SZÁZADVÉG GAZDASÁGKUTATÓ

MONTHLY MONITOR

August 2020

The GDP fell by 13.6% in Q2

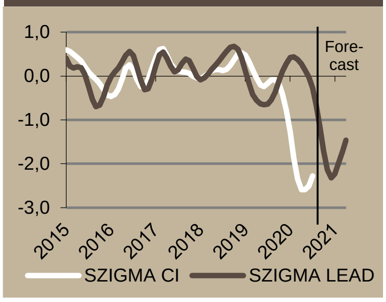
Q2 data show that the output of the Hungarian economy fell, on a year-on-year basis, by 13.6% according to raw data and by 13.5% according to adjusted data. This is the result of the shutdown because of the coronavirus pandemic.

To a greater or lesser extent, every sector felt the effects of the virus in Q2 and consequently saw a decrease in added values on a year-on-year basis. As restrictions got lifted, the economy slowly and gradually restarted, but does not promise to be quick. In June, industrial output was 7.8% below the level recorded one year before, which is lower than the fallback rate measured in previous months. The output of the construction industry appears to be persistently affected by the drop in demand—its output was 15.7% lower than the output measured in the same period of the previous year. By June, retail sales had, however, already reached their level of the previous year; moreover, they also expanded minimally, by 0.8%.

The downturn in the output of the Hungarian economy is worth the international comparison. The slowdowns of the different Member States of the European Union show a rather mixed picture. The Lithuanian economy shrank the least (-3.7%), while the Spanish economy shrank the most (-22.1%). The average slowdowns of the eurozone and that of the European Union (15.0% and 14.1%, respectively) were higher than that of Hungary; the fall of the Hungarian economy was, however, the most significant among the Visegrad Countries: the Czech economy shrank by 10.7%, the Slovak by 12.1% and the Polish by 7.9% on a year-on-year basis.

The inflation rate increased to 3.8% in July, while the core inflation rate grew to 4.5%, i.e. despite the downturn, there are inflationary pressures in the economy.

SZIGMA indicators

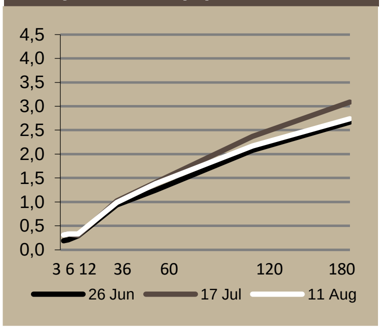


Source: Századvég

Forecast (11 June 2020)

	2020
GDP volume change (%)	3,1
Inflation (annual average, %)	3,2
Gross wages (annual change, %)	9,4
EUR/HUF	341

HUF yield curve (%)



Source: Datastream

Economic overview

External environment

Employment is slowly rising in the United States.

In the USA, after decreasing by 20.8 million in April, the number of employees in non-agricultural sectors grew by 2.7 million in May, by 4.8 million in June and by 1.8 million in July. This means that, parallel to the restarting of the economy, the labour market in the largest economy of the world is slowly recovering. In July, however, the number of employees was still 11.4 million below the figure recorded for the same period of 2019. Thanks to the increase in employment, the unemployment rate had decreased from its peak of 14.7% in April to 10.2% by July. At the same time, it is important to mention that an unemployment rate of ca. 10% was last reached at the height of the 2008 crisis and in the first half of the 1980s in the USA. Moreover, a significant difficulty is caused in the USA by the fact that the economic activity is below the previous year, in other words, more people left the labour market due to introduction of restrictions in the USA as well. Monthly data show, however, that they are gradually returning to the labour market: the activity rate was still 2.6 percentage points lower than in the same period in 2019, but this difference had shrunk to 1.6 percentage points by June.

After the 11.6% increase in May, industrial output increased by 9.1% in June in the European Union, on a month-over-previous-month basis. This means that the sector is gradually restarting as the restrictions introduced because of the coronavirus get lifted. On a year-on-year basis, however, the output of this sector is still 11.6% below the level measured in June 2019. Industrial output has, however, contracted at different rates in the different product areas: in June, the output of capital goods was 16.4%, that of intermediate goods was 11.9%, that of energy was 9.1%, that of nonperishable consumer goods was 7.5% and that of perishable consumer goods was 6.0% smaller than one year before. The largest downturn was measured in Portugal (-14.8%), but the industrial output decreased by nearly 14% in Germany, Spain, Italy and in Romania, too. In contrast, this sector’s output could already increase in Ireland, and only a slight decrease was registered in Croatia, Latvia, Malta and Poland.

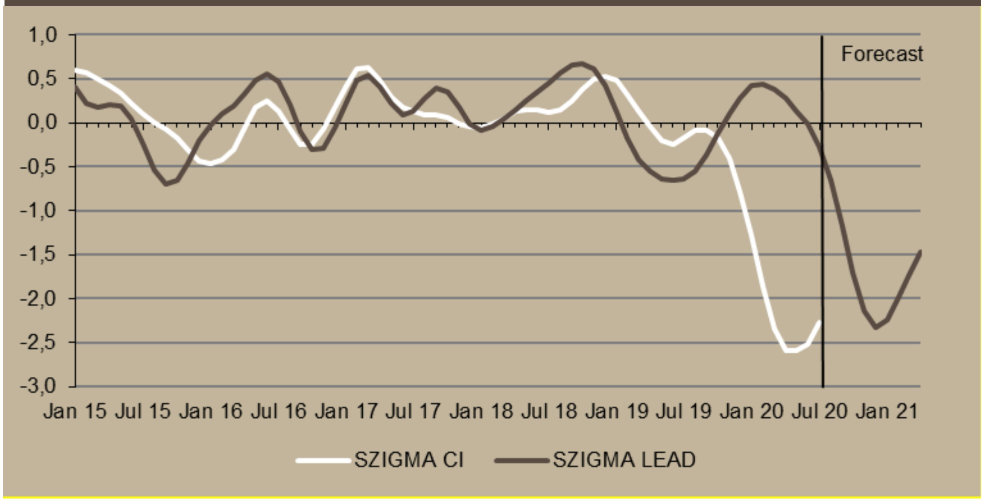
SZIGMA indicators

Our SZIGMA indicator shows the effects of the virus.

The SZIGMA CI indicator, which provides a picture of the current status of the Hungarian economy, continued to indicate a slight improvement in July 2020 as well, although it still represents a negative value. Accordingly, the Hungarian economy continued to grow at a rate below the trend, which is the effect of the coronavirus-resulted economic shutdown and then the slow restarting of the economy. In June 2020, both domestic and export industrial sales fell significantly back as compared to the same period of the previous year, by 10.4% and 9.1%, respectively. The volume of new domestic sales orders continued to shrink (by 6.1%), while export sales orders were 19.6% higher than last year’s base data. Despite the gradual restarting of the economy, the industrial output shows a significant downturn, which will presumably act as a drag on economic growth in Q2. The end-of-month volume of contracts in the construction industry was 19.2% lower than in June 2019; the number of new non-residential building projects was, however, 12.7% higher than one year before.

