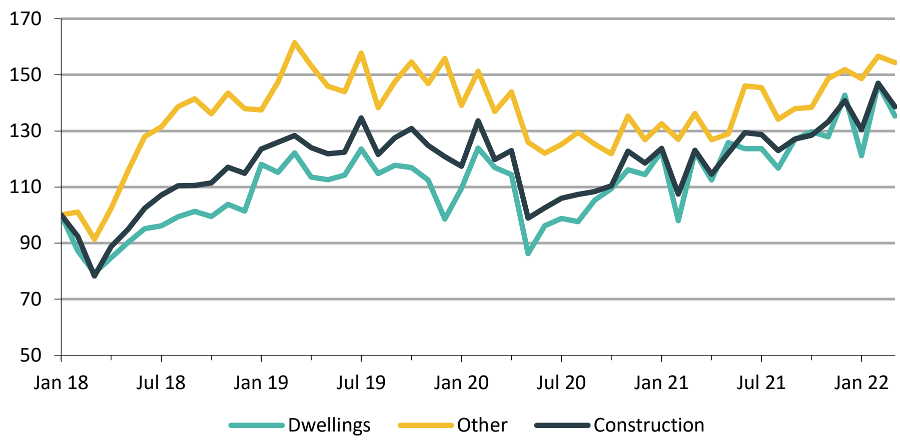
Source: HCSO, Századvég

Within industry, mining output was up 9.6%, manufacturing 3.0% and energy 19.2% on a year earlier. Within manufacturing, output in the coke and refined petroleum products sector expanded by the highest rate, 23.0%, followed by 21.9% in the manufacture of electrical equipment and 15.6% in machinery manufacturing. The largest decline of 13.3% was in the automotive sector, where the shortage of raw materials played a major role. A slight decline of 2.6% was also observed in the rubber industry. The high demand for the sector's products is reflected in the growth of the contract volume, as it was 26.2% higher than a year earlier, with domestic sales orders down 8.2% and export sales orders up 28.7%. The volume of new contracts, however, increased less, by only 2.7%. New domestic sales order were up 9.2%, while new export sales orders were up 1.5%.

Construction output rose on an annual basis, but fell on a monthly basis.

Construction output showed an upbeat picture in March. Output in the sector grew by 10.5% on an annual basis, while on a monthly basis it fell by 5.7%, which is not surprising in light of the previous month's strong expansion. Compared to the same period of the previous year, the production of both main construction groups increased at a similar pace: buildings by 10.6% and civil engineering works by 11.4%. Price increases in the sector have continued to pick up, with producer prices in the construction sector rising by 6.6% in Q1 quarter-on-previous-quarter and by 20.6% year-on-year. Although the sector's contract volume is outstandingly high, its growth is being held back by rising prices. Construction's order volume at the end of the month was, therefore, 6.4% higher than a year earlier, with orders for buildings down by 8.0% and orders for civil engineering works up by 17.8%. Meanwhile, the volume of new orders fell by 30.2% in March. The volume of new contracts for buildings was 30.3% lower than a year earlier, while that for civil engineering works was 30.0% lower.

FIGURE 4: CONSTRUCTION SECTOR (JANUARY 2018 = 100%)



