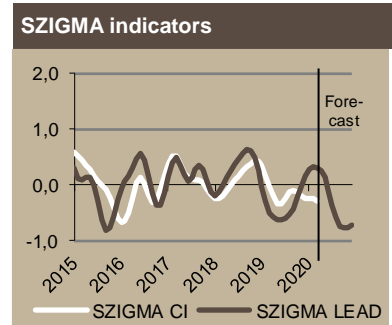


## The budget deficit was 2.0% in 2019

**The 2.1% deficit of 2018 decreased to 2.0% in 2019; it is, however, still above the 1.8% target. The government debt to GDP ratio decreased from 70.2% at the end of 2018 to 66.3%. Because of the coronavirus, the Government is expecting a higher, 3.8% deficit for this year.**

Statistical data of February only show a moderate impact from the coronavirus. Industrial output was 4.1% higher, construction industry output was 2.5% higher than one year before. At the same time, however, the annual comparison shows that the volume of retail sales increased considerably, by 10.9%, which is explained by the shopping rush triggered by the coronavirus panic. According to the Hungarian Central Statistical Office, this explains 5.7 percentage points of the calendar-adjusted 11.3% growth. On a year-on-year basis, the turnover of food shops increased by 10.7%, the turnover of non-food shops increased by 11.4%, and fuel sales increased by 1.8%.

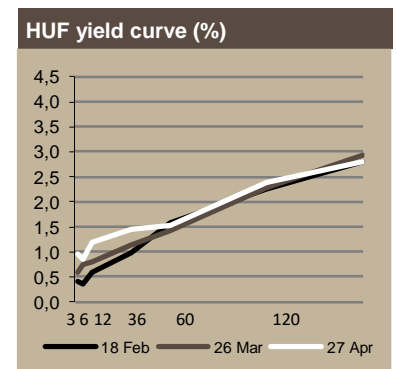
March inflation data already reflect the impact of the coronavirus: the drop of the total indicator to 3.9% was driven by two opposite processes. On the one hand, the oil price collapse led to a 2.1% drop in vehicle fuel prices; on the other hand, the average price increase of food products increased to 7.6%. Meanwhile, the average price of services increased by 3.8%, that of household energy increased by 0.3%. The increase of the excise duty still causes a considerable, 7.2% increase in the prices of alcoholic beverages and tobacco products.



Source: Századvég

### Forecast 16 March 2020)

	2020
GDP volume change (%)	-0.3
Inflation (annual average, %)	3,7
Gross wages (annual change, %)	8.2
EUR/HUF	345



Source: Datastream

# Economic overview

## External environment

***3 million people have lost their jobs in the United States.***

Administrative data shows that the number of non-agricultural employees dropped by 701 thousand in the USA in March, on a month-on-month basis. This was primarily caused by the economic situation caused by the coronavirus. This means that the sector with the highest number of employees having lost their jobs, 459 thousand, was the hotel and catering sector, but the number of employees also decreased in the healthcare and social services sector, as well as in commerce and the construction industry. Data from households indicate a more severe downturn. More specifically, in February, the unemployment rate increased by 0.9 percentage points to 4.4%, which means 1.4 million people and the largest increase in one month since January 1975. The activity rate also decreased by 0.7 percentage points (1.6 million people) to 62.7%. This means that in the USA, 3 million people lost their jobs in one month because of the coronavirus. Only less than a half of these new employees will, however, stay on the labour market, the rest will become inactive.

In February, the Eurozone industrial output decreased by 1.9%, in comparison with the same period of the previous year. Presumably, the supply difficulties caused by the coronavirus only play a minor role in this, because the decrease from January was only 0.1%. Commerce was also minimally affected by the coronavirus and the shopping rush caused by it, as sales increased by 2.2% in January and 3.0% in February on a year-on-year basis, and the Hungarian monthly growth rate was 0.9%. Month-on-month, the sales of food and tobacco products and drugs as well as internet traffic increased at a higher-than-average rate (2.4%, 1.1% and 5.6%, respectively) By contrast, the sales of computers and books dropped by 0.3% and that of fuels dropped by 0.1%.

## SZIGMA indicators

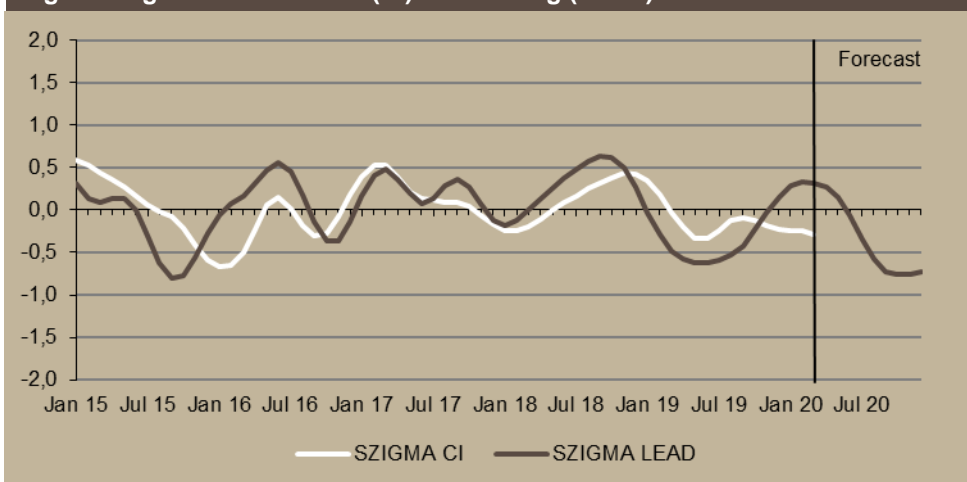
***Our SZIGMA indicator shows that the economy has grown below-the-trend.***

The SZIGMA CI indicator, which provides a picture of the current status of the Hungarian economy, remained negative in the third month of this year as well, i.e. the economy grew at a rate below the trend in March, too. This is not a surprise, because the coronavirus started to shut down the economy in March. In the second month of 2020, compared to February 2019, domestic industrial sales dropped by 2.5%, and export sales increased by 3.5%. The total value of new domestic and export purchase orders could still increase in February, by 4.8% and 6.8%, respectively. The data above implies, therefore, that the industry could still contribute to economic growth in early 2020; the coronavirus pandemic could, however, reduce this contribution or make it a negative one. The end-of-month contract volume of the construction industry continued to decrease in February 2020 as well and was 15.2% below the level of February 2019. The number of new non-residential buildings increased substantially after the previous drop and was 24.6% above the figure of the same period of the previous year.