The SZIGMA LEAD indicator, which expresses our expectations for the short-term performance of the Hungarian economy, indicates that growth will be below the trend in the entire forecast period. The Ifo Business Climate index, which provides a picture of the changes of the business climate of the German market, indicated an increase again (by +4.2 index points) on a month-over-previous-month basis, but dropped by 5.8 index points compared to July 2019. The improving sentiment of the external environment is encouraging; the second wave of the coronavirus pandemic, however, makes its contribution to the Hungarian GDP uncertain. Retail sales stagnated in June 2020 on a year-over-year basis; in other words, retail sales started to recover. Due to previous setbacks, however, retail sales may have still slowed down the economic growth in Q2. The consumer trust index, measured by Eurostat, improved by 3.0 index points on a month-over-previous-month basis, although it was 17.3 index points below the level measured for July 2019. The negative index value implies that trust needs to be improved for increasing sales in the segment. Overall, we expect that the economic shock caused by the coronavirus pandemic could probably cause a downturn exceeding 3.0% this year; this could, however, be materially affected by the speed of reopening of the economy, the development of external demand, and any potential subsequent waves of the pandemic.

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



Source: Századvég

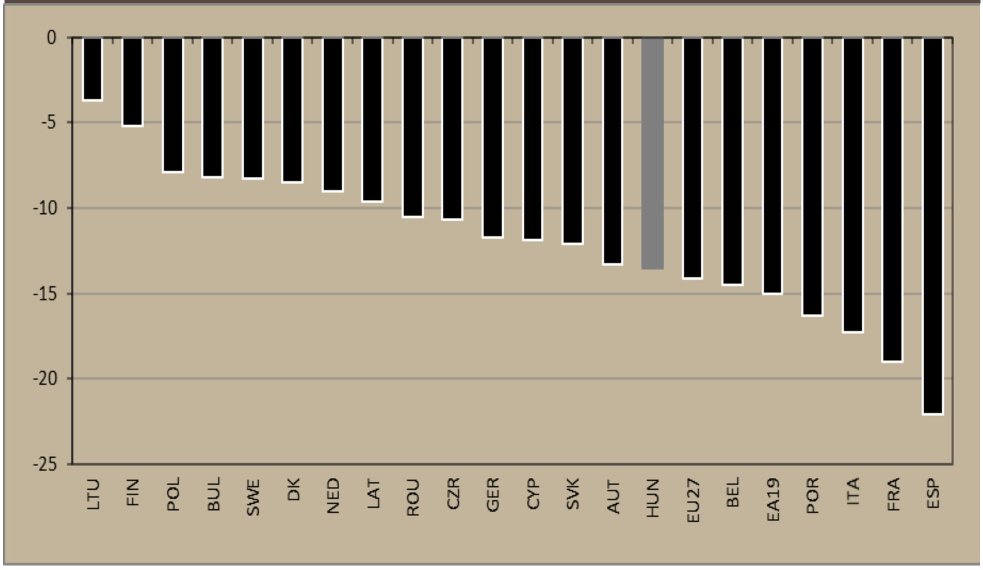
Real economy

The Hungarian GDP decreased by 13.6%.

The first estimates of the Hungarian Central Statistical Office show that, in Q2 2020, the annual GDP of the Hungarian economy decreased by 13.6% based on raw data and by 13.5% based on seasonally and calendar-adjusted data. This drop is higher than the 10.7% decrease expected by the analyst consensus. As a result of the state of emergency caused by the coronavirus epidemic, the output of most sections of the national economy turned down, both the industrial and services sectors were strong drivers of economic output. Seasonally adjusted data show that the GDP decreased in the EU and the eurozone as compared to the same period of the previous year (by 11.7% and 12.1%, respectively). In the European Union, the worst downturns were in Spain (-22.1%) and France (-19.0%), while Latvia (-3.7%) and Finland (-5.2%) suffered the lightest slowdowns with regard to GDP in Q2 2020. Hungary’s calendar and seasonally adjusted GDP decreased by 14.5% on a quarter-on-previous-quarter basis.

The state of emergency caused by the coronavirus epidemic had a negative impact on the output of most industries. Q1 2020 saw the gross sales revenues (at current prices) of accommodation providers in the tourism sector drop by 89.2% due to the actual shutdown of the accommodation sector in April and May, resulting from the coronavirus epidemic. Calendar-adjusted data show a 4.1% drop in retail sales, relative to the same period of the previous year, while industrial output decreased by 25.2% and the output of the construction industry fell by 11.8% in Q2. The regional comparison shows that industrial output dropped at a considerable rate in Western Transdanubia (-39.0%) and in Central Transdanubia (-30.9%). Industrial output also decreased significantly in Northern Hungary (-26.5%), in the Southern Great Plain (-25.2%), in Pest county (-16.3%) and in Southern Transdanubia (-15.7%). In comparison with the same period of the previous year, the slowdown was the smallest in the Northern Great Plain (-5.9%) in Q2.

Fig 2 GDP-growth across the EU (Q2 2020; y-o-y; %)

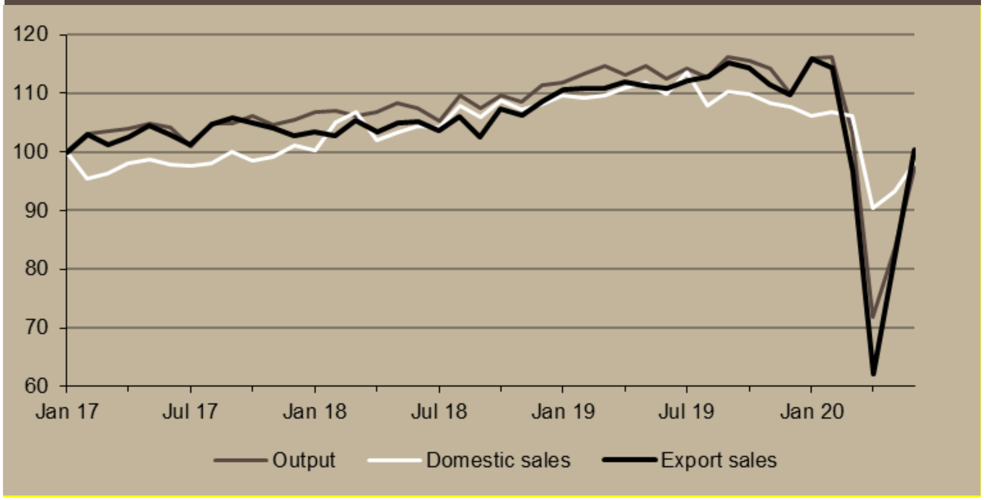


Remark: Seasonally and working-day adjusted data from the first estimates.
Source: Eurostat

Industrial output dropped by 7.8%.