Remark: Seasonally and working-day adjusted data

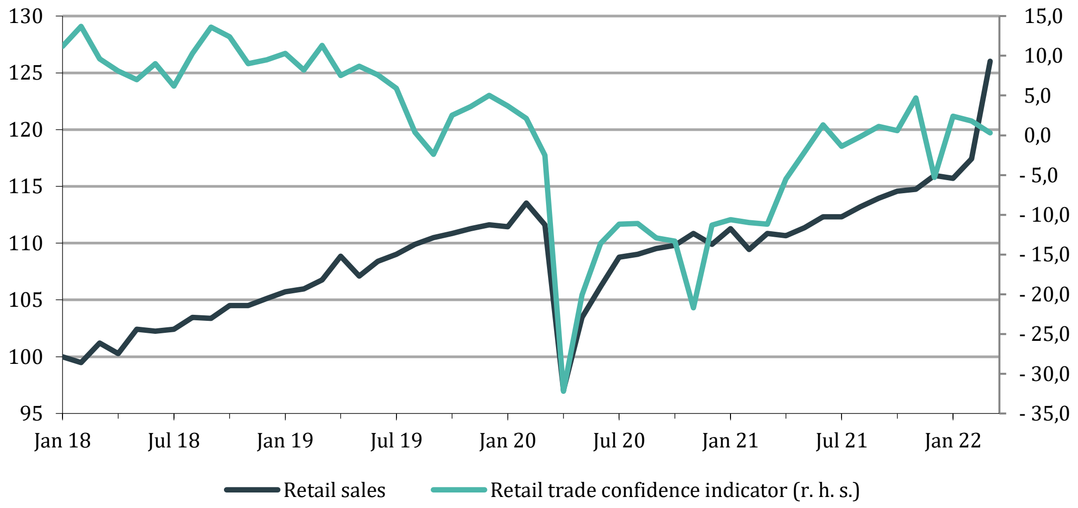
Source: HCSO, Századvég

The volume of retail sales increased by 16.2%.

In March 2022, retail sales increased by 16.2% compared to the same period of the previous year, based on both raw and calendar-adjusted data. The adjusted figures show a significant increase of 7.3% compared to the previous month. The significant growth was boosted by personal income tax refunds, the payment of the 13th month's pension and the easing of the rules on the use of SZÉP cards (which can be used to buy cold food from 1st February). The base effect also played a significant role in the year-on-year increase, as in the same period of 2021 the population postponed its purchases due to the restrictions imposed by the coronavirus epidemic. In March 2022, the calendar-adjusted volume of sales increased by 0.2% in specialised and non-specialised food shops, it decreased by 29.7% in non-food shops, and it increased by 51.4% in fuel retail, relative to March 2021.

On a calendar-adjusted basis, sales of second-hand goods (238.7%) and textile products, clothing and footwear (320.4%) showed outstandingly high increases, which is indeed driven by the base effect. In addition, there was a significant increase in the turnover of specialised stores for furniture and technical goods (75.3%), books, newspapers and stationery (91.2%) and computer and other industrial goods (54.4%). Compared to March 2021, retail sales volumes of mixed range of manufactured goods (13.1%), pharmaceuticals and medicinal products (2.5%), furniture and technical goods (9.1%) and perfumes (15.3%) increased by less than retail sales volumes. The turnover of parcel companies and online stores, however, showed a decline (-7.3%), which can be explained by the high base. Calendar-adjusted data show that in March 2022, sales decreased by 0.3% in non-specialised food shops, while it increased by 2.4% in shops selling food products, beverages, and tobacco products, relative to the same period of the previous year.

FIGURE 5: RETAIL SALES VOLUME (JANUARY 2018 = 100%) AND RETAIL TRADE CONFIDENCE INDICATO



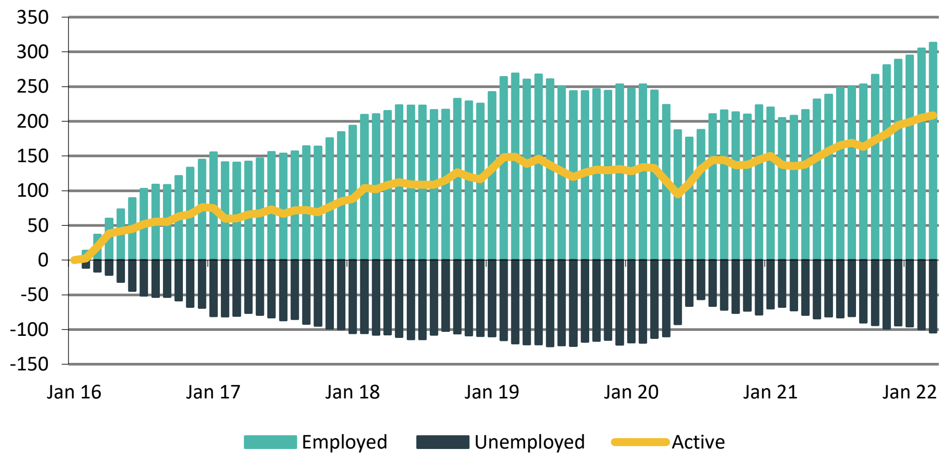
Remark: Seasonally and working-day adjusted data