Based on data received until March 2020, the SZIGMA LEAD indicator, which expresses our expectations regarding the short-term performance of the Hungarian economy, forecasts that the Hungarian economy would grow above-the-trend until May 2020; the growth rate is, however, decreasing. Expectedly, from June 2020 until the end of the year, the economy will increasingly underperform the trend. This means that

the economic shock caused by the coronavirus started to appear in the data. In March 2020, the Ifo Business Climate index, which provides a picture of the changes of the business climate of the German market, dropped substantially, by 13.8 index points from the base year's level and by 9.9 index points from the previous month's level. This change in the index was caused by the breakout of the coronavirus epidemic in the German economy and the measures taken against it. In the light of the above, the external environment will hold back the expansion of the Hungarian output in the coming months. As expected, retail sales increased considerably in February 2020, thanks to the shopping rush caused by the coronavirus pandemic; the growth-supporting role of this sector could, therefore, remain positive. The consumer trust index, which is measured by Eurostat, dropped by 2.3 index points in comparison with the same month of the previous year, but it was 0.8 index points higher than in the previous month. The index stands at -5.4 points, which means that improving trust could further increase sales in the segment. Overall, we expect that the economic shock caused by the coronavirus pandemic could probably cause a 0.3% downturn in 2020; this could, however, be materially affected by the pace of the pandemic and the reopening of the economy.

**Fig 1** Szigma simultaneous (CI) and leading (LEAD) indicators

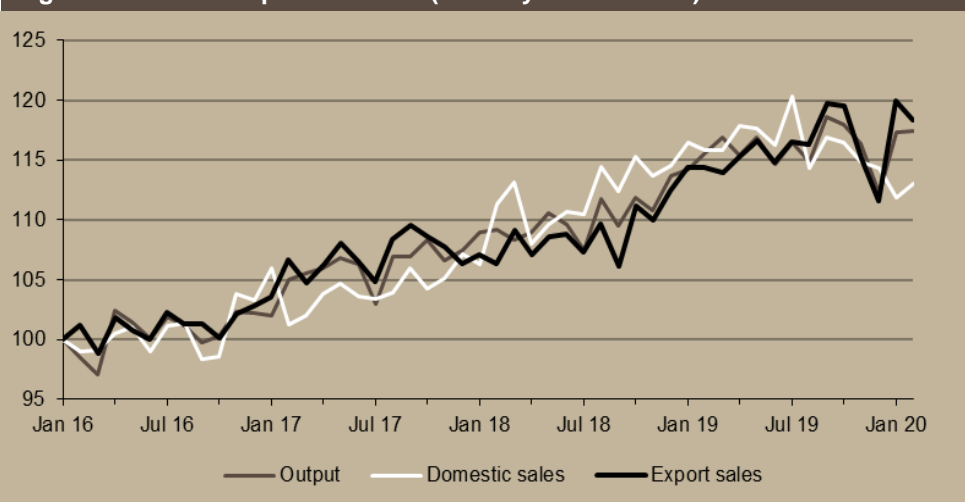


Source: Századvég

## Real economy

**Industrial output increased by 4.1% in February.**

The annual comparison shows that the February output of the industry was 4.1% higher in terms of raw data and 1.7% in terms of workday-adjusted data than in the same period of the previous year. Compared to January, the sector's output was 0.2% higher. In February, industrial expansion was held back by the coronavirus epidemic in China, which meant that businesses could not always get the semi-finished products for their production. Although the sector's sales increased by 3.7% on a year-on-year basis; taking a closer look, one can see that domestic sales and export sales changed differently: domestic sales decreased by 0.5%, and export sales increased by 6.1%.

**Fig 2 Industrial output and sales (January 2016 = 100%)**

Remark: Seasonally and working-day adjusted data

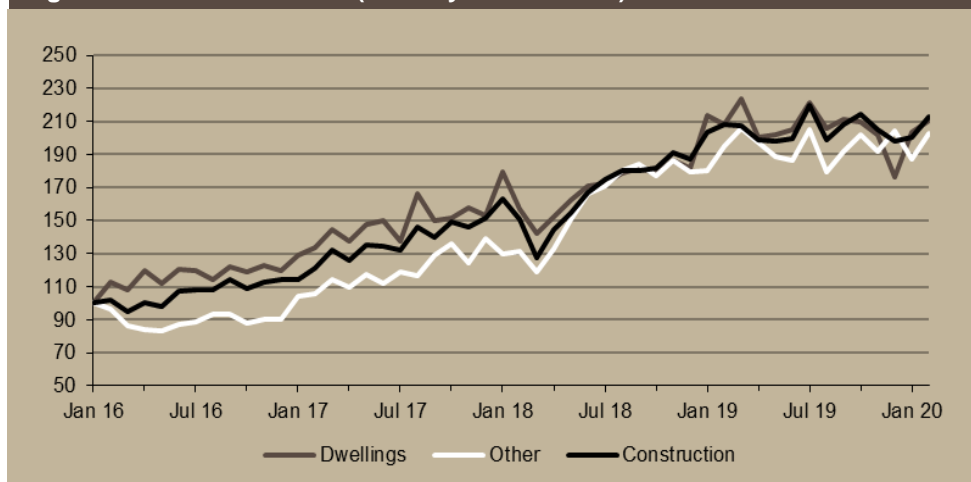
Source: HCSO, Századvég

The output of mining, one of the smallest industrial sectors, decreased by 17.2%, while that of the manufacturing sector increased by 4.3% and that of the energy industry increased by 3.8%. Within the manufacturing sector itself, electric equipment manufacturing increased the most (23.3%), followed by the manufacturing of computers, electronic and optical products (14.6%). The biggest year-on-year decrease was again recorded in coke production and petroleum processing (9.6%), followed by the metals industry (7.7%), the textile industry (5.3%). The sales order volume of the sectors followed up by the Hungarian Central Statistical Office was 3.9% smaller than one year before. More particularly, the volume of domestic sales orders was 3.6% smaller and the volume of export sales orders was 4.0% smaller. The volume of new sales orders is, however, 6.5% higher than one year before, and the volume of new domestic sales orders increased by 4.7%, and the volume of new export sales orders increased by 6.8%.