In June, industrial output was still lower than previously measured, but the difference was smaller, 7.8%, than in the previous months. The lower fallback may have been caused by the gradual restart of the economy, but it may have been driven by the weak output of the basis period, too. The workday-adjusted drop was more significant, 12.2% At the same time, the sector’s output expanded significantly, by 17.1%, compared to the previous month. The sales volume of the industry decreased by 5.7% on a year-on-year basis; more specifically, the volume of domestic sales was 7.3%, that of export sales was 5.0% lower than one year before.

Fig 3 Industrial output and sales (January 2017 = 100%)



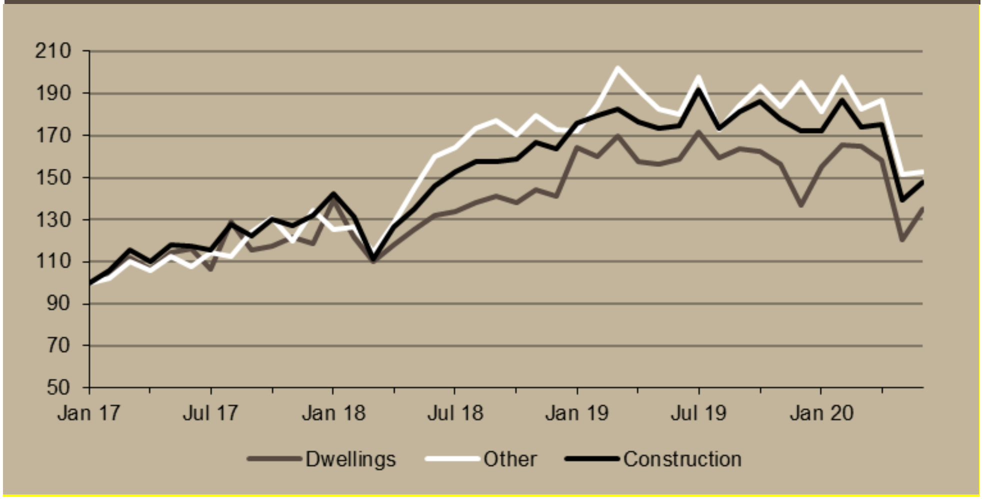
Remark: Seasonally and working-day adjusted data
Source: HCSO, Századvég

Breaking down the output of the entire industry as a sector, one can see that the output of mining shrank by 34.4%, that of the manufacturing industry shrank by 7.3% and that of the energy industry shrank by 4.3%, compared to the data recorded one year before. In the manufacturing sector itself, the textile industry saw the largest drop, 18.6%, followed by the downturn of metals industry by 17.2% and that of the manufacture of coke production and crude oil processing by 13.1%. The output of the important automotive industry was 12.9% below the output recorded one year before. The largest increase, 4.5%, could be seen in the manufacturing of computers, electronic and optical products, but a 1.7% increase was also recorded for the output of the food and pharmaceutical industries. Changes in the sales order volumes of the manufacturing industries, recorded by the Hungarian Central Statistical Office, could imply a slow recovery after the crisis. The total sales order volume nearly corresponds to the data recorded one year before. More particularly, the volume of domestic sales orders was 1.0% higher than one year before, while the volume of export sales orders remained unchanged. In June, the volume of new sales orders was 15.7% higher than in the same period of the previous year. Taking a closer look, however, one can see that domestic and export sales orders follow different rends. The volume of domestic sales orders decreased by 6.1%, that of export sales orders increased by 19.6% compared to June 2019. This latter change can be regarded as an adjustment of the previous months.

The output of the construction industry shrank by 15.7%.

In June, output of the construction industry was still considerably, 15.7% less than one year before. Based on seasonally and workday-adjusted data, this, however, means a significant, 6.2% increase compared to May. The annual comparison shows that output decreased in the case of both building groups. The output of buildings dropped by 14.2%, that of civil engineering works fell by 17.5%. The decrease is primarily attributable to the contraction of demand. As to the future of the industry, the continued shrinking of the aggregated value of contracts is of concern, which value was 19.2% smaller than one year before at the end of June. More specifically, the volume of new contracts for buildings grew by 5.0%, and the volume of new contracts for civil engineering works dropped by 29.1%. The volume of new sales orders was considerably, 44.8% lower than one year before. The volume of new contracts for buildings shrank by 34.4%, and the volume of new contracts for civil engineering works dropped by 55.6% relative to the same period of the previous year.

Fig 4 Construction sector (January 2017 = 100%)

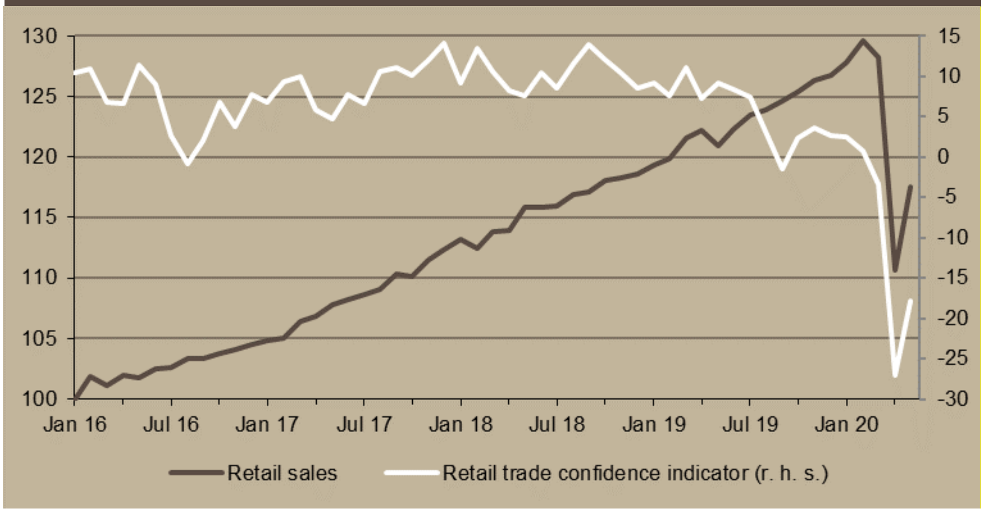


Remark: Seasonally and working-day adjusted data
Source: HCSO, Századvég

Retail sales showed a minimum increase.

In June 2020, retail outlets could be open without pandemic restrictions, and their sales volume increased by 0.8% as raw data show. On the basis of calendar-adjusted data, retail sales volume did essentially not change relative to the same period of the previous year. In the sixth month of 2020, the calendar-adjusted volume of sales decreased by 1.5% in specialised and non-specialised retail shops, by 10.9% in fuel retail outlets, while it increased by 4.9% in nonfood shops, relative to June 2019.