Source: HCSO, Eurostat, Századvég

In Q1 this year, the seasonally adjusted number of employed persons increased by 24,000 quarter-on-quarter and by 105,000 year-on-year, to exceed 4,700,000 for the first time since the political changes in 1989-90. Activity also increased further by 14,000 compared to the last quarter of last year, and by 73,000 compared to the same period last year, so that in Q1 this year 66.5% of the 15-74 age group were already in the domestic labour market. Unemployment also fell, by 5,000 quarter-on-previous-quarter and by 32,000 year-on-year, to below 176,000. As a result, in Q1 this year, only 3.6% of the active population did not have a job. Based on seasonally adjusted data, the number of employees increased by nearly 6,000 in February month-on-month and by 79,000 compared to the same period in 2021. The monthly increase is entirely attributable to the business sector: the number of employees at enterprises having at least 5 employees rose by 9,000 in a month, while the annual increase was 87,000. In contrast, the number of employees in the public sector fell by 3,000 month-on-month, while the number of employees in the non-profit sector remained unchanged. In February, the number of people in public employment also remained unchanged at 79,000, which still represents a year-on-year decrease of 8,000.

For the first time since the political changes in 1989-90, the number of employees rose above 4.7 million.

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



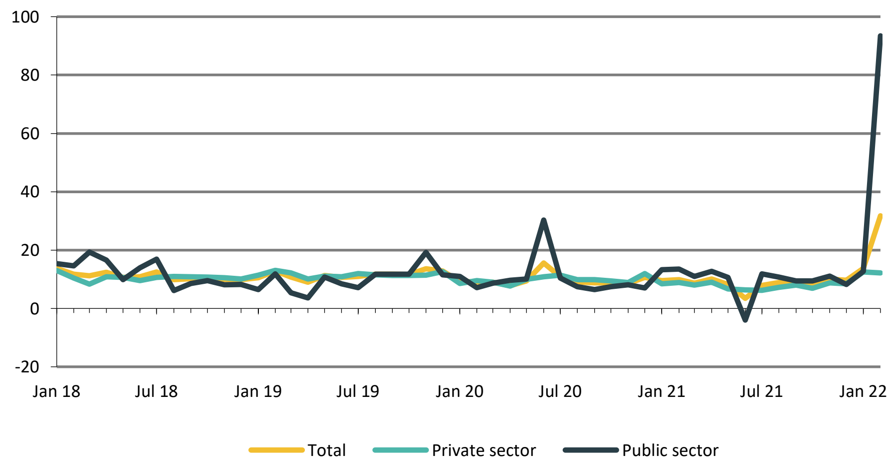
Remark: Seasonally and working-day adjusted data

Source: HCSO, Századvég

Without the arms allowance, the average monthly wage still increased by 14.5%.

Average gross monthly wage in the national economy rose by 31.7% year-on-year to HUF 546,000 in February. The average monthly wage was, however, distorted by the six-monthly allowances (arms allowance) paid to defence and law enforcement personnel. The regular average monthly wage, i.e. excluding premiums, bonuses and fringe benefits, was HUF 445,000, 14.5% more than a year earlier. In the business sector, the average monthly wage increased by 12.2%. Dynamic wage growth was driven by a 20% increase in both the minimum wage and the guaranteed minimum wage at the beginning of the year as well as labour shortages and wage decompressions in certain public sector domains. In February, the median monthly wage was HUF 378,100, a 14.6% increase over a year. The double-digit wage increase also means that real wages continued to rise in February, despite accelerating inflation.

FIGURE 7: GROSS WAGES (ANNUAL CHANGE, %)



Remark: Seasonally and working-day adjusted data

Source: HCSO, Századvég

2.4. External balance

In February, the EUR value of product exports increased by 19.0%, and the EUR value of product imports increased by 31.0% year on year. The foreign trade deficit was, therefore, EUR 117 million, EUR 902 million less than in the previous year.

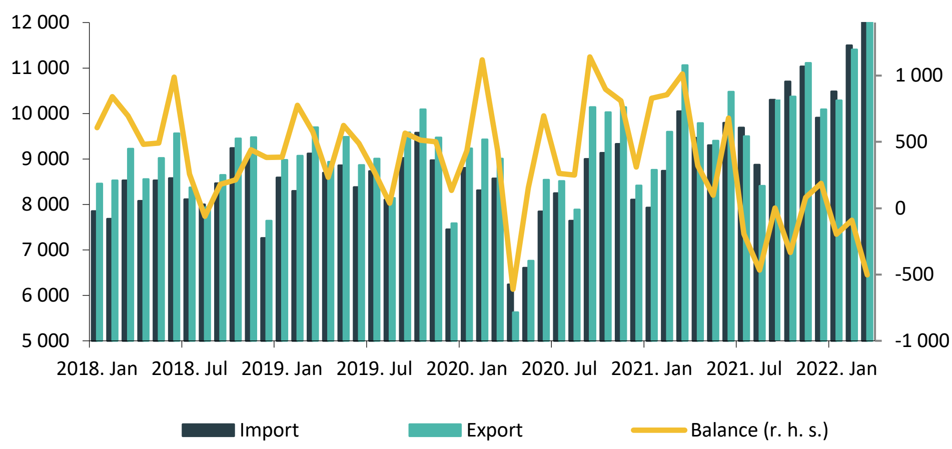
The foreign trade balance deteriorated.