***The output of the construction industry increased by 2.5% in February.***

In February, the output of the construction industry increased by 2.5% on a year-on-year basis. In comparison with January, the output of this sector grew by 6.1, according to seasonally and working day-adjusted data. Both building groups increased their outputs. The output of buildings increased by 1.6%, that of civil engineering works increased by 4.2%. The sector's contract volume continued to decrease and was, therefore, 15.2% below last year's level. More specifically, the contract volume for buildings increased by 9.8% and that for civil engineering works decreased by 25.7%. The volume of new contracts was 2.7%, higher than one year before. More specifically, the volume of new contracts for buildings dropped by 7.8%, but that for civil engineering works increased by 16.2%.

**Fig 3 Construction sector (January 2016 = 100%)**

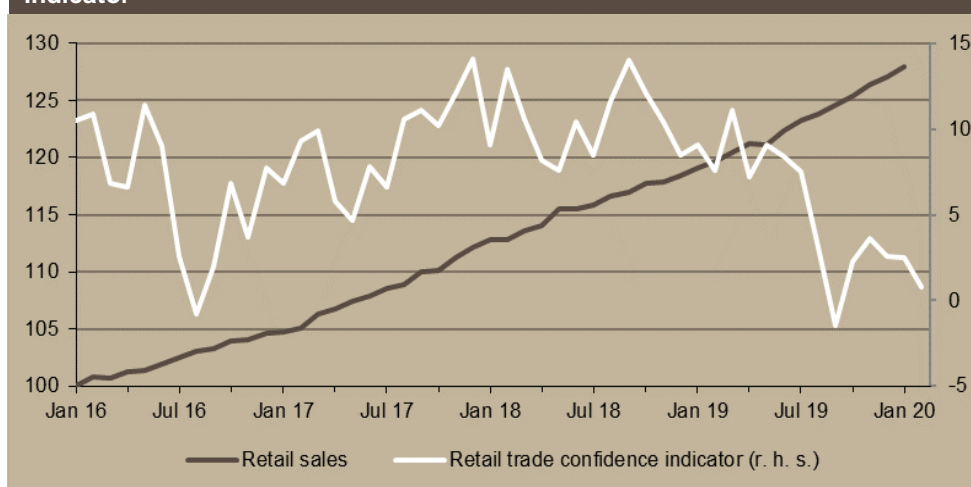


Remark: Seasonally and working-day adjusted data  
 Source: HCSO, Századvég

**The volume of retail sales increased by 10.9% in February.**

Raw data show that the volume of retail sales increased by 10.9%, while calendar-adjusted data show that the increase was 11.3% in February, compared to the same period of the previous year. As compared to January 2019, the calendar-adjusted volume of sales increased by 10.7% in specialised and non-specialised food shops, 11.4% in nonfood shops and 1.8% in retail fuel sales.

**Fig 4 Retail sales volume (January 2016 = 100%) and retail trade confidence indicator**



Remark: Seasonally and working-day adjusted data  
 Source: HCSO, Eurostat, Századvég

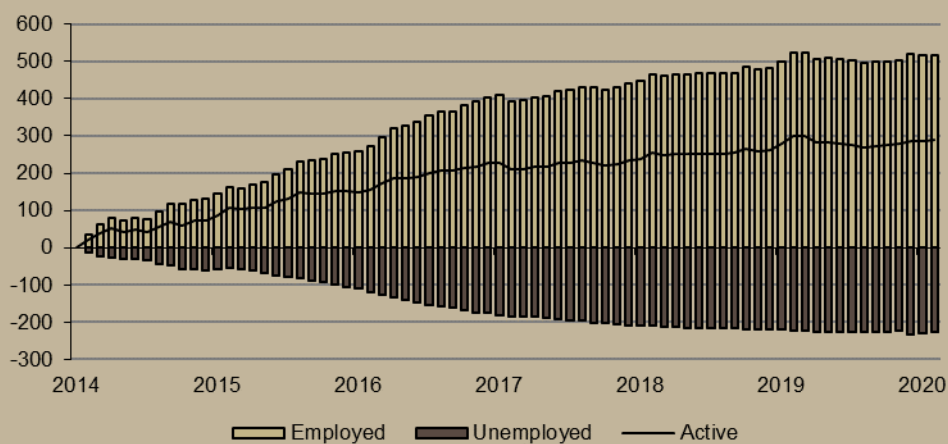
Parcel companies and web-shops continued to dynamically increase their sales in January as well and increased it by 32.9% in comparison with February 2019, based on calendar-adjusted data. Considerable increase was recorded in the sales of mixed range of manufactured goods (23.7%), and the sales in pharmaceuticals and medicinal products also increased (by 15.8%). The sales volume of textile products, clothing and footwear increased by 7.0%, and that of fragrances increased 15.5%, compared to the respective period of the previous year. February 2020 saw that the sales volume of non-specialised foodstuffs increased by 11.1%, that of computers and other manufacturing goods increased by 22.5% and that of second-hand goods increased by 0.4%. The sales volume of shops selling foodstuffs, beverages and tobacco products increased by 3.9%, that of shops selling furniture and electric goods increased by

7.4%, that of shops selling books, newspapers and stationary increased by 1.9%, compared to the same period of the previous year.