Fig 5 Retail sales volume (January 2017 = 100%) and retail trade confidence indicator



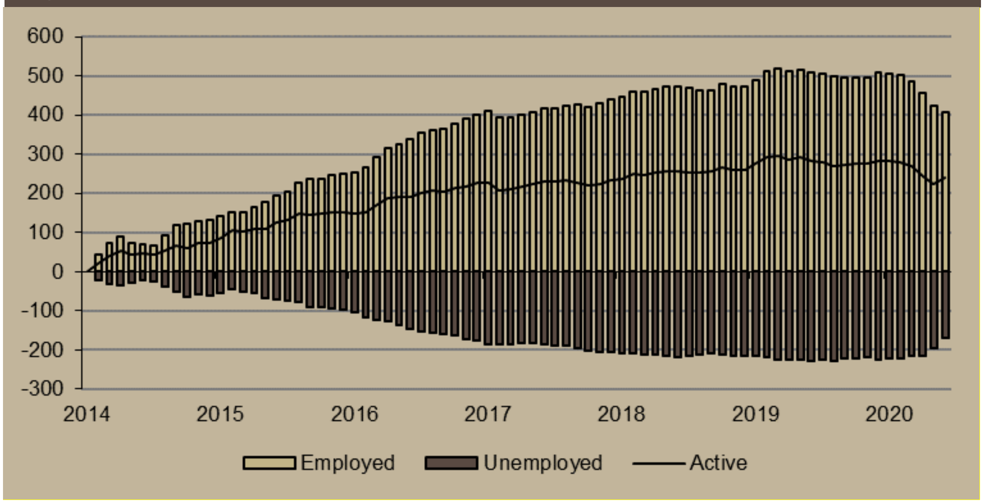
Remark: Seasonally and working-day adjusted data
Source: HCSO, Eurostat, Századvég

Parcel companies and web-shops continued to dynamically increase their sales in June as well: their sales volume increased by 29.9% relative to June 2019, based on calendar-adjusted data. A considerable decrease in sales was, however, recorded in the case of second-hand shops (26.5%), shops selling books, newspapers, and stationery (17.2%), as well as textile products, clothing, and footwear (14.2%). Additionally, a downturn can be observed in the sales volume of specialised and non-specialised food shops and shops selling pharmaceuticals and medicinal products (-1.4% and -13.6%, respectively). In contrast, sales increased considerably in the case of shops selling computers and other manufacturing goods (13.3%) and in case of shops selling a mixed range of manufactured goods (14.7%), compared to the same period of the previous year. Calendar-adjusted data show that, in June 2020, the turnover of shops selling fragrances decreased by 0.3%, while that of shops selling furniture and electric goods increased by 4.2% relative to the same period of the previous year. Vehicle fuel sales were in turn 10.9% below the figure recorded for June 2019.

As restrictions get lifted, those who lost their jobs earlier are gradually returning to the labour market.

Seasonally adjusted data show that the number of the employed decreased by another 14,000 to 4,410,000 in June. This means a decrease of 101,000 on an annual basis, which is attributable to the economic downturn due to the coronavirus pandemic and the government's restrictive measures introduced to slow down the epidemic. At the same time, June saw the positive trend of increase in the seasonally adjusted number of the active population; in other words, upon lifting of restrictions, those who had lost their jobs previously, but did not start to search for a new job immediately, are returning to the labour market. The combined result of these two effects was the increase in the seasonally adjusted number of the unemployed by 28,000 to 216,000 in one month, while their rate grew from 4.1% to 4.7% in the previous month. Seasonally adjusted data show that the number of employees decreased slower in May than in the previous months, dropping by 9,000 to 2,965,000 in total, on a month-over-previous-month basis. This decrease is still in the private sector, since the number of employees changed only minimally in the public (budgetary) sector and at non-profit organisations in the last months. Data analysis should, however, take the fact into account that the statistics of the Hungarian Central Statistical Office only include the employees who worked at least 60 hours in the period under review. Therefore, the employees who did not work in the period under review because of the pandemic (e.g. because of shutdown of tourism) were not regarded as employees and are expected to start to return to work as the economy reopens. Contrary to expectations, the number of people employed in public employment schemes did not increase. Altogether 85,000 people worked in the Start employment programmes in May, which is only minimally higher than the number recorded in April.

Fig 6 Labour market trends (January 2014 = 0, thousands of persons)

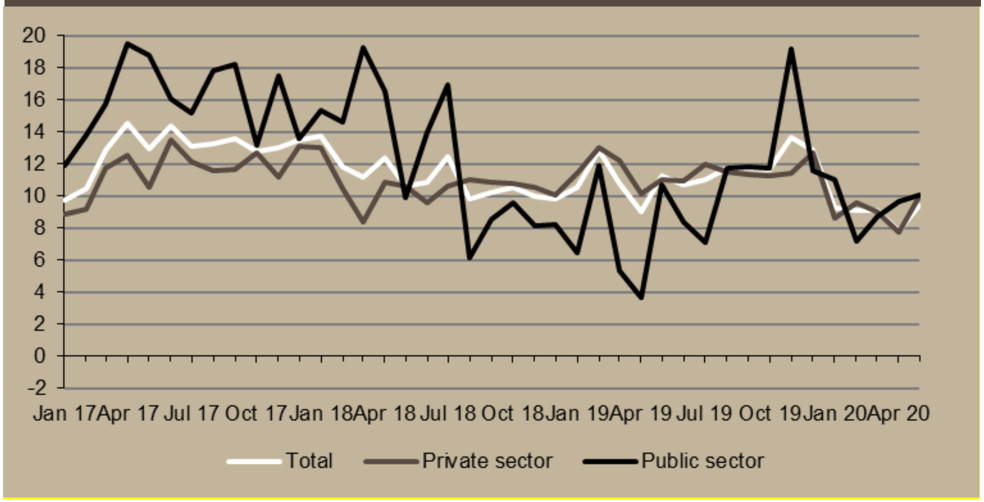


Remark: Seasonally and working-day adjusted data
Source: HCSO, Századvég

In May, wages increased by 9.4%, partly because of composition effects.

The average gross monthly wage in the national economy was HUF 398,778 in May, which means a 9.4% increase compared to the same period of the previous year. The Hungarian Central Statistical Office's calculation of the average wage, however, only includes full-time employees; consequently the wages of employees who were occupied only on a part-time basis due to the pandemic were not indicated in the statistical data. The change in the average wage shows, therefore, a distorted picture of the shifts in wages and the income situation. The interpretability of data is further worsened by the fact that the pandemic primarily affects industries with lower average wages. In the tourism industry, for example, the number of employees dropped by nearly 40% in May on a year-over-previous-year basis, which increases the average wage due to composition effects. The average net monthly wage increased by 9.4 % to HUF 265,188 compared to the respective period of the previous year, which corresponds to a 7.1% increase of real wages, given the effect of the inflation dropping down to 2.2%.