In February, the volume of food product imports increased by 11.0%, and food product exports decreased by 8.5% on a year-on-year basis. As for energy carriers, imports decreased by 6.2%, and exports increased by 37.0%. As for processed products, imports increased by 12.0%, and exports increased by 7.7% on a year-on-year basis. As for machinery and transport equipment, imports increased by 1.7%, and exports by 2.1%.

In March 2022, the EUR value of exports was 8.7% higher and the EUR value of imports was 23.0% higher than a year earlier. The trade deficit in goods amounted to EUR 503 million, which is EUR 1,354 million less than a year earlier.

The current account balance stood at EUR -780.4 million in March 2022, so the balance in the first three months of this year (EUR -2,336.9 million) was lower than in January-March 2021, a year earlier.

FIGURE 8: BALANCE OF TRADE (IN MILLION EUR)



Remark: The data relating to March 2022 derive from the first estimates.

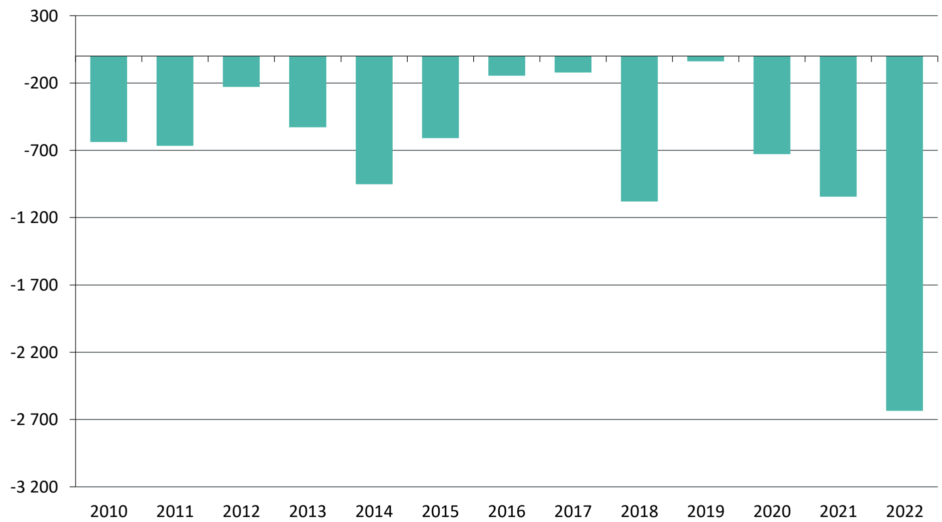
Source: HCSO

2.5. Fiscal outlook

The budget deficit rose further in April.

At the end of April 2022, the central budgetary subsystem closed with a cumulative deficit of HUF 2,635.6 billion. This is attributable to the general government budget deficit of HUF 2,669.7 billion, the social security funds subsector's deficit of HUF 18.7 billion, and the extra-budgetary funds' surplus of HUF 52.9 billion.

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



Source: PM

Compared to a year earlier, value-added tax receipts were 26.8% (HUF 475.0 billion) higher than a year earlier, while excise tax receipts were 0.3% (HUF 1.2 billion) higher. The increase in VAT receipts was driven by higher VAT receipts on both domestic and imported goods. The change in excise tax receipts was driven by higher fuel sales and a base effect in tobacco products due to stockpiling as a result of the January 2021 tax rate increase. Personal income tax receipts were 50.7% (HUF 452.7 billion) below the January-April 2021 level, primarily due to the tax refund for families with children. Receipts from social contribution tax and social insurance contributions were 14.7% (HUF 265.0 billion) higher than in the base period. This was explained by the combined effect of the increase in the average wage and the reduction of the social contribution tax rate and the abolition of the vocational training contribution.