**February labour market data still do not show the impact of the coronavirus.**

In February, the seasonally adjusted number of the employed decreased minimally, by 1,000, to 4,515,000 from the previous month in the age group from 15 to 74; on a year-on-year basis, the change was 8,000 in reduction. The production difficulties caused by the coronavirus did already contribute to the reduction of the number of the employed. Seasonally adjusted data show that, by contrast, the size of the active population increased by 1,000 on a month-on-month basis and 12,000 on a year-on-year basis. As a result of the two trends, the number of the unemployed increased by 2,000 on a month-on-month basis and 5,000 on a year-on-year basis to almost 161,000, which still corresponds to an unemployment rate of 3.4%. Employment statistics, however, show a completely different picture about the Hungarian labour market. Seasonally adjusted data show that, in January, the number of the employed dropped by 76,000 on a month-on-month basis and by 29,000 on a year-on-year basis. The drop in the beginning of the year could have been caused in part by the updating of the corporate register of the Hungarian Central Statistical Office. Accordingly, the decrease occurred almost entirely at enterprises having at least 5 employees. In their case, the number of employees decreased by 81,000 as compared to the end of the previous year. By contrast, the number of employees at budgetary organisations increased by 4,000 and that at nonprofit companies increased by 1,000 in January on a month-on-month basis. At the same time, January saw that the number of people employed in public employment schemes continued to decrease. The number of people working in the Start work schemes was only 93,400, which is almost 3,000 less than in December.

**Fig 5 Labour market trends (January 2012 = 0, thousands of persons)**



Remark: Seasonally and working-day adjusted data

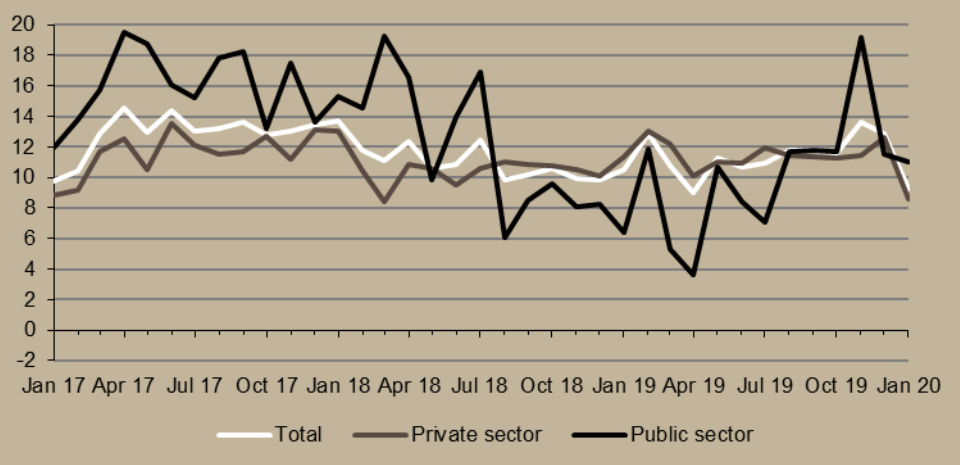
Source: HCSO, Századvég

**In January, real wages grew by 4.3%, the slowest rate since 2015.**

The average gross monthly wage in the national economy increased by 9.2%, to HUF 375,200, in the first month of the year, compared to the same period of the previous year. More specifically, the average wage increased by 8.6% at enterprises having at least 5 employees, by 11.0% in the public sector and by 9.6% at nonprofit organisations. The increase was primarily driven by the 8% increase of the minimum wage and the guaranteed wage minimum in January; compared to the previous months, however, the slower increase rate is mostly caused by the economic slowdown and could be further intensified by the coronavirus-induced economic situation. The average net monthly wage also increased by 9.2%, to HUF 249,500; if we take the benefits into account, then it increased by 9.1%, to HUF 256,900. Taking

the effect of inflation (peaking at 4.7%) into account, this increase only means a 4.3% real wage increase, a slow rate that has not occurred since mid 2015.

**Fig 6 Gross wages (annual change, %)**



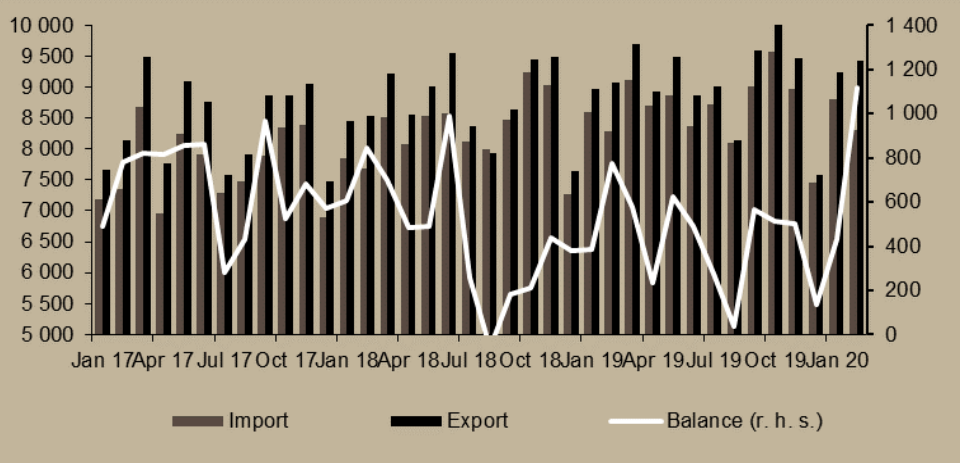
Remark: Seasonally and working-day adjusted data  
Source: HCSO, Századvég

## External balance

*The foreign trade surplus decreased in January and increased in February.*

In January, product exports increased by 2.8% and product imports increased by 2.4% in EUR value, on a year-on-year basis. This means that the foreign trade balance was EUR 423 million, which is EUR 39 million less than last year.

**Fig 7 Balance of trade (in million EUR)**



Source: HCSO

In January, the volume of food product imports increased by 4.2%, and food product exports increased by 4.4% on a year-on-year basis. As for energy carriers, import increased by 0.3% and exports dropped by 28%. As for processed products, imports increased by 5.2%, exports decreased by 1.2%, on a year-on-year basis. As for machinery and transport equipment, imports increased by 4.5%, exports increased by 6.6%.

In February 2020, the EUR value of exports was 3.9% higher, the EUR value of imports was 0.1% higher than one year before. The foreign trade balance was EUR 1,118 million, which is 343 million more than one year before.

The current account balance was EUR 646.5 million in February 2020. This means that the current account balance improved to EUR 539 million in the first two months. One year ago, the Q1 current account balance was EUR –105.1 million.