Fig 7 Gross wages (annual change, %)



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

External balance

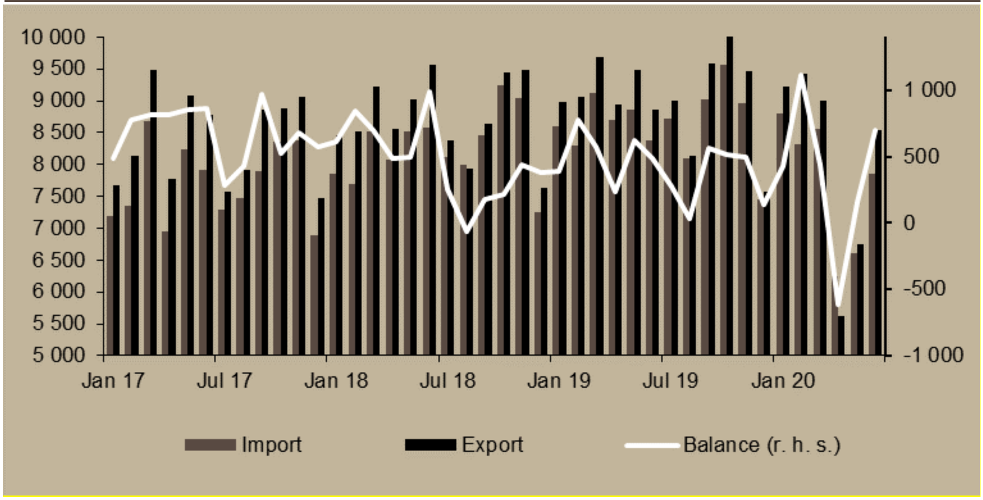
The foreign trade balance decreased in May, while it increased in June.

In May, product exports decreased by 29% and product imports decreased by 25% in EUR value, on a year-on-year basis. This means that the foreign trade balance was EUR 102 million, which is EUR 545 million less than last year.

In May, the volume of food product imports decreased by 12.0%, and food product exports decreased by 0.3% on a year-on-year basis. As for energy carriers, import dropped by 11.0% and exports dropped by 9.1%. As for processed products, imports decreased by 2.9%, exports decreased by 17%, on a year-on-year basis. As for machinery and transport equipment, imports decrease by 33%, exports decreased by 34%. These major changes in volume are attributable to the effects of the Covid–19 pandemic.

In June 2020, the EUR value of exports was 3.1% lower, while the EUR value of imports was 5.7% lower than one year before. The foreign trade balance was therefore EUR 697 million, which is 201 million more than one year before.

Fig 8 Balance of trade (in million EUR)



Remark: The data relating to June 2020 derive from the first estimates.
Source: HCSO

In June 2020, the current account balance was EUR 245.9 million. For the sixth month of 2020, this means that the cumulative current account balance for this year dropped to minus EUR 1,011.9 million, which is much less than the EUR 103.4 million balance of the January–June period of 2019.

Fiscal outlook

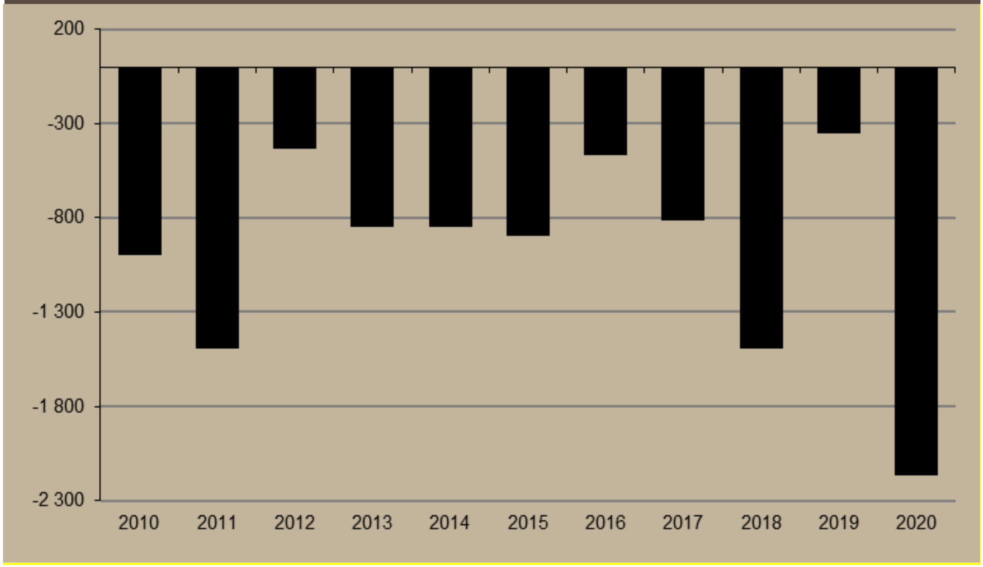
The general government deficit grew significantly because of the coronavirus epidemic.

The central budgetary subsystem closed with a deficit of HUF 2,165.0 billion at the end of July 2020. This is attributable to the general government deficit of HUF 1,841.4 billion, the social security funds subsector's deficit of HUF 336.3 billion, and the extra-budgetary funds' surplus of HUF 12.7 billion.

On the revenue side, the corporate tax revenue until the end of July 2020 was 38.8% (HUF 53.7 billion), more than in the same period of the previous year. This is still explained by the discontinuation of the tax advance top-up liability due in December, while the increase was partly offset by the fact that the deadline for fulfilling tax calculation, return and payment obligations was postponed to 30 September. Revenues from personal income taxes also increased relative to the accumulated fulfilment in the January–June period of 2019: they grew by 4.4% (HUF 60.3 billion). VAT and excise tax revenues were, however, below the reference period, by 3.9% (HUF 100.1 billion) and by 0.9% (HUF 5.9 billion), respectively. The former decrease is attributable to the drop in turnover and to the introduction of the shorter refund time limit, while the latter fall is explained by the weaker turnover and the stockpiling effects of the 2019 regulations concerning the public health product tax.

The revenues from EU programmes still reached HUF 489.5 billion at the end of July 2020, while the related expenditures grew to nearly HUF 1,274.9 billion. Among the programmes implemented from Hungarian state funds, we should mention the expenditures on priority public road projects (HUF 140.0 billion), competitiveness-increasing subsidies (HUF 123.1 billion) and tourism development (HUF 81.0 billion). Furthermore, the single extraordinary bonus of health professionals has been paid, which meant the payment of HUF 101.3 billion.

Fig 9 Budget deficit in January-April (bn HUF)



Source: Ministry of National Economy

Monetary processes

The inflation rate increased to 3.8%.