In the first four months of this year, receipts from EU programmes closed at HUF 286.2 billion, while related expenditure stood at HUF 1,593.9 billion. Of domestic payments, HUF 1,679.6 billion for pensions and HUF 709.1 billion for preventive and medical care are worth highlighting.

2.6. Monetary developments

In April 2022, consumer prices increased by 9.5% on average, compared to the same period of the previous year. Over the past year, the prices of food and consumer durables have risen the most (15.6% and 11.1%, respectively). Consumer prices rose by 1.6% on average over a month.

Prices increased by 9.5% on average in April.

More significant contributors to the 15.6% average increase in food prices were the 29.5% increase in poultry prices, the 27.3% increase in potato prices, the 22.5% increase in the prices of dairy products (excluding cheese), the 29.5% increase in bread prices and the 28.9% increase in cheese prices. Average food inflation was, however, held back by a 6.8% increase in salami, dry sausage and ham prices, a 9.6% increase in pork prices, a 8.3% increase in non-alcoholic soft drink prices and a 3.6% increase in chocolate and cacao prices.

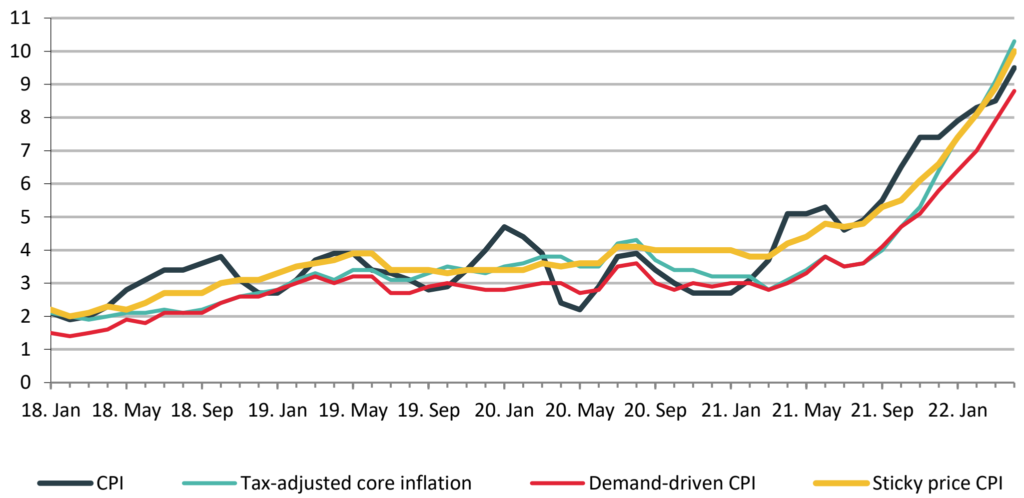
The prices of other products and fuels increased by 10.0% in April, year on year. Within this, prices of home repair and maintenance increased by 25.3% and vehicle fuel by 12.7%, the latter explained by the base effect and long-standing imbalances in supply and demand. Higher price increases were held back by the government's fuel price cap.

The average increase in household energy prices was 1.6% in April as compared to the same period of the previous year. Within household energy, fuelwood prices increased by 10.5%, coal prices increased by 15.4%, and bottled gas prices increased by 11.1% in a single year. The price of electricity, pipeline gas and district heating remained unchanged.

In April, prices of services increased by an average of 6.3%, mostly driven by a 42.1% increase in motorway tolls, vehicle rental and parking, a 7.4% increase in the prices of health services, a 19.5% increase in home repair and maintenance prices, an 14.6% increase in vehicle repair and maintenance prices, and an 10.4% increase in the prices of personal care services. The average increase in the price of services was moderated by the 0.4% increase in gambling prices, a 4.6% increase in condominium common charges, a 3.7% decrease in the price of local public transport and a 0.4% decrease in the price of telephone and internet.

Clothing prices increased by 3.7% and the prices of durable consumer goods increased by 11.1% on average in a single year. Taking a closer look at the latter, one can see that jewellery prices increased by 14.9%, home furniture prices increased by 17.3%, new car prices increased by 10.6% and used car prices increased by 14.7%. On average, the prices of spirits and tobacco increased by 5.0%, including beer by 7.5% and tobacco by 3.9%, compared to the same period in 2021.