## Fiscal outlook

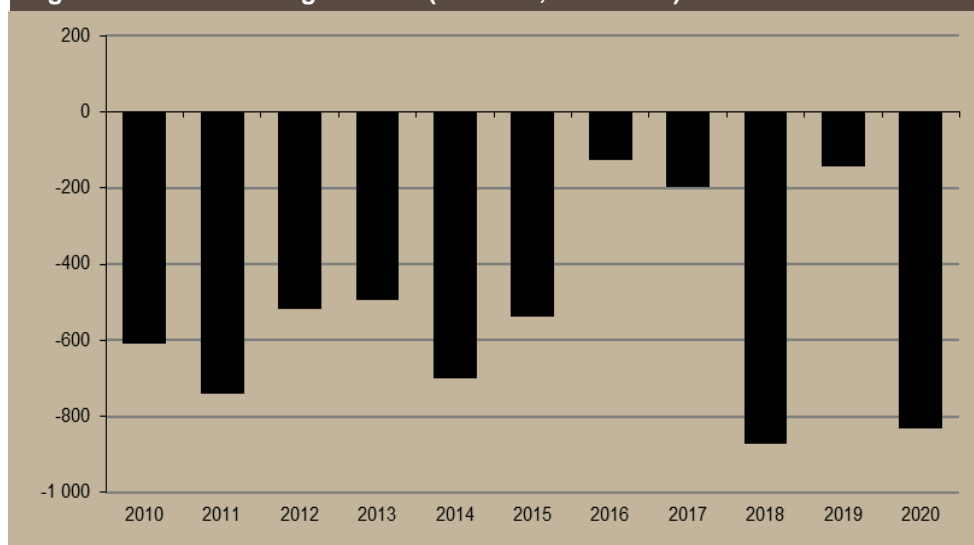
*The budget deficit was HUF 831.9 billion in the first three months of 2020.*

In the first three months of 2020, the cumulative deficit of the central budgetary subsystem was HUF 831.9 billion, thanks to the measures to curb the coronavirus pandemic. This deficit consisted of the HUF 746.7 billion deficit of the central budget, the HUF 86.9 billion deficit of the social security funds subsector and the HUF 1.7 billion surplus of the extra-budgetary funds.

As for the revenues in the first three months, the amount of VAT-revenues increased by HUF 90.3 billion (8.7%), the amount of personal income tax revenues increased by HUF 55.0 billion (9.6%) and the amount of corporate tax revenues increased by HUF 37.9 billion (141.4%) compared to the respective period of the previous year. Revenues from pension, health insurance, labour market and social contributions also increased: by HUF 31.4 billion (2.3%) in comparison with the same period of the previous year. The positive revenue trends are expected to be halted by the already taken measures such as contribution reliefs and the weakening economic output.

The revenue the government budget received in connection with EU projects was only HUF 63.4 billion until March, while expenses related to EU projects were around HUF 691.2 billion.

**Fig 8 Cumulated budget deficit (Jan–Mar, in bn HUF)**



Source: Ministry of National Economy

## Monetary developments

*The inflation rate slowed down to 3.9%.*

In March 2020, consumer prices increased by 3.9 percent on average—compared to the same period of the previous year. In the past year, the highest price increase was recorded for alcoholic beverages, tobacco products, vehicle fuels and food products. In comparison with the same period of the previous year, the price of alcoholic beverages and tobacco products increased by 7.2% on average, while that of food products increased by 7.5%. Taking a closer look at alcoholic beverages and tobacco products, one can see that the excise duty increase caused the price of tobacco products to increase by 11.3% as compared to the same period of 2019.



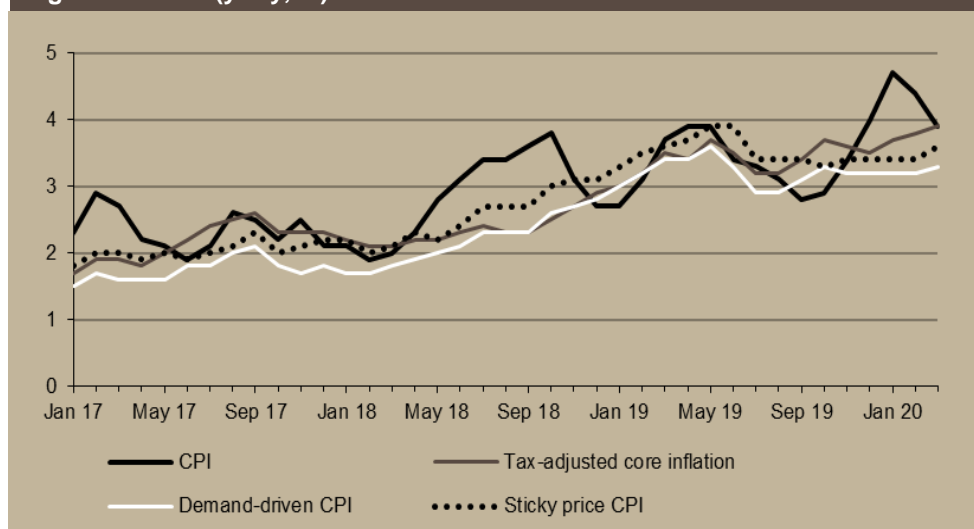
The 7.2% average price increase of food products was driven mainly by the 20.8% increase in Extrawurst and sausage prices, 27.4% increase in pork prices and the 24.7% increase in fresh Hungarian and tropical fruits. The increase in pork prices is attributable to the swine fever virus. The average inflation of food products was, however, decreased by the decrease in potato (−2.4%), chocolate and cocoa (−1.5%) and coffee (−2.3%) prices.

Prices of other goods, fuels increased by 0.8% on average in March, which was mostly driven by the 3.0% increase in the prices of pharmaceuticals and medicinal products and the 2.3% increase in detergent prices. By contrast, however, vehicle fuel prices decreased by 2.1%, sports gear and toy prices decreased by 1.6% and pots and kitchenware prices decreased by 1.5%. The average increase in household energy prices was 0.3% in March as compared to the same period of the previous year. Within household energy, the price of bottled natural gas increased by 2.1%, fuelwood prices increased by 2.9% and coal prices increased by 3.4% in one year. The price of electricity, pipeline gas and district heating remained unchanged.