In July 2020, consumer prices increased by 3.8% on average—compared to the same period of the previous year. In the past year, the highest price increase was recorded for food products, alcoholic beverages and tobacco products. In comparison with the same period of the previous year, the price of alcoholic beverages and tobacco products increased by 6.3% on average, while that of food products increased by 7.8%. 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 9.7% as compared to the same period of 2019.

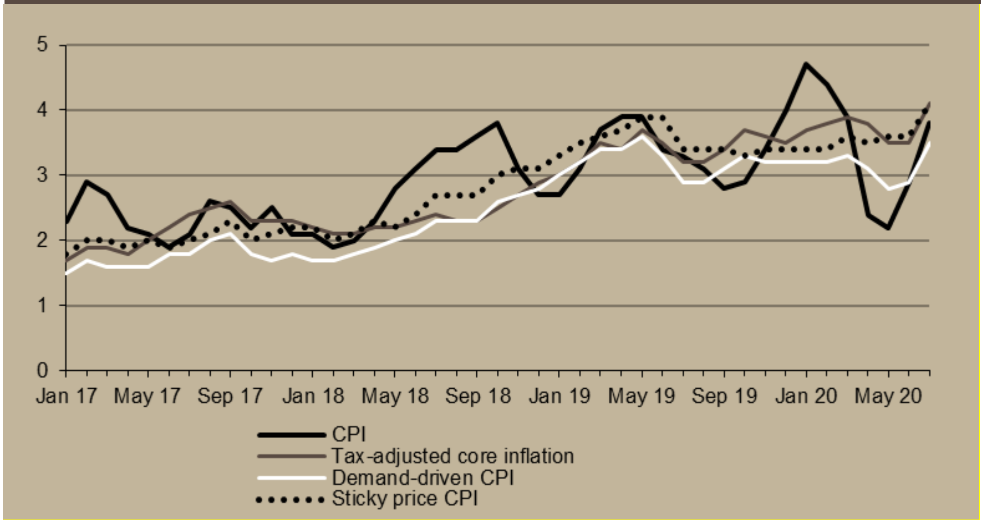
The 7.8% average price increase of food products was driven mainly by the 16.1% increase in Extrawurst and sausage prices, the 11.5% increase in pork prices and the 44.9% increase in fresh Hungarian and tropical fruits. The increase in pork prices is attributable to the swine fever virus, while the increase in fruit prices is attributable to the poor harvest caused by unfavourable weather. The average inflation of food products was, however, decreased by the decrease in potato (-3.4%), fresh vegetables (-5.9%) and dry pasta (-0.8%) prices.

In July, prices of other products and fuels dropped by 0.1% on average, mostly because of the 4.2% decrease in vehicle fuel prices. This was caused by the decrease of oil prices, which is explained by the drop in demand as a result of the coronavirus epidemic. In addition to vehicle fuels, sports gear and toy prices decreased by 1.6%, pots and kitchenware prices dropped by 0.2%. The average increase in household energy prices was 0.2% in July as compared to the same period of the previous year. Within household energy, fuelwood prices increased by 2.8% and coal prices increased by 3.3%, while the prices of bottled gas decreased by 0.6% in one year. The price of electricity, pipeline gas and district heating remained unchanged.

In July, the prices of services increased by 3.4% on average, which was driven by the 11.5% increase in home repair and maintenance prices, the 8.9% increase in vehicle repair and maintenance prices, the 7.8% increase in gambling prices and the 5.4% increase in the prices of healthcare services. The average price increase of services was moderated by the 6.8% increase in the prices of other long-distance travels and the 1.8% increase in motorway tolls, vehicle renting and parking prices. Clothing prices increased by 0.7% and the prices of durable consumer goods increased by 2.7% on average in a single year. Taking a closer look at the latter, one can see that jewellery prices increased by 24.5%, new car prices increased by 12.1%, but used car prices dropped by 4.0%.

Based on the base inflation indicators disclosed by MNB, the seasonally adjusted core inflation rate was 4.5%, while the core inflation rate excluding the effects of indirect taxes was 4.1% in July. The demand-sensitive inflation rate was 3.5%, the sticky price inflation rate was 4.1% in July.

Fig 10 Inflation (y-o-y, %)



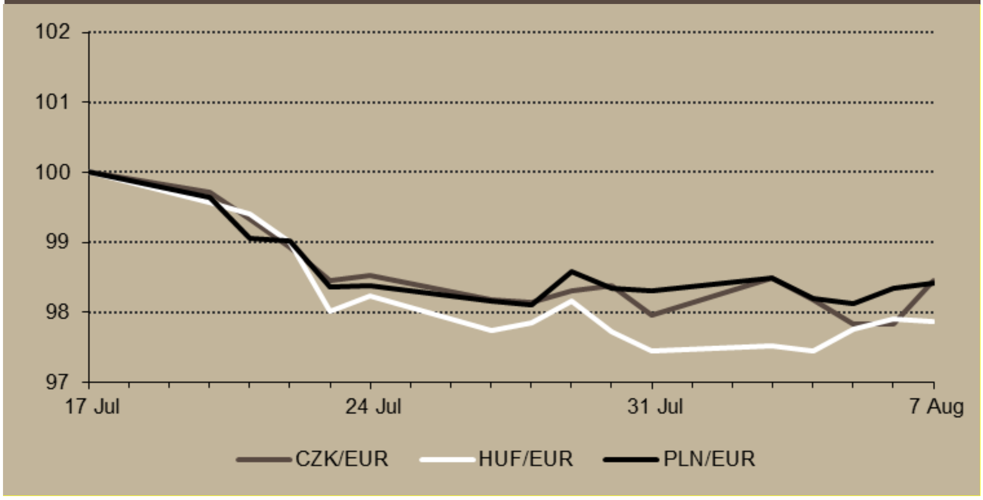
Source: NBH, Századvég

Neither the ECB nor the FED changed their monetary conditions.

The ECB Governing Council did not meet in the recent period, but the Federal Open Market Committee did. Therefore, Eurozone interest rate conditions 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%.

Our region showed a mixed picture. The foreign currency exchange rates for both the Czech koruna and the Polish zloty have strengthened against the Euro, by 1.5% and 1.6%, respectively. The CDS spread (5-year CDS) increased by 1 base point, to 39 base points in the Czech Republic and it stagnated at 57 base points in Poland.

Fig 11 Regional exchange rates (start date = 100%)



Source: Thomson Reuters Datastream

Indicators of the Hungarian financial market showed a positive trend.

Indicators of the Hungarian financial and foreign currency markets have shown a positive picture in the past period. The value of the 5-year CDS stagnated at 75 base points. The HUF weakened by 2.5% against the Euro and by 2.1% against the Swiss Franc, but it strengthened by 5.6% against the US Dollar. This means that on 7 August, one Euro was worth 346 Forints, one US Dollar was worth 293 Forints and one Swiss Franc was worth 320 Forints. Sovereign debt held by foreigners has recently decreased by HUF 1 billion to HUF 4,357 billion.