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



Source: MNB

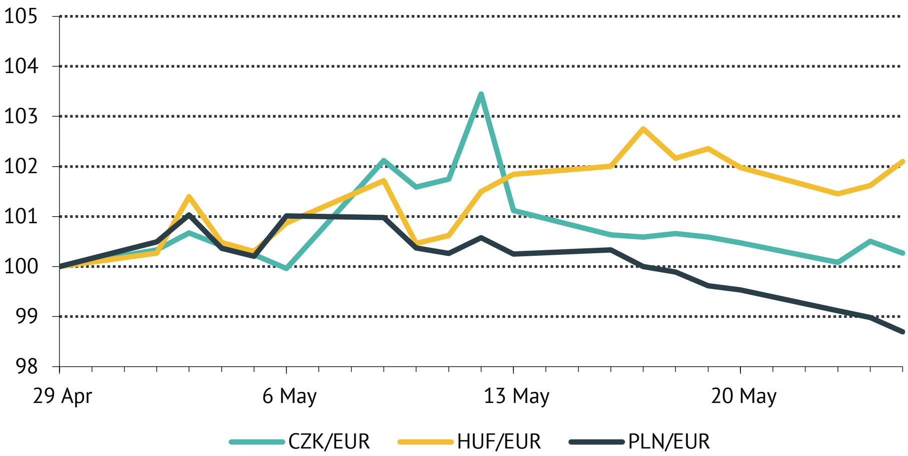
Among the core inflation indicators published by the MNB, both seasonally adjusted core inflation rate and core inflation net of indirect taxes were 10.3% in April, while inflation for goods with the sticky price inflation rate was 10.0%. Core inflation excluding processed food was 8.8% in April 2022.

The ECB Governing Council did not meet in the recent period, but the Federal Open Market Committee did. 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, raised its base interest rate to a target range of 1.0-0.5%.

The Czech koruna weakened, and the Polish zloty strengthened.

Exchange rates in the region showed a mixed picture in relation to the euro. The Czech koruna weakened by 0.3%, while the Polish zloty strengthened by 1.3% against the euro over the period. Government bond yields rose sharply because of higher risks and central bank rate hikes (increases by 75 basis points in both the Czech Republic and Poland), with the Czech 10-year government bond yield 33 basis points higher at 4.65% and the Polish 10-year yield up 26 basis points to 6.65%.

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



Source: Refinitiv

The forint weakened again.

Overall, Hungarian money and foreign currency market indicators have shown a more negative picture in the past period. The 5-year government bond yield closed down 20 basis points at 6.95%. The HUF weakened by 2.1% against the euro, by 1.75% against the Swiss franc and by 1.14% against the US dollar. This means that on 25 May 2022, one Euro was worth 385 Forints, one US Dollar was worth 361 Forints and 1 Swiss Franc was worth 375 Forints. Sovereign debt held by foreigners has recently increased by HUF 193 billion to HUF 5,294 billion.

In May, the base rate increased by only 50 basis points.

At its interest rate meeting in May, the Monetary Council of the central bank raised its benchmark interest rate by 50 basis points, a smaller increase recently announced, to 5.9%. The Monetary Council also raised the overnight deposit interest rate to 5.9% and the lending rate to 8.9%. The central bank decides on the interest rate for the one-week deposit facility on a monthly basis, which is currently set at 6.45%, 55 basis points above the base rate. The central bank declared that it will gradually converge the base rate and the one-week deposit rate. The MNB has increased the effective interest rate by 570 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 has been actively using its foreign exchange liquidity swap facility again since the beginning of March (HUF 1,613.86 billion since the beginning of March).

The Bond Funding for Growth Scheme has been closed as the budget (HUF 1550 billion) has been exhausted

In a statement issued about its March 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.