In March, the prices of services increased by 3.8% on average, which was driven by the 8.7% increase of rents, the 9.2% increase in home repair and maintenance prices, the 8.1% increase in domestic holiday services and the 7.3% increase in gambling prices. The average price increase of services was moderated by the 9.6% decrease in the prices of other long-distance travels, the 3.3% decrease in telephony and internet prices, and the 0.8% decrease in motorway tolls, vehicle renting and parking prices. Clothing prices increased by 0.9% and the prices of durable consumer goods increased by 0.5% on average in a single year. Taking a closer look at the latter, one can see that new car prices increased by 4.9% and used car prices decreased by 6.2%.

Based on the base inflation indicators disclosed by MNB, the core inflation rate was 4.3%, while the core inflation rate excluding the effects of indirect taxes was 3.9% in March. The demand-sensitive inflation rate was 3.3%, the sticky price inflation rate was 3.6% in March.

**Fig 9 Inflation (y-o-y, %)**

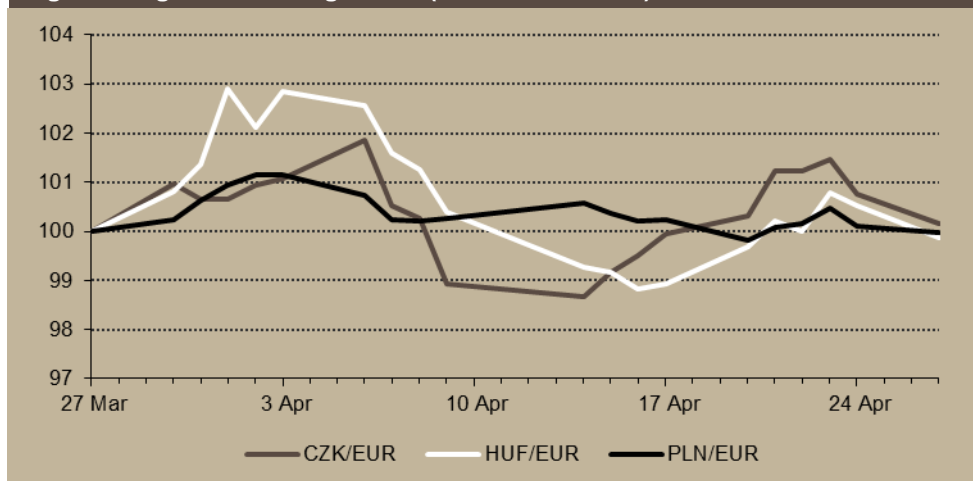


Source: NBH, Századvég

**Interest rate conditions did not change in the Eurozone and the USA.**

Neither the ECB Governing Council nor the Federal Open Market Committee has met in the recent period. Eurozone interest rates have not changed, i.e. the reference interest rate is still 0.00%, the active and deposit rates of central bank availability are 0.25% and -0.50%, respectively. The Federal Open Market Committee has not changed its base interest rate with a target range from 0% to 0.25%.

**Fig 10 Regional exchange rates (start date = 100%)**

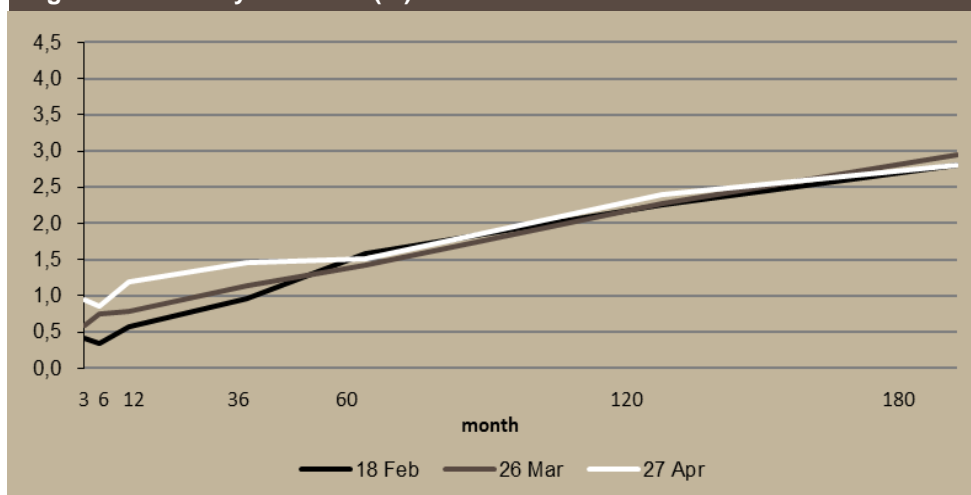


Source: Thomson Reuters Datastream

**Regional foreign currency exchange rates have barely changed.**

Regional trends have shown stagnation. The Czech koruna weakened by 0.2%, the Polish zloty remained more or less unchanged against the Euro. To mitigate the negative effects of the coronavirus, the Polish central bank decreased its reference interest rate with 50 base points (from 1% to 0.5%). At the end of the period, the CDS spread (5-year CDS) was 38 base points in the Czech Republic and increased by 1 base points to 59 base points in Poland.

Indicators of the Hungarian financial and foreign currency markets have shown a mixed picture, but primarily stagnation, in the past period. The value of the 5-year CDS spread increased by 1 base points to 78 base points. The HUF strengthened by 0.1% against the Euro but weakened by 1.3% against the US Dollar and by 0.4% against the Swiss Franc. This means that on 27 April, 1 Euro was worth 354 Forints, one Dollar was worth 326 Forints and 1 Swiss Franc was worth 335 Forints. Sovereign debt held by foreigners has recently decreased by HUF 78 billion to HUF 4,036 billion.