Application and prohibition of short-selling transactions during the Covid-19 pandemic

On the stock market, a short-selling transaction means that the investor sells a stock which he does not own, trusting that its price would drop in the future so that he can gain profit on the price difference by buying back the stock at a later date. In order to do so, the investor expecting dropping stock prices has to borrow a certain amount of stocks. By immediately selling and later buying back the stock(s), the investor can gain profit. He also has to pay a predetermined interest for the borrowed stocks, and the result is the profit/loss of the investor (in case of decreasing/increasing stock prices, respectively).

The economic debate on short-selling transactions is about the phenomenon that continued permitting of short-selling during crises can intensify the selling pressure during crises, because market players who do not have any stocks can also sell stocks on the prompt market, which can further intensify price volatility on the stock market. Meanwhile, experts arguing for further the application of short-selling transactions emphasise that normal market mechanisms are driven by short-selling transactions as well.

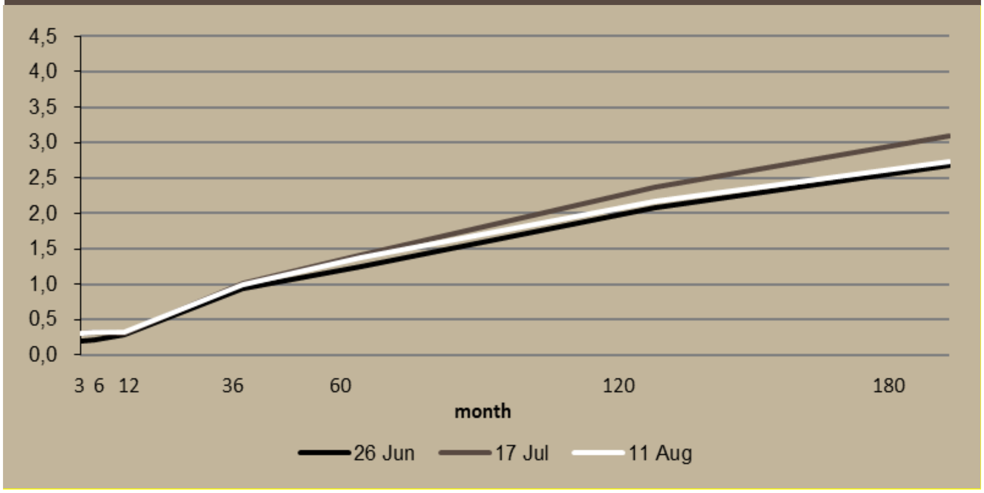
The Budapest Stock Exchange has recently published an academic article analysing the strategies applied during the European emergence of the Covid-19 epidemic. Short-selling transactions were prohibited for two months (between 18 March and 18 May 2020) in several countries; the study, therefore, examined whether the stock exchange indices of eurozone countries that applied this prohibition performed better than the indices of those countries where these transactions were not prohibited. The study found a mixed picture, as it cannot be stated that the stock exchange of each eurozone country that prohibited short-selling transactions (Austria, Belgium, France, Greece, Spain and Italy) achieved a higher yield during the two months analysed than those countries where short-selling was further allowed.

We have carried out further analysis to examine the extent of risk accompanying the changes in stock exchange indices in the given countries. In other words, we also analysed the fluctuation/volatility of stock prices in each country during the two months under review. We compared our results to stock exchange index yields. We came to the same conclusion, namely that we cannot state that short-selling transactions resulted in higher volatility of stock prices in the period under review.

Summing up the above, we can state that the stock exchange indices of countries prohibiting short-selling transactions for 2 months did not perform better by prohibiting the transactions potentially generating higher selling pressure. Countries not prohibiting short-selling transactions did not end up with higher volatility in stock exchange indices.

At the same time, we can state that short-selling was prohibited for a rather short time in stock exchange markets, maybe as a precaution. Therefore, it cannot be generally stated that the prohibition of short-selling is useless in every case.

Fig 12 The HUF yield curve (%)



Source: Government Debt Management Agency, Századvég

MNB did not effect any changes in its meeting in August.

At its interest rate setting meeting in August, the Monetary Council of the MNB did not change the reference interest rate; the base interest remained therefore 0.6%. This decision met the expectations and the prior communications of the MNB. The MNB Monetary Council did not change the interest rate corridor either and left the overnight deposit interest rate at -0.05% and the credit rate at 1.85%. The one-week deposit instrument's interest rate follows the reference interest rate, and the MNB currently accepts any offer without limitation

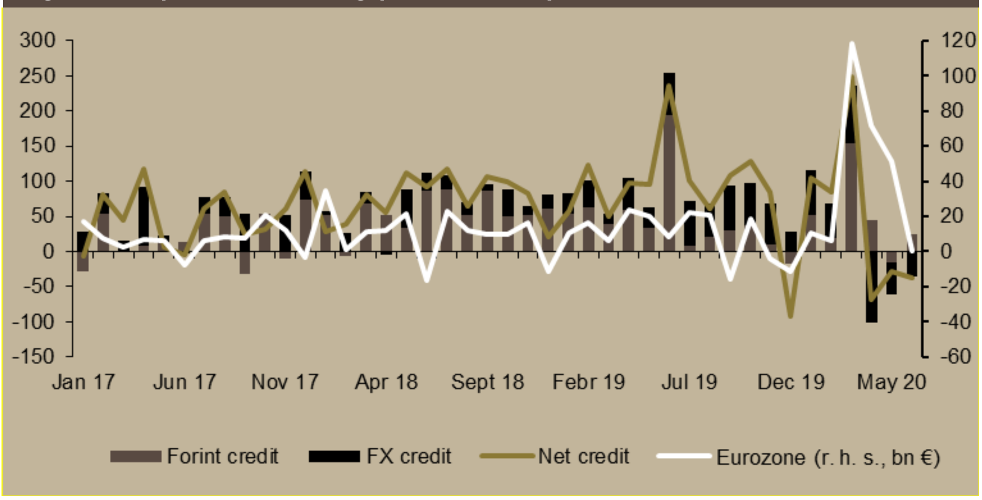
The Monetary Council launched two programmes on 4 May: a government bond purchase programme on the secondary market to ensure the stable liquidity of the government securities market and relaunched its mortgage bond purchase programme to increase the long-term supply of funds for the banking system. The MNB bought further government securities in the value of HUF 19.96 billion in the past period, i.e. the total value of the secondary-market government securities held by the MNB increased to HUF 168.9 billion. The MNB purchased mortgage bonds in the total value of HUF 55.48 billion from the primary market (total value: HUF 70.44 billion) and HUF 15 billion on the secondary market, i.e. the total value of this portfolio increased to HUF 74 billion. The MNB's FX swap portfolio is currently HUF 1,786 billion, which did not change in comparison to the previous month.