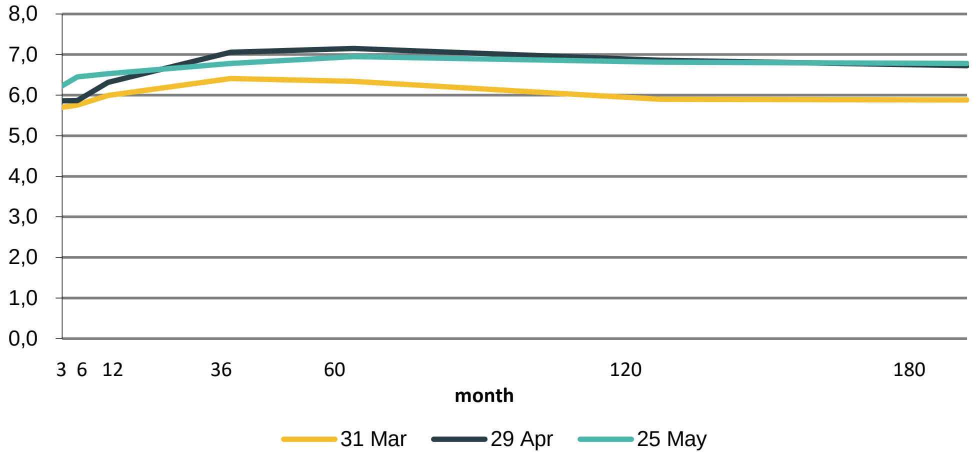
Over the past month in the government bond market, yields for shorter maturities increased by between 21 basis points and 58 basis points on the secondary yield curve. This means that the 3-month yield was 6.23%, the 6-month yield was 6.45% and the 1-year yield was 6.53% on 25 May. The 3-year yield fell by 28 basis points to 6.78 percent. Yields are down 20 basis points over the 5-year horizon, down 5 basis points over the 10-year horizon and up 5 basis points over the 15-year horizon compared to the previous month. These three yields changed, therefore, to 6.95%, 6.81%, and 6.78%, 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%. As of 16 May 2022, retail investors held HUF 5131.49 billion worth of these government securities, down HUF 315.74 billion from HUF 5,447.23 billion in mid-April. Given the high inflationary environment, the public prefers to hold government bonds with a fixed real interest rate, which are inflation-tracking, to the tune of HUF 3,056.03 billion (PMÁP as of 14 April: HUF 2,789.95 billion). 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 20.7% in April (corresponding to an increase of 0.2 percentage points), which is in the range (10–25%) specified in the financing plan for 2022 of the Government Debt Management Agency Ltd.

Recently, none of the major international credit rating agencies has 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 12: THE HUF YIELD CURVE (%)

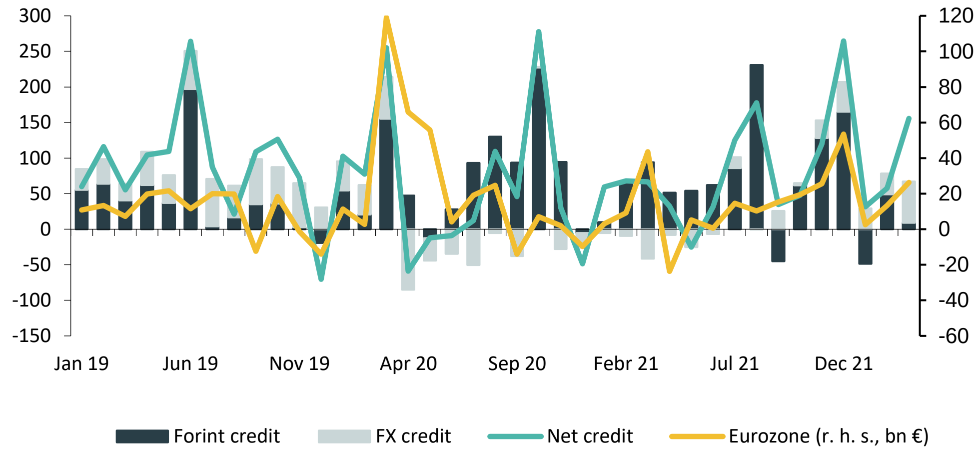


Source: ÁKK, Századvég

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector was HUF 9.2 billion in March 2022. The net borrowing of foreign currency loans was HUF 57.6 billion in March 2022; 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 155.8 billion in March. Corporate borrowing in the eurozone was EUR 26.361 billion in March 2022.

Corporate holdings of foreign currency loans have increased substantially.

FIGURE 13: CORPORATE BORROWING (IN BILLION HUF)



Source: MNB, ECB

In March, the value of gross loan placement in Hungarian forints over and above bank overdrafts was HUF 154.5 billion, which is HUF 61.94 billion more than the amount of the previous month. The sum of newly granted euro-loans was HUF 64.3 billion, which is HUF 25.8 billion more than the figure for February.