**Fig 11 The HUF yield curve (%)**

Source: Government Debt Management Agency, Századvég

***The MNB is starting a government bond purchase programme and a mortgage bond purchase programme.***

On 7 April, the Monetary Council of the Magyar Nemzeti Bank made several decisions to mitigate the pandemic's monetary policy aspects and expected impact on Hungary's real economy. Although the Monetary Council did not change its reference interest rate, but it widened the interest rate corridor. This means that the base interest rate is still 0.9%, the overnight deposit interest rate is  $-0.05\%$ ; credit interest rates have, however, been increased by 95 base points, to 1.85%. Additionally, the Monetary Council increased the interest rate of its 1-week loan facility to 1.85%. The interest rate of the one-week deposit facility is still the same as the 0.9% base interest rate, but it might deviate from it both positively and negatively. At its interest rate setting meeting of 28 April, the Monetary Council did not change the monetary conditions.

The Monetary Council also decided to launch a government bond purchase programme on the secondary market to ensure the stable liquidity of the government securities market and to relaunch its mortgage bond purchase programme to increase the long-term supply of funds for the banking system. At the interest rate setting meeting of the Monetary Council of 28 April, the Magyar Nemzeti Bank decided that these two programmes would launch on 4 May. MNB will appear on the secondary government securities market where it may purchase fixed-interest government securities denominated in HUF. Additionally, it wishes to primarily purchase government securities that have an at least 3-year by ensuring that its share in a government security series does not exceed one third of the entire stock. The mortgage bond purchase programme applies to fixed-interest long-term mortgage bonds denominated in HUF, its budget is 50% of the issued stock, and MNB will purchase from both the primary and the secondary markets. According to the MNB, its (government security and mortgage bond) purchases are not capped; the government security purchase worth HUF 1,000 billion and the mortgage bond purchase worth HUF 300 billion mean that the MNB is executing a technical revision.

From Q2 of 2020, the MNB Monetary Council will not set a target for the banking system liquidity to be crowded out from instruments with base interest rate. This means that the MNB is creating more room for its liquidity generation.

On 20 April 2020, the Monetary Council launched the Funding for Growth Scheme "Hajrá" ("Go!") scheme for Hungarian small- and medium-sized enterprises, increasing the current budget by HUF 1,000 billion.

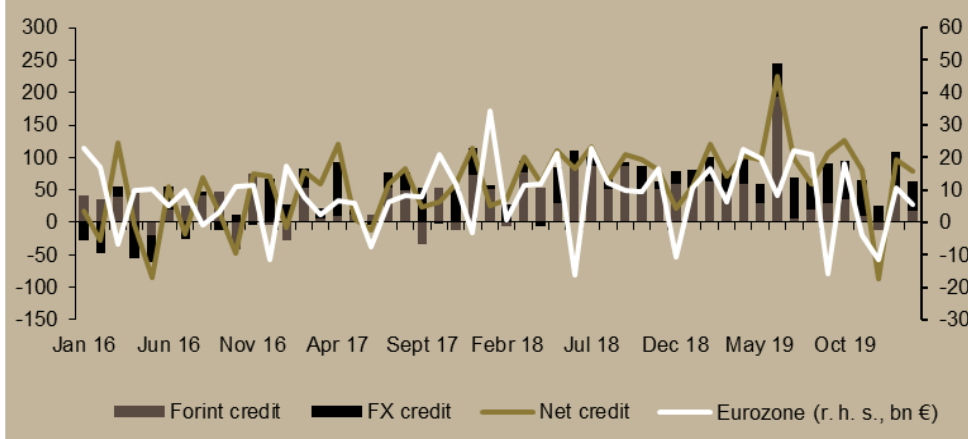
In the last month, shorter-term yields decreased by between 10 and 41 base points on the secondary market yield curve of the government securities market. This means that the 3-month yield was 0.95%, the 6-month yield was 0.85% and the 1-year yield was 1.2% on 27 April. The 3-year yield increased by 32 base points to 1.46%. On a month-over-previous-month basis, 5-year yields decreased by 9 base points, 10-year yields decreased by 11 base points, 15-year yields decreased by 14 base points. These three yields had, therefore, changed respectively to 1.52%, 2.39% and 2.8% by the end of April. Shorter-term yields increased because of the less excess liquidity, risk avoidance (a more turbulent government securities market) and the still loose monetary policy, while the slight increase of longer-term yields is in line with international trends.

Since 1 June 2019, individuals can buy super government bonds (MÁP+) with a relatively high interest rate that gradually increases during its term. A total of HUF 3,872 billion had been issued from this government bond by end March. The total value of the 2019 issues was HUF 3,163 billion (in 7 months), and the January 2020 issue was worth HUF 286 billion, the February 2020 issue was worth HUF 239 billion and the March 2020 issue was worth HUF 184 billion.

The share of foreign currency debt in the sovereign debt changed to 15.75% in December, which is in the range (10–20%) specified in the financing plan for 2020 of the Government Debt Management Agency Ltd. Having regard to the fact that the Government increased the budget deficit planned for 2020 because of the coronavirus pandemic, the Government Debt Management Agency Ltd. collected a part of the required funds, EUR 2 billion, from the foreign exchange market in April. This, however, still says in the specified range.

None of the big international credit rating agencies rated the riskiness of Hungarian government securities in the past period. The Hungarian government debt is, therefore, rated as Baa3 with a stable outlook by Moody's, BBB with a positive outlook at S&P and BBB with a stable outlook by Fitch. This means that Moody's rates the risk of Hungarian government securities at the lowest level of the category recommended for investment, the other two big international credit-rating agencies rate it one category higher; moreover, S&P gave it a positive outlook, which might mean an upgrading in 12 to 24 months. Given a more turbulent money, capital and foreign exchange market and a weakening output of the real economy—because of the negative impact of the coronavirus—, this will presumably happen somewhat later.

**Fig 12 Corporate borrowing (in billion HUF)**



Source: NBH, ECB, Századvég

**Corporate credits  
continued to increase in  
February.**

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector was HUF 18.3 billion in February 2020. The aggregated value of new foreign currency loans decreased by HUF 15.8 billion to HUF 45 billion in the second month of the year, i.e. the increase of the aggregated value of foreign currency loans slowed down a bit. This means that, based on seasonally adjusted data, total net borrowing was HUF 79.9 billion in January.

In February, the value of gross loan placement in Hungarian forints over and above bank overdrafts was HUF 128.5 billion, which is HUF 125.5 billion less than the amount of the previous month. The sum of newly granted euro-loans was HUF 55.2 billion, which is HUF 22.5 billion less than the figure for January.