In the last month, shorter-term yields remained almost stable on the secondary market yield curve of the government securities market. This means that the 3-month yield was 0.31%, the 6-month yield was 0.33% and the 1-year yield was also 0.33% on 11 August. The 3-year yield decreased by 3 base points to 0.99%. On a month-over-previous-month basis, 5-year yields decreased by 3 base points, 10-year yields decreased by 20 base points, and 15-year yields decreased by 35 base points. These three yields changed, therefore, to 1.38%, 2.17% and 2.74%, respectively. The still low short-term yields are attributable to the excess liquidity, the interest rate cut, and the still loose monetary policy, while the change of longer-term yields is in line with international trends.

The share of foreign currency debt in the sovereign debt changed to 18.97% in May (corresponding to an increase of over 1.7 percentage points), 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 Covid-19 pandemic, the Government Debt Management Agency Ltd. collected a part of the required funds, EUR 1.5 billion (after the EUR 2 billion in April), from the foreign exchange market in June. This, however, still stayed in the specified range.

Two from the big international credit rating agencies, Fitch and S&P had pre-announced rating opportunities on 14 August 2020, but both of them left the risk rating of Hungarian government securities unchanged. The Hungarian government debt is, therefore, rated as Baa3 with a stable outlook by Moody's, BBB with a stable 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. Japan's international credit rating agency, the Japan Credit Rating Agency (JCRA) gave a better (two categories higher) rating, A–, to Hungarian government securities.

Fig 13 Corporate borrowing (in billion HUF)



Source: NBH, ECB, Századvég

Corporate credits decreased in June.

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector was HUF 24.4 billion in June 2020. The net repayment of foreign currency debt was HUF 35.7 billion in June 2020, i.e. the aggregated value of business credits decreased. Seasonally adjusted data show that the total net loan repayment was HUF 38.1 billion in June. At EUR 0.2 billion, corporate borrowing remained low, relative to the previous months, in the eurozone in June.

In June, the value of gross loan placement in Hungarian forints over and above bank overdrafts was HUF 82.8 billion, which is HUF 30.6 billion less than the amount of the previous month. The sum of newly granted euro-loans was HUF 52.7 billion, which is HUF 33.0 billion more than the figure for May.

Századvég forecast[1]

Fig 14 Q2 2020 projection

	2019	2020				2020	2021				2021
	annual	Q1	Q2	Q3	Q4	annual	Q1	Q2	Q3	Q4	annual
Gross domestic product (volume index, %)	**4,9**	2,2	*–13,4*	*–2,1*	*1,1*	***–3,1***	*1,2*	*13,6*	*2,2*	*3,4*	***5,1***
Household consumption expenditure (volume index, %)	**5,0**	5,0	*–8,4*	*0,9*	*1,5*	***–0,3***	*0,6*	*8,3*	*3,3*	*5,5*	***4,4***
Gross fixed capital formation (volume index, %)	**15,3**	–2,6	*–14,0*	*–3,1*	*–2,8*	***–5,6***	*–6,5*	*12,9*	*3,9*	*7,1*	***4,3***
Export volume index (based on national accounts, %)	**6,0**	–0,5	*–29,2*	*–0,9*	*3,3*	***–6,8***	*3,6*	*36,4*	*1,7*	*4,5*	***11,6***
Import volume index (based on national accounts, %)	**6,9**	1,3	*–25,1*	*0,9*	*2,2*	***–5,2***	*2,4*	*31,3*	*1,9*	*5,7*	***10,3***
Foreign trade balance (bn EUR)	**4,9**	0,3	*–0,1*	*0,2*	*1,3*	***0,4***	*0,6*	*0,9*	*0,2*	*1,1*	***0,7***
Consumer price index (%)	**3,4**	4,3	*2,3*	*3,0*	*3,1*	***3,2***	*2,7*	*4,2*	*3,9*	*4,0*	***3,7***
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**	3,7	*5,3*	*5,2*	*4,8*	***4,7***	*4,7*	*4,5*	*4,3*	*4,1*	***4,4***
Gross average earnings (year-on-year change, %)	**11,4**	9,1	*10,3*	*9,5*	*8,8*	***9,4***	*8,6*	*6,2*	*7,5*	*7,3*	***7,4***
Current account balance as a percentage of GDP	**–0,9**					***–1,6***					***–1,0***
External financing capacity as a percentage of GDP	**1,0**					***0,4***					***0,9***
General government ESA-balance as a percentage of GDP	**–2,0**					***–3,9***					***–3,3***
GDP based external demand (volume index, %)	**1,5**	–2,5	–15,0	–6,0	–5,0	***–7,1***	*1,5*	*11,0*	*5,0*	*4,0*	***5,4***

Source: HCSO, NBH, Századvég

Fig 15 Changes compared to our previous forecast

	2020			2021		
	Mar 2020	June 2020	Difference	Mar 2020	June 2020	Difference
Gross domestic product (volume index, %)	–0,3	**–3,1**	*–2,8*	3,4	**5,1**	*1,7*
Household consumption expenditure (volume index, %)	0,4	**–0,3**	*–0,7*	3,0	**4,4**	*1,4*
Gross fixed capital formation (volume index, %)	–1,2	**–5,6**	*–4,4*	4,9	**4,3**	*–0,6*
Export volume index (based on national accounts, %)	–1,4	**–6,8**	*–5,5*	4,4	**11,6**	*7,2*
Import volume index (based on national accounts, %)	–0,1	**–5,2**	*–5,1*	3,9	**10,3**	*6,5*
Foreign trade balance (bn EUR)	3,3	**0,4**	*–2,8*	3,9	**0,7**	*–3,2*
Consumer price index (%)	3,7	**3,2**	*0,0*	3,5	**3,7**	*0,0*
Central bank’s base rate at the end of the period (%)	0,90	**0,90**	*0,0*	0,90	**0,90**	*0,0*
Unemployment rate (%)	4,3	**4,7**	*0,5*	4,0	**4,4**	*0,4*
Gross average earnings (year-on-year change, %)	8,2	**9,4**	*1,3*	8,1	**7,4**	*–0,7*
Current account balance as a percentage of GDP	–1,5	**–1,6**	*–0,1*	–1,5	**–1,0**	*0,5*
External financing capacity as a percentage of GDP	0,1	**0,4**	*0,3*	0,2	**0,9**	*0,7*
General government ESA-balance as a percentage of GDP	–3,0	**–3,9**	*–0,9*	–2,0	**–3,3**	*–1,3*
GDP based external demand (volume index, %)	–1,6	**–7,1**	*–5,5*	1,9	**5,4**	*3,5*

Source: HCSO, NBH, Századvég

[1] The forecast is valid as of 11 June 2020

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