3. Századvég forecast [1]

TABLE 1: Q1 2022 PROJECTION

	2021	2022				2022	2023				2023
	annual	Q1	Q2	Q3	Q4	annual	Q1	Q2	Q3	Q4	annual
Gross domestic product (volume index, %)	**7,1**	5,2	3,1	3,7	3,7	**3,9**	4,9	5,2	4,8	3,9	**4,7**
Household consumption expenditure (volume index, %)	**4,3**	6,4	2,5	3,7	2,8	**3,9**	5,1	2,8	4,2	3,0	**3,8**
Gross fixed capital formation (volume index, %)	**6,0**	14,4	−1,0	1,1	9,5	**6,0**	5,7	10,9	3,9	2,3	**5,7**
Export volume index (based on national accounts, %)	**10,1**	2,8	4,9	5,9	4,6	**4,6**	4,9	5,7	6,5	6,4	**5,9**
Import volume index (based on national accounts, %)	**8,2**	5,2	4,8	4,9	5,6	**5,1**	4,0	4,8	5,0	5,1	**4,7**
Foreign trade balance (bn EUR)	**1,9**	0,7	−0,4	−0,6	−1,2	**−1,5**	1,0	−0,2	−0,2	−0,9	**−0,3**
Consumer price index (%)	**5,1**	8,7	9,4	9,9	9,2	**9,3**	7,6	6,5	6,0	5,5	**6,4**
Central bank's base rate at the end of the period (%)	**2,4**	4,4	6,4	7,2	6,8	**6,8**	6,4	5,80	5,20	5,00	**5,00**
Unemployment rate (%)	**4,1**	3,8	4,0	3,8	3,6	**3,8**	3,8	3,7	3,7	3,6	**3,7**
Gross average earnings (year-on-year change, %)	**8,9**	12,5	14,4	14,4	13,8	**13,8**	11,5	10,6	11,1	11,5	**11,2**
Current account balance as a percentage of GDP	**−3,1**					**−4,8**					**−3,2**
External financing capacity as a percentage of GDP	**−0,5**					**−2,5**					**−1,0**
General government ESA-balance as a percentage of GDP	**−6,8**					**−4,2**					**−3,2**
Government debt (% of GDP)	**76,8**					**72,5**					**67,7**
GDP based external demand (volume index, %)	**5,3**	3,9	3,4	3,0	2,7	**3,3**	2,5	2,4	2,4	2,3	**2,4**

Source: MNB, HCSO, Századvég-Calculation

TABLE 2: CHANGES COMPARED TO OUR PREVIOUS FORECAST

	2022			2023		
	Dec 2021	Mar 2022.	Difference	Dec 2021	Mar 2022.	Difference
Gross domestic product (volume index, %)	5,3	**3,9**	*−1,4*	4,8	**4,7**	*−0,1*
Household consumption expenditure (volume index, %)	7,4	**3,9**	*−3,6*	3,7	**3,8**	*0,1*
Gross fixed capital formation (volume index, %)	6,4	**6,0**	*−0,4*	7,5	**5,7**	*−1,8*
Export volume index (based on national accounts, %)	6,0	**4,6**	*−1,5*	4,6	**5,9**	*1,3*
Import volume index (based on national accounts, %)	6,6	**5,1**	*−1,5*	3,6	**4,7**	*1,2*
Foreign trade balance (bn EUR)	3,6	**−1,5**	*−5,1*	4,9	**−0,3**	*−5,2*
Consumer price index (%)	5,3	**9,3**	*4,0*	3,7	**6,4**	*2,8*
Central bank's base rate at the end of the period (%)	3,20	**6,80**	*3,6*	3,20	**5,00**	*1,8*
Unemployment rate (%)	3,6	**3,8**	*0,3*	3,2	**3,7**	*0,5*
Gross average earnings (year-on-year change, %)	11,3	**13,8**	*2,5*	10,6	**11,2**	*0,6*
Current account balance as a percentage of GDP	−1,9	**−4,8**	*−2,9*	−1,1	**−3,2**	*−2,1*
External financing capacity as a percentage of GDP	0,0	**−2,5**	*−2,5*	1,2	**−1,0**	*−2,2*
General government ESA-balance as a percentage of GDP	−5,2	**−4,2**	*1,0*	−3,5	**−3,2**	*0,3*
Government debt as a percentage of GDP	78	**72,5**	*−5,5*	75,0	**67,7**	*−7,3*
GDP based external demand (volume index, %)	,5	**3,3**	*−1,3*	2,5	**2,4**	*−0,1*

[1] The forecast is valid as of 26 March 2022