### **Changes in the student loan**

As disclosed in the Hungarian Official Gazette, the Decree creating the opportunity for every student of higher education and with an active student status to take out a onetime, interest free and general purpose student loan of maximum HUF 500,000 as well as the opportunity for every person in higher education to take out a onetime, interest free and general purpose student loan of maximum HUF 1,200,000 will enter into force on 1 May. All persons who are younger than 55 and do not have a student loan for language learning or have a valid general-purpose loan agreement will be eligible to take out this type of loan. The risk premium interest element of Diákhitel Plusz (Student Loan Plus) is 1.5%, which will be paid by the state as a general interest subsidy, just like in case of specific-purpose loans. Interest elements above that will be the same as the interest elements of the general-purpose student loan. The applicant will be able to decide on the repayment period at the time of concluding the contract by choosing a minimum 1-year and a maximum 5-year period, which will start 12 months after taking out the loan. The organisation of the Student Loan Centre will inform the debtors about the repayment instalment amount in the month preceding the start of repayment. In case of special needs (e.g. child support, contract termination, early repayment), the rules of the loan for language learning (introduced in January but ending with the introduction of Diákhitel Plusz) will apply. According to the changed rules, the students applying for the general-purpose loan may change the amount they wish to take out until 31 December in the first term (semester) and 15 June in the second term (semester), and the general-purpose loan will be available for application retrospectively, until 15 June. The Government Decree was also amended with the modification of the monthly amount of Diákhitel1 (Student Loan 1), this means that the amount students may apply for will be HUF 150,000 per month from 15 August, i.e. the total amount of the general purpose loan without credit scoring and collateral could be even HUF 1,500,000.

The labour market impact of the coronavirus pandemic considerably affects students. According to the 20 December 2019 study of the Hungarian Central Statistical Office, 285,110 students are studying in higher education in the 2019/2020 academic year, and 203,625 of them are full-time students. Additionally, 88,882 students are studying in adult education. According to Diákhitel Központ (Student Loan Centre) some 25% of full-time students have already had student jobs, and, in the current situation, companies are laying off non-full-time employees (e.g. students, pensioners, agency staff), which could imply difficulties in rent payment, among other things. Another goal is to retrain the unemployed to trades that are promoted by the economic policy in a way that these people can also earn a living in the process.

The Student Loan Centre is self-financing and raises funds for placing loans from the financial market; this means that tens of thousands of students will be able to apply for loans without any budget limit. Previous goals of the Student Loan Centre included promoting student loans among students; many measures have, therefore, been taken to partially or fully cancel debts (half of the outstanding debt is cancelled after the birth of the 2nd child; the entire debt is cancelled for mothers after the birth of the 3rd child) and reduce interest rates (1.99% for Diákhitel1 and 0% for Diákhitel2).

# Századvég forecast<sup>1</sup>

**Fig 13 Q1 2020 projection**

	2019					2020					2021				
	annual	Q1	Q2	Q3	Q4	annual	Q1	Q2	Q3	Q4	annual	Q1	Q2	Q3	Q4
Gross domestic product (volume index, %)	4,9	2,0	-7,3	1,8	2,2	-0,3	2,5	4,8	2,9	3,2	3,4				
Household consumption expenditure (volume index, %)	5,0	5,6	-8,0	1,9	2,2	0,4	2,7	3,7	2,3	3,5	3,0				
Gross fixed capital formation (volume index, %)	15,3	-3,7	-7,0	2,3	3,7	-1,2	8,9	4,0	2,6	4,2	4,9				
Export volume index (based on national accounts, %)	6,0	-4,6	-6,4	3,2	2,4	-1,4	3,4	5,9	3,6	4,5	4,4				
Import volume index (based on national accounts, %)	6,9	1,0	-6,5	3,6	1,5	-0,1	3,4	5,7	3,1	3,3	3,9				
Foreign trade balance (bn EUR)	4,9	0,2	1,2	0,6	1,2	3,3	0,2	1,3	0,8	1,5	3,9				
Consumer price index (%)	3,4	4,4	3,7	3,5	3,3	3,7	3,3	3,7	3,5	3,5	3,5				
Central bank's base rate at the end of the period (%)	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9				
Unemployment rate (%)	3,5	3,5	4,9	4,4	4,2	4,3	4,1	4,2	3,9	3,9	4,0				
Gross average earnings (year-on-year change, %)	11,4	9,8	7,2	7,9	7,7	8,2	7,3	8,9	8,1	8,1	8,1				
Current account balance as a percentage of GDP	-0,9					-1,6					-1,5				
External financing capacity as a percentage of GDP	0,4					0,1					0,2				
General government ESA-balance as a percentage of GDP	-1,6					-3,0					-2,0				
GDP based external demand (volume index, %)	1,6	-0,1	-8,0	0,7	0,9	-1,6	1,0	4,0	1,2	1,3	1,9				

Source: HCSO, NBH, Századvég

**Fig 16 Changes compared to our previous forecast**

	2020		
	Dec 2019	Mar 2020	Difference
Gross domestic product (volume index, %)	3,9	-0,3	-4,2
Household consumption expenditure (volume index, %)	4,9	0,4	-4,5
Gross fixed capital formation (volume index, %)	6,5	-1,2	-7,7
Export volume index (based on national accounts, %)	5,0	-1,4	-6,4
Import volume index (based on national accounts, %)	4,7	-0,1	-4,8
Foreign trade balance (bn EUR)	4,7	3,3	-1,5
Consumer price index (%)	3,4	3,7	0,0
Central bank's base rate at the end of the period (%)	0,9	0,9	0,0
Unemployment rate (%)	3,3	4,3	1,0
Gross average earnings (year-on-year change, %)	9,9	8,2	-1,7
Current account balance as a percentage of GDP	-0,8	-1,5	-0,7
External financing capacity as a percentage of GDP	1,0	0,1	-0,9
General government ESA-balance as a percentage of GDP	-1,0	-3,0	-2,0
GDP based external demand (volume index, %)	1,4	-1,6	-3,1

Source: HCSO, NBH, Századvég

<sup>1</sup> The forecast is valid as of 16 March 2020.

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